

# mine**life**

**WEEKLY RESOURCE REPORT** by Gavin Wendt



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## YTC Resources (YTC) – Maintain Spec Buy around \$0.275

Emerging gold-base metals producer that has steadily progressed development work on its Hera – Nymagee projects in NSW. The company has just won shareholder approval for a \$158m funding package.

### Corporate Details

Status: Emerging Producer  
 Size: Small Cap  
 Commodity Exposure: Gold  
 Share Price: \$0.275  
 12-month Range: \$0.18 - \$0.475  
 Shares: 262m, Options: 5.8m  
 Top 20: 56%  
 Net Cash: \$6.6m  
 Market Value: \$72m



Key Parameters	Rating (✓ out of 5)	Quarterly Statistics
Management Quality	✓✓✓✓✓	Q4 2012 Exploration Spend: \$2.646m
Financial Security	✓✓✓✓✓	Q4 2012 Admin Spend: \$0.888m
Project Quality	✓✓✓✓✓	Exploration Spend 75%, Admin Spend 25%
Exploration / Resource Potential	✓✓✓✓✓	Q1 2013 Forecast Exploration Spend: \$4.134m
Project Risk	✓✓✓✓✓	Q1 2013 Forecast Admin. Spend: \$1.781m

We introduced YTC Resources to our Portfolio during July 2011 with a Speculative Buy recommendation around \$0.565 and we enhanced our exposure during January 2012 with a further Speculative Buy recommendation around \$0.39. The company is a classic example of the irrationality of markets, because YTC has steadily and methodically advanced and de-risked its key projects, whilst both gold and copper prices have remained strong. Yet the company's share price has declined significantly during this time.

YTC boasts one of Australia's most prospective emerging resource projects in the form of its Hera – Nymagee gold-base metals deposit, situated in the Cobar Basin of NSW. The company has maintained strong progress as it moves the project towards commissioning, having completed the Definitive Feasibility Study (DFS) on the Hera deposit during September 2011, which comprises Stage 1 of the company's proposed development of its combined Hera - Nymagee Project in NSW.

The company has overcome an even more difficult challenge in the form of project funding. At a recent shareholder meeting, approval was successfully obtained for a deal that will see Glencore International provide \$158 million worth of funding to develop the Hera and Nymagee projects. The funding comprises \$155 million worth of debt and converting note facilities, in addition to the subscription by Glencore of \$2.95 million in YTC shares at a 25% premium to YTC's 30-day VWAP as at 20 November 2012.

## Hera – Nymagee Project

YTC acquired a 100% stake in Hera and a 90% stake in the adjacent Nymagee joint venture from then ASX-listed CBH Resources during 2009, subsequently boosting its Nymagee stake to 95%. The Hera deposit was discovered by Pasminco during 2001 and advanced to pre-feasibility status by Triako Resources during 2002 – 2006, before it was taken over by CBH Resources. Both Hera and Nymagee are situated 100km southeast of the mining town of Cobar in central NSW.

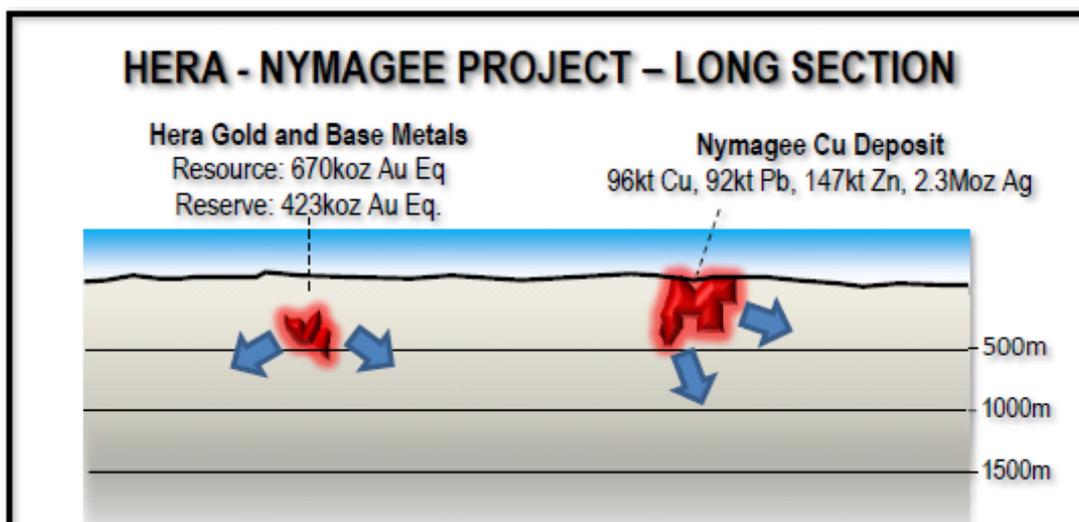
The Hera deposit is an advanced, high-grade gold deposit with base-metal credits that is capable of generating high-margin production revenues. It also boasts outstanding exploration upside, with the potential to significantly expand the existing resource base. The recently completed Hera DFS included an aggressive exploration campaign targeting the prospective tenement package around the Hera deposit, including the historic Nymagee copper mine and the 4.5km corridor between Hera and Nymagee.

The Hera deposit and the nearby Nymagee copper mine both represent typical ‘Cobar-Style’ ore systems, with the potential for mineralization to continue to extensive depths and evolve into world-class orebodies. The likelihood too is that ongoing exploration along the Hera-Nymagee corridor will ultimately prove the respective Hera and Nymagee systems to in fact be one large, single mineralised system.

### Hera –Nymagee Deposits: Contained Metal in JORC Resources\*

	Gold (Oz)	Silver (Oz)	Copper (Tonnes)	Lead (Tonnes)	Zinc (Tonnes)
HERA DEPOSIT	321,832	1,308,320	4,042	67,278	93,870
NYMAGEE DEPOSIT	-	2,342,638	95,935	26,964	52,963
<b>TOTALS</b>	<b>321,832</b>	<b>3,650,958</b>	<b>99,977</b>	<b>94,242</b>	<b>146,833</b>

The Nymagee deposit is emerging as one of the most exciting copper discoveries in Australia over recent times. The Nymagee system remains open to the north and at depth, and holds strong analogies to the world-class CSA copper system, located 90km along strike. CSA, like other Cobar Basin mineral systems has extensive depth persistence and extends beyond 2km in depth.



YTC has adopted a two-stage approach to development of the Hera - Nymagee Project, in order to fast-track gold revenue (initially) and to establish mining and process infrastructure with a view to self-funding the development - and eventual integration of the larger Nymagee deposit.

	Quarter							
	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14
<b>Mine</b>								
Mine: Ore to the ROM								
Full Scale Ore Production								
<b>Mill</b>								
Mill Construction								
Mill Practical Completion								
Mill Commissioning								
Mill Acceptance								
Milling Ramp Up								
Full Scale Mill Production								
<b>Tailings Dam</b>								
Stage 1								
<b>Mine Camp</b>								
Stage 1								
Stage 2								
Stage 3								
<b>Revenue</b>								
First gold sales								
First base metal sales								

Stage 1 development will see establishment of the Hera gold mine and construction of a processing facility at the Hera site, whilst feasibility studies are progressing on Stage 2 to evaluate the integration of the Nymagee deposit, utilising Stage 1 infrastructure. Hera will host a shallow underground mine development and processing plant producing gold and silver doré bars and a bulk lead-zinc concentrate for sale.

The key parameters and economics of the Stage 1 development of the Hera-Nymagee Project are as follows:

KEY METRICS – STAGE 1 HERA DEVELOPMENT	
Resource	677,200 ounces Au Eq. at 8.6 g/t Au Eq.*
Reserve	423,471 ounces Au Eq. at 7.0 g/t Au Eq.*
Initial Mine Life	7.3 years
Project Revenue (Stage 1 Only)	>\$510 million
Average Annual Production	>50,000oz Au Eq.
Operating Costs (after Pb-Zn credits)	A\$395/ounce
Recoveries (average over initial LOM)	Gold = 94% Lead and Zinc = > 90%
Pre-Production Capital	\$73.5 million

The combined Hera-Nymagee development based on current resource modeling would facilitate (based on a conservative gold price of A\$1,450/oz) the production of ~390,000 gold-equivalent ounces and the generation of gross revenue of \$511 million over a mine-life of just over seven years at a production rate of 350,000tpa. Capital development costs are estimated at \$73.5 million for the Stage 1 development.

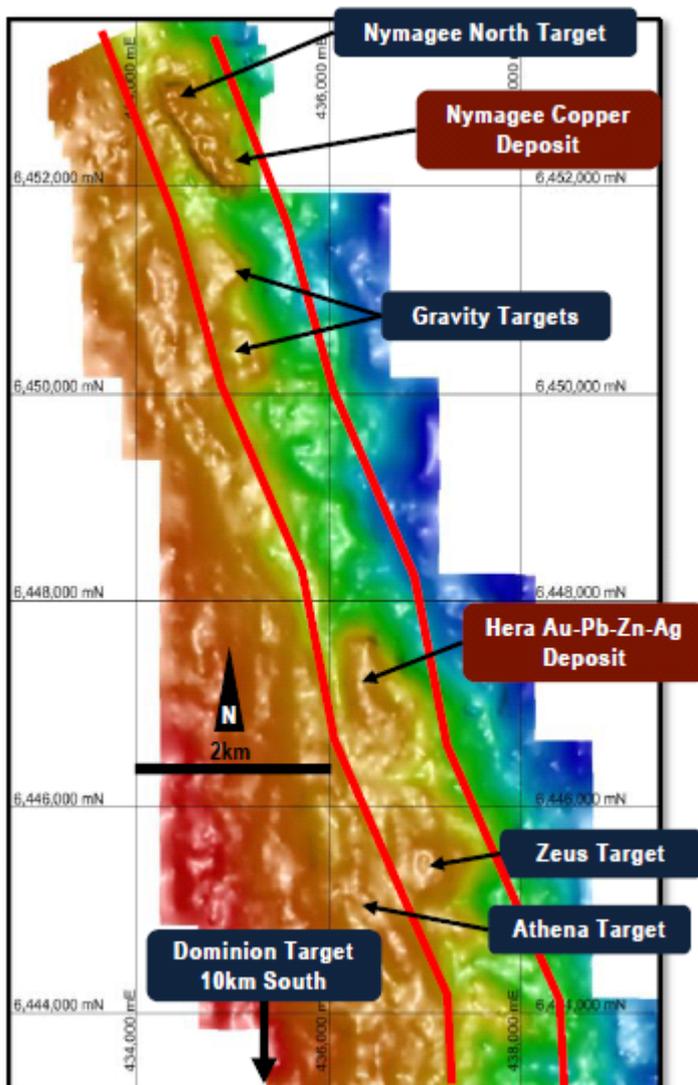
Importantly due to the strong grades of the mineralization, C1 operating costs (after base metal credits) would be low at \$395/oz, which means a robust Net Operating Profit of estimated at \$95 million, but increasing to \$152 million if A\$1,750 gold price is used. Given the strong exploration results and maiden resource estimate generated from the Nymagee deposit, it is likely that the project throughput will be doubled from 350,000tpa to 700,000tpa.

	HERA DFS	UNITS
<b>Diluted Ore Reserve</b>	1,875,918	tonnes
<b>Diluted Ore Reserve Grade</b>	\$218 7g/t Au Eq	Net Smelter Return (NSR) per tonne Gold Equivalent
<b>Mine Life (box cut to last revenue)</b>	7.3	years
<b>Mining &amp; Process Rate</b>	350,000	tpa
<b>Metal Production</b>		
Gold Production (to doré)	204,274	ounces
Silver Production (to doré)	426,860	ounces
Zinc Production	63,439	tonnes
Lead Production	46,399	tonnes
Au Equivalent Production	391,253	Au Equivalent Ounces
<b>Site Operating Costs</b>		
Mining	\$72.80	per tonne
Process	\$34.55	per tonne
Offsite Costs	\$49.33	per tonne
Administration	\$14.25	per tonne
Avg Operating Margin (after mining & milling)	\$105.33	per tonne
C1 Operating Costs (after Pb-Zn credits)	\$394.60	\$/Ounce Au
Pre-Production Capital Costs	\$73.5m	Capital Expenditure to first ore
Gross Revenue (Au = A\$1450/oz)	\$510.8m	
Net Revenue (pre-tax Profit) Au = A\$1450/oz	\$94.8m	Au at 20% discount to spot
Net Revenue (pre-tax Profit) Au = A\$1750/oz	\$152m	Au at spot

## Exploration Upside

Hera North Zone Extended: Results were received recently from drill-hole HRD049, which was drilled into the high-grade, lead-zinc-silver-rich Hera North Zone. Hole HRD049 was drilled approximately 50 metres above hole HRD042W1 (11 metres @ 107g/t Ag, 7.2% Pb and 12.3% Zn) and intersected further high-grade results, comprising HRD049: 4.0 metres @ 0.11g/t Au, 163g/t Ag, 4.9% Pb and 8.7% Zn.

This result extends the vertical extent of the Hera North Lens for more than 150 metres. The southern extent of this particular lens has been limited by weak mineralization, intersected in holes HRD050 and HRD048; however the Hera North Lens remains open on a northerly plunge.



Hera mineralisation open to the south: Results have been received for drill hole HRD043, which was drilled at the southern end of Hera, testing a shallow DHEM conductor. The hole was drilled just above the plate and recorded an unusually wide intersection grading >1% Pb+Zn. HRD043 intersected 58 metres @ 0.51% Pb and 0.55% Zn from 335 metres depth. Although below ore-grade, the intersection confirms Hera mineralisation remains open to the south and is the southernmost hole at Hera at this level.

Further down-hole EM (DHEM): Following the success of the 2012 DHEM program and its role in the discovery of the Hera North lens, a program of further DHEM was completed during December. Results for this survey are now being processed.

New gold target 12km south of Hera: Ground investigation of an untested gravity high, approximately 12km south of Hera, has identified mineralised outcrops with strong rock-chip results up to 2.5g/t Au and 0.7% Pb. A subsequent soil survey delineated a coherent north-west trending

gold anomaly over 400m at >10ppb Au with peak values at 50ppb Au. The gold-in-soil values are higher than the response over the Hera deposit and the gold anomaly is coincident with the gravity high. This prospect has been named Federation and will be prioritised for drill testing during 2013.

### 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 is now removed. Accordingly, I continue to recommend YTC Resources as a Speculative Buy around \$0.275.

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**MineLife Portfolio:** Please refer to our Portfolio page for a full listing of all our stocks held, including purchase prices and dates.