

Tarku Resources Ltd.

Internal Research Report

Combining geological expertise and data science to reduce uncertainty about mining projects

2022-08-05

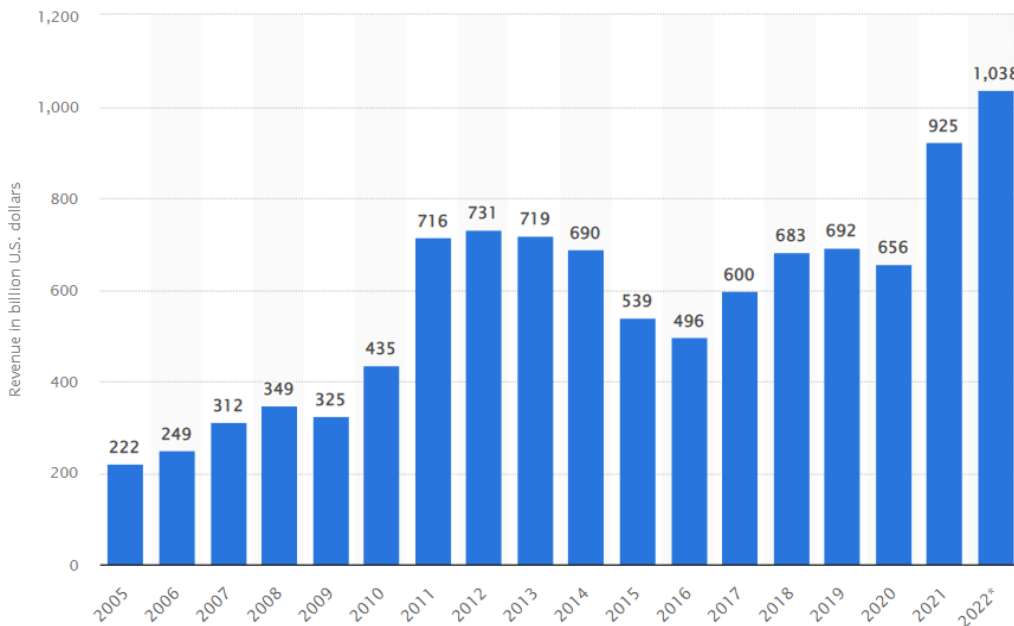


**SCANDINAVIAN
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Gold: real money

In 2020, nature gave humanity resources worth more than \$656 billion in the form of metals such as gold, silver, copper, and zinc. Those metals are vital components in almost all of our electric, electronic, and mechanical systems used in daily life and industries. As several countries around the world have plans to wean themselves off fossil fuels, specific metals such as copper, nickel, and lithium, will become ever more strategic. Other metals like gold and silver will maintain their status as stores of value amid rising inflation rates and social turmoil around the globe. Metals, both base and precious ones, will continue to form the foundation of even the most sophisticated and complex economies, and thus they will remain important for policy makers and investors alike.



Revenue of leading mining companies globally in US billions (with forecast for 2022), Source> Statista

Silver

Silver is among the most prominent precious metals after gold. Because it is the highest conductor of electricity, it is widely used in electronics and solar technology. It is an important input when making mirrors, dental alloys, car finishing, batteries, jewelry, tableware and engine bearings, and it has applications in soldering and brazing, photography, x-ray imaging, and making antibacterial drugs. In the past, silver coins used to be exchanged as a form of money under the silver standard.

The demand for silver today is steady and expected to grow, as people buy silver jewelry and investors hold it as a hedging asset in their portfolios. In 2021, the global demand for silver increased by 19% to 1.05 billion ounces, a six-year high, and analysts predict that demand will continue to grow and reach as high as 1.112 billion ounces in 2022. In 2019, the estimated global silver production was about 27,000 metric tons. In that year, worldwide silver mine production dipped for the fourth year in a row by 1.3% according to the Silver Institute. In 2020, the global supply of silver was about 976.2 million ounces. The mined silver production totaled 784.4 million ounces in 2021 with a 5.3% increase to 822.6 million ounces in 2022, which is below the global demand for the metal.

Silver trends and outlook

In 2020, the price of silver saw a 74% gain and in 2021 it ranged between \$22 and \$28 per ounce, averaging around a nine-year high of \$25.14. However, as volatility increased the price dropped to \$21.72 per ounce on May 23, 2022. The central bank of Australia predicts that the price of silver will hover around \$26.40 until the end of 2022 and then fall to \$22 per ounce by the end of 2023. Scotiabank made similar forecasts. Technical analysis shows that there is growth potential, and the price can reach as high as \$40 per ounce, especially above the \$30 psychological level.

Gold supply

Gold is used for multiple purposes, such as jewelry, investment, and wealth preservation. In 2020, for example, the US held approximately 78.7 percent of its total monetary holdings in the form of gold reserves. In addition, gold is also used in industrial activities like aeronautics and in electronics for circuit-making, plating, protection, and infrared shielding.

Gold mining occurs on every continent apart from Antarctica (although the quantity and quality of supply vary). According to one estimate, the world produced about 3,561 tons of Gold in 2021. The United States had roughly 3,000 metric tons of gold reserves held in mines in 2021. The global supply of gold was 4,490 tons in 2018, with projections stating that it would amount to 4,533 tons in 2023.

Gold producers earned the highest revenues in 2020 when gold price briefly rose above \$2000 per ounce. The first quarter of 2022 saw the US dollar denominated gold price rising again by 8% as it approached the same peak one more time. In that quarter, the demand for gold (excluding OTC) rose by 34% year-to-year up to 1,234 tons. This became the highest gold demand since Q4 2018 and was 19% above the 5-year average of 1,039 tons.

Gold price forecast

There is no consensus among central and commercial banks about price forecasts for gold. Some major global banks expect it to rise above \$2000 by the end of 2023 while others expect an average price of \$1700. Investor sentiment, and the strength of the US dollar, play a key role in determining price movement, but as a general rule, gold remains a wise long-term investment despite short term fluctuations. Even though gold does not generate yield, its intrinsic value makes it desirable for purposes other than investment.

Copper

Copper plays an essential role in the transition towards greener economies and is a critical input in several industries. Due to its properties such as its good electrical conductivity, copper is widely used in making electricity transmission networks. It is also used in plumbing and making cooking ware, kitchen sinks, jewelry, doorknobs and handles, roofing, and alloys. Its various uses and applications ensure the demand for it remains robust despite the large supply volume.

According to the United States Geological Survey (USGS) 2020, the estimated annual global demand for copper is 28 million tons. In terms of supply, Chile remains a global leader. The USA ranks fourth. In 2021, the US produced about 1.2 million metric tons of copper from its mines. Arizona, the best copper-producing state in the US, produced about 70% of the country's copper. Other states like Utah, New Mexico, Michigan, Nevada, and Montana come next.

The World Bank forecasts that the prices of copper will reach an average of \$8,500 per metric ton by the end of 2022. It would then fall to \$7,500 in 2023 and rise to \$8,250 by 2035. However, Fitch Solutions, a market research firm, maintains the view that in 2022 copper prices will trade around an average between 9,285 per ton in 2021 and \$9,200 in 2022. It would then fall to \$8,700 per ton in 2023 and drop further to \$8,400 per ton by 2025.

Zinc

Zinc is vital for human health, and it has multiple uses in industries such as cosmetics. It is used in galvanizing iron, making vitamins, sunblock, pennies, pharmaceutical products, paint, plastic, soap, and fluorescent lights. The demand for zinc is expected to increase from 109,300 metric tons in 2020 to 364,000 in 2030. Solar energy is predicted to form the largest consumer of zinc, accounting for about 162,000 metric tons in 2030. Global zinc production is expected to reach 13.9 million tons in 2025.

Despite the cyclicity of many mineral commodities, their prices are expected to remain supported by demand coming from various industries. Supply gluts may limit spikes in prices, but inflationary pressures and the importance of several metals for low-carbon technologies will ensure an upward pressure on prices.

About Tarku Resources

Tarku Resource is a mineral exploration company that was established in Canada back in 2011. It is currently managing several exploration projects in Canada and the United States.

In Canada, Tarku is working on its Apollo, Admiral, Atlas projects (the 3As) located in Quebec, and the Richardson and Bullion projects in North Quebec, while in the US, it is working on its Silver Strike project in Arizona. In most of these projects several minerals were discovered, including gold, silver, zinc, and copper, among others, which enables Tarku to diversify its exposure and revenue streams, and maximize the utility of its licenses.

As a project generator, Tarku leverages its high-caliber team of scientists and experts who work diligently to reduce risk from the very beginning of the project life cycle (and even before project conception). A gated approach to project management ensures that projects are selected and invested in only when several strict criteria have been met. The management team at Tarku has over 100 years of combined experience in the mining industry, and they, along with the board and other insiders, have a significant stake in the company. Together they hold more than 25% of the company's shares.

Tarku's current valuation is below the average valuation of other junior mining companies. And given that its early explorations have intercepted high grades of silver and other minerals at shallow depths, there is sufficient reason to believe it is undervalued.

Tarku Resources

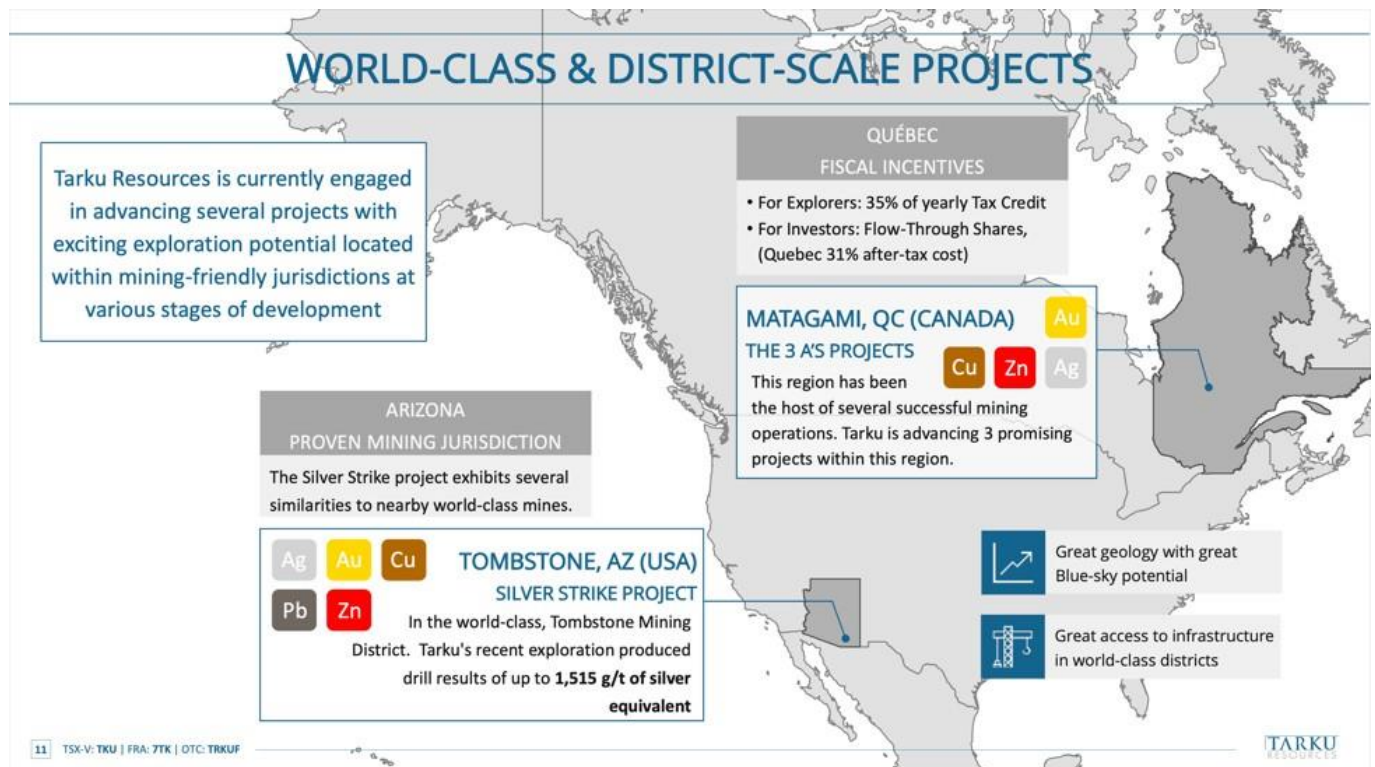
- Founded in 2011 in Canada
- Launched an IPO in 2012
- Market capitalization: \$2.24 million
- Business model: project generator
- Operates in Canada and the US
- Currently listed on three stock exchanges (TSX Venture Exchange, Frankfurt Stock Exchange, and OTC Market Group)
- Tickers: TSX.V: TKU; FSE: 7TK; OTCQB: TRKUF
- Over \$5 million in funding to date

A mature project generation function

Tarku's approach to project generation and selection criteria:

To be able to focus its capital and energy on the most promising projects, Tarku has a mature, rigorous and clearly-defined project generation process that includes several important selection criteria.

- Data-driven and evidence-based project selection process. Tarku makes extensive use of the reliable data about geological structures provided by governmental institutions, especially in Quebec, Canada. By combining this data with its own understanding of the mineralization process, Tarku selects only the projects that are most likely to generate positive results.
- Overlooked areas that have not been explored in depth and breadth by other companies. Tarku's deep geological expertise and advanced exploration techniques enable it to explore areas whose true potential has not been yet fully discovered. Tarku reduces risk by validating its assumptions early in the project lifecycle and choosing the regions where the data indicates the availability of high grades minerals. For examples, some of the projects that Tarku is working on were explored earlier by other companies for metals such as zinc, but not Gold. However, Tarku's models, validated by data, have shown the availability of metals other than zinc at high grades. As such, those projects have now become feasible due to the additional scrutiny.
- Proximity to other successful mining projects. Projects selected by Tarku are usually on the same geological trend as other validated and successful mining project. This significantly increases the likelihood of finding similar high-grade minerals.
- Logistical advantage. Tarku selects projects in areas accessible by land, which improves safety and reduces logistical costs. Those spared resources are then channeled into exploration and evaluation activities.
- Social acceptability. It is a priority for Tarku to gain the local community's acceptance early in the process. This ensures that Tarku gets the support that often makes or breaks mining projects.



Tarku's flagship project

The Silver Strike Project in Arizona

Tarku's Silver Strike Project is located in Cochise County, Arizona, in the famous Tombstone Mining District, an area that is historically rich in metals but whose potential remains largely untapped. The earliest mining activity in the area goes back to 1877 when around 32 million ounces of silver were produced, yet mining activity stopped afterwards due to several disadvantageous factors (such as very low commodity prices, lack of technical capabilities, and the abolishment of the Silver standard). Today, Tarku wants to leverage its modern and advanced technical capabilities to bring this overlooked mining camp back to life. And given that the company is focusing most of its investments on the Silver Strike project, it is likely to reach the production stage earlier than other projects.

Acquisition agreement in 2022

Tarku Resources obtained the necessary license and began its systematic exploration program in the permitted area in 2020, based on an earn-in interest that lasted for 3 years. Then in 2022, the earlier agreement was replaced by an acquisition agreement, based on which Tarku now owns 100% of the 140 mining titles in Tombstone. In exchange, EXLA, the previous owner, received the following:

- a. 7,000,000 Tarku shares,
- b. Debentures comprised of C\$500,000 principal amount of a six percent (6%) convertible unsecured subordinated debenture due in 60 months (5 years),
- c. A first right of refusal (ROFR) allowing EXLA the right to maintain its ownership position by participating in subsequent Tarku financings,
- d. A two percent (2%) NSR on the Property, one percent of which could be repurchased by Tarku for \$1,000,000.



Historic production of the Tombstone mining district

Silver Strike Project	
Location	Tombstone Mining District Cochise County, Arizona
Metals	Silver-Gold-Copper-Lead-Zinc
Stage	Exploration
Ownership	100% owned by Tarku
Land position	1,250 hectares
Exploration activities	<ul style="list-style-type: none"> • 1,515 g/t silver equivalent (AgEq) over 1.5 m hole SS21- 007 (Lucky Cuss), • 264 g/t silver equivalent (AgEq) over 1.5 m hole SS21- 007 (Lucky Cuss), • 262 g/t silver equivalent (AgEq) over 1.5 m hole SS21- 012 (Ground Hog) • Ground Hog grab sample: 2,447 g/t silver equivalent (AgEq) • Ground Hog grab sample: 1,018 g/t silver equivalent (AgEq)

Reducing risks in the Silver Strike project

De-risking factors in the silver strike project

Tarku has identified the following factors which would reduce uncertainty around this project.

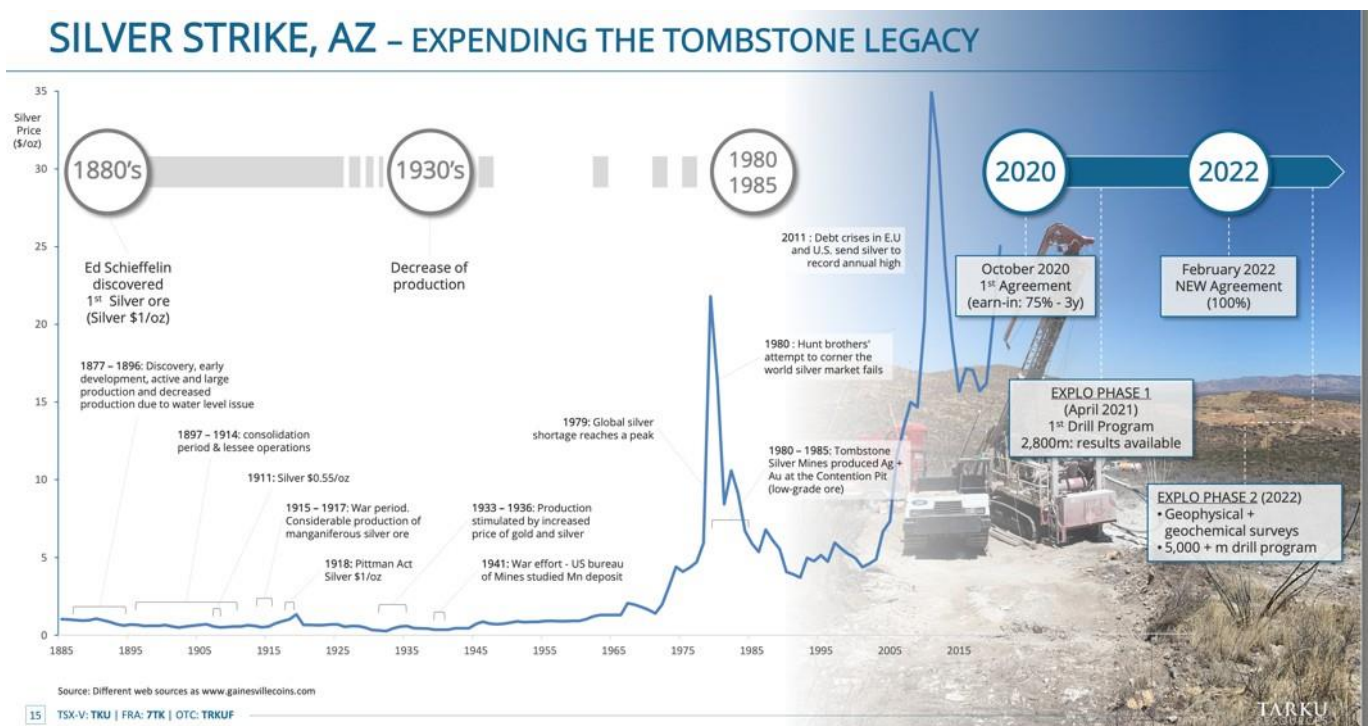
Promising geological context. The project is located in a minerally-rich area. Elsewhere in Arizona Bisbee Group there are significant mines, such as those at:

- Bisbee (2.8 Moz Au, 102 Moz Ag and 7.8 billion lbs Cu);
- Christmas (0.36 billion lbs Cu);
- Magma (0.7 Moz Au, 34.5Moz Ag and 2.5 billion lbs Cu) and;
- Hermosa (360Moz Ag, 5.3mt Zn and 5.9mt Pb). In 2022, South32, a mining company, completed pre-feasibility study (PFS) for Hermosa, located very near to the silver strike project. The study demonstrated the potential for an operation to produce 280,000t of zinc equivalent per annum for 22 years.
- In 2015, Arizona Mining discovered CRD zinc-lead-silver mineralization located 65 km southwest of Tombstone at the Hermosa Project

The silver strike is a poly-mineral project, as it is a carbonate replacement model (CRD). Those models are known to be high-temperature carbonate-hosted Ag-Pb-Zn (gold, lead, zinc) deposits. CRDs also cost less to mine. Earlier exploration activities onsite revealed various grades of lead, zinc, and copper, and silver.

Even though silver was found in the project area, this silver has only been produced from a depth of 200 meters and above. Most of that production was from oxide ores, while the sulphide ores remain largely untapped. During 2022, Tarku is planning a high-definition geophysical survey over the Silver Strike Project, to refine targets ahead of a 5,000— meter drill program. The project still has a lot to offer.

The 2021 drill program at Silver Strike demonstrated the presence of new areas of mineralization with standout results from the Lucky Cuss Trend, with grades up to 1,515 g/t silver equivalent (AgEq) over 1.5 m (SS21-007).



Projects in Quebec

The 3A projects in Mattagami, Canada

In Quebec, Tarku owns 100% of the “Three As” exploration projects (Apollo, Admiral and Atlas Projects), in the Matagami Greenstone Belt, which has been interpreted by management as the eastern extension of the Detour Belt - which has seen recent exploration success by Midland Exploration Inc., Wallbridge Mining Company Ltd., and Probe Metals Inc. In all those projects, Tarku is seeking to build one or several partnerships to advance those projects further.

Project	Apollo	Admiral	Atlas
Location	Matagami area, Québec	Sunday Lake Fault in the Matagami area, Québec	Matagami area, Québec
Metals	Gold	Gold	Gold, Lead, Zinc
Stage	Exploration	Exploration	Exploration
Ownership	100% Tarku	100% Tarku	100% Tarku
Land Position	96 claims (52.7 km ²)	78 claims (43.3 km ²)	74 claims (41.1 km ²)
Exploration Highlights	Gold mineralization similarities with Detour Lake Mine and the Kirkland Lake Mining Camp	Gold mineralization similarities with Detour Lake Mine and the Kirkland Lake Mining Camp	Along the Detour Lake Regional Fault

The geological context in which those projects are located was a key factor that prompted Tarku to look further.

- *The regional structure in which Apollo is located is characterized by the presence of alkaline rocks, polygenic conglomerates (Timiskaming type) and porphyry intrusions bearing anomalous gold values on the order of hundreds of parts per billion (GM 52712).*
- *Admiral project is located at the convergence of the Rivière Waswanipi (RWSZ) and Lac Olga (LOSZ) shear zones. The LOSZ contains the Lac Olga Ouest gold showing (5.9 g/t Au, grab sample, GM 49140) and Newmont’s high- grade deposit Indice Principal zone Olga located 10 km southeast of Admiral (14.75 g/t Au, 1.14% Cu and 10.3 g/t Ag over 1.50 m, GM 50632).*
- *Atlas is located in an environment that is a similar context to the Indice principale, Olga Zone deposit on Goldcorp Canada’s Lac Olga project, adjacent to the south of the Atlas Project and TDEM surveys have been used extensively and successfully to aid in identifying Gold VMS targets like Agnico Eagle’s LaRonde Mine.*

Data analysis and interpretation in the 3As

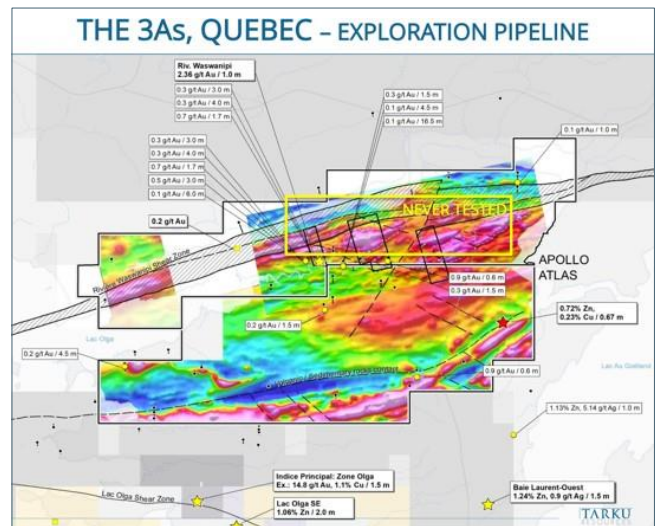
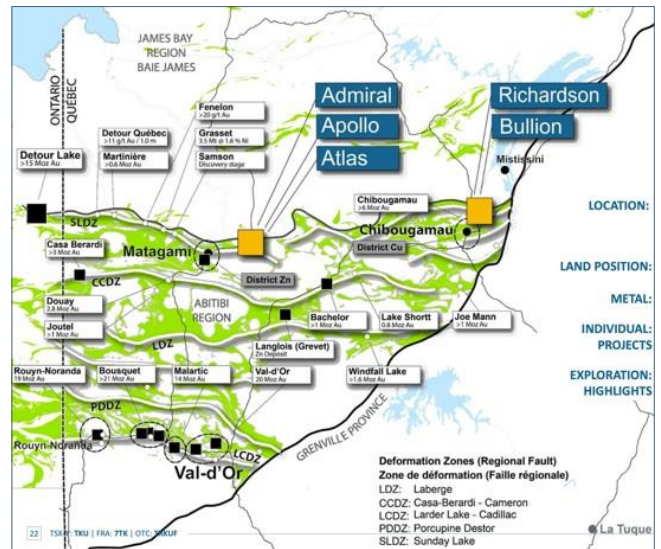
Tarku is using the available data and conducting its own geological surveys to validate its assumptions regarding the 3A projects. Tarku has now commenced a deep-penetration and high-definition IP geophysical survey over priority area on Atlas and Apollo Projects, and a minimum of 3,000-meter drill program is planned to follow this during 2022. The results thus far are highly encouraging.

Apollo

In April 2019, Tarku completed a 271 line-km geophysical High-resolution magnetic survey was completed along the 6 km wide favourable zone along the regional Rivière Waswanipi shear zone. That MAG survey demonstrates:

- Magnetic data shows historical Au values associated with porphyritic and alkaline rocks in historical drill holes are mostly located at the edge of magnetic highs and none of the drill holes directly intersected high magnetic anomalies.
- A correlation between magnetic highs and gold mineralization is interpreted as the nearest Au value to magnetic highs is also the highest Au results on Apollo to date, the Rivière Waswanipi gold showing (2.36 g/t Au over 1 m).
- Several newly discovered large elongated km- wide magnetic highs are interpreted to be syn- deformation alkaline buried dykes swarms or stock intrusions.
- Major NE-SW cross-cutting faults has been interpreted as offsetting other older structures and rocks within the Rivière Waswanipi shear zone.
- A new interpretation of the survey data has generated many high-priority drill targets focusing on structural intersections, interpreted intrusions and historic untested geophysical anomalies.

In May 2021, Tarku completed a 750 line-km combined magnetic (MAG) and time-domain electromagnetic (TDEM) helicopter-borne survey over the main targeted areas of the Apollo and Atlas projects. Flight lines were surveyed at a 100-metre spacing and were conducted by Prospectair (Gatineau, Quebec) and Dynamic Discovery Geoscience (Ottawa, Ontario) aided in interpretation of the mineralized systems and identified new gold and base metals targets within the favourable zone.



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On Apollo, the preliminary analysis of the MAG and TDEM survey clearly demonstrated the extension of the Rivière Waswanipi Shear zone to the east and the west, and all reported metallotects present a favourable setting for Orogenic gold mineralization associated with alkaline rocks and porphyry intrusions, which Tarku interprets as being similar to those of the regional Sunday Lake Fault, host of the Detour Lake mine or the Kirkland Lake Mining Camp. As previously described, Tarku's 2017 till sampling program identified a 6 km wide favourable zone along the regional Rivière Waswanipi shear zone (RWSZ) that may be the source of the gold grains sampled (see press release dated April 10th, 2019).

Admiral

In May 2018, Tarku completed a 294 line-km high-resolution helicopter-borne magnetic survey over the entire Admiral Project. Flight lines were surveyed at a 100-metre spacing and was conducted by Prospectair (Gatineau, Quebec) and Dynamic Discovery Geoscience (Ottawa, Ontario) to improve current interpretations of the mineralized systems and identify new gold targets.

The survey demonstrated a previously unrecognised structural complexity and revealed the presence of numerous secondary structures and major folds in a 1 to 1.5 km wide corridor bordered to the north and south by the two major shears RWSZ and LOSZ (see FIGURE 1). The interpreted data identifies 6 priority drilling targets defined by the intersection of structures, the axial planes of folds, historical electromagnetic Input anomalies and by a non-magnetic signal or low magnetic features which may represent silica-tourmaline alteration zones as observed at the Indice Principal zone Olga deposit.

Atlas

In May 2021, Tarku completed a 750 line-km combined magnetic (MAG) and time-domain electromagnetic (TDEM) helicopter-borne survey over the main targeted areas of the Apollo and Atlas projects. Flight lines were surveyed at a 100-metre spacing and were conducted by Prospectair (Gatineau, Quebec) and Dynamic Discovery Geoscience (Ottawa, Ontario) aided in interpretation of the mineralized systems and identified new gold and base metals targets within the favourable zone.

On Atlas, preliminary interpretations of the MAG and TDEM survey also demonstrated the continuity of the contact between the calc-alkaline intermediate to felsic volcanoclastic (tuff) sequence with the sedimentary rocks, indicating a favourable context for Gold-rich Volcanogenic massive sulphides (Au-Zn-Ag-Cu VMS). The survey also allowed Tarku to identify crosscutting structures where the magnetic pattern abruptly disappears or is displaced.

Projects in Chibougamau

The Bullion and Richardson projects in Chibougamau

The Bullion and Richardson projects in Chibougamau are adjacent to each other with a combined area of over 3700 hectares. Tarku has 100% ownership of both projects and considers them to be high potential projects since they are located in a promising but underexplored geological structure. Despite this, Tarku's resources are more concentrated in other projects.

Exploration work was completed in September 2017 on the Richardson and Bullion projects in the Chibougamau area. Two stripping programs were carried out to follow up on prospecting work and PhySpy ground geophysical surveys conducted earlier. The stripping program generated useful geological data, but the economic value of those feasibility of those two projects needs to be scrutinized further.

Project	Bullion	Richardson
Location	25 Km NNE of Chibougamau	25 Km NNE of Chibougamau
Metals	Gold	Nickel, Copper, Platinum group elements
Stage	Exploration	Exploration
Ownership	100% Tarku, 2% NSR privately held (1% buybackable)	100% Tarku, 2% NSR privately held (1% buybackable)
Land Position	26 mining claims covering 1,435 hectares	42 mining claims covering 2,319 hectares
Exploration Highlights		1.7 g/t AU in grab sample

Risks and risk control

Tarku works diligently on progressive de-risking, which involves gradually reducing uncertainties surrounding its projects as they move forward to more advanced stages. Some of those risks and risk response strategies are mentioned below.

- **Commodity price risk.** Commodity prices have a great impact on the revenues of mining companies as well as their profit margins. The long mining project lifecycle entails that mining companies must accept that risk to a certain extent. Despite this, Tarku relies on two key facts to mitigate the impact of this risk. The first is that in many projects currently led by Tarku, there are strong indications of high grades of different metals, which diversifies the risk of relying on one commodity. Second, Tarku exercises cost control by relying on data and the competence of its geologists and experts in mining. This in turn gives it potentially a good profit margin even at lower commodity prices.
- **Risk of rising cost of capital.** As central banks around the world hike rates to keep inflation in check, the cost of capital has increased. Tarku has raised over \$5 million thus far, which is sufficient to cover the financing needs in the next stages of the Silver Strike project in Arizona. The area seems to be rich in several metals and Tarku plans to accelerate its progress to the production stage to generate revenues as soon as possible. This will help reduce reliance on external funding sources and mitigate the risk of dilution.
- **Risk of human error.** Tarku's management philosophy posits that excellent talent is worth the compensation paid for it, even if that compensation is higher than average. The rationale is that hiring proficient consultants and staff members reduces the risk of human error significantly, and thus it helps the company avoid the associated costs of such errors. For example, Tarku has engaged GoldSpot Discoveries Corp, a company that has a team of distinguished geologists and data scientists to generate targets for drilling in the silver strike project. This has born fruit and the results announced recently from 10 out of 23 drills prove the wisdom of this strategy.



Profit drivers

Financial position

Tarku is junior company with promising projects and rich exploration methods, and it is still in the pre-revenue stage. The company has raised fundings through different means and has a healthy current ratio, which enables it to meet its short-term obligations without additional financing costs. Ownership of the company is concentrated among a few investors and over 50 percent of the company is owned by insiders, management, and their friends and family members. As such, those steering the company have strong faith and a significant stake in its success.

Funding rounds

The company quickly went public in May 2012, one year after its establishment. In 2016, it raised over \$510K by selling more equities. Later in 2017 it acquired Eureka Exploration Inc and then raised another \$610k by selling equities. In 2018, it raised over \$500K in two rounds, then in 2020 it announced the grant of stock options. Later in the same year, the company raised \$785K via a private placement for gross proceeds of \$2,500,000 and raised \$3.28 million by selling equities to Eric Sprout. Tarku resources is currently listed on three exchanges with the following symbols (TSX-V:TKU - FRA: 7TK - OTCQB:TRKU) and it has a market capitalization of C\$2.9 million.

Assets

Most of the company's assets are concentrated in its exploration and evaluation properties, which were worth more than \$1.5 million by the end of Q2 2022. Tarku had cash in the amount of \$145,357 by the end of that period.

Current valuation

Equities in several countries around the world the world are facing a downturn. The market currently values Tarku at C\$2.9 million. The relatively low market capitalization reflects the impact of a hawkish monetary policy environment on the valuations of equities in several sectors.

Valuation levers

The company has several factors that could help it increase its valuation, which are:

- Its ability to leverage sophisticated geoscience and AI in its field.
- Its efficiency.
- Its progressive approach to de-risking projects.

Financial ratio

Value
(as of 5 Aug. 2022)

Total assets	C\$ 1.9 million
Total debt	C\$ 163,517
Market capitalization	C\$5.09 million
Current ratio	2.39
Stock price	C\$0.07
Beta (5 year monthly)	0.14





Summary

Tarku is a Canadian junior mining company with projects in Quebec in Canada and Arizona in the US in areas that are historically known to be rich in minerals but are largely overlooked. The scientific evidence that Tarku gathers continuously help it curtail the risk profile of its projects. It also helps the company carry out exploration activities with high precision. This precision translates into efficiency and helps the company reduce costs and maximize its future earnings.

The political and economic environment in Canada and the US is conducive to growth and expansion, despite the likelihood of a looming recession. A longer-term view shows that metals like copper and nickel are vital for the transition towards greener economies, and gold and silver are natural stores of value. As such, there is little risk about the demand for those metals. The remaining uncertainties regarding the resource estimates of the current projects in Canada and the US will maintain a pressure on the share price until they are materially reduced. As Tarku announces further encouraging results of its exploration programs, the price will likely react positively. At the current share price, Tarku has the biggest room to grow, offering investors a good entry point.

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