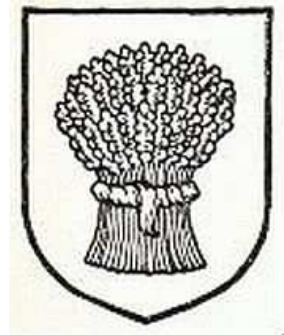


Tuesday, February 7, 2023



HALLGARTEN & COMPANY

Portfolio Strategy

Editor: Christopher Ecclestone
cecclestone@hallgartenco.com

Model Resources Portfolio: Delusions of Greenness

Performance Review – January 2023

Model Resources Portfolio

Delusions of Greenness

- + The worst of the natgas price surge seems to be behind Western Europe
- + Gold has been performing well over much of the last month, though silver less so.
- + The Tin price has been rebounding strongly, showing the fallacy of China's attempts to sabotage the price
- + Xi has been found to have feet of clay as most of that which he touches turns to lead
- + Oil & gas stocks are booking bumper profits
- ✗ Lithium has been correctly strongly lower, which is not a bad thing
- ✗ The pace of interest rate rises seems to be easing but this is fallacious as inflation is still romping and workers are desirous of catch-up for eroding real incomes

Are EV's All that Green?

One would think from the current furore about EVs that they are the be-all and end-all of the so-called Green Revolution. They are in fact just another way of using the Green energy being delivered at so much cost and dislocation. The modes for producing this "Green" energy are many and various, but the main modes are solar, wind, hydro and, arguably, nuclear. EV's use up energy and do not produce it. If anything, they actually demand more energy in their production than the old ICE format did, despite whatever zero-carbon footprint some parts of the EV supply-chain might claim as their fig leaf of virtue.

The penny is starting to drop in the Ministries of Economy of many nations that EVs are not paying their share of road maintenance and thus a potential moment of shakedown is drawing rapidly nearer. Over and, beyond that, the EV users are drawing upon the grid and demanding more electricity than the ICE vehicle fleet ever did. One actually needs a greater electricity infrastructure to service EV's compared to the almost zero interaction between ICE's and the grid. Taxation will need to be exacted at a higher rate upon electricity used for elective EV usage than say pensioners boiling their kettle for a cup of tea or seeking to warm their house.

To complicate matters further, the EV revolution was always predicated upon users paying more for their new vehicles than they had paid for those ICEs being dispatched to the scrapheap. All this seems rosy in 2019 but not in 2022, as the world slides into recession we have government mandates saying that EVs are in by 2030 and ICEs are out but the hard-pressed consumer is already being ordered to surrender their higher emission ICEs in cities like London as a de facto shakedown by politicians in search of funds. So while drivers of Ferraris and Maseratis with infinite disposable income can cruise their old-style vehicles around with impunity the middle and working classes are facing an independent movement-free culture at a rapidly approaching drop-dead (or "on-yr-bike") deadline.

Tuesday, February 7, 2023

The recession depending on its length is bound to crimp (if not stall) EV sales across Western economies while the price gap is destined to price many lower income consumers out of car-ownership.

Time will, of course, tell as to whether the EV space will defy the normal laws of supply and demand, Boosters think it will, we have our doubts.

Bulking Up for the Stationary Mass Storage Surge

Our coverage of the potential of Neometal's 100%-owned Barrambie project stretches as long as we have known the company (around 2009) and our specific coverage in 2015 when we published [this note](#). Time, and the world, have moved on since then. The wild fluctuations of the Vanadium Pentoxide price, with three spikes in 20 years, certainly did not help with the evolution of the metal in its "new" application in Vanadium Redox Flow Batteries (VRFBs).

Recent days have brought the announcement of the signing by Australian Vanadium (AVL) and Neometals of a non-binding term sheet to explore opportunities for AVL to process co-product Vanadium concentrate from the Barrambie project. This was somewhat of a surprise because at our last interaction with Neometals management (a lunch in London late in 2022) the plan was to get the Chinese to step up to the plate and offtake from the project.

Barrambie is a Vanadium/Titanium/magnetite project that is located ~80km northwest of Sandstone in Western Australia. A revised DFS was published in 2019 envisaging an open-pit mine with an initial 15-year mine life and plants for the production of vanadium pentoxide and ferrovandium.

In 2022, a PFS into Titanium and Iron & Vanadium concentrate production from Barrambie was released. This suggested that Barrambie could potentially supply more than 500k tpa of high-quality ilmenite during the first ten years of operations. Under the term sheet signed by Neometals and AVL, this co-product would be supplied to AVL for Vanadium extraction.

The Vanadium project of AVL consists of a high-grade V-Ti-Fe deposit in the Murchison Province approximately 43km south of Meekatharra in Western Australia with a concentrate processing plant to be located near the port city of Geraldton. Under the term sheet signed by Neometals and AVL, both parties will work together to investigate opportunities for Neometals' Titanium subsidiary to construct a low-temperature roast plant near AVL's processing plant site and to co-locate or share non-process infrastructure.

The announcement appears to be a recognition that Neometals has become tired of waiting for somebody else to take the initiative and it must do so itself. The collaboration would combine the forces of two parties looking to enter Vanadium production over the 2020s. The sharing of processing infrastructure could help kick start Vanadium production in Australia, something that has not occurred since a fire shut Windimurra in 2014.

We reiterate our LONG call on Neometals with a twelve-month target price of \$1.50.



Tuesday, February 7, 2023

Portfolio Changes

There were no changes to the Model Resources Portfolio during January.

Gunpoint Exploration (TSXV: GUN) – On Target with Newcrest

It's a long while since we initiated coverage on Gunpoint Exploration back in late November of 2018. We have scarcely spoken of it since as there has been so little to say. To refresh memories, Gunpoint owns Talapoosa, an open-pit, high grade gold-silver project in Nevada. Talapoosa has a NI 43-101 compliant mineral resource estimate (by Tetra Tech), with a Measured and Indicated mineral resource of 1.1 million ounces of gold and 13.6 million ounces of silver at an average grade of 1.11 g/t and 15 g/t, respectively. Inferred mineral resources add an additional 233,500 ounces of gold at 0.72 g/t and 2.2 million ounces of silver at 6.65 g/t.

In mid-January though, there were stirrings in the backblocks of Nevada, when Gunpoint announced it had received written notice from Newcrest (ASX:NCM) advising its exercise of the option to commence the Option Phase pursuant to the terms agreement between the Gunpoint and Newcrest that was announced in September of 2022. This deal stated that Newcrest could acquire, in multiple stages, up to a 75% interest in Appaloosa for cash payments totaling US\$5mn, incurring a whopping US\$35 million in exploration expenditures and delineating a minimum one million ounce gold resource.

Pursuant to the terms of the agreement, Newcrest is required to:

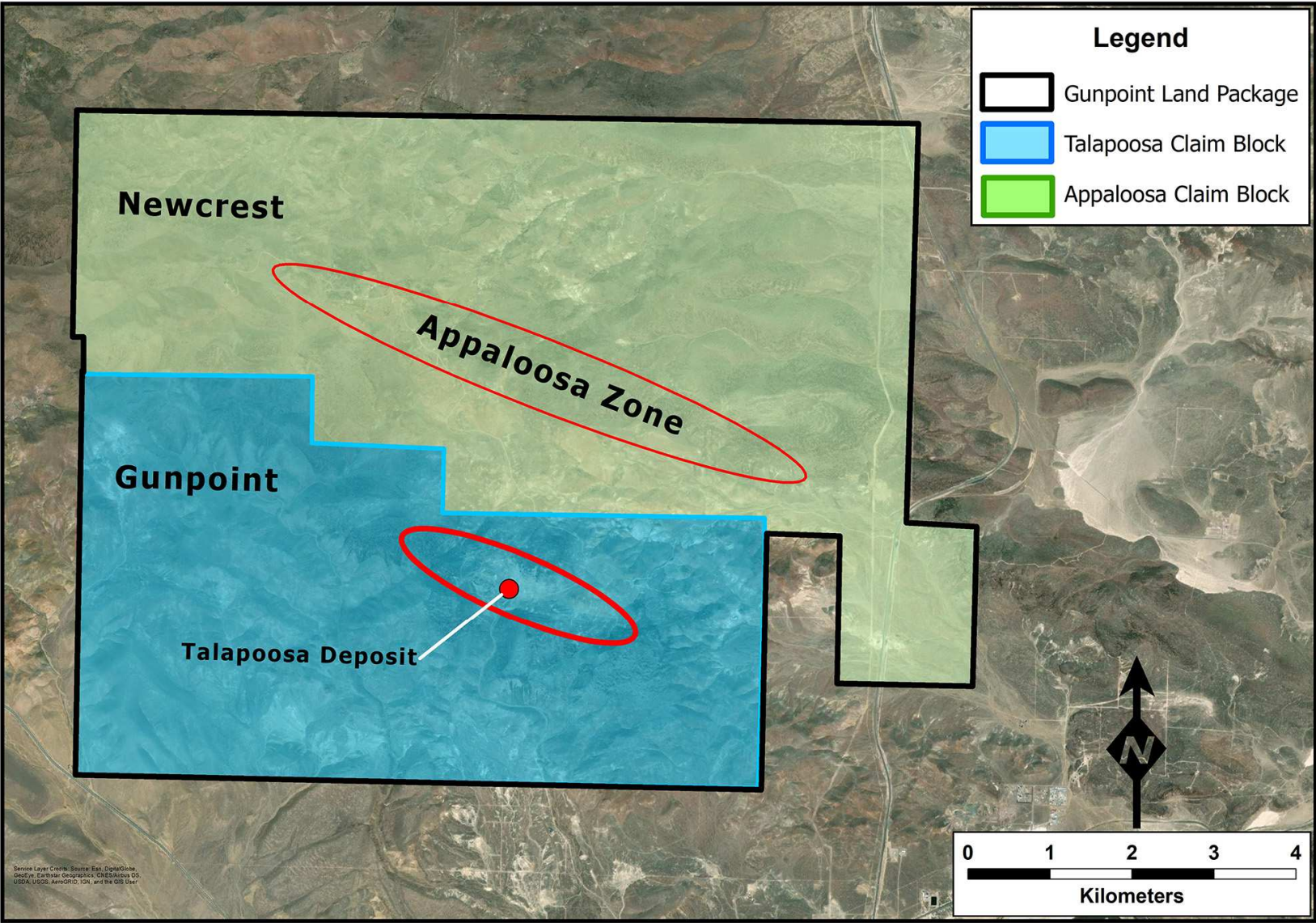
- make a US\$750,000 cash payment to Gunpoint within 10 business days of the exercise of the option to commence the Option Phase
- fund a minimum of US\$2mn of exploration expenditures on the Appaloosa property within the 18-month period commencing on the date of the agreement

Newcrest will not earn a vested interest in the Appaloosa property during the Option Phase. We would also note the current bid for Newcrest from Newmont, which may precipitate a change of strategy (should it succeed) as Appaloosa is not in Newmont's size category.

The Appaloosa Zone

Appaloosa is a relatively unexplored seven-kilometre-long mineralized structural zone that is subparallel and one kilometer northeast of the Talapoosa trend.

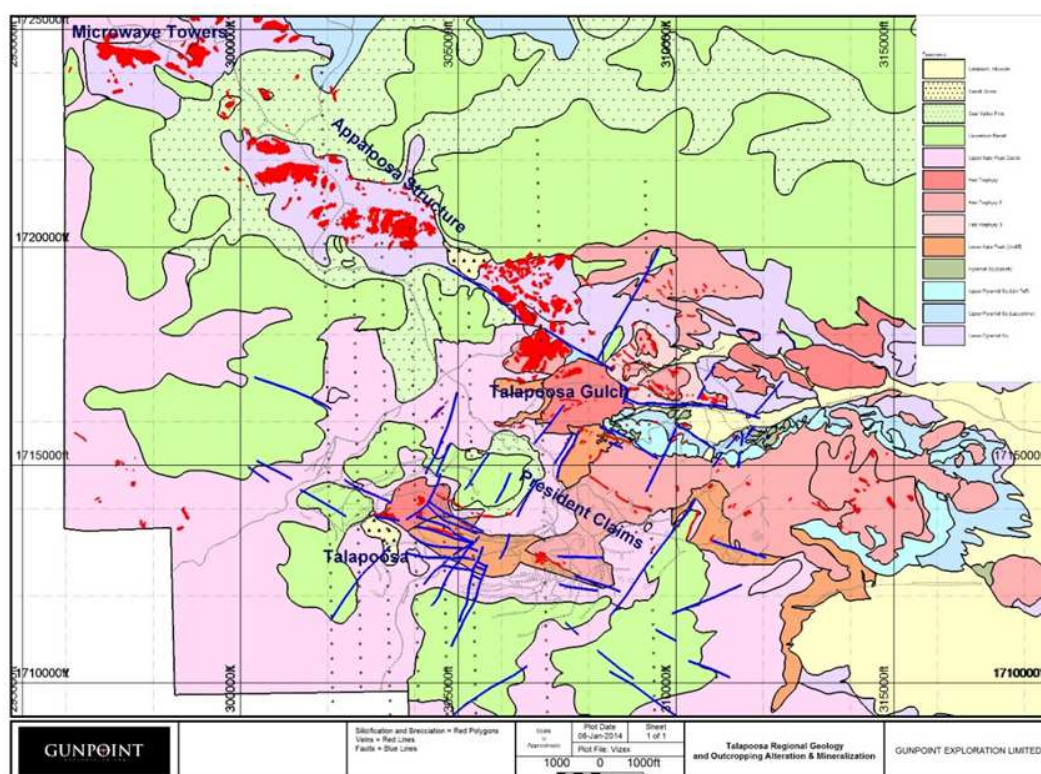
Appaloosa is a broad and extensive hydrothermal system with high level manifestations of epithermal mineralization including sinters, siliceous sediments and vent breccias. Zones of silicification extend up to 300-400 metres wide.



Tuesday, February 7, 2023

The Appaloosa Zone is immediately northeast of the Talapoosa resource area and hosts a well-preserved high-level epithermal system. The mineralized trend is approximately five miles long by half a mile wide and remains largely unexplored. The northwest part of the zone is dominated by a “field” of well-preserved, high-level hydrothermal eruption breccias (HEBs) which formed in the lacustrine environment of the Talapoosa Formation.

The map that follows shows the geology of Appaloosa Zone showing outcrops of the HEBs in red. These eruption or vent breccias are thought to be fault-controlled and form large elongate outcrops up to 1,200 feet long and 300-500 feet wide.



The HEBs are interpreted by Gunpoint as the surface expression of an underlying mineralized epithermal system, an interpretation supported by Dr. Richard Sillitoe, a well-regarded authority on epithermal systems. He visited the property in 2011 and made the observation that the breccias were formed in a lacustrine environment following silicification of the epiclastic sediments by ascendant hydrothermal fluids.

Poorly mineralized veins, dominated by chalcedony, commonly overlie low-sulfidation epithermal ore shoots, in which bonanza-grade gold and silver values can occur in association with quartz veins. The depth to any such precious-metal ore shoots, was stated by the consultants as, difficult to predict, but could range from 100 feet to 500 feet or more below the paleo-surface, which is likely to have been not too far above the present surface. Given the elevation difference between the Appaloosa zone and the

Tuesday, February 7, 2023

Talapoosa zone the latter depth figure seemed more likely.

Exploration

Due to the shallow level of erosion and overburden at the northwest part of the Appaloosa zone, it has received very little exploration over the years, although Superior Oil Company drilled five shallow vertical percussion holes in the in the late 1970's with unknown results. No subsequent exploration drilling is known in this area.

Gunpoint performed an extensive rock chip sampling program over the entire Appaloosa zone in 2010-2011. In the northwest part of the zone fragments of veining within the HEB's, interpreted as either derived from brecciated marginal veins or from underlying feeders to the vent breccia, assayed as high as 0.7 g/t gold.

Grab samples of veining collected from small dumps near the margin of this dome contained values up to 62 g/t gold while channel sampling across a 22-foot-wide cut of veining and brecciation averaged 5.5 g/t gold and 42 g/t silver.

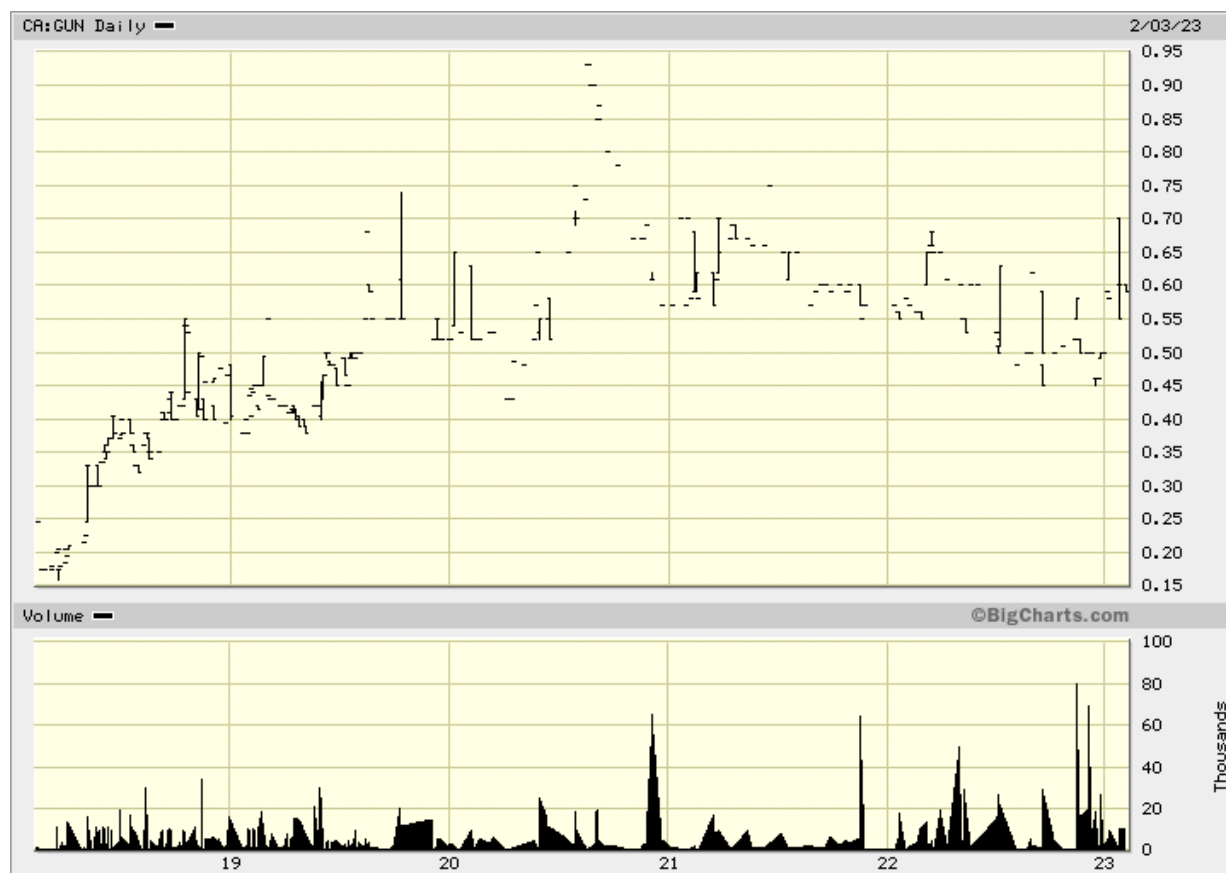


Investment Thesis

Gunpoint has not exactly been dynamic in pursuing the potential but is now getting its act together.

We reiterate our **LONG** call on Gunpoint with a 12-month target price of \$0.75.

Tuesday, February 7, 2023



Parting Shot

“Better late than never” was our thought when it was reported that Ottawa had finally stirred from its slumbers on the threat presented by China to the West’s strategic interests. This came quite a number of years after Australia (a fellow Five Eyes member) had started saying “No” to Chinese attempts to move in on critical metals assets. Though it is worth noting that when it came to “selling the farm” Australia has been trafficking more strategic assets to China for longer than Canada has been doing. Australia finally said “enough” partly encouraged by China’s aggressive attitudes during the pandemic years.

Canada had not been selling the farm (or the mine), *per se*, but flogging apartments like they were going out of business and this lucrative business might be perceived to be threatened by any action against China. Even there the penny has dropped that having Chinese pricing Canadians out of their own property market might not be a good idea. Sigh....

The number of onshore mine projects that had been sold to the Chinese over the last decade was not a long one. The most notorious we know of is the sale of the Beaver Brook Antimony mine in Newfoundland that the Chinese bought and then shut down to put it in the freezer and remove a competitor. They shed a truckload of workers and created immense ill-feelings. But it was pretty clear

Tuesday, February 7, 2023

that the original deal scarcely received any notice in Ottawa and the firings were just collateral damage in the minds of the Great & Good.

What would Canadian government announcements be without a “kumbaya clause” spreading love and good vibes? Thus, it is stated that a core purpose of the Canadian Critical Minerals Strategy is “to support the development of Canada’s industrial capacity and access to vital Critical Minerals, and attract major investments to develop our strategic assets from mines to manufacturing”.

In the last month the powers that be in Ottawa felt it timely to “provide additional clarity” about how the Investment Canada Act will be applied to investments in Canadian entities and assets in Critical Minerals sectors from foreign state-owned enterprises (SOE). We suspect that this was because many were suspecting the new regulations were more random/kneejerk than officialdom had hoped to project.

They, thus, tied it back to their overlong Critical Minerals List which had been announced on March 11, 2021. This included 31 minerals “considered critical for the sustainable economic success of Canada and our allies”. These were defined as minerals that can be produced in Canada, are essential to domestic industry and security, and have the potential to support secure and resilient supply chains to meet global demand.

Many saw the (not so) hidden hand of the US behind the Canadians getting a sudden attack of firm backbone. But in the interest of spreading the hypocrisy around, let us not forget that it was only a few years ago that the US government allowed almost the entirety of the global Cesium industry to pass into Chinese hands (Sinomines) by turning a blind eye to Cabot Corp (NYSE:CBT) selling off its Specialty Fluids division (including the storied Bernic Lake mine in Manitoba). Ourselves, Mickey Fulp and a few others cognizant raised the alarm to no avail. Its interesting to ponder what sort of critiques would have emanated from Washington if Ottawa had then had the temerity to challenge Cabot’s asset sale on critical metals’ case for Cesium.

In the understatement of the decade the government’s statement included “Critical Minerals are also strategic assets that contribute to Canada’s national security as vital inputs to defence and high technology”. Surprise.....

In a clear reference to the New Evil Empire, it goes on to say that... “in this context, some investments into Canada by SOEs can be motivated by non-commercial imperatives that are contrary to Canada’s interests. This includes investments from private investors assessed as being closely tied to, subject to influence from, or who could be compelled to comply with extrajudicial direction from foreign governments, particularly non-likeminded governments”. These are the placeholders (Fifth Columnists, in the words of the more conspiratorial) that up until now have been ethnically connected to the “country that shall not be mentioned” but we should not look too narrowly at this because that country may eventually be forced to use *gweilo* for their useful idiot purposes. Spotting these stooges is not too hard for Australians, as some have been in circulation for a while there, but Canadian officialdom will have to develop its sniff-tests to work out who is working for whom.

Tuesday, February 7, 2023

Australia has long had its Foreign Investment Review Board (FIRB), but we haven't heard of such a Canadian entity. If it has existed, it must have been flying well below the radar. The new policy sets out a framework for the review of such investments under the Investment Canada Act with the Minister of Innovation, Science and Industry needing to approve proposed acquisitions of control from foreign investors, including SOEs, where the value of the Canadian business is above the defined threshold.

- Some factors that will be examined to determine whether a proposed investment would be of net benefit include:
- the extent to which a foreign state is likely to exercise direct operational and strategic control over the Canadian business as a result of the transaction;
- the degree of competition that exists in the sector, and the potential for significant concentration of foreign ownership in the sector as a result of the transaction;
- the corporate governance and reporting structure of the foreign SOE, including whether it adheres to Canadian standards of corporate governance and to Canadian laws and practices, including free market principles in its Canadian operations;
- whether the Canadian business to be acquired is likely to continue to operate on a commercial basis. This can include considerations such as where products will be exported or processed, the participation of Canadians in its operations in Canada and elsewhere, the impact of the investment on productivity and industrial efficiency in Canada, support of ongoing innovation, research and development in Canada, and appropriate levels of capital expenditures to maintain the Canadian business in a globally competitive position.

Under the Act all investments, including greenfield and minority investments (regardless of value), are subject to the national security review process.

The net has been cast wide to catch the wily foreign investor who uses (potentially) local “front men” to “pull the wool” as we have seen with the proliferation in Australia, for example, of Chinese-Australian businessmen who may, or not, be placeholders. This policy applies to such investments regardless of value, whether direct or indirect, whether controlling or non-controlling, and across all stages of the value chain (e.g. exploration, development and production, resource processing and refining, etc.).

Factors that can be considered in assessing whether a particular transaction involving Critical Minerals would be injurious to national security include:

- the size, scope and location of the Canadian business
- the nature and strategic value to Canada of the mineral assets or supply chain involved
- the degree of control or influence an SOE would likely exert on the Canadian business, the supply chain and the industry

Tuesday, February 7, 2023

- the effect the transaction may have on the ability of Canadian supply chains to exploit the asset or access alternative sources (including domestic supply)
- the current geopolitical circumstances and potential impact on allied relations

Considering this policy, the government has recommended that all non-Canadian investors and Canadian businesses carefully review their investment plans to identify any potential connections to SOEs or entities linked to or subject to influence by hostile or non-likeminded regimes or states. Investors are strongly encouraged to consult ISSED's Investment Review Division at least 45 days in advance of implementing any investment.

The first fish caught in this new net were a number of Lithium plays. In early November, the Canadian government announced that Sinomine (Hong Kong) Rare Metals Resources Co Ltd was required to divest itself of investment in Canada-based Power Metals Corp, which is exploring Cesium (!!), Lithium and Tantalum assets in Canada.

Chengze Lithium International Ltd, based in Hong Kong, was ordered to divest its investment in Lithium Chile Inc, a Canada-based company with lithium projects in Chile. And Zangge Mining Investment (Chengdu) Co Ltd (based in China) was ordered to divest its investment in Ultra Lithium Inc, which has lithium projects in Argentina, Canada and the US.

These China and Hong Kong-based companies were told to divest their investments within 90 days from the 3rd of November 2022.

Lithium Chile was a "strategic asset" that was not even in Canada. This is NOT something that Australia would have done. This smacks of randomness.

Famous last words: "The Government of Canada stands ready to assist Canadian businesses in the Critical Mineral sectors". Hmmmmmm..

Recent & Upcoming

In the last month we published our Initiation of coverage on A.I.S Resources and an Update on Cobre.

In coming weeks, there is scheduled a Special Situations note on Solvay and potentially Initiations on Sheffield Resources and Erin Ventures.

MODEL RESOURCES PORTFOLIO @ END JANUARY

MODEL RESOURCES PORTFOLIO @ END JANUARY							
Security	Ticker	Currency	Price	Change		12-mth Target	
				last 12 mths	last mth		
LONG EQUITIES							
Diversified Large/Mid-Cap	Hochschild	HOC.L	GBP	0.6665	-37%	-5%	£1.00
	Sherritt International	S.to	CAD	0.60	18%	15%	\$0.95
Uranium	Sprott Physical Uranium	U.UN.to	CAD	17.06	20%	8%	\$20.00
	GoviEx	GXU.v	CAD	0.24	-27%	33%	\$0.45
Zinc/Lead Plays	WisdomTree Zinc ETF	ZINC.L	USD	10.99	-1%	14%	\$14.00
	Altaley Mining	ATLY.v	CAD	0.41	24%	-16%	\$0.70
Silver Explorer	Southern Silver Exploration	SSV.v	CAD	0.20	-29%	0%	\$0.40
Silver ETF	IShares Silver ETF	SLV	USD	21.83	4%	-1%	\$24.00
Gold Producer	Soma Gold	SOMA.v	CAD	0.42	17%	27%	\$0.85
	Asante Gold	ASE.cn	CAD	1.71	-3%	3%	\$2.40
	Orvana Minerals	ORV.to	CAD	0.18	-50%	-14%	\$0.60
Gold/Antimony Developer	Perpetua Resources	PPTA.to	CAD	4.76	5%	21%	\$7.50
Metallurgical Coal	Colonial Coal	CAD.v	CAD	1.15	-47%	-10%	\$2.45
Royalties	Elemental Altus Royalties	ELE.v	CAD	1.27	-23%	-3%	\$1.52
Copper Explorers	Panoro Minerals	PML.v	CAD	0.12	-33%	-14%	\$0.30
	Phoenix Copper	PXC.L	GBP	0.4685	-11%	62%	£0.54
	C3 Metals	CCCM.v	CAD	0.10	-17%	67%	\$0.20
Tungsten Producer	Almonty Industries	AII.v	CAD	0.81	-9%	19%	\$0.95
Graphite Developer	Blencowe Resources	BRES.L	GBP	0.0559	24%	35%	£0.09
Cobalt	Jervois Global	JRV.ax	AUD	0.27	-57%	-4%	\$1.00
Vanadium Developer	Vanadium Resources	VRB.ax	AUD	0.08	0%	33%	\$0.22

MODEL RESOURCES PORTFOLIO @ END JANUARY							
Security		Ticker	Currency	Price	Change		12-mth
					last 12 mths	last mth	Target
LONG EQUITIES							
Lithium	Neometals	NMT.ax	AUD	0.86	-41%	8%	\$1.50
	Lithium Power Intl	LPI.ax	AUD	0.44	-39%	0%	\$0.80
Cesium/Lithium	Essential Metals	EXX.ax	AUD	0.54	6%	64%	\$0.55
Scandium Developer	Scandium International	SCY.to	CAD	0.07	-50%	0%	\$0.15
Gold Explorer	Cabral Gold	CBR.v	CAD	0.14	-62%	0%	\$0.60
	Gunpoint Exploration	GUN.v	CAD	0.60	3%	20%	\$0.75
	Desert Gold	DAU.v	CAD	0.06	-57%	0%	\$0.32
	MetalsTech	MTC.ax	AUD	0.50	92%	-4%	\$0.68
Rare Earths	Rainbow Rare Earths	RBW.L	GBP	0.12	-27%	20%	£0.30
	Neo Performance Materials	NEO.to	CAD	11.49	-39%	20%	\$24.00
Tin Miners	Alphamin	AFM.v	CAD	0.99	-7%	14%	\$1.35
	Metals X	MLX.ax	AUD	0.40	-27%	3%	\$0.38
Mineral Sands	Sheffield Resources	SFX.ax	AUD	0.58	36%	2%	\$0.72
Helium	Desert Mountain Energy	DME.v	CAD	2.81	13%	1%	\$3.70
Oil & Gas	Shell	SHEL.L	EURO	23.875	23%	3%	£24.00
SHORT EQUITIES							
Shorts	NioCorp	NB.to	CAD	1.18	18%	18%	\$0.40
	Golconda Gold (ex-Galane Gold)	GG.v	CAD	0.39	-22%	26%	\$0.25
	Cleantech Lithium	CTL.L	GBP	0.52	n/a	33%	£0.25
	Texas Mineral Resources	TMRC	USD	1.42	-1%	9%	\$0.30

Important disclosures

I, Christopher Ecclestone, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

Hallgarten's Equity Research rating system consists of LONG, SHORT and NEUTRAL recommendations. LONG suggests capital appreciation to our target price during the next twelve months, while SHORT suggests capital depreciation to our target price during the next twelve months. NEUTRAL denotes a stock that is not likely to provide outstanding performance in either direction during the next twelve months, or it is a stock that we do not wish to place a rating on at the present time. Information contained herein is based on sources that we believe to be reliable, but we do not guarantee their accuracy. Prices and opinions concerning the composition of market sectors included in this report reflect the judgments of this date and are subject to change without notice. This report is for information purposes only and is not intended as an offer to sell or as a solicitation to buy securities.

Hallgarten & Company or persons associated do not own securities of the securities described herein and may not make purchases or sales within one month, before or after, the publication of this report. Hallgarten policy does not permit any analyst to own shares in any company that he/she covers. Additional information is available upon request.

Hallgarten & Company acts as, or has acted as in the last twelve months, a strategic consultant to Blencowe Resources, Perpetua Resources & Alphamin Resources and as such is or has been compensated for those services, but does not hold any stock in those companies, nor has the right to hold any stock in the future.

© 2023 Hallgarten & Company Limited. All rights reserved.

Reprints of Hallgarten reports are prohibited without permission.

Web access at:

Research: www.hallgartenco.com