

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: 02/04/21

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: 02/04/21): \$1.96

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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.

Just a quick note to address a recent announcement that is quite topical to TMRC:

FEBRUARY 2, 2021(Reuters)

USA Rare Earth LLC has hired bankers to explore going public in a deal that could value the strategic minerals company at more than \$1 billion, according to a source familiar with the matter and documents seen by Reuters.

The company, which is developing the Round Top rare earths deposit in Texas, is considering an initial public offering (IPO) or going public via a special purpose acquisition company (SPAC), though it does not plan to issue debt, according to the source and documents.

Any offering is expected to raise between \$300 million to \$500 million, which would be used in part to finance the Texas mine and processing facility. The company hopes to have it operating by 2023.

Investors are growing more interested in exposure to rare earths, 17 minerals used to build weapons and electronics. China is the world's largest producer and has threatened to stop exporting these minerals to the United States.

Goldman Sachs Group Inc and BMO are serving as advisors to USA Rare Earths. Company representatives did not immediately respond to a request for comment.

Goldman also is handling the company's negotiations with potential customers.

Reviving domestic rare earths production has become a priority in Washington as relations with China have grown more frayed, and with U.S. lawmakers leery of relying on a rival for critical defense components.

U.S. President Joe Biden has repeatedly said he wants to boost manufacturing, a goal that likely would require more domestically-produced minerals. He plans to issue an executive order this month mandating a review of critical U.S. supply chains, sources separately told Reuters on Tuesday.

USA Rare Earth rival MP Materials Corp, which controls California's Mountain Pass mine, went public last year in a SPAC deal worth nearly \$1.5 billion. Its stock price has more than doubled since its November debut.

A SPAC is a shell company that raises funds in an initial public offering (IPO) with the aim of acquiring a private company, which then becomes public as result of the merger. For the company being acquired, the merger is an alternative way to go public over a traditional IPO.

The U.S. Department of Defense has awarded grants to several rare earths producers in the past year, including MP as well as Australia's Lynas Rare Earths Ltd , in an attempt to boost domestic production. The Pentagon has not given grants to USA Rare Earth or partners.

USA Rare Earth, which is developing the Texas site with Texas Mineral Resources Corp, has said it does not need U.S. government funding to advance its development plans.

[Exclusive: USA Rare Earth to explore public offering at value above \\$1 billion | Reuters](#)

We think this announcement helps validate our thesis regarding the potential value of Roundtop, and by extension, our associated price target of Texas Mineral Resources Corp. By the way, it also validates the same vision (valuation) that TMRC management has articulated as well.

Recall USA Rare Earth is TMRC's investor/partner at Roundtop. In short, USA Rare Earth put up \$13 million and TMRC put up (ultimately) 80% of Roundtop. Doing some simple math, if the proposed IPO happens at a \$1 billion valuation for USA Rare Earth, that means they are valuing 80% of Roundtop at \$1 billion, which means TMRC's 20% of Roundtop would be valued at \$250 million. If we adjust for outstanding dilutive instruments, that will peg the value of TMRC's shares (relative to the proposed IPO valuation) at somewhere between \$3.50 and \$4.00. Moreover, presumably, if people are buying a USA Rare Earth IPO at a \$1 billion valuation, it is because they expect it to be worth more than that in the future, which suggests that perhaps TMRC could be worth more than that comparative valuation implies as well. To translate, we think our price target is reasonable.

On another front, we think this announcement provides some cover to what we have always viewed as one of the more cogent risks to TMRC vis-à-vis their relationship with USA Rare Earth and their minority status regarding Roundtop. Specifically, we had the opportunity to discuss Roundtop with USA Rare Earth management when we were conducting our due diligence prior to our initiation. We discussed a concern with them that we had at that time that went something like this. If they were putting up \$13 million for 80% of Roundtop, what would prevent them from developing the asset to some point and then selling it for a considerable profit to someone else? **Hypothetically**, if they put up \$13 million and were offered \$300 million would they sell it? Obviously, in that case TMRC's share would be worth about \$60 million, which coincided with the market cap of TMRC at the time of our initiation (and well below our respective price target). We attempted to describe that risk in the initial coverage as follows:

...On the flip side, the nature of their agreement provides for USA Rare Earth to exert considerable influence on the trajectory of the project, including perhaps the ultimate sale of the project if that proves to be topical.

While USA Rare Earth assured us that they fully understood the ultimate value of Roundtop, which we interpreted to mean they would have no interest in selling it for \$300 million, that risk has remained topical to us. That is, we certainly could not fault USA Rare Earth for selling something they paid \$13 million to acquire, for 80% of \$300 million. Succinctly, an IPO valued at \$1 billion would both validate US Rare Earth's intentions, as well as their assessment that Roundtop is worth considerably more than our (hypothetical) \$300 million example. Again, if this transaction comes to pass, it will negate what we have continued to view as one of the biggest risks to TMRC's position.

Granted, contemplating a \$1 billion IPO and actually executing on it are two different things. However, we view this announcement as highly positive, again in the context of our initial thesis regarding the same.

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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.