



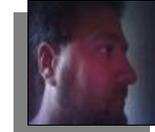
# The Stateside Report



*“A Unique Report Service for the Intelligent Resource Investor”*



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## Perfect Timing for a New High Grade Copper-Zinc VMS Development Project

- Kutcho Copper Corp begins trading on the TSX-V as KC
- A perfectly timed high grade copper-zinc development project to capitalize on high copper-zinc prices
- Experienced management team to take the project into production
- Significant upside potential to double production from the 2017 PFS to 100 million pounds copper equivalent per year
- Has attracted strong corporate and institutional support

## **Background and Summary**

Kutcho Copper symbol KC (formerly Desert Star – DSR on the TSX-V) has purchased the Kutcho high grade copper-zinc project (with gold and silver credits) located in British Columbia, Canada from Capstone Mining Corp. for \$28.8 million and a 9.9% equity stake. The stock has been halted since June when it last traded at \$.45/share with 19 million shares outstanding. The company just announced the closing of a \$14.7 million private placement at \$.65/share and a ½ warrant at \$1.00. This financing is in addition to a \$65 million precious metal stream financing from Wheaton Precious Metals for the gold and silver production from the Kutcho project (approximately 8% of expected revenues) and a \$20 million term loan from Wheaton. The company has already signed a communication agreement with the Tahltan central government. The management team is experienced with senior executives and advisors coming from Rio Tinto, Ivanhoe Mines, Kaminak Gold and Capstone Mining among others. The copper and zinc markets are strong and in a cyclical uptrend. Retail and institutional investors looking for a vehicle to capitalize on this strong copper-zinc market should look no further than Kutcho Copper.

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## **The Kutcho Project**

The Kutcho project is located in northern British Columbia covering 17,060 hectares. The project can be accessed by airstrip and season roads from Hwy 37 which connects to Smithers and port facilities at Stewart.

A pre-feasibility study was completed in June 2017 with an after-tax NPV ~ 8% of \$265 million and an IRR of 27.6% with a 12-year mine life. The company's goal is to double the annual copper equivalent production in this PFS to 100 million pounds of copper equivalent. All in costs (net of credits) of \$.97 per pound copper. Initial capex is projected at \$221 million. Probable reserves of 10.4 million tonnes grading 2.01% copper and 2.92% copper equivalent.

## **History**

Mineralization was first discovered on the Kutcho property in 1968 by a joint venture exploration company operated by Imperial Oil Ltd. The property has changed hands a number of times with ownership by companies such as Sumac Mines Ltd. (a subsidiary of Sumitomo Metal Mining Co. Ltd.), Homestake Canada Ltd, American Reserve Mining Corporation, Teck Cominco Ltd and Barrick Gold Corp. Western Keltic Mines Ltd. purchased the property from Barrick and Sumitomo in early 2004.



Western Keltic carried out diamond drilling within the Main and Esso deposits to confirm historical results and obtain material for metallurgical studies. The Sumac deposit was also drilled in 2005 to test for higher grade zones. In September 2007, Western Keltic completed a Pre-Feasibility Study evaluating the potential development of the Kutcho Creek deposit.

In May 2008, Capstone Mining successfully acquired 100% ownership in Western Keltic and its subsidiary Kutcho Copper Corp., the project operator, and subsequently merged with Capstone Mining. Prior to the acquisition, Western Keltic had been advancing the project towards completion of a feasibility study by conducting geotechnical and environmental baseline studies, as well as advancing the permitting process for approval of production. Western Keltic had also been actively engaged in discussions with the Tahltan and Kaska First Nations, as well as other local communities, to ensure there was broad based support for the development of a mine at Kutcho Creek, while taking into account the concerns of the First Nations and other stakeholders.

Capstone's first objective was to reassess the development options and, in March of 2008, commenced work on a preliminary assessment. In June of 2008, using a newly revamped Main deposit mineral resource based upon drilling by the previous operators as a platform, Capstone completed a Preliminary Economic Assessment (PEA) which demonstrated positive base case economics and outlined several opportunities for significant future enhancements.

Before the recommendations of the PEA study were received, Capstone started revamping the Esso and Sumac deposit mineral resource estimates and embarked upon a 10,000 metre diamond drill program in order to infill the gaps then identified in the Main deposit resource model. This drill program was successful and a new and much more robust NI 43-101 compliant mineral resource for the Main deposit was announced on February 9, 2009. It included 81 new diamond drill holes and was significantly higher grade than all previous models. This eventually led to the updated mineral resource estimate in 2010 and original pre-feasibility study released in 2011.

## **Milestones of the Kutcho Property**

May/08	Sherwood Copper and Western Keltic Mines, owner of the Kutcho Cu-Zn-Ag-Au deposit, close business combination
Feb/09	High grade resources reported for Kutcho project
Sep/09	Results of Preliminary Economic Assessment ("PEA") reported
Jul/10	Enhanced PEA results reported
Dec/10	Updated mineral resource estimate; all mineral resources converted to indicated category
Feb/11	Results of Pre-feasibility study reported
May/11	Submitted revised Project Description to provincial and federal agencies initiating the informal pre-application phase
Dec/11	Pre-application stage of EA review process re-activated
Mar/16	Withdrawal of EA
Jun/17	Agreement was reached with Desert Star (now Kutcho Copper) to purchase the project from Capstone Mining and new PFS reported
Dec/17	Kutcho Copper starts trading on the TSX-V

## Copper and Zinc Pricing

Copper and zinc pricing are in a cyclical uptrend with forecasts of higher prices due to stronger demand and the lack of exploration activity over the past 10 years:

Per a recent Bloomberg article, copper will be one of the main benefactors from the increasing production of electric vehicles. Demand for copper globally is set to jump 22 percent in as soon as five years on increasing usage of the metal in electric vehicles, solar and wind power sectors.

Consumption is seen rising to 28 million metric tonnes in the next five to seven years from about 23 million tonnes now.

Electric vehicles alone will boost global copper demand by 1.2 million tonnes. <https://www.bloomberg.com/news/articles/2017-11-08/copper-consumption-to-get-boost-as-world-wagers-on-electric-cars>



## Share Structure

With the recently closed private placement at \$.65/share the company still has an extremely tight 46.9 million shares outstanding giving it a market cap of approximately \$30 million.

## Management

Management is always a key factor in the success of a resource company but even more so as a development stage company. This is where Kutcho shines as it has one of the strongest management and advisory teams in the sector including:

### Management

<b>Vince Sorace</b> President & CEO, Director	<ul style="list-style-type: none"> <li>25 years experience in capital markets having raised over \$100M in equity financing</li> <li>Prior roles include Founder, President &amp; CEO of various private and public resource companies</li> </ul>
<b>Rob Duncan</b> COO	<ul style="list-style-type: none"> <li>26 years experience in mineral exploration for majors including Rio Tinto and Inmet</li> <li>Extensive technical background in VMS systems including Kudz Ze Kayah and Wolverine in Yukon's Finlayson District</li> </ul>
<b>Allison Rippin Armstrong</b> Community & Environment	<ul style="list-style-type: none"> <li>20 years in permitting, regulatory processes and environmental compliance in Canada</li> <li>Prior VP of Sustainability for Kaminak Gold</li> </ul>
<b>Rory Kutluoglu</b> VP, Exploration	<ul style="list-style-type: none"> <li>Prior Exploration Manager for Kaminak Gold</li> <li>Instrumental in delivering the maiden resource, positive PEA and FS for the Coffee project</li> </ul>
<b>Eva Nakano</b> Corporate Development	<ul style="list-style-type: none"> <li>Prior project evaluations &amp; resource delineation experience at B2Gold</li> <li>Geology and MBA background</li> </ul>
<b>Gavin Cooper</b> CFO	<ul style="list-style-type: none"> <li>35 years in finance, strategy &amp; senior management</li> <li>Serves as Director on various other TSXV listed companies</li> </ul>

### Board of Directors

<b>Vince Sorace</b> President & CEO, Director	<ul style="list-style-type: none"> <li>See description in management section</li> </ul>
<b>Stephen Quin</b> Director	<ul style="list-style-type: none"> <li>30 yrs experience in mining &amp; corporate affairs</li> <li>Current pres., CEO &amp; director of Midas Gold</li> <li>Former pres. &amp; CEO of Sherwood Copper and former pres. &amp; COO of Capstone Mining</li> </ul>
<b>Bill Bennett</b> Director	<ul style="list-style-type: none"> <li>Former BC gov't MLA for 16 years</li> <li>Named BC Mines Minister 3 times</li> <li>Led improvements to BC Ministry of Energy &amp; Mines permitting process; helped launch BC's First Nations mine revenue sharing program</li> </ul>
<b>Jay Sujir</b> Director	<ul style="list-style-type: none"> <li>Partner, Farris, Vaughan, Wills &amp; Murphy, LLP</li> <li>Current director of several junior explorer and mining companies</li> </ul>
<b>Brad Mercer</b> Director	<ul style="list-style-type: none"> <li>Leads the exploration team at Capstone Mining</li> <li>Managed Kutcho field program in 2010 that contributed to the 2011 PFS</li> <li>Geoscientist with over 33 years of managing exploration programs and feasibility evaluations</li> </ul>



### Advisory Board

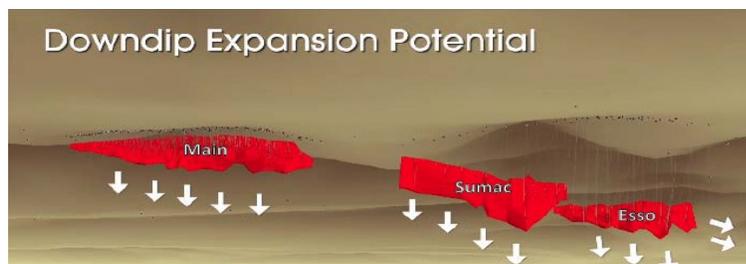
<b>Peter Meredith</b>	<ul style="list-style-type: none"> <li>Prior CFO and Chairman of Ivanhoe Mines</li> <li>Holds CA Designation</li> </ul>
<b>Rob Carpenter</b>	<ul style="list-style-type: none"> <li>Co-founder and prior CEO of Kaminak Gold</li> <li>PhD and P.Geo.</li> </ul>
<b>Stuart Angus</b>	<ul style="list-style-type: none"> <li>Director at Wildcat Silver and Chairman of Nevsun Resources</li> <li>Former Head of Mining at Fasken Martineau and former Chairman of BC Sugar Refinery</li> </ul>

## Upcoming Share Price Catalysts

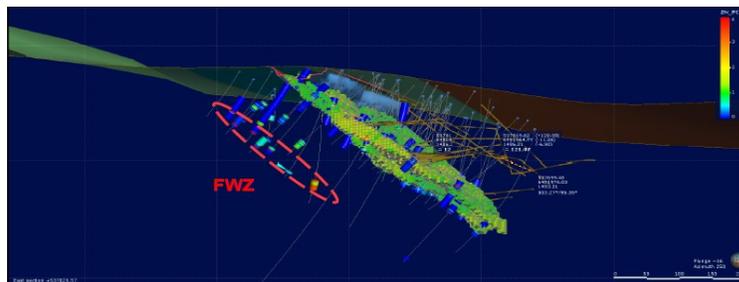
For those investors who did not take part in the \$.65 financing (full disclosure – I bought shares in the recent financing), the question becomes if I buy shares on the open market now what are the possible share price catalysts that could move the share price higher in the coming weeks and months.

Catalysts include:

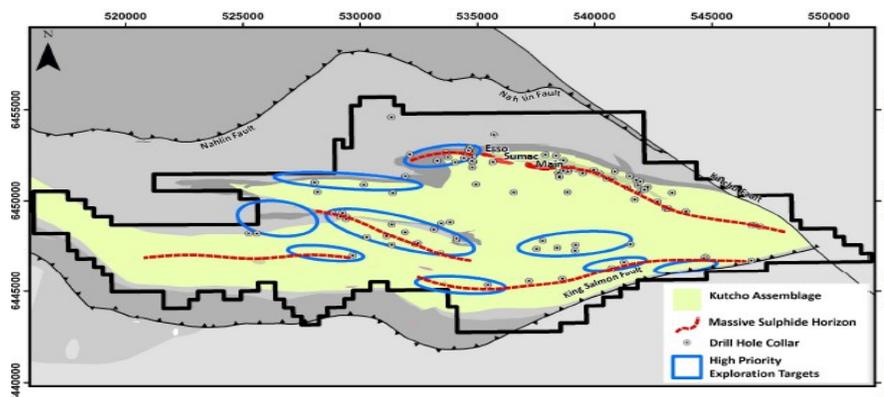
- (1) **Key - In the first quarter of 2018 Kutcho expects to commence infill drilling to upgrade current resources. The resource cut-off grade has been lowered from 1.5% to 1.0% which increased the measured and indicated resources at the Main zone by approximately 50% or 5 million tonnes, which currently are not included in the project economics.**
- (2) There is down-dip expansion potential in both the Main zones and the Esso zones



- (3) Exploration potential at the FWZ zone which has a historical estimate of 1.47% copper, 5.52% zinc, 44 g/t silver and 0.4 g/t gold:



- (4) There are multiple VMS targets on the claims which are under explored:



## Summary of Share Price Catalysts

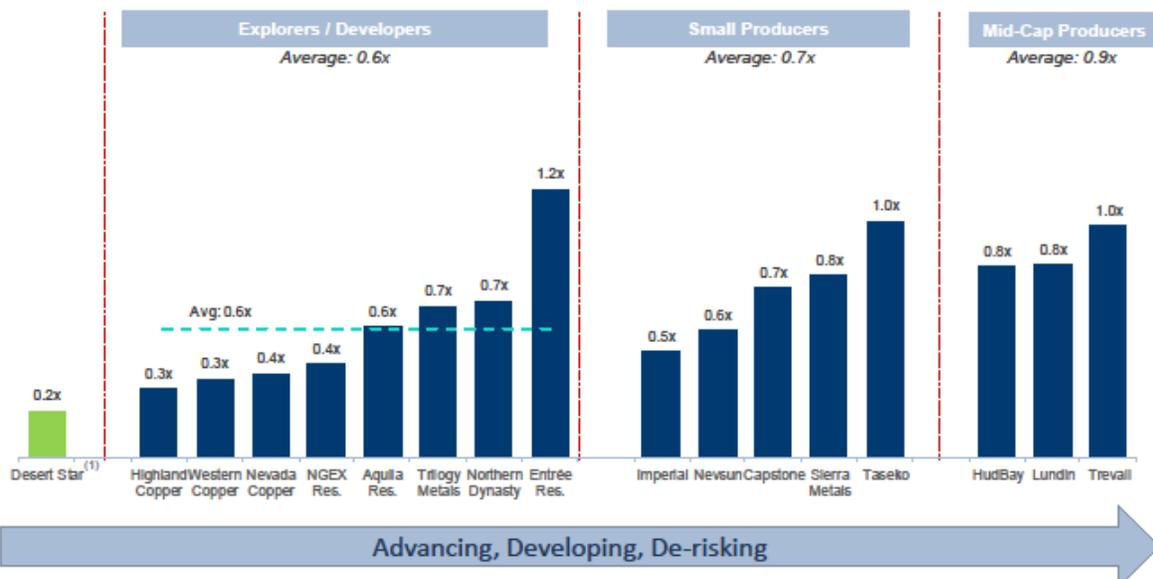
- Exploration and resource expansion drilling
- Optimized metallurgy
- Updated resources and reserves
- Completed feasibility study
- Advancements in permitting

## Comparisons to Similar Stage Copper Projects

The company had provided a comparison of the price/NAV of Kutcho assuming the \$.65/share private placement price to similar stage development copper projects, small producers and mid-cap producers. The charts below provide compelling evidence that Kutcho (labeled Desert Star in green) is currently undervalued and provides investors an opportunity to profit from closing the comparison gap.

### Comparable Company Trading (P/NAV) 1

Advanced stage copper developers trade at ~0.6x NAVPS on average



Source: S&P Capital IQ as at December 14, 2017

(1) After giving effect to WPM streaming transaction, WPM \$20.0M convertible debt transaction, corporate expenses of \$2.0M per year over the life of the project and equity capital raise pricing of \$0.65 per share

## Conclusion

There's something to say about being with the right project at the right time in a cycle and Kutcho Copper will be one of the go-to development phase copper companies for both institutions and retail investors in 2018. With several share price catalysts developing throughout 2018 investors will be well served to use this opportunity as the shares begin to trade as Kutcho Copper (TSXV: KC) to consider an investment in this exciting new copper story. I encourage everyone to visit their new website at <http://www.kutcho.ca>

Regards,

Vince Marciano  
December 2017

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