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MD on Update & Outlook



Open Briefing interview with MD William Howe

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Metminco Limited (ASX: MNC, AIM: MNC) is an ASX and AIM listed exploration and mining company, advancing a portfolio of seven exploration projects, Los Calatos, Vallecillo, Mollacas, Isidro, Loica, Camaron and La Piedra, located in Chile and Peru, mainly focused on copper, but with significant exposure to molybdenum, gold and zinc.

In this Open Briefing®, William discusses

- **Los Calatos drilling program**
- **Los Calatos mining option study**
- **Funding and outlook**

Record of interview:

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Metminco Limited (ASX: MNC, AIM: MNC) has completed a Phase 4 drilling program at its flagship Los Calatos Project in Peru. Since the release of the April 2012 mineral resource estimate of 2.3 billion tonnes at 0.40% Cu and 0.021% Mo (at a 0.2% Cu cut-off), an additional 50,500 metres of drilling have been completed on the project. This brings the total number of metres drilled to 125,384 metres. Was the Phase 4 drilling program comprehensive enough for Metminco to upgrade the April 2012 mineral resource to largely measured and indicated resource categories?

MD William Howe

The objective of the Phase 4 drilling program was to convert a high percentage of the April 2012 inferred mineral resource into an indicated mineral resource category, in addition to better constraining the copper and molybdenum mineralisation from a geological perspective. We look forward to releasing a further resource update towards the end of the year, and expect that these objectives will be achieved.

With a higher percentage of the mineral resource being classified as indicated and measured, a higher level of confidence in the mineral resource is implied. This resource in turn will form the basis of our pre-feasibility study that is to be initiated in early 2013. We are in the business of de-risking the company's assets in line with our objective of becoming a mid-tier copper producer, and thereby adding shareholder value.

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Mineralised intercepts at Los Calatos suggest a large scale copper porphyry system, and compare favourably with global copper projects of similar scale. What are the key issues that will define the economics of Los Calatos?

MD William Howe

The three key issues are grade, open pit stripping ratio, and size of the requisite capital expenditure.

If you look at the April 2012 mineral resource estimate for the project, you will note that the mineral resource of 2.3 billion tonnes at 0.40% Cu and 0.021% Mo is declared at a copper cut-off grade of 0.2%. However, at a cut-off grade of 0.35% the mineral resource is 1.2

billion tonnes at 0.52% Cu and 0.028% Mo implying a 30% uplift in the copper grade, but with a concomitant reduction in the tonnage of 1.1 billion tonnes. The current mining option study will evaluate a number of mining methods, and related cut-off grades, with the objective of facilitating optimal financial returns.

With an open pit operation the strip ratio is an important consideration, particularly in the absence of a zone of supergene enrichment, as is the case with the large copper-molybdenum porphyry system developed at Los Calatos. The focus of the envisaged open pit operation at Los Calatos, the size of which has yet to be established, will be on a near surface (approximately 50 metres below surface) anhydrite breccia, which persists at depth and generally contains the highest copper and molybdenum grades. However, due to the surrounding topography and the impact it would have on the stripping ratio, the open pit will be followed by an underground mining operation that will probably involve block caving as its primary mining method. It is anticipated that the cash flow arising from the open pit operation would contribute towards the cost of establishing the underground mining operation.

Finally, the anticipated capital expenditure to develop a project the size of Los Calatos is important, particularly in a global environment where there is investor sensitivity surrounding capital investment and investor returns, which is more accentuated in the case of junior explorers and miners. However, the mineralisation style at Los Calatos is such that it will allow for the deposit to be mined as an open pit in its initial years, followed by a bulk mining underground operation, thereby allowing for the phased development of the project and related capital expenditure.

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SRK Consulting (Chile) S.A. will update the mineral resource for Los Calatos in December 2012, including an updated 3-D block model for the deposit. The 3-D block model (current and future) will form the basis of the mining option study that is being conducted by an independent mining consultancy group. What impact will the study have on your funding options?

MD William Howe

The purpose of the current mining option study is to identify the preferred mining scenario for Los Calatos, which will form the basis of the pre-feasibility study to be undertaken in 2013. Of significance is the fact that the mining option study will provide high level estimates of the conversion rate from mineral resources to mineral reserves, operating costs, capital expenditure and production rates for the preferred mining scenario. All of this will contribute to an improved understanding of the financial requirements, and returns, associated with Los Calatos.

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The Phase 4 drilling program focused on upgrading the higher-grade zones identified at Los Calatos, including the near surface anhydrite breccia, the latter of which would potentially be the focus of an initial open pit operation. What mining scenarios are being reviewed in the mining option study, and how will the study impact your funding options for the pre-feasibility study which is targeted for initiation in 2013?

MD William Howe

The study will review several options that vary from open pit to underground mining operations, and combinations thereof, with the objective of identifying a preferred mining scenario on the basis of technical parameters and financial returns. From a funding perspective, the mining option study will provide a good indication of the financial requirements of the project, and indicative financial returns, which will assist with our funding options. Whilst we have endeavoured to apply the most cost effective and appropriate exploration and technical methodologies in building up our geological understanding of Los Calatos, the financial returns and associated risks remain key to any investment decision.

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What will be your key considerations in deciding on a mining path for Los Calatos?

MD William Howe

As mentioned earlier, we will decide the preferred mining scenario on the basis of technical parameters and potential financial returns. We are in the business of minimising technical risk and optimising shareholder returns. Hence, we'll be guided by factors such as our ability to minimise risk, phase in capital expenditure, rationalise unit operating costs and optimise NPV.

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With a projected US\$14 million at the end of December, will you have adequate cash to fund your planned activities in 2013: initiating the pre-feasibility study for Los Calatos; completing a feasibility study on the Mollacas project; and completing a scoping study on Vallecillo?

MD William Howe

As has been reported to the media, we'll deploy the US\$14 million on the company's key value drivers, being the three studies you have mentioned. However, the quantum of work we undertake on each of the studies will vary, based on management's view as to where we can add most shareholder value based on the available funds. We are also considering another tier of funding for the development of these projects, which revolves around funding options other than conventional capital raising.

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What is the strategy behind progressing three exploration projects at once? Is your funding of further studies of the smaller projects diluting your ability to add value to the more significant Los Calatos project?

MD William Howe

Fortunately for Metminco, we have a spread of projects that vary from early stage exploration to feasibility, which allow for development at different times such that early developmental projects can part fund subsequent projects. In the context of Los Calatos, we believe most shareholder value can be added by advancing the project closer to feasibility; hence this is where the company's focus remains, bearing in mind that the exploration costs for Los Calatos to date are orders of magnitude higher than those for the smaller projects (Mollacas and Vallecillo).

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Together, Metminco's three projects have total in-situ copper equivalent of 27 billion lbs, and your current share price of 7.9 cents implies enterprise value per copper equivalent pound of approximately 0.4 cents. What are the value accretion opportunities for Metminco over the next 12 to 18 months?

MD William Howe

The opportunity largely resides with Los Calatos, as we advance the project towards the completion of a feasibility study. I say this in light of some of the more recent copper transactions that have taken place in Chile and Peru, where transactional values of between 5 cents and 18 cents per copper equivalent pound have been realised (e.g. Sierra Gorda and Quellaveco Projects), bearing in mind that such projects have been advanced to the conclusion of a definitive feasibility study.

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In spite of weaker European and US economies, the copper price has held between US\$3.40 and US\$3.80/lb over the past year with consensus forecasting a deficit in global supply over the coming decade due to insufficient new supply coming on stream. In this scenario, what is the expected development time frame for Los Calatos?

MD William Howe

We remain positive about the impact of changing supply-demand dynamics on future copper prices. Whilst we will have a better understanding as to when production will commence at Los Calatos after the conclusion of the planned pre-feasibility and feasibility studies, we would hope to initiate production in 2018.

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Thank you William.

For more information about Metminco, visit www.metminco.com.au or contact MD William Howe on (+61 2) 9460 1856 or william.howe@metminco.com.au

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