

Sunday, February 4, 2024



HALLGARTEN + COMPANY

Portfolio Strategy

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Model Resources Portfolio: The Month of the Long Knives

Performance Review – January 2024

Model Resources Portfolio

The Month of the Long Knives

- + **Gold maintained itself above the \$2,000 per oz mark**
- + **Uranium continues its upward tendency briefly hitting \$100 per lb, by some reports**
- + **The Rare Earth space may be on the verge of a bout of M&A activity with speculation rising of a MP Materials & Lynas combination**
- + **Lithium majors (or dare we call it the New Cartel) have shown their ability to discipline the space via production cut-backs**
- + **Interest rates remain at their recent highs rewarding income chasers and punishing low- or no-yielders**
- ✗ **The Battery Metals space is in full meltdown proving the adage that “those who live by the promote, die by the promote”**
- ✗ **Shenghe has signed a binding 'take or pay' offtake with VHM (ASX:VHM) for 60% of its production, comprising 6.4k tpa REMC and 100k tpa HMC**
- ✗ **Silver remains largely dead in the water**

SEDS (Sudden Executive Demise Syndrome)

We love a good conspiracy theory as much as the next fellow but have not exercised them here in the humble pages of our Monthly review. However, the events of recent times at several corporates gave us food for thought and we frankly have not liked what we have seen.

It has been said that a mark of success is to keep your head when all around you are losing theirs. Decapitation seems to be added to the many extant perils that lie in wait for mining company executives these days. The dangers used to be external, like prices, global economics, political risk factors and the many pitfalls (pardon the pun) of the mining process. The internal political factors are now making the C-Suite a minefield (pardon that pun, also) at even second tier and third tier companies.

Superlative or at least good performance doesn't seem to be good enough anymore, for the stilettos are lying in wait to dispatch the unwary or those whose hubris has maybe gotten the better of them. However, we are becoming increasingly suspicious of the “official versions” that are doing the rounds and instead start from the premise that the official versions (as in Latin American politics) is usually the farthest thing from the truth.

Let's start with a company in our Model Resources Portfolio, Elemental Altus. This was created last year out of the merger of two companies that were already in the theoretical portfolio. One was a royalty company and the other was something of a project generator with some royalties on the books that had

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been generated by the project that were parceled out to explorers/developers to advance. The merger seemed a good idea, but our queasiness predated the merger and actually went back to the appearance of La Mancha, a somewhat shadowy stakebuilder in companies in Africa and Middle East, controlled by an Egyptian family. We are sure that they would take exception to the term “shadowy” but frankly no other word seems to fit the bill so well.

Our unhappiness began with the departure of one of the founders of Altus at the time of the merger. Then in the last month, another of the founders also exited stage left, significantly lowering the average age of the board (not that they were greybeards by any measure) and in came... more of the La Mancha crew. Frankly we did not see an offer for control of this company being tabled in the markets and yet control has changed hands. We are not happy, and the last month has seen the closing out of the LONG position in the Model Resources Portfolio.

Then there is the intriguing case of Endeavour Mining and SEDS (Sudden Executive Demise Syndrome) which afflicted its much-rewarded CEO. In late 2023 and the markets were convulsed by the news that the CEO of Endeavour had come to (corporate) grief. Far be it for us to know what happens in largish mining entity’s finance departments, but the idea that large payments happen on a whim and with no checks & balances intrigued both us and many observers. It was rather (in)famous that compensation was extremely generous at the company, so why extra breadcrumbs were required left more than a few scratching heads.... And in such an amateurish manner. To add insult to injury, as scepticism grew over the original rationale for tossing the CEO, the company decided to gild the lily with sexual misconduct. Playing below the belt when discrediting former officers now seems to be *de rigueur*.

Endeavour was not in our universe, though one of the predecessors of Teranga had been, so it was only in the subsequent press coverage of the CEO’s demise that we saw our old friends, La Mancha mentioned in dispatches.

The date March 30th of 2021 was somewhat of a red-letter day, as it was when the company announced the “successful” completion of a La Mancha Holding S.à.r.l. investment with Endeavour issuing a total of 8,910,592 ordinary shares to La Mancha for aggregate net proceeds of US\$200 million at a price of approximately US\$22.45 per share. The investment was part & parcel of the acquisition of Teranga Gold in November 2020. The payment was made by La Mancha under its pre-existing anti-dilution right. Upon completion of the investment, La Mancha’s future anti-dilution rights were extinguished. Following completion of the investment, Endeavour then had 252,519,830 shares outstanding, with La Mancha holding an interest of approximately 19%.

So well might we say, *Cherchez La Mancha....*

On La Mancha

We first heard of La Mancha a long, long time ago when it was part of the Areva group (with a 63% holding) and a novel creature as it had its head office in Paris, not exactly on the beaten path of global mining (except for Areva, Eramet and Imerys).

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Then in July of 2012, it was announced that Weather II Investments had offered to purchase all outstanding common shares of La Mancha by way of a recommended take-over bid at a price of CAD\$3.50 per share in cash. Weather II was described as part of the business grouping “managed” (interesting wording) by Naguib Sawiris. It was said that the wider Sawiris Family of Egypt had substantial indirect interests in the telecoms, construction and fertilizers, cement, real estate and hotel development industries.

At the time, La Mancha Resources Inc. was described as an international gold producer based in Canada with operations, development projects and exploration activities in Africa, Australia and Argentina. In 2011, La Mancha’s revenues and EBITDA amounted C\$184.7 million and C\$83.8 million respectively. Interestingly its Argentine asset at the time, Hualilan (in San Juan), is now controlled by Challenger Exploration (ASSX:CEL), with whom we have dialogued of late.

La Mancha’s majority shareholder, Compagnie Française de Mines et Métaux, a wholly-owned subsidiary of AREVA irrevocably agreed to tender 90 million shares, or approximately 63% of the fully diluted outstanding shares, gleaning some CAD\$315mn for AREVA.

More SEDS

Then we have Sigma Lithium, where we knew of the company even before it was listed and the founders even farther back. The Grim Reaper stalked this company’s corridors recently and we cannot say we were very convinced by the initial excuse. Frankly, the founder had done a fantastic job and yet we never took to the story though, as we were sceptical of Brazilian spodumene’s potential.

The rest is history, and we were wrong, as the 5-year chart shows:



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The rationale behind the parting of the ways, trading during a blackout period, seemed like total over-reaction. We can't help wondering what sort of options the departed chap had as a founder and whether he got to hold onto them.

We did get a certain Lake Resources vibe though as we might note that this stock, at a peak market cap nearing CAD\$6bn, was a screaming short, if nothing else.

Again, we find a hefty shareholder on the register with Sigma's biggest investor, holding more than 40%, being A10 Investimentos, a Brazilian private equity fund that Sigma co-chief executive officer Ana Cabral-Gardner helped establish.

Reuters, in August, reported that Sigma had sued the departed co-chief executive officer, accusing him of stealing trade secrets to undermine the company's effort to sell itself. The complaint was filed in federal court in Manhattan against Calvyn Gardner, who until January was Sigma's co-CEO with Ana Cabral-Gardner, who is divorcing the departed co-CEO, and who remains CEO. Luisa Valim, Gardner's daughter-in-law, is also a defendant. What's it going to be? Blackout trading or trade secrets? Any excuse in a storm it seems.

Now, the Lithium space has been rough going of late, but the steepness and rapidity of the fall from grace at Sigma is more brutal than most for a project so advanced.

And there is Nova Royalties (TSX: NOVR), where we liked the CEO and his earnest work over the years to build up this business, with us not being enormously partial to the battery space royalty outlook. We had been on a number of panels together over the years. No sooner had the CEO been thrown under the bus than the company went off and merged with Metalla Royalty, of which we are long-time doubters. Nova's best days were well behind it when it nearly hit \$6 in the early days after its listing. More recent years (since mid-2022) had been more torpid with the price between \$1.70 and \$1.40. What else can one do promotionally when one is taking on board royalties on nickel and copper projects that have an exponentially longer time to production than virtually any other commodity? This now becomes Metalla's problem. Mazel tov...

Oh, what a tangled web they weave, when boards try to deceive the markets about their real intentions/reasons for tossing esteemed directors and CEOs overboard.

The Gold – Silver Ratio

We show the five-year trend on the following page. Gold has been having a moment with mid-East tensions, but silver has not been invited to the party. If matters don't escalate, then one might expect gold to fade again and silver's revival as an industrial metal to carry it upward. Sloppy Lead and Zinc prices must also be restraining silver production as a by-product.

As the long-term picture shows silver has only managed a decent rally in late 2022 but otherwise has been slip-sliding away its heyday in March 2021.



Source: BullionbyPost

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Portfolio Changes

During the month, we have shrugged off our position in Norseman Silver, see anon, and have added a LONG position in Canada Nickel.

As per our comments earlier, we feel a creeping takeover of management, without an offer for minorities' positions, by La Mancha and we do not like what we see. So out goes the LONG position in Elemental Altus, after a long period when both of the constituent elements have graced the Model Resources Portfolio.

On Resisting the Siren Song

What does a Chilean siren look like? We don't know, despite, many visits we have not seen one. It seems a certain type of mining executive not only hears them but sees them and cannot resist. Alas, Norseman Silver, verily without having done scarcely any work on its Taquetren project in Argentina's Patagonia, has heard the sirens from across the Andes and headed in that direction. This is despite, most other major and mid-tier miners heading in the opposite direction (to San Juan province in Argentina).

Why aren't they asking Barrick what these sirens cost it at Pascua Lama? What's \$5bn between friends?

Norseman's fancy may have turned to Chile but our fancy has turned against Norseman and out it goes from the Model Resources Portfolio.

Millennial Potash – Impressing with a Maiden MRE

It's only a few months ago now since we added Millennial Potash Corp. (TSX.V:MLP, OTCQB:MLPNF, FSE:XOD) to the Model Resources Portfolio after a lunch meeting with management in London. The reason we had gone was because we had an interest in another story from Gabon, namely Armada Metals, and wanted to gather more opinions.

The Banio Potash Project is located at the north end of the Early-Cretaceous (Aptian) aged Congo Evaporite Basin which extends southwards from Gabon into the Republic of Congo. This is a well-established potash basin with historic potash production (Holle Mine) and ongoing exploration and development of extensive potash deposits (Kore Resources, Kanga Resources) in the Republic of Congo.

In the middle of January, the company announced its maiden Mineral Resource Estimate (MRE) for the northern part of its Banio Potash Project in Gabon. The estimate was completed by ERCOSPLAN Ingenieurgesellschaft Geotechnik und Bergbau mbH, an established potash specialist with significant experience in the Congo Basin.

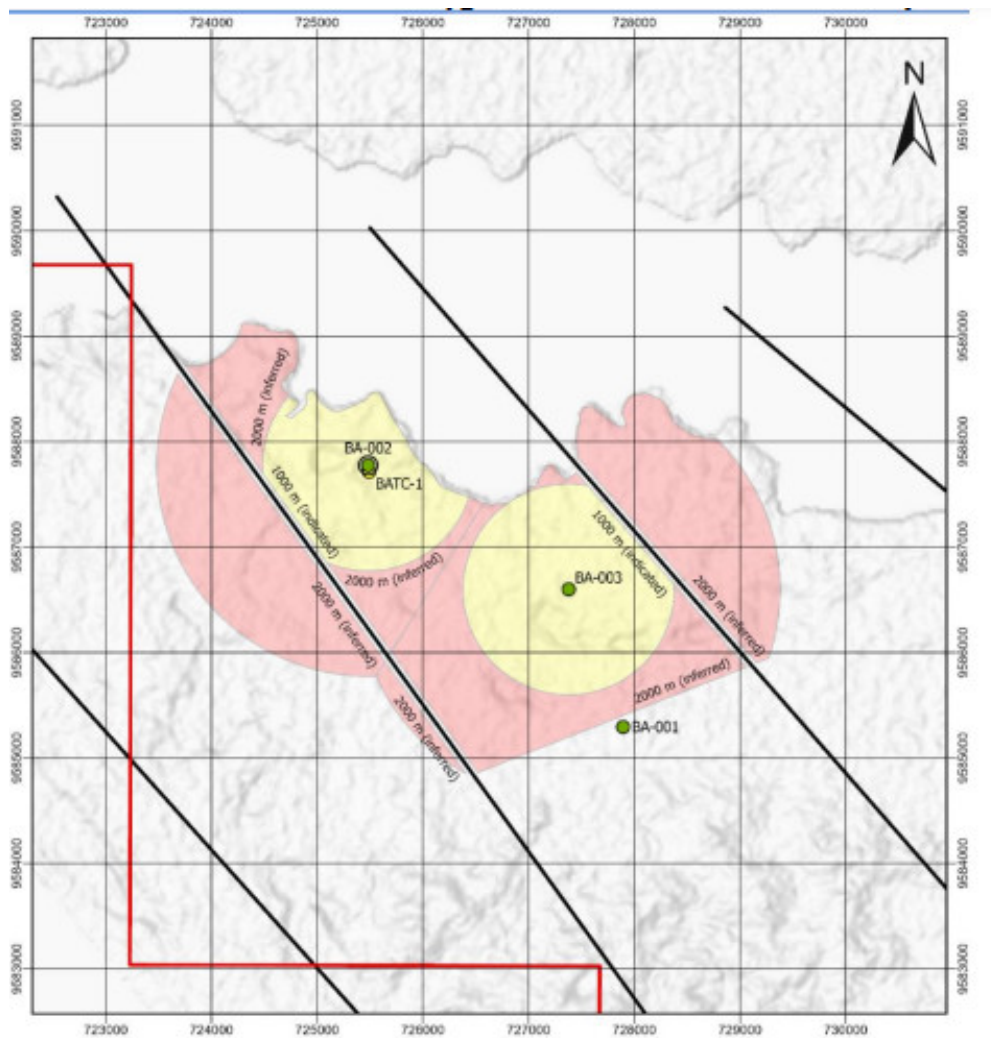
The Mineral Resource Estimate for the project is comprised of Indicated and Inferred resources based on the definition of potash-bearing seams or beds in numerous sedimentary evaporite cycles or stages that were identified from drill core collected from potash specific exploration drill holes. The resources are comprised of sylvinite and carnallite resources.

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The reported resources were 657mn tonnes at 15.9% KCl in the Indicated Resource category with Inferred resources of 1.159 billion tonnes, grading 16% KCl. We must second management’s proposition that the MRE underscores the project’s immense potential, considering that only two holes have been used in the compilation of the resource estimate.

The MRE was based upon new assay data from historic holes BA-002, and BA-003 plus assay results from additional potash cycles intersected in the drilling extension of BA-002, completed in September 2023,.

In the case of Millennial Potash the map below shows the two resource areas based upon two holes. Instead of the usual vast array of holes, often in grids or fence formations, the resources when it comes to Potash are calculated on very few holes and calculated on the basis of a radius from the hole.



Beyond the obvious attractions of Millennial Potash, we find it is a good example to mention of the way some minerals get somewhat of a free pass, and can come up with higher category resources, on not much work at all. We noted this also last year in the Lithium space. This is not a criticism of the

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companies. It is that the rules regard a few holes as represent of a much wider area in these Potash and Lithium (*salar*) deposits (and a few other industrial minerals) giving the management's a much cheaper (and faster) path to delivery of a resource to the market and investors.

When we had mentioned this in the context of Lithium, we had been lashing those lazy companies in that space who really had no reason for not having a resource (especially not needing high exploration budgets), beyond their own torpor and we suspected that in fact drilling for a resource might yield assays that would show that game was up and their *salar* was just another piece of llama pasture. So, what better course of action for an explorer to not explore!?

Not that Millennial falls into that category for they are on the move... and fast. Of particular note was the confirmation that the carnallite-rich potash seams seem potentially exploitable by solution mining and exceed 70m in thickness.

The company's management expects the MRE to provide a base for a follow-on Preliminary Economic Assessment (PEA) which will investigate various production scenarios via solution mining and is expected to include a proven processing route producing MOP from a base located right on the Atlantic coast.

We reiterate our **LONG** rating on Millennial Potash in our Model Resources Portfolio with a 12-month target price of 32 cents.

Parting Shot

Imagine the scene.... Hundreds of millions of years ago.... A comet has appeared in the sky, and one Tyrannosaurus says to the next... "Brace yourselves, guys, I suspect things are about to change". Something akin to this should be said in the mining industry about the potential extinction event coming along the pike for those dependent upon open-pit mining for their bread and butter. An extinction event awaits you. Only the larger of you... for the nimble mammals will survive, but those of you with the 14:1 strip ratios, you might as well book yourself a plinth in the Natural History Museum because that is where your dreams and hopes are going to end up on display.

Maybe it takes an outsider, if we are outsiders, to call this. Certainly, Greta can't as she doesn't know a mine from a hole in the ground. It has become increasingly evident that many, or maybe even most, open pit plans are just too fantastical and they neither stand the test of time, nor environmental scrutiny nor, more importantly, financial sanity checks. As we all know the fastest growing component of CapEx calculations is the Tailings Management Facility (TMF). This went from being, several decades ago, a conveniently placed pile of leftovers to now being a potential timebomb with a very large price tag attached to it. The bigger the hole, the bigger the pile... to put it bluntly.

More than half the projects we see look, at first glance, like they should be underground and yet managements are obsessed with open pit development. Maybe its due to the fact that in Canada so many of those calling the shots (i.e. instructing the PEA-writing consultants on their brief) are geologists

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running junior explorers rather than mining engineers. So, we have grizzled old geos telling mining engineers at the consultants that the biggest of binary decisions on a project (open pit or UG) has already been made and crack on, boys. Bash this square peg into that round hole.... And the bigger the hole the better.

We wonder if the decision-making process should be like a blind tasting in wine. The consultants are given the details of the deposit, its grades, geology, geotechnics (but not its name or its owner's) and then asked to make a decision on whether it should be U/G or open-pit without having a client to keep happy or appeased. How many open-pit mines would be underground instead in such a blind test?

But back to our dinosaurs, the comet is coming... brace yourself, boys, reality is just about to blow a crater where your dream pit once was supposed to be.

Recent & Upcoming

In the last month we published Edison Lithium (in English & German), an update on Auxico Resources, an update on US Antimony, an update on AbraSilver and an update on Cobre.

In the month to come we shall be initiating First Phosphate and Kobo Resources.

On LinkedIn

We have never mentioned before the groups that we founded and manage on LinkedIn. We welcome membership requests and participation via postings. These groups are:

Latin American Mining	Mining in Slovakia
Rare Earth Mining & Processing	Mining in Armenia
Antimony Mining & Processing	Mining in Myanmar
Vanadium Mining & Processing	Mining in Tajikistan
Mining in Albania	Mining in Somaliland
Scandium Mining & Processing	

MODEL RESOURCES PORTFOLIO @ END JANUARY							
Security	Ticker	Currency	Price	Change		12-mth Target	
				last 12 mths	last mth		
LONG EQUITIES							
Diversified Large/Mid-Cap	Hochschild	HOC.L	GBP	1.041	56%	-3%	£1.00
	Sherritt International	S.to	CAD	0.29	-52%	-3%	\$0.95
Uranium	Sprott Physical Uranium	U.UN.to	CAD	23.08	35%	8%	\$20.00
	enCore Energy	EU.v	CAD	6.40	100%	27%	\$4.90
Zinc/Lead Plays	WisdomTree Zinc ETF	ZINC.L	USD	8.22	-25%	-6%	\$14.00
	Luca Mining	LUCA.v	CAD	0.28	-32%	-10%	\$0.70
Nickel Developer	Canada Nickel	CNC.v	CAD	1.40	-21%	1%	\$2.15
Silver Explorer	Southern Silver Exploration	SSV.v	CAD	0.14	-30%	-13%	\$0.40
	AbraSilver	ABRA.v	CAD	0.29	-11%	-15%	\$0.84
Silver ETF	IShares Silver ETF	SLV	USD	20.91	-4%	-4%	\$24.00
Gold Producer	Soma Gold	SOMA.v	CAD	0.54	29%	-11%	\$0.85
	Asante Gold	ASE.cn	CAD	1.5	-12%	6%	\$2.40
	Orvana Minerals	ORV.to	CAD	0.14	-22%	-7%	\$0.60
	Talisker Resources	TSK.to	CAD	0.32	-42%	-3%	\$1.10
Gold/Antimony Developer	Perpetua Resources	PPTA.to	CAD	3.88	-18%	-7%	\$7.50
Metallurgical Coal	Colonial Coal	CAD.v	CAD	2.15	87%	13%	\$2.45
Royalties	EMX Royalties	EMX	USD	1.49	-24%	-8%	\$2.50
Copper Explorers	Panoro Minerals	PML.v	CAD	0.12	0%	-8%	\$0.30
	Phoenix Copper	PXC.L	GBP	0.1133	-76%	-46%	£0.54
	Aldebaran Resources	ALDE.v	CAD	0.8	-16%	-10%	\$1.32
Tungsten Producers	Almonty Industries	AII.v	CAD	0.7	-14%	30%	\$0.95
	EQ Resources	EQR.ax	AUD	0.06	36%	0%	\$0.13
Graphite Developer	Blencowe Resources	BRES.L	GBP	0.0381	-32%	-23%	£0.09

MODEL RESOURCES PORTFOLIO @ END JANUARY

Security	Ticker	Currency	Price	Change		12-mth Target	
				last 12 mths	last mth		
LONG EQUITIES							
Cobalt	Jervois Global	JRV.ax	AUD	0.03	-89%	-25%	\$0.35
Vanadium Developer	Vanadium Resources	VR8.ax	AUD	0.04	-50%	-20%	\$0.22
Lithium	Neometals	NMT.ax	AUD	0.14	-84%	-33%	\$1.50
	Century Lithium	LCE.v	CAD	0.43	-68%	-12%	\$2.38
	Pursuit Minerals	PUR.ax	CAD	0.01	-55%	0%	\$0.03
Scandium Developer	Scandium International	SCY.to	CAD	0.03	-57%	50%	\$0.15
Gold Explorer	Cabral Gold	CBR.v	CAD	0.18	29%	-10%	\$0.60
	Gunpoint Exploration	GUN.v	CAD	0.55	-8%	10%	\$0.75
	Sanu Gold	SANU.cn	CAD	0.06	-90%	-33%	\$0.18
	Alpha Exploration	ALEX.v	CAD	0.70	-8%	30%	\$0.32
	Desert Gold	DAU.v	CAD	0.05	-17%	25%	\$0.32
AgroMinerals	Millennial Potash	MLP.v	CAD	0.24	-56%	0%	\$0.32
Rare Earths	Rainbow Rare Earths	RBW.L	GBP	0.1345	12%	4%	£0.30
	Neo Performance Materials	NEO.to	CAD	7.71	-33%	1%	\$24.00
Tin Miners	Alphamin	AFM.v	CAD	0.88	-11%	-2%	\$1.35
	Rome Resources	RMR.v	CAD	0.24	n/a	0%	\$0.60
	Elementos	ELT.ax	AUD	0.09	-73%	-18%	\$0.38
Mineral Sands	Sheffield Resources	SFX.ax	AUD	0.53	-9%	-12%	\$0.72
Oil & Gas	Shell	SHEL.L	EURO	25.09	5%	-2%	£24.00
SHORT EQUITIES							
Shorts	NioCorp	NB.to	CAD	4.22	-67%	0%	\$4.00
	Texas Mineral Resources	TMRC	USD	0.35	-75%	-19%	\$0.30
	Aya Gold & Silver	AYA	CAD	10.31	35%	6%	\$4.50

Important disclosures

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