

Zambezi Resources: Advantage in elephant country

Zambezi Resources listed on AIM in July 2004 with a range of projects in Zambia including copper, gold, uranium and nickel. Despite disappointing results from its nickel assets which were spun into Zambezi Nickel (ZNI), the company has built an enviable land position in an established mining district – something that is beginning to reap dividends for shareholders.

After decades of 'African Socialism' and economic decline, presided over by a one party state, Zambia has re-emerged as a democratic country with a liberalised economy. President Levy Mwanawasa was recently elected for a second term; in his first term he

tackled corruption which helped to boost economic growth to over 5%, and attract foreign investment. Zambia is now considered to be one of the most favourable African countries for mining; its mining code is now modeled on Australia which is widely regarded as reasonable and fair. In the late 1960s, Zambia was the third largest copper mining country in the world, and although copper mining declined in Zambia until 2001, the country possesses a large pool of experienced labour. From a low of 220 thousand tonnes in 2001, copper production in Zambia rose to 500 thousand tonnes per year and it is anticipated to increase to around 800 thousand tonnes in the next few years.

Zambezi was fortunate enough to amass substantial exploration ground in a highly mineralised belt just as the current commodity cycle started. Things all started to look rather promising for Zambezi in 2005 when VTEM geophysics over the Cheowa prospect highlighted several drill targets. The VTEM survey allowed Zambezi to drill out an inferred resource of 1.7 million tonnes at 1.5% copper and 0.5g/t gold. In general terms any deposit over 0.5% copper is regarded as good, provided that the copper is amenable to processing. Fortunately follow up tests indicated that the ore would be treatable using relatively simple technology. So while this resource is not world class in size yet, it was enough to catch the interest of Glencore. Glencore is a privately held Swiss heavyweight



Mining Samples, Cheowa

EPIC:	ZRL
Share Price:	17.5p
Shares Issued:	130m
Market Cap:	£23m
1 Year Range:	21-11.25p
Sector:	General Mining

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company with global interests in mining, processing, refining, smelting and marketing metals, minerals, energy and agricultural products. In Zambia Glencore's involvement in the copper belt is through its 73% stake in Mopani Copper Mines which has smelting capacity to process 1 million tonnes of copper concentrate per year – the largest smelter in Zambia, and fifth largest smelter in the world.

“A joint venture with Glencore will bring several advantages to the company”

Zambezi recently finalised a joint venture with Glencore for the Cheowa Chongwe Copper Belt prospects which will bring several advantages to the company. Most importantly, Glencore injected capital into Zambezi, and capital is something that most mining juniors never have enough of. Glencore is also committed to spending US\$16 million on the joint ventured Cheowa and Chongwe copper projects, thereby freeing up Zambezi to focus its own financial resources on its other plays in the region. The 2007 drilling programme will focus on 20 more VTEM

identified targets, using the company's own drill rigs, with the intention of having a large enough resource drilled out to warrant a pre-feasibility study in 2008. As Glencore also brings a smelter which is hungry for feed to the table, the 'commerciality hurdle' for the company's copper deposits to jump over is significantly lowered because, in effect, any deposits will supply concentrate to the smelter at Mopani rather than act as stand-alone mining and smelting operations.

As part of the joint venture agreement, Glencore paid £1 million to Zambezi increasing its holding in the company from 11.5% to 15.7%. The market responded favourably to the confirmation of the joint venture with Glencore as this is clearly a vote of confidence by a credible player. Other significant shareholders include Mineral Securities, Fidelity Investments, and CIM Special Situations - who recently increased their stake to 9.7% of the company.

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Zambezi's priority outside of the JV is its 100% owned Chakawenga prospect, which has the potential to be a major discovery. There is historic mining, however, Zambezi's drilling programme in this location found additional mineralisation, including 2.1 grammes per tonne of gold over 22 metres and 12.3 grammes per tonne of gold over 2 metres. Meanwhile, the Kangaluwi-Chisawa prospect, which is to the east of the historic Chakawenga mine, soil sampling has identified an anomaly over 15 kilometres in strike. Drilling has also found intersections of 21 metres with 1.88% copper. The company believes that this deposit could be wider and yield a higher grade than Cheowa, so a VTEM survey is penciled in for August to test this theory.

Zambezi Resources are on very good ground, the country is a first class copper mining district and the company clearly has an edge having been one of the first exploration companies to return to Zambia following its democratisation and liberalisation. Zambezi recently stated its intention to seek a secondary listing in Australia, in part to attract a larger retail following as the share is

tightly held by institutions in the UK. We have worried in the past that companies such as Zambezi Resources which have a good spread of projects across a range of minerals, were struggling to get investors focused on their prospects. However, as Zambezi's stock has increased in price by 40% in the last year – the market is clearly standing up and taking notice.



Diamond Drilling Rig, Cheowa