Trickle Research

Every raging river, every great lake, every deep blue sea starts … with a trickle

Allocation Decrease & Target Increase

Texas Mineral Resources Corp.

(OTC: TMRC)

Report Date: 06/09/20

12- 24 month Price Target: **$3.25

Allocation: *4

Closing Stock Price at Initiation (Closing Px: 02/18/20): $.84

Closing Stock Price at Allocation Increase (Closing Px: 03/30/20): $.60

Closing Stock Price at Target Increase & Allocation Decrease (Closing Px: 06/08/20): $2.03

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Disclosure: Portions of this report are excerpted from Texas Mineral's filings, website(s), presentations or other public collateral. We have attempted to identify those excerpts by *italicizing* them in the text.

We initiated coverage of Texas Minerals on February 18, 2020 with an allocation of 4 and a price target of $1.80. Thereafter on March 30, 2020 we raised our allocation from 4 to 5 after the stock traded down during the throes of the pandemic. Since that time, the stock has advance markedly, and on May 27, 2020, the stock breached our $1.80 price target and has subsequently traded as high as $2.65. Moreover, what is perhaps more impressive is that on December 10, 2019, Texas Mineral shares traded at $.25. On December 10, 2019, the US Army made the following announcement:

U.S. Army will fund rare earths plant for weapons development

(Reuters) - The U.S. Army plans to fund construction of rare earths processing facilities, part of an urgent push by Washington to secure domestic supply of the minerals used to make military weapons and electronics, according to a government document seen by Reuters.

The move would mark the first financial investment by the U.S. military into commercial-scale rare earths production since World War Two's Manhattan Project built the first atomic bomb.

It comes after President Donald Trump earlier this year ordered the military to update its supply chain for the niche materials, warning that reliance on other nations for the strategic minerals could hamper U.S. defenses.

China, which refines most of the world's rare earths, has threatened to stop exporting the specialized minerals to the United States, using its monopoly as a cudgel in the ongoing trade spat between the world's two largest economies. "The U.S. rare earths industry needs big help to compete against the Chinese," said Jim McKenzie, chief executive officer of UCore Rare Metals Inc (UCU.V), which is developing a rare earths project in Alaska. "It's not just about the money, but also the optics of broad support from Washington."

The Army division overseeing munitions last month asked miners for proposals on the cost of a pilot plant to produce so-called heavy rare earths, a less-common type of the specialized minerals that are highly sought after for use in weaponry, according to the document. Responses are due by Dec. 16. UCore, Texas Mineral Resources Corp (TMRC.PK) and a joint venture between Lynas Corp (LYC.AX) and privately-held Blue Line Corp are among the expected respondents, according to company officials and sources familiar with the matter. The Army said it will fund up to two-thirds of a refiner's cost and that it would fund at least one project and potentially more. Applicants must provide a detailed business plan and specify where they will source their ore, among other factors. This latest move by the Army, a division of the Pentagon, comes after a military study earlier this year on the state of the U.S. rare earths supply chain.

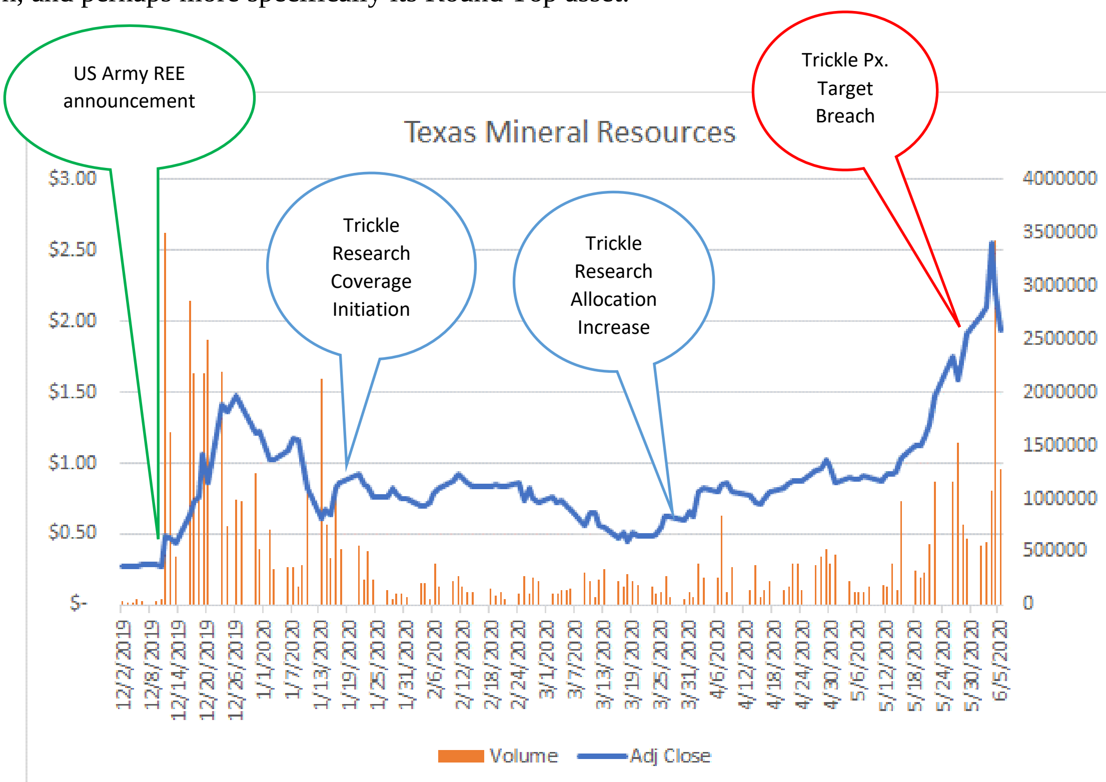
The rare earths tension between the U.S. and China goes back to at least 2010, when China limited exports to Japan after a diplomatic dispute, sending prices for the niche metals spiking and fueling concerns across the U.S. military that China could do the same to the United States. The U.S. Army Combat Capabilities Development Command Chemical Biological Center and the U.S. Army headquarters did not respond to requests for comment. The request does not give a specific financial amount the Army could fund, though it is derived in part from the Defense Production Act (DPA), a 1950s-era U.S. law that gives the Pentagon wide financial latitude to procure equipment necessary for the national defense.

A rare earth processing pilot plant could cost between $5 million and $20 million, depending on location, size and other factors, with a full-scale plant potentially costing more than $100 million to build, industry executives said. "It's great to see interest in financially supporting the industry from the Department of Defense," said Jon Blumenthal, CEO of Blue Line Corp, which earlier this year signed a memorandum of understanding to build a rare earth processing facility in Texas with Australia-based Lynas Corp

(LYC.AX). Blumenthal declined to comment when asked if Blue Line will respond to the Army's request. Lynas declined to comment.

It is not clear how the Army will rank the responses given that much of the rare earths industry expertise is now located in China, though the modern rare earths industry itself had its genesis in the United States decades ago. "Instead of providing funds for yet another study, this allocates money toward establishing a U.S.-based rare earth supply chain," said Anthony Marchese, CEO of Texas Mineral Resources, which is developing the Round Top mine in Texas with USA Rare Earth LLC ("USARE"). After processing, however, rare earths need to be turned into rare earth magnets, found in precision-guided missiles, smart bombs and military jets and China controls the rare earths magnet industry, too. The Pentagon has not yet launched an effort to finance domestic magnet manufacturing. "Closing the magnet gap would do more to address the nation's defense needs, and as well the needs of electric vehicle makers and others," said Ryan Castilloux, managing director with Adamas Intelligence, a research firm that closely tracks the rare earths industry.

Clearly, the Army's announcement has had a significant impact on the perceived valuation of Texas Mineral's valuation, and perhaps more specifically its Round Top asset:



As we noted in our allocation update on TMRC, we think the pandemic has illuminated a creeping problem that has gone unnoticed by many. That is, large portions of the supply chain(s) for many goods that have essentially been taken over by the Chinese. We won't go down the rabbit hole of debating the economic or political discourse around the costs and benefits of "free trade", as if such a thing has actually existed over the past century or more, but we will suggest that the pandemic has raised new awareness and perhaps alarm over at least some of the goods we rely on. Succinctly, while we are not going to suggest that the pandemic may result in more television sets or plastic spoons being manufactured in the U.S rather than in China, we absolutely think it may result in marked changes in the supply chain for more critical products, and that will likely include things like pharmaceuticals, medical equipment and, more than likely, rare earth elements. We think the recognition of that likelihood, as much as anything, is responsible for the stark expansion of the TMRC's valuation.

In addition to the above, the Company has also provided two additional announcements that we think provided added positive data points. First, they announced that their development/funding partner USA Rare Earth LLC, *"purchased the neodymium iron boron (NdFeB) permanent magnet manufacturing equipment formerly owned and operated in North Carolina by Hitachi Metals America, Ltd*.". Secondly, they announced that they (Texas Mineral Resources and USA Rare Earth LLC) *"successfully completed its Phase I bench scale testing at Inventure Renewables, Inc.'s laboratory in Tuscaloosa, Alabama*". We will briefly unpack these milestones.

In our initiating coverage we suggested that rare earths are not all that rare. That is, they are more abundant that the name implies, however, they typically do not occur in grades/concentrations that are economically feasible. Furthermore, the metallurgy/processing required to commercialize them has also proven expensive and, in some instance, technically challenging as well. In short, we think viable rare earth projects will require a favorable mix of grades, metallurgy and processing capabilities in order to be economically viable at foreseeable RRE prices. For instance, a domestic rare earth deposit that could be mined but would have to be shipped to China for processing would obviously do little to reduce RRE dependence on China. We think each of the above announcements address TMRC/USARE's potential ability to provide an integrated solution to bring their Round Top resource from the ground to a fully processed commercial product(s). As a result, we think each is additive to TMRC's relative valuation. To reiterate, we think viable domestic rare earth projects are going to have to include processing, which likely speaks to the U.S Army's willingness to support the processing end of the supply chain. Specifically, while we think TMRC/USARE would welcome assistance from the U.S Department of Defense or other federal agencies/programs, we do not think that sort of support will be critical to their ability to develop a scalable and economically viable project. We suspect that may not be the case for some other domestic projects currently being developed/considered.

Just to elaborate on the prior processing point we just raised. We have listened in on some conference calls with other domestic mining companies that have from time to expressed concerns over their ability to procure processing services for their concentrates. Over the years, domestic smelters and other processing facilities have been shuttered over economic and/or environmental issues, so domestic miners often must ship concentrates abroad. For instance, a recent article (https://www.thoughtco.com/the-20-largest-copper-refineries-2339744) notes that *"Four of the five largest copper refineries—and 10 of the top 20—are located in mainland China. The five largest alone have a combined capacity of over 7 million metric tons or about 33% of global capacity"*. Here again, we won't belabor the point, but all of this is part and parcel to the notion of our growing dependence on China for critical products and/or portions of the same and what we think is likely to be federal efforts to curb at least some portion of that.

We would raise one additional point before we cut to the conclusion to all of this. As we noted in the initiating coverage, TMRC is not responsible for the cost associated with the development pf Round Top as their partner USA Rare Earth LLC's "earn-in" covers much of that. As a result, TMRC has a relatively small burn rate and as such is (favorably) not likely dependent on considerable continued capital raises to fund ongoing operations. Further, they have approximately $3 million worth of warrants and options that are comfortably in the money and that we think are likely to be exercised. We have seen some of those exercised in recent quarters and we believe that will continue providing them added liquidity/working capital. We have reflected that in our model assumptions. That capital many (or may not) help advance some of the other Company initiatives we touched on in the initiating coverage.

Lastly, our initiating coverage provided a set of valuation matrices around various assumptions including production and pricing iterations provided by the third party Preliminary Economic Assessment completed on the Round Top project, in the context of various other valuation and project finance assumptions we included in that assessment. Our initial 12-24 month price target of $1.80 was based on our own “blending” of that analysis at the time. Succinctly, we think there have been some additional developments since that initiation that may support a new/higher price target. For example, while we addressed this in our allocation upgrade, we think the pandemic has sharpened the focus on the U.S.’s dependence on China, and we think rare earth elements are likely to be topical in that regard. Further, since we remain quite confident in the Round Top resource itself, we tend to believe that the greater risks to the story’s path to commercialization lie in the downstream portion of the project. As we alluded, we think the two announcements referenced above speak (positively) to those downstream risks. On the other hand, the stock has come a long way in a short period of time and as we noted, has already breached our target. As those familiar with our research platform/approach will recognize, that scenario *generally* leads us to either terminate the research because the stock has met our expectations, establish a new (higher) price target, or establish a new (higher) price target **and** downgrade our allocation based on the expanded valuation of the company from our initiating prices. All things considered (emerging macro issues and positive processing data points) we think higher targets are defensible. Keep in mind, some of our matrices reflected base case valuation targets in excess of $4.00 per share and more aggressive scenarios in excess of $5.00 per share. Consequently, we are establishing a new 12-24 month price target of **$3.25 based on what we think is going to be a more bullish environment for viable domestic REE projects. At the same time, given the marked advance in the stock price (especially in the context of our allocation increase around the marked *decline* in the stock in March) prudence dictates that we reconsider our allocation as well, and as a result we are reducing our allocation from 5 to *4 given that valuation expansion. We will again reassess our targets and our allocations as new information arises.

Projected Operating Model

Texas Mineral Resources, Inc.						
Projected Operating Model						
By: Trickle Research						
	(Actual)	(Actual)	(Estimate)	(Estimate)	(Estimate)	(Estimate)
	11/30/2019	**2/29/2020**	**5/31/2020**	**8/31/2020**	**Fiscal 2020**	**Fiscal 2021**
OPERATING EXPENSES						
Exploration costs	$ 1,033	$ 5,153	$ 18,878	$ 93,484	$ 118,548	$ 122,104
General and administrative expenses	$ 89,082	$ 226,884	$ 191,532	$ 200,000	$ 707,498	$ 747,198
Total operating expenses	$ 90,115	$ 232,037	$ 210,410	$ 293,484	$ 826,046	$ 869,302
LOSS FROM OPERATIONS	**$ (90,115)**	**$ (232,037)**	**$ (210,410)**	**$ (293,484)**	**$ (826,046)**	**$ (869,302)**
OTHER INCOME (EXPENSE)	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Loss on settlement of accrued liability	$ -	$ (66,335)	$ -	$ -	$ (66,335)	$ -
Non-Cash Interest Expense	$ -	$ -	$ -	$ -	$ -	$ -
Other Income	$ -	$ -	$ -	$ -	$ -	$ -
Interest and other expense	**$ (3,507)**	**$ (2,747)**	**$ (2,500)**	**$ (2,499)**	**$ (11,253)**	**$ (9,986)**
Total other income (expense)	**$ (3,507)**	**$ (69,082)**	**$ (2,500)**	**$ (2,499)**	**$ (77,588)**	**$ (9,986)**
NET LOSS	**$ (93,622)**	**$ (301,119)**	**$ (212,910)**	**$ (295,983)**	**$ (903,634)**	**$ (879,288)**
Net loss per share:						
Basic and diluted net loss per share	**$ (0.00)**	**$ (0.01)**	**$ (0.00)**	**$ (0.00)**	**$ (0.01)**	**$ (0.01)**
Basic and diluted	**56,218,132**	**58,645,926**	**62,671,921**	**65,186,141**	**60,680,530**	**69,376,507**

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Portions of this publication excerpted from company filings or other sources are noted in *italics* and referenced throughout the report.

Rating System Overview:

There are no letters in the rating system (Buy, Sell Hold), only numbers. The numbers range from 1 to 10, with 1 representing 1 "investment unit" (for my performance purposes, 1 "investment unit" equals $250) and 10 representing 10 investment units or $2,500. Obviously, a rating of 10 would suggest that I favor the stock (at respective/current levels) more than a stock with a rating of 1. As a guideline, here is a suggestion on how to use the allocation system.

Our belief at Trickle is that the best way to participate in the micro-cap/small cap space is by employing a diversified strategy. In simple terms, that means you are generally best off owning a number of issues rather than just two or three. To that point, our goal is to have at least 20 companies under coverage at any point in time, so let's use that as a guideline. Hypothetically, if you think you would like to commit $25,000 to buying micro-cap stocks, that would assume an investment of $1000 per stock (using the diversification approach we just mentioned, and the 20-stock coverage list we suggested and leaving some room to add to positions around allocation upgrades. We generally start initial coverage stocks with an allocation of 4. Thus, at $1000 invested per stock and a typical starting allocation of 4, your "investment unit" would be the same $250 we used in the example above. Thus, if we initiate a stock at a 4, you might consider putting $1000 into the position ($250 * 4). If we later raise the allocation to 6, you might consider adding two additional units or $500 to the position. If we then reduce the allocation from 6 to 4 you might consider selling whatever number of shares you purchased with 2 of the original 4 investment units. Again, this is just a suggestion as to how you might be able to use the allocation system to manage your portfolio.

For those attached to more traditional rating systems (Buy, Sell, Hold) we would submit the following guidelines.

A Trickle rating of 1 thru 3 would best correspond to a "Speculative Buy" although we would caution that a rating in that range should not assume that the stock is necessarily riskier than a stock with a higher rating. It may carry a lower rating because the stock is trading closer to a price target we are unwilling to raise at that point. This by the way applies to all of our ratings.

A Trickle rating of 4 thru 6 might best (although not perfectly) correspond to a standard "Buy" rating.

A Trickle rating of 7 thru 10 would best correspond to a "Strong Buy" however, ratings at the higher end of that range would indicate something that we deem as quite extraordinary..... an "Extreme Buy" if you will. You will not see a lot of these.