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1

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For Acadian, timing is everything

HARD WORK AND GOOD LUCK COMBINE TO GET SCOTIA ZINC MINE OFF THE GROUND

BY TRISH SAYWELL

Bill Rogers (left), chief operating officer of Acadian Mining, and vice-president and director, Terry Coughlan.

BY TRISH SAYWELL

SITE VISIT

HALIFAX, N.S. — Whether it's sheer luck or just an uncanny sense of timing, Will Felderhof seems to have a knack for calling the numbers.

In 2001 and 2002, the geologist was working on his own in Nova Scotia, quietly building a portfolio of gold properties, when the metal was selling at US$255-265 per oz. Today, gold is trading at a 27-year high of US$795.30 per oz.

But his timing hasn't just been impeccable with gold.

As president and chief executive since 2003 of Acadian Gold, (formerly a capital pool company run by Jim Borland, one of his friends and a former editor of *The Northern Miner*) Felderhof guided the company, now called **Acadian Mining** (ADA-T, ADAIF-O), in the acquisition last year of the Scotia zinc-lead mine. At the time, zinc was trading at US70¢ per lb.

Today, the metal's price has climbed to US$1.31 per lb.

"We never predicted lead and zinc would get to these prices," says Felderhof during a dinner with analysts and investors at Salty's, his favourite seaside restaurant in Halifax. "It was hard work with some good luck involved. It's the first time base metals prices have been high enough to sustain mining."

Felderhof says zinc and lead prices are likely to reach US$2 per lb. in the short term.

"How long they stay there," though, he says, is "anyone's guess."

Smaller world inventories give some credence to his views. Since early 2004, the markets have burned through zinc stocks of about 740,000 tonnes. In addition, the markets have consumed about 600,000 tonnes of "invisible" stocks — or stocks that were not shown as being in inventory, but were nevertheless available to the market — likely smelter inventories.

It's been a similar story for lead. Stock levels at the LME warehouse have dropped below the 40,000-tonne level, notes Terry Coughlan, Acadian's vice-president and a director. Today lead sells for US$1.66 per lb., up from just US20¢ per lb. in January 2003.

On a recent visit to the Scotia mine, Susan Shepherd, who represents a private fund that has invested in Acadian, points out that her fund took part in an early private placement and subsequent financings because it had faith in the company's management and "always believed in the future appreciation of gold." But she notes that "the real turn of events was the obvious bonanza of the purchase of the Scozinc project." The timing of the acquisition, she says, "could not have been more opportune."

Acadian bought the open-pit zinc-lead mine from **HudBay Minerals** (HBM-T, HBMFF-O) for $7.5 million in July 2006.

Assets include a modern processing plant, maintenance facilities, administration buildings, a tailings pond and associated infrastructure, as well as 470 sq. km of mineral rights.

The mine has a proven and probable reserve of 4.6 million tonnes grading 3.6% zinc and 1.7% lead, and an inferred resource of 1.8 million tonnes.

Felderhof estimates the mine — which went into production in May — will have a lifespan of between 7.5 and eight years based on current reserves. There is potential, however, to extend the mine life if the inferred resource at Scotia and a historic resource estimate at Acadian's adjacent Getty deposit can be brought into reserves, he says.

"To think that we got all this for $7.5 million," Coughlan says. "It's pretty incredible. They never really knew what they had."

BY TRISH SAYWELL

A zinc flotation circuit at the Scotia mine.

The Gays River Scotia mine, 65 km northwest of Halifax, is forecast to churn out 30,000 tonnes of high-grade zinc concentrate and 10,000 tonnes of high-grade lead concentrate per year.

"We've built this mine with no debt and raised $20 million in the market," Coughlan says. "That's pretty good for a company that has only been around for four years."

A Cadillac operation

Esso Minerals built the mill when it owned the property in the 1970s. A lot of the equipment is double pumped and many of the tanks and equipment are inside the mill, rather than outside.

"Esso didn't spare a lot of money when they were building this place," says Bill Rogers, Acadian's chief operating officer. "It's a pretty nice complex to work in."

Nonetheless, Acadian has spent about $4.5-5 million in refurbishments to the mill. Only limited capital spending will be required to expand the mill to a 3,000- to 4,000-tonne-per-day capacity, the company says.

Currently, it is running at around 2,000-2,100 tonnes a day, but Acadian may ramp that up to 2,300-2,500 tonnes over the next three to four months.

"When we get to 2,500 tonnes per day am I going to be happy?" Rogers asks rhetorically. "No."

But it hasn't been easy convincing employees the mill could churn out more concentrate. "It took a long time to get these guys to think they could get the mill above 1,500 tonnes a day," Rogers admits.

The mill — which runs around the clock — is currently operating at about 94% availability.

Outside the mill — the open pit is a stone's throw away. There, a fleet of six new 65-tonne trucks move about 20,000 tonnes of ore, waste rock and soil a day. In addition, Acadian has removed about 3 million tonnes of overburden in prestripping.

The strip ratio is 10:1 — significantly

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A conveyor moves crushed ore at the Scotia lead-zinc mine in Nova Scotia.

higher than the average 3:1 for the industry. But Rogers says while the ratio is "unusually high" — 89% of the material is clay, sand and gravel, which means costly blasting isn't required.

Playing the numbers

Acadian anticipates revenues from the Scotia mine this year of $20-25 million and a pretax cash flow of $5-10 million. But those numbers will depend on fourth-quarter results due in January or February.

Specifically, 2007 revenues will depend on whether the company's second shipment of zinc will be sent off before Jan. 1 — and that depends largely on ship availability in the mid-December period.

"The first quarter of next year will be important for us," Felderhof says. "Next year should be a good year."

Acadian forecasts full-year revenues for 2008 of $63-67 million. Pretax cash flow is estimated to be $47-50 million next year and $55-60 million in 2009.

The marginal corporate tax rate in Nova Scotia is 35%.

Based on a zinc price of US$1.65 per lb., the company forecasts it will cost between US55¢ and US62¢ to produce each pound of zinc this year.

Acadian shipped its first 800-tonne shipment of lead concentrate, destined for Germany, on Nov. 1 and expected to send a second shipment of 1,000 tonnes to China in early November. The first shipment of 5,000 tonnes of zinc concentrate was also expected to be shipped around the same time.

"We really want to get that shipment out before the end of the year," Coughlan says.

Adds Rogers: "And we've got the grades to do it. The mill is tuned up well enough to do it."

Acadian was still mining low-grade material at the end of September, but is now approaching expected mining grades of 3.1% zinc and 1.3% lead.

Acadian receives a provisional payment of 90% of the invoice value (less deductions) based on the bill of lading within 14 days of shipping. The second provisional payment of the remaining 10% of the initial invoice value based on the latest assays, tonnages and so on, is made at 45 days after shipping. The final settlement, plus or minus, is made after the final assays, tonnages and metal prices are known, Rogers explains.

The mill can produce a zinc concentrate grade ranging from 58% to more than 65% and a lead concentrate grade ranging from 68% to more than 75% at the expense of metal recovery to concentrate, Rogers explains. As a rule, the higher the metal content of the concentrates, the lower the mill metal recovery to concentrates.

Given the number of inputs required — from smelter treatment charges to metal prices, exchange rates, moisture content, land freight costs and ocean freight — Acadian has to continuously evaluate inputs to maximize returns on its concentrates.

"It's mental gymnastics trying to figure it out sometimes," Rogers says. "We get paid by the tonne of metal in concentrates and we pay to ship it. So it's an economic balance of what you ship. Currently, bulk shipping is expensive, while at the moment, containers can be cheaper, making it necessary to keep our eye on forward markets and conditions."

Betting on zinc

Since 2003, Acadian has raised more than $54 million in the venture capital markets and its shareholders have grown from a small group of 750 to about 6,000.

Last year Acadian shares were trading in the 50¢ price range. Since November 2006, about 155 million Acadian shares have been traded at an average price of over $1 per share.

In July, the share price climbed to a high of $1.39 before falling back to more normal levels in August and September. More recently, it hovered at about $1.10.

"It's not a fast ramp-up of the share price, but we're building the company and the share price will follow," Felderhof says.

Management holds about 7% of the company.

"We have a lot of shareholders who are very happy with us," Felderhof says. "Some of their other holdings have gone up and down. It's about good liquidity and steady growth. We're the turtle, not the hare."

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Acadian leaves no rock unturned

BY TRISH SAYWELL

In addition to its interests in zinc, **Acadian Mining** (ADA-T, ADAIF-O) is the dominant player in Nova Scotia's goldfields, controlling four advanced gold projects: Beaver Dam, Forest Hill, Tangier and Goldenville.

The four projects combined hold a National Instrument (NI) 43-101-compliant resource of 626,000 oz. gold in the measured and indicated categories and 909,000 oz. gold inferred.

Of the four projects, one is an open pit and the remaining three are underground mines. Acadian wants to pursue a multiple mine, central processing, managing and servicing strategy.

Management envisions building a central mill at Beaver Dam that would process 3,000 tonnes per day and ideally produce about 50,000 oz. gold a year. Ore would be trucked 150 km from Forest Hill, 100 km from Goldenville, and 40 km from Tangier.

"Forest Hill, Goldenville and Tangier all have shafts and declines, so we can get them up and running fairly quickly," says Terry Coughlan, Acadian vice-president and director.

The company has completed six deep drill holes to 650 metres at Beaver Dam. Drill holes of note included hole 134, which intersected 6 metres of 13.87 grams gold per tonne including 2 metres of 33.28 grams gold, and hole 137, which intersected 4 metres of 10.54 grams gold.

Acadian will begin a prefeasibility study in the fourth quarter of this year and a scoping study should be completed by December. It hopes to start permitting in the first quarter of 2008.

Acadian also owns the largest *in situ* barite deposit in Atlantic Canada. It has an estimated 1.7 million tonnes of contained barite near the surface and it's high-grade, Coughlan says.

"We picked it up for $300 because the people hadn't renewed their claim and we got it the next day. It fell in our lap."

The company also holds a 44.42% equity interest in **Royal Roads** (RRO-V). That company's principal asset is a 161-sq.-km parcel of land known as the Tulks North property, which is strategically located in the centre of the world-class Buchans base metal camp in central Newfoundland.

Royal Roads' Tulks North property is host to the Daniels Pond deposit, which was discovered by BP Resources Canada in 1989. It has an inferred resource of 1.69 million tonnes grading 0.57% copper, 4.4% lead, 8.37% zinc, 196.9 grams silver per tonne and 0.68 gram gold over an average width of 4.2 metres.

Royal Roads has started drilling at Daniels Pond to try to upgrade its numbers from inferred to indicated; Warren McLeod, president of Royal Roads and Buchans River, says he hopes to have an NI 43-101-compliant resource ready sometime next year.

Royal Roads holds a 34.05% equity interest in **Buchans River** (BUV-V, BCHRF-O), which also holds a prospective property portfolio of 134 sq. km in the Buchans camp, and the Buchans mine. Acadian's indirect interest in Buchans River is 15.13%.

Between 1928 and 1984, the Buchans mine produced about 16.2 million tonnes of combined metals grading 14.5% zinc, 1.33% copper, 7.56% lead, 126 grams silver per tonne and 1.37 grams gold.

"It was one of the richest VMS deposits in the world, right up there with the Rosemary mine in Australia," McLeod says. "They were unbelievable numbers."

Currently, Buchans River is systematically reviewing and compiling historical data on the property into a digital database and starting four exploration programs. Before the end of this year, it hopes to complete a Quantec Titan 24 geophysics survey looking for high-grade volcanogenic massive sulphide (VMS) deposits at depths of 250 metres to 1,500 metres. In January, it is scheduled to drill on targets identified in the Titan 24 survey.

It is also drilling 4,000 metres in eight holes that were prioritized by Billiton Canada in 2000. (The company pulled out of Newfoundland before drilling began.) That drilling is expected to be complete before year-end. Finally, Buchans River will drill a minimum of 4,000 metres on its Lundberg zone with a view to identifying an NI 43-101-compliant resource located at surface beneath the mine's old headframe.

Coughlan says the company plans to start drilling before the end of October on the Billiton targets.

The Lundberg zone has the potential to become an open-pit bulk-tonnage deposit. It has a historic resource of 11.8 million tonnes grading 1.83% zinc, 0.38% copper, 0.67% lead, 5.5 grams silver per tonne and trace gold.

"They built the mine right on top of the mineralization," MacLeod says. "There aren't many people who can plant themselves on top of a historical deposit and use new technology to look deeper than has ever been looked before."