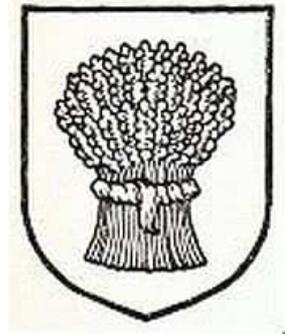


Sunday, November 5, 2017



HALLGARTEN & COMPANY

Portfolio Strategy

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Model Mining Portfolio: Markets Roar (selectively)

Performance Review – October 2017

Model Mining Portfolio

Markets Roar (selectively)

- + **Bullishness towards base metal prospects was very evident at the LME Week festivities in London**
- + **Lithium has revived dramatically with an uplift for the good, bad and the indifferent**
- + **Financings seem to be strong but unfortunately this is going disproportionately to “unworthy” recipients i.e. gold companies**
- ✗ **Gold and silver remain in the doldrums, deservedly so for the former**
- ✗ **Some lousy results from producing miners show managements are “hiding the good stuff” to thwart investor demands for dividends**
- ✗ **Bitcoin being approved for trading on the CME gives an imprimatur that could potentially cramp gold as a store of value**
- ✗ **Shameless measures to “help out” consultants are negative for mining companies and particularly junior explorers**
- ✗ **Interest rate rises are starting to spread with the UK joining the trend**
- ✗ **Oil price rising will cut into margins at producing miners**

Scandium

Bizarrely the Scandium space is currently being fought over like some ridge in a First World War battle in Flanders. This might be understandable if the price of the metal was raging higher but price is one of the most obscure elements of this element. We know it is highly valued but that is a product of scarcity. There are few metals out there in which economic models and extant production plans actually guarantee a fall in the metal's price if plan are realized, even in part.

The players in the Scandium space are concentrated in Australian properties with only one claimant that we know of presenting a property in North America. The five are:

- CleanTeq (the Syerston project)
- Scandium International (the Nyngan project)
- Platina Resources (the Owendale project)
- AusMin (Flemington project but who knows as their website is obfuscatory)

➤ Niocorp (the Elk Creek project in Nebraska)

Firstly, we should remove the non-Australian player from contention. Niocorp is a niobium project with Scandium credits. Niobium is essentially a monopoly with the Brazilian miner CBMM, controlling over 80% of the market and tolerating Niobec (the producer in Quebec that has an 8-10% market share) so that it does not run into anti-trust problems. CBMM can happily tolerate other miners with tiny Niobium credits being added to the global mix because it can then moderate its own production to maintain price discipline. What it will not tolerate is a new primary Niobium mine of size. This kills dead any prospect of a Scandium by-product flow. Move along...

Next we might look at the stock with the highest “chatter” rating and that is Syerston with its now \$1bn market cap. In reality “mutton dressed up as lamb” this is a laterite nickel project (usually sufficient to generate a boo/hiss from the crowd if they remember Murrin Murrin) which has, like many other projects, a “Scandium halo”. The problem here is that the company has the potential to create a “small”-scale Scandium mine but to justify its massive market cap it needs to make it a nickel mine as well and that raises the issue of whether the world really needs another mid-size laterite nickel deposit. Of course Canadian markets worship the ground that Robert Friedland treads upon but less so in Australia. One really needs to ask the question whether this stock would have the market cap that it does if it was run by John Doe instead?

Something has gone very wrong in the investors’ thought processes when a 20-year well-known Ni/Co project, with <50% the grade of the competition, no capital raised to construct, new/novel resin-in-pulp process, no DFS in place and visible to investors (yet) can be worth \$A1Bn. It’s still basically a farm. This project is oversized for the Scandium market and would most likely do more damage to the metal’s price than it would help it. Fortunately the questions over the viability of what is essentially a low-grade nickel deposit might keep it in the penalty box for more of the game.

Aus Mining has a website that contains no details. This puts it in the same (dubious) company as the Canadian gold stock, Minnova, of unfond memory. They might as well erect a sign the size of that on the Hollywood Hills saying “Caveat Emptor”. Avoid in plain English.

Scandium International is the only primary Scandium mine project out there. We have written before on it and it is in our Model Mining Portfolio. Somewhat eclipsed by the go-go stocks with their dubious blandishments, such as Cobalt and famous name shareholders, the company has soldiered on and represents the best chance of a project with an exclusive Scandium output flow.

Then we have Platina, with an AUD\$50mn market cap, no DFS, no process to make platinum or scandium, and no team to build or operate. The project is essentially Isoferro platinum at 0.7g/t (+smelter), a less than riveting nickel grade, cobalt too small in volume to build a decent size plant, the Scandium mineralisation is not where the cobalt or platinum grades are good and the Scandium is spotty. There is no mine plan to date and thus it’s anyone’s guess on how one might mine this bouillabaisse.

One thing that has become clear to us is that for end users to tool up for a shift to Aluminium-Scandium alloy use in serious quantities (ergo the aerospace industry) there will need to be at least two producers. One alone will not give them comfort of supply. CleanTeq for instance might start producing but if Nickel prices tank such a mine would be shuttered for the duration and the Scandium by-product users would be hung out to dry. Thus the evolution we would see would be a new (primary) producer making several tons a year and then escalating with a by-product producer probably then joining the fray.

There are clearly people with good intentions out there (Scandium and Platina), some with serious backers (CleanTeq), some with the smoke-and-mirrors heavily in evidence (Aus Mining) and some with projects that need an alignment of planets that is scarcely credible (Niocorp). If we had to rank these in terms of likelihood to production we would say Scandium Intl first, followed by CleanTeq (if Nickel comes to the party) and then Platina. Watch this race.

Portfolio Changes

There were two portfolio changes during the month. These were the institution of a Pairs trade in the Lithium space.

- Opened Long position in Lithium Power International. Bought 300,000 shares in LPI.ax at AUD44 cents per share on October 25th
- Opened SHORT position in Lithium Americas. Sold 70,000 shares in LAC.to at CAD\$2.02 cents per share on October 25th

The Portfolio Move

October saw a dramatic turnaround for the Model Mining Portfolio which romped to \$4.8mn from a mere \$4.435mn at the end of September. Net cash rose slightly to \$666,000 due to net effect of instituting the Pairs trade.

Frankly we are feeling in a cutting mode. There are several names in the portfolio that have outperformed and breached their target prices and will be shortly removed in a profit-taking manoeuvre. There are also some dud names which we have tired of. The gold space in particular brings us little joy or anticipation. We also have in mind one (severely beaten-down) bottom-fishing acquisition.

Lithium Power International

We have added a Long in this stock in the wake of our recent trip to visit the Salar de Maricunga project site. We laid out some of our rationale in our recent site visit note and shall be doing an Initiation of Coverage shortly. Our twelve-month target price is AUD\$1.10.

Lithium Americas – Pardon Our Scepticism

Before anyone accuses us of not knowing anything about this story we might refer them to our Initiation of Coverage on a, then, obscure stock called Latin America Minerals back in July of 2008. Note that this was before the global market meltdown and before there was even such a thing as a Lithium boom. Then we might note that the first Lithium wannabe we ever met in New York was Western Lithium touting its wares before the Vancouver crowd had even heard of Lithium.

Time went by. The spinout of Lithium Americas that was mooted in our LAT.v note came to pass and the company dwelt in a vale of tears for a long while. Meanwhile Western Lithium floundered around trying to persuade all and sundry that Hectorite was the next best thing since sliced bread. Eventually the two souls wandering in the darkness bumped into each other and merged into the current entity.

Meanwhile across the border in Chile a monumental shoving match was going on between SQM's management and the Chilean government. A battle that SQM stood not a chance of winning. Indeed the tussle still goes on. SQM once a big swinging appendage in the exclusive Lithium Cartel was in danger of going from rooster to feather-duster. What to do? To show the Chilean government that it wouldn't be blocked globally even it was blocked domestically (shades of KozaGold in Turkey and that didn't end well) the management at SQM went looking for projects in Australia and Argentina. The adage of "buy in haste, repent at leisure" might be bandied around but at least in Argentina SQM didn't throw much money at the JV with Lithium Americas, probably because SQM didn't think it was worth that much more than they threw in.

However to a marketplace that operates on the principle that "ignorance is bliss" this was the imprimatur of SQM on a rather humble *salar* project in Argentina. Dare we also use the word "formative" to describe this project. The marketplace in North America (particularly the US) does not know a *salar* from a hole in the ground (quite literally) and went ape for Lithium Americas.

The price move and the hype did nothing more than remind us of Molycorp. Investors can make their own decision on that comparison. Let's put it this way. In the last Lithium boom, Tianqi and Rockwood (now Albemarle) paid over \$700mn for the Greenbushes asset embedded in Talison Lithium. This was a producing mine and a known quantity. Now we have the marketplace full of dunderheads trying to persuade us that Lithium Americas with its 50% of what is really an exploratory venture with SQM is worth \$800mn. Either Resource Capital Funds (the main mover at Talison and regarded amongst the "smartest guys in the room") sold too cheaply or the "Thundering Herd" in Lithium Americas don't know a *salar* from a hole in the ground. QED.

All of this is before the drilling that apparently SQM have ordered to verify the previous data. Oops.

The stock has been raging on the hot rumour that the stock would list on the NYSE. Well, this was duly announced and the stock declined. Sell on the rumour seems to be the motto here... and we did. At these levels Lithium Americas is a Short with a target price half where the stock currently stands.

Parting Shot

Oh, sigh.... We hear that creaking sound north of the border again and what is it? It's the TSX and regulators circling the wagons around the "poor" consultants who are being done out of work due to their own fecklessness and greed... sorry cancel that... due to "factors beyond their control".

Once upon a time there was pre-NI43-101 and it had to be described as "historic". Generally if the resource or reports had been prepared for a reputable company, Teck, Noranda, BHP etc one could feel comfortable in the work done and the quality of the estimate. Companies touted old data primarily in the phase between their QT NI43-101 and the drillwork, twinning etc to produce an updated resource. Then came the Great Slump. The consultants that had waxed fat and lazy (and incompetent) on the back of a constant flow of well-cashed companies suddenly found the cupboard was bare. Even worse some of these "shameless" corporates that had paid \$5mn for a DFS or suchlike in 2010 or 2012 were touting these as still relevant to investors and saying "just view it in light of current prices".

Well, this type of thing meant no revenues for the consultants. It was an outrage. The consultants wanted to get paid the \$5mn again so THEY could insert the updated prices, ring around for the price of the most over-priced jaw-crusher they could find and add a 20% contingency just in case their back-of-the-envelope calculations proved (as usual) to be totally wrong. The call went out to the TSX and the various regulators... "we are dying here".. "these scoundrels in the promotional business are using our old work and not paying for updates".

As the regulators seem more interested in feathering the nests of consultants who pay nothing to support the regulators or exchanges than the corporates that actually do, they introduced the moving "use-by" date for resources and technical reports. Now if it's over three years old the miner/explorer must call it a historic resource (does that make pre-NI43-101 into pre-historic?). The fact that many junior miners don't have the cash to line the pockets of the consultants is blithely addressed with "well, they can do a financing".

The TSX has just given ASX companies or those pondering TSX versus ASX yet a(nother) good reason to not go with Toronto. In this age of interactive computer models where one plugs in a few variables then the idea that some consultant lurking in a backroom should be paid big-time to put an updated gold price into a model is ludicrous. Anyone who has used software like Leapfrog knows you can use a slider on the cut-offs to change dramatically the visual "look" of a mineralisation model. The TSX is backward looking and the Canadian regulators are troglodytes. The consulting firms killed the Goose that laid the Golden Egg once with their greed and are trying to kill the new goose.

Investors and analysts should say "thanks, but no thanks" and that this resource from 2012 is good enough for us and tell the consultants where to put their "updated resources".

Sunday, November 5, 2017

Mining Model Portfolio as at: 3-Nov-17

Security	Initiated	Currency	Price Avg.	Current	Portfolio Weighting	Increase in Value	Target	
Long Equities								
Various Large/Mid-Cap	Capstone Mining (CS.to)	5/29/2009	CAD	2.32	1.47	1.40%	-36.60%	\$2.00
	Teck Resources (TECK.B)	5/29/2009	CAD	22.46	26.59	6.90%	18.40%	\$30.00
	NevSun (NSU)	3/23/2012	CAD	3.45	3.04	3.00%	-11.90%	\$5.00
	Sherritt International (S.to)	7/11/2013	CAD	1.78	1.29	3.90%	-27.50%	\$2.50
	Palladium ETF (PALL)	10/16/2014	USD	72.08	95.32	4.90%	32.20%	\$92.00
	Metals X (MLX.ax)	29/5/2014	AUD	0.98	1.05	2.80%	7.30%	\$1.00
Uranium	Uranium Participation Corp (U.to)	10/20/2010	CAD	7.01	3.7	1.90%	-47.20%	\$6.00
	Western Uranium (WUC.cx)	7/5/2016	CAD	2.25	0.99	1.20%	-56.00%	\$4.80
	GoviEx (GXU.cx)	6/29/2015	CAD	0.08	0.17	4.10%	106.90%	\$0.50
Zinc/Lead Plays	Zinc ETF (Zinc.L)	1/15/2010	USD	7.04	9.41	2.40%	33.70%	£11.00
	Canadian Zinc (CZN.to)	12/9/2011	CAD	0.82	0.17	0.40%	-79.30%	\$0.70
	Ascendant Resources (ASND.v)	10/31/2016	CAD	0.48	0.75	2.90%	57.90%	\$1.70
	Nyrstar (NYR:BR)	9/28/2009	Euros	65.1	7.1	4.00%	-89.10%	€ 11.00
	Southern Silver Exploration (SSV.v)	8/25/2016	CAD	0.28	0.485	2.40%	73.20%	\$0.94
Gold Producers	Patagonia Gold (PGD.L)	10/2/2013	GBP	3.6	1	0.70%	-72.20%	£4.00
	Komet Resources (KMT.v)	11/25/2016	CAD	0.47	0.35	1.40%	-25.50%	\$1.28
	Para Resources (PBR.v)	2/17/2017	CAD	0.23	0.14	1.40%	-39.10%	\$0.58
	Westgold (WGX.ax)	12/6/2016	AUD	2.01	1.77	3.10%	-11.90%	\$2.40
	Eldorado Gold (EGO)	6/21/2012	USD	9.12	1.58	1.20%	-82.70%	\$5.50
	Teranga Gold (TGZ.to)	6/21/2012	CAD	1.57	2.54	6.10%	61.70%	\$3.80
Copper Producer	Coro Mining (COP.to)	2/23/2015	CAD	0.03	0.11	2.20%	266.70%	\$0.30
	Tiger Resources (TGS.ax)	5/31/2017	AUD	0.049	0.05	2.00%	2.00%	\$0.12
	RNC Minerals (RNX.to)	11/17/2016	CAD	0.33	0.2	1.20%	-39.40%	\$0.60
Royalty Trust	Abitibi Royalty (RZZ.v)	5/31/2017	CAD	9.1	8.4	1.80%	-7.70%	\$18.00
Processor	IBC Advanced Alloys (IB.v)	4/29/2016	CAD	0.3	0.25	0.50%	-16.70%	\$1.40
Driller	Cabo Drilling (CBE.v)	9/28/2016	CAD	0.025	0.01	0.40%	-60.00%	\$0.08
Tungsten Producer	Almonty Industries (AII.v)	7/31/2015	CAD	0.36	0.55	5.50%	51.80%	\$1.00
Copper Explorer	Asiamet Resources (ARS.v)	4/28/2016	CAD	0.05	0.08	2.40%	62.60%	\$0.12
	Western Copper & Gold (WRN.to)	4/25/2017	CAD	1.57	1.3	2.60%	-17.20%	\$2.74
Nickel Explorer	Sama Resources (SME.V)	23/2/2015	CAD	0.16	0.35	5.60%	118.80%	\$0.30
Lithium	Neometals (NMT.ax)	7/31/2014	AUD	0.04	0.44	4.30%	1089.20%	\$0.45
	Lithium Power Intl (LPI.ax)	10/25/2017	AUD	0.44	0.56	3.30%	27.30%	\$1.10
	Galaxy Mining (GXY.ax)	6/28/2016	AUD	1.73	3.71	3.10%	114.70%	\$2.80
Scandium Explorer	Scandium International (SCY.to)	8/23/2016	CAD	0.14	0.29	3.50%	107.10%	\$1.00
Graphite Producer	Elcora Resources (ERA.v)	29/5/2014	CAD	0.2	0.25	2.50%	25.00%	\$0.64
Graphite Developer	Talga Resources (TLG.ax)	8/25/2016	AUD	0.27	0.55	2.70%	107.50%	\$0.90
REE Explorer	Northern Minerals (NTU.ax)	6/9/2011	AUD	0.73	0.12	0.40%	-83.60%	\$0.28
NET CASH					666,464			
Short Equities								
Shorts	Bacanora (BCN.v)	12/4/2015	CAD	1.53	1.52	31.00%	0.70%	\$0.80
	Lithium Americas (LAC.to)	10/25/2017	CAD	2.02	1.96	46.60%	3.00%	\$1.00
	Galane Gold (GG.v)	4/28/2016	CAD	0.06	0.06	22.40%	0.00%	\$0.03

Current Cash Position	666,464
Current Liability on Shorts Not Covered	230,000
Net Cash	896,464
Current Value of Bonds	0
Current Value of Long Equities	3,904,288
TOTAL VALUE OF PORTFOLIO	4,800,752

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