

HALLGARTEN + COMPANY

Coverage Update

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Cobre (ASX: CBE) Strategy: LONG

Key Metrics

Price (AUD)	\$0.07
12-Month Target Price (AUD)	\$0.34
Upside to Target	407%
12mth hi-low	\$0.02-\$0.73
Market Cap (AUD mn)	\$22.19
Shares Outstanding (millions)	331.13
(Fully Diluted)	368.73

Monday, June 24, 2024

Cobre

Final Steps towards ISCR

- + An extensive campaign of test work since late 2023 on the Ngami Copper Project (NCP) in the Kalahari Copper Belt in Botswana is rapidly providing Proof of Concept on the use of In Situ Copper Recovery (ISCR)
- + ISCR has the potential to fast-track the project towards production
- + The copper price has returned to centre-stage with a vengeance and has swung focus towards projects with a potentially short-timeline to production
- + Even using quite conservative assumptions on pricing, grades and tonnages there is potential for substantial returns from the application of ISCR at the NCP
- + The Process Design Scoping Study has been awarded to METS Engineering and is under way
- + Botswana maintains its reputation as one of the best mining jurisdictions in Africa
- ✗ The price of the stock has slipped in the generalized downdraft in battery metals stories, even though Cobre's copper evolution is in no way dependent upon EV demand
- ✗ Copper pullback is more a product of sloppy Chinese and Western economies than the travails of the battery metals space
- ✗ The environment for funding exploration is mixed with investors looking to pick winners not just perpetual drillers going thru the motions

Progress Thus Far

In this update, we shall look at Cobre's bifurcation of effort in Botswana. It's conventional exploration of the Kitlanya West target is moving along, however in the case of the Ngami Copper Project (NCP) the target is believed to lend itself to In Situ Copper Recovery (ISCR). This technique potentially can accelerate the project towards production with a shorter time frame, less environmental issues and a simpler process flowsheet.

The Thesis & Proving it Up

The NCP area's copper-bearing structure (which also has silver) has been rotated to an almost vertical position, thus while it has a very substantial distance along strike, the layer of mineralisation presents a challenge. Should it be underground mined, or is there a better alternative?

This style of mineralisation is dominated by fine-grained chalcocite, which occurs along cleavage planes and in fractures, rather than the vein hosted bornite with chalcopyrite more typical of the KCB style.

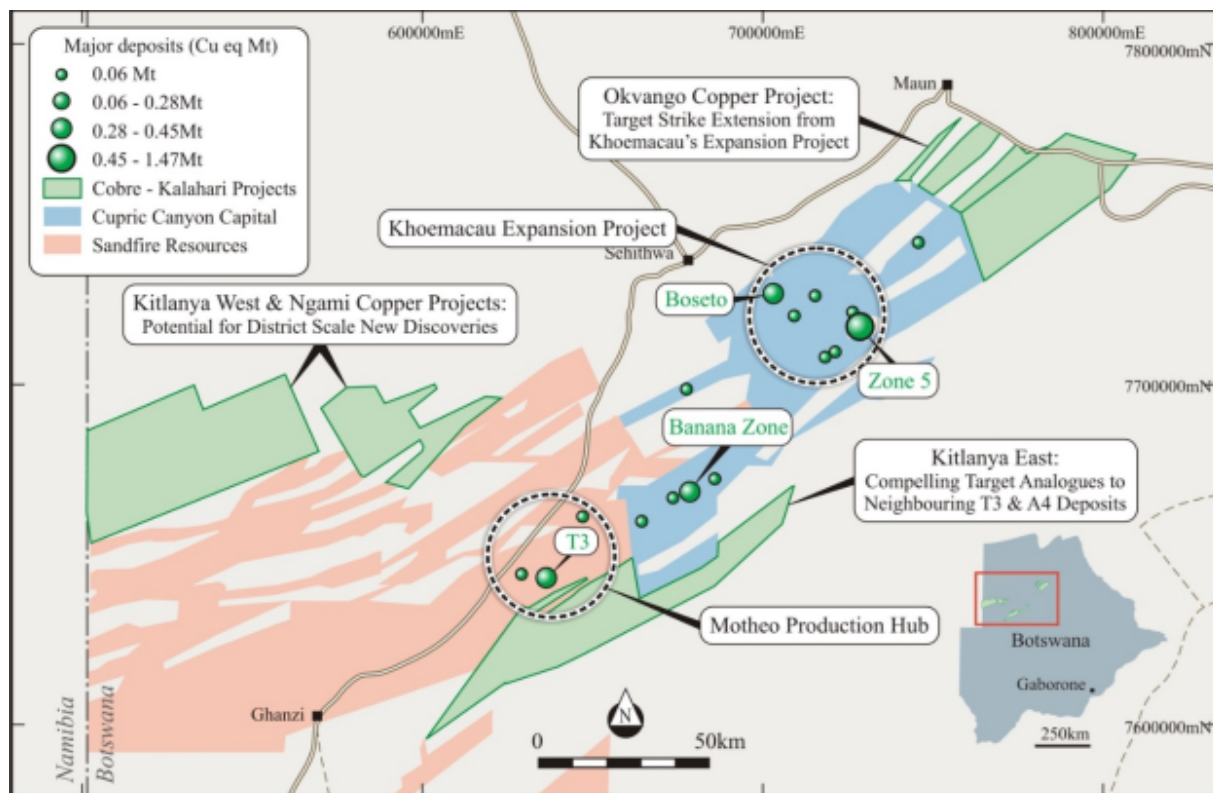
In the geological team's view, the chalcocite mineralisation is amenable to acid leaching, occurs below the water table and is associated with well-developed fracture zones bounded by more competent hanging and footwall units satisfying key considerations for ISCR as discussed anon.

Monday, June 24, 2024

Thus in “thinking outside the box” Cobre has looked for analogues to the NCP structure and is now aiming to prove up a similar In-Situ Copper Recovery (ICSR) process to that employed by Taseko Mines (TSX:TKO, NYSE:TGB) at its Florence Copper Deposit (320mn tonnes @ 0.36%Cu) in Arizona which shares a similar scale to NCP.

The Ngami Copper Project

The NCP area is located near the northern margin of the KCB and includes significant strike of sub-cropping Ngwako-Pan / D’Kar Formation contact, on which the majority of the known deposits in the KCB occur. The project is located immediately east of the Kitlanya West (KITW) licenses collectively covering a significant portion of prospective KCB stratigraphy. The territory held by Cobre is shown in the map below in the green blocks.



Ngami (NCP) & ISCR

In late November of 2023, the company announced that drilling for the hydrogeological test study had commenced on its Ngami Copper Project. The program is designed to provide essential information to demonstrate the viability of an ISCR process for extraction of copper-silver from the significant strike of mineralisation.

The test work is being undertaken in two phases:

Monday, June 24, 2024

- Phase 1: Proof of Concept - short-term single well pumping and injection test providing insight into the injection feasibility prior to start of the more comprehensive follow-on stage
- Phase 2: Injection Test - long-term pumping/injection test designed to evaluate the aquifer characteristics at two locations over a longer period

The test work utilises a series of strategically located monitoring wells to collect data on the aquifer permeability, anisotropy, extent and flow dynamics which will be used to construct a 3D hydrogeological model for ISCR design and planning. The two sites that have been selected for test work are representative of high and moderate grade zones of mineralisation.

Both phases of work are expected to be completed in Q1 of 2024. The goal is the production of a 3D Hydrological Model of the deposit.

Target Area for Hydrological Test Work

At the NCP, the deposit is a 30-metre-wide system, vertically dipping, where cover averages around 70 metres and is principally sand, silcrete and calcrete.

The issue of cover is important in the KCB, and for the application of ISCR, as much of the prospective geology sits below younger sediments. However, this is not universally the case, as in some areas the basement rocks are actually sub-cropping, or the cover is very shallow, while in other areas cover can be much deeper.

Mineralisation, associated with fracture zones, extends for over 350m vertically, bounded by competent, relatively impermeable sandstone footwall and overlying hanging wall, thus forming a continuous narrow structurally controlled target for fluid injection.

The initial target area includes a section of high and moderate grade mineralisation located 1.6 km apart, which is expected to provide information on the viability of applying the method to the broader circa 40kms of strike.

Progress Thus Far

The program was designed to provide essential information to demonstrate the viability of using ICSR for the extraction of copper-silver from the significant strike of mineralisation. Thus far:

- Injection tests conducted on the production well demonstrate that the aquifer is suitable for injection and, therefore, potential ISCR operations
- Given the success of the results to date, the injection test will be extended to operate at higher injection and pumping rates. These results will be used to develop a numerical model, calibrated to trial data, to simulate the hydraulic response to an ISCR operation
- In addition, monitoring well MW012, drilled down the main mineralised fracture zone, has

Monday, June 24, 2024

intersected (open-ended) 12m @ 1.03% Cu from 178 to 190m within a broad zone of 41m @ 0.5% Cu demonstrating the continuity and depth extent of copper mineralisation at the target. These results, combined with the adjacent production well intersection (78m @ 0.59% Cu drilled downdip) provide evidence for a deeper, down-plunge, source for high-grade mineralisation intersected in NCP20A (9.3m @ 3.4% Cu & 30g/t Ag)

- As part of an ongoing engineering scoping study (discussed anon), METS Engineering have completed a thorough review of available data (Gap Analysis) and no fatal flaws have been identified in the proposed ISCR process. A trade-off study of potential copper extraction methods is now underway

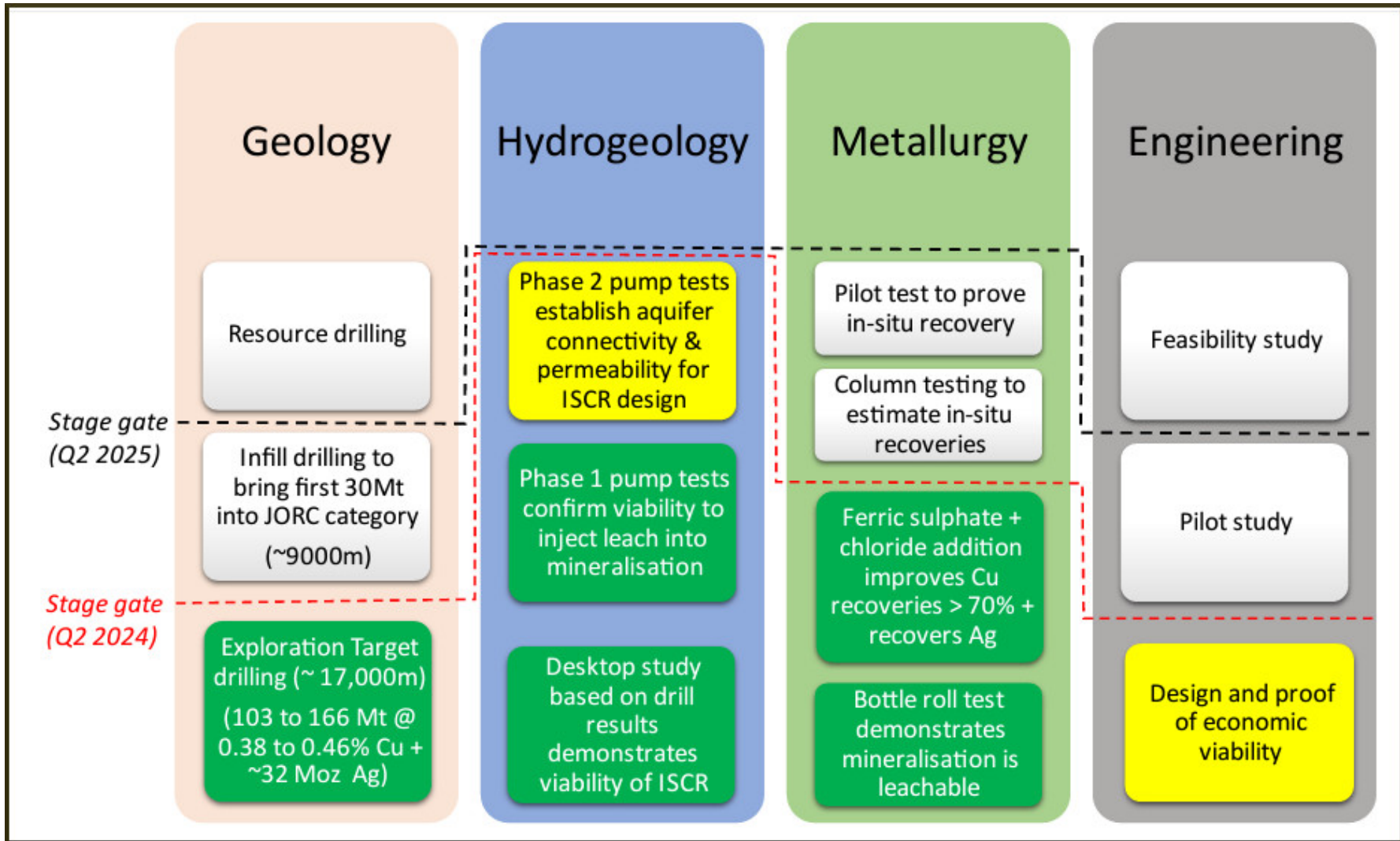
The ongoing hydrogeological program at the NCP includes four monitoring wells strategically located along strike of mineralisation and offset laterally in the footwall and hanging wall which are markedly less permeable. In addition to the monitoring wells, a large diameter injection/production well (PW001) intersecting a representative portion of the mineralised contact has been completed.

Injection testing completed to date included a multi-rate injection test into PW001, where well performance characteristics were evaluated over a range of injection rates (0.5 L/s to 7 L/s). This was followed by a constant rate injection test, conducted at a rate of 3 L/s for the following 24 hours. During this test, the monitoring of the groundwater level responses in monitoring wells placed at different distances and directions from the injection well, enabled insights into fluid movement within the mineralised compartment, as well as lateral movement through the footwall and hanging wall competent "seal" rocks.

Injection/pumping wells target areas with a higher distribution of open fractures which are expected to significantly enhance injection rates and promote spreading of recharge water along the mineralised zone. The injection wells have been designed to intersect geological structures, particularly fault zones, which are known for their greater degree of fracturing and higher hydraulic conductivities (aquifer permeability). Monitoring wells have been strategically positioned to test for: lateral movement of fluid through the footwall and hanging wall competent "seal" rocks; potential escape of fluid into the Kalahari cover; and movement of fluid within the mineralised compartment.

Results will provide valuable insights into aquifer permeability, anisotropy, extent, and preferential groundwater flow directions, enhancing the overall understanding of the hydrogeological system and ultimately testing the viability of an in-situ recovery program.

The flow-chart below shows the ISCR process to development with key stage gates highlighted. Green boxes highlight milestones completed. Yellow boxes highlight ongoing work programs. With over 500,000 tons of contained copper in this target, proof of the method presents a game changer for the district.



Monday, June 24, 2024

When in production it is expected that the raised lixiviant will go straight to an SX/EW plant.

Targeted Resource

While the company has not published a target resource in the formal sense, the current ISCR testing is aiming to gain an indication of the viability of applying the method along the extensive mineralised contact which could show a resource of more than 200mn tonnes at ~0.5% Cu with an additional potential silver stream of more than 30mn ozs of Ag.

The Scoping Study

In late March of 2024, Cobre's management announced that they had appointed METS Engineering to undertake a scoping study on the NCP in the following stages:

- Stage 1: Gap Analysis, to provide a high-level engineering and process assessment of the technical and economic viability of the project
- Stage 2: Optimal Mining/Extraction Method Trade off study comparing and ranking the use of ISCR, underground in-stope leaching, and open pit heap leaching and identifying the optimal method / combination of methods for extraction of copper-silver at NCP
- Stage 3: Process Design Study to further develop the optimal extraction method identified in Stage 2
- Stage 4: Scaling up and Pilot Study Design to plan the engineering, construction and commissioning of a pilot operation
- Stage 5: Economic study to provide a financial model based on the outcomes of Stage 3 which will include pricing and cost assumptions, cash flow assessment, IRR, ROE and NPV calculations

Back of the Envelope

As mentioned in previous Updates, the most appropriate analogue for what Cobre is trying to achieve in ISCR is the Florence project of Taseko Mines which is currently under construction with a early 2025 start date envisioned.

Firstly, one should note the Mineral Reserve which is:

Florence Project - Reserve		
Category	US Short Tons (millions)	Copper Grade (%)
Proven	258	0.35
Probable	63	0.4
Total Proven and Probable Reserves	320	0.36

Monday, June 24, 2024

One factor we have mentioned before, but also bears repeating, is the silver content. This is currently something like 7g/t. Not stunning but it equates potentially to 32 million ounces, not to be sneezed at with current prices. The use of salt brines (prevalent in the area) has been found to augment Cu recoveries by 12% and to expedite the Ag recovery. Silver thus provides a potentially meaningful by-product stream and a monetizable asset that can help with meeting the eventual capex requirement of the ISCR buildout.

Returning to the subject of a possible output for an ISCR operation:

Recovered Cu/Ag			
		Low Case	High Case
Tonnage (mns)		103	166
Grade (Cu)		0.38%	0.46%
Grade (Ag)		7 g/t	7 g/t
Probable Reserve @50%			
	Cu (t)	195,700	381,800
	Ag (oz)	11,265,625	18,156,250
Recovery		85%	92%
To smelter			
	Cu (t)	166,345	351,256
	Ag (oz)	9,575,781	16,703,750

In this projection we use the scant details to hand. The low-high base cases are based on the target estimates of the company. In the absence of the final met results we have opted for a Probable Reserve at 50% with an 85%-92% recovery from the lixiviant.

The Florence NI43-101 estimates opex per lb at \$1.11 (US\$2,846 per tonne). Using this assumption and our 2025 estimates of \$4.35 per lb for Cu and \$29 per oz Ag, we get:

To smelter			
	Cu (t)	166,345	351,256
	Ag (oz)	9,575,781	16,703,750
Gross Revenues			
	Cu	\$1,594,816,053	\$3,367,631,774
	Ag	\$277,697,656	\$484,408,750
Operating Costs			
	Cu (t)	\$473,417,870	\$999,674,576
	Ag (oz)		
Total Operating Revs		<u>\$1,399,095,839</u>	<u>\$2,852,365,948</u>

Monday, June 24, 2024

However, it is worth noting that if the recoveries drop, the operating cost per ton increases, not just the resource size shrinking. For example, at Florence, Taseko has modelled their recoveries at 65.8% with an OPEX of \$1.10 per lb, if the recovery from the ground decreases, then one would still have the same wellfield development costs, which in turn would increase OPEX and thus reduce the total size of the proven orebody.

However, even at lower recoveries and higher OPEX costs the project should have robust economics.

Seismic Survey

In mid-June of 2024 the company announced the commencement of an active 2D reflection seismic survey, with overlapping passive seismic survey (Ambient Noise Tomography or ANT), on the Kitlanya West project. This pioneering program is designed to:

- Image potential large-scale fold trap-sites where Tier 1 copper deposits may be hosted
- Identify structures which may provide pathways for copper mineralisation
- Compliment and help resolve the basin architecture interpreted from recently completed Airborne Gravity Gradient (AGG) surveys

The survey will hopefully provide diamond drill targets for the Tlou target defined in the 2023 soil and reverse circulation drill campaign.

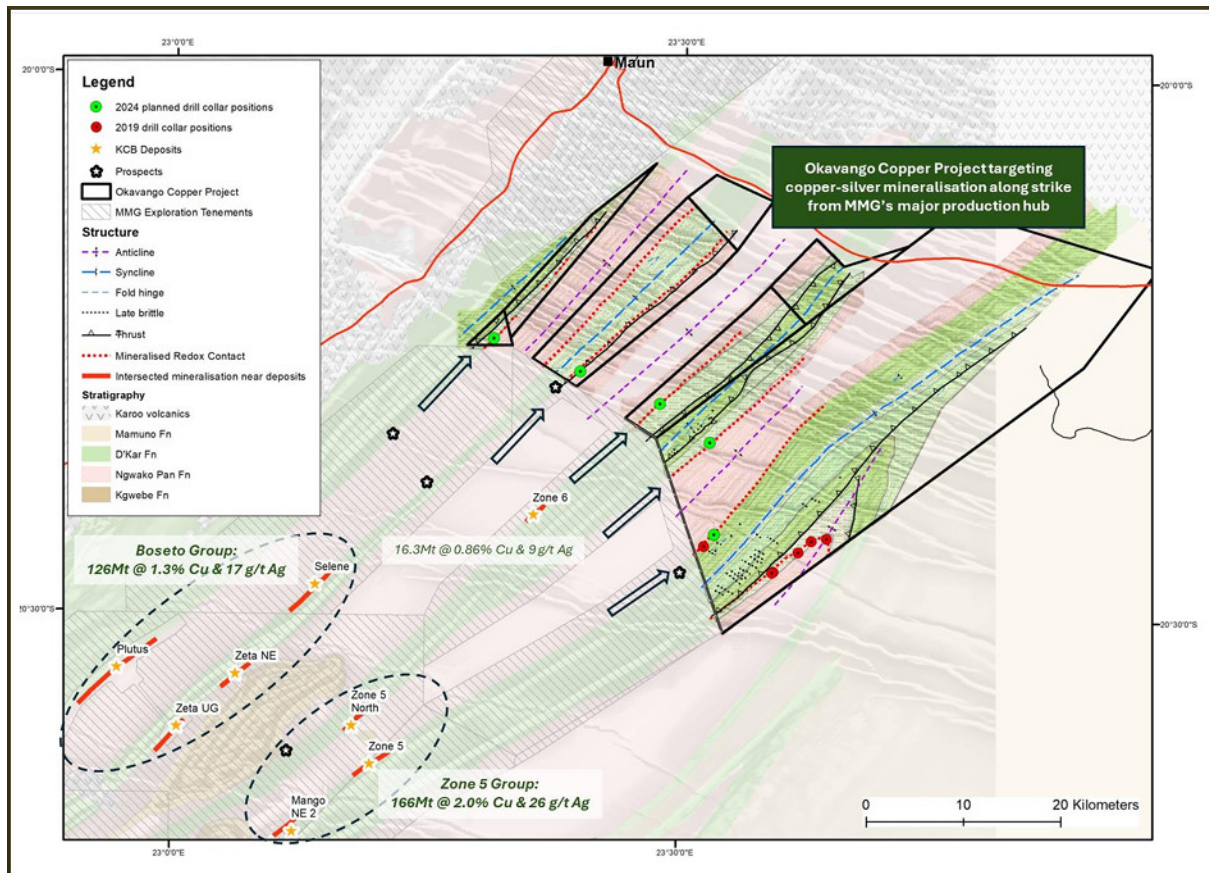
Work Revived on the Okavango Copper Project (OCP)

This target has not been mentioned for some while but is now being activated due to the propitious environment for new copper discoveries. The OCP covers 1,363km² of prospective KCB stratigraphy located immediately northwest of MMG's Zone 5 production hub and surrounding deposits. Mineralisation in the KCB is sediment-hosted and is structurally controlled, with copper-silver mineralisation occurring along the redox contact between oxidised basal units.

In April of 2024, the company announced that an initial five-hole, 2,000m diamond drilling program had been designed to test for copper-silver mineralisation:

- Along strike from the deposits of neighbouring MMG's Zone 5 group (166mn tonnes @ 2% Cu & 26 g/t Ag) and Boseto group (126mn tonnes @ 1.3% Cu & 17 g/t Ag)
- Adjacent to elevated copper intersected in an earlier 2019 drill program
- On the margins of an interpreted basement high, along constrained sub-basins evident in ground gravity and drill data

Monday, June 24, 2024



Previous work on OCP was undertaken by Kalahari Metals (now 100% owned by Cobre) and included high-resolution magnetic, radiometric and electromagnetic geophysical surveys, as well as a 1,655m, six-hole diamond drilling program. The copper-silver mineralised redox contact was successfully intersected in five of the holes.

The campaign will be around two months and then assays should start appearing in 3Q24.

Copper: Finally Breaking Free

It could be said that “those who live by the EV Revolution story, die by it”. It is understandable that Lithium and Graphite promoters should flog the EV story to death, but Copper companies never needed to do this to sing the praises of the Red Metal and its good long-term outlook. While we have not seen any reliable pie chart on what proportion of copper production goes to EVs we would posit it must be well under 10%, thus the

For a few brief moments it looked like we might have been on the cusp of a Commodity Supercycle 2.0, but the Russian invasion of the Ukraine and the global outbreak of inflation (and the cure being higher interest rates) has put paid to that dream.



Source: [Macrotrends.net](https://www.macrotrends.net)

Monday, June 24, 2024

Nevertheless, we have definitely seen a lengthy period of underinvestment in copper exploration and capacity and this has laid the ground for a supply crunch. Below \$3 there was little incentive to build new mines and below \$2.50 (pre-November 2016) there was no incentive to explore either as despair was the only sentiment around.

The 45-year chart on the preceding page is illustrative. Not many think about dampening effect on development that decades of static, or rangebound, prices have had. Essentially the post-WW2 dominance of Chile and Zambia/DRC in the copper space produced decades of cheap copper production from high-grade mines that left little incentive for developing new mines, particularly in locations where instability was a factor (and yes, Chile was once hyper-unstable). The copper price reached its “recent” nadir in 2001 at 61 cents per lb just two weeks before 9/11. The rest is history.

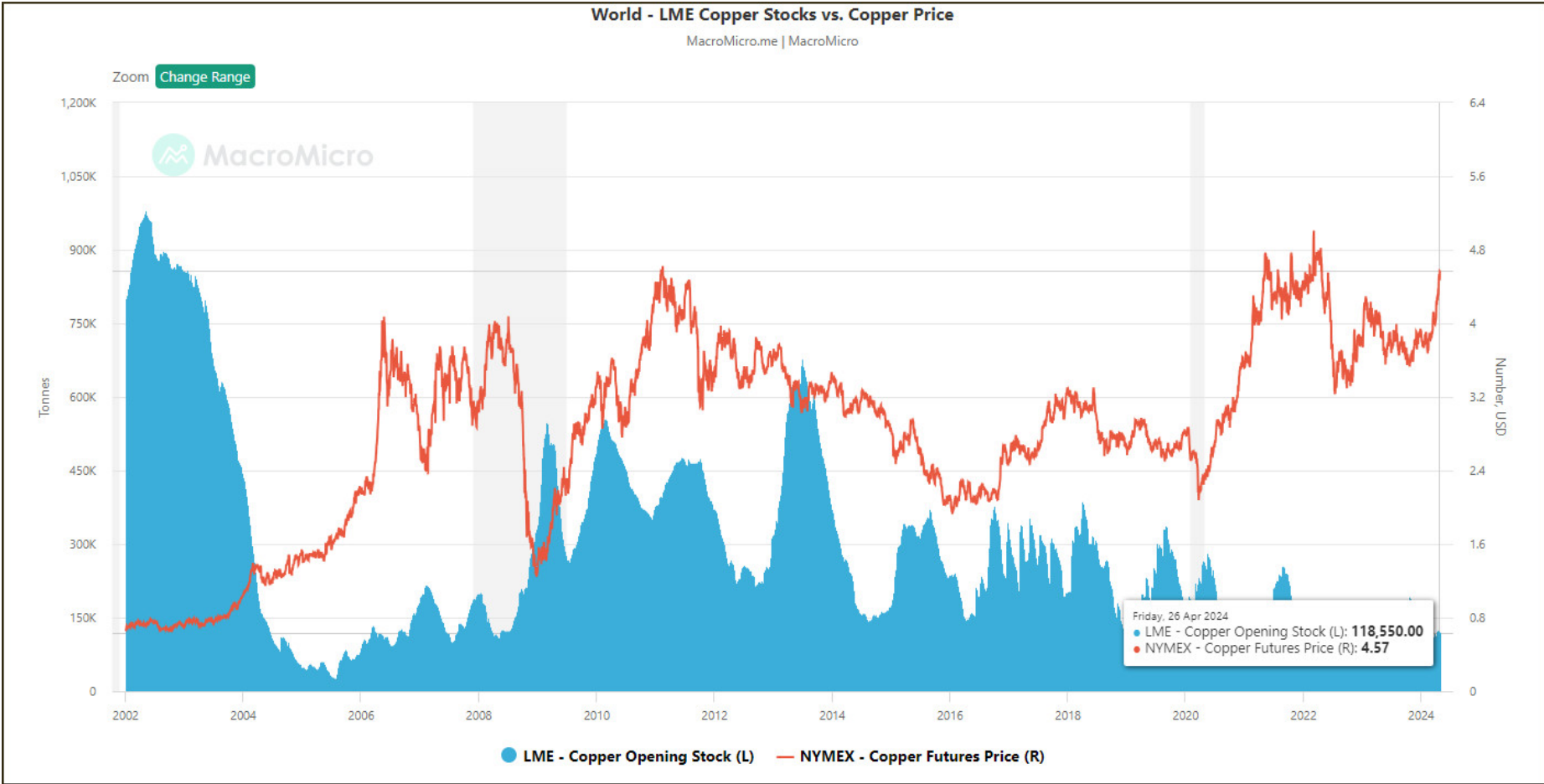
A similar phenomenon was seen in gold where not just the US government’s gold peg, but the cheap labour provided by apartheid in South Africa resulted in gold being similarly static with no impetus for change.

In 2016, the price started to pull out of the swoon it had been in largely since 2008. It started a virtually unchecked march higher until it breached the \$3 per lb level.

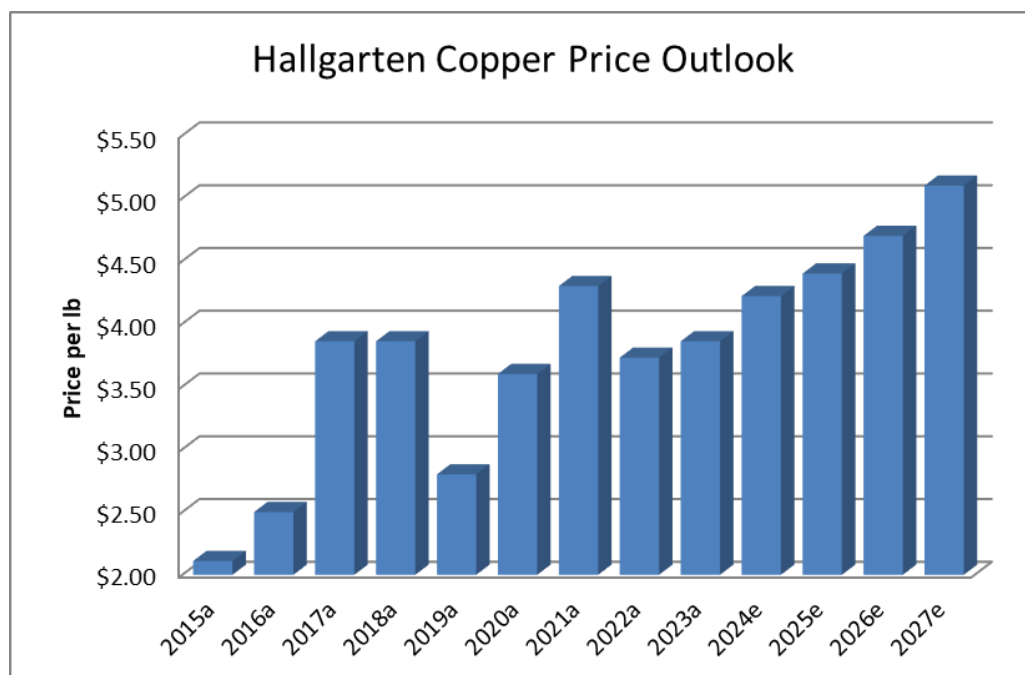
Then the price plunged to a five-year low on the outbreak of the pandemic. In 2020 copper then “turned on a dime” going from a low of \$2.50 to over \$3.50, showing that the metal has the potential to move far and fast. It then powered on to nearly \$5 per lb.

Unfortunately, the price was sustained above \$4 for only a year. If it had held longer it would have greenlit those few projects sitting on the launch pad without precipitating a production surge because there is not that much capacity to “turn on” and the unbuilt potential is small and a long way from actualization. It did, however, prompt the appearance of (and funding thereof) various explorers such as Western Metallica.

The following chart shows the LME warehouse stocks. This shows an interesting seesaw action in recent times. Anyone would think that the trend is down and someone keeps moving in stocks to make it look like a stock build and then it gets slapped down again. Perish the thought that the Chinese are manipulating the price by moving stocks around.



Unlike metals like Zinc/Lead and Nickel, there was some copper development during the downtime (e.g. Las Bambas, Oyu Tolgoi, Constancia etc) but this was nowhere near sufficient to replace mines that had exited or reduced production and deal with even conservative forecasts of growth in consumption.



As the chart above shows we are still relatively bullish on the copper price outlook for the end of 2024, despite the last two years having been relatively disappointing for bulls of the red metal.

The Copper price establishing itself between the current levels and \$5 per lb is a sound scenario and we view any price over \$3.50 as a good place to be for copper miners and it ensures that mines with fair grades and CapEx numbers “within the ballpark” will be seen as doable and desirable. This then will have knock-on benefits for those junior explorers trying to fill the pipeline with new projects and resources.

Financing

On the 22nd of January, it was announced that Cobre had been awarded a place in BHP’s Xplor program, which brought with it a USD\$500,000 grant, which is being applied to current programs. BHP may retain certain pre-emption rights on the Kitlanya West Project for a 12-month period after the end of the Xplor program.

Then in April of 2024, Cobre announced the completion of a AUD\$4mn placement which was strongly supported by new and existing shareholders, including a number of high-quality institutional investors based domestically and offshore. The company’s largest shareholder, Strata Investment Holdings Plc,

and several of the company's directors subscribed for AUD\$800,000 and AUD\$675,000 (in aggregate), respectively.

Once again, the drilling service provider, Mitchell Drilling Botswana, and exploration services provider, Remote Exploration Services, subscribing for A\$100,000 each under the placement. Additionally, Mitchell Services has subscribed for AUD\$200,000 in Cobre shares as part of a scrip for service arrangement.

Participants in the Placement will also be entitled to apply for one free attaching (unlisted) option for every two new shares allocated under the placement. These will be exercisable at 7.8c each and have an expiry date that is three years after the issue date.

Risks

There are a number of potential risks that should be taken into consideration:

- ✘ Global economic conditions deteriorate due to a rising interest rate scenario or slowing growth or both
- ✘ That the Copper price loses upward momentum
- ✘ Political risk in Botswana evolves against miners
- ✘ Financing difficulties for explorer/developers

The copper market has been stronger over the last few months but doubts still exist as to whether this is a secular change prompted by long term lack of new projects & development or whether it is a surge in demand.

The copper price as noted has been somewhat rangebound in recent years and has experienced some of the backwash from the souring of the EV/battery metals story to which it is only tangentially connected. Our premise is for copper to stay roughly in a band between US\$3.80 and US\$4.50 per lb for several years to come.

There is always the danger that it could weaken again if it rises too far too fast, if interest rates make another leg higher or if China continues to slowdown. As we have often noted, China has an inherent interest in lower prices and has had in the past significant stockpiles and trading positions that it has exploited to play whackamole with the prices of metals it wishes to see lower.

Botswana is not a concern at the moment, but African countries have long shown an ability to surprise to the downside, sometimes due to external effects beyond whatever the internal politics may be like. Mali and Burkina Faso are examples of two countries where political risk has risen steeply, with little warning, over the last five years.

If insufficient projects reach development stage to satisfy demand, then the cycle could be extended

presaging a sustained period of higher copper prices more likely. At the moment this looks the most probable scenario.

Conclusion

Production is king these days and Cobre is seeking to lay out a shorter path between where it is now and where it wants to be. There are few shortcuts to a meaningful mine but the prospect of the potential application of ISCR to the NCP in Botswana is one such shorter route between two important points. The concept is well-trammeled by notable mid-tier miners and applies technology that has come to dominate the Uranium space and is not getting traction in the Copper and Rare Earth spaces. In short, this is not rocket-science and Cobre is advancing rapidly to the proof-of-concept stage.

Its efforts in copper exploration in Botswana, in general, have just been garlanded by the awarding of BHP's Xplor award, something of a Nobel Prize for the exploration space. Beyond that kudos, it brings a monetary reward. And it boosted the stock 78% higher on the day...

The markets though are brutal. Those who have lived by the "battery metals story" have died by it as well, with the Lithium and Nickel spaces being particularly battered. Cobre never sang the mantra of battery metals, knowing full-well that the Red Metal has a need, desire and production shortfall all of its own that transcends mere fads.

With the ISCR path starting to look clearer as the way forward then the relatively shorter route to production and outsized returns with a smaller environmental footprint, make the current valuation of Cobre look like a severe underappreciation by the market of the potential of NCP to become a meaningful new addition to mid-tier copper projects.

We reiterate our **LONG** rating on Cobre and a 12-month target price of AUD\$0.34.



Appendix I:

On ISCR

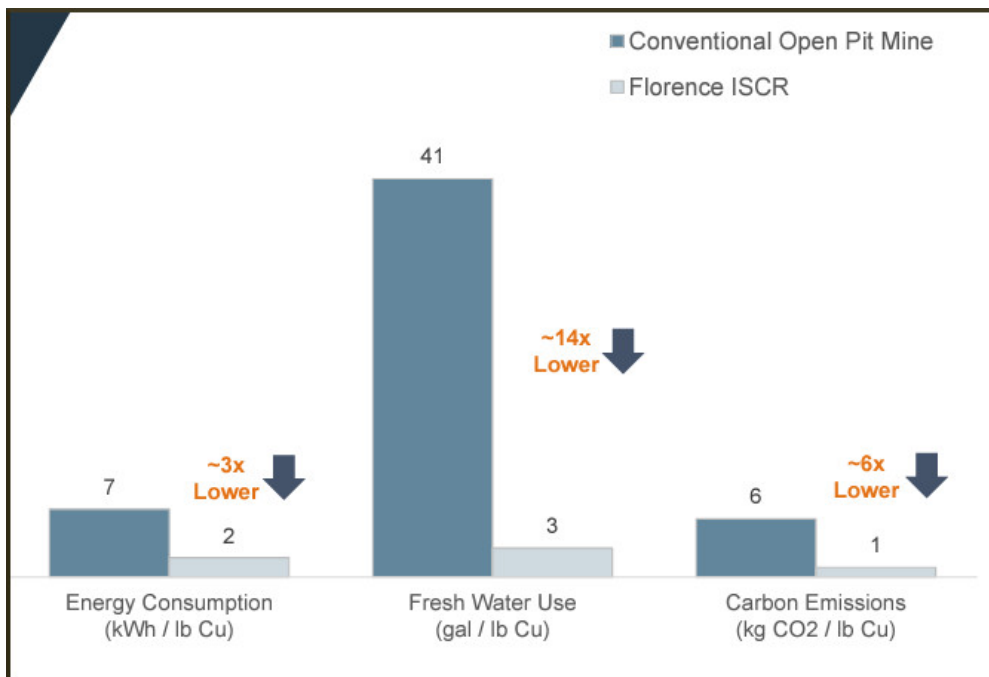
In-Situ Copper Recovery (ISCR)

In-situ copper recovery is viewed as being an environmentally responsible way of extracting copper from the ground. The parallels with the much more established and well-known ISL/ISR extraction with Uranium mining are notable.

Background to ISCR

In-situ extraction is not new and has been used effectively for over 50 years. The attractions are the significant reduction in CAPEX and OPEX and scalability of the process.

As mentioned, it has been used successfully for decades primarily for the extraction of uranium and potash. As technology has advanced, ore deposits like the Gunnison copper project of Excelsior Mining (TSX:MIN) have been identified for development as in-situ copper mines.



The Process

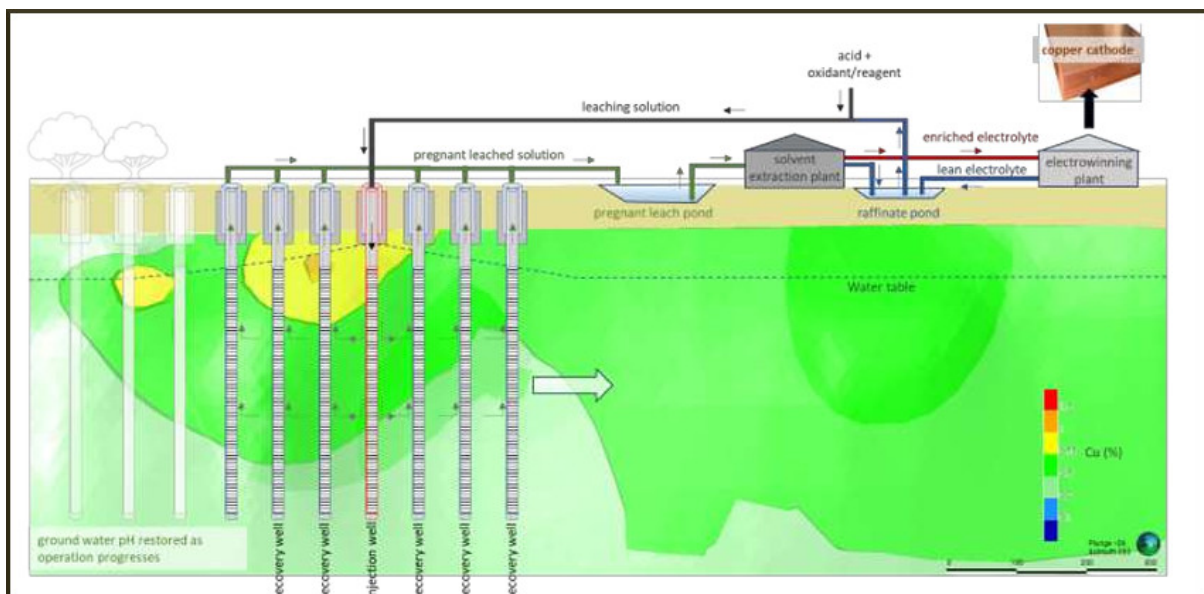
The ISCR process involves injection of a low-pH solution, similar in strength to household vinegar, which slowly dissolves copper in the bedrock. The process is best summarized as:

- Injection and recovery wells are drilled deep into the bedrock where the leachable copper ore is situated
- Wells are concrete encased and sealed above the mineralised zone to protect water quality
- Raffinate (99.5% water, 0.5% acid) is injected via the injection wells into the oxide zone to dissolve the copper.
- Copper rich solution is then pumped to surface through recovery wells to an SX/EW plant for processing into pure copper cathode sheets
- Perimeter and observation wells are monitored continuously to ensure hydraulic control of fluids is maintained at all times and water quality is protected

Extraction is conducted via a closed loop system of delivery and recovery wells. Each delivery well is surrounded by four recovery wells which can be reversed as the extraction process moves along strike.

The well field is divided into several extraction areas, consisting of numerous delivery and recovery wells. Each extraction area can operate for several years depending on the deposit, of course.

A graphic of this process can be seen below:



When the copper is depleted, the area is rinsed with water to remove any remaining solutions. Control and monitoring wells are positioned around the extraction area to protect and maintain water quality.

Key Requirements

For a deposit such as that at NCP to be considered viable for ISCR, several specific hydrogeological and

metallurgical factors need to be satisfied:

Is the mineralisation amenable to acid leaching?

- Mineralisation is predominantly fine-grained chalcocite easily treated with an acid leach process
- Mineralisation is hosted in fractures and along cleavages, providing porosity and permeability and providing fluid flow through the mineralised horizon for the leaching solution
- IBR Leach tests carried out on approximate 5m composite samples of moderate- and high-grade intersections have confirmed an acid leach with ferric sulphate and chloride is viable for copper and silver extraction
 - Adding a combination of ferric sulphate and chloride to the leach system resulted in copper recoveries of 77.4% and 71.9% for high- and low-grade samples respectively
 - In addition, adding a chloride solution to the leach has resulted in silver recoveries of up to 43.5 and 80.5% for high- and low-grade samples respectively

Is the mineralisation below the water table?

- Groundwater measurements estimate the water table to be at 120m to 150m depth below surface.
- This appears to be an optimal depth, sufficiently below the Kalahari cover to ensure fracture control preventing lateral migration, with a small portion of the orebody exposed above the water table.

Does the host rock have fractured permeability for solution to permeate through and dissolve the copper?

To this end, Cobre has undertaken, thus far, detailed fracture logging and AI-driven fracture logging carried out on holes through the Comet Target has confirmed:

- High density fracture zone associated with the lower mineralised cycle of the D'Kar Formation, particularly associated with the mineralisation above the contact
- Lower (less-permeable) fracture counts associated with the underlying Ngwako Pan Formation footwall and overlying sandstone packages in the D'Kar Formation provide lateral seals.

Important disclosures

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