



# HALLGARTEN + COMPANY

## Coverage Update

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## Auxico Resources (CSE:AUAG, OTCQB:AUXIF) Strategy: LONG

### Key Metrics

Price (CAD)	\$0.115
12-Month Target Price (CAD)	\$0.24
Upside to Target	109%
12mth hi-low	\$0.10-\$0.63
Market Cap (CAD mn)	\$11.52
<b>Shares Outstanding (mns)</b>	100.2
<b>Fully diluted</b>	142.7

# Auxico Resources

## Narrowing Down the Focus

- + Auxico Resources is morphing from a rank-and-file explorer into a specialty metals trader and developer diversified across metals and continents
- + Through an accord with an unlisted sister corporation (Central America Nickel), the company has access to Rare Earth Elements (REE) and other critical metals for sale into global markets
- + In Colombia, Auxico has a uniquely endowed project with exposure to Rare Earths, Titanium, Hafnium & Zircon (with meaningful Coltan, Gold, PGMs and Iridium)
- + The Rare Earths in the Democratic Republic of the Congo (DRC) and Colombia are hosted in monazite sands which, at an average +50% Total Rare Earth Oxides (TREO), makes operations low-cost compared to competitors
- ✘ A cease-trade order is never a good look
- ✘ China still has the whiphand in REE-pricing and can sink prices, suddenly, at will
- ✘ Proximity to Venezuela might create some issues for evolving the Colombian project
- ✘ The environment for funding REE project builds remains tough, ergo capex to the low side is a must

### Getting Focused

Auxico's tendency to grasp all opportunities with both hands had resulted in an unwieldy collection of assets which, to bring to fruition, would require a lot more capital and a lot more bench strength that the company had, or the markets would provide.

Seemingly a "cease-trade" order from the TSX-V focused minds and in an omnibus release in mid-December the company signalled a major slimming down in operations. We cannot say this is unwelcome.

In this note we shall look at the actions taken/announced, the Rare Earths trading strategy and the assets that remain. For the specific projects, this note should be read in the context of our [Initiation of Coverage](#) in late 2022, where they (and the trading relationships) were expounded upon in much more detail.

### The Background

On the 15th of December, the company received a failure-to-file cease trade order from the *Autorité des marchés financiers* (AMF) in respect of the company's securities, under section 2 of the Multilateral Instrument 11-103 Failure-to-File Cease Trade Orders in Multiple Jurisdictions due to the failure to file technical reports pursuant to NI 43-101. Since then (as detailed below) the company has filed the

amended technical report on the Mynastic Project and the technical report on the Obaye monazite project on SEDAR+.

### **The Announcement**

The company released, on the 19<sup>th</sup> of December that its focus, going forward would be centred on developing the Minastyc Project, located in Puerto Carreño, department of Vichada, Colombia and in accordance with this the authors of the report amended the NI 43-101 Technical Evaluation Report on the Minastyc Project dated March 28, 2022. Details of the changes we shall deal with anon.

The second project of focus for the company will be the El Benton Mine, located in the province of Ñuflo de Chavez, Department of Santa Cruz in Eastern Bolivia. We had not covered this in our previous report on Auxico. This is a past-producing mine, which previously exported tantalum and niobium concentrates, and contains Lithium, Cesium, and Rubidium occurrences.

As a result of the newly agreed corporate strategy and prioritizing the development of the projects in Colombia and Bolivia, Auxico's board decided not to allocate any further capital to the Zamora Gold-Silver Project located in the state of Sinaloa, Mexico, and to the Massangana Project located in the state of Rondônia, Brazil. In relation to the Massangana Project, Auxico will proceed with terminating the joint venture agreement with the Cooperativa Estanifera de Mineradores da Amazônia Legal LTDA.

In our initiation back in November of 2022, the details of the asset from which the company was vending products in the DRC were sketchy to say the least. The logic being that the company was trading ore and not exploiting the resource (which was controlled by a sister company, Central America Nickel Inc.). However, this did not wash with the AMF, so the company filed on SEDAR+ the geological report on the Obaye monazite project in the DRC, prepared by Richard Dufour, P.Eng. in December 2020 for CAN (i.e. "*Report des travaux de reconnaissance géologique projet de la monazite d'Obaye – PE 71 Territoire de Walikale, Nord-Kivu, République Democratique du Congo*").

To refresh memories, Auxico is the exclusive sale agent of CAN for the export of monazite (REE concentrates) out of the DRC.

### **Trader or Miner?**

The old adage that, in a mining boom, it is those that sell the shovels to the miners, rather than the miners themselves, that make the money is a perennial truism in the space.

The lesson here has not been lost on Auxico. Particularly in the Rare Earth space where miners (until the last two years) have found it very hard to make a buck, one might ask the question "who is making money on REEs?" and it would appear that intermediating in the space is better than pursuing the low value-added pursuit of actually mining the material.

The decision to move into trading of REEs (and Tin and others) is, partly, being enabled by China's own feckless over-exploitation of its own REE resources. This has resulted in the Chinese needing to scour the

markets for supplies of REE concentrates.

### **Tweaking Colombia**

The authors of the NI 43-101 Technical Evaluation Report on the Minastyc Project dated March 28, 2022, have amended it with a new date of December 17, 2023, based on comments by the AMF and in order to meet the requirements of the related National Instrument 43-101 – Standards of Disclosure for Mineral Projects. In particular, certain additions and clarifications have been made to Item 1 (Summary), Item 6 (History), Item 12 (Data Verification), Item 23 (Adjacent Properties), Item 25 (Interpretation and Conclusions), Item 26 (Recommendations) and all pertinent information for Items 1-14 and 23-27 have been amended.

### **Colombia**

We dealt with the Colombian assets of Auxico in our Initiation of late 2022. These contain a very intriguing mélange of specialty metals. These consist of 1,482 hectares in the province of Vichada, Colombia. The project stretches across two adjoining properties; the Agualinda and the Mynastic projects. The concession is close to the Orinoco River (the second largest river in the northern half of South America, after the Amazon) and the border between Colombia and Venezuela.

Additionally, the company signed an MOU to earn a 70% interest in 20,000 hectares of land owned by the indigenous community of Guacamayas-Maipore, for the exploitation of industrial sands (Tantalum ore). The properties are located within a strategic area designated by the Colombian government for its potential for Tantalum, Niobium and Rare Earths.



The Minastyc property is located 870 km east of Bogotá, Colombia, at the eastern end of the *Llanos Orientales*. From Puerto Carreño, the property can be reached by boat on the Rio Orinoco some 14 km to the south or by road, 60 km from Highway 40 to the south and to NNE on dirt roads and tracks in grassy flat lands

## Geology

There is a NI43-101 report on this project, with an effective date of March 28, 2022, which was commissioned by Auxico. The report was prepared by André Ciesielsk and Joel Scodnick.

The eastern plains of Colombia (known as the *Llanos Orientales*) Neogene and Quaternary deposits are mostly composed of sedimentation originating from the Eastern Cordillera and higher grounds to the west.

The property mineralization is located within the Neogene alluvial sediment horizons underlying the top soil and composed of Ti, Nb, Ta, Sn,  $\pm$  Zr  $\pm$  V and REE minerals like Ilmenite ( $\text{Fe}_2\text{TiO}_3$ ), Columbo-Tantalite  $(\text{Mn,Fe})^4(\text{Nb,Ta})^8\text{O}_{24}$ , Cassiterite  $(\text{Sn}\pm(\text{Ta,Nb,W,Mn,Sc})\text{O}_2)$ , Monazite  $(\text{Ce,La,Nd,Th})\text{PO}_4$ , Ta-Rutile  $(\text{Ti,Ta,Fe})\text{O}_2$ .

The NI 43-101 report on the Minastyc project indicated that a representative 3.2 tonne bulk sample from two locations of the Area 50 pit returned Total Rare Earth Oxides grading 68.25% and 65.57% respectively, and subsequent discoveries on areas adjacent (at 1.6-9km distance) to the company-controlled property which confirmed the presence of mineralization with significant Rare Earth grades.

Test results, showing gold, platinum, titanium, zirconium and hafnium, have been measured in samples, taken from the Minastyc property. Within the first metre from surface, 14 samples from these areas gave an average head grade of 9.5 g/t of gold, and 13.5 g/t of platinum (from 8 of the 14 samples that returned grade).

The company's technical team estimated a minimum of 250,000 tonnes of material is represented by this Ferricrete layer in the first metre from surface at Area 50 and the TA area.

In April of 2022 the company released results of test results on samples taken from Area 50, TA Area and two other areas. Fine concentrates taken at various sample points included up to 24.5% Titanium, 7.8% Zirconium, and 2.4 kilograms per tonne of Hafnium.

The Rare Earth content has been identified in layers of mineralized below the surface layer.

The company reported, in June 2021, the discovery of a high-grade Tin-Tantalum target area on the Minastyc property (with titanium, niobium, scandium and hafnium credits). This was the subject of pit sampling. Samples previously taken from the Tin-Tantalum target area were the result of pan concentration and screening.

Previously announced samples from pits on the controlled property displayed test results of 33.75%-62.13% Tin content, inferring the development potential of a major Tin operation in Colombia.

Previous samples from the property contained high-grade Titanium rock sample, with 42.85% Titanium, 25.44% Niobium, 8.28% Tantalum and 53.53 g/t of Iridium. Samples found in a different zone on the property, originating from a rock sample, contained 30.41% Tantalum, 23.30% Niobium and 24.47%

Titanium.

### **Bolivia – El Benton – The New Bolt-On**

In a sign of the continuing thaw in investors' attitude towards Bolivia the company resolved to head to the Andean country, rather than persevere with Brazil. In mid-September of 2023 it announced that it has executed an MOU to acquire 85% equity interest in Empresa Minera El Benton S.R.L., that holds the mining title and rights to the El Benton Mine and adjacent Monte Verde concessions.

The El Benton Mine and Monte Verde properties, combined, represent approximately 739 hectares located in the Province of Ñuflo de Chavez, Department of Santa Cruz in Eastern Bolivia, 200kms from the city of Santa Cruz. We would note that Santa Cruz is in the flatlands of Bolivia, rather than the mountainous regions.

The El Benton Mine is a past-producing operation with all the necessary licenses, which previously exported tantalum and niobium concentrates.

The deal was a "cheap" one with the MOU requiring a US\$40,000 initial payment, and a payment of US\$100,000 due on delivery of mining and environmental permits, which in the process of being renewed. Auxico have an 85% equity interest in the El Benton Mine, including all applicable mining rights, titles, registrations, and licenses. Auxico will likewise retain 85% of profit share under the format of a joint venture (15% profit share to the current property owner).

It is felt that the AuEx processing technology (discussed in our Initiation - and anon) could have applications at El Benton.

The asset has had some interesting mineral showings:

- Sample MMV01, taken from exported commercial concentrates, yielded grades of 48.97% niobium and 22.25% tantalum
- A chip sampling campaign of 23 samples was executed over a strike length of 1 km, with a grade up to 1.31% lithium from a selected lepidolite-bearing sample
- Sample MMM01 underwent a series of metallurgical tests including magnetic and optical separation techniques which resulted in four different concentrates, and confirmed results of Total Rare Earth Oxide (TREO) content in excess of 54%, including Neodymium grade of 10.77%, Gadolinium grade of 4.68% and Dysprosium grade of 0.49%

Throughout the optical separation process, the TREO content from sample MMM01 was increased from 17.58% TREO to 54.42% TREO. The niobium content from sample MMM01 was increased from 18.68% to a grade of 43.69%, and tantalum content was increased from 8.01% to a grade of 19.21%.

Auxico's stated objective is to relaunch the mine to produce commercial Niobium and Tantalum concentrates, to define the Lithium potential of the property, and to undertake optimal sorting in order

to create concentrates of the aforementioned metals/minerals. No more details of the plans have been released as yet.

### **The Relations with CAN**

The key to understanding the activities of Auxico in the DRC is that it does not hold any mineral licenses there but in fact operates as a trader of material it sources from a sister company, Central America Nickel Inc. (CAN).

CAN is a shareholder of Auxico and also a joint venture partner in two ways:

- CAN has licensed its patented ultrasound assisted extraction technology to Auxico, to be used at any of its projects
- Auxico is the exclusive sales agent for trading out of the DRC - for every monazite sale that is conducted

CAN is an unlisted Canadian corporation focused on the processing and purification of energy and critical metals (Ni, Li, Co, Cu, Mn, V, Sc, Nb, Ta, Ir and REE) using a patented ultrasound extraction technology (called UAEx - see anon).

Kibara Minerals is a 76%-owned subsidiary of CAN. This trading entity, Kibara Minerals has the exclusive option to purchase nodular monazite (a mineral sand) from a mining cooperative in DRC. This arrangement provides Auxico with access to Rare Earth ore in the DRC.

CAN now holds a total of 17,050,000 common shares, or 17.02% of the issued and outstanding common shares of Auxico. CAN now also holds 13,275,000 warrants, and pending complete exercise of warrants, on a partially diluted basis CAN would hold a total of 30,325,000 common shares in the capital of Auxico. Based on the current share capital outstanding, 30,325,000 common shares in the capital of Auxico would represent approximately 26.73% of Auxico's shareholding on a partially diluted basis.

### **The REE Asset in the DRC**

The monazite sands operation in the DRC is called the Obaye project. It was the subject of a NI43-101 report by Richard Dufour of Groupe RD on Montreal and dated December 2020.

Access from the city of Kisangani in the province of Tshopo, is approximately 445 km by a motorable road, (i.e. the National Road N3) passing through the territory of Lubutu in the province of Maniema, to the town of Walikale in North Kivu. From there, there is a walk of at least 2.5 hours, crossing the Lowa River by means of a canoe to reach the village of Obaye.

### **The Rare Earth Resource**

A report by the engineering firm RD Consultants has estimated the Obaye Rare Earth deposit with a volume exceeding one million tonnes in the first metre of the deposit containing the following:

Gadolinium (Gd): 1.03%; Lanthanum (La): 8.10%; Neodymium (Nd): 11.50%; Samarium (Sm): 1.99%; Praseodymium (Pr): 2.92%; Dysprosium (Dy): 0.20%; Europium (Eu): 0.29%; Yttrium (Y): 0.41%; Cerium (Ce): 19.90%.

Samples have returned amounts of Terbium oxide (4.17%), Neodymium oxide (11.05%) and Praseodymium oxide (18.2%).

### **The REE Trading Arrangement**

Auxico signed a sales agency agreement in late March 2022, for the trading of non-radioactive Rare Earth concentrates from the DRC in the form of monazite sands. The off-take agreement has a five-year term, for a minimum amount of 18,000 tonnes of concentrates during the term i.e. 300 tpm, with a target objective of 1,000 tonnes of concentrates per month.

The first trade of 96 tonnes of concentrates was finalized end of April 2022, second trade for 192 tonnes was finalized early July. The material was sold at a final price of US\$ 6,500 per metric tonne for a value of US\$1.24mn, upon which Auxico received a 15% trade commission.

Samples analyzed by SGS South Africa had on average 14.95% Neodymium and 3.4% Praseodymium, and ~60% TREO.

### **UAEx**

In addition to the trading joint venture on the DRC assets, Auxico and CAN have a joint venture agreement which provides Auxico with access to Ultrasound Assisted Extraction (UAEx) which is CAN's patented technology for the processing and extraction of critical minerals.

For more details on this, see our Initiation note. In short, though, the process eliminates the use of pressure processing (thus minimizing temperature) reduces energy requirements, chemical inventory, and accordingly emissions and waste. While it increases overall recovery rates, UAEx also adheres to stringent environmental standards.

### **Earnings & Outlook**

Trading revenues can be even more subject to vagaries of the markets than metal mining activities. As the mines (for now) are not under the company's control it is essentially dependent upon the productivity of the quasi-artisanal miners (as far as the DRC is concerned). However, a virtuous circle of higher sales for Auxico, greater revenues to the miners could lead to miners upping their game (technologically and in terms of equipment deployed) to move steady state production to a higher level than might currently seem doable, principally by Auxico/CAN providing facilities for the artisanal miners to acquire light machinery et al. to up their production and recovery of concentrates.

The company has a September year end.



However, thus far, revenues have been less than scintillating with only \$264k in sales commissions in the first nine months of FY23 (and none of these were in the June quarter). There would need to be a quantum leap in the revenues from REE sales out of the DRC for this to move the dial.

## **Risks**

It is worth enumerating some of the risks that may be faced:

- A return to weak Rare Earth prices
- The REE market is still controlled largely by China
- Tantalum or Tin moving lower

Rare Earth prices are not likely to return to the levels they stood at mid-last decade as the Chinese are not running a charity anymore. However, prices have been under pressure again over the last six months with a feeling in the market that the Chinese are trying to suppress prices to mess with the fortunes of upcoming players. If so, this has worked in the case of Vital Metals, for example. The Chinese have learnt their lesson from last boom and that lesson is that the best way to maintain control and discipline market players is by aggressive predatory pricing.

We might also note that, at least for now, the Chinese are the main buyers for monazite sands and they hold the whiphand in dictating prices (particularly discounts to the going market rates for REE concentrates with certain mixes of REEs and radioactive elements). However, the Chinese are increasingly forced buyers of REE concentrates if they are to have any chance of remaining the dominant player in REEs now that they have lost their dominance in the production of Heavy Rare Earths. They would not want this repeated in the “Lights” such as Nd and Pr.

With the EV “revolution” finally gaining traction outside of China, the potential for greater demand for REE magnets from that quarter is enhanced. We see no reason for REE demand to slacken and indeed there is the potential for it to finally start to meet some of the bullish projections of 10 years ago.

The issue for monazite sands is radioactivity. This has not stopped the evolution of projects such as that of Energy Fuels in the US and if the Chinese are prepared to take and process the material from Auxico’s suppliers then it should not prove a hindrance to expanding trade.

## **Conclusion**

While the new broom is sweeping through Auxico’s activities, serious thought should be given to ditching its inappropriate name and going for some serious rebranding to match the internal changes.

With tough times in the mining share markets the old truism of production, production, production has brought revenues first to the minds of investors when making their allocations. While the commission revenues that Auxico is earning on its trading may not strictly be “top-line” revenues they certainly beat

sitting and waiting for the turn in markets to initiate a project and then the long-haul to get it to production. The trading arrangements in the DRC, theoretically, provide a sustainable revenue stream while reducing supply, political and regulatory risks.

In its own small way, Auxico has joined the mere handful of listed names outside China that are actually trading/producing a Rare Earth product even if it is only a concentrate at this point.

In Colombia, the picture is more tilted towards minerals sands, without discounting the potential of a plethora of other precious and specialty metals evident in the mineralisation. Once again, we see the potential of monazite sands underpinning the economics of whatever else is exploited from the project's rich mineral mix.

The Bolivian asset seems to be a tap that can be turned on in the very short-term converting Auxico into one of the very few listed Tantalum stories available.

The stock price has been truly dire. When we initiated coverage it was 45cts, but has since sagged as low as 10 cts and stands only slightly above that level currently. We are maintaining a **LONG** rating on Auxico Resources with a 12-month target price of \$0.24.



## Important disclosures

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