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HALLGARTEN & COMPANY

Coverage Update

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Soma Gold (formerly Para Resources)

(TSX-V: PBR, FSE: A14YF1, OTCQB: PRSRF)

Strategy: LONG

Key Metrics

Price (CAD)	$0.02			
12-Month Target Price (CAD)	$0.12			
Upside to Target	500%			
12 mth high-low	$0.125-$0.245			
Market Cap (CAD mn)	$6.04			
Shares Outstanding (millions)	302.0			
Fully Diluted (millions)	458.2			
	FY18	**FY19e**	**FY20e**	**FY21e**
Consensus EPS		n/a	n/a	n/a
Hallgarten EPS (CAD) - pro forma		($0.10)	$0.13	$0.34
Actual EPS (CAD)	-0.07			
P/E - pro forma	n/a	n/a	1.6	0.6

Soma Gold

Cornering a District in Colombia

+ The recent purchase of the El Bagre mining complex for US$5.5mn has bulked up the Colombian operations
+ Now owning two producing gold mines and two operating mills, Soma Gold is positioned in the all-important producer category
+ Total annual gold production by the end of 2020 could be in excess of 30,000 ozs per annum
+ Exiting the Arizona operations and focusing on Latin America is a highly desirable step
+ Name change and executive reshuffle have heightened the company's profile as focused on Colombia
+ Latest acquisition significantly expands exploration territory, adding Nechi to the pre-existing Zara targets
+ The gold price has been a strong rising trajectory of late with only the uncertainly of the virus getting the yellow metal pause in its uptrend
✘ Financing remains challenging but as a gold-only" play Soma is better positioned than those in other metals

What Goes Around…

Just as Colombia has returned to favour with international mining investors, Soma Gold has decided to (more than) double up on its exposure to gold in the South American nation. Colombia was never totally out of favour like Ecuador but it was definitely seen as a more difficult road to follow from the start of the last decade. Gold itself not being all that ebullient did not help with fund raising for new projects, no matter where they were. However ultimately a combination of good geology and common sense at the governmental level have resulted in Colombia drifting back into favour just as the gold price has awoken from its slumbers.

Colombia may not be the first country mining investors associate with the metals trade but the country has a substantial presence in the global natural resources industry. It is South America's largest coal producer and the third-largest oil producer after Venezuela and Brazil. The country not only has large gold but also important nickel and copper deposits. Colombia is also the world's largest emerald producer.

Soma Gold first ventured into these parts in the middle of last decade with its purchase of the El Limon mine and its extensive hinterland of prospects. To diversify risk it investigated projects in other jurisdictions but ultimately in late 2019 resolved that its best potential could be realized by concentrating efforts on Colombia and most particularly upon the rich goldfields of Antioquia which have long been mined by Colombians. It acquired recently the operations of Mineros, a large local company (which are contiguous to El Limon) and intends to integrate all these activities together over the next year.

In additions to the recent purchase and refocusing the company has undertaken a management reshuffle bringing in a veteran mining policymaker as CEO, it is in the throes of changing its name and is consolidating its stock.

In this coverage update we shall review the recent purchase of Operadora from Mineros S.A. and how it adds to the production profile of Soma Gold and what the revenue outlook might be in years to come.

The Original Foothold

The company's original activities in Colombia are termed the El Limon Project, but in fact they are not really a project but a working mine and milling operation. This activity is carried out near the town of Zaragoza in the department (province) of Antioquia. We covered this project extensively in our initiation of coverage last year so refer investors to that piece for background.

In early 2015, the listed company (at the time called Para Resources) bought 20% of Colombia Milling Limited, which purchased 60% of the El Limon mine. There were two other partners. Between February and June 2016, Soma Gold acquired both partner's interests in Colombia Milling and moved to 100% ownership. Due to the dilution of the minority partner (a Colombian), it now indirectly owns 72.5% of Four Points Mines SAS which owns the El Limon mine.

Para Resources through a new wholly owned Colombian subsidiary; Zara Holdings S.A.S., acquired the adjacent 21,000 Ha of mineral rights. There were three operating underground mines on the property but the company has focused only on the El Limon mine since the time of the purchase.

Bulking up Colombia

In early January 2020, Soma Gold's management announced that its wholly-owned subsidiary, Colombia Milling Ltd. entered into a binding letter of intent with the prominent Colombian mining group, Mineros, S.A. to acquire 100% of the shares of Operadora Mineras S.A.S. for US$5.5mn in cash.

The purchase of Operadora includes mineral properties and all mining assets, mining & environmental permits, exploration equipment, data, inventory, and administrative assets, including the El Bagre Operation and the Nechi Gold Project located in Bajo Cauca Antioqueño in Antioquia. The land package consists of seven tenements in total with an extent of 5,800 hectares.

The El Bagre operation includes the La Ye and Los Mangos operating underground gold mines and the Cordero gold project located in the municipality of Zaragoza, Antioquia, Colombia.

The Nechí Gold Project includes the El Catorce, Santa Elena, and Santa Maria gold exploration projects.

The Transaction

The agreement calls for a two-phase purchase, starting at closing for the transfer of 60% of Operadora's shares, and the remaining 40% when the necessary permits are in place for the construction of Cordero, an additional mine portal for the El Bagre operation.

The aggregate consideration payable to Mineros for 100% of the shares of Operadora and all of its assets is US$5.5mn in cash payable in two installments. The first installment for US$1mn will occur within 30 days. The second installment for US$4.5mn will occur within 30 days following the permitting of the Cordero mine (or written confirmation from the Colombian Ministry of Environment that the permit is not required).

At the First Closing, 60% of the shares will transfer with the balance at the Second Closing. If after one year since the First Closing Date, the Second Closing precondition has not been fulfilled, the share and asset purchase agreement will terminate, and Soma Gold will remain with 60% of Operadora.

In case of termination of the Share and Asset Purchase Agreement, Soma will not be obligated to pay to Mineros the second installment and Mineros will not be obligated to transfer to Para the additional shares. However, Soma Gold will have a call option to acquire the additional shares pursuant to the terms to be agreed upon in the shareholders' agreement.

There will be an NSR of 1% payable to Mineros for all the production of the mines, once 17,000 ounces have been produced from any of the assets involved.

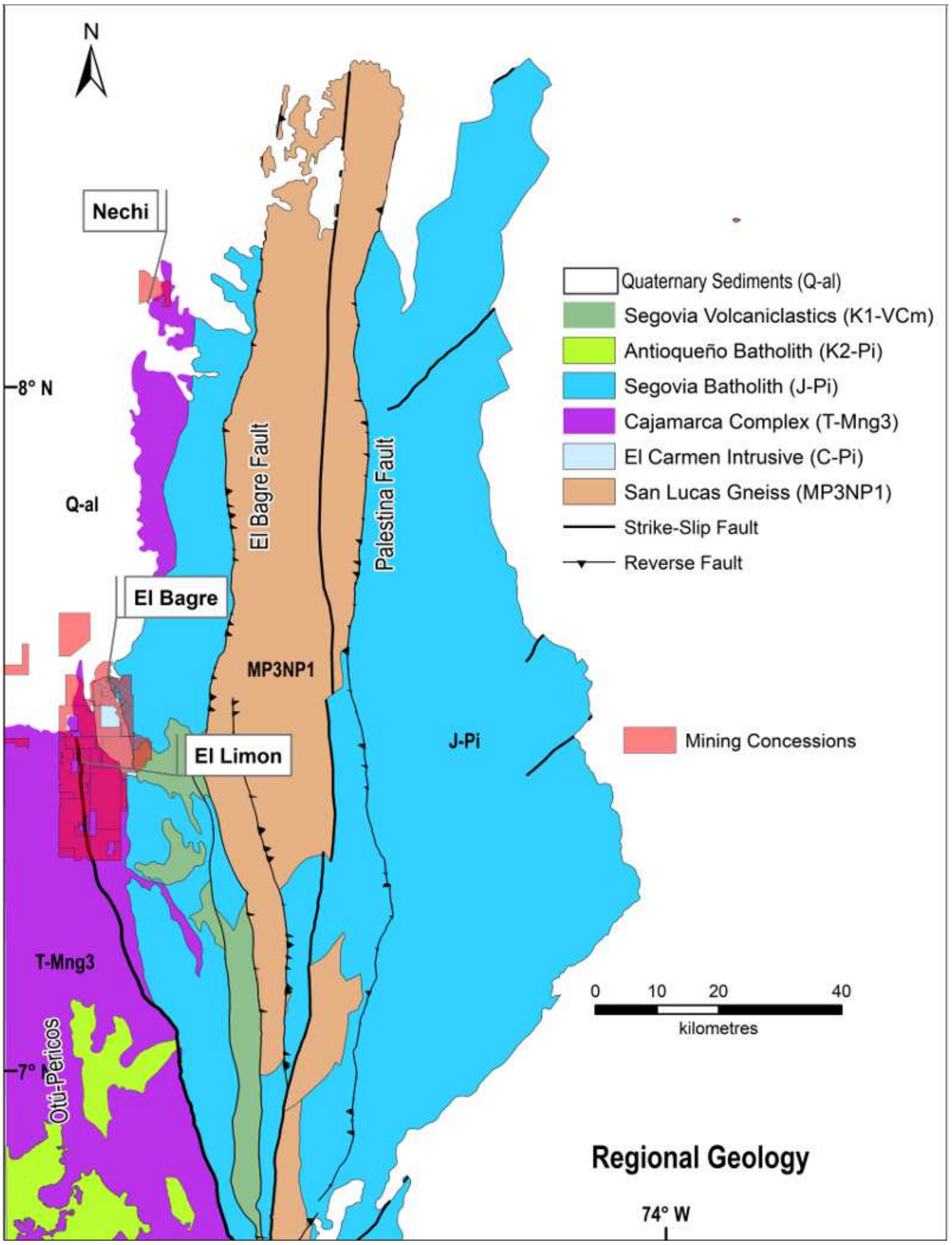
As part of the deal Soma Gold has agreed to purchase electrical power from Mineros' hydroelectric plant at differing rates for different periods of the year. In case of the termination of the collaboration agreement between the two parties, the Power Purchase Agreement will remain in place for a term of five years.

Regional Geology

The El Bagre, El Limon and Nechí projects lie within the Central Cordillera of the Andes Mountains. In the Bagre-Nechí gold mining district the vast majority of historical gold production to date has come from alluvial deposits within river basins, including the Nechí River. In addition to alluvial gold, structurally controlled mesothermal gold-silver and sulphide-bearing quartz vein lode deposits are hosted within intrusive rocks.

Nechí and El Bagre are two examples of such mineralization. The mineralized veins at Nechí are hosted within the Mesozoic-aged Segovia batholith and mineralized veins at El Bagre are hosted within the Carboniferous aged El Carmen intrusive. The veins average approximately one metre in thickness and extend for up to five kilometres.

The Mineros underground mining concessions lie within the Central Cordillera, one of the three physiographic subdivisions (Central, Western, and Eastern Cordillera) of the Andes Mountains in northern South America. The area is part of the Bagre-Nechí mining district that includes gold mineralization within the Bagre, Zaragoza and Nechí regions. The vast majority of historical gold production comes from alluvial deposits within the river basins, including the Nechí River. In addition to alluvial gold, vein-type gold mineralization is present and can be followed for up to three kilometres. Mineralization is hosted within intrusive rocks observed near Nechí, El Bagre, and Zaragoza.



At El Bagre, the veins of La Ye, Mangos, and Cordero are hosted in shear zones with fragile ductile deformation within carboniferous granite rocks of the El Carmen stock. At the regional level, the main structure to the west is the sinistral Otú fault system which trends north-south to north-northwest near the municipality of Zaragoza. El Limon and the bulk of Soma's Zara concessions are on the Otú fault. This fault which brings into contact carboniferous plutonic rocks from the El Carmen stock with metamorphic Permo-Triassic rocks grouped regionally as the Cajamarca Complex.

The Otú fault is the most northern expression of the Otú-Pericos fault system. To the east is the El Bagre fault, interpreted regionally as an overrun fault, which brings the Segovia batholith into contact with Precambrian metamorphic rocks grouped in the San Lucas Gneiss. To the southeast are volcano-sedimentary deposits of Segovia and to the north are the sedimentary rocks of the Caucasia Formation, the Tarazá Formation, and the recent deposits of the Nechí and Tiguí rivers, which mask the trace of the Otú fault and cover discordantly the granite rocks of the Segovia batholith and El Carmen stock.

The El Bagre Complex

In recent years, Mineros has accumulated six contiguous tenements for a total of 3,784 ha.. La Ye and Los Mangos are Operadora's two producing mines and Cordero will be a nearby extension of the same type of operation. The first two are 1.4 km apart and share the same plant. Cordero is 2.6 km from Los Mangos and is, in effect, an extension of the existing two operations, and shares many of the characteristics of Los Mangos.

La Ye has been in production since 2010 and Los Mangos since 2013, and both have established infrastructure, mining methods, geotechnical aspects, and a history of production.

All are shallow underground and non-mechanized operations, and share the same plant. La Ye and Los Mangos currently produce 156,000 tpa of ore. Cordero will replace some production from the existing operations as they wind down at the end of 2020.

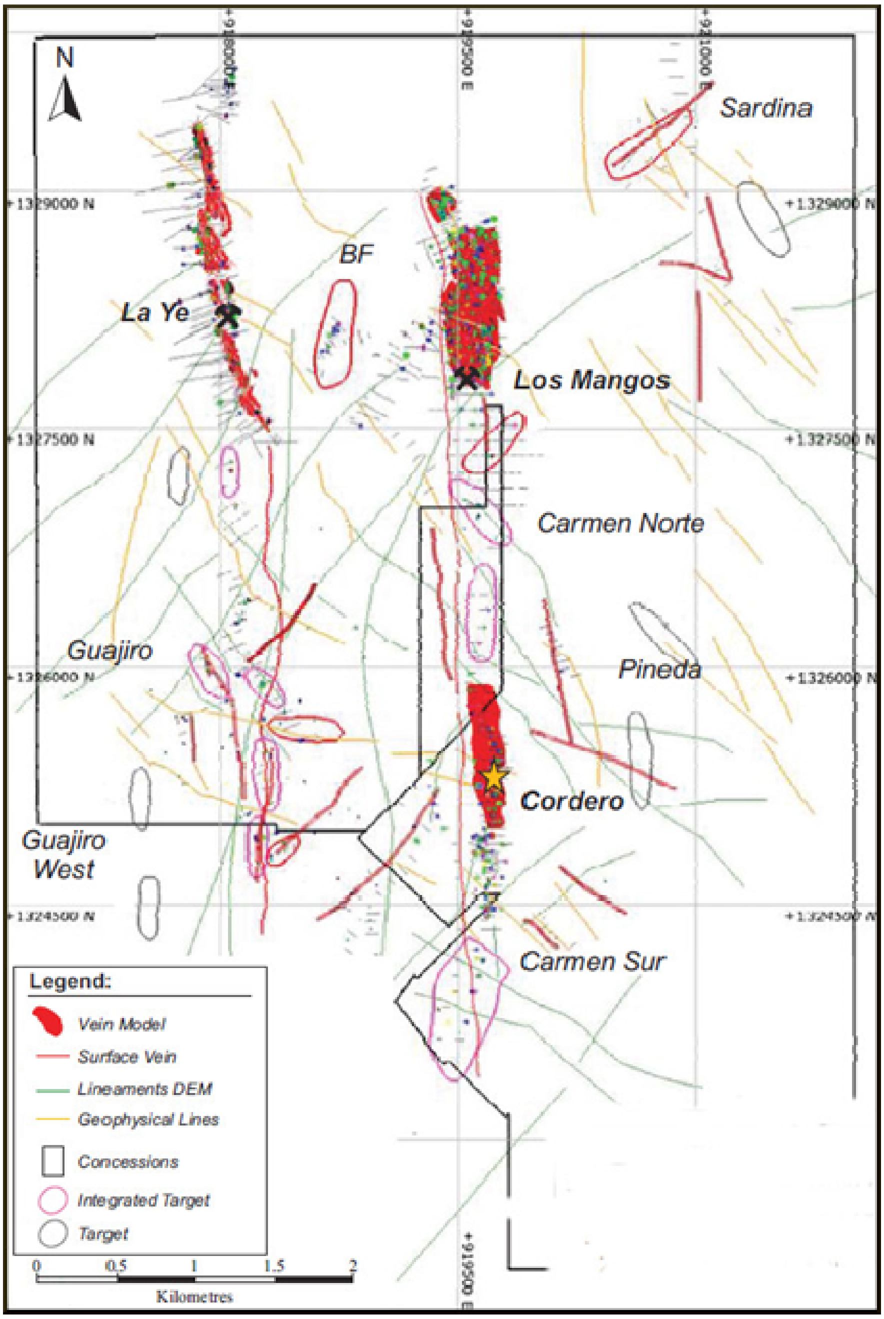
Other points of note are that the region has large skilled labor base, with the national training center for miners (SENA) in El Bagre. Also, there are no indigenous groups in the area.

La Ye

La Ye produced ~23,000 tonnes of ore in 2018 and is 250 m deep. It uses a non-mechanized, hand held cut & fill method for near vertical veins, with 30 m to 60 m level spacing. Raises are developed on either side of a stope from which mining progresses. Fill is placed using the same raises as the stope progresses. Development is hand held with pneumatic rocker shovels. Tracked ore drives are used to transport ore to a series of declines along the orebody, from where the ore is hoisted out.

La Ye is currently producing at Level 5 (450m depth) and its development goes down to Level 8 (650m).

La Ye has a fully-equipped mine camp with capacity for 52 employees with water supplied by the company. The processing capacity is 450tns per day, with plans to upgrade this to 660tpd.



Los Mangos Mine

Los Mangos produced 128,000 tonnes in 2018 and is 185m deep. It has a similar development configuration to La Ye, however, the levels are spaced at 25m and the orebody dip is 30o to 40o. Mining is carried out by a non-mechanised, hand held room & pillar method, with some pillar robbing where possible.

Los Mangos-Icacales is starting development and production at Level 4 (370m depth) and its development goes down to Level 6 (500m).

Below can be seen an aerial view of the El Bagre plant.

El Cordero

Since 2016, Mineros has focused its exploration activities on the Cordero vein (formerly Balvina).This project is on track to start production in late 2020 and will also use room & pillar mining.

The LOM, including Cordero, is five years. La Ye and Los Mangos will be exhausted in 2020.

Production & Processing

The processing facilities consist of:

- Crushing, concentration, floatation, leaching and smelting.
- Merrill Crowe plant with a metallurgical recovery of 85% on average

Average production in the period 2010-2017 was 20,490 ozs Au. The estimated production in 2017 was 15,000 ozs Au. In total there has been around 800,000 tonnes of ore production since 2010 with an average gold grade ore or 6 g/t with some 150,000 ozs Au produced since 2010.

The use of non-mechanised mining suits the narrow veins, but also limits the volume of production from working areas.

The actual production cost is US$991 per oz Au Eq, including direct mining costs and SG&A.

The 2019 unit operating costs were:

- Underground Mining: US$62 per underground tonne mined
- Processing: US$24 per tonne processed
- G&A: US$23 per tonne processed
- Total: US$109 per tonne processed

The mine operates continuously on a three work-shift roster and employs 650 workers on three work shifts, 440 in the mine, 60 processing facilities, 60 planning, 80 maintenance, 10 administration. In recent years, Operadora has been subject to high labor costs due to the existence of labor union, with wages representing 49% of total cash cost. The vendors have forecast that operating costs should decrease as a percentage due to higher production and improving ore grades.

The "PEA"

As Mineros was not a foreign-listed company it did not have to prepare NI43-101 level reports on its intended extension or expansion of its mining activities at El Bagre. Nevertheless it has worked up (with consultants) a strategy for the initiation of mining at Cordero and how the revenue flows might look.

This report estimated that LOM Net Revenue would be around US$63.6mn, however this revenue was estimated based on a gold metal price of US$1,250 per oz for years 2019 to 2023. Already the gold price is US$450 higher than that level and is likely to remain at least $250 above the modelled level for all of the period in question. All of this extra increment falls straight to the bottom line.

Other metrics that the model took into account included:

- Lower production from El Bagre due to closure of the two existing mines and replacement with Cordero
- Treatment Charge/Refining Charge (TC/RC) LOM average of US$2.19 per oz of production (includes shipment and treatment)
- Thus, unit operating costs for lower-production years after 2019 are higher, based on holding fixed portions of costs, and reducing variable portions of costs to match production.
- LOM average unit operating cash costs of US$1,082 per oz Au, totaling US$57.2mn

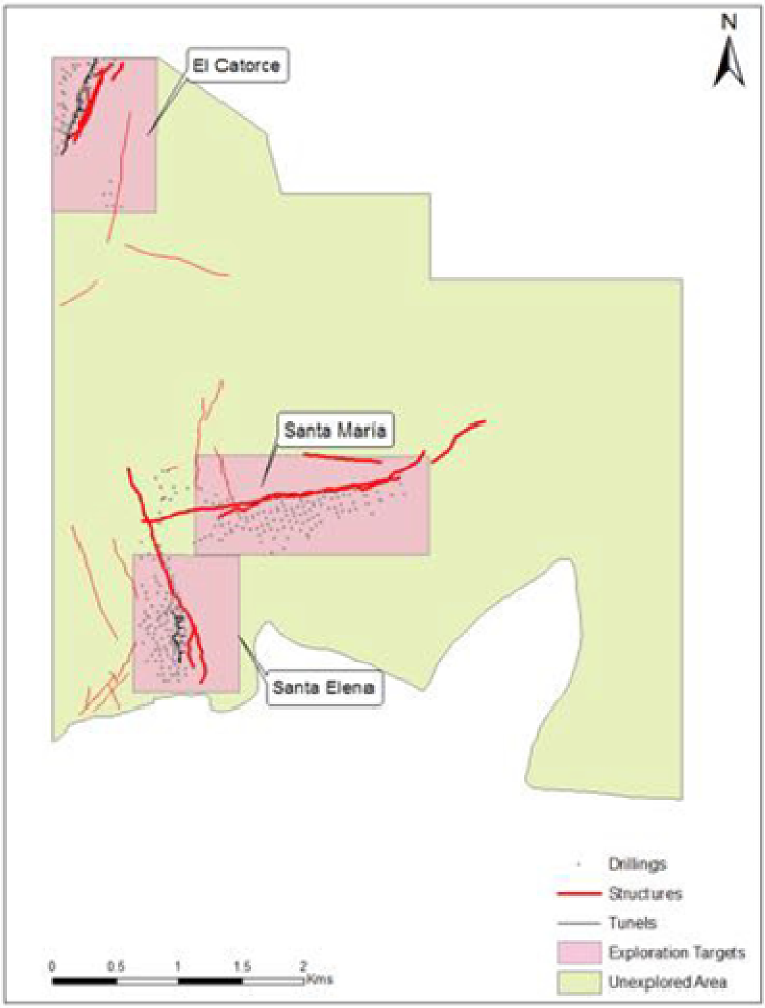
- All-In Sustaining Cost (AISC) of US$1,178 per ounce Au
- NSR royalty of 3.52%
- Income tax rate in Colombia between 30% and 33%

The LOM sustaining capital costs were estimated at US$2.35mn with closure costs of US$303,000, included in the analysis at the end of the LOM.

Clearly this plan is massively undershooting the revenue potential without necessarily over-extrapolating the gold price over the next few years. Even using a $350 increment in the gold price, the net revenues should around US$18mn higher over the period to 2023, just from the El Bagre operations.

Nechi

As mentioned earlier, Nechí is Operadora's main gold exploration project. It includes the El Catorce, Santa Elena, and Santa Maria gold exploration projects and is an exploration project only at this stage.



Nechi consist of one tenement with 1,999 ha, around 70km north of El Bagre. It currently has an environmental license in process.

The Nechí River flood plain has low topographic relief with elevation in the order of 50 MASL.

To the east, the area is mountainous over the Segovia batholith and San Lucas gneisses where elevations are up to 600 metres ASL. Low hills and terraces are found west of the Nechí River.

At the end of the 19th century, a number of gold mining companies operated in this part of Antioquia.

Exploration drilling to establish the alluvial gold potential of the Nechí River was initiated in 1903, and in 1906 mining of the west river bank terraces using water monitors and conveyors began close to the mouth of Pato Creek.

In 2004, two mining licences covering Morro Puto, Alacran, and Santa Elena were acquired under the Segovia JV between Mineros and AngloGold. In 2008, AngloGold stopped participation in the JV, and Mineros acquired four additional concession areas.

Several hundred illegal artisanal miners are still active and live on site carrying out subsistence underground mining by means of hand-dug shafts, or *cubicos*, in the laterite/saprolite and sort lateral headings on the gold-bearing quartz veins. These c*ubicos* are numerous at the site along a northerly trend. Four old adits are known from at Morro Puto Hill to Santa Elena and one overgrown entry was observed at El Catorce in the north where approximately 400 artisan **cubicos** have been dug.

Artisanal processing on site is by means of crushing by hand.

Underground exploration tunnels have been developed at over 1,600 m at El Catorce and over 500 m at Santa Elena.

There is limited infrastructure at Nechí. A small electrical plant, camp, office, and storage buildings are located close to the El Catorce and Santa Elena deposits, however, the property is actively being mined by artisanal miners, and several adits and hand-dug shafts can be found proximal to the veins.

Resources & Reserves

The current Mineral Reserve production profile includes a peak of 156,000 tonnes in 2019, followed by four years averaging 40,000 tonnes of ore per year. This is partially due to the inclusion of Inferred Mineral Resources in the current mine plan, which have been excluded from the Mineral Reserve schedule.

The resources and reserves when last estimated are shown at the right.

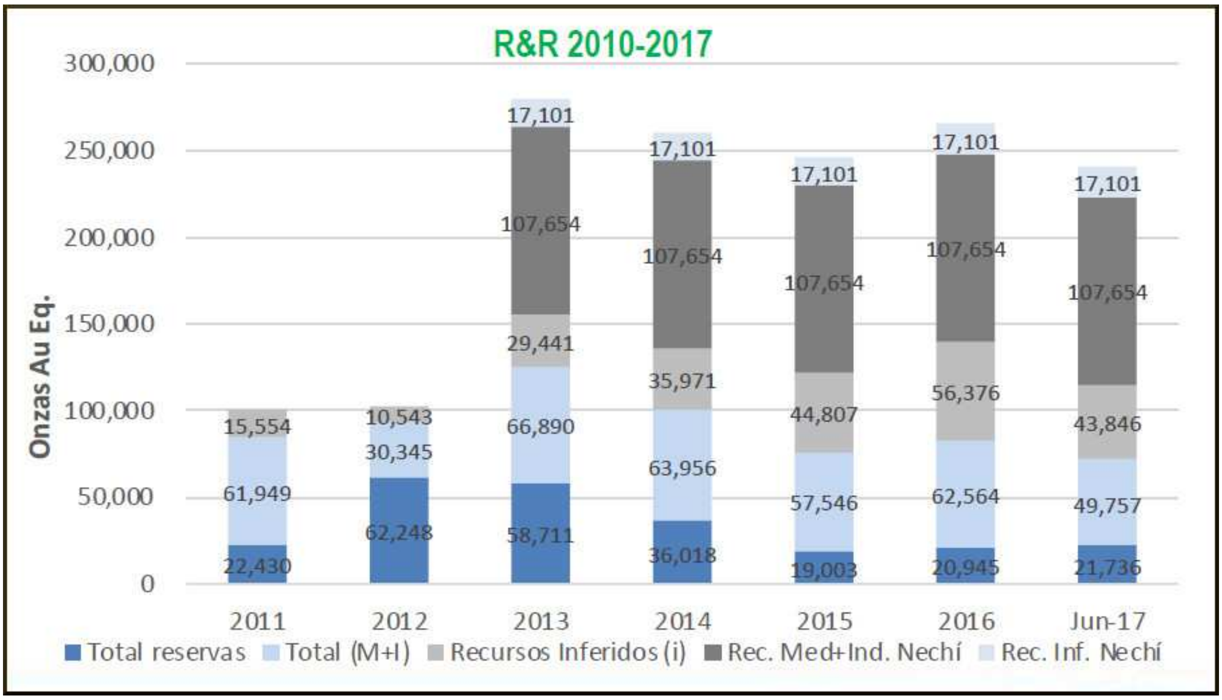
As can be seen from the chart on the following page, the projects have had a strong resource replacement trend since 2013 when the resources/reserves made a substantial leap.

Bagre Concessions (La Ye & Los Mangos)

Reserve	**Ozs Au**
Proven	7,886
Probable	13,869
Resource	**Ozs Au**
Measured	22,126
Indicated	27,631
Inferred	43,846

Nechi Concession

Resource	**Ozs Au**
Measured	20,958
Indicated	82,459
Inferred	16,761



Exploration

Mineros completed over 20,600 metres of drilling in 2017 in brownfield and greenfield exploration on the properties that Soma Gold has acquired. The exploration program in 2017 on the Cordero target identified strike length of 400m by 150m on the downdip.

Drilling highlights included:

- BCDDH_17_015 2,50m@28,48 g/t Au
- BCDDH_17_018 3,80m@10,17g/t Au
- BCDDH_17_026 3,90m@ 5,02 g/t Au
- BCDDH_17_027 2,20m@28,76 g/t Au

Mineros had two diamond drilling rigs (Duralite T800) with a range up to 800m that have been included in the sale to Soma Gold. Over the years around 170,000 meters of diamond drilling has been undertaken.

Infrastructure

The complex at El Bagre has road access from Medellin to Caucasia by highway, a distance of 300 km. From Caucasia there is a new highway currently under construction to Zaragoza.

Electricity is provided by the Providencia hydroelectric power plant (owned by Mineros) and distributed through a 3 MW substation that is located 3 km from the mine.

As mentioned earlier, Soma Gold has agreed to purchase electrical power from the Providencia hydroelectric plant for Colombian Pesos ("COL$") COL$300 per Kwh at 90% availability from April to December and during summer months (January, February and March) for COL$ 350 per Kwh at 75% availability.

Mineros – the Giant in Colombian Gold

For more than 45 years, the vendor, Mineros S.A., has operated in this area.

With more than 40,000 hectares in mining titles in the department, Mineros S.A. produces 14% of Antioquia's gold, close to 40% of all legally produced gold in Colombia, and 6% of the overall national production (El Tiempo, 2014). Although the company remains relatively small compared to major international mining companies, it is an important economic actor in the sub-region of Bajo Cauca, where it produces as much as 55% of all legally extracted gold.

Colombia

For many decades Colombia was deservedly in the doghouse as a mining destination. After the brutal civil and cartel war started to abate at the end of the first decade of this century, sentiments towards Colombia as an investment destination soared. Foreign direct investment in Colombia more than tripled to $7.2 billion in 2009 from $2.1 billion in 2002, when former President Alvaro Uribe took office with pledges to repel guerrilla forces, including the Revolutionary Armed Force of Colombia, or FARC.

However it was only really after the Crash of 2008, that foreign miners started to kick the tyres on what many perceived to be the Great Undiscovered Gold province. Essentially an Eldorado in waiting.

Despite seemingly good intentions the Colombian government's failure to implement a clear project development road map seriously hampered several significant projects, such as AngloGold Ashanti's (NYSE: AU; JSE: ANG) Colosa project and Eco Oro Minerals' (TSX: EOM) Angostura project. Other projects had their drilling programs blocked because of restricted water access as in the case of Colombia Crest Gold (TSXV: CLB). Greystar became a by-word for disappointment due to environmental approval problems and an adventure by Eike Batista into Colombian gold mining was quite spectacularly loss-making.

Despite the false start under Uribe (2002-10) the section of the mining industry operated by Colombian companies (Mineros being one of the most prominent) started to prosper while a few of the foreign players persevered, being hampered less by local politicians but more by the flaccid gold price that reigned through the middle of last decade. This revivalist trend was helped by a reduction in the negative impact from the FARC.

Para Resources (as Soma Gold then was) entered the Colombian space in 2017, with its purchase of the El Limon mine and the surrounding concessions, and in some ways was ahead of what might be called the *Second Wave* of foreign interest in Colombian gold.

In Colombia, Private Property Acknowledgement (RPP) properties with gold and silver produced from underground operations are subject to a 4% production tax and a 0.4% royalty, both adjusted by a factor of 0.8 (80% of gold price as outlined by the Central Bank of Colombia for the settlement of gold royalties), which results in an effective royalty of 3.52%.

Antioquia

This is Colombia's second wealthiest department and represents approximately half of Colombia's total gold production. The departmental capital, Medellín, hosts Colombia's most important smelters and international traders.

On the negative side, Antioquia has had a long standing history of armed actors and criminal organisations, including drug cartels, paramilitaries, guerrilla groups and criminal gangs linked to gold mining and trading.

Antioquia also has a strong institutional framework and is the only department to which the National Mining Agency can delegate authority to the Governor's Office (through its Secretary of Mining), allowing it to decide on mining title applications. In recent years security forces have established relative territorial control mitigating the capacity of armed actors to affect highly populated areas. Antioquia is probably Colombia's department where formalisation efforts have been the strongest. There is still some difficulty in differentiating between traditional/informal miners and illegal/criminal miners.

The gold mining sector in Antioquia

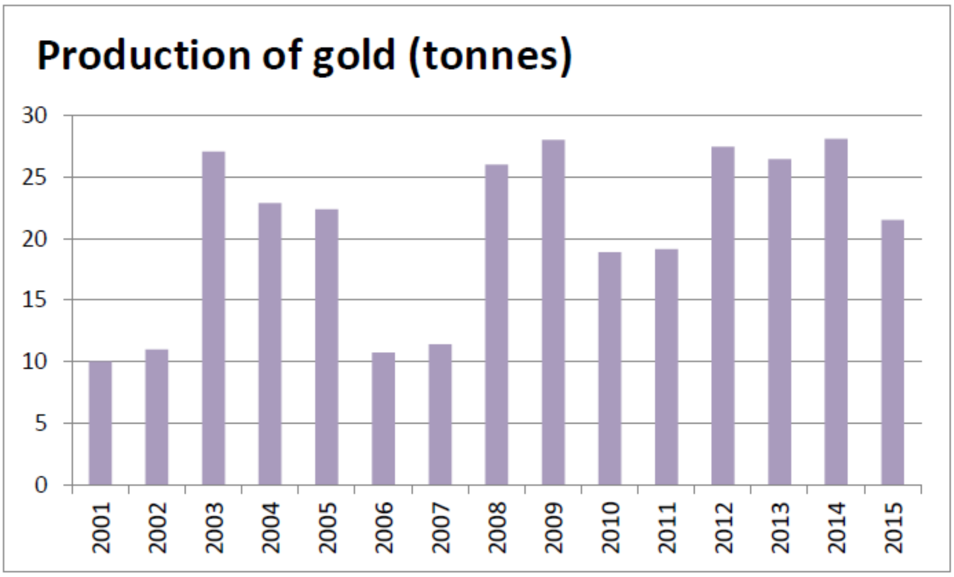
There is a long history of gold mining in Antioquia. Indigenous communities practiced artisanal mining in this region during pre-Columbian times, but its expansion came with the advent of the Spanish colonies and black slave labour. During the Spanish colonial period and after Colombia became independent in 1819, gold was Antioquia´s main source of income, mainly through artisanal and small-scale mining.

During the 19th century, English and French investors established Frontino Gold Mines in Segovia, one of the largest gold producing operations at the time. Progressively, coffee replaced gold as Antioquia's main source of income, but it still remained Colombia's main gold producing department for most of the 20th century.

Gold production in Antioquia has resurged since 2002. Following high levels of production in the 1980s, reaching a peak rate of 31.7 tonnes in 1984, production dropped during the 1990s to a low of 4.9 tonnes in 1994. Between the late 1990s and the late 2000s, gold production saw a resurgence reaching a ten-year high of 28 tonnes in 2009. Following a slight drop after 2009, production continued to increase, reaching 28 tonnes in 2014. In 2015, production was 21.5 tonnes.

According to some estimates, between 65% -70% of the gold produced in Antioquia comes from alluvial operations and 30%-35% from underground vein mines (Ministry of Environment, 2012). Gold production represents between 2% - 4% of Antioquia's GDP.

The table below shows the evolution of gold production in Antioquia since 2001.



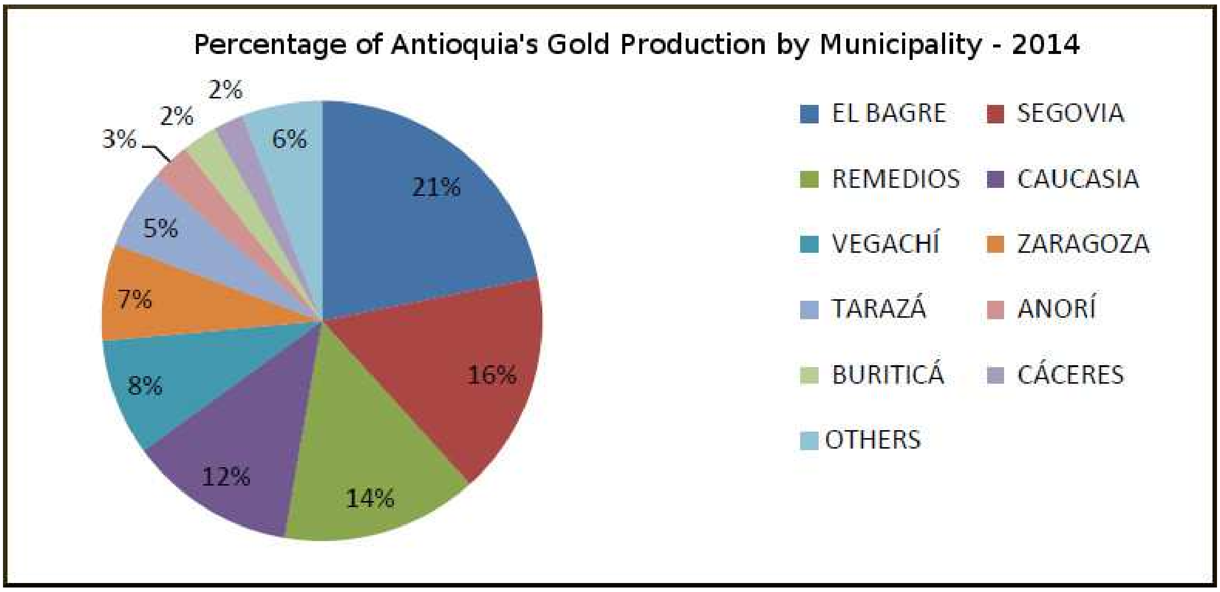
Source: Colombian Mining Information System, 2016

Over the last decade Antioquia has attracted the attention of international junior gold prospectors.

Some of the most promising new projects include:

- ➢ Red Eagle Mining, a gold mine (1.5 tonnes per year) in Santa Rosa de Osos managed by, which received its environmental license in late 2016
- ➢ Continental Gold, a development in Buriticá, with investments of over USD 171 million, which is expected to produce an average of 7.3 tonnes per year as of 2017
- ➢ Anglo Gold Ashanti/B2Gold a project in San Roque (11.3 tonnes per year), which is still in development and could start producing in 2020.

Mining titles for exploration have been requested for over 62% of Antioquia's territory and mining concessions already cover 18% of the department's territory. Gold production is concentrated in a handful of municipalities. Although 46 out of Antioquia's 125 municipalities reported gold production in 2014, close to 95% of the total gold production came from the top ten producing municipalities (SIMCO, 2016).



Source: SIMCO, 2016

Municipalities with high production are highly dependent, economically and socially, on gold and therefore motivated to see continued and increasing production of the metal. El Bagre, where Soma Gold's El Limon mine and its new acquisition are located, is Antioquia's highest gold producing municipality and depends on gold for 80%- 90% of its revenue (interviews with local miners and local NGOs). Attracted by discoveries of promising gold veins, miners from other regions have migrated to this region with the population soaring from 5,000 to 30,000 miners between 2008 and 2013 – and traditional farmers are now turning to gold as their main source of income.

Artisanal & Small-scale Miners

Most gold production is still being undertaken by artisanal and small-scale miners. The 2010-2011 national mining census revealed that Antioquia had 1,224 mining units producing gold without a mining title (out of 1,526 units in total), 68% dedicated to alluvial mining and the remaining to underground vein mining (Goñi et al., 2014). A more recent study by Antioquia's Secretary of Mines revealed that there are over 1,664 untitled gold mining sites throughout the department, almost 500 of them in the Bajo Cauca sub-region alone (Verdad Abierta, 2015).

Artisanal and small-scale gold mining is an important source of labour in Antioquia. The 2010-2011 mining census estimated that over 11,000 workers are employed by operations without a mining title (Goñi et al, 2014), but according to local sources and interviews carried out for this study, this figure could be closer to 60,000.

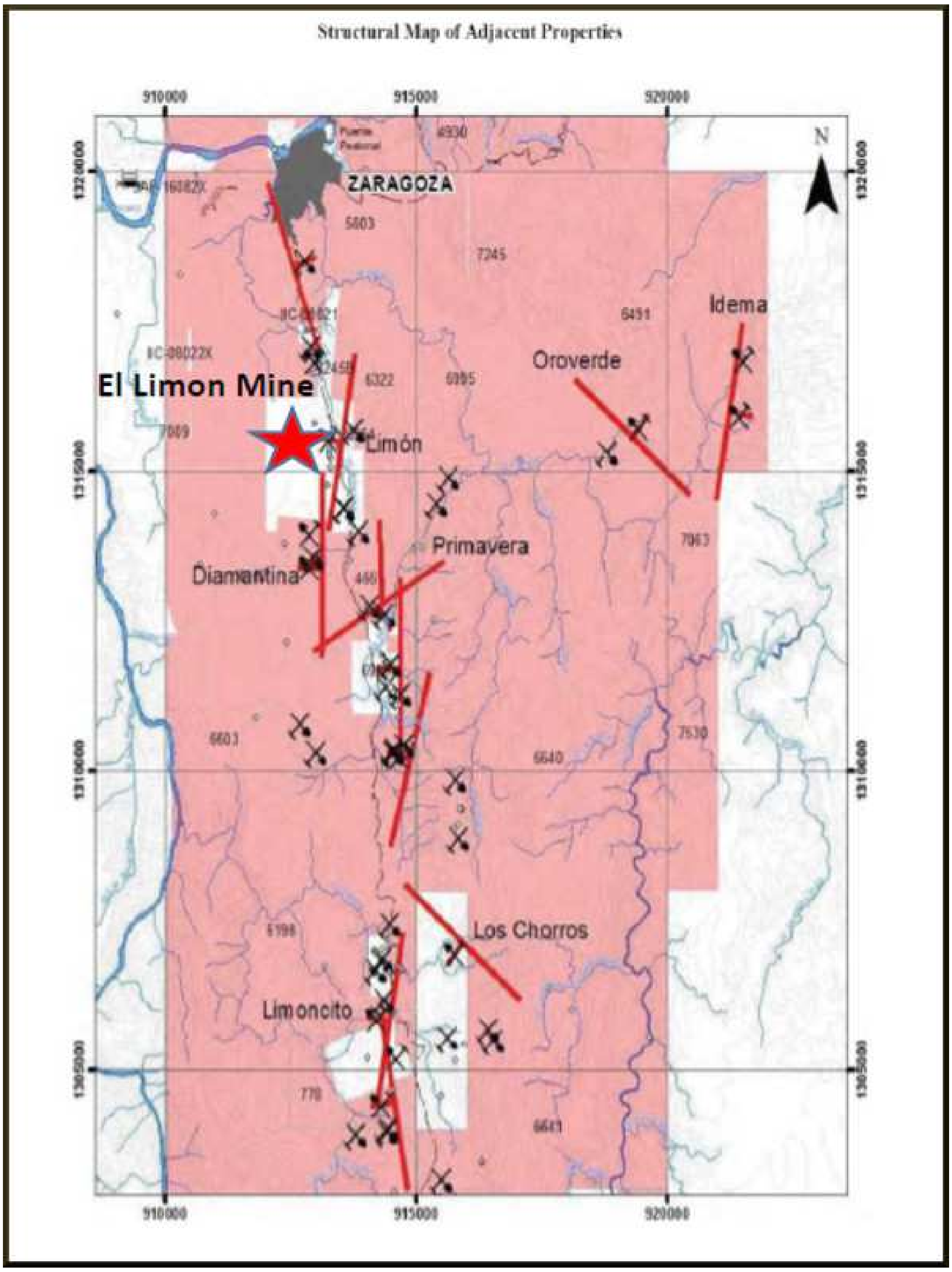
In addition to the mining units themselves, there are a number of small-scale service providers whose subsistence depends on artisanal and small-scale mining. Entables are small-scale processing plants usually located near small-scale mining sites. In 2013, a study on the use of mercury undertaken by the UNDP, the University of British Columbia, USAID and local environmental authorities, recorded over 320 of these small-scale processing plants in five of the top ten gold producing municipalities (Remedios, Segovia, Zaragoza, El Bagre and Nechí) in Antioquia (Cordy, 2013). In addition, some 10,000 gold scrap and tailing collectors (*chatareros*), 25,000 *barequeros* and 3,000 transporters are estimated to derive an income from small-scale mining. Despite some non-negligible efforts of formalization deployed in the last few years (see last section below), only a small portion of artisanal and small-scale miners are believed to operate with a mining license.

One feature of Antioquia's mining sector has been the rise of a group of artisanal and small-scale miners who have progressively accumulated enough capital to acquire their own mining titles, equipment, artisanal processing plants and even establish local trading shops. Due to rapid growth of their income, some of these groups have formed alliances for protection with illegal armed actors, or established their own protection rackets.

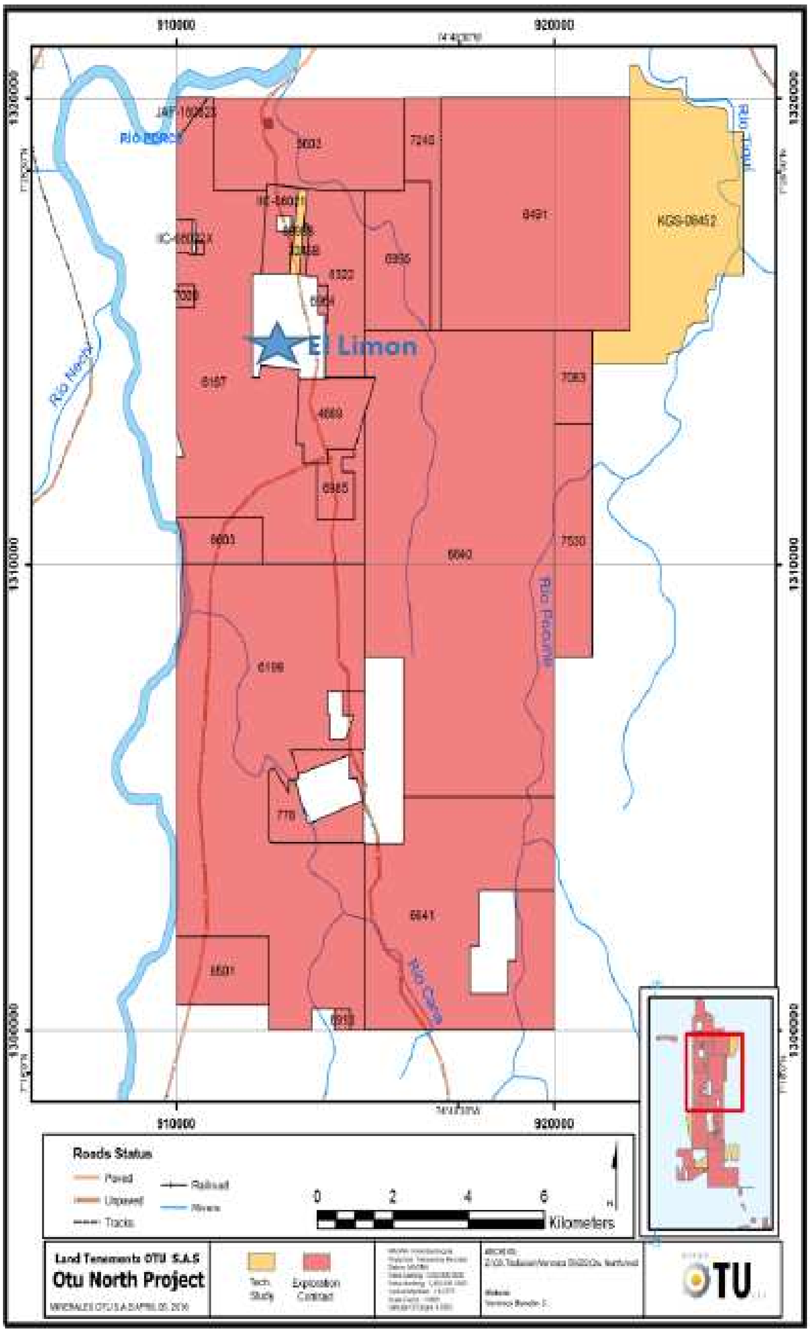
The Strategy at El Limon

One of the notable features of the project is the presence of over 1,000 small artisanal miners, indicating extensive mineralization. The company's proposal was to not only mine the underground deposit at El Limon, but to toll-mill material from these artisanal workings to supplement ore from its own underground production at El Limon to keep a steady flow of material through the mill and process plant. This has essentially remained the strategy up until the latest asset purchase from Mineros.

Since its purchase in 2016, the strategy at El Limon has been to upgrade the existing mine by eliminating some of its limitations. Underground mining at El Limon is restricted by the size of the main winch (located underground) to 75 tpd. The strategy to remedy this is to take the shaft vertically up to surface and then install a new winch at the top of the shaft.



In addition, the company's strategy is to gain economies of scale by buying in ore. Nearly 60 independent gold mining operations are located in very close proximity to the El Limon production facility. Many of these are operating on Soma Gold's concession territory. These operators are being targeted as sources of ore to be purchased by Soma Gold and fed into the milling operation of the company.



The material mined by the small local miners is very similar in nature to the material being mined at El Limon. The economic model of the processing of the third party ore is that the local miners are paid 35-42.5% of the assayed gold in the rock delivered to the mill, based on the current price of gold. The final product sold by El Limon is gold/silver doré from this comingled ore.

Geology

In the area there are two zones of metamorphic rocks, one of feldespathic-aluminic gneisses and the other associated to the Cajamarca Complex rocks. There are also granitic bodies associated to Cretaceous magmatism.

The mineralization of El Limon mine is embedded in the quartz-feldespathic gneisses.

The area features Quaternary deposits; the largest ones are located on the creeks called Juan Vara, Sardina and Culebra.

The main structure present in the area is the Otu Fault that crosses the area from North to South, the control over the Juan Vara creek is relevant.

The known vein systems of the region extend up to 2-3 km in length with plunging high-grade ore shoots central to the vein and surrounded by a lower grade halo. Vein dips are typically around 30-40°, and occasionally sub-vertical.

The gold occurs in a milky quartz vein, to the west of Otu Fault, its approximate course is N10E/40W, with average thickness of 0.40 m. These features are very consistent in an extension of almost 400m on the course and 350m in the dip direction.

Typical production grades of the region range 8-12 g/t Au diluted. However, higher-grade mines also exist, such as Quintana and El Limon mines at 15-20 g/t Au diluted. Vein widths are typically below 1m, although both the hanging wall and footwall zones can contain appreciable economic mineralization within the high-grade cores.

Structure is continuous, except for a series of reverse faults, with displacements ranging from 0.2m up to 40m and 60m, of which the main ones are El Limon and Leonel Faults, and to the north the 5N and the Victoria faults.

Gold mineralization is related to sulphide contents, mainly pyrite, with smaller amounts of galena, sphalerite and tetrahedrite, usually occurring as clear strips with a thickness ranging from 2 to 5 mm, and they comprise from 7% to 12% in volume. Occasionally the strip structure is replaced by distributions of sulfides which are more irregular or uneven. The gold/silver ratio is 1:1.2; the mineralization is normally contained within quartz veins, it is very rare to find quantities of gold directly in the host rock. The tenor of gold appears to relate to the quantity of sulphides, preferably related to the presence of sphalerite and galena.

Pyrite is the first most common and abundant ore, present in the form of aggregates of anhedral and subhedral crystals. Tetrahedrite is the second most abundant ore; usually it occurs in anhedral crystals. Gold is the most important metal; it appears in the form of grains in native state or electrum, normally encapsulated with galena and in the form of inclusions in pyrite crystals, but not always. The particle size is distributed in ranges from 1 to 120 microns, occasionally above 200 microns.

Operations

Underground mining at El Limon is restricted by the size of the main winch (located underground) to 100tpd. The strategy to remedy this is to take the shaft vertically up to surface and then install a new winch at the top of the shaft. Below can be seen the adit.

In addition, the company plans to gain economies of scale by buying in ore. Nearly 60 independent gold mining operations are located in very close proximity to the El Limon production facility. Many of these are operating on Soma Gold's concession territory. These operators are being targeted as sources of ore to be purchased by Soma Gold and fed into the milling operation of the company.

The material mined by the small local miners is very similar in nature to the material being mined at El Limon. The economic model of the processing of the third-party ore is that the local miners are paid 35-42.5% of the assayed gold in the rock delivered to the mill, based on the current price of gold. The final product sold by El Limon is gold/silver doré from this comingled ore.

The existing process set-up at El Limon consists of two-stage crushing, milling, gravity separation, flotation, cyanidation, Merrill-Crowe precipitation and smelting.

The crushing plant (pictured above) historically operated one shift per day at 10-12 tonnes per hour but has capacity of 20 tonnes per hour, providing sufficient crushed rock to feed the mill. The crushing plant consists of a jaw crusher, cone crusher, vibrating screen and associated belts and bins. A nominal 3/4" product is supplied to the mill.

The historical tailings were assayed and have an average grade of over 1.5 g/t. These tailings required little if any milling and be screened and the majority will be fed into the process after the ball mill.

Work is ongoing to survey and assay the four levels of historical working where “room and pillar” mining method was used and the historical tailings. During the time the processing plant was being rehabilitated, underground development work was undertaking, opening two new working faces on Levels 6 and 7.

El Limon is at cash flow break-even at production of 62 TPD producing 450 ounces per month. Uptime during the commissioning phase has been 66.6% while gold recovery has been greater than 43% and has been steadily climbing. The range of head grade during commissioning phase has been 2.5g/t – 8.54 g/t (and is improving and expected to be greater 8 g/t average). The average monthly gold production during commissioning phase: 168.29 ounces.

Production

El Limon restarted limited production in June 2016 but due to some manufacturer’s defects on a long lead time item, the installation of the second ball mill was delayed. The original start up at El Limon occurred in May/June of 2017, after a US$7mn rehabilitation and plant upgrade at the crushing plant via the installation of a second ball mill, a new thickener, new flotation circuit and an upgraded CIP process circuit. Mill throughput was increased to 200tpd for mined rock and 400tpd for milled rock and tailings.

El Limon is at cash flow break-even at production of 62tpd producing 450 ounces per month. The range of head grade during commissioning phase was 2.5g/t – 8.54 g/t (and is expected to be average greater than 6 g/t).

The initial planned production ramp up had been hampered by a through-put constraint at the filter press. Milling operations recommenced on the 15th of November 2017 and the El Limon mine was restarted in January 2018, with the focus being on the clean-up and recovery efforts.

The first third-party contracts (i.e. taking material from the artisanal miners) were approved in May 2018. In July 2018 the first ore was received. In October 2018 a program to assist with third party miners’ infrastructure was initiated. In the first quarter of 2019 small miner deliveries were being received at an approximate rate of 25 tpd.

During the first nine months of 2019 (the latest period reported), El Limon produced 1,435 oz of gold. The mine is currently focusing on four main development projects, including three new mine mouths:

- Level 9 of El Limon is a development project to deepen the lowest levels of the mine past the El Limon fault. The project to date has rehabilitated 140 meters of existing drift, re-established internal hoisting, and all utilities and advanced 32 meters of development passing and establishing ground support in the fault zone. 83 meters of waste development remains before drifting and raises begin in the vein for 320 meters of development to establish the first two production stopes

- Renacer is a new mine mouth for the El Limon mine. A new mine mouth with concreted metal archways was established and development in the main decline advanced 22 meters with 60 metres remaining, before beginning 440 meters of drifting and raises in the vein for 440 meters to establish the first two production stopes
- Alacran is a modernization project on a formalized mine with support in engineering, design, and supervision from the company.
- The 70 meters of the existing access incline were straightened by new excavation, and 120 meters of drift rehabilitated. The incline is being extended and 15 meters remain.
- Construction is almost completed on a truck loadout with the new hoist. Once completed, work will begin on 340 meters of development in the vein to establish the first two production stopes
- Diamantina is a modernization project on a formalized mine with support in engineering, design, and supervision from the Company. The mine mouth has been re-established with a concreted metal archway and 95 meters of incline rehabilitation including re-excavation of 15 meters. 50 meters of incline extension remain before drifting and raises begin in the vein for 190 meters of development to establish the first production stope

In the first quarter of 2019 plant through-put averaged 43 tpd, averaging 3.6 g/t. In 3Q19 plant through-put averaged 36.82 tpd and the gold grade was averaging 3.6 grams per ton.

The company's expectation is to increase both feed quantity and grade through development at the El Limon Mine and 3rd party miners reaching 112 tpd average of 6 g/t by the end of the year 2020.

With the purchase of the El Bagre complex, henceforth, all mined ore from El Limon will go to that mill while the company's pre-existing mill shall only be for ore sourced from local artisanal miners.

Retreat from the Golden Road

The path to gold production in Arizona has proven to be way less attractive than hitherto thought. With the acquisition of the neighbouring mine and its tenements in Colombia, and in light of the eternal travails of getting to stable production in Arizona the company resolved in February 2020 to focus on Colombia and exit the US.

Management

With the refocusing of attention on Colombia some management changes were effected with a new CEO and a reshuffle of the board composition.

Javier Cordova Unda, President & CEO, was the first Minister of Mining of Ecuador serving from February 13, 2015 until January 30, 2018. Under his administration, the development of the Ecuadorian mining industry had been his cornerstone, positioning the country as the new mining frontier in the region. Prior to being Minister of Mining, Mr. Cordova held prominent positions as the Vice Minister of Mining and Vice Minister of the Interior. He has also held positions of relevance in the public administration, such as Deputy Minister of Justice, Deputy Secretary of Mining, Advisor for the Minister of Foreign Trade, among others. He was named one of the top 20 most influential people in mining in 2017 by Mining Journal.

Geoff Hampson, Chairman, is a seasoned entrepreneur, with 34 years of experience in mining, oil & gas and manufacturing. He has founded and financed numerous successful private and public companies since 1978, including Peer 1 Network, Inc., where, in the role of CEO, he grew annual revenues from $240,000 to $130 million before selling the company for $565 Million. Other successes include Fibrox Technology Ltd., Live Current Media Inc., Corelink Data Centers, LLC and Pacific Rodera Energy.

Glenn Walsh, non-executive director. He started his career as an Engineer working for some of the world's largest engineering and construction companies with involvement in large scale construction projects in Canada, the USA, Vietnam, and South America. Over the last 30 years, he has been a founder and investor in over 25 companies with a primary focus in heavy civil construction, power generation, contract mining, road building and highway maintenance.

Ioannis Tsitos, non-executive director, is a geophysicist and business executive with 19 years with BHP Billiton, the last nine in the position of senior business development manager on minerals exploration with a global reach having worked on exploration deals in 32 countries. He has identified, negotiated and executed in excess of 55 exploration, development and mining agreements and Joint Ventures. He has an extensive global network (exploration, mining, finance).

Earnings Outlook

Things should start to change rather quickly as far as earnings and reporting thereof is concerned at Soma.

Due to the absence of a NI43-101 on the original project the output of the El Limon mine has long remained in pre-production mode, from the Canadian accounting sense. However with the two El Bagre mines hitting the ground running (and having a NI43-101) the results of the mines should finally start to underpin the earnings statements in the quarterly financials of Soma Gold.

It should also be remembered that Soma are reorganizing their activities so the mill at El Limon will only be processing material from artisanal miners and the El Limon production will be sent to the mill at El Bagre.

On the following page can be seen out model of earnings at the company over the next couple of years.

Soma Gold

FY ended December

CAD mns	FY21e	FY20e	FY19e	FY18	FY17	FY16
					15 mths	13 mths
Revenue - Mining	57.20	27.68				-
Revenue - Tolling	12.00	4.08				
Cost of Revenue	47.50	21.60				-
Royalty	2.01	0.97				
Refining	0.74	0.36				
Gross Profit	18.94	8.83	-	-	-	-
Selling/General/Admin. Expenses	2.38	2.16	6.70	6.50	7.22	1.93
Exploration	0.42	0.35			-	0.21
Depreciation/Amortisation						0.01
Interest Expense (Income)	0.38	0.45	2.10	2.84	2.75	-
Unusual Expense (Income)						(0.88)
Other Operating Expenses				0.24	-	-
Total Operating Expense	3.18	2.96	8.80	9.58	9.98	1.26
Operating Income	15.76	5.87	(8.80)	(9.58)	(9.98)	(1.26)
Gain (Loss) on Sale of Assets			(36.00)	-	(0.25)	-
Other, Net			(4.10)	(2.13)	-	(0.07)
Income Before Tax	15.76	5.87	(48.90)	(11.71)	(10.23)	(2.12)
Tax	4.73	1.76	(11.25)	(1.02)	(0.25)	0.01
Income After Tax	11.03	4.11	(37.65)	(10.69)	(9.98)	(2.13)
Minorities	0.66	0.33	(8.66)	(0.55)	(0.77)	0.00
Income pertaining to Shareholders	10.37	3.78	(28.99)	(10.14)	(9.22)	(2.13)
Weighted Average Shares	30.20	30.20	302.00	154.99	117.56	58.21
EPS	0.34	0.13	-0.10	-0.07	-0.08	-0.04
Gold production (ozs)	28,300	12,000	1,583	1,463	664	
Silver Production (ozs)	28,000	22,500				
Gold production - acquired (ozs)	6,000	1,800				
Gold Price (Hallgarten estimate)	$1,600	$1,680				
CAD:USD	1.25	1.35	1.33	1.29	1.30	

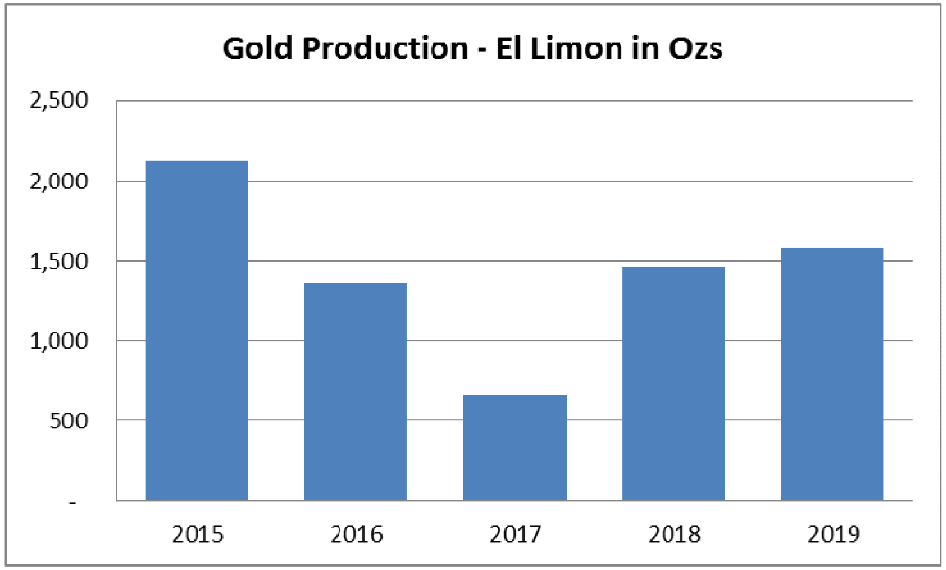
With production being declared commercial the company should final have a topline making a clean break with the difficulties of recent years.

The operations at La Ye and Los Mangos will be running down during 2020 and Cordero will join the ranks of producing assets towards the end of this year. Combined production of both El Limon and the Operadora assets should thus be rather similar to that of just the Operadora assets in 2019. We are estimating that the combined assets could produce a positive bottom line of over CAD$4mn in FY20.

Things should start to trend upwards in 2021 on the production front with strong potential for a further boost to the bottom line as the two producing mines start to mesh together and the tolling for artisanals reaches a firmer footing. We estimate the net revenues could be as high as CAD$10.5mn for FY21.

Operadora (La Ye/Los Mangos) - Production

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020 YTD	Total
Ore	74,659	83,947	66,189	68,458	123,674	135,384	134,269	137,918	147,910	147,306	35,552	1,155,266
Au g/t	7.04	7.55	8.31	6.79	6.38	5.26	4.22	3.51	4.17			5.49
Ag g/t	31.15	26.43	30.50	21.69	19.86	14.19	7.61	5.12	7.40			15.68
Au (ozs)	16,903	20,378	17694	14934	25389	22920	18206	15,558	19,817	15,792	3,965	191,556
Ag (ozs)	74,775	71,323	64,905	47,736	78,981	63,114	32,851	22,719	35,195	30,755	8,130	530,484
Waste (tonnes)	15,876	28,238	22,056	23,949	29,756	41,573	23,373	33,710	20,553			239,084



Financing Activities

Firstly it should be noted that the company has announced a consolidation of its shares on the basis of 10 old shares for every one new share (and the change its name to "Soma Gold Corp.) as part of its overall reorganization plans. Para's outstanding 303,933,649 common shares will be consolidated into approximately 30,393,365 common shares (subject to adjustments from rounding). All outstanding share purchase warrants, stock options and other convertible securities will be adjusted accordingly.

To pay for the Operadora purchase, Soma Gold intends to undertake a private placement of convertible debentures for gross proceeds of $3mn. Of this amount US$1mn will be used to pay the first installment payment to Mineros described above. The remaining proceeds will be for general working capital and to pay various accounts payable.

The debentures will have a three-year term and bear simple interest of 10% per annum. Interest will be payable quarterly in arrears, with the first interest payment commencing December 31, 2020, and then payable March 31, June 30, September 30 and December 31 thereafter. The debentures will be convertible at the option of the holder, following one year from the issuance of the debentures, at a per-share conversion price equal to the greater of: (i) CDN $0.15 per share (post-consolidation), and (ii) a 20% discount to the then closing market price (based on a 5-day VWAP before the date of exercise).

Further, for each $1,000 principal amount of debenture, it will have a maturity value of $1,250 provided that the debenture remains unconverted for at least 24 months from the date of issuance. If the debenture is converted on or prior to that date, only the principal amount shall be due and owing and no bonus shall be accrued or payable.

Completion of the Mineros transactions, the share consolidation, name change and the convertible debt financing, are subject to TSXV approvals.

Risks

The risks multiply with the more countries or metals one is involved in.

- Gold price weakness
- Local political unrest (i.e. resurgence of the FARC)
- Deterioration in relations with artisanal miners
- Financing difficulties

With Soma Gold the risk is currently mainly with the gold price as it is for most gold miners. Our premise is for gold to stay roughly in a band between US$1,600 and US$1,800 for several years to come. The operations in Colombia are very low cost with processing margins being enhanced by the credits from toll-milling of artisanal material. At the Operadora mines, the latest PEA puts the OpEx per ounce at slightly over half the current gold price providing a substantial cushion against an extended period of gold price weakness.

Colombia’s government is pro-mining (and Soma’s concessions are not in one of the areas with “local difficulties”).

Relations with artisanal miners should stay good as having a bespoke processing operation is very much in their interest.

Delays in Colombia have thwarted initial cashflow projections which were aimed at making operations (and expansion) self-funding. The company will need to raise funds either through the equities markets.

As for expanding resources, the concessions in Colombia are vast with enormous potential for gold mineralisation (as the artisanal presence proves).

Conclusion

Since discarding the Arizona operations, Soma Gold has doubled up, in effect, its focus on Latin America with the Operadora purchase. Soma Gold now has a growing portfolio of gold mines in operation and is geographically focused with operations in Colombia.

The company is adhering to the mantra of “Production, Production, Production”, with its own doré output augmented with throughput from tolling for artisanal miners. As artisanal miners must sell their ore at a discount to its gold content due to lack of alternatives, Soma Gold is positioned to make meaningful margins on its processing irrespective of the direction of the gold price.

The purchase of Operadora adds the operating gold project of El Bagre (with three mines) and then the Nechi exploration assets. The purchase creates a significant contiguous concession package in Colombia, when added to the existing Zara Concessions and El Limon projects. In addition to an operating gold mine and plant, the purchase will incorporate a veteran team of operators, engineers, and geologists, and exploration equipment that creates an important center of gravity for the exploration and development of all the company’s assets in Colombia.

With a new name, an injection of new management and bulked up operations in Colombia’s Antioquia province, the company is leaving behind past efforts which made it too geographically diversified.

The stock price has been brutally battered as the market waited out the evolution of the new strategy but perversely the market has not grasped that the company is picking up the Operadora operations at around one times FY2020 net revenues of the acquired assets. In financing this, via a convertible, it has steered clear of further dilution in the short term. Therefore, we reiterate our **Long** rating on Soma Gold in the Model Mining Portfolio with our 12-month target price being CAD$0.12.


CA:PBR Daily
4/23/20
0.20
0.15
0.10
0.05
0.00
Volume
©BigCharts.com
4
3
2
1
0
Millions
Jun
Jul
Aug
Sep
Oct
Nov
Dec
20
Feb
Mar
Apr

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