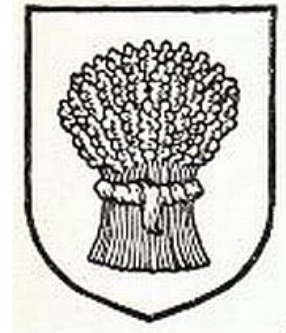


Friday, March 8, 2024



HALLGARTEN + COMPANY

Portfolio Strategy

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Model Resources Portfolio: Battery Metals – Rise & Fall of the Drama Queens

Performance Review – February 2024

Model Resources Portfolio

Rise & Fall of the Drama Queens

- + **Gold clung onto its perch above \$2,000 per oz mark**
- + **Uranium continues to be the only game in town**
- + **The Tin price has been holding up very well passing above \$27,000 per tonne**
- + **Base metals have the look and feel of wanting to move higher and break out of their malaise**
- + **Lithium spot prices (largely irrelevant, we know) have perked up considerably since the start of the year having risen 14% this year to US\$15,500**
- + **Down in Argentina a somewhat miraculous turn of events has seen the budget move into surplus, and the peso soar against the dollar, in the 10 weeks since the handover**
- ✗ **Cryptocurrencies have returned to the charge with Bitcoin having risen nearly 200% year-over-year giving gold naysayers yet another excuse to grab their bullhorn**
- ✗ **The chaotic thinking behind Canada's ban on the sale of stakes in Canadian-listed critical metals companies to Chinese interests is evidenced yet again in the cudgeling of SRG with regards to graphite in West Africa**
- ✗ **The sustained low prices in Zinc threaten further drying up of the pipeline of new projects**

Battery Metals – The Best of Times, The Worst of Times

In more artistic circles the current denizens of the battery metals space might be called drama queens, or more clinically, manic-depressives. The first Lithium boom (2009-10) attracted the promotorial types, and very few serious players. Then came the long quietus from 2010 until 2017. That second flush of enthusiasm produced a few more serious players, but the clowns drove their car into town also, doing not much with what little cash they raised. We had the phenomenon of *salares*, which are ultra cheap to drill, not having any work done on them as the promoters hunkered down for another dry patch. And dry it was until 2020 when the EV bandwagon finally found out that the rubber was hitting the road.

Now the show has seemingly come to another screeching halt (the batteries may be dodgy, but the brakes work). While the Lithium crowd are in despair, it's the nickel mavens who are out of the ledge threatening to jump. Even in the darkest days following the collapse of the notorious Australian nickel boom in 1969-70 no-one dared to ask for salvation from the taxpayer, however now the levels of shamelessness have reached new levels, and the begging bowls are rattling furiously.

What should be seen as yet another bump in the road for the EV leviathan is being painted as the end of life(styles) as we know it. After nickel plunged in 2006 was anyone asking for government succour? No,

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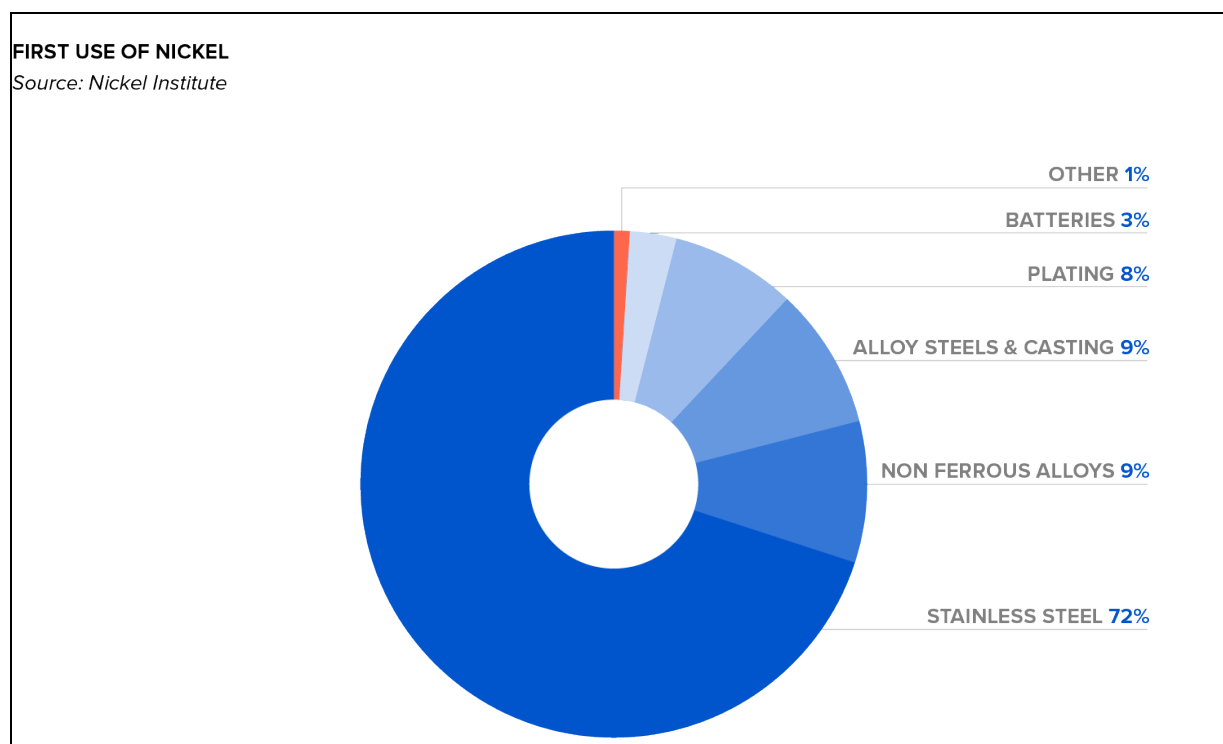
because it could not be dressed up then as part of the Green Revolution. How unglamorous is a stainless steel kitchen sink or washing machine?

The nickel crowd have spun the roulette wheel once too often and are now staggering out of the casino claiming “we woz robbed”. Our heart bleeds for them.

As for the FiFo workforce, who have pushed Western Australian wages to eye-watering levels, our advice is Shakespearian, “Get thee to a nunnery” or at least a factory job on the outskirts of Melbourne, from whence thou came. Ah, but the factories are all gone.... Tough luck.

There has been more than a little of the old tribal practice of Cargo Cultism around Battery Metals in recent times. It wasn’t that long ago that the denizens of the space were just making metals and minerals that might, or might not, end up in EVs. Then the associated elements became imbued with all sorts of powers that transcended the humdrum of digging and processing. These were metals that were saving the world. Inevitably with anything that is associated with a quasi-religious fervour, the idols may someday be found to have feet of clay and come toppling down.

Nickel, in particular, has gotten caught up in the fervour, and yet when pressed most nickel company executives would freely admit that battery applications are only a tiny fraction of the usages of the metal.



At one presentation we attended it was estimated that 20 years into the EV revolution, battery applications might take up something like 15% of nickel production. This is scarcely earth-shaking but

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was enough to set the desperados in the Nickel space off into a promotional frenzy.

Meanwhile back in the Lithium space, the spot price of Lithium has turned around, even though it is more of a fantasy number than anything else. The next step will be a sorting of the serious developers from the no-hoper junior “explorers” (who largely don’t even explore).

Live by the promote, die by the promote....

Neometals – Beyond Battery Metals

Poor old Neometals, damned if they do, damned if they don’t. Despite being a pioneer and a consistent force in battery metals, the company was one of the first to be punished for wavering in the faith and now that the whole idol of Battery Metals is wobbling on its dais, the company is punished yet again for still being connected with the space, despite its stance being a sort of post-Lithium one (pursuing recycling rather than primary production). They just cannot catch a break.

This is the longest standing constituent of the Model Resources Portfolio having been ensconced there since 2009. We may be chastised for hanging onto a name well past its use-by date, but the management has shown itself to be adept at constant reinvention and trying to get ahead of the next trend. Despite a few missteps (such as the disastrous excursion into gold at Meekatharra) the constant underlying has been its devotion to “new metals”, particularly those in battery metals.



It has also had to operate under the stern eye of the founder (David Reed, and we might remind investors that it was called Reed Resources once upon a time) who loves a dividend flow even more than

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us (and that takes some doing). He never saw an idle dollar that he did not want to distribute.

In the last few years, as the Mt Marion lithium mine was gradually let go the focus shifted to recycling of battery metals and the Vanadium slag operation in Scandinavia. This latter target we wrote up in [June of 2020](#). This pursuit though was abandoned in late October 2023 with focus pivoting to being a licensor of Vanadium recovery technology. We wonder how many takers there will be with the company not willing to pursue it itself on economic grounds. The perpetually flaccid Vanadium price is a major fly in the ointment.

This left the only mining development activity as the Barrambie Titanium-Vanadium deposit in Western Australia, which had a long history of moving from front burner to back burner but never actually getting to production. [We last focused on this in 2015](#). In more recent times, the company had been exploring in a desultory fashion a Lithium target, called Spargos in WA, but gave that the thumbs down in mid-February.

Maybe the company's new tagline of "innovative batteries recycler" will pay off at some point. Investors seem to be heading for the exits. We shall maintain the company in the Model Resources Portfolio, with a **LONG** rating, but slashing our 12-month target of AUD\$1.50 to \$0.30.

Portfolio Changes

During the month, there were no changes to the Model Resources Portfolio.

Luca Mining – Light at the End of the Mine Shaft?

This is another stock with a long trajectory in the Model Resources Portfolio. In fact, so long that it is on its third name. Luca Mining (TSX-V: LUCA; OTCQX: LUCMF; FSE: Z68) has a couple of mines in Mexico, the older of which, Campo Morado, was the original attraction for us, as we knew it as part of the Nyrstar portfolio when we used to cover that company. After Nyrstar came to grief, the asset migrated to Luca's predecessor company (Soho, then renamed Telson) and the new owner was drawn into the loving arms of Trafigura, which had got its hands on the former Nyrstar portfolio, keeping some and palming off others. The relationship with the trader has been helpful over the years in fending off creditors when things got tough, such as when Telson was suffering "shrinkage" in its shipments of concentrate.

The company was seen by us as an exposure to Zinc in an increasingly thin market for Zinc stories. It has not been a happy camper of late, as Zinc made a major retreat over the last two years, having been around \$1.60 per lb in the good old days.

In recent weeks, the company offered an update on matters at its newest development, the Tahuehueto mine which is a new underground operation in Durango State, within the Sierra Madre Mineral Belt which hosts numerous producing and historic mines along its trend. The mine though this is far from new, having been talked about for nigh on a decade. The difference being that this asset is a gold and silver mine compared to Luca's existing base metal profile. The mine is nearing completion with final

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components to be installed in early 2Q24. Despite this “under construction” vibe, the mine is actually producing with a new daily production record of 655 tonnes being hit in late February.

The company reported that commissioning was well underway and will be completed as the final circuit components are installed. The mine plan calls for the ramp-up to an approximate 1,000 tonnes per day operation during the second half of 2024.

Throughput levels are averaging approximately 65% of nameplate capacity and will progressively increase as ramp-up continues, resulting in higher concentrate production and revenues.

Meanwhile at the Campo Morado copper, zinc, lead mine in Guerrero state, the optimization program has resulted in improvements in productivity, operational efficiency and cashflow. The program aims to implement more effective mine-to-mill planning, new procedures for ore blending, increased metallurgical test work, optimized grinding and reagent dosing for improved recoveries, and phased equipment upgrades for mine and mill.

Thus far, this has resulted in higher metallurgical recoveries, higher grades in concentrate and increasing revenues. Management reported that Campo Morado is now consistently generating positive operating cash flow. With the planned production of three separate (Copper, Zinc and Lead) higher-value concentrates around mid-year, each with precious metals credits, revenue and cashflow have been projected on an upward trend for the remainder of 2024.

The stock price has been all over the place this year as the chart below shows.



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The C-Suite has once again been roiled by changes. We had originally been on excellent terms with Ralph Shearing, when he was CEO. Then there was a transition to Mike Struthers as CEO. He was brought in with a mandate to complete the construction of Tahuehueto and optimize operations at Campo Morado. Now he is becoming a technical advisor to the company. Ramon Perez, Luca's President was appointed Interim CEO, and Peter Damouni, who we have encountered before, will become Executive Director.

Management expects its operations to start generating positive cash flows in 2024. After a long wait for this story to turn we are not about to abandon it now and thus reiterate our LONG stance on the name and our 12-month target price of CAD\$0.70.

A Random Thought on Uranium Juniors

We have, as mentioned, been in a whirl of uranium talks while rebased in Buenos Aires over much of the last month. While trying to explain to financial denizens down here the dire state of uranium juniors since Fukushima we tossed out a random (totally made up) factoid that at its worst, the sum of the market caps of all the uranium juniors out there in the ASX and TSX-v marketplaces was probably less than the market cap of one Lithium wannabe, Lake Resources (ASX:LKE), at its peak valuation at around AUD\$3.5bn.

Bogus statistic that it might be, it takes quite a lot of wishful thinking to imagine that the entire universe of uranium juniors actually added up to more than what was only, in reality, a Lithium junior.

Our thesis was that if only a small amount of the gigantic pile of casino chips that had been bet on Lithium were moved over the uranium side of the (Russian?) roulette table, the lift-off for uranium could be massive.

Of course, uplift has already occurred for many Uranium juniors, with the good the bad and the indifferent lifting with the tide.

The Hunt for U in Argentina

Over the last month we have been based in Argentina as the economy (or at least the fiscal accounts) continues to be on the mend. Our main purpose though was to gauge the progress of some U stories in these parts, and it now seems likely that there will imminently be an ASX IPO with an Argentina uranium focus while an RTO of Argentine past producing assets into a TSX-v vehicle is also likely. And these are just the ones we know of...

Parting Shot

Can anyone answer us a question? What is the reason for the mindless and somewhat self-defeating practice of ASX-listed companies in producing news releases, other announcements and presentations that they then make password-protected in the pdf format so that text cannot be extracted from the documents?

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As analysts we have reason to extract lumps of text from these documents and yet were for a long-time thwarted by this idiotic practice. What would companies prefer, that those who extract/repeat information from their releases get them word-perfect or retype them with the likelihood of typos and other errors?

We have noticed that some wire services and other organs of the media must receive these in unlocked form, or they would not have been able to reproduce them word-perfect or employ the embedded images. So why are the Great Unwashed excluded?

Do the guardians of this top-secret (yet publicly-released) information not know that, by using sites such as www.ilovepdf.com, the cunning analyst can unlock the treasures they try to keep inviolate and use them with impunity? So, go ahead, lock to your heart's content, waste your time, because we will have you undone as fast as we can say, I love pdf...

Recent & Upcoming

In the last month we published an Initiation on Kobo Resources and a review of Argentina's drift to dollarization. Upcoming notes are likely to be our Initiation of First Phosphate and an Initiation of International Lithium (a likely Rubidium producer, despite its name) and our long-awaited Boron sector review. We shall also hopefully be producing more on the Tin space.

MODEL RESOURCES PORTFOLIO @ END FEBRUARY							
Security	Ticker	Currency	Price	Change		12-mth Target	
				last 12 mths	last mth		
LONG EQUITIES							
Diversified Large/Mid-Cap	Hochschild	HOC.L	GBP	0.9255	42%	-11%	£1.00
	Sherritt International	S.to	CAD	0.28	-47%	-3%	\$0.95
Uranium	Sprott Physical Uranium	U.UN.to	CAD	20.63	22%	-11%	\$20.00
	enCore Energy	EU.v	CAD	5.43	110%	-15%	\$4.90
Zinc/Lead Plays	WisdomTree Zinc ETF	ZINC.L	USD	7.99	-18%	-3%	\$14.00
	Luca Mining	LUCA.v	CAD	0.23	-41%	-18%	\$0.70
Nickel Developer	Canada Nickel	CNC.v	CAD	1.45	-6%	4%	\$2.15
Silver Explorer	Southern Silver Exploration	SSV.v	CAD	0.14	-13%	0%	\$0.40
	AbraSilver	ABRA.v	CAD	0.28	0%	-3%	\$0.84
Silver ETF	IShares Silver ETF	SLV	USD	21.13	10%	1%	\$24.00
Gold Producer	Soma Gold	SOMA.v	CAD	0.45	13%	-17%	\$0.85
	Asante Gold	ASE.cn	CAD	1.33	-21%	-11%	\$2.40
	Orvana Minerals	ORV.to	CAD	0.13	-28%	-7%	\$0.60
	Talisker Resources	TSK.to	CAD	0.31	-41%	-3%	\$1.10
Gold/Antimony Developer	Perpetua Resources	PPTA.to	CAD	4.03	-18%	4%	\$7.50
Metallurgical Coal	Colonial Coal	CAD.v	CAD	2.22	50%	3%	\$2.45
Royalties	EMX Royalties	EMX	USD	1.59	-20%	7%	\$2.50
Copper Explorers	Panoro Minerals	PML.v	CAD	0.11	0%	-8%	\$0.30
	Phoenix Copper	PXC.L	GBP	0.119	-66%	5%	£0.54
	Aldebaran Resources	ALDE.v	CAD	0.69	-25%	-14%	\$1.32
Tungsten Producers	Almonty Industries	AII.v	CAD	0.62	-16%	-11%	\$0.95
	EQ Resources	EQR.ax	AUD	0.05	-21%	-17%	\$0.06
Graphite Developer	Blencowe Resources	BRES.L	GBP	0.0438	-16%	15%	£0.09

MODEL RESOURCES PORTFOLIO @ END FEBRUARY

Security	Ticker	Currency	Price	Change		12-mth Target	
				last 12 mths	last mth		
LONG EQUITIES							
Cobalt	Jervois Global	JRV.ax	AUD	0.03	-84%	0%	\$0.15
Vanadium Developer	Vanadium Resources	VR8.ax	AUD	0.04	-33%	0%	\$0.15
Lithium	Neometals	NMT.ax	AUD	0.15	-82%	7%	\$0.30
	Century Lithium	LCE.v	CAD	0.64	-43%	49%	\$1.10
	Pursuit Minerals	PUR.ax	AUD	0.01	-55%	0%	\$0.03
Scandium Developer	Scandium International	SCY.to	CAD	0.02	-67%	-33%	\$0.10
Gold Explorer	Cabral Gold	CBR.v	CAD	0.17	42%	-6%	\$0.40
	Gunpoint Exploration	GUN.v	CAD	0.49	-11%	-11%	\$0.75
	Sanu Gold	SANU.cn	CAD	0.04	-79%	-33%	\$0.18
	Alpha Exploration	ALEX.v	CAD	0.70	1%	0%	\$1.00
	Desert Gold	DAU.v	CAD	0.06	0%	20%	\$0.16
AgroMinerals	Millennial Potash	MLP.v	CAD	0.22	-53%	-8%	\$0.32
Rare Earths	Rainbow Rare Earths	RBW.L	GBP	0.1151	6%	-14%	£0.30
	Neo Performance Materials	NEO.to	CAD	7.15	-31%	-7%	\$14.00
Tin Miners	Alphamin	AFM.v	CAD	0.86	-8%	-2%	\$1.35
	Rome Resources	RMR.v	CAD	0.19	-37%	-21%	\$0.60
	Elementos	ELT.ax	AUD	0.13	-50%	44%	\$0.38
Mineral Sands	Sheffield Resources	SFX.ax	AUD	0.52	6%	-2%	\$0.72
Oil & Gas	Shell	SHEL.L	EURO	24.745	-3%	-1%	£24.00
SHORT EQUITIES							
Shorts	NioCorp	NB.to	CAD	3.40	172%	-19%	\$4.00
	Texas Mineral Resources	TMRC	USD	0.43	-66%	23%	\$0.30
	Aya Gold & Silver	AYA	CAD	10.11	37%	-2%	\$4.50

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