



Junior developer

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Usually, the key elements in any resource upgrade are the raw numbers. How many drill cores, drilled at what spacing, to deliver how much tonnage at what grade.

And indeed, on 26 March, when Landore Resources delivered a resource upgrade for the VW Zone at their Canadian Junior Lake nickel project, those numbers were the first focus. An increase of 48% in the overall resource, to 22,407 tonnes of nickel equivalent, and a big hike in status to 91% indicated. Grade had also improved by approx 25% to just short of 0.5% Ni.

At current nickel prices, this newly defined resource has an in-situ value of over \$600 million, and when added to the historic potential at the nearby B4-7 deposit – currently awaiting its own resource statement – puts a value of approximately \$1 billion on the Junior Lake property.

Good news, one might think – though you would never have guessed it from the response of the share price, which in common with many natural resource stocks has suffered lately from market jitters and from end-of-year selling due to the phase-out of BATR on AIM stocks.

But elsewhere in the announcement, there was better news. No longer merely a “find”, with a resource which allows a ball-park valuation, the VW Zone is moving steadily towards production, even though the mineralisation is by no means “drilled out”. Chairman Bill Humphries made that very plain in his comment: “We will be moving ahead with the scoping and feasibility studies with the aim of becoming a Nickel producer whilst continuing to expand the resource.”

Note that key word – producer! Humphries is clearly in no doubt of the VW Zone’s ability to support a mining operation even at this relatively early stage in the development of the deposit. As yet, only 450m of strike has been drilled, and the last set of drilling results showed that mineralisation was improving to the west and to depth, with occasional narrow intercepts grading over 2%. Grades were found to be noticeably higher close to a series of gabbro sills, host to a number of mineralised lenses – which has opened up further possibilities regarding the long-suspected syngenetic link between the VW Zone and its close neighbour, the B4-7 deposit, where Ni-PGM mineralisation is also hosted in gabbro.



The VW drilling also discovered more about a recently identified shallow-lying volcanic unit – with a true thickness ranging from 20-70m and a length of some 100m – which dips steeply at 45-50 degrees at the west end of the drilled area, and remains open to depth. Additional low grade mineralisation was also discovered just below the surface to the west and north, and this remains to be further tested.

Such testing will no doubt form part of the 2008 work programme at Junior Lake, where the lion's share of 12,000m of drilling will track mineralisation up and down strike at VW as well as in-filling and testing depth. 2,000 metres of drilling is destined for new mineralised targets in the area, and from the development aspect, 1,000 metres of geotechnical drilling is planned, to aid in the planning and design of the VW open-pit mine. A full technical report is currently in preparation by the engineering consultant, and metallurgical testing is under way at SGS Lakefield, prior to the scoping and pre-feasibility studies planned for later this year.

So what they've done - added what they plan to do this year - leaves observers in very little doubt that Messrs Humphries and Prickett intend to mine this deposit, either on a stand-alone basis or perhaps sharing processing facilities with its near neighbour, the B4-7 Zone Ni-Cu-Co-PGM project. B4-7 was also drilled last year, and results were published in January, but as yet, the backlog of work at the engineering consultancy means that the anticipated 43-101 resource statement is overdue and unlikely to appear for some weeks yet. However, the drilling results were promising, revealing wide zones (up to 10 metres true width) of nickel mineralisation, regularly assaying in excess of 1% nickel together with substantial credits of copper up to 1.65% and cobalt up to 0.33%.

The big bonus of Junior Lake is that it's a sulphide deposit. Flavour of the month over the last year or so have been the nickel laterite producers, who strip their surface-lying ore and ship it to smelters and processors elsewhere, at a fraction of the LME price for the contained nickel. It's a cheap – though lucrative – mining operation, but the ore is expensive to process, and in the case of the lower-grade limonite ore, complex hydrometallurgical treatment is required, which has caused big headaches and long delays for the new large scale operations such as BHP Billiton's Ravensthorpe and CVRD's Goro project.

Sulphide ores, on the other hand, are cheap to process and the technology is well developed and well understood. The problem with sulphides is that very few such deposits are now being found and developed, and most involve underground mining with its attendant expense. Junior Lake, however, is open-pittable, so Landore have everything going for them: cheap mining and cheap processing. Metallurgical work so far carried out indicates good Ni recovery of 80-82% and copper at 90% from the VW ores, and several holes were drilled this season to advance the metallurgical work at both deposits.

Whilst nickel is presently running at about half of its peak price last summer, \$12-13 per lb is still double the price used by most analysts in their long term forecasts. Anticipated demand for the metal will continue to outstrip supply for the rest of the decade, and whilst the current turmoil in the financial markets is causing some volatility in commodity prices, it is hard to see the behemoth that is the BRIC group of economies slowing down the pace of their industrial revolution. An open pit mine at Junior Lake would seem, therefore, to have few long-term economic obstacles in its way.

With a current in situ value of about \$1 billion, and the VW Zone now largely at indicated status, a rule of thumb value of 5-8% of in-situ for the Junior Lake properties could be in the region of \$50-80 million, significantly more than Landore's present market cap of £21 million. But that ballpark valuation discounts all the upside still remaining at Junior Lake, it ignores the up-and-coming NI 43-101 for B4-7, it brushes aside the blue-sky possibilities in another half-dozen on-going development projects, including the West Graham property currently being earned-into by First Nickel, and above all, it assigns nil value to the most important element of any resource outfit: the experience and track record of its management, and the respect in which it is held.

This, if proof were needed, is clearly illustrated by the consummate ease with which – in a time of market downturn and out-of-favour natural resource stocks - Landore raised their 2008 development budget this week!