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Cherry Picking: Uranium in Utah, Gold in Guadalucazar, Prospects in Paraguay

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LONDON (ResourceInvestor.com) -- VANE Minerals [AIM:VML] offers much more than just an opportunity to alliterate! It was one of the first exploration companies to generate its own cash flow and currently holds a portfolio comprising:

- The Diablito gold/silver mine in Mexico which generates around \$2.6 million in revenue per year.
- Three stratabound uranium deposits in Utah, USA. The Happy Jack Mine could be producing as soon as mid-2008.
- 32 uranium targets in breccia pipes in Arizona, U.S.
- Three gold and copper exploration blocks in Paraguay (totalling 3445 square kilometres).
- A precious metals exploration project in Guadalucazar, Mexico.

Background and Strategy

The company was incorporated in 2002 following the decision by Freeport McMoRan [NYSE:FCX] to close its global exploration division in order to concentrate on the Grasberg mine in Indonesia (which is the world's largest gold mine and third largest copper mine).

Steven Van Nort, the outgoing senior VP of exploration and other members of the team negotiated an agreement with Freeport for exclusive rights until 2006 (since extended to 2009) to review Freeport's database of more than 7,000 exploration files which Freeport had accumulated over 85 years. The agreement gives Vane the right to examine the data to attempt to identify targets which could now be viable due to new technology, better metallurgy, higher metal prices or new geological concepts.

In return Freeport have an one-off option at either the time of reserve announcement and/or when the target goes into formal feasibility stage to become an equity partner with an interest of up to 25% by paying twice the incurred exploration costs (in proportion to the interest acquired).

VANE's strategy has been to acquire, define and develop projects selected either from a review of the databank or from contacts of the directors of the company to build a portfolio of assets which take advantage of identified strengths in specific commodities, and to realise the value of these assets either through exploration, or development or by selling them to a third party.

Bull Points

Of course any investment in an exploration company is speculative - but VANE Minerals has a number of bull points in its favour:

- **The Freeport databank has enabled VANE Minerals to cherry pick, thereby giving it a considerable head start in identifying potential projects.** The databank contains files on 7000 prospects including more than 4,500 in the U.S., 1200 in Canada and 500 in Mexico.
- **The Exploration team is highly experienced and has a successful track record of discovery.** Importantly, in view of the lost generation of uranium specialists, the team members also have considerable uranium experience. Between them the team members have been closely involved with the Santa Cruz copper discovery in Arizona, the Escondida copper find in Chile (believed to be the

- world's largest deposit) and the Mount Keith nickel deposit. Several team members have worked on exploration at Grasberg in Indonesia. Because of the lack of interest in uranium in the 1980s and 90s young uranium geologists tend to be thin on the ground. However Kris Hefton, the head of VANE (US) is one of this rare breed as he has 12 years experience of uranium exploration geology, 9 of those with Energy Fuels Nuclear Inc, where he worked in the Colorado Plateau area. VANE has also just appointed Frank Bain as uranium exploration manager. Bain has worked in uranium exploration with Kerr McGee Minerals in Wyoming and with Energy Reserves Group on uranium breccia pipes in Northern Arizona. Ken Miyoshi, the Mill project consultant has 30 years experience in mill management and metallurgy including 3 years as Mill Manager of the White Mesa Mill in Utah and 10 years for Western Nuclear Inc.
- **VANE owns a producing gold/silver mine which generates enough cash to fund exploration.** Although relatively small and not a company maker the Diablito mine in west-central Mexico is nevertheless high grade with a current resource of 141 thousand tonnes at 6.07 g/t gold and 684 g/t silver, and an annual production of 500,000 ounces of silver and 3,500 ounces of gold. The mine life with the present resource is 7 years, though VANE will definitely explore further within the next 18 months. The mine generates revenue of \$2.6 million per year.
- **VANE entered the uranium market in 2004 ahead of the recent rush and so was able to claim high grade projects.** In 2004 the uranium price was just \$19/lb (it is now \$120/lb) and much of the North and South Rim lay unclaimed, so the VANE team were able to cherry pick. Today the area is virtually all claimed so the only way to acquire prospects is by purchasing them (at prices which reflect the new uranium price). The 32 breccia pipe targets in Arizona are believed to include some of the highest grade deposits in the US with grades of up to 1% U3O8. If the price of uranium were to settle at lower levels then grade will be a big factor in any shake-out. Each of the 32 pipes has a potential for 1-6 million pounds of U3O8 though so far mineralisation has only been confirmed in one of the pipes (with grades up to 1.78% based on limited historic drilling).
- **The uranium projects are located in a historic production area, in a politically stable environment and within haulage distance of two mills.** All of VANE's projects are located in the Colorado Plateau Uranium District. The breccia pipe district of Northern Arizona produced 23 million pounds of U3O8 between 1950 and the early 1990s and stopped only when the price fell below \$14/lb while the stratabound area in South-Eastern Utah has produced 83 million pounds. VANE's Happy Jack mine produced 3.1 million pounds of U3O8 historically. The deposits are 40 miles and 70 miles from two mills. VANE's neighbours include Denison Mines, Energy Metals Inc, Quaterra Resources, Energy Fuel Inc. and Uranium One.
- **The fundamentals of the uranium market remain highly favourable.** If you need convincing on this point try reading some of the recent *Resource Investor* articles in the Uranium section; for example "Still Time to Get in on the Uranium Boom" puts forward some of the basic facts about supply/demand fundamentals. (Note that for an alternative view of the market you may wish also to read "Uranium Bull Market Too Overheated.")
- **Geiger Counter [LSE:GCL], one of the few specialist funds in the nuclear energy sector, has backed VANE.** Geiger Counter, and a sister fund from the New City Investment stable recently increased its exposure to VANE through a £1 million Convertible Loan Note, converting at 29 pence with a 8% Coupon.
- **The environmental impact of mining breccia pipes is limited.** The pipes do not occupy a large surface area so mining them is a little like keyhole surgery! Nonetheless Vane have a policy of thoroughness and doing everything by the book, beginning with archaeological reports on each of the project areas.
- **The Guadalcazar gold project offers the potential to be a large gold hydrothermal gold deposit.** In the 1940s the US geological survey (USGS) had identified the area as low grade alluvial. VANE's recent geophysical, geochemical and drilling programmes however have indicated that the area could be an extensive, highly anomalous, untested hydrothermal precious metal system. The project was described in an earlier *RI* article as a potential elephant of a project in view of its possible resource size. VANE are looking for a JV partner to take the project forward so that VANE can concentrate on the uranium exploration.
- **The prospects in Paraguay offer unexplored potential in the mineral-rich Brazilian Pre-Cambrian Shield.** Initial results from stream sediment and soil sampling have identified two large gold/copper exploration targets. Paraguay was relatively unexplored until changes in the mining laws in 1996 and again in 2007.

Work Programme for 2007

VANE has a busy work schedule planned for the year. In Mexico in the third quarter the company expect to complete the construction of a mill and flotation plant near Diablito. The reduction in trucking distance from 325 kilometres to 29 kilometres should reduce cash costs from about \$125 to \$100/tonne. It is also looking for a JV partner to pursue the opportunity at Guadalcazar. In Paraguay a drilling programme will commence in the second half of this year.

An extensive drilling programme is already underway for the uranium prospects (VANE currently have use of the biggest rig in Northern Arizona) with the aim of producing 43-101 reports on all properties. VANE are also investigating potential mill sites for its potential pipe production on the South Rim which would benefit also the 11 million pounds resource on the South Rim held by other companies. An initial scoping study has been completed.

Share Price Trends

VANE listed on AIM at 11 pence in June 2004, and the price has doubled since then to close at 23.75 pence today yielding a market capitalisation of \$69 million. The shares jumped by 45% to 32 pence during two weeks in April following the Geiger Counter interest and announcements about expansions to its uranium exploration ground but the price has since fallen back. This partly reflects a general correction in the uranium market but also the market's disappointment with the announcement on 3 May that no uranium was intersected in two of the three holes drilled on the Arizona breccia pipes.

However VANE believes the results indicate the high-grade mineralisation encountered in the old holes is contained in the annular ring fractures of the pipe and that the hole drilled was outside the annular ring. Further exploration drilling will therefore focus on the rings. Annular ring mineralisation has accounted for significant uranium deposits in other pipes in the district, particularly the Orphan Mine, which historically produced 5 million pounds of U3O8.

As Matthew Idiens, VANE's Commercial Director, told *Resource Investor*: "These results in no way diminish our view of the favourability or potential of any of the targets drilled, as it appears the market has taken the update. We are in fact extremely encouraged by the results, especially at Big Red where the geological alteration and gamma log seen in the core are highly encouraging indications that the pipe has undergone a mineralising event and could contain a uranium deposit, further drilling will commence imminently."

