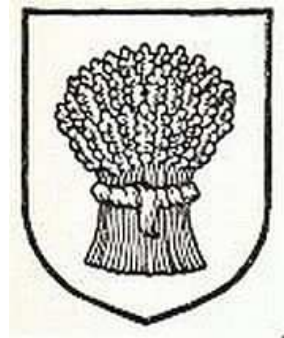


Wednesday, June 6, 2018



HALLGARTEN & COMPANY

Portfolio Strategy

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Model Mining Portfolio: Cobalt's Brief Day in the Sun

Performance Review – May 2018

Model Mining Portfolio

Cobalt's Brief Day in the Sun

- + M&A is picking up and as valuation perceptions are far apart between buyers and sellers we expect more hostile bids to eventuate
- + Base metals have rebounded broadly with the prospect of challenging again the recent highs over the summer
- + The "Commodity War" has begun and metals valuations should be the beneficiary of this evolution with stockpiling becoming more of an imperative
- ✗ The Gold price slid under the \$1,300 per oz mark and wallows unloved
- ✗ Trump action on steel and aluminium towards friends and allies is sowing confusion
- ✗ Uranium bulls have been left dangling as the Trump regime focusses on other issues rather than the hoped for action on this front
- ✗ Cobalt prices appear to be rolling over. The DRC is more of a threat than a promise

Cobalt – Short Life But a Merry One

The great cobalt surge is predicated on two things. The first is the great push into EVs and the possibly mistaken belief that cobalt is irreplaceable in the mix. The second is that there is a perma-shortage of Cobalt due to its main source being the DRC. The unspoken part of this second rationale is that the vast bulk of the Cobalt wannabes are fakers. Because if they were real then there is no likelihood that there would be a shortage in the long-term.

A massive existential battle is being fought over the global warming issue. The Wall Street Journal decreed global warming to be dead in a recent article while those suffering record cold winters ponder their fates. Meanwhile *diktats* from Western governments on adoption of EVs have given little thought to supply issues related to the metals required for batteries (and engines – i.e. REEs). The Chinese in their infinite wisdom have set the ball rolling on mass conversion to the new mode of motoring in a *Great EV Leap Forward*.

While we had predicted a few years back that the Chinese would short-circuit the whole American *evolution to prosperity* model of an internal combustion engine car in every driveway (mainly because scarcely any Chinese have driveways) we have started to think more recently that the Chinese are making themselves a cross to carry if they don't skip the car-owning phenomenon altogether. If cobalt (or lithium) shortages or permanent gridlock does not persuade them to skip the whole "automobile fetish" then they are not thinking right. Chinese cities are congested enough already, why bother with

allowing the *lumpenproletariat* to indulge in four-wheeled private transportation at the price of creating unlivable cities? Tis true that having an automobile industry was what made Japan and Korea into First World economies but as the bankruptcy of various Western car companies in the last 20 years has shown there may be less attraction in having an auto industry than many imagine. If the future is Blade Runner-like flying cars then EV's in their turn could have a limited faddishness before being consigned to the Museum of Short-Lived Technologies.

We are feeling more comfortable by the day with our **Short** call on Cobalt27 and that is without paying any attention to the scuttlebutt that is going around. When Cobalt bulls look at the chaos and lack of clarity in the DRC they see higher prices, when we look at it we see yet more reasons to replace Cobalt in battery formulations. We suspect Cobalt's reign will be a short and merry one, until it's not merry any more.

Portfolio Changes

There were no portfolio changes during May.

The Portfolio Move

The portfolio rose yet again during may to close at \$5.303mn up from the \$5.111mn registered at the end of April. Cash remain unchanged at \$1.49mn.

Nevsun (TSX:NSU) – Hostile Bid Focusses Minds

It's somewhat ironic that our target price for Nevsun is exactly the same as the adjusted offer price for the company in the hostile bid currently doing the rounds which is being offered Euro Sun Mining (TSX:ESM) The bid is actually a joint proposal with Lundin Mining (TSX:LUN) to acquire Nevsun. The total proposed consideration of CAD\$5 per share includes CAD\$150mn cash from Euro Sun and CAD\$600mn in cash from Lundin Mining along with CAD\$150mn in Euro Sun stock and CAD\$600mn in Lundin Mining stock. Euro Sun's stock portion only represents 10% of the total consideration in this proposal.

The proposed takeover became known to the public in early May and, to date, shareholders representing over 30% of Nevsun shares outstanding have expressed support for what is being termed a Euro Sun-led offer, despite it being the smallest contributor to the proceeds and ending up with only a fraction of Nevsun should the transaction succeed.

Lundin's activities are well-known. Our chief criticism of that group would be that it has gone from being weighted towards Zinc during the Commodity Supercycle to being heavily copper-focussed at the current time. Presumably that is the motivation for this transaction.

Euro Sun's main activity is the exploration and development of its 100%-owned Rovina Valley in west-central Romania, which it claims hosts the second largest gold deposit in Europe. The Rovina Valley Project is located on the Western Tethyan mineral belt and consists of three porphyry deposits: Colnic

and Rovina, and Ciresta, The project hosts measured and indicated mineral resources of 7.2 million ounces of gold and 1.4 billion pounds of copper in 406 million tonnes at 0.55 gold grams per tonne and 0.16% of contained copper.

Shareholders are undoubtedly thrilled at the stock price uplift this mooted transaction has generated. This transaction is 50/50 cash/equity. While Lundin’s stock may be perceived to be attractive in some circles, a Romanian gold wannabe brings back evocative memories from last decade.



We suspect some slicing and dicing shall happen post-transaction with Bisha, the producing copper-zinc mine in Eritrea ending up fully-owned by Lundin. Euro Sun’s interest in that asset is difficult to imagine. Curiously though an article in the Financial Post suggested that Lundin Mining would acquire Euro Sun’s share of the yet to be developed Timok copper-gold deposit in Serbia (which has initial probable mineral reserves of 27 million tonnes) while Euro Sun would acquire Bisha. Why Lundin just doesn’t do this transaction itself is somewhat boggling. We are in wait-and-see mode.

Almonty – Worth the Wait

Moses supposedly spent 40 years in the wilderness and we have to say that it feels like that long which we have been waiting for Almonty to finally deliver the goods in the form of a positive bottom line. What a difference a year makes... from losing over three million dollars in the first quarter of last year the company swung to a profit of \$3.76mn in the latest quarter (2 cts per share). Moreover the margins

were stunning with this net profit having been gleaned on sales of \$17.3mn in the March quarter representing a net margin of nearly 25%. It is not difficult to envisage that profits could be as high as 10c per share which puts this go-go stock on a P/E ratio of less than seven times current year's earnings.

Almonty's price has been a beneficiary of this turnaround (and thus one of the best performers in the Model Mining Portfolio of late) and has taken the opportunity to jump to the TSX main board.



This miracle is of course the result of the dramatic turnaround in the Tungsten price which continues apace with the price of APT adding a dollar or two per MTU every week in recent times. This gradual rise is always our preferred alternative to the spike and dump phenomenon that we have seen in the last bull market in this metal.

The rising price has triggered the company to start advancing the Sangdong project in South Korea that we have written on many times in the past when it was owned by Woulfe Mining. This project is with considerable lead time though and there are a number of other Tungsten wannabes, particularly in Iberia (W Resources and Ormonde amongst others), that might manage getting into production in the meantime. The rise in the metal's price has also saved the hapless Wolf Minerals, with its low-grade Hemmerdon mine in the UK, from having to face the grim reaper.

Will this price recovery cause an oversupply and a price slump? We suspect that the situation will be

better handled this time around. The Chinese are eager to hang onto their own supplies of Tungsten whereas in the past they have used stocks and production to manipulate (dare we say, cudgel) the price to where they wanted it. The strategy only partly succeeded. The big Western buyers have oftakes with many of the new producers (including Almonty) and will balance their buying between the various candidates to keep the price at some sort of “happy medium” between \$320 and \$360 per MTU that puts bread on everyone’s table and keep a good variety of suppliers in economically fit shape.

Almonty’s first mover advantage has allowed it to corral three producing projects (Spain, Portugal and Australia) under its wings and has another two (Sangdong in Korea and Valtreixal in Spain) up its sleeve. It is hard to find a Western producer in the history books that has had such a spread of assets. That it should have been built up in a dire price environment with no financing available is even more of a credit to the management. Maybe we can clone them and let them loose in some of the other mining sub-sectors. Consolidators are sorely needed.

The long haul at Almonty is finally bringing its rewards. While our target price is \$1 we suspect we shall have to hike that as the company becomes both a earner (and dividend payer) and maybe a takeover target.

Parting Shot

Doing the rounds of London investment banks and brokers in recent weeks has been illuminating when it comes to sourcing the views of Canadians and others on the AIM market in London. For a long while we have thought that Canadian investors and companies had come up with their own ideas on AIM through some process of group-think. Spontaneously they had decided that AIM was a “bad thing” and enormously expensive. The view amongst London bankers is that it has actually been a skillful TSX-led campaign of denigration and misinformation that has led to this widespread negative perception of the AIM from abroad.

Far be it for us to defend the indefensible in the form of the NomAd (Nominated Advisor) system at the AIM, as to us it seems like a legalized shakedown. Whether the TSX secretly propagates negative vibes about a practice which adds little value and adds enormous overheads seems a meaningless debate because it is obvious for anyone to see that NomAds offer poor value for money. Other costs of AIM listings just add to the general impression of an AIM-listing being an expensive option. However if the TSX is really hoping that stating the obvious will head off the challenge then it will be disappointed.

Despite whatever other negatives the AIM might have these are as nothing to the mining promoter with an African project because the Canadian market seems to be little interested in anything in Africa these days whereas the London market understands the territory. Why list in Toronto cheaper if ultimately one is doomed to be grounded in miserable tides of disinterest? Then there is the more serious concern (oft whispered in lowered voices) that the Canadian market is currently obsessed with Buds & Blockchains and that it is no longer a serious money raising locale for companies with real projects. That is hard to argue with.

The reaction in London to the bad karma being spread about is the new(ish) Standard Listing. We had originally thought this a cunning way of “having your cake and eating it too” so that those who didn’t like the AIM could still manage a “lite” listing on the LSE. But apparently this was something foisted upon the LSE by the EU. This came as a surprise to us as financial innovation and the EU are anathema to each other. In any case these listings are somewhat in the vein of SPACs and CPCs. Indeed the new invention sounds better in many ways than the AIM. No NomAd is required, so as New Yorkers would say “What’s not to like?”. The TSX will have to start sharpening their pencils and come up with other reasons not to bad-mouth London markets.

Mining Model Portfolio as at: 4-Jun-18

Security	Initiated	Currency	Price Avg.	Current	Portfolio Weighting	Increase in Value	Target	
Long Equities								
Various Large/Mid-Cap	Teck Resources (TECK.B)	5/29/2009	CAD	22.46	35.61	10.3%	58.5%	\$38.00
	NevSun (NSU)	3/23/2012	CAD	3.45	4.17	4.6%	20.9%	\$5.00
	Sherritt International (S.to)	7/11/2013	CAD	1.78	1.18	3.9%	-33.7%	\$2.50
	Metals X (MLX.ax)	29/5/2014	AUD	0.98	0.85	2.5%	-13.1%	\$1.00
Trading House	Noble Group (CGP.SG)	15/11/2017	SGD	0.2	0.06	0.9%	-69.8%	\$0.30
Uranium	Uranium Participation Corp (U.to)	10/20/2010	CAD	7.01	4.12	2.3%	-41.2%	\$6.00
	Western Uranium (WUC.cx)	7/5/2016	CAD	2.25	0.79	1.0%	-64.9%	\$4.80
	GoviEx (GXU.v)	6/29/2015	CAD	0.08	0.22	5.8%	167.7%	\$0.50
Zinc/Lead Plays	Zinc ETF (Zinc.L)	1/15/2010	USD	7.04	8.89	2.5%	26.3%	\$11.00
	Canadian Zinc (CZN.to)	12/9/2011	CAD	0.82	0.14	0.4%	-82.9%	\$0.70
	Ascendant Resources (ASND.v)	10/31/2016	CAD	0.49	1.10	7.2%	125.0%	\$1.70
	Telson Mining (TSN.V)	3/19/2018	CAD	0.79	0.84	6.4%	6.3%	\$2.00
	Nyrstar (NYR:BR)	9/28/2009	Euros	65.1	4.94	3.1%	-92.4%	€ 11.00
	Southern Silver Exploration (SSV.v)	8/25/2016	CAD	0.26	0.485	2.7%	86.5%	\$0.94
Gold Producers	Para Resources (PBR.v)	2/17/2017	CAD	0.23	0.20	2.2%	-13.0%	\$0.58
	Westgold (WGX.ax)	12/6/2016	AUD	2.01	1.72	3.3%	-14.4%	\$2.40
Copper Producer	Coro Mining (COP.to)	2/23/2015	CAD	0.03	0.1	2.2%	233.3%	\$0.30
	RNC Minerals (RNX.to)	11/17/2016	CAD	0.33	0.15	1.0%	-54.5%	\$0.60
Royalty Trust	Abitibi Royalty (RZZ.v)	5/31/2017	CAD	9.1	10.05	2.4%	10.4%	\$18.00
Processor	IBC Advanced Alloys (IB.v)	4/29/2016	CAD	0.3	0.32	0.7%	6.7%	\$1.40
Driller	Cabo Drilling (CBE.v)	9/28/2016	CAD	0.025	0.01	0.4%	-60.0%	\$0.08
Tungsten Producer	Almonty Industries (AII.v)	7/31/2015	CAD	0.36	0.66	7.3%	82.1%	\$1.00
Copper Explorer	Asiamet Resources (ARS.v)	4/28/2016	CAD	0.05	0.11	3.5%	110.4%	\$0.12
	Panoro Minerals (PML.v)	1/22/2018	CAD	0.3	0.37	2.4%	21.7%	\$0.65
	Western Copper & Gold (WRN.to)	4/25/2017	CAD	1.57	1.26	2.8%	-19.7%	\$2.74
Lithium	Neometals (NMT.ax)	7/31/2014	AUD	0.04	0.32	3.5%	764.9%	\$0.45
	Lithium Power Intl (LPI.ax)	10/25/2017	AUD	0.44	0.29	1.9%	-34.1%	\$1.38
Scandium Explorer	Scandium International (SCY.to)	8/23/2016	CAD	0.14	0.15	2.0%	7.1%	\$1.00
Gold Explorer	Banyan Gold (BYN.v)	11/14/2017	CAD	0.07	0.06	1.7%	-14.3%	\$0.25
Graphite Producer	Elcora Resources (ERA.v)	29/5/2014	CAD	0.2	0.28	3.1%	40.0%	\$0.64
Graphite Developer	Talga Resources (TLG.ax)	8/25/2016	AUD	0.27	0.8	4.4%	201.9%	\$0.90
REE Explorer	Northern Minerals (NTU.ax)	6/9/2011	AUD	0.23	0.1	1.4%	-57.4%	\$0.28
NET CASH						\$1,490,261		
Short Equities								
Shorts	Bacanora (BCN.L)	12/4/2015	GBP	0.825	0.89	Weighting	-7.9%	£0.60
	Lithium Americas (LAC.to)	10/25/2017	CAD	10.1	7.03	22.8%	30.4%	\$5.00
	Cobalt27 (KBLT.v)	4/6/2018	CAD	12.43	12.25	36.50%	1.40%	\$9.00
	Galane Gold (GG.v)	4/28/2016	CAD	0.06	0.06	16.40%	0.00%	\$0.03

Current Cash Position	1,490,261
Not Covered	312,611
Net Cash	1,802,872
Current Value of Bonds	0
Current Value of Long Equities	3,500,788
TOTAL VALUE OF PORTFOLIO	5,303,660

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