



**TAKADA**  
Asset Management

The background of the slide is an aerial photograph of a city skyline, with the Empire State Building being the most prominent structure on the right. The image is partially obscured by large, overlapping geometric shapes: a large red triangle in the top left, a grey triangle in the bottom left, and a red shape on the right. A white line with rounded ends runs diagonally across the lower half of the image.

# IRON ORE DUE DILIGENCE PROJECT

9900 Spectrum Drive,  
Austin, Texas 78717-4555  
United States



## TAKADA Asset Management

April 3, 2020

### **FINANCING & DUE DILIGENCE REPORT**

On February 18, 2020, as part of a potential short-term capital raise consideration for an iron-ore project owned and operated by GRUPO MINERO GOLDEN ROCK MEXICO S.A. de C.V., , TEXCO METALS financial advisers commissioned TAKADA ASSET MANAGEMENT Consultants to analyze and review the iron ore project for a potential capital raise that would cover the operating expenses required to deliver ore material to the end-user.

The financing of GRUPO MINERO GOLDEN ROCK MEXICO S.A. de C.V. did not proceed due to several factors, including, but not limited to the overall deterioration of credit markets due to COVID-19 as well as a determination that the capital available for the project would not satiate the buyer demands and thus counter-party and default risk would be at unacceptable levels.

GRUPO MINERO GOLDEN ROCK MEXICO S.A. de C.V. ("GRUPO MINERO") key commodity exposure considered for this financing is strictly based on the 62% Fe, CFR China ("62% Fe index"). Buyer and end-user information was withheld for confidentiality reasons, but the iron-ore grade and specifications for GRUPO MINERO's mined and analyzed ore, falls below the 65% Fe requirements, based on the SGS provided reports.

The premium for the 65% Fe index compared to the Platts index for 62% Fe, CFR China has been maintained and held steady even with the COVID-19 global pandemic. The average price of the 65% Fe index from January 1, 2020 to February 17, 2020 was slightly above US\$103, the same as the average of the 65% Fe index for 2019. However, China continues to represent over 72% of the total demand for seaborne iron ore and it is unclear what the long-term effect of the Corona-virus ("COVID-19") will be on iron ore prices. From January 24, 2020 (the first day of widespread concern about COVID-19) to February 17, 2020 the average price of the 65% Fe index dropped from US\$105 to US\$100, while the 62% Fe Index dipped to the mid US \$80's. (<https://www.indexmundi.com/commodities/?commodity=iron-ore>)

GRUPO MINERO GOLDEN ROCK MEXICO S.A. de C.V. continues to hold the Papanoa II project in semi-idle state whilst investigating opportunity for project synergies within TEXCO METALS.

- ENDS -

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## **About TAKADA ASSET MANGEMENT**

TAKADA Asset Management ("TAM") is a multi-disciplinary, multi-lingual, multi-national financial services firm offering specialization in a broad range of industries and sectors including funds, mining, oil & gas, capital markets, M&A, business development and regulation & compliance.

TAM's predominant focus is in the natural resources and energy sectors. TAM's investment bankers have worked with some of the leading private equity firms in the world including Goldman Sachs, Merrill Lynch, Morgan Stanley, and BlackRock, in various transactions and advisory roles.

TAM has also been appointed Adviser to the TAKADA Absolute Return Fixed Income Fund in 2018. It advises the fund manager on portfolio management, risk diversification and global marketing.

## **Qualified Team**

This report is based on information compiled and reviewed by TAKADA ASSET MANAGEMENT team of consultants and advisers who have vast experience in the area and activity in the undertaking of this report. TAM consents to the inclusion in the report of the matters based on their information in the form and context in which it appears while clearly stating that the most of the information utilized originated from third party sources.

## **Cautionary Statement**

No capital markets exchange, securities commission or other regulatory body accepts responsibility for the adequacy or accuracy of this report or has approved or disapproved the information contained herein.

Certain statements with respect to this report might be considered to be forward-looking statements. There can be no assurance that GRUPO MINERO GOLDEN ROCK MEXICO S.A. de C.V, FINBEX S.A. de C.V., TAKADA ASSET MANAGEMENT Inc.or any other party mentioned in this report will develop the ferrite mineral properties or will execute the financing as currently expected. There can also be no assurance that the assumptions and financial projections carried in this report will be able maintain relative levels or be immune to global and local market volatilities. Circumstances and TAM's estimates or opinions could change. The reader is cautioned not to place undue reliance on forward-looking statements.



## TAKADA Asset Management

### FINANCING & DUE DILIGENCE REPORT

MARCH 2020

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This report has been prepared by TAKADA ASSET  
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# 1. Summary

## 1. *Introduction*

This report provides an overview of GRUPO MINERO GOLDEN ROCK MEXICO S.A. de C.V.'s ( GRUPO MINERO) Papanoa iron-ore El Calero mining project located in the state of Guerrero, in southwest Mexico.

An aphoristic description of each of the key technical and financial areas of the project, including the potential financing scheme is presented, along with brief commentaries which present TAM's review of each area. These sections are identified in order to differentiate project summary from expert opinion.

The main source of documents used as reference by TAM in this work were provided by GRUPO MINERO management during the mine site visit but also includes primary research and work by the supporting consultants. The details behind their sources are contained in the corresponding section where provided.

## 2. *Terms of Reference*

TEXCO METALS reached out to TAM as an independent financial expert ("IFE") and as a possible short-term financier for working capital requirements. TAM currently oversees and advises a fixed income investment fund domiciled in the European Union. However, the fund mandate does not allow for direct investments in emerging markets, and thus TAM needed to source and structure the capital raise from alternate third parties .

TAM contacted Mr. Javier Torres, CEO and largest shareholder of FINBEX Financial Group. FINBEX has worked with TAM on a couple of other projects and given the particulars of the transaction, TAM believed a short-term credit facility could be a viable option for FINBEX.

TAM, together with FINBEX, is considering a number of financing options for the project, and the IFE's report is intended to provide a background to these financing options by giving a concise summary of the financial aspects of the project, along with a summary of the main risks inherent in the project. Thus this report represents more of a financial due diligence, rather than technical due diligence, which may be used to assist financing or as a submission to the Credit Committees of potential lending institutions. TAM has appointed a number of associates to provide expert opinion in certain areas, particularly logistics and infrastructure, but takes overall responsibility for the conclusions in this report.

While the report covers most financial aspects and certain technical aspects of the Papanoa II project, a number of areas are specifically excluded, viz:

- ◆ TAM was not required to validate the financial and good standing status of mining concessions, tenements, and permits held by GRUPO MINER. Nonetheless, TAM consultants did verify the mining concessions validity at the state mining registrar.

- ◆ A full review of any financial model was not required: however, a critical analysis of the key financial inputs was required in order to analyze the financial feasibility of the capital raise project and thus the default risk.

- ◆ TAM was not required to opine on iron-ore forecasts nor USD-MXN exchange rate fluctuations, but correlated risks are mentioned within the report.

- ◆ TAM undertook this work along with a number of associates. The various sections of the report and the oversight thereof are detailed in Table 1.1.

Table 1- IFE Report - Areas of Oversight

Areas of Report	Areas of Oversight
Overall compilation, review and editing, Capital Raise review, project management and liaison	Oscar Mendoza, TAM
Logistics and infrastructure, general ore reserve review, general mine plan review, operational aspects of the project	Fernando Garcia, Independent
Financial forecasts, financial model, cost benefit analysis, credit default risk, quantitative analysis of cost overrun	Vivek Kumar, TAM
Legal and Compliance	Joan Donnelly, TAM

### 3. Summary of Compiled Risks

A careful review of project risks, using the semi-quantitative approach detailed in Canadian Standard National Instrument 43-101 along with detailed commentary, is presented in this report. A conscientious risk assessment, considering a variety of project parameters, the probability, the impact, and the overall risk rating is presented in the report. A summary of those risks, by major project area, is presented below in Table 2.

Table 2- Risk Summary by Area

Project Area	Overall Risk	Comments
Environmental/ Permitting	Low	Operating and mineral extraction permit is valid and in good standing. Land surface access rights granted, which is usually the biggest problem in Mexico. Water access & community concerns are minor and have been addressed by GRUPO MINERO.
Operational	Low-Medium	Costs may be higher than budgeted, particularly as certain quoted figures are at least a year old. Sufficient availability of experienced workforce in local area that can carry out the vast majority of tasks in order to mine 90,000 mt per month.
Infrastructure	Medium	Road access to mine mouth has been cleared and improved. Water management and civil earthworks maintain the optimal road conditions. Power utilities are not needed at this stage. There could be possible mechanical delays and supply problems, but not insurmountable.
Mineral Resources and Data Quality	Medium	Data collections are at sub-par levels. There is no JORC nor 43-101 drilling report. The risk is at "medium" as there should be sufficient ore for roughly 1 million mtpa, or equivalent to 90,000 mt per month. Beyond that figure, the risk should escalate as the estimation was carried out without sufficient drilling and without using industry standard techniques nor internationally certified consultants.

Ore Reserves, mine planning, mine schedule	Medium-High	The Ore Reserve is NOT based on 43-101 nor JORC industry standard. The drilling schedule utilized thus far is lacking depth and scope, particularly subsequent bore holes that illustrated higher ore content. The mining schedule lacks sufficient flexibility and does not properly account for the possibility of expanding below the current road surface area to access another iron-ore seam.
Capital & Operating Costs	Low-Medium	Capital costs provided seem reasonably calculated with third party quotes. Contingency and scenario forecasts are missing particularly as expansion needs to be accounted. Mining operational costs are estimated from first principles. Main components of operating costs (fuel and labor) are likely to be stable.

#### **4. Financing Feasibility Review**

One of TAM's mandated objectives was to assess the possibility of raising capital for the extraction and delivery of the iron ore. The on-site due diligence was required in order to confirm and answer the main questions impacting the financial viability of the capital raise:

- Is there evidence that the entire mining inventory can be processed at the quoted recovery rate and costs to produce the assumed quality and quantity of product?
- Is there adequate support for the mining inventory included in the financial model?
- Is there evidence to support cost assumptions?
- Is there anything that can stop the mine from proceeding, and are there mitigating steps?

While answering the above questions, we were able to identify in greater detail the following:

- ❖ Key aspects of the project
- ❖ Viability of continued investment in the mining project
- ❖ Technical, commercial and Financial recommendations regarding the project
- ❖ Identifying areas of risk

TAM believes that GRUPO MINERO has covered certain technical, commercial and financial areas of the project (within the areas of TAM's brief) and that the supporting documents presented and reviewed by TAM merit serious consideration for financial support, as long as certain risk characteristics are properly mitigated. TAM, as IFE, has identified some of these areas of risk, and in our comments relating to a draft of this report, we highlighted how some of these risks can be properly addressed.

#### **5. Report Disclaimers**

TAM has based its findings upon information made known to it as at 31 March, 2020. TAM has endeavored, by making reasonable enquiry of GRUPO MINERO, to ensure that all material information in the possession of GRUPO MINERO has been fully disclosed to TAM. However, TAM has not carried out any type of in depth audit of the records of GRUPO MINERO to verify that all material documentation has been provided.

This report is being provided to TEXCO METALS for comment in respect of omission and factual accuracy, and this report reflects TAM's comments.



TAM has prepared this report on the understanding that all GRUPO MINERO's granted mining concessions are currently in good standing and that there is no cause to doubt the eventual granting of any operational permit applications, should they be required. TAM has not attempted to establish the legal status of the mining concessions within each project area with respect to potential environmental and access restrictions, but confirmation of existence in Mining Registrar has been executed. TAM also has not independently verified ownership and the current standing of GRUPO MINERO's shareholder agreements, board resolutions, or any other relevant corporate resolutions, and TAM is not qualified to make legal representations in this regard.

TAM is an independent advisory firm which provides specialist mining industry consultancy services in the fields of finance, management, risk assessment, mining information technology and corporate services. The company, with its principal office at 9900 Spectrum Drive, Austin, Texas 78717 -4555, United States of America, also operates from home offices in London, Kuala Lumpur, Dublin, and Dubai. TAM has acted as Independent Financial Experts and consultants on a variety of projects covering a range of mineral commodities and energy projects in several countries.

Neither TAM nor those involved in the preparation of this report have any material interest in GRUPO MINERO or in the mineral property considered in this report. TAM has been remunerated for the expenses required to prepare the report by way of a retainer fee that covered flights, meals, and hotels for the consultants involved in the preparation of the report. The fee was not contingent on the outcome of this report.

TAM and its associates confirm that all reasonable care has been taken to ensure that all information contained within this IFE report is, to the best of its knowledge, in accordance with the facts and contains no omissions likely to affect its findings.

## 2. Project Overview

### 1. Introduction

Golden Rock México S.A. mining group de C.V. is a company founded in 2014, whose purpose is the elaboration and development of mining projects in the Mexican Pacific, with the purpose of extracting various minerals, currently iron ore, with adequate values for their commercialization within and outside the country.

To this end, the company has trained technical personnel to prepare extractive and concentration projects for the different conceivable minerals in Mexico.

There are also different mining concessions, authorized by the Ministry of Mining and in supposed good standing. These concessions are located in the states of Guerrero and Michoacán, México.

Table 3- Granted Mining (and Exploration) Concessions

MINE	SITE MINERALS	LOCATION	ORE RESERVES *
1.- La Fortuna** (Exploration)	Silver, Lead, Iron	Mochitlán, Guerrero	2'500,000 mt
2.- Santa Rosa	Iron Ore & Gold	Quechultenango, Guerrero	2'500,000 mt

3.- Papanoa III	Iron-Ore	Petatlán, Guerrero	Unknown
4.- Papanoa II	Iron-Ore	Petatlán, Guerrero	2'000,000 mt
5.- Papanoa II- First Section	Iron-Ore	Petatlán , Guerrero	2'000,000 mt
6.- Papanoa II- Expansion	Iron-Ore	Petatlan, Guerrero	1'000,000 mt

\* Ore reserves are NOT based on National Instrument 43-101 or JORC internationally accepted standards. These reserves should be considered as inferred resources.

\*\* La Fortuna is an exploration concession with an expiry date of 2007.

Below are the original scanned copies of the aforementioned mining and exploration licenses.

Figure 1- La Fortuna Exploration Concession- Deed # 213331

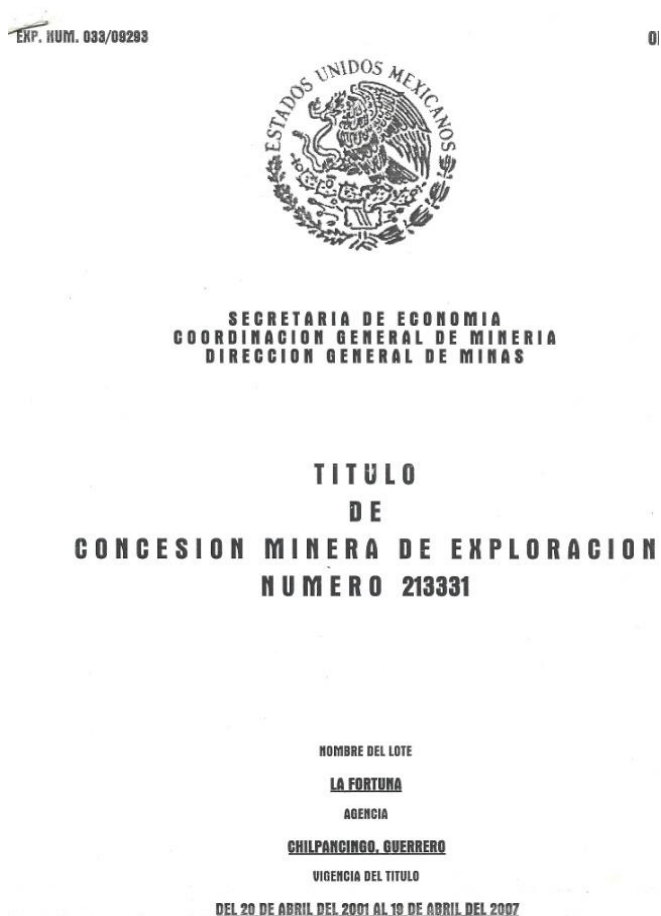


Figure 2- Santa Rosa Mining Concession - Deed # 209809

ORIGINAL

ESTADOS UNIDOS MEXICANOS

SECRETARIA DE COMERCIO Y FOMENTO INDUSTRIAL  
COORDINACION GENERAL DE MINERIA  
DIRECCION GENERAL DE MINAS

**TITULO  
DE  
CONCESION MINERA  
DE EXPLOTACION**

NUMERO	AGENCIA	EXP. NUM.
209809	CHILPANCINGO, GRO.	5/13/227
NOMBRE DEL LOTE		
SANTA ROSA		
VIGENCIA		
DEL 9 DE AGOSTO DE 1999	AL 8 DE AGOSTO DE 2049	

Figure 3- Papanoa III Mining Concession- Deed # 237080

L. 033/10142 ORIGINAL

ESTADOS UNIDOS MEXICANOS

SECRETARIA DE ECONOMIA  
COORDINACION GENERAL DE MINERIA  
DIRECCION GENERAL DE MINAS

**TITULO  
DE  
CONCESION MINERA  
NUMERO 237080**

NOMBRE DEL LOTE

PAPANOA III

AGENCIA

CHILPANCINGO, GUERRERO

VIGENCIA DEL TITULO

DEL 29 DE OCTUBRE DEL 2010 AL 29 DE OCTUBRE DEL 2060

Figure 4- Papanoa II Mining Concession- Deed # 236920

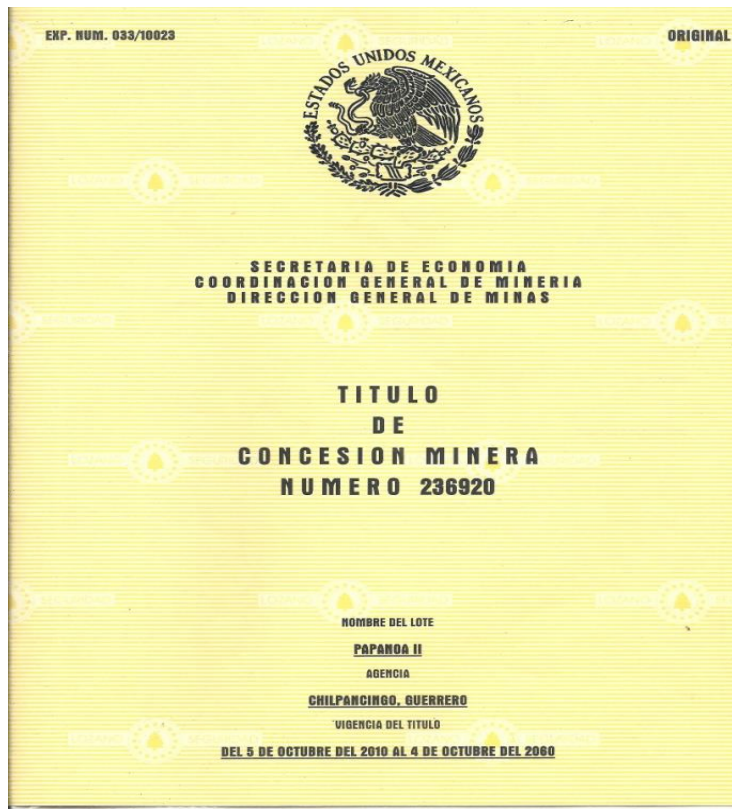


Figure 5- Papanoa II Section 1 Mining Concession- Deed # 236692

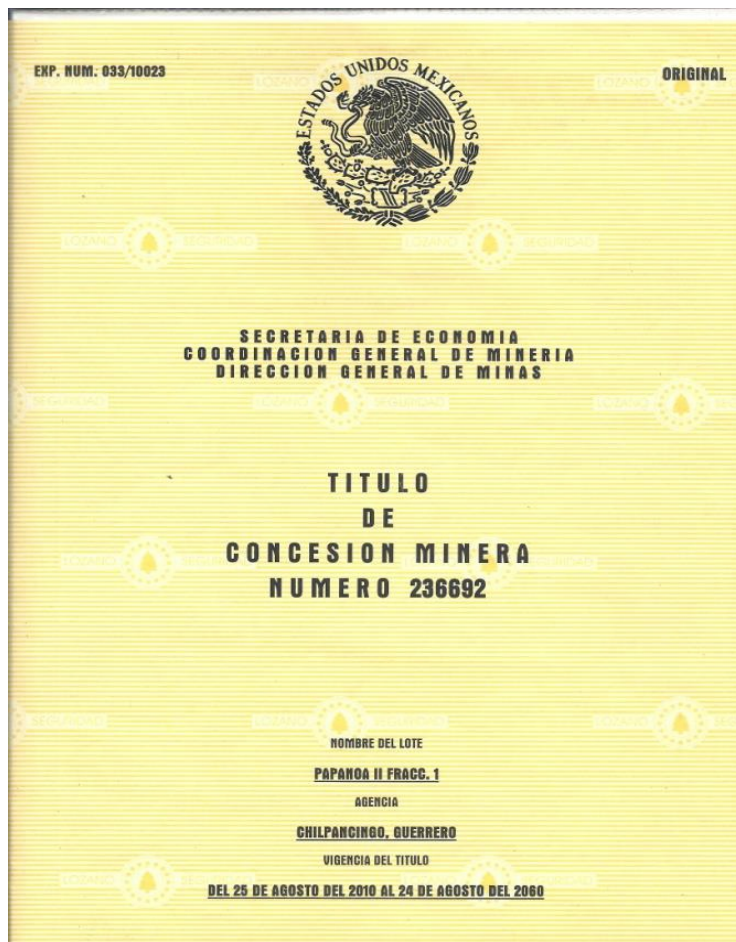
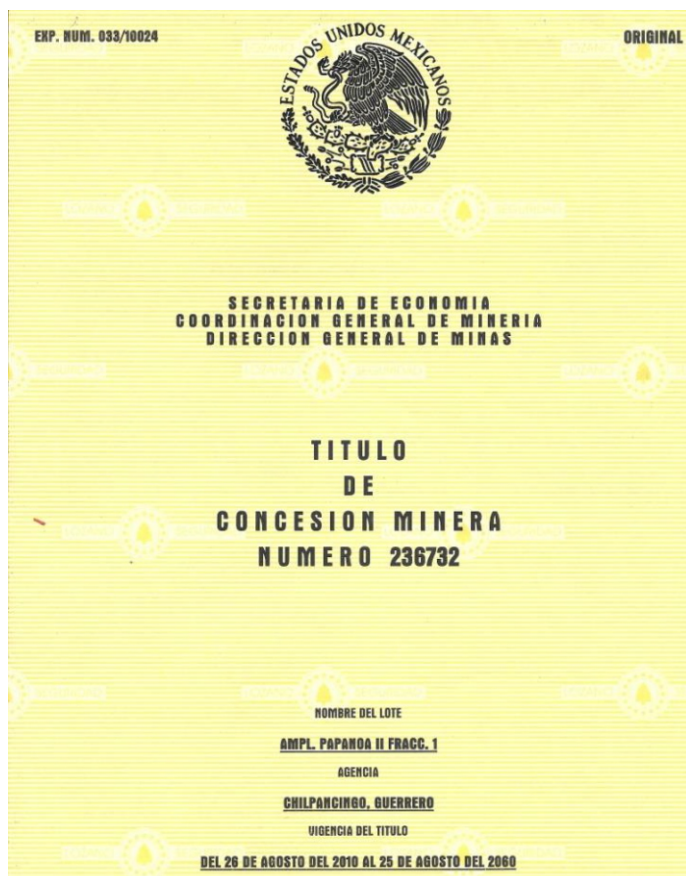


Figure 6- Papanoa II Expansion Mining Concession- Deed #236732



## 2. Mineral Resource Estimate

The current Mineral Resource estimate for the Papanoa II deposit, as well as the other GRUPO MINERO tenements should not be considered as “reserve” by any means, proven or unproven. Furthermore, the “resource” itself should be reclassified as “inferred” in order to differentiate from indicated and measured resources.

As aforementioned in this report, GRUPO MINERO has not executed any comprehensive drilling program to bring any report into industry approved and internationally accepted regulatory standard, whether it is within the Canadian standards of National Instrument 43-101, the Australian Joint Ore Reserves Committee Code (JORC Code), or the South African Code for the Reporting of Mineral Resources and Mineral Reserves (SAMREC).

GRUPO MINERO’s “resource” figures should be classified as mere concentrates and occurrences of iron ore that have reasonable prospects for economic extraction. The company does have specific, albeit limited, geological evidence of the location and grade of the mineral resource. This geological evidence and modest sampling is mostly comprised from outcrops, pits, site workings, and limited number of drill holes.

## 3. Mine Plan

PAPANOA II project has been “operating” for several years. Having said that, a thorough and detailed professionally prepared mining plan is severely lacking. This is more so with long-term and medium-term considerations.

One of the quintessential factors for any mining project is cost and investment. Grupo Minero’s objective should be to schedule and plan operations to optimize the return on investment, through capital allocation (typically via investment in mining related



of mineral reserves that establishes economic and technical viability, and, as a result, there may be an increased uncertainty of achieving any particular level of recovery of iron-ore. Furthermore, the cost of recovering the resource, including increased risks associated with developing a commercially mineable deposit, can not adequately be assessed.

Historically, such projects have a much higher risk of economic and technical failure. There is no guarantee that iron-ore extraction will continue as anticipated or that expected extractions costs will be continue at forecast levels.

These uncertainties should have a material adverse impact on GRUPO MINERO's ability to generate revenue and cash flow to fund and expand operations beyond the immediate short term stages. Failure to achieve the anticipated extraction costs would have a material adverse impact on GRUPO MINERO's cash flow and mid to long-term profitability. The positive note is that a comprehensive drilling program can provide the technical report, thus leading to a detailed mine and extraction plan, thus mitigating both risks and uncertainties aforementioned above.

### **3. Infrastructure**

The infrastructure and transport networks within a 30 mile radius of the Papanoa II main mine pit has been mostly developed and maintained by GRUPO MINERO. The project is in a rural area with decent access to the main road network and within a few km of the Arroyo Seco ejido, within the municipality of Petatlan, in the state of Guerrero. The Arroyo Seco ejido has been supplying a significant proportion of the workforce.

An "ejido" is an area of communal land normally used for agriculture in which community members have legal usage rights rather than ownership rights to the land. Land ownership was historically held by the Federal Government. Peasants are awarded ejidos and farm them individually in parcels and the peasants collectively maintain communal holdings with local and municipal government oversight.

The mine site layout has barely sufficient room for the manual grader, a standard woven steel wire cloth screen, which is being utilized as a filtration medium for the iron ore bulk material. The limited mining equipment currently being deployed and utilized remains parked at various distinct areas near the main mine pit. In addition to the steel screen and the mining equipment, there are also at hand stockpiles are directly adjacent to the manual grader.

There are plans for increasing the property, plant, and equipment at the mine site. The focus will be on further beneficiation of the resource at site. This includes the jaw crusher and magnetic barrel separator.

TAM views that any plan for an expansion and beneficiation of the Papanoa II mineral resource will be less than optimal without a professionally prepared mine plan that takes into consideration all of the planned additions. This is particularly true as the design in consideration of an ultimate and currently unplanned increase in the size of the mine and the mine area has not been properly accounted for. Furthermore, the challenge for virtually all iron-ore operations is to minimize operating costs, which is predominantly impacted by the cost of power required to crush the ore and to separate the impurities in the iron-ore. A major problem we noticed was the discussion of powering the equipment via mobile diesel powered generators during the initial stages. This is incredibly cost prohibitive as diesel in Mexico at retail level was hovering at USD \$4.20 per Gallon (USD \$1.16 per liter at date of mine site visit). With a proper pre-feasibility and economic impact report, the professional recommendation would be to either connect the plant and equipment to the Mexican grid power supply system, the Comisión Federal de Electricidad (CFE), or to consider renewable power source at mine site.



equipment), design, extraction scheduling, and preparation of the iron-ore according to buyer and market specifications. Two key factors will always be quality and quantity.

The mine planning process will always be separated in stages according to either the level of detail of the geological outlay or the time scope to which the planning decision is focused on. It is evident that PAPANOA II requires a detailed geological and geotechnical report prior to developing optimal strategies of mineral economics and mine planning to maximize the recovery of the iron-ore.

Given that there is neither a thorough geological outline nor a detailed mine plan in place, GRUPO MINERO is extracting the resource via an event-planning approach rather than a strategic approach. The scope of a strategic approach entails continuous updates of long and medium term plans, which is critical for maintaining efficiency and effectiveness at optimal levels, which will prolong the lifetime and capacity of the mine, thus increasing the NPV of the Papanoa II project.

The event-planning approach has allowed GRUPO MINERO to focus on extraction activities required for commissioning the operation and ramping up production when an off-taker is identified. The scope of work so far has included reworking short term production figures and accessing the visible and known areas of ore content. It is effective for short term requirements, but obviously inefficient in the long term as further depletion of already identified seams, particularly the area immediately adjacent to the access of the main dig site, might make future extraction more costly as an additional access road might be required. The event-planning approach has also allowed GRUPO MINERO to prepare budgets and equipment leasing and deployment schedules on a daily, weekly and monthly basis. Again, efficient to meet market demands, but not optimal. These short-term mine plans focus on where to mine next week? is it accessible? Is there enough bulk material for the grader? What contingencies are available with regards to mining equipment? Etc.

Medium and long-term mine planning would look at numerous other factors including the overall position and condition of iron-ore in the market, mining equipment acquisition, strategic positioning for optimization of iron-ore grade and content, capital investment decisions, sovereign risk issues as it pertains to Mexico, etc. The key aspect is to align the strategic objectives of GRUPO MINERO with the proven and measured characteristics of the Papanoa II deposit.

#### **4. TAM Comments & Summary**

From TAM's review during the mine site visit, the drilling at Papanoa II has not been conducted in a professional manner using industry best practices and therefore has not produced core of sufficient quality and recovery to be utilized in a confident Mineral Resource estimation. This does not imply that the inferred resource cannot be upgraded to indicated or measured, and eventually to probable and proven reserves, should a more comprehensive drilling and exploration program be implemented.

The initial number, spread and design of the drill holes was limited in nature due to financial considerations and constraints. However, TAM believes that the access and topography of the main site should allow for proper use of mainstream rigs in order to better target the mineralization at Papanoa II. Discussions with mine operators during the site visit indicated that the historical drills were performed by man-portable rigs and therefore the initial results came from high intersection angles, thus providing sub-optimal results.

An updated and thorough drilling program, spaced closely enough to confirm both geological and grade continuity, will provide details regarding the iron-ore quantity, grade and quality, density, shape, and physical characteristics that can then be estimated with confidence sufficient to allow the befitting application of technical and economic parameters, to support production planning and evaluation of the economic viability of the Papanoa II.

Since a detailed drilling program has never taken place, it is evident that GRUPO MINERO has not based its mineral extraction decision on an internationally accepted feasibility study

## **4. Environmental and Social Features**

### **1. Regulatory setting**

Environmental policy, as it pertains to the mining industry in Mexico, is largely based on regulations adopted by the Mexican Mining Law and Article 27 of the Mexican constitution. A few years prior to NAFTA being signed, Mexico amended its constitution, allowing Mexican Congress the authority to decree laws promoting the involvement of federal, state, and local authorities in environmental matters and to impose limitations on the use and ownership of land property—this led to the first comprehensive environmental law known as the Ley General del Equilibrio Ecológico y la Protección al Ambiente. The law addresses a broad range of environmental issues including water, air and ground pollution, resource conservation, and environmental enforcement.

The application of the Mining Law and its Regulations falls under the purview of the Ministry of Economy, and more specifically, under the Dirección General de Minas, the Mexican Mines Bureau. Responsibility for the environment is incorporated into the Mexican Constitution and Environmental Policy is governed, at the federal level, by SEMARNAT, and at the regional level by corresponding municipal and state bodies.

The Papanoa II project must also comply with other regulatory bodies that have oversight over the ancillary mining related activities, in particular the following; the Federal Environmental Law; the Federal Water Law; the Federal Agrarian Law (under the “Ejido” regime); Federal Tax Code, State of Guerrero Civil Code applicable to Land Tenures in the State of Guerrero; and the Federal Army Regulations for the handling, transportation, and use of explosives.

### **2. Permits and Licenses**

Exploration, extraction and processing of minerals require the filing of an environmental impact assessment, as well as the filing of a preventive report in some cases. Pursuant to the Ley General del Equilibrio Ecológico y la Protección al Ambiente. Environmental permits are required for most mining operations.

Environmental permits are operation specific, not operator specific. Developments that may have a significant impact on the environment (ore extraction larger than 500,000 mtpa) require preparation of an Environmental Impact Assessment (‘EIA’).

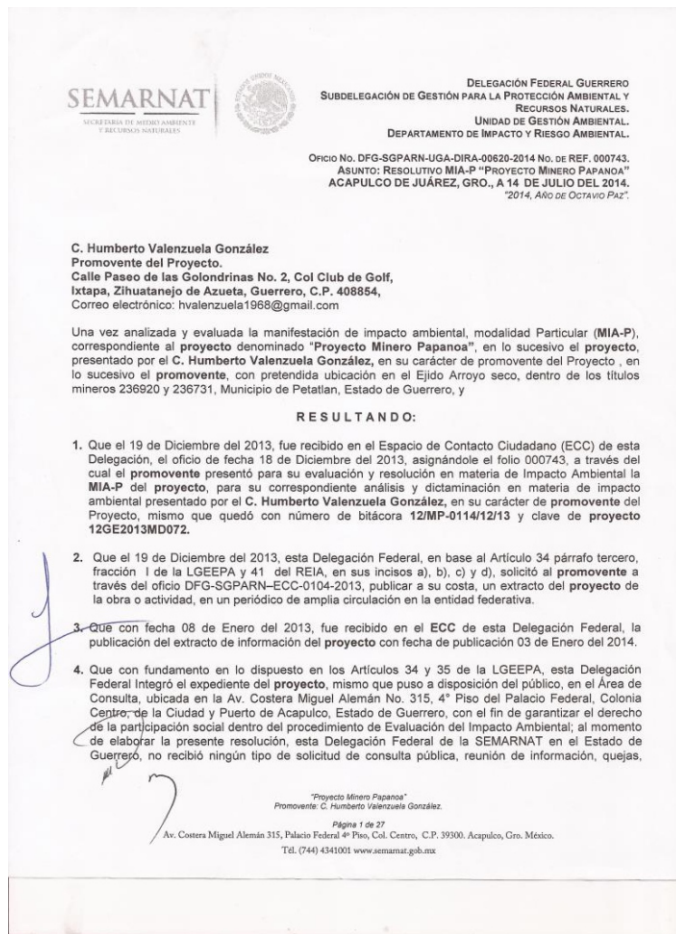
The extraction of iron-ore is regulated under the Mexican Mining Act. The Act requires that an exploration permit be granted from the Ministry of Economy, specifically the Dirección General de Minas. The exploration permit does not grant a right to extract the iron-ore from the deposit. On-site activity can only commence after the preparation and submission of an Environmental Impact Assessment, in compliance with SEMARNAT

An EIA document for the Papanoa II project was submitted to regulatory authorities with the EIA process being successfully concluded. Subsequent to completion of the EIA process, GRUPO MINERO, via the representation of its largest shareholder, Mr. Humberto Valenzuela Gonzalez, submitted a permit application and was granted an Environmental Permit that paved the way for mineral extraction and exploitation.

### **3. SEMARNAT Permit**

The Papanoa II project has received Environmental Permit approval from Secretaria de Medio Ambiente y Recursos Naturales (SEMARNAT), the Mexican Ministry of Environment and Natural Resources, for development of iron ore project on land owned by the Arroyo Seco ejido, within the municipality of Petatlan, in the state of Guerrero.

Figure 7- Ministry of Environment and Natural Resources Approval




The Permit conditions, including requirements for monitoring, reporting and preparation are delineated in the approval document. A breach of permit conditions can result in strict liability for damages and may also result in action under the Environmental Penal Code, particularly for directors and officers of the corporation.

#### 4. Guerrero Permit for Extraction

The Papanoa II project received formal issuance of the ETJ (Estudio Técnico Justificativo) for the Iron-Ore project. Combined with the Environmental Impact Assessment (EIA) these two permits (EIA and ETJ) provided GRUPO MINERO with all the necessary rights to initiate the construction of commercial iron-ore operations at the Petatlan project site. This includes the mine preparations and all iron-ore recovery and beneficiation facilities and related infrastructure. In addition, the possession of the EIA-ETJ documentation was the critical prerequisite for the Company to initiate applications for other permits including

1. Converting the exploration license into an operating/extraction license
2. Explosives use and storage that were necessary for the initiation of project operations following the completion of construction activities.

Figure 8- Conversion of Exploration to Exploitation Permit

  
SECRETARÍA DE MEDIO AMBIENTE  
Y ENERGÍA

DELEGACIÓN FEDERAL EN EL ESTADO DE GUERRERO

OFICIO N° DFG.SGPARN.UARRN.356/2014  
BITÁCORA: 12/DS-0069/05/13

Chilpancingo, Guerrero, 30 de Abril de 2014

ASUNTO: Se resuelve la solicitud de autorización de cambio de uso de suelo en terrenos forestales por una superficie de 5.21 Hectáreas para el desarrollo del proyecto denominado *Extracción de Mineral Papanoa*, ubicado en el municipio de Petatlan, en el estado de Guerrero.

HUMBERTO VALENZUELA GONZALEZ  
REPRESENTANTE LEGAL DE LA EMPRESA  
TRADING IRON AND MINERALS, S.A DE C.V

Visto para resolver el expediente instaurado a nombre de Humberto Valenzuela Gonzalez en su carácter de Representante Legal de la empresa Trading Iron and Minerals, S.A de C.V con motivo de la solicitud de autorización de cambio de uso de suelo en terrenos forestales, por una superficie de 5.21 Hectáreas, para el desarrollo del proyecto denominado *Extracción de Mineral Papanoa*, con ubicación en el municipio de Petatlan en el estado de Guerrero, y

**RESULTANDO**

I. Que mediante oficio 984 de fecha 17 de Mayo de 2013, recibido en esta Delegación Federal el 17 de Mayo de 2013, Humberto Valenzuela Gonzalez, en su carácter de Representante Legal de la empresa Trading Iron and Minerals, S.A de C.V, presentó la solicitud de autorización de cambio de uso de suelo en terrenos forestales por una superficie de 5.21 hectáreas, para el desarrollo del proyecto denominado *Extracción de Mineral Papanoa*, con pretendida ubicación en el municipio de Petatlan en el estado de Guerrero, adjuntando para tal efecto la siguiente documentación:

- \* Original y copia impresa del estudio técnico justificativo y su respaldo en formato digital.
- \* Original del pago de derechos por la cantidad de \$ 2,656.00 (Dos mil, seiscientos cincuenta y seis pesos 00/100 M.N.) por concepto de recepción, evaluación y dictamen del estudio técnico justificativo y, en su caso, la autorización de cambio de uso de suelo en terrenos forestales, de fecha 06 de mayo del 2013.
- \* Copia simple de la credencial para votar expedida por el IFE a nombre del C. Humberto Valenzuela Gonzalez.
- \* Copias certificadas de la documentación legal de acreditación del promovente.
- \* Copias certificadas de la documentación legal de acreditación de la superficie propuesta al cambio de uso del suelo en terrenos forestales.

II. Que mediante oficio N° DFG.SGPARN.UARRN.588/2013 de fecha 11 de Septiembre de 2013, esta Delegación Federal, requirió a Humberto Valenzuela Gonzalez, en su carácter de Representante Legal de la empresa Trading Iron and Minerals, S.A de C.V, información faltante del expediente presentado con motivo de la solicitud de autorización de cambio de uso de suelo en terrenos forestales para el desarrollo del proyecto denominado *Extracción de Mineral Papanoa*, con ubicación en el municipio de Petatlan en el estado de Guerrero, haciéndole la

Av. Costera Miguel Alemán No. 315, Palacio Federal 4° Piso, Colonia Centro, C.P. 38300, Acapulco, Guerrero, México.  
Teléfonos: (744) 4341001, 02 Fax: (744) 4341008. Correo electrónico: delegado@guerrero.semarnat.gob.mx, www.semarnat.gob.mx

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## 5. National Defense Ministry Explosive Ordinance Permit

The Ley Federal de Armas de Fuego y Explosivos (LFAE) oversees the purchase, storage and handling of explosives in the mining industry. This is administered by the National Defense Ministry and is considered to be of national security.

The Papanoa II project did not use explosives until the advanced exploration stage. GRUPO MINERO had to obtain an explosives permit before purchasing any explosive, and had to comply with all the requirements of the LFAE, including the construction of special warehouses to store explosives and purchasing explosives only from authorized distributors that are duly recorded by the National Defense Ministry. The Permit is in good standing.

Figure 9- National Defense Ministry Explosives Permit

SECRETARÍA DE LA DEFENSA NACIONAL  
27/a. ZONA MILITAR  
COMANDANCIA

"2014, Año de Octavio Paz".

DEPENDENCIA: 27/a. ZONA MILITAR  
ESTADO MAYOR  
SECCIÓN: PRIMERA  
MESA: EXPLOSIVOS  
NUM. OF: 111550  
EXPEDIENTE: A/

ASUNTO:- Se autoriza Permiso Mensual para adquisición de material explosivo.  
Campo Mil. No. 27-E, El Ticul, Gro., a 30 de Junio del 2014.

C. JNG. GERMAN ROBERTO HEINE RÍOS  
REPRESENTANTE DE LA EMPRESA INSUMOS Y ARTIFICIOS PARA MINAS Y CARRETERAS, S.A. DE C.V.  
Av. Guerrero No. 52, Col. Centro, C.P. 39000, Chilpancingo, Gro.  
(OCURRE MOD. ATN. AL PÚB. 27/a. ZONA MILITAR.)

POR DISPOSICIÓN DEL C. GENERAL DE BRIGADA D.E.M. COMANDANTE y en relación a su solicitud de fecha 23 de Junio del 2014 y de conformidad con la modificación de su Permiso General número 2527-GUERRERO que le fue concedida del 11 de Junio al 31 de Diciembre del 2014 en oficio número SC/3050 de fecha 11 de Junio del 2014, por la Dirección General del Registro Federal de Armas de Fuego y Control de Explosivos, esta Comandancia de Zona Militar le autoriza a usted, para que adquiera en Empresas autorizadas que cuenten con el permiso vigente otorgado por la Secretaría de la Defensa Nacional, el siguiente material:

MATERIAL	CANTIDAD	UNIDAD DE MEDIDA
ALTO EXPLOSIVO	25,000 (VEINTICINCO MIL)	KILOGRAMOS
AGENTE EXPLOSIVO	20,000 (VEINTE MIL)	KILOGRAMOS
CORDÓN DETONANTE	15,000 (QUINCE MIL)	METROS
CONDUCTORES	1,000 (MIL)	METROS
INICIADORES	5,000 (CINCO MIL)	PIEZAS

En el concepto de que el citado material será utilizado en los siguientes lugares:

1.-	
2.-	
3.-	
4.-	
5.-	
6.-	La demolición de roca en la explotación del lote minero Papanoa II fracc. 1 acceso al lugar de consumo a través de la carretera Acapulco-Zihuatanejo, pasando por el poblado Papanoa, aproximadamente a 12 kms., en "El Cayacal" desviación derecha dirección Noroeste a 8 Kms, en el municipio de Petatlán.
7.-	

JILT-DNA-27-E-14

A la hoja dos...

## 5. Logistics & Transportation

There is a very good road system not far from the Papanoa II mine site. Logistics to/from site of major items will be as follows:

- Site access - there will be a main site access dirt road for all vehicles
- Material for Grader- all ore bulk material movements will be by carried out within the main site area.
- Fuels - There are no plans on having an on-site fuel delivery system. Fuel will be supplied and maintained by the fuel vendors near the closest town.
- Port Delivery - all graded and refined ore will be delivered to maritime stockyard by trucks.

The ore that is mined is collected in the vicinity of the main seam, subsequently proceeding, as necessary, to the manual grader, a standard woven steel wire cloth screen, which is being utilized as a filtration medium for the iron ore bulk material. This filtration operation removes low-grade materials, thus increasing the overall grade of the commercialized mineral to a range of 62 to 65% of iron (fe) content.

The screened and filtrated mineral is then loaded to the off-site transportation trucks by using either the Caterpillar 320 Hydraulic Excavator or the Caterpillar 980H Wheel Loader. The hauling and transportation of the graded iron-ore material outside the mine is carried out using 14 cubic meter Kenworth Torton engine trucks with open top. The management and handling is operated by the Petatlán-Zihuatanejo truckers union.

The transport of the mineral to the maritime stockyard, at the port of Lázaro Cárdenas, is carried out in 30 and 45 tons trucks, a service that is carried out by rental equipment.

As highlighted in the "Summary of Compiled Risks", TAM sees very little risk in the proposed logistics of the iron-ore material. Community consultation has been properly implemented across all stages of the exploration and mining phases. To date, there are



no major complaints. but this could change as the mining operations are ramped up from current levels to more than 1 million mtpa. GRUPO MINERO has worked quite well with the “ejido” and will likely address any potential noise and dust pollution from enhanced traffic in the area. GRUPO MINERO is also watering the dirt road on multiple occasions during the day to reduce dust pollution.

The movement of bulk iron-ore material by road is in compliance with SEMARNAT and SCT (Secretaria de Comunicaciones y Transportes) and should cause no concerns. The only point at which some care needs to be exercised is the transition from the state-to-state- border crossing, from the State of Guerrero, where the mine is located, to the State of Michoacan, where the Lazaro Cardenas port is located. TAM suggests that GRUPO MINERO closely monitors this area of the supply chain.

## **6. Conclusion**

The Papanoa II iron-ore El Calero mining project located in the state of Guerrero, Mexico and being managed by GRUPO MINERO GOLDEN ROCK MEXICO S.A. de C.V.'s currently exhibits more numerous positive characteristics than many of its conventional peers.

TAM believes the Papanoa II iron-ore project has a low-to-medium risk profile in most operational areas, with an excellent score as it pertains to regulatory and social matters. Two areas where many junior mining companies struggle heavily in Mexico.

The area where the project scored a high risk profile was in Financing Risk and Resource Risk. Not surprisingly, these two areas have a symbiotic relationship to each other. If you raise capital you can execute a NI 43-101 or a JORC technical report. One can flip the coin and argue that a NI 43-101 or a JORC technical report will help attract new sources of capital. In essence, the company should increase its resource base and prepare a valid technical report that will be the foundation for a detailed mining plan.

Drilling is the foundation of all value creation. Drilling identifies new ore seams for development, replenishes reserves depleted through production, and replaces those considered uneconomic by falling global prices. Drilling should address the Papanoa II Resource Risk profile.

Finance Risk can be addressed by accessing capital markets. The Papanoa II project has the characteristics necessary to attract capital, particularly if there is a solid off-take agreement in place. FINBEX and FIINCO's genuine interest demonstrate that the Papanoa II project meets the necessary criteria to pass their checklist.

Unfortunately, the global economic situation with COVID-19 is creating uncertainty on both the supply and demand side of the equation and will continue to dampen the capital raise efforts of GRUPO MINERO. Furthermore, COVID-19 has vastly depreciated the Mexican Peso versus the US Dollar. \$20,000,000 MXN is no longer \$1.1 million USD. At the time of publishing this report, April 04,2020, the same amount of \$20,000,000 MXN amounted to only \$800,000 USD.

Having said that, the Papanoa II project benefits from a commercial grade iron-ore deposit with favorable geographical location and with a professional management team that has developed excellent relationships with the local community. TAM believes these benefits will provide the company with a certain level of immunity against adverse fluctuations in iron-ore prices.





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