

Tesoro Resources (TSO)

Beating All Expectations

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KEY POINTS

- **Tesoro Resources (TSO) is a Chilean gold explorer focusing on its 70% owned El Zorro gold project.** The El Zorro project located in Northern Chile, is not your typical Chilean gold story. The mineralisation is believed to be an IGRS system and structurally controlled by a number of outcropping and high-grade faults cross cutting the area.
- **Early exploration success.** All of the recent diamond drill holes have intersected wide and high-grade gold mineralisation with 8 x 100g/m intercepts. Highlights include 176.5m @ 0.85g/t Au, 231m @ 0.83g/t, 54.0m @ 1.69g/t Au, 86.45m @ 2.29g/t Au, 12.55m @ 1.32g/t Au, 34.73m @ 2.94g/t Au and 19.25m @ 2.86g/t Au.
- **Drilling Continues.** The next 10,000m drilling campaign is underway with resource drilling to further delineate the Ternera deposit. The campaign is expected to be completed in the Q4CY20 with assay results expected to be released at regular intervals for the rest of the year providing a strong news flow.
- **Metallurgical testwork completed.** An initial metallurgical testwork was completed on mineralised material from Ternera. The tests indicated the material to be free milling with gold recoveries up to 99%. The material is believed to be amenable to a typical gravity/CIL processing circuit.
- **Tick for management.** Led by a well credentialed team, TSO has burst out of the starting gate since listing in February 2020. Management have made rapid advancement on understanding the geology of the area and defining new drill targets across the district. News continues to flow, and the project is continuing to grow faster than all expectations.
- **Clear path forward.** TSO has \$5.8m cash and a clear strategy to deliver value from the El Zorro project. A maiden resource is scheduled for the end of 2020/early 2021 with a scoping study to follow in the new year.

INVESTMENT VIEW

We are pleased with the rapid progress the Tesoro team has made in such a short period of time. Management have repeatedly over delivered on expectations and we see no reason to not believe they will continue to do so. The geology model of El Zorro is becoming clearer with the next exploration programs being well mapped out and targets identified. Each new drilling campaign will continue to grow the size of the system and we see the potential for a significant camp scale gold project down the track. The met work identifying the ore to be free milling also de-risks the project and we see a large open pit potential with a low stripping ratio given the halo mineralisation around the higher-grade faults. **Given the recent exploration success and the current appetite for exciting gold discoveries, we maintain our speculative buy recommendation.**

NEAR TERM CATALYSTS

Assays from current drilling campaign – We should continue to see updates regarding assay results based on the completed and the upcoming drilling campaign.

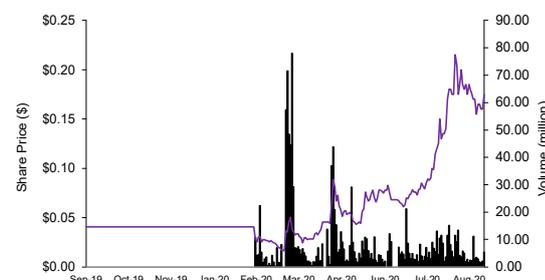
Maiden Resource – A maiden resource at El Zorro is expected to be released in the late 2020/early 2021

Detailed Met Work Program – Following on from the initial promising results, further test work is ongoing with results expected in 4Q 2020

Scoping Study – A scoping study will follow the maiden resource which will be finalised 1H2021

Recommendation	Speculative Buy
Previous Analyst	Andrew Shearer
Risk Rating	Very High
Current Share Price	\$0.175
Total Return (Capital + Yield)	60%
Market Capitalisation	\$73.6m
Liquidity	\$7m/month

12 Month Relative Share Price Performance



Source: IRESS

Board and Management

John Toll (Non-Exec Chair). Corporate advisory and equity capital markets experience and accountant background.

Zeff Reeves (MD). Geologist with over 20 years' experience from greenfields exploration, discovery, definition and feasibility, construction, production to closure of resource projects. Australian and international experience.

Geoffrey McNamara (NED). Geologist, corporate finance, and fund manager experience over 25 years.

Sergio Uribe (Country Manager, Chile). Experienced on numerous resource projects from exploration, discovery, production, closure in administrative, management and development roles. He has worked in both Chile and Australia.

Risks

Funding Risk: TSO is an early stage explorer with no mining operation or revenue. Therefore, will require additional funding to continue exploration and project development. At this early stage, the nature and value of future capital raisings is unknown and will largely be dependent on exploration success.

Geology Risk: The unknown geology of the discoveries presents a risk. Whilst TSO has enjoyed exploration success to date there is no resource defined at this stage. TSO is leveraged to exploration success and defining an economic resource. The scale of the project remains unknown at this early stage

Commodity Price Risk: As with all resource projects, TSO and the commodities they are exploring for are impacted by geopolitical risks, share market volatility, government policy, competitive forces, exchange rates and the general economic climate.

DISCLOSURE: PAC Partners was Lead Manager to the February 2020 RTO and the June 2020 placement and received fees on commercial terms for these services.

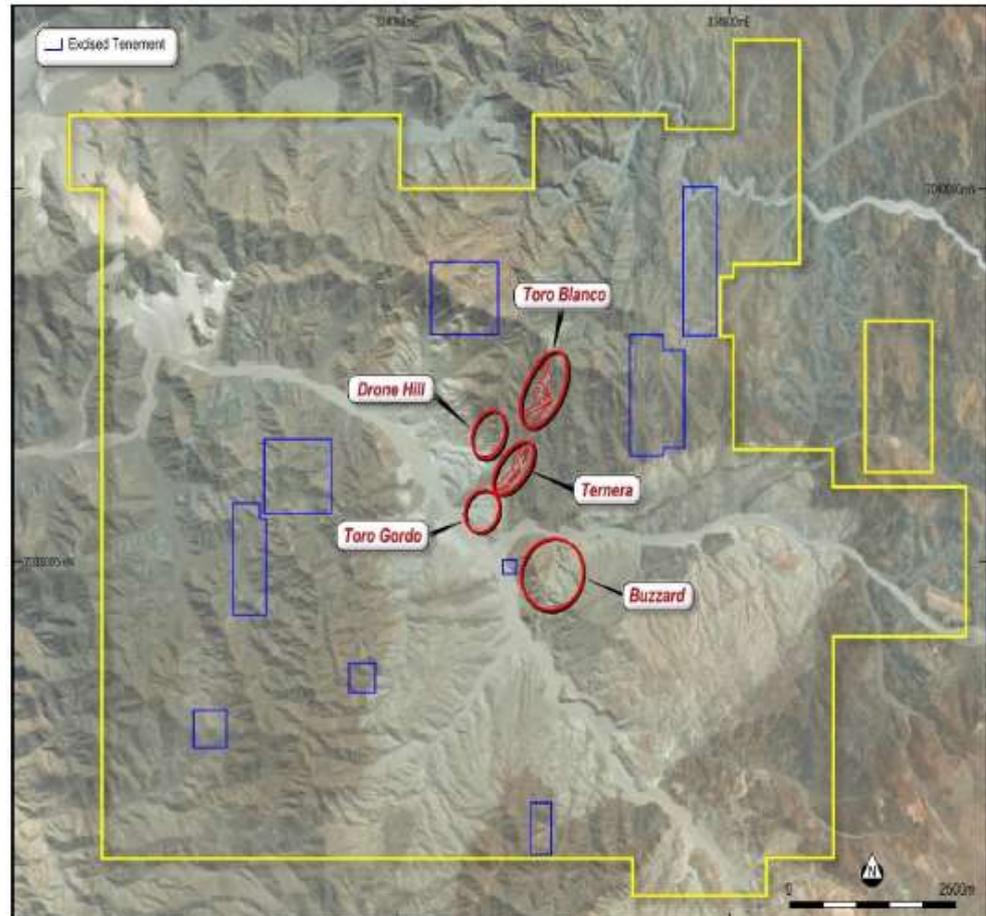
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COMPANY OVERVIEW

TSO hold a 70% interest in the flagship El Zorro project, located in Northern Chile. The El Zorro project consists of 5 gold prospects, with the recent focus being on Ternera.

The El Zorro project is located in an early cretaceous volcanic arc containing structurally controlled batholithic intrusion. At El Zorro, both the host sediments and the granodiorite have been intruded by a mineralised tonalite to diorite sill, referred to as the El Zorro Tonalite (EZT). The mineralisation appears to be structurally controlled by a series of NW-SE faults (referred to as the CC faults) which crosscut the EZT. El Zorro is classified as an Intrusive Related Gold System (IGRS) which differs from typical Chilean gold projects that are typically epithermal or porphyry deposits.

Figure 1: El Zorro Gold Project



Source: TSO

EXPLORATION UPDATE

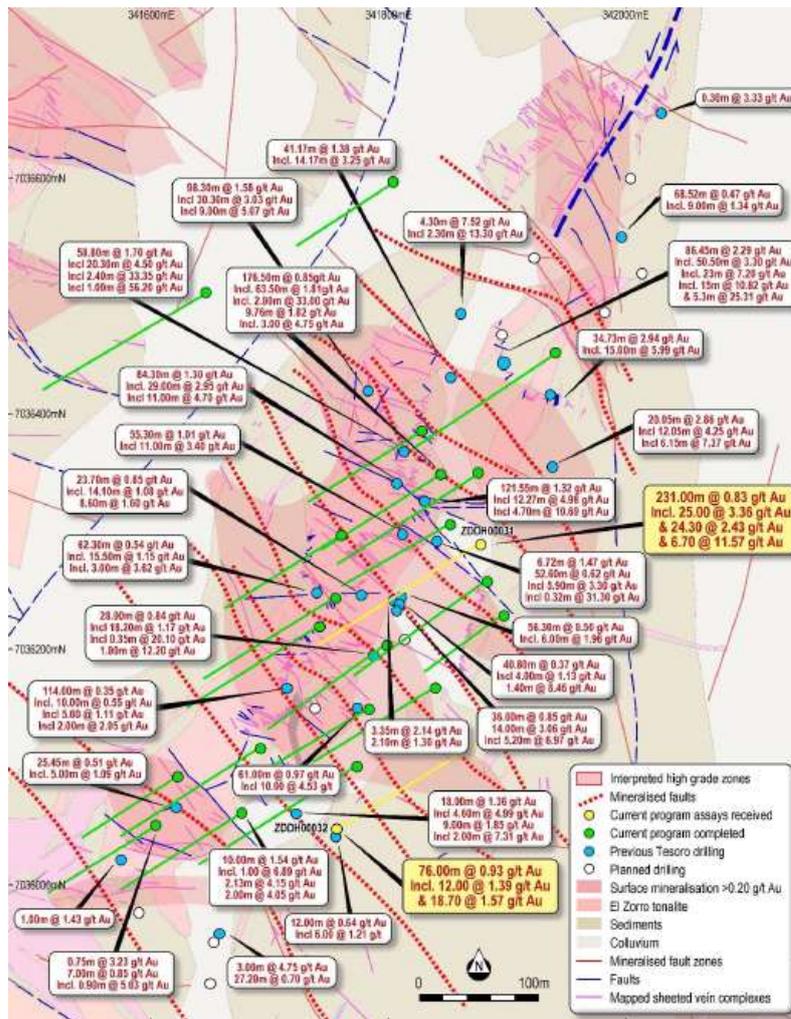
The earlier 11-hole diamond drilling campaign at Ternera has been completed with all holes intersecting gold mineralisation defining a strike length greater than 750m. A follow up campaign of a further 22 holes has also been completed with assays received for four of these holes. All holes to date have intersected mineralisation with eight returning intercepts of >100g/m. The results to date demonstrate a large-scale system may be present across the wider El Zorro project.

Significant intercepts encountered at Ternera include:

- 86.45m @ 2.29g/t Au from 167.55m
Including 50.5m @ 3.63g/t Au
Including 23.0m @ 7.20g/t Au
- 34.73m @ 2.94g/t Au from 187.3m
Including 15m @ 5.99 g/t Au
Including 2.7m @ 22.21g/t Au
- 121.55m @ 1.32g/t Au from 49m
Including 10.9m @ 4.57g/t Au
Including 12.27m @ 4.98g/t Au

- Including 4.70m @ 10.69g/t Au
- 176.5m @ 0.85g/t Au from 29.5m Including 63.5m @ 1.81g/t Au Including 5.2m @ 3.36g/t Au Including 2.0m @ 33.00g/t Au Including 9.6m @ 1.82g/t Au Including 3.0m @ 4.75g/t Au
- 231m @0.83g/t Au from 72m Including 54m @ 1.69g/t Au Including 25m @ 3.36g/t Au Including 6.7m @ 11.57g/t Au

Figure 2: Ternerera Drilling



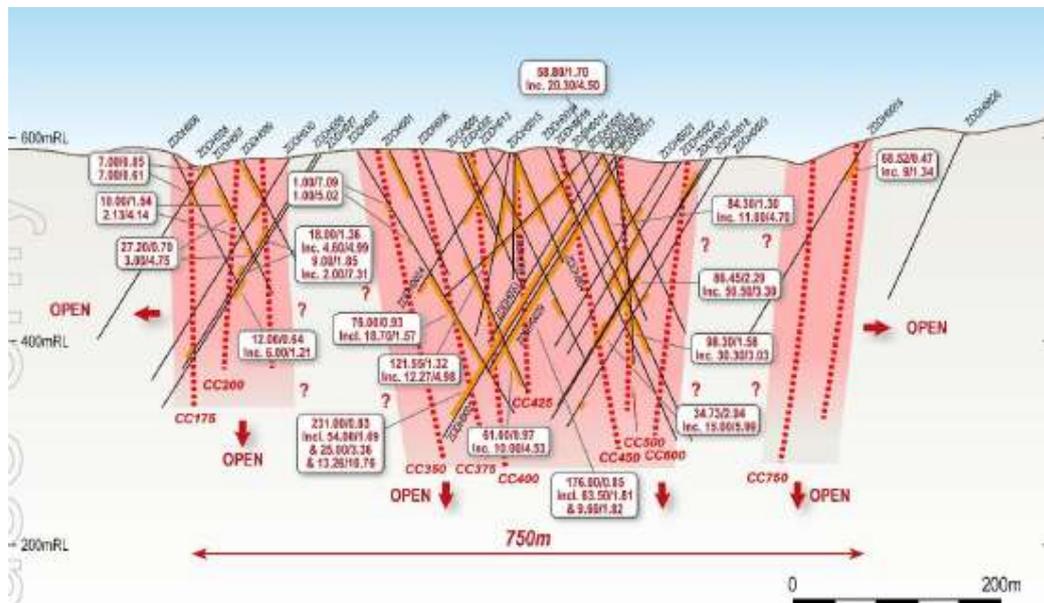
Source: TSO

The CC faults are the key to the story at El Zorro. So far 10 CC faults have been identified at Ternerera, all mineralised with wide and high-grade gold intercepts. The faults average 180m long, 5-30m wide and extend at least 250m deep, with many outcropping at surface (open in all directions). The CC faults appear to consistently contain gold grades between 3g/t and 10g/t. Importantly a mineralisation halo seems to be continuous between the faults, implying a large bulk tonne resource could be in the making with definitive high-grade lodes. Resource drilling continues at Ternerera with 5,739m already drilled across 22 holes and a further ~4,000-5,000m planned.

As the CC faults outcrop at surface, surface channel sampling is a reliable method in the identification of further mineralised faults which have been undertaken at both Ternerera, Drone Hill and Buzzard. Potential new faults have been identified both North and South of the current Ternerera footprint. Sampling also confirms the continuation of the same mineralised faults at Ternerera can be found at Drone Hill with extensive vein hosted mineralisation being identified.

Buzzard is emerging as a new target with mineralised veins of up to 250m long being identified. Buzzard is 2km South of Ternera hosted in a different geological unit, however gold bearing vein systems and faults are a similar orientation to those at Ternera.

Figure 3: Ternera Long Section



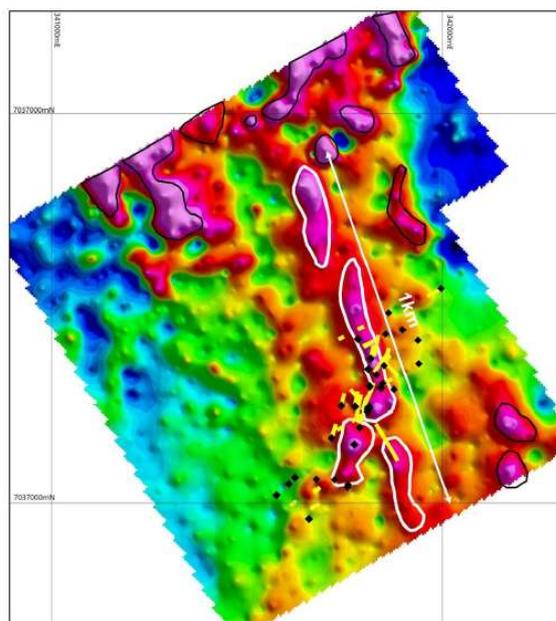
Source: TSO

GEOPHYSICAL IP SURVEY

A trial Gradient Array Induced Polarisation (GAIP) and Dipole-Dipole Induced Polarisation (DDIP) has been completed over the Ternera and Drone Hill areas. Preliminary results show chargeability anomalies which indicate the presence of sulphide mineralisation which is associated with gold mineralisation in the area. These anomalies correlate to existing high grade gold structures identified during the recent exploration drilling program. At Ternera, high grade gold mineralisation is associated with quartz veins and breccias having a high sulphide content.

The IP anomaly strikes north-south over 1km in length of which 250m has been drill tested and correlates with high grade mineralisation. Figure 4 shows the IP anomaly with drilled holes marked in black and gold mineralisation projects to the surface in yellow. The anomalies will now be drill tested as part of the current drill program. Should these holes be successful, the IP survey will prove to be a key and valuable method in identifying and defining further drill targets across the region.

Figure 4: IP Survey Anomaly



Source: TSO

INCREASED LAND POSITION

Tesoro has made an application for additional concessions (tenements) adjoining El Zorro. In total the 156 new applications will cover 395km² in the district. The concessions will give Tesoro 55km in strike length North and South of the El Zorro project. The area is considered to be prospective for similar gold mineralisation as being encountered at El Zorro. Under Chilean mining regulations, Tesoro will be notified within 40 days if the concession application has been successful.

INITIAL METALLURGICAL TESTWORK

Tesoro has performed initial test work on the El Zorro material. Initial results suggest the material is free milling with gold recoveries up to 99% at a grind size of 75µm and 94% at 250µm and 55-75% of the gold reporting to the gravity concentration. Initial test work therefore indicates the potential to use a conventional gravity and CIL processing method.

VALUATION

With the gold price increasing to ~US\$2,000/oz and the exceptional exploration results to date we increase our valuation and target price of Tesoro. We again look at potential resource targets and peer comparisons to guide our valuation. A peer group analysis implies a median EV/oz of \$80/oz is a reasonable starting point. We also look to Challenger Exploration (CEL), as a geographical peer. CEL have recent exploration success at the Hualilan Gold project in Argentina. The project has a long strike length >1km and recent intersections of 88m @0.94g/t Au, 6.1m @34.6g/t Au and 6.7m @ 14.3g/t Au provide a good comparison with El Zorro. CEL currently trades at an EV/oz of \$181/oz. CMM (EV of \$341/oz) also look like a worthy peer with a resource of 2.1moz @ 0.8g/t. CMM are developing a bulk open pit scenario, we see TSO following a similar trajectory, however, with the upside of high grade zones.

Figure 5: Peer Comparison

Company	Ticker	Resource (Moz)	Grade (g/t)	EV (\$m)	EV/Res Oz (\$/oz)
Ausgold	AUC	1.0	1.3	\$41	\$41
Auteco Minerals	AUT	0.8	11.6	\$262	\$315
Bardoc Gold	BDC	3.0	1.9	\$101	\$33
Bellevue Gold	BGL	2.4	8.8	\$811	\$341
Breaker Resources	BRB	1.0	1.3	\$42	\$43
Calidus Resources	CAI	1.5	1.8	\$118	\$79
Capricorn Metals	CMM	2.1	0.8	\$725	\$339
Challenger Exploration	CEL	0.6	1.4	\$109	\$181
De Grey Mining	DEG	2.2	1.9	\$1,515	\$700
Emerald Resources	EMR	1.1	2.0	\$284	\$249
Genesis Minerals	GMD	0.9	3.2	\$126	\$146
Geopacific Resources	GPR	1.6	1.0	\$78	\$50
Kairos Minerals	KAI	0.9	1.3	\$62	\$71
Kin Mining	KIN	0.9	1.4	\$79	\$83
Meteoric Resources	MEI	0.3	6.3	\$39	\$150
Middle Island Resources	MDI	0.7	1.3	\$42	\$64
Musgrave Minerals	MGV	0.6	3.0	\$263	\$439
NTM Gold	NTM	0.8	1.3	\$54	\$66
Nusantara Resources	NUS	2.4	1.4	\$37	\$16
Ora Banda Mining	OBM	1.2	3.1	\$241	\$201
Saturn Metals	STN	0.8	1.0	\$60	\$77
Sihayo Gold	SIH	1.5	2.1	\$66	\$44

Tietto Minerals	TIE	2.2	1.5	\$139	\$65
Troy Resources	TRY	1.0	1.9	\$55	\$55
Average					\$160
Median					\$78

Source: Iress, Company Reports

Source: PAC Partners

INVESTMENT VIEW

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UPCOMING CATALYSTS

- **Assays from current drilling campaign** – We should begin to see assays from the current drilling campaign in September
- **Maiden Resource** – A maiden resource at El Zorro is expected to be released late 2020/early 2021.
- **Detailed Met Work Program** – Following on from the initial promising results, further test work is ongoing with results expected in 4Q 2020
- **Scoping Study** – A scoping study will follow the maiden resource which will be finalised 1H2021

RISKS

Emerging companies are usually subject to normal key person and funding risks.

- Funding** - TSO is an early stage explorer with no mining operation or revenue. Therefore, will require additional funding to continue exploration and project development. At this early stage, the nature and value of future capital raisings is unknown and will largely be dependent on exploration success.
- Geological Variability** - The unknown geology of the discoveries presents a risk. Whilst TSO has enjoyed exploration success to date there is no resource defined at this stage. TSO is leveraged to exploration success and defining an economic resource. The scale of the project remains unknown at this early stage.
- Commodity pricing and general risk** - As with all resource projects, TSO and the commodities they are exploring for are impacted by geopolitical risks, share market volatility, government policy, competitive forces, exchange rates and the general economic climate.

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RECOMMENDATION CRITERIA

Investment View

PAC Partners Investment View is based on an absolute 1-year total return equal to capital appreciation plus yield. A Speculative recommendation is when a company has limited experience from which to derive a fundamental investment view.

Buy	Hold	Sell
>20%	20%-5%	<5%

Risk Rating

PAC Partners has a four tier Risk Rating System consisting of: Very High, High, Medium and Low. The Risk Rating is a subjective rating based on: Management Track Record, Forecasting Risk, Industry Risk and Financial Risk including cash flow analysis.

Disclosure of Economic Interests

The views expressed in this research report accurately reflect the personal views of Phil Carter about the subject issuer and its securities. No part of the analyst's compensation was, is or will be directly or indirectly related to any recommendation or view expressed in this report.

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- a member of the immediate family of the author of this report

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Disclosure of Corporate Involvement

PAC Partners has in the previous 24 months carried out work on behalf of the Company described in this report and received fees on commercial terms for its Corporate services. PAC Partners was Lead Manager to the February 2020 RTO of TSO and the June 2020 capital raising and received fees on commercial terms for these services. Please refer to the Prospectus for full disclosures. PAC Partners and its associates own 11m securities of the Company described in this report and PAC Partners associates do own securities of the Company described in this report. PAC Partners does and seeks to do business with companies covered in the research. PAC may receive commissions from dealing in securities associated with the Company. As a result, investors should be aware that PAC Partners may have a conflict of interest that could affect the objectivity of this report.

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