

MONTERO MINING & EXPLORATION MON.

February 18, 2024 - 11:22pm EST by puppyeh

			2024	2025
Price:	0.32	EPS	0	0
Shares Out. (in M):	46	P/E	0	0
Market Cap (in \$M):	15	P/FCF	0	0
Net Debt (in \$M):	0	EBIT	0	0
TEV (in \$M):	15	TEV/EBIT	0	0

Description

Thesis summary: Montero Mining and Exploration (MON.V) represents an attractive pure-play bet on the outcome of an ongoing arbitration/litigation against the Tanzanian government, for illegal expropriation of MON's mining licenses in 2018. At 32c, I believe MON is currently pricing around a 31% net recovery to MON shareholders on this claim - despite a similar claim (that of Winshear Resources, WINS), being settled at 32 cents on the dollar a few months ago - whilst an ongoing litigation for another claimant, Indiana Resources (IDA on the ASX), seems likely to generate a payout much closer to par. The Indiana case has huge precedent for what will happen here, and it seems to me the Tanzanian government is much more likely to settle the MON claim, either before or after the IDA case gets settled, at a discount to par but a valuation still well north of that implied by the market. I believe a settlement at say 50c on the \$ is something like the base case outcome here - a scenario that would return ~64-73c per MON share - and there is some decent chance MON can extract more value than this once their arbitration hearing is conducted as well. 80c on the \$ recovery (again net of all litigation fees, etc) to MON shareholders would be something like \$1.1-1.25 per share, offering ~4x upside in something like a best case scenario.

This is clearly a tiny company, is quite illiquid, and is eminently a binary bet. If ultimate recovery on the claim is <15 cents on the dollar, the MON implied equity price is likely near zero. This is appropriate for PAs only. Please note I anchored a private placement to bridge the equity through the upcoming arbitration hearing, and the next 12 months thereafter, but beyond that there is a reasonable chance the company taps capital markets again if the litigation has not yet been resolved.

This is a very simple setup so the writeup will be brief; please feel free to ask further questions in the comments.

Background: Montero is a small Canadian mining concern that was trying to develop a rare earths mine in Tanzania, having invested \$17mm beginning in 2008. In 2015 it was awarded a Retention License and was developing a plan to fund, and mine, the site, when the License was unilaterally revoked in 2019 when the government sought to essentially nationalize the

mining industry in the country (see [here](#) for further detail). A Bilateral Investment Treat exists between Canada and Tanzania, and under the auspices of that relationship, MON has been pursuing Tanzania for compensation via the ICSID arbitration process (an entity of the World Bank, see [here](#)). As is common in these kinds of cases, MON is pursuing the full value of their expropriated claim (invested capital plus some NPV of assumed value of the in-ground assets, including assumed interest on lost capital compounded since expropriation) – but note that the exact methodology used to calculate the quantum of the claim has not been made publicly available and is subject to uncertainty.

International arbitrations are typically lengthy, expensive, and hazardous value extraction exercises. What makes this case/process interesting is that there are multiple, clear precedents that derisk entirely (in my mind) the legal basis/outcome of the claim, and also significantly derisk the quantum risk associated with the claim. Two extant arbitrations have either already been settled or are in the very late stages of settlement, that are couched in the exact same legal theory and which help in delineating the amount of value likely available to MON. Indeed the legal principles at play here appear basically beyond dispute, if the very similar precedents are anything to go by:

- ***The Indiana Resources case (IDA)***: IDA has been pursuing Tanzania through the exact same legal mechanism (ICSID arbitration), with the exact same tribunal location (Washington); and indeed the exact same legal team (Boies Schiller Flexner). IDA was awarded about \$113mm USD in an Award in mid-2023 - a huge surprise not just in the outcome but also the quantum, given IDA had only claimed \$127mm AUD (about \$85mm USD) meaning the tribunal unilaterally awarded IDA almost 35% higher than the size of their original claim (this is fairly atypical for these kinds of arbitrations). The Award, and subsequent developments, have basically been a continuing series of mini-victories for IDA as they have sought to bring Tanzania to account to pay the full quantum of the award. Tanzania filed for Annulment (a form of appeal of this type of award) but 2/3 of the grounds for Annulment have already been struck down (that is, hugely positive for IDA); and in order to avoid IDA moving to attach/seize assets to the award (such as aircraft, etc), Tanzania has had to provide an Undertaking to pay the full quantum of the Award, within 45 days of decision of the Annulment (if they lose), such that it seems quite likely they will either pay full freight here or settle for a de minimis discount to the award, in the coming six months (see [here](#)). Any IDA settlement with Tanzania at any level over say 50c on the \$ would clearly be a huge positive for MON from current prices (please note, I am long IDA too though that outcome has less balloon upside from here than MON);

- ***Winshear Resources case (WINS)***: WINS had a legally-identical expropriation case, for a gold development in Tanzania, once again conducted under the exact same aegis as this MON case (ICSID arbitration; Canada/Tanzania BIT; Washington tribunal; same lawyers, etc).

Whilst WINS did conduct their hearing, they then settled with the Tanzanian government for about 32c on the \$ cash pay - defraying all collection risk on the award as well as an arbitration Award quantum risk - in return for certainty of value (see [here](#)). Whilst this was lower than some were hoping for, it still represents a reasonable outcome for WINS shareholders. Importantly, there were other extenuating circumstances that perhaps explained WINS' early settlement and why we could logically hope for more in the MON case. WINS' largest shareholder was/is another penny mining company, Palamina Corp, that was cash poor and needed the cash infusion for its own development hopes and dreams. It appears they pushed the company to accept the low-hanging 'bird in the hand' rather than play out the string - something that will not happen at MON since the main investors here (including myself) appear to be purely financial players not interested in reinvesting proceeds in another mining concern.

Furthermore it is important to understand the reflexiveness between these cases and how they interact. When WINS settled, the IDA award had been handed down but it was still unclear if, or how, IDA was going to bring Tanzania to the table or enforce; now, with the Undertaking signed and delivered and the Annulment process already half dead in the water, Tanzania's hand has been progressively weakened such that all claims against the government appear to be better bets. Moreover, Tanzania has been in receipt of a very large amount of World Bank funding in the interim - over \$1bn, see [here](#) - and is simultaneously being pursued (in ICSID) in another World Bank entity (ie ICSID) - increasing the odds, in my view, of them kowtowing to World Bank directives (ie paying once losing on appeal) or otherwise settling residual claims ahead of a likely court loss.

Valuing MON: As part of a recent capital raising MON turned a few hundred thousand of residual debt into shares; as a result there is very little debt left and there are essentially no assets of value (in my view) beyond the litigation against Tanzania. There is some uncertainty with regard the litigation financing deal MON have funding the lawsuit, but the company says it is 'substantially similar' to the deal WINS got, which was a multiple of money invested (I believe 3.5x, along with a bonus payout based on gross settlement that I estimate at 16% (back-calculating from the WINS settlement and net payment to WINS after all costs, etc). On that basis, we can derive the following payouts to MON at various gross % on the \$ recoveries:

Value per share				
Claim value	90	95	100	
Settlement %				
15%	0.09	0.11	0.13	
32%	0.3	0.32	0.35	
50%	0.59	0.64	0.68	
80%	1.09	1.16	1.24	

Keep in mind that the original claimed quantum, \$90mm CAD, was set in mid-2022 and has not been updated for interest in the interim. I expect the quantum today is probably closer to \$100mm, all else equal, given the interest rate (USD prime rate +2%, using the IDA precedent) would imply something like 7% interest rates or so over much of the interim period).

It is also important to note that the arbitration hearing has NOT happened yet (meaning the actual presentation of MON's case before the tribunal, rather than just briefs/counter-briefs). This is scheduled to be held in 1Q this year (there have been some delays, should still be held in next couple months however), and obviously this represents a source of risk. On the other hand, the WINS and IDA proceedings basically outlined how woefully illegal Tanzania's expropriation was, and how unprepared and amateur their legal defense, and acted as a catalyst for the shares of both those two prior entities (admittedly from lower gross starting values).

The other element of risk here is there is very little clarity into how MON determined their \$90mm compensation claim value, something I alluded to previously. What mitigates this risk is naturally the IDA outcome (where the tribunal gave an amount far in excess of IDA's claimed \$ number, presented by the same legal team employed here, suggesting perhaps similar methodologies); and also the willingness of Tanzania to tie off the WINS claim at 32c on the claimed \$ - even before an arbitration award was handed down in that case.

I do not hold a position with the issuer such as employment, directorship, or consultancy.

I and/or others I advise hold a material investment in the issuer's securities.

Catalyst

ICSID arbitration hearing

Settlement

IDA settlement/annulment hearing

Messages

Subject Legal Timeline
Entry 02/19/2024 04:54 AM
Member asafpol
 Thanks for the interesting idea puppyeh !

As you alluded to in the writeup, these type of legal setups have a tendency to take longer than expected.

Is there a set timeline here as to when they should appear in front of the tribunal, and how long does it historically take to get a decision in these cases?

Subject Re: Legal Timeline
Entry 02/19/2024 09:57 PM
Member puppyeh

good question. one of the points i forgot to cover. the timeline in the other two, either complete or almost complete, arbitrations is instructive here. IDA held their arbitration hearing in early-Feb 2023, and the Award was handed down - with the hugely positive terms - in mid-July, ie just 4 months later. I understand that typical post-hearing tribunal deliberations can take up to a year, sometimes longer, so we can perhaps interpret the speed of the IDA judgement as reflecting the overwhelming nature of the IDA case - very positive, therefore, for MON.

the WINS case was slightly different, in that WINS had their arbitration hearing in mid-Feb 2023 and was waiting for a decision on the Award before settling with Tanzania in mid-Oct 2023 (ie, 8 months later). it appears the arbitration may have been ready to rule in September, but they were asked to suspend proceedings as settlement negotiations heated up.

Both of these outcomes should inform, but not 100%, what happens in the MON case (since each constituted tribunal is independent, even if the forum and process is the same and the legal theory here is very similar). i would expect, if the arbitration hearing happens as scheduled in the next couple of months, that even absent a settlement, MON will find out the quantum of their award probably by end of the year, and will then have to begin the process of collection or go through the appeals process.

of course the key wrinkle is by then we will have known what happened in the iDA case - and if Tanzania has had to pay close to 100c on the \$ there it will put them in a very difficult position vis a vis MON. hence, I believe Tanzania would want to settle the MON case, at a lower gross value, sometime in the next six months if not sooner.