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HALLGARTEN + COMPANY

Portfolio Strategy

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Model Resources Portfolio:

The Drift to War

Performance Review – September 2024

Model Resources Portfolio

The Drift to War

- **Gold starred yet again hitting new highs on international tensions**
- **Silver followed in gold's wake but, it may be recalled, the metal is still way short of the levels that it reached in the early years of last decade**
- **M&A breaking out in the Lithium space with RTZ in hot pursuit of Arcadium as a bargain buy**
- **Uranium may look slightly tarnished from its 2023 highs but the dynamics to take it higher are in full flush with even the US reopening plants and seriously considering the potential of SMRs**
- **Antimony passed $25,000 per tonne bolstered by Chinese export controls**
- **The Tin price once again managed to breach the $34,000 per tonne mark**
- **Zinc has proven to be a stealth performer in the base metals space while pundits obsess over copper**
- ✘ **Global conflicts are getting worse with the US power transition from November to January offering maybe a last window for the Chinese to move on Taiwan**
- ✘ **The Rare Earths space is down for the count and may indeed never recover to recent highs from this latest battering as monazite sands arise as an alternative source**
- ✘ **There is no end in sight to the gloom in the battery metals space**

The Drift to War

In 1939, most people in the business community had been around in 1914 and "knew the drill", yet in 2024, scarcely anyone was around in 1939 and if they were they were in a crib. We are bemused by the people who see gold as their safe haven in middle America, or other places far from the sound of gunfire or shelling. Certainly in 1939, if you were in Warsaw, gold was a useful commodity to have. In Saint Louis you weren't even allowed to own it. But who remembers that?

Its interesting also to read histories of the City of London (such as that by David Kynaston) to see the surprise with which investors faced the closure of the stock exchange (not for four days but for four years) but then again, most thought it would be "over by Christmas". In most cases, being long cash in the very short term is more useful than the relatively unfungible gold (who wants however much bread a Krugerrand buys) and definitely not shares of Aya Gold & Silver (maybe tradeable for peanuts in a bellicose scenario). Do investors think that in an escalating scenario of international tension (and calling a spade a spade, an invasion of Taiwan or things going nuclear in the Middle East) that governments in the West (particularly in light of the draconian pandemic response) will allow gold to do what it wants or shares to go on trading as if it was business as usual?

How long will copper and other base metals be allowed to trade freely before claims of profiteering (which we heard in the pandemic) start to be heard. And when the prime buyer of these commodities in the time of war would be defense departments, and their friends in the industrial-military complex, why would they allow unfettered market forces to have their way.

It was Republican president Richard Nixon, in the midst of the Vietnam War, that issued Executive Order 11615 (pursuant to the Economic Stabilization Act of 1970), imposing a 90-day freeze on wages and prices in order to counter inflation. That was the first time the U.S. government had enacted wage and price controls since the Korean War.

Then there is the battery metal complex. Never have so many Pollyannas been gathered together in one place with one mission as the join hands and sing "*kumbaya*" awaiting their recovery in sales. They wonder why spooked Western consumers aren't fighting to get into EVs, while scarcely imagining how low sales might go if no-one was interested in buying **ANY** EVs if the bullets and ballistic missiles start flying.

We leave investors with the thought, if share trading hadn't gone online in most markets in recent decades do they imagine that, in the pandemic, the trading floors of stock exchanges in days of yore would have been allowed to carry on regardless? As the pandemic showed, the tendency of governments to meddle has no limits and they have the power, the inclination and the means of suasion, to get away with it.

LME Week – Feeding Frenzy

Those who really need the sustenance of hors d'ouevres these days are the gold explorers, but they were not in evidence at LME Week. They were sitting in their frozen garrets eating mouldy bread by the light of a guttering candle. We keep repeating the mantra of the Three Ps, Production, Production, Production… and they keep repeating the mantra of Drill, Baby, Drill. Indeed, they will have it carved on their tombstones.

The end-users don't really give a damn for exploration in precious or otherwise, that is what got us to where we are now. Almost everyone was focused on the next year or maybe 2026 at a push… the exception being those interested in lithium who see the next 18 months as like a forced march through the valley of death, hoping for sunny uplands beyond 2026. We suspect they will be disappointed because there was an excessive focus on OEMs and nary a mention of the end-user. Sorry, the end-user of lithium-ion batteries is the car-buyer. Remember them? The ones who have been staring at the price tickers of EVs and baulking at pressing the "Buy" button. Look no further for the travails of the EV space than to the consumer.

Portfolio Changes

During the month, added two long positions in companies that we had met at the Nordic Mines conference in Stockholm. These were Denarius and Aura Minerals. Both are controlled to some degree by Latin American "oligarchs", Aura by Paolo Brito and Denarius by the Colombia-based Italian, Serafino Iacono,

Incidentally, for those who are still critics of our Aya Gold & Silver SHORT, we met with that company as well and saw no reason to change tack. One word sums it up, OVERPRICED.

Aura Minerals (TSE: ORA) – Gleaming in South America

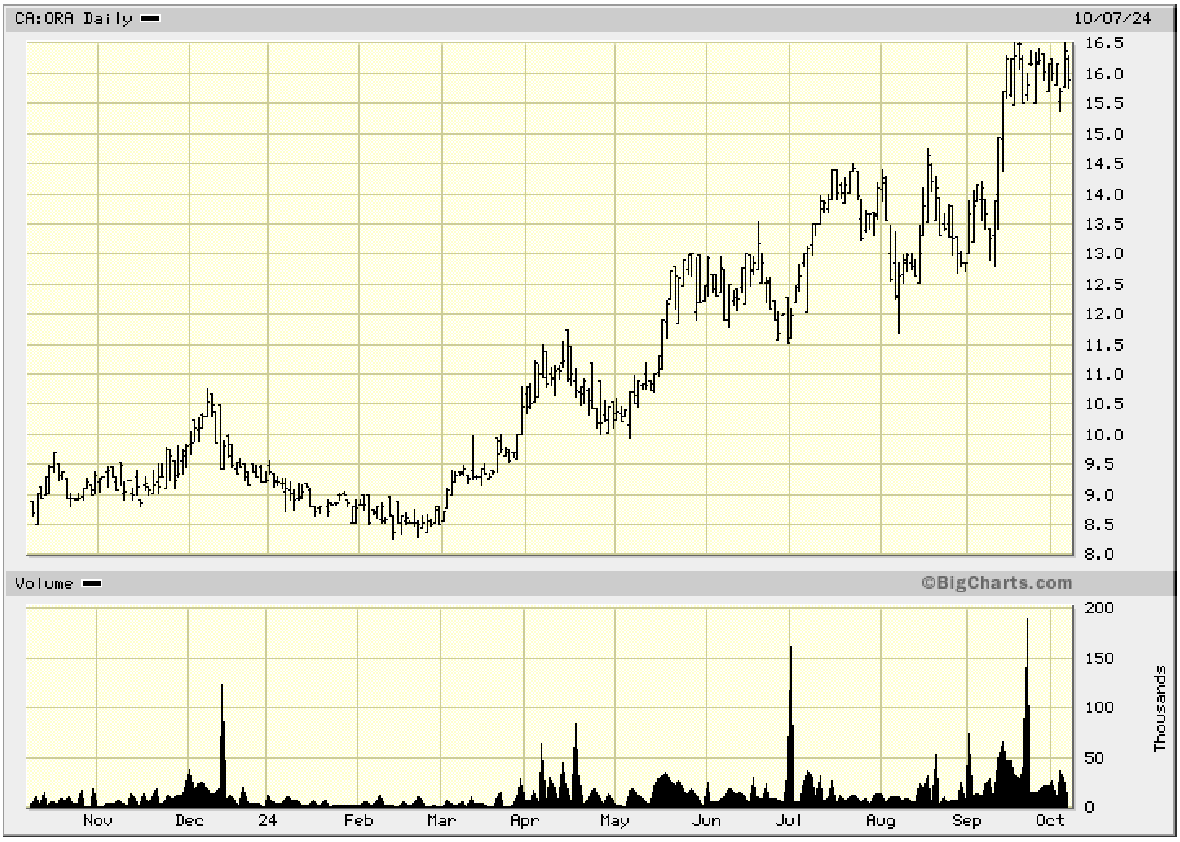
This company is oriented towards both Gold (in Brazil) and Copper (in Mexico). As mentioned, it is 55% controlled by the Brazilian magnate, Paulo Brito. It had previously come to our attention during our coverage on Gold Royalty (NYSE: GROY), as the up-and-coming royalty at that company is the flow likely to be coming from Aura's Borborema asset, which is in the process of development, but already revenue making for GROY.

We met with the CFO of the company recently at the Nordic Mines conference in Stockholm and resolved to add it to our Model Resources Portfolio as a LONG position.

The company's assts are spread around Central and South America, but the vast bulk are in Brazil.

The Mexican project, Aranzuzu, is both gold and copper. Indeed, copper revenues are 30% of the total and Aranzuzu is around 42% of total mine revenues in 2023, substantially ahead of the next contender, Minosa with 30%. Thus, to call the company, Brazilcentric would be an error.

The stock has been a stellar performer over the last 12-month, almost doubling.



The newest source of production at Aura (presupposing no acquisition in the very short term) is the Borborema mine in the small state of Rio Grande do Norte, Brazil. The FS on the Borborema project posits that construction of the mine requires a US$188mn investment. The initial operating life of the mine is 11.3 years, with the weighted average annual gold production at the mine estimated to come in at around 65k oz, based on the mineral reserves estimate.

As far as GROY is concerned this asset is already cash-flowing due to the pre-payment terms attached to the deal GROY crafted with the owners in mid-December of 2023. At that time GROY acquired a 2% net smelter return royalty on the project. It also issued a royalty-convertible gold-linked loan to Borborema Inc. (a wholly-owned subsidiary of Aura). In this transaction, GROY acquired the royalty for US$21mn and the royalty-convertible gold-linked loan for US$10mn in cash consideration.

It is worth expanding upon the details of this transaction as there are other features that make this different from a plain vanilla royalty. Amongst these are:

- the royalty will decrease to a 0.5% NSR royalty after 725,000 ounces of payable gold are produced from the project
- the remaining 0.5% NSR will be subject to a US$2.5mn buyback (at Aura's option, exercisable by the mine's owner) after the earlier of 2,250,000 ounces of payable gold being produced at the project, or 2050
- Borborema Inc. will make quarterly pre-production payments to GROY of 250 ounces of gold (1,000 ounces per year). The pre-production payments will cease upon the earlier of:
    - commencement of commercial production at the Borborema Project, being the mine achieving 75% of its planned mill throughput of 2,000,000 metric tonnes per year on average for 60 consecutive days; or
    - 10 years from the closing of the transaction.

Then, there is the US$10mn Royalty-Convertible Gold-Linked Loan. This loan is secured against certain mining concessions relating to the Borborema Project and a pledge of the shares of the Borborema Project's operating entity, with GROY's interests thereunder subordinated to senior project financing lenders. The loan is also guaranteed by Aura.

The main terms of note are:

- the loan will mature six years from closing of the transaction
- there will be quarterly coupon payments of 110 ounces of gold (440 ounces per year). Coupon payments can be made via cash settlement or physical delivery of gold.

Conversion: Upon maturity, Gold Royalty has the option to be:

- repaid $10mn cash; or
- repaid $5mn cash, plus a 0.5% NSR royalty over the Borborema Project.

In the event that GROY elects to retain a 0.5% NSR upon Conversion, the resulting 0.5% NSR will be subject to a $2.5mn buyback at Aura's option after the earlier of 2,250,000 ounces of payable gold being produced at the Borborema Project, or 2050.

The pre-production payments mean GROY will be paid in gold irrespective of Aura's progress towards production at the mine and the gold-linked loan already started contributing to earnings in 1Q24 to the tune of US$639K.

Finally, there is a novel ESG twist in that, upon commercial production being achieved, GROY will provide Borborema Inc. with a rebate of $30 per AuEq ounce payable from the royalty. These funds are earmarked for ESG-related investments by Borborema Inc., up to a maximum of $300,000.

In early May of 2024, Aura announced its 1Q24 results including an update on construction at the Borborema project. Following commencement of construction in the third quarter of 2023, Aura announced that construction is well underway with 25% completed to date, and production expected to start in early 2025.

There are many one-mine wonders in Latin America, or one country-centric miners but the broad spread of producing assets at Aura is a mighty attraction and comfort. Over and beyond this the company pays a dividend which is currently yielding around 6%.

We have added Aura Minerals with a **LONG** rating and a 12-month target price of $19.

Denarius Metals (CBOE: DMET) – Boosting Spain's Profile

After two meetings with the management/owners of Denarius Metals we decided to pull the trigger on adding it to the Model Resources Portfolio. While its website refers to it as a Canadian junior company, we think they are hiding their light under a bushel. The management is far from being lightweight with a history of being involved in Gran Colombia (now Aris Mining) and Pacific Rubiales (an oil & gas producer).

At the current moment Denarius is engaged in the acquisition, exploration, development and eventual operation of polymetallic mining projects in Spain and Colombia. These projects give it exposure to copper, nickel, zinc, lead, gold, silver, cobalt, palladium and platinum.

In Spain, the company is planning on a re-start to production within the next 12 months at the Aguablanca nickel-copper mine located in Monesterio, Extremadura. The Aguablanca's 5,000 tpd processing plant at Aguablanca is part of a strategy to advance the nearby Lomero project located within the resurgent Iberian Pyrite Belt, one of the largest districts of pyrite-rich massive sulphide deposits in the world.

In Colombia, the company is starting up production at the Zancudo project within the next six months. This is a high-grade gold-silver project that includes the historic Independencia Mine and is located within the Cauca Belt in the Department of Antioquia, about 30 km from Medellin.

Additionally, there are also several phosphorite mining rights in Boyacá which are expected to be developed to support the growth in locally-sourced fertilizer for use in the Colombian agriculture industry.

In the last month, the company announced that it had signed a binding LOI with Europa Metals (AIM: EUZ) under which Denarius would acquire 100% of the issued and outstanding shares of Europa Metals Iberia S.L., a wholly owned Spanish subsidiary of Europa, which holds the Toral Zn-Pb-Ag project in the Leon Province in northern Spain. The closing of the transaction is expected to occur by the end of October 2024.

Spain is definitely resurging, not only as a prime address for base metals in Europe but it is now globally relevant again. Meanwhile, in specialty metals like Tungsten and Tin it is back on the map (and Denarius's management has some connection with producer Strategic Minerals Europe - NEO: SNTA, FRA: 26K0, OTCQB: SNTAF – which is in the process of merging with an Iberian Lithium play). One needs to be positioned in Spain, and we have at least four exposures now to the country in the Model Portfolio.

The stock still has a rather lowly market cap as management are not aggressive promoters and being on the CBOE/NEO puts them somewhat under the radar. We have added Denarius Metals as a **LONG**, with a 12-month target price of CAD$1.15.

Parting Shot

The issue of stock buybacks doesn't come up too often for mining investors, but we have had cause in recent weeks to think about the subject. Almost not an issue in Australia and disguised in Canada under the long-winded Normal Course Issuer Bid, the basic reality is that share buybacks are bad news for smaller investors and for all long-term investors or yield-seekers, and yet they are good news for managements, above all.

They are the means by which managements seek to keep their options in the money, or put their options in the money, often at the price of depleting cash and running up indebtedness. Almost always buybacks are at the cost of lower dividends. If share price targets are also a trigger for higher compensation, then buybacks can do double duty at enhancing management compensation. The US market is the spiritual home of the buyback rort, and investors there have been bamboozled over the decades into believing the bogus mathematics that this is in some way better than dividends (not if you have a capital gains tax liability crystallised, it isn't).

While we noted that it's concealed by code language in the Canadian markets, it is still a phenomenon and is used by the *Dividend Nazis* (you know who you are – "No dividends for you!") that believe that no dividend is a good dividend when it detracts from management compensation/remuneration/option exercise price.

In Australian circles, the stock buyback (if it was even doable) would fly in the face of the need/desire to placate shareholders with a dividend. Pavlov's dogs in the ASX context are trained to respond to cash in their pockets while Pavlov's dogs in Canada are trained to salivate at cash in management's pockets. How is that for perverse!

When stockholders finally hear the penny drop that buybacks are just a mechanism for putting/keeping management options in the money then it will be a major step towards running this dubious practice out of town. Indeed, it might be an idea to move up the exercise strike price of management options by the percentage of the share capital that management buys back. Let's see if they like that.

Recent & Upcoming

In the last month we published a review of Milei's government thus far in Argentina, an Initiation on Guardian Metal Resources, an Initiation on First Phosphate and we published our presentation on Antimony (Panic in the Henhouse). In coming weeks we should publish our Tungsten review and an Initiation on Aurum Resources and 5E Advanced Materials.

MODEL RESOURCES PORTFOLIO @ END SEPTEMBER

	Security	Ticker	Currency	Price	Change last 12 mths	Change last mth	12-mth Target
LONG EQUITIES							
Diversified Large/Mid-Cap	Hochschild	HOC.L	GBP	1.872	124%	12%	£1.50
Base Metal Developers	Denarius Metals	DMET.NE	CAD	0.65	81%	16%	$1.15
Uranium	Sprott Physical Uranium	U.UN.to	CAD	19.7	15%	8%	$20.00
	enCore Energy	EU.v	CAD	5.51	23%	14%	$4.90
	Energy Fuels	UUUU	USD	5.54	-28%	13%	$7.50
Zinc/Lead Plays	WisdomTree Zinc ETF	ZINC.L	USD	10.13	16%	10%	$14.00
	Luca Mining	LUCA.v	CAD	0.47	74%	-20%	$0.70
Nickel Developer	Canada Nickel	CNC.v	CAD	1.13	-3%	11%	$2.15
Silver Explorer	AbraSilver	ABRA.v	CAD	2.57	69%	8%	$4.20
Silver ETF	IShares Silver ETF	SLV	USD	28.86	42%	10%	$24.00
Gold Producer	Soma Gold	SOMA.v	CAD	0.53	-15%	20%	$0.85
	Aura Minerals	ORA.to	CAD	16.02	91%	25%	$19.00
	Asante Gold	ASE.cn	CAD	1.44	6%	14%	$2.40
	Orvana Minerals	ORV.to	CAD	0.40	167%	18%	$0.60
	Talisker Resources	TSK.to	CAD	0.40	23%	5%	$1.10
Gold/Antimony Developer	Perpetua Resources	PPTA.to	CAD	12.87	190%	7%	$13.00
Metallurgical Coal	Colonial Coal	CAD.v	CAD	2.31	44%	-23%	$2.45
Royalties	EMX Royalties	EMX	USD	1.8	1%	7%	$2.50
Copper Explorers	Panoro Minerals	PML.v	CAD	0.29	123%	71%	$0.30
	Aldebaran Resources	ALDE.v	CAD	1.11	31%	14%	$1.32
Tungsten Producers	Almonty Industries	AII.v	CAD	0.80	60%	-1%	$1.10
	EQ Resources	EQR.ax	AUD	0.05	-29%	0%	$0.08

MODEL RESOURCES PORTFOLIO @ END SEPTEMBER

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LONG EQUITIES							
Graphite Developer	Blencowe Resources	BRES.L	GBP	0.0502	2%	-2%	£0.09
	Kingsland Minerals	KNG.ax	AUD	0.21	2%	24%	$0.45
	Applied Graphite Technologies	AGT.v	CAD	0.08	63%	-11%	$0.40
Lithium	Neometals	NMT.ax	AUD	0.14	-62%	75%	$0.30
	Century Lithium	LCE.v	CAD	0.28	-54%	8%	$1.10
Phosphate	MinBos	MNB.ax	AUD	0.058	-45%	-8%	$0.28
Scandium Developer	Scandium International	SCY.to	CAD	0.21	425%	24%	$0.10
Gold Explorer	Cabral Gold	CBR.v	CAD	0.30	150%	-3%	$0.40
	Alpha Exploration	ALEX.v	CAD	0.89	39%	-5%	$1.00
	Desert Gold	DAU.v	CAD	0.07	75%	-13%	$0.16
AgroMinerals	Millennial Potash	MLP.v	CAD	0.25	9%	25%	$0.32
Rare Earths	Rainbow Rare Earths	RBW.L	GBP	0.0996	-39%	-2%	£0.30
	Neo Performance Materials	NEO.to	CAD	8.47	5%	2%	$14.00
Tin	Alphamin	AFM.v	CAD	1.10	26%	8%	$1.50
	Rome Resources	RMR.L	GBP	0.255	n/a	-9%	n/a
	Elementos	ELT.ax	AUD	0.09	-31%	0%	$0.38
Mineral Sands	Sheffield Resources	SFX.ax	AUD	0.31	-34%	0%	$0.72
Oil & Gas	Shell	SHEL.L	EURO	24.18	-7%	-9%	£24.00
SHORT EQUITIES							
Shorts	Golconda Gold	GG.v	CAD	0.26	136%	-13%	$0.15
	Blue Lagoon	BLLG.cn	CAD	0.12	-25%	0%	$0.05
	Aya Gold & Silver	AYA	CAD	18.28	163%	22%	$4.50

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