Ecclestone on El Nino Ventures: well-positioned in base metals and ‘mighty’ partners

These days I seem to be drawn back to New Brunswick, a place that did not get much focus over the length of the commodity super-cycle because it was either specialty metals (Tungsten, such as Sisson Brook, now owned by Northcliff), the old Lake George Antimony mine or over-the-hill base metal mines like the Brunswick mine owned by Xstrata. With gold being the market’s prime obsession and none of the Maritime Provinces being particularly famed for that metal, New Brunswick became a becalmed sideshow.

However as I tirelessly stress the next go-around will be base and specialty metals driven and those hardy companies who persisted with the “who wants that?” unfashionable zinc and lead properties will finally get their day in the sun.

Locations – Exotic (or not)

The very name El Niño Ventures (TSXV: ELN) conjures up images of Peru and its climate changing current, but the reality is that the company has nothing to do with South America at all and is primarily focused on the Maritimes, with an outreach to the DRC. The asset in the DRC (the Kasala copper project) was recently sold to the Chinese controlled MMG Group for a total consideration of $6mn with an initial upfront payment and installments over several years. It also includes a 1.5% NSR to ELN.

The two remaining assets are:

- Murray Brook – a polymetallic massive sulfide deposit,

hosting Lead, Zinc, Copper, Silver & Gold.
- Bathurst Zinc – a past-producing polymetallic region

Out of the Tunnel of Darkness

As I noted recently in my piece on Levon Resources, with regards to zinc, the tide has seemingly turned. In the space of a few months the metal that suffered from chronic narcolepsy has awoken from its slumbers and risen from the low 90cts range to over $1.06 per lb in recent trading. We would reiterate it is our view that when zinc moves, it will move fast. Thus we would expect $1.20 by year end and would not be surprised to see it top $1.50 in 2015. This is heady stuff indeed.. The interesting thing is that while many may have regarded our enthusiasm as misdirected in the dark times, zinc is a metal that now has few naysayers. There is nobody out there (that I have encountered, or heard of) who would claim that there is a tsunami of zinc production or vast hidden stocks that will appear out of nowhere to mug us. Everyone is in accord that the dark tunnel we have been through has denuded the production timetable of projects scheduled for production.

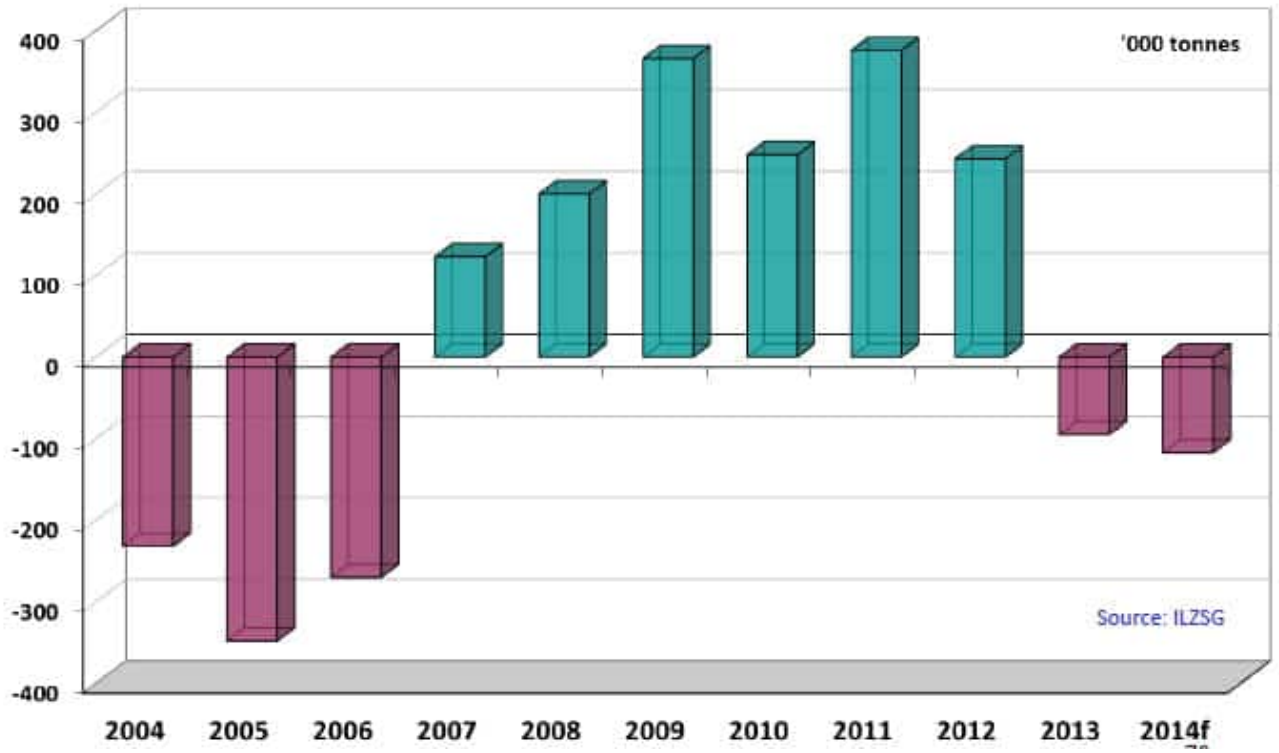
Zinc – Justified in its Own Right

Zinc has suffered from being in a sweet spot for other metals and a sour spot for itself. If silver had been $7 per ounce and zinc had been 70 cts per lb, there would have been a mass shutdown of the zinc/lead/silver mining complexes around the world. However silver at around $20 per oz, cross-subsidised the base metals production from those mines that were making small losses or merely breaking even on the lead-zinc part of their output. That means that there are not a flock of mothballed mines (as there are in nickel) ready to be pulled back on-line when the zinc prices passes some mythical point at which it all becomes worth it. Mines have been gradually expiring, as the chart below shows:

Zinc Mine Closures

Mine	Country	Annual Capacity (Tonnes)	Closure
Brunswick	Canada	240,000	2013
Perseverance	Canada	115,000	2013
Lisheen	Ireland	175,000	2014
Century	Australia	510,000	2015
Bukowno Olkusz	Poland	70,000	2016
Skorpion	Namibia	154,000	2016
		1,264,000	

Instead what we have is big time gap between financing future projects now and when they might get into production. This, according to the most authoritative source on the industry, the International Lead & Zinc Study Group, predict that there has been a supply deficit since 2013 and into 2014.



While there are a lot of projects on the drawing boards, we should recall that many of these are monster projects. My belief is that these will NOT be dusted off until zinc is a lot higher (north of $1.20) and for a sustained period of time (at least a year). The major players on the production front will thus play a game of chicken with the market that none of

them can lose. If they have current zinc production they will make out very well from a tight situation and a spiking price. They will not have to face the uphill struggle of financing but rather just cash checks. It is not a given that every upturn in a commodity's price must produce a heedless (headless?) rush into building more capacity.

Murray Brook – Gargantuan

This property is the subject of a joint venture with the Brazilian base metals major, Votorantim. The resource published in February of 2012 consisted of:

Murray Brook Contained Metal Content

			Cu		Pb		Zn		Au		Ag	
Category	NSR Cut-Off $/t	Tonnes	Grade %	Pounds	Grade %	Pounds	Grade %	Pounds	Grade gpt	Ounces	Grade gpt	Ounces
Measured	$20	1,621,000	0.27	9,650,000	1.19	42,510,000	3.53	126,110,000	0.50	26,100	44.1	2,298,000
Indicated	$20	17,063,000	0.43	161,710,000	0.93	349,750,000	2.52	947,720,000	0.51	279,800	38.8	21,288,000
M + I	$20	18,684,000	0.42	172,960,000	0.95	391,210,000	2.61	1,074,810,000	0.50	300,400	39.3	23,611,000
Inferred	$20	3,021,000	0.62	41,280,000	0.75	49,940,000	1.83	121,840,000	0.75	72,900	35.0	3,400,000

The PEA dating from June of last year assumes the start of the open pit mining operations at an average annual process plant production rate of a startling two million tonnes per annum, over a mine life of approximately 9.5 years. The envisaged mining operation is a conventional open pit with a sustained total annual material movement of 11.6 million tonnes. Prime metrics of the project are:

- Pre-production capital requirements $261 million
- Mill throughput of 2 million tonnes of ore per annum-6,000 tonnes per day
- Life of Mine 9.5 years
- Life of Mine Production: 239,000 tonnes of copper

concentrate, 122,000 tonnes of lead concentrate and 770,000 tonnes of zinc concentrate
- Total Net Smelter Return Revenue $1,246 million

It might be noted that this PEA used 95 ct Zinc and $1 Lead (as well as $3.68 Cu and $29 Ag). As Zinc and Lead are heading up and the other two metals are less important to the project, the economics of a rejigged project should be enhanced. It would be very interesting to see what the project would look like with $1.25 Lead/Zinc and $20 Silver, for instance.

I guess the Votorantim Group need (and want big). The problem for ELN is going to be how to keep up when the project moves into the construction phase. It might be a case of heading back to the drawing board to "right-size" this project for potential funders or acquirers. The old industry goal of making every project as big as it can possibly be is now being replaced by the necessity of making projects doable.

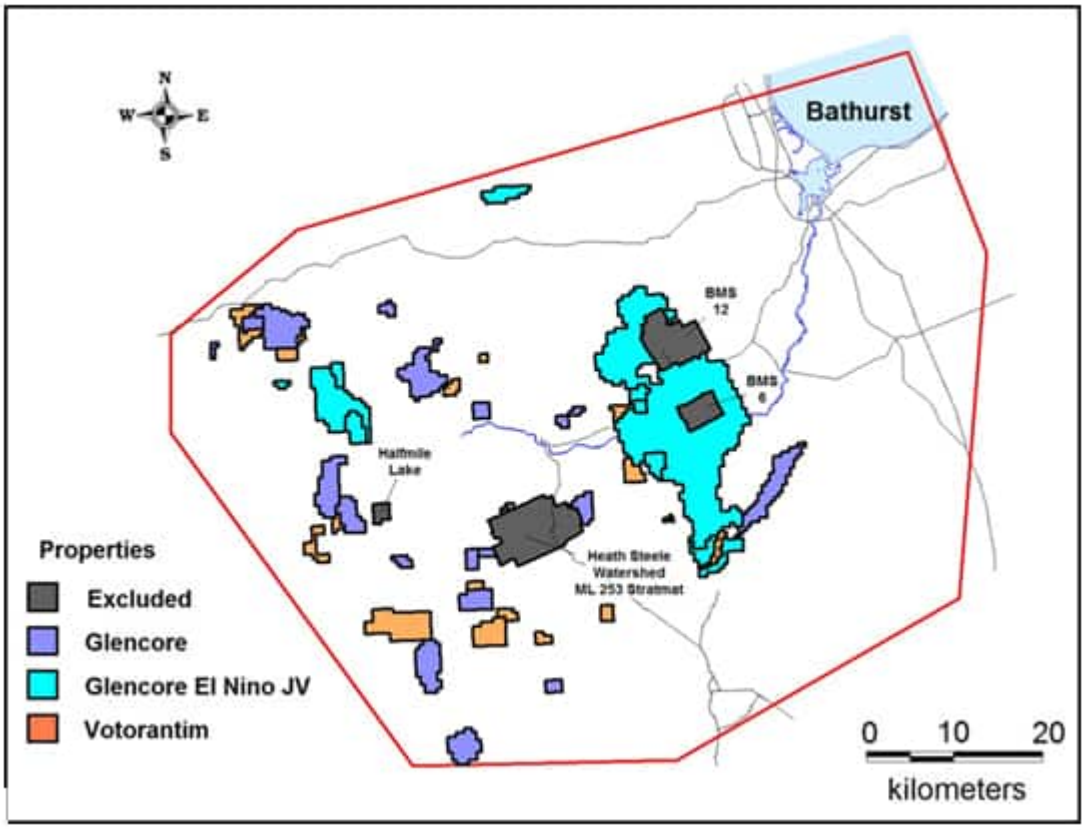
The partners have further metallurgical studies planned and feel that there is significant exploration upside with additional drilling plans on adjacent Camel Back Claims.

The Bathurst Joint Venture – Orbit of Glencore

After the Donner Metals debacle, all Canadian juniors with deals involving Glencore need to count their fingers after they shake hands. This has become a bigger problem for Glencore than it is for juniors, because if the trader cannot find juniors who will generate deals for it then it has made itself effectively a pariah and cut off its nose to spite its face.

The Bathurst region has historically been one of Canada's most productive mining camps. It has produced some 30% of Canada`s zinc, 53% of its lead and 17% of its silver in 2001. Most of that production came from the Brunswick #12 Mine (which was owned by Xstrata, now Glencore) but that mine and mill complex closed in April 2013. The remaining presence is the Belledune

Smelter which is expected to remain open until at least 2017. In some ways this is a repeat of what happened in a Matagami zone of Quebec where Xstrata's Perseverance mine closed down and was replaced (though only in part) by the production flow from the (dearly departed) Donner Metals' Bracemac-Macleod mine.



The BOJV Project originally consisted of 4712 claims, owned 50% by ELN and 50% by Glencore and 2907 claims owned 100% by Glencore, together with an Area of Interest, in which ELN and Glencore hold equal interest. Under the Area of Interest Clause, the BOJV generates new projects for ELN at no initial cost. As the area is massive and ELN's resources were limited, it signed an option with Votorantim on exploration of this asset. Thus far Votorantim have spent approximately $8 million since 2009 and generated more than 160 potential drill targets. However, early in 2014, the Brazilians decided to back away from this. In light of the aggressive history of Glencore we can see why they would not want to invest too much

in a project with that omnipresent vulture looming.

The best outcome here would be an amicable divorce with each one taking some of the kitchen appliances… Let Donner Metals be a lesson to us all..

While we would have said last year that all portfolios should contain a zinc junior, we would have been a voice crying in the wilderness. Now the tide has turned and we suspect few would argue that most should have at least some exposure to this resurgent metal.

El Nino has bagged itself a mighty partner in the form of Votorantim. As we have said, some sort of disengagement from the web of Glencore would be welcome, so ELN can escape the negative connotations that holds and move forward Bathurst (or whatever part it gets to keep) under its own steam, with a better partner. And ELN has a substantial stream of funds coming in from MMG in payment for the Kasala project. Few other base metal juniors find themselves in such an auspicious position at this time.

It’s raining copper in the DRC’s Katanga Province

El Nino Ventures Inc. (‘ELN’, TSXV: ELN) has a copper exploration project in the Democratic Republic of Congo and two zinc-lead-silver (copper) exploration and development projects in the Bathurst Mining Camp, New Brunswick. The Copperbelt in the Democratic Republic of Congo (DRC) hosts several world class deposits and its exploration potential is considered one of the best in the world. Mining companies such as Phelps Dodge and First Quantum Minerals have established

operations there and ore is world class. Several small companies are also actively considering copper and other minerals in the DRC. The Katanga province of the DRC hosts more than 10% of the world's copper and many of its best deposits in the world. In 2013, Congo produced, according to government figures published in 'Jeune Afrique' some 920,000 ton of copper, which amounts to 300,000 tons more than the previous year.

This is the highest level reached since ten years thanks to improved regional security and stability over the past ten years. More than a decade after the implementation of the new Mining Code (2002), the RDC is starting to reap the benefits, which will be shared by those companies already engaged in the Congolese mining sector. To date, the DRC has become the continental leader in copper production, dethroning Zambia on the African scene. At the important Indaba summit in Cape Town, in February 2014, the participants from all over the world predicted bright prospects for African mines, especially copper. This means that the DRC could break over one million tons of copper in 2014. In the 1970's, the Katanga province of

the RDC, under the leadership of the state owned ‘General quarries and mines’ (Gécamines) alone produced 500,000 tons of copper per year while the country itself may hold as much as 10% of the world’s total copper reserves. Copper prices have been rising, and predictably, Chinese demand is largely responsible. Recent and reassuring figures on Chinese manufacturing have pushed the price of copper for September delivery up 1.6% to $ 3.25/lb. This is the highest level since January 2013.

Copper is an ideal metal for investment because it has a variety of uses in a variety of sectors. By itself, the building sector accounts for 32% of global copper use. It has many properties such as electrical conductivity (insulated or non-insulated cables for all types of voltages). Its thermal properties are used in plumbing, heating level where it advantageously replaces plastic parts that can melt in fire, emitting toxic fumes. In pipes, copper facilitates the flow of hot or cold water, where it proves to be a material of choice given its bactericidal and fungicidal qualities. It is also found in air conditioning and natural gas transmission. In this area, the use of copper also promotes energy savings and the all important ‘sustainability’.

Copper is also used, of course, in electronic equipment; in the semiconductor industry copper is needed for the manufacture of electronic chips. In the telecommunications sector, although the use of optical fibers is increasingly widespread, copper still remains widely used; it is also widely used in the manufacture of parts for mobile phones. In personal computers, copper is used to make connections, as well as integrated and printed circuits and microchips. There are a host of other applications from electroplating operations due to its high corrosion resistance to agriculture, where it serves as a food supplement for animals. It can also be used as part of the water purification and for transportation from automotive to shipbuilding and aerospace.

It is also used in medicine because copper facilitates the transfer of proteins into the blood system. The World Health Organization cites copper as necessary to help treat a number of diseases such as cancer or Wilson’s disease.

ELN’s copper projects and operations are based on resources with an average grade of more than 4% copper. In May 2014, ELN entered into an Option Agreement with MMG Limited to acquire 100% of ELN’s 70% interest in Infinity Resources, the joint venture company that owns Kasala. The Kasala project is one of the few greenfield copper discovery in the last 10 years in the central African Copper belt; it features a mineralized strike length of 2500 meters and high grade mineralization. Last May, ELN entered into an Option Agreement with MMG, which grants the latter company the right to acquire ELN’s 70% interest in the Kasala copper project for a total consideration of USD$ 6 million.

ELN counterbalances its activity in the Congo with zinc projects in New Brunswick, Canada: the Murray Brook Project and the Bathurst Option-JV Project. They are located in a stable and mining-friendly jurisdiction. ELN’s zinc projects want to take advantage of the projected supply deficit in 2014-2015. Zinc is essential in galvanizing steel for corrosion resistance. However, over three quarters of zinc production is used in the construction, infrastructure and transportation industries.