



# Mincor Resources NL (ASX: MCR)

## Widgiemooltha Gold Project expanding

On 28 June 2017, MCR [announced thick, shallow high-grade gold intersections](#) from drilling west of the Flinders prospect; the Flinders prospect contains a 69koz Resource and is part of the 238koz Widgiemooltha Gold Project (30km south of Kambalda, WA).

### State One comments

MCR's share price reacted positively to the announcement, gaining 18% on the day. The new discovery, named Flinders West, highlights the growth potential of the Widgiemooltha Project. Follow-up drilling is scheduled to start in mid-July and there is a high expectation that the program will materially expand both the existing Mineral Resources and Ore Reserves in the area. We estimate that Flinders West (including extensions down strike) could increase the Widgiemooltha Project Resource by 50-75koz (+30%). Importantly, MCR has identified many similar target zones across the wider Project; we believe that the high prospectivity of the area has the potential to evolve into a substantial new gold mining business. The group's North Kambalda tenements – located along the "Tier One" Boulder Lefroy Fault Corridor (22 Moz Au output) – also offer exciting exploration opportunities.

The strong growth potential underlines the value of Mincor's decision to press ahead towards mine development. An April 2017 Feasibility Study confirmed the economic viability (NPV<sub>8</sub> A\$25m) of mining ten shallow (low-capital cost) gold pits in series over an initial 19-month mine life, with ore treated via a tolling arrangement at one of the many regional operating mills. Management is targeting first gold production by the March 2018 quarter - although earlier production may be possible, subject to Board and regulatory approvals. Key activities currently taking place include:

- Completing the regulatory permitting process,
- Securing toll-treatment, mining tenders and ore haulage contracts,
- Securing financing and commercial structures to minimise working capital and maintain MCR's healthy cash balance (A\$13.8m as at 31 March 2017),
- Finalising the start-up mining schedule.

In addition, the Widgiemooltha tenements are part of an emerging Lithium Province (the Mt Marion Lithium plant is 60km to the north). Surface sampling of outcropping pegmatites indicates the presence of six potentially high-grade (>1% Li<sub>2</sub>O) lithium-bearing ore bodies.

While, MCR's near-term focus is on developing its gold Resources, MCR currently holds two development-ready nickel projects (Durkin North and Mittel/Burnett). Detailed feasibility studies have been completed on both, and they remain on care and maintenance pending improvements in the nickel price. Note: the projects require a Ni price of A\$20,000/t and A\$22,000/t respectively, versus the current spot Ni price of A\$12,100 (US\$9,213/t @ US\$0.76). We attribute MCR's share price weakness (-40% from a January high of A\$0.28) to the soft Ni price environment (-7.5% YTD). However, the Ni price has enjoyed a 5% recovery over the past two weeks and ongoing metal price momentum could be an important share price driver.

### SOTP-derived target price: A\$0.31ps

Based on a strong cash position, plus [our valuations for the gold and nickel assets](#), we calculate MCR's group equity value at A\$61m (A\$0.29ps). At current share price levels of A\$0.18 (close 30 June 2017), we calculate that MCR offers significant upside potential; **we maintain a Speculative Buy (Higher Risk) recommendation on this near-term gold producer and nickel option play.**

3 July 2017

Share Price: A\$0.18 (30 June 2017)

Target Price: A\$0.29

Recommendation  
**Speculative Buy**

Risk Assessment  
**Higher**

### Resources – Gold/Nickel

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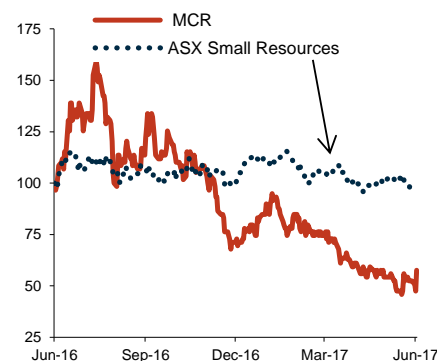
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### Mincor Resources

ASX Code	MCR
52 week range	A\$0.13-A\$0.48
Market Cap (A\$m)	32
Quoted Shares (m)	189
Av Daily Turnover (shares)	292k
ASX All Ordinaries	5,839
2017E BV per share (A\$)	0.13
2017E EPS (A\$)	-0.01
2017E Net Debt/(Cash) (A\$m)	-4.9

### Relative price performance



Source: Iress

## Financial Statements

### Mincor Resources

Year ending June

Profit & Loss Statement (A\$M)	FY16A	FY17E	FY18E	FY19E	FY20E
Revenue	18.6	0.0	20.4	43.7	44.5
Mining/Hauling	(7.1)	0.0	(6.5)	(13.3)	(13.6)
Processing	(10.3)	0.0	(3.4)	(7.0)	(7.2)
Corporate/Royalty/Other	(19.7)	(2.5)	(3.2)	(3.9)	(4.0)
<b>EBITDA</b>	<b>(18.6)</b>	<b>(2.5)</b>	<b>7.2</b>	<b>19.4</b>	<b>19.8</b>
Depreciation & Amortisation	(9.2)	0.0	(1.5)	(1.5)	(1.5)
<b>Operating profit</b>	<b>(27.7)</b>	<b>(2.5)</b>	<b>5.7</b>	<b>17.9</b>	<b>18.3</b>
NOI	(13.8)	4.9	0.0	0.0	0.0
<b>EBIT</b>	<b>(41.6)</b>	<b>2.4</b>	<b>5.7</b>	<b>17.9</b>	<b>18.3</b>
Interest income	0.0	0.5	0.3	0.2	0.5
Interest expense	(0.4)	(0.7)	(0.4)	(0.4)	(0.4)
Tax expense	0.0	0.0	(1.7)	(5.3)	(5.5)
<b>Reported NPAT</b>	<b>(42.0)</b>	<b>2.2</b>	<b>3.9</b>	<b>12.4</b>	<b>12.9</b>
<b>Normalised NPAT</b>	<b>(28.2)</b>	<b>(2.7)</b>	<b>3.9</b>	<b>12.4</b>	<b>12.9</b>
EBITDA Margin (%)	na	na	35%	44%	44%
Operating profit margin (%)	na	na	28%	41%	41%
EPS Reported (A\$)	(0.20)	0.01	0.02	0.06	0.06
<b>EPS Normalised (A\$)</b>	<b>(0.13)</b>	<b>(0.01)</b>	<b>0.02</b>	<b>0.06</b>	<b>0.06</b>
EPS growth (%)	nm	nm	nm	214%	4%
DPS - Declared (A\$)	0.00	0.00	0.00	0.00	0.00
Avg. no. of fully-diluted shares (m)	210	211	211	211	211
YE no. of fully-diluted shares (m)	211	211	211	211	211

Cash Flow Statement (A\$M)	FY16A	FY17E	FY18E	FY19E	FY20E
EBITDA	(18.6)	(2.5)	7.2	19.4	19.8
Investment in working capital	4.7	0.9	(2.4)	(1.7)	(0.1)
Tax expense	0.0	0.0	(1.7)	(5.3)	(5.5)
<b>Operating Cash Flow</b>	<b>(13.9)</b>	<b>(1.6)</b>	<b>3.1</b>	<b>12.3</b>	<b>14.2</b>
Capex	0.0	(5.0)	(6.5)	(1.5)	(1.5)
Other investments	0.0	0.0	0.0	0.0	0.0
<b>Investing Cash Flow</b>	<b>0.0</b>	<b>(5.0)</b>	<b>(6.5)</b>	<b>(1.5)</b>	<b>(1.5)</b>
Net interest received / (paid)	(0.4)	(0.2)	(0.1)	(0.2)	0.1
Debt draw down / (repayment)	(3.9)	0.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0
Equity raised / (repaid)	(0.2)	0.0	0.0	0.0	0.0
<b>Financing Cash Flow</b>	<b>(4.5)</b>	<b>(0.2)</b>	<b>(0.1)</b>	<b>(0.2)</b>	<b>0.1</b>
Non-operating & Other	3.4	(1.6)	0.0	0.0	0.0
<b>Inc/(Dec) in Cash</b>	<b>(14.9)</b>	<b>(8.3)</b>	<b>(3.5)</b>	<b>10.6</b>	<b>12.8</b>

Balance Sheet (A\$M)	FY16A	FY17E	FY18E	FY19E	FY20E
Cash & Equivalents	18.0	9.7	6.3	16.9	29.7
Receivables	0.9	0.0	2.0	4.4	4.5
Inventories	0.0	0.0	1.5	3.3	3.3
Other Current Assets	0.0	0.0	0.0	0.0	0.0
PPE and Exploration & Development	17.9	22.9	27.9	27.9	27.9
Deferred tax asset	0.0	0.0	0.0	0.0	0.0
Other Non Current Assets	0.0	0.0	0.0	0.0	0.0
<b>Total Assets</b>	<b>36.9</b>	<b>32.6</b>	<b>37.7</b>	<b>52.4</b>	<b>65.4</b>
Payables and other current Liabilities	1.4	1.4	2.6	4.9	5.0
Short Term Debt	4.0	4.0	4.0	4.0	4.0
Long Term Debt	0.9	0.9	0.9	0.9	0.9
Other Non Current Liabilities	6.5	0.0	0.0	0.0	0.0
<b>Total Liabilities</b>	<b>12.7</b>	<b>6.2</b>	<b>7.4</b>	<b>9.7</b>	<b>9.8</b>
<b>Total Equity</b>	<b>24.1</b>	<b>26.4</b>	<b>30.3</b>	<b>42.7</b>	<b>55.6</b>
Net Debt (Cash)	(13.2)	(4.9)	(1.4)	(12.1)	(24.9)

Substantial Shareholders	%	Date
JP Morgan Nominees Australia	7.5	
Citicorp Nominees	5.8	Sep-16
National Nominees	4.6	

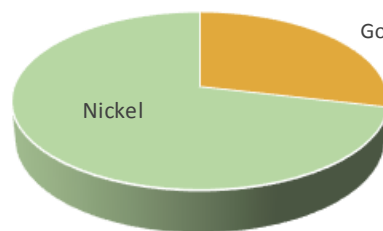
Source: Company, IRESS, State One Stockbroking forecasts

WGP NPV assumptions	FY16A	FY17E	FY18E	FY19E	FY20E
Spot Gold (US\$/oz)	1,220	1,250	1,275	1,301	1,327
AUD:USD	0.83	0.75	0.75	0.75	0.75
<b>Spot Gold (A\$/oz)</b>	<b>1,470</b>	<b>1,667</b>	<b>1,700</b>	<b>1,734</b>	<b>1,769</b>
Mill throughput (Mt)	na	0.0	0.225	0.5	0.5
Grade (g/t Au)	na	1.9	1.9	1.9	1.9
Gold production (koz)	na	0.0	12.8	25.6	25.6
<b>Costs (A\$/oz)</b>					
Operating	na	na	781	797	812
AISC	na	na	1,148	1,008	1,027
Hedged sales	na	0	0	0	0
Hedged sales as % total	na	na	0%	0%	0%

### Resource (Gold and Nickel)

Gold	Status	Mt	Grade (g/t)	(koz)
Widgiemooltha Gold Project	M, I, & Inf.	3.8	2.0	238
Jeffreys Find	M, I, & Inf.	1.16	1.7	62
<b>Total</b>	<b>M, I, &amp; Inf.</b>	<b>5.0</b>	<b>1.9</b>	<b>300</b>
Nickel	Status	Mt	(% Nickel)	(Ni tonnes)
Durkin North/Mittel/Burnett	M, I, & Inf.	1.3	4.0%	50,200
Other	M, I, & Inf.	1.5	3.3%	49,000
<b>Total</b>	<b>M, I, &amp; Inf.</b>	<b>2.7</b>	<b>3.6%</b>	<b>99,200</b>

### In Situ Value : US\$1.3bn



We calculate that nickel accounts for some 70% of MCR's in-situ Resource value, with gold accounting for the 30% balance.  
 Note: Excludes the Tottenham Cu/Au Project in NSW.

SOTP Valuation	(A\$m)	(A\$/share)	Comment
Widgiemooltha mine inventory	28	0.13	NPV from company DFS adjust
Other gold Resource	3	0.02	90% discount to NPV
Exploration upside	5	0.02	Nominal A\$3m
Gold - unrisks	36	0.17	
<b>Discount</b>	<b>25%</b>		<b>Timing/financing risk</b>
<b>Gold risked</b>	<b>27</b>	<b>0.13</b>	
Durkin North	8	0.04	DFS adjusted
Mittel/Burnett	3	0.01	DFS adjusted
Resource not in DFSs	3	0.02	Discounted
Exploration upside	3	0.01	Nominal A\$3m
<b>Nickel - risked</b>	<b>17</b>	<b>0.08</b>	
Tottenham Cu/Au Project /Other	3	0.01	Nominal A\$3m
<b>Enterprise value</b>	<b>47</b>	<b>0.22</b>	
Net Cash (FY16A)	13	0.06	
<b>Equity value</b>	<b>61</b>	<b>0.29</b>	

Note: Valuation per shares based on 211m fully diluted shares

**Company Summary:** Focusing on the Kambalda District of Western Australia, Mincor's core strategy is to build a long-term gold business through the early development of gold cash flows, while simultaneously maintaining and enhancing an option on the recovery in the nickel price. MCR has established 300,000 ounces of gold in Mineral Resources from six prospects, in addition to its 99,000 tonnes of nickel in Mineral Resources and a number of other gold and nickel exploration prospects.

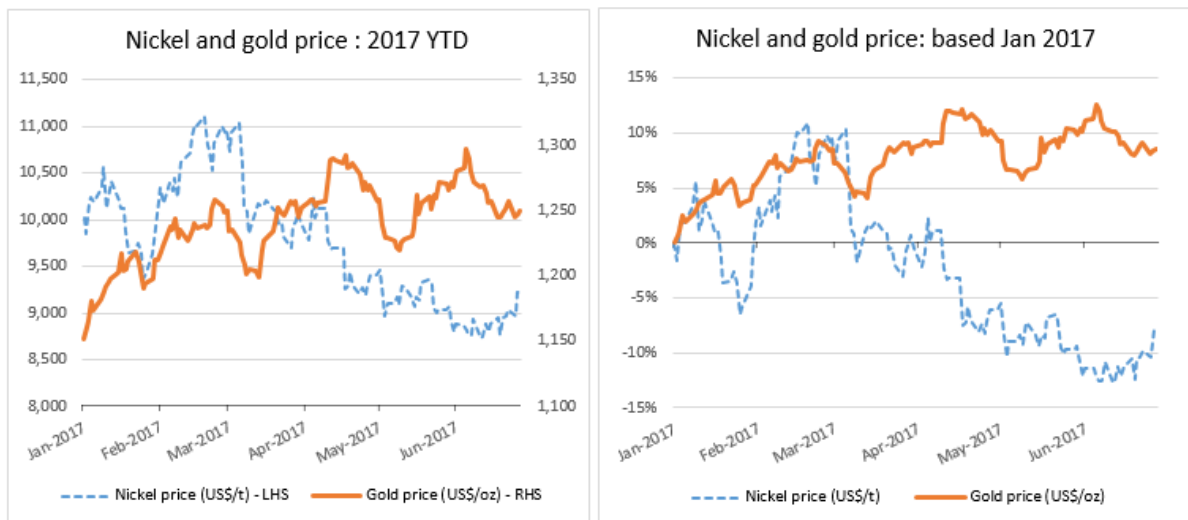
## Risks

Risks to our earnings profile and target price include, but are not limited to:

- Commodity price (nickel, gold) and AUD:USD exchange rate volatility,
- Grade volatility and/or lower than expected grades and estimated Resource tonnage, ore body characteristics, metallurgy and recovery rates,
- Production start-dates and production profile – particularly at the Widgiemooltha Gold Project,
- Financing; we believe that MCR will need external funding (debt/equity) to fund the pre-production capex for the Durkin North and Mittel/Burnett nickel projects (estimated at a combined A\$33m as per the group's March 2016 DFSs),
- Capital risk, operating cost risk, permitting risk.

The gold price has gone from US\$1,150/oz at the beginning of the year, to a June high of US\$1,290/oz, to the current price of US\$1,247/oz. The extreme volatility makes it difficult to forecast even near-term price levels. Our base case scenario assumes a constant (real) gold price of US\$1,250/oz, which approximates the average price in 2016, and which is, we believe, close to the global marginal cost of production.

**Figure 1: Gold mineral Resources (April 2017)**



Source: IRESS, State One Stockbroking

## Gold assets

MCR has accumulated a dominant (500km<sup>2</sup>) landholding position in the world-class nickel and gold producing district around Kambalda Western Australia, in the heart of the Eastern Goldfields; Kambalda town is some 60km south of Kalgoorlie.

All of MCR's mines and tenements are owned 100% by MCR, with the sole exception of the Carnilya Hill tenements, which are held in a 70:30 JV with Celcius Coal Limited (ASX:CLA).

Figure 2: Mincor mines and tenements in the Kambalda District



Source: Company

Following the closure of the group's operating nickel mines in February 2016, MCR's corporate strategy has been to build a long-term gold business through the early development of gold cash flows, while simultaneously maintaining the group's option on a recovery in the nickel price.

From an initial maiden gold Resource of (only) 71koz in March 2016, MCR has quickly established a reasonably-sized Resource of 300koz (spread amongst six (6) prospects).

Five of the prospects – West Oliver, Bass, Hronsky, Darlek, and Flinders – are located near the Widgiemooltha town-site (630km east of Perth, Western Australia), and collectively form the Widgiemooltha Gold Project (WGP). The WGP accounts for some 238koz or 79% of the current total Resource. Jeffreys Find, is located northeast of Norseman (720km east of Perth) and accounts for some 62koz or 21% of the total Resource. The company has completed open pit optimisation studies (carried out by independent mining consultant) on all six prospects.

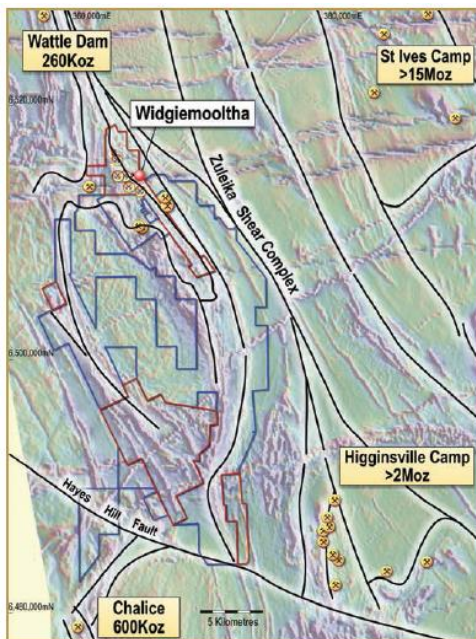
**Figure 3: Gold Mineral Resources (April 2017)**

RESOURCE		MEASURED		INDICATED		INFERRED		TOTAL		
		Tonnes	Au (g/t)	Tonnes	Au (g/t)	Tonnes	Au (g/t)	Tonnes	Au (g/t)	Ounces
West Oliver	2017	-	-	295,810	2.3	142,420	2.5	438,220	2.4	33,130
	2016	-	-	193,750	2	41,450	1.7	235,200	1.9	14,440
Jeffreys Find	2017	-	-	833,400	1.7	321,700	1.5	1,155,100	1.7	61,560
	2016	-	-	833,400	1.7	321,700	1.5	1,155,100	1.7	61,560
Bass	2017	-	-	385,990	2.2	344,400	2	730,390	2.1	49,010
	2016	-	-	223,900	2.4	174,250	2.3	398,150	2.4	30,340
Hronsky	2017	-	-	201,430	2.6	261,250	2.0	462,680	2.3	34,120
	2016	-	-	80,900	2.5	55,400	2.4	136,300	2.5	10,770
Darlak	2017	-	-	712,790	1.9	169,170	1.6	881,960	1.9	52,430
	2016	-	-	733,111	1.7	164,650	1.4	897,750	1.7	47,620
Flinders	2017	-	-	796,000	1.8	486,250	1.5	1,282,240	1.7	69,340
	2016	-	-	-	-	1,328,900	1.7	1,328,900	1.7	73,910
TOTAL	2017	-	-	3,225,410	2.0	1,725,180	1.8	4,950,600	1.9	299,590
	2016	-	-	2,065,050	1.8	2,086,350	1.7	4,151,400	1.8	238,640

Source: Company

## Widgiemooltha Gold Project

**Figure 4: Widgiemooltha tenements - regional gold setting**



Source: Company

MCR's tenements at Widgiemooltha are surrounded by the Higginsville gold camp (>2Moz) and the now completed but highly profitable Chalice (600koz) and Wattle Dam (260koz) gold mines.

The structures that control these major gold camps extend into MCR's tenements and confirm their prospectivity.

The North Widgiemooltha area in particular holds considerable exploration upside as a large cumulative strike length of the prospective shear zones between West Oliver, the Hronsky pit, Flinders, and the Darlek pit is untested by drilling; the area more broadly has not been subject to sustained gold exploration for nearly 20 years. A GSWA survey of Abandoned Mines in 2003 indicated the presence of 811 artisanal shafts on MCR's Widgiemooltha tenements.

**Figure 5: Widgiemooltha Gold Project Feasibility Study (April 2017) – key outcomes**

PRODUCTION SUMMARY	Units	
Life of Mine	months	19
Strip Ratio	waste: ore	6:1
Ore Mined	tonnes	823,594
Average Grade	g/t Au	2.7
Contained Gold	ounces	72,580
Average LOM Metallurgical Recovery	%	90.7
Recovered Gold	ounces	65,863
Ore toll treatment capacity (per month)	tonnes	60,000
CAPITAL COSTS		LOM
Pre-production Capital		A\$2.5M
Infrastructure Capital		A\$0.3M
<b>TOTAL CAPITAL COSTS</b>		<b>A\$2.8M</b>
PROJECT ECONOMICS	LOM	A\$/oz
Revenue ( <i>Gold Price at A\$1600/oz</i> )	\$105.3M	\$1,600
C1 Cash Costs <sup>^</sup>	\$63.9M	\$970
Royalties <sup>^^</sup>	\$7.7M	\$118
Pre-Production Capital Costs	\$2.5M	\$38
<b>All-In Sustaining Costs (AISC)*</b>	<b>\$74.1M</b>	<b>\$1,126</b>
Infrastructure Capital	\$0.3M	\$5
Rehabilitation Cost	\$2.5M	\$38
<b>All-In Costs (AIC)**</b>	<b>\$77.0M</b>	<b>\$1,169</b>
Undiscounted Cashflow	\$28.3M	
NPV8%***	\$25.7M	
Maximum Drawdown	\$7.3M	
Payback (months)	9	

**Notes:**

- Cost estimation has been completed to a ±15% accuracy level
- <sup>^</sup> C1 Cash Costs include all mining, processing, haulage, site administration and refining costs
- <sup>^^</sup> Royalties include WA State royalty and third party royalty
- \* AISC include C1 costs + royalties + pre-production capital costs
- \*\* AIC include AISC + infrastructure capital costs + rehabilitation, excludes head office corporate costs
- \*\*\* NPV includes accumulated tax losses carried forward from prior years which was used to offset against profit generated from the Project

Source: Company

Figure 6: Location map showing newly discovered Flinders West prospect adjacent to the Flinders prospect and up strike from the West Oliver prospect (along the West Oliver Shear)

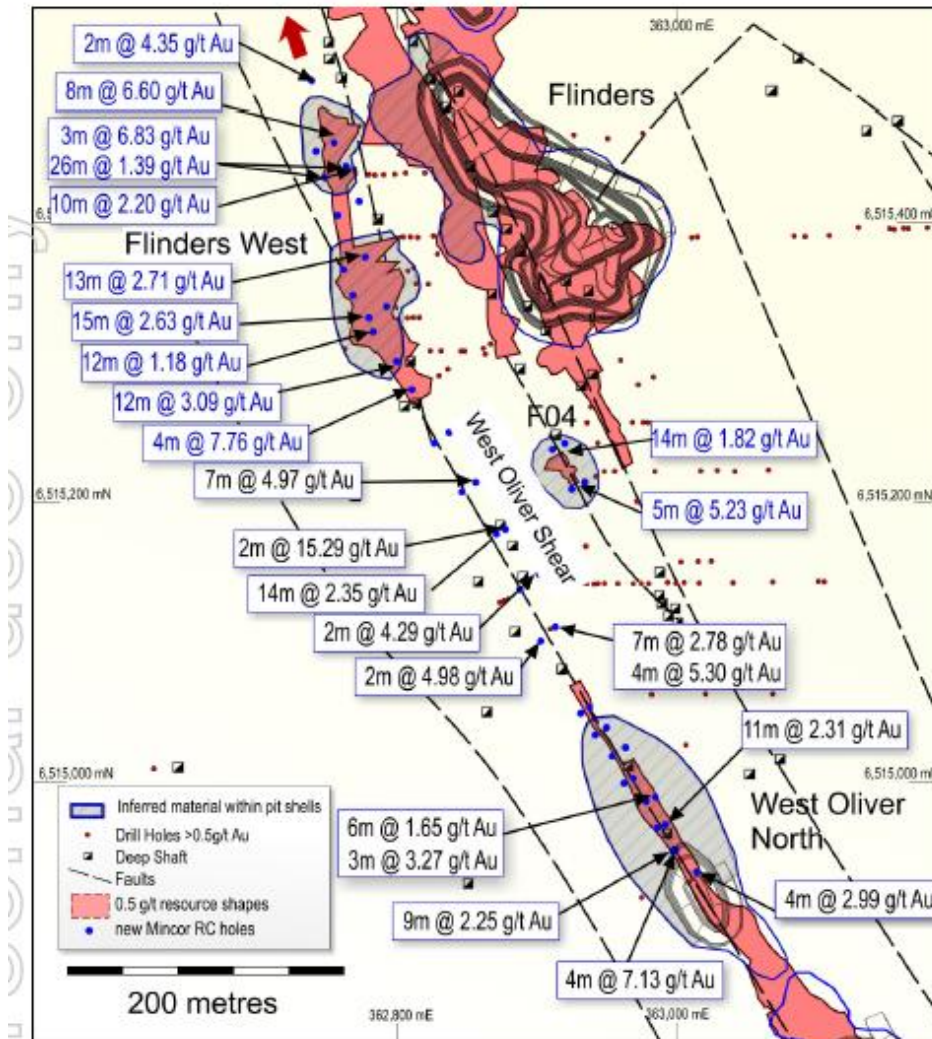


Figure 2: Plan of West Oliver and Flinders West with recent intersections

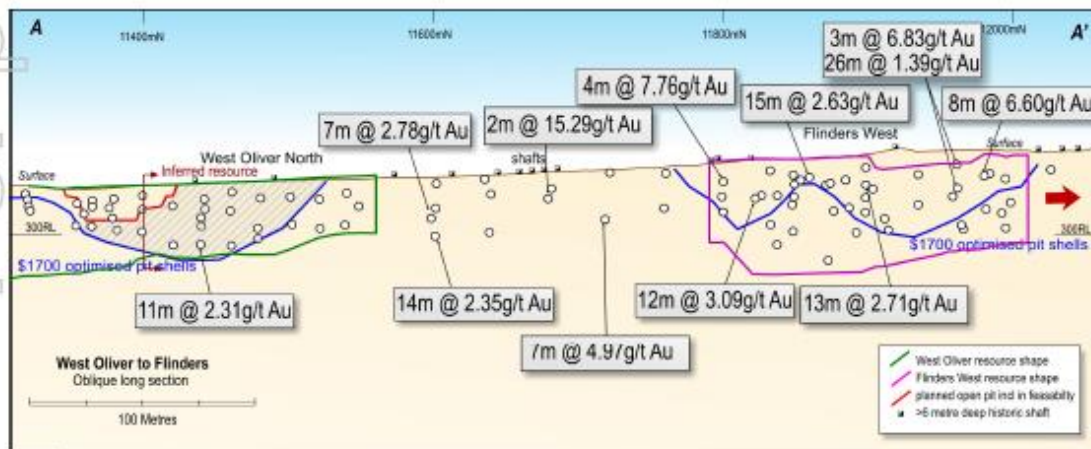


Figure 3: West Oliver and Flinders West longitudinal section along the West Oliver Shear (All surfaces)

Source: Company

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