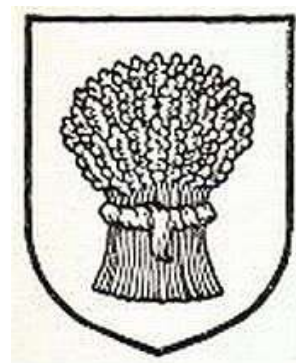


Wednesday, January 15, 2025



HALLGARTEN + COMPANY

Coverage Update

Christopher Ecclestone
ceccestone@hallgartenco.com

First Phosphate

(CSE: PHOS | FSE: KD0 | OTCQB: FRSPF)

Strategy: LONG

Key Metrics	
Price (CAD)	\$0.37
12-Month Target Price (CAD)	\$1.15
Upside to Target	211%
12mth high-low	\$0.15 to \$0.405
Market Cap (CAD mn)	\$32.86
Shares Outstanding (mns)	88.8
Fully diluted	115.7

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First Phosphate

PEA Launches the Development Phase of BLM

- + The PEA on Bégin-Lamarche project (BLM) was released in early December showing the project generating an after-tax internal rate of return (IRR) of 33% and an after-tax net present value (NPV) of CAD\$1.59bn at an 8% discount rate.
- + Initial capex of CAD\$675mn (and sustaining capex of CAD\$317mn)
- + Hot on the heels of the PEA, it was announced that two offtakes had been inked with prominent offtakers, providing impetus for undertaking the financing of development
- + First Phosphate is aiming to be the newest large producer of Phosphate in North America and the only one fully-oriented towards the lithium iron phosphate (LFP) battery format
- + The Bégin-Lamarche project (BLM) has excellent access/infrastructure and is strategically located in proximity to the port of Saguenay on the St Lawrence
- + Strong existing relations with the local First Nations looks likely to evolve into a partnership
- + Phosphate has a plethora of uses that go well beyond just the battery metal complex
- ✗ Now we must await the publication of the Feasibility Study on BLM for the CapEx (and the value-added) of the production to Purified Phosphoric Acid (PPA) to be fleshed out
- ✗ The financing environment is tough in the battery metals complex, with investors being willing to fund only projects with a realistic perspective of production.

PEA on BLM Kickstarts Development

In early December of 2024, the much-anticipated Preliminary Economic Assessment (PEA) on the Bégin-Lamarche (BLM) project was released. In management's opinion the PEA provided a potentially viable case for developing the deposit by open pit mining for the primary production of phosphate concentrate and secondary by-product recovery of a magnetite concentrate.

Significant new mine developers of Phosphate supply are very few. As for those in Quebec, that of First Phosphate has a significant advantage in being much closer to the St Lawrence Seaway. It has seized the advantage presented by the rise of the LFP format to put together a string of alliances with those involved in the new batteries and their precursor chemicals.

In this coverage update, we look at the maiden PEA just out on the Bégin-Lamarche project, the offtake announcements made just before year-end, the evolving relationship with the relevant First Nation and next steps for the project and its development.

The PEA

The release of the Preliminary Economic Assessment (PEA or Scoping Study) on the BLM project put significant flesh on the bones of a project that, to use a racing analogy, came up fast on the outside

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during 2024 and significantly overhauled the lead of First Phosphate's original target and more interestingly, pushed Arianne Phosphate's near(ish) project into a distant second place. The most salient details of the PEA are:

- Production of an annual average of 900,000 tonnes of beneficiated phosphate concentrate at 40% P₂O₅ content and 380,000 tonnes of magnetite at 92% Fe₂O₃ content
- A 23-year mine life
- The project generates a pre-tax internal rate of return (IRR) of 37.1% and a pre-tax net present value (NPV) of \$2.1bn at an 8% discount rate at an approximate three-year trailing average phosphate price plus a premium for purity and potential secure source of supply, and a two-year trailing average magnetite price (plus a premium for purity)
- The project generates an after-tax internal rate of return (IRR) of 33% and an after-tax net present value (NPV) of CAD\$1.59bn at an 8% discount rate.
- The project would generate an after-tax cash flow of CAD\$700mn in years 1 to 3, resulting in a 2.9-year payback period from the start of production. Pre-tax cash flow in years 1 to 3 is CAD\$783mn for a 2.6-year payback period
- Initial capex for the Project is of CAD\$675mn
- The Project has no outstanding royalties or financing streams registered against it.

The PEA used the Indicated and Inferred Mineral Resources published in September 2024 in its calculations.

The Maiden Resource Estimate at Bégin-Lamarche

The goal was to produce a Maiden Resource on Bégin-Lamarche during 2024 and this was duly published in late September of this year. The MRE, with an effective date of September 9, 2024, was carried out by M. Antoine Yassa, P.Geol., of P&E Mining Consultants Inc.

The MRE was based upon 120 drill holes, totalling 29,762 metres. The database contained 7,968 assays for percentage of P₂O₅, Fe₂O₃ and TiO₂. The most salient features were:

- An Inferred pit-constrained Mineral Resource: 214mn tonnes @ 6.01% P₂O₅ (phosphate)
- An Indicated pit-constrained Mineral Resource: 41.5mn tonnes @ 6.49% P₂O₅

Including Mountain Zone:

- Indicated Mineral Resource of 9.3mn tonnes @ 8.19% P₂O₅
- Inferred Mineral Resource of 6.8mn tonnes @ 8.57% P₂O₅

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Bégin-Lamarche								
Pit-constrained at 2.5% P2O5 cut-off								
	Zone	Tonnes mns	P2O5 %	P2O5 tonnes	Fe2O3 %	Fe2O3 tonnes	TiO2 %	TiO2 tonnes
Indicated	Mountain	9.3	8.19%	758,000	9.95%	900,000	3.23%	299,000
	Northern	32.2	6.00%	1,934,000	10.91%	3,500,000	3.33%	1,073,000
	Total	41.5	6.49%	2,692,000	10.69%	4,400,000	3.31%	1,372,000
Inferred	Mountain	33.2	8.57%	584,000	10.34%	700,000	3.68%	251,000
	Northern	44.3	6.98%	3,090,000	11.14%	5,000,000	3.26%	1,442,000
	Southern	162.9	5.63%	9,177,000	10.85%	17,600,000	3.73%	6,080,000
	Total	240	6.01%	12,851,000	10.89%	23,300,000	3.63%	7,773,000

Note: P₂O₅ = phosphorus pentoxide, Fe₂O₃ = iron oxide/ferric oxide, TiO₂ = titanium dioxide.

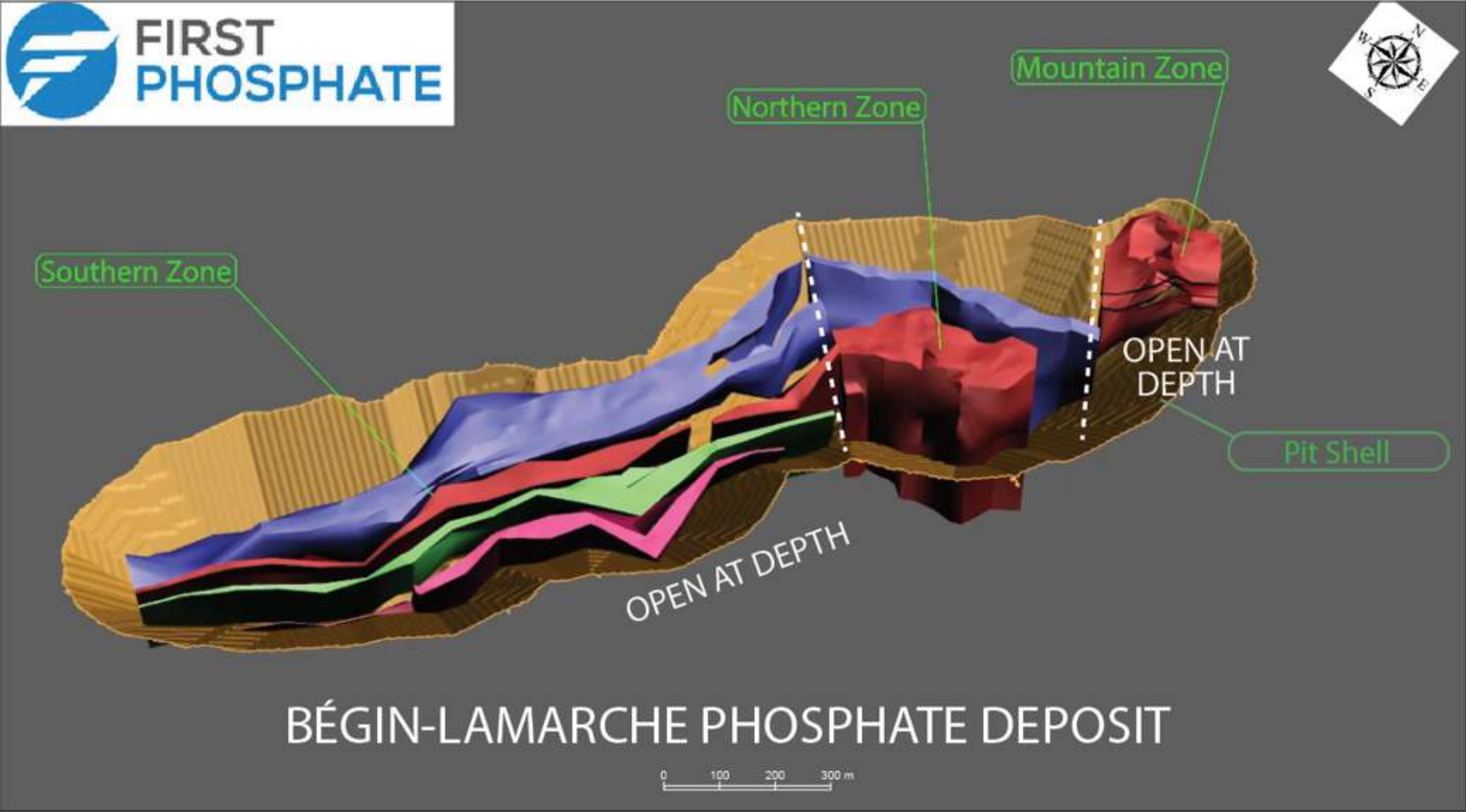
The metrics driving the P₂O₅ cut-off value included:

- US\$: CAD\$ Exchange Rate: \$0.75
- P₂O₅ Price (32%): US\$180/t (approximate two-year trailing average)
- P₂O₅ Price (40%): US\$225/t
- P₂O₅ Process Recovery: 91%
- Processing Cost: CAD\$14.00/t
- G&A: CAD\$3.00/t
- Mining Cost: CAD\$2.75/t (mineralized material and waste)
- Pit Slopes: 45°

The phosphate deposit is comprised of three mineralized zones within the deposit, as can be noted from the pit-shell cutaway on the following page.

The three zones are continuous, only separated by faults within the deposit and extend to a length of 2,500 m. The Mountain Zone is a single phosphate-bearing mass having a diameter of up to 200 m and a length of 250 m. Drilling at the Mountain Zone intersected massive apatite (phosphate-bearing mineral) veins of up to 2 m. The Northern zone is comprised of two phosphate layers ranging from 100m to 200m in thickness and a length of 600m. The Southern Zone bears four phosphate layers, one of them having up to 200m in thickness and extending to 1,700m.

The deposit is open at depth.



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Notably, the potential for by-product credits was raised by recovering two additional primary mineral products: a magnetite concentrate (iron) and an ilmenite concentrate (titanium). Additionally, the Bégine-Lamarche deposit contains very low levels of potentially deleterious elements.

Metallurgical test work indicates an anticipated apatite concentrate grade of 40% P₂O₅ at a 91% recovery.

Mine Plan

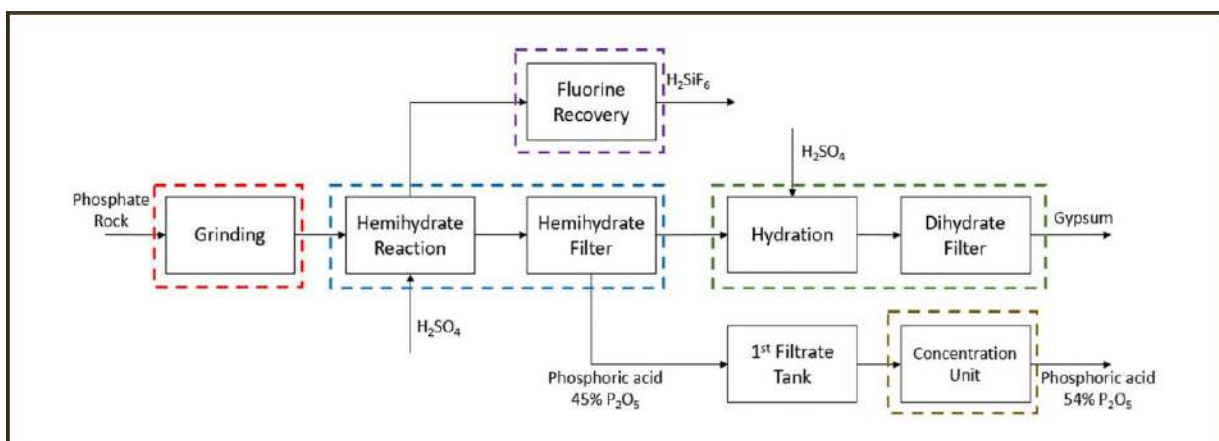
The mine plan uses conventional truck/shovel open pit methods utilizing 90-tonne capacity haulage trucks and shovels equipped with 10 cubic metre buckets. The open pit will be mined over a period of 22 production years and six months of pre-stripping. Low-grade mineralization that is stockpiled over the life-of-mine will be processed for an additional production year.

Mineralized material will be transported by haulage trucks to the nearby process plant, and waste rock will be stored at a facility located approximately 800 metres southeast of the open pit.

Backfilling of the mined-out open pit with 61mn tonnes of waste rock is planned, which will reduce the amount required to be stored on surface and lead to proactive restorative measures. Mining is to be conducted at an initial rate of 15mn total tonnes per annum (Mtpa), and will reach a peak of 28 Mtpa based on process plant feed and waste rock removal requirements.

Processing

The process plant feed is contained within an optimized subset of the Mineral Resource set out in the table above. The open pit contains 150.5mn tonnes of process plant feed (inclusive of mining dilution and loss factors) averaging 5.76% P₂O₅ and 10.32% Fe₂O₃. The process plant feed is associated with 219mn tonnes of waste rock and overburden resulting in an overall life-of-mine strip ratio of 1.5:1.



Met Work

Extensive metallurgical testing was carried out at SGS, Quebec City. The test work has indicated process

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recoveries of phosphate and magnetite to be reasonably high and relatively consistent. The most recent tests focused on circuit stability and maximizing concentrate recovery. Elements of potential concern in traditional phosphate operations based on sedimentary phosphate deposits used for fertilizers are not an issue since the Bégin-Lamarche Mineral Resource is based on a clean igneous rock deposit.

Moreover, the low sulphur content suggests the tailings material would not create an environmental risk for acid generation or for metal leaching. Lastly, dry stack tailings and waste rock management are designed for closure and the elimination of concerns for acid drainage or metal leaching.

Operating Costs

Operating Costs - BLM PEA	
CAD\$	
Mining cost per tonne mined material (e.g. waste and mineralised material)	\$2.73
Mining cost per tonne - process plant feed	\$6.71
Processing cost per tonne feed	\$12.56
G&A per tonne of process plant feed	\$1.28
Tailings and water management	\$3.45
Concentrate handling & transport	\$4.31
Total cost per tonne - Process plant feed	<u>\$28.31</u>

Capital Costs

At the right can be seen the PEA's estimate of the likely initial (and sustaining) capex.

The actual kickstarting of the mining (the pre-strip) is not substantial with the processing plant being the main component of the capital budget.

Unlike so many, it is interesting that First Phosphate prefers to price out its project in Canadian dollars.

Capital Expenditures		
CAD\$ mns	Initial	Sustaining
Open Pit Equipment & Pre-Strip Mining	6	100
Process Plant - Equipment & Building	262	63
Mining equipment (leased)	23	
Tailings Management Facility	29	39
Indirects/EPCM & Owner's Costs	154	4
Site Infrastructure	89	45
Sub total	<u>563</u>	<u>251</u>
Contingency (at 20%)	<u>112</u>	<u>50</u>
Total Initial Capital	<u>675</u>	<u>301</u>
Reclamation		16

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The Attractions of Bégin-Lamarche

While the principal project until 2023 was that at Lac à l'Original, with a resource and PEA in hand, the other project at Bégin-Lamarche came up fast as a challenger in the race to development, due to infrastructure considerations and a welter of excellent exploration results coming through. Bégin-Lamarche is closer to port and with better road access than Lac à l'Original or Ariane Phosphate's Lac à Paul project.

Over and beyond the mineralogical attractions of the deposit the infrastructure factors, when placed in the balance, are heavily in Bégin-Lamarche's favour, including:

- Workforce at 5-7 kms proximity
- Outside of snow belt
- On municipal land
- On (5kms) hydro-electric power grid
- Near provincial highways
- Near port (as previously mentioned)
- Near to the Hébertville-Station intermodal truck-to-rail facility

The project being sited here also has the support of the two municipalities and the local indigenous group.

The Port

In October of 2022, the company signed an MOU with the port of Saguenay. The MOU engages discussions between the parties to provide potential deep-sea access to ship phosphate concentrate internationally and greenfield land on which to build its facilities. The deal comes on the heels of the Quebec Premier Francois Legault's electoral commitment to invest CAD\$117.2mn in infrastructure at the Port of Saguenay.

In March of 2024, the company signed an MOU with Groupe Goyette. First Phosphate and GG are to work towards determining the rail line options for the movement of the company's products and supplies to and from Saguenay and the rest of North America through the Hébertville-Station intermodal facility owned and operated by GG.

The map that follows shows the relationship of Bégin-Lamarche to the port at Saguenay, the NATO air force base, the Hébertville Station intermodal rail station and First Saguenay secondary processing facility for iron phosphate precursor.



By-Products

To keep things simple in our already over-complex Initiation we did not dwell upon the other potential by-products of BLM. These are Iron Oxide, Titanium, Gypsum and Fluorine. The resource statement on page 10 shows the Fe & Ti component of the resource. The gypsum and fluorine outputs come from the process flowsheet on page 6.

First Saguenay – Putting Together the Jigsaw

In early September of 2024, the company announced that it had secured a facility lease for a 10,000 tonne per annum iron phosphate cathode active material precursor (pCAM) plant. Iron phosphate is a key precursor used in the production of cathode active material for LFP batteries. The First Saguenay Facility has been tight-sized at a capex of US\$65mn.



The leased facility is in Saguenay (La Baie). The establishment of the First Saguenay plant should lead to the creation of approximately one hundred new high-tech jobs in the Saguenay-Lac-St-Jean Region.

First Saguenay is intended to work synergistically in the transformation and value-added processing of the feedstock from the PHOS's proposed mining operations, which are located approximately 80 km and 120 km from the plant. First Saguenay has a strategic logistical advantage located some 20 kms from the deep-sea port of Saguenay.

Meshing with the Feasibility Study

The company has begun the first phase of its project feasibility study with Ultion Technologies, a US-based company that is a pioneer in the LFP battery industry. The study is to determine the infrastructure required to support the permit applications as well as the lease facility retrofitting

requirements.

The technology to be implemented is proven and already operating in two other facilities in the world, one with a capacity of 10,000 tonnes per annum and another with a capacity of 50,000 tonnes per annum. As a result of the industrial capacity of the chosen technology, First Saguenay expects to be able to move directly into commercial-size, scalable production without having to go through a pilot stage.

Initial production from First Saguenay is anticipated for the first quarter of 2026 to meet anticipated demand from existing partners, American Battery Factory and Ultion, as well as other potential clients in the fields of energy storage, electric vehicles and specialized battery products with which the PHOS is in advanced discussions.

The Offtake Deal

In a somewhat mysterious, but momentous, announcement on the 18th of December of 2024, the company announced that it had signed two long-term offtake agreements with “creditworthy” offtake partners for its future output from the facility in Saguenay-Lac-St-Jean. The two deals significantly de-risked the project, whilst enhancing the prospective financing thereof.

The definitive terms of the offtake agreements shall be finalized in separate agreements to be entered into between the parties. The agreements contain termination rights by the Purchasers if the first delivery of product is not made by a certain date unless the parties agree to an extension as well as other normal course termination provisions. The commencement of the industrial is subject to a number of conditions, including permitting and financing which the Company continues to work towards diligently.

First Nations – Advancing Together

At the same time as the offtakes were announced the company also signalled that it was entering the next phase of discussions with the Pekuakamiulnuatsh First Nation regarding a possible financial involvement in First Phosphate.

The project site is within the ancestral lands of the Pekuakamiulnuatsh Takuhikan First Nation, which confers certain rights to indigenous peoples in the area. A formal collaboration agreement with Pekuakamiulnuatsh Takuhikan First Nation was signed on April 9, 2024 which includes the ability for the First Nation to become involved financially in the mining activity and other related downstream facilities to be developed by First Phosphate.

Its interesting to note that this, in particular, are noted for their proactivity, an example of which is their relationship with Rio Tinto Aluminium, dating back to an accord in 2022, and to their recent Supreme Court victory against the province of Quebec in establishing their rights to an adequately funded police force.

Additional and Deeper Partnerships

In recent times, late November, the company agreed a strategic collaboration with GKN Hoeganaes, a division of GKN Powder Metallurgy and one of the largest iron powder producers globally. This partnership is seen as heading towards the goal of establishing a North American supply chain for LFP batteries.

The partnership follows upon GKN Hoeganaes' successful integration of magnetite from Begin Lamarche into its proprietary Ancorsteel melting process. This innovative process has led to the development of a high-purity iron powder, which serves as a precursor for lithium iron phosphate cathode active material. It is intended that GKN Hoeganaes will scale up its Gallatin, Tennessee operations, already the world's largest steel atomizing plant, and will be providing its research and development facilities in Cinnaminson, New Jersey, for process enhancement and optimization.

A key differentiator of this newly developed Ancorsteel material is its composition of sustainable North American iron scrap and magnetite, aligning with non-FEOC standards for domestic production.

The company has also deepened further its relationship with the Belgian group, Prayon. In early December it signed a technology license agreement with Prayon SA for the technology to produce merchant grade phosphoric acid (MGA) from igneous apatite phosphate rock as well as high-purity gypsum.

Prayon will grant First Phosphate a license to use its technology to design, build, operate and maintain, within Canada, a Merchant Grade phosphoric acid manufacturing plant, with a production capacity of 600 metric tpd per day of P₂O₅.

First Phosphate selected Ballestra S.p.A. of Milan, Italy from a group of official permanent licensees of Prayon to fulfill the service agreement for the engineering services portion (FEED and EPC/EPCM) for the project.

Financing

On December 18th of 2024, the company announced the launch of a non-brokered private placement for gross proceeds of a minimum of CAD\$1mn, which was anticipated to consist of any combination of:

- Flow-through shares at a price of \$0.35 per share
- Hard dollar units at a price of \$0.35 per Hard Dollar Unit

Each Hard Dollar Unit is made up of:

- (i) one common share, and
- (ii) one half of one purchase warrant, with each whole warrant exercisable for one common share at a price of \$0.50 per share until December 31, 2025

The issued securities will be subject to a four-month and one day statutory hold.

Each warrant entitles the holder thereof to acquire one share at a price of \$0.50 each until the 31st of December 2025, provided that if the volume weighted average trading price of the common shares for any five consecutive trading days equals or exceeds \$0.80. Additionally, the company may accelerate the expiry date of the warrants.

In the first days of 2025, the company announced that the company had raised total gross proceeds of \$2,695,459. The company issued 7,448,455 Flow-Through Shares for gross proceeds of \$2,606,960 and 252,857 Hard Dollar Units for gross proceeds of \$88,500.

Risks

It is important to highlight some of the potential risks for First Phosphate and thus one should consider:

- ✘ Financing challenges
- ✘ Phosphate (and potential PPA) price fluctuations
- ✘ Entry of other challengers to the PPA space
- ✘ Other battery formulations advance more rapidly

Financing challenges come with the territory in the mining space. As noted, the company has aspirations to JV with various of the PPA producers or technology developers to build plants to capture the value-added and enhance margins. However, in the first instance it needs to fund the initial mine and that should be around CADUS\$675mn which it must either source itself or by taking on a strategic partner.

It is key to remember that First Phosphate is not dependent upon the EV boom. Its product is readily sellable even in the context that EV's had never been invented or even heard of. While EV demand and uptake of LFP formulations adds icing to the cake of potential markets, it is not the be-all-and-end-all.

At the current time there are no other advanced developers in the Phosphate space that are targeting the marketplace in the way First Phosphate has been doing. Additionally, its alliances, while not precluding major players doing deals with other potential entrants, do give the company a significant advantage over other interlopers.

Novel battery formulations are appearing at a steady pace but as the industry advances, the cost of switching formats for end-users (e.g. retooling) becomes more disruptive to their business models and credibility.

Conclusion

The publication of the PEA on Bégin-Lamarche more than justifies the decision to pivot from the original project that First Phosphate targeted for its aspirations in becoming North America's next Phosphate producer. The size of the deposit, the stronger grades and the by-product potential combine with a plethora of infrastructure and positioning advantages to make BLM the most doable new phosphate project on the drawing boards.

First Phosphate has become a company on a mission to secure partnerships on all fronts and at all levels to ensure the best & brightest are applied to the task of establishing it in the value-added part of the battery chain and ensuring North American offtakers for its eventual production out of its properties in the Saguenay-Lac-St-Jean areas of Quebec.

The next step at Bégin-Lamarche is to publish a Feasibility Study (adding the value-added PPA production plans). This would put the company on the road to a development decision. The whole battery metal space is in somewhat of a swoon of late, so the focus now shifts to tying in offtakers/partners and starting along to road to project financing.

Therefore, we are reiterating First Phosphate with a **LONG** rating and upping our 12-month target price to CAD\$1.15.



Appendix I: PPA

The Icing on the Phosphate

The new applications in the EV industry have the potential to not only be enormous but also change the direction of travel of battery formulations. The mineral has already been long in use as the electrolyte in Li-Ion batteries but now is part of the challenger battery cathode material, Lithium Iron Phosphate (LFP), to the “inevitability” of Lithium Ion’s coronation as the be-all-and-end-all for EV energy storage.

The company’s thesis is that, with anticipated primary recovery of a >40% pure phosphate concentrate, amongst the world’s purest, this will be ideal for the creation of large quantities of PPA for the LFP battery industry. 90% of such concentrate can be converted into battery-grade PPA and thereby by passing the fertilizer markets entirely and focusing strictly on the value-add battery market. Added to this are secondary recoveries of ilmenite (~39% TiO₂) and magnetite (~68% Fe) which should greatly reduce costs of production of the Phosphate concentrate. The company is advanced in investigating the potential to upgrade the magnetite recovered into iron powder: this is equally valuable material input in the LFP Cam production process which also has a scarcity factor in North America.

The Shifting Tides of Battery Metal Formulations

As we noted in our Initiation, a scramble has developed by OEMs and others to evolve, and trial, other metal formulations to short-circuit (pardon the pun) the Li-ion dominance. With this goal, Lithium Iron Phosphate (LFP) batteries have been making a push for breaking Lithium-ion’s dominance, with some success so far in heavyweight formats, such as buses.

LFP’s major commercial advantages are that it poses few safety concerns such as overheating and explosion, as well as long cycle lifetimes, relatively high power-density and has a wider operating temperature range. Power plants and automobiles use LFP.

The Strategy

Early on, First Phosphate teamed up with Queen’s University. In their opinion, although enormous reserves of phosphate rock exist, only a small portion is ideally suited for LFP battery production. The raw material for cathode manufacture is generally constrained by the supply of pure phosphoric acid with low trace element concentrations.

The university’s research showed that phosphatic ores derived from anorthosites (< 3 ppm of Cd, Pb, U, and Th) may be the best source to produce much larger quantities of purified phosphoric acid with low levels of deleterious trace elements (90% feedstock conversion for igneous phosphate vs generally 20% for sedimentary ores). To that end the company has focused its attentions on that mineralisation and

partnerships that can mobilise First Phosphate's potential output of Purified Phosphoric Acid, inserting the company in the value-added chain of LFP's in North America.

The igneous phosphate ore found at the Bégin-Lamarche project is mostly from nelsonite and oxide-apatite-mafic-ultramafic rocks. The P_2O_5 of the ultramafic rock ranges from 2.6% to 15.0 wt.%. The average P_2O_5 grading of the phosphate is 6.01%. Testing suggests that the phosphate ore from this deposit could produce a high-quality phosphate concentrate with a P_2O_5 content of ~40.9 wt.%, which is above the global average P_2O_5 of marketable phosphate concentrates produced from igneous ore from other countries (36.9 wt.%).

Process

The process for creating PPA is three-stage:

- Phosphate-bearing rock is crushed and processed to obtain Concentrated Phosphate Rock (25%-41% purity level). Sedimentary Rock (25%-34%). Igneous Rock (38%-41%)
- The concentrated Phosphate rock is then processed into medium-purity Merchant Grade Phosphoric Acid (MGA) for fertilizer and animal feed
- The next stage in upgrading takes Merchant Grade Phosphoric Acid (MGA) via further processing to Purified Phosphoric Acid (PPA)

Awaiting the Feasibility Study to Quantify PPA Potential

All this discussion leads to the question of what relevance is this to First Phosphate when its extant PEA is based upon essentially selling a Phosphate product to global markets that does not include the value-added of a PPA upgrading component. This absence leaves a large part of the story untold for while it involves a significant CapEx component (possibly as high as CAD\$500mn) for constructing a PPA plant at Saguenay, it also omits the much higher revenue potential from production of the elaborated product, that could generate revenues per tonne of final product that are six-times those for the fertilizer product.

The granular details of this aspect awaits the Feasibility Study before this component is brought into focus.

Important disclosures

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