

Friday, May 5, 2023



HALLGARTEN + COMPANY

Portfolio Strategy

Editor: Christopher Ecclestone
ceccestone@hallgartenco.com

Model Resources Portfolio: Teck on the Rack

Performance Review – April 2023

Model Resources Portfolio

Teck on the Rack

- + Gold flirted, on and off, during the month with the \$2,000 per oz mark
- + The Silver-Gold ratio is looking more chipper
- + Tin price surged back up to touch US\$28,000 per tonne on news of a tin mining suspension in Myanmar
- + M&A activity in mining is firing up as cashed-up producers trawl around for victims
- + The oil price has resumed an upward trajectory
- + Fraser Institute Mining Survey for 2022 ranks Nevada as the top jurisdiction
- ✗ Base metals are rather rangebound await signs of global economy coming to life
- ✗ The Chinese economy looks to be doing worse than the government or its boosters would have hoped for
- ✗ Lithium continued its retreat from the crazy levels of late 2022
- ✗ Interest rate rises have not fallen off the agenda as the Great Unwashed are now asking for catch-up as food prices continue to romp higher

Teck – On the Chopping Block?

We came and went thru a position in Teck in recent years. Adding it to the Model Resources Portfolio at \$22.46 in June 2017 and cutting the position loose in late 2021, at a price where we were up over 100%.

On March 26, Glencore announced, as its first gambit, an unsolicited all-share merger with Teck Resources, valuing the target at \$23bn.

Teck's kneejerk response was to quickly reject Glencore's offer, citing concerns about exposure to thermal coal and oil trading. Teck's management maintained that its own planned separation of its metals and coal businesses would maximize value for shareholders.

Species in Extinction

Teck is truly the Last of the Mohicans, a tribe of major names that were first corralled and then eliminated by Darwinian forces, and Ottawa neglect, over the last 25 years. Whither (morelike wither) Inco, Falconbridge, InMet and Noranda and the humbling of Sherritt by lack of Canadian pushback to US stupidity? Is it any wonder that with the decapitation of base metals majors, that the TSX has devolved into a happy hunting ground for gold-nuts and lithium groupies?

So now Teck has a target on its back and no Foreign Investment Review Board to keep it *virgo intacta*. Many would say that Teck brought on its own demise (don't they all?) with its mindless stubbornness in continuing to pursue the disastrous takeover of Fording Coal, in the midst of the 2008 crisis. Ironically, it

Friday, May 5, 2023

could be argued that this asset is now the attraction that has the lone shark of Glencore circling. After all as we argued several years ago, the base metals business of Teck has become a ragbag of patchy positions for which even First Quantum would not get out of bed, and which RTZ would consider beneath its dignity.

Once Bitten, Still Shy

While Kinross has distanced itself from many of the mistakes made in the last bull market, Teck (then Teck Cominco) is still joined at the hip with the disastrous Fording Coal purchase at the peak of the mining Supercycle period. With the perfect opportunity to walk away from this mistake in the chaos of the crash of 2008, Teck persisted and has been paying the price ever since. Not only did it cause well over a decade of undervaluation of Teck's stock but it cramped its room to manoeuvre on new purchases and removed the credibility of its actions. Like Kinross, any potential transactions would have been put under extra-strong investor scrutiny.



Freeport to the Rescue?

It was briefly mentioned that Freeport might enter the fray, but then they melted away into the mist. The idea has a small amount of merit but would still need the Teck coal assets to be spun-out as these would surely NOT interest Freeport. In which case, why bother?

Friday, May 5, 2023

Loaded with Irony

The poignancy of all this is that the transaction that ought never to have occurred in 2008, and that the break-up that we (and others) pushed for over 15 years, should finally be adopted by management and then prove to be a catalyst for them being put in the target zone for a takeover (of sorts).

With Glencore tweaking the offer and Teck shareholders putting the restructuring on hold the picture becomes murkier. This hasn't stopped (or has maybe encouraged) Teck's share price to hit new highs. Clearly the potential of Teck's asset mix is being recognized but we should always remain cognizant of Teck's unique poison pill, which is not just its novel share structure but also its flaccid management style.

The price surge has probably priced in all the benefits that might have come from the separation of Teck into two parts. Thus, if Glencore desists, then there is probably not much more mileage in the story of either the original Teck or its two new progenies.

Portfolio Moves

There were no transactions during the month of April.

C3 Metals, which has now pivoted from Peru to a Jamaica focus, announced the final closing of a fully subscribed CAD\$5mn private placement.

At the end of March, Luca Mining announced a CAD\$33mn all-in financing, and then in mid-April announced that it had sold 52,412,065 units at a price of CAD\$0.35 per unit for gross proceeds of \$18,344,223 in the closing of the first tranche.

Lithium plays in Chile, our LONG in Lithium Power International and our SHORT on Cleantech Lithium both took a pounding on the further gyrations in Chilean policy on Lithium ownership.

Baltic Dry Resurgent?

This major measure of shipping activity has been up and down like a yo-yo in recent years. After a stellar 2021, it then went to the dogs in 2022, dropping by over 80% as the chart on the following page reveals.

However, 2023 has been relatively good (rising 300%!). This may be a mere bagatelle by 2021 standards but a sign of something.... but what is that something? If nothing else, it signals that the cost of "moving stuff around" is on the up. In tough times this might be taken out of the hide of miners by end-users wanting lower metals prices to make up for higher shipping. But we suspect it is otherwise at the moment, with the higher rates being a sign of healthier economic activity than one sees on the surface.

The Baltic Dry is not the be-all and end-all on shipping rates, but many of the other categories (Cape size etc.) are well off their 2022 lows. First swallow of spring maybe?



Source: Trading Economics

Friday, May 5, 2023

Scandium – An Endorsement

Near the end of the month it was revealed that Rio Tinto (LSE & ASX: RIO) had entered into a binding agreement to acquire the Owendale Scandium Project, a scandium project in the Scandium triangle of New South Wales, from Platina Resources (ASX:PGM) for AUD\$14mn.

We last commented on it in our Scandium Review of 2018. At that time we noted that the company was still awaiting a DFS on the Scandium potential and had no process to make PGMs or Scandium. The project was essentially Isoferro platinum at 0.7g/t (+smelter) and a less than riveting Nickel grade, Cobalt too small in volume to build a decent size plant and spotty Scandium mineralisation that was not where the cobalt or platinum grades are good. There was no mine plan. Though we did comment that it was “still one to watch”.

The Owendale project is now being lauded as a scalable resource capable of producing up to 40 tonnes of scandium oxide per year, for a LoM of 30 years, though the DFS was based on the premise of 20 tonnes per annum. The reserve from late 2018 looks like this:

HG and MG Ore >450ppm SC cut off	Tonnage Dry Kt	Scandium ppm	Cobalt %	Nickel %	Sc2O3 t*	Cobalt t	Nickel t
Proven	3,054	575	0.10	0.13	2,696	2,945	4,054
Probable	972	550	0.07	0.08	816	654	767
TOTAL	4,027	570	0.09	0.12	3,512	3,599	4,821

Rio Tinto currently produces scandium oxide at Sorel-Tracy, Quebec, using titanium dioxide manufacturing waste streams. Once the Platina Scandium Project is operational, Rio Tinto will be able to more than double its yearly output of scandium production.

This gets us off the hook of ever having to speak of Platina again, as this was the most interesting thing it has ever owned.

The latest transaction, however, swings the focus back towards Scandium International Mining (TSX: SCY), where things have been “quiet as the grave” with no news since last November and even that was not related to its Nyngan deposit in the same neck of the woods as Platina’s Owendale.

The chart for SCY looks rather tragic of late.... slipsiding away as the “new” management grapple with a metal they maybe cannot get their minds around, as the former CEO did, before the coup/purge of April last year.

Friday, May 5, 2023



RTZ buying Owendale removes the most likely predator from the scene... It remains a **LONG** in our Model Resources Portfolio for now but needs to lift its game.

Cobalt – Jervois’s Comments

In its recent March quarter results statement Jervois attributed the weak Cobalt markets to continued destocking from Chinese suppliers. Though it did anticipate a more stable market through the rest of 2023.

The company sees forward demand focused around the battery sector with battery makers and OEM's looking towards late 2023 and into 2024. The company also noted an expectation of industrial demand lifting into 2024. Driven by US and EU policy, consumers operating in these jurisdictions have been active in seeking volumes for delivery from 2024. The chemicals, catalysts and ceramics sector appears to be stable to firming in 2023, but powder metallurgy is weak with automotive and general engineering demand soft.

Son of Vale - Heavyweighted

As we wrote last month the momentum is gathering behind the “spin-out” of the base metal assets of Vale, which have lain largely neglected for too long. An interesting and encouraging tidbit has surfaced in the form of the news that an Australian, Mark Cutifani, is being on-boarded to the new venture. The Brazilians should soon find he is no pushover.

He is the former chief executive of Anglo American plc where he is also a member of the Board and Group Management Committee. He is also a non-executive director of Anglo American Platinum, and

Friday, May 5, 2023

chairman of De Beers, as well as being a Non-Executive Director of Total S.A.. He was formerly CEO of South African gold mining company AngloGold Ashanti.

We suspect some of these current sinecures will have to go if he is going to be any more than a figurehead at Son of Vale.

Parting Shot

The CSE (or more formally CNSX Markets Inc.) in its on-going search for convergence with the TSX-v (which would then negate the need for the CSE) has tightened up its listing rules yet again. It's surprising that they should be pursuing a me-tooism path when up until now they have been trying to differentiate themselves from the TSX-v and indeed have made that their USP.

Following a comment period and further review, the CSE received approval from the Ontario and British Columbia securities commissions to implement significant changes to its listing policies and forms. Therefore, effective from the start of April 2023, the changes introduce the concept of a "Non-Venture Issuer" (NV Issuer) designation. They also introduced additional listing and corporate governance requirements, including securityholder approvals and filing obligations.

These requirements include:

- expanded initial listing criteria, which require NV Issuers to meet general CSE initial listing requirements as well as one of four listing standards (i.e., Equity, Net Income, Market Value or Assets and Revenue)
- public float requirements (i.e., a public float at the time of initial listing of at least 1,000,000 freely tradeable securities and at least 300 public holders each holding at least a board lot)
- expanded continued listing criteria, which require NV Issuers to meet general CSE continued listing requirements as well as other criteria specific to public distribution and listing standards
- lower thresholds for determining when certain securityholder approval is required
- expanded reporting requirements (e.g., the mandatory filing of Form 51-102F2 Annual Information Form (AIF))
- earlier filing deadlines (e.g., no later than 90 days following a NV Issuer's financial year end, for the AIF; no later than 45 days following the relevant quarter, for the Quarterly Listing Statement, interim financial statements and Management's Discussion & Analysis (MD&A)).

The public float requirements, in particular, are going to make listings (particularly the easy-peasy "introductions") much more difficult to pull off. The one consolation is that it will run out of town the scurrilous crowdfunders who prowl Vancouver's homeless shelters looking for someone who will accept having 500 shares at 5cts put into their name, gratis.

Friday, May 5, 2023

From an exchange that only a few years ago was jokingly said to be an acronym for Cannabis Stock Exchange, the Canadian Securities Exchange has continued on an upward and diversifying path. Its total listed securities was 829 as at March 31st, 2023. But maybe its grasping for respectability is a “bridge too far” as the introduction of the NV Issuer designation marks a substantial departure from previous CSE policies and forms.

Indeed, it risks killing the goose that laid the Golden Egg. Corporates have turned to the CSE exactly because of the dysfunctionality of the TSX-v. As the criteria for the NV Issuer tier are intended to be similar to those of the “senior” or non-venture exchanges in Canada, the designation would impose additional requirements on qualifying CSE-listed issuers.

The task for the CSE in the short term should have been to remove that hankering that most issuers have to switch over to the TSX-v as soon as they get out of wearing short trousers. Instead, the CSE has decided to whip the riff-raff into shape and kill whatever claims to uniqueness (and cheapness) it might have had as a touted virtue.

As we all well know arm-waving is a well-practiced sport in Vancouver, but it is not recommended if one is standing under the blades of a helicopter.

Recent & Upcoming

In the last month we published our coverage update on Aspermont, an initiation on Southern Hemisphere Minerals and our round-up on Argentina.

In coming weeks, there is scheduled Initiations on Stakeholder Gold, Century Lithium and African Gold. There is also potentially a note on the gyrations at Teck Resources, an Initiation on Boron One and a review of the Chilean policy debacle in Lithium.

MODEL RESOURCES PORTFOLIO @ END APRIL							
Security	Ticker	Currency	Price	Change		12-mth Target	
				last 12 mths	last mth		
LONG EQUITIES							
Diversified Large/Mid-Cap	Hochschild	HOC.L	GBP	0.715	-39%	-15%	£1.00
	Sherritt International	S.to	CAD	0.57	-21%	2%	\$0.95
Uranium	Sprott Physical Uranium	U.UN.to	CAD	16.28	-4%	3%	\$20.00
	GoviEx	GXU.v	CAD	0.17	-54%	-23%	\$0.45
Zinc/Lead Plays	WisdomTree Zinc ETF	ZINC.L	USD	8.59	-31%	-10%	\$14.00
	Luca Mining	LUCA.v	CAD	0.41	24%	5%	\$0.70
Silver Explorer	Southern Silver Exploration	SSV.v	CAD	0.21	-13%	0%	\$0.40
Silver ETF	IShares Silver ETF	SLV	USD	23	9%	4%	\$24.00
Gold Producer	Soma Gold	SOMA.v	CAD	0.61	97%	22%	\$0.85
	Asante Gold	ASE.cn	CAD	2.05	561%	23%	\$2.40
	Orvana Minerals	ORV.to	CAD	0.2	-35%	-5%	\$0.60
Gold/Antimony Developer	Perpetua Resources	PPTA.to	CAD	6.45	88%	7%	\$7.50
Metallurgical Coal	Colonial Coal	CAD.v	CAD	1.76	7%	7%	\$2.45
Royalties	Elemental Altus Royalties	ELE.v	CAD	1.38	-6%	1%	\$1.52
Copper Explorers	Panoro Minerals	PML.v	CAD	0.13	-24%	0%	\$0.30
	Phoenix Copper	PXC.L	GBP	0.25	-50%	19%	£0.54
	Aldebaran Resources	ALDE.v	CAD	0.74	14%	-20%	\$1.32
	C3 Metals	CCCM.v	CAD	0.045	-59%	-25%	\$0.20
Tungsten Producer	Almonty Industries	AII.v	CAD	0.67	-21%	6%	\$0.95
Graphite Developer	Blencowe Resources	BRES.L	GBP	0.0563	28%	40%	£0.09
Cobalt	Jervois Global	JRV.ax	AUD	0.09	-90%	29%	\$0.35
Vanadium Developer	Vanadium Resources	VR8.ax	AUD	0.08	-43%	0%	\$0.22

MODEL RESOURCES PORTFOLIO @ END APRIL							
Security	Ticker	Currency	Price	Change		12-mth Target	
				last 12 mths	last mth		
LONG EQUITIES							
Lithium	Neometals	NMT.ax	AUD	0.62	-61%	3%	\$1.50
	Lithium Power Intl	LPI.ax	AUD	0.3	-62%	-14%	\$0.80
Cesium/Lithium	Essential Metals	EXX.ax	AUD	0.43	-35%	-12%	\$0.55
Scandium Developer	Scandium International	SCY.to	CAD	0.06	-40%	20%	\$0.15
Gold Explorer	Cabral Gold	CBR.v	CAD	0.14	-65%	17%	\$0.60
	Gunpoint Exploration	GUN.v	CAD	0.61	0%	-10%	\$0.75
	Desert Gold	DAU.v	CAD	0.06	-40%	0%	\$0.32
	MetalsTech	MTC.ax	AUD	0.35	40%	-5%	\$0.68
Rare Earths	Rainbow Rare Earths	RBW.L	GBP	0.078	-42%	-9%	£0.30
	Neo Performance Materials	NEO.to	CAD	8.98	-30%	-3%	\$24.00
Tin Miners	Alphamin	AFM.v	CAD	0.93	-33%	7%	\$1.35
	Metals X	MLX.ax	AUD	0.28	-62%	-15%	\$0.38
Mineral Sands	Sheffield Resources	SFX.ax	AUD	0.48	-17%	-8%	\$0.72
Helium	Desert Mountain Energy	DME.v	CAD	1.50	-54%	-11%	\$3.70
Oil & Gas	Shell	SHEL.L	EURO	24.55	13%	6%	£24.00
SHORT EQUITIES							
Shorts	NioCorp	NB.to	CAD	7.90	-21%	-8%	\$4.00
	Golconda Gold (ex-Galane Gold)	GG.v	CAD	0.31	-52%	3%	\$0.25
	Cleantech Lithium	CTL.L	GBP	0.4575	61%	-11%	£0.25
	Texas Mineral Resources	TMRC	USD	0.85	-59%	-31%	\$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 own securities in Glencore at this time.

Otherwise, 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