

Global Zinc Player Emerges in Alaska

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VANCOUVER, B.C., March 7, 2014 (GLOBE NEWSWIRE) -- With a slowly improving global economy and a banner year for automobile sales anticipated, the demand for zinc shows no sign of slowing: Quite the contrary. Supply is the issue.

Couple that with the fact that three large zinc mines with pending closures, Vendanta Resources' Skorpion and Lisheen Mines, and MMG's Centaury and nearly 7% of global supply is or will soon be gone.

Zazu Metals (TSX:ZAZ) released their Preliminary Economic Assessment (PEA) on their JV property with Teck Resources this week. The PEA on their Lik zinc-lead-silver Deposit in NW Alaska shows robust economics at the current zinc spot price, and substantial leverage to even a small rise in the metal.

"Lik's sensitivity to zinc price is impressive," stated Matthew Ford, President of Zazu Metals. "Consensus is forming for higher zinc prices due to expected supply constrictions. For every 10 cent move, the pre-tax NPV increases by around US\$100 million."

From the December 20th WSJ: "Zinc is where the opportunity is," says Richard Davis, a mining-fund manager at BlackRock Inc who oversees about \$10 billion. "There could be quite a big gap opening up between supply and demand." Mr. Davis recently has increased his exposure to zinc through shares of mining companies that focus on extracting the metal.

Table 1: NPV / IRR of the Lik South Deposit for a range of zinc prices as indicated

	\$0.80	\$0.92 *	\$1.00	\$1.10	\$1.20
Post tax IRR	2.6%	9.7%	13.4%	17.9%	22.1%
Post tax NPV @ 8%	\$ (76 M)	\$ 25 M	\$ 83 M	\$ 158 M	\$ 233 M
Pre tax IRR	3.7%	12.5%	17.3%	23.1%	28.4%
Pre tax NPV @ 8%	\$ (60 M)	\$ 69 M	\$ 148 M	\$ 253 M	\$ 357 M

* Lesser of November 3-year trailing average and spot price as of 12/30/2013.

For lead: US\$1.01 /lb., silver US\$19.43 per troy ounce.

"There are few assets globally that are Lik's equivalent," said Ford, "And fewer still with a reasonable shot at going into production to meet the expected supply shortfall."

With China continuing to ramp up production, global steel production is forecast to increase 3.1% in 2013 and 3.3% to 1.52 billion tonnes in 2014. From January to October 2012, China's net imports of refined zinc rose 20%.

Ford continues; "As modeled, Lik South would have average annual production of 234,000 dry tonnes of zinc concentrate and 55,800 dry tonnes of lead concentrate. In total, 17.1M tonnes of ore milled at an average grade of 7.7% zinc, 2.6% lead and 47 g/t silver are expected from the Lik South open pit. This would rank Lik South as one of the largest producers of zinc concentrate and one of the largest zinc mines globally." The Lik Project resource estimate is shown in Table 2.

Table 2: Mineral Resource Estimate

Cut-off %	Indicated Resources			Inferred Resources		
	Zn	Pb	Ag	Zn	Pb	Ag

Location	Pb+Zn	Mt	%	%	g/t	Mt	%	%	g/t
Open Pit									
Lik South	5%	16.85	8.04	2.70	50.1	0.74	7.73	1.94	13.4
Lik North	5%	0.44	10.03	2.77	59.0	2.13	8.88	2.94	45.8
		17.29	8.09	2.70	50.3	2.87	8.59	2.68	37.5
Underground									
Lik South	7%	0.69	8.04	3.15	51.0	0.51	6.97	1.59	11.3
Lik North	7%	0.13	8.93	2.93	37.5	1.96	9.22	2.99	45.8
		0.82	8.18	3.12	48.9	2.47	8.76	2.70	38.7
Total		18.11	8.10	2.72	50.2	5.34	8.66	2.69	38.0

Notes:

1 CIM definitions were followed for Mineral Resources.

2 Mineral Resources are estimated using average long-term prices of \$1.20/lb. for zinc, \$1.20/lb. for lead and \$27/oz for silver.

3 A density value of 3.5 g/cc (0.109 tons/ft.³) was used.

Haywood Securities analyst Stefan Ioannou has been following Zazu with a Buy recommendation and 12-month target of \$0.75—shares are currently \$0.56. He further adds acquisition potential to the story:

"We view Zazu as a prime acquisition target given the lack of large advanced-staged zinc projects in a market facing a considerable medium term supply issues (mine closures) over the next 5 years. Furthermore, Liks' proximity to the Red Dog mine arguably makes the asset a 'natural fit' for Teck."

Dundee Capital Market's Joseph Gallucci, who states in a March 3rd update, reinforces that sentiment; "Once in production (est. 2018), we estimate that ZAZ will be the most zinc-leveraged stock in our base metals universe. The proximity of Lik to Red Dog gives ZAZ access to infrastructure and fuels speculation that ZAZ may be a takeover candidate if Teck decides to consolidate the area."

It's not just Teck that could be in the hunt for zinc assets. Major zinc players around the globe have been positioning themselves, acquiring zinc assets at an impressive pace. Producer & refiners like [Nyrstar](#), [GlencoreXstrata](#), [Vedanta](#) and [Boliden](#) have been jostling to find assets that can provide them with concentrate in anticipation of mine closures. So far, their purchases have been of producers, but with so few left, how soon before they start acquiring developers?

Ioannou further notes that Lik's potential is not lost on other groups, including Zebra Holdings and Investments S.A.R.L. and the Lundin family investment trust, which acquired just under 20% of Zazu (9 million shares) in 2011. Management also owns about 5%.

In 2001, when investors were looking for zinc plays in the then limited pool, Breakwater Resources shares began a steady and impressive rise from \$1.60 until topping out in 2007 at north of \$30. The company was purchased by Nystar in 2011 for \$663 million; a healthy 44% premium over the closing price on the announcement.

With Zinc prices at \$0.91 cents, the incentive to find more zinc is somewhat muted, which makes the Zazu situation beyond just another 'mine'. Haywood analyst Ioannou looks for a rise in prices to \$1.20 (last seen in early 2010) per pound by 2016. The Zinc price cratered to sub-\$0.50 in January 2009.

In December 2013, Scotia Bank's Commodity Economist Patricia Mohr called for zinc to hit \$1.40 by 2015. It doesn't really matter which analyst is right. Merely that the trend appears to be headed toward higher prices.

The statistics in the ZAZU PEA soundly address advancing the process of filling in the dearth of supply, real and pending. Lik will become a mine. It checks every box: grade, tonnage, infrastructure, metallurgy, governmental and local support and located in a great jurisdiction.

While the PEA indicates the significant economic potential of the project, the Company is of the opinion that the forecasts are quite conservative with regard to pricing and engineering scenarios.

Zazu shares are trading at around \$0.60. Over the past year, it has hit \$0.55 about a half dozen times, evidencing decent and consistent price support.

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Contact

[Zazu Metals Corp.](http://ZazuMetalsCorp.com)

Suite 350 - 885 Dunsmuir Street

Vancouver, BC

V6C 1N5

Phone: (604) 878-9298

Toll-free: (877) 878-9298

Fax: (604) 568-9298

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