



HALLGARTEN & COMPANY

Coverage Update

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US Antimony (NYSE: UAMY) Strategy: SHORT

Price (USD)	\$	0.35	
12-Month Target Price (USD)	\$	0.24	
Upside to Target		-30%	
High-low (12 mth)		\$0.22 - \$0.60	
Market Cap (USD mn)	\$	23.2	
Shares Outstanding (millions)		67.2	
		2016	2017e
Consensus EPS			n/a
Hallgarten EPS			(\$0.01)
Actual EPS		(\$0.01)	
P/E		n/a	n/a

US Antimony

Life Without Hillgrove

- + A potentially strong position in Antimony in Mexico that is underexploited and poorly managed
- + Owns the only Antimony roaster in the US/Canada but short of feedstock from those countries
- + The company foreclosed upon the Mexican contract miners after years of tolerating underperformance
- + Antimony prices have rebounded and broken through US\$8,800 per tonne, more than 60% up from their lows in 2015
- + Chinese are potentially losing their grip on the market
- ✗ Australian ore supplier has stopped shipments and put its asset up for sale
- ✗ High debt amount owing to former Australian ore supplier
- ✗ Tax spat with Mexican government potentially means sizable cash outflows
- ✗ Lack of a long-term succession policy is potentially disastrous
- ✗ Financing is likely to be an issue again

Some Things Never Change

We have a lot of respect for the *Heath Robinson*-like ingenuity of this company's CEO. He can take miscellaneous bits and pieces and create a functioning Antimony processing plant or roaster in less than the time that it takes to pick up the phone and call an expensive consultant. But alas ingenuity is only part of the skillset that is needed to guide a company through the nonchalant financing markets and the fluctuating demand and price for a niche metal like Antimony.

Despite the advancing years of the CEO (not to mention a board that is largely in its seventies) there has been little thought to succession or injecting new blood into the structure. The company briefly had an "important figure" from the mining world on board but his dose of reality was not appreciated and he exited stage left. Attempts by ourselves to precipitate change were threatened with unspecified actions and we desisted.

Now our doubts about the Hillgrove-dependent strategy have been proven correct and yet perversely the company's stock has risen, almost exclusively due to the improvement in the Antimony price. Ironically it now has less production and thus less ability to profit from the improved price of the metal.

In this note we shall review the new (old) landscape at UAMY now that it is back to where it was a few years ago.

Activities

USAC operates smelters in Thompson Falls, Montana and at Madero, Coahuila, Mexico, a gravity- and

flotation mill in Guanajuato, Mexico, a mine at Los Juarez in Queretaro State and another at Wadley in Mexico, and a zeolite operation at Preston, Idaho. The company primarily buys in Mexican ore to process, though a certain amount also emanates from Teck's Canadian smelter at Trail.

Hooked on Hillgrove

Usually when a company loses the supplier of the bulk of its processing material that it has spent years lauding as its salvation then the company's share price plummets and chaos ensues on all sides. Recriminations fly, the blame game is played and shareholders shout "we were lied to". However when that company is US Antimony then the stock price goes up and the shareholders return to their crocheting content in their faith that the overwhelmingly septuagenarian board, and its nearly octogenarian leader, will lead them to the Promised Land. When will they ever learn?

The big story in recent years was that UAMY had transformed itself from a company reliant upon a number of unreliable small Antimony mines in Mexico for its ore flow into a company with a symbiotic relationship with one mine, the on-again, off-again, Hillgrove Mine in Australia. The new arrangement with the storied (and not in a good way) Hillgrove property was to be the making of UAMY.

Earlier this year a shareholder of UAMY picked up a tidbit of news in linkedin.com that showed that Hillgrove was for sale. Readers of UAMY filings would not have seen this news. Indeed all that would have seen was that payments to Hillgrove had stopped. UAMY clearly did not seem to think that losing its largest, most-trumpeted source of supply was worth mentioning to shareholders.

The Hillgrove Deal

The Hillgrove Sb-Au mine is located in northern New South Wales in Australia. Antimony was mined in the late 1800's, declining around 1900. Modern operations commenced in 1969 with the re-opening of several old workings and construction of antimony concentrate production facilities. Mining operations commenced in early 2008. High quality metal production followed but was significantly below design capacity due to various processing issues associated with metal production. In August 2009, the then owner, Straits Resources, announced a temporary suspension of processing activities to investigate a number of the technical issues. In 2013 it was sold to Bracken Resources and in 2014, it recommenced production.

USAC entered a purchase agreement with Bracken's subsidiary, Hillgrove Mines Pty Ltd, for 200 metric tons per month of 60% antimony concentrates, that contain approximately 20 grams per ton Au (0.64 ozs) through a new plant in Mexico that we would build and dedicate to Hillgrove. This would be



Sunlight Drill Core Hole #9 showing free gold

For Sale - Hillgrove Gold and Antimony Mine - Australia New South Wales

Published on April 5, 2017

 Scott Douglas Jones | Follow
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For Sale - Hillgrove (Antimony - Gold) Mines Pty Ltd - Expressions of interest invited.

Introduction

Meridian Capital CIS Fund ("Meridian"), the ultimate holder of a majority interest in the Hillgrove antimony-gold mine ("Hillgrove"), seeks expressions of interest from parties wishing to purchase the mine. Meridian holds its interest indirectly through Bracken Resources Pty Ltd, which itself holds 100% of Hillgrove Mines Pty Ltd, the mine's direct owner and operator.

equivalent to approximately 3,000,000 pounds of antimony and 1,500 ounces of gold annually. It appeared to be a novel sort of tolling arrangement as UAMY claimed it would receive a 9.5% “profit” on sales.

Before the plant was finished, Hillgrove had shipped 682 tons of concentrates. UAMY used all of its furnaces in Mexico and 30-40% of the furnace capacity in Montana to process the Hillgrove concentrate.

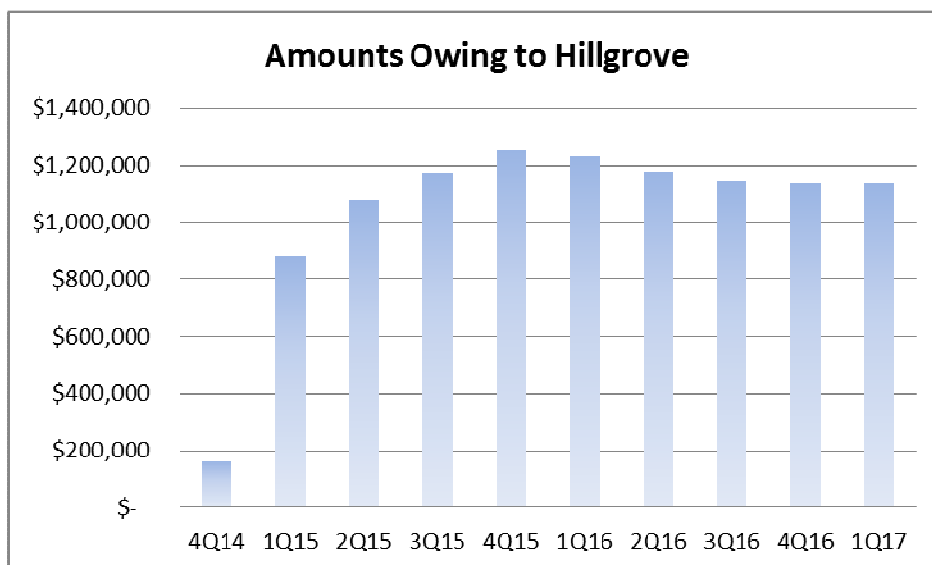
Financial Arrangement with Hillgrove

Curiously, Hillgrove is providing funding to UAMY to expand its smelter capacity in Montana and Mexico when usually it is the mill that funds the mining that feeds it. On November 7, 2014, UAMY entered into a loan and processing agreement with Hillgrove Mines Pty Ltd by which Hillgrove advanced to UAMY funds to be used to expand its Madero smelter in and that in Thompson Falls, Montana. The agreement required that UAMY construct equipment so that it could process approximately 200 metric tons of concentrate per month. The parties agreed that the equipment would be owned by UAMY and its Mexican subsidiary. Upon Hillgrove’s election, the contract provides for additional expansion of the plant.

The agreement called for US Antimony to sell the final product for Hillgrove, and Hillgrove to have approval rights of the customers for their products. The agreement allowed UAMY to recover its operating costs as approved by Hillgrove, and to charge a 7.5% processing fee and a 2% sales commission. The initial term of the agreement was five years, and that agreement was amended later to be eight years; however, Hillgrove had the right to suspend or terminate the agreement at its discretion. UAMY was also able to terminate the agreement and begin using the furnaces for their own production if Hillgrove fails to recommence shipments within 365 days of a suspension notice.

Since the initiation of the deal the amount owed by UAMY to Hillgrove escalated rapidly then levelled off.

The agreement states that if a stop notice is issued by Hillgrove within one



year of the date of the agreement, UAMY is only obligated to repay 50% of the funds advanced at that point. If a stop notice is issued between one year and two years, there is a formula to prorate the repayment amount from 50% to 81.25%. If a stop order is issued after two years, the repayment obligation is 81.25% of the funds advanced at that point.

The accounting treatment of this has been recorded as the Hillgrove advances payable net of the 18.75% discount on the obligation due if Hillgrove issues a stop order after two years. As of September 30, 2016, Hillgrove had advanced UAMY approximately \$1.4 million. Of this amount, \$262,500 was recorded as deferred earned credit and is being recognized ratably through the period ending November 7, 2016 which is when the 81.25% repayment terms of the agreement is applicable. During the nine months ended September 30, 2016 and 2015, \$109,392 and \$58,139, respectively, of the deferred earned credit was recognized with \$10,937 to be recognized in the remainder of 2016. At September 30, 2016, the amount due to Hillgrove for advances was \$1,134,221 which is approximately 81.25% of the total amount advanced.

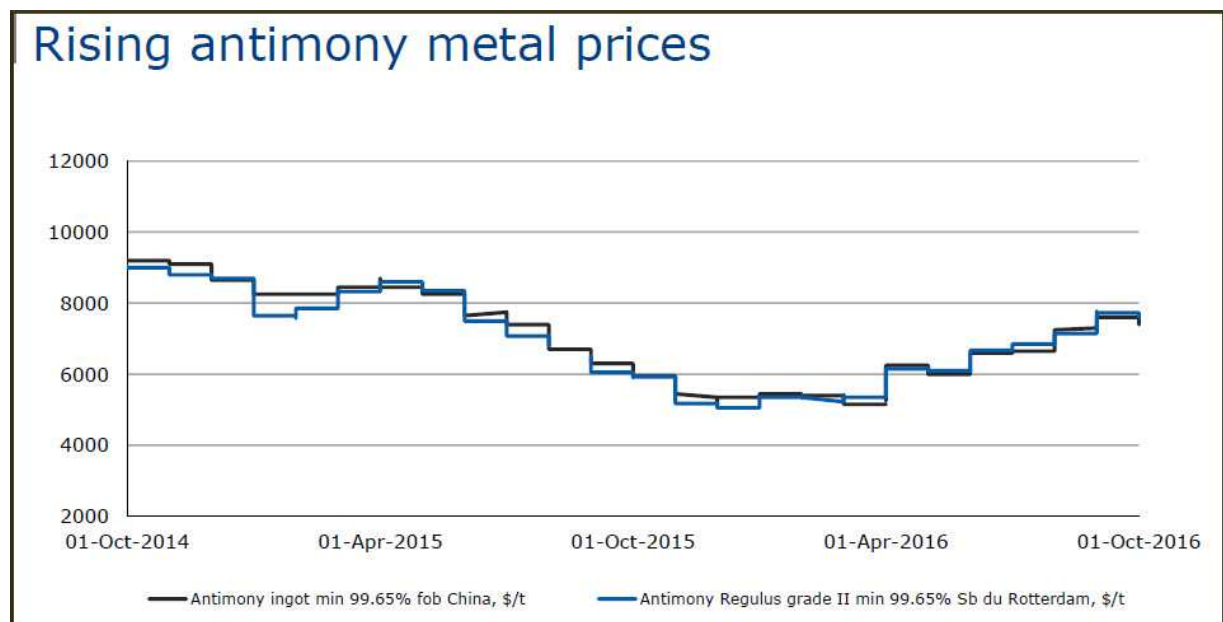
This is very novel. Therefore as the debt that UAMY owes grew higher, it immediately took 18.75% of the net increase in the debt and referred to it as a revenue item because, in theory, it will ultimately be part of the debt that will not have to be paid back.

This raises an interesting question though now that the Hillgrove deal seems to have come to an end. There is clearly no more extra debt so no extra income and UAMY now has to pay back to Hillgrove the advances. The game is at an end.

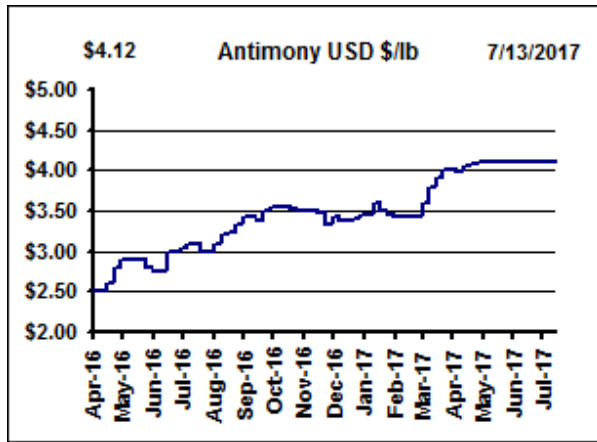
As of last September, the final terms of when the repayment takes place had not yet been agreed on.

A Brief Word on Antimony

After a swoon that lasted several years, and sank the prospects of several Antimony wannabes, the price of Antimony started to uptick in 2016.



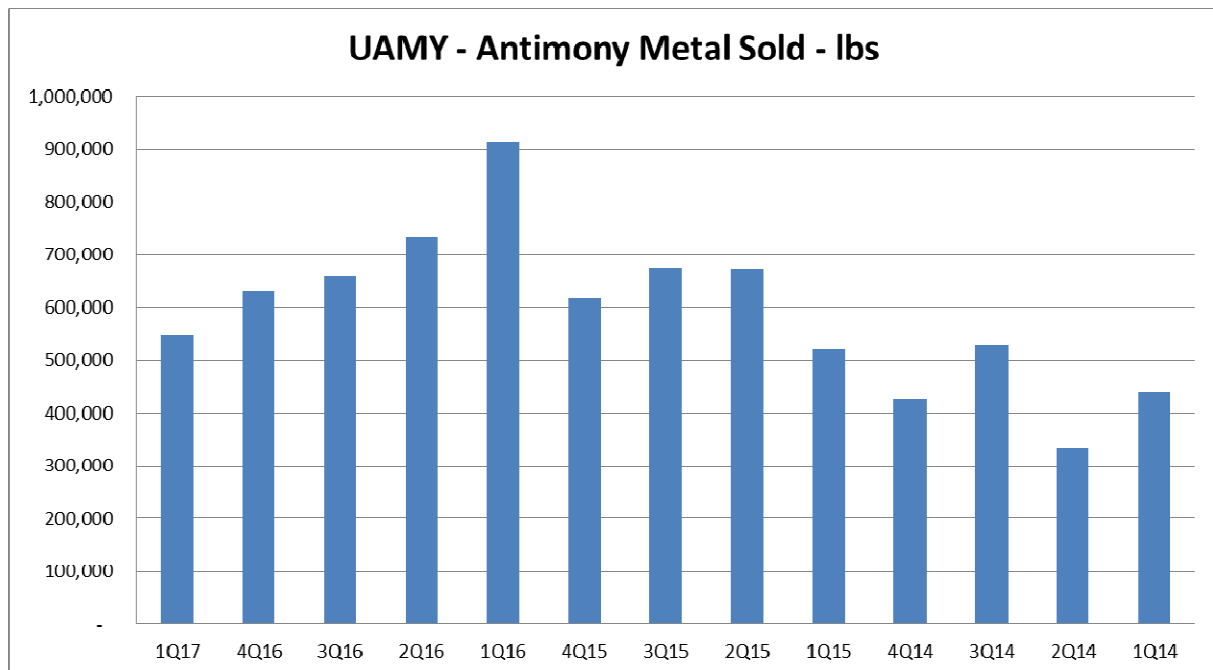
Below can be seen the recent price in pounds. In recent times the price per tonne has broken above the \$8.800 per tonne mark and held there for several months.



At the end of April 2017, the average Rotterdam price of Grade I antimony metal per metric ton was \$8,850 (\$4.014 per pound), and by the end of June, the price had decreased to \$8,606 (\$3.90 per pound), a decrease of 3.5%.

Production

Understandably the departure from the scene of Hillgrove has blown a hole in UAMY’s production numbers. The chart that follows shows that peaked in the first quarter of 2016 and one year later is some 40% lower than the peak. As the company has not specifically signaled that Hillgrove are out of the picture we do not know when the shipments stopped and thus cannot gauge how much of 1Q17 was residual processing of Hillgrove product.



The company offered the following guidance for 2Q17, representing a further slight decline from the output for the first quarter of the current year (547,850lbs):

Guidance	Q2 2016	Q2 2017	Change
Antimony pounds	732,802	505,760	-31%

Los Juarez

The old adage that “it’s not the despair that gets you, but the hope” is the mantra for those who have looked at UAMY in the past as a potential player in the non-Chinese Antimony space. It has continually failed to live up to expectations and one of the reasons is that its relations with several Mexican Antimony mines would appear to be highly prospective and yet the reality is ongoing disappointment due to a dysfunctional relationship with “contractors” that own/work these properties.

In recent weeks the company has published yet again a missive relating to one of these. In this case it was the Los Juarez property where it claimed that it had milled of 400 metric tons of Los Juarez gold/silver/antimony at the Puerto Blanco mill in Guanajuato and as a result it would proceed with building a cyanide circuit to increase the recoveries of both the silver and gold from the flotation mill tailings.

Initial results of the flotation assays without the cyanide circuit are as follows:

Los Juarez	Recovered grade	% recovery
Gold	0.019 o/t	52.80%
Silver	1.65 o/t	49.60%
Antimony	0.17%	31.50%

The flotation concentrate contained 2.52 o/t gold, 496.4 o/t silver, and 52% antimony. The flotation concentrates will be processed by the caustic leach circuit which is operational. Cyanide testing of the mill tailings indicated, in the company’s words “excellent recoveries”, and the antimony recovery has been on the order of 70% at lower depths.

Construction of the cyanide leach circuit for the Puerto Blanco mill tailings will begin when the permit is approved by SEMARNAT (Mexican equivalent of the EPA). Tentatively, the plan is to leach in Mexico and handle the second part of the process in Montana which is expected to cut Capex costs significantly, reduce operating costs, and expedite the start of the circuit.

At the Wadley deposit, the company's most interesting asset (which is leased not owned) in San Luis Potosi State in Mexico, underground miners have been increased to 90 men. Plans are underway to reopen the Guadalupe deposit in Zacatecas, Mexico. Mexican production is being increased to compensate for the reduction (cessation?) of Australian concentrate processing. The latter is a pipedream as the Mexican production could replace the Australian inputs if there was a concerted plan but the current operation is undercapitalized and half-heartedly managed.

The Balance Sheet

Below can be seen the current balance sheet. While the liabilities may be low (possibly deceptively so if one considers the Mexican tax liability discussed anon) the asset side of the balance is similarly slimline with scarcely any cash in the bank. The company is running on fumes.

Mexican Taxes

The words "transfer pricing" have been used by us in the past with relation to the transactions undertaken between the Mexican operations and the mothership in the US. These rumblings were dismissed by the company and its factotums.

Then, lo and behold, in 2015, the Mexican tax authority (SAT) initiated an audit of the USAMSA's 2013 income tax

return. In October 2016, as a result of its audit, SAT assessed the Company \$13.8 million pesos, which is approximately USD\$666,400 as of December 31, 2016. Approximately USD\$285,000 of the total assessment is interest and penalties. SAT's assessment is based on the disallowance of specific costs that UAMY deducted on the 2013 USAMSA income tax return. SAT claims that the costs were not deductible or were not supported by appropriate documentation. At March 31, 2017, the assessed amount is USD\$737,000.

U.S. Antimony - Balance Sheet

In Millions of USD

	3/31/2017	3/31/2016
Cash & Equivalents	0.01	0.14
Short Term Investments	0.25	0.25
Cash and Short Term Investments	0.26	0.39
Accounts Receivable - Trade, Net	0.55	0.87
Total Inventory	0.91	0.95
Other Current Assets, Total	0.01	0.12
Total Current Assets	1.73	2.33
Long Term Investments	-	-
Other Long Term Assets, Total	0.43	0.09
Total Assets	17.72	18.46
Accounts Payable	2.12	1.99
Accrued Expenses	0.32	0.38
Notes Payable/Short Term Debt	0.20	0.09
Current Port. of LT Debt/Capital Leases	0.43	0.31
Other Current liabilities, Total	0.68	0.18
Total Current Liabilities	3.75	2.95
Long Term Debt	1.4	1.57
Total Debt	2.03	1.97
Other Liabilities, Total	1.45	1.53
Total Liabilities	6.6	6.05
Preferred Stock - Non Redeemable, Net	0.03	0.03
Common Stock, Total	0.67	0.67
Additional Paid-In Capital	36.24	36.02
Retained Earnings (Accumulated Deficit)	-25.82	-24.31
Total Equity	11.12	12.41

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Management has reviewed the assessment notice from SAT and believes numerous findings have no merit. UAMY has engaged accountants and tax attorneys in Mexico to defend its position. An appeal has been filed which is expected to be completed during 2017.

At December 31, 2016, management has estimated possible outcomes for this assessment and said it believed that the company will ultimately pay an amount ranging from 30% of the total assessment to the total assessed amount. Also intriguingly UAMY's agreement with the tax professionals is that the professionals will receive 30% of the amount of tax relief they are able to achieve.

At December 31, 2016, the company had accrued a potential liability of US\$410,510 of which \$259,490 was for unpaid income taxes, \$75,510 was for interest expense, and \$49,952 was for penalties. The amount accrued represents management's best estimate of the amount that will ultimately be paid. The company warned that the outcome could vary from this estimate. At March 31, 2017, UAMY recognized a \$41,151 increase due to the change in exchange rate.

UAMY has stated that if the SAT audit is resolved in a manner inconsistent with management expectations (code language for "appeal fails") then it will adjust its net operating loss carryforward, or accrue any additional penalties, interest, and tax associated with the audit. UAMY's tax professionals in Mexico have reviewed and filed tax returns with the SAT for 2014 and 2015, and have advised us that they do not expect us to have a tax liability for those years relating to similar issues. Famous last words from UAMY.

What we find difficult to grasp here is how the auditors of UAMY's accounts have not erred on the side of caution and plumped for the tax authority's calculated number pending the matter being resolved otherwise and instead the auditors have taken the company's word for it that the Mexican claims are false. We might also mention that when the issue is resolved at either the higher or the lower number, UAMY does not have the financial resources to pay the tax bill.

Earnings Outlook

In the period up until Hillgrove appeared on the scene USAC was in something of an earnings swoon. As costs at its roasters have not necessarily fluctuated that much, we can only attribute this malaise to the dependency upon the inconsistent supplies of Antimony ore from the Mexican mine operators. This just reinforced the need to for USAC to take control of its own destiny by owning its sources of supply.

Hillgrove has now come and gone with an arc of rising revenues and production, followed by the decline, but a bottom line still mired in losses except for the outlier quarters at the beginning and end of 2015. Now it's gone with little left in its wake but a debt back to Hillgrove and the equipment that was added to the Mexican roaster.

On the following page can be seen the historic earnings and our earnings estimates for 2017.

US Antimony														
USD (mns)														
	FY17e	1Q17	FY16	4Q16	3Q16	2Q16	1Q16	FY15e	4Q15	3Q15	2Q15	1Q15	FY14	FY13
Total Revenue	10.59	2.62	11.89	2.73	2.85	3.01	3.31	13.11	3.25	3.51	3.40	2.95	10.77	11.02
Cost of Revenue, Total	10.23	2.53	11.353	2.54	2.89	2.82	3.10	12.35	2.72	3.27	3.31	3.05	11.11	11.06
Gross Profit	0.36	0.090	0.537	0.183	-0.042	0.19	0.206	0.759	0.54	0.232	0.09	-0.10	-0.34	-0.04
Selling/General/Admin. Expenses	1.23	0.40	1.17	0.06	0.34	0.35	0.41	1.32	0.23	0.38	0.33	0.38	1.25	1.30
Interest Expense(Income)	-	0.03	0.16	0.11	0.03	0.03	0.00	-	-	-	-	-	-	-
Unusual Expense (Income)	-	-	-	-	-	-	-	-	-	-	-	0.01	-0.04	-
Hillgrove Deferred	0.00	0.00	-0.12	0.28	-0.33	-0.05	-0.02	0.15	0.06	0.04	0.05	0.00	-	-
Gain on liability Adjustment	-	-	-	-	-	-	-	-	-	-	-	0.93	-	-
Total Operating Expense	11.46	2.96	12.56	2.92	2.92	3.15	3.49	13.82	3.01	3.70	3.64	2.51	12.32	12.36
Operating Income	-0.87	-0.34	-0.67	-0.19	-0.08	-0.14	-0.18	-0.71	0.25	-0.19	-0.24	0.44	-1.55	-1.34
Other, Net	-0.03	-0.05	-0.03	-0.02	0.01	-0.01	-0.01	-0.02	0.02	-0.03	-0.01	0.00	-0.05	-0.07
Income Before Tax	-0.90	-0.39	-0.70	-0.22	-0.07	-0.14	-0.19	-0.73	0.27	-0.22	-0.25	0.44	-1.60	-1.41
Tax	0.00	0.00	0.30	0.00	0.41	0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.23
Net Income	-0.90	-0.39	-1.00	-0.22	-0.48	-0.16	-0.19	-0.84	0.27	-0.22	-0.25	0.44	-1.60	-1.64
Preferred Dividends	0.05	0.01	0.05	0.01	0.01	0.01	0.01	0.05	0.01	0.01	0.01	0.01	0.05	
Basic Weighted Average Shares	76.00	67.183	66.78	66.248	66.866	66.866	66.248	66.70	66.04	66.248	66.22	68.52	64.61	62.28
Basic EPS	-0.01	-0.01	-0.01	0.00	-0.01	-0.002	0.00	-0.01	0.00	0.00	0.00	0.01	-0.02	-0.03
Antimony Metal sold - lbs	1,956,000	547,850	2,936,880	632,322	658,915	732,802	912,841	2,487,321	618,405	675,031	672,885	521,000	1,727,804	1,780,134
Mexico	400,000	88,184	1,513,923	254,094	411,410	422,330	426,089	1,105,350		345,468				
Montana	1,556,000	459,666	1,422,957	378,228	247,505	310,472	486,752	1,381,971		329,563				
Antimony Metal sold - tonnes	887	249	1,333	287	299	332	414	1,129	281	306	305	236	784	808
ATO price estimate	\$ 8,650	\$ 8,001	\$ 8,650		\$ 6,766	\$ 6,193		\$ 8,430						

Despite improving prices we must face the fact that volumes are likely to make much improvement over those in 1Q17. This then points to ongoing losses. This saps what little cash is left and most likely will force a dilutive raise upon the company. We are factoring around nine million extra shares but that scarcely covers the Mexican tax debt as currently recognized. In reality the company needs to have more \$10mn in the bank to fund the tax repayment, expansion at the mines in Mexico and the improvements to the concentrate recoveries.

We therefore are projecting (very generously we feel) a loss of \$900,000 in FY17 or one cent per share on our estimated expanded capital

What we are Dealing With

The movements and promotional efforts in this stock have long been a source of wonderment and criticism amongst investors. For a considerable period of time the stock was ramped by an extra-mural "IR" outfit (and we use that term loosely). After a fractious breakup the stock is no longer promoted as aggressively, as far as we know, but represents risks to investors in that they can find themselves on the wrong side of manipulatory manoeuvres by a party or parties unknown.

Here can be seen the close of the day's trading on the 16th of June. Someone saw fit to paint the tape with a trade for a single share at a total trade value of 46 cents invested. This moved the stock (and the market cap) up 15%. We are not sure what such a mid-month exercise is directed towards achieving and who is supposed to be impressed by it. We are not.

Risks

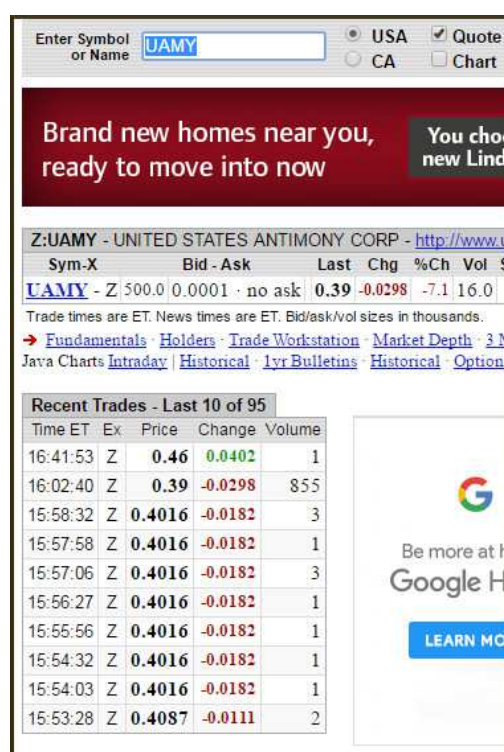
The obvious unavoidable risk is:

- ✘ Massive move higher by the Antimony price which produced a "rising tide lifts all boats" phenomenon

But then, other risks for a shorter are:

- ✘ A change of management that gives the company direction and a higher profile
- ✘ A substantial financing that overcomes the looming financial crisis
- ✘ A resumption of deliveries from Hillgrove under the existing or new owners
- ✘ A hostile change of management (or takeover) at UAMY

On the metal price front the rising Sb price shifted UAMY to a higher level and yet while the price has not eased UAMY has retreated substantially. This is largely due to the unreformed nature of the



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company. Management has signaled that it will not countenance change unless it is forced upon them and yet parties we have spoken to that might have initiated a challenge are wary of the company because of hidden “nasties” whether they be issues like the Mexican tax quarrel or due to simple incompetence by the guiding forces.

Hillgrove resuming deliveries in an enticing option but the most likely buyer for that asset would be Chinese (it is apparently already owned by a Hong Kong entity). If the buyer is Chinese then the product is almost sure to head to China rather the interior of Mexico.

A substantial financing should not be entirely ruled out but management cannot spin a professional story to a large investor so we cannot see money being raised except from the type of HNWs that like the company’s folksy down-on-the-farm style. This limits the amount potentially raised to the smaller end of the scale, which in light of the Mexican tax liability, ongoing losses from operations and the imperative to upgrade throughput at the “mines” would not be sufficient to make a real difference to the company’s outlook.

Conclusion

We hate to sound like a broken record but we keep being able to make Short calls on this stock and yet make money. The price moves in a range between the mid-20s and the mid-40s and without fail management has an uncanny ability to make things go wrong or get mugged by circumstances. The two things that would break this cycle of misery are a reshuffle of management (e.g. elevating the CEO to chairman emeritus and bringing in fresh blood) and a financing on the back of that. Neither will it contemplate. Much as the company would like a financing, investors are not prepared to back a management that has no long term vision and that has actuarial realities working against it.

With no sign that this company has recognized that it needs to change its ways and with a perilous financial situation (including looming Mexican tax liabilities) we have resolved to maintain our **Short** call on this stock with a twelve-month target price is USD\$0.24.

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