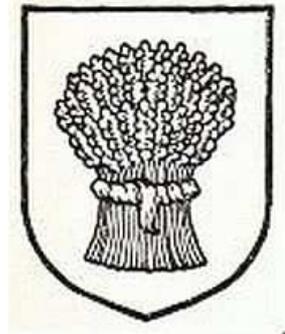


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# HALLGARTEN & COMPANY

Portfolio Strategy

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## Model Mining Portfolio: Year- End Bargain Hunting

Performance Review – November 2018

# Model Mining Portfolio

## Year-End Bargain Hunting

- + Peace may be breaking out in the trade wars though its not over till the guns stop firing
- + Copper stocks in warehouses keep heading lower which augurs a jump above \$3 per lb before the end of 2018
- + Gold has solidified its position about \$1,200 per oz but has trouble making a quantum leap higher
- + Vanadium continues its upward trajectory
- + Myanmar is starting to appear on radars as the next big thing in specialty metals (Tin and Antimony) as well as in base metals
- + The mood at the various conferences held in London during November was almost uniformly bullish
- ✗ Battery metals' prices (excepting Vanadium) remain down in the dumps with negative effects for a swathe of stocks trying to advance projects
- ✗ The Canadian markets are selling into tax loss selling season. Those with big gains on weed stocks might be tempted to crystallise losses in down-and-out miners to match against other gains

### Myanmar Metals (MYL.ax) – First In, Best Dressed?

Our past examination of the scene in Myanmar, formerly known as Burma, was due to our interest in new sources of production for our beloved metal, Antimony. For most of this decade there was a rising suspicion that “conflict” Antimony was being smuggled out of the country, by rebel tribes, to China and then passed off as Chinese production. Estimates suggested that as much as 14% of global production was really coming from this source, when ostensibly production was zero. As we well know the Chinese have never seen a statistic that they won't blatantly distort if it meets their own ends. That they seemed to be paying these rebels with guns made the whole matter even more sleazy.

On top of this there were reports of extensive use of child labour in tin mining. A lot of these stories emanated from locations in the far north where rebels have long held sway.

What was clear to us was that the country is a treasure house geologically and, put on the straight and narrow, it had great potential to enter the ranks of leading mining destinations. However, until now, only the hardy (or the Chinese) have ventured into the country in search of opportunities. As is well known countries that border China will only in desperation tolerate the behaviour of Chinese. Therefore

the potential for Western miners to muscle in, and muscle out the Chinese, is promising.

Few Western miners have, as yet, seized the opportunity. At the Mines & Money event in late November we were introduced to Myanmar Metals, an ASX-listed entity, that is in partnership with two local groups in the revival of the Bawdwin Mine on the eastern side of the country, which was one of the most substantial producing Lead/Zinc (et al.) mines in Burma's colonial heyday. In the 1930's the mine was achieving Zinc Eq grades of 50%. The story was compelling so we added a **Long** position in the stock to the Model Mining Portfolio.

Mining of the Bawdwin resource dates back to the 15th century, with Chinese artisanal miners extracting silver from surface and near surface deposits. British underground mining of the deposit commenced in the early 1900's under the management of Herbert Hoover, later to become the 31st President of the United States. Probably the highest management position an any geo has ever managed to reach.

Prior to the Second World War, Bawdwin was the largest producing Lead mine and one of the largest producing Silver mines in the world. After the Second World War the Myanmar state-owned mining entity held the mining concession until 2009, when Win Myint Mo Industries Co. Ltd (WMM) acquired the rights to produce from the 38km<sup>2</sup> Bawdwin Concession. The mine has remained on care and maintenance since this time. In June 2018 Myanmar Metals exercised an option to acquire a 51% participating interest in the project and the Bawdwin Joint Venture (BJV) was formed, with local partners WMM and East Asia Power (Mining) Company Limited who each hold a 24.5% interest. Having a local partner(s) in this neck of the woods is a *sine qua non*.

Big trading houses, seemingly, have been tempted by the size and accessibility of the mine as well as its proximity to the south-western corner of China (around Kunming). Financing does not appear to be an issue and the CapEx at \$191mn is not felt to be a great challenge. We like the irony of Chinese being blocked out and having to buy from the *Gweilo* traders.

We hope to write more upon this situation as it evolves. There is a PEA in hand which, with some extra drilling, should produce a PEA with an even lower strip ratio.

### **Portfolio Changes**

There were five portfolio additions during the month of November mainly as a result of the heavy flow of companies through London during the month. The changes were:

- Added a Long position in Tando Resources. Bought 1,300,000 shares in TNO.ax at AUD 11 cts per share on November 23rd
- Added a Long Position in copper explorer Argonaut Resources. Bought 5,000,000 shares in ARE.ax at AUD 1.8 cents on November 22<sup>nd</sup>

- Added a Long position in Euro Manganese. Bought 700,000 shares in EMN.ax at AUD 20 cts per share on November 9<sup>th</sup>
- Added a Long position in Gunpoint Exploration. Bought 200,000 shares in GUN.v at CAD 49.5 cts per share on November 9<sup>th</sup>
- Added a Long position in Excellon Resources. Bought 200,000 shares in EXN.to at CAD 74 cts per share on November 8<sup>th</sup>
- Added a Long position in Myanmar Metals. Acquired two million shares in MYL.ax at AUD 6 cents per share

We should also register our displeasure about the situation at Cabo Drilling. This is a stock we have long covered. It was recently halted and we had a call with management. The story here is that the company is doing a partial RTO with several Fluorspar and Quartzite assets in Mongolia. We say “partial” because it will continue with the drilling business but somehow focus its fleet on the new assets. As is well-known we like Fluorspar a lot and there is almost zero exposure available, besides Mexchem to this important mineral. However, both of the larger projects that Cabo is acquiring require massive capex and quartzite has zero interest to us. We were unpersuaded. Love the concept (partly) - hate the execution risk. So we resolved to ditch our holding from the Model Portfolio. Admittedly it is one of the smallest holdings but the company intends to keep the stock halted for many months until the deal closes after due diligence is done. Not a good way to endear itself to us.

### **The Portfolio Move**

There were a further six additions to the Model Mining Portfolio this month. The difference from last month being that this month’s inclusions were all new positions whereas last month there had been a number of trades doubling up positions. As result the cash balance hit a new low of \$202,000 at month end. With flaccid markets continuing, the Model Mining Portfolio was down again from \$4.221mn at the end of October to \$4.185mn a month later.

### **Argonaut Resources – Out of the Deep Freeze**

The Argonaut story is either easy or complicated depending on how it’s told. The short “long” story is that it was tied up for decades in an Aboriginal sacred site kerfuffle. This was largely the product of some outrider members of a tribe that saw a potential payday by putting stones on the road. They managed to block progress for literally decades until the rest of the tribe turned on them in recent times and ousted them (and the “ambulance chaser” lawyers with whom they were allied) for their behaviour.

Argonaut has a rather varied bundle of assets but the main targets are the traditional South Australian Torrens JV project (that of the ornery natives) and its Lumwana West project in Zambia. If things evolve in the hoped-for way then the Zambian asset will hopefully be spun off onto the London Stock Exchange where it will get more love and comprehension. This would leave Argonaut as a morsel for an acquirer,

however what needs to happen first is that the latest drilling campaign delivers what is hoped for.

The Torrens Joint Venture is between Argonaut (30%) and Aeris Resources Limited (70%) and relates to the Torrens Project, EL 5614.

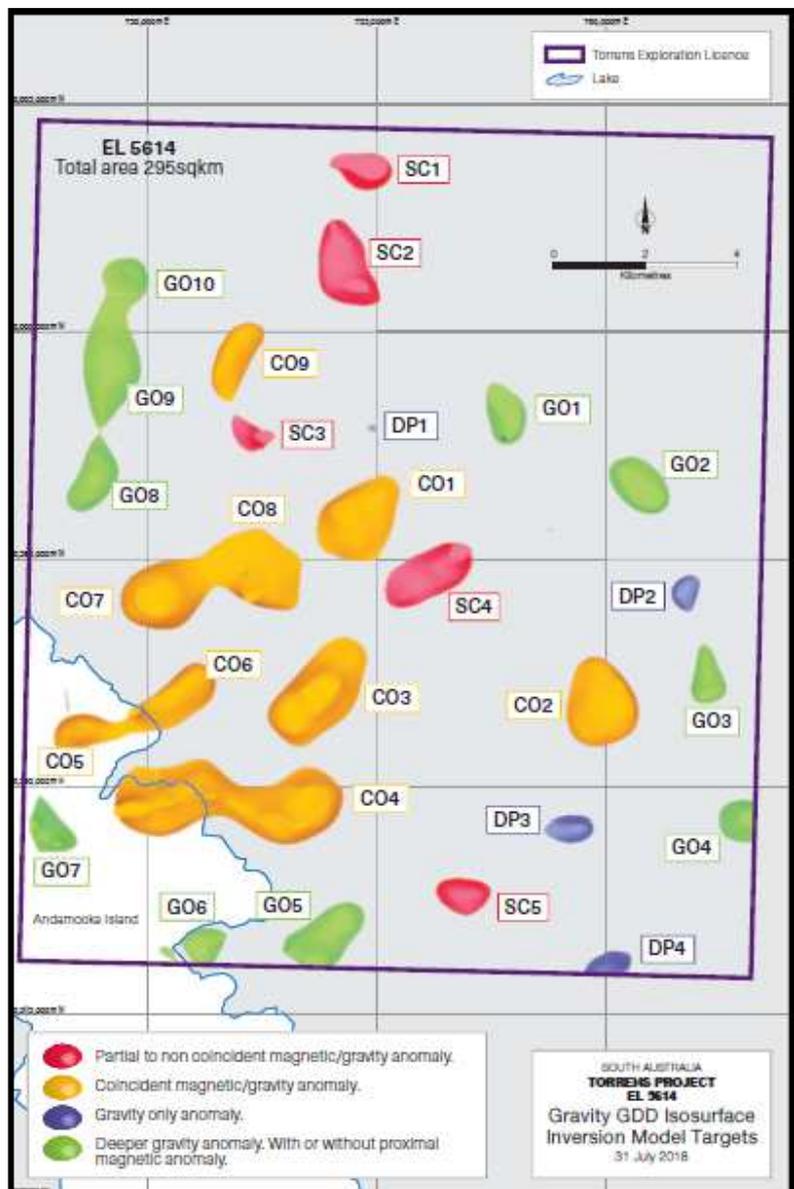
The Torrens Joint Venture is exploring for IOCG (iron-oxide copper-gold) systems in the Stuart Shelf region of South Australia. The Stuart Shelf is located near the eastern margin of South Australia's Gawler Craton, within 50 kilometres of OZ Mineral's Carapateena copper/gold deposit and 75 kilometres from BHP Billiton's Olympic Dam mine.

After three extremely promising initial drill holes back in 2007-2008 that confirmed the presence of a mineralised system similar to Olympic Dam at Torrens, the blockers moved in and stymied more work. The reactivation of exploration has now begun after what must be one of the longest drilling hiatuses in history.

We have met the company several times now and finally decided to push the button and add a long position. The natural inclination would be to acquire shares in Aeris, but we were massively put-off when we first considered this earlier this year and we noted that Aeris had a market cap of only \$10mn and yet the CEO was collecting over \$1mn per annum. More red flags flying than Tiananmen Square as far as we are concerned.

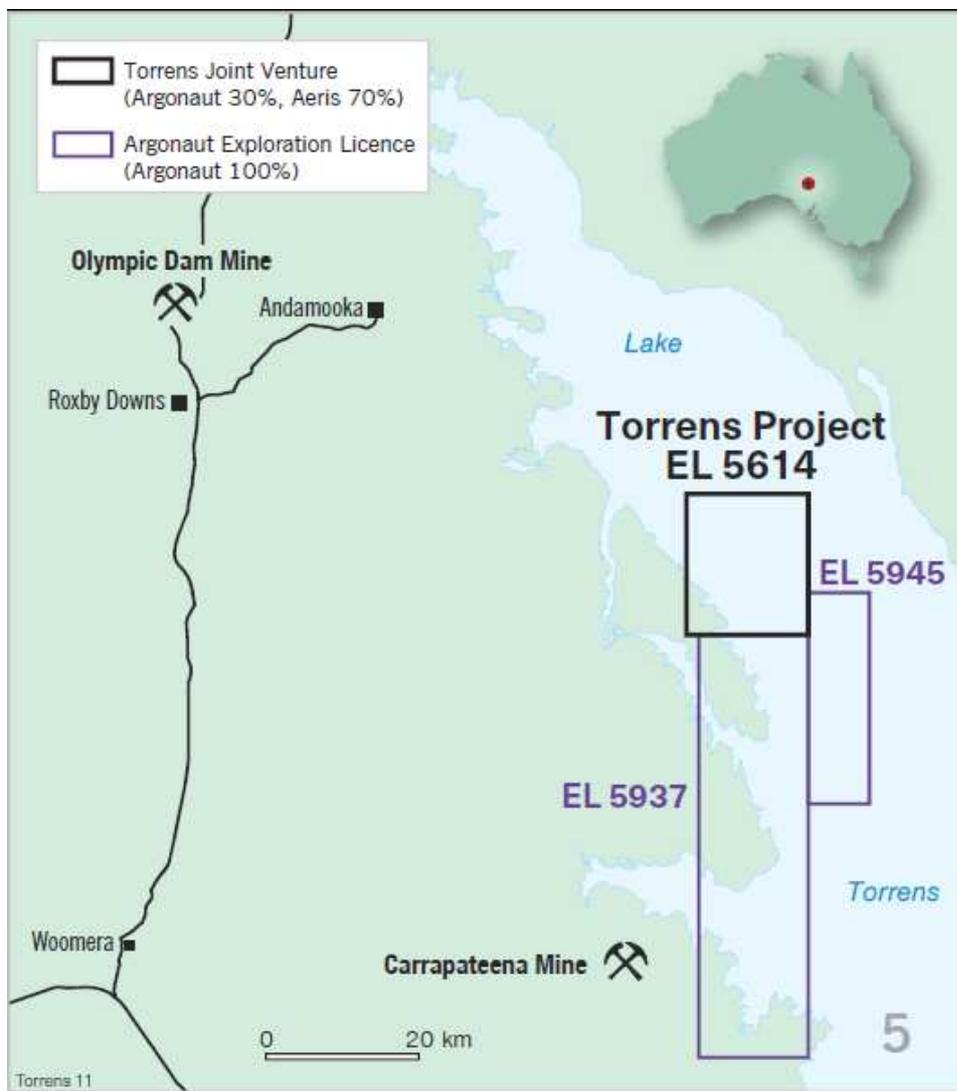
The main Torrens block has twenty-eight individual target zones as shown on the map to the right.

The work program to be



undertaken in coming months consists of 25-30 diamond drill holes with an average depth of more than 1,000m each.

The price of Argonaut made a large leap in recent weeks (since we added the stock) which prompted an exchange query. The company responded that in its view the jump was due to an announcement of a nearby discovery by BHP. The Lake Torrens tenements are in same Olympic IOCG Province, nearby to this discovery. The Torrens JV partners' program of drilling at the Torrens anomaly will be to similar depths as BHP's discovery drilling. Therefore the company posited that the announcement of BHP's discovery in combination with near-term commencement of Argonaut's drilling is likely to have influenced the prices and trading volumes of the shares.



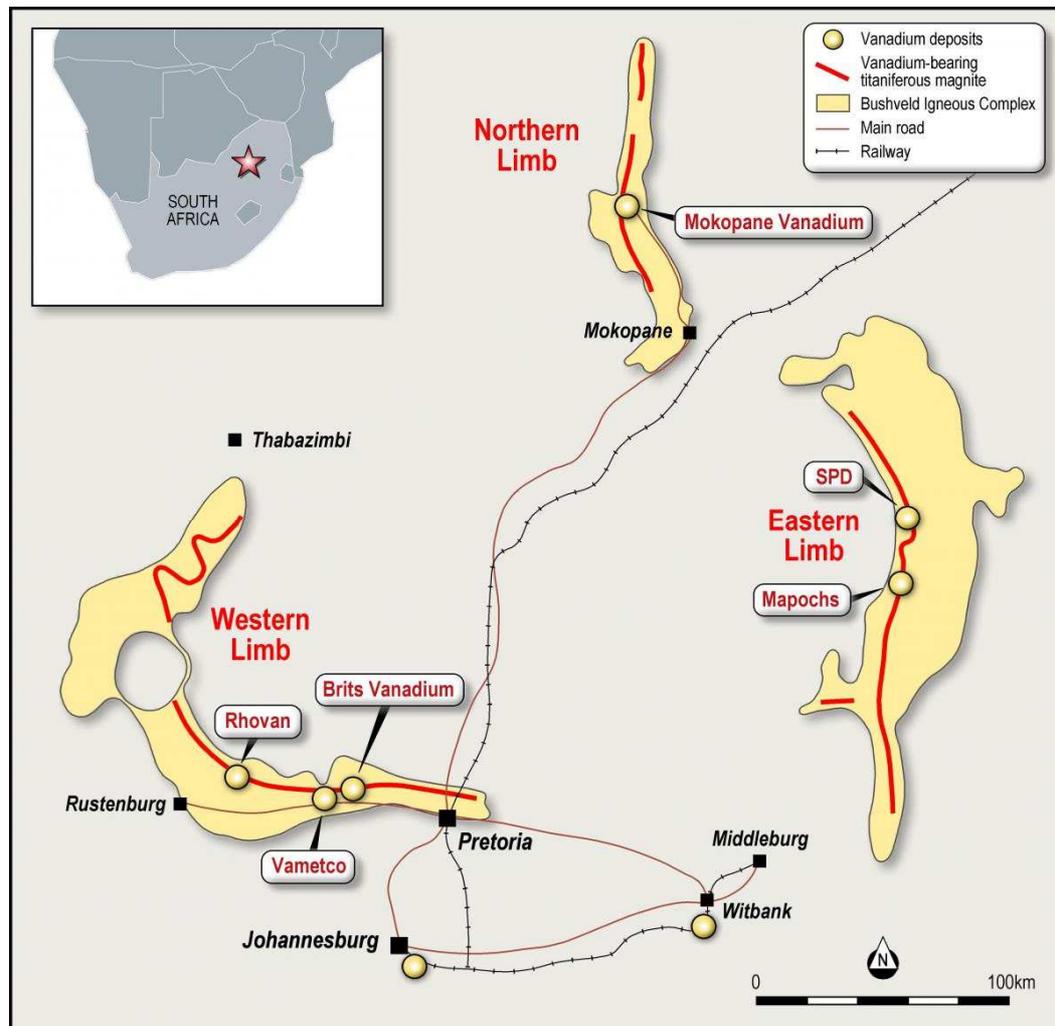
We suspect that the latest moves will be as nothing if the work in coming months signals that Torrens has Olympic Dam potential.

### Tando Resources – Beating Around the Bushveld

We shall reserve for a later date our commentary on the trolls that have infested the Bushveld Minerals story and are doing damage to its public credibility on Twitter and other forums. That kind of love, Bushveld can do without...

With Bushveld becoming a story that transcends mere metals and is now invested with supernatural powers, we began the search for more humble fare, companies that actually have been spared the ostentatious hype and yet still have projects with a reasonable chance of becoming producers in the short term.

The 121 conference in London in mid-November brought Tando Resources (TNO.ax) with its SPD project (shown on the Eastern Limb in map below) to the attention of a broader universe of investors, particularly those that have been force-fed on an all-BMN diet in recent times.



The SPD Project is located in a similar geological setting to the mining operations of Rhovan (Glencore), Vametco (Bushveld Minerals) and Mapochs (International Resources Ltd) in the Gauteng region of South Africa. The SPD Project is located only 30km from the currently dormant Mapochs mine which has a processing plant and railway infrastructure.

Vanadium mineralisation at the SPD Project is located close to the contact between the Upper Zone and Main Zone of the Bushveld Igneous Complex and adjacent to the Steelpoort Fault. Mineralisation is hosted in two layers, the Upper Magnetite Layer and Lower Magnetite Layer, which dip shallowly (10-12deg) to the west.

Based on drilling data, a resource of 513 million tonnes was delineated for the SPD Project by GEMECS Pty Ltd. The resource, shown below, is estimated in accordance with the SAMREC Code (2007) and is entirely in the Inferred category.

<b>SPD Project</b>						
<b>Reef</b>	<b>Avg Thickness(m)</b>	<b>Tonnes (mns)</b>	<b>Whole Rock V2O5%</b>	<b>Mt%</b>	<b>Magnetite Tonnes</b>	<b>V2O5% in Magnetite</b>
Upper Layer	24	184.2	0.73	42.4	78.1	1.99
Lower Layer	22	329.1	0.81	41.6	136	2.2
<b>Averages &amp; Totals</b>	<b>23</b>	<b>513.3</b>	<b>0.78</b>	<b>41.9</b>	<b>215</b>	<b>2.09</b>

SPD might be just another twinkle in the eye of a Vanadium wannabe except that the management team is very determined to get the show on the road in the short term. The strategy is to start exploiting the Vanadium mineralisation within the Magnetite pipes on the property by shipping out a Magnetite/Vanadium DSO to offtakers. The operation is already fully permitted and it is estimated that this “quick and dirty” start-up would have a CapEx of less than \$20mn. There are six of these pipes which have been mapped and sampled and an average of 20 samples yielded average grades of 1.87% V<sub>2</sub>O<sub>5</sub>.

With a market capitalization of only around AUD\$22mn and the potential for production in 2019, this seems like the best access to the Vanadium space at this time without indulging in further pump-priming of the more over-hyped stories doing the rounds.

### **Parting Shot**

There is a difference between “hiding one’s light under a bushel” and deliberately obfuscating. The long-established Lundin Group company, NGEX, takes the prize for Most Misleading Presentation in what is a crowded field of the devious in the mining promotorial space. It’s not that their presentation seeks to

deceive about what their project is but as to where it is. Frankly to us this is shameful and indeed an insult to the country where it is located.

Many, many moons ago (in fact, December 2010) we wrote an Initiation of Coverage on this stock. It seemed interesting, under promoted and was located in one of the jurisdictions we knew best. It disappeared off the radar and we thought it had gone the way of all things. Much to our surprise, wandering around at the end of the 121 conference in London we espied, on a table in the dining area, an abandoned copy of the company's presentation.

Could have been worse though, Lithium Australia's presentation was seen to be dumped in the waste paper in the Men's toilets. The ultimate indignity.... or investor's judgement...

But we digress.... We sat down to look through NGEX's document and see what had gone on in the interim. After getting past the scenic stock photo on the front cover we went through 14 pages before we gave up trying to work out where their "truly wonderful and enormous project" actually was. On page six was one of the most fatuous "prove nothing" visuals yet seen in a presentation. The real humdinger though that page 17 has a map that makes the main project look like it's in Chile, as does another map on page 22. Disgusted at this point that the company seemed to be hiding that it was in Argentina to somehow get investors interested before they learned the "awful" truth we decided to rescour the document and did indeed find in small print on page seven that the word Argentina is mentioned.

Do they think that this project will somehow get to production by willing away the fact that the property is in Argentina (currently a booming lithium and oil & gas destination)? We hoped that this company had been punished for being so devious but in fact it has a \$230mn market cap. How did a company that no one has heard of get such a valuation?

Two passing investors were called over to look at the presentation. Neither could divine that it was about an Argentine property. One thought the map on page eight showing a property in Ecuador (erroneously labelled with Nevsun's logo, but owned by Anglo) meant it was in that country. Both agreed the page 22 map was sneaky in the extreme. Finally on page 25 there is a bubble scatter graph showing around twenty five different "major" projects in Chile which, perversely, includes the Argentine project and shows it with only five projects scoring lower on grade AND tonnage.

Now we see why one of the investors who'd met the company had ditched the powerpoint. We carried it off for the purposes of this diatribe but shall keep it until such time as we can find a suitable washroom receptacle in which to dump it. A fitting end...

## Mining Model Portfolio as at: 2-Dec-18

Security	Initiated	Currency	Price Avg.	Current	Portfolio Weighting	Increase in Value	Target
<b>Long Equities</b>							
<b>Various Large/Mid-Cap</b>	Teck Resources (TECK.B)	5/29/2009	CAD	22.46	26.91	7.00%	\$38.00
	Sherritt International (S.to)	7/11/2013	CAD	1.28	0.49	3.20%	\$1.00
	Metals X (MLX.ax)	5/29/2014	AUD	0.67	0.42	3.50%	\$0.80
<b>Trading House</b>	Noble Group (CGP.SG)	15/11/2017	SGD	0.20	0.08	1.10%	\$0.30
	Uranium	10/20/2010	CAD	5.36	4.82	7.20%	\$6.00
<b>Zinc/Lead Plays</b>	GoviEx (GXU.v)	6/29/2015	CAD	0.08	0.20	4.80%	\$0.50
	Zinc ETF (Zinc.L)	6/2/2010	USD	7.63	7.41	6.70%	\$11.00
<b>Silver Producer</b>	NorZinc (NZC.to)	12/9/2011	CAD	0.82	0.095	0.20%	\$0.22
	Myanmar Metals (MYL.ax)	11/29/2018	AUD	0.06	0.06	2.30%	\$0.13
	Ascendant Resources	10/31/2016	CAD	0.49	1.00	5.70%	\$1.70
	Telson Mining (TSN.V)	3/19/2018	CAD	0.79	0.41	2.80%	\$2.00
	Excellon Resources (EXN.to)	11/8/2018	CAD	0.74	0.72	2.80%	\$1.35
<b>Gold Producers</b>	Southern Silver Exploration	8/25/2016	CAD	0.49	0.16	0.80%	\$0.35
	Para Resources (PBR.v)	2/17/2017	CAD	0.23	0.14	1.40%	\$0.58
<b>Copper Producer</b>	Westgold (WGX.ax)	12/6/2016	AUD	2.01	1.00	1.80%	\$1.50
	Coro Mining (COP.to)	2/23/2015	CAD	0.03	0.05	1.00%	\$0.15
<b>Coking Coal</b>	Colonial Coal (CAD.v)	6/4/2018	CAD	0.35	0.41	3.30%	\$1.10
<b>Beryllium</b>	IBC Advanced Alloys (IB.v)	4/29/2016	CAD	0.30	0.28	0.60%	\$0.35
<b>Driller</b>	Cabo Drilling (CBE.v)	9/28/2016	CAD	0.025	0.02	0.80%	\$0.02
<b>Tungsten Producer</b>	Almonty Industries (All.v)	7/31/2015	CAD	0.36	0.78	7.80%	\$1.00
<b>Copper Explorer</b>	Asiamet Resources (ARS.v)	4/28/2016	CAD	0.05	0.04	1.30%	\$0.12
	Phoenix Global Mining	9/28/2018	GBP	0.35	0.3	2.40%	\$0.74
	Panoro Minerals (PML.v)	1/22/2018	CAD	0.37	0.23	1.40%	\$0.65
	Argonaut Resources (ARE.ax)	11/22/2018	AUD	0.02	0.03	2.90%	\$0.45
	Western Copper & Gold	4/25/2017	CAD	1.57	0.64	1.30%	\$2.74
<b>Vanadium Developer</b>	Tando Resources (TNO.ax)	11/23/2018	AUD	0.11	0.11	2.70%	\$0.50
<b>Lithium</b>	Neometals (NMT.ax)	7/31/2014	AUD	0.30	0.24	4.30%	\$0.45
	Lithium Power Intl (LPI.ax)	10/25/2017	AUD	0.44	0.27	1.50%	\$1.38
<b>Manganese Developer</b>	EuroManganese	11/9/2018	AUD	0.20	0.26	3.50%	\$0.60
<b>Scandium Explorer</b>	Scandium International	8/23/2016	CAD	0.14	0.25	3.00%	\$0.50
	Platina Resources (PGM.ax)	10/25/2018	AUD	0.07	0.06	2.30%	\$0.18
<b>Gold Explorer</b>	Banyan Gold (BYN.v)	11/14/2017	CAD	0.06	0.05	2.30%	\$0.15
	Gunpoint Exploration (GUN.v)	11/9/2018	CAD	0.50	0.46	1.80%	\$0.15
<b>Graphite Developer</b>	Talga Resources (TLG.ax)	8/25/2016	AUD	0.27	0.45	2.10%	\$0.90
<b>Rare Earths</b>	Northern Minerals (NTU.ax)	6/9/2011	AUD	0.14	0.07	2.20%	\$0.28
	Neomaterials (NEO.to)	10/25/2018	CAD	17.32	15.04	4.50%	\$23.00
<b>NET CASH</b>					<b>202,602</b>		
<b>Short Equities</b>							
<b>Shorts</b>	NioCorp (NIO.to)	9/28/2018	CAD	0.61	0.53	59.00%	\$0.40
	Lithium Americas (LAC.to)	10/25/2017	CAD	10.1	5.05	23.10%	\$5.00
	Galane Gold (GG.v)	4/28/2016	CAD	0.06	0.05	17.90%	\$0.03

Current Cash Position	202,602
Current Liability on Shorts Not Covered	230,409
<b>Net Cash</b>	<b>433,011</b>
Current Value of Bonds	0
Current Value of Long Equities	3,752,606
<b>TOTAL VALUE OF PORTFOLIO</b>	<b>4,185,617</b>

## Important disclosures

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