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Oro Silver Expands Quickly In Mexico, Helped By Strong Local Relationships

By Charles Wyatt

When Oro Silver was spun-off from Oro Gold at the beginning of 2007, a plan was already in place to fast track towards production. At its inception, Oro Silver did carry a few inherited silver assets, but after a brief period in which the company was allowed to catch its breath, a serious acquisition programme started in earnest. At about this time Darren Bahrey and Greg Cox, the existing directors, brought in Hervé Thiboutot to make up the team and they were off to the races.

All three had had big company experience, and Darren had founded Oro Gold. Prior to that he worked for Placer Dome on exploration and acquisitions in Mexico and Central America, and it was there that he met Greg Cox and Hervé Thiboutot. Greg became general manager of global mine-site exploration at Placer and was responsible for the expansion of reserves at Placer Dome mines all over the world. Hervé Thiboutot also had a career with Placer before moving to Goldcorp, where he was project manager-geology for the Eleonore mine in northern Quebec. He also brought experience in Mexico and the ability to speak both French and Spanish. That was - and is - vital for negotiations. He's now chief executive.

Hervé talks quickly and thinks quicker. The acquisition of the El Compas mine followed swiftly after his arrival, but he explains that in fact it was the Vetagrande mine, with its mill, that was the main target. Nevertheless El Compas was a vital step on the way as it was owned jointly by a local mining company, Contracuna, and a Mexican individual, and they also owned Vetagrande. At the time of the first deal they were put on a retainer to look for other possible acquisitions in the Zacatecas district. This district was among the first exploited by the Spaniards back in the days of the conquistadors and it's now known to host one of the world's largest silver belts, boasting past production of 1.5 billion ounces of silver. El Compas itself is only four kilometres south of Zacatecas city so there are no problems over road access, infrastructure and labour.

El Compas is a fairly modest project at the moment, with current indications showing that the resource may increase to around 500,000 ounces of gold equivalent. It's a low sulphidation epithermal system with typical "bonanza" gold and silver grades, but the average grade is 350 to 500 grammes per tonne silver equivalent in veins averaging four metres in thickness. It was mined up until recently at a rate of over 50 tonnes per day, and drilling by Oro has outlined two near-surface ore shoots, confirming the potential for two to eight metre wide veins at better than 6 grammes per tonne gold equivalent. Either silver or gold equivalents could be

used, but gold tends to be more appropriate when making comparisons with other mines. A resource estimate should be available by the third quarter of this year, and engineering and metallurgical studies will be completed before the end of December.

The acquisition of El Compas gave Oro the right of first refusal over the Vetagrande project and in December 2007 a deal was agreed. In the meantime the company had raised some money and picked up a number of other concessions in the Zacatecas district. But Vetagrande was always in Oro's sights. It lies just seven kilometres to the north of Zacatecas City and the base metal component of the ore may be more significant than was recognised in the past. Hervé points to the growth of Capstone's Cozamin copper-silver mine just on the other side of Zacatecas city as evidence of the potential in this district. Vetagrande also has considerable potential at depth, where no drilling has yet taken place. It is about double the size of El Compas in terms of resources, and historic reserve grades are as high as 205 grammes per tonne silver, 0.37 grammes per tonne gold, 3.2% zinc, 1.9% lead, and 0.15% copper.

The big prize at Vetagrande, however, is the mill which used to operate at 150 tonnes per day but has been upgraded to a capacity of between 300 and 350 tonnes per day since Oro acquired it. Other work being carried out this year includes underground surveying and sampling. Vetagrande was partially mined down to 250 metres, but there is potential to double that depth, so an underground drilling programme is scheduled for the end of this year. By the end of 2009 Oro will have 100 per cent ownership and should have finished its engineering studies and resource estimate and embarked on an economic scoping study. 2010 will therefore be the year of the feasibility study and production should commence in 2011. El Compas, meanwhile, should be a shade ahead, with the feasibility study starting in mid 2009 and production in 2010.

The shrewdness and experience of the Oro management is demonstrated by the relationship it has built with Contracuna and the local Mexican operator. This has enabled it not only to buy near term production, but also to consolidate a large land position in a world class silver district which has nevertheless been underexplored. The most recent channel results from El Compas and Vetagrande give a clear insight into the potential. During this month Oro Silver has reported surface channel samples of 12.3 metres at Vetagrande grading 694 grammes per tonne silver and hit 5.3 grammes per tonne gold and 276 grammes per tonne silver over 4.7 metres at El Compas. One can imagine Hervé Thiboutot smiling down the transatlantic telephone line, but he plans to be here in person in the autumn. If the drill results continue in that vein his smile should be even broader by then.

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