

Levon Resources – Ticking All the Boxes in Resurgent Metals

The last time I wrote on Levon Resources (TSX: LVN | OTCQX: LVNVF) the silver price was looking insipid and the Zinc price was on a tear. That had caused investors to focus more on its Bralorne project in British Columbia and only glance in passing the massive (in all senses) Cordero Silver project in Mexico. Now that silver has broken out of its malaise, we thought it useful to go back and consider the ways in which Cordero could tussle with Bralorne to be first in the affections of those that find the Levon story fascinating. Clearly this would be by some sort of reconfiguration to match the current financing situation and capture the imagination of investors by placing the project firmly in the camp of “doable” mines.

Silver’s Moment to Shine?

We started turning bullish last year and predicted an \$18 high for this year we thought we were being rather daring. However it was less than two weeks into the year that our target was fleetingly reached. This surprise surge was prompted by the surprise Swiss franc revaluation and was thus not enduring as a game-changer. Not unsurprisingly the price has eased back in sympathy with gold.

I do however feel silver has the potential to outperform gold. The main rationale behind this is that I don’t expect gold to do much better than a high of \$1,300 for 2015.. or at least not a sustained period over that number. Meanwhile silver with its industrial applications has the potential to ride economic recovery in the West (yes, I am still a bull on Western economies).

The dip in gold to nearly \$1,100 highlighted just how many

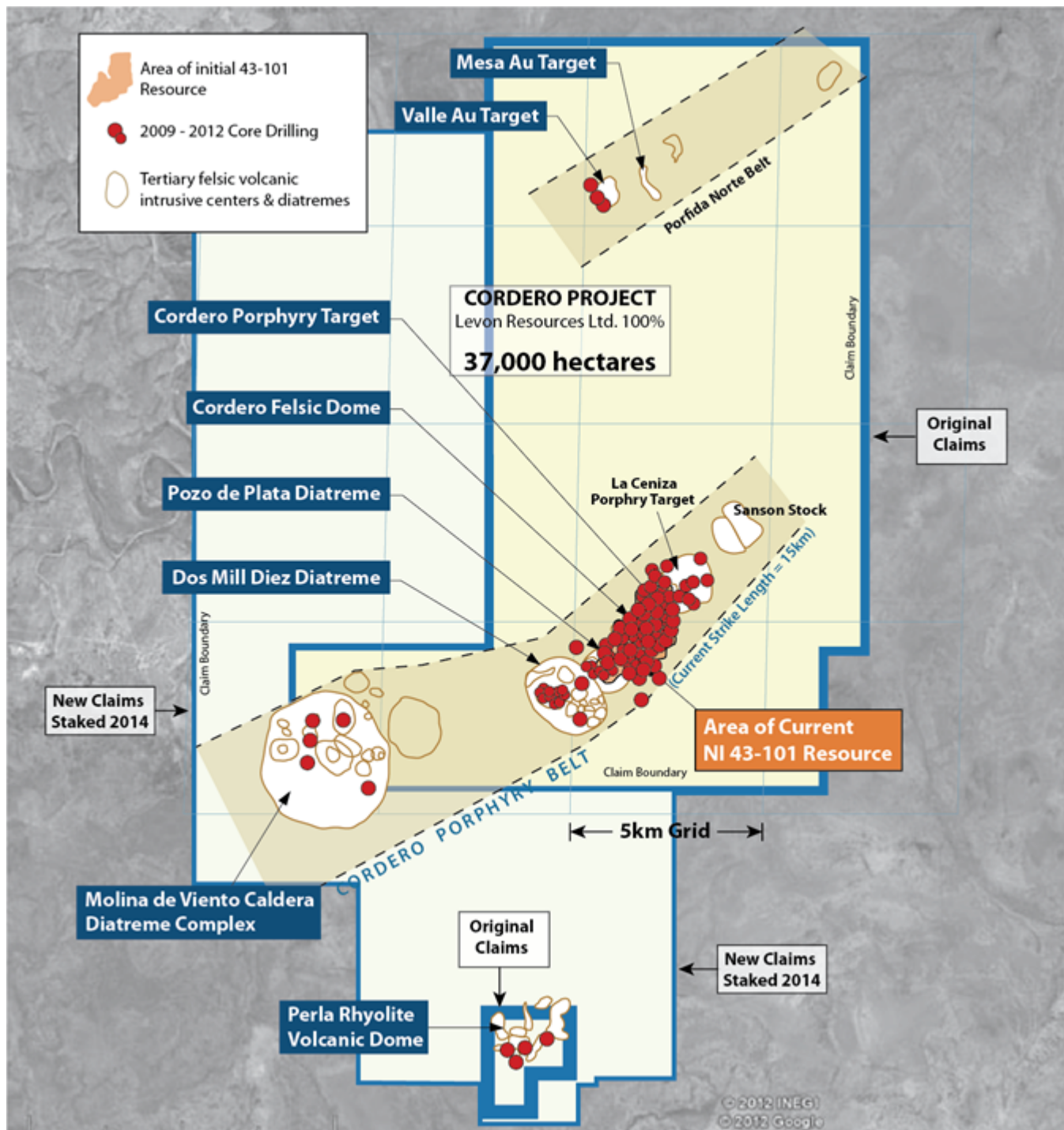
gold producers were skating on thin ice with really high cash costs that were near the gold price or even higher. The vast bulk of silver producers had cash costs of \$9 or lower when silver was a “lowly” \$14 per oz. This in an indisputably good position to be in and even better when one considers the kicker of Zinc, Lead, Copper or Gold that many silver miners have in their mix.

Some Background on Cordero

Levon began its exploration of this deposit during February 2009 under a joint venture agreement with Valley High Ventures, Ltd (VHV). Large scale, early reconnaissance mapping by Levon lead to the re-staking of all available lands in August 2009, which doubled the land position to about 20,000 hectares (200 sq kms). The staking was guided by geologic mapping, which defined the existence of two large scale belts of porphyry mineralization showings the Porfido Norte Belt and the Cordero Porphyry Belt. Levon eventually merged with Valley High in early 2011.

Cordero – the Lay of the Land

The Cordero deposit is a very sizeable porphyry target for silver, gold, zinc and lead. Over the last couple of years the concession has nearly doubled again to around 37,000 hectares. The concession hosts at least eight large-scale targets on two distinct porphyry belts and a third mineralized volcanic center. It is situated within the same emerging Chihuahua-Zacatecas silver-gold belt in northern Mexico that also hosts bulk-tonnage silver deposits such as Penasquito (Goldcorp), Camino Rojo (Goldcorp) and Pitarilla (Silver Standard).



An Eye-popping Resource that needs a Recall

The mineral resource at Cordero has had quite a few iterations and is thus a work in progress. The most recent resource dates from September 2014. Prior to this there was the June 2012 Mineral Resource Update Technical Report dated July 31, 2012 (as amended May 10, 2013) and the Preliminary Economic Assessment prepared by M3 Engineering & Technology, dated March 12, 2012 (as amended May 8, 2013). The PEA included the

mineral resource developed by IMC in June 2011.

The latest (Sept 2014) mineral resource was declared because of additional drilling and geologic information and contained some truly mind-boggling numbers with nearly half a billion ounces of silver and Lead and Zinc resources denominated in billions of pounds.

NI43-101 Resource - Cordero Deposit						
(15 g/t AgEq Cutoff)						
	Tonnes	Ag Eq	Ag	Au	Zn	Pb
	000s	g/t	g/t	g/t	%	%
Indicated	848,462	41.03	17.91	0.05	0.479	0.254
Inferred	92,158	31.39	15.00	0.029	0.327	0.195
Contained			Ag	Au	Zn	Pb
Metal			ozs	Ozs	bn llbs	bn llbs
Indicated			448,494,796	1,366,129	8.953	4.742
Inferred			44,448,039	84,746	0.663	0.397

This was a further hike upwards from the resource, dating from June 2012, which had estimated:

- Silver: 364M oz indicated, 91.2M oz inferred
- Gold: 945,000 oz indicated, 152,000 oz inferred
- Zinc: 6.1bn lbs indicated, 0.7bn lbs inferred
- Lead: 3.3bn lbs indicated, 1.2bn lbs inferred

One of the key reasons for the uplift was the inclusion of the Aida claim which had been bought subsequent to the 2012 resource estimate. Some other important points to note about the deposit (for calculation purposes are that the mineral resource crops out at the surface. The resource has not been fully delineated by drilling along most of its perimeter, nor at depth down plunge to the northeast. Within the geometry of the modeled open pit containing the resource, rock in largely undrilled areas *has been modeled as unmineralized waste rock*. The calculated stripping ratio is nevertheless a low 1.2 to 1.

The use of a silver equivalent (AgEq) to represent the value of the deposit is a change from the previous mineral resource

estimates where a net smelter return was used. As we noted in our last commentary on Cordero investors are frequently boggled by the use of the unfamiliar NSR format. Levon made this change to provide the deposit value in a format consistent with the reporting by other polymetallic resource companies.

The current resource is open to expansion on strike and at depth beyond the gigantic 2.8km x 2km conceptual open pit.

How to Move this Forward

As mentioned back in 2013 the company came out with a PEA. Of course the situation back then was quite different to now though the financing drought has already begun in precious metals. However for those with good memories there was also a perception that this “wouldn’t last”. Well it did and as we know everyone has had to cut their coat to suit their cloth since.

Levon’s main concern, after financing, is that its Cordero project is widely perceived as a low grade, bulk tonnage deposit, which will need favorable metal recoveries, metal prices and low operating costs to be developed. Then again, our response to that is “doesn’t everyone need those three things to be viable?”.

The PEA’s main metrics (dating from May 2013) are:

- Silver Price of US\$25.15
- Internal Rate of Return of 14.8%
- Mine Life of 15 years (to complete four stages of a planned eight-stage open pit)
- Mill Capacity: 40,000 tpd
- Strip Ratio: 1.2/1
- Payback period of 5.1 years

The key thing for us is the Zinc in the mix. It is almost as if the Zinc recovery now puts that metal in the driving seat

(as chauffeur) with Silver being a rather classy passenger in the backseat. The silver price that is used in the PEA is now ancient history, as the price has been sub-\$20 per oz for a long while now. However the zinc price (and the lead price in its wake) is now trending higher. As noted earlier the company has a very low strip ratio in its favour, and a low grade in the lead/zinc playing against it.. But in the matter of size the deposit is truly prodigious.

Conclusion

Despite Lead and Zinc slipping back in recent weeks, I and many other watchers, think this is just a temporary phase in a renewed bull cycle for them, in particular, for Zinc. Now silver has perked up Levon has something massive to offer both the precious metal investor (as they emerge from the bunkers) and the base metal follower.

Once again we come back to the truism of “right-sizing” a project. The PEA’s 40K tonnes per day throughput is rather ritzy. Talk of getting this up to 80K per day is now clearly historic. This is the next thing that needs a workover.

Levon are well-positioned to “make hay while the sun shines” if they can come up with a production plan that gets product out of the ground in very short order to capitalise upon higher prices for the precious and base metal components of this deposit.