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# HALLGARTEN & COMPANY

**Portfolio Strategy**

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# Model Mining Portfolio:
## Miners Party On

## Performance Review – November 2017

# Model Mining Portfolio

Miners Party On

- **Lithium is finally starting to attract serious capital and some real offtake deals are being cut**
- **Base metals continue to attract strong interest and they were definitely the flavour at London's Mines & Money**
- **Encounters with private equity groups that are actually doing deals reveals that the long sought-after entry of these groups is now stimulating transactions**
- **Gold is particularly lethargic these days responding to no stimuli**
- **MIFID2 threatens to reduce dramatically the coverage of mining stocks in European markets and result in wholesale firing of analysts**
- **Cobalt is attracting some dubious elements in its wake which distracts from the real crisis at hand**
- **Lithium space is showing the same lack of discrimination that led the Rare Earth space to grief in 2011**

**Cobalt's Impending Event Horizon**

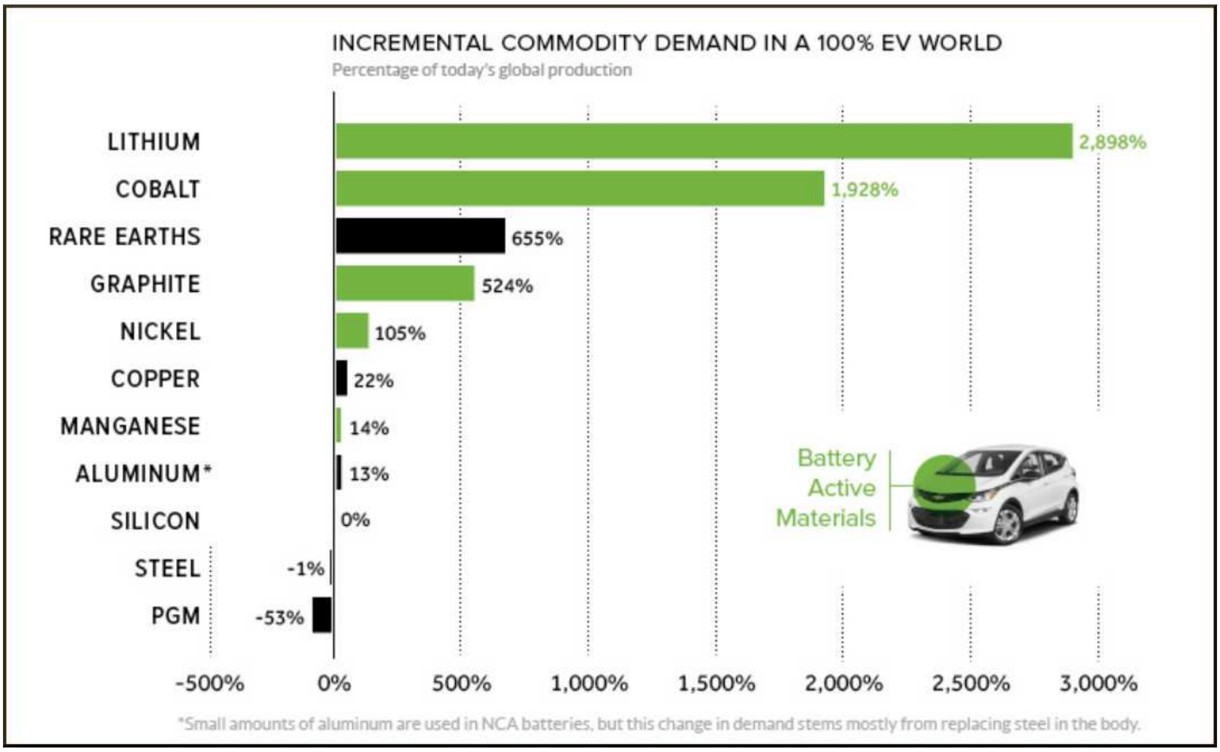
We have studiously avoided the Cobalt space except for making the occasional aside about the potential for a total absence of supply at some point which will be a big "aha" moment. We compare this "can't get it for love nor money" to those periods in WW2 when nylon stockings totally disappeared and women used to paint seams on their legs to make themselves look like they were wearing the elusive "nylons". At that point substitution won't be a question but the only solution.

Despite all the sound and fury in recent months the vast bulk of the Cobalt wannabes don't wannabe. By that we mean they want to arm wave and get higher valuations but they have little or no intention of becoming producers so thus they potentially and inevitably contribute nothing to easing the impending crisis.

Finding a "real" story in the space is harder than finding cobalt itself with the worst of the promotorial classes having descended upon the metal like hyenas. These are mostly the ones who missed the already overcrowded S.S. Lithium as it sailed off towards a date with destiny and a large iceberg called reality.

To make matters worse finding a primary cobalt deposit is like finding a hen's tooth and the vast bulk of what is being served up to the market are Nickel/Cobalt (frequently laterite) deposits or Copper/Cobalt is unacceptable jurisdictions. Whilst the Copper price is looking good now and Cobalt is at exceptional levels, the Nickel/Cobalt options are burdened by the Nickel price needing to come to the party to make the Cobalt worth mining. Added to this the Nickel laterite projects do not come cheap and are burdened with historic fears of investors about HPAL technologies and their tendency to massive CapEx and frightening cost overruns. No-one will invest $1bn (let alone $5bn) in a Nickel/Cobalt project without Nickel having risen substantially from where it is now and having remained high for a long period. The memories of the 2007 spike (and slump) in Nickel prices are fresh in the minds financiers and miners if not in the minds of Cobalt investors.

The interesting chart below brings several thoughts to mind but chief amongst them are that the Lithium and (ironically) Rare Earth incremental demand surges can be met by projects that are on the drawing boards but the Cobalt cannot. The REE projects may have been long in the freezer but they exist and are doable.




*Source: Visual Capitalist*

Cobalt is supposedly substitutable but we remain to be convinced. We are sure that there are other metals that can fill the gap but seemingly manufacturers of batteries for EVs do not want to be the first to go out on a limb and posit a break from the "known knowns" and be the first, for instance, to tool up for Lithium Tungsten batteries. Until that happens the EV revolution is staring at a very big glitch that not even money being thrown at the problem will solve.

**Cobalt to the Fore - Brixton Mining**

Despite our aforementioned reservations on the intent of many floggers of Cobalt prospects, there are a few serious people around, amongst them those hardy souls who slogged through the years with zero interest being paid to them and that are now getting their reward. Then there are some other explorers that know their geology and have pinned down some past producing areas, most interesting of these being the so-called Cobalt Belt of Ontario. One of these is Brixton Metals (BBB.v) which we met earlier this year and who were in London on the fringes of Mines & Money. Its BC properties don't get our heart racing but its stakings in Ontario do.


Important amongst past producers in this area is the Langis Mine (a past producer of high-grade silver) which is located near to the evocatively named town of Cobalt in eastern Ontario, 15 km north from Temiskaming shores and 500 km north from Toronto.

The area has certainly been highly productive in the past. In the early 1900s, the area was heavily mined for Silver with the silver ore also containing Cobalt. By 1910, the community was the fourth highest producer of silver in the world. Mining declined significantly by the 1930s.

The high-grade silver mineralization at Langis occurs as steeply-dipping veins within any of the three main rock types; Archean volcanics, Coleman Member sediments and Nipissing diabase. The Langis Mine has produced historically over 10.4mn oz Ag with a recovered grade of ~25 opt Ag from shallow depths and 358,340 lbs of Cobalt.

How things have changed in just two years. When the company acquired the property in 2015, it reported that the Cobalt camp had produced over 420 million ounces historically of silver with some reported assays reaching 255,146 g/t Ag or 9,000 oz/t Ag over 0.36 metres, with not even a mention of Cobalt (except as a geographical descriptor).

As far as infrastructure is concerned, Highway 65 runs through the property and many secondary roads are established providing year-round access. Power, railways, mills, a permitted refinery and assay lab are located in or near the site.

In Brixton's view the Langis Project represents an opportunity in a Cobalt/Silver district that has not seen much modern exploration techniques applied.

The other asset it holds in the zone is the Hudson Bay Mine which was north of the Trethewey Mine, near the north branch of Sasaginaga Creek. A mill operated from 1910 to 1920. The mine has produced historically 6.4mn oz at 123 opt Ag and 185,570 lbs of Cobalt from 58,000 tons of ore mined.

Neither the Langis Mine nor the Hudson Bay mine currently contains any mineral resources or mineral reserves.


In the plethora of Cobalt offerings in recent times the potential of Idaho and Ontario stand out. In the Cobalt "belt" of Ontario three names have resonated for us, Brixton, CBLT (CBLT.v - the former Green Swan run by Peter Clausi for whom we have a lot of respect) and Castle Silver (CSR.v). We are often enquired as to what we are watching in the Cobalt space and we would most definitely say we are NOT watching the fringe locations in BC and elsewhere that have never produced Cobalt of any consequence. For now our filtering process is primarily driven by past production considerations and Ontario fits the bill until something better comes along.

**Portfolio Changes**

There were three portfolio changes during the month.

- Opened Long position in Noble Group. Bought 700,000 shares in CGP.SGX at SGD19.9 cents per share on the 15th of November
- Opened Long position in Banyan Gold. Bought 1,300,000 shares in BYN.v at CAD7 cents per share on the 14th of November
- Closed Long position in Galaxy Resources. Sold 42,900 shares in GXY.ax at AUD$3.83 per share on 6th of November

**The Portfolio Move**

Firstly we took our profits on Galaxy Resources in the increasingly overheated "upper-end" of the Lithium space. We added a position in the besieged trading house, Noble Group, in a bottom-fishing venture. Time will tell if this will work out in the way our Glencore trade did at that group's darkest hour. Finally we added a position in the gold explorer, Banyan Gold, which despite its tropical name is actually in the Yukon. Our decision here was driven by a meeting with the management which we deemed to be very serious indeed.

November saw further improvement in the Model Mining Portfolio which grew from $4.8mn to $4.98mn. Cash stood at $880,000 having risen due to several disposals. Several other disposals in the gold producer space were thwarted by flagging valuations. We shall await the moment to strike. **Noble –**

**Noble Group - The End (or the Turn) is Nigh?**

When, in late 2015, the obituaries were being written for Glencore, journalists were also conjuring with the possibility that not just one major trading house, but two, might be going under before the end of that year. The leading Asian diversified trading house, Noble Group, was also on the critical list. As this panned out Glencore's near-death experience was a strengthening exercise which woke it up from some of the errors of its ways (over-production in Zinc and Copper) and set the scene for the generalized rebound in base metals and specialty metals that were seen over the subsequent year.

Noble though found it not as easy to throw ballast overboard. The easiest disposal it could make was a spin out of its agricultural trading business and that took months to execute. Glencore was already on the road to recovery while Noble was still trying to restructure. Then more recently when the earlier disposal did not prove adequate it offloaded its energy trading business to Vitol. In the meantime accounting issues had complicated decision making and risk assessment of the company's trading operations in all commodities that it still played in. Valuations continued to wilt. In most recent weeks it has announced talks with its creditors to restructure its debt.


Noble's survival is a rather critical issue for the mining space. Any thinning of the ranks of major traders has to be a negative for miners and developers. It's a while since traders were key investors in up and coming projects (mainly in the period 2005-10) but at that time Noble was noted for being one of the most generous in taking stakes in projects that might give it an eventual flow of product for its trading desks. In November, even while Shorters were reading the last rites over the company, it was launching a couple of project generators in the metals and battery spaces. One of the beneficiaries of which was Mkango (MKA.v). These new initiatives create a disconnect between a trader going about its business as usual and the outside world fervently arguing about survivability.

At this point much hangs on how the debt negotiations pan out. Will the equity holders get wiped out? Somehow we doubt it. The equity is currently not particularly large at least in market cap terms (SGD$185mn). A deal will snatch victory out of the jaws of defeat and hopefully signal an upturn in fortunes. At least for the short-term it seems one of the more interesting bottom-fishing opportunities around.

**Parting Shot**

In recent times we have attended two panels/roundtables on the subject of MIFID2. While we often lash the TSX or ASX for burdening miners with outlandish rules and restrictions nothing, frankly, beats the upcoming introduction of MIFID2 for stupidity and egregious (and unwanted) "protection" of investors. MIFID2 is indeed the set of rules that kills the goose that lay the golden eggs. That it should have been born from the loins of the EU is no surprise. That is should have been garnished with extra fiendish twists by the FCA in the UK is surprising, and yet unsurprising as that organization (and its predecessor) has shown itself to be out of touch with industry participants and investors it is supposed to protect for many years now.

For a long while the FCA took its marching orders from the Great Vampire Squid and its Bulge Bracket cronies that, rather laughably, claimed they represented the City. Somewhat poetically its latest own goal has sent the "big" players in the financial markets tumbling like skittles while smaller players are negatively impacted, but to a lesser degree.

In essence the main gist of MIFID2 is that brokers and investment banks must split out the cost of research and charge investors separately for trading and research. The general feeling is that big funds won't pay for research (or will narrow their intake) so the choice will dramatically contract and there will be a bonfire of the analyst community with few surviving. Some have even posited that US markets will step into line and also enforce this new rule book.

We would beg to differ. What we see happening is:

- Initially a shrinkage in research being received by institutions
- Some institutions with big budgets at their disposal saying "damn you" to paying brokers for product and hiring their own internal analysts
- Big brokers will struggle with pricing. Their structures are overblown with low productivity and massive cost centre heaviness from excessive rents and compliance costs
- Independent research firms will prosper on commissioned research as choice and coverage collapses from traditional sources
- Hedge funds will reward analysts in imaginative ways
- The US will **NOT** adopt MIFID2, or variations thereof, as the Bulge Bracket will pick up the *Bat Phone* to the SEC and signal they don't want it. And they always get what they want.
- The fund managers who so arrogantly think they will still get what they want will not. They will find choice evaporate, they will find having their own teams too expensive and lacking in skillsets
- Eventually the collapse in information/research flows will coincide with Brexit and result in a *volte face* by regulators

MIFID2 is clearly odious and ill-thought out. Its prime "beneficiaries" are going to be its prime losers but they don't know it yet. Regulators, in claiming to "protect the little man", will end up distorting the marketplace and have anything but the intended consequence. Ever was it thus..

The message for miners though, who feel they are undercovered by brokers now, is that it will only get worse (yes, MIFID2 covers your favorite Bay Street brokers' European research distribution), so pay up for commissioned research or forever wander in that vale of darkness that awaits the uncovered corporate.

**Mining Model Portfolio as at: 3-Dec-17**

| | Security | Initiated | Currency | Price Avg. | Current | Portfolio Weighting | Increase in Value | Target |
|---|---|---|---|---|---|---|---|---|
| **Long Equities** | | | | | | | | |
| **Various Large/Mid-Cap** | Capstone Mining (CS.to) | 5/29/2009 | CAD | 2.32 | 1.42 | 1.40% | -38.80% | $2.00 |
| | Teck Resources (TECK.B) | 5/29/2009 | CAD | 22.46 | 29.57 | 7.90% | 31.70% | $30.00 |
| | NevSun (NSU) | 3/23/2012 | CAD | 3.45 | 2.98 | 3.10% | -13.60% | $5.00 |
| | Sherritt International (S.to) | 7/11/2013 | CAD | 1.78 | 1.36 | 4.20% | -23.60% | $2.50 |
| | Metals X (MLX.ax) | 29/5/2014 | AUD | 0.98 | 1.01 | 2.70% | 3.20% | $1.00 |
| Trading House | Noble Group (CGP.SG) | 15/11/2017 | SGD | 0.2 | 0.14 | 1.90% | -29.60% | $1.35 |
| **Uranium** | Uranium Participation Corp (U.to) | 10/20/2010 | CAD | 7.01 | 4.17 | 2.10% | -40.50% | $6.00 |
| | Western Uranium (WUC.cx) | 7/5/2016 | CAD | 2.25 | 0.93 | 1.10% | -58.70% | $4.80 |
| | GoviEx (GXU.v) | 6/29/2015 | CAD | 0.08 | 0.28 | 6.90% | 240.70% | $0.50 |
| **Zinc/Lead Plays** | Zinc ETF (Zinc.L) | 1/15/2010 | USD | 7.04 | 9.42 | 2.50% | 33.80% | £11.00 |
| | Canadian Zinc (CZN.to) | 12/9/2011 | CAD | 0.82 | 0.14 | 0.30% | -82.90% | $0.70 |
| | Ascendant Resources (ASND.v) | 10/31/2016 | CAD | 0.48 | 0.73 | 2.90% | 53.70% | $1.70 |
| | Nyrstar (NYR:BR) | 9/28/2009 | Euros | 65.1 | 6.05 | 3.50% | -90.70% | € 11.00 |
| | Southern Silver Exploration (SSV.v) | 8/25/2016 | CAD | 0.25 | 0.485 | 2.50% | 94.00% | $0.94 |
| **Gold Producers** | Patagonia Gold (PGD.L) | 10/2/2013 | GBP | 3.6 | 0.88 | 0.60% | -75.60% | £4.00 |
| | Komet Resources (KMT.v) | 11/25/2016 | CAD | 0.47 | 0.37 | 1.50% | -21.30% | $1.28 |
| | Para Resources (PBR.v) | 2/17/2017 | CAD | 0.23 | 0.14 | 1.40% | -39.10% | $0.58 |
| | Westgold (WGX.ax) | 12/6/2016 | AUD | 2.01 | 1.88 | 3.30% | -6.50% | $2.40 |
| | Eldorado Gold (EGO) | 6/21/2012 | USD | 9.12 | 1.47 | 1.10% | -83.90% | $5.50 |
| | Teranga Gold (TGZ.to) | 6/21/2012 | CAD | 1.57 | 2.54 | 6.30% | 61.70% | $3.80 |
| **Copper Producer** | Coro Mining (COP.to) | 2/23/2015 | CAD | 0.03 | 0.11 | 2.30% | 266.70% | $0.30 |
| | RNC Minerals (RNX.to) | 11/17/2016 | CAD | 0.33 | 0.16 | 1.00% | -51.50% | $0.60 |
| Royalty Trust | Abitibi Royalty (RZZ.v) | 5/31/2017 | CAD | 9.1 | 8.62 | 1.90% | -5.30% | $18.00 |
| **Processor** | IBC Advanced Alloys (IB.v) | 4/29/2016 | CAD | 0.3 | 0.23 | 0.50% | -23.30% | $1.40 |
| **Driller** | Cabo Drilling (CBE.v) | 9/28/2016 | CAD | 0.025 | 0.01 | 0.40% | -60.00% | $0.08 |
| **Tungsten Producer** | Almonty Industries (AII.v) | 7/31/2015 | CAD | 0.36 | 0.53 | 5.40% | 46.20% | $1.00 |
| **Copper Explorer** | Asiamet Resources (ARS.v) | 4/28/2016 | CAD | 0.05 | 0.1 | 3.20% | 105.00% | $0.12 |
| | Western Copper & Gold (WRN.to) | 4/25/2017 | CAD | 1.57 | 1.19 | 2.40% | -24.20% | $2.74 |
| Nickel Explorer | Sama Resources (SME.V) | 23/2/2015 | CAD | 0.16 | 0.28 | 4.60% | 75.00% | $0.30 |
| **Lithium** | Neometals (NMT.ax) | 7/31/2014 | AUD | 0.04 | 0.44 | 4.40% | 1089.20% | $0.45 |
| | Lithium Power Intl (LPI.ax) | 10/25/2017 | AUD | 0.44 | 0.51 | 3.00% | 15.90% | $1.10 |
| Scandium Explorer | Scandium International (SCY.to) | 8/23/2016 | CAD | 0.14 | 0.25 | 3.10% | 78.60% | $1.00 |
| **Gold Explorer** | Banyan Gold (BYN.v) | 11/14/2017 | CAD | 0.07 | 0.09 | 2.40% | 28.60% | $0.25 |
| **Graphite Producer** | Elcora Resources (ERA.v) | 29/5/2014 | CAD | 0.2 | 0.47 | 4.80% | 135.00% | $0.64 |
| **Graphite Developer** | Talga Resources (TLG.ax) | 8/25/2016 | AUD | 0.27 | 0.6 | 3.00% | 126.40% | $0.90 |
| **REE Explorer** | Northern Minerals (NTU.ax) | 6/9/2011 | AUD | 0.73 | 0.1 | 0.30% | -86.30% | $0.28 |
| | **NET CASH** | | | | | **880,522** | | |
| **Short Equities** | | | | | | | | |
| | | | | | | **Weighting** | | |
| **Shorts** | Bacanora (BCN.v) | 12/4/2015 | CAD | 1.53 | 1.7 | 29.70% | -11.10% | $0.80 |
| | Lithium Americas (LAC.to) | 10/25/2017 | CAD | 10.1 | 13.3 | 54.30% | -31.70% | $5.00 |
| | Galane Gold (GG.v) | 4/28/2016 | CAD | 0.06 | 0.05 | 16.00% | 16.70% | $0.03 |

| | |
|---|---|
| **Current Cash Position** | **880,522** |
| **Current Liability on Shorts Not Covered** | **270,236** |
| **Net Cash** | **1,150,758** |
| **Current Value of Bonds** | **0** |
| **Current Value of Long Equities** | **3,835,179** |
| **TOTAL VALUE OF PORTFOLIO** | **4,985,937** |

## Important disclosures

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