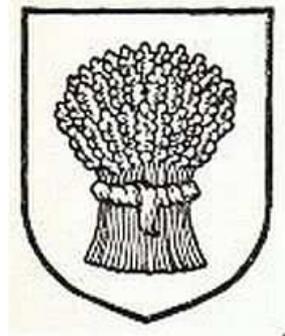


Thursday, March 5, 2020



HALLGARTEN & COMPANY

Portfolio Strategy

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Model Mining Portfolio: Virus – Phooey!

Performance Review – February 2020

Model Mining Portfolio

Virus – Phooey!

- + **Gold has been given a strong boost by the virus scare and this has helped a few financings along their way to completion**
- + **As the EV numbers out of China grow more dire, perversely the Lithium space seems to be gaining a toehold again**
- ✗ **Base metals have been badly battered by the slowdown in China, with Zinc in particular having experienced great weakness**
- ✗ **If there were doubts about China's quasi-recessionary state, these have now been dispelled, China's economy will shrink in 2020**
- ✗ **Specialty metals prices are benefitting from the breakdown in China's supply chains**
- ✗ **The vulnerability of the West to supply-chain shocks is becoming patently obvious... which may not be a bad thing**

Investment in a Time of Cholera

It has surprised some that life goes in the mining sector, with the PDAC convention charging ahead while lesser mortals are cancelling their congresses left, right and centre. Is it that miners are not so easily spooked or is it that after all the plagues visited upon its house since 2008 the collective animus of the prospectors and developers regards the Coronavirus as just one more trial to be suffered?

Going into 2020 the mining sector was minded to feel bullish. Weed was no longer casting shade on the space, as it had done for the previous two years, and the almighty gold sub-sector was stirring from its slumbers. The virus has swept through the mining markets creating an entirely different type of casualty. Miners who can stare down Ebola are quaking at the thought of what it can do to their stock market valuations, negatively if in base metals and positively if in gold and some specialty metals.

The virus is working its way through supply chains, much as it has advanced in real life, through airplane routes and cruise line itineraries. As many specialty metals spend a long time on the waves before reaching Rotterdam or New Orleans, the full effects of the choking off of Rare Earths or Antimony exports, for example, have not yet been felt. But it is around now that ships that should have sailed, and didn't, should have been arriving.. and they are not.. In the short term whatever inventories there were in distant markets from China will be eked out but then there will be a precipitous drop in product moving through the end-users production lines. Already we hear rumblings about "dependence upon China". Hey, you were warned.. And this is just a disease, imagine if it was a real international pushing or shoving match over something. It's not just that product will peter out, it will stop for good. I would

be very interesting to be a fly on the wall in Western corporate boardrooms and hear what they have to say about how many manufacturers (e.g. wind turbines) can get by without a supply of REE magnets for the generators. Of course they won't be saying anything publicly unless they go for force majeure. They want to delay the moment of the Jeremiahs claiming "we told you so" until the last possible moment.

Then maybe we could look at our favorite base metal. With Zinc's daily consumption in normal times being around 30,000 tonnes per day, the LME warehouse stocks have, in the last twelve months stood at less than two days of global consumption. The way things were looking on the eve of the virus outbreak Zinc was on the verge of another price breakout to the upside. The move in Zinc stocks quite dramatic with the one-year warehouse stock looking like this:



This is nothing though as Zinc stocks used to be regularly standing at a vast multiple of even their May 2019 highs. The latest run-up in stocks has taken days of consumption from less than two days to around two and a half days. This is scarcely a flooded market by anyone's definition. The faintest turn upwards in global consumption after this wretched virus scare departs the stage will see stocks drop like a stone in the space of a couple of weeks and be hitting new lows again. Whether the metal can hit the highs of 2018 again remains an imponderable..... perchance to dream.

The Great Coronavirus Scare of 2020 is a dry-run for a real disruption in global trade, whether China-originated or from elsewhere. There are now so few people around who remember and lived 1939 that

it can merely be imagined what happened when one was on the other side of the world and could not get home. The US in WW2 found it had no tin worthy of the name and became entirely dependent upon Bolivia for its supply. Its Vanadium was harvested from scrubbers on the smokestacks of ships that were burning heavy Venezuelan crude oil. Is anyone smart enough in global administrations to work this out? There are no signs that they are..

Portfolio Changes

There one addition and one deletion during the month:

- Added BTU Metals (BTU.v) to our Long positions with a twelve-month target price of 45cts
- We have dropped our Long position in Banyan Gold (BYN.v)
- We also dropped our Long position in Platina Resources (PGM.ax)

Developments

We note that Telson Mining has started producing again and Para Resources acquired a contiguous gold producing property in Colombia and exited its Arizona operations.

BTU Metals – in the shadow of the Bear

Ontario has only seldom gotten us excited. It seems so often to be over-hyped by “stay-at-homes” in the Canadian investment community who regard 0.5g/t per tonne as more worthy in those parts than 2g/t in some exotic location.

A meeting however with BTU Metals on their recent London foraging expedition we came away impressed with their closeology theory might have legs and indeed an eventual roll-up of parties at the southern side of the Red Lake district would make quite a bit of sense.

BUT Metals is the holder of 19,723 hectares of prospective land in the Red Lake district, which is amongst the most prolific gold mining camps in the world. Its land package is contiguous with the Dixie project of Great Bear Resources (TSXV:GBR), which contains multiple high-grade gold zones with confirmed mineralized deposits. The Hinge Zone discovery showed some exceptional assays with:

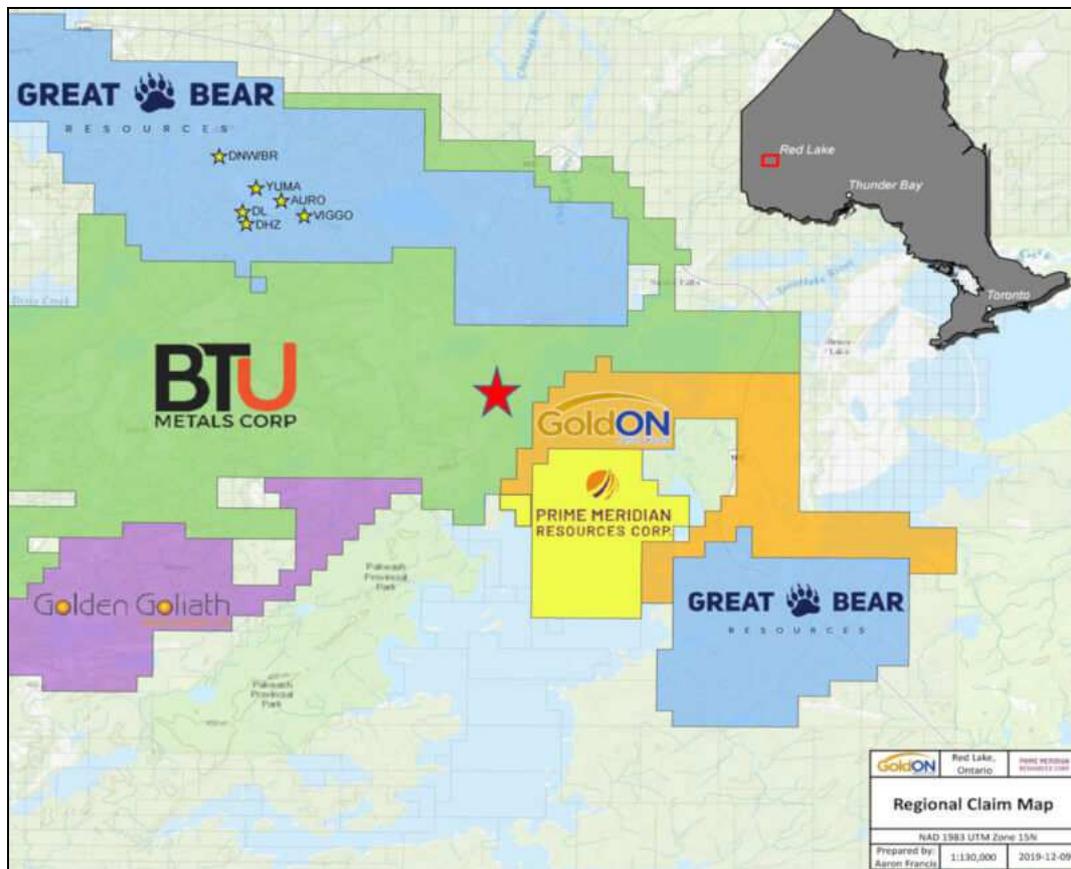
- 26.91 g/t Au over 16.35m
- 30.15 g/t Au over 7.25m
- 1,600 g/t Au over 0.70m

The LP Fault discovery added six new gold zones (BR, Yuma, Auro, Yauro, Viggo, Gap) and the company is now drilling continuity along +4km. Some of the assays from the LP Fault were:

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- 194.21 g/t Au over 2.00m
- 48.67 g/t Au over 8.7m
- 10.32 g/t Au over 18.20m
- 5.28 g/t Au over 42.00m
- 1.08 g/t Au over 125.00m

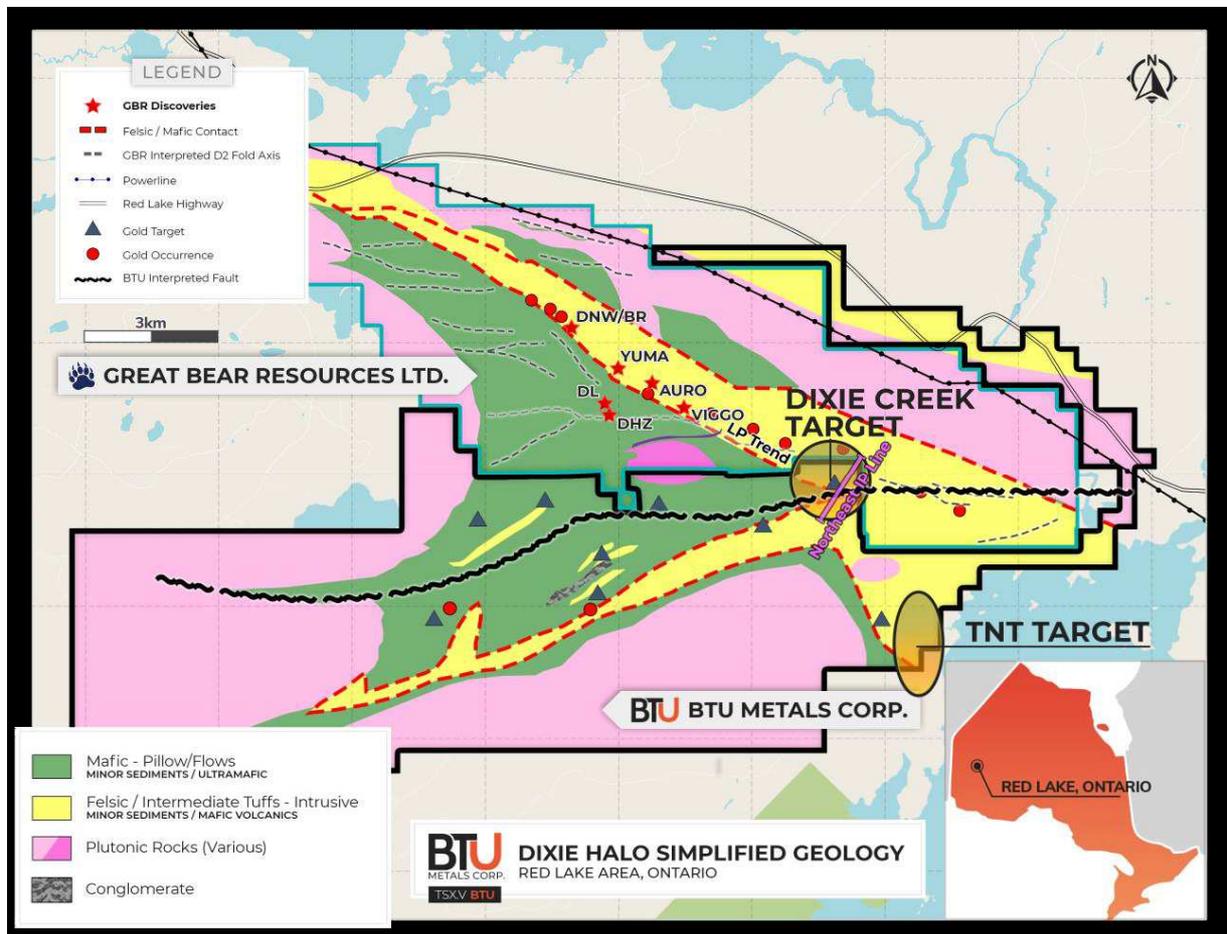
The discoveries by Great Bear have propelled its stock to over a \$400mn market cap despite still not having a resource. Great Bear is in the midst of an active 90,000 metre drill program



It was the discovery of the TNT target which occurred in November 2019 that really set the stock price on fire. The drill holes 12 and 13, yielded significant intercepts of mineralization and alteration. The assay highlight was 44.3 m of 1.14% CuEq, with intervals containing as much as 5.56% Cu, 99.6 g/t Ag, and 2 g/t Au. The company's experts' assessment of currently available geophysical survey data posit that the target has a footprint of 200-500 meters east-west and at least 1,000 meters north-south.

In the view of BTU there appears to be a trend that crosses into the BTU property as well as other

structures proximal to their discoveries that extend southeasterly onto BTU's property across the Dixie Creek target.



The geological team feels that the geophysical data indicates the potential for a polymetallic, gold-enriched volcanogenic massive sulphide (VMS) deposit.

The string of discoveries has prompted something of a gold rush, prompting BTU to add to its acreage also. Other parties downtrend from BTU, like GoldON and Prime Meridian, are also wanting to come to the party. Great Bear also securing additional prospective areas, including the 3,100-hectare Pakwash property, which is to the southeast of all these mentioned parties.

Ultimately we think this is a takeover play with Great Bear (or a predator for Great Bear) being the most likely suspect. Management claimed that the previous high of the low 40s was not enough to get shareholders to sell out. Never say never when its cash on the table.

We have added a **Long** position in this stock to the Model Mining Portfolio with a target price of 45 cents.

Parting Shot

Memories come to us of Seinfeld's Soup Nazi when we hear the admonishment "No Dividends for You!" which is the mantra of the much vaunted "CEO of the Year" in the mining space. We had stopped filling in surveys that involved the perennial hunt for these worthies exactly because we were up against a solid phalanx of Canadian investors who actually think this chap is working in their best interest. What they fail to realise is that he is getting both the stock price uplift AND a big salary, whereas they are only (sometimes) getting stock price uplift. He always gets his big salary.

Towards the end of February we were contacted by an organ of the media wondering why we had not replied to their survey. We had to confess that our choices would be so "way out there" and would probably be single votes for transactions that consensus would not favour. After all who else but us would call Hochschild's purchase of Biolantanidos the M&A Deal of the Year? And why bother filling in the name of any other candidate for CEO of the Year when the industry clearly feels the Dividend Nazi is Santa Claus for the long suffering investors in the space?

Speaking of industry truisms there is also the rise of the royalty stocks. These are better than miners, we are told to believe. Indeed they are so good that we would humbly suggest that all miners convert to Royalty stocks immediately to provide outperformance for their shareholders. In fact this would be the most successful example ever of a sector's denizens "taking in each other's laundry". No one would ever need to sully their hands with mining again and royalties on royalties would be the utmost in green extraction... The green being dollar bills.

The apogee of this trend this was the action taken by latest market darling, Great Bear Resources, when it announced at the end of January that it is planning to spin out a newly-created royalties subsidiary, Great Bear Royalties.

The spinout company will take ownership of a 2% net smelter return royalty on any future production, in addition to CAD\$1mn in marketable securities and CAD\$500,000 in cash, which will form the new company's initial assets. As we mentioned earlier in this note, it does not even possess a resource as yet. A mere detail....

The company claimed that the spin out of Great Bear Royalties "allows shareholders to secure additional



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long-term value through royalty interest". The fact that the company they are shareholders in will be (maybe) paying a royalty to a company that they are shareholders in (after management have taken yet another bite of the apple) seems to elude them... by "them" we mean the shareholders because management are quite aware of the attractions of this double dipping. The only word we can use for this is "cynical".

Group-think still seems to reign supreme in some corners of the mining market as "clustering" of responses in surveys would seem to indicate that tunnel vision is dictating who might or might not be a worthy in the same. As for the royalty fad, we can only hope that Great Bear's action was the final futile blast of this phenomenon.

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MODEL MINING PORTFOLIO @ END FEBRUARY						
	Security	Currency	Price	Change		12-mth Target
				last 12 mths	last mth	
Long Equities						
Diversified Large/Mid-Cap	Teck Resources (TECK.B)	CAD	13.50	-54%	-21%	\$30.00
	Metals X (MLX.ax)	AUD	0.07	-78%	-13%	\$0.35
Uranium	Uranium Participation Corp (U.to)	CAD	3.80	-20%	-1%	\$4.90
	GoviEx (GXU.v)	CAD	0.14	0%	8%	\$0.22
Zinc/Lead Plays	Zinc ETF (Zinc.L)	USD	6.48	-23%	-8%	\$8.10
	NorZinc (NZC.to)	CAD	0.06	-25%	-29%	\$0.22
	Myanmar Metals (MYL.ax)	AUD	0.04	-50%	-20%	\$0.13
	Ascendant Resources (ASND.v)	CAD	0.24	-76%	-31%	\$0.65
	Telson Mining (TSN.V)	CAD	0.08	-79%	-27%	\$0.25
Silver Producer	Excellon Resources (EXN.to)	CAD	0.49	-55%	-42%	\$1.35
Silver Explorer	Southern Silver Exploration (SSV.v)	CAD	0.33	43%	-15%	\$0.65
Silver ETF	IShares Silver ETF (SLV)	USD	15.53	9%	-8%	\$18.50
Gold Producer	Para Resources (PBR.v)	CAD	0.04	-79%	-56%	\$0.58
Coking Coal	Colonial Coal (CAD.v)	CAD	0.28	-38%	-18%	\$1.10
Project Generator	Altus Strategies (ALS.L)	GBP	27.00	54%	-27%	\$0.45
Copper Explorers	Western Copper & Gold (WRN.to)	CAD	0.73	-13%	-18%	\$1.65
	Panoro Minerals (PML.v)	CAD	0.08	-62%	-11%	\$0.32
Tungsten Producer	Almonty Industries (AII.v)	CAD	0.50	-23%	-6%	\$1.00
Vanadium Developer	Vanadium Resources (VR8.ax)	AUD	0.02	-82%	-33%	\$0.12
Lithium	Neometals (NMT.ax)	AUD	0.19	-24%	-5%	\$0.28
	Lithium Power Intl (LPI.ax)	AUD	0.24	9%	-11%	\$0.56
Scandium Developer	Scandium International (SCY.to)	CAD	0.08	-56%	0%	\$0.18
Gold Explorer	Cabral Gold (CBR.v)	CAD	0.13	-46%	8%	\$0.35
	BTU Metals (BTU.v)	CAD	0.18	80%	-66%	\$0.42
	Gunpoint Exploration (GUN.v)	CAD	0.52	-5%	-2%	\$0.75
Fertilizers	Verde Agritech (NPK.to)	CAD	0.33	-51%	-15%	\$1.36
Cesium et al.	Pioneer Resources (PIO.ax)	AUD	0.01	-50%	0%	\$0.06
Rare Earths	Northern Minerals (NTU.ax)	AUD	0.04	0%	-20%	\$0.10
	Neo Performance Materials (NEO.to)	CAD	7.97	-51%	-27%	\$18.00
Mining Media/Events	Aspermont (ASP.ax)	AUD	0.01	0%	0%	\$0.02
Short Equities						
Shorts	NioCorp (NIO.to)	CAD	0.58	0%	-29%	\$0.40
	Texas Mineral Resources (TMRC)	USD	0.72	227%	-4%	\$0.30
	Abdn Standard Palladium Trust (PALL)	USD	241.11	65%	12%	\$115.00
	Galane Gold (GG.v)	CAD	0.09	80%	0%	\$0.03

Important disclosures

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