



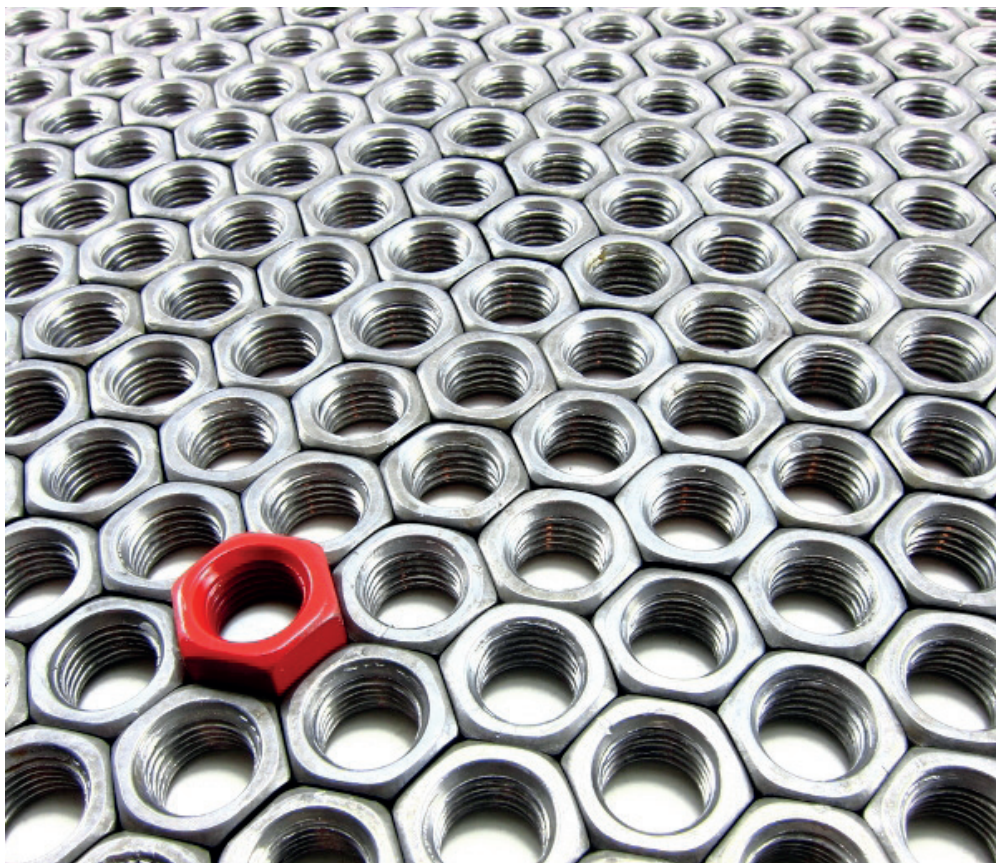
Rockstone

Research

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Zinc Outlook



Of Swallows, Magpies and Canaries

My last blog of 2015! I know it has been a while. It has been a busy time trying to start up a new private zinc company (G11) in the worst of times and the best of times. I have waffled a lot about zinc during 2015 so it seems apt that I end the year with my prognostication on the metal. I might even have an opportunity here for the contrary investor to pedal on a counter cycle contraption. A New Year resolution among others will be to write a mining investment letter. It would be researching opportunities in the rare atmosphere of the zinc space. It could expand into the ether of the wider metal space beyond and particularly the golden dawn.

Analyst Profile & Contact



John P. Barry

**Managing Director of Irus Consulting Ltd.
and Professional Geologist**

John Barry was part of very small teams which discovered and sourced several multi-million ounce gold deposits in Africa. He has worked as an economic geologist since 1988 and as a consultant and then responding to the entrepreneurial spirit he was a founder and manager of three public resource companies which raised a total of US\$70million. These resource companies are currently successfully exploring and developing gold and base metal projects in Europe, and sub-Sahara Africa. John has seen a lot of rocks working for consultancies such as CSA in both Ireland and Australia and as Senior Associate Geologist with Chlumsky Armbrust & Meyer LLC which is based in Denver. He is a specialist in zin-lead exploration and in 1992 joined the exploration team which discovered the Lisheen zinc-lead deposit in Ireland as the resource was being expanded in the first couple of years after discovery and in 2008 led the first non Polish exploration company to successfully enter and acquire a major resource-project in the Upper Silesian Mississippi-Valley-Type (MVT) zinc-lead district in southern Poland - the world's largest minerlised district of its kind. John (P.Geo and EurGeol) holds a Masters Degree in Geology from Pennsylvania State University and a MBA from the Edinburgh School of Business, Heriot-Watt University, Scotland.



I am calling the bottom of this cycle in zinc now. Even petrified investors cannot ignore the confluence of zinc market fundamentals in 2016. Here are some snippets collected by the Magpie for you to digest with your fowl over the festive season. Just a warning that the Magpie is selective and is a most biased observer. It particularly likes things that are shiny and sparkle in the gloom.

The Lisheen Mine here in Ireland is now closed which was once the 11th largest in the zinc mine in the world. The giant Century Mine in Australia has finally shipped its last zinc concentrate. This much heralded closure was long awaited by the little boy who called "wolf".

Is the first Swallow on the horizon? After the darkening solstice there are signs of summer. Are Chinese zinc smelters are getting generous for Christmas? I do not think so. Treatment charges in China plunged to \$150 – \$160 in recent weeks. Quality zinc projects within two years of production are as common as unicorns. When will we see the impact on zinc spot prices? The zinc spot price recently plumbed a six year low at 68c/lb. The zinc price was 58c/lb when I visited Poland in October 2008. Not to forage for mushrooms in the shedding forests but to prospect for zinc north of Krakow.

Already there are only about 20 days of global zinc supply in London Metal Exchange (LME) and other bonded warehouses. If you add off-warrant stocks then Macquarie estimates the total is about 1.7 million tonnes of refined metal. This is just six weeks of global demand. The tipping point of three to four weeks is not far away.

It takes years from discovery to mine production. There are only weeks of refined zinc in storage. Not much inventory when you also factor in the significant loss of mine supply lost to the refiners. This must result in a price surge. I am convinced this will happen in 2016.



Last time this happened the zinc price went through the roof. However it was in the context of ever increasing Chinese demand. Some called it the super-cycle and happy days for miners. In fact the view was that miners would live happy ever after. China is the biggest producer and consumer (45% of global supply) of zinc. It is hard to know what is going on there and indeed what numbers you can trust. But China recently announced smelter cuts of around 500,000 tonnes of zinc production. If supply constricts to zinc smelters furnaces can cool and reheating takes time. Smelters need at least one month of inventory because you just do not turn on and off a base metal furnace. When there is plenty the smelter will squeeze the miner and increase treatment charges. When supply of zinc concentrates are in short supply a smelter will lower TC's to compete. This is the canary in a coalmine.

China's growth rate will be lower in the future but from a much bigger expanded base. Will it just stop galvanizing steel, building cars and manufacturing white goods? Global car sales gained 5.8 per cent year-on-year in November.

Glencore recently cut 500,000 tonnes of zinc in concentrate production from its Australian mines. Thousands

of trained miners and engineers all gone in a puff. Glencore needs a zinc price of \$2,500 per tonne (\$1.13/lb) to bring these mines back on line. Bringing it all back on line always takes longer than planned. Maybe you have to hire a detective agency to find your old mining team. There is retraining involved if you can get your staff back. You have to service your mining equipment and plant. Gear needs to go back underground and workplace checks completed. Maybe three months if you manage to find and rehire most of your staff. Six months if your need to hire new staff and train them. This timeframe is just to get restarted and who knows how long to reach targets again.

The zinc price is not an incentive anymore for geologists to explore. That is even if they could raise finance for such an endeavour. Zinc mine revenues are sinking fast at these prices. TC smelter charges cannot fall below a certain base-level without damaging smelter economics. To maintain global mine output we need higher prices. But the horse has already bolted.

Leslie Waddington was arguably the most influential modern art dealer in post war Britain. He said that he built his success on stockpiling. You hoarded an artist "until suddenly everyone wants it". Sir John Templeton was



one of the fathers of the hedge fund industry. He once said that you would never make money in the stock market doing what everyone else was doing. You had to dare to be different to find value. Buy quality and then be patient while you wait for the rest of the world to catch up.

Remember that grade is king. Forgetting this is why we have so many crap gold projects from which to choose. Happy Christmas everyone and let's look forward to a 2016 as the Year of Zinc if that does not get you too excited. Thank you to all who managed to reach the last line in 2015 long after every nerve and sinew was spent.

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John is now moving more from managing public companies to freelance consultancy and a more advisory role so as to concentrate increasingly on assisting management in effective exploration and discovery. He is MD of his own Exploration Management and Geological Consultancy - Irus Consulting Ltd.

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About John P. Barry

John P. Barry
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A widely travelled and highly experienced economic geologist, John Barry is a confidential counsellor to the likely investor contemplating a considerable investment in the intricate business of mining metals. Don't take a flyer and trust altogether in luck and invest your money in an exploration or mining project on the strength of a printed prospectus or the advice of an interested friend without the preliminary investigation and site visit of a reliable geologist with a basic grasp of commercial reality. Irus Consulting provides strategic and practical management advice and guidance to its clients. Time is a precious commodity for my clients, and indeed myself, as it relentlessly ebbs away and so I try as best I can to avoid the mediocre - those projects and their champions which do not engender enthusiastic belief and passion. I would like to think that I have shown the tenacity, patience and focus required to implement many of my better ideas over the years and that I have learned valuable lessons from some failures. I believe one of my strengths is in communicating quite complex technical ideas in a concrete way that can be easily understood. I am a team-builder and motivator by projecting my enthusiasm and vision for a project. I am committed to the development of young geologists through supportive delegation. John is now moving more from managing public companies to freelance consultancy and a more advisory role so as to concentrate increasingly on assisting management in effective exploration and discovery. He is Managing Director of his own Exploration Management and Geological Consultancy: Irus Consulting Ltd. Please visit www.irusconsulting.com for more information and free newsletter registration.



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