

Fidelity Minerals Corp. (TSXV:FMN)

Corporate Update

Ownership Increased to 50% at Las Huaquillas; Drilling Ahead

July 21, 2021

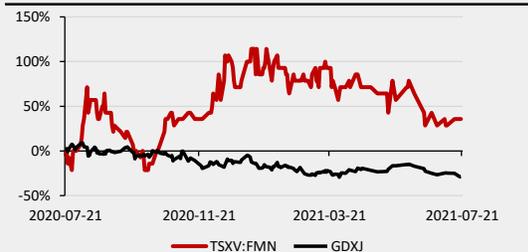
(Currency is CAD\$ unless noted otherwise)

Closing Price (\$/sh)	\$0.10	
Rating	BUY (S)	
Target (\$/sh)	NA	
Return to Target	NA	
52 Week Low / High	\$0.06 / \$0.17	
<b>CAPITALIZATION</b>	<b>Basic</b>	<b>Diluted</b>
Shares Outstanding (M)	59.8	100.4
Market Capitalization (\$MM)	\$6.0	
Enterprise Value (\$MM)	\$3.5	
Cash and Cash Equivalents (\$MM)	\$2.5	
Total Debt (\$MM)	\$0.0	

STOCK CHART



RELATIVE PERFORMANCE



Relative Valuation	EV (\$MM)
Fidelity Minerals Corp.	\$3
Peers*	\$25

\*S&P Capital IQ

MAJOR SHAREHOLDERS

Management (6.3%), Lions Bay Capital Inc. (41.3%)

DISCLOSURE CODE:	3,4
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(Please refer to the disclosures listed on the back page)

Source: RCS, Company Information, S&P Capital IQ

Company Description

Fidelity Minerals Corp. engages in the exploration and development of mineral properties, primarily in Peru. It explores for gold, copper, silver, lead, and zinc ores. The company is advancing its 7,400 ha Greater Las Huaquillas project in the Cajamarca province; its 1,900 ha Las Brujas project in the Cajamarca province; the 500 ha Cerro El Bronce project in the Ancash province; and the 1,200 ha Porphyritic Copper project in the La Libertad province. The company was formerly known as Montan Mining Corp. and changed its name to Fidelity Minerals Corp. in January 2019. Fidelity Minerals Corp. is headquartered in Vancouver, Canada.

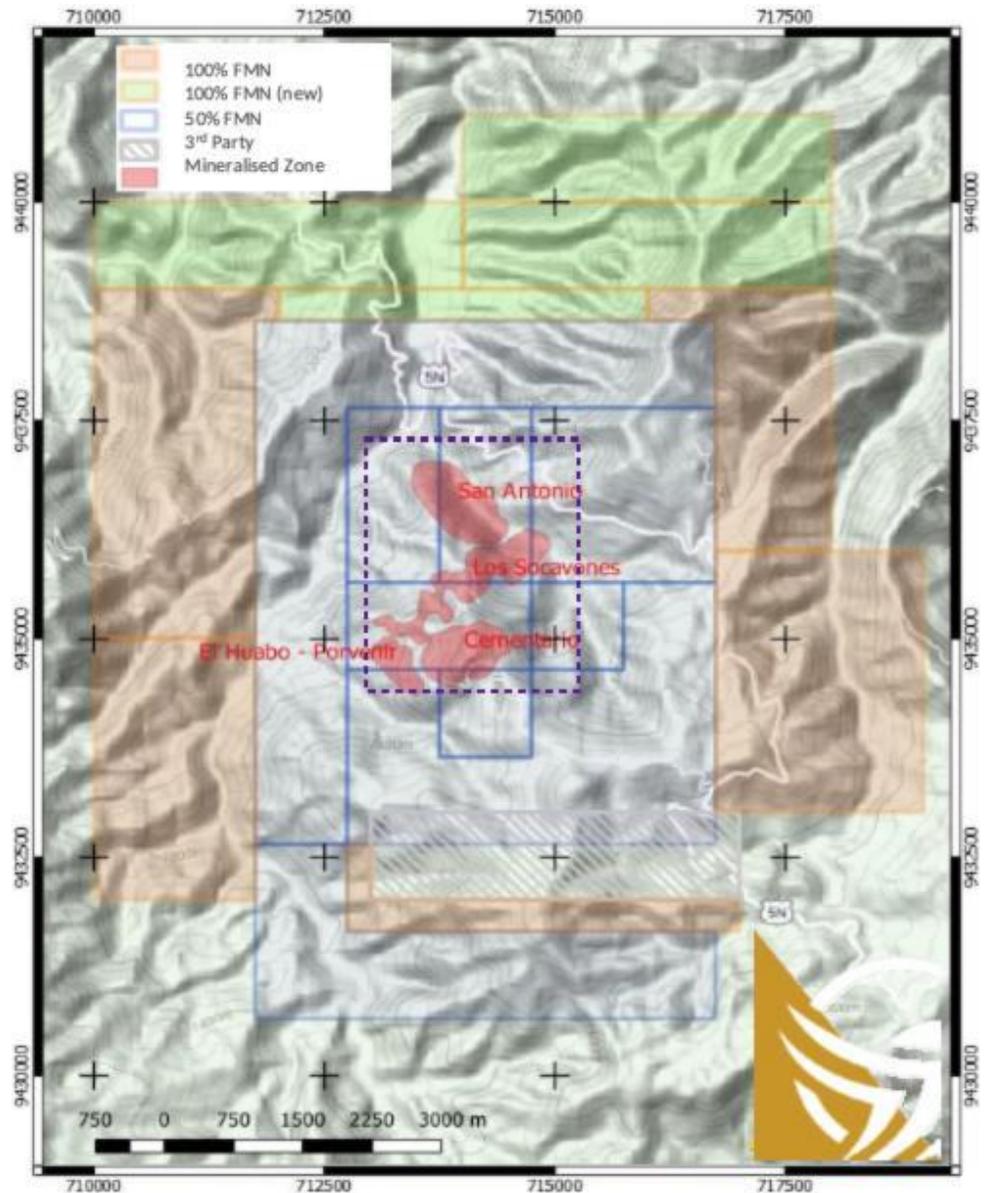
Impact: Very Positive

Fidelity Minerals announced that it is acquiring an additional 5.5% interest in the core area of its Las Huaquillas project (CLH), part of the company's flagship Greater Las Huaquillas project (GLH) in Cajamarca, Peru. In doing so, Fidelity is effectively increasing its ownership of CLH to 50%. **In our view, this is a positive development for the company, as the property is underpinned by a historical resource and a vast library of exploration data, which we expect Fidelity to leverage in its upcoming exploration program. With a 50%-interest in the CLH area, we believe the Las Huaquillas project would be of interest to potential buyers should the company be able to generate positive drill results and define an economic deposit with the planned technical report.**

- Increasing its ownership.** GLH comprises 18 mineral concessions spanning ~7,400 ha. The nine concessions that comprise the CLH property total ~3,600 ha and are now 50%-owned by Fidelity, while the remaining outer claims are 100%-owned (Figure 1). We note that Fidelity has been actively negotiating for increased ownership over the last several months ([read more](#)), and as outlined in our [initiation report](#), we expect Fidelity could work towards consolidating the remaining land package, which we believe should make the project more attractive from a potential acquirer's standpoint.
  - Favourable acquisition terms.** The company is expected to pay US\$500k in two installments: US\$300k upon signing (paid), and US\$200k three months after signing. Additionally, Fidelity is expected to fund up to US\$3M in exploration activities to complete an NI 43-101 report within 18 months of receiving drill permits. Once the report is completed, Fidelity will have earned its 50% ownership in Rial Minera SAC (the owner of CLH), and a JV partnership for the operation and financing of Rial will be established.
  - Exploration plans announced, steady news flow ahead.** The upcoming program is expected to comprise of community relations (ongoing), environmental permitting, mapping and sampling (including underground sampling), metallurgical testing, geophysics, and **5,000-7,500m of diamond drilling to culminate in an NI 43-101 report aimed at declaring inferred resources.** We expect the receipt of drill permits in late-2021 to early-2022, and the NI 43-101 report to be published by Q2/2023. Fidelity has plenty of historical data to work off of; the property has seen widespread exploration since the 1980s, including extensive drilling, underground development, and a historical resource estimate of ~0.5M oz AuEq (see following pages).
- We maintain our BUY (S) rating with no target price.** With an EV of \$3M versus peers at \$25M, Fidelity trades like an early-stage explorer despite having a strong portfolio of assets with significant mineralization as evidenced through historical exploration. We expect a progressive re-rating on the back exploration success across any of Fidelity's projects. **Upcoming Catalysts:** 1) Exploration updates (ongoing), 2) Potential M&A activity, 3) Closing of Cerro Dorado sale (near-term).

**Target areas already identified.** GLH contains a large-scale epithermal Au-Ag system at the Los Socavones zone, and is flanked by two copper porphyries (Cementario and San Antonio). The superposition of the porphyry system is believed to be an important criterion to identify world-class deposits. Two other epithermal prospects, El Huabo and Las Huaquillas, have also been identified on the property.

**Figure 1: Map of Las Huaquillas, showing mineralized zones and property ownership**



Source: Company Reports

**Leveraging a vast library of exploration data.** The Los Socavones zone was the key focus of the bulk of historical exploration (Figure 2). The zone extends for at least 2.2km and has a width of ~100m. To date, only 1,000m of its strike length has been drill tested, up to a ~200m depth. Historical drilling at this zone demonstrates the potential of the system, with the best result being **2.7 g/t Au and 15.3 g/t Ag over 78m** (~53m TW) (LH97-

08). Other notable drilling results are summarized in Figure 3. Recently, Fidelity reprocessed historical geophysical data to produce a 3D magnetic inversion model. The model demonstrated a strong correlation with historical drill intercepts, thus allowing the company to utilize the model to generate potential targets in its upcoming 5,000-7,500m drill program.

**Figure 2: Historical exploration activities carried out by Sulliden Exploration Inc.**

Exploration work carried out by Sulliden (Garipey & Vachon, 1999)				
Type of work	Phase I	Phase II	Phase III	Total
Stream sediment	None	337 samples	11 samples	348 samples
Soil sediment	605 samples	840 samples	None	1445 samples
Rock sampling	None	181 samples	25 samples	206 samples
Line cutting	30.4 km	34.0 km	None	64.4 km
Magnetometry	30.4 km	34.0 km	None	64.4 km
Induced polarization	28.0 km	23.5 km	None	51.5 km
Trenching	36 for 317.1 m	16 for 558.5 m	2 for 70 m	54 for 945.6 m
Trench sampling	156 samples	283 samples	5 samples	444 samples
Road cut sampling length	956 m	425 m	302.5 m	1683.5 m
Road cut sampling	486 samples	213 samples	121 samples	820 samples
Grid rock sampling	29 samples	226 samples	27 samples	282 samples
Grid mapping	30 km	65 km	-	95 km
Relogging/sampling	205 samples	-	-	205 samples
Diamond drilling length	1367.4 m	2647.5 m	1728 m	5742.9 m
Diamond drilling sampling	942 samples	1395 samples	1097 samples	3434 samples
Petrographic sample	71 thin section	10 thin sections	-	81 thin sections

Source: Company Reports

**Figure 3: Significant intercepts from historical drilling at GLH**

Hole ID	Zone	Interval Results
LH97-08	Los Socavones	2.71 g/t Au and 19 g/t Ag over 78m, from surface
PD-2	Los Socavones	8.41 g/t Au and 105.9 g/t Ag over 14m
LH97-04	Cementerio	0.47% Cu and 0.11 g/t Au over 99.5m, including 0.61% Cu and 0.14 g/t Au over 13.5m
LH97-17	San Antonio	0.28% Cu and 0.38 g/t Au over 100.7m, including 0.46% Cu and 0.74 g/t Au over 21m

Source: Company Reports

**Potential to modernize and grow the historical resource.** Sulliden Exploration Inc., a previous operator, concluded its drilling program in 1998 and produced a historical resource estimate for a 500m section of the Los Socavones zone, which delineated **6.57 Mt at 2.12 g/t Au and 25.2 g/t Ag, for 446k oz Au and 5.3M oz Ag**. The deposit remains open in all directions, and importantly, the resource was estimated to a depth of 200m – demonstrating the near-surface nature of the deposit. We also note that base metal content was not included in the estimate, presenting another opportunity for resource upside. A subsequent operator published a report in 2012, which stated “Los Socavones zone alone might be able to demonstrate the potential for between 0.6 million

and 4.0 million gold and gold equivalent silver ounces respectively through future drilling, based on its historic resource estimate and assumed dip and strike length extensions within the current concession boundary.” **While this is a highly speculative statement, we note that delineating a resource even at the lower end of this range could be a gamechanger for a company with such a low EV, and we would expect a progressive re-rating to follow.**

**Re-establishing underground access.** Early exploration at the Los Socavones zone involved ~1,200m of underground development on three levels. Fidelity plans to re-establish these underground workings so that they can be accessed for metallurgical sampling, in support of the NI 43-101 report. This could potentially generate news flow in the interim as it awaits receipt of drill permits and begins drilling.

**Taylor Combaluzier | Mining Analyst**  
**Koby Kushner | Research Associate**  
**Alina Islam | Research Associate**  
**Daniel Kozielowicz | Research Associate**  
**Elie Khazzaka | Research Associate**

**Red Cloud Securities Inc.**  
 105 King Street East, 2<sup>nd</sup> Floor  
 Toronto ON, M5C 1G6  
[research@redcloudsecurities.com](mailto:research@redcloudsecurities.com)  
[www.redcloudfs.com/research-home](http://www.redcloudfs.com/research-home)

Disclosure Statement  
 Updated July 20, 2021

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2021-03-09	BUY(S)	NA	BUY (S)	25%
			HOLD	0%
			SELL / Tender	0%
			NA	5%
			Under Review	2%

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Company Name	Ticker Symbol	Disclosures
Fidelity Minerals Corp.	TSXV:FMN	3,4

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