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HALLGARTEN + COMPANY

Corporate Actions

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Luca Mining

(TSXV: LUCA | OTCQX: LUCMF | FSE: Z68)

Strategy: Long

Key Metrics			
Price (CAD)	$0.78		
12-Month Target Price (CAD)	$1.32		
Upside to Target	69%		
12 mth high-low	$0.78 -$2.16		
Market Cap (CAD mn)	$407.16		
Shares Outstanding (millions)	522.0		
Fully Diluted (millions)	563.0		
	FY25	**FY26e**	**FY27e**
Hallgarten EPS (CAD)		$0.01	$0.03
Actual EPS (CAD)	-0.08		
P/E	n/a	78.0	26.0

Luca Mining

Cozamin's Can of Worms

- + Cozamin would bring a third producing Mexican mine into Luca's portfolio, with the US$290mn upfront consideration rising to as much as US$385mn after deferred and copper-price-linked payments
- + The disputed 2% net-smelter-return royalty relates to five Portree concessions, not automatically to all metal produced at Cozamin; its precise production base warrants independent verification
- + Royalties Inc. estimates a US$50mn total economic claim, combining approximately US$15mn of historical arrears and interest with US$35mn of prospective royalty value. This is not a court-ordered US$50mn payment
- + For Luca, the mine can still be attractive if sufficient free cash flow survives financing, silver streams and royalties, and if pre-closing liabilities are addressed by specific seller indemnities or escrow
- × For Capstone, selling Cozamin releases capital, but any historical royalty exposure and representations concerning title could influence net proceeds and completion risk
- × Royalties Inc. offers more than a court case: its 88% Minera Portree interest, wholly owned Bilbao silver-zinc-lead project and modest music-royalty interests may attract different specialist buyers

The Latest Deal

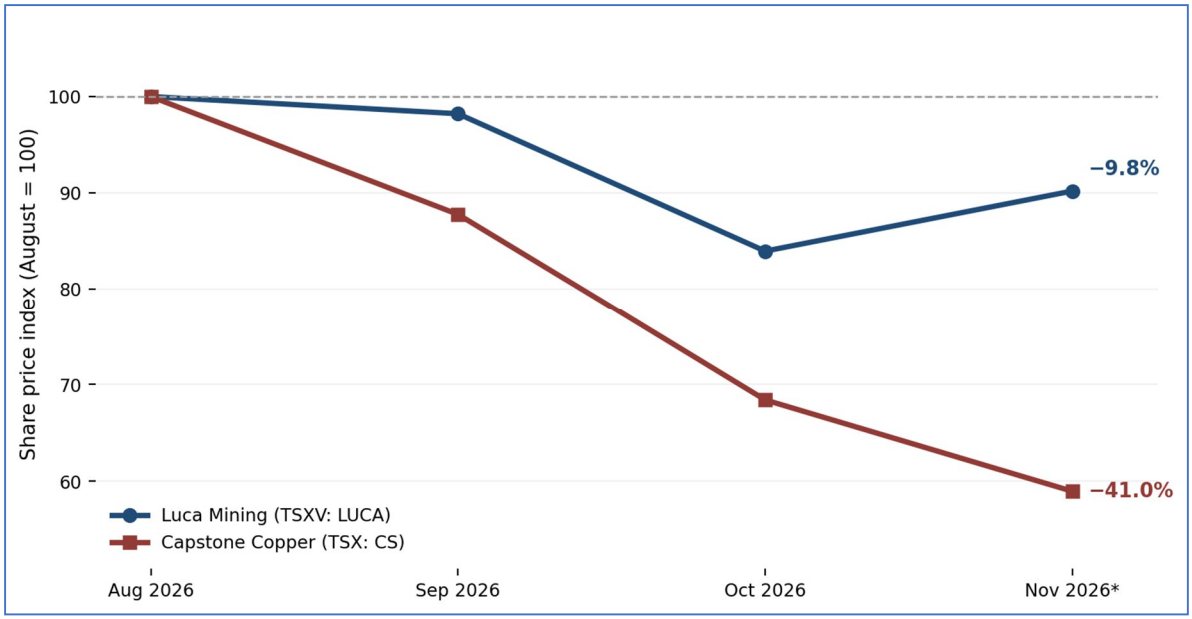
In September of 2026, Luca announced a deal to acquire the storied Cozamin mine in Mexico from Capstone Copper for total consideration of up to US$385mn.

This deal significantly bulks up Luca Mining, a company we have covered since 2017, and which is now one of the longest serving constituents in our Model Resources Portfolio.

The market has not taken kindly to the two counterparties to this deal, and both have seen their stock prices brutalized. We can't help wondering if the "hair" on this deal is related to the legal matters pending with Royalties Inc (CSE: RI) which we commented on, in passing, in a recent Monthly. This represents a rather hefty financial hit for either (or both) of the parties should the legal process keep trending the way it has been going of late. Most of the investing public do not know of this wrinkle as neither Capstone nor Luca have been trumpeting the fact (understandably) while Royalties Inc have been shouting it from the rooftops to an audience of one (i.e. us).

In this Corporate Actions Note we intend to review the purchase, the royalty issue and the performance of the two names since the deal was announced, while looking fleetingly at Luca's two extant operations and the stealth performance of Zinc.

Relative Share-Price Performance: Luca vs Capstone



** November is the latest available November observation, not a month-end closing price. Monthly reported CAD share prices; values rebased to August 2026 = 100. The line segments connect monthly observations, not daily prices.*

From the August observation to November 2026, Luca declined by approximately 9.8%, versus a 41.0% decline at Capstone. The relative gap is notable, although it would be inappropriate to attribute all the movement to Cozamin: copper prices, company-specific production results, financing and broader risk appetite also affect performance.

The Background to Luca Mining

Back in the mists of time, we covered Telson Mining in an Initiation and an Update, which we had previously known as Soho Resources and which then went on to become Altaley Resources (which means "high-grade" in Spanish) but was largely meaningless to Canadian investors, before settling upon Luca Mining. Whether this latest change of moniker was in homage to Suzanne Vega's song, we can only wonder.

In the annals of mining history, it will be written that Nyrstar's big mistake was buying high and selling low. A number of junior miners appeared on the radar as bottom fishers picking up Nyrstar's leftovers and showing (potentially) what can be achieved from assets that Nyrstar could not make a go of. Nyrstar's central components (its smelters) eventually came under the control of Trafigura in what proved to be a very canny buy by the giant trader.

In our Initiation we related how the long-time CEO, Ralph Shearing (a geologist) drafted in a crew of Mexican mining experts to facilitate in the company integrating its $20mn purchase of Nyrstar's Campo Morado asset in Guerrero state in Mexico.

This asset had been a key drawcard of the CAD$420mn purchase of Farallon Resources by Nyrstar in December of 2010. With its usual woeful timing Nyrstar sold this asset in June 2017 to Telson, just before Zinc moved into turbocharged mode.

At the time of our Initiation, Telson/Luca regarded itself as being in pre-production at its two projects and advancing towards commercial production at Campo Morado over the coming months and in early 2019 at Tahuehueto. The rest is history with both now being in production (despite travails along the way) and now the first purchase since 2017 has been announced, if not closed yet.

The Cozamin Deal

In late September of 2026, it was announced that Luca Mining and Capstone Copper (TSX:CS | ASX:CSC) had entered into a definitive agreement to sell its Cozamin copper-silver-zinc-lead mine, located in Zacatecas, Mexico, to Luca for up to US$385mn in total consideration.

Under the terms of the transaction, Capstone will receive total consideration of up to $385 million, comprised of:

- $275mn in upfront cash, subject to customary closing adjustments (see 1)
- $15mn in Luca shares, to be issued to Capstone at closing
- $35mn in deferred consideration, to be received on the first anniversary of closing (see 2)
- Up to $60mn in contingent cash consideration tied to annual average copper prices (see 3)

The nuances on this are:

1. The $275mn upfront cash consideration is based on a 31st of October 2026 lock-box date on a cash-free and debt-free basis and assuming a normalized level of working capital
2. The $35mn deferred consideration is payable in cash and/or Luca shares at Luca's option
3. Up to $60mn in contingent cash consideration is payable following the end of each of the 2027, 2028, and 2029 calendar years, based on the average annual LME Copper Cash Settlement Price for the applicable year. The annual payment will be $10 million if the LME Cu Price is between $7.00/lb and $7.75/lb, $15mn if the LME Cu Price is between $7.76/lb and $8.50/lb, or $20mn if the LME Cu Price is at least $8.51/lb

Since its first full year of operations in 2007, Cozamin has delivered consistently strong

performance, a testament to the capability and quality of the team.



The transaction is expected to close in the 4Q26, subject to the completion of customary conditions and regulatory approvals, including stock exchange and Mexican National Antitrust Commission approval. The Transaction is not subject to shareholder approval or any financing conditions.

Scotiabank is acting as exclusive financial advisor to Capstone. Blake, Cassels & Graydon LLP is acting as Canadian legal counsel to Capstone, and Creel, García-Cuéllar, Aiza y Enríquez S.C. is acting as Mexican legal counsel to Capstone.

A Transaction with More Than One Price Tag

The headline US$385mn maximum is not a single closing cheque. Capstone is due US$275mn in cash and US$15mn in Luca shares on completion, followed by US$35mn of deferred consideration one year later, payable in cash and/or shares at Luca's election. A further US$60mn is contingent on annual copper-price hurdles across 2027–2029. The distinction is material: the business has to fund a US$290mn initial acquisition, service its financial commitments and still sustain development investment, while higher copper prices could increase contingent payments at precisely the time that operating revenue also improves.

Luca completed approximately CAD$211mn of subscription-receipt financings in October 2026, a significant de-risking of the equity component but not the same thing as closing the acquisition. The proposed senior secured facility totals US$125mn; the September financing presentation indicated a US$75mn tranche at 8.5% and a US$50mn tranche at SOFR plus 4.9%, with amortisation beginning six months after closing and a copper hedging covenant. Equity issuance and associated warrants widen the ownership base.

Consequently, the test of success is not simply growth in consolidated production but growth in free cash flow per share after financing and streaming obligations.

Luca's September presentation envisaged 2027 combined net revenue of approximately US$598mn and operating cash flow of some US$223mn versus reported 2025 revenue of US$177mn and operating cash flow of US$37mn. These are company expectations or consensus-based illustrations rather than guaranteed outcomes. Luca also stresses that the historic mine plan extending to 2030 has not yet been adopted as its own and requires technical validation. This makes the duration of future royalty payments, and the extent of exploration upside, important variables for both buyer and royalty owner.

The Cozamin Operation

Cozamin is an underground copper-silver-zinc-lead operation near Zacatecas City, in commercial production since 2006. Royalties Inc. cites 2025 production of approximately 25,348 tonnes of copper and 1.4mn ounces of silver. Luca indicates a historical mine plan through 2030, expressly stating it has not adopted that plan and will validate reserves and develop an updated mine plan after closing. This distinction is critical when pricing any post-2030 royalty value.



The Royalties Inc Matter – Oh, What a Tangled Web We Weave

Or rather that Capstone has woven…

Or, perhaps more accurately, a chain of title that has become a chain of litigation.

Royalties Inc. (CSE: RI; OTCID: ROYIF) is a Canadian issuer holding an 88% stake in Minera Portree de Zacatecas (MPZ), a Mexican company claiming continued ownership of a registered 2% net-smelter-return royalty on five concessions now associated with Cozamin. The right is not asserted across every tonne mined at the operation; the extent of attributable production must be proved from concession-level mining, grade and settlement records.

According to Royalties Inc., decisions of Mexican courts have recognised MPZ's royalty rights. The issuer has also described ongoing legal and criminal-investigation steps seeking production and settlement records. Those assertions should be distinguished from an independently confirmed final enforceable damages award or audited amount of unpaid royalties. The present legal status must be checked against certified court records before any transaction.

The Path from Registered Royalty to Enforceable Cash Flow

The Portree instrument was registered in 2002 against five concessions that overlap part of the broader Cozamin mining complex. Royalties Inc., through its 88%-owned Minera Portree de Zacatecas (MPZ), maintains that the royalty was reserved when the concessions were transferred and could not be sold away under a later, narrower power of attorney. Royalties Inc. reports favourable commercial decisions at two levels of the Mexican courts in 2025. Capstone sought constitutional review through an amparo, and Royalties Inc. said in May 2026 that the final federal decision remained pending. The court records and concession registry—not the existence of an issuer press release—ultimately govern enforcement.

The claim also has a technical dimension. Some production from the Mala Noche Footwall Zone is associated with the Portree ground, but the tonnage and contained metals originating within the legally described boundaries must be reconciled against mine plans, stope models, survey data and sales settlements. Surface strike-length proxies are not a substitute for three-dimensional attributable production. In September 2026 Royalties Inc. reported a formal document demand by the Zacatecas prosecutor for block models, underground records, concentrate sales records and other evidence. That process could sharpen the production calculation regardless of the eventual legal resolution.

The estimated US$50mn is best read as three separate components: (i) about US$15mn for historical royalties and estimated interest, which could become a negotiated cash payment if proven and enforceable; (ii) about US$15mn in undelivered royalty income projected for 2026–2030, which is a future stream rather than an existing arrear; and (iii) about US$20mn assigned to production after 2030 and incremental resources, a much more speculative value dependent on successful exploration and mining. Adding all three components as if they are jointly payable today would misrepresent the economics.

The US$50mn Figure: Compensation, or a Valuation?

In Royalties Inc.'s 22nd of May 2026 disclosure it is estimated that there are some US$15mn of arrears and assumed compound interest from 2019–2025; US$15mn of prospective royalties for 2026–2030; and US$20mn of value attributable to production after 2030. Only the first category is framed as arrears, and even this requires concession-by-concession evidence, audit, enforceability and final judicial outcomes. The remainder is a projection of future economic rights, not an immediately payable judgment. Treating US$50mn as an additional cheque automatically due at transaction closing would be wrong.

The Royalty Denominator Is as Important as the Rate

A 2% NSR is a charge on qualifying smelter returns from defined royalty ground, not on consolidated mine EBITDA and not automatically on every tonne milled at Cozamin. Typical deductions and payable-metal rules depend on the governing contract. Royalties Inc. estimated around US$3mn per year in May by reference to its assessment of the affected concession area and payments to other royalty holders. Other corporate discussion has indicated lower annual figures. The difference is economically plausible where the geography of mined stopes, realised metal prices and the basis for allocating concentrate sales differ. A buyer should value a verified production schedule, not merely an asserted percentage of the mine.

A representative five-year sensitivity illustrates this. At annual royalty payments of US$1.5mn, US$2.25mn or US$3mn, the undiscounted payments total US$7.5mn, US$11.25mn or US$15mn respectively. Discounting five equal year-end payments at 10% yields about US$5.69mn, US$8.53mn or US$11.37mn. These examples are not forecasts; they isolate what is at stake in proving the correct production base. Royalties Inc. owns 88% of MPZ, so attribution to Royalties Inc. shareholders would also have to recognise the subsidiary's minority interest and any costs, taxes or settlement distributions.

How Large Is the 2% NSR in Practice?

The nominal 2% rate applies to specified Portree concessions, not to the whole mine as a blanket percentage. In May 2026 Royalties Inc. estimated that around one-third of Cozamin production/value was attributable to the Portree ground, citing annual royalty economics near US$3mn. Other company commentary has cited lower indicative annual economics of around US$1.5mn, underscoring the need for mine plans and actual smelter settlements. A simplified royalty illustration is 2% × attributable net smelter proceeds; at US$100mn of attributable proceeds this is US$2mn annually. This is a scenario, not a verified mine payable.

A Commercially Rational Allocation of Liability

Capstone has an incentive to deliver a clean asset, maximise net sale proceeds and avoid a dispute that persists after divestment. Luca has an incentive to obtain operating control without

assuming unknown pre-closing obligations; the remedy may involve indemnity, retention, escrow, a purchase-price adjustment or a negotiated release. MPZ has an incentive to secure documentary recognition of its royalty, a reliable production-reporting mechanism and a payment arrangement that does not depend on litigating every quarterly statement. None of these outcomes can be assumed from the public transaction announcement because the decisive representations, allocation of liabilities and schedules have not been published in full.

A transaction that simply transfers the mine without deciding who bears pre-closing arrears may shift the counterparty liability to a future enforcement dispute but not eliminate the encumbrance asserted by MPZ. A defensible settlement would therefore separate the amount associated with historic production from the forward-looking NSR and define who pays each. Any consideration for terminating the royalty permanently should be assessed separately from a payment of arrears. This distinction protects Luca against double payment while allowing Royalties Inc. to demonstrate that its economic rights have been recognised.

Winners and Losers Under Three Outcomes

Settlement before closing: Royalties Inc./MPZ would gain earlier liquidity and stronger royalty recognition, Capstone would gain a more marketable divestment, and Luca would gain financing and operational certainty. The trade-off is that MPZ may accept a discount to its stated valuation and Capstone may surrender some net proceeds.

Continued litigation: MPZ retains negotiating leverage and potential upside, but carries financing, legal and timing risk; Capstone faces legal and reputational costs and Luca faces uncertainty over production attribution.

Royalty extinguishment by negotiated buyout: Luca may gain the largest long-run benefit, especially if mine life extends well beyond 2030, while MPZ gives up inflation and exploration leverage in exchange for immediate certainty.

Who Bears the Loss?

The answer lies in the transaction's representations, specific indemnities, escrows and governing Mexican title documents, none of which can be inferred merely from the public US$385mn headline. A seller-funded historical settlement would reduce Capstone's net proceeds but give Luca cleaner title. A buyer-assumed liability would increase Luca's effective acquisition price and could depress equity returns. A negotiated carve-out, holdback or purchase-price adjustment can share risk; the royalty owner would gain payment certainty and a reporting/audit mechanism at the expense of some litigation upside.

Separating a Royalty Burden from an Acquisition Impairment

For illustration, US$3mn a year of royalty payments represents about 1.3% of the US$223mn consolidated 2027 operating-cash-flow figure cited in Luca's transaction materials; the

denominator covers all of Luca's operations and is not Cozamin-specific. Relative to the US$290mn upfront package, the five-year present value of this payment stream at 10% is around 3.9%. Neither comparison establishes that Cozamin is cheap, because acquisition debt, streaming deliveries, taxes, sustaining capital and mine-life extension must be considered. It does show why the legal resolution should not be reduced to an automatic deal-breaker.

Consider two cases. In a protective structure, Capstone retains responsibility for adjudicated pre-closing arrears and Luca accepts an enforceable 2% NSR only on proven qualifying ground; the acquisition then turns primarily on reserve quality and cash generation. In a buyer-adverse structure, Luca also funds a US$15mn historical settlement at completion and faces annual royalty payments of US$3mn. That adds a US$15mn cash demand plus a roughly US$11.4mn five-year present value, before any post-2030 renewal. This is a meaningful but not necessarily disqualifying economic haircut compared with the proposed acquisition price. By contrast, treating the entire projected US$50mn as an immediate closing obligation would be a substantially harsher—and different—assumption.

The underwriting hurdle should be after-tax unlevered and levered mine cash flow over a validated reserve schedule. Sensitivities should test copper and silver price downside, true royalty-bearing tonnes, the increased Wheaton silver delivery requirement, debt amortisation and refinancing, and the capital needed to maintain underground development. Any premium for mine-life extension belongs in the upside case until resource conversion is independently supported. The mine is worth taking if its net present value after these charges comfortably exceeds Luca's full consideration and financing costs; the public figures alone do not permit a definitive conclusion.

Is Cozamin Still Worth Buying?

A royalty of US$1.5mn–$3.0mn per annum over five years would total US$7.5mn–15mn of undiscounted payments; at a 10% discount rate this equates to roughly US$5.7mn–$11.4mn. These are illustrative future burdens, not verified obligations. Compared with US$290mn upfront deal consideration, that annual quantum would not automatically destroy the mine economics.

More consequential is whether alleged historical arrears are inherited by Luca, whether the attributable production base proves wider than assumed, and what protections appear in the definitive purchase agreement. Any US$50mn lump-sum settlement should be tested as a separate downside case, not added automatically to the future royalty stream (which would double count elements of Royalties Inc.'s estimate).

Royalties Inc: The Portfolio Available to a Buyer

Royalties Inc. owns the Bilbao silver-zinc-lead project in Zacatecas, subject to a separately held 1.5% NSR; its 88% MPZ position represents contingent, but potentially monetizable, Cozamin-related value; and it owns interests in Music Royalties Inc. together with smaller music royalty streams. The issuer's public statements describe a wish to monetise the Mexican mineral project

and build cash-yielding music exposure, not evidence that all mining assets have already been sold. The assets appeal to different purchasers: Bilbao to a silver operator/developer, MPZ to a specialist royalty company or a Cozamin counterparty seeking resolution, and music cashflows to investors comfortable underwriting copyright duration and catalogue concentration.

Potential Buyers and Their Incentives

Luca has a direct economic incentive to secure reporting certainty on Portree, ideally without buying out a royalty at peak copper/silver price assumptions. Capstone has an incentive to settle historical exposure and facilitate closing. A royalty aggregator might pay for MPZ's upside after legal diligence and discount it for the 88% ownership structure, timing, recovery costs and enforceability. A structured settlement or royalty acquisition could unlock value across these parties without pretending the mine and the lawsuit are inseparable.

The Deal That Could Work for All Three

A practical package would:

1. verify registered title and the procedural status of all commercial, criminal and amparo proceedings using Mexican counsel;
2. use an independent mining surveyor to map royalties to concessions and production blocks;
3. reconcile mine-to-mill and shipment data for 2019 onward;
4. agree a fixed or formula-based historic settlement, with named obligor and security;
5. establish prospective royalty statements, audit rights, currency and payment dates; and
6. define whether any later buyout option survives future mine-life extensions.

Such a package allows each party to claim something credible: collection and recognition for MPZ; a cleaner divestment for Capstone; and bankable predictability for Luca.

From Royalties Inc.'s standpoint, insistence on all US$50mn as an immediately payable amount could delay monetisation of an otherwise attractive asset. From Luca's standpoint, dismissing the burden because it is small as a percentage of the overall acquisition price risks weakening title diligence and lender confidence.

And from Capstone's standpoint, closing the sale while leaving the pre-closing question undefined creates the possibility of prolonged post-sale exposure. The commercially superior solution is one that prices the rights precisely and assigns liabilities unequivocally.

Negotiating Priorities

Before closing or a royalty sale, obtain certified current title and court dockets; confirm the *amparo* outcome and right to enforce; reconcile concession boundaries with stope-level production from 2019 onwards; review payable metal and treatment/refining charges; inspect the complete purchase agreement and specific indemnities; specify royalty audit rights and timing of remittances; and run downside cases for copper, silver, remaining mine life and financing costs. Until these items are resolved, the legal and royalty outcomes should be treated as scenarios rather than secured proceeds.

The (Hitherto) Core Assets

Luca Mining has two wholly-owned mines located in the prolific Sierra Madre mineralized belt in Mexico. These mines produce gold, silver, zinc, copper, and lead and generate strong cash flow. Both mines have considerable development and resource upside as well as district-scale exploration potential.

Campo Morado

The Campo Morado Mine hosts VMS-style, polymetallic mineralization containing zinc, copper, silver, gold and lead mineralization. It is located within a large land package comprising 121 square kilometres. It is an underground operation, producing zinc, copper, gold, silver and lead. The mine is located in Guerrero State.

Five deposits have been extensively drilled: G9, El Largo, Reforma, Naranjo and El Rey. The project is comprised of a previously mined underground multi-metal mine with infrastructure, installations and equipment capable of processing 2,500 tonnes of material per day. Farallon began mining operations at the G9 Mine at Campo Morado in April 2009. After Nyrstar purchased Farallon it continued mining operations at G9 mine with some production from the El Largo deposit until production was suspended in January 2015 and the mine was placed on care and maintenance. Just in time for the Zinc price upturn, we might note.

An Added Bonus - Precious Metals Tailings

The Campo Morado tailings facility has a high precious metals content that may, in the future, be reprocessed if an economically viable method for precious metals recovery is developed.

The historic resource estimate (non-NI43-101 compliant) for the tailings derived from previous operators daily metallurgical balance reporting is shown below and gives a good idea of the potential of this otherwise ignored “asset” to contribute meaningfully to revenues.

Campo Morado Tailings

Tonnes	Au g/t	Ag g/t	Cu %	Au ozs	Ag ozs	AuEq
3,290,622	1.57	94	0.3	165,662	9,954,590	298,161

Subject to further testwork, leach recovery of copper, gold and silver from reprocessing existing tailings may be possible.

Tahuehueto

Tahuehueto Mine is a large property of over 100 square kilometres in Durango State. The project hosts epithermal gold and silver vein-style mineralization. Tahuehueto is a newly constructed underground mining operation producing primarily gold and silver. Luca has successfully commissioned its mill and is now in commercial production.

For a very long time the Tahuehueto Project was the main target at Telson. While it is currently in pre-production the deal with Campo Morado has somewhat stolen the limelight.

The Tahuehueto Project is located in north-western Durango State and lies within the prolific Sierra Madre Mineral Belt. The project consists of 28 mining concessions grouped into five non-contiguous blocks that total approximately 7,492 hectares.

Tahuehueto is located in a zone which hosts a series of historic and producing mines and most of Mexico's active exploration and development projects. The project is situated about 25 km north of the Topia polymetallic-silver mine, 65 km northwest of the La Cienega gold, silver, base metal mine, 85 km southwest of the Guanacevi silver district, 280 km southeast of the Palmarejo silver and gold mine and 150 km northwest of the San Dimas mining district, most notable for the Tayoltita silver and gold mine.

Risks

Amongst the risks at the current time are:

- Silver price risk
- Gold price risk
- Zinc price risk
- Failure to force Capstone to resolve its “matter” with RI, potentially leaves Luca with an albatross
- Difficulties or inability to expand resource(s)

The Zinc price has over the last 18 months finally rewarded the stance of those long-term bulls who

foresaw a looming empty pipeline. Despite the "crisis" in Zinc supply being now a reality, the equity markets have not rewarded Zinc developers or even explorers with funding. This implies that the crisis shall roll on. When the Great White Hope of the industry is the reboot of the Century mine one can see that the end-users are clutching at straws. The Zinc price has paused at key levels on its trajectory upwards. The surge to over $1.60 per lb was a bridge too far and retrenchment set in. Now the metal has established a new floor and should start to creep higher in coming months with our near-term goal being a breaching of the $2 per lb mark.

In light of the strongly rising revenue stream at Campo Morado in particular we do not feel it will be difficult to achieve a financing via equity (though this possibility may be to blame for the recent share price weakening) or via debt.

The potential to expand resources looks very propitious in both cases. Due to tight finances Soho/Telson could not undertake the level of drilling it would have liked after the crash of 2008. Thus Tahuehueto could benefit for more exploration and the deposits are open in various directions. Likewise at Campo Morado Nyrstar was a producer not an explorer and did minimal work at expansion of known (or unknown) mineralisations. Beyond these two factors merely recalculating existing resources at new price points for the major metals represented would expand resources. We would also note that Tahueheto already has a 12-year LoM with existing reserves and there are another six million tons of resources that could in the future be upgraded to reserves and add additional LoM.

Conclusion

Cozamin would materially enlarge Luca's operational footprint. But the capital markets are unlikely to reward tonnage alone: the deal must deliver incremental free cash flow after financing expense, silver deliveries and existing royalties, with the Portree claim properly disclosed and resolved.

For Capstone, monetising a mature Mexican mine can release capital for larger strategic projects. For Luca, acquiring an established operating base avoids certain construction risks. For Royalties Inc., a legally confirmed, adequately documented and regularly paid NSR could become an attractive long-duration royalty investment.

We would resist treating Royalties Inc.'s US$50mn stated value as an adjudicated debt. Its own May 2026 schedule splits that amount into US$15mn in estimated historical arrears including assumed interest, US$15mn projected 2026–2030 royalties and US$20mn of post-2030 value. These categories differ in risk, timing and likely legal treatment.

The most sensible endgame may therefore be a negotiated settlement and a clean title/royalty protocol, rather than an indefinite courtroom stalemate. A credible settlement could be beneficial to all parties provided the purchase agreement assigns pre-closing liabilities explicitly and preserves the agreed future royalty burden.

We maintain a constructive view of the strategic rationale for Luca's acquisition, conditional on disciplined financing and adequate protection against undisclosed or insufficiently provisioned legal and royalty liabilities. This commentary does not establish an independently verified 12-month target price.

We added a **LONG** position in Luca Mining to the Model Mining Portfolio in March of 2018. We reiterate our rating on the stock with a twelve-month share price target of CAD$1.32.



Important disclosures

We, Christopher Ecclestone and Joshua Blank Hall, hereby certify that the views expressed in this research report accurately reflect our personal views about the subject securities and issuers.

Hallgarten's Equity Research rating system consists of LONG, SHORT and NEUTRAL recommendations. LONG suggests capital appreciation to our target price during the next twelve months, while SHORT suggests capital depreciation to our target price during the next twelve months. NEUTRAL denotes a stock that is not likely to provide outstanding performance in either direction during the next twelve months, or it is a stock that we do not wish to place a rating on at the present time. Information contained herein is based on sources that we believe to be reliable, but we do not guarantee their accuracy. Prices and opinions concerning the composition of market sectors included in this report reflect the judgments of this date and are subject to change without notice. This report is for information purposes only and is not intended as an offer to sell or as a solicitation to buy securities.

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Hallgarten & Company acted as a strategic consultant to Telson Mining (now Luca Mining) in 2018-2019, but does not currently, and as such was compensated for those services, but does not hold any stock in the company, nor has the right to hold any stock in the future.

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