

Mongolian copper belt looks set to stretch

Chris Cann in London, [28 July 2011](#)

A POTENTIAL elephant along Mongolia's Oyu Tolgoi copper belt was brought back to public life last week, six years after being discarded by Ivanhoe Mines. The 22,000 hectare Bronze Fox copper-gold project is set to receive the exploration and development attention it has long deserved and may become a development site as early as next year.

The obvious question one would rightly ask is: why would Ivanhoe, Mongolia's keenest developer, want to get rid of a land package that had shown signs it might support a major operation? The answer: it didn't want to at all. Ivanhoe was bullied into releasing Bronze Fox in 2005, along with several other copper and coal licences, as part of negotiations with the government to get its massive Oyu Tolgoi project cleared for development.

Ironically, Ivanhoe faced the same question regarding Oyu Tolgoi, which was disposed of in 1997 by BHP Billiton. The answer at that time was threefold. Mongolia was a vastly different geopolitical prospect in 1997; commodity prices were nothing like they have been since 2004; and BHP had other fish it was then frying.

In that sense, it is not ridiculous to suggest that Bronze Fox could do for its new owner, Kincora Copper, what Oyu Tolgoi did for Ivanhoe. Kincora is a long way off establishing another Oyu Tolgoi, but it is understandable why many around the project are excited by its potential.

The path back to the public realm was not straight forward for Bronze Fox and was only finalised last Monday when Kincora completed a reverse takeover of Toronto-listed shell, Brazilian Diamonds, which was run by prolific mining professional, Steve Fabian. The Bronze Fox opportunity was presented to Fabian when he met private equity group Origo Partners, which had made a joint investment into a Mongolian coal play with a UK fund, of which Fabian is a partner (Baker Steel Capital Managers). The decision was taken between the two parties to back Origo's then 25% stake in Bronze Fox (an option has since been exercised over a further 50%) into Fabian's Toronto shell, which maintained an impressive list of investors loyal to Fabian and his colleagues. The transaction was associated with a \$C13.6 million capital raising of which Origo and affiliates contributed \$C1.5 million.

The end product is a TSX-listed mining vehicle headed up by Fabian and centred on one of Mongolia's premium pre-resource assets, which is backed by both a leading UK resources fund and a private equity group that has been on the ground in Mongolia since before the resources rush. Origo, which has a 34.8% stake in Kincora, will use the company to pursue further strategic investments and the group's head of mining (Luke Leslie) and chief geologist (John Rickus) will sit on a board that also boasts the services of Mongolian Stock Exchange chief, Altai Khangai.

But away with fancy names and talk of potential, there are actually some hard facts to consider at the heart of Kincora and Bronze Fox.

Bronze Fox is a target well known to regional geologists, having been explored by both Ivanhoe and Soviet Union geologists for porphyry copper and skarn mineralisation for decades. After a 2004 exploration program, Ivanhoe exploration chief Douglas Kirwin said results indicated a "large and highly-mineralised gold and copper porphyry system".

The property is divided, so far, between four target areas – West Kasulu, Dunlop Fox, Buchanan Heights and Sophie North. By far the most advanced target is West Kasulu, which is a copper-gold prospect based on a 6km structure of which 600m is currently being worked. The other targets at this stage look more like being gold projects.

From 1679 samples taken at surface from West Kasulu, maximum gold and copper values of 46.5 grams per tonne gold and 6% copper were returned. Almost 7000m of drilling over 25 holes has also been completed to date including headlining intercepts of 50m at 0.34-0.59% copper and 0.1-3.66gpt gold; and 12m at 0.42-0.5% copper and 0.44-3.02gpt gold.

Drilling will continue to prove up an economic resource on the lower grade, near surface oxide material by the end of the year. There will also be substantial metres devoted to deeper drilling down past the 300m level to depths of 1000m to test sulphide material, which is expected to be much higher grade. Some 20,000m will be drilled over the next 12 months.

Fabian told **HighGrade** West Kasulu would most probably take shape as a bulk tonnage operation based on a resource of about 500 million tonne at 0.5% copper equivalent, which could be expanded to incorporate the sulphide material at depth.

"At the end of the day, it's a 22,000 hectare property and only 10% has had any work done on it at all," he said. "There are anomalies everywhere and you could be forever drilling. The biggest battle is to control the geologists and try to get them to focus on one area so we can at least put some numbers around the project and the market can then start to understand what we're doing.

"The story has two elements: it's genuine exploration but we'd also like to move quickly forward as a development story to open up our audience. We will have to look at raising more money toward the end of this year and the more we can put hard numbers around things, the easier it is to get a re-rating and funding."

There is a base case scenario that Kincora needs to move into development at West Kasulu but there is no ceiling on how big it can get – it is going to take some time to define the boundaries of such a large target. As for Dunlop Fox, Buchanan Heights and Sophie North, they will continue to get only limited drilling while the company is still focused on graduating from explorer to developer, but it seems possible that Bronze Fox could host both a copper-gold mine and a gold mine if one of those secondary targets delivers on its promise.

It is easy to get over-excited with exploration companies, especially in frontier regions shown to host modern day elephants. In that respect, Kincora should be watched closely as it applies the truth-telling drill rigs with vigour. The next six months will particularly important.

For a measured synopsis presented by a financial services firm, try this from Ocean Equities: "The Bronze Fox land package is considered highly prospective due to previous exploration activities undertaken by local prospectors, Soviet Union and Mongolian geologists and Ivanhoe; is in a favourable location for project development (along the Chinese border and within proximity to existing rail, water and power); in an emerging mineralised belt (the highly prospective Gurvansayhan island arc terrane, which hosts the world-class Oyu-Tolgoi copper project); backed by a proven in-country team (early entrants to Mongolia with international and on-the-ground team of experts); in attractive commodities (copper and gold); and, a rapid growth, pro-mining country."

There has been a heap of pre-resource explorers listed on the ASX recently with Mongolian assets inferior to Bronze Fox, which as a group have appreciated about 250%, seriously outperforming the wider market. On that logic, if Kincora is successful in its current program and produces a resource by Christmas then the market appreciation could be truly epic. **HG**

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