

Kibo Mining

Update
1st October 2013

Strong Developments Across Exploration Portfolio

Kibo Mining has delivered some positive announcements recently that we believe show real progress across its exploration portfolio. The company has signed a MOU with a major Korean power company over its Rukwa coal project, acquired two brownfield assets with 798Koz Au JORC resources at Lake Victoria, identified priority drill targets at its Haneti JV, and delivered positive sampling results at Morogoro. We believe the shares are materially undervalued relative to the potential of this portfolio. Our stance is Speculative Buy with a 9.7p target price.

MOU Signed At Rukwa

On 18th July 2013 Kibo announced that it had signed a Memorandum of Understanding with EWP to jointly develop a 300-350 megawatt mine-mouth thermal coal power plant at Rukwa. EWP is a significant power producer in Korea and it has operations in more than 10 countries worldwide. EWP will conduct a site visit to Rukwa shortly to carry out due diligence, and post their analysis a formal JV should be signed, which could be announced before the calendar year-end.

New JORC Resources At Lake Victoria

Kibo has also completed phase I of its consolidation of Lake Victoria. Exploration licences over lower level prospects have been relinquished, while other licences including two brownfield exploration projects have been acquired. These two projects bring JORC resources of 798Koz Au and lay on strike with AngloGold Ashanti's Geita gold deposits. We are encouraged by Kibo's licence management, with two promising projects acquired while the costs of carrying low level prospects are removed.

Significant Placings Provide Cash For Exploration

Kibo raised £1.6m gross through two placings in August and September 2013, which will be used to progress exploration projects and to provide working capital. This money provides significant capital to reinstate ground operations at Lake Victoria, while the placings also identified potential new investors for the Rukwa Coal to Power Project.

Conclusion

While we note that all Kibo's assets are exploration phase, we believe the shares trade at a material discount to their potential value, based on what we feel are conservative assumptions. We also see certain catalysts that would allow us to de-risk our valuation, such as resource upgrades or through progressing commercial agreements, for example with EWP. Indeed, if terms were progressed with EWP this would imply to us that their due diligence supports the project, which we feel would be a major endorsement. Our stance is Speculative Buy with a 9.7p target price.

Speculative Buy

Target price

9.7p

Key data

Share price	5.00p
52 week high/low	23.25p/2.375p
Primary exchange	AIM
EPIC	KIBO
Shares in issue	138.8m
Market Cap	£6.9m
Sector	Mining

Valuation

SOTP Valuation £13.5m

Share price chart



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Table: Financial overview

Year to 30 th Sept.	2009A*	2010A	2011A	2012A**
Revenue (£000)	0	0	0	0
EBITDA*** (£000)	(56)	(478)	(2,030)	(3,193)
PBT*** (£000)	(56)	(475)	(2,024)	(3,193)
EPS**** (p)	(0.39)	(3.38)	(11.10)	(12.42)

Source: GECR and company.

Notes: * Six months to 30th September 2009, ** 15 months to 31st December 2012

*** Excluding non-cash movements, **** All EPS restated for 15:1 share consolidation

2012 Final Results & 2013 Interims

Kibo's final results showed that the company made significant progress on both an operational and corporate level in the fifteen months to 31st December 2012. The major highlight of the year was the acquisition of two companies, Mzuri Energy and Mayborn Resource Investments, completed in October 2012. These brought considerable coal and uranium assets to Kibo, which complement the company's existing portfolio of gold and metal exploration targets.

Exploration Activities

Kibo initiated a stage 1 exploration programme at its Tanzanian mineral projects in Q4 2011, with its exploration teams having defined trenching and drill targets at three key prospects; Lake Victoria, Haneti and Morogoro. The Haneti Nickel-Gold project attracted significant attention from a Brazilian industrial group, Votorantim, in the period, with a formal Joint Venture being announced in December 2012. There have been further developments at Haneti since year-end that we discuss later in this report.

The Rukwa Coal to Power Project, which was acquired in 2012 and hosts a 109Mt JORC compliant coal resource, has been included as a component of the Tanzanian Government's National Energy Strategy. The Government has committed to supporting infrastructure development that will in turn support this project, which has been a major milestone in its development and in its attraction to external investment. Accordingly, in April 2013 Kibo selected Korean East West Power Co. Ltd (EWP), a South Korean Government-owned global power company, as a preferred development partner. An MOU was signed with EWP in July 2013, which we also discuss further in the document. This project therefore has the potential to provide significant benefits for all parties, including Kibo's stakeholders.

Given the major developments that have occurred at Rukwa and Haneti, Kibo announced that it intends to focus on these developments in 2013 while deferring significant exploration work at other prospects until 2014. However, two recent successful placings have raised significant funds to recommence ground operations at Lake Victoria. In addition, the group has renounced 50% of grass roots exploration interests across all prospects except Rukwa, which are seen as low priority targets yet have notable associated rental costs. We see these as prudent moves given the resources currently available to the company and we feel they should assist in maximising returns to shareholders over the medium/long term.

Financials

The only notable items of expense in the FY 2012 accounts were admin expenses of £2.3m and exploration costs of £0.9m. Admin expenses have risen from £0.8m spent in the twelve months to 30th September 2011, however we believe this is due primarily to the acquisitions that were made in 2012 and the longer reporting period. Conversely, exploration costs reduced from £1.2m in the year to 30th September 2011 to £0.9m in the fifteen months to 31st December 2012.

In addition, the company's interim results for the six months to 30th June 2013, showed an admin expense of £1.16m, which was c.£0.91m higher than the six month period to 31st March. However, we understand that this is partly due to the additional costs required to progress key assets, such as professional fees incurred to deliver the EWP deal, as well as other costs such as those relating to the share consolidation & share capital restructuring, the appointment of a COO, double broker and NOMAD fees during the handover period, and the reinstatement of directors salaries to the correct level following the temporary cut while the company sought funds. £0.34m was spent on exploration activities in the first half of 2013, which is encouraging given the recent results delivered from exploration activities, such as those at Morogoro discussed later. A £0.80m gain was also recognised following the transfer of Mayborn's JV assets in the Uranium portfolio to 100% ownership and due to gains from the Haneti JV with Votorantim. No tax charge occurred in H1 2013, and therefore the net loss for H1 2013

was £0.69m, with a net loss per share of 0.75p being recorded, or 1.62p excluding the non-cash gain.

The major recent change to the balance sheet was an increase in intangibles of £17.2m and goodwill recorded of £3.3m, which are attributable to the acquisition of the Rukwa and Pinewood assets completed in October 2013. At 30th June 2013 other notable items on the balance sheet included £0.90m of trade receivables and cash of £0.34m, while the only major liabilities were trade payables of £2.03m. While we note that at this point current liabilities outweighed current assets to the tune of £0.82m, the £1.6m of placings that have taken place since the period-end should have bolstered the cash position somewhat.

Kibo's operations demanded £1.06m of cash, net of working capital and excluding the £0.34m spent on exploration activities, and the only major financing cash flow was £1.64m raised through placings. Accordingly, Kibo saw a net cash inflow of £0.24m in H1 2013.

Haneti Project Updates

On 9th September 2013 Kibo announced an operational update on its Haneti JV project, which stated that current soil sampling and mapping work is focusing on nickel, gold and platinum mineralisation targets. Previous sampling works have identified anomalous gold and nickel grades, and therefore the current sampling operations are intended to provide additional supporting data that can confirm the locations for initial test drilling.

The information gained from these samples has augmented to previous sampling results and has improved geological understanding of the area significantly. This has led to priority drill targets being assigned at Mwaka and Mihanza. Indeed, high metal-in-soil values have been recorded for nickel, chromium, cobalt and iron of up to 10,000ppm, 1,530ppm, 306ppm, and 13.75%, respectively at these sites. This is on top of up to 359ppm copper on Mwaka Hill, which correlates well with gold values that were recorded of up to 0.294ppm. In addition, gold values of up to 0.320ppm were recorded on the east of Mihanza, which need to be investigated further. We feel these results are encouraging as they have enabled the identification of priority drill targets, and once all field activities are completed a full drilling itinerary will be able to be formulated.

MOU Signed With Korean East West Power

On 18th July 2013 Kibo announced that it had signed a Memorandum of Understanding (MOU) with EWP to jointly develop a 300-350 megawatt mine-mouth thermal coal power plant at the Rukwa coal deposit in Tanzania. EWP will conduct a site visit to Rukwa shortly to carry out technical due diligence, and it is expected a formal JV agreement will be finalised soon thereafter, once their analysis is complete. EWP is a significant power producer with total generation capacity of 8,816 megawatts from its Korean operations, and it is involved in the development or operation of power plants in more than 10 countries globally. We see this as a key step towards a formal JV for Rukwa, which could be announced in the coming weeks.

New Consolidated Gold Portfolio at Lake Victoria

Kibo has completed the first phase of its consolidation strategy for the Lake Victoria exploration portfolio. Exploration licences over a number of lower level prospects totalling 595km² have now been relinquished, while other licences including two brownfield exploration projects (Imweru & Lubando) have been acquired. These projects bring a total of 798Koz Au JORC resources to Kibo and are on strike with AngloGold Ashanti's Geita gold deposits. They were acquired for total consideration of \$150,000. We see it as a positive development that Kibo now has JORC compliant gold resources at Lake Victoria, while the overheads of carrying low level prospects have been removed.

Imweru & Lubando

These two prospects are located c.35km east and west of the gold mining town of Geita. This is the location of AngloGold Ashanti's world-class open-pit Geita Gold Mines, which centre around this town and showed inclusive JORC compliant gold resources of 12.28Moz at 2.67g/t in the AngloGold Ashanti's Mineral Resource and Ore Reserve Report 2012. It is therefore encouraging to see that both the Imweru and Lubando projects are on strike with these targets and fall within the same geology.

The Imweru target mineralisation is hosted over multiple zones on an east-west strike of 10km down to a depth of c.200m. Lubando on the other hand is hosted over 4 zones with a strike of c.1.3km and down to a depth of c.200m. A total of 65,989m in 1,322 holes have previously been drilled at Imweru, alongside 27,770m in 670 holes at Lubando. NI 43-101 compliant resource estimates have been compiled for both projects, with compliant gold resources of 629,600oz and 168,300oz at Imweru and Lubando, respectively.

Table: Imweru Total Gold JORC Resources

	Measured Resources	Indicated Resources	Inferred Resources
Resource (t)	-	-	17,649,900
Grade (g/t)	-	-	1.11
Total Gold (oz)	-	-	629,600

Source: Company and GECR

Table: Lubando Total Gold JORC Resources

	Measured Resources	Indicated Resources	Inferred Resources
Resource (t)	184,150	509,420	1,900,140
Grade (g/t)	1.95	1.99	2.03
Total Gold (oz)	11,500	32,600	124,200

Source: Company and GECR

£1.6m Raised in New Equity

Kibo raised £1.6m gross through two placings of £1.1m and £0.5m in August and September 2013, respectively. The company issued a total of 32.1m shares at 5p per share, which will be used to progress exploration projects and to provide working capital. Notably, this money provides significant capital to reinstate ground operations at the Lake Victoria goldfields operation, which hosts total JORC resources of 798Koz Au. These placings have also identified potential investors that are interested in participating in funding arrangements for the Rukwa Coal to Power Project. We feel this money provides the company with significant capital to progress its projects, and de-risks the opportunity for investors. It is also encouraging to see that Kibo has successfully approached capital markets at a time when raising funds has been challenging for junior mining companies.

Encouraging Sampling Results at Morogoro North

On 16th September 2013 Kibo announced the receipt of encouraging gold-in-stream geochemical results from samples taken at Morogoro North. Results from three of the four prospecting licences at Morogoro showed eighteen of the samples taken contained gold values of more than 0.05ppm, with the maximum value observed being 0.108ppm. These results augment to some positive samples taken at the Morogoro South project announced in November 2012, where anomalies were identified that returned a range of values up to a maximum of 0.414ppm. The samples have also enhanced Kibo's technical understanding of the region, which should assist any follow-up studies.

The prospect licences from where the samples were taken are located in similar geology to and in close proximity (60-100km east) to East Africa Metal's Magambazi Deposit,

which we understand hosts CIM standard resources of 721,300oz Au (Indicated) and 292,400oz (Inferred) (Source: www.eastafricametals.com). We feel this could bode well for Morogoro, and we look forward to the results of future work programmes that could begin in 2014.

Valuation

We have derived a sum-of-the-parts valuation for Kibo based on four of its core assets; Rukwa & Pinewood, Haneti, and Lake Victoria. The table below details our assumptions.

Table: Breakdown of Valuation

Project	Mineralisation	Value (£m)	Basis
Rukwa & Pinewood	Coal	8.5	£21.2m of consideration paid to acquire these assets, based on an independent valuation. At present, given the level of support from the local government and the MOU agreed with EWP, we estimate the chance of success as 40%.
Haneti	Nickel & Gold	2.7	Value of Votorantim's earn in for 50%
Lake Victoria	Gold	2.3	Based on a peer analysis of six Africa focused junior miners
Morogoro	Gold	0.0	This is an early stage target with no resources attached
Kibo	-	13.5	-

Source: GECR

Lake Victoria Valuation

Our valuation methodologies for Rukwa & Pinewood and Haneti are relatively straight forward, however we feel it is best to expand further on how we have selected our peer group to analyse Lake Victoria's 797,900oz Au JORC resources. The table below shows our peer group, four of which are listed on AIM, and how we have used their EV/Au JORC resource ounce values to derive a value for Lake Victoria.

Table: Peer Group Analysis of Lake Victoria

Company	Primary Resource Area	Au JORC Resources (Moz)	Market Cap (£m)	EV (£m)	EV/oz (£/oz)
African Consolidated Resources (AIM)	Zimbabwe	1.54	20.20	9.24	5.99
GoldStone Resources (AIM)	Ghana	0.60	6.32	5.69	9.45
Hummingbird Resources ^I (AIM)	Liberia	3.82	23.34	24.83	6.51
Nyota Minerals (AIM)	Ethiopia	1.87	13.90	11.50	6.15
Azumah Resources ^{II} (ASX/TSX)	Ghana	2.20	7.10	4.92	2.24
Volta Resources ^{III/IV} (TSX)	Burkina Faso	9.65	22.13	21.89	2.27
				Average	5.43

Source: GECR, Digitallook, Bloomberg, Company Websites

Notes: ^I £ : \$ = 1.6000

^{II} £ : A\$ = 1.7000

^{III} £ : C\$ = 1.6500

^{IV} Excludes Volta's Copper inferred and indicated resources at Gaoau

Our peer analysis suggests an average value per ounce of resource of £5.43, which would imply a total value of £4.3m. However, we note that our range of EV/oz values vary quite widely, therefore we have discounted this estimate by the standard deviation (population) of the six stocks as a function of the average. This implies what we believe to be a conservative discount factor of 46.5%, which in turn generates a risk-adjusted valuation for Lake Victoria of £2.3m.

Total Value of Kibo

We have tried to be conservative in our approach to valuing Kibo given that it is still in the exploration phase. However, even after including significant risk discounts, we believe the shares still remain undervalued relative their potential. Our sum-of-the-parts valuation model implies total value for the company of £13.5m, without including estimate of cash held following recent placings. After accounting for Kibo's shares in issue of 138.76m this gives value per share of 9.73p.

Conclusion

Kibo offers investors access to a portfolio of mineral exploration targets in Tanzania that we believe has seen real progress recently. The company has signed a MOU with a major Korean power company over its Rukwa coal project, two brownfield assets with 798Koz of JORC resources have been acquired at Lake Victoria, priority drill targets have been identified at its Haneti JV, and lastly Morogoro has returned positive sampling results that warrant further exploration.

While we note that all of Kibo's assets are in the exploration phase, we have made our case that the shares trade at a discount to their potential value at this stage, based on what we feel are conservative assumptions. In addition, we also see certain catalysts that would allow us to de-risk our valuation, such as resource upgrades or through commercial agreements, for example with EWP. Indeed, if terms were progressed with EWP this would imply to us that their due diligence supports the project, which would be a major endorsement for it in our view. Our stance is Speculative Buy with a 9.7p target price.

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