

Trickle Research

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



Research Update



Texas Mineral Resources Corp.

(OTC: TMRC)

Report Date: 09/02/20

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

Closing Stock Price at This Update (Closing Px: 09/02/20): \$1.51

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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.

Yesterday TMRC released an interesting bit of news that we thought was topical:

<https://www.globenewswire.com/news-release/2020/09/01/2087264/0/en/USA-Rare-Earth-Commends-Bipartisan-Bill-Introduced-in-the-U-S-House-of-Representatives-to-Encourage-Domestic-Rare-Earth-Production.html>

Essentially, the release addresses recent legislation in the U.S. House of Representatives supporting domestic production of rare earth elements and other strategic metals. This legislation is similar to that being advanced by Senator Ted Cruz (R-Texas) aimed at the same.

Recall, in our initial coverage, we noted that the prospects for Federal support of domestic rare earth projects was a major tenant of our enthusiasm for Texas Minerals. We think that notion created interest in the stock prior to our coverage as well as thereafter. Conversely, we have also believed that the failure of the Federal government to follow through on some of those anticipated endeavors was/is also one of the risks in the stock. We think it is fair to say that a handful of potential domestic REE players (viable or otherwise) have seen their market caps expand presumably on these prospects, so the inverse would likely have the opposite negative impact. That said, the announcement above provides additional support to the notion that the U.S. may be headed down the right path in terms of fostering domestic RRE production and that could involve multiple positive data points for domestic producers.

First, the fact that legislation appears to be gathering bipartisan support is clearly positive. Given the political climate these days, there appear to be very few issues with bipartisan support. Again, to circle back on something from our prior research, we have also been of the view that the results of the upcoming election could impact the federal government's stance on REEs. Clearly, RRE production includes mining and processing, neither of which is exactly a cornerstone of the "Green New Deal". To cut to the chase, our view has been that the prospects of future domestic REE production are better given the election of some legislators/parties than others, and we do not think that is a particularly provocative political view, it just reflects the general optics of some versus others in terms of domestic mining and associated production. On the other hand, as we sit here today, "green energy" requires REEs, so at some point even those pushing that agenda will likely need to come the realization that domestic REE production will likely be necessary for the expansion of green energy in the U.S. While we still think the election will matter in terms of the overall support of domestic REE production, in our view, news like the above that suggests bipartisan support, may reduce the risk of that outcome.

Secondly, we are certainly not experts on the status of other potential domestic REE projects, but we do know a bit about the challenges the industry has faced in the past, and while a new playing field will certainly mitigate some of those, others will remain. Successful domestic producers will still need to be able to find and develop scalable resources with adequate grade and metallurgic properties to support their businesses. Again, we are not versed in the prospects of others, but we continue to believe that the Round Top project checks all of those boxes. Further, as we have delineated prior, we believe the Round Top resource can support a mine life (or potential scale) well beyond that which is addressed in the Company's associated economic assessment. Moreover, we also still believe that Round Top can be competitive internationally *without federal assistance*, which could presumably provide a premium to the project in the event of new federal intervention.

Third, much of the narrative these days talks about REEs in generic terms. Keep in mind, there are 15 to 17 "rare earth elements" depending how one wants to count them, and they are all used for different (although sometimes inclusive) products/technologies. Therefore, supply and demand will almost certainly determine the value of each, and some will prove more valuable than others. That is, the success of REE projects in part will likely be determined by which REEs they can predominantly produce. Again, as we sit here today, the heavy rare earths appear to be more valuable than the lighter rare earth elements, and we believe Round Top includes significant heavy rare earth characteristics.

Circling back, domestic legislation around REEs will be telling for the industry's success. As we understand the bills being crafted today, it appears that legislation could provide nuances that are similar to those we have seen

in the past in terms of other government supported industries. Those industries would include things like alternative fuels, renewables and others, and in most of those cases, the industries were supported by tax incentives, favorable government loans, direct investments, or other approaches essentially aimed at bolstering the internal rate of return of these projects to encourage investment. To reiterate, we have always approached the Round Top resource as one that could achieve viability without these types of incentives, so at least conceptually, government incentives would likely provide an additional valuation element that we have not included in our analysis.

We believe the project continues to move towards definitive feasibility and information like the above enhances the prospects of that outcome. We remain bullish on TMRC.

Projected Operating Model

Texas Mineral Resources, Inc.						
Projected Operating Model						
By: Trickle Research						
	(Actual)	(Actual)	(Estimate)	(Estimate)	(Estimate)	(Estimate)
	<u>11/30/2019</u>	<u>2/29/2020</u>	<u>5/31/2020</u>	<u>8/31/2020</u>	<u>Fiscal 2020</u>	<u>Fiscal 2021</u>
OPERATING EXPENSES						
Exploration costs	\$ 1,033	\$ 6,187	\$ 69,212	\$ 93,484	\$ 169,916	\$ 175,013
General and administrative expenses	\$ 89,082	\$ 315,965	\$ 226,798	\$ 200,000	\$ 831,845	\$ 782,816
Total operating expenses	\$ 90,115	\$ 322,152	\$ 296,010	\$ 293,484	\$ 1,001,761	\$ 957,829
LOSS FROM OPERATIONS	\$ (90,115)	\$ (322,152)	\$ (296,010)	\$ (293,484)	\$ (1,001,761)	\$ (957,829)
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)	\$ (6,254)	\$ (3,430)	\$ (2,499)	\$ (15,690)	\$ (9,986)
Total other income (expense)	\$ (3,507)	\$ (72,589)	\$ (3,430)	\$ (2,499)	\$ (82,025)	\$ (9,986)
NET LOSS	\$ (93,622)	\$ (394,741)	\$ (299,440)	\$ (295,983)	\$ (1,083,786)	\$ (967,815)
Net loss per share:						
Basic and diluted net loss per share	\$ (0.00)	\$ (0.01)	\$ (0.01)	\$ (0.00)	\$ (0.02)	\$ (0.01)
Basic and diluted	56,218,132	57,432,029	57,448,168	63,613,669	58,677,999	67,804,035

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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.