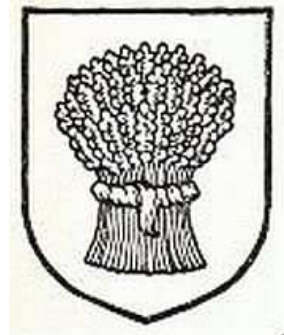


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HALLGARTEN + COMPANY

Portfolio Strategy

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Model Resources Portfolio: Circular Economy or Circling the Drain

Performance Review – August 2023

Model Resources Portfolio

Circular Economy or Circling the Drain

- + **Silver continues to hold up well**
- + **The US seems to be slowly pivoting towards a realization of its Critical Metals vulnerability**
- + **Tin price is holding up, despite weak Chinese demand, supported by some aggressive action by Wa State in Burma against neocolonial exploitation by Chinese artisans**
- + **The rotten nature of transactions around ownership of Round Top Mountain is starting to be exposed in court documents**
- ✗ **The EU has shown a lack of initiative in the “critical metals wars”, not wanting to offend China, but neither wanting to grapple with its own NIMBYish tendencies**
- ✗ **M&A activity in the mining space has trailed off during the long summer lull**
- ✗ **The flatlining Baltic Dry Index represents the on-going flaccidity in the Chinese economy**
- ✗ **The Fed is muttering under its breath that the inflation beast may not be entirely beaten, leaving the door open for future rate hikes**

The Unbearable Lightness of EU Critical Metals Policy

We are reminded of the old trick question of “How much does a tonne of feathers weigh?” when thinking about the featherweight critical metals policy of the EU. The organization is still furiously rubbing its lucky rabbit’s foot of the “Circular Economy” with zero effect. As we have noted in the past this concept is so stupid that it doesn’t stand up to any sort of analysis. It implies at best 100% recovery of all metals via recycling and at worst implies a shrinking metals demand... the corollary of which would be a European economy in contraction. Because even with 100% recycling it would imply that there is no consumption of metals over and above the previous highest usage.

Most poignantly, in a “new” mineral like Lithium, the demand is vastly higher than the material available for recycling, so the fatal flaw in the Circular Economy thesis yawns in front of the EU like the Grand Canyon.

In looking at the Germanium/Gallium export ban (yes, we will keep calling it a ban) we note the deafening silence from the EU on this subject. The US seems to be expected to do all the running on the gearing up to replace the Chinese supply. Though we would note it is the European metals trader, Trafigura, that is planning for US-based Ge/Ga production in Tennessee, while rattling a cup hoping the US taxpayer will subsidise this. There are sites in Europe where the products can likewise be milked out of residues from Zinc and Aluminium refining (not to mention the enormous amount of fly-ash produced by Germany’s coal-burning). Interestingly Hungary used to be a producer of Gallium in recent memory

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until the Chinese forced them out of the market and Germany has a mothballed Gallium plant. Does Brussels know? Does Brussels care? Seemingly not....

Such is the omerta that hangs over critical metals policy in the EU, that while those in the know mutter *sotto voce* about the ridiculousness of the Circular Economy, but no-one of any weight is prepared to come out and call a spade a spade about its ultimate ineffectiveness. Meanwhile time passes.

Critical metals policy is not an issue which permits grappling with its vast implications/complications to be kicked to the long grass. Then again there are real votes to be lost on NIMBY issues of mine siting, while no votes to be lost by “rolling over and playing dead” in the face of Chinese domination of key metals’ supply issues.

How is it that the US, Japan, Korea, Australia, UK etc are gearing up for a new Cold War and the EU is just rattling its tea cups like some Dowager Duchess?

Once a Brazilian, Always a Brazilian

At the very end of month, Vale Base Metals showed its true colours with an announcement that it planned to invest R\$50 billion in Brazilian copper and nickel. Hmmm, Brazilian copper. We are content to believe they have some... they have some of everything, but really?

Mining Journal reported that Vale’s chief executive Eduardo Bartolomeo said at the opening of the Brazilian Mining Expo & Congress in Belém that Vale Base Metals is set to invest around R\$50 billion in the next decade in Brazilian nickel and copper projects.

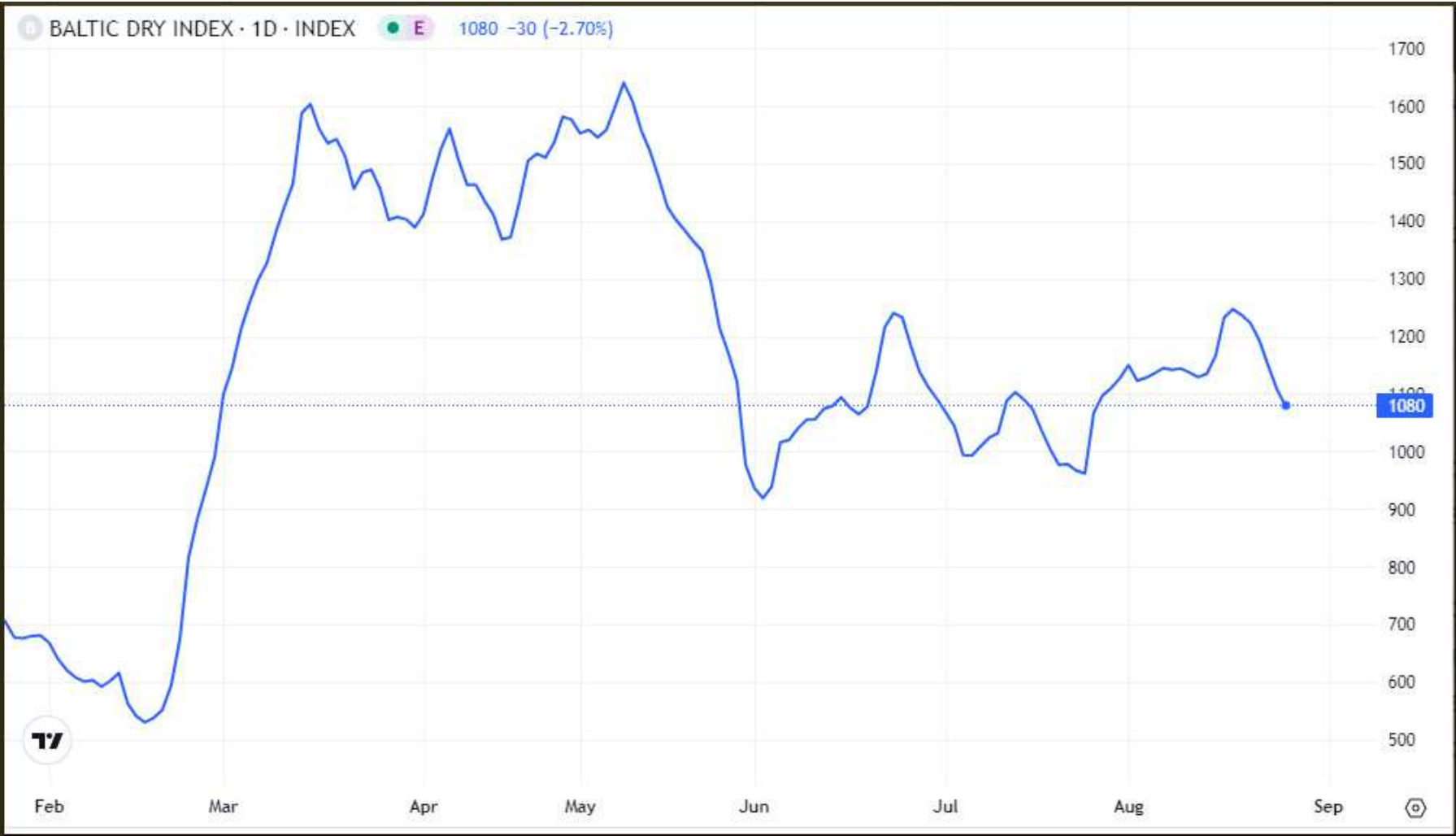
The problem from the get-go with Vale’s acquisition of INCO was that the company’s management was so Brazil-focused. Few recall that the company, CVRD, as it was then known, had only just passed out of state ownership via a privatization/IPO and still had a massive overweight ownership by the national government.

The Saudis have now bought into this plan and we expressed our wariness last month that they would be getting what they wanted out of this investment. The spin-out looks to be in the thrall to Brazilian nationalism, both physically and philosophically. Dreams of INCO Mark II are fading fast.

Baltic Dry - China Backwash

This prime measure of the health of the global shipping industry has not had a happy 2023.

As the chart on the following page shows a strong rally in the first quarter into the second, took it from 600 points to 1600, then it faded to spend most of the time since June in a holding pattern. Once again this looks like it is a victim of the reduced activity in Western economies and the soft Chinese economy in the wake of the massive own-goal of the Zero Covid policy. With mounting malaise in China we cannot see a reason for a dramatic turnaround in fortunes here.



Source: Trading Economics

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Something Rotten in Texas

When we made some less than flattering comments about the management at USA Rare Earths several years ago an exceptionally mercenary trader type said she liked them and “money was money”. Oh well....

The Gutnicks come freighted with history, particularly if one comes from Melbourne, scene of many of Joe Gutnick’s “greatest” exploits. We knew (well, met once) his emissary to New York, Mordi, in the latter days of our reign in New York, when he was taking Legend Phosphate around the traps. Legend has indeed subsequently become a legend for the wrong reasons, as do most Gutnick projects. Our radar started twitching when we heard that his cousin had landed at USA Rare Earths and was going to be the salvation of Texas Rare Earth Resources (TRER - a company we knew back to its previous manifestation as a Beryllium play - on the same asset).

This prompted us to initiate our long-held SHORT on Texas Rare Minerals. We had not been mistaken.

For, lo and behold, a lawsuit is underway in the Chancery Court of the State of Delaware by investors in USA Rare Earths (USARE) alleging the company was formed as part of a conspiracy to diminish the value of their investment in another company.

The media outlet, The Texan News, reported that those investors are suing the mining company for “breach of contract, breach of the duty of good faith and fair dealing, breach of fiduciary duty, negligent misrepresentation, and fraud.”

Having covered the then Texas Rare Earth Resources back at the dawn of time we had long been impressed by Round Top Mountain in Hudspeth County and its potential as a Beryllium mine. However, this rhyolite dome has attractions for a variety of minerals and quite literally, depending from which vantage point one looked at it, it was a Rare Earth target, a potential uranium mine, a lithium deposit (before anyone cared) and/or a Beryllium mine.

USARE holds a roughly 80% interest in a mining lease with the Texas General Land Office (GLO) at Round Top Mountain after various earn-in transactions in recent years.

The Texan News reported that three companies, Ramco, U.S. Trading Company, and DinSha, are investors bringing the lawsuit against Brooklyn (out of Melbourne) businessman Mordechai Gutnick, who is the founder of an Australian company, Mordev, the assets from which Gutnick used to create USARE.

The plaintiffs allege that Gutnick asked the investors to exchange their interest in Mordev for interest shares of equivalent value in USARE, but in fact issued shares that were diluted in value, between 14% to 20% of the original investment.

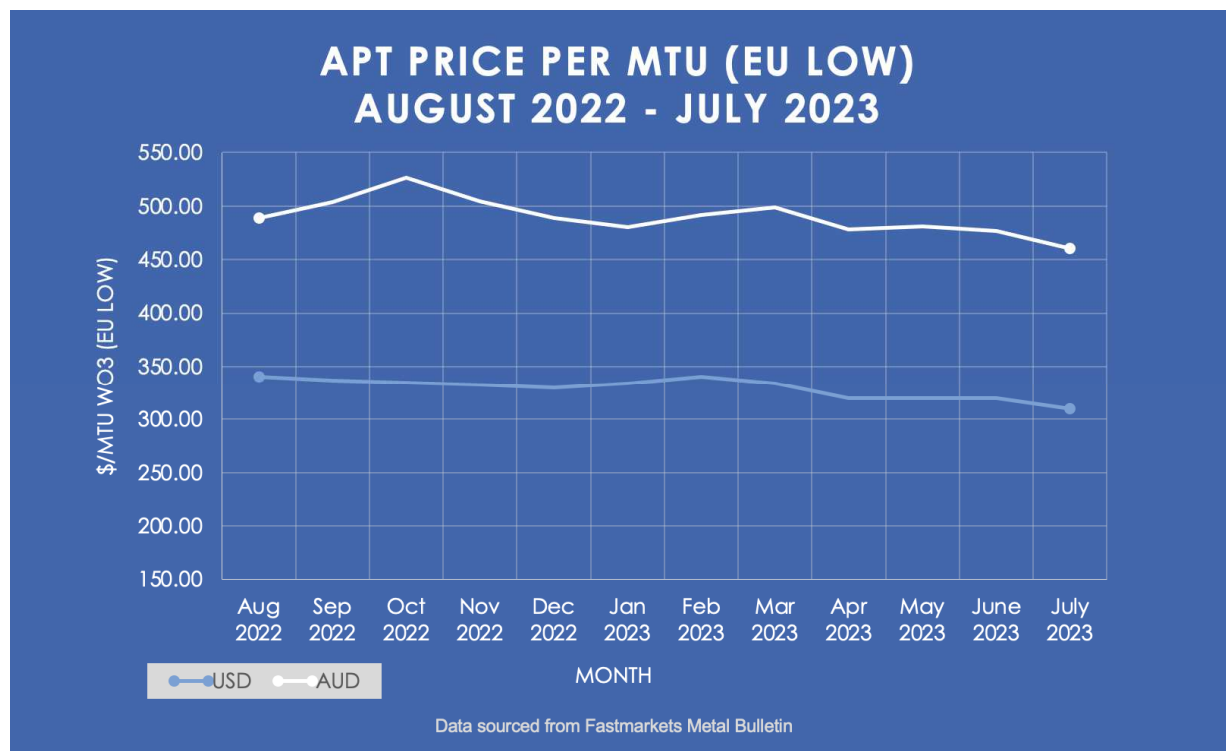
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The investors also allege the belief there was a conspiracy between Gutnick and several of his business partners to defraud the investors in the equivalent value transfer scheme.

For us it was just a case of waiting for the foetid vapours to start rising from this unholy collection of players and position ourselves upwind with our SHORT call. Let the fun begin.

Tungsten – Stable, Not Flatlining

The chart for the price of APT is scarcely anything to set the house on fire.... But, if one compares it the charts of most of the other metals (excepting Tin, Antimony and Uranium) it has actually dodged a bullet. Since July the price has eased a few more dollars to stand at US\$315 per MTU as at end of August.



EQ Resources (ASX:EQR) – Bulking Up on Tungsten Production

When we attended the Melbourne Mining Club’s annual London dinner at the Guildhall with the team from EQ we were initially surprised by the presence of a seeming competitor at the table in the form of several executives from Saloro, a private company engaged in being back to life the Barruecopardo Tungsten mine in Spain, which had been the main project of the fallen Tungsten developer, Ormonde Mining, which had been listed on the London Stock Exchange.

It didn’t take much effort to put two and two together, but our lips were sealed.

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Unsurprisingly, in mid-August, it was announced that EQ had agreed binding terms to acquire a 100% interest in Saloro S.L.U., Spain from Tungsten Mining JV S.L.U., a portfolio company of funds managed by Oaktree Capital Management.

The Deal

As part of the deal, Oaktree will subscribe for 278 million new ordinary shares at an issue price of \$0.09 per share (representing a ~30% premium to the 15-days VWAP), amounting to an investment of AUD\$25mn. As a result, Oaktree will become a substantial shareholder in EQR with a holding of 15.86% at completion. Oaktree will receive 78 million options, with an exercise price of \$0.10 per share, exercisable during the period of two years following the date of completion of the original share issue.

A Long History

The Iberian Peninsula has long been the prime production area for Tungsten, a role in which Spain and Portugal worked both sides in WW2 to their advantages. Barruecopardo has a storied mining history dating back almost 100 years. Historic activities ceased at the old mine in the early 1980s. After 10 years of preparation by Ormonde Mining, including a 15-month construction period, Saloro brought the Barruecopardo mine back online in early 2019 leveraging modern technology after nearly 40 years of shutdown.

Mining and concentrating activities at the mine have been designed to minimise any environmental impact while ensuring a high mineral recovery. Current production is approximately 140 tons/month of high-grade (>65% WO₃) tungsten concentrate, with various minor plant expansion projects ongoing for higher recovery and throughput.



Geology

The Barruecopardo Mine is a tungsten deposit with Scheelite (CaWO₄) as the main tungsten bearing

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mineral and the deposit type being vein and sheeted vein coarse (nuggety) scheelite mineralisation style. Within the pit area, mineralisation forms a main approximate 30-metre-wide envelope of sub-vertical-steep east dipping veins. The pit accommodates the intersection of two main sub-divisions, being a main north trending mainly scheelite mineralised zone and a second north-northwest trending scheelite plus wolframite mineralised zone.

The Resource

The resource is somewhat long in the tooth dating from December of 2011, when a Mineral Resource Estimate was prepared for the Barruecopardo project by CSA Global and reported according to JORC Code 2004.

Barruecopardo Resource			
	Tonnes	Grade WO3 %	WO3 Metal MTU
Measured	5,469,000	0.34%	1,860,000
Indicated	12,326,000	0.26%	3,200,000
Total M&I	<u>17,795,000</u>	<u>0.28%</u>	<u>5,060,000</u>
Inferred	9,594,000	0.23%	2,200,000

Of course, there is a lot more meat on this bone than we discuss here due to the limitations of space. If we eventually launch coverage, then we shall expound more upon the implications of EQ moving into the (select) top tier of non-Chinese Tungsten players.

In one corporate leap, EQ has propelled itself into the same category as Almonty Industries, even if still not as heavyweight. We reiterate the **LONG** status of EQ Resources in the Model Resources Portfolio with a 12-month target price of AUD\$0.13. This target price could likely be subject to revision upwards in the case of an Initiation.

Elemental Altus – Bringing RCF On-Board

The pair of transactions that the company pulled off in late August was interesting because it brought on board RCF Opportunities Fund L.P. as a major shareholder, but also as it involved the acquisition of a royalty on an asset of Armada Metals (ASX:AMM), a company which we have written on in the past in the context of the stake that Cobre, the ASX-listed copper explorer in Botswana, holds in Armada.

The latest Elemental deal was the signing of a binding agreement to acquire two existing royalties from RCF Opportunities Fund L.P. for consideration of US\$10mn payable in Elemental's common shares. The package was comprised of an aggregate 0.68% NSR royalty on the Cactus Project in Arizona, which is 100% owned by Arizona Sonoran Copper (TSX:ASCU, OTC:ASCUF), and a 0.5% gross revenue royalty

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(GRR) on the Nyanga Project in Gabon, which is 100% owned by Armada.

We can't admit to having looked at Cactus before. This is a brownfields porphyry copper project in Arizona, which produced 200,000 short tons of copper between 1974 and 1984.

More interesting to us was the GRR on the exploration stage Nyanga Project, a highly-prospective magmatic nickel-copper sulphide project in Gabon with royalty coverage of 2,725km². Unfortunately, our enthusiasm was dampened within days with the military coup in Gabon which was launched against the 56-year long reign of the Bongo-clan in the country after a contested election. Gabon has a mining friendly image (with Eramet being a big player there and manganese being the country's well-known output). Hopefully, things will clarify swiftly and Armada will continue its exploration progress.

The terms of the deal are consideration to RCF of US\$10mn through the issuance of 11,111,111 Elemental Altus common shares at a price of CAD\$1.20 per share. The shares issued to RCF will represent approximately 5.7% of the enlarged share capital, bringing RCF as a new shareholder to heavyweight- and institution-focused register.

Parting Shot

Our comments last month on this space with reference to Elemental Altus and Metalla generated some reaction. We should note that most of these royalty companies are buying royalties owned by third parties, generally the original owners of the projects. They mainly do NOT put money in the hands of current owners of the projects and thus do NOT help advance a project. There are some exceptions, but we cannot get all dewy-eyed over royalty companies helping advance the projects they hold royalties over. While they are snapping up deckchairs on the Titanic they are not necessarily buying coal to fuel the voyage. Indeed, they may be putting cash in the pockets of original holders, whilst the development company might be dying of starvation, the royalty holder is not necessarily a project benefactor.

Portfolio Changes

During the month, we dropped our long-standing LONG in uranium explorer, GoviEx and replaced it with enCore Energy (EU.v), the US uranium producer.

Recent & Upcoming

In the last month we published our Mine Trip to the Argentine *altiplano* in the province of Salta, a note on the Argentine Presidential primaries, the implications and response to the Germanium/Gallium ban that China imposed from the start of August and a commentary on the attempts by China to breathe life into its BRICS initiative with an expansion in membership.

In coming weeks, there is scheduled an Initiation of coverage on Panther Metals PLC and Noram Lithium as well as an update on American Rare Earths.

MODEL RESOURCES PORTFOLIO @ END AUGUST							
Security	Ticker	Currency	Price	Change		12-mth Target	
LONG EQUITIES							
				last 12 mths	last mth		
Diversified Large/Mid-Cap	Hochschild	HOC.L	GBP	0.8875	41%	17%	£1.00
	Sherritt International	S.to	CAD	0.47	21%	-4%	\$0.95
Uranium	Sprott Physical Uranium	U.UN.to	CAD	14.70	-11%	13%	\$20.00
	enCore Energy	EU.v	CAD	3.51	-19%	9%	\$4.90
Zinc/Lead Plays	WisdomTree Zinc ETF	ZINC.L	USD	7.98	-27%	-5%	\$14.00
	Luca Mining	LUCA.v	CAD	0.29	93%	-38%	\$0.70
Silver Explorer	Southern Silver Exploration	SSV.v	CAD	0.17	-6%	-11%	\$0.40
	Norseman Silver	NOC.v	CAD	0.06	-45%	-14%	\$0.12
Silver ETF	IShares Silver ETF	SLV	USD	22.39	35%	-1%	\$24.00
Gold Producer	Soma Gold	SOMA.v	CAD	0.68	100%	19%	\$0.85
	Asante Gold	ASE.cn	CAD	1.73	592%	15%	\$2.40
	Orvana Minerals	ORV.to	CAD	0.2	-20%	11%	\$0.60
Gold/Antimony Developer	Perpetua Resources	PPTA.to	CAD	4.48	32%	-10%	\$7.50
Metallurgical Coal	Colonial Coal	CAD.v	CAD	1.7	-4%	0%	\$2.45
Royalties	Elemental Altus Royalties	ELE.v	CAD	1.19	0%	-6%	\$1.52
Copper Explorers	Panoro Minerals	PML.v	CAD	0.12	9%	-8%	\$0.30
	Phoenix Copper	PXC.L	GBP	0.2327	1%	-11%	£0.54
	Aldebaran Resources	ALDE.v	CAD	0.89	37%	5%	\$1.32
Tungsten Producer	Almonty Industries	AII.v	CAD	0.5	-38%	-15%	\$0.95
	EQ Resources	EQR.ax	AUD	0.08	67%	0%	\$0.13
Graphite Developer	Blencowe Resources	BRES.L	GBP	0.052	66%	16%	£0.09
Cobalt	Jervois Global	JRV.ax	AUD	0.05	-90%	-17%	\$0.35

MODEL RESOURCES PORTFOLIO @ END AUGUST							
Security	Ticker	Currency	Price	Change		12-mth Target	
				last 12 mths	last mth		
LONG EQUITIES							
Vanadium Developer	Vanadium Resources	VR8.ax	AUD	0.07	0%	0%	\$0.22
Lithium	Neometals	NMT.ax	AUD	0.51	-62%	-2%	\$1.50
	Lithium Power Intl	LPI.ax	AUD	0.25	-59%	-14%	\$0.80
	Century Lithium	LCE.v	CAD	0.72	-40%	-14%	\$2.38
Cesium/Lithium	Essential Metals	EXX.ax	AUD	0.43	-2%	-12%	\$0.55
Scandium Developer	Scandium International	SCY.to	CAD	0.03	-67%	-25%	\$0.15
Gold Explorer	Cabral Gold	CBR.v	CAD	0.13	-62%	-35%	\$0.60
	Gunpoint Exploration	GUN.v	CAD	0.55	-11%	-15%	\$0.75
	Sanu Gold	CSE:SANU	CAD	0.07	-89%	-13%	\$0.18
	Desert Gold	DAU.v	CAD	0.04	-56%	-33%	\$0.32
	MetalsTech	MTC.ax	AUD	0.22	-21%	-4%	\$0.68
Rare Earths	Rainbow Rare Earths	RBW.L	GBP	0.1601	52%	26%	£0.30
	Neo Performance Materials	NEO.to	CAD	9.21	-36%	8%	\$24.00
Tin Miners	Alphamin	AFM.v	CAD	0.91	36%	-11%	\$1.35
	Metals X	MLX.ax	AUD	0.3	7%	0%	\$0.38
Mineral Sands	Sheffield Resources	SFX.ax	AUD	0.48	9%	-4%	\$0.72
Oil & Gas	Shell	SHEL.L	EURO	24.415	8%	3%	£24.00
SHORT EQUITIES							
Shorts	NioCorp	NB.to	CAD	5.01	-49%	-20%	\$4.00
	Golconda Gold (ex-Galane Gold)	GG.v	CAD	0.14	-65%	0%	\$0.25
	Cleantech Lithium	CTL.L	GBP	0.5294	-11%	8%	£0.25
	Texas Mineral Resources	TMRC	USD	0.79	-60%	-21%	\$0.30

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