Trickle Research

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

Research Update and Allocation Increase

Report Date: 08/07/19

12- 24 month Price Target: USD$.90

Allocation: *6

Closing Stock Price at Initiation (Closing Px: 04/05/18): USD$.26

Closing Stock Price at Date of Allocation Increase (Closing Px: 08/07/19): USD$.094

Camino Minerals Corporation

CAMINO MINERALS CORP

(Stock Symbols – TSXV: COR.V; OTC: CAMZF)

www.CaminoMinerals.com

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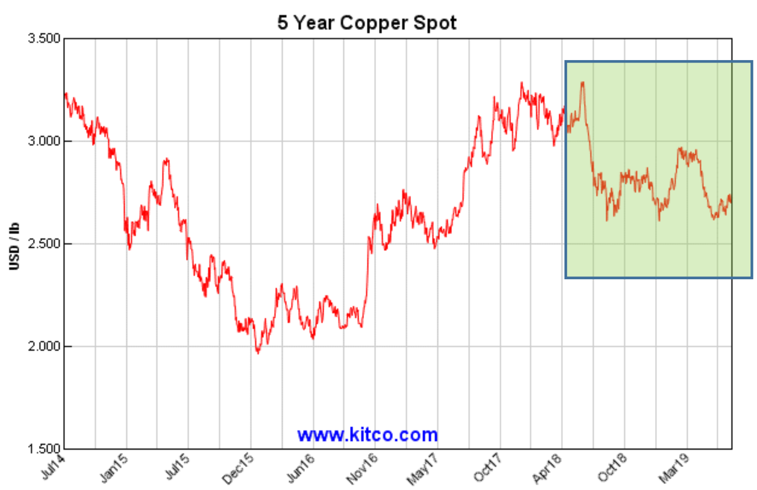
We initiated coverage of Camino in 2Q18 with the idea that they owned and were developing a copper resource in Peru that we felt held some characteristics that might suggest it could become a major project. We submit, we have not provided much in terms of updates to the story, because frankly, there is not a lot to update beyond drilling and exploration results. On the other hand, *they have* made some management changes, they have obtained some key permits to continue the development and they are working on the second portion of a raise to support the whole project. To revisit, the initiating coverage included a handful of bullet points that we thought supported our enthusiasm for the project. Here are some of the highlights from that initiation as well as some new comments around those bullet points (The initiation excerpts are in *italics.*)

Camino's current focus is on a Peruvian project they refer to as Los Chapitos ("Chapitos"). Chapito's location is relatively benign in terms of some of the conflicts resource deals often face. That is, it is located in an area with little other commercial or other appeal, which we think is favorable from permitting and other environmental impact sort of issues. On the other hand, the property is also only about 10 miles north of Chala, Peru, which is a coastal town of about 4,500 people. Further, the project is about 400 miles south of Lima, (Peru's capital and largest city) and along the Pan American Highway, so it is not so remote that it is untenable in terms of access to relevant resources. Chapitos is easily accessible from Chala via a handful of gravel roads connected to the Pam American Highway.

Our macro thesis regarding Camino involves a handful of tenets.

- *First, copper prices have firmed considerably over the past two years, and many see continued strength for the metal going forward, based in part on new demand from electric vehicles and other renewable energy platforms. We think that may be true of other metals as well, including perhaps some of the rare earth metals, but in any case, we think the argument for growing future copper demand may be valid. A number of large banks have recently provided analysis that supports that view.*



The chart above may be telling on multiple levels, but at first blush, it certainly does not support our thoughts about higher copper prices. The green box above reflects prices since our initiation. In our view, this chart may tell us something about the decline in Camino shares over the same period as well. By the way, we suspect the narrative regarding a slowing global economy has likely impacted prices for copper and other base metals as well). On the other hand, our copper "call" was not meant to be a short or even medium term prognostication, but rather, a simple observation that the world is likely to continue to see copper demand increase as we move forward, in the face of copper supplies that are getting harder and more expensive to find. We don't think it is particularly speculative to think copper prices are likely to rise if we are right about that, and/or that promising copper deposits might become more valuable. In spite of weaker copper prices since our initiation, we don't feel any different about that view today than we did then, and again, we don't think that is a terribly speculative stance. Here is some additional color from the street regarding that view:

A recent copper market report (https://roskill.com/market-report/copper-demand-to-2035/) notes that "*in 2000, 60% of global copper consumption was directly related to its electrical conductivity properties. The balance was accounted for by its* *properties of thermal conductivity, machinability, malleability, aesthetics and signal transfer. However, by 2017, electrical conductivity had grown to represent over 75% of the over 30M tonnes of world copper demand in all forms (refined consumption and direct scrap use)".*

With respect to the above, there are a myriad of estimates regarding the coming growth of electric vehicles ("EV"s) and obviously some of those are more robust than others, but the point from this perspective is that we think most will agree that electric vehicles are likely to become a growing portion of the worldwide vehicle fleet and EV's, along with their supporting infrastructure are electricity and copper intensive. Interestingly enough, the above report also notes that even the legacy combustion vehicle industry is consuming more copper per vehicle than it has in the past: "*Due to the auto megatrends of connectivity, electromobility and autonomous driving, wiring harness manufacturers such as Lear Corporation are now seeing and forecasting an ongoing 5% increase in electrical content per year on top of the growth in unit auto sales".*

Further, the article also notes something else of import regarding the estimates of copper demand. Frankly, we have often questioned the veracity of both supply and demand estimates for a number of base metals, so this one does not necessarily surprise us: "*It is strongly suspected that existing statistical sources have underestimated the scale of world copper consumption by at least 5%. This is because much of the growth over the past decade has occurred in parts of the world where accurate and reliable data is absent such as China, ASEAN, India and the Middle East. This new Roskill report will address these shortcomings. If the world copper industry is larger than commonly thought then this has major implications for prices, the secondary sector and refined producers and copper miners".*

To summarize the above just a bit, we think the (long term) demand case for copper is relatively straightforward (to the degree commodity prices can be "straightforward"). While nothing is certain these days, it seems likely that in the face of a growing number of electricity centric technologies, and in fact arguably entire new industries, demand for copper is likely to grow going forward, which in turn suggests that supply will need to keep up. However, there are a number of data points that suggest the supply side may not be so straightforward.

As we noted in the initiating coverage, Chile is the world's top copper producer, and it has been for some time. However, there are a number of data points suggesting that Chile is having difficulty maintaining its production levels and there are a number of reasons for that. For instance, one of the more topical problems they are having is grade. A recent article from Reuters (https://www.reuters.com/article/us-chile-mining-exploration/revitalizing-its-copper-mines-may-not-be-sufficient-to-keep-chile-at-the-fore-idUSKCN1RM2AD) notes that "*Many of the projects approved and underway in Chile, including a 10-year, $40 billion overhaul drive by the world's top copper producer, Codelco, focus on reinvigorating massive, but sometimes decades or even century-old mines. The problem has become so severe that Chile´s central bank last week cited the issue of declining ore grades as a key reason for slower than anticipated growth in what is normally one of the region's healthiest economies.*

Chile's grade issues are underscored by the following table:

https://www.mining.com/copper-output-spike-worlds-top-producer-chile/

Obviously, all other things being equal, lower grades likely mean higher costs and/or more inputs to capture the same amount of copper much less greater amounts to meet increasing demand. Further, Chile is not the only place around the globe addressing struggles to keep up with demand. A recent report from Goldman Sachs warns of *"…On Monday, the International Copper Study Group said demand has exceeded supply by 155,000 metric tons in the first four months of the year. That's bigger than the 64,000-ton shortfall recorded in the same period a year earlier… analysts expect about 5.5% or 1.2 million tons of copper supply will be disrupted this year. That combined with a "relatively empty project pipeline will lead to the weakest supply growth in a decade, on a three-year rolling basis…"*

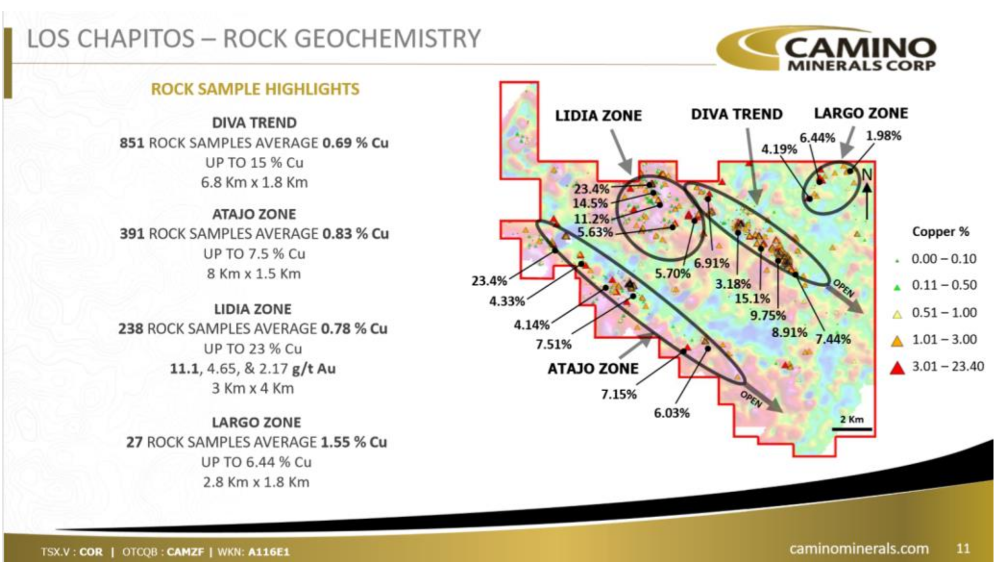
In case its not clear, we remain quite positive on the notion that the fundamentals of copper remain positive. As an extension, we think copper projects that can demonstrate favorable characteristics including (but not necessarily limited to) a sizable enough identified resource to support capex scale and ROI/IRR thresholds, favorable relative grade profiles and amenable "local" characteristics (workforce, regulation etc.) will become targets of large producers. With that in mind, we will briefly bullet point a few of Chapito's characteristics that we think fit this profile.

- Recall, Chapitos is located 100 km northwest of the Mina Justa IOCG project, which we believe Minsur is slated to bring into production in 2020/2021. As we understand it, this is a $US 1.6 billion project, which underscores the "sizeable enough identified resource" characteristic we noted above. As a point of reference, the Mina Justa deposit has reserves of 346.6 Mt at 0.71% Cu. We think that is highly topical in terms of industry views regarding trends and proximities. Succinctly, it makes intuitive sense to search for minerals in places they have already been discovered, and we think there are likely other logistic related benefits to development projects in proximity to other large producing deposits.

- The Company has been drilling Chapitos for over two years now. In June (2019) the Company was granted permits for 200 additional drill pads (445,000 meters) on the project, which was a meaningful milestone in our view.

- On June 26, 2019 the Company announced the closing of the first tranche of a equity private placement initiated to continue the 2019 drilling program. We believe that round raised approximately CAN $700,000. We suspect they will be able to raise the additional portion of the proposed CAN $1.5 million facility. We believe the Company has also been able to raise some capital through the re-pricing of some outstanding warrants. Obviously, advancing the project will rely on additional capital and assumed associated dilution.

- The Company results to this point have in our view been favorable. For instance, some of the recent development work reflects the following:



First and foremost, we are certainly not suggesting, nor is the Company, that these results are indicative of the entirety of the resources they are attempting to delineate. However, in the context of some of the copper related data points we have noted in this report, for instance average Chilean grades of .65% copper (which by the way we believe approximates the average grades industry wide) and average Mina Justa grades of .71%Cu. To reiterate, while **in no way definitive,** we find these promising.

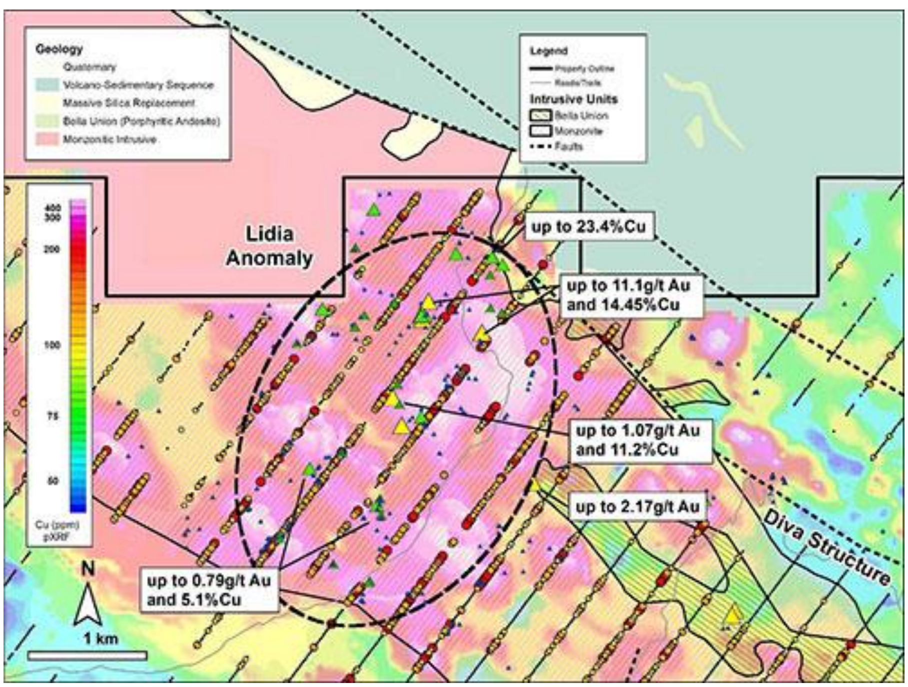
- As an added point of interest, in March (2019) the Company announced drill results from their new “Lidia Zone” that we also find topical. Here is that release:

Camino Discovers New Copper Gold Zone
March 28, 2019

Edmonton, March 28, 2019 – Camino Minerals Corp. (TSXV: COR) (OTCQB: CAMZF) (WKN: A116E1) (“Camino” or the “Company”) is pleased to announce the discovery of a new mineralized zone on the 20,000 hectare Chapitos Copper-Gold project, near Chala, Southern Peru.

CEO John Williamson commented, “Camino Geologists continue to discover new and exciting mineralization on the Chapitos Project. The newest discovery, the Lidia Zone, is located to the northwest of the main Adriana Copper Zone, and adds an entirely new type of exploration target to the Property comprising a large area of Copper and Gold anomalism, which is extremely interesting.”

The Lidia zone is roughly 3km by 4km in size, elongated slightly in a North-South direction, and lies within the northern part of the Chapitos Property approximately 5km northwest of the Adriana Copper Zone. The Lidia zone currently comprises a wide area of Copper and Gold geochemical anomalies defined by both rock and soil sampling. A total of 238 rock samples have been collected in the Lidia area that, although somewhat selective in nature, collectively average 0.20 g/t Gold (Au) and 0.75% Copper (Cu) with individual samples returning values of up to 11.1g/t Au and 23.4% Cu (see Figure 1). Mineralization is hosted within stockwork quartz veins, some of which are associated with zones of shearing and brecciation within the host Monzonite.



Again, **only as a point of reference**, we believe industrywide gold grades are likely in the 1-1.5 grams per tonne range. Some may recall that the average grades at our coverage stock Gold Resource’s (GORO) Arista mine in Mexico have been approximating 1.8 g/t. To be sure, the investment community heavily scrutinizes gold “sample” results for projects because they are certainly not indicative of the entire resource and we submit that is the case here. However, our point is, there may be reason to believe that ultimate production at Chapitos has the potential for meaningful gold credits. That may or may not be the case, but it may ultimately provide value to the project. To reiterate, these are very small sample sets.

- We would be remiss not to note that the Company has initiated some management changes over the past year, which include the addition of Mr. John Williamson as CEO/President and director, as well as Mr. Jeremy Yaseniuk as Director of Business Development and a director as well. The Company notes that *"both John and Jeremy have been very successful in their careers and currently have a highly skilled management team supporting them. They have demonstrated their ability to move projects from grass roots through to production."* As a matter of full disclosure, we are not familiar with either Mr. Williamson or Mr. Yaseniuk, but we will take the Company's view at face value in part because we think their biographies support tenures in the space. We have spoken only briefly to portions of the new management team.

To summarize, our research typically involves long term assessments because as microcap analysts they generally have to. Further, resource exploration and development companies are clearly long term propositions. As generalists, we try to include some of these names in our research universe because our past experience has shown us that more than most industries, resources deals (and perhaps biotech deals) offer some of the best opportunities for exponential valuation increases because successful development can lead to fundamental exponential increases in the intrinsic values of these companies. For instance, as we noted in the initiating coverage, as we understand it, Minsur purchased a majority interest in Mina Justa (post resource delineation) for a total implied project valuation of US$720 million. We are not suggesting Chapitos will necessarily fetch a similar number, but we are suggesting that there is a profound spread between that number and Camino's *current market cap of about US$5.5 million.* In our view, project success to this point suggests to us that there may be a marked risk/reward profile to the shares. Granted, there are a number of things that have to go right here, and success will certainly not be achieved overnight, however, again, we think there is a compelling risk/return profile to the stock especially given the nominal current market capitalization of the company.

As a result of what we see as continued progress towards the potential delineation of a valuable resource (and in all honesty, the compression in the stock since our initiation) we are increasing our allocation of Camino shares from 4 to *6, while reiterating what at this point amounts to a new 12-24 month price target of US$.90 per share. We submit, the latter may be somewhat arbitrary (although it still fits into our original DCF framework) because the value of the Company in the event of delineation of a sizable resource remains quite open-ended and subject to a number of variables that neither we nor anyone else in our view can effectively project. That said, we are confident that "success" would certainly look higher than the current price of the stock. We will revisit our conclusions as further development data become available.

We would add, we have not included the Projected Operating Model in this update because we don't think it is particularly relevant beyond the share counts. However, for what it is worth, to this point, the Company has reflected measurably lower expenses and resulting operating losses lower than our original model anticipated.

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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.