

# Trickle Research

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



## Research Update & Price Target Decrease



### Texas Mineral Resources Corp.

(OTC: TMRC)

**Report Date: 08/07/23**

**12- 24 month Price Target: \*\$2.25**

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

**Closing Stock Price at This Update (Closing Px: 08/07/23): \$.92**

**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.

We have had some inquiries lately regarding our coverage of Texas Mineral Resources Corp (“TMRC”), and most of those have focused on the weakness in the stock, especially over the past 3 or 4 months as the stock breached (below) the \$1.00 level:



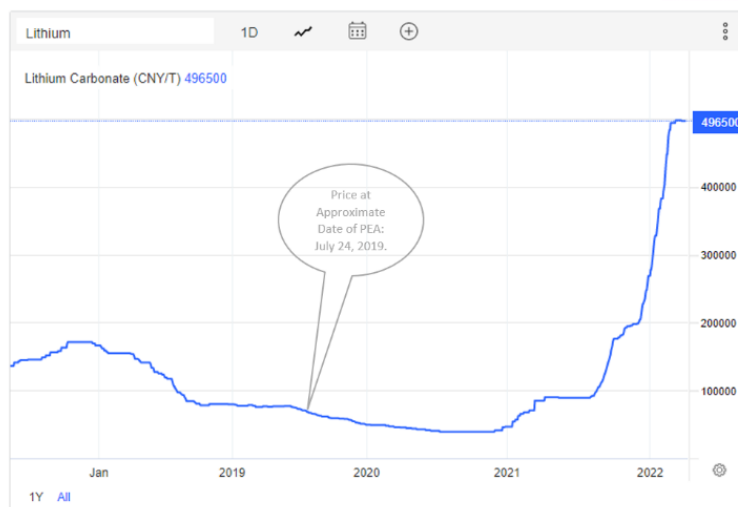
Before we address some of that, we will reiterate an opening we noted in a prior update:

*“... with respect to TMRC, we think it is important to point out that as with other pre-revenue or early revenue coverage stories, we do not always provide updates around earnings releases, because frankly, we do not find those releases particularly germane to the investment thesis. While obviously our hope is that earnings eventually will become germane to the story, at certain stages we just do not find them substantially noteworthy. Rather, in those instances, we are more inclined to provide updates around micros and/or macro events or catalysts that we think are topical to the progress/success of the Company”.*

The above observation remains topical today. That noted, there have been a handful of issues surrounding TMRC that we think require some consideration and we have provided our brief observation of each.

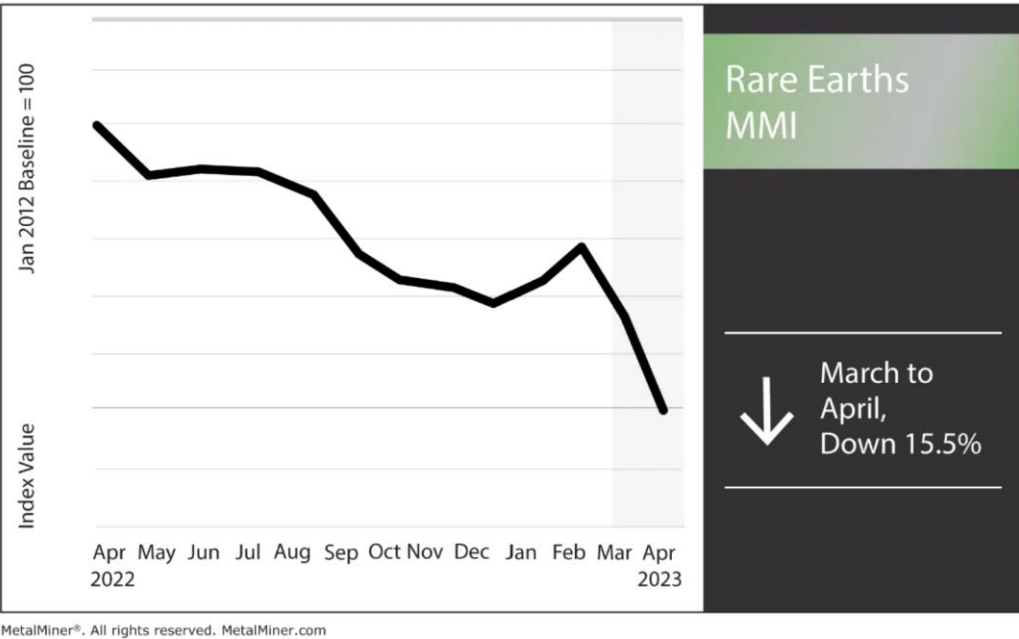
First, some may recall that our most recent price target upgrade (04/13/22) was predicated largely on rising REE prices since the time of the completion of the Company’s Preliminary Economic Assessment (“PEA”) in mid-2019:

[Lithium - 2022 Data - 2017-2021 Historical - 2023 Forecast - Price - Quote - Chart \(tradingeconomics.com\)](https://tradingeconomics.com/lithium)

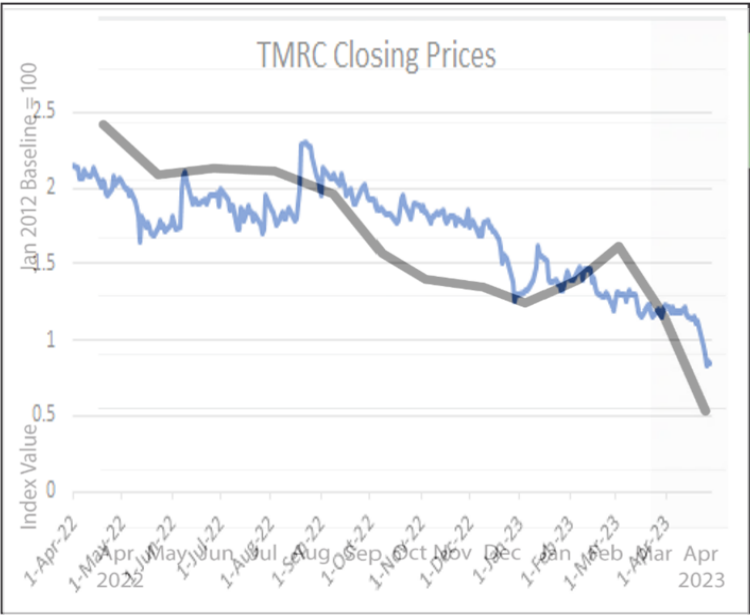


To briefly revisit that update, we surmised that if the PEA implied a particular valuation based on prevailing REE prices, then significantly higher REE prices would in turn imply higher theoretical valuations. (To edify, the above chart is specifically for lithium, which we expect to be a major contributor to RoundTop production, however, we also provided other REE prices that had charts that were quite similar).

That said, what happened to REE prices from that point in time (our price target upgrade in April 2022) was nearly as dramatic to the downside for REE prices as it was to the upside in the comparative prior year period:



More to the point, if we take the above REE price chart from April 2022 through April 2023 and superimpose the TMRC price chart on top of it, it becomes apparent that TMRC share prices are correlating quite strongly with prevailing REE prices. That may be all the explanation that is required with respect to the share performance over the past few quarters, but we think there are some additional items worth covering as well.



In addition to falling REE prices, the Company recently made an announcement regarding an issue that we think may have also contributed to some of the weakness in the stock. On June 27, 2023 the Company made an announcement and the following is a portion of that release:

*Texas Mineral Resources Corp. (“TMRC”), an exploration company currently targeting the heavy rare earths, technology metals and a variety of industrial minerals through its 20% interest in the Round Top Mountain project in Texas, is pleased to announce that USA Rare Earth and TMRC have agreed to modify the existing Round Top Mountain Development (“Round Top”) operating agreement (“Operating Agreement”) to allow, at TMRC’s option, the right to meet potential future cash calls by reducing its Round Top project equity according to a preset formula.*

*TMRC will have the sole right, but not the obligation, to allow USA Rare Earth to fund its cash call and then reduce its Round Top project equity by a percentage, according to the following formula: TMRC’s cash call that is funded by USA Rare Earth divided by TMRC’s market capitalization at the time of the cash call multiplied by TMRC’s Round Top then current equity interest. For example, a \$1 million TMRC cash call funded by USA Rare Earth (assuming today’s \$70mm market cap) would result in a reduction in the TMRC Round Top 20% membership interest to approximately 19.71% ( $1\text{mm} \div 70\text{mm}$  equals 1.428%, multiplied by the current membership interest of 20%, to result in adjusted ownership of 19.71%).*

In retrospect, we think the Company made this announcement in response to inquiries that arose from a disclosure in their Q1F23 10Q. Specifically, the disclosure noted that the Company was subject to their share (20%) of cash outlays required to continue to move Round Top forward, and that essentially, the Company lacked the capital to potentially make those cash calls. Again, we think this announcement is related to that disclosure in part because we had subscribers asking us about it. That said, this is not a new revelation, but the uncertainty around how they might meet such a call (and what further dilution that might cause) is clearly topical. To that end, we think the arrangement referenced in the release which the Company has struck with their Round Top partner USA Rare Earths is a positive development. That said, we would also revisit a notion we raised in our initiating coverage.

In our initiating coverage, we include a valuation overview that was/is a bit atypical for our coverage. Our reasoning in using that approach was that from our perspective, there were/are several variables that ultimately impact the value of TMRC’s share of RoundTop. Among other things, this notion of what TMRC’s share of the project might be post capex is one of them, and we tried to address that in our initiating coverage valuations matrices. In other words, our valuation (and price target conclusions) for TMRC have always included contingencies for required capex, regardless of who might ultimately be responsible for that capex. That includes iterations where TMRC’s partner might operate Round Top as well as iterations where another entity might purchase and fund Round Top. Our point is, we have always assumed that TMRC’s ultimate *effective* “share” of Round Top would likely be something less than 20%, but perhaps we did not articulate that as well as we could have in the original coverage.

The above noted, we submit, there are other variables here (some of which we also included in our original valuation matrices) that also remain topical. For example, the initiating coverage included iterations that addressed project delays beyond what our initiating thesis contemplated. Cutting to *that* chase, we think the commercialization of the project is likely to be further out than our original “base case” scenarios. All other things remaining equal, that is not a positive characteristic for TMRC and our associated targets. To edify, looking back, our expectation was that by now, the Company’s partner USA Rare Earth would be a bit closer to commercialization in one form or another than *it appears* that they are. By the way, that is not specifically a critique because frankly, those initial assumptions were based on poor visibility in the first place. Succinctly, if

we consider these issues collectively, (a longer path to commercialization than we anticipated, and resulting further dilution of TMRC's portion), the compression in the stock is not without merit.

In addition to the above (although perhaps in conjunction with our first point about prevailing REE prices), we also think the market is trying to ascertain the ultimate equilibrium of Rare Earth markets. On one hand, we know the market is controlled by the Chinese. Which means they largely set to price as well as the supply of REEs in the marketplace. As we understand it, some of the weakness in REE prices are the result of China's posturing, which many believe amounts to reducing REE prices (and increasing supply) to discourage the flow of capital into competing projects around the world. That is not an unreasonable assumption, since that is precisely how one might expect a monopoly to act. On the other side of that ledger, the market has also been impacted by the moral suasion of governments and others around the world expressing alarm (and support) for domestic and/or more friendly REE alternative that might mitigate China's stranglehold on those respective markets. We submit, we do not follow (for instance) the U.S Government's follow-through on supporting domestic REE projects, but historically, our experience with similar initiatives is that they are longer on hyperbole than they are on support. However, to be clear, while we have always believed that Round Top/TMRC might ultimately benefit from Government assistance to the REE space, we continue to believe that Round Top holds attributes that are favorable enough for them to compete in the global REE market, with or without government assistance. That said, it seems to us that lower REE prices have (as usual) mitigated the urgency of government intervention into the corresponding markets. Again, we think the notion that Round Top could compete on a global scale is more important than the hope of government intervention, but we will not deny that the street, at least in the short and/or intermediate terms, might see that differently. We would add, while we remain skeptical about the *help* the federal government might provide the industry, we believe there is legislation (again) in the U.S Congress regarding REE tax credits.

In addition to the above, we also think TMRC shares have likely also faced some headwinds around the timing of potential Round Top production. In retrospect, our initial coverage contemplated initial production before the end of 2023:

*"Further, much of the other detail of the Feasibility Study, permitting for instance, are also underway. While we don't think the Company has officially released an expected completion date for the Feasibility Study, nor by extension a production date, if we model around the NPV/IRR data points in the PEA, it looks to us like they are expecting a 2023 production start..."*

In a recent update (June 15, 2023), TMRC's partner USA Rare Earth noted that the Company is *"taking something of a two-pronged approach. Starting in 2024, they'll begin manufacturing magnets at their production facility in Stillwater, Oklahoma using "materials purchased from outside China." Then, by the latter half of 2025 (or early 2026), the company aims to start producing its own rare-earth metals, mining and refining these materials locally, ultimately turning them into powerful magnets"*.

Obviously, our original assumptions regarding potential 2023 production were aggressive, however, we also addressed the potential of timing delays in our valuation matrices. Further, in retrospect, recall there was a point where it looked like USA Rare Earth was on a path to a public listing (potentially through a SPAC), which would have likely accelerated a liquidity event for TMRC's portion of the project. Further, the above referenced announcement of June 15, 2023 was reiterated in part more recently (July 31, 2023) when the Company again noted that they intend to begin producing REE magnets in 2024 with REEs purchased "outside of China", with a plan to establish that production and develop customers with an eye towards ultimately providing their own REEs from Round Top. Our sense is that the street may see USA Rare Earth's move to begin magnet production *without* Round Top as perhaps a negative development for TMRC. We would challenge that view, for a variety of reasons, but we understand the concern.

Lastly, we have alluded to this in the past, but the Company has recently provided some additional color to further the argument so we will revisit the notion. To edify, we do not see the long-term ongoing posture of the Company as being a minority stakeholder in an REE resource/project. To that end, the Company has recently (July 21, 2023) provided some color regarding their efforts with respect to silver/nickel/cobalt endeavors at the Black Hawk Mining District in Grant County, New Mexico (“Blackhawk”). To date, those efforts have included electromagnetic testing that has identified several potential drill targets that the Company is looking to get permitted. We recognize this is in the nascent stage and is too early to try to develop reasonable valuations around, but we think there are at least a couple of elements to these endeavors that are worth keeping in mind.

First, recognize this is a relatively unique type of deposit, which they delineate in their collateral as “The “Five Element Veins.” They are “*characterized by small but exceedingly high grade ore bodies containing metallic silver, nickel and cobalt arsenides, and the uranium oxide mineral uraninite*”. They also note that “*the U.S. Government officially lists nickel and cobalt as Critical Minerals, while both are also designated as “essential to national defense” under the Defense Production Act of 1950*”. The U.S produces relatively small amounts of these minerals, despite their critical nature, putting them on a similar footing as REEs.

Second, we think it is worth noting that TMRC CEO Dan Gorski is overseeing the exploration and development efforts of this project. As we have noted in prior TMRC research, we have known Dan Gorski for what has turned into decades. Mr. Gorski is a geologist by trade and is largely responsible for the exploration and development of Round Top. We are not suggesting that his success at Round Top will necessarily translate into success at Blackhawk, but his experience in that regard certainly won’t hurt. We will be monitoring the progress here, but in short, we believe it provides a potential basis for additional valuation legs for the Company.

To recap, we have received several inquiries regarding TMRC as the stock has drifted lower. While again we view much of the compression as related to the general weakness in REE prices, we also think some of the other issues we raised above have contributed as well. Unfortunately, most of these things are outside of TMRC’s control so there is not much they can do to change the narrative. That said, we continue to believe that the desire for reliable and preferably domestic sources of REEs is not likely to go away. Further, while we expect the Chinese to continue to exercise their monopoly power over the REE markets to discourage competition and development, we believe viable competitors are likely to continue to emerge as REE demand accelerates, and we think that includes Round Top. While we submit, nailing down what that means to the value of TMRC today remains elusive, we continue to believe that value remains considerably higher than current valuations imply. On the other hand, given the collective impact of the headwinds we described above, we are establishing a new (lower) 12-24 month price target of *\*\$2.25* per share, while maintaining our allocation of 5. We will revisit each as relevant data points regarding Round Top and/or Blackhawk emerge.

## Projected Operating Model

<b>Texas Mineral Resources, Inc.</b>						
<b>Projected Operating Model</b>						
<b>By: Trickle Research</b>						
	( Actual)	( Actual)	( Actual)	( Estimate)	( Estimate)	( Estimate)
	<b>11/30/2022</b>	<b>2/28/2023</b>	<b>5/31/2023</b>	<b>8/31/2023</b>	<b>Fiscal 2023</b>	<b>Fiscal 2024</b>
OPERATING EXPENSES						
Exploration costs	\$ 231,375	\$ 398,184	\$ 91,275	\$ 446,309	\$ 1,167,143	\$ 1,202,158
General and administrative expenses	\$ 342,191	\$ 284,187	\$ 870,375	\$ 345,613	\$ 1,842,366	\$ 1,275,997
Total operating expenses	\$ 573,566	\$ 682,371	\$ 961,650	\$ 791,922	\$ 3,009,509	\$ 2,478,155
<b>LOSS FROM OPERATIONS</b>	<b>\$ (573,566)</b>	<b>\$ (682,371)</b>	<b>\$ (961,650)</b>	<b>\$ (791,922)</b>	<b>\$ (3,009,509)</b>	<b>\$ (2,478,155)</b>
<b>OTHER INCOME (EXPENSE)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
Loss on settlement of accrued liability	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Non-Cash Interest Expense	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other Income	\$ -	\$ 9,531	\$ 9,706	\$ -	\$ 19,237	\$ -
<b>Interest and other expense</b>	<b>\$ 5,394</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (2,487)</b>	<b>\$ 2,907</b>	<b>\$ (9,938)</b>
<b>Total other income (expense)</b>	<b>\$ 5,394</b>	<b>\$ 9,531</b>	<b>\$ 9,706</b>	<b>\$ (2,487)</b>	<b>\$ 22,144</b>	<b>\$ (9,938)</b>
<b>NET LOSS</b>	<b>\$ (568,172)</b>	<b>\$ (672,840)</b>	<b>\$ (951,944)</b>	<b>\$ (794,409)</b>	<b>\$ (2,987,365)</b>	<b>\$ (2,488,093)</b>
<b>Net loss per share:</b>						
<b>Basic net loss per share</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>	<b>\$ (0.04)</b>	<b>\$ (0.03)</b>
<b>Diluted net loss per share</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>	<b>\$ (0.04)</b>	<b>\$ (0.03)</b>
<b>Basic Shares Outstanding</b>	<b>72,881,900</b>	<b>72,911,801</b>	<b>73,269,255</b>	<b>73,269,255</b>	<b>73,083,053</b>	<b>73,613,608</b>
<b>Diluted Shares Outstanding</b>	<b>72,881,900</b>	<b>72,911,801</b>	<b>73,269,255</b>	<b>73,616,811</b>	<b>71,697,503</b>	<b>71,697,503</b>

## **General Disclaimer:**

Trickle Research LLC produces and publishes independent research, due diligence and analysis for the benefit of its investor base. Our publications are for information purposes only. Readers should review all available information on any company mentioned in our reports or updates, including, but not limited to, the company's annual report, quarterly report, press releases, as well as other regulatory filings. Trickle Research is not registered as a securities broker-dealer or an investment advisor either with the U.S. Securities and Exchange Commission or with any state securities regulatory authority. Readers should consult with their own independent tax, business and financial advisors with respect to any reported company. Trickle Research and/or its officers, investors and employees, and/or members of their families may have long/short positions in the securities mentioned in our research and analysis and may make purchases and/or sales for their own account of those securities. David Lavigne does not hold a position in Texas Mineral Resources Corporation.

Trickle Research co-sponsors two microcap conferences each year. Trickle Research encourages its coverage companies to present at those conferences and Trickle charges them a fee to do so. Companies are under no obligation to present at these conferences. Texas Minerals has paid fees to present at Trickle's co-sponsored conferences.

**Reproduction of any portion of Trickle Research's reports, updates or other publications without written permission of Trickle Research is prohibited.**

All rights reserved.

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 ( $\$250 \times 4$ ). 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.**