

Celsius Resources: An Emerging Cobalt Player

Company Description

Celsius Resources Limited (ASX:CLA) is an ASX-listed cobalt developer, which owns 100% of Opuwo Cobalt Pty Ltd, which in turn holds the right to earn up to 76% of the Opuwo Cobalt Project. Celsius also owns two nickel assets in Western Australia.

Executive Summary

- Potentially Large Asset with Strong Grades-** the Opuwo project extends over 20-30km strike. Cobalt-copper mineralisation has been confirmed over approximately 6km of strike with 11km showing proven DOF mineralisation (assays to follow). Additionally, drilling has commenced in the western portion of the project, where higher grade cobalt mineralisation (up to 4300ppm) has been identified at surface. The trend has been that drill results display higher grades than the corresponding surface samples. If that trend continues, it means that CLA may have some extremely high grade drill results from the western portion of its project. Management believes most of the strike is mineralized and will continue their 40-hole drill campaign to prove that.
- Mineralisation is Comparable to DRC deposits -** The mineralisation is relative fine grained, between 10 and 500 microns and is also low in deleterious elements such as arsenic, cadmium and uranium. The mineralisation extends to surface and outcrops in many places. Due to CLA's simple sulphide mineralogy and the similarities its deposit shares with the large scale, high grade mines in the Democratic Republic of Congo, it is possible that Opuwo will be much more cost competitive than the Canadian and Australian assets currently being explored by junior competitors. It would also have the benefit of not having to deal with the sovereign risks associated with the DRC.
- Infrastructure and Jurisdiction are Huge Positives-** The project is located in far northern Namibia approximately 650 km by road from the capital, Windhoek, and approximately 750 km from the port at Walvis Bay. The southern licence boundary is approximately 5 km north of the regional capital of Opuwo, where services such as accommodation, fuel, supplies, an airport and hospital are available. Good quality bitumen roads connect Opuwo with Windhoek/Walvis Bay, and a good quality gravel road traverses the tenement itself. The Ruacana hydro power station (320 MW), which supplies the majority of Namibia's power, is located nearby, and a 66 kV transmission line passes through the eastern boundary of the project. Namibia is a stable democracy that provides excellent infrastructure, highly skilled and knowledgeable locals, and fair and transparent mining policies.
- Cobalt Market Will Continue to be Strong-** Aesir believes current sell-side forecasts are conservative and that the market will be in a material deficit by 2020 due to growing electronics demand, quicker-than-expected EV penetration, and a larger-than-expected shift towards higher quality electric batteries that are more cobalt intensive. Potential supply risks with DRC serve as additional upside risk that we view as being material.
- Over 100% Near-term Upside Based on a \$0.11 PT Driven by Comps Analysis and In-Situ Math-** at a US\$166/t basket price, CLA has 1.4x higher value per tonne than CLQ and thus, at even a 20Mt resource, like-for-like value suggests a \$107m mkt cap for over 500% upside. It would be hard for CLA to justify the capex required without a significant resource size so 20mt or larger as a starting point makes sense along with starting with a high-grade zone. At 3% Cu equivalency, potential for large scale, a capable MD in Brendan Borg with a proven track record of success, and a favourable jurisdiction it appears that the risk/reward is strong. The A\$0.11 reflects the risk weighting of being early stage.

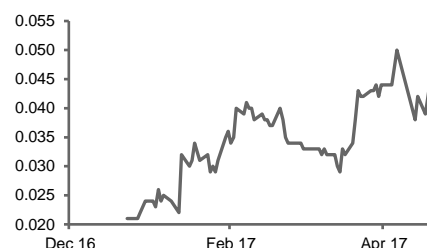
Financial Highlights

| | |
|------------------|-----------------|
| Date | May 1, 2017 |
| 12-month rating | Speculative Buy |
| 12m price target | A\$0.11 |
| Price | A\$0.045 |

Trading data and key metrics

| | |
|-------------------------|------------------|
| 52-wk range | A\$ 0.02- 05 |
| Mkt cap | A\$16.1m |
| Shares o/s | 358.1m |
| Options o/s (Ex @ 0.01) | 99.3 |
| Avg. daily volume | 5.8m shares |
| Net cash (m) | 1.3m (March qtr) |

52W Share Price



Company Background

Celsius Resources acquired 100% of Opuwo Cobalt Pty Ltd at the beginning of 2017 which in turn holds the right to earn up to 76% of the Opuwo Cobalt Project. The mining license (EPL4346) was formerly held by ASX listed Kunene Resources (ASX:KNE) who sold the project to focus on new opportunities outside the resources sector. Celsius is gaining exposure to the project via the following stages of expenditure on exploration:

- Initial 30%- expenditure of \$500,000 within 6 months of exercising the option to proceed.
- Further 30%- expenditure of a further \$1,000,000 within 12 months of completing the stage 1 earn in
- Final 16%- to be earned following expenditure of a further \$1,000,000 within 12 months of completing the stage 1 earn in

Systematic mapping, soil sampling and geophysics lead to the discovery of strata bound copper and cobalt mineralisation near Opuwo, Namibia, in 2013. The discovery is the first recognition of Copper belt-style Cu-Co-mineralisation in Namibia (M. Hitzman, Colorado School of Mines). While the mineralisation occurs in outcrops or subcrops over a strike length of about 20 km, a total strike length of at least 30 km on EPL4346 can be reasonably assumed according to management. The mineralised horizon has been mapped over more than 20 km within the licence, defined by visual observation, soil/rock chip sampling, and portable XRF measurements in the field, and has an inferred extent of more than 30 km, including areas obscured by cover.

The ground package totals 68,826 ha and has been relatively unexplored to-date. Rio Tinto drilled 5 holes in 1993 but three of the holes were lost in a truck accident and the remaining two were not assayed for cobalt. Subsequently, Kunene Resources, in a joint venture with First Quantum Minerals, drilled 2 diamond holes, both of which intersected potentially economic grades of cobalt. Significant results from the Kunene drilling were:

- 8m @ 0.54% Cu + 1137ppm Co + 0.53% Zn from 60.4m (DOF02)
- 4.65m @ 0.55% Cu + 1153ppm Co + 0.59% Zn from 106.65m (DOF01)

Management believes that the project has potential to be a strike extensive, large tonnage and moderate grade deposit, with what appears to be relatively simple sulphide mineralogy. Given the mineralisation is hosted in a dolomite unit, extraction of the metals of interest should be achievable, although testing is required to confirm this.



Figure One- Dolomite Ore Formation (Source: Company materials)

Geological Summary

The cobalt-copper (zinc) mineralisation at Opuwo is hosted in the Dolomite Ore Formation (DOF), within the Neoproterozoic Ombombo Subgroup of the Kaoko Belt, in northern Namibia. The Kaoko Belt is considered a western extension of the Copperbelt in the DRC and Zambia. Numerous structurally controlled base metal deposits exist in the Otavi Mountainland, to the east of the project area. The geology and mineralisation of the DOF unit is subject of a recently published MSc thesis by a Colorado Mines student, Nicole Allen, under the supervision of Professor Murray Hitzman. The DOF horizon has been mapped and sampled along its strike length of approximately 30 km, and mineralisation is considered likely to be structurally controlled.

The DOF horizon is of variable dip and thickness, ranging up to approximately 14 m thick, in the areas of outcrop. The DOF horizon appears to be mineralised throughout its extent, although both grades and thickness were considered to increase to the east according to the geoscience due diligence ahead of the acquisition. A key section of the DOF horizon is under cover, extending for approximately 8 km, and forms a break between what has been named the eastern and western DOF. A key feature of this untested zone is apparent faulting, which is supported by the detailed aeromagnetics available for the project. It has been postulated that this zone may be the source of the mineralisation in the DOF, and if that is correct, could be a target for higher grade and thicker mineralisation.

The mineralisation in the DOF unit is disseminated and vein hosted sulphide mineralisation, with chalcopyrite (CuFeS₂) the main copper mineral, cattierite (CoS₂) the only detected cobalt mineral, and zinc as sphalerite (ZnS). The mineralisation is relative fine grained, between 10 and 500 microns and is also low in deleterious elements such as arsenic, cadmium and uranium. The mineralisation extends to surface and outcrops in many places. Also, according to CLA's most recent announcement, grades appear to increase with depth. Management believes this is due to near surface weathering of the sulphides hosting the mineralisation. Further drilling will be conducted to test for down dip extensions and confirm the true thickness of the mineralisation. So far, CLA has intersected DOF mineralisation across 11kms of the 20-30km strike.

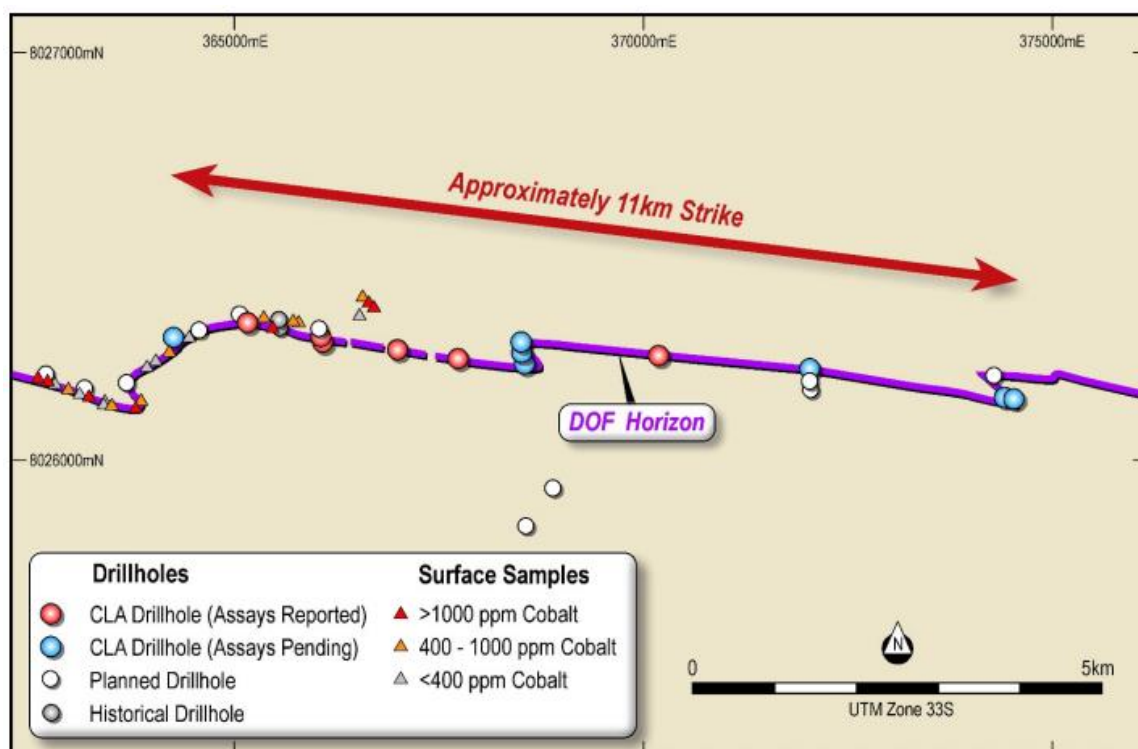


Figure Two- Drill Results Intersect DOF Across 11km Strike (Source: Company materials)

Drilling Program

CLA embarked on an exploration program in March 2017 with a budget of A\$750k. The program aimed to drill the largely covered sections of the cobalt horizon with 44 holes (at 1 to 2 km spacing) and perform initial high-level metallurgical tests (liberation of sulphides and heap leaching). The initial phase of the drilling is designed to test a 20km strike length. To-date, the company has released drill results from 9 holes with 11 more holes expected in the coming weeks. Wide space drilling has been completed across 11km of strike and has intersected mineralized horizon in each drill. Below are some of the highlighted results:

- 19m @ 1,292 ppm cobalt, 0.62% copper and 0.71% zinc, from 87 m (DOFR04)
 - Incl. 7 m @ 1,321 ppm cobalt, 1.11% copper and 1.10% zinc (DOFR04)
- 7m @ 1,716 ppm cobalt, 0.49% copper and 0.61% zinc, from 66 m (DOFR06)
 - Incl. 2m @ 3,075 ppm cobalt, 0.41% copper and 1.13% zinc (DOFR06)
- 7m @ 1,559 ppm cobalt, 0.64% copper and 0.61% zinc (DOFR08)
- 7m @ 1,299 ppm cobalt, 0.53% copper and 0.62% zinc (DOFR10)

The drilling results thus far have been encouraging and strongly suggest that the asset has both the requisite grade and scale to proceed with economic development. Cobalt-copper mineralisation has been confirmed over approximately 6km of strike with 11km showing proven DOF mineralisation (assays to follow). The company should be releasing 11 more drill hole assays in the coming weeks. Additionally, drilling has commenced in the western portion of the project, where higher grade cobalt mineralisation (up to 4300ppm) has been identified at surface. The trend has been that drill results display higher grades than the corresponding surface samples. If that trend continues, it means that CLA may have some extremely high grade drill results from the western portion of its project.

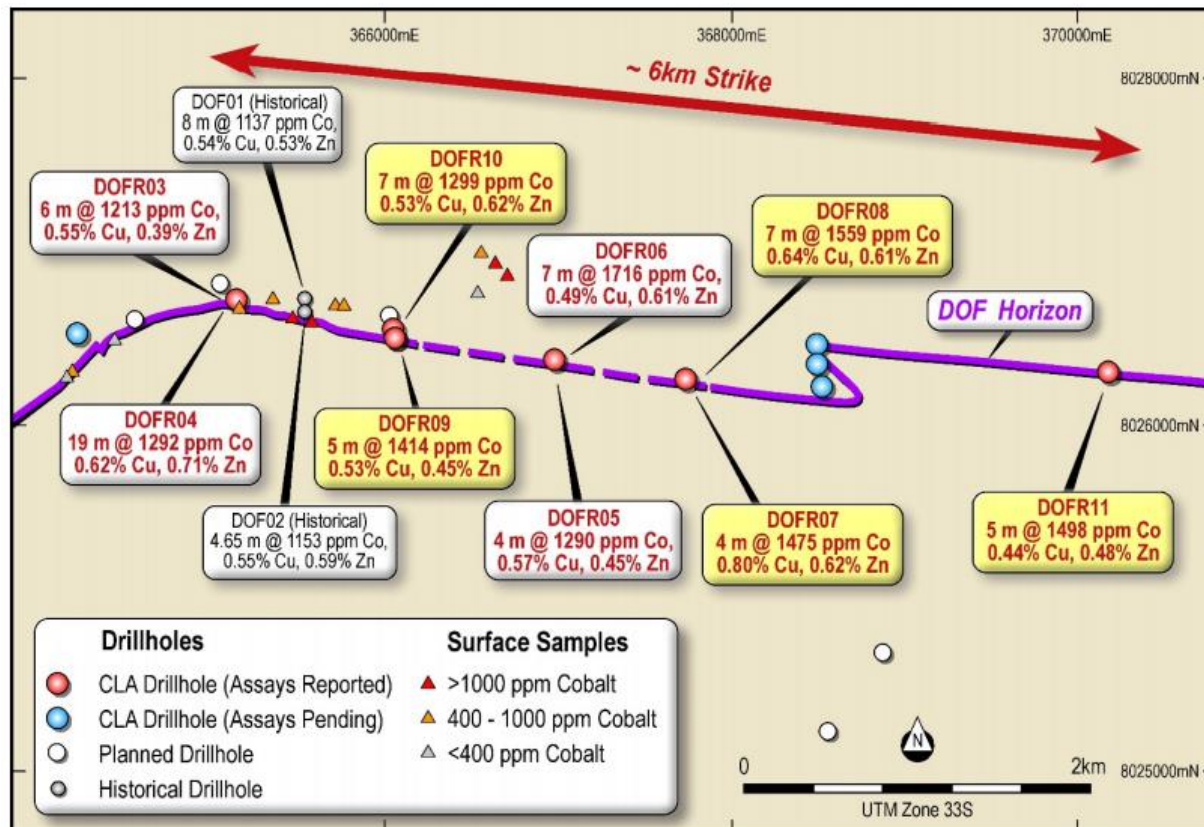


Figure Three- Assay Results Across 6km Strike (Source: Company materials)

Processing

No metallurgical work has been completed yet for CLA thus estimating processing costs would be a premature exercise until further work is done by the company. However, due to CLA's simple sulphide mineralogy and the similarities its deposit shares with the large scale, high grade mines in the Democratic Republic of Congo, it is possible that Opuwo will be much more cost competitive than the Canadian and Australian assets being explored by junior competitors. It would also have the benefit of not having to deal with the sovereign risks associated with the DRC. Below is a cobalt recovery circuit that was prepared for the KOL (KOV) project in the DRC. The end-product is a hydroxide intermediate produced with 'tried and tested technologies' apart from the manganese precipitation at the time which has since been successfully demonstrated in multiple settings.

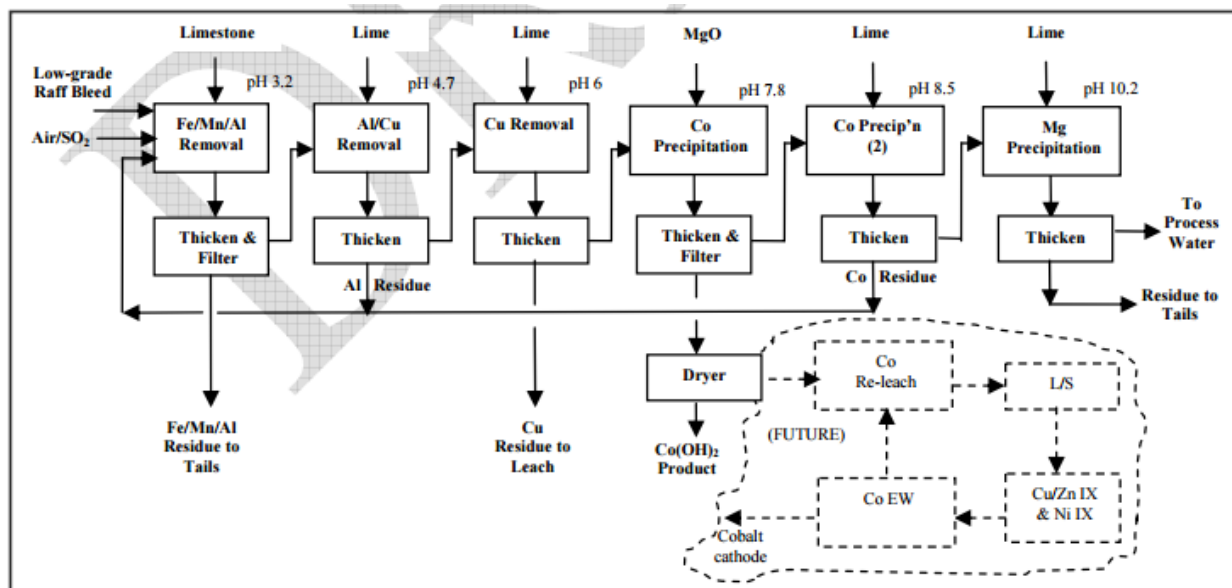


Figure Four- Cobalt Recovery Circuit of the KOL (KOV) Asset in DRC (Source: Fisher and Treadgold Paper)

There are separate processing techniques for cobalt arsenides and for nickel laterites that are much more complicated and potentially troublesome than the process for the DRC/Zambian copper cobalt ores. Arsenides use a high temperature/leach process but the problem is configuring an environmentally acceptable way to generate a stable arsenic residue. For large scale projects, such as Formation Metals in Idaho and Fortune Minerals NICO project, this approach might make sense but the costs are high and the execution not without risk. For nickel laterites, it's essentially a HPAL process however the Australian producers have consistently struggled with making this work. Some will try ammonia leach but the process is less popular due to it being highly power intensive and producing poor recoveries. As such, investigations into hydrometallurgical laterite processes continue. The Australian nickel laterite hopefuls need only look to Sherritt International, which faced multi-billion dollar write offs on its Ambatovy laterite project in Madagascar.

Opuwo Location and Infrastructure & Namibia Overview

The Project is located in far northern Namibia, approximately 650km by road from the capital, Windhoek, and approximately 750 km from the port at Walvis Bay. CLA has access to quality infrastructure which will make development much easier.

- **Roads**-The southern licence boundary is approximately 5 km north of the regional capital of Opuwo, where services such as accommodation, fuel, supplies, an airport and hospital are available. Good quality bitumen roads connect Opuwo with Windhoek/Walvis Bay, and a good quality gravel road traverses the tenement itself.
- **Water**- the Kunene River provides water supply throughout the year.
- **Rail**- Oshakati railway is 150km by tar road and links with the Walvis Bay port.
- **Power**- The Ruacana hydro power station (320 MW), which supplies the majority of Namibia’s power, is located nearby, and a 66 kV transmission line passes through the eastern boundary of the project.
- **Port facilities**- Walvis Bay port. Not a high tonnage project most likely so should be comfortable accommodated.

Existing Infrastructure in Place for Mine Development

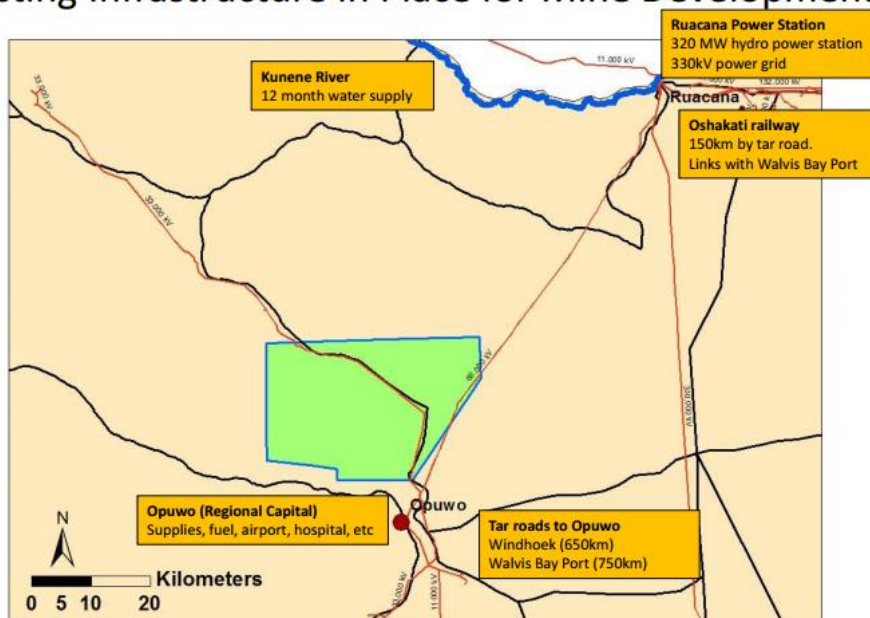


Figure Five- Infrastructure for Opuwo Development (Source: Company materials)

Namibia Overview

Namibia is one of the best mining jurisdictions in Africa and has been for years. It is one of the world's top gemstone diamond producers and uranium producers. It also exports zinc, copper, lead and gold. Mining accounts for roughly 10% of the Namibian GDP. The country is politically stable, being run by a presidential democratic government after achieving independence from South Africa in 1990. In addition to being a stable democracy it provides excellent infrastructure, highly skilled and knowledgeable locals, and fair and transparent mining policies.

There is less mining activity in northwestern Namibia which is why Celsius, along with other explorers in the area, are encouraged and supported a great deal to encourage economic activity in the region. The Fraser Institute conducts an annual survey it sends to operators to rank countries based on tax regimes, environmental regulations, government stability, and other similar factors and Namibia consistently ranks as one of the top countries in Africa to operate in. In uranium alone, presence of foreign operators dates back 40 years most notably with Rio Tinto (Rossing Uranium, Areva (Trekopje), and Paladin (Langer Heinrich). Below is a map that shows global resources projects and their locations throughout Namibia. Opuwo is in the very northwest corner of Namibia and not included on this map.

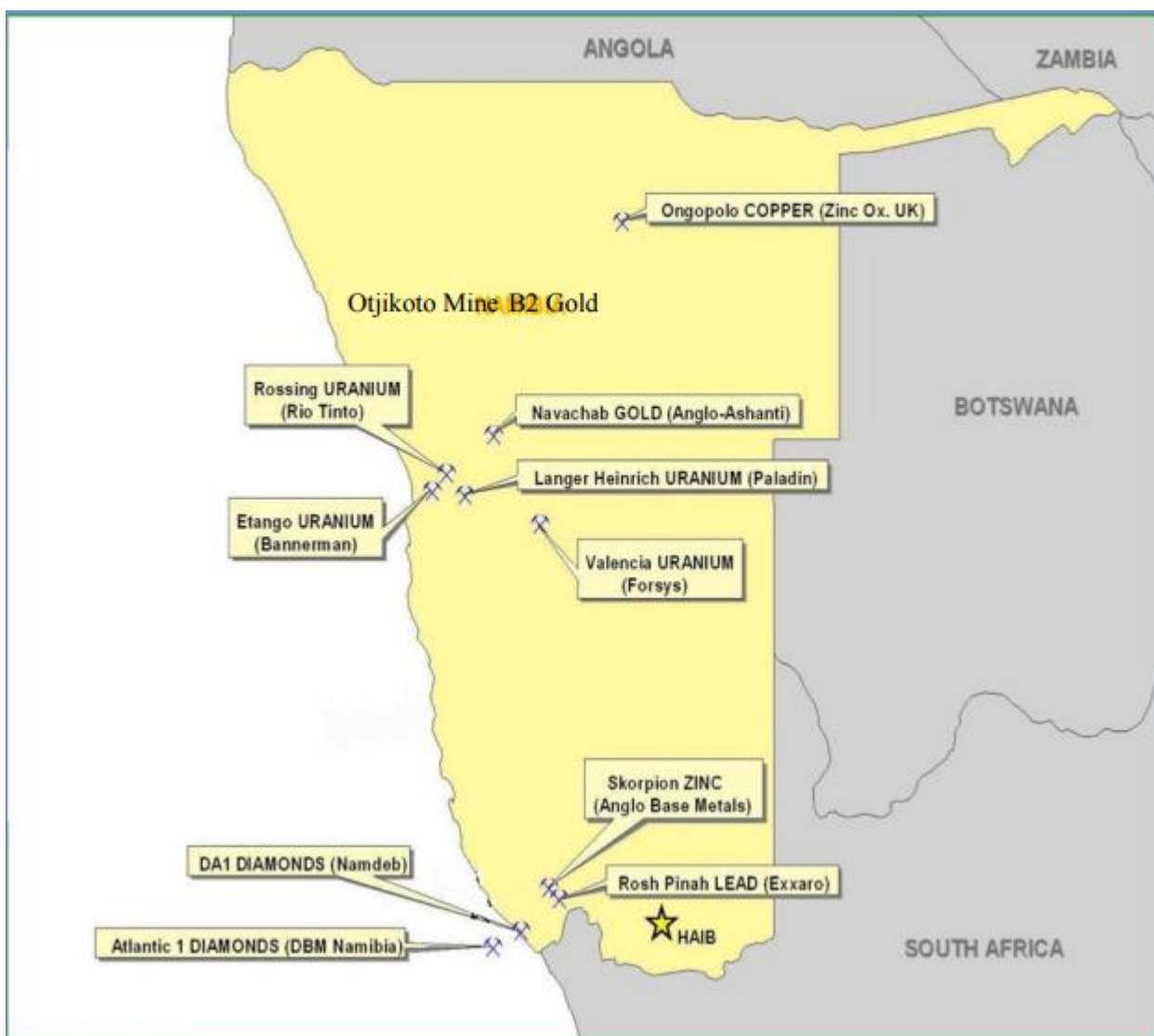


Figure Six- Mining Projects in Namibia (Source: Deep South Resources Investor Presentation)

A Brief Word on the Cobalt Market

Cobalt appears positioned to continue to perform strongly for a number of reasons. The Macquarie analyst published a bullish report on cobalt in February 2017 seeing further price upside yet his assumptions only assumed 6.0%/3.4%/3.5% demand growth and had supply growing 2.9%/2.0%/1.2% for 2017/2018/2019 respectively. These conservative assumptions already drove an over 5k ton deficit in 2020 for a market only slightly over 100kt.

Aesir believes the market could indeed be tighter than this. Macquarie assumed little penetration into the electric vehicle and new energy markets. China has begun introducing subsidies for cars powered by nickel-manganese-cobalt batteries (NCM), which are 19% cobalt by weight where previously China was LFP battery focused (0% cobalt). As China shifts towards higher quality batteries to fuel its push towards electric, LCO batteries will also become a larger part of their mix and these batteries are 60% cobalt by weight. Additionally, the supply situation for cobalt grows more concerning as the DRC approaches elections. There has been increasing pressure to shut down artisanal mines and focus on higher value-add exports which, if pursued, would disrupt over 25% of the world's mined cobalt supply from Glencore's operations alone. China refines half of the world's cobalt and most of their input is sourced from mines in the DRC. The export bans have been delayed given the DRC lacks the electricity needed to process the materials domestically but this issue will very likely resurface. Indonesia went through with export bans on nickel ore in 2014 and that had a parabolic price effect on a much larger metals market.

Valuation/Comparables

Given the tailwinds we envision for cobalt, we believe there will be multiple deposits and assets worth pursuing over the next few years. However, the junior end of the market is flooded with operators that seduce investors with supposed 'high grade hits' that, in most cases 1) lack sufficient size/scale to be economic 2) coexist with deleterious elements such as arsenic 3) are hosted in nickel laterite formations that, if Sherritt's failures are anything to go by, will be extremely difficult to process. We believe it is unlikely that the majority of these operators will be developing their cobalt assets.

What stands out about Celsius is the DRC-like nature of its deposit without any of the associated political/sovereign risks. If management can continue to prove consistent grades across their entire 20km+ strike we have confidence that it will be enough to develop Opuwo economically, particularly if they are able to define higher grade zones as well. Without full JORC resources and scoping studies, valuation is difficult. However, back-of-the-envelope in situ math can be applied and suggests that Celsius is quite cheap. Based on \$55,500/t Co, \$2615/t Zn, \$1970/t Mn, \$5685/t Cu, \$9190/t Ni, CLA has an insitu grade of 3.17% CuEq (using the below grade assumptions and ignoring recoveries until met work is established) and a basket price of US\$166/t which is extremely attractive.

If we take a step further we could probably make some rough assumptions around recoveries. Kamoto (Glencore's concentrator for Katanga mine in Congo), showed a 2-year average recovery of 61% Co and 68% Cu. The WOL project Glencore is currently doing will involve whole ore leaching, and is targeting an 85% Cu recovery rate (but that involves oxide Cu in addition to some sulphides; the sulphide recovery is 63%), and 65% Co. Zinc and manganese recoveries are harder to come by. However, CuEq recovered into concentrate will probably ballpark 2% with well over \$100/t of ore value. Assuming standard payabilities, if CLA is able to deliver enough tonnage to drive down cost per tonne processed and distribute capex cost, this becomes a no-brainer. Based on surface samples, CLA should get pockets of high grade zones and if the entire 20+km is mineralized, this asset should have enough scale to be economically developed.

CLA still needs to prove out the full 20-30km strike length and define a JORC resource but some food for thought: at a US\$166/t basket price it is 1.4x higher value per tonne than CLQ and thus, if they could come up with an 80Mt resource it could theoretically justify a roughly comparable market cap of A\$430m. At even 20Mt, which would seem extremely achievable given the strike length and the fact that 11km is already proven to be mineralized, that still equates to \$107m mkt cap for over 500% upside. At 3% Cu equivalency, potential for large scale, a capable MD in Brendan Borg with a proven track record of success, and favourable jurisdiction it appears that the risk/reward is strong.

Aesir's starting price target is A\$0.11/sh which equates to a roughly A\$50m market cap. That is still less than Equator which has yet to drill a hole and it is not even 1/8 of CLQ. It would be hard for CLA to justify the capex required without a significant resource size so if this is going to work, one would think the resource would have to be 20mt or larger as a starting point and probably start with a high-grade zone. With those specs and on a like-for-like valuation with CLQ, CLA would be worth north of A\$0.20/sh so we are comfortable with A\$0.11/sh as a starting point until the asset is further developed and derisked. We will revisit this price target once a resource size is parameterized and we have more drill results to make grade inferences from.

| Company | Code | Project | Jurisdiction | Type | Mkt Cap (FD) | JORC Mineral Resources | | | | | Basket Price | Cobalt | |
|--------------------------|------------|---------------------------|----------------|--------------------------|--------------|------------------------|-------------|--------|------------|------------|--------------|-------------|-------------|
| | | | | | (28/4/17) | Size (MT) | Co (%) | Ni (%) | Mn (%) | Cu (%) | Zn (%) | (per tonne) | Value % |
| Archer Exploration | AXE | Ketchowla | Aus | Co-Mn | 8 | Exploration* | 0.11 | | 12.00 | | | 297 | 21 |
| Riva Resources | RIR | Tabac | Aus | Co-Au-Zn | 13 | Exploration | | | | | | | |
| Celsius Resources | CLA | Opuwo | Namibia | Cu-Co-Zn Sulphide | 20 | Exploration* | 0.14 | | 1.8 | 0.6 | 0.7 | 166 | 46.9 |
| | | Opuwo (ex Mn) | Namibia | | | | 0.14 | | | 0.6 | 0.7 | 130 | 59.7 |
| Corazon Mining | CZN | Mt Gilmore | Aus | Co-Cu-Au Sulphide | 22 | Exploration * | 0.20 | | | | | 111 | 100 |
| Artemis Resources | ARV | Carlow Castle | Aus | Co-Au-Cu | 27 | Exploration* | 1.40 | | | | | 777 | 100 |
| Cobalt Blue | COB | Broken Hill | Aus | Co Sulphide | 30 | 35.7 | 0.08 | | | | | 47 | 100 |
| Platina | PGM | Owendale | Aus | Sc-Pt-Ni-Co | 30 | 9.0 | 0.15 | | | | | 83 | 100 |
| Ardea Resources | ARL | Kalgoorlie Nickel Project | Aus | Laterite Ni-Co | 38 | 805.0 | 0.05 | 0.70 | | | | 91 | 29 |
| | | KNP Cobalt Zone | Aus | Laterite Ni-Co | 38 | 49.7 | 0.12 | 0.86 | | | | 146 | 46 |
| Barra Resources/Conico | BAR/ | Mt Thirsty | Aus | Laterite Ni-Co | 38 | 31.9 | 0.12 | 0.55 | 0.86 | | | 136 | 50 |
| | CNJ | Mt Thirsty (ex Mn) | Aus | | | | 0.12 | 0.55 | | | | 119 | 57 |
| GME Resources Limited | GME | NiWest | Aus | Laterite Ni-Co | 39 | 81.0 | 0.06 | 1.03 | | | | 128 | 26 |
| Aeon Metals | AML | Walford Creek | Aus | Cu-Co-Zn Sulphide | 59 | 73.3 | 0.08 | | | 0.40 | 0.85 | 90 | 50 |
| | | Vardy Zone | Aus | Cu-Co-Zn Sulphide | | 6.6 | 0.16 | | | 1.25 | 0.76 | 180 | 49 |
| Nzuri Copper Limited | NZC | Kalongwe | DRC | Co-Cu Oxide | 60 | 29.0 | 0.57 | | | | | 316 | |
| Equator | EQU | Cobalt Camp | Canada | Ag-Co arsenides | 74 | Exploration | | | | | | | |
| Tiger Resources | TGS | Kipoi | DRC | Co-Cu Oxide | 96 | 71.0 | 0.06 | | | 1.30 | | 107 | 31 |
| Panoramic | PAN | Savannah | Aus | Ni-Co sulphide | 120 | 2.0 | 0.07 | 1.39 | | 0.88 | | 217 | 18 |
| | | Savanna North Upper | Aus | Ni-Co sulphide | | 6.0 | 0.11 | 1.53 | | 0.60 | | 236 | 26 |
| CleanTeq | CLQ | Syerston | Aus | Laterite Ni-Co-Sc | 432 | 109.0 | 0.10 | 0.65 | | | | 115 | 48 |

Figure Seven- Cobalt Juniors Comps Table (Source: Aesir Capital); (NOTE: All exploration companies with inserted grades are just assumptions based on current drill results; some of these companies have other metals within those assets not listed or other assets not listed)

Risks

There are several risks associated with investing in a junior mining company, particularly one that is still undergoing drilling. Firstly, future drill holes may turn out to be lower grade and/or inconsequential compared to previous drill holes. Secondly, if the grades and widths are not consistent the deposit may not be economic. Thirdly, if cobalt price were to weaken materially from here given that this is largely a cobalt asset by value, the economics would materially change (i.e. the assumed \$ value per tonne of ore). Fourthly, given the size, grade, and geometry of the deposit has yet to be determined the outcome is quite binary and investors will not be left with much in the way of residual value should the company decide not to move forward with developing this asset.

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