ALIGN
RESEARCH

Kazera Global Investments

5th August 2020

Move into diamonds and heavy mineral sands at cycle nadirs to fund the blue-sky potential of a world-class tantalum mine

Kazera is an Africa focused mining investor which, in 2014, took a 75% stake in Aftan, owner of a high-grade tantalum project in Namibia & following the 26 June 2020 RNS, now has 100% control. Commercial mine production has yet to be achieved due to a lack of water but has qualified several shipments to run directly into End User production. A 17km pipeline from the Orange River would solve this problem, coupled with some plant upgrades, and cost @ US$11 million. A recent transformative deal takes Kazera into diamonds and heavy mineral sands (HMS) but, critically, with the anticipated cash flows intended to provide the funding runway to fully develop this large-scale world class tantalum opportunity.

Early cash flow at the diamond operation before the year-end

Near term production and revenue generation has begun at a secured untouched mining block of beach and marine gravels at the well-known diamond operation at Alexkor in South Africa. **This state-controlled mining area has produced 10 million carats of gem quality diamonds since 1928.**

72,000tpa high-grade HMS potential within 12 months of approval

The vendor of the diamond and HMS projects has made tremendous progress in developing both these interests, which come with a good in-country management team with >40 years local diamond experience.

High grade world-class tantalum project with growing lithium potential

Tantalum is one of the rarest elements on the planet and Aftan's partners are large US electrical equipment companies ready to receive shipments.

Risked conservative NPV suggests upside of over 200%

Our conservative valuation shows the potential. We initiate coverage of Kazera with an initial target price of 2.50p and **Conviction buy** stance.

Table: Financial overview

Year to end June	2020E	2021E	2022E	2023E
Revenue (£'000s)	-	3,380	10,800	13,100
PTP (£'000s)	(900)	210	1,510	2,000
EPS (p)	(0.19)	0.01	0.15	0.17

Source: Company accounts & Align Research

This investment may not be suitable for your personal circumstances. If you are in any doubt as to its suitability you should seek professional advice. This note does not constitute advice and your capital is at risk. This is a marketing communication and cannot be considered independent research.

CONVICTION BUY

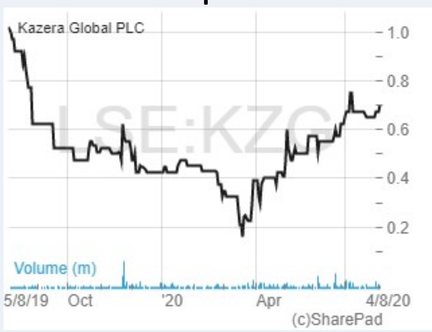
Target price – 2.50p

Kazera Global

Key data

PIC	KZG
Share price	0.7p
52 week high/low	0.16p/1.0125p
Listing	LSE
Shares in issue	681.25m
Market Cap	£4.8m
Sector	Mining

12 month share price chart



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Business overview

Kazera Global Investments Operations

Kazera Global is an investment company with a policy of investing in high-impact commodities in the African mining sector at the bottom of their respective cycles. The company's current interests span tantalum, diamonds and heavy mineral sands (HMS).

• **Tantalum** – Tantalite Valley Tantalum Mine in south eastern Namibia. The mining licence covers an area of 452.7 hectares and is valid until 2026, **with the mine centred on one of the highest grades of tantalum ore in the industry.** Currently, the mine is completing its JORC Compliant drilling program with over 4000 meters drilled. During this drilling program it placed the operations under care and maintenance but there is a well-developed plan to bring the mine back into production. The project lies 700km south of the capital Windhoek and just 13km north of the Orange River which marks the border with South Africa to include its very close distance of 450 kilometers to the SA diamond project.

• **Diamonds** – Deep Blue Minerals (90% interest) has a near-term producing diamond mine within the Alexkor diamond fields on the Northern Cape coast. Alexkor is a government owned company that manages diamond-mining concessions in a joint venture with local indigenous landowners in the Richtersveld region.

• **Heavy Mineral Sands** – The company also has a stake in Whale Head Minerals which is a heavy mineral sands (HMS) opportunity, also within the Alexkor diamond fields on the Northern Cape coast.

Adit into the TMV. Source: Company

Tantalum

Tantalum is a hard blue-grey metallic element which has the chemical symbol Ta and atomic number 73. It is a rare element used in the electronics industry for capacitors and semi-conductors which find their way into many electronic devices, mobile phones and computers just to name a few.

Over half of tantalum consumed annually is used by the electronics industry as powder and wire for capacitors. **Tantalum capacitors have an extremely high capacitance packed within a small volume and so are perfect for ever-shrinking electronic devices**. Due to technology improvements your typical capacitor has gone from one anode to multiple anodes in the same package increasing demand. The element is also a critical component for use in the manufacture of semiconductors where a process called physical vapour deposition allows tantalum to be spluttered onto the semiconductor substrates.

Tantalum is also used in engine turbine blades and chemical processing equipment due to the metal's high melting point and corrosion resistance. Other applications include ballistics, surgical implants and closures, cemented carbides for cutting tools along with the powder being used in optical applications.

Tantalum Supply and Demand

Tantalum is predominantly found in central Africa where its mining has courted controversy as it has been deemed to have helped finance conflict in the Democratic Republic of Congo (DRC). **In 2012, the US Securities and Exchange Commission adopted a rule mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act to require companies reporting to the SEC to publicly disclose the origins of the tantalum they buy in order to restrict the use of conflict minerals that originated in the DRC and adjoining countries**. This reporting method is through a rating carried out by ITSCI or a similar global conflict free system. Most of the African countries are either rated level lll or level ll, three being the highest risk with two being any country attached to those level lll countries. As a result, users of tantalum are encouraged to demonstrate that their supply chain is transparent to ensure that conflict-free tantalum is procured. **Kazera's mine fits these key criteria at the lowest risk rating of level I - considered no conflict. This reporting has moved from reporting to the ITSCI type compliance firms to the End Users reporting to their customers.**

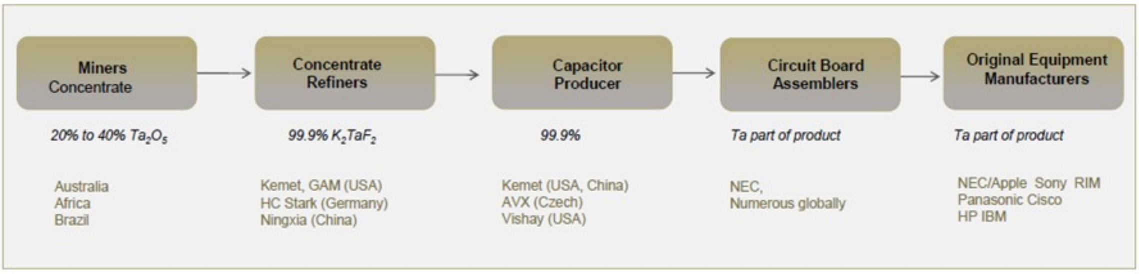
Tantalite concentrate producers sell their product (which needs to be a minimum of 30% Ta205) to concentrate refiners where the dominate players are Kemet, GAM, HC Stark and Ningxia. Processed tantalum metal is sold to capacitor manufacturers such as Kemet, AVX and Vishay. There are numerous global circuit board manufacturers which assemble the capacitors for inclusion into electronic goods or for original equipment manufacturers (OEMs) such as NEC, Apple, Sony, Research in Motion, Panasonic, Cisco, Hewlett-Packard and IBM.

Country	Mine production					Reserves
	2015A	2016A	2017A	2018A	2019E	
Congo (Kinshasa)	350	370	760	740	740	n/a
Rwanda	410	350	441	500	370	n/a
Nigeria	na	192	153	200	210	n/a
China	60	94	110	90	100	n/a
Brazil	115	103	110	250	250	34,000
Australia	na	na	83	23	20	55,000[1]
Ethiopia	na	63	65	70	40	n/a
US	-	-	-	-	-	n/a[2]
Other	117	45	83	101	109	n/a
World total	1,100	1,220	1,810	1,890	1,800	>90,000

[1] - JORC compliant reserves of 14,000 tons.

[2]- The US has about 55,000 tons of tantalum resources in identified deposits, most of which were considered uneconomic at 2019 prices.

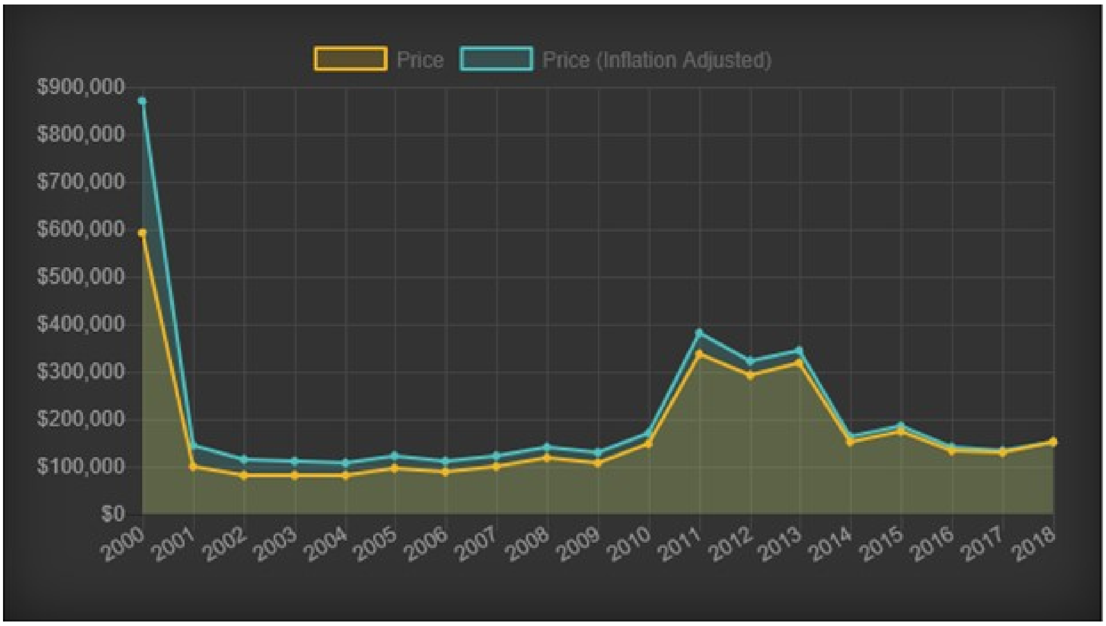
World mined tantalum production and reserves (tons). Source: US Geological Survey, Mineral Summaries Annual Reviews



Tantalite value chain. Source: Company's presentation July 2017

Tantalum price

Tantalum is a small industry and over the years this market has been affected by rapid changes in the balance of supply-demand, which has resulted in price volatility. Over recent years, the economics of traditional tantalum mining in Africa has been undermined by low-cost Australian production of tantalum which resulted as a by-product of lithium mining.



Tantalum price (US$ per tonne) since 2000. Source: Metalary.

Although different sources provide varying figures, respected markets researcher Roskill believes that Ta2O5 price volatility has been relatively muted over recent years. In 2019, the average monthly price of tantalum ore decreased to US$158 per kilogram (US$72/lb) of Ta2O5 content in October down from US$173/kg (US$79/lb) in January. Ahead of the disruption caused in metal markets by the COVID-19 virus, the price was trading around US$65-70/lb.

The tantalum price has been under pressure from an increasing supply of low-cost by-product tantalum concentrates from two lithium operations in Western Australia. That said, Alita Resources (ASX:A40) placed its Bald Hill Mine on care-and-maintenance status as the company restructures itself, whilst Pilbara Minerals (ASX:PLS) seems to have delayed expansion plans at its Pilgangoora Lithium-Tantalum Project, one that would have more than doubled its lithium and tantalum production capacities.

Namibia

The Republic of Namibia lies in Southern Africa. The country borders Zambia and Angola to the north, Botswana to the East and South Africa to the South. Its western border is the Atlantic Ocean. Namibia spans an area of 825,615m², and is sparsely populated with a population of just 2.6 million. The country experiences hot and dry desert like conditions with limited rainfall. Namibia was formerly known as South West Africa but gained its independence from South Africa in 1990 following the Namibian War of Independence.

Physical and road map of Namibia. Source: Vidiani.com

Today, Namibia is a multi-party, presidential democracy which has now enjoyed 30 years of political stability and peace. The current Prime Minister is Leeds University educated Hage Geingob who came to office in March 2015 and is also current president of the ruling SWAPO Party (which has been the governing party since independence). The country is a member state of the UN, the Southern African Development Community and the African Union. **Namibia is recognised as a level 1 compliance country based on the Dodd-Frank Act, US regulations which were aimed at spurring reform in resource-rich countries**. A recent Fraser Institute Mining Company Survey ranked Namibia as the second most attractive African investment jurisdictions based on a combination of regulations, licencing, political stability, geological database, infrastructure, mining tax regime, among other factors.

Mining is the biggest contributor to Namibia's economy, led by diamond, silver, tungsten, lead, zinc, tin, uranium and copper mining. The country is responsible for 2% of the world's gem-quality diamonds and is globally the fourth largest uranium producer, accounting for 8% of world production. The country also produces granite, marble, salt, dolomite, semi-precious stones, wollastonite, sulphur, gold, arsenic and manganese. Several well-established mines include Rio Tinto's Rossing uranium mine and De Beers (high grade) alluvial diamond operations. Being one of the key industries in the country, means that there is a large pool of skilled mining labour at all levels in the country. The Chamber of Mines Organisation supports both small and large scale mining companies across a diverse range of minerals.

Background

Kazera Global Investments was formerly known as Kennedy Ventures and before that was called Managed Support Services. The company was originally incorporated in England and Wales in 2006 as Worthington Nicholls Group, a company which installed air conditioning for businesses and commenced trading on AIM in June 2006. The company changed its name to Managed Support Services after a reorganisation due to the failure of the original business model. In 2011, the company disposed of its building services division MSS Facilities Management to Initial for up to £6.5 million. Following this move it became reclassified as an investing company under AIM rules.

Subsequently, the company's name was changed to Kennedy Ventures in 2012 and it went through a Company Voluntary Arrangement (CVA) followed by a refinancing to raise £500,000. Its first investment was US$85,000 into Bison Energy Services, a company which had been established to invest in the supply of frac sand and the growing US fracking industry. At the same time, Kennedy Ventures invested in a portfolio of listed companies. The most meaningful investment that the company made was in African Tantalum (Pty) Limited (Aftan), which had an interest in the Tantalite Valley Mine (TVM) in Namibia. A 75% interest in Aftan was acquired in 2014 for R12 million (£0.66 million) where R4 million (£0.22 million) was paid in shares at 4.9p per share.

In January 2017 the company brought on board a new CEO who was recognized as a global leader in conflict free supply chain management as well as having years of experience in manufacturing with a focus on tantalite. March 2018 saw the company adopt a new investing policy that more accurately reflected the overall business plan and gave the management team the necessary flexibility to pursue opportunities as they arose in the African mining and resources sectors. At that stage, the company's name was changed to Kazera Global Investments. In March 2019, the company raised £500,000 at 1.70p per share to progress the drilling campaign of resource identification at the Signaalberg and White City deposits**. A few months later in June 2019, Kazera was able to report a maiden JORC (2012) compliant Mineral Resource Estimate (MRE) over the Homestead and Purple Haze deposits at TVM of a combined total Indicated and Inferred tantalite and lithium Mineral Resource of 324.6k,t with further resource upside expected to be identified.**

August 2019 saw Kazera raise an additional £400,000 at 0.6p per share, mainly to complete further drilling over the Purple Haze, White City and Signaalberg acreage with the aim of reporting a more comprehensive JORC-complaint MRE. **This was intended to provide the platform required to engage in discussions with potentially interested parties to bring in the next stage of project funding.** Kazera announced a maiden JORC-compliant MRE for the White City Deposit in December 2019 of 297,600t which was in-line with the company's pre-exploration programme expectations. By January 2020, the Phase 2 drilling programme of an estimated 2,000m aimed at delineating further mineralisation as well as adding resource at the White City, Homestead and Purple Haze projects and testing potential mineralised zones at Signaalberg was reported to be progressing well.

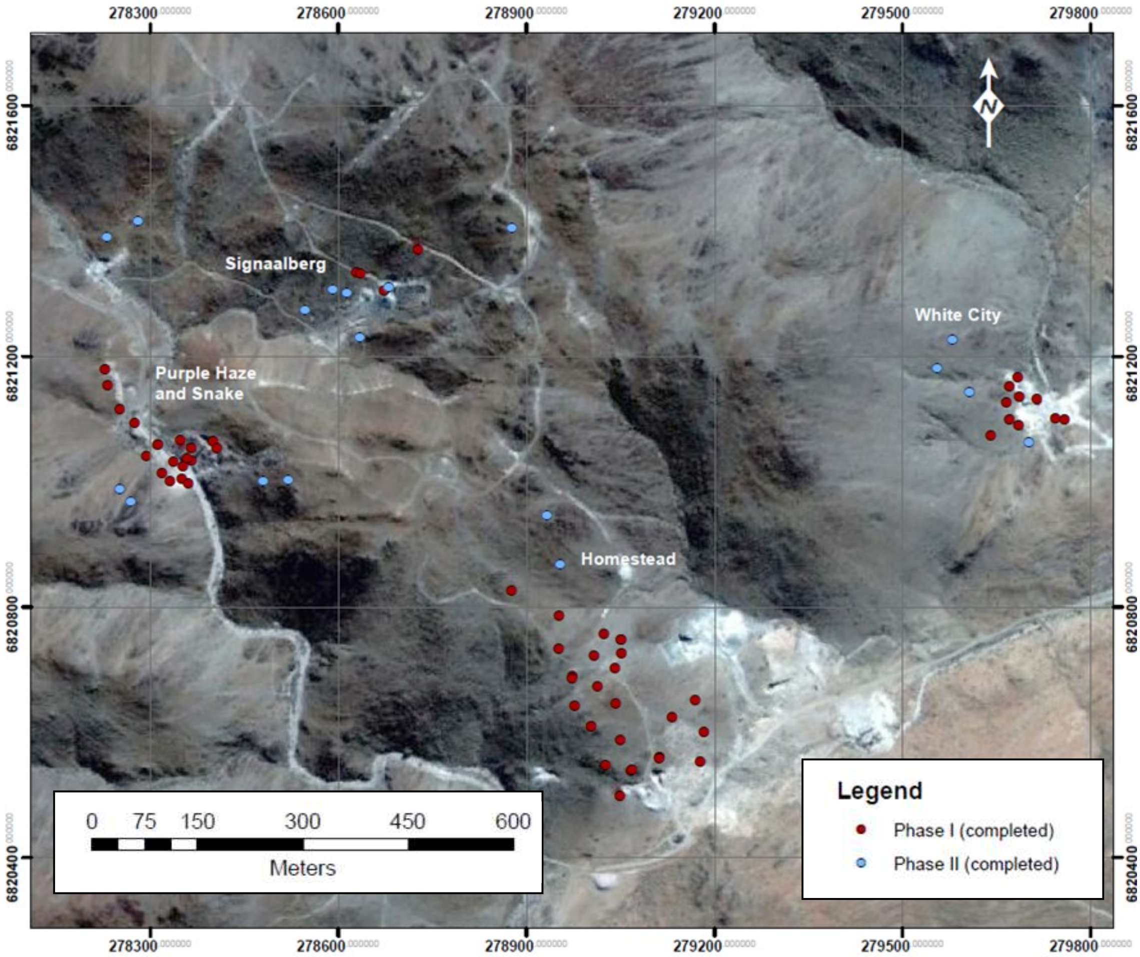
In June 2020, the board announced the move into diamonds and HMS with the acquisition of a 90% interest in Deep Blue Minerals (DBM) plus a stake in Whale Head Minerals (WHM). The acquisition cost was £600,000 funded by issuing the vendor, Richard Jennings (a director of Align Research), with 120 million shares at a price of 0.5p and at the same time £750,000 was raised at 0.5p with £156,000 in fee shares. Simultaneously, Dennis Edmonds was appointed to the Board with the specific mandate of focussing on the diamond and HMS projects and bringing these into production.

Also in that month, the company announced that it had taken control of 100% of TVM through the issuance of a further 4.523,114 new shares and the appointment of Mr Odilon Ilunga as an Executive Technical Director to the Board of the Company.

Operations

Tantalum

The Tantalite Valley Tantalum Mine is located in south eastern Namibia, close to the border with South Africa, with Kazera now having full control. **The mine has one of the highest grades of tantalum ore in the industry**. The project lies 700km south of the capital Windhoek and 13km north of the Orange River which marks the border with South Africa. The mining licence covers an area of 452.7 hectares and is valid until 2026.



Phase I and Phase II exploration programmes completed at the company's 100%-owned tantalum project. Source: Company

The mine lies in a remote area on the south western edge of the Kalahari Desert. This area is home to subsistence farmers. Access to the mine is 48km along a publicly maintained dirt road from the nearest town of Warmbad and the closest railing siding is 75km away in Karasburg. Kazera now has a 100% interest in African Tantalite (Aftan), which has two wholly owned subsidiaries, Tantalite Valley Mine (TVM) and Tameka Shelf Company (which holds title and licences to Tantalite Valley).

History

The Tantalite Valley tantalum deposits were first worked after World War II in the late-1940s. Initially, alluvial deposits were mined although the underlying pegmatite orebodies were identified at an early stage. The prospector which made these discoveries opened an underground mine by driving adits from the outcrop into a number of orebodies using manual mining methods. GEC acquired the property in 1982 as it was seeking to gain its own in-house supply of tantalum for electronic components, but in 1985 it sold out to its local partners which went on to produce and sell only limited amounts of tantalum concentrate.

Magnum Mining and Exploration (ASX:MGU) acquired the property in 2007, but sold it in 2015 as the company was unable to raise funds to develop the mine. Magnum bought the project as it wanted to bid for the big tantalum play Sons of Gwalia and needed to show some tantalite experience. Aftan ended up gaining a 100% interest in the project. In 2014, Kazera, under the name of Kennedy Ventures, acquired an initial 75% interest in Aftan for R12 million (£0.66 million) where R4 million (£0.22 million) was paid in shares at 4.9p per share.

Geology

The project lies within the Namaqua Metamorphic Complex, which is the western end of the Namaqua-Natal orogenic belt and which was formed at around the same time as the Rodina supercontinent was assembled. The Namaqua Metamorphic Complex is composed of metamorphosed gneisses which have subsequently been penetrated by magma which has created intrusive rocks.

The Tantalite Valley is so named due to the high-grade tantalite that occurs in various pegmatite ore bodies that outcrop in this mountainous area of southern Namibia. Tantalum minerals occur within carbonatite and alkaline rocks known as pegmatites, the most economically significant mineral being tantalite (Fe, Mn) Ta_2O_6 which is the primary source of the chemical element tantalum. Here tantalite is found in 5mm – 50mm coarse crystals.

Aftan's Mining Licence (ML-77) spans an area which is mainly composed of a large 7.1km by 3.1km gabbro intrusion which outcrops forming a large dome shaped mountain that rises 500m above the surrounding landscape. ML-77 covers an area which contains all mineralised pegmatites which occur at Tantalite Valley.

Ahead of Kazera's acquisition of a 75% stake in Aftan in 2014, extensive work, including diamond and reverse circulation drilling, pitting and trenching as well as metallurgical test work, had been undertaken on the Tantalite Valley pegmatites. All this work has indicated an in-situ pegmatite tonnage in excess of 2Mt. However past logistical problems and pricing constraints meant that hardly any commercial mining had really taken place.

Production

Kazera has been investing in the project since 2015 which has been focused on the production of tantalum and exploration for lithium. The tantalum ore is mined by drilling and blasting with the run of mine broken rock moved by a load-haul-dump vehicle (LHD) to the gravitational processing plant. Run of mine production is put through a jaw crusher and a vertical autogenous crusher with the tantalite mineral being concentrated using jigs, shaking tables and spirals.

Processing plant at the Tantalite Valley Tantalum Mine Source: Company

As far as processing is concerned, tantalite, which is a fairly heavy metal, has been found to be successfully concentrated using such gravity methods. Plant refurbishment and controls resulted in increased throughput, which allowed the mine to move from the pilot plant phase into production and sales.

A multi-year supply agreement was signed in 2017 with the leading global North American tantalum consumer and end user of Aftan's tantalum ore. In addition, further opportunities to supply additional customers were investigated as production was steadily ramped up from an increasing number of development faces. To meet higher customer demand, plant upgrades and expansion were required.

Upgrades made in 2017 included the installation of new shaker tables which led to improved recoveries. At that time there were plans to upgrade some of the equipment to improve run time efficiency as the demand from its global customer exceeded plant capacity. Longer term, it was proposed to reorganise and expand the current layout to capture more tantalum as well as adding a lithium ore flotation circuit extension to the existing plant which would allow lithium to be also recovered for additional mine revenue.

In 2017 it was reported that current sales of 1t and 3t were ready for shipment (both above 40% grade) and delivery to customers. At that time, the short-term target was to ramp production up to 5-10t per month with longer term plans to continue increasing production up to the 25t per month level.

During the ramp up it transpired that the processing plant needed more water and so processing was stopped and production curtailed. This area has little rain, and water from boreholes was not enough so the processing plant could not work 24/7 and the economics were constrained. **Good opportunities exist given the mine is thought to be the only operating underground tantalum mine in the world that is fully mechanized**. However, production continued at a low level which was not commercial, and the mine has since been put into care and maintenance for a couple of years.

Mineral processing of tantalum at Aftan's mine. Source: Company

The nearest source of water is from the Orange River which lies 17km away. The board decided to suspend production and apply for a permit to extract water. The cost of such a pipeline has been estimated at US$11 million combined with some important upgrades to the plant. The directors took the opportunity to undertake further drilling to prove up more resources to a compliant standard whilst an application for a water extraction permit was being authorized. This decision was made in order to put the company in the best shape in order to attract partners for the all-important water supply pipeline construction.

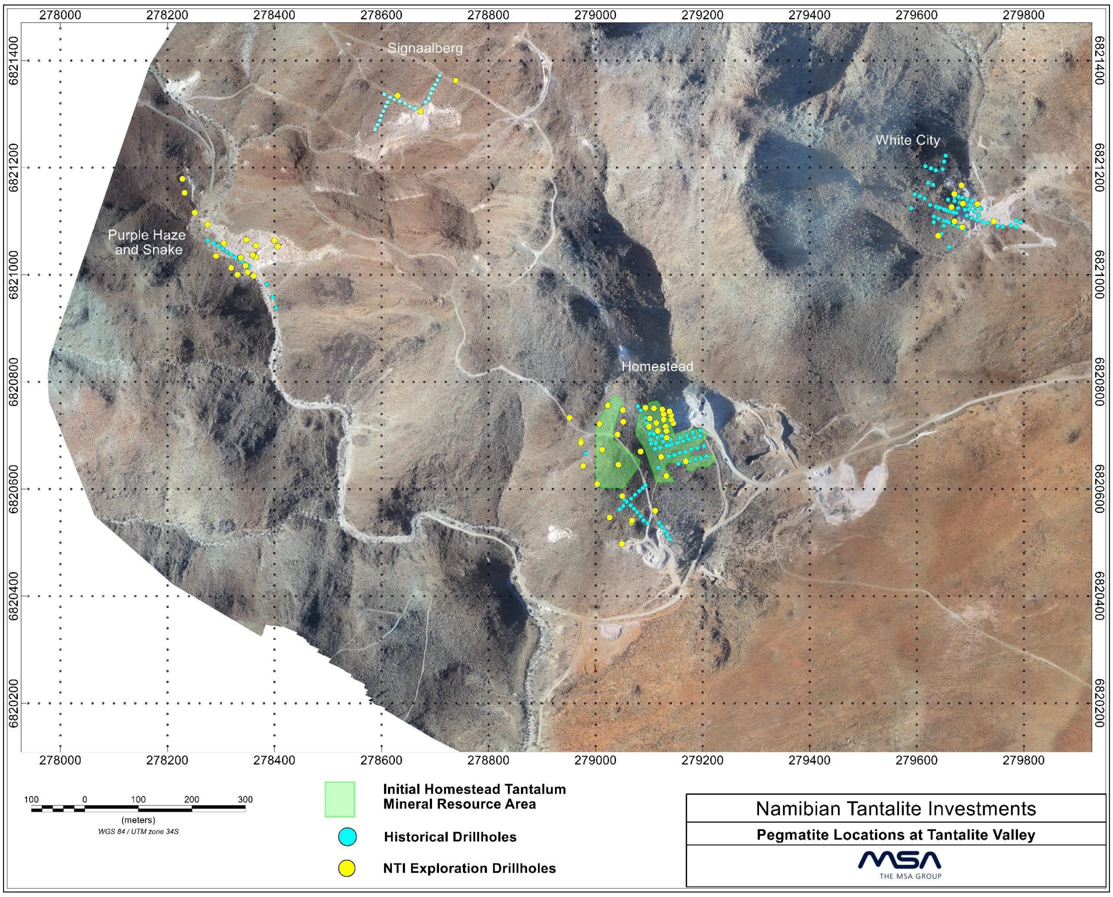
Resources

A core drilling programme was designed by mineral resource consultants over multiple areas across this vast licence area consisting of multiple mountain ranges to establish a JORC resource. Core drilling and bulk sampling have been able to demonstrate significant life of mine for end customers. December 2017 saw drilling commence on two exploration programmes in the Homestead and Lepidolite locations in order to evaluate further resource potential around the mine, which has also showed potential for lithium. Previous operators have conducted limited prospecting for lithium in the form of lepidolite, but spodumene mineralisation is also known to be present**. All this exploration work has resulted in the all important JORC resources being determined for Homestead, Purple Haze and White City.**

Homestead

The Homestead pegmatite is the largest known pegmatite at Tantalite Valley. It is currently being mined by NTI for tantalum. However, discontinuous pods of spodumene and lepidolite have been exposed in the current underground mine workings.

Homestead is an LCT complex spodumene-lepidolite type pegmatite that is about 17m thick. The three mine adits are positioned within the pegmatite which is mined by a drive 4m by 4m along a strike length of about 500m. Homestead is interpreted to be bounded by faults to both the north and the south.



Plan of the drill hole locations at Tantalite Valley and the initial Homestead Tantalum Mineral Resource area. Source: MSA- Homestead MRE 25 June 2019.

Homestead is a poorly zoned and largely homogenous pegmatite. Recognisable zones comprise a moderate contact border and wall zone along the footwall and hanging wall contacts. The central portions of the pegmatite comprise mainly quartz, albite and minor K-feldspar. Tantalite is concentrated in the central zone of the pegmatite, which commonly hosts centimetre-scale euhedral tantalite crystals over an interval of approximately 1m to 5m. Randomly orientated spodumene crystals (varying from light green to white in colour) and discrete lepidolite zones are also observed in the central portions of the pegmatite. In June 2019, mining industry consultants MSA Group determined a MRE of 199.1kt at 237ppm Ta2O5 and 5,400ppm Li2O.

Category	Domain	Tonnes (thousands)	Ta2O5 ppm	Ta2O5 kg (thousands)	Li2O ppm
Indicated	Mining area	73.8	365	26.2	6,900
Inferred	Mining area	16.2	361	5.9	10,800
	Remaining area	109.1	139	15.2	800
Total Inferred		125.3	168	21.1	4,700
Total		**199.1**	**237**	**47.3**	**5,400**

MRE is reported as 100% of the Mineral resource for the project, depleted by the extent of mining workings and estimated at a mining cut of 4m or a threshold of 80 ppm Ta.

Homestead MRE 25 June 2019. Source: MSA Group report

Purple Haze

The Purple Haze pegmatite is the most visible well-mineralised tantalum-lithium bearing pegmatite at Tantalite Valley and is exposed on a slope parallel with the dip of the pegmatite body. Where exposed, this pegmatite has a characteristic purple colour which indicates the presence of lepidolite, a lithium-bearing mica.

It is not currently being mined by NTI but there are signs that small scale historical mining has taken place although mining was limited, just penetrating a few meters into the slope. A trench was excavated during historical exploration activities by blasting down the dip-slope. These excavations allowed for detailed mapping of the pegmatite and interpretation of the mineral domains. Several small pits were also excavated into the pegmatite on the dip-slope. Much of the blasted material is stockpiled near the NTI processing plant.

Purple Haze is an LCT complex lepidolite type pegmatite that dips to the south-west at between 30° and 35° and is approximately 10m thick. Purple Haze has been sampled by drilling and channel sampling over a strike length of approximately 200m from NE to SW and is partially exposed over a dip length of some 100m. The central portions of the pegmatite comprise mainly quartz, lepidolite and minor K-feldspar. Tantalite is concentrated in the central zone of the pegmatite over varying thickness between 1m and 8 m.

Category	**Tonnes (thousands)**	**Ta2O5 ppm**	**Ta2O5 kg (thousands)**	**Li2 ppm**
Indicated	18.9	966	18.2	7,100
Inferred	90.7	491	44.5	8,700
Total	**109.6**	**572**	**62.7**	**8,400**

MRE is reported as 100% of the Mineral resource for the project, depleted by the extent of mining workings and estimated at a mining cut of 4m or a threshold of 80 ppm Ta.
Purple Haze Pegmatite Tantalum MRE 29 November 2019. Source: MSA Group report

Category	**Tonnes (thousands)**	**Ta2O5 ppm**	**Ta2O5 kg (thousands)**	**Li2 ppm**
Indicated	9.7	37	0.4	8,100
Inferred	53.6	31	1.7	9,200
Total	**63.2**	**32**	**2.0**	**9,031**

MRE is reported as 100% of the Mineral resource for the project, depleted by the extent of mining workings and estimated at a mining cut of 4m or a threshold of 300 ppm Li.
Purple Haze Pegmatite Lithium MRE outside the Tantalite Mineral Resource as at 29 November 2019. Source: MSA Group report

White City Deposit

The White City is a dome-shaped pegmatite with visible tantalum lithium mineralisation on exposed pegmatite faces and lies NE of the Homestead pegmatite. It has been previously explored and partially mined from the open cut and other historical small-scale mining from exposures on the dip-slope. **Drilling has confirmed the results of previous exploration at White City and gave the company confidence that continued exploration can realise further resources from the deposit and very strong grades indicated across the mine and with further results to come.**

Category	Tonnes (thousands)	Ta2O5 ppm	Ta2O5 kg (thousands)	Li2 ppm
Inferred	297.6	105	31.2	-

MRE is reported as 100% of the Mineral resource for the project, depleted by the extent of mining workings and estimated at a mining cut of 4m or a threshold of 80 ppm Ta2O5.

JORC compliant maiden MRE at White City Deposit. Source: MSA Group Report as at 19 November 2019.

Operational update

On 4th August 2020, the company provided investors with an update on operations at TVM. Kazera has now completed the drilling portion of its Phase ll exploration program. A preliminary study of these cores continued to identify presence of lithium and tantalite mineralisation within the intermediate zone of pegmatite at Purple Haze, Snake, Homestead and Signaalberg.

A total of around 300 drill core samples are being prepared to ship to ALS to be assayed and reported by MSA Group by the end of 2020. At this stage, results already look impressive with apparently Homestead, Purple Haze, Snake and Signaalberg outperforming expectations, averaging a 95% pegmatite intersect for holes drilled,

Both the lateral and depth extent of the mineralisation host pegmatite remains open-ended. At the same time, completion of testing on channel samples to demonstrate grade of established resources is ongoing at White City.

Based on these positive Phase II results, and a further 70% of the licence being untested (which does include White City where there were mechanical issues), Kazera is now exploring options for a Phase III exploration program which would test complete virgin ground.

At this juncture, the board was also able to report that discussions are well advanced with a new mine operator who will be responsible for drilling, blasting, processing plant and earth moving. The proposed mine operator has over 30 years' experience as a Namibian based company.

In addition, the Orange River Pipeline project has progressed, with Aftan completing all government compliancy certificates as well as engaging with local farmers for the installation of the pipeline. Importantly, positive discussions continue with a Namibian Investor with regards to the Orange River Pipeline.

The company has an ongoing policy of supporting local businesses while expanding the network from which Kazera Trading operates. To this end Kazera Trading has engaged with local mine operators in Namibia to bring together their mineral samples and have them analysed at the TVM laboratories. This is a smart move as it not only reduces cost for local operators but also increases the reach and capability of Kazera Trading.

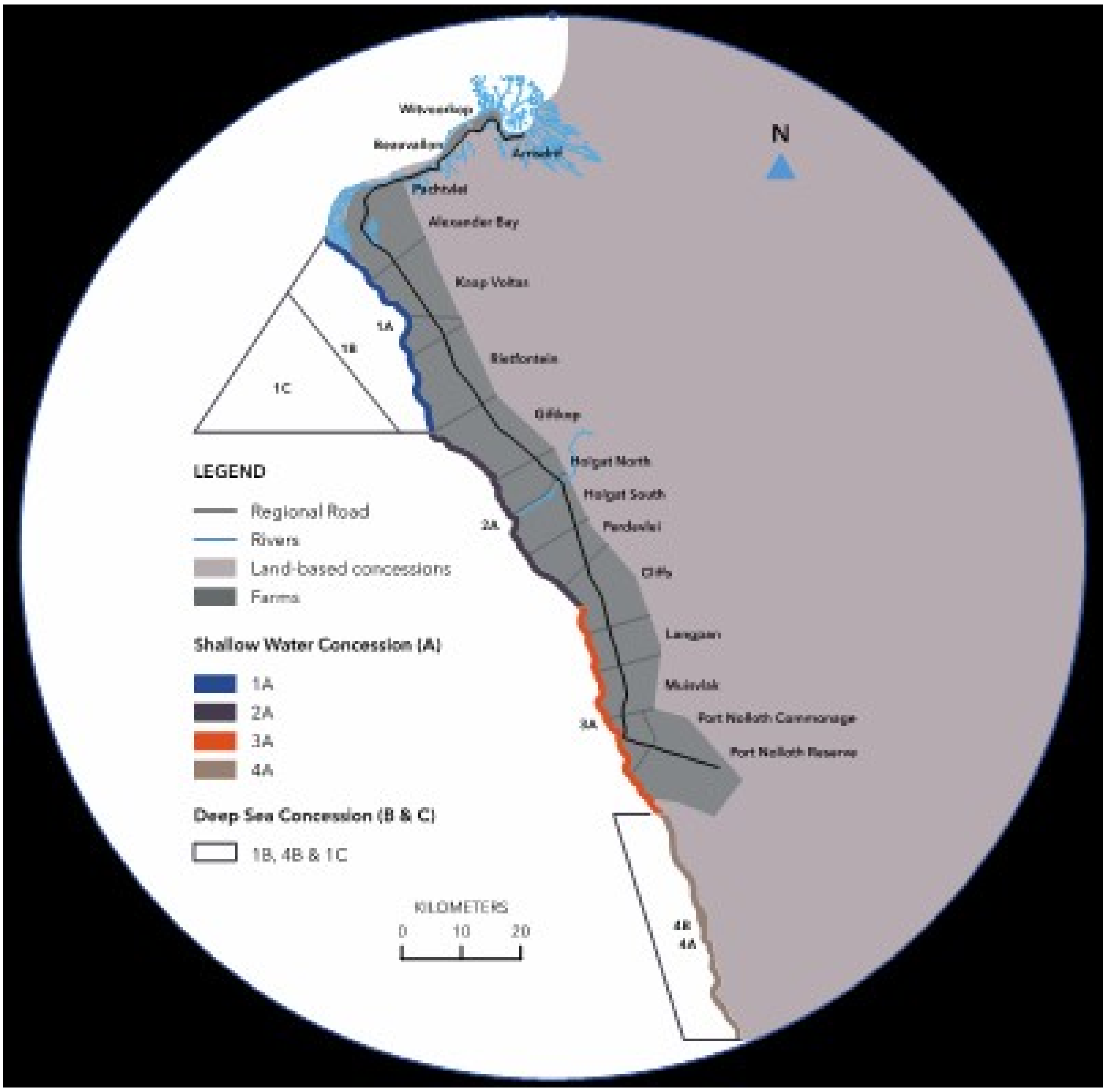
Increased resource

Phase 2 drilling was designed to provide an increased MRE which looks well on the way to being achieved. Following the announcement of a maiden JORC compliant MRE at White City, the mine now has a maiden JORC Compliant Mineral Resource Estimate of 669,600 tonnes of lithium and tantalite resources across White City, Purple Haze and Homestead. **The company is now complete in the Phase 2 drilling programme with just channel sampling left at White City, out of a total of 13 diamond drill holes for 1,344m**. It is reported that good intersections have been recorded but it all depends on assay results and COVID-19 lockdowns have delayed the shipment of these samples to Canada for assaying.

With Phase 1 and Phase 2 drilling completed, a total of 4,212m of drilling has been undertaken and there is still something like 70% of the vast licence area that remains to be properly explored. **Investors will have already realised that this area is highly prospective, and it looks as though it could provide plenty more potential for the future.**

Diamonds

In June 2020, investors learnt that Kazera was to acquire a 90% interest in Deep Blue Minerals (DBM) plus a stake in Whale Head Minerals (WHM). These interests were acquired from Tectonic Gold which spent 18 months on the ground, built a local team, and tested the area extensively. Kazera will be the first company to target to secure a coincident HMS mining permit and a diamond mining contract at Alexkor. The team on the ground has many years of experience at Alexkor.



Alexkor concessions. Source: Company

DBM has a diamond mining subcontract within the Alexkor diamond fields on the Northern Cape coast. Alexkor is a government-owned company that manages diamond-mining concessions in a joint venture with local indigenous landowners in the Richtersveld region. This is formally known as the Pooling and Sharing Joint Venture (PSJV) where Alexkor is the operating partner. The PSJV allocates mining concessions for alluvial diamonds on the coast (beach concessions) and in the water (marine concessions) between Port Nolloth and Alexander Bay.

The 80km long diamond field lies between two historically prolific De Beers operations, to the north over the Orange river in Namibia by Namdeb (DeBeers Namibia) and to the south are De Beers' Kleinzee operations. Alexkor acts as a processing company which controls the diamonds produced and looks after the screening, sorting, preparation and sale. It is also Alexkor which awards contracts to individual contractors to work discrete licence areas.

The PSJV Alexkor mining area has been in operation since 1928 and more than 10 million carats of gem quality diamonds have been recovered over the last ninety years or so**. It is estimated that there are at least another 2 million carats left in the tenement.** The process will be relatively simple on the beach where multi mesh separation will be undertaken before diamond gravels are transported to Alexkor's central recovery plant. The cost of re-starting production is expected to be covered by the proceeds of the recent placing (£750,000). The team will be using similar technology as employed by Mineral Commodities (ASX:MRC) at its Tormin field which lies 200km south of the DBM's area of operations.


Processing alluvial material at Alexkor. Source: Alexkor

Kazera is acquiring a 90% interest in DBM, although subsequently 26% will be acquired by Black Economic Empowerment partners which would leave the company with a 64% stake. **The resource is well understood with the CPR completed in April 2020 outlining an Inferred Mineral Resource of 208,000 carats at a grade of 6.0ct/100m³ which suggests something like US$60m of top line revenue.** Kazera plans to invest US$350,000 on excavators, trucks and all-terrain vehicles as well as separation equipment.

The mining operation is fully permitted, and it is anticipated that production will commence over the coming months. DBM is in the process of applying for a licence in its own name for inland diamonds. **However, it is a small community at Alexkor and already this business has existing permissions granted that would allow production to proceed rapidly.** Inland diamonds require the removal of overburden beach sands to get to the diamondiferous gravels which are then roughly separated to get the 1-20mm size fraction which contains the diamonds and which is trucked to Alexkor's on-site large central processing centre. Similar techniques are used to recover marine diamonds, but the overburden here will consist of a substantial percentage on HMS. Initially, this HMS will be stockpiled awaiting the granting of the HMS licence. Diamond production is likely to be focused more on the marine diamonds because it will help generate the additional HMS revenue.

Cash flow from diamond production is expected to deliver a fairly constant 400ct/month and at an average sales price of US$350/carat, which suggests that DBM could achieve a monthly revenue of US$140,000. Operating costs are forecast to be around the R750,000 (US$20,000) per month level and so after royalty payments to Alexkor, the main contractor, and the government, it looks likely that the diamond operation could produce something like US$40,000 profit a month to Kazera.

By the end of July 2020, the company had successfully negotiated the purchase of all the necessary machinery and equipment to commence operations on the diamond side which was planned to begin on 3rd August 2020. In addition, the board was also able to report that DBM have secured a sub-contract to mine beach diamonds in addition to the existing sub-contract to mine land diamonds.

Heavy Mineral Sands

Heavy mineral sands (HMS) are placer deposits that are normally formed in beach environments by concentration due to the specific gravity of the mineral grains. HMS represent a style of ore deposit which is an important source of zirconium, titanium, thorium, tungsten and rare-earth elements. Demand for titanium is strongly linked with global growth and urban living because it is a raw material found in a wide range of everyday products that are essential for the production of paints, pigments and plastics.

At Alexkor there is the potential of the HMS content of the tailings that has resulted from the past 90 years of alluvial diamond mining, which has so far remained unexploited. In the past 18 months, these tailings have been technically evaluated and found to contain an extensive mineral resource of zircon, rutile, monazite, ilmenite and magnetite, and represent high-grade HMS sampling up to approximately 80% although in the company's plans, a grade of 40-50% HMS has been used to be conservative.

A proprietary application is in process for the HMS licence. Production is planned at a rate of 6,000 tonnes per month (tpm). **A rapid scale up to this level of production is expected as the HMS will have been building up as a by-product of the marine diamond production**. There will obviously be a lot of equipment shared across the diamond and HMS projects, but a gravity spiral concentrator plant will be required to separate HMS that may cost up to US$150,000. The resultant HMS material will be trucked 15km south to Porth Nolloth and is sold to a processing company that will separate the material out into the constituent minerals. A process that adds a lot of value.

Mining HMS at Alexkor. Source: Company

The work programme is to be funded by early cash flows from diamond production. Based on a 6,000tpm operation selling production at US$60/t (assuming a HMS price of US$135-140/t and a grade of 40% HMS) **suggests achieving estimated gross revenues of US$360,000 per month and probably around US$180,000/month net to WHM**. The plan is to look to increase production levels within 12 months of approval being granted.

In addition, an agreement in principle is in place with a third-party international group to build a processing plant on site under a potential Build Own Operate (BOO) structure which could greatly improve the profitability of this operation as WHM would be able to benefit from some of the processing upside**. Land for the plant has already been identified at Port Nolloth and the partner is intending to invest around US$20 million to build a 20,000tpa pilot plant at no cost to the WHM**. It looks likely that the terms of the deal with the third party will allow WHM to benefit by receiving up to 6 times more per tonne for its HMS than the unseparated price (US$135-140/t**) which ushers in the potential of WHM seeing annual revenues in excess of US$10 million.**

It is thought that such a plant could be up and running within 18 months of WHM being granted its licence. The construction of the pilot plant would test the economics and processing circuit ahead of building a far larger plant, which would be able to process more of WHM's production.

There may also be the potential of natural replenishment of beach sands. **Mining south of Kazera's licence application area is Mineral Commodities which has one of the highest-grade HMS operations in the world**. Interestingly enough, it has a unique deposit due to the process and speed of which mineral sands are replenished by the sea. **Since production started in 2014, Mineral Commodities has apparently mined over 9.7Mt so far which is vastly more than its original resource (2.7Mt) due to significant natural replenishment.**

The purchase of the WHM holding from Tectonic requires Kazera to assume the liability of US$500,000 owed by Tectonic to Consolidated Minerals Pte Ltd (CM) for services provided concerning the HMS project. On completion of the purchase Kazera will issue CM with US$250,000 of shares, with a further US$250,000 of shares due only once the commissioning of a plant to process a minimum of 20,000tpm of HMS at Port Nolloth has been achieved.

In each case the price the shares are issued to CM will be determined by the 30-day volume weighted average price of Kazera's shares just before the commissioning of the processing plant. In addition, the company will pay a 2.5% royalty on the gross receipts of WHM from the processing plant, provided it is built and commissioned before 31st October 2023.

The purchase of the shares in WHM is conditional on a Competent Person's Report (CPR) on WHM being received by the company, WHM gaining a mining permit for the HMS deposits at Walviskop, completion of due diligence and the arrangements concerning having a Black Economic Empowerment Partner in place. Such conditions are required to be satisfied before 31st December 2020 or as otherwise agreed by Kazera and Tectonic.

HMS on the beach at Alexkor. Source: Alexkor

Strategy for growth

Kazera is in the midst of being transformed into a diversified resources company where its fortunes will no longer be dependent on a single asset in a single jurisdiction where a shortage of water has stymied production. Kazera's tantalum asset seems to be highly undervalued by the market which has awarded it a shell company style valuation as, like a lot of AIM companies, it needs additional cash to progress. **Moving ahead, the company now has the prospect of near-term production with a highly visible 3-4-month timeline to restarting diamond production and the all-important revenue generation**. The cash flows will be used to facilitate production of HMS and further development of Kazera's Namibian Tantalite Mine. **There is now a clear pathway to near term cash flow generation enabling each project to be funded internally and best of all there is a clear intention of strictly limiting dilution moving ahead.**

The move into diamonds and HMS neatly fits into Kazera's policy of investing in high-impact commodities in the African mining sector at the bottom of their cycle. **These operations enjoy fairly close proximity with both of these new projects, located within 450km of the company's tantalum project in Namibia, thus allowing for good logistics and some resources to be shared.** It has to be pointed out that Tectonic made tremendous progress in developing the twin diamond and HMS interests and these projects come both with in-country capable, ready to go management teams with over 40 years' local diamond mining experience and BEE partners either in place or being arranged. In addition, each operation represents alluvial mining which involves the simple free digging beach mining operation with no drilling or blasting required. **Kazera comes into diamond mining at an opportune moment in the diamond pricing cycle where prices are at their lowest but with the big bonus of the HMS opportunity where it is anticipated that there will be a global supply shortage just as their projects are expected to come on stream.**

Importantly, the new diamond mining operation represents a low risk investment into a well understood resource and is fully permitted where production is planned to begin in early August 2020. There is a simple work programme ahead of that time with an experienced management team already in place to deliver growth. So, in the intermediate term there is expected to be rising production from diamonds. **As well as investing at a diamond cycle nadir, revenue is in dollars and costs are in rand**. This currency has been consistently weak over the years, reflecting South Africa's constrained growth prospects resulting from persistently weak business sentiment and ongoing bouts of load shedding (power cuts). **Given all the above factors, the diamond operation has an extremely attractive profile, with relatively low start-up costs.**

Cash flows from diamonds and HMS are planned to open up blue sky potential of the world class tantalum project in Namibia. The opportunistic diversification into diamonds and HMS should result in the generation of both cash and market interest, providing momentum in the share price. **Given the expected rapid progress at both these developments, putting a deal together to fund the tantalum mine back into production will be a completely different matter than it has been in the past**. There are plenty of non dilutive methods to finance this mine which include an offtake agreement, a royalty agreement or another company buying a strategic stake at the project level. **Remember, the mining licence has already been granted and there is a plant, mine and ore reserves already in place.**

The tantalum project has demonstrated small scale production of tantalite concentrate for the global tantalum market where its partners/buyers are large global companies involved in manufacturing. **These buyers need tantalum with good provenance, which Aftan's production from Namibia will provide.** Plus, there is the potential for lithium which Kazera almost gets for nothing as the tantalite mineralisation contains lithium as well as the lithium ore contained tantalite. At the same time, impressive lithium grades at Purple Haze also come with good levels of tantalum. In 2018, licences over 1,500km² adjacent to the Tantalum Valley were acquired by Walkabout Resources (ASX:WKT) where more than 600 pegmatite bodies have been identified together with more additional pegmatite swarms. On this neighbouring property, structural control has led to the identification of Lithium-Caesium-Tantalum LCT-type enrichment pegmatites with grades as high as 1.6% Li2O5. Demand for lithium is rising dramatically for use as a battery metal where the World Bank in its recently updated "Minerals for Climate Change" forecast that demand for lithium, cobalt and graphite could climb by 400-500% by 2050 in a scenario where global warming is limited to 2°.

Tantalum is becoming increasingly important given its use in the manufacture of many personal electronic devices such as smartphones. **This mine represents very high-grade tantalum, the main problem was they could not get the volumes that buyers required – a nice problem to have**.

Recently, investors learnt that the company had registered a new subsidiary, Kazera Trading, to become its ore trading arm to facilitate the global movement initially of tantalum and niobium. This looks like a very interesting move through leveraging the proven experience of Kazera's management within the supply chain directly to the end user. **Already, the first small trial shipment has been sent out for approval in order for the end user to test the supply chain and it looks like we could be learning a lot more about this opportunity in the future.**

It is never good to be too dependent on any one markets or group of end users and so moving ahead, Larry Johnson, CEO, is continuing to develop the tantalum trading arm which would allow Kazera to take its high grade product and blend it with artisanal production representing low-grade non-marketable material which is a way of adding further value within Namibia. **Very importantly, Aftan's tantalum has none of the problems of tantalum concentrate sourced from Mozambique which has high (Class7) radioactivity levels.** Production needs be mixed with silica to reduce the level of radioactivity to allow it to be shipped. On arrival, the silica has to be removed, which adds two additional processes. There is scope to use Aftan's concentrate as a dilatant for Mozambique tantalum as well as other class 7 producing areas.

Kazera's tantalum partners want the security of a tantalite supply which will come from the expanding JORC-compliant resource and the water pipeline from the Orange River. Together with other upgrades at this operation, this will probably require US$11 million in all. **The prospect of growing cash flow from the new diamond and HMS operations we believe could have a transformational effect on the company and its share price.** Such improving fundamentals ought to attract the spotlight to firmly shine on Kazera and make it a lot easier to negotiate the funding for getting the tantalum mine belatedly into commercial production.

We point out however that without the water problem, this tantalum mine could make several million dollars a year as it stands with very minimal upgrades to the plant and an addition of a government approved Tailings Dam. With the cash flow being generated, there should be little holding the tantalum project back as it has the plant, mine and ore resources in place. In the fullness of time, it is intended to expand the current operation ahead of acquiring other projects in tantalum to provide multiple sources of revenue and a bigger base with less risk. **Over the coming months the activity on the ground in the various projects, along with the newsflow, ought to begin to convince the market of the obvious value disconnect that exists in the stock.**

Financials & current trading

Kazera's results over the last few years mainly show the cost of exploration expenditure incurred at the Tantalite Valley Mine (TVM) through its stake in Aftan, along with administration expenses. Over these years, increasingly the Tantalite Valley Mine (TVM) is being seen as a highly material project where the management team is looking to focus on high-grading the mining licence and processing the ore to create meaningful production from the mine going forward.

12 months ending 30 June £ '000s	**2015**	**2016**	**2017**	**2018**	**2019**
Revenue	-	-	-	-	-
Pre-tax profit (loss)	(219)	(788)	(1,098)	(2,538)	(1,340)
Net profit/(loss)	(219)	(788)	(1,098)	(2,538)	(1,340)

Kazera's five-year trading history. Source: Company accounts

2019 results

Financial results for the twelve months ended 30th June 2019 saw the continued drilling programme to define JORC compliant resources at the TVM to enable a comprehensive understanding of the mineralisation on the property and to assess fully the fundamental and future value of the operation. During this period, the borehole drilling campaign was completed at both the Homestead and Purple Haze deposits.

In the 12-month period, exploration expenses were £0.469 million, with £0.883 million of administration expenses. There was a maiden other operating income of £12,000 which combined to give a pre-tax operating loss of £1.340 million. No tax was payable so the post-tax loss was also £1.340 million. The total comprehensive loss for the year attributable to the equity holders of the parent was £0.993 million and £0.291 million was attributable to the non-controlling interest. The loss per share attributable to the owners of the company from continuing operations was a 0.39p.

2020 interim results

The six months to 31st December 2019 covered a period when the successful exploration campaign at Homestead and Purple Haze deposits continued, with maiden JORC (2012) compliant Mineral Resources identified at both these deposits. The operating loss, loss before tax and loss for the period all came out at £0.524 million, with a loss per share of 0.11p.

Recent developments

In June 2020, the board was able to announce an agreement which took the company into the near-term producing diamond mine and an HMS opportunity in South Africa. Kazera is to acquire a 90% interest in DBM plus a stake in WHM. The acquisition cost was £600,000, funded by issuing the vendor with 120 million shares at a price of 0.5p and at the same time £750,000 was raised at 0.5p and £156,000 in fee shares. Kazera will also be assuming US$500,000 of liabilities from the vendor of the shares in WHM, to be satisfied by issuing ordinary shares in the future on completion of certain milestones.

In late-July 2020, in an operational update, the company brought investors up to speed on progress since the acquisition of DBM some six weeks earlier. By that time, Kazera had successfully negotiated the purchase of all necessary machinery and equipment for the commencement of operations, with diamond mining now commenced.

Early-August 2020 brought news of progress at TVM in Namibia. Firstly, Kazera has now completed the drilling portion of its Phase ll exploration program with the analysis of the core samples expected by the end of 2020. Secondly, discussions were reported to be well advanced with a new mine operator who will be responsible for drilling, blasting, processing plant and earth moving. Thirdly, the Orange River Pipeline project has progressed somewhat, with Aftan completing all government compliancy certificates as well as engaging with local farmers for the installation of the pipeline. Finally, apparently positive discussions continue with a Namibian investor concerning the Orange River Pipeline construction.

Risks

Geological risks

There are a series of risk factors concerning the amount of understanding of the geology of the project areas, the mineralisation being targeted and the distribution and grade of tantalum, lithium, diamonds and HMS.

Political risk

There are very minimal political risks involved in companies operating in Namibia with a higher risk in South Africa.

Metal price risks

Tantalum is a small industry which has historically been susceptible to rapid changes in the balance between supply and demand resulting in volatile price movements. Since 2000, the price of tantalum has traded between US$600,000/t and US$100,000/t and so the company has metal price risks to deal with that it will manage well with its experienced board and understanding of the end user needs, especially its ability to stabilise pricing to global end users.

Exchange rate risks

The company's accounts are in pounds, with tantalum being priced in US dollars and local costs in Namibian dollars and South African rand. Fluctuations in the value of the pound against US, Namibian dollars and South African rand may have an effect on the valuation that Kazera is awarded by the UK stock market.

Future funds

The market for raising funds for small cap resources companies has not been easy over recent years and has worsened by the spread of the COVID-19 pandemic. Some recent fund raisings in the resources sector have seen share prices being undermined by incoming investors demanding substantial discounts to provide the necessary capital.

Board

Giles Clarke – Chairman

Giles is currently Chairman of Westleigh Investments Holdings Limited and Non-Executive Chairman of Ironveld plc (AIM: IRON). He began his career as an investment banker with Credit Suisse First Boston before successfully establishing, building and selling a number of high-profile businesses including Majestic Wine, Pet City plc and Safestore plc.

Larry F Johnson – Chief Executive Officer

Larry has more than 35 years' experience in the Manufacturing and Global Supply Chain Industry that included tantalum, ceramics and film industries having worked with two global leading world class manufactures having multiple facilities throughout the world. Both were both publicly listed companies with core interests in tantalum along with ceramics and films. Throughout his career, Larry has held several senior key positions, most recently as Director: Mining and Global Tantalum Supply Chain at KEMET Electronics Corporation. Significantly, he spent several years focusing on the development of conflict-free global supply chains, which will be of material benefit for Aftan and will allow expansions having this clear path of compliance and risk management. Larry is currently based at Tantalite Valley Mine (TVM) in Namibia and oversees Aftan's operations on site.

Nick Harrison – Director

Nick is currently a Non-Executive Director of Ironveld plc (AIM: IRON). He was Finance Director of Pet City plc and has held Board positions at a number of private companies with international activities. Nick is a Chartered Accountant, having qualified with Arthur Andersen before holding senior roles with Deloitte, Midland Bank (International) and Coopers & Lybrand.

Odilon Ilunga – Executive Technical Director

Odilon is a Metallurgist and Civil Engineer who graduated with a Master's degree in Metallurgical Engineering from the University of Witwatersrand. He began his career in mining at Ongolopo Mining Limited in 2004 before moving to Weatherly Mining Namibia in 2010. Odilon was appointed Operations Manager at African Tantalum in 2017, where he was in charge of tantalum ore concentration and development strategies for the processing plant. He is also the Head of Mineral Processing at the Department of Mining and Metallurgical Engineering, University of Namibia.

Dennis Edmonds – Executive Director

Dennis was appointed a director in June 2020 and is the Director in charge of the newly acquired project. He has a wealth of commercial and corporate experience in southern Africa, having practiced as a corporate solicitor in South Africa - and subsequently in the United Kingdom, specializing in structuring and executing corporate transactions. Dennis has also been employed at board level in the investment banking and venture capital industries. Over the past 15 years he has been a Director of public and private companies, including those operating within the mineral resources sectors in emerging markets. Most recently, Dennis was the Executive Chairman of AIM-quoted Alien Metals Limited, a company with a portfolio of mineral assets in South America and is currently non-executive Chairman of Pathfinder Minerals PLC which has an interest in an HMS deposit in Mozambique.

Forecasts

We initiate coverage of Kazera with forecasts for the financial years ending 30th June 2020 to 2023. For the year ending 30th June 2020, we have assumed that exploration expenditure at the tantalum project totals £0.200 million, with reduced administration expenses of £0.700 million giving a pre-tax loss of £0.900 million. With no tax payable, the loss for the year is also £0.900 million. The loss per share comes out at 0.19p.

The year ending 30th June 2021 sees the expected start of operations in South Africa, with both the diamond and the HMS projects assumed to come into production. At this stage, it is assumed that the company receives 90% of all revenues, as during the early years the BEE partners will be paying off acquisition costs for their stakes in both projects. Mining of diamonds is expected to begin quite early in this period, with production at around 400 carats a month recovered which are sold at US$350/ct. HMS production is expected to begin some months later, but good progress is expected early on as the diamond operation will have been stockpiling HMS material for a number of months. At this stage it is assumed that this operation would be mining 12,000t a month at 50% grade HMS producing and therefore selling 6,000t per month of HMS which is assumed sold on the basis of a US$135/t HMS. Revenue in this period is estimated to total £3.380 million and after a £2.270 million cost of sales results in a gross profit of £1.110 million. After further exploration expense at the tantalum project and administration costs, the pre-tax profit comes out at £0.210 million, which is also the profit for the year as no tax is assumed to be paid. On this basis the earnings per share would be 0.01p.

Year End 30 June (£'000s)	**FY2020e**	**FY 2021e**	**FY 2022e**	**FY 2023e**
Revenue	-	3,380	10,800	13,100
Cost of sales	-	(2,270)	(8,290)	(9,950)
Gross profit/(loss)	-	1,110	2,510	3,150
Exploration expenses	(200)	(100)	(100)	(250)
Administration expenses	(700)	(800)	(900)	(900)
Other operating income	-	-	-	-
Operating profit/(loss) before tax	(900)	210	1,510	2,000
Taxation	-	-	-	-
Profit/(loss) for the year	(900)	210	1,510	2,000
Profit/(loss) attributable to owners of the Company	(665)	99	1,279	1,486
Profit/(loss) attributable to non-controlling interests	(235)	111	231	514
	(900)	210	1,510	2,000
Basic and diluted earnings per share (pence)	(0.19)	0.01	0.15	0.17
Weighted average number of shares	359,054,256	862,635,590	862,635,590	862,635,590
Total shares plus options and warrants	824,167,938	862,635,590	862,635,590	873,167,652

Source: Company/Align Research

Valuation

To determine a valuation for Kazera and a target price which makes sense in the current market, we have developed a series of financial models for the three operations moving forward. These are based on details provided in company announcements, presentations and discussions with management, as well as sight of the company's financial model for the tantalum project.

Diamonds

We sought to value the company's interest in DBM. The Inferred MRE in the CPR outlines 208,000 carats at a grade of 6.0ct/100m³, which has been used to determine the level of annual production over a mine life of 10 years. Alexkor contracts run for 5 years and we have assumed that the partners are successfully able to gain a second 5-year term. Plateau production rate of 400 carats per month (recovered) has been assumed, which looks achievable within a matter of months of commencing production as the management team are Alexkor veterans and know the best places to mine. Indicative sales prices for the average grade and size of stone from the concession areas is @ US$350 per carat giving an initial diamond resource of in excess of $60 million of top line revenue.

At this initial level of production, operating costs are assumed at R750,000 per month (US$20,000 per month). Alexkor charges contractors a royalty of 20% for inland diamonds and 30% for marine diamonds which covers screening, sorting, preparation and sale of diamonds. DBM plans to focus more on the marine diamonds as the by-product is HMS and we have used a composite royalty figure with this in mind. Pre-production capex totals US$350,000 for excavators and trucks etc. A South African tax rate of 28% was applied. The after tax cash flow was discounted at 12%, a figure we chose to use as it would ensure that our valuation remained conservative - such a discount rate serves to risk the project more than rates of 10%, 8% or even 5% rates which are commonly used.

Kazera gained an initial 90% interest in DBM but this is expected to be reduced by a 26% stake being acquired by Black Economic Empowerment (BEE) partners. An acquisition price for the BEE partners' stake is determined and then paid by its share of the project's profits – which has been accommodated within the model. On this basis it is assumed that Kazera gains 90% of the cash flow during the early years. **The NPV attributable to Kazera was calculated to be US$5.44 million which has been carried through to our SOTP parts table.**

Heavy Mineral Sands

Another financial model has been developed to value the new HMS project, where it was assumed that Kazera gains a similar stake in WHM. Once granted, the HMS licence is expected to produce 6,000tpm rapidly as the HMS has been put on one side from the mining of the marine gravels. A pre-production capital expenditure of US$150,000 is used for the gravity spiral separator which is assumed to be funded by early cash flows from diamond production. **The grade employed has been a conservative 40% HMS although there have been reports of recent assaying at around the 80% level.** We assumed that there are minimal operating costs as the sands are largely already processed to remove the diamond gravel and only need only go through the spiral plant.

We have used a flat HMS price of US$135/t (delivered to Port Nolloth) and in the early days it is assumed that all HMS is sold unseparated at that price. Initially, run of mine production is expected to rapidly build up to 12,000t per month. Assuming a HMS grade of 50%, this would be run of mine production is to be fed into a spiral separator resulting in 6,000t per month of HMS**. At US$135/t, WHM is expected to make a profit of US$60/t and with production at 6,000t of HMS per month would be expected to generate a profit of US$360,000 per month**.

Regarding the 20,000tpa pilot processing plant which is planned to be established at Port Nolloth, we have been advised that this plant will take 18 months to build and that work is not likely to start until the Mining Permit is in place. **So, we have assumed that this plant comes on stream in mid-2022 and that WHM will have use of the full capacity**. Processed HMS is expected to sell for around US$1,500/t and WHM and its associates would receive 40% of this price (the owner of the plant retaining a 60% share) which suggests US$600/t, but taking into account costs of transport, plant costs and wishing to remain conservative we have used a figure of US$360/t.

Further we have assumed that the strategy might be to reduce production at that time to 20,000tpa (1,666t/month) with the remaining material being stockpiled for the larger capacity plant of 12,000t per month.

We have used the same kind of factor to derive annual pre-tax profits for WHM and have allowed for SA tax rates to determine the annual cash flows attributable to WHM. **Moving forward this pilot plant is expected to be expanded to a capacity of 80,000tpa a couple of years later when we have assumed that HMS production increases to make the full use of the plant's nameplate capacity.**

These cash flows were once again discounted at 12% to determine the NPV, and that which is attributable to WHM. Once again, we see Kazera's interest in WHM being reduced by the inclusion of BEE partners in the company taking the required 26% holding. As with the diamonds, we have assumed that the company gains 90% of the cash flow during the early years until the BEE partners have paid for their holdings. The NPV attributable to Kazera was calculated to be US$17.43 million

We have however further risked the valuation by 50% for a number of reasons. Firstly, to reflect the stage of development of the project, secondly, because as yet, the CPR has yet to be delivered to the company and finally, this project represents the first HMS operation at Alexkor and there might be some delicate negotiations to take place as regards local royalties as this has all the makings of being a highly profitable operation. **This results in a heavily discounted figure of US$8.71 million being carried through to our SOTP parts table**

Tantalum

It is our belief that with the diamonds and the HMS set to go into production this will give rise to the real prospect of early cash flow and will serve to provide a funding runway to fully develop the large-scale tantalum opportunity.

Over the next five years, it looks as though a total of US$11 million of capex will be necessary, with the majority required initially for the pipeline and key upgrades to the plant to ensure commercial production. Already, governmental approvals are in place for the extraction of water from the Orange River and a 17km pipeline to the mine site which will require a series of booster plants, where a fixed price contract has been agreed with a local Namibian engineering firm after a bidding round. Subsequent capex is assumed to be funded from the strong cash flow.

The project has been modelled over a 10-year production period based on the resources outlined to date. Annual run of mine is assumed to quickly rise from 24tpa at a grade of 25% Ta_2O_5 initially resulting in around 13,000lbs of tantalum in concentrate, to 240tpa in year 4 for 130,000lbs of tantalum and to a plateau rate of just over 300tpa in year 7 for 170,000lbs of tantalum. Ahead of the disruption caused by the COVID-19 pandemic to all metal prices, the tantalum price seems to have been around the US$65-70/lb level. In order to get the attention of end users which are seeking to buy tantalum in volume on contract, we believe it would be necessary to be offering the metal at a discount to that level**. In our analysis we have employed a flat price of US$60/lb.**

Lithium production is anticipated to start in year 4. Additional operating costs are quite low as lithium is being mined at the same time as the tantalum. With the current tantalite plant in place, this means that only additional flotation extension for the lithium is required. This comes at a fraction of the cost of a new lithium flotation plant of US$18 – 25 million. On increasing mill throughput, operating costs are seen to fall to something like US$25/lb of tantalum.

After allowing for royalties (3%) and local taxation rates (15%), the resultant cash flows were once more discounted at 12% and an NPV of US$36.85 million was determined thus an NPV(12) attributable to Kazera. Discussions seem to be continuing with industry players which are looking to fund the necessary capital programme at the mine. **We believe these are likely to be accelerated now that Kazera's finances are about to be transformed**. In our analysis, we have looked at an industry player taking a 30% stake at the project level by funding the necessary capital expenditure to get the mine back in production. We assume that such a move would see Kazera's stake in the mine being reduced to 70%, which gives a NPV(12) attributable figure of US$25.80 million. **Once again, we have further risked this figure by 50%, which fully reflects some of the uncertainties that exist ahead of the funding for the restart being gained and this an NPV(12) of $12.90m.**

Sum-of-the-parts valuation

Asset	**Valuation US$ million**
Diamonds – risked attributable NPV(12)	5.44
HMS – risked attributable NPV(12)	8.71
Tantalum – attributable NPV(12)	12.90
Total	**US$27.05m**
FX rate of $1.31:£1GBP used	**£20.65m**
Per share (681,250,986)	**3.04p**
Fully diluted basis	
Proceeds from the conversion of warrants	£0.95m
Total	**£21.60m**
On a fully diluted basis (824,167,652)	**2.62p**
Allowing for the US$500,000 of shares to be issued following the construction and commissioning a 20,000tpm processing plant at an assumed price of 1p per share	
Increased number of shares (862,635,590)	**2.50p**

Source: Align Research

The total valuation for the company came out at US$27.05 million or £20.65 million, which equates to 3.04p based on the current number of shares in issue (681,250,986). On a fully diluted basis (824,167,652 shares by the end of the 2021 financial year) the valuation increases to £21.60 million (following the receipt of warrant proceeds), which would give a per share valuation of 2.62p. However, there is also an additional US$500,000 worth of shares to be issued following the construction and commissioning of a plant to process a minimum of 20,000tpm of HMS in or near Port Nolloth. These shares are likely to be issued in calendar year 2021 and we have assumed that giving the rapidly changing fortunes that come with such a development that the shares would be issued at least at a minimum of 1p Based on that increased number of shares (862,635,590), the per share valuation would be 2.50p, which is a figure that has be chosen to be our initial target price – the discounts to the NPVs will be reduced as the various milestones are reached.

Accordingly, we initiate coverage of Kazera Global with a Conviction Buy stance and first target price of 2.50p.

Peer group comparisons

At the same time, we also investigated the valuation currently being awarded to the peer group. **Peer comparisons clearly provide the potential opportunity for the company to attract a substantially larger market cap moving ahead as the risks become reduced**.

DIAMONDS					
Company	**EV £m**	**Sales £m**	**EV/ sales**	**PE**	**Comments**
Bluerock Diamonds (LON:BRD) Share price: 41.5p Market cap: £3.67m	3.06	4.07	0.75	-	Mining in the Kimberley region of South Africa. The company has a mining right and operates in the Kareevlei Tenements. Its Kareevlei Project has over 3,000 hectares in the Northern Cape province of South Africa. In FY 2019 mined 323,000t (now mining at 2,000tpd) at 4.34cpht and sold 12,675 carats at US$415/ct.
Botswana Diamonds (LON:BOD) Share price: 0.70p Market cap: £4.68m	4.67	nil	-	-	Exploration projects in Cameroon and Mozambique. Botswana Diamonds operates in two of the kimberlite clusters, Orapa where the mines are and in Gope in the Kalahari Desert, which is an emerging diamond province with one mine, Ghagoo, and a recent discovery K-X 36. The company's operations include Botswana Alrosa JV, Botswana Bright Stone JV, Botswana Orapa Licences, and Cameroon.
Gem Diamonds (LON:GEMD) Share price: 23.63p Market cap: £32,3m	114.1	139.3	0.82	16.0	Exploration and development of diamond mines. The company has diamond mining activities in Lesotho along with sales, marketing, and manufacturing of diamonds in Belgium where the maximum revenue is generated. Its projects include Letseng Diamond mine and Ghaghoo Diamond mine. In 2019 from Letseng recovered 113,974ct mining 6.7Mt ore (24.0Mt waste) with average value of US$1,637/ct achieved with 11 diamonds > 100ct
Karelian Diamonds (LON:KDR) Share price: 4.02p Market cap: £1.83m	1.81	nil	-	-	Diamond exploration in the Karelian Craton of Finland. The company's diamond exploration projects include The Lahtojoki diamond project, The Seitapera diamondiferous kimberlite pipe, and The Riihivaara diamond exploration project.
Petra Diamonds (LON:PDL) Share price: 1.30p Market cap: £11.4m	494.9	344.6	1.44	-	Diamond miner and supplier of rough diamonds to the international market. Group functions through Mining and Exploration segment which include extraction and sale of rough diamonds from mining operations in South Africa and Tanzania and exploration activities in Botswana. Its operating mines include Finsch, Cullinan, Helam, and Williamson. In 2019 FY, 3.87Mcts were recorded from 13.3Mt ROM treated, for revenue of US$463.6m (US$124/ct).
HEAVY MINERAL SANDS					
Mineral Commodities (ASX:MRC) Share price: A$0.24 Market cap: £55.2m	50.0	55.0	0.91	9.3	Tormin Minerals Sands operation mines south of KGZ's licence application area. It is one of the highest-grade HMS operations in the world and a unique deposit due to the process and speed at which mineral sands are replenished. Since operations commenced at Tormin in 2014, the Company has mined over four times the initial Indicated Resource of 2.7Mt at an average head grade of over 32% HMS over the life of mining, due to this significant replenishment. In 2019, ROM feed 2.4Mt produced 589,4783t, 179,057t garnet conc, 49,937 ilmenite conc, 9.9939t zircon/rutile conc (66.74% zircon – 15.36% rutile). Sales revenue US$58.3m for 440,210 wet tonnes sold (US$132.50/t).
Kenmare Resources (LON:KMR) Share price: 191.07p Market cap: £213.7m	201.6	207.3	0.97	6.2	Moma Titanium Minerals Mine in Mozambique. One of the world's leading producers of mineral sands, Kenmare mined >33Mt of ore in 2018 to produce >1Mt of final products and produces >7% of the world's demand for titanium dioxide. In 2019, excavated 36.8Mt of ore, total shipment of finished products 1.03Mt, sales of mineral products US$270.9m (US$183.0m ilmenite, US$60.5m zircon, US$8.0m rutile and US$19.4m conc)

Peer group comparisons – diamonds and HMS. Source: Align Research

TANTALUM					
Company	**EV £m**	**Sales £m**	**EV/ sales**	**PE**	**Comments**
Champion Bear Resources (TSVX:CBA) Share price: C$0.15 Market cap: £4.83m	4.83	nil	-	-	Mineral exploration and development company focused on the historically prospective regions of Ontario. The company's primary targets are gold, platinum group metals, copper, poly-metallics, tantalum and REE. Four principal projects including Separation Rapids, where CBA is at Phase II drilling/geological mapping stage.
Cobalt Blockchain (TSXV:COBC) Share price: C$0.045 Market cap: £4.40m	4.67	nil	-	-	Expanding its exploration and development business to include cobalt assets in the DRC. Seeking to use blockchain to try to track cobalt's journey from artisanal mines in DRC through to products. Also exploring for tin, tantalum, tungsten, copper, cobalt, zinc and gold.
Critical Elements Lithium (TSXV:CRE) Share price: C$0.325 Market cap: £29.5m	31.9	nil	-	-	Exploration for rare metals and rare earths, particularly tantalum, lithium, and niobium. Its 100%-owned Rose Lithium-Tantalum project with PFS (2017). At US$750/t lithium and US$1,500/t for tech grade lithium and US$130/kg for Ta2O5 project has a NPV(8) of C$726m and IRR of 34.9%, both after tax.
Commerce Resources (TSXV:CCE) Share price: C$0.26 Market cap: £7.56m	7.25	nil	-	-	Exploration and development company with a particular focus on deposits of REEs and rare metals including tantalum and niobium. Focused on the development of its Ashram Rare Earth Project at the Eldor Property in Quebec, and its Upper Fir Tantalum and Niobium Deposit at the Blue River Project in British Columbia. Both projects are ready to market to potential partners. Ashram project is at an advanced stage of PFS and needs $6m finance to complete.
Globe Metals & Mining (ASX:GBE) Share price: A$0.017 Market cap: £4.58m	1.14	0.08	14.3	-	African-focused resources company with its Kanyika niobium project in Malawi which is planned to produce niobium and tantalum products. A JORC MRE indicates Kanyika could support a 20-year mine life. The Government of Malawi has stated that the Development Agreements negotiations are continuing in good faith (began in 2014 and are still continuing).
Liontown Resources (ASX:LTR) Share price: A$0.125 Market cap: £110.9m	104.6	nil	-	-	World-class Kathleen Valley Lithium Project in Western Australia with a MRE of 156Mt @ 1.4% Li2O and 130ppm Ta2O5 (released May 2020). 80% of the MRE is Measured and Indicated which is provide the basis for an updated PFS due in late-2020, will build on a PFS (2019), is designed to optimise and improve the planned development of the project and will investigate both open pit and underground mining scenarios.
Galan Lithium (ASX:GLN) Share price: A$0.145 Market cap: £12.6m	12.1	nil	-	-	Lithium brine projects located within the Hombre Muerto Basin in Argentina. Also has an exploration project at Greenbushes South, Western Australia, which is considered prospective for lithium, tin and tantalum. With similar mineralisation to that of the Greenbushes mine, with most of the project covered with laterite, which is known to mask pegmatites.
GWR (ASX:GWR) Share price: A$0.071 Market cap: £11.1m	9.95	0.65	15.3	-	Exploration for iron ore, gold, and tungsten, as well as gypsum, and lithium/tantalum/beryllium deposits. GWR primarily holds interests in the Wiluna West Gold and Iron projects and Nardoo Well (lithium, tungsten and tantalite) – both located in Western Australia.

Peer group comparisons – tantalum. Source: Align Research

Conclusion

The board of Kazera has made a bold move into diamonds and HMS as a way of generating the cash flow and the interest to get its world class tantalum project into production. The value of tantalum, which goes into many of the items that are important in life today, is significant. Electronic equipment giants seem to have an insatiable demand for the metal and are seeking to tie up long term contracts to ensure a guaranteed supply, level I countries as their priority for the future.

Apart from the news flow from alluvial diamond mining beginning in South Africa, which is looking to be followed quite smartly with the start of the HMS operation, there looks as though there will be a number of important milestones being ticked off in Namibia. **The completion of Phase 2 drilling brings forward the prospect of assays results expected by the end of 2020.** Drilling went pretty well considering that the drillers were working in 1,000m high mountains and the rig needs to be cable hoisted into position. Drilling does seem to have hit a number of good intersections and the geologists are reported to be happy with the results as Homestead, Purple Haze, Snake and Signaalberg have all outperformed expectations - averaging a 95% pegmatite intersect for holes drilled. **This should set the stage ahead of news on a financing deal which would allow the work on the pipeline to begin before the year end and completion of this thereof further transform the fortunes of shareholders.**

Kazera may still trade at a de facto shell company type valuation but we have demonstrated that even on an outright conservative basis with material haircutting to already heavily discounted NPVs, the company has assets that are worth substantially more by any yardstick. **We expect the HMS sands operation to provide the clear funding pathway to the blue-sky tantalum project coming back into production**.

Subject to achieving the key milestones set out here, the valuation haircuts we have applied will be reduced materially with the commensurate see through uplift to shareholders representing many multiples of the current market cap.

Accordingly, we initiate our coverage of Kazera with a Conviction Buy stance and an initial target price of 2.50p.

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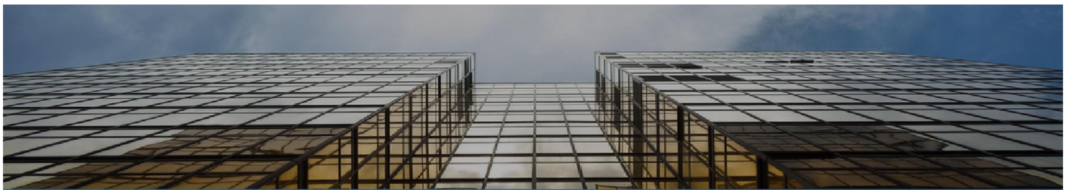

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