

# Strategic Metals & Rare Earths Letter

## INTERNATIONAL

*the independent information and advisory publication on investing in Strategic Metals & Rare Earths*

### Special Situation – December 2017 Update

[www.cruzcobaltcorp.com](http://www.cruzcobaltcorp.com)



### Cruz Cobalt Corp. (C\$ 0.25)

TSX.V : CUZ

H + L prices (12 months) : C\$ 0.33 – 0.11

Net shares issued : 65.4 million

Fully diluted shares : 85.0 million

Market Capitalization : C\$ 16.4 million

**6 month price target: C\$ 0.60**

### Company profile

**Cruz Cobalt** (“**Cruz**”) currently has 9 cobalt projects located throughout North America, comprising of 4 located in Ontario, Canada, 3 in British Columbia, Canada, one in Idaho, US and one in Montana, US. The Company’s 4 separate Ontario prospects are all located in the prospective Cobalt camp.

**Cruz**’s 4 separate Ontario cobalt prospects are all included in the 1,265-acre **Coleman Cobalt prospect**, the 900-acre **Johnson Cobalt prospect**, the 4,980-acre **Hector Cobalt prospect** and the 1,580-acre **Bucke Cobalt prospect**. The Company’s 4,935-acre **War Eagle Cobalt prospect** in British Columbia covers a past-producing mine.

Based on these projects, **Cruz** has amassed a quality portfolio of cobalt assets that have some of the highest historic cobalt grades in North America.

**Cruz** has more than sufficient cash on hand to undertake the multiple planned work programs. On August 15, 2017, the Company announced to have completed the airborne work program as the first of several work programs that are being formulated.

### ► Cobalt market

Cobalt is currently surging with the rise of lithium-ion (Li-ion) batteries, as cobalt based chemistries typically have high energy densities, resulting in more cobalt than lithium contained in LCO (Lithium Cobalt Oxide – 60% cobalt) NMC (Nickel Manganese Cobalt – 10-20% cobalt) and NCA (Nickel Cobalt Aluminium – 9% cobalt) batteries, representing a market share of 73% and is therefore very popular in electric vehicles.

It is noteworthy that Chinese vehicle manufacturers’ preference is NMC in order to receive subsidies.

The International Energy Agency estimates a global increase to 40 million hybrid cars by 2024, with the batteries of all these cars requiring 7 kilos of cobalt. This alone would push the demand for cobalt to 280,000 tonnes by that time, which represent two times today's global cobalt production.

In 2016, the cobalt price started to rise responding to increased demand and reduced supply. It was rising from its low around US\$ 10/lb to around US\$ 15/lb by year-end, for about a 50% rise. In 2017 to date, cobalt continued its rise to 9-year highs around \$ 30/lb, with cobalt demand never been higher.

Many traditional nickel, cobalt oxide, manganese (NCM) batteries, which are typically used in power tools and many electric cars are in energy storage use one-third equal parts nickel, cobalt and manganese.

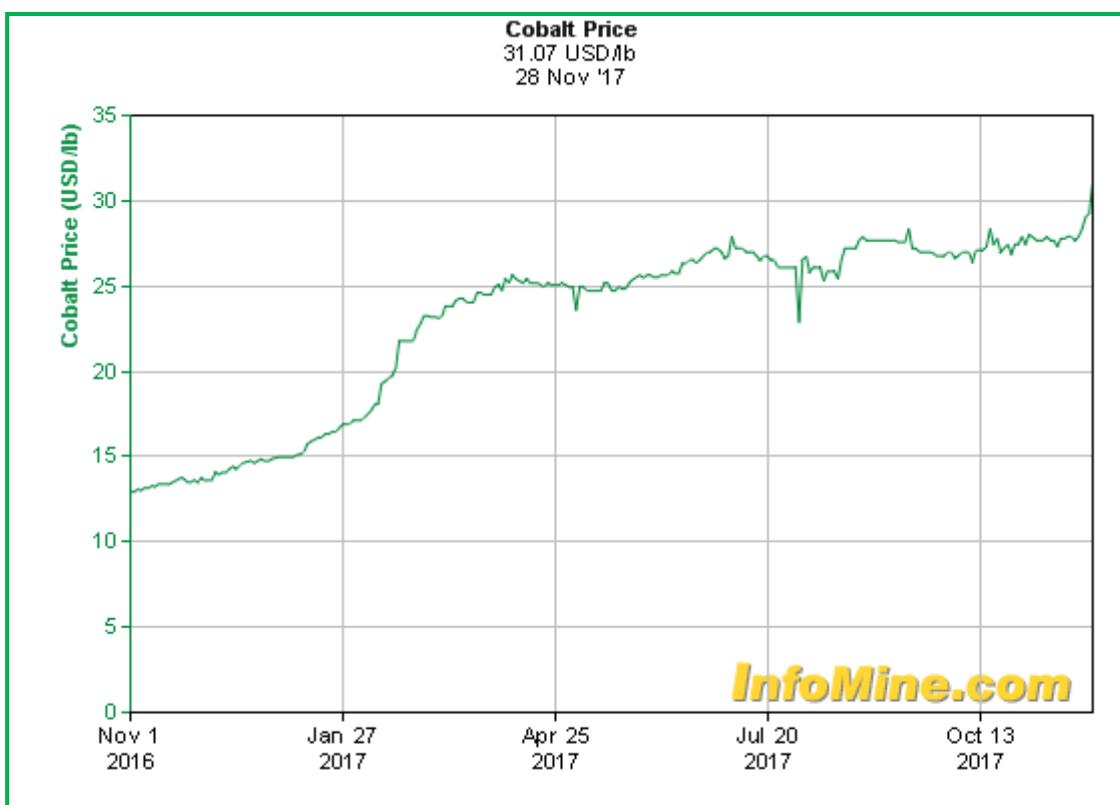
China is the world's leading producer of refined cobalt and the leading supplier of cobalt imports to the United States. Much of China's production is from ore and partly refined cobalt imported from Congo (Kinshasa); scrap and stocks of cobalt materials also contribute to China's supply.

In 2015 and 2016, China's State Reserve Bureau purchased cobalt for its stockpile, increasing its grip on the global cobalt market.

Tesla, the pioneer of making EV cars but far behind its production target to construct 500,000 Model 3 cars a year by 2019, uses NCA (nickel-cobalt-aluminium) lithium batteries in their electric vehicles (EVs).

The NCA battery (88% nickel, 15% cobalt and 5% aluminium) has the highest specific energy or power per kilogram.

The traditional US auto industry (General Motors and Ford) is expected to overtake the leading market share of Tesla in the next few years. On a world-wide scale, the EV market will be dictated by China, followed by Germany, led by Volkswagen having said to push into electric cars within a \$ 40 billion spending plan by the end of 2022.



## Cobalt Projects



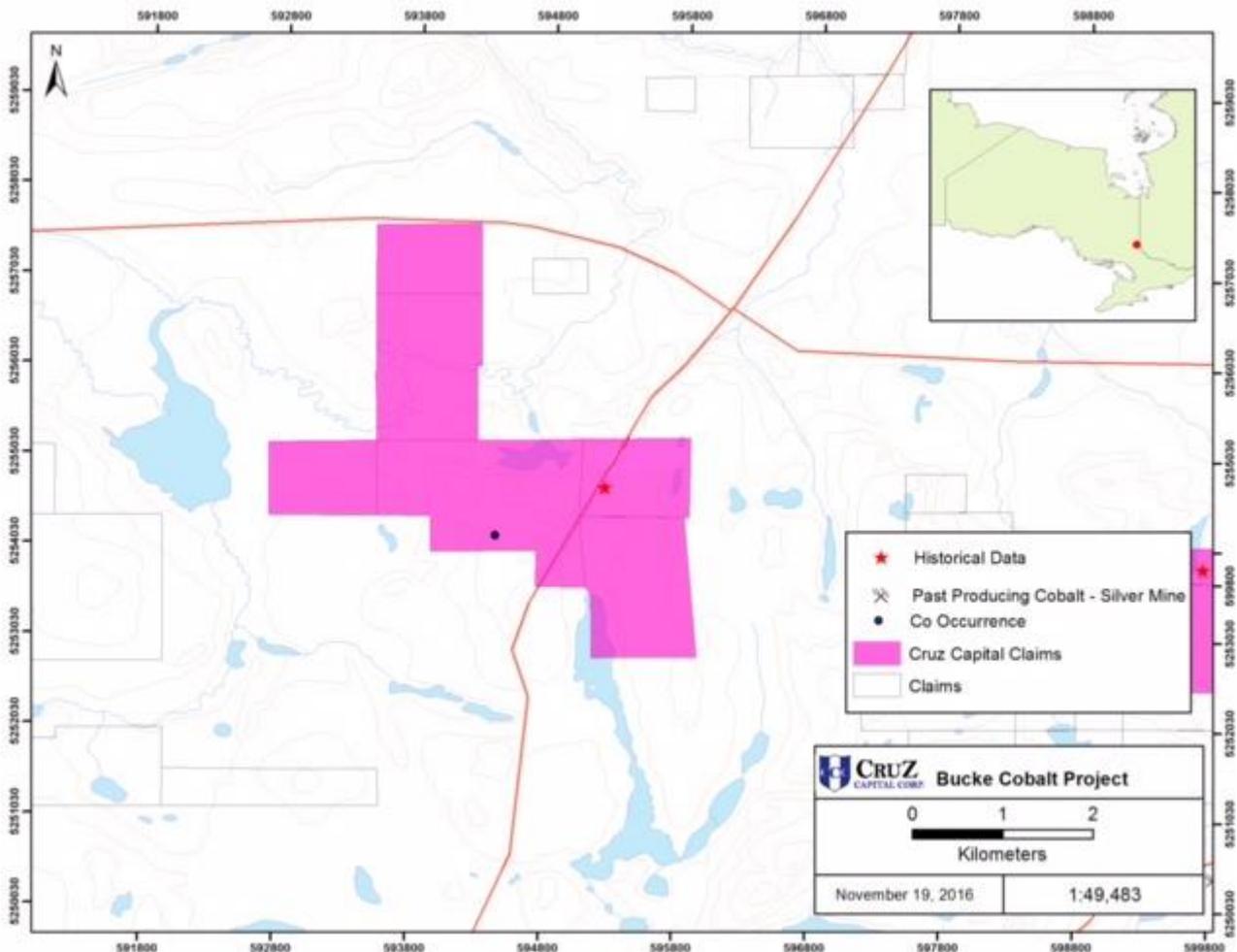
Canada

### ➤ Bucke Cobalt Prospect - Ontario

The **Bucke Cobalt Prospect** consists of approximately 1,480 acres in the Larder Lake mining division of Ontario. According to the Province of Ontario mineral file, the property returned assays grading 13% cobalt and 240 g/t silver on this cobalt-focused prospect.

The Bucke Cobalt Prospect is one of 4 **Crüz** has in Ontario, which is believed to have good exploration potential based on the Ontario mineral documents on file.

**Crüz Cobalt** has recently completed an air borne survey over its 4 Ontario cobalt prospects and looks forward to uncovering some additional data that may provide new cobalt targets, as well as tightening up its current areas of focus.



### ➤ **Coleman Cobalt Prospect - Ontario, Canada**

The **Coleman Cobalt Prospect**, comprising approximately 1,250 contiguous acres, is located in the Larder Lake mining division of Ontario. According to the Province of Ontario mineral file, the Property returned grades of up to 13% cobalt and appears to be an extension of the Tretheway veins.

### ➤ **Johnson Cobalt Prospect – Kirkland Lake mining district of Ontario**

The **Johnson Cobalt Prospect** consists of approximately 1,250 acres in the Kirkland Lake mining district of Ontario. According to the Province of Ontario mineral file from 1980, grab assays over 300 metres returned up to 10.5% cobalt, 69 g/t silver, 12% nickel and 0.4% copper.

**Cruz** plans to commence work to fully assess this Property shortly.

### ➤ **War Eagle Cobalt Prospect – British Columbia**

The **War Eagle Cobalt Prospect** has a mine life citing a report from 1948 showing surface samples of 6.5% cobalt, 3.59% nickel and 7.25% copper. Old workings include a tunnel and some test pits, and the character of the ore body is in a fissure vein which outcrops almost continuously for 3,000 feet.

Because these numbers cannot be verified or relied upon at this time, **Cruz** plans to dispatch crews to the Property shortly to start operations on the prospect.



## **United States**

### ➤ **Idaho Star Cobalt Prospect – Idaho**

The **Idaho Star Prospect** is located approximately 9 miles southwest of Saltese, Montana and 19 miles southeast of Wallace, Idaho. This new prospect consists of 44 contiguous claims within the prolific Idaho Cobalt Belt.

Geological data was gathered showing this prospect area to have been active for mining of cobalt, silver and copper in the past.

### ➤ **Chicken Hawk Cobalt Prospect – Dear Lodge County, Montana**

The 1,940-acre **Chicken Hawk Cobalt Prospect**, consisting of 64 contiguous lode claims covering approximately 1,300 acres, are located on the Western edge of the Boulder Batholith and east of the Cordilleran Fold and Thrust Belt in south-western Montana. The 8 current claims are in the vicinity of a total of four volcanic rock suites.

**Cruz** believes that the cobalt trend in the western USA snakes its way through Idaho into Montana and up into southern British Columbia, Canada.

## **2017 developments**

On July 17, 2017, **Cruz** announced that the drill permit for the **Bucke Cobalt prospect** has been approved by the Ministry of Northern Development and Mines.

On August 1, 2017, **Cruz** announced that it had secured the services of Eagle Geophysics which has extensive knowledge of the area around the town of Cobalt, to conduct the airborne program over the Company's Ontario cobalt properties.

The airborne survey is the first of several work programs that are being formulated.

**Cruz Cobalt's** exploration and evaluation assets increased in fiscal year 2017 ended July 31 from C\$ 0.97 million at July 31, 2016 to C\$ 1.84 million at July 31, 2017, due mainly to the acquisition of cobalt projects in British Columbia, Ontario and Montana.

Subsequent to July 31, 2017, the Company received gross proceed of C\$ 429,256 million from executing .25 million share purchase warrants at C\$ 0.15 per share and 1.2 million stock options at C\$ 0.20 per share.

## **Finance**

Current cash and cash equivalent are just under C\$ 3 million.

Exploration and evaluation assets increased from C\$ 0.97 million as at July 31, 2016 to C\$ 1.84 million as at July 31, 2017, due mainly to the acquisition of cobalt prospects in British Columbia, Ontario and Montana.

During the fiscal year, **Cruz** received gross proceeds of C\$ 1.18 million for the exercise of purchase warrants and gross proceeds of approximately C\$ 0.71 million for stock options exercised.

Subsequent to July 31, 2017, **Cruz** received gross proceeds of C\$ 0.43 million from the exercise of warrants and options. The Company also closed a private placement for gross proceeds of C\$ 0.55 million.

## **Management**

**James Nelson – President, Secretary and Director**, was an independent Director of Turbo Capital. He has been involved in various capacities with several TSX Venture Exchange listed companies, both as a director and a consultant, specializing in investor relations, financing, and corporate communications. Mr. Nelsen is a director of TAD Mineral Exploration and an officer of Canasia Industries, both of which are listed on the TSX Venture Exchange.

**Seth Kay – Director** Mr. Seth Kay is on the Board of Directors at Makena Resources, Inc. and Cruz Cobalt Corp. Mr. Kay was previously employed as Vice President-Corporate Communications by Cruz Cobalt.

**Gregory Thomson – P.Geo, B.Sc (Geo), Director**, founder and Principal Executive Officer of Millington Mining. He has over 35 years of mineral exploration experience, primarily as a project geologist, with the majority of his career focused on gold exploration, mainly in British Columbia. Mr. Thomson has also participated in or managed exploration programs in Alaska (Pogo gold deposit), Mexico and Mongolia. He was a senior project geologist for Teck Exploration from 1989 to 2000. His most recent experience (2010 to 2012) was with Huakan International Mining where he carried out geological supervision, permitting and implementation of underground diamond drilling programs for the J&L massive sulphide (gold, silver, lead, zinc) deposit located north of Revelstoke, B.C.

## Investment comments:

Cobalt is not a stand-alone metal as it mostly is a by-product from copper and nickel mining and its production consequently dependent from the market prices of these major metals.

The DRC mined an estimated 67,700 tons (tonnes) of cobalt in 2016, representing close to 60% of the world's total production of 122,000 – 125,000 tonnes last year. This represents a decrease of approximately 3,000 tonnes compared to 2015, mainly due to lower production from nickel operations. Approximately 20% of DRC's cobalt production is mined by unregular "artisanal" miners and according to a 2014 estimate by UNICEF, about 40,000 of these miners are children. Dealing with this violation of human rights there is a growing tendency to be less dependent on the supply from DRC cobalt, resulting in intensifying the search for cobalt in Western countries, led by the United States, Canada and Australia.

This tendency is supported by a growing number of future EV car makers not to use cobalt for their batteries from DRC.

Not only the number of cobalt companies is growing (see overview of listed cobalt companies), but also a consolidation process has commenced, including the amalgamation of First Cobalt and Cobalt One, expected to be closed in the second week of December and creating the largest listed Western cobalt exploration company with a focus on the Cobalt camp in Ontario, Canada. The amalgamated company will have a transaction value of approximately US\$ 157 million.

Although it is too early to value the growing number of cobalt exploration companies on their investment merits, considering the preceding booming lithium equity market, this is an illustrative example of the potentially high leverage potential cobalt exploration companies are offering at today's small market valuations, and a number of these companies having already started to distinguish themselves.

I consider **Cruz Cobalt**, with 7 projects located in Canada, of which 4 in the prolific Cobalt camp of Ontario and 2 in the US, one of the most prospective exploration companies to benefit from the strongly growing search for cobalt in Western countries to replace future cobalt supply from DRC.

Undertaking multiple planned work programs to commence, for which the Company has C\$ 1.93 million in cash and cash equivalents on hand as at July 31, 2017, positive exploration results offer a high investment leverage potential to **Cruz.**

Compared to my first investment recommendation at a price of C\$ 0.20 in August 2017, **Cruz'** share price increase by 50% to C\$ 0.30 (currently C\$ 0.25). Considering growing investors' interest for battery metals as a result of the electric vehicle revolution, I increase my price target for the next 6 months from C\$ 0.40 to C\$ 0.60.