

Trickle Research

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



Allocation Upgrade



TEXAS
MINERAL
RESOURCES
CORP.

Texas Mineral Resources Corp.

(OTC: TMRC)

Report Date: 09/28/21

12- 24 month Price Target: \$3.25

Allocation: *5

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 Allocation Upgrade (Closing Px: 09/27/21): \$1.44

**Prepared By:
David L. Lavigne
Senior Analyst, Managing Partner
Trickle Research**

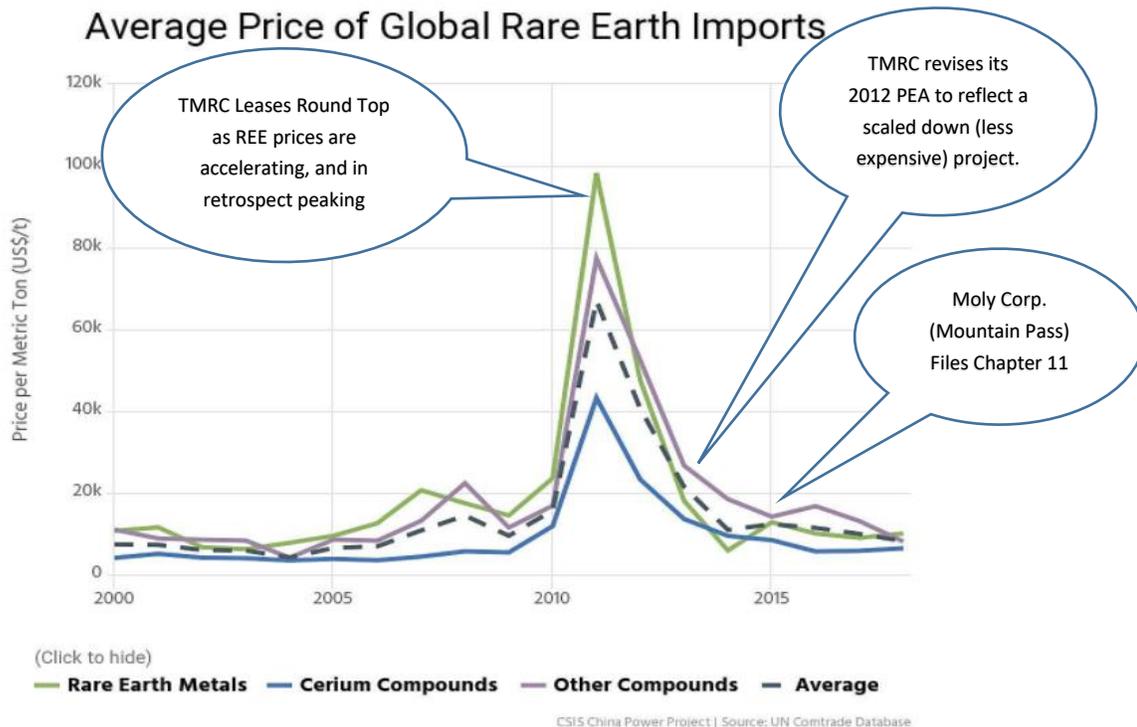
Disclosure: Portions of this report are excerpted from Texas Mineral's filings, website(s), presentations or other public collateral. We have attempted to identify those excerpts by *italicizing* them in the text.

It has been a few months since we updated TMRC, however, the Company’s current posture does not lend itself to a stream of new developments. To edify, the Company’s primary asset consists of a 20% ownership in a Texas rare earth elements project called Roundtop. We will provide some added color around that, but to our point about the lack of new developments, as a minority participant in the project, there is not much they can do to advance the asset, so again, there is not always a lot to talk about here. That said, there have been a few developments along the way that are worth reviewing, and perhaps more importantly, we think the recent retracement of the stock provides some consideration as well.

Below is a recap of some of the projects most salient points from our initiating coverage and some added color following each:

- Round Top is a 950-acre rare earths project in Hudspeth County, Texas. The property is located 85 miles east of El Paso, Texas and is supported by both power and rail accessibility in close proximity. *Round Top is a small mountain, one of a group of five that comprise the Sierra Blanca. It is approximately 1,250 feet high and 1 mile in diameter.* Studies reflect that Round Top includes 364 million tonnes of measured & indicated resources amenable to heap leach extraction and its rhyolite cap is almost continuously mineralized with relatively consistent grade. The project hosts a large range of critical Rare Earth Elements, lithium, high-tech metals Uranium and Beryllium, most of which are critical elements required by the United States; both for national defense and industry. The Company and its partners believe the project has the potential to become one of the lowest-cost REE projects in the world.

The Company began prospecting Round Top 14 years ago (2007), which lead to their signing of two mineral lease agreements with the Texas General Land Office, in 2011. Those leases included Round Top and other adjacent acreage. Thereafter the Company continued development work at Round Top which included the completion of a Preliminary Economic Assessment (“PEA”) that originally contemplated a 20,000 tonne per day heap leach operation using a conventional element separation plant. That said, prevailing REE prices (and other associated events) from the time of the Company’s initial leasing of Round Top through much of the subsequent development was in our view quite telling with respect to TMRC’s path. The chart below provides some color in that regard:



Reviewing the chart above, we think it is fair to say that TMRC's leasing of Round Top coincided at least in part with the acceleration of REE prices in and around that time. To that end, the Company raised \$19 million in the fiscal year ended August 31, 2011, ostensibly on the prospects of developing Round Top and in the context of exploding REE prices. We would add, that raise contemplated (among other expenses) a fiscal 2012 budget of \$9 million for exploration and development at Round Top, which they subsequently invested in the project. Also, just as a point of reference, when TMRC shares hit their all-time high in May 2011, the Company's market capitalization was roughly 2X the market capitalization of the stock today, although we certainly believe the project has advanced markedly since that time.

As one might glean from the chart, the continued slide in REE prices muted TMRC's prospects as well, and in late 2013, the Company revised its (2012) PEA to address the viability of a scaled down operation to "*better fit with the present rare earth market*". Clearly, the industry, was beginning to feel the effects of lower REE prices and as it turned out, those prices would persist for years, following the 2011 peak. As a result, in mid-2015 Molycorp, which operated the Mountain Pass Mine in California, filed Chapter 11 bankruptcy. At that time, Mountain Pass was the only domestic operating REE mine in the nation, and today (following a reorganization of the assets) remains the only rare-earth mining and processing facility in the United States.

Clearly, the industry's contraction put a halt to The Company's progress at Round Top, which we think included its access to capital, which brings us to our next bullet point.

- ***In August 2018***, we executed a joint venture agreement with Morzev PTY LTD, doing business as USA Rare Earth ("Morzev" or "USA Rare Earth"), to develop the Round Top Project. Terms of the agreement require Morzev to expend up to \$10 million to produce a bankable feasibility study. The funds will be allocated in two tranches, the first of \$2.5 million to optimize and finalize the metallurgical processing, and the remaining \$7.5 million to be used to fund the engineering, design, geotechnical work, and permitting necessary for a bankable feasibility study. Upon completion of these funding milestones, Morzev will earn and own 70% of the Round Top Project and will have a six-month option to purchase an additional 10% (bringing its ownership in the Round Top Project to 80%) for a purchase price of \$3 million. In August 2019, Morzev assigned its ownership right to USA Rare Earth LLC.

At the time, we would argue that the signing of this JV in 2018 was a bit of a milestone for TMRC. While the Company had demonstrated an ability to raise capital and advance the project in conjunction with rising REE prices (2011) doing the same to continue to advance the project in 2018 in the face of subsequently diminished REE enthusiasm was another matter. Moreover, as the PEA contemplated, even on a "scaled down" basis, getting the project to the point of a Definitive Feasibility Study ("DFS") would have required considerably more capital and considerably more dilution to TMRC. How much capital and how much more dilution? USA Rare Earth paid \$10 million for the first 70% of Round Top, which has been spent in further development including the updated (2019) Pre-Feasibility Study (PFS) and the Colorado pilot processing plant. Moreover, they recently raised an additional \$50 million to support the completion of the DFS and includes the construction of an onsite demonstration plant as well various associated permits. Our point is, while TMRC gave up a considerable portion of the project, they gained a partner that has done what it was supposed to do in terms of moving the project towards commercialization as well as paying for it along the way. The two bullet points below provide some added color to the revised PEA as well as USA Rare Earth's additional raise and purchase of their remaining 10% of Round Top:

- ***In August 2019***, we published a Preliminary Economic Assessment ("PEA") prepared in accordance with Canadian NI 43-101 specifications. The PEA calls for a 20,000 tonnes per day heap leach operation producing three basic revenue streams, one a REE stream, second a tech metal stream that includes lithium and uranium, and a third consisting of a variety of industrial and fertilizer sulfate products. That

PEA is the basis for much of our valuation/target assessments. A copy of this PEA is available at: <http://usarareearth.com/>.

- ***On May 20, 2021, USA Rare Earth LLC and Texas Mineral Resources Corp. (OTCQB: TMRC) announced that USA Rare Earth has exercised its option to acquire 80% of the Round Top Heavy Rare Earth, Lithium and Critical Minerals Project in Hudspeth County, Texas, under the terms of the 2019 Amended and Restated Option Agreement as amended and approved by TMRC shareholders.***

USA Rare Earth recently completed a Series C Funding round of \$50 million and is now funded through the completion of the Definitive Feasibility Study (DFS), which includes the Pre-Feasibility Study (PFS), the Pilot Plant and a Demonstration Plant to be built at the Round Top site later this year which will include test heap leach pads and continuous ion exchange (CIX) processing. The Demonstration Plant will support the DFS and permitting as well as producing representative materials for evaluation by prospective customers. The Round Top joint venture has received construction stormwater permits from the Texas Commission on Environmental Quality (TCEQ) and has commenced a 20,000 tonne bulk sample to support the feasibility studies and the Demonstration Plant.

According to USA Rare Earth LLC:

“... the Preliminary Economic Assessment (dated August 16, 2019) projects a pre-tax net present value using a 10% discount rate of \$1.56 billion based on a 20-year mine plan that is only 13% of the identified measured, indicated and inferred resources. The PEA estimates an internal rate of return of 70% and average annual net revenues of \$395 million a year after average royalties of \$26 million a year payable to the State of Texas.

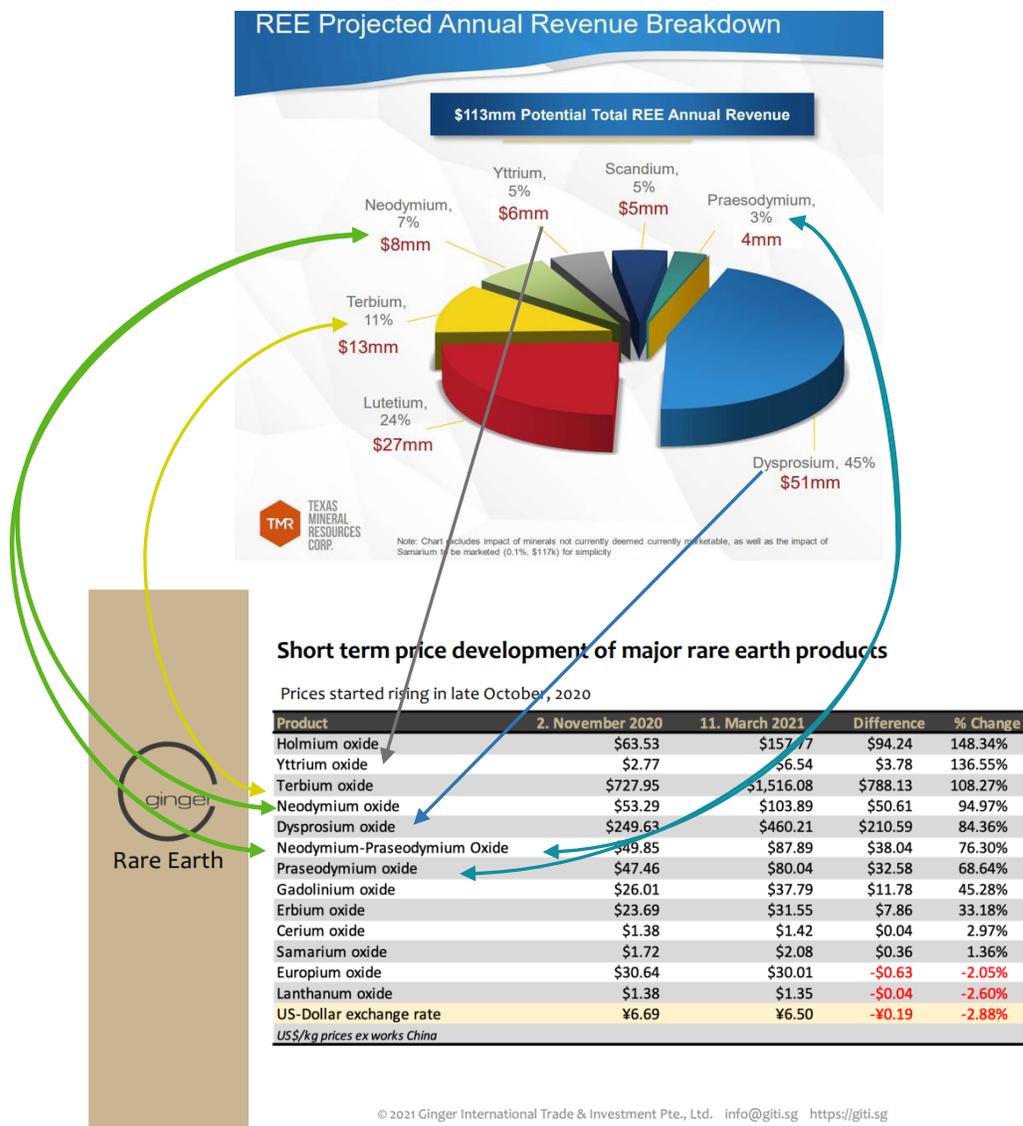
*Based on the cost estimates set forth in the PEA, Round Top would be one of the lowest-cost rare earth producers, and one of the lowest cost lithium producers in the world. The Round Top Deposit hosts 16 of the 17 rare earth elements, **plus other high-value tech minerals (including lithium), including 13 of the 35 minerals deemed “critical” by the Department of the Interior and contains critical elements required by the United States, both for national defense and industry.** Round Top is well located to serve the US internal demand. In excess of 60% of materials at Round Top are expected to be used directly in green or renewable energy technologies. In 2020 USA Rare Earth opened a rare earth and critical minerals processing facility in Wheat Ridge, Colorado and in April 2020 USA Rare Earth acquired the neodymium iron boron (NdFeB) permanent magnet manufacturing system formerly owned and operated in North Carolina by Hitachi Metals America”.*

The highlighted portion of the narrative above is quite important, and we suspect it may be a portion of the Round Top story that is overlooked or perhaps not well understood. That is, while we think it is fair to say that Round Top and by extension, Texas Mineral Resources, has been painted as a rare earth story, there is more to this than that. With that said, the rare earth portion of the story is (again) probably the most topical/recognized, so we will start there.

First, the rare earth narrative has a handful of primary bullet points. Rare earth elements have several high value uses. These include some of the world most promising and green technologies including electric vehicles, cell phones, biopharma applications and a host of others. The Chinese control most of the world’s production and processing supply, which is problematic on various levels. As a result, the U.S. government (as well as other western governments) have expressed marked concerns about the importance of these metals in the context of China’s dominance therein. Consequently, the U.S. government as well as others, have suggested a willingness to support domestic production of these elements. The reality of those suggestions remains to be seen, but

regardless of government intervention, most of the industry analysis of REEs suggest that demand is likely to outrun supply for these elements in the intermediate and longer terms, and for some of these elements (largely the “heavy” rare earths that Round Top contains) in the near terms. To that end, our experience is that that it is not easy to find consistent data on (changing) REE prices, but there does appear to be some analysis that suggests prices for some of the elements are rising. For instance, the following report from Ginger International Trade & Investment Pte., Ltd., entitled *Rare Earth Industry Association Webinar on Rare Earth Market and Geoeconomics*, provides some interesting information: [20210311-Web-Presentation-Webinar-REIA.pdf \(giti.sg\)](https://www.giti.sg/20210311-Web-Presentation-Webinar-REIA.pdf).

The information there suggests that several of the REEs that Texas Mineral’s PEA and associated presentations delineate are experiencing measurable price increases. Below is a representation of that wherein we have tied TMRC’s anticipated Round Top production data to the specific element prices reflected in the Ginger International report. Notice, 6 of the 7 most stark increases came from elements contained in the PEA production/revenue assessment. Further, one of those Dysprosium, represents a considerable portion of Round Top’s (collective) production. We would add, while Holmium is listed on the Ginger International price chart, and not on the Round Top production illustration, the Round Top resources does happen to include Holmium as well:



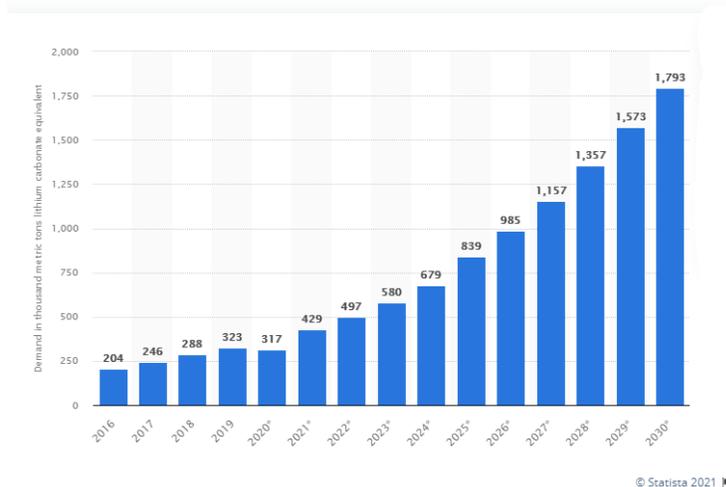
Our point here is, while the 2019 PEA estimates “an internal rate of return of 70% and average annual net revenues of \$395 million a year after average royalties of \$26 million a year payable to the State of Texas”, that number (beyond the assumptions of the PEA) and at least conceptually TMRC’s valuation get larger each time those prices go up. By the way, we would encourage readers to look over the Ginger International report as it is insightful.

Secondly, as we alluded to above, while Round Top’s REE deposits may be the most topical part of the story, they are not the only or even the largest anticipated contributor to the valuation assessment. As TMRC’s graphics below points out, the PEA suggests that revenues from the “technology metals” portion of the resource will likely outrun the REE production value, 60% of which they believe will come from lithium:

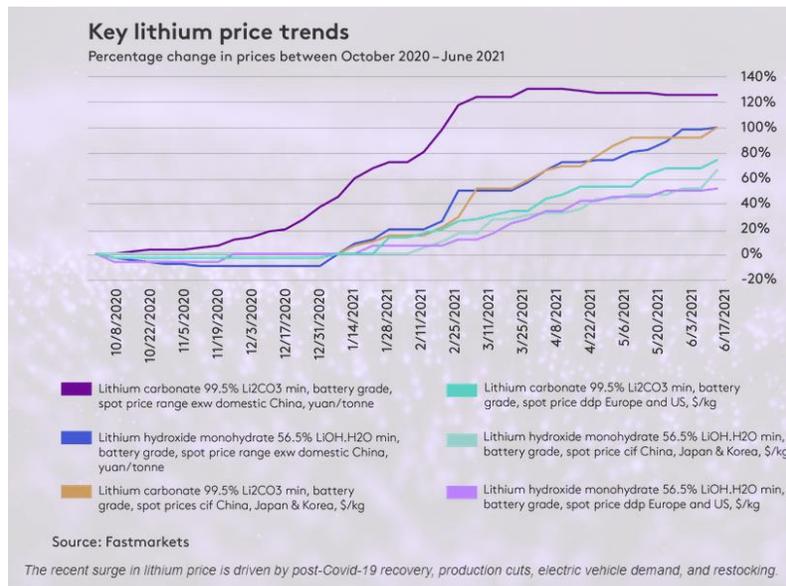


Anyone familiar with the electric vehicle and/or the green energy technology industries is also likely familiar with lithium’s expected role in those. Succinctly, from the perspective of many industry analysts, lithium demand is expected to rise dramatically over the next decade. This is Statista’s projection, but there are many like it:

Projection of total worldwide lithium demand from 2016 to 2030
(in 1,000 metric tons of lithium carbonate equivalent)



The above noted, like many of the REE prices, lithium prices have been firming as well:



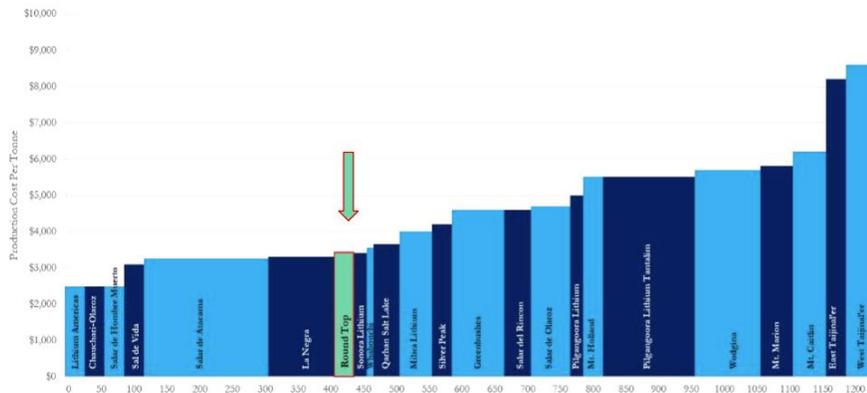
Here again, higher assumed lithium prices should lead to higher assumed values of Round Top and by extension TMRC. on the other hand, we submit, the lithium market can probably be described as more competitive and perhaps transparent than most of the individual REE markets, and probably less likely to attract government assistance. That is another way of saying that while the prospects of new lithium projects may certainly be bolstered by demand projections like the above, their cost structures (as opposed to their geographic locations) will likely determine their success or failure. From that perspective, as USA Rare Earth's graphic below suggests, they expect Round Top to be a viable lithium producer *from a cost perspective*. Actually, despite potential help from the U.S. government for domestic REE projects, for instance Congress's recent introduction of the Rare Earth Magnet Manufacturing Production Tax Credit Act, they believe Round Top's REE cost profile will be highly competitive regardless. In our view, those economic advantages are highly constructive for Round Top and by extension, Texas Mineral Resources.

ROUND TOP ADVANTAGE IN LITHIUM



Round Top Is Projected To Be One Of The Most Cost Competitive Producers In The World

- While Round Top is a hard rock mine, the lithium recovery process is comparable to a low-cost brine process using ion exchange / chromatography (CIX/CIC) and membrane technologies.



Source: Goldman Sachs (October 2019) Morgan Stanley (November 2019)

<https://insights.fastmarkets.com/why-there-is-still-time-to-avoid-a-lithium-supply-crunch-final/>

Lastly, we think it is worth starting to consider the bigger picture with TMRC. Recall, the stock's highs of mid-February (2021) coincided with their Round Top partner's announcement earlier in that month:

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 GS.N and BMO BMO.TO 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.

We think it is reasonable to suggest that this announcement provided some validation for the PEA assumptions of a \$1.56 billion PV10 valuation, which in turn provided an associated catalyst for TMRC shares.

Frankly, at that time, TMRC shares probably traded through their intrinsic value based on a 20% ownership of a Round Top. That is, 20% of the *Preliminary Economic Assessment's* (dated August 16, 2019) projection of a pre-tax net present value using a 10% discount rate of \$1.56 billion based on a 20-year mine plan that is only 13% of the identified measured, indicated and inferred resources, would equate to \$312 million, or roughly \$4.00 per basic share. To edify, that PEA NPV does not include any value for the considerable resource beyond the 20-year horizon contemplated in the PEA. That is worth noting because while discounting has a way of valuing long time horizons at close to nothing, the size of the resource could make the project amenable to a larger 20-year production profile. That analysis (all other things remaining equal) could significantly impact the associated NPV to the upside. As a result, we view the PEA valuation of the Round Top resource relative to its size, as a visible potential upside valuation catalyst.

Returning to USA Rare Earth's May (2021) announcement, we believe their \$50 million raise and subsequent \$3 million purchase of the remaining contractual 10% of Round Top from TMRC is further validation of the project. We do not think USA Rare Earth would have raised an additional \$50 million (or their investors would have invested it) unless they remained constructive on Round Top's prospects. While in our view, that amounted to an additional positive data point, TMRC shares have discounted further from their trading level at that time. We find that a bit perplexing. Now to that "bigger picture" comment we posited above.

From the narrative of their February announcement, it appears to us that the end game for USA Rare Earth is a public transaction. In that event, there will be two public entities sharing ownership of Round Top; TMRC (20%) and USA Rare Earth/PubCo. (80%). It is hard for us to imagine why TMRC would want to continue as a public entity whose sole asset is an unconsolidated/minority position in an asset shared with another public entity that owns the consolidated/majority portion. It is our belief that if Round Top continues to successfully move towards commercialization (regardless of how they get there) TMRC will ultimately seek to monetize that asset in the most tax advantaged way possible for their shareholders. Put another way, we do not see TMRC owning 20% of Round Top as the business plan going forward. We know for instance that they have pursued some potential silver assets in New Mexico, so our speculation is that they may add other projects going forward. The \$3 million payment from USA Rare Earth may (or may not) assist those efforts. Obviously, success in that regard could

provide added valuation catalysts beyond Round Top, which again we view as understated by TMRC's current enterprise value. As a result, we are raising our allocation of TMRC from 4 to *5 due to the compression in TMRC's share price in the face of what we believe is continued progress on multiple fronts towards the commercialization of Round Top. While our inclination is to raise this as well, for now, we reiterate our 12-24 month price target of \$3.25. We will revisit each of these as new data points emerge.

Projected Operating Model

Texas Mineral Resources, Inc.						
Projected Operating Model						
By: Trickle Research						
	(Actual)	(Actual)	(Actual)	(Estimate)	(Estimate)	(Estimate)
	<u>11/30/2020</u>	<u>2/28/2021</u>	<u>5/31/2021</u>	<u>8/31/2021</u>	<u>Fiscal 2021</u>	<u>Fiscal 2022</u>
OPERATING EXPENSES						
Exploration costs	\$ 65,778	\$ 53,402	\$ 63,408	\$ 64,042	\$ 246,630	\$ 254,029
General and administrative expenses	\$ 325,277	\$ 409,600	\$ 345,307	\$ 348,760	\$ 1,428,944	\$ 1,532,537
Total operating expenses	\$ 391,055	\$ 463,002	\$ 408,715	\$ 412,802	\$ 1,675,574	\$ 1,786,566
LOSS FROM OPERATIONS	\$ (391,055)	\$ (463,002)	\$ (408,715)	\$ (412,802)	\$ (1,675,574)	\$ (1,786,566)
OTHER INCOME (EXPENSE)						
Loss on settlement of accrued liability	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Non-Cash Interest Expense	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other Income	\$ 51,372	\$ (14,110)	\$ 3,326,899	\$ -	\$ 3,364,161	\$ -
Interest and other expense	\$ -	\$ -	\$ 716	\$ (2,495)	\$ (1,779)	\$ (9,970)
Total other income (expense)	\$ 51,372	\$ (14,110)	\$ 3,327,615	\$ (2,495)	\$ 3,362,382	\$ (9,970)
NET LOSS	\$ (339,683)	\$ (477,112)	\$ 2,918,900	\$ (415,297)	\$ 1,686,808	\$ (1,796,536)
Net loss per share:						
Basic net loss per share	\$ (0.01)	\$ (0.01)	\$ 0.04	\$ (0.01)	\$ 0.03	\$ (0.02)
Diluted net loss per share	\$ -	\$ -	\$ 0.04	\$ (0.01)	\$ 0.02	\$ (0.02)
Basic Shares Outstanding	60,995,775	60,995,775	71,697,503	71,904,028	66,398,270	71,904,028
Diluted Shares Outstanding	71,346,419	71,480,718	71,697,503	71,697,503	71,555,535	75,844,156

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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.