

Tesoro Limited (ASX:TSO)

A New Chilean Gold Story, Continuing to Grow

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KEY POINTS

- Tesoro Resources Ltd (ASX:TSO) is a Chilean gold explorer with a focus on its flagship El Zorro Gold Project. Drilling commenced on listing in early 2020, the first hole intersected **86.45m @ 2.29g/t Au, including 50.50m @ 3.63g/t Au.**
- At El Zorro the experienced and well credentialed team has recognised a new gold system and has secured a large tenement position that covers not only the main drilling target but a number of district prospects as well. Add into this a second project, provides TSO with a strong pipeline of exploration targets.
- Drilling of the 10 planned holes has been completed, with an additional hole added. Assays are being received now and are expected to be released during May and June. TSO is targeting a maiden resource in 2020

SUMMARY

Prior to listing TSO completed sixteen diamond drill holes at their flagship El Zorro project, reporting three 100 metre gram intercepts, including 98m at 1.58g/t gold, encompassing higher grade intervals. As well as showing there is gold in the system, the results have been invaluable in understanding the geology and structures hosting the gold. This has helped TSO target the current drilling and return the positive results seen so far.

The El Zorro Project benefits from being located close to the large mining town of Copiapo, where a skilled workforce and mining service providers are available. The project is at low altitude (highest point 1,600 metres) and accessible all year round.

The current drilling is targeting the Coquetas prospect over a >750m strike length, from within 4km of strike and a 2km wide footprint, providing scope for the project to grow.

Located closer to Chilean capital, Santiago, is TSO's second project, Espina. TSO recently release surface sampling results which highlighted two potential epithermal structures and indications that the gold zone in the epithermal system remains untested. The results from Espina have expanded on earlier soil samples and extended the areas of gold anomalism, giving TSO a number of priority targets to follow-up.

INVESTMENT VIEW

The main focus remains TSO's flagship project, El Zorro. The first phase of drilling has just completed, with the original 10 hole programme extended to include an additional hole. Assay results have been reported for 6 holes, all holes to date have hit the target lithology and associated alteration, assays from two of the reported holes have returned greater than 100g/m gold intercepts including an impressive 50m @ 3.63g/t gold, plus other high-grade intervals.

The TSO team have done an outstanding job in continuing to keep the drill bit turning and the news flowing in these times. We continue to be very positive on TSO and see additional catalysts as they expand on their El Zorro discovery.

TSO has shown that they have the makings of gold project with positive first drilling results and more regional targets to test. We see the potential to develop a maiden resource in a short space of time.

| Recommendation | Speculative Buy |
|--------------------------------|-------------------|
| Previous Recommendation | Initiating Report |
| Risk Rating | Very High |
| Current Share Price | \$0.05/sh |
| Price target Methodology | Peer Comparison |
| Total Return (Capital + Yield) | 270% |
| Market Capitalisation | \$19m |
| Liquidity | \$370k/day |

TSO Share Price Graph



Source: Iress Data

Board and Management

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

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

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

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

News Flow - Catalysts

- Completion of current drilling program and release of assay results over coming weeks
- Potential release of exploration target 1H2020
- Phase 2 infill and extensional drill program 2H2020
- Release of maiden resource 2H 2020
- Drilling of targets at Toro Blanco, Buzzard & Drone Hill 2H 2020
- Metallurgical testing results

DISCLOSURE: PAC Partners was Lead Manager to the recent RTO and listing. Please read the Prospectus for full disclosures.
 The information contained in this report is provided by PAC Partners to Wholesale Investors only.
 The information contained in this report is to be read in conjunction with other important disclosures at the end of this document.

Overview

Two highly prospective projects

Tesoro Resources (TSO) was admitted to the ASX in February 2020 and since then has hit the ground running. TSO has two highly prospective projects located in Chile, the flagship El Zorro Project is located close to the regional mining town of Copiapo. At El Zorro, Tesoro completed 16 diamond drill holes prior to listing, with significant gold intervals reported. This has then been followed up with drilling immediately post listing, the assay results from the first few holes have been reported and returned broad intervals of high-grade gold mineralisation. We see El Zorro as a resource definition stage project with considerable exploration potential still to be tested. The geological model at El Zorro is not the typical porphyry or epithermal targets that are synonymous with Chilean exploration. This makes the identification of gold and validation of a new model at El Zorro an exciting prospect for TSO.

Experienced team

TSO's second project, Espina, is located close to Chile's capital city and in a region that hosts several long lived gold and silver mines. At Espina TSO has recently released the results of surface samples that show the potential for epithermal gold and silver mineralisation.

TSO has stated that their clear focus is delineation of a resource at El Zorro during 2020.

Chile favourable mining destination

The TSO board and management has considerable in country, mining and finance sector experience, this has allowed them to deliver solid results to date.

Chile Mining Sector: Chile is a favourable mining jurisdiction with a long history of production and exploration. Mineral production from Chile accounts for 27% of global copper, 38% of global lithium and 1.2% of global gold. Chile is the world's largest copper producer and hosts six of the ten largest copper mines in the world. Codelco is a state owned company and is the largest copper producer in the world. In addition to major producers the legislative regime is support for smaller explorers and developers.

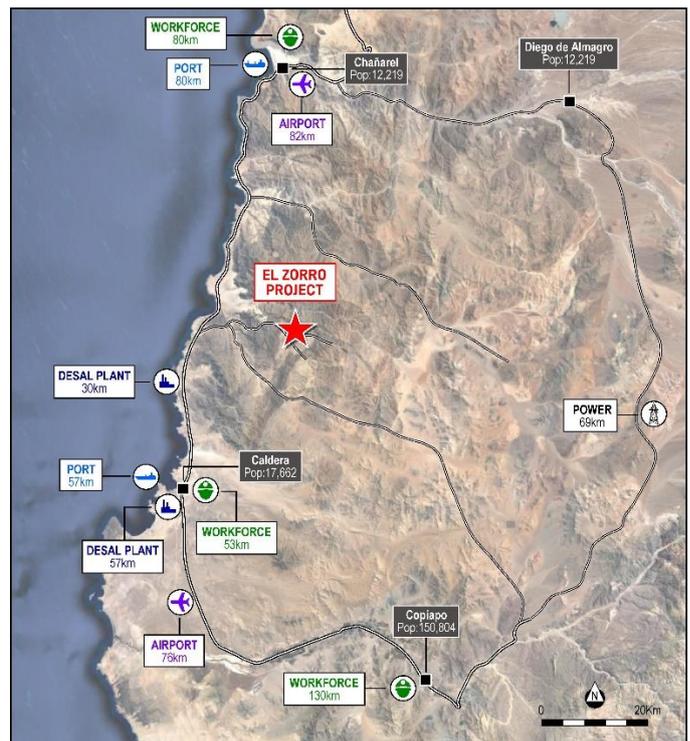
Projects

Projects – El Zorro (Chile)

TSO's main focus is the **El Zorro Project**, which is located ~140km from Copiapo, Region III, Northern Chile. Copiapo is the regional capital and is a well serviced mining hub, with skilled workforce, mining contractors and service providers located in the town. The project is located only ~10kms from the coast and Pan American Highway and is at low altitude. This allows for cost effective exploration all year round, which is an advantage over projects in the high Andes.

Gold has been identified at El Zorro from drilling in the early 1990's, this was then followed up by privately funded drilling by Tesoro in 2017-2018. The Tesoro geologists have been able to build on the previous work and gain a better understanding of the structural setting of the gold, helping to assist in defining the current drilling program.

El Zorro Project, regional location and local infrastructure (source Company)



The prospect is non-typical for Chilean gold projects as it has been classified as an Intrusive Related Gold System, (IGRS) as opposed to the more common porphyry or epithermal deposits common in Chile. Combined with the project location this has resulted in limited artisanal exploitation.

There is some minor shallow artisanal mining on some of the late stage quartz veins in the central part of the Coquetas. Given the limited historical activity there are only limited legacy mining permits in the region. As a result, Tesoro, has been able to secure rights to a district scale gold project.

El Zorro Exploration History

From 1990 to 1993 Coeur d'Alene Mines Corporation undertook detailed geological mapping, geochemical sampling (419 samples), drilling of 68 holes (7,601m), excavation of exploratory adits, sampling and mapping of underground workings as part of its exploration and assessment program. However, the sampling method and recoveries on the drilling were not reported, in addition the drill core was destroyed. Therefore, the drilling results are indicative only and cannot be used under modern reporting standards. However, what this substantial amount of information does, is provide TSO with a head start in exploration of the project.

From 2014 until 2017 the current vendor of the project undertook additional mapping and compilation of the historic datasets.

Since acquiring the project in 2017 Tesoro has undertaken: geological mapping, rock chip sampling, channel sampling (trenching) and most importantly diamond drilling of 16 holes (for 3,085m) with the following significant drill results reported:

- 84.3m @ 1.30g/t gold (inc. 4.0m @ 8.50g/t)
- 98.3m @ 1.58g/t gold (inc. 30.3m @ 3.03 g/t and 11.0m @ 4.70g/t)
- 58.8m @ 1.70g/t gold (inc 20.3m @ 4.50g/t and 6.70m @ 12.21 g/t Au)

El Zorro Geology

Within Chile, the dominant copper-gold mineralisation can be dominated based on the geological setting, namely: Late Jurassic and Early Cretaceous volcanic-hosted Cu-Ag manto-type deposits, mesothermal Cu-Au-Ag veins and iron oxide copper gold (IOCG) deposits. Although the El Zorro project is located within an IOCG-type domain, the mineralisation is more typical of an intrusive related gold deposit type. The El Zorro project is located in an early Cretaceous volcanic arc containing structurally controlled batholithic intrusions. At El Zorro both the host sediments and the granodiorite have been intruded by a mineralised tonalite to diorite sill and referred to as the El Zorro Tonalite (EZT).

The mineralisation appears to be structurally controlled by NW-SE faults which crosscut the EZT. Multiple mineralisation events have been identified, including the formation of narrow high grade veins which have been exploited by artisanal mining. A larger mineralising event, resulted in gold being hosted in a dense array of dominantly vertical thin fractures (1–10 mm) representing a sheeted vein array within the EZT and hornfelsed sediments in the contact zone. The fracturing is preferentially developed in the more brittle lithologies of the EZT, black fine-grained hornfels and quartzite.

The mineralisation model is reported as to be of the intrusive related gold system (IGRS) type and not thought to be a porphyry or epithermal. This is an important differentiator for TSO in defining a new geological model for the region.

Exploration potential remains high

The exploration potential at the El Zorro Project remains high, with mineralisation at the Coquetas prospect reported over a 750 m strike length and ~4 km of prospective strike not yet drill tested. Add to this the regional targets that have received little attention to date and there is a compelling exploration story. A key point at Coquetas is that the gold mineralisation extends from the surface to a depth of 250m.

Current Drilling Program

Immediately upon listing TSO commenced a 10-hole diamond drilling program at Coquetas, subsequently expanded to 11 holes. Assay results from 5 of the 11 completed holes have been released.

As the results have been received a picture is developing of continuous high-grade gold mineralisation hosted within a fault zone, which is now delineated over 180m of strike, between 20m and 80m wide and 250m deep and remains open in all directions. This fault zone, now referred to as CC500, is one of seven currently identified high grade gold bearing fault zones a Coquetas.

Highlights of the first 5 holes include:

- Hole 17 was the first reported and was drilled in the central part of the Coquetas Prospect. The headline results were an impressive: **86.45m @ 2.29g/t Au from 167.55m, including (50.50m @ 3.63g/t Au from 182.70m)**. Importantly two distinct zones of high grade mineralisation were identified, with these zones projecting to the surface.

- Hole 18 reported **34.73m @ 2.94 g/t Au from 187.3m including; 15.0m @ 5.99g/t Au from 189.00m; and 2.70m @ 22.21g/t Au from 197.00m.**
- Hole 19 was a step out hole located ~150m from the main CC500 fault zone, a broad lower grade gold zone at shallow depths (68.52m @ 0.47g/t Au from 21.00m).
- Both Holes 17, 18 and 21 were drilled into the CC500 fault zone, within this zone gold mineralisation is now identified over 180m of strike length, between 20m to 80m wide and 250m deep.
- Hole 20 was a step out hole located ~250m to the north of the other holes. The mineralisation host unit (ETZ) appears to have been truncated in this area. Surface mapping would indicate that the unit has been displaced rather than closed off and the exploration potential remains to be tested.
- Hole 21 was drilled near Hole 17 and reported similar good gold numbers (**19.25m @ 2.86 g/t Au from 189.25m**) and also confirmed that the gold mineralisation extended outside of the main host unit into the surrounding sediments. This has increased the scope of the project to host additional gold.

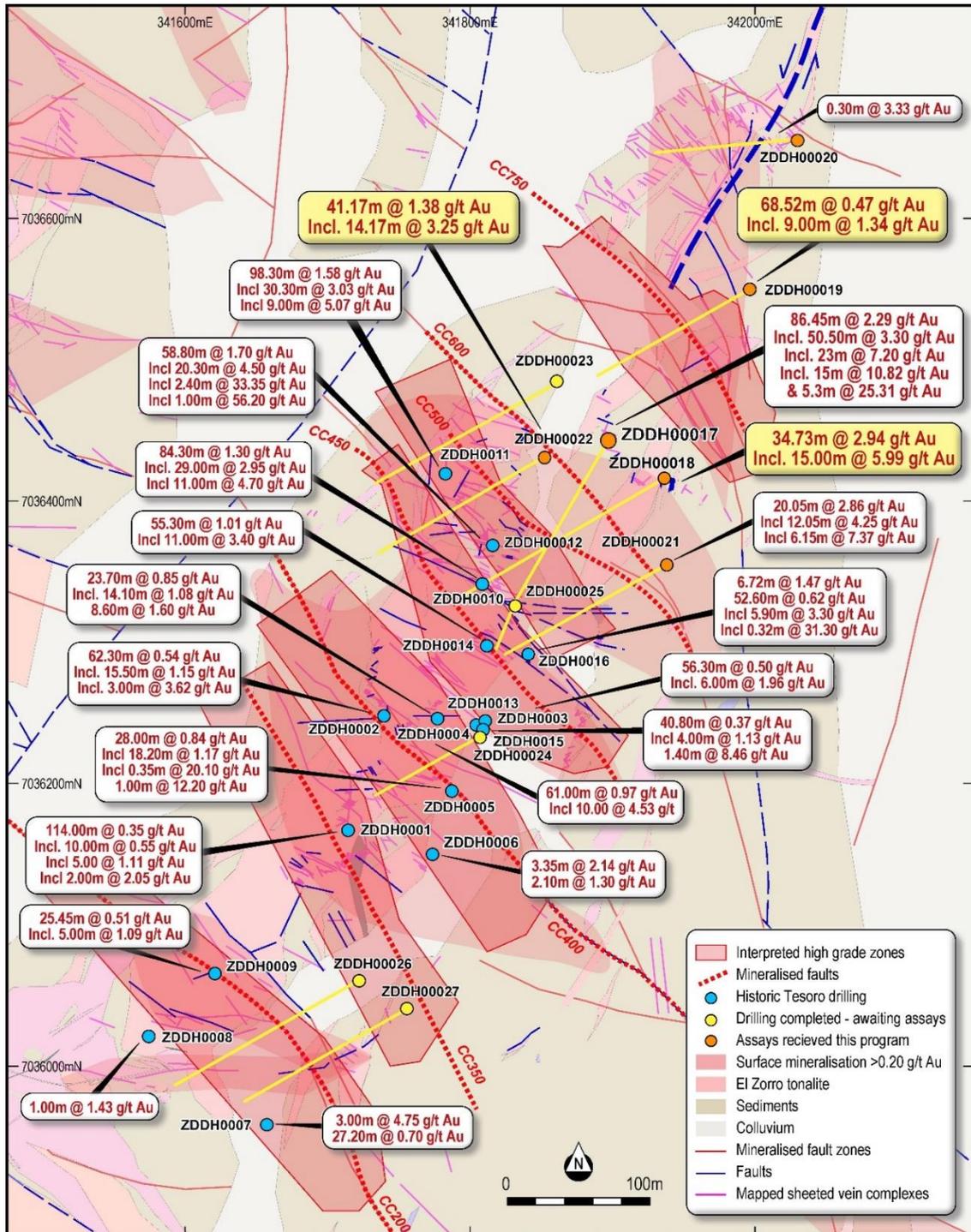


Figure: The main Coquetas prospect showing, detailed geology, mapped mineralised zones, interpreted high grade fault zones, drill hole and surface channel sampling locations. Source: Company Release.

Satellite Prospects

Outside of the Coquetas Prospect TSO has identified the same El Zorro Tonalite (EZT) host lithology outcropping at three other locations within the El Zorro Project area. Reconnaissance surface sampling at these locations has shown that the EZT contains gold mineralisation and is highly prospective. We see that the detailed understanding of the geology and the structural setting of the mineralisation at Coquetas being gained from the current drilling, will assist in future exploration of the satellite prospects. Two kilometres to the south of Coquetas, the Buzzard prospect is hosted in a biotite granite. Channel sampling at Buzzard has also returned promising results.

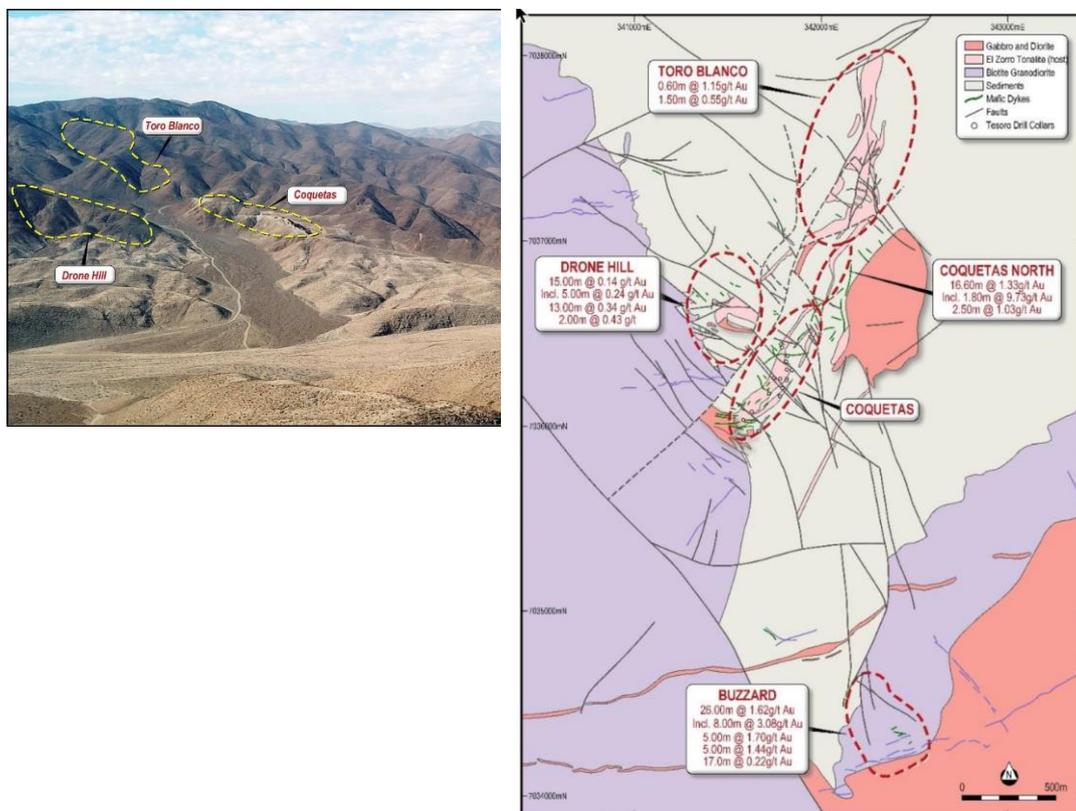


Figure: Geography of the main prospects within the El Zorro Project, highlighting some of the satellite prospects and topography. Source Company report

Figure El Zorro Gold Project district geology and targets. Source Company Report

El Zoro Deal Structure

Pathway to 80% ownership

TSO is accelerating its ownership to 70% of El Zorro, with a pathway to increase to 80% ownership as summarised in the following table. Recently TSO announced that they have varied the agreement to accelerate ownership to 70%. The variation required bringing forward the payment of USD50,000 and subject to shareholder approval, issuing 5,000,000 ordinary shares (escrowed for 2 years.)

| | Ownership | Cash | Expenditure | |
|-------------|-----------|------------|---|---|
| Previous | 51% | US\$50,000 | US\$2m by 17/07/2020 (~US\$1.5m spent to date) | If unspent the vendor had the right to clawback 41% ownership. |
| Now reached | 70% | US\$50,000 | Nil | 5,000,000 ordinary shares (2 year escrow) requires shareholder approval |
| | 80% | US\$50,000 | Complete a Feasibility study by 17 January 2022 | |

TSO and the vendor have agreed that, following reaching the 80% ownership level they will negotiate in good faith to finalise an agreement to give TSO an option to buy out the residual 20% of El Zorro. If an agreement is not reached then the vendor will contribute or be diluted, with TSO maintaining first right of refusal over the vendors final 20%.

Espina Project (Chile)

The Espina epithermal gold project is TSO's second project and is located ~50km from the capital city of Santiago, in the Maipo Valley, Chile. Tesoro has an option to acquire a 100% interest in the company which currently owns the Espina Gold Project.

The project is within a well-known epithermal gold region ~50km north of Yamana Gold's (TSX:YMI) operating Florida gold and silver mine. TSO is targeting epithermal style gold mineralisation on two distinct structures.

The project is highly prospective and to date has not been drilled. The exploration results recently released have reinforced the prospectivity of the project and additional work is justified.



Location of the Espina Project

Espina is an earlier stage asset.

At Espina, Tesoro has conducted geological and surface sampling work to identify two structural/fault trends with associated geochemical anomalies and outcropping epithermal veins over 2km in length. Peak grades up to 69.30g/t gold have been reported from rock chip sampling.

Recently TSO released the results of surface sampling undertaken, with Gold grades reported from trenching including: **1.0m @ 10.65g/t Au; 2.0m @ 7.31g/t Au; and 3.7m @ 1.75g/t Au.**

Nearby mine, long life gold and silver producer

The recent results show the potential at Espina, it is worth remembering that the project is located ~24km north of Yamana Gold's (TSX:YRI) Minera Florida Mine, that has been in operation for over 20 years, producing 74koz gold in 2019 as it transitions to a targeted 130koz pa operation. The Minera Florida Mine is hosted in the same volcanic sequence as the epithermal veins to Espina. The resource (M,I,I) at La Florida is 1.675moz gold and reserves of 450koz gold. Production for the underground operation in 2019 was 73.6koz gold, plus silver. Guidance for 2020e is 86,000oz at an AISC US\$1,130-\$1,160/oz.

Espina: In order to acquire up to 90% of Espina, Tesoro must spend US\$4.5m by September 2023 and make payments of US\$200k by December 2022. Tesoro has an option to acquire the remaining 10% for US\$4.0m by 11 December 2023, which can be paid for with escrowed shares within 2 years from listing.

Board and Management

Zeffron Reeves, Managing Director

Geologist with over 20 years of experience in the resources sector working on resource projects from greenfields exploration, discovery, definition and feasibility, construction, production to closure. Zeff was most recently Managing Director of ASX listed Metallum Ltd which had a number of development and operational projects in Chile. He has also held senior management positions with Cleveland Mining Ltd and Ashburton Minerals Ltd, developing projects in Brazil.

12.9m shares, 63.0m Performance rights

Geoffrey McNamara,

Non-Executive Director

Geologist with over 25 years of international resource sector experience as a geologist, project manager and fund manager. Previously he worked in Private Equity (AUM USD800 million) and as a Director of Societe General's Mining Finance Team in New York. Operational roles include Project Manager, Senior Mine Geologist and Mine Geologist for Ivanhoe Mines, Lion Ore International and Western Mining Corporation. Geoff holds a Bachelors degree in Geology, a Graduate Diploma in Applied Finance and Investment from the Financial Services Institute of Australasia (FINSIA). He is a member of the Australian Institute of Company Directors (AICD) and the Australasian Institute of Mining and Metallurgy (AusIMM).

40.5m shares 73.81m performance rights

John Toll

Non-Executive Chairman

John is currently a Partner at Azure Capital Limited and has over 15 years of experience in corporate advisory, focusing mainly on equity financing transactions across a range of industries including mining, technology, general industrials, biotech and infrastructure.

Prior to joining Azure, John worked for a UK-based investment bank offering equity capital markets and advisory services to an international client base. John started his career within the Assurance and Advisory division of KPMG in Perth.

3.263m shares

Sergio Uribe, Country Manager, Chile

Sergio has worked on numerous resource projects from greenfields exploration, discovery, production, closure, retreatment and tailings reclamation, in administrative, management and development roles. He was worked in both Chile and Australia, when with Fortescue Metals Group during development of its Pilbara mining operations, he has 10 years of resource sector experience. Sergio has represented numerous foreign companies investing into resource projects in Chile. He has a Business Management degree from Universidad del Desarrollo and is a member of the civil police and a military reserve officer.

Capital Structure

Following the RTO of Plukka Limited (PKA) on Friday 7th February 2020, TSO has the following securities on issue:

Shares (tradeable): 307,199,774

Shares (restricted): 55,473,613

Performance Rights: 136,840,000

Performance Rights and Milestones

| <u>Class</u> | <u>Quantity</u> | <u>Milestone</u> |
|--------------|-----------------|---|
| Class A | 46,720,000 | Inferred Resource of 250,000oz gold equivalent at 1.0g/t or greater, at either the El Zorro Project or the Espina Projects. |
| Class B | 50,060,000 | Inferred Resource of 1.0Moz gold equivalent at 1.0g/t or greater, at either the El Zorro Project or the Espina Projects |
| Class C | 20,030,000 | Inferred Resource of 2.0Moz gold equivalent at 1.0g/t or greater, at either the El Zorro Project or the Espina Projects |

Major Shareholders

| <u>Holder</u> | <u>Shares</u> | <u>%</u> |
|--|---------------|----------|
| Tanamera Resources PTE LTD | 21,299,455 | 5.87% |
| Scion HDG SPA | 17,006,198 | 4.69% |
| Mr Kenneth Joseph Hall <HALL PARK A/C> | 16,666,666 | 4.60% |
| Mulina Overseas Corporation | 16,273,771 | 4.49% |
| Linkwood Holdings Pte Ltd | 15,184,259 | 4.19% |

RISKS

| | |
|---|--|
| <i>Funding</i> | TSO is an early stage explorer with no mining operation, and no revenue. Therefore, will require additional funding to continue exploration and project development. At this stage the nature and value of future capital raisings is unknown and will largely depend on exploration success. |
| <i>Legislative changes and Permitting</i> | TSO has a number of exploration licences and provided the project economics warrant progressing to mining stage a number of permits and approvals will be required |
| <i>Geological Variability Resource Definition</i> | <p>The unknown nature of the geology of the new discoveries presents a risk</p> <p>Whilst TSO has enjoyed significant exploration success at the El Zorro project to date there is no resource defined at this stage. TSO is leveraged to exploration success and defining an economic resource. Additional drilling will be required to define a maiden resource. The scale of the project remains unknown at this early stage.</p> |
| <i>Commodity price and exchange rate</i> | As a resources company operating overseas TSO will be exposed to movements in commodity prices and fluctuations in the prevailing exchange rate. |
| <i>Other Risks</i> | Other specific risks such as: infrastructure access, adverse climatic and weather conditions, natural disasters, health and safety, insurance, management, contractors, potential acquisitions, litigation, third parties, dividends and growth. |
| <i>General risks:</i> | general economic climate, share market and liquidity, share price volatility, government policy and legislation, accounting policies, war and terrorist attacks. |
| <i>Access</i> | A number of the Espina Project Concessions overlap certain superficial land and therefore any mining activity will require authorisation or consent from the owners of the land. TSO is in the process of organising access agreements where relevant. There is a risk that access could cost more or take longer than expected, or not be forthcoming. |

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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 Andrew Shearer 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.

The following person(s) do hold an economic interest in the securities covered in this report or other securities issued by the subject issuer which may influence this report:

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

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