



**CASTILLO COPPER
LIMITED**

ASX Release

10 July 2019

**CASTILLO COPPER
LIMITED**
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Directors / Officers:

Rob Scott
Alan Armstrong
Gerrard Hall
Peter Smith

Issued Capital:

641.6 million shares
104.5 million options

ASX Symbol:

CCZ

Acquiring five highly prospective copper assets in Zambia

- To progress the Board's three-pillared strategic intent – to transform CCZ into a mid-tier copper group – five highly prospective copper projects, covering circa 1,050km² in Zambia are to be acquired
- The Luanshya project, to be developed first, is located in Zambia's traditional "copper-belt" along a key north-west structural trend known as the Lufilian Arc
- The second priority is the Mkushi project, which contiguously surrounds an operating open-pit copper mine, in a region proven to be highly prospective for Cu-Au mineralisation:
 - ❖ The tenure hosts several brownfield targets in granitic intrusions/schists within a major mineralised shear zone
- Development work on the remaining ground will start in due course; note, however, extensive artisanal mining operations at the Lusemfwá project indicate outcropping copper mineralisation
- On a relative risk weighted basis, Zambia is politically stable, with a common law legal framework that caters to the mining industry's requirements:
 - ❖ Importantly, copper is a strategic mineral to Zambia given its material contribution to exports, GDP and employment
- The Zambia assets complement CCZ's Cangai Copper Mine and Mt Oxide project, as collectively they deliver three pillars, with significant exploration upside, that are critical to successfully building a mid-tier copper group
- Moving forward, the Board is working to finalise the enforceable undertaking with the NSW Resource Regulator in coming weeks, so trading can resume, while simultaneously progressing the London dual listing and implementing the three pillars strategy

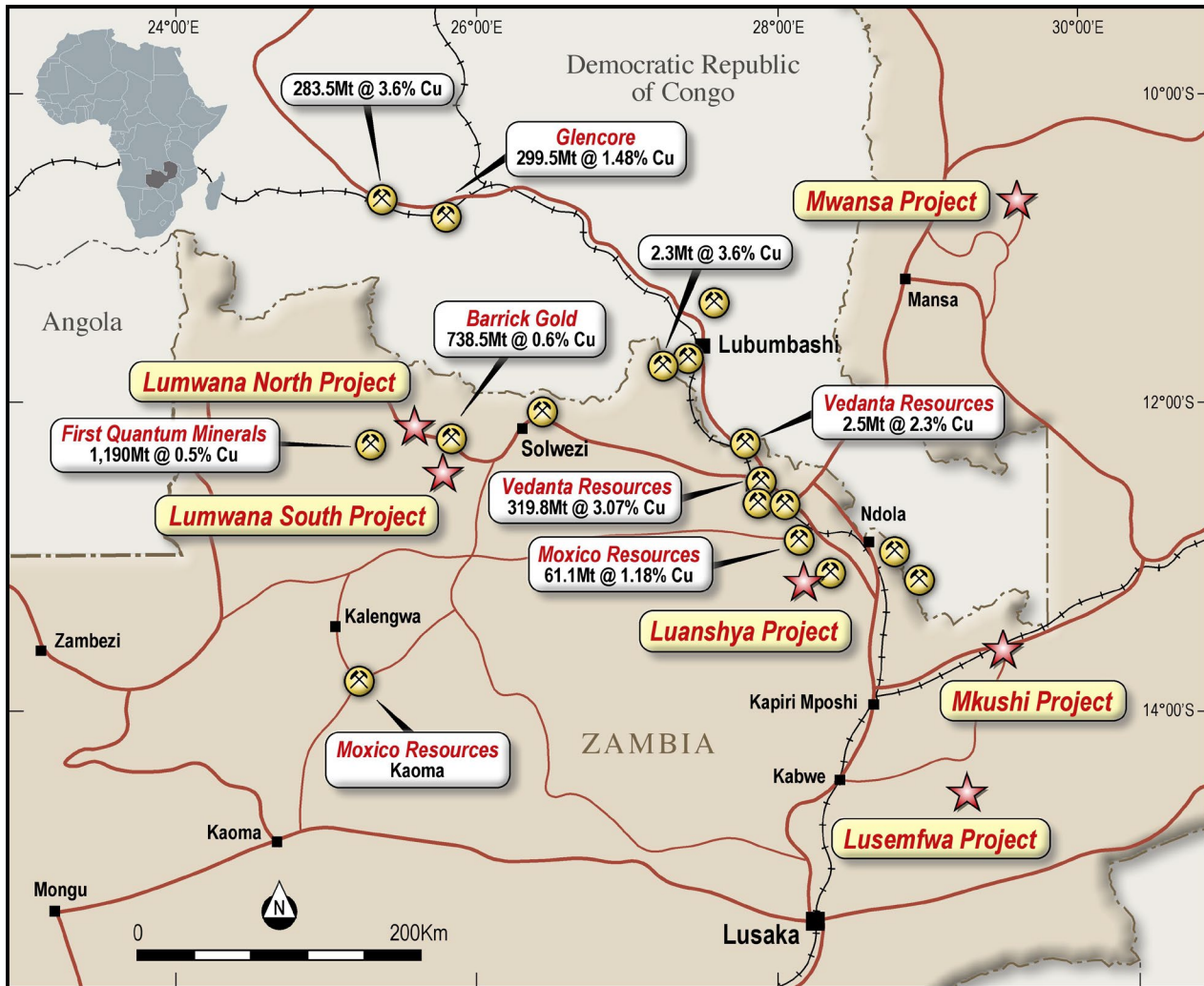
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Castillo Copper's Chairman Rob Scott commented: "The Board is delighted with the proposed acquisition of a highly prospective tenement package in Zambia. All the key ingredients are now in place to move forward with the Board's three pillared strategic intent to transform CCZ into a dual-listed, mid-tier copper group."

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Castillo Copper Limited's ("CCZ" or "the Company") Board is delighted to announce it has entered into a Heads of Agreement to acquire Zed Copper Pty Ltd ("Zed") (ACN 634 154 331). Under the terms of this agreement, subject to completion of due diligence and all conditions precedent being satisfied, CCZ will acquire 100% of the issued capital of Zed, a minerals explorer that holds the exclusive rights to acquire five highly-prospective assets in the Lufilian Arc region in Zambia (Figure 1) covering 1,050km² (the "Acquisition"). The key terms of the Acquisition are detailed in Appendix A to this announcement.

FIGURE 1: ZED'S FIVE PROJECTS



Source: USGS; Zambia Ministry of Mines & Mineral Development; Moxico Resources plc; Zed geology team

PHOTO GALLERY: ARTISANAL MINERS AT WORK



Location: 746021.53 m E, 8387731.25 m S
Source: Zed geology team

The activities of artisanal miners within the Lusemfwa project area indicates outcropping copper mineralisation is present. More importantly, these artisanal miners have confirmed they are amenable to working closely with tenement owners to facilitate scaling up mining operations and securing regular employment.

OVERVIEW

Zed was established with the principal objective of acquiring highly prospective copper assets in Zambia to facilitate the prompt commencement of exploration activities. Currently, there are two shareholders that have equal stakes in Zed (“Vendors”).

As consideration for the Acquisition, if all conditions are satisfied, the CCZ shares to be issued to the Vendors at settlement will account for circa 4.1% and 16.3% of the expanded issued capital respectively if all performance shares are converted (refer Consideration section).

The Board notes that neither of the Vendors are related parties of the Company.

ZAMBIAN PROJECTS

With reference to Figure 2 below, Zed has majority rights to five highly prospective copper projects (covering 1,050km²) in the Lufilian Arc region in Zambia; this area is well-known for having sizeable copper deposits.

FIGURE 2: ZED’S FIVE COPPER PROJECTS

Project	Ownership & Status	Area (km ²)
Luanshya	80%/20% joint-venture/(granted)	45
Mkushi	100%/(granted)	557
Lumwana N & S	100%/(granted)	10
Mwansa	100%/(pending grant)	436
Lusemfwa	80%/20% joint-venture/ (granted)	3

Note: JV partners are free-carried through to PFS

Source: Zambia Ministry of Mines & Mineral Development; Zed geology team

As can be seen from Figure 1 above, Zed’s projects are near large-scale operating mines owned by recognized global mining groups including Glencore, Barrick Gold and First Quantum Minerals. In addition, there are several mid-sized groups with sizeable mineralised footprints including UK-based Vendata Resources plc and Moxico Resources plc.

A drilled down review of the five projects follows:

Luanshya project: located in the traditional “copper-belt”

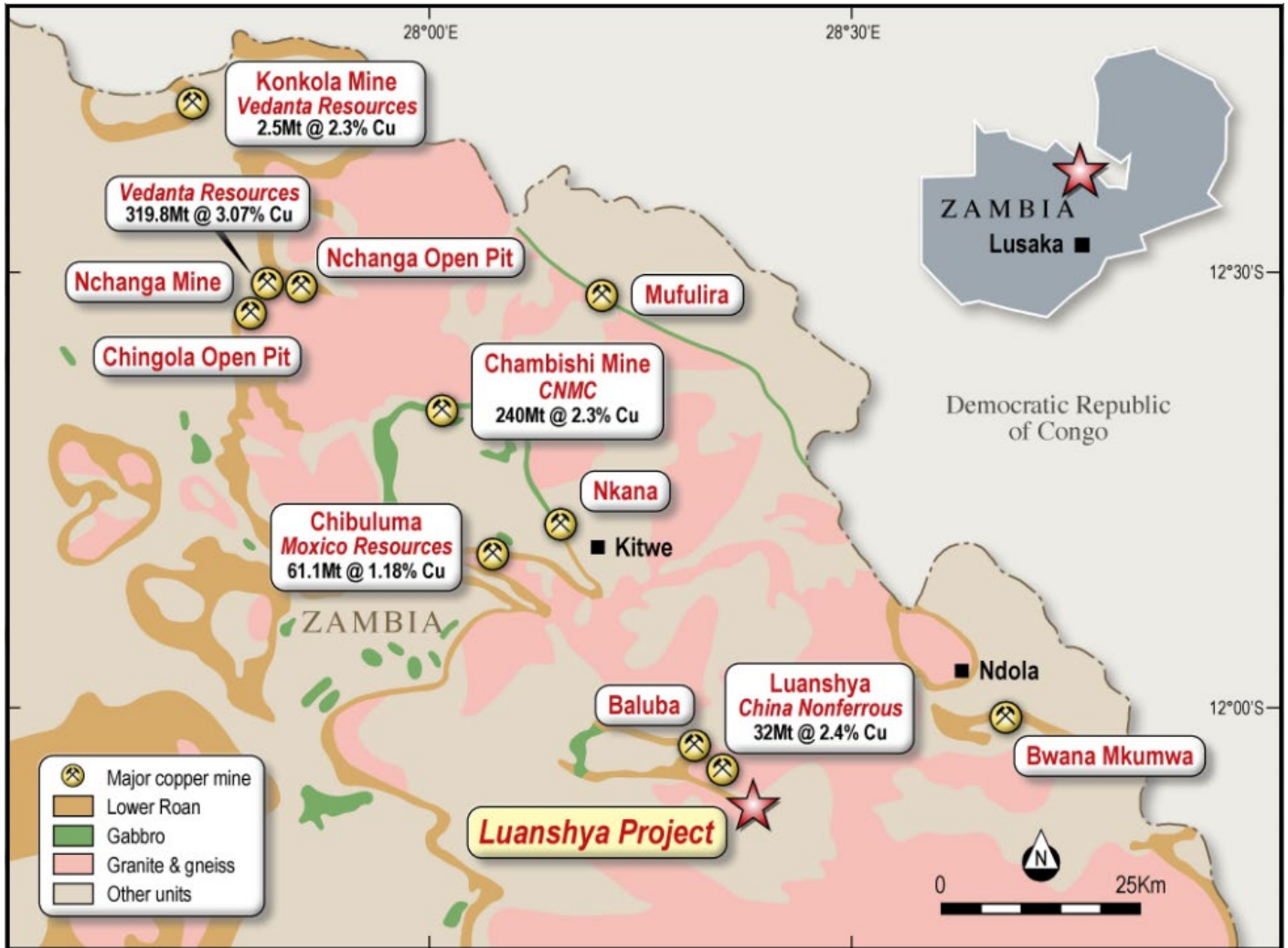
The high-quality Luanshya project (45km²) is located in Zambia’s traditional “copper-belt” along a key north-west structural trend known as the Lufilian Arc. Within this system is substantial copper-cobalt mineralisation hosted by Lower Roan rocks of the Katanga Supergroup, which elevates the probability of discovering a shallow high-grade mineralised ore body.

Neighbouring mines (Figure 3) with similar geology include:

- Luanshya I (Owner: China Nonferrous; Resource: 32Mt @ 2.4% Cu)¹;
- Chambishi I (Owner: CNMC; Resource: 240Mt @ 2.3% Cu)¹; and
- Konkola I (Owner: Vedanta; Resource: 320Mt @ 3.07% Cu)¹

Incrementally, clearly highlighting the potential in the region is the nearby Mimbula project (61Mt @ 1.18% Cu²), which is being developed by London-based emerging explorer, Moxico Resources plc.

FIGURE 3: LUANSHYA PROJECT

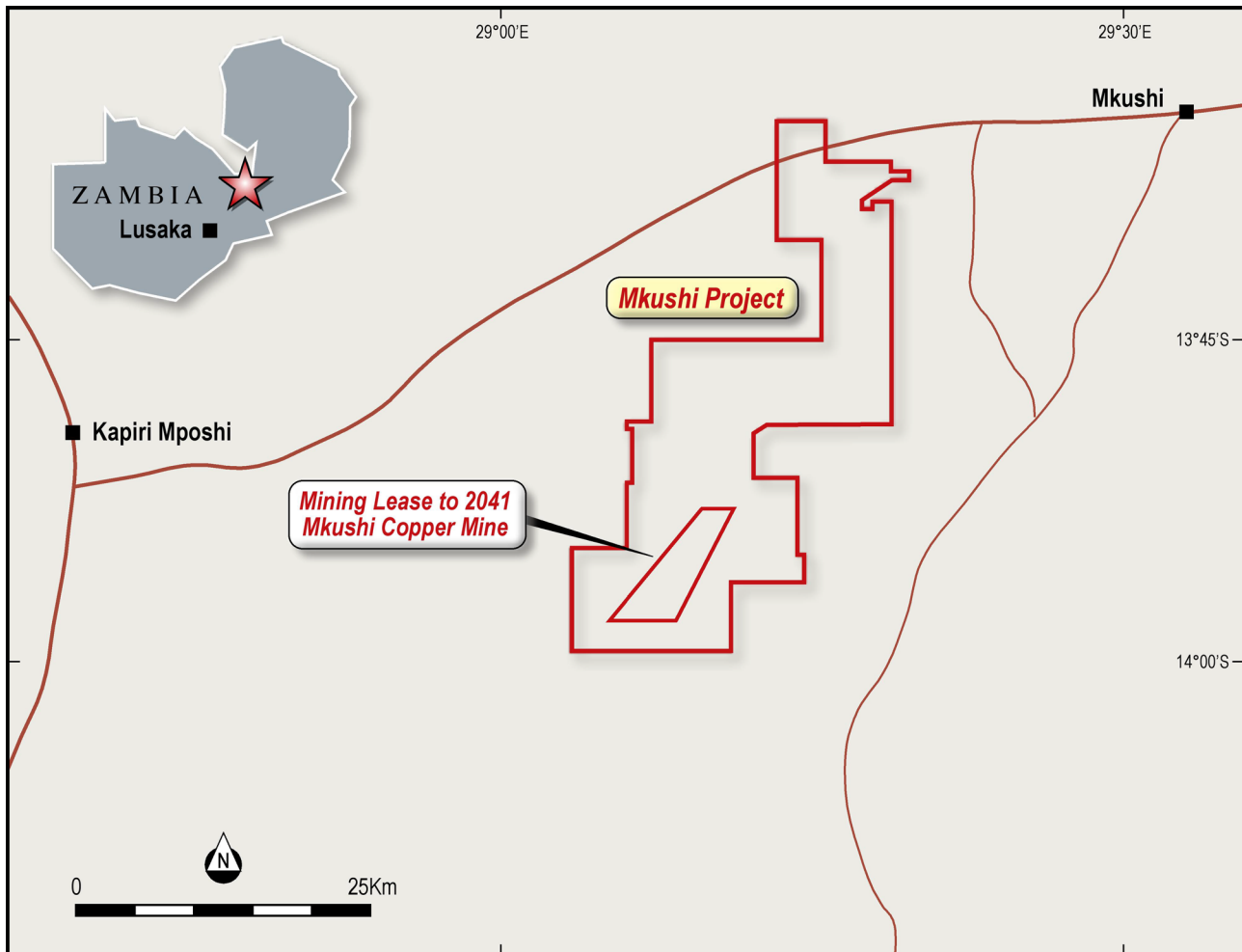


Source: USGS; Zambia Ministry of Mines & Mineral Development; Moxico Resources plc; Zed geology team

Mkushi project: contiguously surrounds an operating copper mine

The Mkushi project (557km²), which comprises the major Mtuga shear zone in central Zambia where there is supportive mining infrastructure, contiguously surrounds a 55km² mining lease owned by Shi & Yan Mining³ (China). Within the mining lease – shown in Figure 4 below – is the historic Mkushi Copper Mine, which was re-opened as an open-pit in mid-2018 (with >15-year LOM), after a near 40-year hiatus.

FIGURE 4: MINING LEASE WITHIN MKUSHI PROJECT



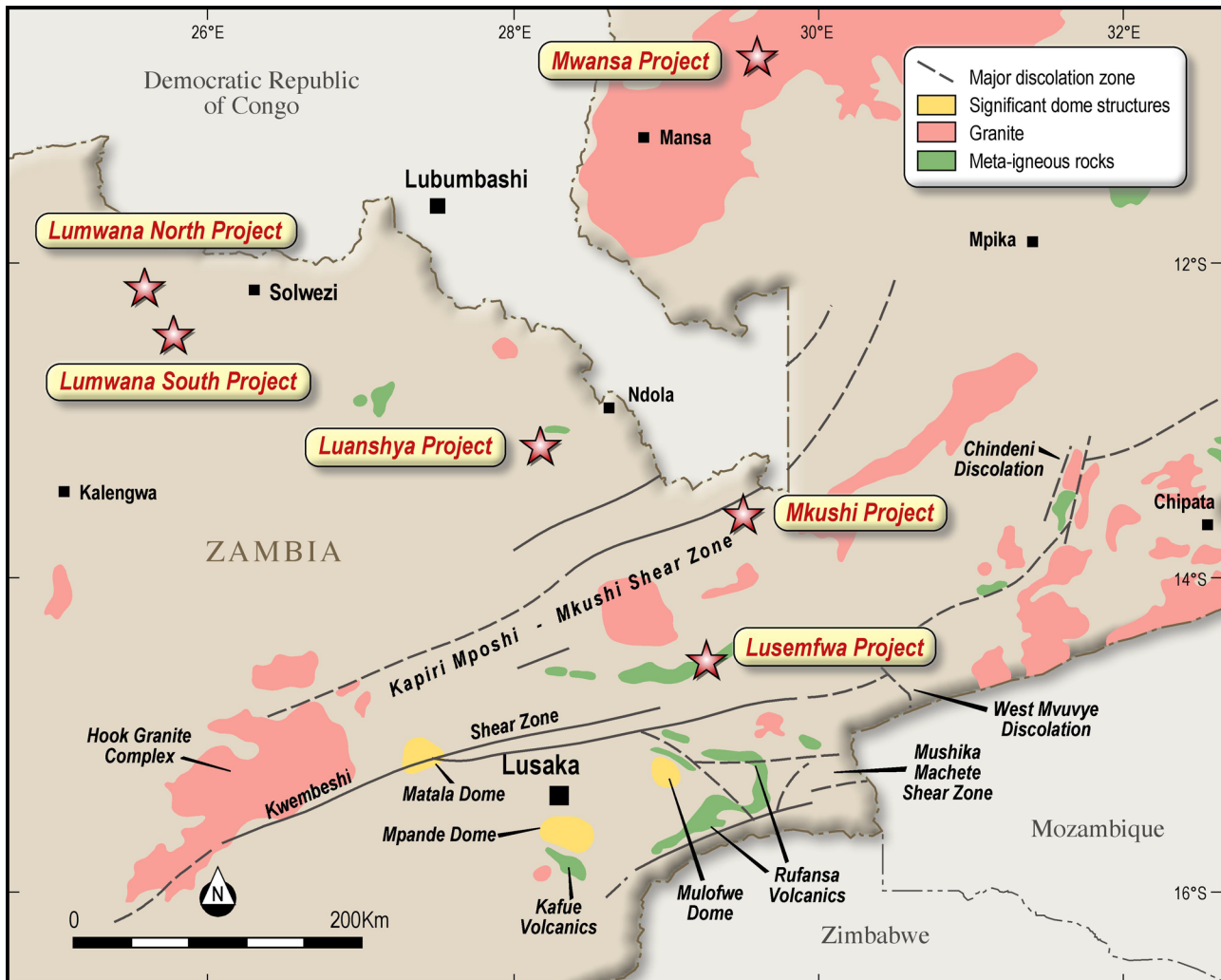
Source: Zambia Ministry of Mines & Mineral Development; Zed geology team

There is extensive legacy information available (Figure 5) comprising geological, geochemical, geophysical (including magnetics / airborne EM; 2009^{1,4}) data that can be leveraged to:

- Identify brownfield targets within the Mkushi tenure; and
- Validate priority drill targets to delineate resources.

Hence, this makes configuring and executing an exploration program relatively straight forward.

FIGURE 5: MINERALISATION WITHIN THE MKUSHI PROJECT



Source: Zambia Ministry of Mines and Minerals Development; Zed geology team

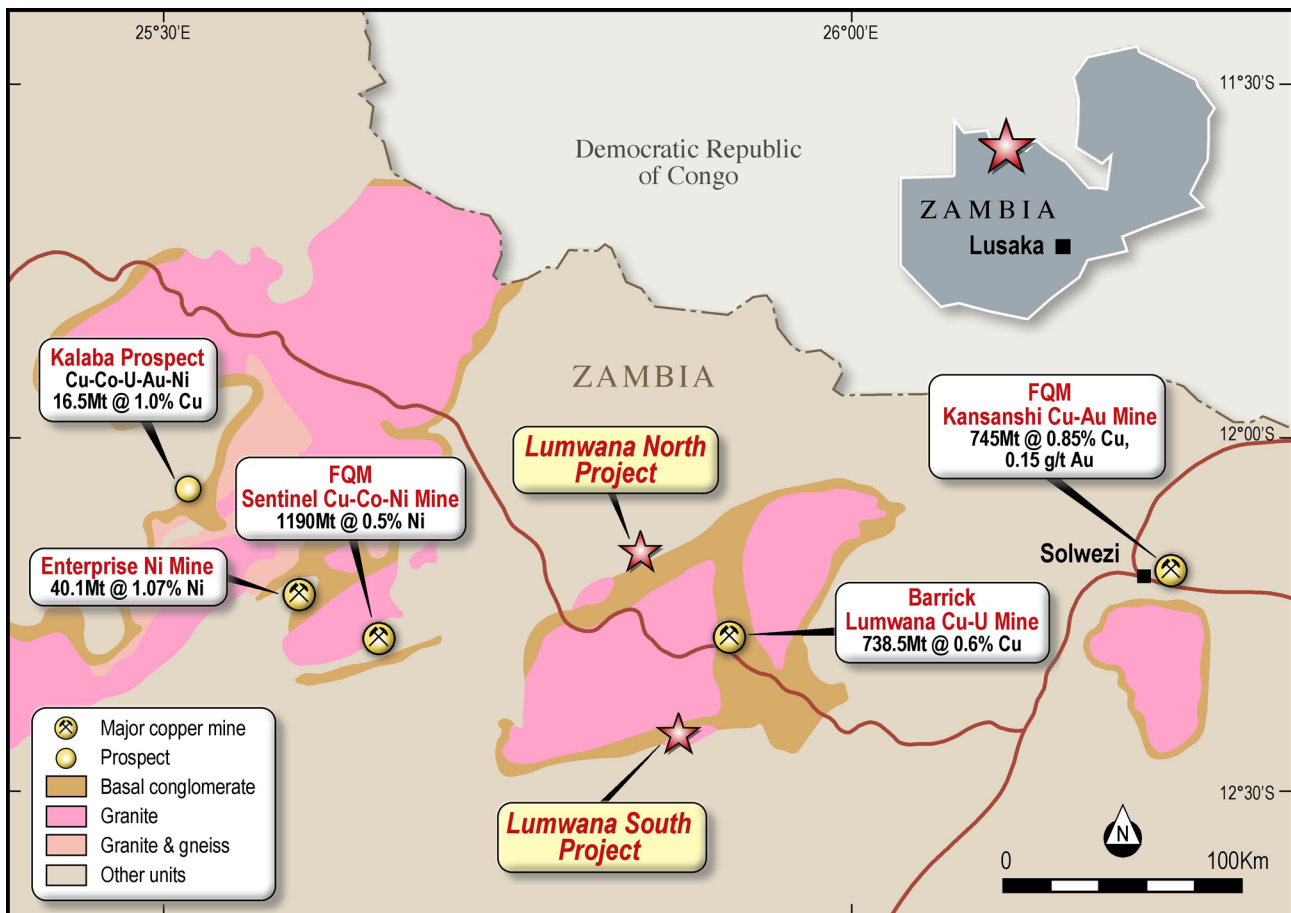
Lumwana project: N&S: near large porphyry copper mine

The Lumwana North & South projects (Figure 6) comprise two near-equal sized areas (covering 10km²) close to Barrick Gold's sizeable Lumwana project (738.5Mt @ 0.6% Cu¹).

Encouragingly, highlighting the prospectivity of the two tenures, the underlying geology for Lumwana North & South appears similar to Barrick Gold's project; both are set on the Mombezhi Dome where several large, scalable, porphyry copper occurrences exist.

As such, this allows for exploring Kakula-Kaoia type stratiform copper systems.

FIGURE 6: LUMWANA NORTH & SOUTH PROJECT



Source: USGS; Zambia Ministry of Mines & Mineral Development; Zed geology team

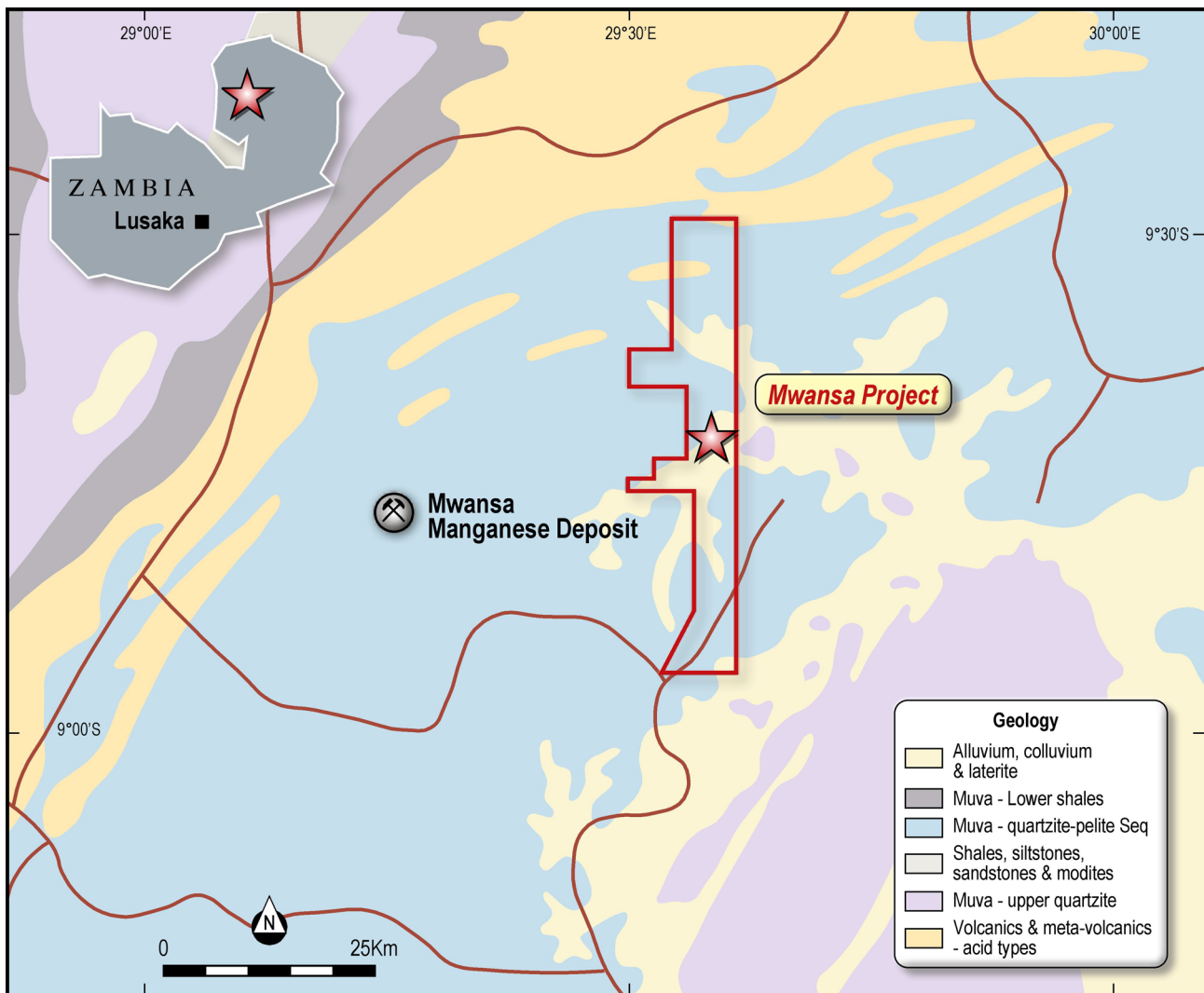
Mwansa project: offers material exploration upside for Cu-Zn

The Mwansa project (Figure 7) is prospective for copper-zinc mineralisation and, moreover, there is potential for a significant discovery from applying modern exploration tools.

The tenure, which is pending grant and the second largest in the portfolio, comprises a 436km² area in north-east Zambia in a region with supportive mining infrastructure.

Some 35k east of the Mwansa tenement is the known Mansa manganese deposit which has the same type of mineralisation.

FIGURE 7: MWANSA PROJECT



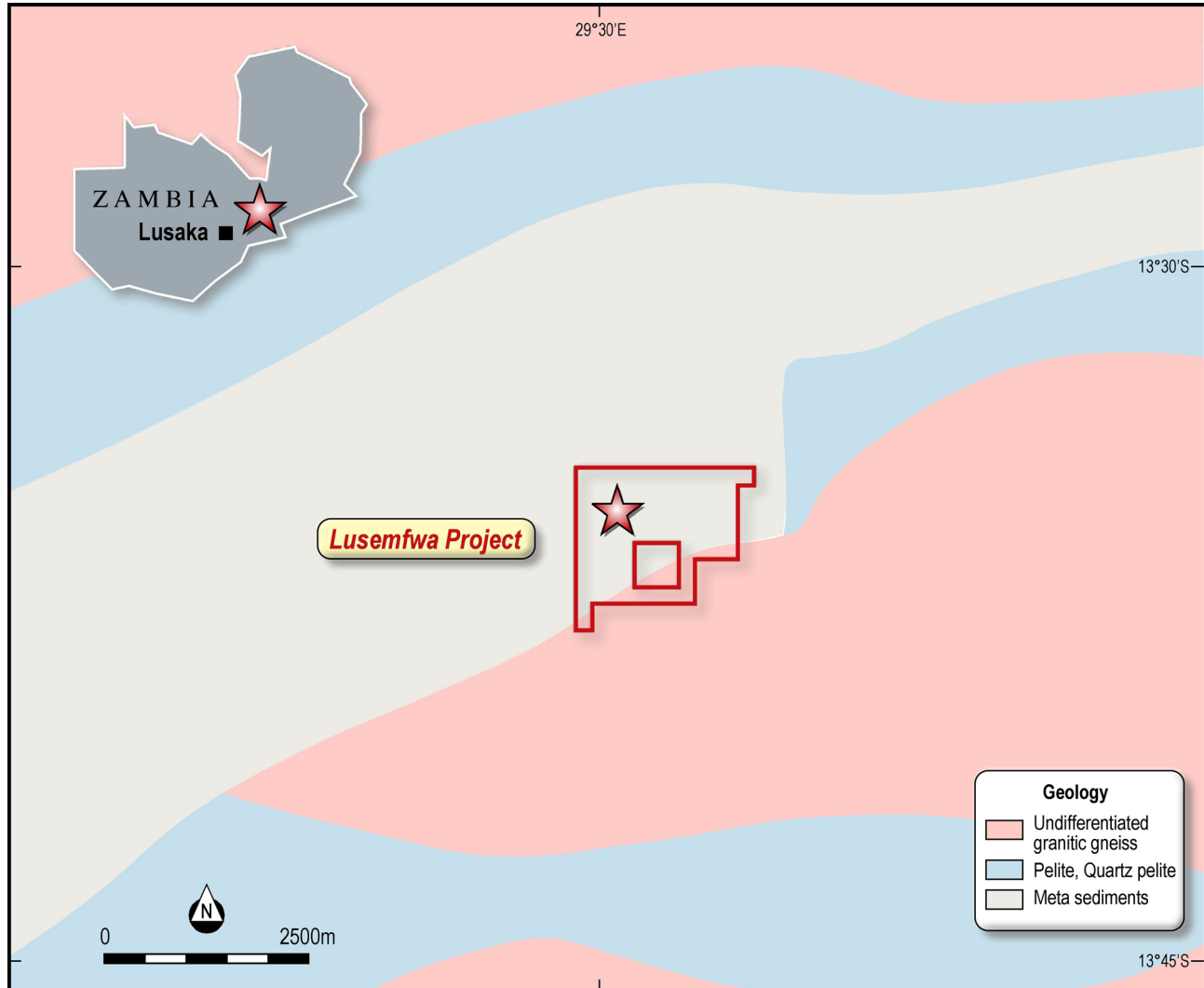
Source: Zambia Ministry of Mines & Mineral Development; Zed geology team

Lusemfwa: primary Cu-Zn focus

Covering circa 3km², the Lusemfwa project (Figure 8) is located in central Zambia near the gold belt; it has similar geological characteristics to the Mkushi asset.

The project is considered prospective, especially with confirmation artisanal miners are active within the tenure and photographic evidence of outcropping copper mineralisation.

FIGURE 8: LUSEMFWA PROJECT



Source: Zambia Ministry of Mines & Mineral Development; Zed geology team

COPPER FUNDAMENTALLY DRIVES ZAMBIA'S GDP

As the copper industry is critical to Zambia's national security and key contributor to the budget, the government is clearly pro-mining and foreign investment. Furthermore, according to government data⁵, the copper sector accounted for circa 75% of exports in 2018 (US\$6.8bn); 12% of GDP; and employs 1.4% of the work force (generating numerous positive multiplier effects).

According to USGS data¹, Zambia was the second largest copper producer in Africa at 755kt in 2017, after the Democratic Republic of Congo (DRC). Drilling down, across Zambia there are circa 32 economic copper deposit/mines which bundled host resources >3.6Bt @ 2.3% Cu (implying >83Mt contained copper). Since copper mining commenced in the 1920s, historic production now exceeds >50Mt contained copper, while prospective areas are estimated to host over 100Mt.

The Zambian "copper-belt" hosts 26 known deposits/mines with resources >2.5Bt @ >3% Cu (implying 75Mt contained copper) over a north-west trend. Interestingly, the DRC – Zambia "copper-belt" has the highest copper deposit density globally.

This backdrop largely explains why large foreign groups like Glencore, Barrick, First Quantum and Vedanta Resources have sizeable footprints across the region and have been operating in Zambia for many years.

Turning to theory, a PESTLE analysis⁶ (Figure 8) highlights some of the key positives in Zambia's favour relative to regional neighbours.

FIGURE 8: PESTLE ANALYSIS⁶

PESTLE Criteria	Remarks
Political	Regarded as political stable with open trade policies
Economic	Ranks highly on economic factors due to low cost of living, abundant English speaking labour force and solid trading practices
Social	Ranks well on socio-economic and employment agreements, but foreign groups need to evolve their own effective corporate culture
Technological	Relies heavily on foreign investment for new technology, IP & infrastructure
Legal	Highly rated mining & employment laws due to well formulated policies
Environment	Solid geographical location & climate, but environment laws need tightening

Next steps: accelerating exploration program

Assuming the Acquisition proceeds, then the top-tier priority is to commence resource definition drilling on the Luanshya tenement given a significant probability for discovering high-grade copper mineralisation.

The second priority is the Mkushi project followed by Lumwana North & South, Mwansa and Lusemfwa.

Leveraging the availability of high-quality geology teams at relatively low cost in Zambia, the initial exploratory work will entail:

- Gathering all legacy data and prioritising drill targets;
- Geological mapping concurrent with geochemical sampling and geophysical surveys; and
- Conducting ground IP / magnetic surveys over high priority targets to further delineate structures and conductive bodies for drilling

The deliverable objective is to prove up a JORC compliant resource within 12-18 months from the most promising projects.

Consideration

In consideration for entering into transaction and proceeding with the Acquisition, CCZ will pay the Vendors the following:

- \$25,000 upon executing the binding Heads of Agreement; and
- \$25,000 upon executing the Share Sale Agreement

On completion of the Acquisition and in accordance with the terms of the Share Sale Agreement, CCZ will issue to the Vendors in their respective proportions:

A) 31,250,000 fully paid ordinary shares;

B) 46,875,000 performance shares, converting to an equal number of CCZ shares on delineation of a JORC resource of 200,000 tonnes of contained copper at a minimum grade of 0.5% within 5 years of execution of the Share Sale Agreement; and;

C) 46,875,000 performance shares, converting to an equal number of CCZ shares on completion of a pre-feasibility study demonstrating an internal rate of return greater than 25% within 5 years of execution of the Share Sale Agreement.

The performance shares will be subject to prior approval by the ASX.

In addition, the Vendors will be entitled to a 2% net smelter return royalty on the sale of concentrates from the projects.

Pro-forma capital structure

The indicative capital structure of CCZ's post-acquisition of Zed is set out in the table below.

Name	Shares	Options	% interest in issued capital (if all performance rights vest)
Current CCZ shareholders	641,594,475	-	83.69%
Consideration shares	31,250,000	-	4.08%
Performance shares ¹	46,875,000	-	6.11%
Performance shares ²	46,875,000	-	6.11%
Existing options on issue	-	104,500,000	-
Total securities	766,594,475	104,500,000	100%

Note:

- 1) 46,875,000 performance shares, converting to an equal number of CCZ shares on delineation of a JORC resource of 200,000 tonnes of contained copper within 5 years of execution of the Share Sale Agreement.
- 2) 46,875,000 performance shares, converting to an equal number CCZ shares on completion of a pre-feasibility study demonstrating an internal rate of return greater than 25% within 6 years of execution of the Share Sale Agreement

Indicative timetable

An indicative timetable for completion of the Proposed Acquisition is set out below:

Event	Date (week ending)
Announce transaction	10 July 2019
Finalise share sale agreement	23 August 2019
Despatch Notice of General Meeting	30 August 2019
Hold General Meeting	1 October 2019
Completion	11 October 2019

Please note that this timetable is indicative only and the Company reserves the right to amend the timetable as required.

General Meeting

CCZ will convene a general meeting of shareholders to seek approval for the issues of securities required to effect the Proposed Acquisition and related matters. As at the date of this announcement, CCZ expects that the meeting will be held in early/mid-October.

For and on behalf of Castillo Copper

Alan Armstrong

Executive Director

References

- 1) U.S. Geological Survey (USGS), Mineral Occurrence Database – Zambia
- 2) Moxico Resources plc Mibula Project <<https://www.moxicoresources.com/mimbula>>
- 3) Lusaka Times 16 September 2018 <www.lusakatimes.com/2018/09/16/central-province-poised-for-massive-development-in-mining-and-energy-sectors/>
- 4) Ministry of Mines and Mineral Development <www.mmmd.gov.zm/>
- 5) International Monetary Fund, World Economic Outlook Database (GDP based on Purchasing Power Parity) and The World Factbook, Country Profiles, Central Intelligence Agency.
- 6) S. Kangwa and V. Mutambo, “PESTLE and SWOT analysis of the potential for mining Zambia’s low-grade copper ore deposits: the case of Kakosa South deposit” - Society of Mining Professors 6th Regional Conference 2018, Johannesburg, 12–14 March 2018, The Southern African Institute of Mining and Metallurgy
- 7) Zed Copper’s geology team undertook detailed desktop work and reviewed the following databases and publications, relevant to project selection:
 - ❖ Technical Report, The Lonshi Copper Mine Katanga Province, Democratic Republic of the Congo (March 26th, 2003), First Quantum Minerals <https://www.sec.gov/Archives/edgar/data/1071265/000119439606000032/ex315.htm>
 - ❖ Geology and Ore Deposits of the Central African Copperbelt, David W. Broughton, A thesis submitted to the Faculty and the Board of Trustees of the Colorado School of Mines in partial fulfillment of the requirements for the degree of Doctor of Philosophy (Geology); <http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.859.2995&rep=rep1&type=pdf>
 - ❖ Central African Copperbelt - Zambian Copperbelt <http://www.portergeo.com.au/database/mineinfo.asp?mineid=mn126#browse>
 - ❖ Sediment-Hosted Stratabound Copper Deposit Model, Chapter M of Mineral Deposit Models for Resource Assessment, Scientific Investigations Report 2010–5070–M, U.S. Department of the Interior, U.S. Geological Survey
 - ❖ Global Mineral Resource Assessment - Descriptive Models, Grade-Tonnage Relations, and Databases for the Assessment of Sediment-Hosted Copper Deposits—With Emphasis on Deposits in the Central African Copperbelt, Democratic Republic of the Congo and Zambia, Scientific Investigations Report 2010–5090–J, U.S. Department of the Interior, U.S. Geological Survey

APPENDIX A: KEY TERMS OF ZED ACQUISITION SUMMARISED

Castillo Copper and the Vendors of Zed Copper Pty Ltd (“Zed”), have entered into a binding Heads of Agreement.

The key terms of the Heads of Agreement are as follows:

VENDORS

- Resource Corporate Pty Ltd (ACN 150 076 476) - Resource Corporate Pty Ltd is the corporate trustee for the family trust of Matthew Bull. Matthew Bull is a geologist with experience in mineral exploration. He is a non-executive director of Lindian Resources Ltd (ASX: LIN); and
- Nkandu Maliki Nshindano Beltz - Nkandu Beltz is a Zambian born businesswoman who is working on developing copper and gold projects in Zambia via her Zambian company Chalo Mining Limited. Information about her and her business interests can be found on her website (<http://nkandubeltz.com.au/>).

CONDITIONS PRECEDENT

The Acquisition will be conditional on:

- completion of due diligence by CCZ on Zed and the Projects, in each case to the satisfaction of CCZ in its absolute discretion;
- CCZ obtaining all necessary regulatory, shareholder and other approvals, consents and waivers required by the Corporations Act 2001 (Cth), its constitution and the ASX listing rules in relation to the Acquisition;
- the Vendors, and any persons becoming shareholders of Zed, after execution of this Terms Sheet, entering into the Share Sale Agreement in relation to all their Zed shares; and
- neither Zed nor the Vendors being in material breach of the terms of this Terms Sheet or the Share Sale Agreement, providing no party can rely on its own breach to prevent Completion occurring; and
- such other conditions as agreed by the parties, acting reasonably.

CONSIDERATION

In consideration for entering into transaction and proceeding with the acquisition, CCZ will pay the Vendors the following:

- \$25,000 upon executing the binding Heads of Agreement; and
- \$25,000 upon executing the Share Sale Agreement

On completion of the sale and purchase of the Sale Shares and in accordance with the terms of the Share Sale Agreement, CCZ will issue to the Vendors in their respective proportions:

A) 31,250,000 fully paid ordinary shares;

B) 46,875,000 performance shares, converting to an equal number of CCZ shares on delineation of a JORC resource of 200,000 tonnes of contained copper at a minimum grade of 0.5% within 5 years of execution of the Share Sale Agreement; and;

C) 46,875,000 performance shares, converting to an equal number CCZ shares on completion of a preliminary feasibility study demonstrating an internal rate of return greater than 25% within 5 years of execution of the Share Sale Agreement.

The performance shares will be subject to prior approval by the ASX.

In addition, the vendors can execute a royalty deed providing for a net smelter return of 2% on the sale of concentrates from the projects.

COMMITMENTS

CCZ commits to spend at least \$US500,000 over the first 18 months of exploration from the date of Completion, so it has a chance to effectively explore the projects and achieve the performance hurdles set out above.

Otherwise, the term sheet contains clauses typical for binding agreements of this nature.