

Kincora Copper Limited

Stock Data

Rating	SPECULATIVE BUY
Price, C\$	0.06
Target price, C\$	n/a
52Wk Range, C\$	0.01-0.09
Shares outstanding (m)	298
Mkt cap, C\$m	18
YTD performance, %	140%

Company Snapshot

Kincora Copper Limited is a Canadian listed (KCC: TSXV) advanced copper exploration company focused on its wholly owned Bronze Fox project in the Oyu Tolgoi copper belt (SE Mongolia). Kincora recently completed one of the most active copper exploration programs in Mongolia during 2013, on one of the most advanced, prospective and youngest licenses. Bronze Fox hosts a very large and strategically located mineralized footprint covering a known 40km² area with extensive lower grade copper-gold mineralization, localized areas of higher grade (4% Cu), and intersected across an extensive and open strike.

Related Research

February 12th 2014, Kincora Copper Limited – “*Drilling to Discover in 2014*”

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Kincora Copper: *Drilling to Discover in 2014*

Closes Oversubscribed C\$5 million Financing

On March 25th, Kincora Copper announced the closing of its private placement announced earlier in the month. The successful closing of Tranche 1 totals C\$4.6 million which will be used for drilling targets during the 2014 field season. The completion of a second tranche of \$425,000 is subject to regulatory approval and expected in May 2014.

We note the following:

- Placement well oversubscribed with investors from North America, Europe, London and Asia (having been a Finder in the offering)
- Attracted the interest of new shareholders including mining and/or five non-related Mongolian specialist investment groups
- Funds raised will be exclusively used for drilling and exploration in 2014 and not funding past or expected G&A of the company (cash balance year end 2013 was approximately C\$1.1 million and management continues to apply a concerted effort monitoring G&A working capital requirements)
- Recent hiring of a new Principal Geologist, Henry Tebar, following the closing of the financing. We understand Henry is familiar with the Bronze Fox project via his previous role heading the Trafigura Origo Joint Venture LLC and having also already worked with Kincora's director of exploration, Yawen Cao. Management indicates that Henry has spent the past three years in Mongolia having identified and ground-truthed over 300 prospects and has proven porphyry orebody discovery experience.

Catalysts for 2014:

1. Drilling results: we understand that field season activities will most likely commence within the month with drilling at the flagship Bronze Fox licenses in May 2014, noting first assay results expected in the summer (typically 6-8 weeks in the labs)
2. 106 licences: Management has worked diligently over the winter months as part of a wider lobbying effort to regain its two licences adjacent to Bronze Fox involved in the 106 license issue. The Mongolian Parliament resumes this week and we understand that a win-win resolution of the 106 licences, and other positive Mineral Law reform, is a priority for the Spring season of Parliament
3. Potential strategic interest: Kincora is the last independent Mongolian copper vehicle. Given the advanced nature and scale of its targets and scarcity of opportunities for larger copper groups, a strategic investment (similar to other copper juniors in Mongolia in the past namely Altan Rio and Erdene) could be a path forward. Timing and price of a partnership, if any, would be critical and Kincora is in favourable position being in control of its own destiny following the oversubscribed financing

Mongolian Investor Sentiment:

Investor sentiment towards Mongolia remains cautious: Being actively involved in fund raising process for Kincora and participating in investor meetings in Hong Kong and North America (including around PDAC) made it clear to us that while there is still significant interest in Mongolia, investors are very concerned about recent Mongolian developments, risks and ongoing uncertainties. At the moment, investor consensus is more focused on how the Government of Mongolia (GoM) is removing impediments to existing problems as an indicator, or precedent, of how future investors will be treated. Favorable improvements to legislation are also needed (such as the new Investment Law, Securities Law and proposed amendments to the Minerals Law etc), but we believe that removing the bad press and enabling the private sector to get on with business are the near term critical issues.

The commencement of a period of stability coupled with tangible examples of the government working with the private sector to address a number of the key current issues (including the long overdue Oyu Tolgoi Stage 2 financing and confirmation of the Investment Agreement, the 106 license issue) are needed before more general significant pools of capital make themselves again available and the discount applied for Mongolian assets is lifted.

The Kincora Opportunity in a Snapshot:

Analogies to Oyu Tolgoi	<ul style="list-style-type: none"> ▪ Drilling at Bronze Fox is planned based on extremely promising previous drill results, new geophysical and other “long lead” time / technical activities undertaken in 2013 ▪ A follow up phase of target drilling at Oyu Tolgoi focused on similar untested geophysical targets, with often-supportive previous drilling, & lead to the “discovery hole”
Location	<ul style="list-style-type: none"> ▪ The only listed copper junior in the same copper belt as Oyu Tolgoi and Tsagaan Suvarga copper mines ▪ Under-explored copper belt, geochemical footprint matching other major globally significant porphyry deposits, typically occurring in clusters
Close in 2012, closer in 2013...	<ul style="list-style-type: none"> ▪ 2012 drilling included >800 meters @ 0.4% CuEq, 37 meters >1% CuEq. The last hole drilled had 4% localized copper ▪ 2013 activities re-interpreting past drilling, “explained” previous results and refined large targets at Bronze Fox
Triangulation of past exploration results	<ul style="list-style-type: none"> ▪ In 2012, the >800m (@ 0.4%) intersected the fringe of an IP anomaly derived 2013. The 37m (@ >1%) hole came within 500m of the anomaly with 2013 studies proving this a less prospective area of the porphyry system (within ~1.5km). ▪ 2014 drilling targets = a combination of IP targets (2013), integrated with positive known of copper grades/geology (pre 2013); surface and down hole fertility (2013); geochemical, alteration and veining analysis (2013)
2014 drilling targets	<ul style="list-style-type: none"> ▪ 9 targets, strike +1-2km, identified for 2014, triangulated and de-risked to the stage of drilling at Bronze Fox ▪ Oyu Tolgoi, one of the worlds largest porphyries, is 10 deposits/zones consistent with +1-3km strike IP anomalies
Multiple positive verifications	<ul style="list-style-type: none"> ▪ 2012: ✓ positive independent technical review ▪ 2013: ✓ three separate positive independent reviews by leading global copper experts for purposes of 3rd party DD
Blue sky potential	<p>Discoveries drive share prices – case studies: OT in Mongolia</p> <ul style="list-style-type: none"> ▪ Sirius Resources: 12x on 5 holes, 51x in 3 months in 2012 ▪ Sandfire Resources: 41x in 2009 on drilling success
Insiders are buying	<ul style="list-style-type: none"> ▪ 2H’13 buying from all directors. Significant on market purchases in Jan-2014 following the exploration update and as part of the recent \$5 million financing
A direct ‘play’ on exploration success	<ul style="list-style-type: none"> ▪ Backed by the best technical team in Mongolia, arguably one of the best in the junior copper space (ex RT & BHP) ▪ Valuation trading discount to peers ▪ Not to be confused as a ‘play’ on Mongolian politics/macro

ANALYST CERTIFICATION AND DISCLOSURES

Analyst Certification

We hereby certify that all of the views expressed in this research report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our respective compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

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