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HALLGARTEN & COMPANY

Portfolio Strategy

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Model Mining Portfolio: Weed - Vancouver's "Toxic Bloom"

Performance Review – April 2019

Model Mining Portfolio

Weed – Vancouver’s “Toxic Bloom”

- + Cobalt has broken out of its lethargy and started to recuperate
- + Chinese are reducing Rare Earth quotas so the long-awaited renaissance in this space may not be far off
- + The Wesfarmers bid for Kidman has electrified the Lithium space... or at least the spodumene portion of the Lithium space
- + Palladium's fall has been arrested
- ✗ Weed's malign influence still weighs heavily on the Canadian markets
- ✗ Most base metals have been idling, though Zinc made a small run upwards during the month then gave back ground
- ✗ Vanadium has continued to fall
- ✗ Gold and silver are still wallowing

Weed – If you can't beat it..... Smoke It

The final months of 2018 brought the hope that the weed wave was passing and this curse upon the mining space might be lifted. Instead, alas, it got a second wind (more than a puff) and has continued to weigh heavily on the Canadian miners. Fortunately it is not a factor in either Australia or the UK mining spaces but still it has created a pall globally in the mining space by depressing the largest market by listed participants.

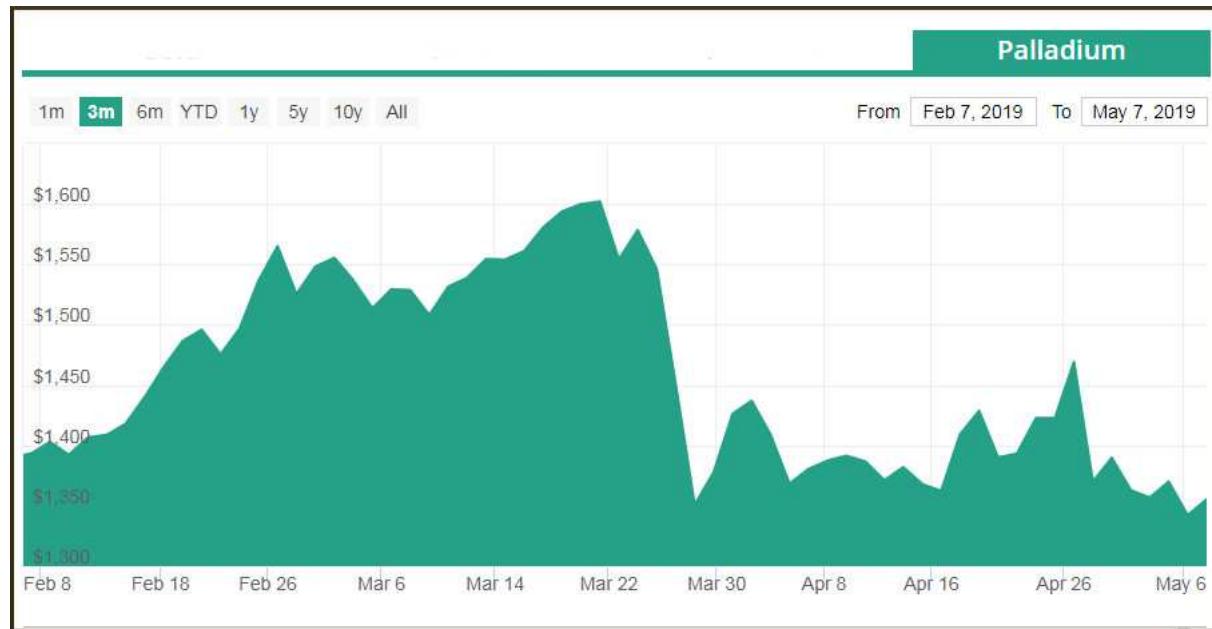
It would seem clear to us that Vancouver is again probably indulging in one of its regular toxic blooms that kill all life within a certain radius. It's their last gasp (puff?) before the property market there turns turtle, as it has done in Sydney and Melbourne already. Gradually one by one all the tables in the casino are being shut down and the gamblers will have to hit the road with their worldly goods and get a real job. Does the world need hundreds of weed companies? After all the cigarette industry has been reduced to only a handful of major tobacco companies, so why should weed be any different?

Weed's reckoning is coming but how do we tell when Peak Weed is reached? When Vancouver promoters appear even more wild-eyed than they already do?

Palladium – Down but not out

We only take joy in a metal's fall from grace on rare occasions. However it was satisfying to see the Palladium bulls humbled when their hobby horse fell recently in yet another example of what goes up,

must come down or more simply the laws of financial gravity. However it's also good to see that it's not a rout but merely "blowing the froth off the beer". As the chart on the following page shows, stability has set in, so for wannabe Palladium miners there is still a good economic equation underpinning their projections.



Source: APMEX

Portfolio Changes

There were three portfolio changes in April:

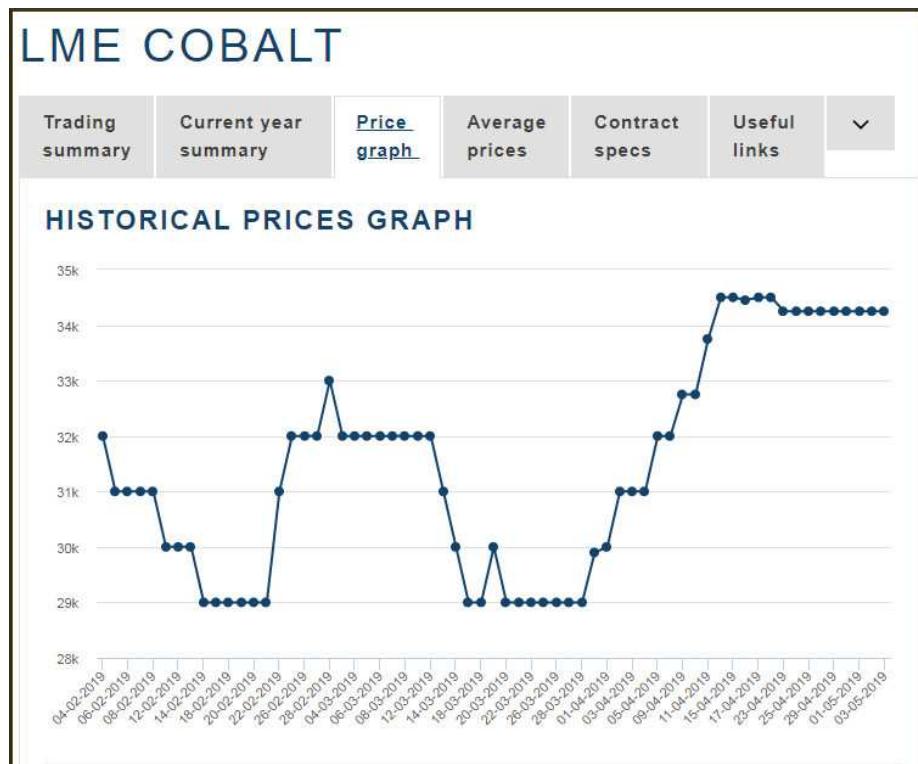
- Closed a Short position in Lithium Americas. Bought 14,000 shares in LAC.to at CAD\$5.39 per share on April 18th
- Closed a Long position in Talga Resources. Sold 250,000 shares in TLG.ax at AUD 63cts per share on April 18th
- Added a Long position in Lepidico. Acquired 3,000,000 shares in LPD.ax at AUD\$0.039 on April 18th

The Portfolio Move

The cash balance shrank further to a record low of \$110,000 at month end, Short covering being a reason for that. The Model Mining Portfolio retreated from \$4.63mn at the end of March to \$4.4mn at the end of April due to sloppy markets.

Cobalt Awakes

Here is the latest chart for LME Cobalt. Giving some reason to feel cheerful on this metal.



Boggling on Neometals

We have been following Neometals more consistently than just about any other company but we must admit to being disappointed with recent developments (or lack thereof). Is the company shadow-boxing with itself? There is definitely a generational tussle going on. The company used to be called Reed Resources and with good reason because it was essentially the brainchild of two generations of the Reed family, an old established stockbroking dynasty in Perth.

The different generations have different priorities though and this has become apparent in the rather erratic search for direction in recent years. The older generation love dividends (we do too) but we don't love dividends to the exclusion of sensible corporate strategy and that has not been the case here. The company has had an ambivalent attitude towards the Lithium space. Lithium has been good to Neometals. The company ploughed ahead through the dark times of the metal's trajectory and has brought it to production at Mt Marion. It then recognized there was an option to capitalize on this and take profits of the table which it did. Then the opportunity to "wash-and-repeat" appeared and it seemingly seized it (by launching a proposal to process its "share" on the Mt Marion production) then it dropped the ball again roaming off in search of a recycling operation. It had also talked of a split into a

Lithium play and a Titanium/Vanadium play and that has come to nought.

A company that can walk and chew gum at the same time can certainly cope with a small recycling operation and monetize its Mt Marion share. However the company seems to have become paralysed and indecisive. Having made its fortune by going out on a limb and being daring the company has now gone into a fearful phase and is not doing anything of much relevance for a well-cashed up entity with several great strategic positions. It would seem time for one or the other of the generations to release their grip and head the company in one direction or the other.

Investors are getting fatigued with the story if the modus operandi is going to be decided around the family BBQ rather than in the boardroom.

Looking as to how Neometals can restore its street-cred with investors we would counsel that the demerger should be back on the table and the move into the downstream processing of its lithium share should be revived. It is quite intriguing that this proposal in particular should have withered just as most other major operators are talking of putting hydroxide plants closer to their Western Australian sources of raw material production. What happened to being a pillar of the WA Establishment?

Lepidico – Forget the Lithium, Cesium is the Prize

This is a stock we have mentioned before in the context of the ill-viewed bid by Lithium Australia (LIT.ax) to take it over several years ago. This was definitely the fish that got away, as Lepidico has gone on to become somewhat of a darling of the Lithium crowd while Lithium Australia is more likened to Ye Olde Curiosity Shoppe, jam-packed full of strange projects, chipped china and dolls with missing limbs.



Lepidico's focus (or at least the part that interested us) is its Portuguese exposure where it has first dibs on a petalite mine with a strong Cesium component. While we feel that Lithium has bottomed and the outlook for the mineral is good (though not for around 150 Lithium *nevergonnabes* that face extinction through investor disinterest) it is the Cesium at the Portuguese property that gets us excited. This is one of our most interesting minerals for the short- to medium-term. That the asset has this metal means that, properly played, Lepidico will escape the grim reaper coming for its kith and kin.

The company has a few pots on the boil, mainly a processing plant in Australia and its imminent purchase (or so it seems) of the Alvarrões Lepidolite Mine, which currently produces approximately 20,000 tonnes per annum of lithium minerals, predominantly lepidolite. This asset is operated by the Grupo Mota that currently operates numerous mines and quarries in Portugal.

The Alvarrões lithium mine sits in the Seixo Amarelo-Gonçalo rare element pegmatite district covering an area of 100 km² of the Central Iberian Zone in north-eastern Portugal. Although it is an area of long established open pit extraction of hard-rock lithium concentrates, the potential for a large scale mining operation geared towards the production of lithium chemicals for the battery market has to date not been evaluated. Material from the Portuguese mine is concentrated using optical sorting to a product grading approximately 2.5% Li₂O, which is mainly for use in the ceramics industry.

Lepidico's trading has recently been halted and one suggestion doing the rounds is that this is related to the final closing of the transaction with Grupo Mota now that Lepidico has done so much due diligence and exploration.

Frankly though the Cesium is the main interest here for us and if we can make a turn on the position AND if we don't see any progress on Cesium then the position will have its profits taken.

Parting Shot

The running joke in financial circles used to be that Alan Greenspan had never seen a bubble that he didn't like inflating. But then he also recognized a bubble when he saw one with his famous comment about irrational exuberance, which proved to be all too true.

It has become a mantra that politicians don't interfere with these booms and just let them go bust in their own good time. However as we have seen from a succession of these busts/crashes the damage can be massive and lingering. The effects of 2008 are still with us and for more specialized economies, focused busts can be devastating and put them at a long term disadvantage.

As mentioned upthread, the Australian property market is finally losing its wheels and the Canadian property market has stopped in its tracks, but not yet gone into reverse. It will..... Meanwhile the Canadian stock market is in thrall to the demonic weed in a way that no other market currently is. It is most reminiscent of the dot.com boom of 2000 which was driven by a mix of bullish TMT stories and the birth pangs of the internet. Now Canada is in thrall to weed and Ottawa doesn't care about the damage it is doing to other parts of the Canadian economic ecosystem.

Wednesday, May 8, 2019

The disregard is explicable in the context that the political halls of power are being roiled by the travails of Justin Trudeau but still the benign neglect of the Canadian stock market and the powers-that-be's disdain for even calling a bubble a bubble (or "irrational exuberance") is somewhat short-sighted. In case they hadn't noticed over the decades Canada has become increasingly weakened in having less of the world's major miners headquartered there and less of the "serious" players based there. Sure there are still some, but has there even been a real reckoning of "what went wrong" that Inco, Falconbridge and Noranda (and now Goldcorp) have been lost?

At the moment yet another mania is sweeping the Canadian markets and damaging serious (and frivolous) players alike.

Even a doctor who sees a hopeless case in front of them wants to know what the patient is suffering from, at least out of scientific curiosity. To Ottawa we would say "Physician, heal thyself".

Mining Model Portfolio as at: 1-May-19

Security		Initiated	Currency	Avg.	Price Current	Portfolio Weighting	Increase in Value	Target
Long Equities								
Various Large/Mid-Cap	Teck Resources (TECK.B)	5/29/2009	CAD	22.46	31.28	7.5%	39.3%	\$38.00
	Sherritt International (S.to)	7/11/2013	CAD	1.28	0.21	1.3%	-83.6%	\$1.00
	Metals X (MLX.ax)	5/29/2014	AUD	0.67	0.28	2.1%	-58.3%	\$0.80
Uranium	Uranium Participation Corp (U.to)	10/20/2010	CAD	5.36	4.36	6.1%	-18.7%	\$6.00
	GovEx (GXU.v)	6/29/2015	CAD	0.08	0.18	4.0%	119.0%	\$0.50
Zinc/Lead Plays	Zinc ETF (Zinc.L)	6/2/2010	USD	7.63	8.69	7.3%	14.0%	\$11.00
	NorZinc (NZC.to)	12/9/2011	CAD	0.82	0.115	0.3%	-86.0%	\$0.22
	Myanmar Metals (MYL.ax)	11/29/2018	AUD	0.06	0.08	2.8%	33.3%	\$0.13
	Ascendant Resources (ASND.v)	10/31/2016	CAD	0.49	1	5.2%	104.5%	\$1.70
	Telson Mining (TSN.V)	3/19/2018	CAD	0.79	0.35	2.3%	-55.7%	\$2.00
Silver	Excelon Resources (EXN.to)	11/8/2018	CAD	0.74	0.74	2.7%	0.0%	\$1.35
	Southern Silver Exploration (SSV.v)	8/25/2016	CAD	0.49	0.19	0.9%	-60.8%	\$0.35
Gold Producers	Para Resources (PBR.v)	2/17/2017	CAD	0.23	0.2	1.9%	-13.0%	\$0.58
	Westgold (WGX.ax)	12/6/2016	AUD	2.01	1.47	2.5%	-26.9%	\$1.50
Copper Producer	Coro Mining (COP.to)	2/23/2015	CAD	0.03	0.11	2.0%	266.7%	\$0.15
Coking Coal	Colonial Coal (CAD.v)	6/4/2018	CAD	0.35	0.52	3.9%	48.6%	\$1.10
Beryllium	IBC Advanced Alloys (IB.v)	4/29/2016	CAD	0.3	0.21	0.4%	-30.0%	\$0.35
Tungsten Producer	Almton Industries (AII.v)	7/31/2015	CAD	0.36	1.04	9.6%	187.0%	\$1.00
Copper Explorer	Asiamet Resources (ARS.v)	4/28/2016	CAD	0.05	0.08	2.2%	55.0%	\$0.12
	Phoenix Global Mining (PGM.L)	9/28/2018	GBP	0.35	0.16	1.2%	-55.7%	\$0.74
	Panoro Minerals (PML.v)	1/22/2018	CAD	0.37	0.19	1.1%	-47.9%	\$0.65
	Argonaut Resources (ARE.ax)	11/22/2018	AUD	0.02	0.01	0.9%	-44.4%	\$0.05
	Western Copper & Gold (WRN.to)	4/25/2017	CAD	1.57	0.69	1.3%	-56.1%	\$2.74
Vanadium Developer	Tando Resources (TNO.ax)	11/23/2018	AUD	0.11	0.1	2.3%	-9.1%	\$0.50
Lithium	Neometals (NMT.ax)	7/31/2014	AUD	0.3	0.22	3.7%	-27.4%	\$0.45
	Lithium Power Intl (LPI.ax)	10/25/2017	AUD	0.44	0.24	1.3%	-45.5%	\$1.38
Scandium Explorer	Scandium International (SCY.to)	8/23/2016	CAD	0.14	0.16	1.8%	14.3%	\$0.50
	Platina Resources (PGM.ax)	10/25/2018	AUD	0.07	0.05	1.7%	-23.1%	\$0.18
Gold Explorer	Banyan Gold (BYN.v)	11/14/2017	CAD	0.06	0.05	2.1%	-19.4%	\$0.15
	Cabral Gold (CBR.v)	3/27/2019	CAD	0.21	0.16	6.8%	-22.0%	\$0.45
	Gunpoint Exploration (GUN.v)	11/9/2018	CAD	0.5	0.39	1.4%	-21.2%	\$0.75
Cesium et al.	Lepidico (LPD.ax)	4/18/2019	AUD	0.039	0.04	0.2%	2.6%	\$0.08
Rare Earths	Northern Minerals (NTU.ax)	6/9/2011	AUD	0.14	0.07	2.0%	-50.4%	\$0.28
	Neomaterials (NEO.to)	10/25/2018	CAD	17.32	12.35	3.4%	-28.7%	\$23.00
Mining Media/Events	Aspermont (ASP.ax)	3/1/2019	AUD	0.009	0.01	3.5%	11.1%	\$0.02
Unlisted	New Noble Group	15/11/2017	SGD	0.2	n/a	n/a	n/a	
Suspended/RTO	Cabo Drilling (CBE.v)	9/28/2016	CAD	0.025	0.015	n/a	n/a	-40.0%
NET CASH						110,153		
Short Equities								
Shorts	NioCorp (NIO.to)	9/28/2018	CAD	0.61	0.54	77.60%	11.50%	\$0.40
	Galane Gold (GG.v)	4/28/2016	CAD	0.06	0.05	22.40%	16.70%	\$0.03

Current Cash Position	110,153
Current Liability on Shorts Not Covered	183,150
Net Cash	293,303
Current Value of Bonds	0
Current Value of Long Equities	4,108,415
TOTAL VALUE OF PORTFOLIO	4,401,718

Short Equities	-5%
Long Equities	105%
Long Equities	106%

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