LONDON EYE

Silver London

Despite London's role as a major trading and storage centre for physical silver metal, it has never been particularly known as a centre for silver producing companies.

Now stimulated by the increase in the price of silver and the emergence of an investment market for small primary silver producers, three companies, all with assets in Mexico, are now listed on the London Stock Exchange.

Arian Silver Corp (LSE:AGQ) is one of the most recent entrants to Mexico but it has quickly established a significant presence in the major silver producing region of Zacatecas.

The company, which is part of the Dragon Holdings stable in London, has a number of early-stage exploration projects within the State, with the most advanced at Calicanto and Los Campos.

Although Arian is planning shortly to undertake Landsat and IP surveys over eight identified structures and a 3,000 m drilling campaign at Calicanto, it has already driven a 4m by 4m adit using a local contractor and has obtained a bulk ore sample.

Assay values from the 165 t sample averaged approximately 400 g/t silver, 1.42 g/t gold plus base metals. Locally on the Calicanto vein Arian has encountered values of over 10,000 g/t silver and 10 g/t gold in the hanging wall oxide and 5 g/t gold with only limited silver in the footwall sulphide vein.

Nearby, at Los Campos, a former mine, Arian plans to explore an epithermal vein system and assess the potential for processing dump material.

To the south of Zacatecas city, Arian holds a number of individual projects at Ojocaliente, the most promising of which is San Celso.

The San Celso project area covers a number of colonial-era silver mines and prospects, including the San Celso and Las Cristinitas mines. Past production focused on narrow high-grade ore-shoots that were conventionally mined to the water table, at approximately 120 m depth.

Arian has just completed the initial phase of underground sampling, surveying and geological mapping at San Celso. Selected results include 1.4 m at 364 g/t silver, 1.7 m at 644 g/t and 0.8 m at 1,312 g/t.

More recently, Arian acquired a 100% option over the Tepal polymetallic deposit that has been explored in the past by Inco, TeckCominco and Hecla. Over 80 holes were drilled on site and a resource containing of 1.2 Moz of gold and 430 Mlb of copper was determined, but there was never any systematic testing for silver.

Readers may be more familiar with Minco plc (LSE:MIO), as a company chasing base metals in Ireland, but recently its focus has switched to Mexico.

Nowadays the company has two main projects in Mexico, at Luguna and Bilbao, both in Zacatecas State.

Minco's Luguna project is a tailings retreatment operation that will process silver-rich tailings which sit on the bed of a lake.

The tailings were derived during Spanish colonial times and contain gold, silver and mercury, which Minco intends to exploit using dredging techniques.

After drilling in 2005, Minco reported that the total resource tonnage for the in-lake tailings had increased from 7.6 Mt to 9.0 Mt, with grades increasing from 106 g/t silver equivalent to 114 g/t silver equivalent for contained metal of 32 Moz silver equivalent.

In October last year, Micon completed a "bankable" feasibility study based on a plant capacity of 1.3 Mt/y at a capital cost of US$21.6 million producing 3.5 Moz/y of silver in the first four years and 2.2 Moz/y in the remaining three years, which gave an IRR of 47%.

Minco's plan following on from the October 2005 BFS was to begin operations in 2006 but the company has put back the schedule following a review of the study, which highlighted potential to improve the economics of the project through a refinement of the processing method and tailings disposal.

Bilbao is Minco's newest project in its portfolio and has potential to provide near-term cashflow for the company. In March of this year Minco secured an option from a local owner to earn a staged interest of up to 75% in the this silver, zinc and copper deposit.

The existing Bilbao oxide deposit comprises a limestone-hosted replacement deposit as well as exo-skarn mineralisation hosted within and along the contact of the nearby La Blanca granitic pluton.

The deposit comprises oxidised material down to about 80 m which was mined in the 20th century. Primary sulphide mineralisation lies beneath the oxide.

Economic mineralisation occurs as flat-lying mantos, vertical or sub-vertical chimneys and as irregular replacement bodies at or close to the granite sedimentary contact.

In 1997 Kilborn Inc. prepared an updated pre-feasibility study on the project based on an inferred resource estimate prepared by Watts, Griffis and McOuat to JORC standards of 2.44 Mt at an average grade of 92.3 g/t silver, 0.39% copper, 3.73% zinc and 3.30% lead.

The Kilborn study recommended the development of a small scale open pit operation processing 700 t/d (250,000 t/y) via initial acid vat leaching with recovery of dissolved copper through cementation followed by zinc recovery using solvent extraction and electro-winning to produce zinc metal plus a by-product of cadmium.

Minco is currently engaged in a first-stage due diligence programme which includes drilling the oxide resource on a grid pattern to verify grade and distribution within the outline of the proposed open pit as part of a 3,000 m drill programme.

In addition, the company has engaged Behre Dolbear de Mexico to undertake an independent review of the historical data from Bilbao, including a complete review and update of the existing oxide resource estimate following Minco's drilling programme, and to complete a preliminary update of the 1997 pre-feasibility study.

The drilling campaign is also designed to investigate the potential of sulphide mineralisation beneath the existing oxide resources.

Results thus far indicate the presence of a major zone of sulphide mineralization at a depth of approximately 150 m. The overall grade of the massive sulphide intersection is 4.92% lead, 5.57% zinc, 0.33% copper and 80 g/t silver over a width of 35.0 m.

Minco has a 50% interest in the Santa Cruz (Minera Sisa) project, but has lowered the priority of this project given its early stage status and remote location.

The third company involved in silver in Mexico is VANE Minerals Plc (LSE:VML), which is well on its way to achieving its objective of providing revenue towards funding the development of potentially much larger projects with the commencement of commercial production last November at its Diablito mine.

The Diablito mine commenced production from the Main or Lower Vein at a daily rate of 50 t/d and is currently generating income of US$420,000/mth, with a total mining, processing, transportation and smelting cost of US$125/t.

Vane recently completed "an encouraging" 20-hole drilling programme at Diablito to define further and extend the remaining resource of 93,000 t averaging 12.13 g/t gold and 1,319 g/t silver (undiluted) calculated over a 130 m section of the 300 m surface expression of the Lower Vein.

As well as returning encouraging assay results from this vein, the programme has also confirmed "good" mineralisation in a new vein, the Upper Vein, which has been recently identified.

The company expects to complete a new resource estimate based on the latest results shortly and will then review the mine plan with the intention of increasing the daily production rate.

Meanwhile, Vane is in discussions with financiers regarding a convertible debt facility for the construction of its own mill and flotation plant near the Diablito project site.

Guadalcazar is a gold and silver prospect that was generated by the Freeport McMoRan database that VANE acquired some years ago.

In 2005, the company completed an initial 4,500 m drilling programme that identified five targets along a 6,000 m tuff zone.

Results, however, were disappointing, although recent analysis has identified consistently anomalous gold and silver values, which have directed VANE towards a number of additional targets which it has just finished drilling.

VANE has effectively dropped its Minas Charay gold-silver project after a 26-hole drilling programme and a subsequent geological evaluation failed to confirm potential for a large, low-grade, leachable gold target.

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