

INVESTMENT OVERVIEW

Cashed-up Kincora Copper now raring to dish up major discoveries in Mongolia

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With heavyweight supporters, the best ground in country and new cash in the bank, Kincora looks very well positioned



Recent drilling activities at Kincora's brownfield East Tsagaan Suvarga target, 13km away from a billion dollar open pit construction project

Exploration activity in Mongolia is hotting up and with recent funding, **Kincora Copper Limited (CVE:KCC)** is now catching up.

Oyu Tolgoi, the giant copper-gold porphyry mine run by **Rio Tinto (LON:RIO)**, remains among the biggest. The mine has been in production for the last four years and will account for a third of the landlocked country's GDP. Its underground development is the largest expansion project globally in the metals and mining sector for any commodity.

Focus on Southern Gobi copper belt

But the mining and exploration orbit in the Southern Gobi copper belt is getting busy. There is now Codelco, the major Chilean copper producer, Xanadu Mines (**ASX:XAM**), which has just raised A\$15.4m for exploration, Ikh Shankh, a private vehicle run out of New York and a recent Society of Economic Geologists (SEG) tour of the belt attracting the likes of **Anglo American, Teck Resources** and JOGMEC to name just a few.

This copper belt was the global hotspot back in 2011/12, much as Ecuador is today.

There is renewed interest in the area as illustrated by Xanadu's share price rallying over 50% to a market capitalisation A\$180mln. **Rio Tinto** has resumed drilling in the Southern Gobi for the first time since 2012.

Given the scale of Oyu Tolgoi, one has to wonder what else Rio might be looking for, but it adds further to the view that other Tier 1 discoveries are waiting to be found in this belt and just having one isn't enough for Rio.

The largest landholder of them all, however, is **Kincora Copper Limited (CVE:KCC)**, a company with a market capitalisation of only C\$23mln, including its recent C\$5.9mln fund raising. In the last week, Kincora has secured the support of one of the biggest investors in Mongolia, the European Bank for Reconstruction and Development (EBRD), and, also recently, the mining private equity specialist and heavy weight, Denver-based Resource Capital Funds (RCF). The EBRD and RCF have invested C\$1.4mln each.

The EBRD was the largest individual member of last year's project financing of Oyu Tolgoi, the largest project financing in the history of the metals and mining sector, and sole project financier of the privately owned Tsagaan Suvarga copper mine, these being the two economic copper mines in the Southern Gobi with capex of over US\$14bn and over US\$1bn respectively.

Following their investment in Kincora, EBRD have now invested in all the three Devonian age copper projects identified to date in this belt. The EBRD funds are to be solely used by Kincora to support an extensive drilling programme at its two most advanced Devonian-age prospects, East Tsagaan Suvarga (East TS) and Bayan Tal, the first Devonian targets in this belt since Oyu Tolgoi and both analogues to the two respective mines in the belt – big prizes.

What's more, the original progenitors of the Oyu Tolgoi project, Robert Friedland's Ivanhoe, are also shareholders in Kincora, via a private vehicle called High Power Exploration (HPX) and last year vended to Kincora in the best parts available of the Devonian copper belt. On a contained metal basis, Oyu Tolgoi is still the biggest discovery of Mr Friedland's and drove the original **Ivanhoe Mines** from a similar market capitalization to Kincora now to a peak of over US\$30bn.

HPX, EBRD and RCF are a bit of a club, now all holding about 6% each of Kincora. When added to the Kincora board representing a total of 37% of the register and other natural resource specialist institutions and high net worth individuals, this supports a unique and sophisticated register for such a small market capitalisation.

Attention on Kincora

Serious investors who know mining and who know Mongolia are into Kincora in a big way, and with multiple targets and work streams now funded it is likely the retail market will soon start to follow this smart money and what is still effectively a new story to the public markets.

When we last caught up with chief executive Sam Spring in February, Kincora's share price was up to C\$0.65 a share and the aim was to be drilling these two high priority drill targets within 6 months having just done the deal with HPX to consolidate the dominant position in the Devonian belt and having attracted an industry leading technical team with multiple Tier 1 copper discoveries (who incidentally are majority remunerated in Kincora shares).

However, capital market conditions remained challenging and as Kincora secured this “smart money”, which entailed extensive technical and legal due diligence, its share price drifted with the recent raising completed at C\$0.33. The funds now raised supports the first modern Tier 1 drill testing and district scale reconnaissance exploration programme in this highly mineralised but vastly under-explored belt with two rigs having been operational for the last month. With the EBRD fund raising now complete, the “black out period” for on-going exploration activities is now lifted with a pipeline of news flow to come.

Now it's up to Spring and his team to deliver the goods. While “small beer” relative to the Devonian targets and providing an analogue to the two mines in the belt, one work programme moving forward is looking to define a resource (geological or NI 43-101 inferred) around the company's historic flagship asset, Bronze Fox, which has a large lower grade porphyry system and before a dispute with the government (now resolved) returned a hit of over 800 metres at over 0.4% copper equivalent including over 37 metres of over 1% copper equivalent.

This asset has been forgotten about. However, being the same age, similar size (albeit lower grade) and having had about a third of the drilling of Xanadu Mines' flagship Kharmagtai, a maiden resource of some kind is expected to highlight Kincora's favourable valuation, Xanadu's valuation is 10 times Kincora, particularly as Xanadu looks to dual list on the TSX Venture market. In the previous commodity cycle, Kincora attracted 14 NDAs, a period of exclusivity and separate offer for the Company based just on Bronze Fox.

The land package Spring now has at his disposal certainly offers plenty of further scale potential. Helped along by funds recently raised, Kincora is drilling East TS target and Bayan Tal targets, part of a wider 20,000 metre two-phase programme that will also work up other targets.

Chile revisited?

Overall, Kincora holds 1400 square kilometres of ground, which gives it what Spring describes as the “dominant position” in the geological belt.

But it's not just the size of the ground that's impressive. It's the geological setting and the context in the best parts of the Devonian copper belt, between and on strike, from the two existing mines in the Southern Gobi.

Spring describes Mongolia in mining and commercial terms as comparable to Chile in the 1970/80s: the potential was well known but just how good it would turn out to be wasn't clear to anyone.

Such a scenario is also supported Codelco's recent interest in the Southern Gobi, when chief executive Nelson Pizarro said the company had “a lot of interest” in Mongolia and that his people were “learning to milk camels.”

If the parallels are clear enough to the Chileans given what's happened there in the past half a century or so, then imagine the excitement in the Kincora camp, given that so much of the ground is under Kincora's control.

A project like Oyu Tolgoi rarely occurs in isolation, explains Spring. Indeed, projects like that occur in clusters more often, as they do in Chile.

It's the nature of that opportunity that explains in part why a company such

as Kincora has been able to secure significant backing from significant players and is now just starting what should be an interesting and fully funded 9-12 month exploration and expansion journey. .

All concerned are betting that Kincora won't be a pre-discovery company for much longer and they do seem to be systematically setting the foundations for success, both exploration wise but also corporately with the shareholders on its register.

With the price of copper still strong and the mining sector beginning to come back into favour more generally, the good times for Kincora might come pretty quick. It's a story worth keeping on your watch list.