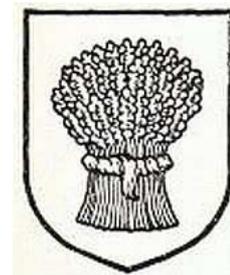


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# HALLGARTEN & COMPANY

## Coverage Update

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## Nevada Zinc

(TSX-V: NZN, FSE: 6GX, OTCBB:GDSKF)

Strategy: Long

### Key Metrics

Price (CAD)	\$0.20
12-Month Target Price (CAD)	\$0.43
Upside to Target	115%
12mth hi-low CAD	\$ 0.18 -0.60
Market Cap (CAD mn)	\$14.59
<b>Shares Outstanding (mns)</b>	72.9
<b>Fully Diluted (mns)</b>	83.3

# Nevada Zinc

## Narrowing the Focus through Acquisition

- + Zinc prices have been one of the best performers in 2016, up more than 50% from 2015 lows
- + Perseverance through the downtimes has paid off for companies like Nevada Zinc
- + Lone Mountain is one of the very few Zinc projects available in the United States
- + Impressive drill results yielded one drill hole with 100 metres of 7% Zinc/Lead
- + Recently acquired MacBride Zinc property beefs up the portfolio in this metal
- + Closeology working in company's favour with a large amount of territory abutting Kaminak Gold's Coffee project (acquired last year by Goldcorp)
- + Yukon assets have been hived off into Generic Gold with the prospect of an RTO. The demerger of this stake to shareholders could make a juicy bonus prize
- × No resource estimate as yet
- × Lead & Zinc have had a tendency in recent to times to lose their gains as swiftly as they made them

### A Quick Update

In our first note on this company we mooted that its curious mélange of Zinc exploration in Nevada and prospective gold properties in the Yukon would be too “chalk and cheese” for the investor community. We also speculated that the spin-off of the Yukon assets would be a juicy bonus prize for shareholders. Now the company is spinning out the gold assets via an RTO and has beefed up its Zinc portfolio.

### The MacBride Asset

In late October, Nevada Zinc announced that it had entered into an option agreement allowing the company the right to earn up to an 80% interest in the MacBride zinc property, located in central Manitoba. The property is comprised of 22 contiguous mining claims covering an area of 4,992 hectares 45 kilometres north of Leaf Rapids, Manitoba, with the property being reasonably accessible. The property covers the favourable volcanogenic massive sulphide stratigraphy for more than 15 kilometres. The Zinc deposit was discovered in the 1970s, but has seen only limited drilling and has not been subjected to an extensive, systematic, exploration program.

The property contains the MacBride zinc deposit located along a six-kilometre structural magnetic high corridor. Along this well-defined magnetic high corridor, several additional untested electromagnetic airborne anomalies similar to the EM signature of the MacBride zinc deposit have been identified. The MacBride property is located approximately 60 kilometres from the significant Ruttan zinc-copper mine

owned by Trevali Mining Corp. (former open-pit and underground mine).

The company attitude is that given the propensity for these volcanogenic zinc- and copper-rich massive sulphide deposits to be found in proximity to each other and the history of discoveries in the belt, the MacBride zinc deposit has a high potential for additional discoveries. Particularly as modern airborne geophysical data and interpretation shows a number of undrilled, similar, EM targets which indicate a high likelihood of discovering additional zinc-copper mineralization elsewhere on the property.

### **Geology**

The MacBride zinc deposit is within the same Paleoproterozoic-aged metavolcanic rocks and interbedded meta-sediments as those that host the historic Ruttan copper-zinc mine. The MacBride zinc deposit coincides with a 1.8km long, strongly conductive, EM anomaly feature hosted within a well-defined extensive magnetic high corridor that is more than six kilometres long. The deposit has been drilled along a strike length of approximately 275 metres and the remaining 1,550 metres of the EM anomaly remain untested. The MacBride zinc deposit remains open along strike and at depth. There are numerous similar conductive EM anomalies that have been identified in reprocessing of a modern airborne geophysical survey along the magnetic corridor that remain undrilled.

The MacBride zinc deposit mineralization consists of coarse pyrite in a matrix of pyrrhotite, sphalerite and containing blebs of chalcopyrite. The extensive recrystallization of the massive sulphides and incorporation of wall rock fragments in the deposit mineralization suggests significant sulphide remobilization. The gangue mineral assemblage is lightly disseminated with sulphides and primarily comprises amphibole, biotite, chlorite, sericite and garnet typical of wall rock alteration products in volcanic massive sulphide deposit terrains.

### **Historical Resource**

A historical report by Knobby Lake Mines Ltd. in 1977 outlined a resource for the MacBride zinc deposit which is regarded as a historical estimate under NI 43-101. This historical resource is summarized as:

#### **HISTORICAL RESOURCE, MACBRIDE ZINC DEPOSIT**

	<b>Tonnes</b>	<b>Zn (%)</b>	<b>Cu (%)</b>	<b>Au (g/t)</b>	<b>Ag (g/t)</b>
<b>Main</b>	1,820,055	8.8	0.30	0.10	4.50

Additional work including surface geophysics, drilling and borehole geophysics will need to be completed to upgrade the historical resource to current NI 43-101 standards. Some indicators are provided by:

- Near-surface drill holes including results of 9.98% Zn and 0.56% Cu over a core length of 10.67 metres (depth approximately 25 metres). True width of the zone is unknown.

- Deeper drill holes (near a vertical depth of 225 metres) including an interval of 10.3% Zinc over a core length of 11.19 metres. True width of the zone is unknown.

One of the past problems has been that the lack of local surface exposure meant only shallow or exposed mineralization was tested historically.

According to the company the mineralization appears to be open to significant expansion along strike and the mineralization also remains open beyond the depth of the deepest drill holes. Additionally an assessment of the available recent geophysical database shows the existence of numerous similar untested targets. Newly identified outside targets remain untested and exhibit conductivity characteristics virtually identical to MacBride zinc deposit's electromagnetic response.

There is also scattered copper and gold mineralization located outside the MacBride zinc deposit area which was reported in some historic work on and in the area of the MacBride property.

### **The Deal**

Nevada Zinc has the right to earn an initial 70% interest in the MacBride property by making aggregate cash payments to Rockcliff Copper of CAD\$200,000 over a three-year term commencing with a \$30,000 cash payment and the issuance of 200,000 shares to Rockcliff within five business days from the closing date of the option agreement, as well as incurring total expenditures on the MacBride property of \$2.5mn over three years. Minimum expenditures of \$250,000 are required annually.

Upon earning an initial 70% interest in the property, Nevada Zinc can increase its ownership interest to 80% by making a CAD\$2mn payment to Rockcliff. In the event either party has its ownership interest reduced below 10% its interest shall convert to a 1% NSR or a 0.5% royalty on those claims subject to a pre-existing royalty. Certain claims in the MacBride property are subject to a maximum 2% NSR payable to the original property vendor, 1% of which may be purchased.

### **Lone Mountain**

Nevada Zinc's 100%-owned Lone Mountain project is located within close proximity to Eureka, Nevada with its 224 claims spread out over 20 square kilometres surrounding the historic Mountain View Zinc Mine. Between 1942 and 1968, more than 5 million pounds of zinc, 650,000 pounds of lead and 4,000 oz. of silver were mined at Mountain View.

Located in close proximity to other producing mines, Nevada Zinc's Lone Mountain project has good access to important infrastructure, such as roads, energy and water.

### **Geology**

The mineralization is thought to be located at or close to the contact of the Devils Gate Formation, an Early to Middle Devonian dolomite in the Nevada Formation. Rocks in the area generally strike northwest-southeast and dip generally 55 degrees easterly.

Work done by the USGS in the 1940s and 1950s reported the thickness of the Devils Gate limestone ranges from about 675 feet east of the Phillipsburg mine in the Diamond Mountains, to 2,065 feet in the combined sections at Devils Gate and Modoc Peak. A partial section on Lone Mountain included more than 1,100 feet of beds; a complete one on Newark Mountain, about 1,200 feet; and another complete one in the Diamond Mountains northeast of Black Point, 750 feet.



### Recent Exploration

Results of work during 2017 have been consistently exciting. Very favorable results announced in January and then in February were followed up by the first results from the latest program which started to be reported during November.

The January results included:

- Drill hole LM 16-71 intersected significant high grade zinc-lead mineralization over a 22.86 metre interval from 88 metres downhole grading 17.49% zinc and 1.23% lead (18.72% zinc+lead) southwest of the historic mine workings on the Mountain View Mine property.
- Drill hole LM-16-64 intersected a broad zone of zinc mineralization from 184.4 metres downhole that averaged 3.99% Zinc and 0.21% Lead over 53.34 metres, including a 30.48 metre interval that averaged 5.99% Zinc

The February results included:

- Drill hole LM 16-77 intersected significant near surface zinc mineralization over a 36.58 metre interval from 21.34 metres grading 4.39% zinc and 0.04% lead southwest of the historic mine workings on the Mountain View Mine property
- Drill hole LM-16-78 intersected a 10.67 metre interval of zinc mineralization grading 6.42% zinc starting at a downhole depth of only 21.34 metres.

The November results included:

- Core hole assay results from NLM-17-01 include a 16.62 metre interval assaying 12.79% zinc and 8.84% lead within an overall interval of 91.5 metres grading 7.67% zinc and 1.93% lead
- Hole NLM-17-02 intersected 18.3 metres of mineralization grading 4.6% zinc

It appears that all Zinc mineralisation found up until January was oxide in nature (if that is what is meant by non-sulphide), which could potentially raise production challenges (need to roast ore instead of using flotation).

### Resource Potential

Management at Nevada Zinc sees the target as a minimum five million tonnes at a grade of 5-10% Zinc+ Lead at Lone Mountain.

### Zinc – Breaking Through

Our target for year-end Zinc was \$1.50 per lb and the price was reached four months ahead of time. As Zinc has busted through each key level it pauses and market participants hold their breaths to see if there will be a pullback and it just does not happen. The tailwind is strong and consistent and nothing has effectively been done to plug the Zinc supply gap and the slow reactivation of global economies is underpinning the demand side.



Even without a rollicking demand scenario (and our view is very muted) Zinc has a supply crisis evolving around it that is not solved by recycling or by the meagre trickle of mine reactivations currently being achieved or mooted.

The chart on the next page shows the diabolical state of LME warehouse stocks. This, of course, is eye candy to Zinc producers as it is unrelievedly downwards.



At this point we feel that Zinc will break through \$2 per lb at some time in 2018.

#### Yukon – Spin-Off?

In our initiation of coverage we gave considerable space to a discussion of the gold exploration territory that the company held in the Yukon particularly with regard to the proximity of these concessions to the epicentre of deal-making in recent times amongst other Yukon players. We speculated that the best outcome would be for them to be demerged to shareholders.

In September 2017, the company announced that the curiously named Generic Gold Corporation, a subsidiary into which it had bundled its Yukon gold assets, had executed a binding letter of intent with Wamco Technology Group to effect an RTO. Nevada Zinc at that time owned 75% of Generic Gold's outstanding common shares. Generic Gold was incorporated in May 2017 and since that date raised approximately \$2.4 million to fund 2017 and 2018 exploration programs on the Yukon properties.

Firstly, the common shares in the capital of Wamco were to be consolidated on the basis of one for every 2.2 pre-consolidation common shares held. Then each shareholder of Generic Gold was to receive one post-consolidation common share of the Resulting Issuer. Holders of common share purchase warrants, incentive options and broker warrants in the capital of Generic Gold would receive common share purchase warrants, incentive options and broker warrants in the capital of the Resulting Issuer on the same terms and conditions after adjustment for the foregoing exchange ratios.

As of September 26, 2017, there were 6,603,244 common shares of Wamco issued and outstanding and 33,356,968 common shares of Generic Gold issued and outstanding. As a result of the RTO, the merged entity was expected to have approximately 36,358,442 issued and outstanding common shares on a non-diluted basis. Approximately 68.8% of those shares would be held by Nevada Zinc, 23% by other

Generic Gold shareholders and 8.2% will be held by former shareholders of Wamco. Since September however there has been no further information on this transaction.

We may cover this entity at a future date.

### **Risks**

Amongst the risks at the current time are:

- Zinc price risk
- Financing of exploration work to resource stage is dependent on markets
- Chance that Lone Mountain or MacBride do not turn out to host a substantial resources justifying economic development

The issue of base metals' prices is more important than anything else. Zinc has more than just speculative momentum this time as severe long-term underinvestment has eroded the supply situation. Even a slide in global industrial usage will do little more than subdue demand temporarily. The supply crunch is real and feeding the supply situation.

The risk that a deposit does not evolve to production is present for all juniors. This risk is mitigated by diversification which has been achieved through the acquisition of the MacBride deposit with an historical resource.

### **Conclusion**

The dearth of Zinc plays that has developed over the long grim years in which companies could not raise funds to advance projects (or even do basic exploration) has created a "scorched earth" scenario in the Zinc (and Lead) sub-space of the mining sector. This has set investors off on a hunt something like an Easter Egg Hunt, where there are actually few eggs to be found. We can number on the fingers of one hand the explorers that persevered with work on Zinc projects through this grim period and one of those was Nevada Zinc, which accrued its initial position at Lone Mountain and then added to it during 2014 and 2015.

The mooted spin-out of the recently created Generic Gold via an RTO is a welcome move. This opens up the possibility that the company can capitalize on these in any number of ways including demerger (for us, the most desirable option) and/or sale of the stake in the entity.

The fading stock price of late seems not to reflect either the dynamics of Zinc nor the evolution of exploration and the spin-off of the Gold assets. We reiterate our **Long** call on Nevada Zinc with a revised twelve-month target price of CAD\$0.43.



## Important disclosures

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