

HALLGARTEN & COMPANY

Coverage Update

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Cobre
(ASX: CBE)
Strategy: LONG

Key Metrics

Price (AUD)	\$0.16
12-Month Target Price (AUD)	\$0.44
Upside to Target	175%
12mth hi-low	\$0.02-\$0.73
Market Cap (AUD mn)	\$43.95
Shares Outstanding (millions)	274.70
(Fully Diluted)	303.30

Cobre

Ongoing Discoveries, Management Transition, Sandfire Deal & Further Shareholding Simplification

- + Cobre is targeting copper potential in the Kalahari Copper Belt (KCB) of Botswana, the hottest new location for Cu discoveries where it is often said there is “nothing left to find”
- + Cobre has moved to a 100% ownership position in Kalahari Metals, giving it the second largest land position in Botswana’s KCB, after Sandfire Resources
- + A management transition has passed the baton to Adam Wooldridge
- + Joint surveying deal with Sandfire goes to show that Cobre could indeed be viewed as the upside to an expanded version of Sandfire’s Motheo Production Hub
- + Recent drill results on step-out targets have proven extremely promising
- + Copper has staged a rebound in recent months after having spent most of 2022 in the doldrums due to the Russo-Ukraine War and Chinese Zero Covid damaging global trade
- + The company also has a strategic foothold in a venture, Armada Metals Ltd, seeking Nickel and other base metals in Gabon
- ✗ Copper and Nickel have pulled back recently but still stand at levels substantially above their average prices over the last ten years
- ✗ The environment for funding projects has been strong of late but is, as ever, subject to the whims of the marketplace

A Plethora of Developments

Usually, our coverage updates have a headline that succinctly sums up a major development however, in the case of Cobre, there have been four major developments that all merit equal billing and show that the company is motoring forward in its goal of making a major new player in copper resource development in Botswana’s Kalahari Copper Belt (KCB) that has become the hottest new address in the red metal’s space.

In this coverage update we shall look at progress in Botswana, the deal with the other major player in the KCB and the recent simplification of the management/control structure there. Then there is the investment in Armada Metals in Gabon to be discussed. We also look at the copper price.

Appointment of New CEO

In early December the company announced a transition in the management with the appointment of Adam Wooldridge as Chief Executive Officer with immediate effect. He was hitherto the CEO of Cobre’s wholly owned subsidiary, Kalahari Metals Ltd.

is a founding partner of KML and has played an active role in developing the Company’s exploration

projects over the last five years. An experienced geophysicist and geologist with over 25 years' experience in Africa, the Middle East and Europe, he has worked in exploration management and consulting positions across a variety of deposit types including base and precious metals.

He was a founding partner of Kalahari Metals and was previously employed by BHP working in the Kalahari Copper Belt (KCB) in the late 1990s.

Some Background

Cobre (the Spanish word for copper) was listed on the Australian Stock Exchange in January of 2020 with its previous sole focus being copper exploration in Western Australia. In late August of 2020 the company gained its first foothold in the country with a 51% stake in Kalahari Metals Limited (KML) which currently controls approximately 5,384 km² of tenements within the highly prospective Kalahari Copper Belt.

The new territory in Botswana is the main attraction for, and of, Cobre. Recent discoveries have made the Belt into a significant emerging Cu district, with various recent transactions highlighting the prospectivity of what the United States Geological Survey (USGS) is calling one of the most prospective for new copper discoveries in the world.

As for Botswana, what was formerly a sound, but rather obscure jurisdiction (mainly known for diamonds), has become a hot spot for copper prospecting in the wake the substantial transactions executed in the country in recent years and in particular, the immensely attractive exploration results that Sandfire has recorded.

Kalahari Copper Belt – Elephant Country?

The KCB comprises a thousand-kilometre-long linear belt of north-east to south-west trending volcanic sedimentary rocks extending from Klein Aub in Namibia to the Shinamba Hills in northern Botswana. The region has been highlighted by the USGS as the world's most prospective area for yet-to-be discovered sediment hosted copper deposits.

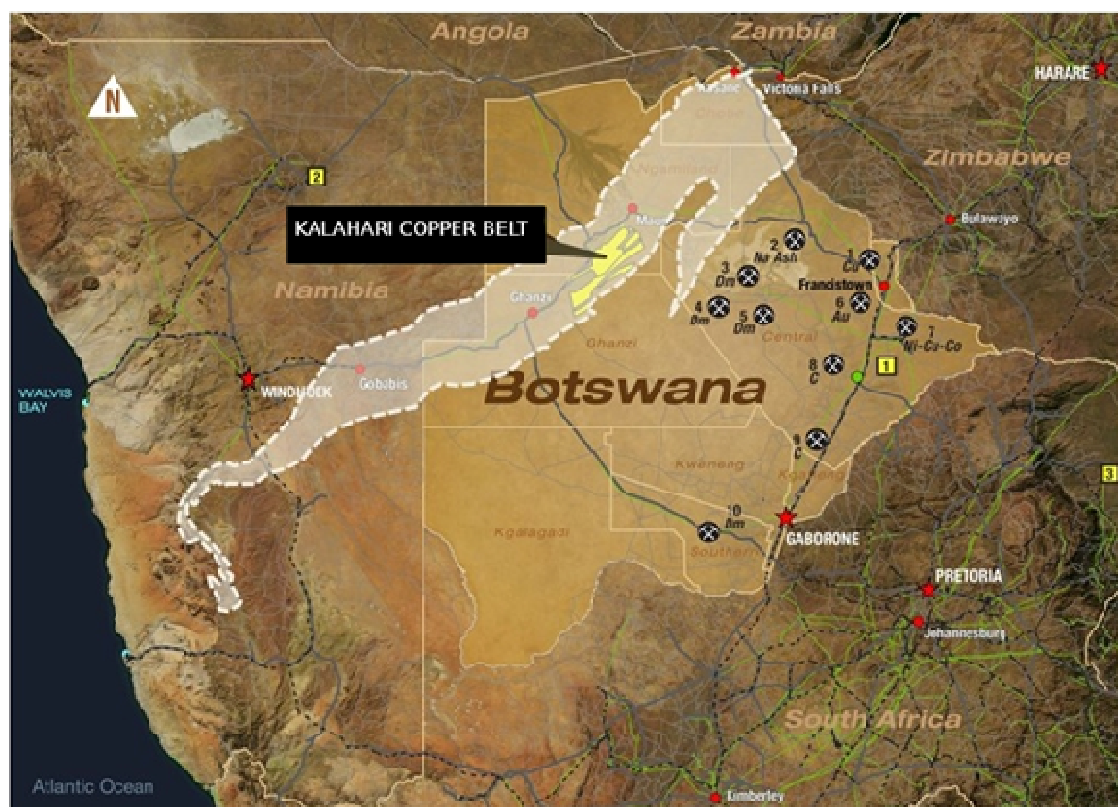
In geological terms, copper mineralisation in the KCB is typically hosted above the contact between the D'Kar Formation (reduced sediments) and the Ngwako Pan Formation (oxidised continental red beds).

Early exploration campaigns carried out by US Steel, AngloVaal, Anglo American and BHPB focused primarily on identifying and delineating large, shallow, low-grade, stratabound Cu resources.

From the early 2000s, exploration models changed with a greater emphasis on moderate-sized, higher-grade, structurally controlled targets which may be amenable to underground mining. This led to a number of discoveries which were largely attributed to the effective use of high-resolution geophysics and better understanding of the geological and structural controls to mineralisation.

The issue of cover is important in the KCB, as much of the prospective geology sits below younger

sediments. However, this is not universally the case, as in some areas the basement rocks are actually subcropping, or the cover is very shallow, while in other areas cover can be much deeper. Historical exploration in the Belt was based on aeromagnetic surveys and soil sampling, used to locate the Ngwako/D'kar Formation contact which was then tested by inclined drilling, usually core and occasionally reverse circulation drilling.



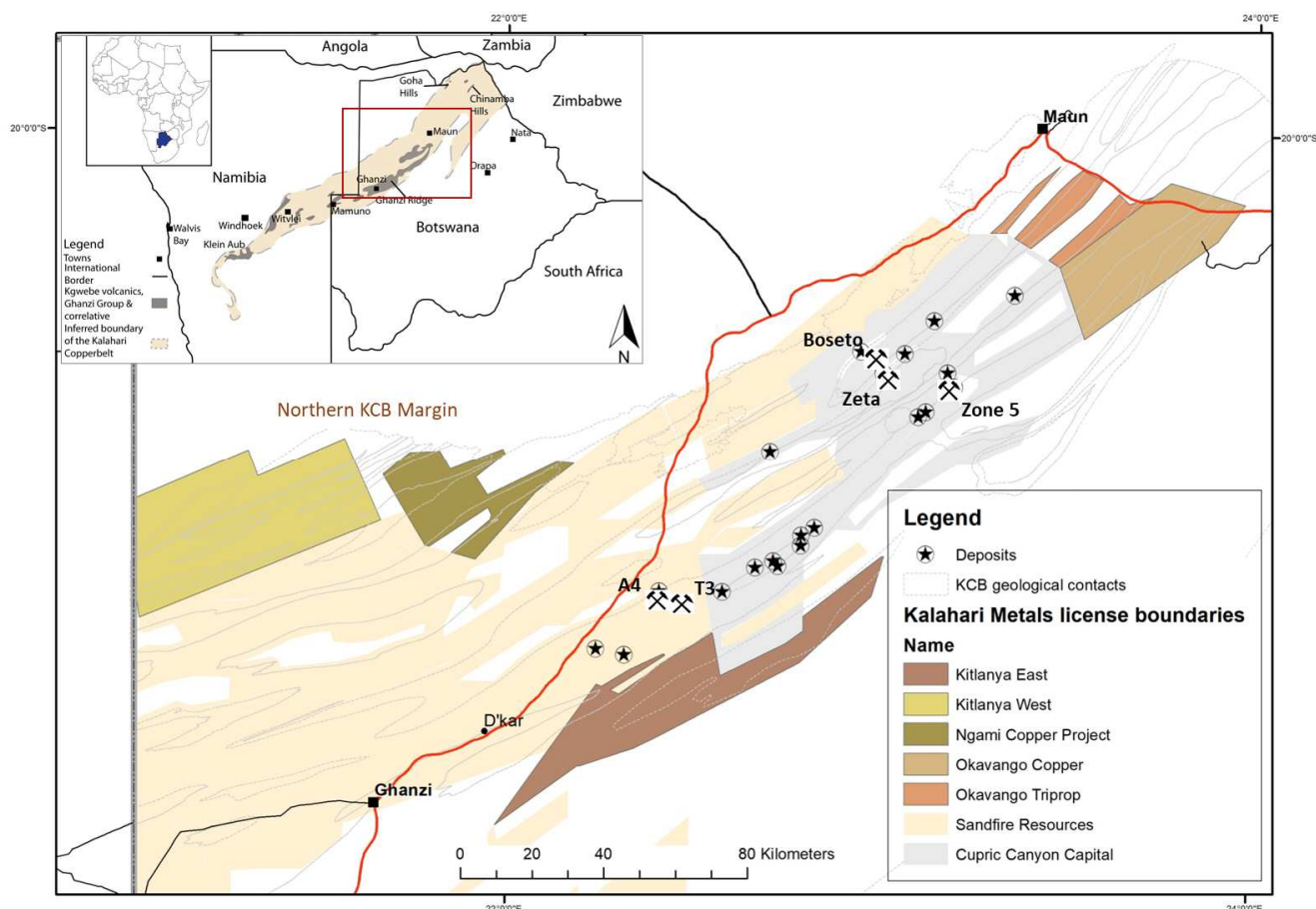
The 2022 Campaign

In late July the company announced the first intersection of significant copper mineralisation from its ongoing drill program on the Ngami Copper Project (NCP) licenses. This fired up the price massively, moving the company into the same category, in our estimation, as some of the more advanced players in the Botswana space such as Sandfire.

Based on visual estimates, confirmed with pXRF readings, diamond drill hole NCP07 intersected a broad zone of copper mineralisation starting from 214m and continuing for approximately 59m downhole to 273m. The mineralisation included vein and fracture fill chrysocolla, as well as fine-grained copper sulphides, which increase in abundance between 250m and 260m downhole.

NCP07 was designed 1km away along strike to test the extent of anomalous chalcocite mineralisation intersected in historical hole TRDH14-16a (2m @ 1.8% Cu and 8 g/t Ag), proving that mineralisation increases and thickens out significantly along strike. Intersections at NCP07 and TRDH14-16a were

considered anomalous for the KCB, typical of intersections on the margins of copper deposits. Drilling at NCP07 was followed-up with a series of 1km step-out holes which demonstrated that chalcocite-dominant mineralisation extended along strike for more than 4 kms proving that the target, later named Comet, shared similarities with other deposits in the KCB which are characterized by halos of moderate grade with one or more structurally controlled high-grade zones providing the economics.



In early December of 2022, the company announced drill results from Comet and highlighted the significant district scale upside, which included a number of regional target areas across the company's extensive license holding on the northern margin of the KCB.

The assay results were released for drill hole NCP20A which intersected a significant zone of chalcocite mineralisation within a parasitic fold. This fold appears to have acted as a trap-site, effectively increasing the grade and thickness of copper/silver mineralisation, a common occurrence in KCB deposits. The high-grade zone appears to extend from drillhole NCP08 through to recently completed NCP25 to NCP20A covering a distance of more than 250m.

Assay results from discovery hole NCP20A at the Comet Target on the Ngami project have returned

significant, high-grade copper-silver results, demonstrating the potential for economic grades in the district.



Assay results confirm the visual copper mineralisation estimates, delineating a broad 30m Cu-Ag intersection, with grades averaging 1.25% Cu and 17 g/t Ag from 128m to 158m downhole including:

- 12.2m @ 2.5% Cu and 24 g/t Ag (2.68% Cueq)
- 5.1m @ 5.1% Cu and 32 g/t Ag (5.21% Cueq)

The intersection includes an exceptional 1.7m @ 10.9% Cu and 45 g/t Ag (11.2% CuEq) from 155.3m to 157m downhole.

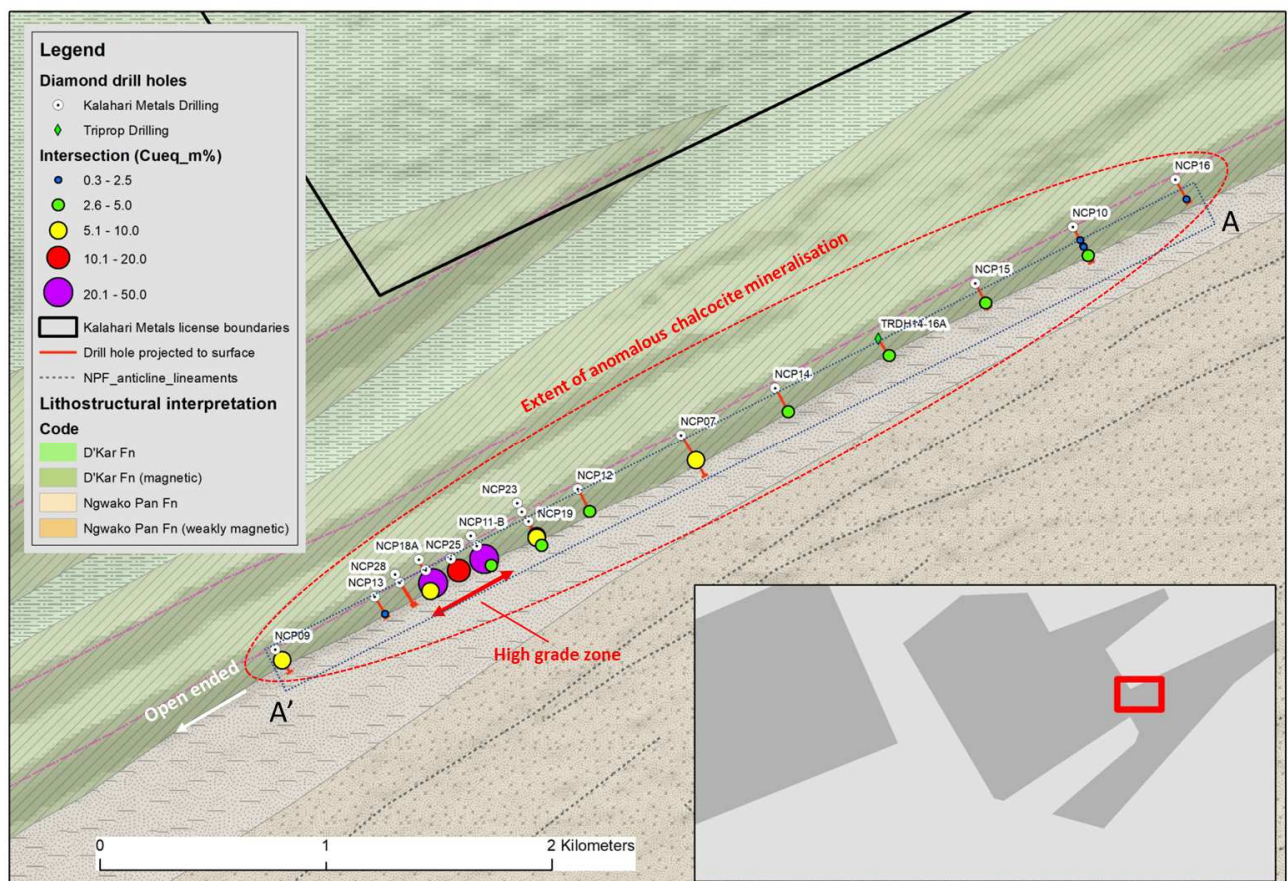
The grade-thickness of copper-silver mineralisation from NCP20A falls into the upper 2% of drill hole intersections from other known deposits within the Kalahari Copper Belt (KCB), highlighting the significance of the result.

NCP20A is part of a structurally controlled high-grade zone of copper-silver mineralisation within the Comet target, which extends over more than 250m from previous drill hole NCP08 (10.7m @ 1.5% CuEq).

The high-grade zone is surrounded by a prominent lead-halo, along with several moderate grade copper-silver intersections.

In the view of the technical team, based on these results, there is potential for several similar structurally-controlled high-grade zones to occur along the 4km length of the Comet Target.

The diamond drilling campaign is ongoing with a regional exploration drilling update mooted to be announced in the near future.

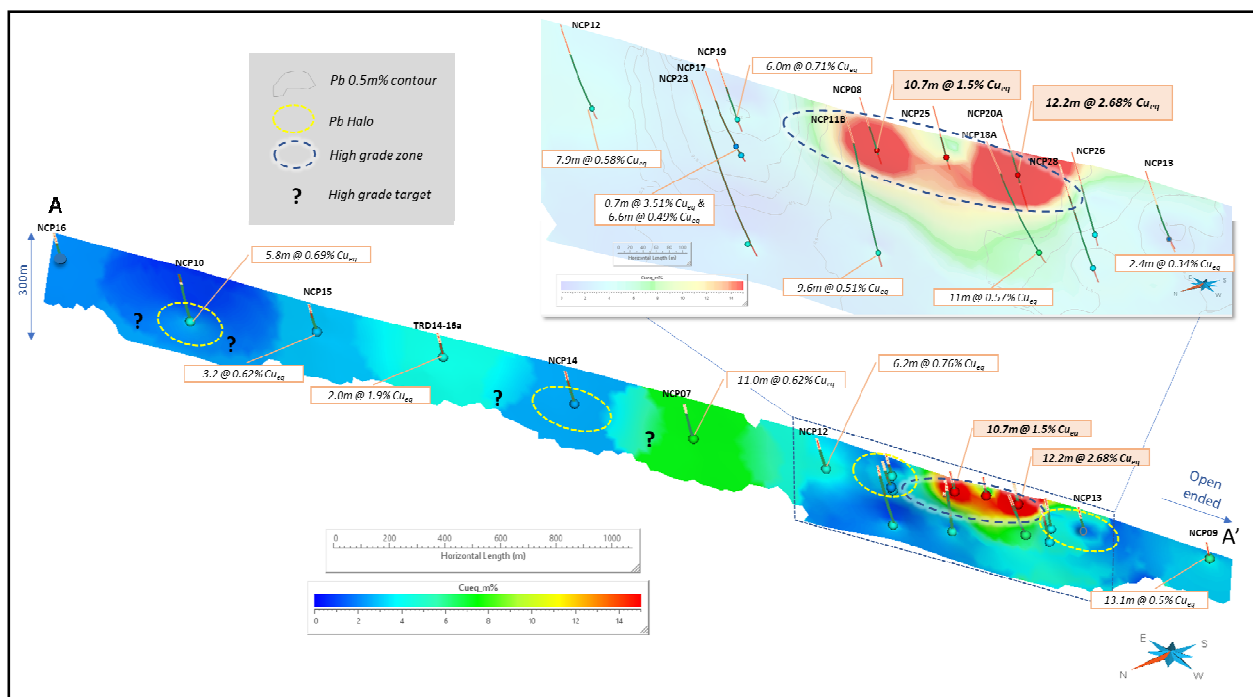


Plan map illustrating completed drill holes on lithological interpretation.

Drill hole intersections are coloured by calculated Cu_{eq} m% which provides a useful method for comparing intersections.

Exploration Since our Last Update

In the first days of August with the financing arranged the company started to elaborate on its next plans for exploration for the remainder of 2022, which included a number of infill and step-out holes over the Comet target as well as drill testing new targets in proximity to Comet with a total of 7,750 m of diamond drilling completed by the end of 2022.



3D long-section, looking southeast (with no vertical exaggeration).

In the above long-section the modelled NPF contract has been coloured by estimated Cu_{eq} m% from assays (Holes NCP07 to NCP20A) and pXRF estimates (NCP23, NCP25, NCP26 and NCP28). Importantly several high-grade zones, similar to the intersection at NCP08-NCP25-NCP20A, are expected to occur along the length of the target.

In addition, the company completed a campaign of low detection mobile metal-ion geochemistry (TerraleachTM TL1). This technique has proven highly effective in delineating soil anomalies associated with the drill confirmed mineralisation at NCP, providing an ideal targeting tool for the remaining untested ~100km of prospective contact within the NCP licenses. A total of ~5,000 historical and ~1600 new soil samples were sent for TL1 analysis with results expected to be announced in January.

Over and beyond that a large soil sample program, covering targets in the 2,000 km² Kitlanya West (KITW) licences, was commissioned and completed with over 5000 samples collected and combined with the 3500 samples from a previous campaign. In light of the relatively thin Kalahari cover in these licenses, soil sampling presents a cost-effective layer for further prioritising the numerous KITW targets for follow-up drill testing.

The Ngami project resumed exploration after the Christmas break. The company has a third Aircore/RC rig being shipped in which should be up and running in March.

Deal with Sandfire

Amongst the welter of announcements recently was a binding Heads of Agreement with Tshukudu Exploration (Pty) Ltd (TEX), a subsidiary of Sandfire Resources Limited (ASX: SFR) to procure Airborne Gravity Gradient (AGG) data over its Ngami, Kitlanya West and Kitlanya East Copper projects. The cost of the survey will be split equally between Cobre and Sandfire, in return for the latter having the right to use the data for its own interpretation. As part of the agreement, Cobre will collaborate with Sandfire in the identification of analogues to the A4 and T3 deposits within Sandfire's Motheo Production Hub.

Commencing in December 2022, Cobre and Sandfire Resources have started a joint, collaborative, AGG survey providing extensive and detailed coverage over Cobre's Ngami, Kitlanya West and Kitlanya East Copper projects.

The AGG survey is expected to deliver a high-resolution understanding of density contrasts within the Kalahari Copper Belt, allowing for detailed mapping of basement architecture and enhanced target generation and testing at regional to prospect scales. The two companies will collaborate and share data to advance target generation around Sandfire's Motheo Production Hub. Results will be integrated with recently completed soil sampling program with a view to providing new targets for Cobre's 2023 drill program.

The AGG survey over Cobre's project areas will cost a total of AUD\$877,800, of which Sandfire will contribute 50% equating to AUD\$438,900, in return for the right to use Cobre's data for the purpose of studying basin-scale geology of the KCB.

While a sound and sensible piece of collaboration, it also highlights how, potentially, the destinies of Cobre and Sandfire are intertwined if the harvesting of information jointly proves up that Cobre's territory is an extension of the rapidly developing asset at Sandfire.

Simplifying the Ownership Structure

In mid-June of 2022, the somewhat labyrinthine ownership structure was clarified and simplified when Cobre entered into a Share Purchase Deed acquire up to all of Metal Tiger's 49% interest in Kalahari Metals Limited.

Cobre acquired a further 24.5% of the shares in KML (increasing its interest to 75.5%) for total cash

consideration of £750,000. This was payable in September 2022. At that point all directors were Cobre appointees.

In late November 2022, shareholders approved the acquisition of the remaining 49% interest in Kalahari Metals Limited, finally moving to 100% ownership. This consisted of the aforementioned acquisition of 24.5% of the shares and then it acquired the remaining 24.5% of the shares for the issue of 4,632,155 Cobre shares at a deemed issue price of \$0.29 per share and repaid the outstanding five-year loan of US\$1,295,071 by issuing 6,602,183 Cobre shares at a deemed issue price of \$0.29 per share.

The formula for issuing the consideration shares was calculated by dividing £750,000 (converted into Australian dollars) by the agreed relevant 90-trading day VWAP of Cobre's shares of AUD\$0.29 per Cobre share.

Metal Tiger have upped their stake in Cobre by over 11mn shares, and it now stands at 17.1%. Beyond the shareholding, Metal Tiger retains a conditional 2% net smelter royalty over all KML's wholly-owned licences. The five exploration licences owned by Triprop (in which KML has a 80% interest and a right to 100% ownership) do not form part of the royalties.

New Director Onboarded

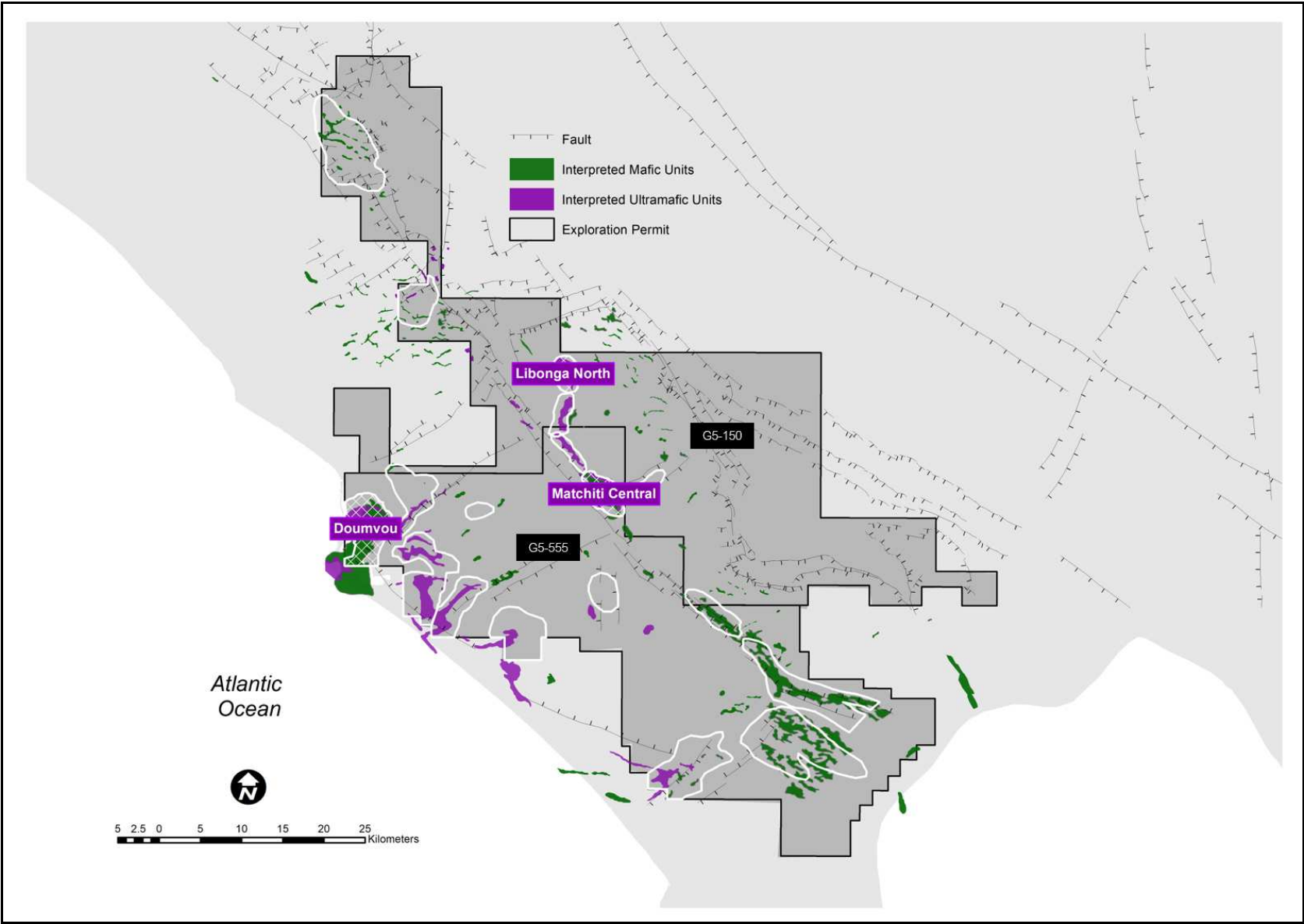
Cobre appointed a new director to rebalance the board and thus in late June of 2022, Dr McGowan was added as a non-executive director. He is the Managing Director & CEO of Armada Metals (discussed anon) and founded the Resource Exploration & Development Group, which was responsible for generating the Kitlanya East and West prospect areas held by Kalahari Metals Limited, as well as having over 20 years of academic, technical and corporate experience in mining exploration in Africa. He had been instrumental in the discovery of the Kamoakakula copper mine in the DRC.

He holds an MGeol, PhD and is a fellow of the Geological Society of London and a Fellow of the Society of Economic Geologists.

Beyond Botswana – the Armada Stake

Cobre holds a 15% stake in Armada Metals Limited, a Mauritian holding company (which owns 100% of Armada Exploration (Gabon) SARL). Cobre is partnered in this venture with Metal Tiger and Resource Capital Funds. This investment was originally made when Armada was private but, in December of 2021, the company obtained a listing in the ASX (with the ticker AMM).

Armada is the holder of two exploration licences, in Gabon, and the company was established to define new belt-scale discovery opportunities for key commodities (principally nickel and copper) in under-explored regions of Africa. Over US\$10mn has been expended in targeting an area of over 16,000km² to narrow down to the current holdings.



Gabon is the world's fourth-largest producer of Manganese, with reserves of 150mn tonnes and production of 1.8mn tonnes in 2015. The country has more than two billion tonnes of iron ore, over 40 tonnes of proven gold reserve and a range of other minerals, including lead, zinc, copper, diamonds, niobium, and titanium.

However, being so focused on Manganese has meant that it is not so well-known amongst broader mining investors. The Armada listing initially did well but has gone into somewhat of a funk as investors await more developments on the exploration front.



Copper Targets Downunder

Upon listing Cobre's two core assets were both base metals targets (with potential for precious metals). These were the Perrinvale and Sandiman properties which are shown on the map below. While work has continued in the background the clear focus of Cobre is the Botswanan positions it holds. One should therefore not be surprised if these assets were monetized for shareholder's benefit in some way of another.

Our Take on Copper

The Russian invasion of the Ukraine in early 2022 and the global outbreak of inflation (with the cure

being higher interest rates) has put paid to the dreams of those that hoped that a new paradigm of Copper at \$5 per lb or higher might be established.

The lengthy period of underinvestment in copper exploration and capacity has laid the ground for a supply crunch. Below \$3 there was little incentive to build new mines and below \$2.50 (pre-November 2016) there was no incentive to explore either as despair was the only sentiment around.

On top of this the Chilean government has engaged in very public acts of self-harm which have spooked investors as to the potential of establishing substantial new capacity in the country, not that there are any new Chuquicamata's waiting on the wings... or even mini-Chuquis. The effect has been to drive interest across the border into Argentina, where San Juan province has become the "new Chile".

This phenomenon is also driving the frenzy of interest in Botswana.

As the chart on the following page shows, after mid-2018, the price doodled about, but mainly lower. It plunged to a five-year low on the outbreak of the pandemic. In 2020 copper then "turned on a dime" going from a low of \$2.50 to over \$3.50, showing that the metal has the potential to move far and fast. It then powered on to nearly \$5 per lb before the rug was pulled out from under it. Unfortunately, the price was sustained above \$4 for only a year.



The outbreak of war could be blamed for the retreat in 2022 or China's ludicrous Zero-Covid phase but, as usual, we always look for the hidden hand of China, using onshore stocks to bludgeon the price lower,

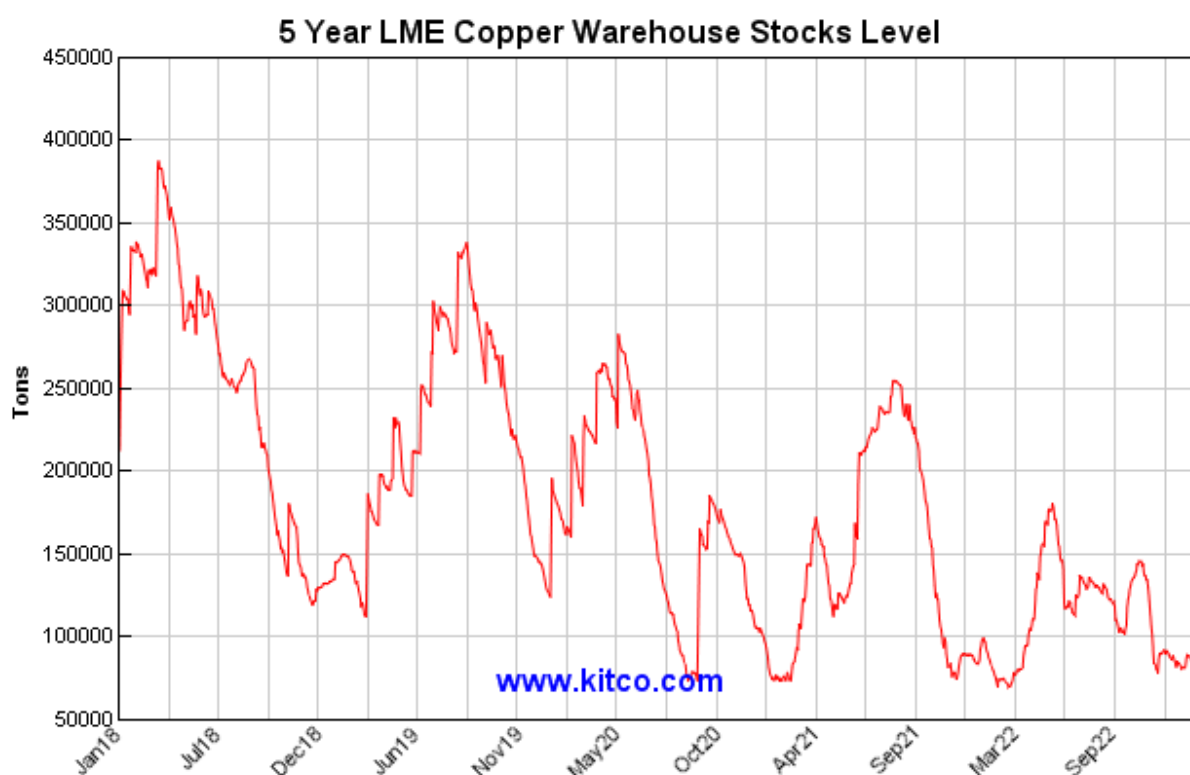
to suit some bizarre goal that cheap copper now (with its attendant lower investment in new development) might somehow be in China's longer-term interest. Sigh....

The following chart shows the LME warehouse stocks. This shows an interesting seesaw action in recent times. It is clearly evident that the trend is down and yet someone keeps moving in stocks to make it look like a stock build and then it gets slapped down again.

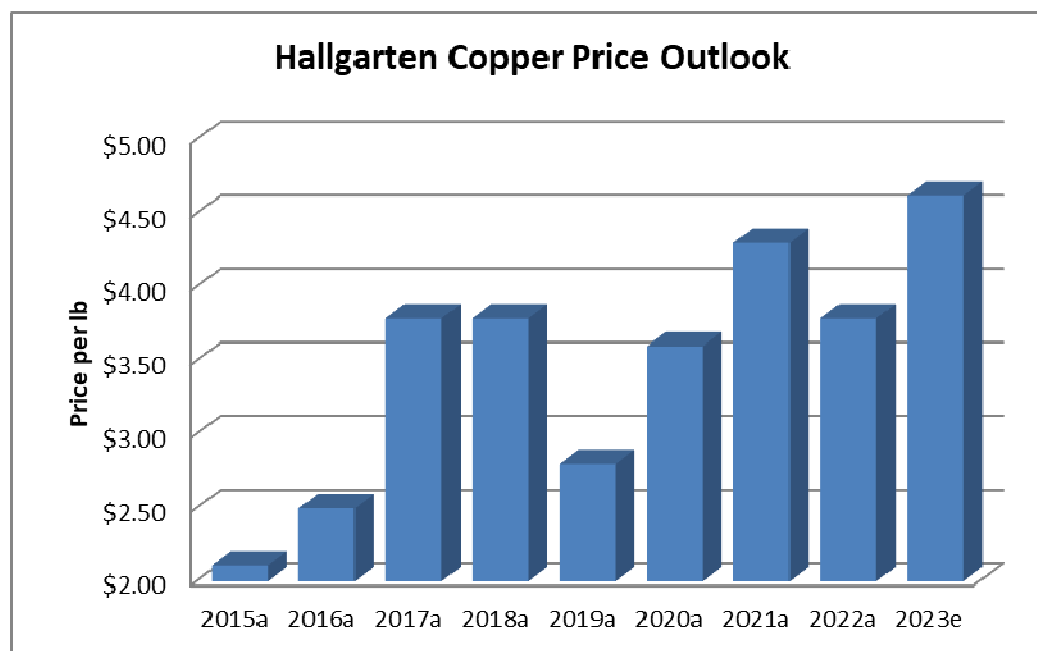
We have long mooted resistance at US\$4 per lb, not so much from the general marketplace, but from the Chinese. They do not want to be at the mercy of "Western" miners again in this metal.

Unlike metals like Zinc/Lead and Nickel, there was some copper development during the downtime (e.g. Las Bambas, Constancia etc) but this was nowhere near sufficient to replace mines that have exited or reduced production and deal with even conservative forecasts of growth in consumption.

If the Copper price had held up for longer it would have greenlit those few projects sitting on the launch pad without precipitating a production surge because there is not that much capacity to "turn on" and the unbuilt potential is small and a long way from actualization. It did however prompt the appearance of (and funding thereof) various explorers, such as Cobre.



As the chart that follows shows, we are bullish on the copper price outlook into 2023, despite recent weakness.



In any case, the Copper price lingering between the current levels and \$5 is a sound scenario and we view any price over \$3.50 as a good place to be for copper miners and it ensures that mines with fair grades and CapEx numbers “within the ball park” will be seen as doable and desirable. This then will have knock-on benefits for those junior explorers trying to fill the pipeline with new projects and resources.

Financing

In mid-December of 2022, the company undertook a further financing. It announced that it had received firm commitments from institutional (both domestic and offshore), as well as sophisticated and professional investors, for the placement of approximately 33.3 million new fully paid ordinary shares at an issue price of \$0.15 per share to raise gross proceeds of AUD\$5mn.

Of note are that:

- the well-known resources investment manager, Sprott Asset Management, invested almost AUD\$2mn into the placement
- Metal Tiger Plc, the Cobre’s largest shareholder, subscribed for its pro rata of AUD\$1mn under the placement
- Cobre’s second largest shareholder, Commodity Discovery Fund, subscribed for AUD\$300,000

In addition to the placement, Cobre's drilling service provider, Mitchell Drilling Botswana, and exploration services provider, Remote Exploration Services (RES), have subscribed for US\$400,000 and

US\$70,000 (respectively) at the placement price, as part of scrip for service arrangements.

Cobre also announced the launch a Share Purchase Plan (SPP) to eligible shareholders in Australia and New Zealand to raise up to an additional AUD\$1mn. This takes the total to be raised through the placement (assuming full take-up of the SPP) to around AUD\$6.7 million, which is made up of AUD\$6mn cash and ~AUD\$700,000 in scrip for services.

Previously, in early August, the company announced that it had completed a two-tranche placement of AUD\$7mn at \$0.15 per share. It is notable that the company received significant demand for the placement from international and domestic institutional and high net worth investors.

Risks

There are a number of potential risks that should be taken into consideration:

- ✗ Global economic conditions deteriorate due to a rising interest rate scenario or slowing growth or both
- ✗ That the Copper price loses upward momentum
- ✗ Political risk in Botswana evolves against miners
- ✗ Financing difficulties for larger projects

The copper market has been stronger over the last few years but doubts still exist as to whether this is a secular change prompted by long term lack of new projects & development or whether it is a surge in demand. We would still signal caution as the long-term economic effects of the current pandemic are still not clear. A number of Western economies have been severely battered and are showing decreased, or negative, growth.

The copper price could weaken again if it rises too far too fast, if interest rates perk up or if China shows significant slowdown due to the effects of retaliatory measures against the country or just slower exports to the West. As noted earlier, China has an interest in lower prices and has significant stockpiles and trading positions that it can exploit to play whackamole with the prices of metals it wishes to see lower.

Botswana is not a concern at the moment, but African countries have long shown an ability to surprise to the downside, sometimes due to external effects beyond whatever the internal politics may be like. Mali and Burkina Faso are examples of two countries where political risk has risen steeply, with little warning, over the last five years.

The hope is that insufficient projects will appear to satisfy demand, thus extending the cycle and making a sustained period of higher copper prices more likely. At the moment, this looks the most probable scenario.

Conclusion

One does not need to be a subscriber to apocalyptic views of shortages caused by the EV revolution to be nevertheless bullish on copper. The metal has not been as underinvested in recent times as say, Zinc, but the long period of quiescence in mining markets meant exploration was minimal and development to mining status was largely in the hands of the Chinese, (e.g. MMG at Las Bambas). While it is not said out loud in public “Peak Copper” in Chile is a real threat and now it is further complicated by confused signals out of the new government in Santiago.

The price trend for Copper frequently defies the long-term good/bad outlook. Bad, in that there is not a strong pipeline of very large projects to make up for mine retirements/exhaustion of reserves. Good, in that this dryish pipeline augurs well in the long term for prices.

Then one should not underestimate China’s desire not to be a price-taker in Copper (rather a price-maker). They have shown themselves, we believe, to be proactive in resetting the price. This seems to be achieved by using onshore stocks to push prices of various metals around. On this score the Chinese firepower is considerable and should not be underrated.

It would appear that they took advantage of the onset of the Russo-Ukrainian war to set the copper price lower. Longer term we regard this as a Sisyphean exercise, but in the short term it always seems to work for them.

On the exploration front in Botswana, the drilling campaigns have revived strongly after the hiatus of the pandemic which complicated matters considerably in mobilizing teams into the country. That is now behind us. The results in recent times have justified the company’s enthusiasm for the Kalahari Copper Belt. Correspondingly, it is clear from the focus of resources and effort upon Botswana and less upon WA (as well as the strategic investment in Gabon) that Cobre sees itself evolving as an African base metals play.

We reiterate our **LONG** rating on Cobre and our 12-month target price of AUD\$0.44.



Important disclosures

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