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Mercenary Alert: The First World's Best Copper Bet

A Special Alert Musing from Mickey the Mercenary Geologist

For Subscribers Only

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I have talked and written on this subject many times before: Good copper projects are hard to find.

I am on the constant lookout but with not much luck over the past few years. There have been few copper plays in my stock portfolio.

That said, my best performing pick since early 2017 has been a copper company.

[Trilogy Metals Inc \(TMQ.AM; TMQ.TSX\)](#) has been under continuous coverage since late May of 2017 and has returned well over a three-bagger over the past 17 months. Witness this chart:



In particular, notice that the stock has continued to prosper since copper hit a 2.5-year high mark of \$3.29 per pound on June 8. In the interim, copper fell as low as \$2.61 and currently trades at \$2.81, down 15%. Meanwhile, TMQ has gone from \$1.51 to as high as \$2.34 per share last Monday. It closed Friday at \$2.08 for a gain of 38 % since early June.

Indeed folks, Trilogy stock has been on an impressive run that has occurred directly in the face of a bear market for copper. Although Dr. Copper's supply-demand fundamentals are strong across the board with record high demand, record Chinese concentrate imports, low warehouse inventories in all three world exchanges, and in supply deficit for 2018, the metal remains in severe futures backwardation ranging from the third to the 20th month contract on any given day.

Quite frankly, bearish speculators are in control of the derivative markets. They are massively net-short and have skewed the copper market to the downside. A stronger US dollar has been a contributing factor, having risen 7% since mid-April while copper has lost 10%.

Given that TMQ has performed so well during a time of falling copper prices, I can surmise that additional upside lies ahead.

Let's take a look at Trilogy Metal's news flow since my last alert on the company after delivery of a pre-feasibility study on its Arctic polymetallic deposit in late winter ([Mercenary Alert, February 24, 2018](#)):

- In mid-April, TMQ completed an oversubscribed bought deal financing underwritten by a trio of North American-based investment banks. It raised \$28.7 million at \$1.16 per share. Participants included those that already held substantial positions such as major miner and joint venture partner South32 Ltd (40%) and private equity funds Electrum (20%) and Baupost (10%). A new fund, Selz Capital LLC, also took down 4% of this placement.
- In late May, the company announced the return of geologist and friend Patrick Donnelly to its management team as VP-Corporate Development and also the hiring of mine engineer Bob Jacko as VP-Projects. Bob is the former mine manager at Teck's Red Dog mine and was previously contracted to TMQ.
- In early June, Trilogy tabled a cobalt resource estimate for the Bornite copper project. The base case inferred resource contains 77 million lbs Co at a grade of 0.019% using a 0.5% Cu cutoff grade. Initial metallurgical test work is encouraging and indicates that 80-90% of cobalt content reports to the copper tails as cobalt-bearing pyrite. This suggests it perhaps can be recovered thru pyrite flotation and subsequent processing.
- In the fourth week of August, the company provided expedited drill results for an intercept in the first deep drill hole at Bornite in 2018. At a copper cut-off of 1.5%, RC18-0247 contains an interval of 16.4 m grading 5.34% copper and 0.21% cobalt beginning at a depth of 792 meters. With South32 financing, it announced expansion of the summer deep drill program at Bornite.
- TMQ also provided progress updates for cobalt metallurgy, a second resource estimate and preliminary economic assessment at Bornite, ore sorting and permitting at Arctic, and the Ambler Mining District Industrial Access Project. Both local governments, the Northwest Arctic Borough and the North Slope Borough, announced their full support for the environmental evaluation of the access road.

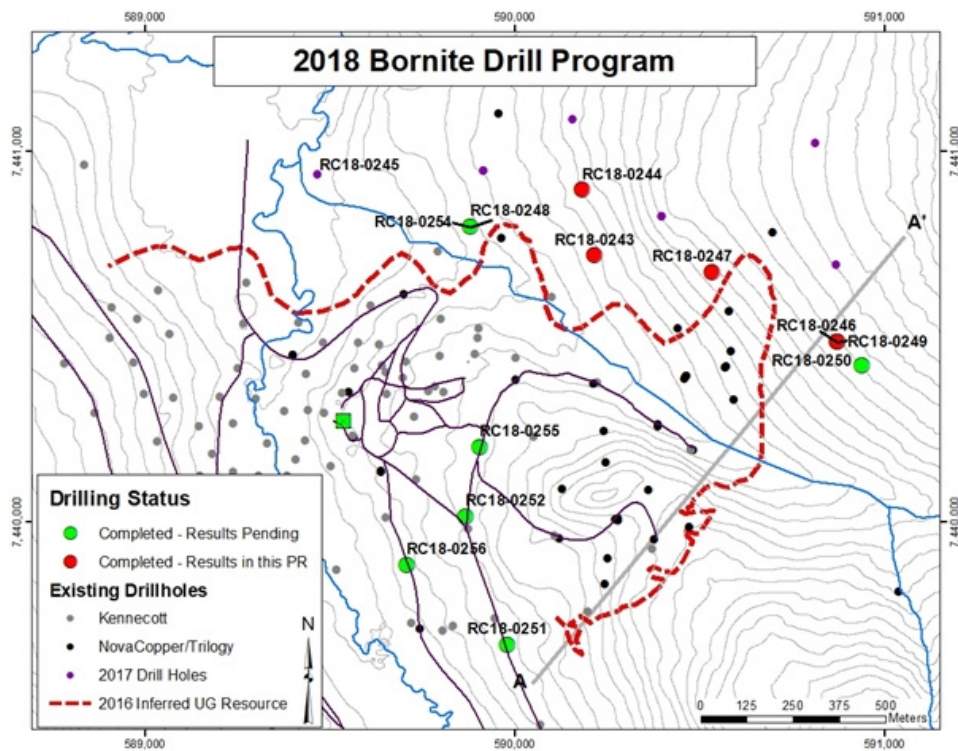
- In early October, the company reported assay results on the first four holes at the Bornite project. At a 0.5% copper cutoff, highlights include:

Hole 246 intersected three intervals with 19.6 metres averaging 2.06% copper, 6.1 metres averaging 2.36% copper, and 7.6 metres averaging 1.04% copper.

Hole 243 intersected one mineralized interval of 2.0 metres averaging 2.23% copper.

Hole 244 intersected one mineralized interval of 20.4 metres averaging 0.83% copper.

Hole 247 intersected two mineralized intervals of 20.1 metres averaging 4.55% copper, including 16.4 meters grading 5.34% copper and 0.21% cobalt, and 33.4 metres averaging 0.82% copper.



The above compendium documents what has occurred at Trilogy Metals Inc over the past eight months. The following is what is expected going forward:

- Assay results from eight holes comprising the remainder of 2018's 10,100 meter Bornite drill program are expected in November and December.
- Initial results from the Arctic ore sorting program are scheduled prior to year's end.
- The National Park Service has published a schedule indicating completion of its final environmental and economic analysis on 20 km of lands within the road access corridor by the end of 2018.

- Metallurgical studies for recovery of both copper and cobalt at Bornite are ongoing with initial results to be delivered in Q1 2019.
- Per the BLM's website, the Draft EIS for the Ambler District Access project is scheduled for the end of March 2019.
- The updated Bornite resource estimate is expected in the first half of 2019 and will soon be followed by a preliminary economic assessment.
- In addition, South32 will announce a decision by year's end on the third and final year of the Bornite exploration option for \$9.2 million. Based on its \$11 million investment in the recent financing, expansion of the 2018 drill program, and current position at 12.5% of outstanding shares, I fully expect this commitment will be made.

These seven items are scheduled for completion within the next one to eight months and are all potential catalysts for incremental increases in Trilogy Metals' market capitalization.

That said, I opine that the most important factor for near-term upside in TMQ's share price is a rise in the copper price. The company's 38% uptick in the wake of a 15% fall in the price of copper over the past four months is impressive indeed.

I wrote on the supply-demand fundamentals of copper last week and the ideas therein form the backdrop for my bullish outlook on prices in the short-term ([Mercenary Musing, October 15, 2018](#)).

When (not if) that happens, I think Trilogy Metals Inc shareholders will be duly rewarded yet again.

Please realize that I am conflicted in my opinions because my hard-earned dollars are invested in the company and I am compensated for coverage.

And do not depend on me as I only inform followers of a portion of my activity in the marketplace. You must do your own due diligence before speculating in any junior resource explorer, developer, or miner.

Ciao for now,

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

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

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

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