

## MINING AIM: The Arc Minerals Edit



*'All battles are first won or lost in the mind.'*

— Joan of Arc, 1412-1431

The famous words of the unlikely heroine of France, spoken at the siege of Orléans during the Hundred Years' War, was unlikely to have been referencing the travails of Arc Minerals (LON: ARCM) some six centuries later. But her words, which inspired the French to defend their city and arguably were pivotal to winning the 116-year conflict, could equally apply to investor sentiment in the AIM-listed junior.

This is going to be a seriously lengthy read so I suggest that you make a coffee and get settled in. Arc Minerals shares were briefly changing hands for more than 7.5p apiece back in March 2021 but had since fallen to just 1.3p at the start of last week.

It's worth noting that much of this fall has been accelerated since November 2023 — a combination of profit-taking after the final ratification of the long-awaited Joint Venture with FTSE 100 titan Anglo American, combined with a long list of now immaterial headwinds.

But the recovery is about to start.

Let's dive in.

### Arc Minerals: the Joint Venture

Let's be honest — the vast majority of investors are in ARCM for one thing, and one thing only. And that's the Joint Venture (JV) with Anglo American to explore some of the most prospective copper tenure in Zambia, and arguably, the world.



The JV's origin dates back to mid-July 2020 (shortly after the covid-19 pandemic mini-crash and during peak coronavirus panic) — where ARCM announced to the market that it had entered into a confidentiality and six month exclusivity agreement with Anglo subsidiaries Zamsort and Zaco for the company's copper exploration licences in Zambia.

This allowed Anglo to conduct its own technical due diligence, but with no guarantee that a commercial relationship would be agreed. By 13 January 2021 this was enough for Anglo to be 'sufficiently satisfied to give notice to conduct negotiations in respect of a commercial transaction prior to the expiry of the extended exclusivity period of 180 days.'

On 9 July 2021, ARCM noted that the exclusivity agreement had lapsed — but that 'discussions with Anglo American have been positive and continue...the Company has been approached by a number of interested groups to commence discussions regarding a potential commercial transaction.'

At the time, Chairman Nick von Schirnding advised that ***'any transaction has to sufficiently compensate Arc shareholders for allowing a major to take over an asset which we believe has significant potential to become a major tier-one copper discovery.'***

This is a really important point. The JV that was eventually signed a significant period of time later was hard won and extensively negotiated to ensure that ARCM investors got the best possible deal. It would have been much easier for management to have sat back and simply accepted whatever Anglo initially offered — but instead they ensured that the juice will eventually be worth the squeeze.

For balance, management have also been paid very well for the work done, which remains a point of contention — and this decision to tell Anglo to come back with a bigger cheque, at the time, tanked the share price by circa 50% in a matter of weeks.

But you know what? It recovered.

After plenty of further negotiation — due diligence, technical and structural issues, one assumes adopting the urgency of a Tolkien Ent — 12 May 2022 saw the RNS ARCM investors were waiting for:

*'Arc Minerals is pleased to announce that it has entered into an agreement with a subsidiary of Anglo American. Under the Agreement the parties intend to form a joint venture with respect to the*

*Company's Copper-Cobalt project located in the North-Western province of Zambia and Anglo American will have the right to retain a 70% ownership in the Joint Venture for **an aggregate investment by Anglo American of up to USD 88,500,000**, including cash consideration of up to USD 14,500,000.'*

Let's start with two very obvious points:

1. Arc Minerals now has a market capitalisation that fluctuates around the £20 million mark.
2. The Joint Venture is worth far, far more than £20 million to Arc Minerals.

Sometimes, you need to lay out the apparent. The Chair enthused that:

*'This agreement represents a major turning point for Arc and follows many months of negotiations. I am delighted to be signing this agreement with Anglo American which will, upon execution and completion of the definitive agreements, result in the potential **for significant investment by a reputable major mining company** in the tenements in north west Zambia and a very exciting time ahead for us.'*

Let's consider the terms of the Joint Venture.

Upon signing of the Joint Venture Documents (don't worry, you just had to wait another year or so for this — at the time, they expected 180 days) a Joint Venture vehicle would be formed with Anglo American initially holding a 70% ownership interest and ARCM Minerals the remaining 30%.

### **Phase 1**

Anglo has the right to retain an ownership interest of 51% by funding exploration expenditures equal to \$24 million on or before the date that is 180 days after the third anniversary of the Effective Date and making cash payments to Arc Minerals subsidiary Unico (67% owned) totalling up to \$14.5 million as follows:

- \$3.5 million upon signing of the Joint Venture Documents (**Effective Date**).
- \$1 million on the first anniversary of the Effective Date.
- \$1 million on the second anniversary of the Effective Date.
- \$1 million on the third anniversary of the Effective Date.
- \$8 million by the Phase I End Date.

### **Phase 2**

With Phase I completed, Anglo American will then have the right to retain an additional ownership interest of 9%, for a total ownership interest of 60%, by funding \$20 million of additional exploration expenditures within two years of the Phase I End Date.

### **Phase 3**

Following the completion of Phase II, Anglo American will have the right to retain an additional ownership interest equal to 10%, for a total ownership interest of 70%, by funding \$30 million within two years of the Phase II End Date.

Importantly, Anglo retains three directors within the JV and Arc Minerals two — with all JV board decisions to be adopted by simple majority vote. In other words, Anglo American is running the show — making all the executive decisions.

On 20 April 2023, ARCM announced that its subsidiary Unico Minerals (in which it controls a 67% shareholding, the balance held by Kopara), had signed the binding JV agreement with an Anglo subsidiary for its Northwest Zambian copper interests. However, the company noted that the JV was still subject to ‘certain conditions precedent being satisfied, including normal regulatory approvals in Zambia.’

It’s worth noting this means that ARCM therefore has economic exposure to 20% of any discovery assuming Anglo continues the JV to its conclusion.

By 27 October 2023, these regulatory conditions had finally been satisfied — and drilling had commenced.

It’s important to highlight this: Anglo American has already drilled ARCM tenure. von Schirnding enthused that ‘this marks a major turning point for Arc and our shareholders.’

The company also acknowledged the efforts of President Hakainde Hichilema's government to restore Zambia’s reputation as a stable environment for external investment — the Chairman noted his ‘appreciation and thanks to the administration and various government agencies of the Republic of Zambia who have been working tirelessly to ensure the required regulatory approvals were obtained.’



In light of the recent furore over ARCM’s licences (separate to those relevant to the JV), it’s also worth noting the words of the Honourable Paul Kabuswe, Minister of Mines and Mineral Development:

***'I am very pleased with the progress that has been made in forming the joint venture between Anglo American and Arc Minerals. Anglo American's commitment to a significant exploration program in the Northwest province is most welcome. As the New Dawn government under the leadership of His Excellency Hakainde Hichilema, we have been relentlessly focused on revitalising the country's economy and ensuring that the Zambian people will benefit and transform their lives by having significant foreign and local investment. I look forward to following the progress in the months and years ahead as this venture aims to unlock further mineral wealth in our country.'***

On 10 November 2023, 40 long months after the initial excitement, the company announced the 'unconditional completion' of the JV agreement, including a \$3.5 million cash payment to the Unico subsidiary. It's worth mentioning that the next \$1 million will land on 10 November 2024.

The Executive Chairman noted that he was 'delighted to announce that the Anglo American JV has now gone unconditional - a great milestone for our shareholders.'

If there's any lesson to learn from these delays, it's this: mining companies speak in Old Entish when negotiating finance.

And as Tolkien's Treebeard once said: *'You must understand, young Hobbit, it takes a long time to say anything in Old Entish. And we never say anything, unless it is worth taking a long time to say.'*

## Zambian jurisdictional advancement

This Joint Venture is important to Zambia as a country, and copper remains the key to improving the country's economic position. Last year, Zambian Finance Minister Situmbeko Musokotwane enthused that 'copper is the new oil.' And CRU Group analyst Adam Khan has previously noted that Zambia could add nearly 1 million tons of copper production per year over the next decade.

The jurisdiction is red hot — competition for tenure and drilling rigs is intense — especially so given government reforms on tax:

- Flat corporation tax at 30%.
- Mineral royalty up to 10% but this can sometimes be deducted from corporation tax.
- Export duty for precious metals and some critical minerals at 15%, though this usually does not apply to copper.
- Withholding tax at 15%, but dividends are not included within this anymore.

And for copper explorers and miners specifically:

- imports on equipment are now duty free.
- miners can deduct 100% of their capex in the first year instead of having to spread it out over its lifespan.
- there is zero VAT on copper exports
- you can claim VAT input on tax paid for capex.
- you can carry forward losses for an entire decade.
- you can claim input tax for pre-production expenditure for five years.

And of course, you also benefit from cheaper labour and opex costs.

All of this sends a strong message to the wider world: Zambia will tax you fairly, encourage you to get started, and wants your investment. For context, President Hakainde Hichilema has set a target to expand copper production from 800,000 tonnes per year to 3 million tons by 2030.

It's important for ARCM investors to take a step back and consider the wider investing going on in the country: all the titans, Jubilee Metals' expansion, Prospex's exploration, the major discoveries including one heavily-reported-on by Kobold, the railways and wider infrastructure being renovated and built — and then the proliferation of further quality small caps from the likes of African Pioneer and Galileo to minnows like Tertiary Minerals.

Sometimes you do need to consider the macro environment — I've covered the copper supply gap here — but what it all boils down to is that the world needs to dig up and process more copper than ever before, precisely at the same time as copper grades, tonnage and deliveries are collapsing. The world needs new discoveries — and Zambia is where they are going to be found.



So much so that early August 2023 (almost a year ago now) saw former UK foreign secretary James Cleverly conduct a four-day tour of Zambia. The visit, which included visiting a copper mine in the country, saw Cleverly sign a Memorandum of Understanding on critical minerals to **'lay the foundation for further UK support for the responsible mining of copper, cobalt and other metals essential to the global clean energy transition.'**

In addition, the two countries also agreed the Green Growth Compact, aimed at generating £2.5 billion of UK private sector investment and £500 million of government investments into Zambia's mining sector. At the time, Cleverly enthused that *'the UK-Zambia Green Growth Compact and our landmark agreement on critical minerals will support investment between UK and Zambian business, creating jobs in both countries.'*

For those concerned about the policies of this new government, Labour is all for green initiatives, making clear it will reinstate the UK 2030 EV commitment — Chancellor Rachel Reeves has even previously considered it 'weird' that the UK doesn't have our own version of the US Inflation Reduction Act. They're do green, they're planning on destroying the North Sea oil and gas industry, simply because the UK is swimming in so much excess taxpayer cash.

With President Hichilema rejecting his predecessor's resource nationalism, it's clear that there are significant win-win opportunities for both Zambia and external investors on the table.



Prior to his election victory in August 2021, the Zambian government had effectively destroyed its own mining industry through a series of fiscal blunders. It increased royalties for the tenth time in 16 years, made royalty payments non-deductible from corporation tax (double taxation), scrapped value-tax refunds, and created a 5% import levy.

Together, these policies saw international businesses withdraw \$650 million of investment in 2019, and Zambia saw the loss of even more investment through major divestment. As Zambia relies on copper for 75% of its export revenue (read dollar income), these huge production cuts tanked the economy and the country defaulted.

To support his ambitious copper expansion plans, Hichilema has rebalanced the tax base, and even signed a MoU with DROC for critical minerals and the EV sector. Zambia is already the second-largest copper producer in Africa — and arguably has a clear jurisdictional advantage over top producer DROC.

Zambia copper mining sentiment is also on the rise. Sibanye Stillwater's CEO went on record last year saying that the amount of money needed to acquire and expand Mopani Copper Mines would not be 'onerous.' Barrick Gold is investing almost \$2 billion at Lumwana to massively increase both production and mine life. First Quantum Minerals is investing \$2.1 billion in First Sentinel Copper Mine and \$1.25 billion into its Kansanshi copper mine.

And just last week, Zambia announced that China's JCHX will invest \$300 million into the Lubambe copper mine.

Overall — when you include Chinese investment — over \$10 billion of investment into mining targeted mostly at copper is ongoing. And in the middle of the major mining companies, billions and billions of dollars of investment, and a resurgent copper sector lies ARCM and its £20 million market capitalisation, sitting on some of the most prospective licences anywhere in the country.

## Zambian copper licences

I think it's worth colouring in the context at this juncture. What is so special about ARCM's licences that negotiating and signing a JV deal with a FTSE 100 market titan took the better part of four years?



Let's break it down. I'll start with the absolutely critical information to understand:

1. ARCM's Zambian licenses cover some 870 square kilometres located inside the North Western Province, within the Domes region of the Zambian Copperbelt, near world-class producing mines including First Quantum Minerals' Sentinel and Kansanshi mines and Barrick's Lumwana mine.
2. These licences are some of the last Domes areas to be explored in detail and are within the trending arm of the major geological structure known as the Lufilian Arc (Copperbelt), on the western flank of the Kabompo Dome. The Copperbelt is home to all the major copper mines in Zambia, which accounts for more than 80% of Zambian copper production.
3. The assets were previously explored through an Equinox Minerals and Anglo American Joint Venture during the late 1990s as part of the Kabompo Project.
4. **ARCM's areas under license encompass nine of 30 exploration ranked targets, including the top seven ranked targets.**
5. FQM's Sentinel copper mine — which produces over 250,000 tonnes of copper per year — was **originally ranked number 22 of the original 30 targets**. At the time, it had an exploration target size of six million tonnes of ore, but this was eventually upgraded to a gigantic one billion tonnes.
6. It's also worth noting that these licences are very close to large producing mines already, and this gives some operational optionality for future development.

Now to technical detail.

The Central African Copperbelt metallogenic province is situated within the metasedimentary rocks of the Neoproterozoic Katanga Basin. The earliest sedimentary layers were deposited in a series of confined rift basins and were later covered by widespread, organic-rich marine siltstones and shales. These layers, referred to as Ore Shale, contain the bulk of the Copperbelt's ore deposits. Above this ore-rich horizon is a vast sequence of mixed carbonate and clastic rocks, known as the Upper Roan Group.

The Roan Group has since evolved into a northerly-directed, thin-skinned, thrust-and-fold orogenic system called the Lufilian Arc, formed by the convergence of the Congo and Kalahari cratons. This curved metallogenic province is divided into two distinct districts: the Zambian Copperbelt and the Congolese (or Katangan) Copperbelt.

Arc's Zambia copper assets are located in the Domes region on the western edge of the Kabompo Dome, which is situated to the southwest of the Copperbelt. Areas under licence include 19906-HQ-LEL, 23004-HQ-LEL, 23005-HQ-LEL and 28700-HQ-LEL.

This area shares the same geological stratigraphy and structural setting as First Quantum's Sentinel and Barrick Gold's Lumwana deposits.

These deposits are exceptionally attractive. Consider Sentinel, the nearest deposit to Arc's licenses. It is a stratabound, sediment-hosted sulphide deposit located within a structurally thickened, northwest-dipping carbonaceous meta-pelitic rock called 'Kalumbila phyllite.' Copper mineralisation at Sentinel is primarily restricted to this highly deformed phyllite unit.



The orebody spans approximately 11 kilometres in an east-west direction, with mineralized horizons dipping 20 to 30 degrees northward, parallel to the dominant foliation. The main copper-bearing mineral is chalcopyrite, which typically appears within bedding/foliation-parallel quartz-kyanite carbonate millimetre-scale veinlets. The deposit currently has a Measured and Indicated resource estimate of 761.7 Mt grading 0.45% Cu, sufficient for another 12 years at the current production rate of 59 Mt/yr.

The idea is that the Anglo-Arc Minerals Joint Venture will find something at least as good, if not better.

**Concerning exploration, ARCM has already drilled some 22,000 metres, taken 75,000 soil samples and flown 10,000 line kilometres of airborne geophysical surveys covering the entire licence area.**

On 2 May 2024, an operational update saw ARCM announce that with the rainy season concluded, Anglo (referred to as the 'Joint Venture partner') had commenced work at the site, with the programme to include core diamond drilling initially at two sites.

The Chair noted that *'We are thrilled to be **commencing drilling activities imminently in both Zambia and Botswana**, following a lengthy rainy season in North West Zambia. Extensive studies have been carried out on the stratigraphic hole which was completed by our joint venture partner in December 2023, providing valuable insights and geological data of the deeper part of the Kabompo basin.'*

During the rainy season, Anglo conducted a geological technical review of the project, and has decided a work programme including:

- LiDAR Survey to assist in determining the surface outcrop positions with precision
- Detailed geological mapping, spectral and pXRF analysis of samples collected providing a deeper understanding of the geological context of the area in relation to the stratigraphic horizons of interest
- Core Diamond drilling in areas that are deemed prospective to host copper and nickel mineralisation
- Further ground-based geophysics to understand the underlying basin and sub-basin geometry

In layman's terms, finding the X on the treasure map.

At the time, ARCM noted that the 'joint venture partner exploration team has already been to site in recent weeks.'

Then in the Chair's statement within the annual report of 26 June, von Schirnding noted that *'The period ahead promises to be an exciting time for exploration and growth for Arc Minerals. With mobilisation for the exploration field season commencing in Zambia following the end of the rainy season, **we eagerly anticipate the commencement of our joint venture core diamond drilling programme, initially targeting two identified prospects.'***

## What is this Joint Venture worth to Arc Minerals?

Perhaps it's worth instead first considering what the JV might be worth to Anglo American, which perhaps does not want to draw too much attention to the deal, and how critical it might be to the major's plans.

February 2024's Mining Indaba gave us some clues, from none other than Anglo American CEO Duncan Wanblad. Domestic Zambian site Business Live reported the CEO as saying that 'Anglo is interested in returning to Zambia,' including making acquisitions — noting that the country has taken significant strides — 'I think Zambia is doing a really good job of making mining investable in that country. It seems to me there is quite a lot of action behind the talk.'



But it was Reuters that reported the CEO as saying:

*'Zambia's mining sector appears to be on track for renewed activity - and that is good for Zambia and African mining. I am pleased that **we are progressing with early-stage exploration in Zambia's North-Western Province** to identify potential copper and cobalt opportunities.'*

I wonder which vehicle he could possibly be talking about. It's also worth noting that Wanblad announced in late April that he is seeking \$100 million in funding from the World Bank's private sector arm, the International Finance Corporation — a record amount which will be solely focused on corporate social responsibility, predominantly in Africa.

But Anglo also plans to cut capital expenditure by \$1.8 billion by 2026 — partially due to a huge writedown in its UK fertiliser project — seriously, it can apportion tens of millions of dollars to explore for copper at a non-resource project but is cutting hundreds and hundreds of millions elsewhere.

This suggests the ARCM licences matter on a much larger scale than many investors think, especially those who operate solely in the small cap space and whose eyes are perhaps not focused on the macro.

Here's the context: Anglo needs to find something big to shift the story. The company's revenue basket took a hit last year, including within diamonds and platinum group metals, both of which have suffered significant price slumps. Diamond unit De Beers faces severe challenges from lab-made rocks amid a \$1.6 billion write-down in 2023., with adjusted Ebitda at the unit sliding to just \$72 million last year down from \$1.4 billion in 2022.

PGM demand keeps falling as EVs take off, and with supply disruptions remaining better than expected, Anglo's 79% -owned Amplats division is now cutting 3,700 jobs representing 17% of the workforce, and is also potentially closing down the Mortimer smelter.

Anglo's 2023 full-year underlying earnings were down by almost a third to \$9.9 billion.

In May, Anglo announced a radical restructure — it now plans to demerge Amplats and either sell or demerge De Beers, which it has been linked to for well over a century. Wanblad also proposes selling the steelmaking coal assets and selling or even closing down the nickel operations (blame Indonesia), leaving just copper, iron ore and the Woodsmith money pit on the balance sheet.

But even Woodsmith will be delayed. The project still has a \$4.8 billion capital cost, but Anglo is cutting capital expenditure to just \$200 million in 2025 and nothing in 2026.

Wanblad argues that *'we expect that a radically simpler business will deliver sustainable incremental value creation through a step change in operational performance and cost reduction. Anglo American's shareholders will see the full undiluted upside from these extensive changes, **with the value of our copper and iron ore assets brought to the fore.** These actions represent the most radical changes to Anglo American in decades.'*

Of course, the source of this restructuring urgency was BHP's bid for the major — which was shot down in spectacular fashion even after its improved bid of some £34 billion in early May. One of the key problems with BHP's bid was that it required Anglo to decouple from Amplats in a way that loaded the risk onto Anglo shareholders — and Anglo's plan is to do this on their own terms. The restructuring will be complete by the end of 2025.



Anglo plans to increase its copper production to 1 million tonnes per annum by the mid-2030s, and saw copper and nickel production increase by 23% year-over-year in 2023 — driven by a ramp-up at Quellaveco but nevertheless impacted by grade declines in Chile.

The new focus? Expand copper production through greenfields project development, organic growth and M&A which would be 'on the cards for a new Anglo.'

Consider Anglo's recent history. Wanblad continually put out production forecast decline RNSs through 2023 — with one poorly received December update causing the stock to crater by 20% in a single day with the downgrade accompanied by a promise to 'unlock value.'

The big problem was, and is, that the company has marketed its future as being copper. And yet 2023 saw the major continually cut copper volume predictions. Bank of America analysts have previously argued that Anglo face 'an uphill battle' to restore investor trust.

To summarise, Anglo American is demerging or selling many of its historical assets in a plan to simply while also increasing copper production — but spent most of last year reducing copper output forecasts with its key assets experiencing continually falling grades. The major has mothballed hundreds of millions in capital expenditure, is firing thousands of employees, and has had to fight off BHP (which will almost certainly return for round two after licking its wounds) after seeing its share price collapse by more than 50%.

But Anglo is still pressing ahead with this Joint Venture — and signed the final deal only a month before the earthquake RNS that saw it tank its own copper output predictions.

Perhaps it needs this JV to work out.

But there are also competing tensions when it comes to valuing the potential of this Joint Venture to ARCM. The assets are clearly highly desirable — Anglo was not the only major in the mix. But it's also true that simply being in the most prospective copper region on Earth does not mean exploration success is certain. To an extent, this makes price targets on the stock difficult to compute — because success could see a sizeable return and in the unlikely event of failure, an equal and opposite reaction.

Anglo are controlling the JV, including the exploration using their own market-leading team, and potentially investing almost \$90 million into a pre-resource project.

Importantly, since the recent placing, the combination of capital raised and JV milestone payments means that ARCM will not need to raise additional capital for the next three years. This makes it a fully funded AIM explorer, where many other companies will need to go to London intermittently to cover working capital and exploration.

I will note that 'fully funded' does not mean risk-free, nor that a raise to buy additional assets can be ruled out. But it does mean that investors have exposure to at least \$24 million of exploration over the next three years.

And on a bottom line calculation, Anglo will pay a total of \$88.5 million for the privilege of working with ARCM — covering 70% of the JV. This makes 100% of the project 'worth' \$125.4 million, ARCM held 67% of the project before Anglo came on board, so you can make a very good argument that ARCM's stake is worth 67% of \$125.4 million, or \$84.7 million.

Of course, you also need to consider the potential upside — whether Anglo unearths the next Sentinel mine, or even a mid-tier copper resource. It's easy to jump to Greatland Gold as the easiest comparator; both companies exploring hugely prospective tenure with a major funding the exploration. GGP eventually went on to generate a 70-fold return (before dropping back), and of course, long-term holders in Arc Minerals are hoping for a similar performance.

It might happen. It really might.

It's also worth looking at other JV deals in Zambia between a junior and a major:

Rio Tinto and ASX-listed Midnight Sun Mining, where Rio could earn 75% of the Solwezi licences by investing \$51 million including \$3 million in cash payments.

FQM and African Pioneer, where FQM can acquire 75% of four exploration licences in return for at least \$2 million in exploration and bringing the assets to mine development ready status including a technical report detailing a 300 kiloton contained copper resource.

There are also many small scale exploration deals — Rio Tinto and Zamare for \$3 million, Xtract Resources and Cooperlemon, Tertiary Minerals and Kobold, Jubilee Metals and IRH (alongside many other operations). Listing them all would take a huge amount of time.

But the bottom line is that the cash payments to Arc Minerals stand out as outlandishly large, and the size of the JV deal agreed is also comparatively substantial.

It's worth pointing out that these smaller JVs are also exploring very prospective tenure, much of which is extremely promising. But the size of the investment at ARCM's licences suggests that Anglo American (which cannot at this juncture afford to gamble with investment), may have reasons to suspect world-class copper is in the ground based on information which may not be publicly available.

Should Anglo unearth a decently sized mid-tier copper resource, which may be too small for the major but nevertheless attractive to a mid-cap miner, then the share price should still re-rate significantly from here. For context, Newmont has decided to walk away from Havieron, and this resource is still worth hundreds of millions of dollars to junior Greatland Gold. For balance, some continue to argue that this resource remains a Tier-1 asset regardless of Newmont's criteria.

But if Anglo discovers the jackpot, and all that investors hope for comes true, then you might be about to witness one of the AIM market's great stories.

## Botswana exploration

But here's the thing.

Arc Minerals is not just a world-class Joint Venture with a FTSE 100 major. It also has a 75% stake in Alvis-Crest, which owns two prospecting licences (PL 135/2017 & PL 162/2017), together comprising the Virgo Project — situated within Botswana's Kalahari Copperbelt and covering some 210 square kilometres.



Two nearby deposits have already been uncovered:

- Khoemacau Copper — the operating Zone 5 copper-silver mine has a 166Mt resource @ 2% copper and 26 g/t silver, only 15km from Virgo.
- Sandfire Resources — the T3 copper-silver project, with a DFS consisting of a 3.2Mtpa operation expanding to 5.2Mtpa that would return life of mine revenues in excess of \$2.45bn, only 40km from the Virgo.

Two copper-nickel soil anomalies have previously been recorded on the Virgo project and are circa 3km and 2.5km in strike length respectively. The larger anomaly — on PL 135/2017 — overlays an interpreted DKF-NPF contact. The anomaly on PL 162/2017 also appears to overlay the interpreted DKF-NPF contact; these are encouraging signs.

On 25 January 2024, investors enjoyed a Botswana scout drilling update, the aim of which was to:

- identify the lithologies below the Kalahari sand cover to confirm the presence of the interpreted D'Kar-Ngwako Pan formation contact.
- confirm the lateral extents of this geology.
- test for anomalism/mineralisation.
- Space each hole over 1km between profiles to cover a wide area.

The good news is that the campaign was a hit for all criteria, with contact geology, copper anomalism and mineralisation intersected, and up to 3.65% copper assayed over one of the sampled intervals near the contact between the D'Kar and Ngwako Pan formations.



The PL135/2017 license is surrounded on three sides by Khoemacau Copper's prospecting licenses, which was acquired by MMG for \$1.9 billion. It's located towards the south-eastern margin of the Kalahari copperbelt, occupying a similar geological setting to that recently drilled by Khoemacau at their recent Mawana Fold Discovery and the Zone 9 exploration target, where economic grades of copper mineralisation have already been drilled.

**These discoveries are located at the north-western and south-eastern margins of ARCM's prospecting license respectively.**

Khoemacau's Mawana fold discovery has defined a possible economic zone of copper mineralisation that appears to trend towards and into Arc's PL 135/2017 license — and these new scout drill holes intersected anomalous grades of copper mineralisation close to this apparent trend and confirmed an east-west trending DKF-NPF contact position approximately 5km long running through the license.

Meanwhile, the PL162/2017 prospecting license is also on the boundary of Khoemacau's prospecting licenses — to the north and the east. One of ARCM's Rotary Air Blast drill holes — which were used to guide the positioning of reverse circulation scout drill holes — intersected:

**3.65% Cu and 24 g/t Ag over a sampled interval of 1m (ALV-RAB-017; 25m-26m).**

And now a reverse circulation hole has intersected:

**2.05% Cu and 58 g/t Ag over a sampled interval of 1m (ALV-RC-005; 85m-86m)**

On 2 May 2024, there came an operational update:

**Geophysical Survey** — Arc contracted 3D Earth Exploration to conduct a Gradient Array Induced Polarisation (IP) survey over part of the PL 135/2017 license, designed to consider the 3D orientation of structures and lithologies while also helping to discriminate between types of conductive structures and providing targets for drilling. This was to cover circa 35 line-kilometres over a selected part of the license area.

**Planned Drill Programme** — The results from the IP survey were to be used to inform a first phase 2,000m (8-10 hole) reverse circulation drill programme to target the generated anomalies within the PL135/2017 license, with the drilling to start during the quarter and complete within one month.



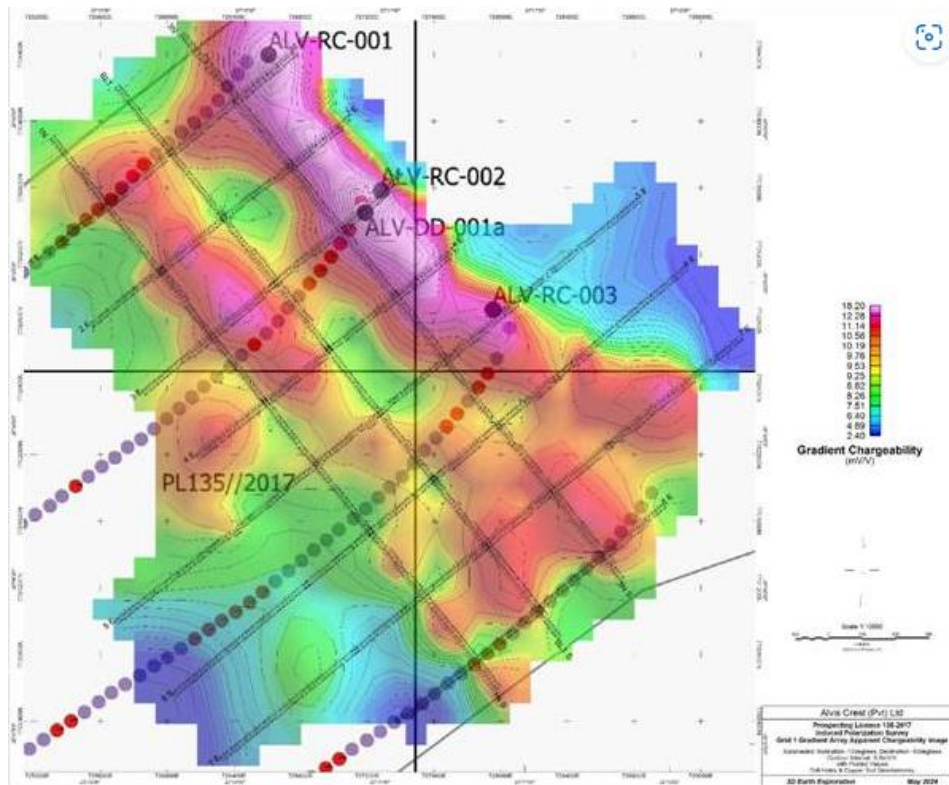
**License renewal applications** — ARCM's Botswana subsidiary lodged renewal applications for both the PL135/2017 and PL162/2017 licenses that were due to expire later this year. These are to last two more years into Q3 2026 and are a simple admin process.

On 30 May 2024, Arc announced positive IP survey results:

von Schirnding enthused that the survey *'delivered very encouraging results. We are incorporating these results into our modified drilling programme which is to commence w/c 17 June 2024, with the contractor mobilising next week. We're also expanding our drilling programme to test a large, previously unknown, deep anomaly of high chargeability and low resistivity that was identified by the survey.'*

3D Earth Exploration eventually conducted the IP Survey with a total of 42.7 line kilometres surveyed, comprising 38.7km of Gradient IP and 4km of insight Section IP. The lines covered the full extent of the D'Kar and Ngwako Pan contact across the licence and interpreted redox boundary.

The gradient array apparent chargeability defined two distinct high trends running northwest to southeast. The more prominent chargeability high to the northeast exhibited readings peaking at 19.9 millivots per volt on a background of 8mV/V. Meanwhile, **the IP geophysical survey identified two targets** — the first the interpreted redox boundary close to the contact between the D'Kar - Ngwako Pan contact, and the second, a deeper, previously unknown anomaly of intense high chargeability and coincident low resistivity.



As a result of these developments, the Company expanded its drill programme plans to include diamond drilling to test the deeper anomaly.

On 14 June 2024 — we’re talking less than a month ago — drilling began at Virgo, based on data from these surveys. This is a big deal, because the investor focus remains on Zambia and despite drills literally being in the ground, Botswana is being ignored by the market.



Covering circa 3,000 metres in maiden exploration:

- PL135/2017 — a combination of Percussion and Reverse Circulation drilling will be used to pierce through the overlying Kalahari sand cover, before extending these holes with

Diamond Drilling down to the unknown anomaly at depth. Five holes for 930m of Percussion/RC and 1,320m of DD drilling, totalling 2,250m, is planned.

- PL 162/2017 licence — initially three holes for 750m of Percussion/RC drilling. Two holes will test a soil geochemical anomaly trending for 5km along the south-western margin of the licence boundary, whilst the third will test an interpreted syncline in the north-eastern part of this licence.

## Finances & Management

Management comprises:



Executive Chairman Nick von Schirnding — previously CEO of Asia Resource Minerals, and most crucially, **formerly a senior executive with Anglo American and De Beers.**

CFO Ian Lynch — nearly 20 years of experience across finance, legal and compliance for a host of public and private junior resource companies, including as a consultant to Casa Mining.

COO Vassilios Carellas — experience includes the executive management and financing of two publicly listed exploration and development minerals companies, and operating experience gained in the general management of producing mines, mining operations and exploration activities.

Rounding the management team off are non-executive directors Rémy Welschinger, Brian McMaster and Valentine Chitalu — all well-known names in the industry. I'd highlight Chitalu's work history, including his role as CEO of the Zambian Privatisation Agency where he was responsible for the divestiture of over 240 enterprises.

Financially, in early March ARCM raised £4.14 million (before expenses) at an issue price of 1.8p per share — and also issued 229,777,770 Warrants (one warrant for every one new ordinary share issued).

Together with the cash payments due from Anglo American, the bottom line is that the company should not need to raise further capital for the next three years — unless it wishes to purchase assets.

The share price fall since late last year has not been pleasant for long-term shareholders — and there are various reasons for the fall. Having a major shareholder in the form of a Swedish pension

fund decide the company is no longer ethically compatible with its values (though companies using Zambian copper in their products apparently still are) didn't help.

Taking longer than expected to start drilling the Zambian assets has also been an issue. The placing at 1.8p — significantly below the company's fair value, hit sentiment further. And there are also concerns that management have taken too much capital out of the business to pay personal salaries and bonuses.

On this note, it's worth pointing out that this Joint Venture signed with Anglo American is one of the best ever signed by a junior. Over the past three years, management were awarded no bonuses and no share option packages — and even sacrificed salaries for some six months. It's important to consider both the historical context of their incomes as well as present day pay; but equally, there is now a serious expectation that the team must bring home the bacon.

A final headwind — which was the cause of a very short trading suspension — came on 17 June, as the Mining Cadastre in Zambia (the system for managing and recording information on exploration and mining licenses, overseen by the Ministry of Mines and Minerals Development), upon detailing the results of the 80th Mining Licence Committee, rejected mining licence application 33404-HQ-LML submitted by Handa Resources.

All sorts of reasoning have been speculated — including foul play. Indeed, in Arc's annual report prior to this issue being raised, the Chairman noted his thanks for 'the management and employees of Arc who have worked tirelessly on numerous challenges over the past years, including **all manner of attempts to block progress** on delivering what I believe is one of the most exciting JV transactions concluded with a major mining company.'



At the time of the suspension, ARCM noted it anticipated that 'this is due to premature processing of the application. The Company has not yet received any formal notification of this decision and has engaged with the Mining Cadastre for a full explanation.' It also confirmed that '**its interests in all its exploration licences in Zambia remain valid and all exploration activities remain unaffected by this decision.**'

On 19 June, as the company resumed trading, noting that among other things:

- Two of three large mining licence applications submitted (in which ARCM indirectly holds an interest) were rejected — 33404-HQ-LML from Handa Resources and 33403-HQ-LML from Zaco Investments.
- 23004-HQ-LEL from Zaco Investments was marked as deferred pending an information request.
- The applications were validly submitted and validated by the Zambian Mining Cadastre, so Handa and Zaco are appealing the decision of the Mining Licence Committee to reject the Mining Licence Applications and are engaging with the Mining Cadastre to have the appeal heard as soon as possible.
- With the exception of the licence mentioned above, none of ARCM's other licences are affected.



von Schirnding noted 'I am pleased that we have been able to provide some clarity to shareholders on steps to rectify the LML applications. I am also **very pleased that we have had confirmation that our JV partner Anglo American has begun mobilising for the upcoming drilling programme.**'

My view is that regardless of who is at fault, Zambia wants Anglo American to invest in the country and Anglo wants new sources of copper. This will likely be water under the bridge very soon and does not affect planned activity in any way whatsoever.

## Arc Minerals summarised

If you've managed to wade through this special report on Arc Minerals, then I congratulate you on your reading stamina. If, like an anxious millennial child getting the latest Harry Potter book at midnight, you skipped to the end —here's your bottom line. ARCM has:

- A JV with Anglo American worth up to \$88.5 million covering some of the most prospective copper licences on Earth.
- Further drilling at this JV is set to commence imminently.
- Exceptionally prospective licences in Botswana where drilling is already underway.
- Financing to last for the next three years without needing to go to the market.
- A management team chaired by a former senior executive at Anglo American.
- Years of exploration not priced into the market cap.
- Operations across Zambia and Botswana which are becoming ever more favourable jurisdictions.
- A share price on the floor that does not reflect the upside potential.
- And a shedload of assays to land over the next few months.

**Arc Minerals is ridiculously undervalued.**

*Charles Archer, MININGAIM.CO.UK, 15/7/24*

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