Kazera Global

15th October 2024

Enviable cash flow & profits about to be generated by South African diamond and HMS mines that are just going into operation

Kazera is an Africa-focused mining investor which had a problematic high-grade tantalum project in Namibia. A transformative deal in June 2020 took Kazera into diamonds and heavy mineral sands (HMS) in South Africa. The Namibian project was sold in December 2022 for US$13 million, and the US$4.85 million received so far has been sensibly invested in equipping the diamond and HMS mining operations to go straight into efficient, low-cost production and generate good profits.

• Diamonds are the key to unlocking the value of HMS at Alexkor

Since 1928, Alexkor has mined 10+ million carats of gem-quality diamonds. The company has a discrete mining area where it extracts and processes diamond gravels with Alexkor providing the final sorting and sale of the diamonds. The diamond interests here are tremendous**, but the truth is that the high-grade HMS is the real potential company maker.**

• HMS operation could go on for a long time due to natural replenishment

Until Kazera came along, no one ever twigged the HMS potential at Alexkor. The HMS Mining Licence might only cover 5 hectares but it is very rich and is replenished by sea action. **A similar project down the coast at Tormin has, over a 7-year period, mined five times its Indicated Resource of 2.8Mt due to the mineralization being actively replenished**.

• HMS Mining licence application for an adjacent beach, which is 34x larger

Kazera does not hang around but has moved rapidly, applying for a Mining Licence for an adjacent beach at Perdevlei, **(expected to be awarded in early 2025)** which is much, much bigger (X34), and the company plans for a far larger operation. It also gets replenished too.

• Valuation based on a forward PE suggests almost 400% upside potential

Our highly conservative valuation shows the vast potential we see in the stock. **We initiate coverage of Kazera with an initial target price of 5.14p.**

Table: Financial overview

Year to end June	2024E	2025E	2026E	2027E
Revenue (£'000s)	10	4,440	6,600	6,600
PTP (£'000s)	(1,555)	3,370	5,550	5,550
EPS (p)	(0.16)	0.32	0.51	0.48

Source: Company accounts & Optimo 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.

Price target – 5.14p

Kazera Global

Key data

EPIC	KZG
Share price	1.10p
52 week high/low	0.325p/1.20p
Listing	AIM
Shares in issue	936.60m
Market Cap	£10.3m
Sector	Mining

12 month share price chart

Analyst details
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Business Overview

Kazera Global 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 interests span diamonds, heavy mineral sands (HMS), tantalum and lithium.

• **Diamonds** – The Deep Blue Minerals mine (74% interest) is a producing diamond mine within the Alexkor diamond fields on the Northern Cape coast. The remaining 26% interest is held by Black Economic Empowerment Partners, as required by South African law, which are buying the stake out of their share of the earnings.

• **Heavy Mineral Sands** – The company has a 70% stake in Whale Head Minerals, a heavy mineral sands (HMS) opportunity, also within the Alexkor diamond fields on the Northern Cape coast. **The initial licence area has an NAV in excess of £130 million according to a 2020 Technical Economic Evaluation.** The remaining 30% interest is held by Black Economic Empowerment Partners, as required by South African law, which are buying the stake out of their share of the earnings.

• **Tantalum & Lithium** – The Tantalite Valley Tantalum Mine (TVM) in south-eastern Namibia. The operation focuses on one of the industry's highest tantalum ore grades. Kazera brought the mine back into production before selling the operating company Aftan to Hebei Xinjian Construction (Hebei) for US$13 million. The company has received US$4.85 million but hangs on to its 100% shareholding until paid in full. **Payments stopped a year ago, and Kazera has now instituted legal proceedings for recovery of the balance of approximately US9.5 million owing to it.**

HMS on the beach at Walviskop. Source: Company

Heavy Mineral Sands

Heavy mineral sands (HMS) are a type of ore deposit which are an important source of zircon, ilmenite, thorium, tungsten, rare-earth elements, diamond, sapphire, and garnet. In essence, HMS are placer deposits formed most usually in beach environments, created by the concentration due to the specific gravity of the various grains of minerals. From Kazera's perspective, the key minerals to be mined include ilmenite, garnet, zircon and rutile.

Ilmenite is the primary titanium ore used to make high-performance alloys. The metal's unique resistance to temperature and corrosion and high strength-to-weight ratio allow titanium to have a wide range of applications across several leading industries, from aerospace to medicine. The metal is twice as strong as aluminium and 45% lighter than steel, with comparable strength. Titanium is also biocompatible, so it has many medical uses.

Titanium ore is mined and processed to become titanium dioxide. In the US, 95% of titanium dioxide is used as a white pigment in paints, coating, plastics, rubber, and paper. This is a sparkly white pigment that makes white goods white. The remaining 5% is used in a broad range of applications, which includes aerospace, defence, medical implants, seawater desalination plants and clean energy. In aerospace, titanium is used in airframes and aero-engines, with the airframe of the Boeing 787 Dreamliner being 15% titanium by weight. The metal finds its way into the defence industry's naval ships, tanks, armoured vehicles, and military aircraft.

Even though titanium has many superior properties to stainless steel and aluminium, the titanium market is small, at just 1% of the combined markets for stainless steel and aluminium, due to substantially higher production costs. Growth markets for titanium are aerospace, consumer electronics, EVs, and luxury goods. Given its high strength-to-weight ratio, titanium is undoubtedly a critical metal for aerospace. Recently, advances in additive manufacturing (3D printing) are reducing the cost of titanium fabrication and increasing the applications for this unique metal. 3D printing with titanium has applications from sports equipment to medical implants to space travel and is primed to disrupt the manufacturing industry.

Garnet - The name garnet actually refers to a group of complex silicate minerals with similar crystalline structures but diverse chemical compositions. Garnet is an increasingly used industrial commodity because it is an almost perfect industrial abrasive, also used in sand blasting.

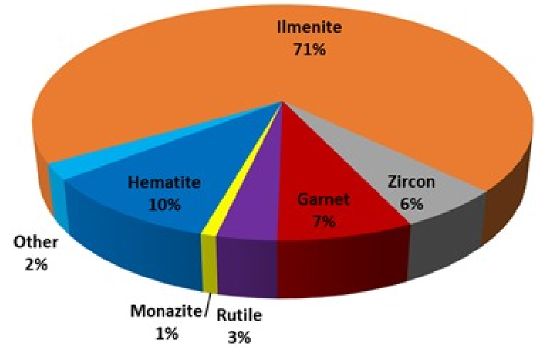
Zircon – Of all HMS components, zircon has the highest commercial value. It is an opaque, hard-wearing mineral, zircon's unique chemical and thermal properties have been fuelling demand for this versatile mineral. Over 50% of all zircon is used to provide whiteness, strength and corrosion resistance in ceramics manufacturing. In addition to ceramic tiles, zircon can be found in sinks, sanitary ware and tableware. Zircon and titanium minerals can be found in most projects within the same deposits. Zircon's increased usage and rising scarcity – especially for high-grade zircon – have led to a robust pricing environment since existing reserves are depleted. At the same time, few large deposits have entered the market over the last twenty years.

Rutile – Rutile is a titanium oxide mineral primarily used as a pigment in paint, paper, plastics, inks and coatings. It is sized and processed to create a bright white powder that serves as the primary source of white colouring in everyday products such as paint and toothpaste. In addition, rutile is used as titanium metal in aircraft frames, engines, and medical and sporting goods and has industrial applications. Rutile is also used in welding, which includes steel fabrication, shipbuilding, pipes, construction and transport.

West Coast of South Africa

The West Coast of South Africa is rich in zircon, ilmenite, rutile, and other heavy minerals. Mining for **these minerals has been going on here for more than one hundred years**. Amongst these operations is Tormin Mineral Sands which hosts some of the richest grades in the world of naturally occurring zircon, ilmenite, rutile, magnetite and garnet. Tormin consists of a number of high-grade placer beach and strandline mineral sand deposits.

Mining at Tormin is a free dig operation using conventional trucking and excavation utilising mobile excavators, front-end loaders and trucks. Annual production has been around 2.6Mt, with ore trucked to a Primary Beach and Secondary Concentrator Plant close to the mining areas. Ore is processed in a Primary Beach Concentrator, where the minerals are separated by a chemical-free gravity process before the garnet is separated at a garnet stripping plant, and the non-magnetic material is separated from the heavy mineral concentrate.

<table>
<tr><th>Heavy minerals assemblage</th><th>Notes</th></tr>
<tr><td>


THM 62%</td>
<td>WALVISKOP
WHM – Kazera (70%)
The company's 5-hectare beach sand deposit has a JORC Indicated Mineral Resource of 3.11Mt of Valuable Heavy Minerals.
Some 12% of the HM (Haematite & other) have no economic value. Total heavy mineral content is 62%, which means that 54.56% of the resource is saleable heavy minerals.</td></tr>
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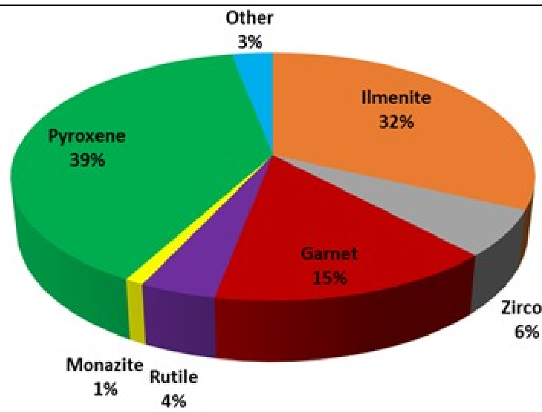
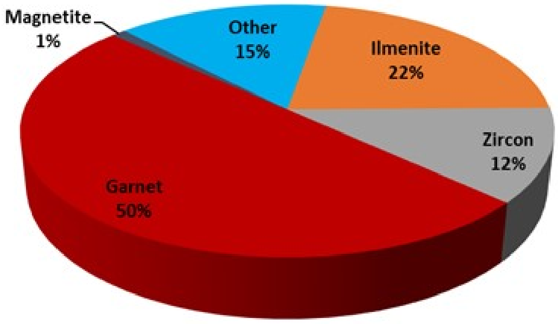


THM 9.5%</td>
<td>NAMAQUA SANDS
Tronox (NYSE:TROX)
At this operation, Tronox mines and beneficiates heavy minerals to produce titanium dioxide feedstock (chloride and sulphate grades), zircon, rutile and high-purity iron products. The products are used as feedstock in a wide range of applications, including pigments, metals, ceramics, and foundries.
Some 42% of the HM (Pyroxine & Other) have no economic value. Total heavy mineral content is less than 10%, which means that 5.51% of the resource is saleable heavy minerals. The mine was established in the early 1990s as primarily a zircon mine but, to a lesser extent, an ilmenite mine. Then, ilmenite prices were 24% of the current price, and zircon prices were roughly the same as today.</td></tr>
<tr><td>


THM 75%</td>
<td>TORMIN
Mineral Commodities (ASX:MRC)
Tormin is one of the highest-grade mineral sands mines in the world and supplies around 25% of the world's demand for garnet sands, as well as being an essential producer of high-value zircon/rutile concentrates and a top ten independent global supplier of titanium feedstock.
Some 15% of the HM (Pyroxine & Other) have no economic value. Total heavy mineral content is high at 75%, with 63.75% of the resource being saleable heavy minerals. The mine was established in 2013 as primarily a zircon mine and, to a lesser extent, an ilmenite mine. Then, ilmenite prices were 28% of the current price, and zircon prices were close to today's prices.</td></tr>
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Heavy mineral assemblage comparing three operating mines on the west coast of South Africa. Source: Company & Optimo Research

Background

Kazera Global was previously known as Kennedy Ventures which was a logistics companyThe profile of the Company was changed with the investment into 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), of which R4 million (£0.22 million) was paid in shares at 4.9p per share.

March 2018 saw the company adopt a new investing policy that more accurately reflected the overall business plan and gave management the necessary flexibility to pursue opportunities as they arose in the African mining and resources sectors. The company's name was changed to Kazera Global Investments at that stage. **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 324.6kt, with further resource upside expected to be identified**.

This news was followed by Kazera announcing in December 2019 a maiden JORC-compliant MRE for the White City Deposit of 297,600t, which was in line with the company's pre-exploration programme expectations. In 2020, a Phase 2 drilling programme of 2,000m was aimed at delineating further mineralisation and materially adding to the resource. This included adding resources at the White City, Homestead and Purple Haze projects and testing potential mineralised zones at Signaalberg.

In June 2020, the board announced a move into diamonds and HMS by acquiring an interest in Deep Blue Minerals (DBM) and 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 0.5p. 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 focusing on the diamond and HMS projects and bringing these into production. In October 2021, he took over as CEO and brought a new focus on bringing the tantalum operation into production.

The company took control of 100% of Aftan in June 2020, but there have been several false dawns as the operations have been brought back into tantalum production. In December 2022, Kazera announced the disposal of Aftan to Hebei for US$13.0 million in cash. Complete operational control and 100% ownership would only be passed to Hebei once Kazera had been paid in full. By July 2023, Kazera had received US$4.85 million.

The ongoing disposal of Namibia's interests left the management team able to concentrate on the South African operations, which had now become the core business. In December 2023, the board reported that a pulsating diamond jig had been ordered with 20 tonnes per hour capacity, which, once in place, would overcome the troublesome diamond gravel processing issues at Alexkor's Muisvlak processing plant.

In August 2024, Kazera reported that it had acquired an additional 10% shareholding in both Deep Blue Minerals (Pty) Ltd (DBM) and Whale Head Minerals (Pty) Ltd (WHM), which took its beneficial interest to 70% and 74% respectively together with collection rights to $49m of loans with the BEE partners in the project. **Before the month's end, the board triumphantly announced the receipt of the National Nuclear Regulation Certificate, which meant mining and production of Heavy Mineral sands could commence.**

Operations

DIAMONDS

Kazera acquired a 74% interest in Deep Blue Minerals (DBM), plus a 70% stake in Whale Head Minerals (WHM), following acquisitions in 2020 and 2024. These interests were bought from Tectonic Gold, which had spent 18 months on the ground, built a local team, and tested the area extensively. Kazera is the first company to target a coincident HMS mining permit and a diamond mining contract at Alexkor. The company's team has plenty of experience working at Alexkor.

Location of the Kazera's Alexkor concessions. Source: Company

DBM has a diamond mining contract over specific sections in the Richtersveld region. The Pooling and Sharing Joint Venture (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.

The PSJV 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**.** At least another 2 million carats are estimated to be left in the tenement. The process is relatively simple on the beach, where a trammel screen and FlowSort separates the diamond gravels.

Diamond production

Kazera's resource is well understood, with a Feasibility Study completed in April 2020 outlining an Inferred Mineral Resource of 208,000 carats from just one area of the PSJV in an area known as "Cliffs" at a bottom cut-off aperture of 1.6mm at a grade of 6.0ct/100m³. This suggests something like US$60 million of top-line revenue. Production began in October 2020 but has been intermittent since the company wanted to ensure it had the proper equipment to mine and process diamond gravels and not rely on Alexkor's processing facilities. Essential equipment that has been invested in includes a diamond mining plant and a new heavy plant, including a front-end loader and a 75-ton low-bed transporter, which allows the diamond and the HMS operation to share equipment.

Alexkor undertakes all diamond sales and processes diamond gravels. However, due to failures, Alexkor's Muisvlak processing plant suffered serious downtime. Initially, DBM took over the running of this plant, but with operating problems continuing, it chose to develop its own processing capability. DBM commissioned the building of a pulsating jig for diamonds along with a Flow Sorter. **This equipment allows DBM to bypass the Muisvlak altogether and deliver small volumes of very high concentrate diamond gravels to Alexkor for final sorting and sale.**

Inland diamonds require the removal of overburdened beach sands to get to the diamondiferous gravels, which are then roughly separated to get the 1-20mm size fraction which contains the diamonds. This is then trucked to Alexkor's large, on-site central processing centre. Similar techniques are used to recover marine diamonds, but the overburden here will comprise a substantial percentage of HMS. So, it's a little surprising that diamond production focuses more on marine diamonds because it will help generate additional HMS revenue.

Regarding grade and price, the material delivered for final processing was expected to be at least 10 carats per hundred tonnes, while the current price suggests something like US$300 per carat. Diamond production is expected to deliver a reasonably constant 200ct/month. At an average sales price of US$300/carat, DBM could achieve a monthly revenue of US$60,000. Operating costs were forecast to be around US$30,000 per month, including royalty payments to Alexkor, the main contractor, and the government. It looks likely that the diamond operation could produce a healthy monthly profit to Kazera, and which will usefully cover some of the central overheads.

Flowsort X-ray sorting machine processing at the company's concession at Alexkor. Source: Company

HEAVY MINERAL SANDS

HMS are placer deposits typically formed in beach environments by concentration due to the specific gravity of the mineral grains. HMS represents a style of ore deposit and are 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 in a wide range of everyday products that produce paints, pigments and plastics.

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

HMS from Walviskop, screening plant completed (September 2023) & preparations for mining. Source: Company

Feasibility Study

Stellenbosch-based geologist Creo Design (Pty) performed a Feasibility Study in the format of a Technical Economic Evaluation of WHM's mining prospect at Walviskop in December 2020.

Financial metric	Rand	US$[1]
Operating cost/ton mined	54.7	3.04
Total cost/ton mined	128.23	7.13
Gross profit margin	96.04%	
Net profit margin (pre-tax)	93.47%	
Life of mine	4.2 years	
Total revenue/ton mined	1,365.79	75.83
Investment capital	30,766,295	21.71 million
IRR	2947%	
NPV@ 20%	**3,132,476,739**	**174 million**

Financial evaluation results. Source: CIS consultants CREO Design's Technical Economic Evaluation of WHM's mining prospect at Walviskop & Optimo Research[1]

This report was based on the then-current resource of 3.11 million tonnes at a grade of 62.1% Total Heavy Minerals and 61.2% Valuable Heavy Minerals (dominated by garnet (30.29% of Run of Mine (ROM) and Ilmenite (27.54% of ROM) – some of the highest grades known globally.

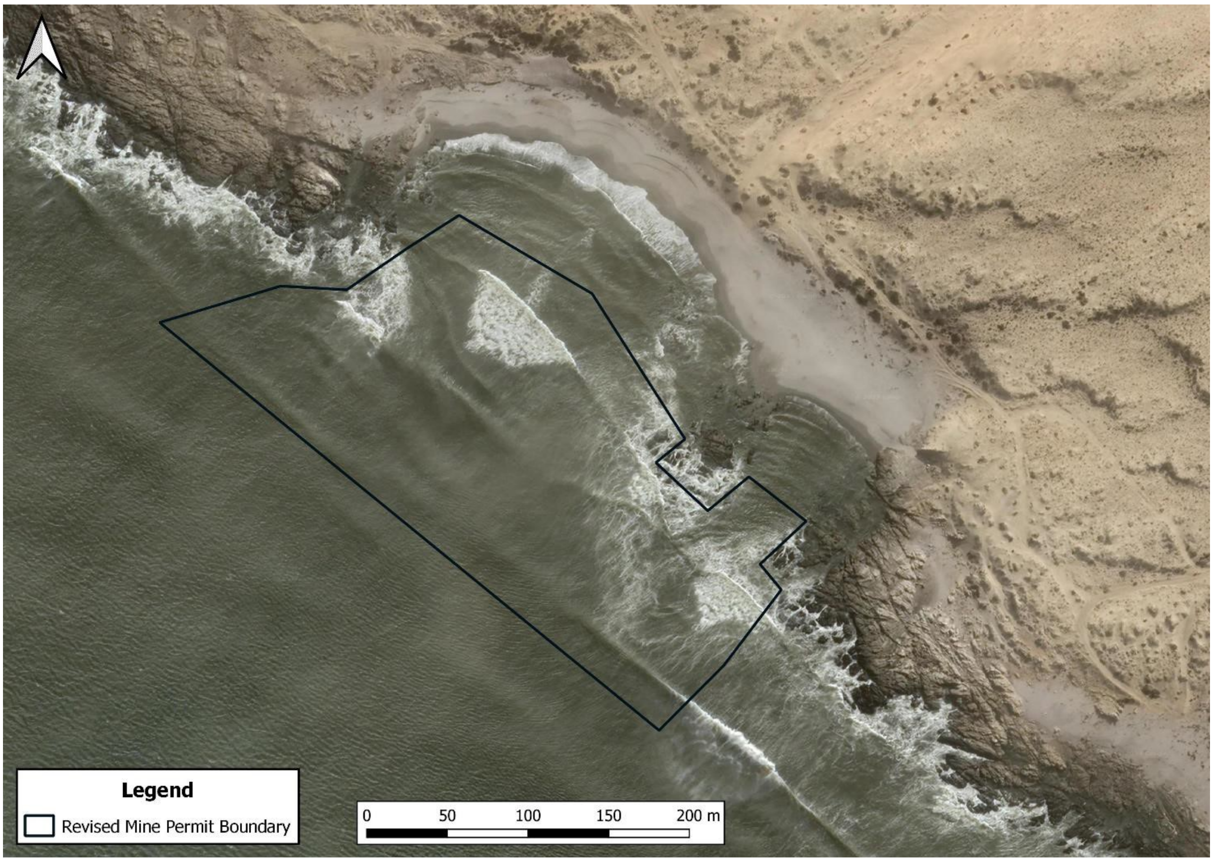
Zircon and rutile (0.92%) accounted for 1.2% and 0.92% of ROM, respectively, but were not included in this study due to negligible contribution and a high capital cost to separate. A mineral reserve was defined from the resource, and a selective 5-year mining plan for Walviskop was developed based on using dredge mining and hydraulic conveying.

Mineral Resource Estimate

Walviskop was resampled in November 2022. This followed a request from the Department of Mineral Resources and Energy (DMRE) to move the boundaries of the mining permit MP 20/2022 about 100m SW to avoid the risk of it overlapping with neighbouring concessions. The November 2022 sampling programme assessed the total heavy mineral (THM) grade and mineralogical composition of the surf zone sediments in the area covered by the new permit area.

THM	Econ HM	Ilmenite	Garnet	Zircon	Rutile	Other
49.9%	97.1%	44.3%	37.38%	2.94%	2.10%	2.90%

Total heavy mineral content and mineralogical composition of the 2022 sampling presenting the surf zone heavy mineral population assemblage at Walviskop. Source Creo Design (February 2023)



WHM's new HMS permit area
Source Creo Design (February 2023)

Mineral Resource Category							
Classification	**Tonnage**	**Classification**	**Tonnage (t)**	**Grade (%) ilmenite**	**Grade (%) Garnet**	**Grade (%) Zircon**	**Grade (%) Rutile**
Total Probable	0	Total Indicated	1,512,000	22.5	19.1	1.5	1.1
		Total Inferred	0	0	0	0	0
Total Reserves	0	Total Resources (t)	1,512,000	340,000	288,700	22,700	16,600

Whale Head Minerals (Pty) Ltd Mineral Resource and Ore Reserve statement for the Walviskop Heavy Mineral deposit at a zero-cut-off grade. Source Creo Design (February 2023)

Based on the supporting information, any quoted range of tonnes and range of grade (Total Heavy Minerals and Valuable Heavy Minerals) relating to known mineralisation within the geological setting of the Walviskop area were also able to be reported as an Indicated Mineral Resource.

Natural replenishment

The beach sands are naturally replenished**.** The resource estimated in Creo Designs February 2023 report only concerns the sediment at the Walviskop Bay surf zone area. **The consultants were at pains to point out that dynamic surf zone waves, longshore drift, and tidal processes result in a constant influx of heavy minerals, augmenting this renewable resource.** Continuous wave action and related processes maintain the grades by allowing selective entrainment, which means that heavy minerals are trapped in the bay and quartz sand and shell fragments are flushed out and carried away.

Interestingly enough, sampling both the beach at Walviskop and the immediate adjacent surf zone area revealed an average total heavy mineral grade for the beach area some 12% higher than that of the surf zone. This is due to the selective entrainment of quartz sand by the strong southerly winds scouring the lower-density quartz sand from the beach, leaving the heavy minerals as a lag deposit on the beach and doing so enriching the heavy minerals on the beach.

At just 5 hectares, the small size of the Walviskop resource is more than adequately compensated for by the exceptional high-grade values and even more so by the fact that this is a renewable resource. Seasonal weather-driven marine processes are sufficiently energetic to allow for rapid replacement of mined-out heavy minerals and a much longer life of mine than the apparent finite resource presented in the current MRE.

April 2024 - Trommel screen, screener/scalper conveyors and feed bins installed. Source: Company

Production

Samples and test results have been provided to industry experts and off-take partners. Initial findings suggest that Walviskop HMS material has a 62% heavy mineral content, with 55% of the resource classified as saleable heavy minerals - one of the world's highest grades. There have been delays in getting into production as slightly elevated levels of radioactivity have been found within the gravels. This is common in HMS deposits, but WHM needed to apply for the necessary permit from the National Nuclear Regulator, which was received in August 2024.

Production is planned at 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 marine diamond production. With the HMS operation in production, the first move has been to prepare samples for potential off-takers and follow up on past discussions.

	Ilmenite	Garnet	Zircon	Monazite	Rutile	Quartz/iron	Total US$	Comments
Representation	71.6%	6.8%	3.5%	2.2%	2.1%	13.8		
CIF prices US$	313	120	2,000	2,000	1,300	0		
Contribution/t	224	8	70	44	27	0	374	
DISCOUNTING FACTORS								
Processing cost/ton of US$2.63							371	Estimated
Land and sea freight cost and port handling/ton of US$142.74							228	Incl bagging
Margins for processor and end-user/ton of US$112							116	Estimated
Transporting and disposal of waste materials/ton of US$31.50							85	FOT price

The US$85 per ton estimated mine gate price (FOT) calculated for Walviskop screened and spiralled product. Source: Company

TANTALUM & LITHIUM

The Tantalite Valley Tantalum Mine is located in south-eastern Namibia, close to the border with South Africa, with Kazera now having complete control. The project lies 700km south of the capital, Windhoek, and just 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. **The mine has one of the industry's highest grades of tantalum ore**.

Tantalite Valley tantalum mining operation in Namibia. Source: Company

The mine lies in a remote area on the southwestern 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).

In 2014, Kazera, under the name of Kennedy Ventures, acquired an initial 75% interest in Aftan for £0.66 million. The remaining 25% stake was acquired in 2020 for £0.22 million.

Geology

The project lies within the Namaqua Metamorphic Complex, the western end of the Namaqua-Natal orogenic belt, formed around the same time the Rodina supercontinent was assembled. The Namaqua Metamorphic Complex comprises metamorphosed gneisses, which magma has penetrated, creating 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 is tantalite (Fe, Mn) Ta_2O_6, the primary source of the chemical element tantalum.

Aftan's Mining Licence (ML-77) spans an area mainly composed of a large 7.1km by 3.1km gabbro intrusion, which outcrops from a large dome-shaped mountain rising 500m above the surrounding landscape. ML-77 covers an area that contains all mineralised pegmatites that occur in 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, and metallurgical test work, had been undertaken on the Tantalite Valley pegmatites. All this work indicated an in-situ pegmatite tonnage of over 2Mt. However, past logistical problems and pricing constraints meant hardly any commercial mining had occurred. Subsequent metallurgical work has shown that lithium and tantalum are present, which opened up the possibilities here.

Kazera's options

In June 2022, Kazera announced a transformational deal concerning the lithium potential at TVM. The wholly owned subsidiary, Aftan, entered into a contract with Namibia-based Hebei Xinjian. Under the terms of this agreement, Hebei would invest to acquire a 49% interest in a new SPV to be formed by Aftan, which would have the sole rights to market the lithium produced at TVM by Aftan. The intention was that this money would be used by Aftan to build a Tantalum processing plant, to be followed in due course by a plant to extract Lithium.

Within months, Hebei eclipsed this deal by agreeing to pay US$13 million for a 100% interest in Aftan. **Crucially, in this deal, 100% ownership would not pass to Hebei until it had paid all the money, but at that time, Hebei had gained complete operational control and so had to pay all the costs of mining, transport and building a processing plant.** To date, Kazera has received US$4.85 million, but Hebei stopped paying a year ago or so.

Kazera is well within its rights to terminate the contract. **It has however now instituted legal proceedings for recovery of the approximately US9.5 million owing to it. This is an arbitration process and is expected to be finalised before the end of 2024.**

It should be noted that Kazera still owns the underlying asset and does not have to pay back the money received from Hebei. In addition, the company retains a 2.5% royalty interest on gross sales of tantalum and lithium for the life of the mine.

Strategy for Growth

Over the next twelve months, the significant benefits from the transformation of Kazera could become evident to all investors. **October 2024 looks to be a red-letter month that will see the mining of both diamond gravel and HMS begin in earnest.** While waiting for technical sign-off and the blessing of the nuclear regulator, the company did not waste its time. Instead, it has been busy servicing its mining equipment and vehicles with anti-rust paint applied to cope with this hostile marine environment. In place now is a specially designed jig and a flow sort x-ray diamond recovery machine, designed to process and recover diamonds at a high level of throughput and efficiency. **Since the equipment was bought, it has been thoroughly tested and adapted and is ready to go.**

The team has now restarted the diamond mining operation. Over the last nine months, there have been some changes at Alexkor. The 5 or 6 auctions a year and published schedule have been replaced with Alexkor holding auctions when it has enough diamonds to sell. Marine operations are the biggest generator of diamonds due to the quality and size of the stones, and in bad weather, the boats cannot get out.

The start of HMS mining will mean that Kazera can get samples to potential off-takers with whom a good dialogue has been established. Selling all the material in bulk in South Africa is the fastest cash flow method. The sand (silica) in the mined material is a bit of a killer for transport costs, and so needs to be removed, although there has reportedly been some interest in taking the material sand and all. A mine gate price substantially higher than US$85/t is expected in its separated form. Mining is very straightforward on the beach below the high-water mark. A front end loader digs out the raw material, containing HMS, diamonds, silica, rocks and shells. This is then fed into a scalper, which takes off the big rocks, and then the trommel screen separates out the silica, the diamond gravel and the HMS. The diamonds are fed through the Jannie jig and the flowsort, producing a highly concentrated diamond gravel which is taken through to Alexkor for hand sorting. The HMS is then fed through a high density spiral to further purify it. Mining and processing are relatively simple, and the management team want to make sure it stays that way.

One would think that the next logical step would be separating the individual minerals that make up the HMS using a magnetic separator. These are pretty bespoke machines that require a fair investment and take time to build**. Interest from off-takers has been such that one has, in essence, agreed to finance the costs of their getting into separation.** However, if Kazera can get US$85 plus at the mine gate, why not keep the operation simple? Higher revenue from using a magnetic separator might be attractive. Still, separation will create four different products, which will need four other customers, bagging operations, additional people and higher transport costs. This would bring in a whole new level of complexity that might not be necessary. The current work force is sufficient to dig up and simply process 6,000t/month. It is also early days, and management sensibly doesn't want to run before they have learnt to walk. The plan is to keep it simple and such is demand that US$100/t could be achievable.

The Walviskop deposit is replenished by sea action. Just like Tormin, which lies 360km north of Cape Town where Mineral Commodities (ASX: MRC) commenced operations in 2013. Over seven years, this company has mined over five times the Indicated Resources of 2.7Mt due to the mineralisation being actively replenished. **So Kazera's targeted 6,000t per month production at Walviskop has been carefully worked out, and 6,000t per month or possibly 10,000t a month would be sustainable.** If they were to start doing substantially larger volumes, they would have to sit and wait for the deposit to be replenished. All in all, Walviskop is a bit of a miracle in generating such a high potential income from quite a small area in mining terms, which measures 5 hectares, which is 14 acres or 50,000m^2. **It is small, but its impressive purity and richness, with a total HMS grade of 62%, is vibrant compared to the massive Kenmare operation in Mozambique, which mines material with a 3.97% THM ore grade Not surprisingly, Walviskop marks just the start of Kazera's HMS ambitions**.

The team is applying for a permit for an adjacent beach at Perdevlei, which is 34x bigger than the current deposit at Walviskop. Kazera has gone straight for a Mining Licence and neatly leapfrogged the exploration licence stage because the team has learnt a lot about these types of deposits and has great faith in their ability to economically mine these valuable minerals. So how long will it take to get this granted? The last mining permit for HMS took four years but they did have Covid in the middle of that. At Perdevlei, the quality appears to be as rich as at Walviskop, which has a "C" shaped bay, which is why it gets replenished so much. Perdevlei will also see new material continually being deposited but this is less dense. **Perdevlei offers the real upside as it is on a different scale. Here, there are obvious attractions in bringing in a third-party operator and really scaling up the operation.**

Kazera remains the 100% shareholder in the tantalum project in Namibia but quickly removed themselves from the board. In June 2022, CEO Dennis Edmonds made a deal with Hebei where they paid US$7 million for a 49% interest in lithium, although the business did not have the right to mine lithium at the time. The US$7 million was to be paid by way of cash to Kazera and in providing the equipment to get into mining lithium. However, there has been a disparity in the way in which to proceed. Kazera had a report prepared on establishing a state-of-the-art tantalum plant, which was sealed and used recirculated water for US$1 million, to be constructed in South Africa. There are real benefits to having a sealed plant, such as the water consumption requirement goes down to 10%, meaning that there is adequate water available locally. Plus, the tantalum has an element of radioactivity, so a sealed plant makes sense. However, Hebei wanted to pay the remaining US$7 million by delivering equipment sourced from China, which included crushers and ginn tables, which are water-intensive and unsatisfactory. This is old school stuff which had proved ineffective at TVM.

With an impasse, Dennis suggested that Hebei take over the whole mine, to which Hebei agreed to pay US$13 million. Hebei stopped paying in June 2023 and, by that stage, had paid Kazera US$4.85 million. **Sensibly, the agreement stated that Kazera held 100% of the shares until they were paid in full. Hebei is carrying Namibia's costs and the licence has now been extended to include the right to mine lithium.** The company has now instituted arbitration proceedings under the contract to force Hebei to pay the balance of approximately US9.5 million owing to it. A resolution is expected before the end of 2024.It is not a perfect situation, but the US$4.85 million received from Hebei has been critical to getting the HMS and diamonds built up without having to go to shareholders.

There is no doubt that there is the promise of a healthy newsflow over the next 12 months. First up there will be regular diamond production figures outlining the carats that have been mined, diamond cash flow and new diamond areas they are developing. On the HMS, there will be news on products and samples sent to off-takers, which are all on the critical path to signing an offtake deal and then HMS cash flow. In our view, over the coming months, the activity on the ground on the various projects and the newsflow ought to convince the market of the obvious value disconnect we see in the stock. **Imminently cash flow-positive AIM mining minnows, with material growth prospects in "safe" jurisdictions and with investor interest at a material premium, are exceedingly rare beasts.**

Further, in recent interviews, Dennis has been at pains to relay that Kazera "is not a bank" and has held out the prospect of, in the first instance, a large distribution to shareholders of funds recovered re the Hebei outstanding debt. At approaching $10m claimed this could be a large distribution. Further, if HMS produces what is expected then Kazera could in fact become an even rarer beast on AIM – a dividend producer.

Financials & Current Trading

Kazera's results over the last few years mainly reflect the cost of getting the South African diamond and HMS operation into production, along with the costs of making improvements to the plant at Aftan ahead of its disposal.

12 months ending 30 June £ '000s	2019	2020	2021	2022	2023
Revenue	-	-	55	107	31
Pre-tax profit (loss)	(1,340)	(1,020)	(1,164)	(2,021)	6,590
Net profit/(loss)	(1,340)	(1,570)	(1,057)	(2,038)	6,749

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

2023 results

Financial results for the twelve months ended 30th June 2021 saw the company making good progress at the HMS project at Walviskop as well as DBM's diamond project in South Africa. But the big news came from Namibia, where in December 2022, the sale of Aftan was agreed to Hebei for US$13 million, with US$4.2 million received. In the 12-month period revenue was £31,000 with £155,000 cost of sales resulting in a gross loss of £124,000. There was £1.518 million of administrative costs and the loss for the year from continuing operations came out at £1.396 million. The accounts show that there was £8.128 million profit on discontinued operations, net of tax, which reflects the disposal of Aftan. The company's profit for the year was £6.59 million. Earnings per share came out at 0.70p.

2024 interim results

The six months to 31st December 2023 covered a period which saw the trommel screening plant installed at the HMS project and the submission of the National Nuclear Regulator permit, whilst discussions began with an alternative prospective buyer for Aftan if Hebei was unable to complete. There was a small revenue for the period and a £67,000 gross profit. The operating loss, loss before tax and loss for the period all came out at £1.252 million, with a loss per share of 0.13p.

Recent developments

August 2024 brought a lot of good news. Firstly, the company was able to announce the acquisition of a 10% stake in both DBM and WHM, along with the economic benefit of loans with a nominal value of R900 million (c. £38 million), all of which was acquired for US$500,000 with funds provided in the form of de facto convertible loan notes from loyal, long-term shareholders (at a then 150% premium to the stock price).

Secondly, Dr John Wardle was appointed Non-Executive Chairman. He needs little introduction to investors as he was at the helm of AIM-listed Amerisur Resources from 2007 until its acquisition in 2020 for approximately £242 million. He knows the company well, as his investment vehicle, Tracarta Limited, already holds a 4.61% stake in Kazera.

In addition, Kazera received certification from the National Nuclear Regulator in South Africa, which enables its Whale Head Minerals project to imminently commence its HMS mining and production at Walvisop.

In early September 2024 there was news that the company was to enforce the Aftan sale agreement. Payment in full was due to have been made by the end of 2023. Should Hebei fail or refuse to settle the outstanding debt by 23rd September 2024, Kazera intends to exercise its right to refer the dispute to arbitration – a process which is timetabled to conclude in 60 days from the date of the demand (23rd September 2024) if payment in full not received by that date.

Risks

Geological risk

There are a series of technical risk factors concerning the amount of understanding of the geology of the project areas, the mineralisation style being targeted and the distribution and magnitude of the indicators that have been identified in exploration work.

Resource risk

All resource estimations are an expression of the judgement based on knowledge, experience and industry practice. Estimates that are valid when initially determined may change significantly when new information or techniques become available. Also, resource estimates are imprecise and depend somewhat on interpretations, which may prove inaccurate.

Commodity price risk

Ilmenite, garnet, monazite, rutile, tantalum and lithium are cyclical and can negatively or positively impact the valuation of the company's projects and revenue from the sales of these metals.

Exchange rate risk

The company's accounts are in sterling, and metal prices are in US dollars, with local costs in South African Rand and Namibian dollars. Fluctuations in the value of the US dollar, South African Rand and Namibian dollars against sterling may well affect the valuation that the UK stock market awards Kazera.

Future funds

In the last few years, the ratcheting of political tensions concerning Ukraine and Israel/Gaza and prevailing high interest rates, have set the scene and made the market turn its back on risky plays. This has made it difficult for small-cap resource plays to raise reasonable sums of fresh cash, with several recent fundraisings in the sector seeing share prices being undermined by incoming investors demanding 30-50% discounts to provide the necessary capital.

Board

Dr John Wardle – Non-Executive Chairman

John is an experienced drilling engineer with extensive leadership experience in the international oil exploration industry. He has served in multiple directorship roles and is currently the Executive Chairman of AIM-listed Ironveld plc. Previously, John was the CEO of Amerisur Resources plc, an AIM-listed oil and gas company, from 2007 until its acquisition in 2020 for approximately £242 million. His career also includes senior management positions at BP in the UK, USA, and Colombia, as well as at Emerald Energy in Colombia, where he played a key role in discovering the Campo Rico and Vigia oilfields. Additionally, he oversaw Pebercan's operations in Cuba. John holds a B.Sc. in Mining Engineering and a Ph.D. in Microseismic Geotechnics.

Dennis Edmonds – Chief Executive Officer

Dennis initially qualified as a lawyer in South Africa, where he established his law firm before moving to the UK, where he was requalified as a solicitor and worked for several years as an equity partner in a UK law firm. Since ceasing to practice law in 2000, he has had a successful career in private equity and at the board level as both an executive and non-executive director in a number of public and private companies. His expertise lies in structuring transactions and successfully negotiating to achieve their conclusion.

Geoff Eyre – Non-Executive Director

Geoff is an experienced finance professional with more than 17 years of experience holding senior positions with companies in the mining industry, including producing assets, exploration and development stage companies and private equity investment funds. Most recently, Geoff was the CFO of Adriatic Metals plc (ASX: ADT, LSE:ADT1), during which time Adriatic secured a financing package for the construction of its polymetallic mine in Bosnia & Herzegovina comprising US$102 million of equity and US$142.5 million project finance facility with Orion Mine Finance.

Forecasts

We initiate coverage of Kazera with forecasts for the financial years ending 30th June 2024 to 2027.

In the 12 months ending 30th June 2024, Kazera has been busy using the funds from the ongoing sale of the Aftan Project to put in place the plant, people and equipment to ensure that both the diamond and the HMS mining operations will be able to be cashflow positive and profitable once they are in operation. With this being the focus of attention, little in the way of revenue is expected, and the loss from continuing operations is expected at £1.555 million with a loss attributable to the company of £1.515 million (albeit a large FX non cash translation charge). The loss per share is expected to come out at 0.16p.

Year End 30 June (£'000s)	**FY2024e**	**FY 2025e**	**FY 2026e**	**FY 2027e**
Revenue	10	4,440	6,600	6,600
Cost of sales	(130)	(400)	(400)	(400)
Gross profit/(loss)	(120)	4,040	6,200	6,200
Administration expenses	(650)	(650)	(650)	(650)
Operating profit/(loss)	(770)	3,390	5,550	5,550
Finance charges	(60)	(20)	-	-
Net finance income	225	-	-	-
Foreign exchange (loss)/gain	(400)	-	-	-
Other expenses	(550)	-	-	-
Profit/(loss) before taxation from continuing operations	(1,555)	3,370	5,550	5,550
Taxation expense	-	-	-	-
Profit/(loss) for the year from continuing operations	(1,555)	3,370	5,550	5,550
Profit/(loss) attributable to owners of the Company	(1,515)	3,068	5,097	5,097
Profit/(loss) attributable to non-controlling interests	(40)	302	453	453
Basic and diluted earnings/(loss) per share (pence)	(0.16)	0.32	0.51	0.48
Weighted average number of shares	936,881,442	965,805,759	993,805,759	1,057,614,580
Total shares plus options and warrants	992,499,523	1,091,210,470	1,096,210,470	1,096,210,470

Source: Company/Optimo Research

The year ending 30th June 2025 sees the restarting of the diamond mining operations and the commencement of mining for HMS. With all the equipment in place, we visualise a fast build-up in diamond production to reach the targeted production rate of 200 carats a month with an average sales price of US$300/ct, giving a monthly revenue of US$60,000. Operating costs are calculated at US$30,000 per month for the diamond operations.

Mining of HMS began in late August 2024, and the first move was to provide samples to potential offtake partners. During this period, it is assumed that Kazera will be working on the large stockpiles built up. Also, we have assumed an offtake agreement is in place by end 2024 and that HMS production will begin within six months. Targeted HMS production is 6,000 tonnes a month, and we expected that a sales price of just over net US$100/t would be achievable at the mine gate (depending on the level of separation required in the offtake agreement) with the cost of sales being largely covered in the operating costs of the diamond mining given machinery and personnel overlap.

In this period, revenue is forecast to total £4.44 million, and after £0.4 million of costs, the gross profit is £4.4 million. After £0.65 million of administration fees, the profit from continuing operations is calculated to be £3.37 million, where the profit attributable to the company's owners is £3.069 million. The earnings per share are 0.32p.

In years ending 30th June 2026 and 2027, we see the diamonds and HMS working at the targeted production level, with HMS continuing to be sold at circa US$100/t level and diamonds at US$300/ct. Over the last couple of years, the company has invested heavily in its South African operations, and we believe that the serious level of capital expenditure to build up the mining fleet and processing equipment will result in there being no tax charge for an initial period. Looking at the profit attributable to non-controlling interests, the company has a US$49 million debt owed by the BEE partners that own the remaining interests in DBM and WHM. The debt repayment programme is based on 75% of their cash revenue used for repayment of this debt and 25% paid to the BEE. The profit-attributable figure shown is the cash portion. In these two years, the profit for the year from continuing operations and the profit attributable to the company have been determined to be £5.55 million and £5.097 million in both years. Earnings per share come out at 0.51p and 0.48p respectively.

Valuation

In seeking to place a valuation and determine a target price for the stock, we have employed a blended approach, which involves determining a SOTP estimate based on a discounted cash flow analysis as well as investigating the sort of rating that a fast-growing profitable resources company may attract in today's market. We have valued the South African interests on an earnings multiple based on the following analysis.

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 five years and seem to be permanently renewable. The indicative sales price for the average grade and size of stone from the concession areas is US$250 per carat, giving an initial diamond resource in excess of US$60 million of top-line revenue. However, the new blocks that Kazera has access to through the HMS operation are expected to give rise to greater production of higher-value beach diamonds. As such, we have assumed an additional 200 carats a month of production at a US$300/carat selling price, giving monthly revenue of US$60,000 and US$720,000 per annum

All the equipment of the right sort of scale has already been sourced, modified and is in place, which should allow a good handle on operating costs. Alexkor now charges contractors a royalty of 30% for inland diamonds and 40% for marine diamonds, which covers screening, sorting, preparation and sale of diamonds. In addition, there is a state royalty of 2%. 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. We are guided to expect a monthly profit of US$30,000 or US$360,000 per annum.

A South African tax rate of 28% was applied. The company has invested heavily in its South African operations to ensure that this operation could recommence both positive and profitable cash flow. We believe capital expenditure to build up the mining fleet and processing equipment will result in no tax charge for an initial period.

Kazera now has a 74% beneficial interest in DBM, where the remaining 26% interest is held by Black Economic Empowerment (BEE) partners buying this interest out of their share of the profits of this mining operation. It is similar to the situation at WHM regarding the HMS mining project. In Kazera's recent deal with Tectonic Gold, the company acquired an additional 10% interest in both DBM and WHM along with the economic benefit of loans with a nominal value of R900 million (US$49 million/£38m).

Heavy Mineral Sands

Walviskop - With the HMS licence granted and the recent receipt of certification from the NNR) in South Africa, the company has commenced production. Initially, the company will provide samples to potential offtake customers and continue negotiations with buyers. We have assumed that sales will begin within six months and rapidly rise to the targeted 6,000tpm as the HMS has been put on one side from mining the marine gravels. All the equipment is in place to ensure that the operation begins and is not only cash flow positive but also profitable.

Substantial investments have been made in mining equipment, vehicles, and processing facilities across the HMS and diamond operations. The grade employed has been a conservative 40% HMS, although there have been reports over recent years of assaying running up to 80%. We assumed minimal operating costs as the sands are primarily processed to remove the diamond gravel and only need to go through the spiral plant.

In the early days, management seemed confident they could gain at least US$85 per tonne at the mine gate, which could be for a fairly crude product, including silica, where the sand had not been separated. For a more refined product, US$100/t is achievable on this basis, which is a flat price that we have used over the period of our financial model.

	Ilmenite	Garnet	Zircon	Monazite	Rutile	Quartz/iron	Total US$	Comments
Representation	71.6%	6.8%	3.5%	2.2%	2.1%	13.8		
CIF prices US$	313	120	2,000	2,000	1,300	0		
Contribution/t	224	8	70	44	27	0	374	
DISCOUNTING FACTORS								
Processing cost/ton of US$2.63							371	Estimated
Land and sea freight cost and port handling/ton of US$142.74							228	Incl bagging
Margins for processor and end-user/ton of US$112							116	Estimated
Transporting and disposal of waste materials/ton of US$31.50							85	FOT price

The US$85 per ton estimated mine gate price (FOT) calculated for Walviskop screened and spiralled product. Source: Company

The commercial agreement of the offtake contract has yet to be agreed upon, but we realise that more advantageous offtake terms are available for a more separated product. There seems to be a range of potential sales prices of US$85 – 130 per tonne. We have reflected this in our analysis by assuming a sales price of just over US$100/t would be achievable at the mine gate.

Kazera now has a 70% beneficial interest in WHM, and the remaining 30% is held by BEE partners, who are buying this interest out of their share of the profits of this mining operation. Similarly, as with the diamonds, we have assumed that Kazera gains 92.5% of the cash flow during the period that we have modelled.

NPVs were determined for both the diamond and HMS mining operations at Walviskop. Adding these together gives an NPV (12) attributable to Kazera of US$38.14 million (£29.11 million), a figure used in our further analysis.

We believe that our treatment is highly conservative. The Feasibility Study by CREO Design determined an NPV(20) of US$223.75 million for Walviskop alone. Furthermore, there is a direct comparable with Mineral Commodities, which had a recent market capitalisation of around A$25.6 million (£13.3 million), at which price the stock is currently suspended. Due to operational delays, MRC has been navigating a challenging period with lower production at its Tormin mine. A significant storm caused funding issues, which resulted in the suspension of stock. However, a year ago, MRC traded at a market cap of something like A$45 million (£23.4 million).

Our financial modelling and analysis suggest an attributable profit of £3.068 million could be achieved in the year ending 30th June 2025. For a resources company like Kazera, we believe a multiple of 6 times prospective earnings is a sensible basis for valuation. On this basis, it would suggest a valuation of £18.4 million for the South African interests. To remain conservative, we have used a blended valuation figure which considers both the discounted cash flow analysis NPV(12) number and the earnings multiple valuation. We have selected a figure of £23.76 million, which we have transferred into our SOTP.

Perdevlei - WHM is also applying for a Mining Licence over an adjacent beach at **Perdevlei. This has an intrinsic value as submitting such an application excludes others from using it. Perdevlei bears all the hallmarks of having similar characteristics to Walviskop, but it is reckoned to be 34 times larger.** To value this interest sensibly, we have made some bold assumptions and multiplied the NPV attributable to Kazera for Walviskop (£29.11 million) by 34, which gives £989.74 million.

We have chosen to risk this figure heavily by an arbitrary 97.5%. WHM has not applied for a Prospecting Licence but has gone straight for a Mining Licence given its increased knowledge and detailed experience of geology and mining and the geology of HMS. The potential award of this licence could just be a matter of months away and gaining it would allow the risk to be reduced and an improved valuation placed on this project. But risking at 97.5% gives a figure of £24.75 million to be used in our SOTP table. **Our stance on the HMS means we will have plenty of opportunities to review and potentially re-rate materially the Company given this exciting opportunity.**

Tantalum & Lithium

Kazera sold the Aftan to Hebei for US$13.0 million, but only US$4.85 million has been received. The company retains a 100% interest in Aftan until the total amount of cash has been received. The amount to be paid plus 8% annual interest means that Hebei owes Kazera around US$9.5 million. There is no doubt that Kazera has the legal right to sell the project to another party and retain the funds received from Hebei. To remain conservative and knowing that there is a good dialogue between Kazera and Hebei, we have suggested a value of US$9.5 million or £7.25 million is placed on these interests. That would probably be the minimum amount that Kazera would look to obtain for any deal which might involve a third party to resolve the current situation. Our valuation takes no account of the 2.5% royalty on the TVM over its mine life, which Kazera retains.

Sum-of-the-parts valuation

Asset	**Valuation £ million**
Walviskop - HMS & diamonds	23.76
Perdevlei - HMS & diamonds	24.75
Tantalum and lithium	7.25
Sub-total	**55.76**
Per share (956,599,523)	**5.83p**
Fully diluted basis	
Proceeds from the conversion of outstanding warrants and options	0.61
Total	**56.36**
On a fully diluted basis (currently 1,096,210,470)	**5.14p**

Source: Align Research

All these numbers were included in our SOTP table, and the total valuation for the company came out at £55.76 million. This equates to 5.83p per share based on the current number of shares in issue (956,599,523). On a fully diluted basis, where we assume the conversion of the warrants and options, this results in 1,096,210,470 shares being in existence. **In this case, the valuation increases to £56.36 million, giving a per share valuation of 5.14p which we have adopted as our target price.**

Kazera is now on the brink of becoming a rapidly growing resources company, with some cracking projects that will provide the scope to generate enviable profits over the coming years. Recent years have not been easy for the company, but looking ahead, we can easily visualise a long-term stream of earnings stretching into the future and, uniquely for many AIM Juniors, a potential regular dividend payer. Investors are prepared to pay a premium for such reliable, long-term, reproducible earnings, which are judged to be high quality. **This has not yet been factored into our analysis as it is still in the early days, and we wish to remain highly conservative**.

Conclusion

There is little doubt that today, Kazera is well-positioned and on the cusp of a promising future. **The board is seeking to run a company that makes money, which is in marked contrast to a traditional AIM resources company where they are largely run for management's benefit.** Very soon, Kazera looks like it will be making money from two different, allowing the team to leverage this success.

The HMS operation in South Africa has all the makings of being a real cash cow where the funds generated can either be returned to shareholders or channelled into the next project that has the potential for early cash flows. The company's management team should be praised for the speed at which the HMS mining operation has got up and running. It has now been just two years since the Mining Licence was granted, and most competitors would still be bogged down in PFS and DFS, but Kazera is well set to deliver an impressive cash flow.

In the future, the company will have far more control over the grade of the diamond mining operations. In the past, they delivered diamond gravels to Alexkor and hoped for the best, and sensibly, they always retained the discarded gravel. Taking the processing in-house with the introduction of the Flow Sorter machine solves many problems as the resulting fraction goes into a sealed container to Alexkor for final sorting. This is planned to happen every 2-3 days so that management will know the actual grade of the gravel working within a week. Previously, they didn't get an indication for three months, so there is excellent control over grades plus less chance of theft. It has to be said that Alexkor has never seen such a sophisticated operation.

Kazera has developed a perfect working relationship with Alexkor, down to the company's head of South African Operations, Johan Truter, who has worked there for a long time, and his father before him. Kazera's operation seems to be a bit of a showpiece for the region with Kazera's processing plant, and now a giant workshop where they can house their vast loader, lies to the right side of the main road – testament to the impact these projects have had on the local community. In addition, the company has offered them space that now houses accommodation, medical facilities, X-ray facilities, radiation treatment, an office, a storage area for HMS and a loading bay. All of this is 150m from the tarred main road. **This all bodes well for the future, and the final granting of the large Perdevlei licence could propel the company into the major league globally as a HMS producer given the industry leading grades of their resource in NW South Africa.**

Kazera, like many Juniors, trades at an unjustifiable discount to its true worth in our view. **We have set out to demonstrate that even on an outright immensely conservative valuation basis, with material haircutting to already sensibly discounted NPVs, the company has assets that are worth substantially more**. Subject to achieving the critical milestones set out here, our highly conservative treatment of many of the underlying factors will be reduced going forward, with the commensurate see-through uplift to shareholders representing further multiples of the current market cap.

Accordingly, we commence our coverage of Kazera with an initial target price of 5.14p.

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