Zinc Discovery in Arizona looks like “Bre-X”

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With zinc prices rocketing, investors are piling into new zinc stocks and Arizona Mining is top of the list. Arizona's shares are flying, up over 1,000 per cent this year, as the company has drilled out its Taylor zinc discovery in the US, eight miles from the Mexican border.

Taylor has pumped out stellar drill results this year with eye-popping zinc grades, as high as 23 per cent. In September, it reported its “best hole to date”, drilling 105 feet at 14 per cent zinc and 10 per cent lead. “The Taylor deposit could be one of the best growth stories in base metals,” CEO Jim Gowans announced in February.

As drill results have come out of the ground, cash has piled into the company. Arizona raised $16m in March, closing an $18m private placement in May and a $36m bought deal earlier this month. The company's market cap has mushroomed to C$826m ($627m), as the shares have risen from 30 cents to C$3.31 in twelve months.

It is a “globally significant deposit”, says investment bank RBC, and 14 drill rigs are “still turning” on the property. “Isn’t 103 million tonnes enough ore? Yes, but we believe it makes sense to understand the geology of the whole land package, particularly if there was a takeover”.

“Icredible”

Some analysts think they have a good enough handle on the geology already: even if Taylor's product comes out of the ground, manganese impurities in the deposit mean smelters may simply refuse to process the product.

Arizona's land package was originally a manganese mine, repackaged as a silver deposit. Now, it is a zinc discovery. “In the old deposit, the manganese was definitely a problem,” says one source in Arizona, who has worked for the company.

“They published a series of studies and then things kind of went to crap. The manganese and the silver were linked on a molecular basis and very difficult
to separate. That one, I didn't really have much faith in. The more I learned about it, the process is brutal.”
The new Taylor discovery, however, looks like “the real deal... They're a Canadian junior mining company and they're not angels, but they kept going, their stock is way up, it's a beautiful deposit. With the grades they have got, it's incredible.”
A representative for Arizona Mining...

...said that manganese had been an issue at the site's old workings, but had no bearing on the new Taylor discovery. Arizona's filings have “very minimal info” on the manganese levels, according to banking analysts. Taylor's product has “No Deleterious Materials” and “High Quality, Clean Concentrates”, a corporate presentation says.

13376ppm

Manganese clogs up smelters, sticking to anodes and tanks, which have to be emptied and cleaned if they are processing manganese-heavy material. The upshot: too much manganese in with your zinc and the product isn't viable. Anything above 0.4 per cent and a company faces penalties, paying extra to process its tonnage. Anything above 0.7 per cent and it's probably a showstopper.

On page 94 of the company's 113-page resource estimate, which was published in October, Taylor's concentrates were “analyzed for smelter-penalty elements [sic]”, with manganese coming in at 13376ppm, equal to 1.3 per cent. “Their material is not actually saleable,” says one banking analyst. “Nowhere does [the company] mention this as a potential issue.” Analysts at three separate banks said that manganese levels of 1.3 per cent are unworkable. There are “likely to be some high penalties for that sort of quantity in a concentrate. Probably not too many smelters who could take it so they're likely to be over a barrel.”

“Mystified”

A company representative said they were “mystified” by questions about the manganese. “I'm not sure how that could have become an issue in anyone's eyes. There is a bit of manganese in it, but it's not an issue. If anything, this is a positive.”

“We don't have any nasties like arsenic, anything that would concern
smelters. In fact it's a very clean concentrate. It could be used as a universal blender. Smelters like to get this stuff, because they can use it to blend with lower quality concentrate... It's not an issue.”

Arizona's chairman, Richard Warke, is a prolific company founder, with an almost unbeatable track record of bankruptcies and delistings. He has previously been ticked-off for insider trading violations, misleading resource statements and improper tax accounting. One company Warke was involved in bought claims off him for $1m, before reselling them for a dollar. Arizona looks “really questionable”, one banker says. It looks like a “mini Bre-X.”