



**Breakaway  
Research**

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### Company Information

| ASX Code                         | CAZ          |
|----------------------------------|--------------|
| Share Price (4 Mar 2017)         | 0.063        |
| Ord Shares                       | 230.4m       |
| <b>Market Cap undiluted</b>      | <b>14.5m</b> |
| Options (likely to be exercised) | 26.2m        |
| <b>Market Cap undiluted</b>      | <b>16.2m</b> |
| Est. Cash (1 May 2018)           | 2.0m         |
| Cash raised from option exercise | 2.5m         |
| Total Debt                       | 0.8m         |
| <b>Enterprise Value</b>          | <b>12.4m</b> |

### Directors

|                          |                |
|--------------------------|----------------|
| Joint Managing Director  | Nathan McMahan |
| Joint Managing Director  | Clive Jones    |
| Director (Non-executive) | Terry Gardiner |

### Significant Shareholders

|                                      |        |
|--------------------------------------|--------|
| Nathan McMahan & associated entities | 14.99% |
| Clive Jones & associated entities    | 7.75%  |

Source: Company

### Company Details

|         |  |
|---------|--|
| Address | Level 2, 38 Richardson Street<br>WEST PERTH WESTERN<br>AUSTRALIA 6005      |
| Phone   | +61 (0) 8 9322 6283  |
| Web     | <a href="http://www.cazalyresources.com.au">www.cazalyresources.com.au</a> |

### Price Chart



Source: Commsec

# Cazaly Resources (CAZ)

*New Cobalt Project is a Game Changer!*

*Recommendation: Speculative BUY*

### Key Points

- **Cazaly Resources has secured the right to purchase 95% of the Koako Kobalt Project in northern Namibia. The project is adjacent to Celsius Resources' Opuwo Project where exploration success has established a resource base of 112.4Mt grading of 0.11% cobalt, 0.41% copper, and 0.43% zinc for 126,100t of contained cobalt, 464,280t of contained copper and 483,750t of contained zinc. This has led to an increase in Celsius' market capitalisation to more than \$120m.**
- **The Opuwo style of mineralization forms in a prospective horizon called the Dolomite Ore Formation ("DOF") and with recent applications for further ground, Cazaly has now secured approximately 80 km of this formation.**
- **A second target style is large stratabound copper-cobalt orebodies similar to the world-class Zambian Copper Belt. This target style may apply to the Kamwe prospect within Cazaly's tenements and which is more than 20 km long and is represented by both anomalous cobalt in soils and a coincident magnetic low feature.**
- **Exploration is being fast tracked with mapping and geophysics potentially leading to drilling in the September quarter. The Koako Kobalt Project value now overshadows the value of Cazaly's other projects and the market will closely watch future exploration results.**
- **Cazaly will also be focused on an option expiry in August 2018 and which could raise \$2m for its exploration activities. We believe that exploration results emerging from Koako has the ability to raise the share price to ensure these options will be exercised. This will provide a 75% return to existing shareholders at the current share price.**

*Cazaly Resources is a junior explorer which is nimble in identifying and securing exploration opportunities which will deliver shareholder value. The experience of the Board has enabled the Company to opportunistically secure a large prospective copper -cobalt project in Namibia when many other companies would not be aware of the opportunity.*

*Overall the Cazaly share price will be driven by exploration results emerging from the Kaoko Kobalt Project and given the high level of prospectivity within the tenement for the two mineralisation target styles does bode well for potential success.*

*Hence Breakaway's recommendation for Cazaly Resources is a **Speculative Buy**.*

### Company Overview

Cazaly Resources Limited is a Perth based Australian diversified mineral exploration and resource development company. It has been listed on the Australian Stock Exchange since October 2003 and has demonstrated a track record of being nimble and flexible in its approach to deliver shareholder value.



## Company Overview Continued...

*The Joint Managing Directors have worked well as a team for many years .....*

*The Company's new project is next to Celsius Resources' significant Opuwo cobalt project ....*

*Cazaly is now fast tracking exploration....*

*The Kaoko Kobalt Project is located in northern Namibia...*

*Infrastructure is good in the project region....*

*It is 820 km from the capital of Namibia which is Windhoek ....*

The principals, joint Managing Directors Nathan McMahon and Clive Jones, have the expertise and experience to identify significant projects in Australia and Southern Africa, having established a number of companies in the past. With the recent focus of the market on tech metals associated with the production of batteries including cobalt, it has been this Southern African knowledge which has enabled Cazaly to be able to secure the Kaoko Kobalt Project in northern Namibia.

The Kaoko Kobalt Project is adjacent to Celsius Resources Limited's Opuwo Cobalt project. Celsius Resources (ASX Code: CLA) has a market capitalisation of \$120m and its main asset is the Opuwo Cobalt project which is hosted in the prospective Dolomite Ore Formation ("DOF") horizon and this horizon also occurs in Cazaly's adjacent tenements.

Celsius Resources recently delivered an impressive maiden cobalt resource which significantly exceeded market expectations and comprised a resource (100% basis) of 112.4Mt grading of 0.11% cobalt, 0.41% copper, and 0.43% zinc for 126,100t of contained cobalt, ~464,280t of contained copper and ~483,750t of contained zinc (at a cut-off grade of 0.06% cobalt).

Cazaly is fast tracking preliminary exploration work including mapping and sampling as well as flying an EM geophysical survey to firm up targets already identified from soil surveys in its portion of the Dolomite Ore Formation ("DOF"). This will culminate in drilling during the September quarter which will attract significant market attention.

The Company also retains exposure to a number other projects including the Parker Range iron ore project in WA but the market will now attribute most value to Cazaly to emerging developments with the Koako Kobalt Project with the Company recently committing to the project.

### Kaoko Kobalt Project – A project in a significant cobalt province

The Koako Kobalt Project is located in the Kunene Cobalt Province, Northern Namibia. It is approximately 820 km by road from the capital, Windhoek, and approximately 780 km from the port of Walvis Bay. The Project has excellent infrastructure, with the regional capital of Opuwo only 50 km to the south, providing good services and with sealed roads. A hydro-power station (320 MW) is located nearby, and a transmission line (66 kV) passes south of the project area.



Figure 1. Kaoko Kobalt Project Location (Source: Company).



## Tenure

*New applications have increased the project area to more than 1,400 km<sup>2</sup>....*

The project tenure originally comprised recently granted exploration licence EPL 6667 which covers 970 km<sup>2</sup> area. However this may now be extended by two new applications covering areas to the west and east as outlined on Figure 2. This would increase the Company's land position in the region to approximately 1,410km<sup>2</sup>.

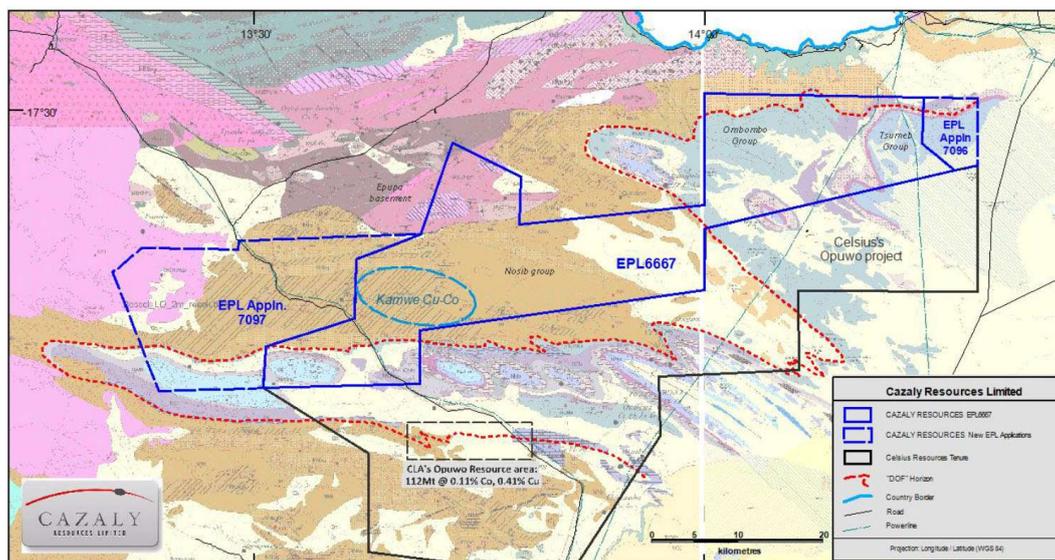


Figure 2. Exploration Licence EPL 6667 and the additional extensions (Source: Company).

## Deal Structure

*A complicated deal structure but does not require significant cash ...*

Cazaly has the opportunity acquire 95% of the project with the remaining 5% owned by a Government NEEF Compliant Entity under the New Equitable Economic Empowerment Framework. The 5% interest is free carried to the completion of a definitive feasibility study and is then 'loan carried' through development.

The transaction involves purchasing a local Australian private company which currently owns the project through a joint venture with a Namibian entity but in summary for Cazaly to earn 95% of the project it has to:

- Issue 6 million CAZ shares
- Spend N\$3 million (~A\$270,000) by 18 November 2020 on the project
- Issue 10.5 million fully paid CAZ shares upon the delineation of a JORC compliant resource containing at least 10,000t of contained cobalt (or other metal equivalent),
- Pay A\$1 million (or issuing fully paid CAZ shares to that amount) upon a formal Decision to Mine

## Geology and Prospectivity

*The area may host equivalent rocks to the major copper belts in Zambia, Botswana and the DRC ....*

The area hosts the Neoproterozoic Kaoko Belt, which is interpreted as representing the western extensions of the Copper-belt of the DRC and Zambia as well as the Kalahari Copperbelt of Botswana according to INV Metals. It has been interpreted that the Katanga Supergroup, host to the African Copperbelt deposits, and the Damara Supergroup evolved simultaneously and perhaps contiguously as part of an extensive intra-cratonic rift system that extended over Western Gondwana during the period 800 to 500 million years ago.

The African Copperbelt is one of the greatest sediment-hosted stratiform copper-cobalt provinces in the world and includes world-class deposits that contain greater than 10 million tonnes of copper.



In terms of the project area, it is the “DOF” horizon mentioned earlier that is prospective for cobalt and copper mineralisation and this has been interpreted as being equivalent to the ‘Ore Shale’ or Copper Belt Orebody Member that contains the majority of ore deposits in the Zambian Copper Belt as outlined on Figure 3. The Ore Shale is a reductive unit sitting above oxidised arenaceous sediments close to basement (& source fluids) and which could be analogous to the reductive DOF unit in the Kaoko Belt

*The Dolomite Ore Formation (“DOF”) may be equivalent to the Zambian Ore Shale which hosts the copper mineralisation there....*

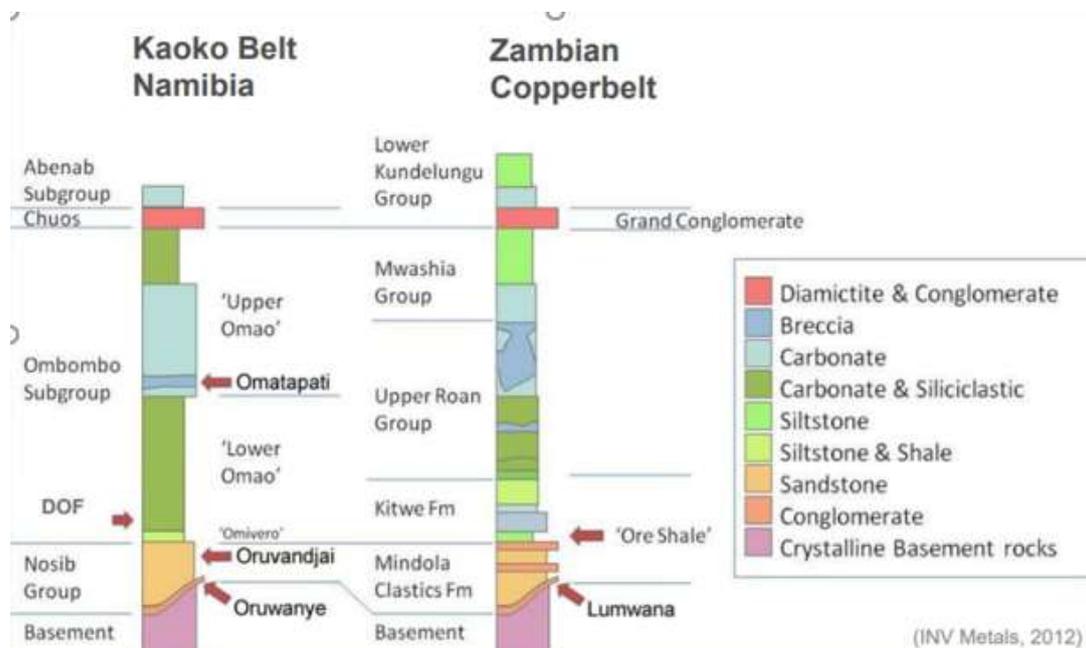


Figure 3. Interpreted equivalent stratigraphy between the Kaoko Belt in Namibia and the world-class Zambian Copper Belt. The DOF and Ore Shale Horizons are also highlighted. (Source INV Metals with adaptation by Cazaly).

Exploration Licence EPL 6667 is outlined on Figure 4 along with Celsius Resources’ drilling area on its Opuwo Project. The trace of the DOF is also presented and Cazaly has highlighted areas where it is interpreted to pass through EPL 6667.

*The trace of the DOF extends for 80 km within Cazaly’s tenements .....*

The DOF is described as an organic carbon rich, marly dolomitic horizon consisting of clastic and carbonate lithologies. It has a variable dip and thickness, ranging 5m to +15m in parts according to Celsius Resources and with the horizon appearing mineralised throughout its extent. Encouragingly mineralisation outcrops at surface and is easily visible from satellite/aerial photos.

In the Celsius Resources’ Opuwo Project the mineralisation in the DOF unit is reported to be disseminated and vein hosted sulphide mineralisation, with chalcopyrite (CuFeS<sub>2</sub>) the main copper mineral, linnaeite (Co<sub>2</sub>S<sub>4</sub>) the main cobalt mineral, and zinc as sphalerite (ZnS). The mineralisation is relatively fine grained but is low in deleterious elements such as arsenic (As), cadmium (Cd) and uranium (U).

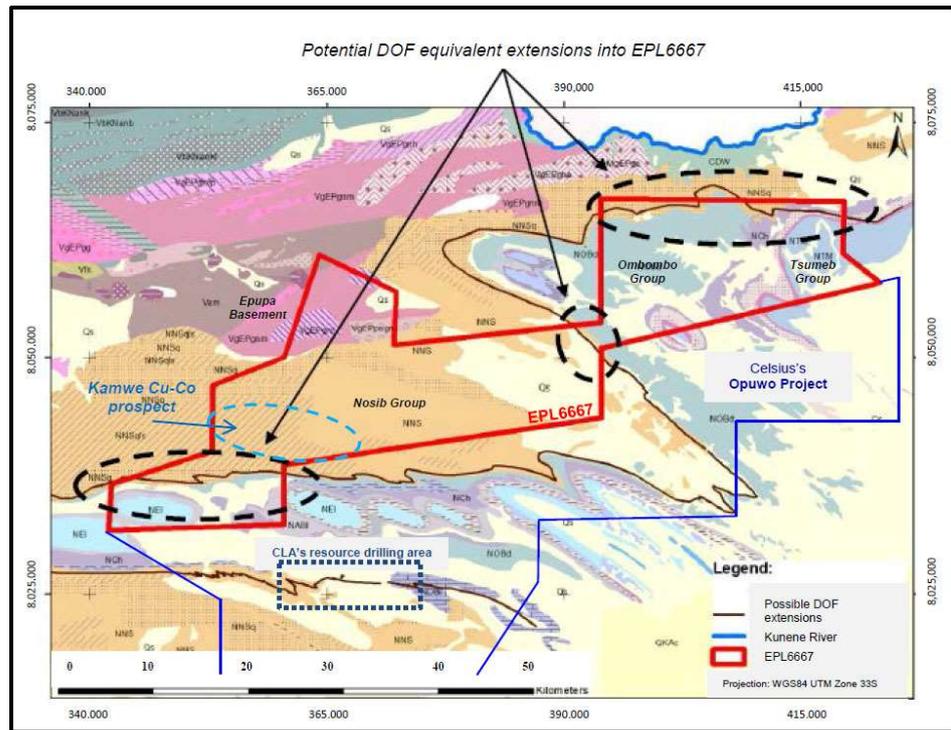


Figure 4. Location of EPL 6667 and Celsius Resources' Opuwo Project. The trace of the DOF horizon is presented and areas where it is interpreted to be present in EPL 6667 has been highlighted along with the separate Kamwe Cu-Co prospect.

Cazaly's additional application for extensions to the east and west of EPL 6667 significantly increase the coverage of the DOF horizon as outlined in Figure 5 and now is around 80 km.

The new applications have targeted extensions of the DOF zone ...

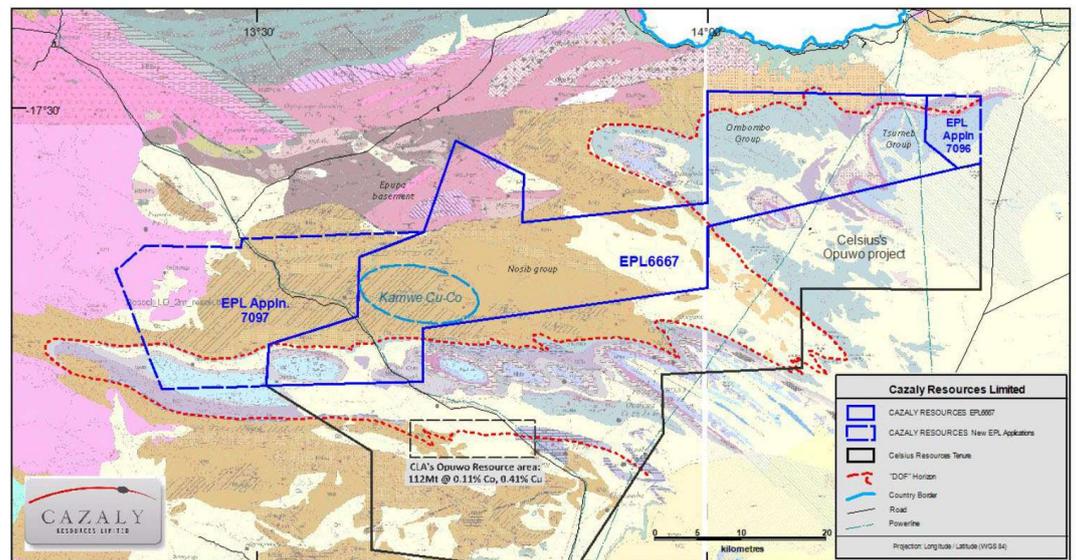


Figure 5. Exploration Licence EPL 6667 and the additional extensions as presented earlier in Figure 2 (Source: Company).

Work is now focusing on negotiating land access and reconnaissance mapping and sampling of the DOF horizon. The company is also investigating an opportunity to fly a regional electromagnetic survey over a significant area of the project to fast track targeting areas for drilling.



### Kamwe Prospect.

The Kaoko project also includes the Kamwe Prospect which has been defined by a co-incident Cu-Co-Zn-Mn soil anomaly with a 20 km by 5 km area of subdued magnetics (see Figure 6).

*The Kamwe Prospect is represented by a large magnetic low and which is co-incident with a cobalt in soils anomaly....*

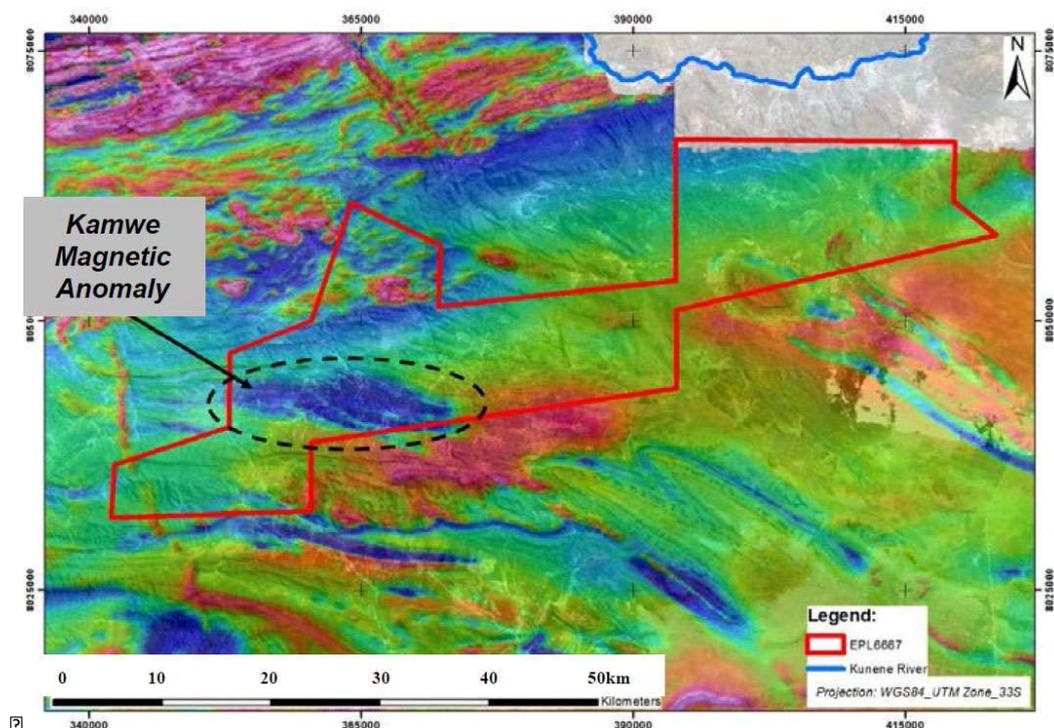


Figure 6. The Kamwe Magnetic Anomaly represented by a magnetic low (Source: Company).

*Kamwe is potentially a stratabound copper target....*

Soil sampling on a 1 km by 1 km grid across EPL 6667 is presented in Figure 7. The most obvious target is the Kamwe anomaly which covers a 20 km long area that broadly corresponds with magnetic low above but there are also other prospects requiring follow up exploration including the Okatjene, Basement and Obandungu anomalies outlined on Figure 6.

*Kamwe stands out with anomalous cobalt in soils based on a 1 km by 1 km sampling grid ....*

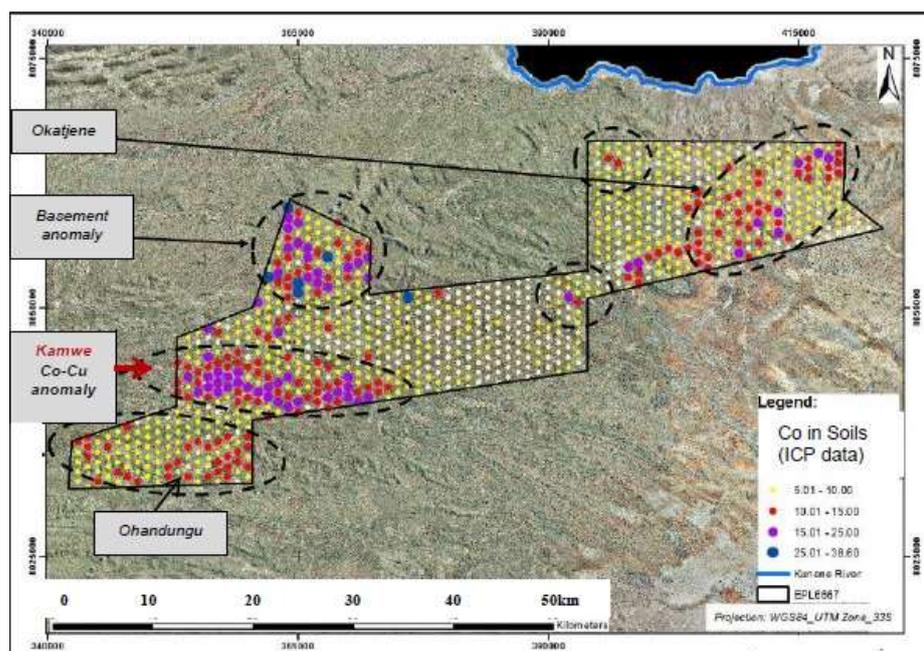


Figure 7. Cobalt in soils from 1 km by 1 km sampling (Source: Company).



Zambian Copper Belt copper-cobalt deposits can be very large ...

It is important to note that these anomalies are very large and given the potential correlation of the regional geology with the Zambian Copper Belt, these could represent very significant stratabound and stratiform Cu-Co orebodies typical of the Zambian Copper Belt.

This Central African Copper Belt which includes the Zambia Copper belt has the largest and highest grade sediment-hosted stratiform copper deposits known on Earth. These deposits are laterally extensive with strike lengths up to 17 km and typical assemblages are chalcopyrite-bornite with subsidiary chalcocite and pyrite. In Zambian the belt hosts combined production and reserves/resources totalling approximately 100 Mt copper and contains six large deposits which are Konkola-Musoshi, Nchanga-Chingola, Nkana-Mindola, Mufulira, Luanshya-Baluba, and Chambishi.

Hence, the market will be keen to follow Cazaly's exploration activities over the remainder of 2018 as both the DOF targets and these large stratabound/stratiform Cu-Co targets represent very significant targets to a junior like Cazaly Resources.

### Namibia as a Jurisdiction

Namibia is one of the world's preferred mining locations and has a stable government and fiscal regime along with transparent mining legislation.

As noted earlier, the country also has excellent regional infrastructure and most major resource companies have some activities in the country, e.g. Rio Tinto operating the Rossing mine, BHP in offshore oil exploration, etc.

### Market Capitalisation & Enterprise Value

The market capitalisation of Cazaly Resources is a modest at A\$14.5m (Figure 8). Following a recent placement at 5.4 cents raising \$1.5m announced on the 24 April 2018, the Company has approximately \$2m in cash and resulting in an enterprise value of \$12.4m.

Cazaly has an enterprise value of \$12.45m....

A recent placement raised \$1.5m at 5.4 cents ...

| Parameter                        |             | Value       |
|----------------------------------|-------------|-------------|
| Share price                      | A\$         | 0.063       |
| Shares issued                    | m           | 230.4       |
| Market capitalisation            | A\$m        | 14.5        |
| Options (likely to be exercised) | m           | 26.2        |
| Market capitalisation (diluted)  | A\$m        | 16.2        |
| <b>Less</b>                      |             |             |
| Cash at 1 May 2018               | A\$m        | 2.0         |
| Cash raised from option exercise | A\$m        | 2.5         |
| <b>Add</b>                       |             |             |
| Debt - Convertible Note          | A\$m        | 0.8         |
| <b>Enterprise value</b>          | <b>A\$m</b> | <b>12.4</b> |

Figure 8. Enterprise value calculation

Cazaly has listed options which expire on the 21 August 2018.....

The outstanding options are summarised in Figure 9 and include 18.9m listed options (ASX Code: CAZO) with an exercise price of 11 cents and an expiry date of 21 August 2018. The exercise of these options would provide useful cash to the Company for its exploration activities and we have no doubt that the Company will be focused on ensuring that the share prices is higher than 11 cents



at that point in time. If it is successful, it will represent a + 75% return to investors from the current share price.

*The Company will be focused on ensuring these 11 cent options are exercised.....*

| <b>Expiry</b> | <b>Number issued</b> | <b>Exercise Price (\$)</b> | <b>Amount Raised (\$)</b> |
|---------------|----------------------|----------------------------|---------------------------|
| 21-Aug-18     | 18,913,847           | 0.110                      | 2,080,523                 |
| 22-Aug-18     | 175,000              | 0.150                      | 26,250                    |
| 30-Nov-18     | 5,000,000            | 0.200                      | 1,000,000                 |
| 22-Aug-19     | 1,450,000            | 0.180                      | 261,000                   |
| 22-Aug-19     | 2,500,000            | 0.144                      | 360,000                   |
| 31-Dec-19     | 7,300,000            | 0.060                      | 438,000                   |
| 22-Aug-20     | 2,500,000            | 0.216                      | 540,000                   |
| <b>Total</b>  | <b>37,838,847</b>    | <b>0.124</b>               | <b>4,705,773</b>          |

*Figure 9. Issued options.*

### **Cazaly Resources Director Backgrounds**

*The Joint Managing Directors have worked as a team for many years...*

Cazaly has a small Board will only three directors. Joint Managing Directors Nathan McMahon and Clive Jones have been a successful team having worked together for many years.

#### **Mr Nathan McMahon**

*Joint Managing Director*

Nathan has been heavily involved in mining and exploration in the West Australian mining industry for well over 20 years. He has specialised in native title negotiations, joint venture negotiations and project acquisition due diligence. He is a director of several unlisted mining and exploration companies with interests in iron ore, platinum group elements, base metals, industrial minerals and uranium exploration. Nathan is currently a non-executive director of ASX listed Hodges Resources Ltd and the Chairman of Dempsey Minerals Ltd.

#### **Mr Clive Jones**

*Joint Managing Director*

Clive has been involved in mineral exploration for over 25 years and has explored for a range of commodities including gold, base metals, mineral sands, iron ore and industrial minerals both in Australia and overseas. Mr Jones is a founding Director Cazaly Resources Ltd and has proven corporate and exploration success. Clive is also currently a Director of Bannerman Resources Limited, Non-Executive Chairman for Unity Mining Limited and Chairman of Corazon Mining Limited. All companies are currently listed on the Australian Stock Exchange. Bannerman is also jointly listed on the Toronto and Namibian Stock Exchanges.

#### **Mr Terry Gardiner**

*Non-Executive Director*

Mr Gardiner has 12 years' experience in capital raising, support, promotion and corporate advisory services to listed companies in Australia and overseas. He has 30 years' experience investing in capital markets and extensive experience in funds management for sophisticated and private investors.

Mr Gardiner is currently a Non-Executive Director of Dempsey Minerals Limited. He is also an Executive Director of Barclay Wells Ltd, a boutique stock broking firm with offices in Perth and Melbourne.



## **Breakaway's View**

Cazaly Resources is a junior explorer which is nimble in identifying and securing exploration opportunities which will deliver shareholder value. The experience of the Board has enabled the Company to opportunistically secure a large prospective copper -cobalt project in Namibia when many other companies would not be aware of the opportunity.

There is no doubt that the Koako Kobalt Project has the hallmarks of being a game changer for the Company with two key target styles:

- The Dolomite Ore Formation ("DOF") style which is similar to neighbouring Celsius Resources' Opuwo project containing 112.4Mt grading of 0.11% cobalt, 0.41% copper, and 0.43% zinc for 126,100t of contained cobalt, 464,280t of contained copper and 483,750t of contained zinc.
- The large stratabound copper – cobalt targets which are typical of the Zambian Copper belt and its potential geological equivalents in the project area.

With the first target style, with recent applications for extensions to the current exploration licence, Cazaly has more than 80 km strike length of interpreted DOF horizon within its tenements (and tenement applications).

In terms of the second target style, we are encouraged by the size of Kamwe prospect (20 km long) and which is represented by both anomalous cobalt in soils and a coincident magnetic low feature.

The Company is also highly incentivised to fast track exploration activities to ensure that a major option exercise (11 cent strike price) occurs in late August. If successful, current shareholders will experience a 75% return.

Overall the Cazaly share price will be driven by exploration results emerging from the Kaoko Kobalt Project and its two target styles with its high level of prospectivity bodes well for potential success.

Hence Breakaway's recommendation for Cazaly Resources is a Speculative Buy.

*The Koako Kobalt Project has significant upside with two distinct target styles....*

*The neighbouring Opuwo cobalt project highlights the prospectivity of the DOF horizon ...*

*Exploration is being fast-tracked and the market will watch closely for positive results....*



### **Analyst Verification**

I, Stephen Bartrop, as the Research Analysts, hereby certify that the views expressed in this research accurately reflect our personal views about the subject securities or issuers and no part of analyst compensation is directly or indirectly related to the inclusion of specific recommendations or views in this research.

### **Disclosure**

Breakaway Research Pty Ltd and the Breakaway Investment Group (AFSL 290093) may receive corporate advisory fees, consultancy fees and commissions on sale and purchase of the shares of Cazaly Resources Limited and may hold direct and indirect shares in the company. It has also received a commission on the preparation of this research note.

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