Monday, October 2, 2017

HALLGARTEN & COMPANY

Portfolio Strategy

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Model Mining Portfolio:
Muted Markets Post-Summer

Performance Review – September 2017

Model Mining Portfolio

Muted Markets

- **+ Base metals holding around their recent highs, particularly Zinc**
- **+ Strong demand for Platinum and Palladium**
- **✘ Gold and silver started to slide back. Even tensions in the Korean Peninsula could do nothing to invigorate precious metals**
- **✘ M&A activity is not particularly evident considering that majors need pipeline and haven't evolved projects themselves during the downturn**
- **✘ Interest rate rises beyond the US now look more likely potentially dampening gold demand due to higher carrying costs**
- **✘ Lithium space remains in the doldrums**

Mad Men?

With the eclipse of Tanzania as a mining destination the hunt is on for amenable jurisdictions in East Africa. In recent years the rising stars have been Mozambique and to a lesser extent, Madagascar.

The last month saw the full court press of the great and good of Madagascar descend upon London for a day of interaction with London investors in the energy and mining sectors. We attended in the company of NextSource Materials (NXT.to - the former Energizer Resources) which has a graphite project and a vanadium deposit in the country. The event had a certain element of cloak and dagger to it with the location of an event only being released a few days before the event to the hundreds of people attending, somewhat like a house-rave in the 1980s. However in light of the lively politics this century we can see why organisers did not want the event disturbed by the appearance of a rent-a-crowd. As it turned out the event was in the august premises of the Skinners Company (a City Guild).

A Lively Recent Past

The early part of this century was politically colourful in Madagascar after a long period of relative quietude. President Ravalomanana came to power in April 2002 after a hotly contested election. Things were relatively quiet until the end of 2008.

There were riots starting in January of 2009 in the capital that left around 170 dead. After losing support of the military and under intense pressure from the mayor of the capital Andry Rajoelina, Ravalomanana resigned as President on the 17 March 2009. Ravalomanana assigned his powers to a military council loyal to himself. Other parts of the military called the move by Ravalomanana a "ploy" and said that it would support Rajoelina as leader. Rajoelina had already declared himself the new leader a month earlier and assumed the role of acting President. The European Union, amongst other international entities, refused to recognize the new government, due to it being installed by force. The African Union, suspended Madagascar's membership as long as Rajoelina remained president.

Out of all the schemozzle appeared the current president Hery Rajaonarimampianina who was the main speaker at the London event. He has been President of Madagascar since January 2014. Previously he served as Minister of Finance under Rajoelina, and he was the Rajoelina political movement's candidate in the 2013 presidential election. He won the vote in a second round, defeating Jean-Louis Robinson, the candidate of Ravalomanana's party.

Mining

The country has scarcely appeared on the radar screen of most mining investors but there are a few major developments, such as Sherritt's Ambartovy nickel/cobalt mine and Rio Tinto's mineral sands mine near Fort-Dauphin at the south-east tip of Madagascar. QIT Madagascar Minerals, which is 80% owned by Rio Tinto and 20% owned by the Government of Madagascar, is extracting ilmenite and zircon from heavy mineral sands over an area of about 6,000 hectares along the coast over the next 40 years.

So Madagascar is a country with a number of world-sized mining projects under way but little else in mining (at least until now). As a result infrastructure is very thin in many parts of the country. The semi-arid south-west corner of the country where the many of the new projects are located is currently infrastructure poor. Thus the move to production will require the upgrading of existing roads, ports, and water supply routes and the importation of diesel power. RTZ set the ball rolling with the construction of the port at Elhoala for its mineral sands exports.

The Message

While Tanzania did not come up in conversations the undertone was that Madagascar was aiming to wrest for itself the title of the country in East Africa to do mining business. The chief admission from the speakers, both government and non-government was that the processes were slow and that applicants for licenses and permit had to have patience. There was an element of "when in Rome…" fatality about this issue but no-one was really complaining as most had factored it into their timelines.

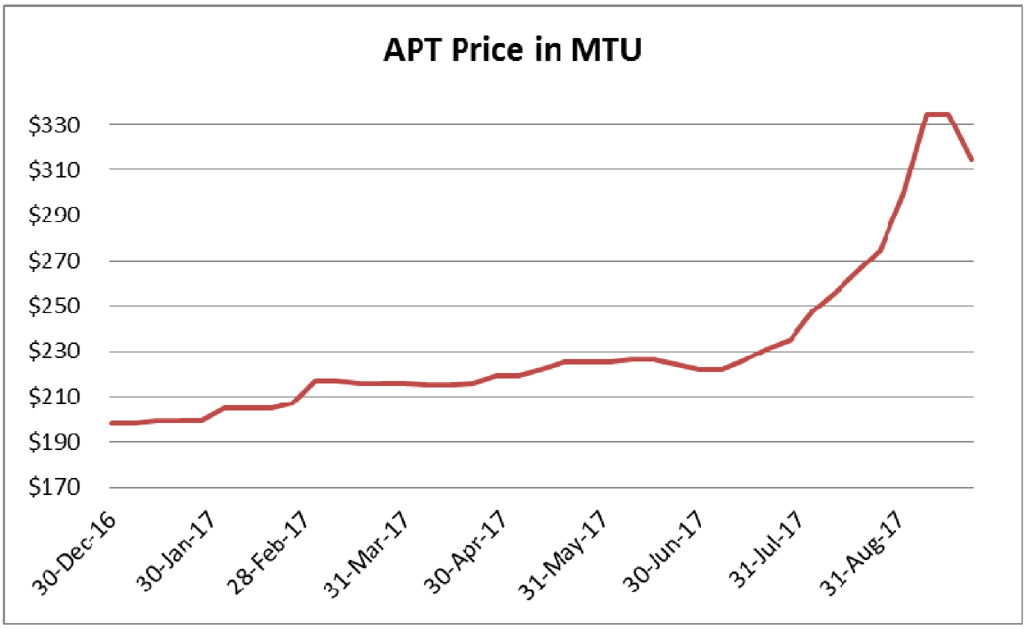
Importantly no-one said that the processes were arbitrary or irregular in any way.

The clear message though was that the mining potential is enormous and the country sees it as a way of broadening its export revenues from what has been primarily an agricultural export base with a modicum of artisanal (smuggled) export of gold and gemstones. With massive Nickel/Cobalt exports being joined by minerals sands and hopefully graphite and vanadium on a large scale the country seems destined in the next five years to move from being a bit player in global mining to being a substantial force.

Tungsten – When the Tough Get Going

Renowned as the toughest metal (well, at least for toughening up the toughest tools and drill bits), Tungsten has long been looking like a floppy loser. The last two months have seen Vanadium take off with the inevitable result that all those watching Lithium from one side of the ship have raced to the other side to catch Vanadium soaring out of the depths. As we noted in recent monthlies a gaggle of specialty and alloy metals have risen from the dead and Vanadium's recovery may be the strongest but it is not the only one.

Tungsten has gained a second wind and its chart is now starting to show a steepening curve with the price of Ammonium Paratungstate now up 50% during 2017. The last two weeks though have shown a slight pullback.



Source: Hallgarten/Almonty

This market is largely owned by the Chinese with only one substantial Western producer. Thus if the price has been allowed to rise so steeply it's because the Chinese are cool with that type of a move. From this we would also infer that prices could be allowed to rise more substantially as most of the Western projects on the drawing board are with such hefty capex numbers that it is unlikely they will even be considered before $400 per MTU has been reached.

Next we should see a consolidation above the $300 per MTU mark and maybe even pricing at points north of $350 before 2017 is out.

Portfolio Changes

There was only one change to the portfolio during the month.

- Reduced Long position in Talga Resources. Sold 250,000 shares in TLG.ax at AUD 65.5 cents per share on the 28th of September

The Portfolio Move

September was a dull month for the mining markets and for the Model Mining Portfolio which sagged from $4.69mn at the start of September to $4.435mn at the month's end. Net cash rose to $656,000 due to the Talga sale.

Para Resources – Mighty Morphing Micro-Miner?

In the beginning there was Brazil… but that was quickly superseded by Colombia then Nicaragua and Peru were to be bolted on until along came Arizona and then Peru was ditched and Brazil and Nicaragua look set to exit stage left. While Nicaragua was production it came at too high a price. Peru and Brazil won't be missed as they heralded more expenditure and no likely production in the short to medium term. The message is clear and that is that Para is production focused and will brutally discard anything that doesn't measure up. How we wish other miners were like this.

The opportunity that has led Para to feel it can do without other potential constituents in its far-flung empire was its transaction in early August when it entered into an asset purchase agreement, along with its indirect 88% owned subsidiary, Gold Road Mining Corp., to acquire from Mojave Desert Minerals LLC, all of the assets comprising the Gold Road Mine located in Oatman, Arizona.

The Deal

The asset purchase agreement covers the acquisition of all of the patented and unpatented claims comprising the Gold Road Mine, the mill site and water rights claims, the mining and milling equipment (500 tpd cyanide leach facility), related buildings, warehouse, vehicles, lab equipment and all assets comprising the facility. The purchase price of USD$6,767,540, will be paid by a cash payment of USD$767,540 at closing, with the balance of USD$6mn covered by a promissory note that provides for payment of USD$1mn on each anniversary of the closing date, until fully paid. Para may prepay the note without premium or penalty.

Para has also agreed to grant to the Vendor, a net smelter returns royalty of 2% with respect to product mined at the Gold Road Mine and a 1% net smelter returns royalty on product processed at the Gold Road Mine, or its mill.

What it Gets

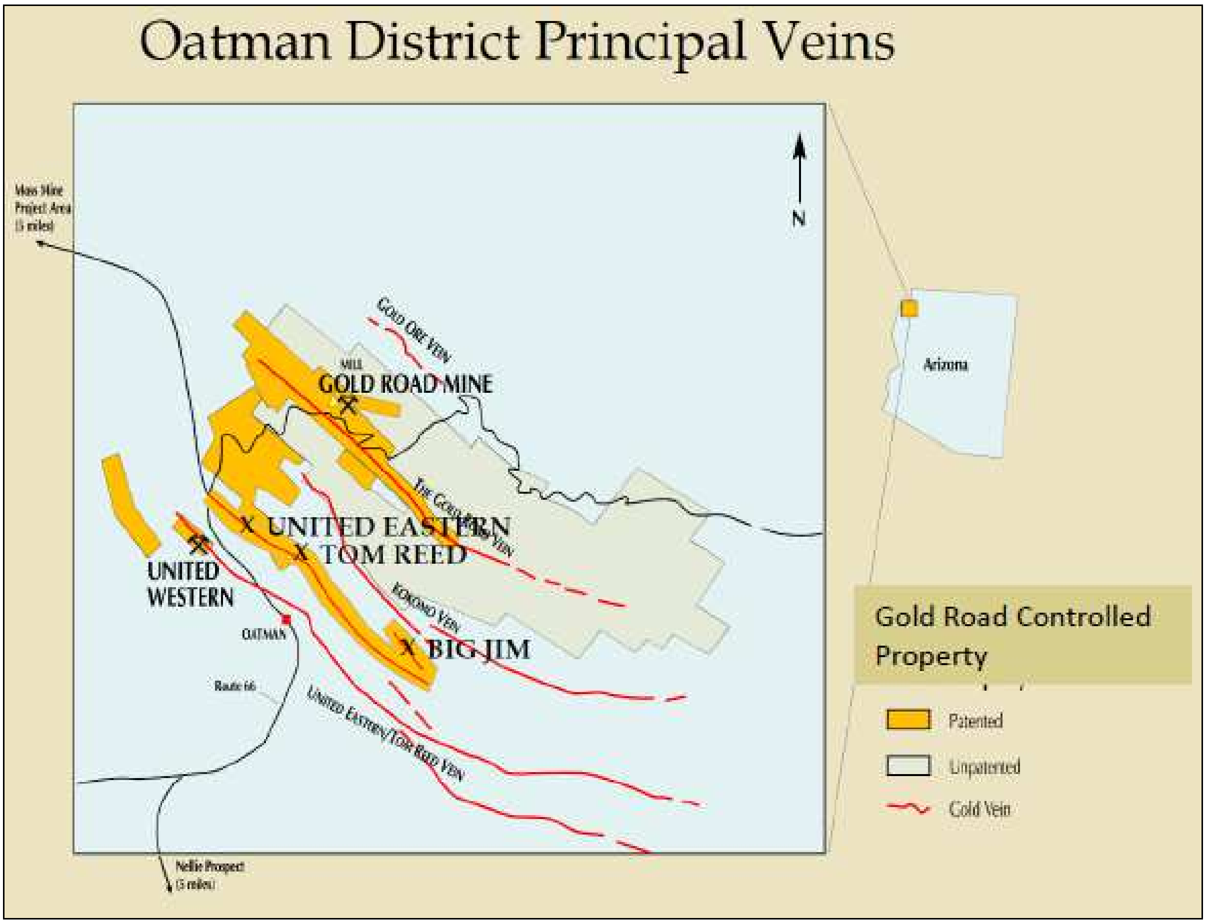
The Gold Road vein has produced over 700,000 ounces of gold and operated as recently as 2016. Prior development efforts exposed projected mining blocks at the bottom of the mine. This effort also made available a platform to drill below the lowest levels to determine the additional depth potential of the mine.

A modern fully permitted 500 tpd cyanide leach mill that last operated in June of 2016 is located on the Gold Road site and has been on care and maintenance since closure. It is believed that no major capital costs will be incurred to restart the mill. Below can be seen the Gold Road Property showing the mine entrance, mill and dry stack tailings.

Over 20 years of tailings capacity has been recently permitted and over 10 years has been built. Sufficient mining blocks are available to support a 250 tpd production rate for two years with only minimal development. Three more years of blocks have been estimated but will require development and verification sampling. These blocks have been assayed at an average grade of 7.75 gpt Au with vein widths at 1.5 to 1.8 meters. The mine will require dewatering below level 700 to allow access to the lowest levels.

The ore is amenable to cyanidation at a fine grind. The metallurgy of the ore is well known through both historical milling and recent milling at the Gold Road Mine. Cost of milling is well known and recovery is expected to be 95%.

Management's plan is that, over the next six months, Para will develop the plan to reactivate the Gold Road mine with the publication of a NI 43-101 report and feasibility study. Based on its due diligence the company believes there is potential to have the operations at Gold Road add 35-50,000 ounces a year of production to Para, with a goal of producing more than 100,000 ounces by 2020.



Exploration Potential and Plans

In October, 2009, an appraisal of the property and resource was performed by SRK and it concluded that there were 207,000 inferred ounces of gold. The company feels that the exploration potential is great as the vein is open to the east and down dip. To the west, the vein has been lost and is probably displaced by a fault.

Exploration for the Gold Road mine is proposed to be achieved from underground drill stations. Drilling from the surface cannot be achieved economically due to terrain limitations, depth and the dip of the vein. The 800 (820-840) level was driven with the goal of using it to explore the vein through drifting along the vein, but also with the goal of utilizing it as access to drive crosscuts into the hanging wall for drill stations. Five crosscuts are proposed with the purpose of exploring the best areas first. Both core drilling and underground reverse circulation drilling techniques would be utilized to maximize the number of penetrations at the least overall cost without compromising data quality.

Future Exploration

The company has accumulated (and expects to continue accumulating) old mines in the Oatman District. Over 1.3 million ounces has been recovered from the other mines in the district all within hauling distance from the Gold Road Mill. Very little exploration has been performed on the remainder of the district. Significant effort made to review the district and an extensive database for the district has been compiled and as a result a number of exploration targets have been identified.

In addition, there are in excess of 1.3 million tons of tailings in the district that can be reprocessed. The tailings run from 0.622 to 1.8 g/t Au. Historically, the mill has recovered 70% of the gold from these tailings.

Para's management has shown that they are not ones to let the grass grow under their feet. Neither are they inclined to persist with an idea after it has been found to be wanting. The swift discarding of Brazil, Peru and Nicaragua has freed up management time to focus on the opportunity in Arizona with the mantra being production/production/production. We reiterate our twelve-month target price of 58 cents.

Parting Shot

In the beginning there was the mining company email list and it was good. We rarely ended up on lists we didn't want to be on and there was always an unsubscribe function that tended to work. Then along came the Canadian nanny-state. It decided that investors were getting spammed by companies touting their projects. Seemed a silly proposition, but whatever. We would receive at the end of last decade the announcements of between 100-200 companies on whose lists we were positioned.

Then along came an email from many of these companies demanding that we restate that we wanted to be on these lists or be automatically deleted because Big Brother had decreed that they must send this demand for reconfirmation. This is where the problems began. Many of the companies forgot, omitted or could be bothered to send the email so automatically dropped us from their lists. Then the companies that we did reply to in the positive, which was 90% or more of those who asked, a goodly percentage never bothered to register our affirmative and then dropped us off the lists. In short we disappeared from maybe 80% of the lists we were on.

Roll on the latest decade and CASL appears on the horizon. For those not enveloped by the Canadian nanny-state CASL stands for Canadian Anti-Spam Legislation. This kicked up the demands significantly particularly in demanding that companies create audit trails proving that such-and-such asked to be on the mailing list. This again created a welter of more emails (indeed spam-like) asking one to confirm one wanted to stay on the list. The inevitable result, despite answering, was falling off more lists. One of the problems is that one doesn't know one has fallen off the list as it is quite common to just presume that a company is going through a quiet period and have nothing to say.

As if it isn't hard enough getting (and staying) connected with investors and analysts these days, some of these companies are their own worst enemies. They pay large amounts per head for investor lunches, collect cards or attendees details and then don't add them to the lists. This phenomenon is then repeated at conferences and trade fairs. One wonders what is the point of holding these events if it is not to remain in constant contact with interested investors!

So the elusive safari in search of investors goes on but if one goes out on the hunt with neither blunderbuss nor shot, one is unlikely to bag anything worth mounting on the wall. Mining company IR departments and executives need to lift their game when it comes to managing their mailing lists.

Mining Model Portfolio as at: 1-Oct-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	1.36	1.40%	-41.40%	$2.00
	Teck Resources (TECK.B)	5/29/2009	CAD	22.46	26.27	7.50%	17.00%	$30.00
	NevSun (NSU)	3/23/2012	CAD	3.45	2.7	3.00%	-21.70%	$5.00
	Sherritt International (S.to)	7/11/2013	CAD	1.78	1.07	3.50%	-39.90%	$2.50
	Palladium ETF (PALL)	10/16/2014	USD	72.08	89.65	4.90%	24.40%	$92.00
	Metals X (MLX.ax)	29/5/2014	AUD	0.98	0.8	2.30%	-18.20%	$1.00
Uranium	Uranium Participation Corp (U.to)	10/20/2010	CAD	7.01	3.53	1.90%	-49.60%	$6.00
	Western Uranium (WUC.cx)	7/5/2016	CAD	2.25	1.1	1.40%	-51.10%	$4.80
	GoviEx (GXU.cx)	6/29/2015	CAD	0.08	0.17	4.50%	106.90%	$0.50
Zinc/Lead Plays	Zinc ETF (Zinc.L)	1/15/2010	USD	7.04	9.1	2.50%	29.30%	£9.00
	Canadian Zinc (CZN.to)	12/9/2011	CAD	0.82	0.2	0.50%	-75.60%	$0.70
	Ascendant Resources (ASND.v)	10/31/2016	CAD	0.48	0.62	2.70%	30.50%	$1.70
	Nyrstar (NYR:BR)	9/28/2009	Euros	65.1	6.73	4.00%	-89.70%	€ 11.00
	Southern Silver Exploration (SSV.v)	8/25/2016	CAD	0.34	0.485	2.70%	42.60%	$0.94
Gold Producers	Patagonia Gold (PGD.L)	10/2/2013	GBP	3.6	1.25	0.90%	-65.30%	£4.00
	Komet Resources (KMT.v)	11/25/2016	CAD	0.47	0.35	1.50%	-25.50%	$1.28
	Para Resources (PBR.v)	2/17/2017	CAD	0.23	0.18	2.00%	-21.70%	$0.58
	Westgold (WGX.ax)	12/6/2016	AUD	2.01	1.96	3.60%	-2.50%	$2.40
	Eldorado Gold (EGO)	6/21/2012	USD	9.12	2.74	2.20%	-70.00%	$5.50
	Teranga Gold (TGZ.to)	6/21/2012	CAD	1.57	2.8	7.40%	78.30%	$3.80
Copper Producer	Coro Mining (COP.to)	2/23/2015	CAD	0.03	0.13	2.80%	333.30%	$0.30
	Tiger Resources (TGS.ax)	5/31/2017	AUD	0.049	0.05	2.10%	2.00%	$0.12
	RNC Minerals (RNX.to)	11/17/2016	CAD	0.33	0.19	1.20%	-42.40%	$0.60
Royalty Trust	Abitibi Royalty (RZZ.v)	5/31/2017	CAD	9.1	9.25	2.20%	1.60%	$18.00
Processor	IBC Advanced Alloys (IB.v)	4/29/2016	CAD	0.3	0.37	0.80%	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	0.63	6.90%	73.80%	$1.00
Copper Explorer	Asiamet Resources (ARS.v)	4/28/2016	CAD	0.05	0.05	1.60%	-1.60%	$0.12
	Western Copper & Gold (WRN.to)	4/25/2017	CAD	1.57	1.45	3.20%	-7.60%	$2.74
Nickel Explorer	Sama Resources (SME.V)	23/2/2015	CAD	0.16	0.18	3.20%	12.50%	$0.30
Lithium	Neometals (NMT.ax)	7/31/2014	AUD	0.04	0.28	3.00%	656.80%	$0.45
	Galaxy Mining (GXY.ax)	6/28/2016	AUD	1.73	2.6	2.40%	50.40%	$2.80
Scandium Explorer	Scandium International (SCY.to)	8/23/2016	CAD	0.14	0.32	4.20%	128.60%	$1.00
Graphite Producer	Elcora Resources (ERA.v)	29/5/2014	CAD	0.2	0.19	2.10%	-5.00%	$0.64
Graphite Developer	Talga Resources (TLG.ax)	8/25/2016	AUD	0.27	0.56	3.00%	111.30%	$0.90
REE Explorer	Northern Minerals (NTU.ax)	6/9/2011	AUD	0.73	0.12	0.40%	-83.60%	$0.28
	NET CASH					**656,759**		
Short Equities								
						Weighting		
Shorts	Bacanora (BCN.v)	12/4/2015	CAD	1.53	1.3	50.30%	15.00%	$0.80
	Galane Gold (GG.v)	4/28/2016	CAD	0.06	0.07	49.70%	-16.70%	$0.03

Current Cash Position	**656,759**
Current Liability on Shorts Not Covered	**124,000**
Net Cash	**780,759**
Current Value of Bonds	**0**
Current Value of Long Equities	**3,654,673**
TOTAL VALUE OF PORTFOLIO	**4,435,432**

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