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Herencia's Paguanta Zinc Deposit In Chile Has Tempted In Global Metals Producer Nyrstar, And A Couple Of Other High Calibre Investors Too

By Charles Wyatt

Last time we wrote about Herencia Resources was at the end of 2007, when it was being designated as the South American vehicle for Mineral Securities after Mineral Securities merged with Robert Champion de Crespigny's Scarborough Minerals. Herencia was focused on Chile and had already announced a maiden JORC compliant inferred mineral resource of 2.51 million tonnes grading 4.1% zinc, 1.3% lead and 77 grammes per tonne silver at a 2% zinc cut-off on its Paguanta zinc-silver-lead project. That resource had come only 10 months after the company had collared its first drillhole, so it was not hanging around.

The roots of this success lie, in large part, to a change in management the previous year, when Tony Barton and Keith Liddell left the board, and their places were filled by John Moore, John Russell and Michael Bohm. These three are all still there and have provided stability for the company during a difficult time, so it is right that they are being rewarded by success in the shape of Herencia's recent deal with major metals producer Nyrstar.

As Roger Bade, mining analyst at Libertas stockbrokers, pointed out when Minesite rang him for a chat: "It is entirely appropriate that the world's only buyer of lead-zinc projects has subscribed £750,000 for new Herencia shares at a 15 per cent premium." Presumably Roger rates the 70 per cent owned Paguanta project highly, as does Nyrstar, which is a leading global multi-metals business, producing significant quantities of zinc and lead as well as other products, including silver, gold and copper.

In fact Nyrstar is the world's largest producer of zinc, a leading producer of lead, and one of the world's largest producers of refined silver. The primary focus, though, is zinc. Hence its' continuing fight to acquire CBH Resources in Australia. An insight into its modus operandi can be gained by taking a look at the Citronen zinc-lead deposit in northern Greenland. Here Nyrstar is participating in development and its reward will be a life of mine off-take agreement on 35 per cent of production from what it describes as one of the world's largest undeveloped zinc resources. That mine will supply Nyrstar's European smelters for many years to come.

The actual deal that Herencia cut with Nyrstar involved Nyrstar subscribing for 100 million new shares at 0.75p per share to get a holding of just over 10 per cent. Although the price was lower when the deal was agreed, it has since caught up, so investors are getting the message. Some may worry about lack of liquidity, as Mineral Securities had a 46 per cent shareholding in Herencia and this was acquired last year by Cape Lambert as part of the package of assets that came with former Mineral Securities subsidiary CopperCo. On the telephone from Santiago, where he was attending a JV meeting with partner Compania Minera Costa Rica, managing director Mike Bohm explains that towards the end of last year this holding was placed with a mixture of institutional and retail investors, so there are no more worries on that score. He points out that [Anglo Pacific Group](#) - a company well respected in London for its investment nous - took its holding up from eight to 12 per cent so that is another plus.

Following on from the initial successes in 2007, in October 2008, just as the financial world fell off a cliff, the company updated its resource estimate to 3.15 million tonnes at 3.9% zinc, 1.3% lead and 774 parts per million silver, based on a 2% zinc cutoff. The important changes in this update were that nearly 20 per cent of the inferred resource had been promoted to indicated, and that gold mineralisation with one metre assays up to 4.59 grammes per tonne was found to be present in the veins. With this estimate up his sleeve, Mike Bohm then got a scoping study underway, but one has to bear in mind that this was undertaken at a time when metal prices were very low. Net present

values and internal rates of return were calculated on a processing rate of 500,000 tonnes of ore per year over 5.5 years from an underground mine, at a basic zinc price of US\$1.00 per pound, and a silver price of US\$15 per pound. At this level the project was economic - the prices of both metals are now higher and still moving in the right direction.

The thing to take from this study is that no account was taken of gold. Recently though, gold has come very much centre stage. Memories are stirred of [Griffin Mining's](#) Caijiaying zinc-gold mine in China which has shown signs of transforming itself into a gold mine with zinc by-products, although this might run into problems with Chinese bureaucracy. Mike Bohm is not going to be dragged into that sort of speculation, but agrees that gold could be a very useful by-product. Anyway, recent drilling results confirm that majority of holes drilled within the current resource envelope intersected gold mineralisation and these results support the gold assays received from drilling and bulk sampling carried out in 2008.

As a result Mike Bohm has decided to assay all samples from the current drill programme for gold as well as for silver and base metals. This drill programme is targeting potential high grade extensions to the known mineralisation immediately along strike and down dip from previous holes that returned high grade zinc-lead-silver assays. Already the first three holes have confirmed the presence of a new vein south of the high-grade Cathedral vein as well as extending that same Cathedral vein 80 metres to the west.

There's clearly more good news to come and Mike Bohm is aiming to come out with some more drilling results as well as an updated mineral resource at around the middle of this year. A pre-feasibility study should be underway before the end of 2010. He has been doing a great job, a point made by Bob Catto of Williams de Broe, London's shrewdest investor in the junior sector, who has been picking up stock in recent months. In fact if investors are seeking companies with shrewd core investors the combination of Nyrstar, Anglo Pacific and Bob Catto would take come beating. Nyrstar may tend to look on its shareholding as an option at this stage, but the zinc prize at the end is becoming gold plated. Mike Bohm makes the point that the credits from lead, silver and gold could make Paguanta a very cheap source of zinc, and that is exactly what Nyrstar is after.