

Kavango Resources plc (KAV.L)* - 18 Jan 2021

2021 Set to be Kavango's Year?

Following the recent JV link-up with AIM-listed Power Metal Resources (POW) and £2m equity financing, **Kavango Resources** (KAV) is now accelerating exploration activities on its key project interests. In this report we analyse the potential for KAV to find a world-class resource deposit in the exciting and fast-emerging resource rich country of **Botswana**.

- The management team has a successful track record in minerals discovery and realising value from exploration projects. In particular, director Mike Moles added significant value to several early-stage assets, including a Mozambique coal project that was sold to Riversdale, and then subsequently acquired by Rio Tinto for a sizeable US\$4bn.
- KAV's 100%-owned **Kalahari Suture Zone** (KSZ) Project is the company's flagship exploration asset. The KSZ is significantly under-explored, using modern techniques and technology. Here, KAV is seeking to discover 'Norilsk' style metal sulphide deposits, with an anticipated drilling programme of up to 5,000 metres planned later this year.
- Since listing in Summer 2018 KAV has pursued a painstaking exploration and research programme to deepen its understanding of the KSZ's rock formations. So far, KAV has made significant progress confirming important systemic similarities between the KSZ and other major global metal sulphide deposits (e.g. at Norilsk and Voisey's Bay).
- KAV has developed a **proprietary 3D underground model**, which maps the geology of the northern (Hukuntsi) section of the KSZ. This 3D model is unique to the region and, together with the results of extensive laboratory analysis, gives KAV a crucial competitive advantage in delineating high priority drill targets.
- Last year KAV signed a **Strategic Joint Venture** (SJV) with POW over two of its Kalahari Copper Belt (KCB) licences and two licences at the Ditau Project for a 50% interest in the SJV. POW is led by entrepreneur and CEO Paul Johnson, who previously added considerable value to a Botswana project via a similar style JV when he headed up Metal Tiger plc
- The SJV's focus is on the exploration target rich area of west-central Botswana, which is near many world-class copper and silver discoveries made in the last 15 years such as **Cupric Canyon's** Zone 5 and **Sandfire Resource's** T3, T4 and A4 deposits. Field exploration campaigns are currently underway on both KCB projects at **South Ghanzi** (the POW SJV) and **LVR** project with a local partner, and also at **Ditau**. If results prove positive, exploration drilling at both South Ghanzi and Ditau could follow later this year on the most promising targets.
- The SJV with POW provides a spin-off value-enhancing opportunity for shareholders, as the partners may seek to list the vehicle on the UK or North American market.

The recent £2m equity Placing puts KAV in a very healthy financial position, with the resources to execute exploration plans over its Botswana project interests, both on its wholly owned licences and those being pursued with a local partner, and new JV partner Power Metal Resources.

Given the management's experience in adding considerable value to resource projects in previous ventures, and high likelihood of finding similar world class deposits to those nearby and currently controlled by Cupric Canyon and Sandfire in the **Kalahari Copper Belt**, investors may be wise to position themselves in the stock ahead of any potential landmark discoveries being made in the coming year as the Group ramps up its exploration activities. We believe there is a medium to high probability of KAV making a major exploration discovery within the next 18 months that could attract not only the attention of new investors, but also possible big player industry participants. To this end, we recommend **Kavango Resources** as a 'Buy' with a price target guide valuation of **5.2p** per share, providing potential upside of **76%** from the current price of **2.95p**.



TP 5.2p

MARKET DATA:

Name:	Kavango Resources plc
Ticker:	KAV.L
Price:	2.95p
SII:	302.8m
Warrants	189.2m
Market Cap:	£8.9m
Sector:	Resources
Listing:	LSE Standard Segment

FINANCIALS:

Cash:	est. £1.8m – 11 Dec '20
Last Placing:	Nov/Dec '20 - £2m @ 2.75p.
Last Results:	1 Oct '20 Interims to 30 June

ACTIVITIES:

Exploration & development of copper, nickel, platinum group elements and rare earths in Botswana.

KEY PROJECTS / ASSETS:

Kalahari Suture Zone
Kalahari Copper Belt (LVR & South Ghanzi)
Ditau

DIRECTORS & MANAGEMENT:

David Smith (Non Ex Chairman)
Michael Foster (CEO)
Mike Moles (Dir)
Ben Turney (Dir)
Hillary Gumbo (Exploration Manager)#
Chuck Forrest (CFO)#

#Non-Board Directors

SHAREHOLDINGS: (>3% & Dirs/Mgmt)

JIM Nominees Ltd	10.0%
Share Nominees Ltd	6.8%
Hargreaves Lansdown	5.0%
Peter O'Anderton	4.8%
Jose Medeiros	4.5%
II Services Nom's Ltd	3.8%
Mike Moles (Dir)	3.7%
Hilary Gambo (Mgmt)	3.7%
Douglas Wright (former Chairman)	3.1%
John Forrest (Mgmt)	2.5%
Michael Foster (CEO)	2.1%

***First Equity Limited acts as Joint Broker to Kavango Resources plc**

ANALYST
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Background & Introduction

Overview

Kavango Resources plc's (KAV.L) strategy is to "add value for its shareholders by discovering base metal and precious metal deposits in southern Africa", albeit the current geographic focus is solely on Botswana.

The Company is led by an experienced team which has a track record in resource discovery and realising value in exploration projects, most notably Mike Moles, who has added significant value to mineral project assets, such as selling Platinum Group Element (PGE's) exploration assets to Impala Platinum and coal in Mozambique to Riversdale Mining, which was subsequently sold to mining major Rio Tinto for US\$4bn.

To date the Group's focus has been on west-central Botswana, where it is looking at areas that are target rich, which are located near many recent large 'world class' scale resource discoveries. KAV has 100% ownership of the Kalahari Suture Zone Project (KSZ), four licences on the Kalahari Copper Belt (KCB) and two at Ditau. Two of the licences on the KCB form part of a JV with a local partner, while the other two KCB interests are under a JV with AIM listed Power Metal Resources plc (POW.L), along with the Ditau licences, upon which POW is completing its due diligence work.

Corporate Timeline

KAV was formed in May 2017 after acquiring 15 prospecting licences from Navassa Resources Ltd for US\$3.5m (44.4m shares). KAV gained a listing on the Standard List segment of the LSE Main Market in July 2018, following a £1.5m gross fund raising at 2.5p, with an initial market cap upon listing of £3.35m. Further funds have been raised in subsequent years; the most recent Placing was completed in early December 2020, when £2m gross was secured from investors at a placing price of 2.75p per share, with a 1-for-1 warrant issued to subscribers at an exercise price of 4.25p per share for a life of 30-months.

Botswana Background

Botswana is an excellent mining and business jurisdiction to develop a resources project, with a stable and democratically elected government. The country ranks favourably on many global rankings, for example Global Risk Profile's 2020 list, shows Botswana as the 4th highest of 54 African Countries in its Global Corruption Index. The three higher listed African countries being the non-mining African island nations of Seychelles, Cape Verde and Mauritius. – Source: <https://risk-indexes.com/global-corruption-index>

Since independence from the UK in 1966, Botswana has been ruled continuously by the centre-right Botswana Democratic Party (BDP). General elections are held every 5 years, with the next elections due to take place in 2024.

The country's economy is based upon tourism and mining, in particular diamonds, with Botswana being the largest diamond producer in the world (by value). Given recent large-scale copper-silver discoveries and development mine projects underway by the likes of Cupric Canyon and Sandfire Resources, the percentage of revenues made from non-diamond production compared to other resources such as copper and nickel is likely to shift significantly in the coming years.

Directors & Management

David Smith (Non-Executive Chairman) - David is a solicitor with over 30 years of experience of working within the equity capital markets and corporate finance. Since the start of 2016 he has been a partner at Druces LLP, who are KAV's solicitors. Between 2007 and 2016 he was a partner for an international law firm.

Michael Foster (CEO) - Michael's experience lies in exploration, mine development, operations and finance in a wide variety of commodities over 35 years and a track record of discovery and value creation from exploration projects. He was previously Exploration Director of Reunion Mining and ZincOx, along with a founding director of several Democratic Republic of Congo (DRC) focused companies such as Casa Mining, Copperbelt Minerals and Kaminex. He was also at De Beers for 8 years, some of which was spent in Botswana. Michael is a geologist (St. Andrews University) and holds an MBA in Business Administration (London Business School).

Mike Moles (Director) - Has over 30-years of experience in southern Africa, including positions at Delta Gold, Reunion Mining and Lonmin. Mr Moles has a highly impressive track record of adding significant value to mineral project assets, which includes selling exploration assets such as PGEs to Impala Platinum and coal in Mozambique to Riversdale Mining, which was subsequently sold to mining major Rio Tinto for US\$4bn. Educational qualifications include a BSc in Geology (University of Aston) and BSoc Sci in African Studies (Birmingham University).

Ben Turney (Director) – Since April 2020, Ben has worked as a consultant to KAV, playing a major role in reshaping its investor relations and completing its £2m financing in late 2020. He also advises several other mining focused companies in the UK and North America. Ben previously worked as an investigative writer and shareholder advocate.

Hillary Gumbo (Exploration Manager) - Another qualified geologist in KAV's high calibre team of resource professionals, Hillary has worked for a number of southern African resource companies for over 30 years, including Reunion Mining. He owns a geophysical consulting company in Botswana.

John 'Chuck' Forrest (CFO) - An experienced and qualified Accountant who has been responsible for IPOs in both the London and Canadian markets. He was FD at Copperbelt Minerals which raised US\$70m privately in DRC and subsequently sold for US\$197m.

Kalahari Suture Zone (KSZ) Project

The Company was granted its first licences over the KSZ in 2012. The objective of exploration to date has been to assess the location of possible magmatic nickel-copper and platinum group element mineralisation hosted within gabbroic intrusive rocks along the KSZ.

Two airborne electromagnetic (AEM) surveys covering 4,000 line-Kms were carried out by Group contractors over two phases during 2018 and 2019. Data from the surveys generated many areas of interest down to depths below surface of 500 metres, which have been further surveyed on the ground.

An initial drilling campaign of 1,100 metres in late 2019 provided useful information in aiding the management to understand the project area's potential to host large copper and nickel deposits.

After reviewing 16 characteristics that are typical of magmatic sulphide deposits across the globe, Prof. David Holwell, of the University of Leicester concluded in a report published in April 2020 that "the KSZ has the potential to host Norilsk type mineralisation". Using a proprietary 3D model developed by the Group's geophysics team and Mira Geoscience Inc, four high-priority target areas within the KSZ's northern (Hukuntsi) section have been identified which are 'Norilsk-style' primary targets, as outlined in the 30/11/20 RNS and illustrated in Figs 1 and 2.

Ground electromagnetic (TDEM) surveys commenced recently, which will be followed by a drilling programme of approximately 5,000 metres on the most interesting areas. Drilling this year could involve up to 20 holes at depths of 250 to 350 metres each. The minimum drilling budget for the period amounts to £350,000, but there is a provision to extend this to £600,000 if required. Exploration drilling could also be extended to the project's southern and central zones depending on results of the initial 5,000 metre campaign.

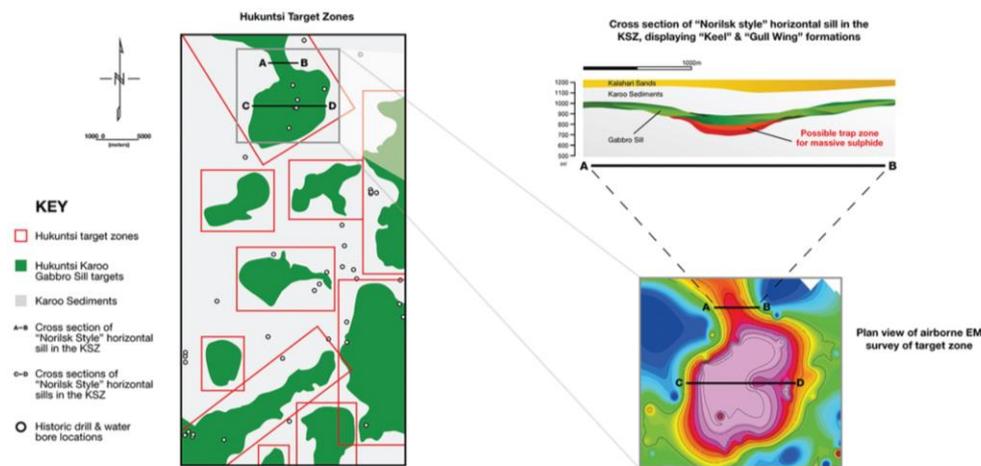


Fig 1: Drilling Exploration Targets in the Northern Section of the KSZ – Cross Section A-B.

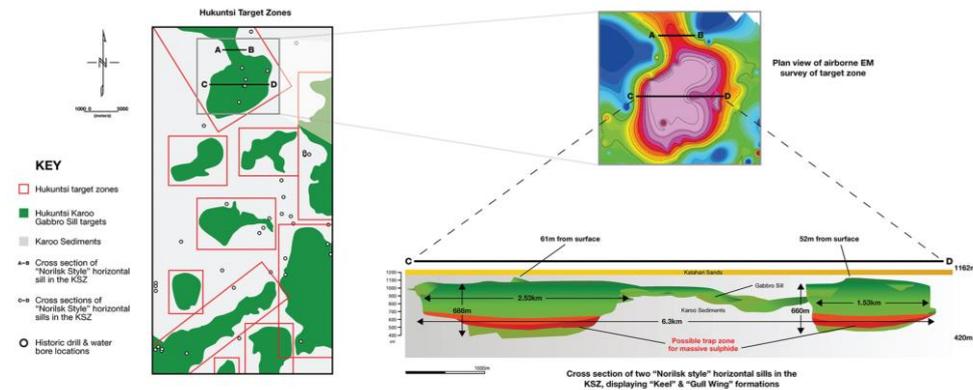


Fig 2: Drilling Exploration Targets in the Northern Section of the KSZ – Cross Section C-D.

Kalahari Copper Belt (KCB) Project

KAV's KCB licences are positioned in an area of recent copper-silver discoveries that are being developed into mines. These include privately owned Cupric Canyon's Zone 5 and ASX-listed Sandfire Resources' T3, T4 and A4 deposits (Fig 3). KAV is targeting similar geological formations on its acreage, with the goal of making a major discovery within the next 18 months. The management believes the geology and target formations on KAV's own licences are analogous to those hosting Sandfire and Cupric Canyon's mine developments.

Mineralised zones typically occur within 200 metres of the surface, lending themselves to the potential for open pit mining. The KCB extends for over 1,000km and stretches across Botswana into western Namibia.

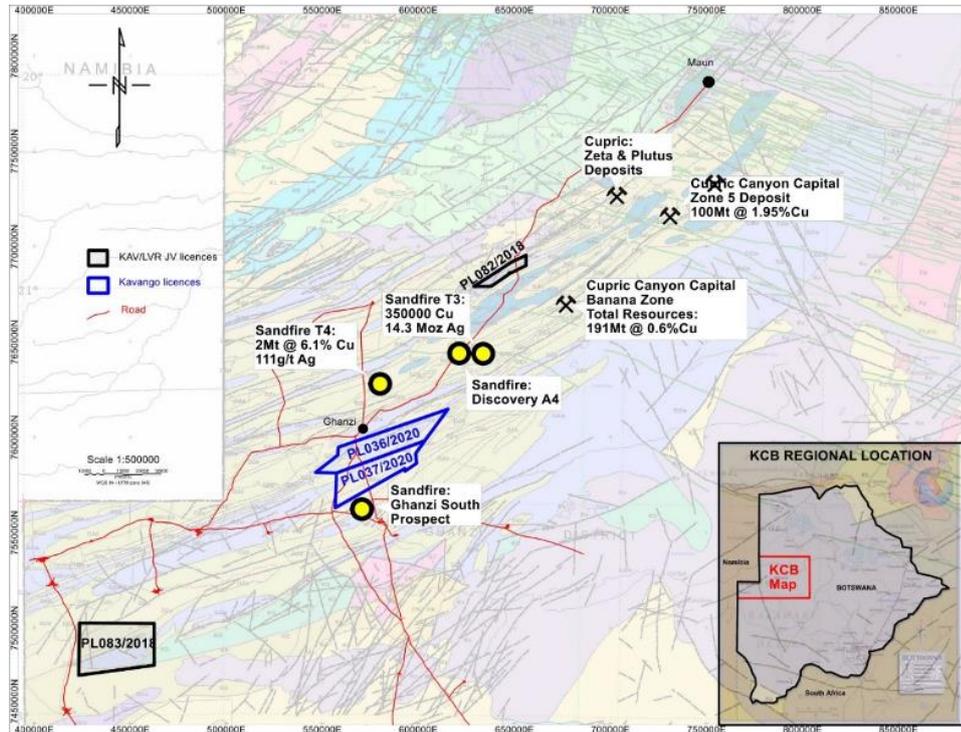


Fig 3: KCB Project licences and nearby discovered deposits.

LVR Project (PL 082/2018 & PL 083/2018)

Both licences form part of a Joint Venture (JV) signed in January 2020 with the Botswana registered LVR GeoExplorers (Pty) Ltd. The agreement allows KAV to earn up to a 90% interest in the 1,091 sq. km licences. A minimum US\$125K needs to be spent on each licence in the first year to earn 25%, followed by US\$225K over a further two years to attain a 50% stake.

A soil sampling programme is currently underway on the project to identify regional metallic anomalies for future airborne electromagnetic surveys, with the objective of finding economically viable near surface sedimentary copper/silver deposits.

As announced on 17 December 2020, 365 samples had been taken prior to the Christmas holiday shutdown. Some selected samples were sent to a laboratory in Johannesburg for assay testing, with results expected in January. Portable XRF analyses from the sampling demonstrated numerous zinc anomalies associated with targeted geological boundaries (zinc is often used as a pathfinder for the less mobile copper in the soils).

South Ghanzi Project (PL 036/2020 & PL 037/2020)

These two licences totalling 1,294 sq. km were awarded in April 2020 and now form part of a 50/50 strategic joint venture (SJV) with AIM listed Power Metal Resources plc (POW.L) which is headed by CEO Paul Johnson, the accomplished resources' entrepreneur.

The SJV (which also includes two licences at Ditau – see below) involves an exploration contribution by POW of US\$150K into the project for two-years of expenditure, along

with a £10K set up cost payment. On 6 January 2021 it was announced that the second-year payment (US\$75K) of this amount had been paid one year ahead of schedule to accelerate progress over the SJV licences. To complete the transaction and earn a 50% stake, POW paid KAV £75K and issued 6m POW shares (at 1.25p) and 5m POW warrants to subscribe for POW shares at 2p over two years.

The exploration programme commenced on the South Ghanzi licences in early December 2020. From an update in late December 2020, KAV announced that a portable XRF analysis had been completed on 335 soil samples, and that a further 127 follow-up soil samples had been collected, dried and sieved ready for analysis in January.

The exploration team was encouraged by the high concentrations of zinc in soils and the potential for near-surface mineralisation. They were particularly excited by the identification of 'anticlinal domes', which often act as trap sites for high-grade copper/silver deposits and constitute excellent exploration targets.

Assay results from the soil samples are expected back from the labs in the coming weeks. An AEM survey is expected to be undertaken in Q1 2021, which together with some shallow test drilling will allow for the development of a 3D geological model and the identification of further drill targets.

The ultimate plan for the SJV will be attain a separate listing on either a UK or North American market.

Ditau Project

The licence that originally formed this project (PL169/2012) was granted to the Group back in 2012 covering 469.9 sq. km, with the second licence added in June 2019 (PL 010/2019) spanning 916.4 sq. km. The licences now form part of the SJV with POW.

Exploration by KAV at Ditau has identified the presence of 10 'ring structures', one of which included significant zinc-in-soils anomalies. In 2019, two holes were drilled to a depth of 470 metres on one of these ring structures. Although no base or precious metal mineralisation was observed, the management were particularly excited about the presence of an extensive zone of highly altered Karoo sediment to a depth of 300 metres in both holes, which lay 1.8km apart. This alteration is typical of carbonatite, a rock formed by the volcanic intrusion of carbonate material into the host rocks. Carbonatites are often associated with economic deposits of rare earth elements (REEs). The management believe these ring structures contain carbonatite and the potential to host rare earth elements such as Neodymium and Praseodymium which have many high-tech applications, including their use in the manufacture of electric vehicles.

It is interesting to note that in the 1970s, some 30km to the north of Ditau, mining major Falconbridge Exploration found three carbonatites, of which one is reported to have contained elevated grades of niobium.

In early January 2021, KAV completed the first stage of orientation work over one of the 10 ring structures. The initial exploration objective is to confirm whether the ring structures contain carbonatite and then evaluate them for REEs and other valuable minerals. Once the team has calibrated their equipment using the results from the first ring structure (I-10), the plan is to survey the remaining 9 ring structures to identify potential drilling targets. Surveying work is planned over Q1 and Q2 2021, with exploration drilling expected in Q3 and Q4 2021.

Valuation Comment

As KAV is at a pre-resource definition and pre-discovery stage it is not possible to derive a quantifiable project-based valuation using a JORC resource or a project feasibility study.

We would normally expect a pre-JORC definition resource stage company to command a market capitalisation valuation on the UK Market in the region of up to £10m. For KAV, we believe there is a special case for reasoning that the equity should be trading at a premium valuation for a pre-resource listed venture, with a market cap valuation of around £20m based on the following:

- Experienced management team, which can demonstrate it can add significant value by creating billion-dollar projects which attract acquisitive attention of mining majors.
- Advancing projects within a very favourable mining friendly and stable jurisdiction.
- Healthy financial position strengthened by recent £2m Placing to fund planned and potential follow-up exploration in next 18 months. A further £5.5m could be added to balance sheet if all remaining outstanding warrants are exercised (Appendix A).
- Robust science underpins KAV's exploration hypotheses across its portfolio of projects, which has been consistently validated to date.
- KAV has been rigorous in building its model for the KSZ and is now conducting powerful TDEM surveys to identify high-speed conductors in gabbroic intrusions. If KAV is successful, this will provide further vindication of the KSZ's high level of prospectivity.
- Global comparators to the KSZ (such as Norilsk or Voisey's Bay), suggest that if KAV is able to discover one or more commercial ore bodies they could generate substantial economic returns.
- In the KCB, KAV is following tried and tested exploration methods that have yielded the region's major copper/silver discoveries. Thanks to KAV's in-country network the Group has been able to secure sizeable and attractive prospecting licences.
- Exploration work to accelerate key projects in the KCB, positioned near existing large copper silver deposits. We believe there is a medium to high probability of KAV making a major exploration discovery within the next 18 months, which would then generate attention from new investors and possibly attract mining industry participants.

By adding the current number of shares in issue (302.8m) to all shares that could be issued (189.2m) from potential warrant exercises (Appendix 'A'), this gives a diluted number of 492.0m shares. Assuming a market capitalisation-based price target of £20m, with cash added back from potential warrant exercises (£5.5m cash), we have computed a valuation and price target guide of around 5.2p per share.

Appendix A

Warrant Issue	No of Warrants	Exercise Price	Expiry Date
SI Capital 2019 BW	892,857	2.8p	12/03/2021
TP 2019 BW	535,714	2.8p	12/03/2021
'A' Warrants,	49,810,875	1.0p	28/04/2021
'B' Warrants,	58,560,875	2.5p	15/04/2023
FEL 2020 BW	6,706,364	4.25p	20/05/2023
2020 Placing	72,727,273	4.25p	20/05/2023
Total	189,233,958		

Fig 4: - Kavango Summary of issued Warrants and to be issued 'B' Warrants.

NB1: 'BW' = 'Broker Warrants'.

NB2: The 'B' Warrants' are only issued if the 'A Warrants are exercised before 23 April 2021.

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First Equity Limited, its clients and employees hold Ordinary Shares and Warrants to subscribe for Ordinary Shares in Kavango Resources plc.

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