

The investment approach taken by Reservoir Minerals (CVE:RMC) is an interesting one – and it has helped catapult the company's value from C\$15mln to more than C\$300mln. Its strategy is one dabblers in the small-cap market will be familiar with: back multiple horses (not just one) knowing that way you have a much greater chance of success. So Reservoir has a diverse portfolio of projects spanning multiple minerals across two continents, though its primary focus is south-east Europe. Limiting risk for investors further, it dilutes at the project level rather than issuing equity to fund exploration.

This means Reservoir tends to farm out properties to deep pocketed partners pre-drill. In fact this is something it has already done – with the 245 sq-km Timok copper joint-venture (JV) in Serbia, where it recruited the international giant Freeport-McMoRan. This tie-up and the highly prospective nature of Timok's Cukaru Peki prospect is why the group carries its mid-cap valuation.

In identifying and working up its basket of over 20 projects, the team, led by Simon Ingram, works a little like research scientists. They take a view of the potential geology of an area and then go out and complete the early exploration work to firm up (or, in some cases disprove) their hypotheses. And it deploys a hard headed discipline by dropping properties where the results just aren't shaping up as envisaged.

The junior bourses are littered with mining firms that continued to chase the dream long after common sense dictated management should walk away, said Ingram. "We use standard R&D methods – and you need that rigour," he added. "But for some reason it seems to be lacking in mining where geologists always want to drill just one more hole."

Reservoir's Timok JV reveals what happens when that initial hunch about an area pays off. Freeport will earn up to 75% of the project, which lies within the mineral-rich Timok Magmatic Complex in eastern Serbia, and will take the asset to the bankable feasibility stage.

In short, it must put in all the exploration leg work. The American giant JV partner has already uncovered a 43-101-compliant resource of 65.3mln tonnes at 2.6% copper and 1.5 grams per tonne of gold at Cukaru Peki. But this may just be the start. Analysts at GMP Securities believe that a larger porphyry-style deposit of 500mln to 1bn tonnes averaging around 0.8% copper could lie below the higher grade zone. In a 30-page note to clients it pointed out there had been intercepts of 1.1% copper from around 1,000 metres, which is enough to justify a major block cave operation.

Ingram said: "This is one of Europe's best discoveries in the past 40 years. It sits above a lower grade, but probably very large porphyry."

Significantly, Reservoir has four other 100%-owned exploration permits in the Timok area, two of which are best described as virgin territory. The company has set aside \$5mln to explore them.

This will include drilling certain targets, which is slightly at odds with the Reservoir mantra of sharing the risk and the exploration costs as early as possible.

"We have some additional expertise that means we can take projects a little further forward than we have in the past," said Ingram.

"So now it is a case of when we partner. In the past we would partner at the drilling stage." It has carried out 1,500 metres of work on the Nikolicevo Permit but so far failed to uncover significant copper mineralisation.

That said, rock-chip and trench sampling was more encouraging as it uncovered significant surface mineralisation, including one sample that graded 16% copper and 1.86 grams per tonne of gold.

Reservoir plans to drill a further 5,000 metres on the four 100% owned permits – 3,000 metres at Nikolicevo and 2,000 metres in the west (the Chocka and Tilva permits) – before following a further 10,000 metres testing for deeper-lying copper and gold.

A discovery on any one of the four 100%-owned permits would have a material impact on the company's valuation that is not reflected in the current share price.

And it explains why Ingram and his team are happy to carry more of the risk on this area of ground, particularly given its proximity to the Freeport joint-venture and the producing mines of the district.

The Timok licences and the JV are part of a wider Serbia portfolio that includes gold, more copper, lead, zinc and silver.

In Romania it has acquired what it hopes is an extension to Timok; it has a gold concession in Macedonia and gold assets in Cameroon and Gabon.

Bobija, in Serbia, reveals what a little lateral thinking can come up with.

A former source of barite, which is used as a weighting agent in drilling mud, the historic mine has been discovered to contain some very decent grades of lead, zinc and silver.

Reservoir's first round of drilling uncovered 28 metres averaging 2.26% zinc, 0.87% lead, 25.52 grams per tonne of silver and 1.71 g/t gold.

Another hole returned 6.5 metres of 3.93% zinc, 3.67% lead, 108.96 grams silver and 1.89 grams gold. Ingram called the results "very encouraging".

Reservoir is fully funded after a C\$33mln share placing that brought in blue-chip investors

including Blackrock and Yanggu Xiangguang Copper Co., Ltd., China's largest private copper smelter.

And while we saw a tremendous rise in the share price after the Freeport deal in 2012 there has been a slow drift from a peak this year of over C\$7 a share down closer to C\$4.

This has occurred against a difficult backdrop resources stocks and as a definitive shareholder agreement with Freeport is negotiated, while a lack of exploration news hasn't helped.

However, for the savvy investor this temporary weakness represents an opportunity.

For while the Freeport deal and high grade resource may be factored in, the value of the remainder of Reservoir's assets probably isn't.

Drilling success on any one of 100%-owned Timok licences would likely light the blue touch-paper under the share price.

Certainly the brokers that cover the stock believe there is a good deal of upside from here with price targets ranging from C\$7 a share to C\$10.

GMP Securities in a recent note calls the Freeport joint-ventured Timok property a "world-class discovery".

And it pointed out: "The JV arrangement allows for Reservoir to take delivery, sell or market its 25% share of production, which should help attract off-take debt financing for the eventual mine build.

"In our view, this also adds a new angle to M&A, potentially making Reservoir attractive not only to Freeport, but also to metal traders like Glencore, Vittol and Noble."

Source;Marketwired