Tinka Resources Limited (TSXV: TK)

Improving the mine economics at Ayawilca, Silvia Project on track to begin drilling in H1 2025

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Investment Highlights

- **Tinka Resources Limited (TSX-V: TK; OTCQB: TKRFF; BVL: TK)** ("TK" or "Company") is a junior mining company focused on advancing its high-grade zinc deposit in Peru. The Company's key projects include the Ayawilca Project (Peru) and the Silvia Project (Peru).
- **Enhancing mine economics at Ayawilca:** The Company has identified a number of targets as part of its 2024-25 exploration program, which intends to increase both the size and the quality of the resource. Tinka's program will total 3,000-5,000 meters of step-out drilling at its flagship Ayawilca project. The aim is to improve zinc resources and bring higher-grade mineralization into the middle years of the mine plan, especially around Year 12 in the mine plan, where the existing two pipes drop off.
- **Drilling at the Silvia Copper-Gold project is expected to begin in H1 2025.** In addition to Ayawilca, the Company is prioritizing the advancement of the highly prospective Silvia NW copper-gold target. It is expected to be fully permitted, with an initial drilling program scheduled to commence in the first half of 2025.
- **Attractive valuation:** Tinka is attractively valued, trading at a significant discount (nearly 80%) to our NAV calculation. Ayawilca represents one of the cheapest zinc projects on an EV/Resources basis, at US$8.1/t, versus the peer group average of US$95.4/t.
- **Based on our analysis and valuation models, we update our fair value estimate to C$0.62 per share (earlier C$0.55).**

Key financial data (FYE Sept. 30, C$)	2023	Q3-2024
Cash	$ 7,484,845	$ 3,221,049
Working capital	$ 6,928,774	$ 2,809,347
Mineral assets	$ 68,828,893	$ 71,993,458
Total assets	$ 76,469,942	$ 73,368,830
Net income (loss) for the 3M	$ (469,055)	$ (323,063)
EPS for the 3M	$ (0.00)	$ (0.00)

Current Price (C$)*	**$0.11**
Fair Value	**$0.62**
Projected Upside	**463.41%**
Action Rating	**BUY**
Perceived Risk	**VERY HIGH**
Shares Outstanding	**391,303,927**
Market Cap. (C$)	**$43,043,432**
P/B	**0.58**
YoY Return	**10.00%**
YoY TSXV Return	**20.06%**

* Note: all $ amounts are C$ unless otherwise stated

TSXV: TK Price and Volume History

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Aerial view, Tinka Resources Limited

Tinka Resources remains committed to progressing the Ayawilca zinc-silver-tin project towards development. The Company has identified a number of targets as part of its 2024-25 exploration program, which intends to increase both the size and the quality of the resource. Tinka's program will total 3,000-5,000 meters of step-out drilling at its flagship Ayawilca project. The aim is to improve zinc resources and bring higher-grade mineralization into the middle years of the mine plan, especially around Year 12 in the mine plan, where the existing two pipes drop off. A third pipe-like zinc sulphide body at East Ayawilca (similar to South and West) could improve the mine economics.

The reinterpretation of the deposit's geological model led to a heightened level of confidence in the configuration of key resource areas and a better grasp of the factors influencing mineralization. The assessment identified several exploration targets with significant size and resource quality enhancement potential. Over the next 12 months, Tinka will test one or more of these targets, many of which remain largely untested.

Apart from Ayawilca, the Company is also focusing on advancing the highly promising Silvia NW copper-gold target, which is anticipated to be fully permitted with a maiden drill program to be launched in the first half of 2025.

2024/25 Exploration program aimed at enhancing mine economics at Ayawilca Zinc-Silver Project

Tinka remains confident of considerable resource upside over and above, as demonstrated in the 2024 PEA released in February 2024. The confidence arises from the detailed geological review of the mineralization at Ayawilca conducted during the second half of 2024. The review resulted in a substantial shift in the geological model for the deposit, leading to a heightened level of confidence in key areas of the resource and a better understanding of the mineralization. The review identified several exploration targets with significant potential for both expansion in size and enhancement in resource quality. This includes:

East Ayawilca: The company aims to focus on locating high-quality zinc mineralization in the up-dip and along the strike of previously wide-spaced drill hole intercepts

West Ayawilca: Tinka is seeking to extend the West Ayawilca zinc zone (14.5 Mt @ 5.1% Zn, 14 g/t Ag & 0.2% Pb in Indicated Mineral Resources) to the north.

Silver and Tin zones: Expanding these zones, where mineralization is open in all directions and the zones have largely been untested at depth.

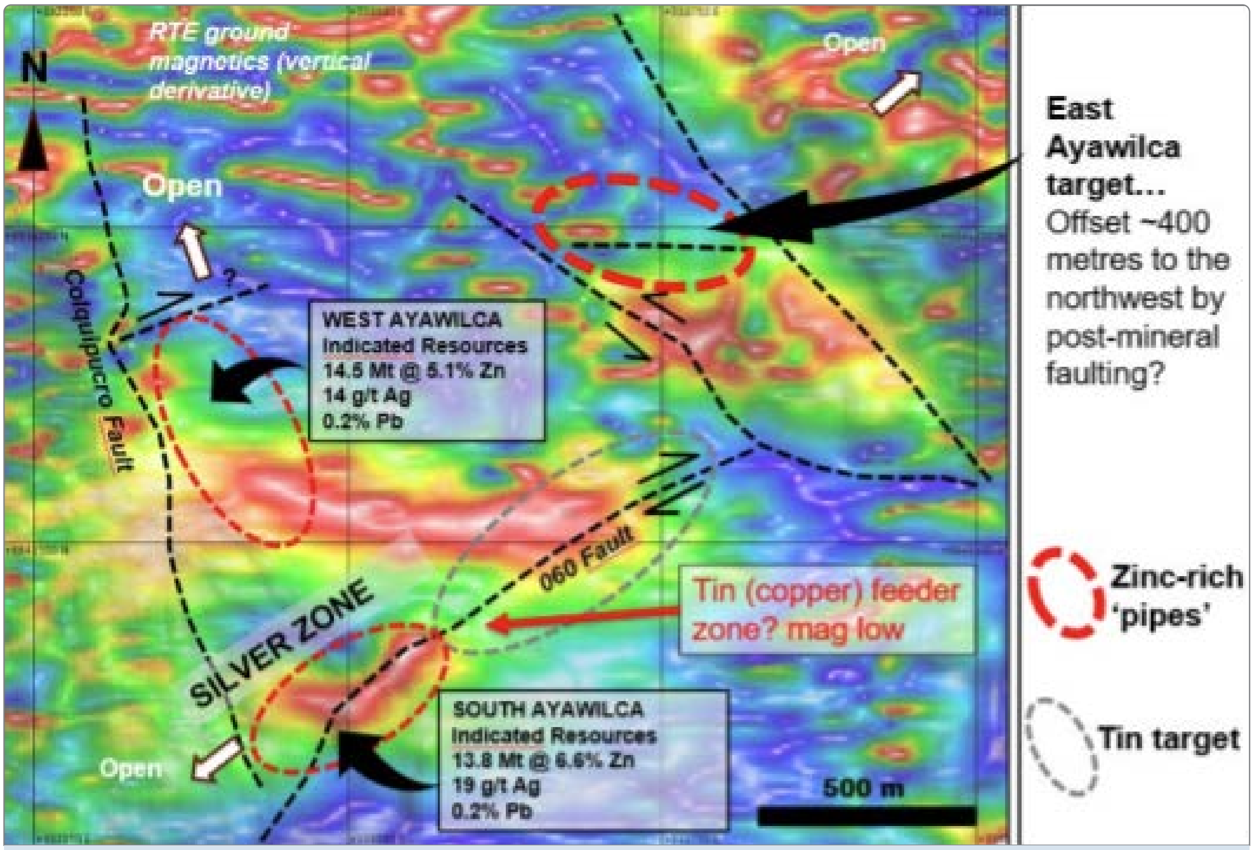
After updating the geological model, Tinka's geological team has reevaluated the entire Ayawilca deposit, focusing on key drill holes and geophysical data. In particular, they have developed a new interpretation for the eastern portion of the deposit, known as the East Ayawilca target. The current interpretation suggests that a post-mineral strike-slip fault, trending northwest, has shifted East Ayawilca approximately 400 meters in that direction (see Figure below). By reconstructing the displacement along this fault, it is proposed that the South, Central, and East areas were likely once connected along the "060 Fault."

The inferred mineral resource at East Ayawilca is currently based on a small number of widely spaced drill holes from 2014 and 2015. These holes intersected mineralization up to 6.1% Zn but were not adequately followed up. With the updated geological model, which reflects a shift to sub-vertical 'pipe-like' structures, there is considerable potential for discovering high-grade zinc mineralization both up-dip and along the strike of earlier drill intercepts.

Similar to East Ayawilca, the West Ayawilca zone is now interpreted to remain open to the north, as a result of a new geological model. The area north of West Ayawilca is interpreted to be cut off and potentially offset by post-mineral faulting. This area has not been drill-tested and could offer potential for high-grade resource expansion.

Additionally, two other zones–Silver Zone and Tin Zone–have not been tested at depth and offer potential for resource expansion. The Silver zone remains open in all directions, extending upwards from previous high-grade drillings (which yielded 12 meters at 781 g/t Ag and 5.2% Zn+Pb) as well as downwards. The zone remains untested at depths shallower than 200 meters. The Tin zone remains open at depth along the '060 Fault.'

Figure 1: New geological interpretation open significant exploration opportunities



Source: Company filings

If drilling is successful, the East area would replace lower-grade Central and South extension zinc areas and bring higher-grade mineralization into the middle years of the 2024 PEA mine plan. This will increase the project NAV. We see it as a potential value accretive catalyst, as it would signal to the market that Tinka's intrinsic valuation is due for a step change.

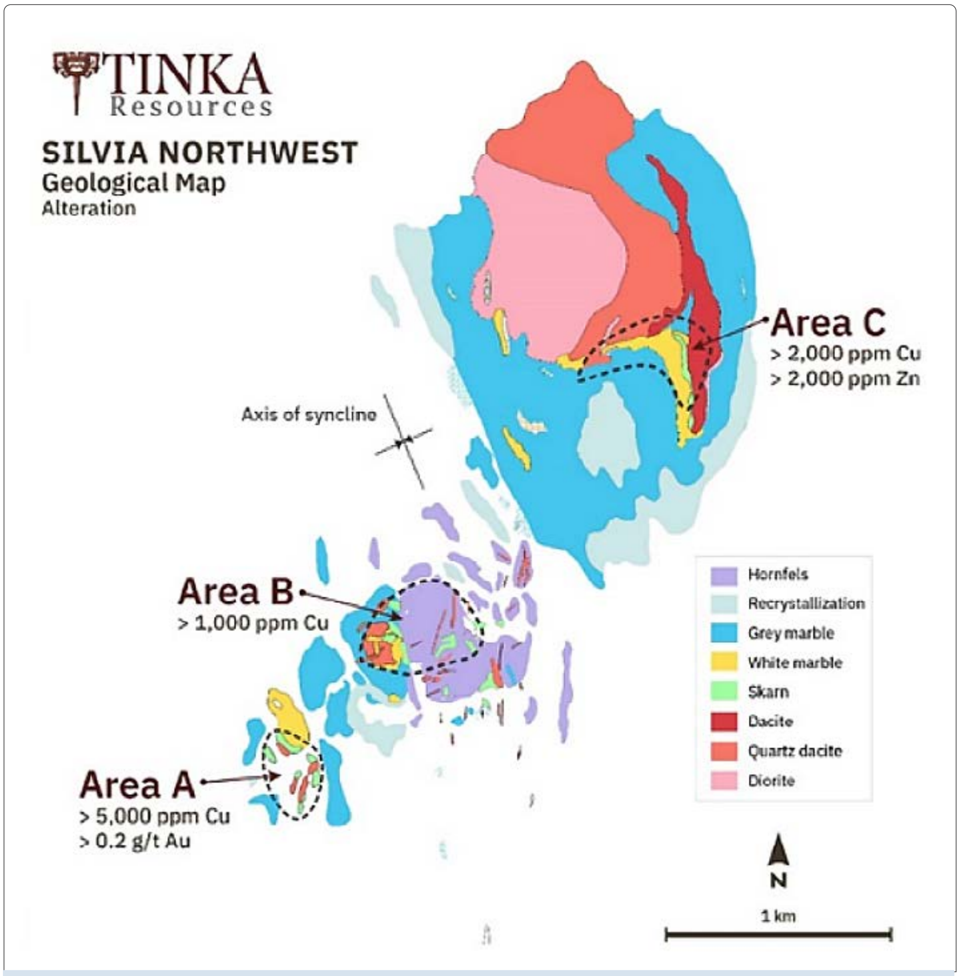
Drilling at Silvia Copper-Gold Project expected to begin in H1 2025

The project consists of 29,500 hectares of contiguous mining concessions held by Tinka. It is located in the Huanuco region of central Peru and immediately adjacent to Tinka's flagship Ayawilca zinc-silver project. The Silvia Project hosts exploration targets believed to be highly prospective for large copper-gold skarn and porphyry copper deposits. The project is near other producing mines such as Antamina, Raura, and Uchucchacua. It is important to note that Antamina is one of Peru's largest copper mines and the world's biggest skarn deposit.

The Silvia Project presents two primary copper prospects featuring exposed skarn formations, overlapping copper concentrations, and geophysical irregularities—the Silvia Northwest Target and Silvia South Target. The project's primary target is the Silvia Northwest Target, which is the focus of current exploration activities.

Silvia Northwest's Target contains Area A, covering 500 by 100 meters, hosting copper-bearing skarn mineralization. The trench samples yielded copper concentrations of up to 2.7% and gold concentrations of 22 g/t over a 2-meter span. The most noteworthy trench sample recorded was 46 meters long, with copper content reaching 0.8% and gold content at 1.9 g/t.

Figure 2: Silvia northwest target—geological map



Source: Company filings

A drone magnetic survey completed at the Silvia NW copper-gold target in 2024 showed multiple magnetic anomalies, suggesting potential associations with mineral-rich skarn formations or mafic intrusions.

Tinka also received approval for the environmental drilling permit (DIA) from the Peruvian authorities in 2024. Discussions are ongoing to secure access agreements for a new drilling initiative. Upon completing the agreements, the company can request governmental authorization to commence drilling operations and apply for a water permit. The potential commencement of an initial drilling program at Silvia NW is anticipated towards the first half of 2025, contingent upon obtaining the necessary approvals.

We believe the new drilling on Silvia will provide further exploration upside to the story and could reset valuations higher.

Financials overview

At the end of Q3-FY2024 (three months ended June 30, 2024), the company had cash and working capital of $3.2M and $2.8M, respectively. The company's current ratio of 6.4x implies the ability of current assets to sufficiently cover current liabilities, implying a strong liquidity position at the end of June 2024. Monthly cash burn (negative free cash flow) for Q3-FY2024 was $0.5M lower than the comparative period in FY2023, mainly on account of the decrease in expenditure on exploration and evaluation assets. The company has no debt as of Q3-FY2024. The following table summarizes the company's liquidity position:

Table 1: Liquidity position

Key financial data (FYE Sept. 30, C$)		2023		Q3-2024
Cash	$	7,484,845	$	3,221,049
Working capital	$	6,928,774	$	2,809,347
Current ratio	$	11.55	$	6.40
Debt	$	-	$	-
Monthly cash burn (3M)	$	(1,040,191)	$	(489,265)
Cash from financing activities (3M)	$	-	$	-

Source: Company, Couloir Capital

The following table outlines the company's outstanding options and warrants.

Table 2: Outstanding options and warrants

Options	Strike	Exercise value
6,897,500	$0.25	$1,724,375
7,900,000	$0.25	$1,975,000
700,000	$0.25	$175,000

Source: Company, Couloir Capital

The company currently has 15.5 million options (weighted average exercise price of $0.25 per share), and no warrants outstanding. At this time, none of the options are in-the-money.

Net asset valuation model

Our models assume the production schedule outlined in the PEA and many of its base case assumptions but incorporate our own assumptions on LOM average zinc, lead, and silver price and discount rate. **Our base case DCF model, which assumes a zinc price of US$1.30/lb, silver price of US$22 per oz, a lead price of US$1.00 per lb, and a discount rate of 12%, implies an NAV per share of C$0.63.**

The sensitivity table below outlines the various NAV per share, given changes in the long-term zinc price or discount rate.

Table 3: Base case DCF model

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049
Zn Payable (Mlb)	-	-	-	-	-	104	174	174	174	174	174	174	174	174	174	174	174	174	174	174	174	174	174	174	174	70
Pb Payable (Mlb)	-	-	-	-	-	3	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	2
Ag Payable (Moz)	-	-	-	-	-	0	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	0
Sn Payable (Mlb)						2	3	3	3	3	3	3	3	3	3	3	3	3	3	2						
Total ZnEq (Mlb)		-				**131.6**	**214.3**	**214.3**	**214.3**	**214.3**	**214.3**	**214.3**	**214.3**	**214.3**	**214.3**	**214.3**	**214.3**	**214.3**	**214.3**	**202.7**	**187.3**	**187.3**	**187.3**	**187.3**	**187.3**	**74.9**
Zn Price ($/lb)		$1.30	$1.30	$1.30	$1.30	$1.30	$1.30	$1.30	$1.30	$1.30	$1.30	$1.30	$1.30	$1.30	$1.30	$1.30	$1.30	$1.30	$1.30	$1.30	$1.30	$1.30	$1.30	$1.30	$1.30	$1.30
Pb Price ($/oz)		$1	$1	$1	$1	$1	$1	$1	$1	$1	$1	$1	$1	$1	$1	$1	$1	$1	$1	$1	$1	$1	$1	$1	$1	$1
Ag Price ($/oz)		$22	$22	$22	$22	$22	$22	$22	$22	$22	$22	$22	$22	$22	$22	$22	$22	$22	$22	$22	$22	$22	$22	$22	$22	$22
Sn Price ($/lb)		$11	$11	$11	$11	$11	$11	$11	$11	$11	$11	$11	$11	$11	$11	$11	$11	$11	$11	$11	$11	$11	$11	$11	$11	$11
Zn Revenue ($)		$-	$-	$-	$-	$136	$226	$226	$226	$226	$226	$226	$226	$226	$226	$226	$226	$226	$226	$226	$226	$226	$226	$226	$226	$90
Pb Revenue ($)		$-	$-	$-	$-	$3	$5	$5	$5	$5	$5	$5	$5	$5	$5	$5	$5	$5	$5	$5	$5	$5	$5	$5	$5	$2
Ag Revenue ($)		$-	$-	$-	$-	$7	$12	$12	$12	$12	$12	$12	$12	$12	$12	$12	$12	$12	$12	$12	$12	$12	$12	$12	$12	$5
Sn Revenue ($)						$25	$35	$35	$35	$35	$35	$35	$35	$35	$35	$35	$35	$35	$35	$20						
Total Revenues ($)		**$-**	**$-**	**$-**	**$-**	**$171**	**$279**	**$279**	**$279**	**$279**	**$279**	**$279**	**$279**	**$279**	**$279**	**$279**	**$279**	**$279**	**$279**	**$264**	**$244**	**$244**	**$244**	**$244**	**$244**	**$97**
Operating Costs($)		$-	$-	$-	$-	$72	$117	$117	$117	$117	$117	$117	$117	$117	$117	$117	$117	$117	$117	$111	$102	$102	$102	$102	$102	$41
EBIT		**$-**	**$-**	**$-**	**$-**	**$99**	**$161**	**$161**	**$161**	**$161**	**$161**	**$161**	**$161**	**$161**	**$161**	**$161**	**$161**	**$161**	**$161**	**$153**	**$141**	**$141**	**$141**	**$141**	**$141**	**$56**
Taxes ($)		$-	$-	$-	$-	$27	$44	$44	$44	$44	$44	$44	$44	$44	$44	$44	$44	$44	$44	$41	$38	$38	$38	$38	$38	$15
After-tax EBIT($)		**$-**	**$-**	**$-**	**$-**	**$72**	**$118**	**$118**	**$118**	**$118**	**$118**	**$118**	**$118**	**$118**	**$118**	**$118**	**$118**	**$118**	**$118**	**$111**	**$103**	**$103**	**$103**	**$103**	**$103**	**$41**
CAPEX($)	$5	$20	$30	$150	$177	$15	$15	$15	$15	$15	$15	$15	$15	$15	$15	$15	$15	$15	$15	$15	$15	$15	$15	$15	$15	$15
CF($)	**$(5)**	**$(20)**	**$(30)**	**$(150)**	**$(177)**	**$57**	**$103**	**$103**	**$103**	**$103**	**$103**	**$103**	**$103**	**$103**	**$103**	**$103**	**$103**	**$103**	**$103**	**$97**	**$88**	**$88**	**$88**	**$88**	**$88**	**$26**
NPV ($)	**$(5)**	**$(18)**	**$(23)**	**$(105)**	**$(110)**	**$32**	**$51**	**$46**	**$41**	**$36**	**$33**	**$29**	**$26**	**$23**	**$21**	**$18**	**$16**	**$15**	**$13**	**$11**	**$9**	**$8**	**$7**	**$6**	**$6**	**$2**

Total NPV (C$)	$244
Debt	$-
Cash	$3
Equity (C$)	$247
Share Count (dil.)	391
NPV per Share (C$)	0.63

Table 4: NAV per share given changes in the long-term zinc price or discount rate

	LOM Zn price assumption (US$/lb)				
	$1.20	**$1.25**	**$1.30**	**$1.35**	**$1.40**
8%	$1.01	$1.17	$1.33	$1.48	$1.64
10%	$0.67	$0.80	$0.93	$1.05	$1.18
12%	$0.43	$0.53	**$0.63**	$0.73	$0.84
14%	$0.24	$0.33	$0.41	$0.50	$0.58
16%	$0.11	$0.18	$0.25	$0.32	$0.39

Source: Couloir Capital

Comparables valuation

We consider Tinka's relative valuation to that of other mining companies that we believe to be comparable. With its flagship Ayawilca project, Tinka's primary exposure is towards zinc. As a result, in this report, we value Tinka on a zinc comparables basis.

The table below outlines our peer group selection:

Table 5: Peer group selection

Company	Location	Net resources [t]	Enteprise value [US$]	EV/ Net resource [US$/t]
Tinka Resources	**Peru**	**3,780,542**	**$30,917,200**	**$8.18**
Volcan Compañía Minera S.A.A.	Peru	17,964,749	$1,124,099,100	$62.57
Compañía de Minas Buenaventura S.A.A.	Peru	18,666,148	$4,168,250,000	$223.31
Nexa Resources	Peru	14,976,475	$2,658,680,000	$177.52
Solitario Resources	Peru & USA	1,555,053	$49,125,000	$31.59
Bunker Hill Mining Corp	USA	799,789	$106,290,000	$132.90
Fireweed Metals Corp	Canada	6,044,962	$160,047,200	$26.48
ZincX Resources	Canada	2,591,028	$11,958,400	$4.62
Emerita Resources	Spain	1,293,000	$121,515,400	$93.98
Group Eleven Resources	Ireland	273,222	$28,993,200	$106.12
Average				**$95.45**

Source: Couloir Capital, Public Disclosures

Based on the above metrics, we believe that Tinka should be trading at a valuation of C$237.8 million or C$0.61 per share on an EV/ Resource basis, implying that the company is trading at a discount to fair value. Note that we have come to the valuations by converting the implied EV to equity via adding cash and removing debt. As the peer EV/Resource is skewed on the top end by more expensive exploration companies that have more developed exploration assets, we apply a 50% discount to the peer group average to arrive at our multiple for Tinka.

Conclusion

After accounting for our valuation models, we have arrived at a fair value per share estimate of C$0.62. This is based on a 50:50 weight to the NAV and Comparable valuations. We maintain our BUY rating and expect the following catalysts to materially impact our valuation estimate:

- Any news regarding advancement toward a pre-feasibility study for Ayawilca.
- Update on the drilling permit at the Silvia property.
- Any news suggesting a delay in exploration timelines.
- Financing-related news that in any way significantly alters the company's capital structure.

Risks

The following outlines some of the key risk considerations that investors should keep in mind when evaluating Tinka as an investment opportunity:

- **Unproven economics and forecast error:** Though the company has an asset with a PEA completed, any projections of future mine economics are subject to significant estimation error. Recoveries have not been proven at a commercial scale, production scheduling is approximated, and biases or errors of various kinds may impact other key inputs to modeling.
- **Execution risk on key development and exploration milestones:** The company is simultaneously working on multiple initiatives, including drill planning, resource update and drill permitting on its various projects. Failure or delays at any key stage can hold back the overall advancement of its projects, especially Ayawilca, to commercial production.
- **Project financing risk:** Any future operation at the Ayawilca project will likely require high CAPEX, especially given the company's current market cap. Pure equity-funded development would likely incur outsized dilution, so the company will likely need to secure a line of debt or other project financing to execute the project construction in the future.
- **Market price exposure and impact on execution risk:** Tinka's exploration and development activities will be sensitive to market pricing during the resource expansion and development stage, given its reliance on markets for funding needs.
- **Capital structure deterioration related to ongoing cash burn:** The company's cash burn could sap liquidity to the point of needing to raise capital. Assuming no cash flows, Tinka could raise capital via equity issuance. Depending on the price of the issuance, such an issuance could be dilutive to existing shareholders.

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