

Xanadu Mines Ltd

Advancing the Kharmagtai copper-gold project in Mongolia

Xanadu Mines Ltd (ASX:XAM) is developing the Kharmagtai copper-gold project in Mongolia with the support of largest shareholder (19.4%) Zijin Mining which also has direct 38.25% stake in the flagship project, Kharmagtai. The 2022 scoping study outlined a world-class, 30-year, low-cost copper-gold mine, backed by 15Mtpa initial processing throughput and expanding to 30Mtpa post payback, with strong fundamental tailwinds. The April 2022 scoping study estimated that the project would deliver life-of-mine net revenue of US\$16.1bn, EBITDA of US\$6.77bn and net cashflow of US\$3.4bn. Using an 8% discount rate, the scoping study delivered a US\$630mn after-tax project NPV, with a four-year capital payback over a 30-year mine life with a 20% post-tax IRR. Projected production over the mine life averages 50ktpa copper and 110kozpa gold, using conventional open-pit mining and sulphide flotation. The joint venture is now funding a US\$35mn pre-feasibility study (PFS), including infill drilling, plus growth-focussed shallow and deep discovery exploration. Infill drilling is primarily aimed at improving and upgrading the open pit mineral resource update coming in Q4 CY2023; assay results have been better than or in line with 2021 MRE grades. The upgraded mineral resource will support the PFS which is underway and maiden ore reserve, enabling a final investment decision by the end of CY2024.

Project description

Xanadu Mines is developing the Kharmagtai copper-gold project in Mongolia in joint venture with Zijin Mining which directly owns a 38.25% project stake, as part of its recently executed strategic partnership investment totalling A\$64mn (~\$12.73mn in XAM shares and ~A\$51.47mn [US\$35mn]). The 2021 mineral resource estimate identified 1.1Bt at 0.3% Cu and 0.2 g/t Au Indicated and Inferred resource containing 3Mt copper and 8Moz gold, including 100Mt at 0.8% CuEq. The scoping study, released in April 2022, calculated an after-tax NPV of US\$630mn with a four-year payback and IRR of 20%. Recent infill drilling returned strong higher-grade results from Stockwork Hill and White Hill, with remaining assays coming soon; the company expects to upgrade the mineral resource estimate and subsequently enhance Kharmagtai's production and economics in the PFS. Infill drilling results from Stockwork Hill include 421m at 0.48% CuEq from 152m depth, including 105m at 0.84% CuEq from 168m and 62m at 1.05% CuEq from 197m. At White Hill, significant infill drilling results include 544m at 0.4% CuEq from a depth of 273m including 63m at 1.03% CuEq from 634m depth.

Aiming for FID by end of CY2024

The company plans to deliver its PFS by Q3 CY2024. The JV cash-in-hand (US\$26.8mn at June 30) is expected to complete the PFS including infill and expansion drilling, plus fund the growth-focused discovery exploration programme. XAM recently completed its 33,212m primary infill and expansion drilling programme (with additional confirmatory drilling underway). A 24,000m discovery exploration programme is currently underway, with assays to date delivering +3% Cu and +3g/t Au within 300m depth, from first three drill targets tested. Further shallow assay results, plus first ever deep drilling results expected during Q3 CY2023. The company recently announced that Kharmagtai is now connected to the Mongolia Southern Electricity Distribution Network, preparing for transition to construction stage. This allows the project to convert to electric grid power, shifting its diesel gensets into backup mode, thus reducing emissions.

Well positioned to deliver into rising global demand for copper

The Kharmagtai project is shaping up to be a low cost, large-scale, long-life copper-gold operation. The project is located in sparsely populated, flat terrain with established rail, power, and water links nearby. It is also on the doorstep of China, one of the largest consumers of copper. While copper has come off its highs due to macro concerns about inflation, rising interest rates and the impact this would have on demand, the medium-to-long-term picture for copper remains strong, particularly supported by the global electrification of vehicles, with analyst forecasts for 10% CAGR to 2031.

Share Details

ASX code	XAM
Share price (30-Aug)	\$0.094
Market capitalisation	\$154M
Number of shares	1,638M
Performance rights	112M
Net cash at 30-Jun-2023	\$5.1M*

*Additional US\$26.8m in JV

Share Price Performance (12 months)



Upside Case

- Mineral resource upgrades, plus a more enhanced study, following PFS completion
- Opportunity to leverage nearby significant existing infrastructure
- China, and global demand, for copper continues to grow ahead of forecasts

Downside Case

- Drilling fails to deliver resource upside
- Copper price collapses changing the project's economics
- Geopolitical uncertainty delays construction

Catalysts

- Resource upgrade by Q4 CY2023 following current drilling programme completion.
- Engineering and design convergent study in Q1-Q2 CY2024
- PFS completion and JORC maiden ore reserve in Q3 CY2024
- Final Investment Decision in Q4 CY2024

Comparative Companies (Australia & NZ)

HCH, CVV, RXM

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FINANCIAL SERVICES GUIDE

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