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YTC Resources – \$25 million funding deal with Pacific Road for regional exploration

YTC Resources (ASX: YTC, Share Price: \$0.225, Market Cap: \$59m) is our preferred emerging copper exposure. We introduced the company to our Portfolio during July 2011 and our most recent coverage of the stock was in MLW 142 during October 2013. The company is now in full-scale development mode with respect to its Hera gold project in NSW, with first production due during the September quarter of 2014.

YTC has just announced a strategic two-stage funding deal with resources investment fund, Pacific Road Capital, for up to \$25 million of exploration and resource development funding at its Hera-Nymagee Project that will allow intensive exploration activity to continue whilst construction work progresses.



Market Significance

YTC's share price has firmed from a low of \$0.145 during early July to a high of \$0.29 during October, on the back of growing trading volumes. The explanation for the improvement is largely as a result of growing market appreciation of the company's emerging production status: the NSW State Government granted project approval during August 2012 and shareholder approval was received for a major funding transaction with Glencore during March 2013. The funding deal with Pacific Road will allow YTC to maintain aggressive regional exploration activity at the same time as project construction work.

Announcement Detail

YTC Resources has announced a strategic \$25 million equity funding transaction with Pacific Road Capital that will advance exploration and resource delineation activity at its Hera -Nymagee Project.

The two-stage funding deal comprises: immediate Phase 1 Funding of \$14.3 million at a price of \$0.243 per share (representing a 21.7% premium to the pre-raising price on 5 December); and (optional) Phase 2 funding of up to \$10.67 million that will be priced by reference to 30-day VWAP from YTC call.

Technical Significance

Phase 1 funding will be applied to exploration, resource delineation and estimation at the company's Hera and Nymagee projects, as well as general working capital requirements (including financial risk management) such as hedging (up to \$3 million). Upon completion of Phase 1 funding, Pacific Road Capital's entities will have a 17.96% shareholding in YTC and will have the right to appoint a director to the YTC board.

Should YTC choose to raise additional funding after Phase 1, Pacific Road will hold a first right to subscribe further funds via the Phase 2 funding facility. Under this scenario, YTC will call further funds up to a value of \$10.7 million from Pacific Road. Up to \$5 million worth of Phase 2 funds may be used for debt servicing or Hera Project cost over-run (if necessary). Phase 2 funding will require shareholder approval.

From my perspective the funding facility is enormously important. Many emerging production companies fall into a period of share price malaise as they progress projects to the production stage. This is because in many instances they offer little as far as 'investment sizzle' is concerned.

YTC has however addressed this and via its funding facility will be able to offer shareholders ongoing exploration activity and interest, which in turn is likely to add value via resource expansion and potential regional discoveries. The funding facility also provides insurance in the event of any development cost over-runs.

Project Background

Hera - Nymagee is YTC's flagship project and comprises the 95%-owned Hera gold-base metal deposit and the 95%-owned Nymagee copper deposit. Both deposits are hosted within the Cobar Basin of NSW, which hosts numerous other mineral deposits, including the CSA, Peak and Endeavor polymetallic mines.

YTC completed the Definitive Feasibility Study on the Hera Gold Project during June 2011, which confirmed the technical and financial viability of the development of the Hera deposit as a shallow underground mine and processing plant producing gold and silver doré bars and a bulk lead-zinc concentrate for sale. Project approval was received from the NSW Government during August 2012 and shareholder approval was received during March 2013 for a \$158 million funding transaction with Glencore.



YTC is now in full scale development of the Hera project with first production due in the September quarter 2014.

YTC is also evaluating the Nymagee copper deposit, situated just 4.5km to the north, with a view to proving an integrated development of the Hera and Nymagee deposits. Both deposits have the potential to evolve into very large Cobar-style mineral systems.

Hera hosts current ore reserves of 423,471oz AuEq at an average grade of 7g/t AuEq, which provides a mining inventory of more than 390Koz AuEq a mine life of more than seven years. YTC anticipates C1 operating costs of A\$395/oz (after lead-zinc credits).

Summary

All of the hard work of the past few years is now set to pay off for YTC Resources, safe in the knowledge that it has the funding in place to accelerate its transition to production by the end of 2014. The agreement provides for a 100% life-of-mine base metal off-take right for Glencore, while YTC retains marketing rights to all precious metal (gold-silver) dore products. Not only will the project prove to be financially robust, but given the nature of Cobar-style ore-bodies, there is enormous resource upside that should translate into a long-life operation.

With funding locked away, the final uncertainty regarding the company has now been removed. Accordingly, we maintain our Speculative Buy recommendation on YTC Resources around \$0.225.

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www.summitequities.com.au

Level 38, Australia Square Tower, 264-278 George Street, SYDNEY
Telephone (02) 8243 7510, Fax (02) 8243 7599