



Mercenary Alert: This Company is a Compelling Call on Copper

A Special Alert Musing from Mickey the Mercenary Geologist

For Subscribers Only

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My bullish views on the mid- to long-term copper market are well-documented. These opinions are driven by supply and demand fundamentals that I have espoused in a various interviews, presentations, and writings over the years. Here's one example of a short-term bear to long-term secular bull forecast for copper: [Mercenary Musings Radio, October 11, 2016](#).

Over this period, I have been constantly searching for junior copper explorers and developers with the requisite flagship project, share structure, and management that warrant my speculative dollars. Few have met my criteria and even fewer have warranted coverage in my newsletter. In addition to the three main criteria for successful speculation, market timing is crucial and that is often an impediment.

That said, I think the time is finally right for this well-known mid-tier copper junior:

[Trilogy Metals Inc \(TMQ.NYMKT; TMQ.TSX\)](#) has certainly been around the block. It began as part of Nova Gold, was spun-out as Nova Copper, and changed its name to Trilogy Metals Inc in September 2016.

TMQ is led by CEO Rick Van Nieuwenhuysse. Rick is a very successful economic geologist, having founded Nova Gold and then moved on to Nova Copper. He is one of my peers. There is little doubt that we first met in the early 1980s in the Davenport Hotel in Spokane during one of the Northwest Mining Association annual meetings and perhaps at the infamous Moose Milk Breakfast.

But that's an anecdote for another time. Let's take a look at the company's other principals:

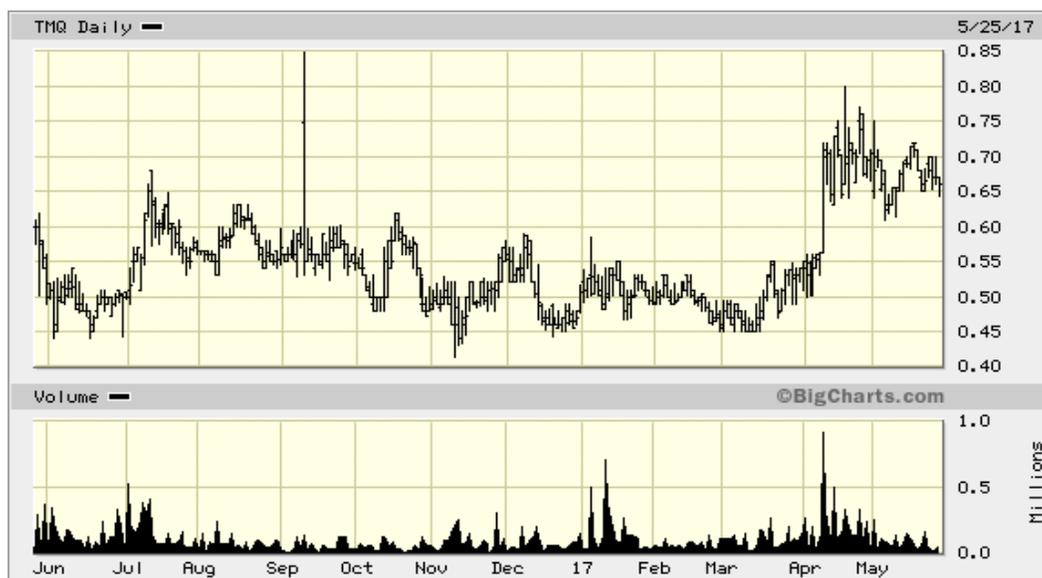
Elaine Sanders is Chief Financial Officer and Corporate Secretary and has more than 25 years of experience in audit, finance, and accounting with public and private companies. Elaine has been CFO of this successful team for 14 years beginning with Nova Gold and continuing to the present.

A strong technical team is led by consulting geologists Joe Piekenbrock and Frank Gish. Both bring more than 30 years of experience and have worked for Trilogy and its predecessor companies.

Trilogy Metals has a strong Board of Directors including: Tony Giardini who is currently Chief Financial Officer of Kinross Gold Corporation; Bill Hayden, co-founder of Ivanhoe Nickel and Platinum and a geologist with over 37 years exploration experience mainly in Africa, South America and the Asia-Pacific; Greg Lang, an engineer who is the CEO and President of Nova Gold and an ex-VP of Barrick; Kalidas Madhavpeddi, an engineer who leads an advisory firm to the metals and mining sector and is overseas CEO of China Molybdenum Company; Chairman Gerald McConnell, a lawyer and CEO of Namibia Rare Earths; lawyer Janice Stairs, general counsel to Namibia Rare Earths and prior to that, Endeavor Mining and Etruscan Resources; the aforementioned Rick Van Nieuwenhuysse; and investment banker Diane Walters, who also serves on the boards of Platinum Group Metals and Electrum Corporation.

Note that in the discussion below, all monetary amounts are in US dollars.

Here is the one year chart showing a high of 85 cents, low of 41 cents, and a recent trading range in the low 60 to mid-70 cent range. Its move up in early April coincided with announcement of a 50-50 joint venture with Australian-based South32 Limited for a minimum total consideration of \$150 million; more on that below.



There are 105.5 million shares outstanding and with today's 67 cent close, a market capitalization of US \$71 million. Trilogy has moderate liquidity, trading on average 150,000 shares per day in 2017, mainly in New York with minor volume on the Toronto Stock Exchange. There are 12.8 million options and warrants along with 1.3 million deferred and restricted shares to officers and directors for a fully diluted total of 119.6 million.

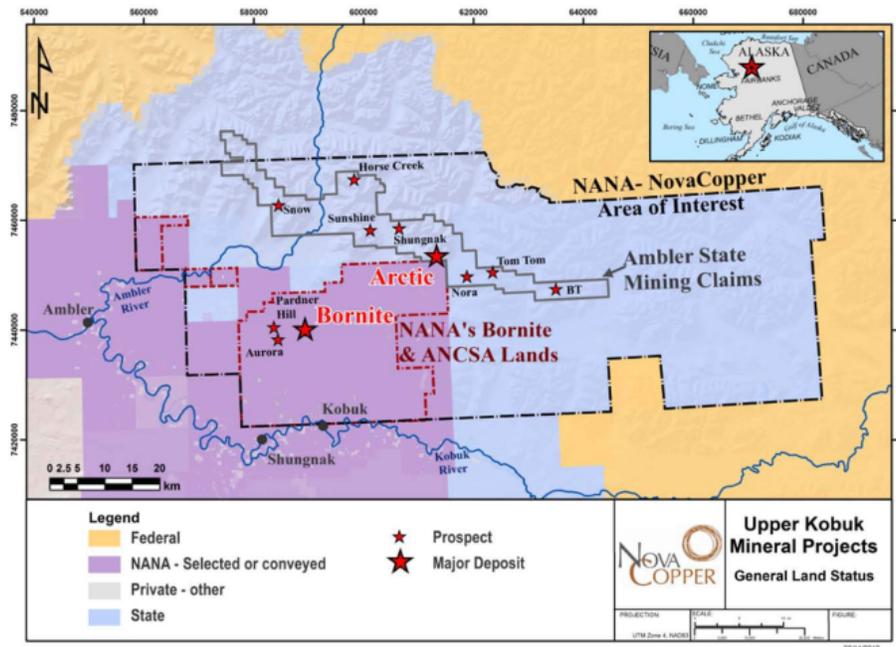
The stock is 80% held by institutional funds with management at 4%. Major stakeholders Electrum Group, Paulson and Company, Baupost Group, Resource Capital Funds, and Gold First Investments collectively own 55%. All warrants are held by Electrum, Paulson, and Baupost and are priced at \$1.60 with expiry of June 2019

At end Q1 2017, TMQ had \$6.4 million in cash, \$5.9 million in marketable securities, and zero debt.

Share structure and management meet my criteria for speculation. But with this issuer, it really is the mineral potential of its two flagship projects in the Ambler mining district of northwest Alaska that has attracted my attention and kept this company on my watch list for a few years. I toured these projects briefly in summer 2013 and my account is included within the following report ([Mercenary Musing, September 9, 2013](#)).



Trilogy Metals controls 1340 km² of mineral rights stretching over a distance of 100 km in the Ambler mining district. Its partner is the regional, for-profit, pro-development native corporation NANA, which retains a 1.0-2.5% NSR and an option to participate as a 16-25% equity partner or revert to a 15% net profits interest. The people who live in this part of Alaska understand that the Red Dog mine has brought wealth and opportunity and consequently, there is a very positive attitude towards the mining industry.

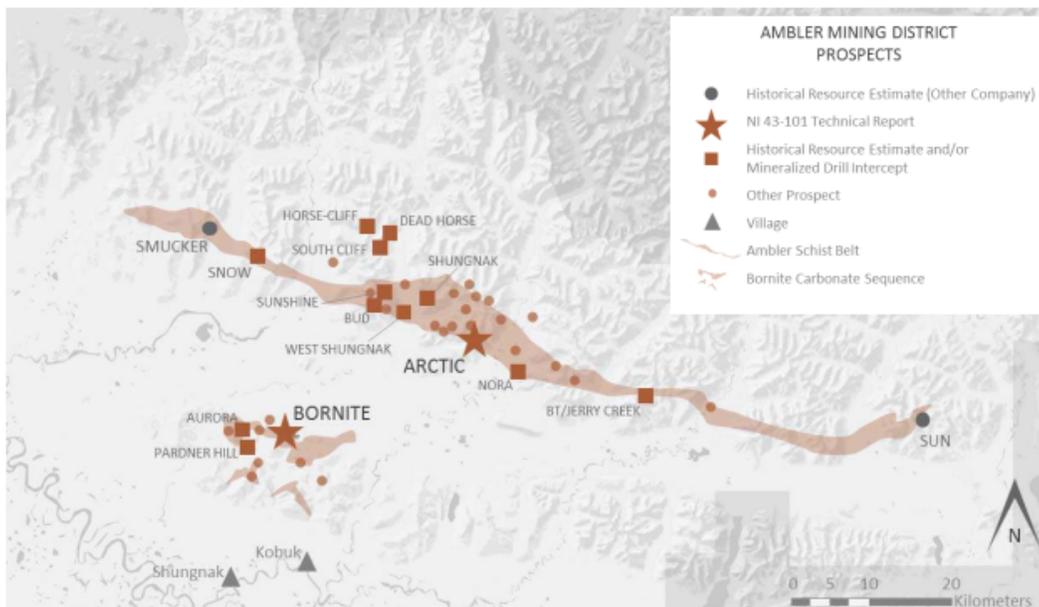


The Ambler mining district consists of two adjacent Devonian mineralized belts:

- A volcanogenic massive sulfide belt in the Brooks Range contains Trilogy Metals' Arctic deposit, two deposits held by other companies, and many prospects along a 120 km strike length. Based on an open-pit mine scenario at 0.5% Cu cutoff, Arctic hosts an indicated resource of 36.0 million tonnes grading 3.07% Cu, 4.23% Zn, 0.73% Pb, 0.63 g/t Au, and 47.6 g/t Ag; and an inferred resource of 3.5 million tonnes grading 1.71% Cu, 2.72% Zn, 0.60% Pb, 0.36g/t Au, and 28.7 g/t Ag .

The 2017 Arctic budget is \$7.1 million and will result in a pre-feasibility study scheduled for release in Q1 2018.

In addition to this deposit, there are nine drilled occurrences and numerous other massive sulfide prospects in the company's extensive land package in the Ambler belt.



- A carbonate-hosted copper-cobalt belt in the Cosmos Hills to the south hosts the world-class Bornite project.

Based on an open-pit mining concept, Bornite contains an indicated resource of 40.5 million tonnes grading 1.02% Cu and inferred resource of 84.1 million tonnes grading 0.95% Cu with a 0.5% cutoff at the Ruby Creek deposit. In the deeper South Reef deposit, the current underground inferred resource is 57.8 million tonnes grading 2.89% Cu at 1.5% cutoff. This deposit is open along strike and down dip to the north and will be tested by a minimum of 10 deep drill holes this summer. The company is currently evaluating Bornite for recoverable cobalt content.

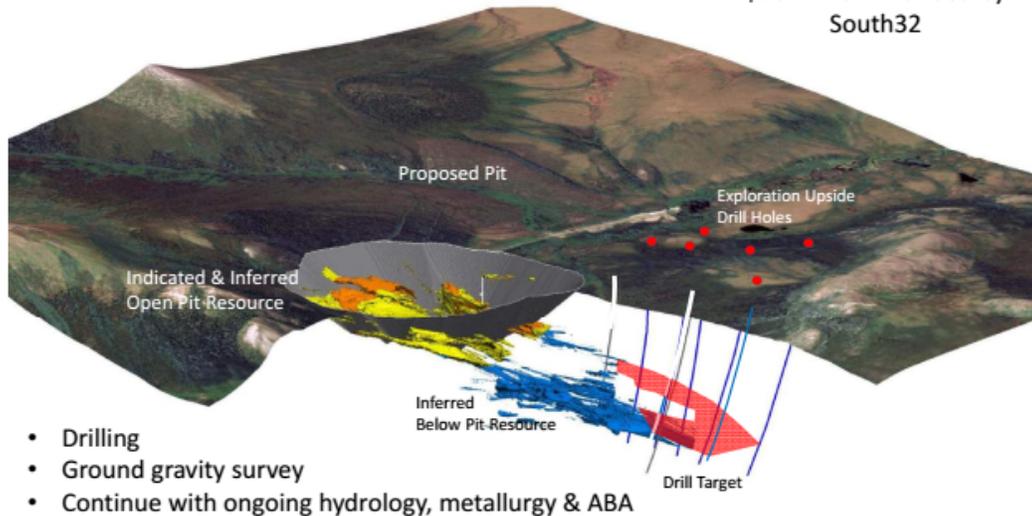
As shown in the above figure, there is strong exploration potential with two other drilled occurrences at Aurora and Partner Hills and numerous copper-cobalt prospects in the area.

This image illustrates the overall Bornite resource, open-pit resources, current underground resources, and deep drill program to the north in 2017:

Diamond Drill Holes: New Reef Target

- min 7 exploration holes, up to 1,400 meters deep

\$10 million – funded by South32



The State of Alaska, local government, and residents offer significant advantages over most other mining jurisdictions in the world:

- The United States of America is politically stable and rule of law reigns supreme.
- The State has vast, world-class mineral resources and potential.
- Extractive industries are Alaska's largest revenue source.
- There is a well-established and successful permitting process.
- The local NW Arctic Borough generates its operating revenues and school taxes from the Red Dog mine, road, and port.
- The local native corporation, NANA, is Trilogy's partner; its people are experienced miners and highly supportive of the project.

However, the Ambler mining district is quite remote and government support of infrastructure buildout is required for development of the Arctic and Bornite projects.

The Ambler Mining District Industrial Access Project (AMDIAP) is a proposed road connecting the mineral-rich area to four ice-free ports in south-central Alaska; it includes a potential cost-saving rail option from Fairbanks to these ports.

The project is led by the Alaska Infrastructure Development and Export Authority (AIDEA), a State-owned infrastructure development bank dedicated to supporting rural areas. The Ambler road project is similar to the successful Red Dog mine road and port completed in 1989 with State-backed bonds offered to private investors who recouped their investment thru toll charges for road usage. These original investors were paid back nearly 10 years ago, and AIDEA has contributed nearly \$380 million to the State of Alaska general fund since 1997.

As per the Red Dog project, AIDEA will finance, own, and operate the road with construction costs financed by low interest bonds and investors paid back from toll road usage. A Notice of Intent for the Ambler project was filed in the US federal registry on February 28 with an expected permitting timeline of two to three years.



Another key metric for any junior seeking to develop giant mineral deposits is a deep-pocketed financial partner; Trilogy Metals Inc secured that entity via the joint venture with South32 announced in early April.

South32 Limited is a large, Perth-based, diversified and integrated mining company spun-out of BHP-Billiton in 2015 and has market listings in Australia, London, and Johannesburg. The company mines, processes, and produces aluminum, coal, manganese, nickel, lead, zinc, and silver in Australia, South Africa, and South America. With this joint venture, South 32 has signaled intent to expand its operations into North America and most importantly, copper.

In the agreement, South32 has an option to form a 50-50 joint venture holding all of Trilogy's Alaska assets by contributing US \$10 million per year for up to three years for exploration at Bornite. At any time within this period, it may elect to form the JV by paying a minimum of \$150 million plus match Arctic project expenditures to a maximum of \$5 million per year.

Folks, you've heard me say this many times before: *Every good geologist knows that grade is king.* This essential ingredient certainly characterizes these projects.

Arctic is one of the largest and highest grade polymetallic sulfide deposits in the world. And do not dismiss Bornite, which hosts huge copper (and potentially cobalt) resources at very attractive grades. These are giant deposits, with total current resources containing over eight billion pounds of copper, two billion tonnes of zinc, and over one million ounces of gold-equivalent precious metals.

In late February, I decided the timing was right for speculation in Trilogy Metals Inc and made my move in the open market. My cost basis is lower than its current trading range but rest assured, my target price on this stock is much, much higher. Note also that Trilogy is a paying sponsor of my website.

As you have no doubt gathered from this missive, I really like these projects.

In my opinion:

- The Ambler mining district of Alaska is a compelling call on what I surmise is an incipient bull market for commodities with a rising copper price going forward.
- TMQ's management is experienced and has been successful in past endeavors.
- The share structure is reasonable given the advanced exploration stages of the two flagship projects.
- There are pending catalysts within the next 12 months that could move the price to our goal of a double.

That said, please do your own due diligence to ascertain if Trilogy Metals Ltd meets your personal speculative criteria.

Ciao for now,

Mickey Fulp
Mercenary Geologist



The [Mercenary Geologist Michael S. "Mickey" Fulp](#) is a Certified Professional Geologist with a B.Sc. Earth Sciences with honor from the University of Tulsa, and M.Sc. Geology from the University of New Mexico. Mickey has 35 years experience as an exploration geologist and analyst searching for economic deposits of base and precious metals, industrial minerals, uranium, coal, oil and gas, and water in North and South America, Europe, and Asia.

Mickey worked for junior explorers, major mining companies, private companies, and investors as a consulting economic geologist for over 20 years, specializing in geological mapping, property evaluation, and business development. In addition to Mickey's professional credentials and experience, he is high-altitude proficient, and is bilingual in English and Spanish. From 2003 to 2006, he made four outcrop ore discoveries in Peru, Nevada, Chile, and British Columbia.

Mickey is well-known and highly respected throughout the mining and exploration community due to his ongoing work as an analyst, writer, and speaker.

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