

Friday, December 8, 2023



HALLGARTEN + COMPANY

Portfolio Strategy

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Model Resources Portfolio: Thinking About Teck

Performance Review – November 2023

Model Resources Portfolio

Thinking About Teck

- + Gold definitively broke through the \$2000 mark (dragging silver in its wake) ostensibly on the back of MidEast tensions
- + Gold and precious metals stocks seem to have outperformed the recovery in physical gold (GDXJ up nearly 30% from its 12-month lows)
- + The Glencore offer for Teck's coal unit takes Teck out of the crosshairs of the trader but also now sets up a challenge on how Teck will profitably apply the funds
- + The second round of the Argentine presidential elections carried the libertarian, Javier Milei, to power
- ✗ The court decision against aggrieved claimants in the LME nickel scandal gives the exchange *carte blanche* to use and abuse its members and clients to the benefit of "favoured parties"
- ✗ The November mining conference season in London saw reduced footfall as investors succumbed to fatigue
- ✗ The Chinese property sector continues to crumble with little government action to avert further meltdown
- ✗ Few have noticed that static base metals prices leave producers squeezed on the cost side with energy, transport and labour having continued to rise

Teck – How Are the Mighty Fallen

Talking to as many mining companies as we do it is surprising to hear from so many of them, when asked the question "What is the origin of your property?", to receive the answer "It was originally found/explored by Teck Cominco". In fact, the number of times one hears this, and for properties all around the globe, it starts to be a very embarrassing indictment of a long-term management style at Teck that involved spending shareholders' funds on exploration, finding something and then letting it go. Indeed, it seems one could fill an ocean with the "fish that got away" from Teck.

The sale of Teck's steelmaking coal business at the implied enterprise value of US\$9bn on a 100% basis achieves a simple and complete separation of steelmaking coal from base metals. We had to do a double take, as we thought this was supposed to be sold at up to CAD\$19bn. Deflation at work?

To refresh memories, on the 29th of July 2008, Teck Cominco announced an agreement with Fording to purchase 100% of its assets. Teck Cominco had been the minority owner of the Elk Valley Coal Partnership, with a 40% stake. The purchase was closed on October 30, 2008, with a final cost of US\$14bn to Teck. So, Teck managed to achieve a lower price 15 years later, when it could have walked away in 2008, claiming *force majeure* (due to the global financial crisis of 2008). In the meantime, Teck

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missed opportunities, sold other mining assets and projects (to reduce debt) and missed so many boats that it is just not funny, indeed 'tis tragic.

Glencore has agreed to acquire 77% of EVR (Elkview) for US\$6.9bn in cash, payable to Teck at closing of the Glencore transaction, subject to customary closing adjustments.

Nippon Steel (NSC) has agreed to acquire a 20% interest in EVR in exchange for its current 2.5% interest in Elkview Operations plus US\$1.3 billion in cash payable to Teck at closing of the NSC transaction and US\$0.4 billion paid out of cash flows from EVR. NSC will also enter into a long-term steelmaking coal offtake rights arrangement at market terms, continuing NSC's long-standing commercial arrangement for the purchase of steelmaking coal from the Elk Valley. POSCO has advised Teck it intends to exchange its current 2.5% interest in Elkview Operations and its 20% interest in the Greenhills joint venture, for a 3% interest in EVR. At closing of the Glencore transaction, Glencore will acquire from Teck any remaining receivable payable to Teck by EVR.

Teck will continue to operate the steelmaking coal business and will retain all cash flows from EVR until closing of the Glencore transaction, estimated to be US\$1bn. Following the closing of that transaction, Teck will have no further financial interest in EVR.

Amongst the closing conditions are receipt of approvals under the Investment Canada Act and competition approvals in several jurisdictions.

Next Up?

The closing is expected to occur in the third quarter of 2024, so still a way off, as yet.

How does a clueless company put so much money to work? The dreadful old chestnut "debt reduction" was trotted out. If that is the best the C-Suite can do then they should have sold the whole of Teck to Glencore and toddled off to assisted living.

The market is currently filled with swathes of beaten-down stocks at the larger end of the junior spectrum. We would note the number of companies that have got past the PEA phase and even to the PFS level and then become stuck. Teck could verily be a knight in shining armour for these lost souls, particularly in the copper or nickel subspaces. A glance at the likes of Canada Nickel shows the type of company where a move by Teck could be a godsend. However, there is no shortage of potential candidates.

Does Teck even know what an attractive target looks like anymore? It so long since it last kicked the tyres on a target... and look how that turned out. Maybe its first "acquisition" could be hiring someone in corporate development who knows how and what to do...

Argentina – All Change, Already

A mere three days after Milei-s scorching victory in Argentina's second round Presidential elections held-

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mid-month, the newspapers were publishing definitive lists of the appointees to what was the likely makeup of the main positions in the team that will take over from the 10th of December. Notably absent were the type of names from the Bullrich/Macri PRO grouping that had been so instrumental in swinging their support behind Milei after his torpid first round result (in which the PRO were put out with the trash). We and many others had been suspecting that the PRO's Secret Protocols with Milei after the first round was going to deliver a majority of high offices to the Macri crew. Seemingly this was not to be.

But a week is a long time in politics and a fortnight, even longer. In that time, most of the "sure things" have been sent to the penalty box and the team has been heavily repopulated with the Macri crew and what are called neo-menemistas. Out go the ideologues and in come the old hands. That the Economy Ministry went to a Macri man, Santiago Caputo, rather than a Milei camp-follower, was particularly telling. Patricia Bullrich, after protestations to the contrary, has ended up as Secretary of Security with a brief to clean up the swamp in Greater Buenos Aires and Rosario. Not a good day for gang members and petty criminals. Somehow though we suspect she will be more than just an enforcer.

The appearance of neomenemistas (a new category spawned by Menenism not becoming respectable again) is very intriguing. *Convertibilidad* may not be the word on anyone's lips, but dollarization isn't either. We suspect that the Bullrich crew's bimonetarism is going to move to the fore and we will be getting *convertibilidad* under a new name. Watch out for a currency consolidation, as happened with the *Austral* in 1991, as a presage to this move.

Despite rumours to the contrary that the new Secretary of Mining was to be Sergio Arbeleche, a prominent mining lawyer, the appointee is going to be Flavia Royon, currently the Secretary of Energy at the Federal level. Prior to that, she was the Secretary of Mining at the provincial level for Salta. Interestingly, Royon is one of the very few (only?) carryovers from the outgoing administration.

Royon will be taking over from Fernanda Avila, who was formerly the secretary of mining in Catamarca province. In her international appearances (a contrast to previous stay-at-home secretaries) Royon left a trail of goodwill and good vibes at mining events around the world, particularly in London, where we met with her.

To paraphrase an old Argentine saying, "Vote Milei, get Menem".

AVZ Minerals – Rent a Stooge

Hired "front" guys have been around since the dawn of time and represent maybe the world's second oldest profession. A particularly odious collection was rustled up by the Chinese "barbarians at the gate" at AVZ Minerals, a company to which we have paid almost no attention and certainly never mentioned. Strangely, we were dragged into the fray by the "enemy" not having done their due diligence properly and flinging around a tired old story of ten years ago. As they clearly had not even bothered to google the details to get their facts straight, they ended up with *egg foo young* on face. A particularly fitting fate. Touché!



Source: Trading Economics

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Tin – Humming Along

Maybe we should have given Tin top billing instead of Teck. One looks most propitious, while the other has a track record of non-delivery. In the last week of November and first day of December London was the scene for both an Antimony and a Tin conference, our two beloveds....

The Tin event, at which we spoke, is saved here: <https://internationaltin.us14.list-manage.com/track/click?u=853fa4d8950fc38f7552908eb&id=985c589e84&e=2d27b3fec6>The event provoked us to reconsider Elementos and its attractions, to ponder the direction of travel at Metals X (basically no direction) and the addition of a new name such as Rome Resources.

Rome Resources (TSXV: RMR, FSE: 33R) – Quo Vadis?

We met very briefly with this company at the 121 conference, indeed, it was almost a chance encounter. Our interest was piqued by discovering that it had entered into two option agreements and a binding term sheet to acquire direct and indirect interests in two contiguous properties situated in the Walikale District of the North Kivu Province in eastern DRC, which are collectively referred to as the Bisie North Tin Project. This project appears to be the northern extension of Alphamin's Bisie deposit and it turns out the Rome crew were amongst the original founders of Alphamin.

Then just before the end of the month the company announced that it has entered into a non-binding heads of terms for the potential RTO of Rome into Pathfinder Minerals PLC (AIM: PFP), under the AIM Rules for Companies and a reorganization under Part 8 of Policy 5.3 of the TSX Venture Exchange.

To expedite the deal, Pathfinder agreed to lend Rome up to CAD\$2.5mn on an unsecured basis, subject to the finalisation of loan documentation with Rome.

Such a deal flies in the face of urban myth in Canada that AIM is a sink of iniquity (pot, black etc), but recognizes the reality that Toronto knows nothing about Tin, and never did, whereas London has been steeped in Tin for centuries.

Consolidated Uranium (TSXV: CUR, OTCQX: CURUF) – What Next for its Exploration Assets?

In our August review of Argentina's nuclear industry, we highlighted the recent rapid build-up of an exploration position (and a possible development asset) by Consolidated Uranium in the country. Firstly, it bought the package of exploration territory of TSX-v listed U3O8 and then snapped up the Huemul past producing mine owned by a private company, New Era.

CUR was created in early 2020 to capitalize on an anticipated uranium market resurgence using the proven model of diversified project consolidation. Since then it had acquired, or has the right to acquire, uranium projects in Australia, Canada, Argentina, and the United States each with significant past expenditures and development possibilities.

Then, a couple of months ago, it was announced that it would merge with IsoEnergy Ltd, which has a

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profile as a producer. The attractions for IsoEnergy were probably that CUR was advancing its portfolio of permitted, past-producing conventional Uranium/Vanadium mines in Utah and Colorado, with a toll milling arrangement in place with Energy Fuels (EF) the uranium miner/processor we have often mentioned in the context of its new Rare Earth sideline.

The mines of Consolidated Uranium are currently on care & maintenance, ready for restart on a short-timeframe as market conditions permit.

It seems fairly certain the deal will go through and that then raises the issue of whether the merged entity will be interested in a far-flung exploration portfolio, which might result in the Argentine assets being shaken loose and rehoused.

Portfolio Changes

During the month, we resolved to add **LONG** positions in:

- Talisker Resources (TSX: TSK)– that we met at the 121 conference in London – a gold developer in British Columbia – shortly to produce from Bralorne
- Elementos (ASX: ELT) – Tin in Spain and Tasmania
- Pursuit Minerals (ASX: PUR) – Lithium *salares* in Argentina
- Rome Resources (TSXV: RMR) – Tin in the DRC

In light of two rather dynamic Tin stories entering the portfolio, we resolved to finally dispose of Metals X. This stock has shown no desire to escape from the all-embracing Yunnan Tin. There is a fine line between a hug and asphyxiation and the relationship with the Chinese partner has long ago crossed that line and Metals X has been brain-dead ever since.

We closed out the **SHORT** positions in Cleantech Lithium and Golconda Gold. The latter has exceeded our greatest expectations. To top it all we hear they stiffed the Botswana government on the royalties they had not paid for years. We predicted that way back.

In a minor side note, an investor pointed out that we were being too generous to Niocorp (though Niocorp haven't felt any love from us for a decade). The individual pointed out that the RTO into a SPAC was not a ten for one rollback. It was more like a 13 for one, when one took into account the free NB shares the GXII promoters got. However, we will not get to see this until the late financials are out. The only "good" news is that the management team salaries are way up through Covid till now. Gotta love em.

Parting Shot

The short-selling issue has resurfaced in Canada. As distant observers we can only say (and have said) that critics of short-selling in December are missing the wood for the trees and should be focusing on

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the odious tax-loss selling season which does way more damage across the board to equities than short-selling ever did.

Its not clear who this witch hunt is supposed to be throwing on the pyre, those who sell nakedly or those who expedite the trades. Frankly we suspect it's the brokers who should be the enforcers here, not the regulators. As we well know Canadian regulators are rather toothless tigers who would rather suspend an issuer for daring to add their M&I to their Inferred, rather than castigating any really egregious behaviour amongst investors. Gotta love em...

Brokers need only ask the question whether the client has the stock borrowed, or not, and ask to see the paperwork... it's called KYC... but seemingly that does not exist in the Canadian securities industry. Suspending a major broker for a week or two, when found out for not having done this would serve *pour encourager les autres*, as they say.

Recent & Upcoming

In the last month we published our note on the second leg of the Argentine elections and our initiation of Imperial Mining Group.

During December, we shall likely be initiating AbraSilver and Edison Lithium.

MODEL RESOURCES PORTFOLIO @ END NOVEMBER							
Security	Ticker	Currency	Price	Change		12-mth Target	
				last 12 mths	last mth		
LONG EQUITIES							
Diversified Large/Mid-Cap	Hochschild	HOC.L	GBP	1.09	57%	19%	£1.00
	Sherritt International	S.to	CAD	0.36	-29%	-14%	\$0.95
Uranium	Sprott Physical Uranium	U.UN.to	CAD	19.55	29%	8%	\$20.00
	enCore Energy	EU.v	CAD	5.68	75%	31%	\$4.90
Zinc/Lead Plays	WisdomTree Zinc ETF	ZINC.L	USD	8.27	-11%	1%	\$14.00
	Luca Mining	LUCA.v	CAD	0.31	244%	35%	\$0.70
Silver Explorer	Southern Silver Exploration	SSV.v	CAD	0.19	-5%	19%	\$0.40
	Norseman Silver	NOC.v	CAD	0.13	30%	30%	\$0.12
Silver ETF	IShares Silver ETF	SLV	USD	23.33	14%	11%	\$24.00
Gold Producer	Soma Gold	SOMA.v	CAD	0.66	144%	-4%	\$0.85
	Asante Gold	ASE.cn	CAD	1.69	33%	28%	\$2.40
	Orvana Minerals	ORV.to	CAD	0.16	-11%	7%	\$0.60
	Talisker Resources	TSK.to	CAD	0.365	-46%	38%	\$1.10
Gold/Antimony Developer	Perpetua Resources	PPTA.to	CAD	4.35	54%	-12%	\$7.50
Metallurgical Coal	Colonial Coal	CAD.v	CAD	1.91	16%	29%	\$2.45
Royalties	Elemental Altus Royalties	ELE.v	CAD	1.16	-6%	1%	\$1.52
Copper Explorers	Panoro Minerals	PML.v	CAD	0.11	-15%	10%	\$0.30
	Phoenix Copper	PXC.L	GBP	0.315	38%	31%	£0.54
	Aldebaran Resources	ALDE.v	CAD	0.89	13%	14%	\$1.32
Tungsten Producers	Almonty Industries	AII.v	CAD	0.53	-24%	2%	\$0.95
	EQ Resources	EQR.ax	AUD	0.06	24%	-14%	\$0.13
Graphite Developer	Blencowe Resources	BRES.L	GBP	0.0549	-9%	2%	£0.09
Cobalt	Jervois Global	JRV.ax	AUD	0.04	-90%	33%	\$0.35

MODEL RESOURCES PORTFOLIO @ END NOVEMBER							
Security	Ticker	Currency	Price	Change		12-mth Target	
				last 12 mths	last mth		
LONG EQUITIES							
Vanadium Developer	Vanadium Resources	VR8.ax	AUD	0.05	-17%	0%	\$0.22
Lithium	Neometals	NMT.ax	AUD	0.19	-81%	-17%	\$1.50
	Century Lithium	LCE.v	CAD	0.55	-43%	-26%	\$2.38
	Pursuit Minerals	PUR.ax	CAD	0.009	-25%	-92%	\$0.03
Scandium Developer	Scandium International	SCY.to	CAD	0.03	-57%	0%	\$0.15
Gold Explorer	Cabral Gold	CBR.v	CAD	0.20	67%	67%	\$0.60
	Gunpoint Exploration	GUN.v	CAD	0.48	-4%	2%	\$0.75
	Sanu Gold	SANU.cn	CAD	0.06	-88%	-14%	\$0.18
	Alpha Exploration	ALEX.v	CAD	0.65	-10%	-4%	\$0.32
	Desert Gold	DAU.v	CAD	0.06	-14%	50%	\$0.32
AgroMinerals	Millennial Potash	MLP.v	CAD	0.18	-51%	-18%	\$0.32
Rare Earths	Rainbow Rare Earths	RBW.L	GBP	0.146	43%	12%	£0.30
	Neo Performance Materials	NEO.to	CAD	7.59	-24%	11%	\$24.00
Tin Miners	Alphamin	AFM.v	CAD	0.84	5%	-8%	\$1.35
	Rome Resources	RMR.v	CAD	0.26	37%	30%	\$0.60
	Elementos	ELT.ax	AUD	0.098	-64%	-15%	\$0.38
Mineral Sands	Sheffield Resources	SFX.ax	AUD	0.63	7%	13%	\$0.72
Oil & Gas	Shell	SHEL.L	EURO	25.71	5%	-3%	£24.00
SHORT EQUITIES							
Shorts	NioCorp	NB.to	CAD	4.39	-69%	-29%	\$4.00
	Texas Mineral Resources	TMRC	USD	0.32	-83%	-11%	\$0.30

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