

Minco with a silver bullet

Continued strength in both silver and zinc prices in the future could deliver Minco handsome cash flow come 2007. **By Chris Cann**

When the industry speaks about the world's most attractive addresses for silver mining, it is hard to go past Mexico.

Mexico is the largest producer of silver in the world, churning out about 100 million ounces in 2004, and has been mining the precious metal for more than 1000 years.

That is precisely the reason Dublin-based Minco has decided to carve a place for itself as a silver producer in the Central American nation.

Minco chairman and chief executive Roger Turner is understandably more than happy to invest and operate in Mexico, a country he sees as ripe for investment.

He said the Government was promoting and presented plenty of opportunity for a well-funded overseas company to really make a mark.

Turner was surprised and encouraged that, despite Mexico's rich silver mining history, the country was devoid of a major international operator, saying there was a niche to develop the company into a mid-cap producer.

Minco has based itself around several promising near-term silver and zinc operations, predominantly in Mexico.

The company is focused on achieving silver production and cash flow-positive status by 2007, most probably through the development of its Laguna Zacatecana silver-mercury tailings project.

The other projects in the Minco portfolio — the Minera Sisa and Bilbao polymetallic projects in Mexico and the Pallas Green zinc play in Ireland — will be progressed in parallel with Laguna.

Though all of the aforementioned projects warrant focused time and



Minco chairman and chief executive Roger Turner: "The supportive fiscal and regulatory environment provides an opportunity ripe for entrepreneurs."

funding, it is the Laguna project that is shaping up as the most likely candidate for near-term cash flow.

Independent Canadian consultant Micon International completed a bankable feasibility study on Laguna, a tailings re-treatment project, in October 2005.

The study was based on a JORC-compliant measured and indicated resource of 7.93 million tonnes grading 58.76 grams per tonne silver at an annual extraction rate of 1.3Mt. The measured and indicated gold and mercury resources were 0.31gram per tonne and 317.74gpt, respectively.

Micon calculated the project could be developed for \$US22 million (\$A29.5 million), with a further \$3 million for working capital and \$4 million for additional tailings facilities to be funded from the first year's cash flow.

The project will incur operating costs of \$3.40 per silver ounce and will make an annual operating profit of \$11.88 million using a \$7.25/oz silver price — well below the prevailing price of the metal this year.

Minco is in discussions with several financiers and has already received indicative term sheets from several would-be lenders for a project finance facility of around \$20 million.

"Our discussions with banks and lenders have been positive and we continue negotiations in order to secure the best financing deal for our shareholders," Turner said.

It is those redeposited tailings, both on land and lake-based, that will be processed by Minco. The lake-based resource makes up the majority of the measured and indicated resource while tailings from above the water level contain a proportion of ore still in the inferred category.

"Production by dredging will begin with the lake-based resources and then move to the land-based resources, which



Minco management inspects some of the old workings on the licence area.

are low lying and can be dredged as a continuation of operations in the lake," the Micon report stated.

The highest grade material from the north and northwest of the lake area will be processed first "in order to provide the best material early in the mine life". The land-based material will be drilled and upgraded while the high-grade ore is processed.

Turner said he was extremely pleased with the findings of the BFS, and was looking forward to finalising processing and disposal methods before achieving producer status next year.

"The detailed review of the Laguna project, and in particular the tailings disposal facility, has indicated that we can make considerable capital savings on the project," he said.

"While this will take a little time and puts back the production start date to 2007, we believe the delay will be more than offset by improved project economics and the reduction in equity capital requirements.

"The outlook for silver remains very positive, with the silver price currently almost 50% higher than the base case used in the BFS."

Minco's next cab on the development rank is the 2.4Mt Bilbao silver-zinc-lead-copper project, over which the company recently signed an option to earn up to 75%.

Turner said the project had an estimated 1Mt of oxide ore previously mined to a depth of about 80m, and had the potential for a new sulphide discovery and additional oxide deposits.

He said the project was well on the way to development with a pre-feasibility study completed in 1997. That study returned grades of 92.3gpt silver, 3.73% zinc, 3.3% lead and 0.39% copper.

Geophysical surveys and geological mapping and sampling were started in March along with a 3000m diamond-drilling program.

Minco will update the resources and the pre-feasibility study by September.

Rounding out the Mexican assets is the company's 50% share of another old silver mine in the form of the Minera Sisa silver-gold project, which lies on the historic Sierra Madre silver-gold belt. Minco has the right to earn up to a 90% interest.

A planned drill program scheduled to kick off in July will target extensions to the old underground workings at the project, where average values from the upper level shoot of 2.72gpt gold and 395gpt silver.

Much closer to home for the company is its 23.6% interest in the Pallas Green zinc-lead play, which Turner described as "the most significant zinc discovery in Ireland since Lisheen".

The Lisheen zinc-lead deposit is expected to produce approximately 4.83



Turner believes the historic silver production in Mexico and its cooperative government makes the country an attractive investment destination.

million dry metric tonnes of zinc and lead concentrates over an estimated 14-year life.

Minco has 315 square kilometres of ground over nine prospects along the Pallas trend structure in a joint venture with Falconbridge.

Turner said the "extensive region-scale structural setting and alteration systems" were similar to the Lisheen Galmoy geology.

The project has recorded grades up to 25% zinc-lead from the 100 holes drilled so far.

Minco's strategy of focusing in on both precious and base metals may have looked shaky recently with metal prices coming off sharply in the past month, however, it should be noted that metals across the board are still trading at historic highs and that does not look likely to change in a hurry.

With the fundamentals of both silver and zinc indicating strength into the future and making them two of the most favoured commodities among resource analysts, Turner predicted healthy prices would support Minco's project pipeline as they systematically came online.

He said the applications for silver were on the increase and the precious metal had been "significantly undervalued since the 1980s". Add to that, the continued growth in demand from China and India combining with supply deficit and the forecast for silver producers looks rosy.

"The supportive fiscal and regulatory environment provides an opportunity ripe for entrepreneurs," Turner said.

Zinc has also enjoyed a bull run, which investment bank Barclays Capital predicted would continue because of the strong demand for base metals for galvanising purposes and a lack of new zinc mines scheduled to come online in the near term.

The price forecasts should give investors in Minco heart, but it is not just metal prices that would have Minco licking its lips.

Near-term development projects, a supportive government, a mining culture and strong commodity prices are all elements that contribute to a making a successful mining company.

Minco has all those ingredients. It is up to the experienced and professional management team guiding the company to make sure those elements are working in chorus and promote Minco to mid-cap producer status. **RS**

minco
... at a glance

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