

## **Re-rating Overdue – Key Events Before Year-End**

Half year results from Minco plc (published on 30 September) confirmed truly excellent progress was being made on all fronts. (See: <http://www.londonstockexchange.com/exchange/news/market-news/market-news-detail.html?announcementId=10669980>). Culmination of this will be seen through two key announcements expected before the end of the year. These can be expected to spur a major re-rating of Minco plc shares.

The first announcement will be formal confirmation by Minco and JV partner, Xstrata, of the 2011 exploration budget for the Pallas Green lead-zinc project. The US\$10m agreed for 2010 was already the largest exploration budget in Irish history. We are confident that the 2011 budget will be even bigger, possibly as much as US\$15m and that, by the end of the year, will be sufficient to declare that the Caherconlish area deposits at Pallas Green represent a world-class zinc resource. Beaufort Research estimates the potential of this mineralising system to be as large as 60Mt of ore with a combined grading in excess of 10%. This would rank the current discovery at Caherconlish amongst the world's 10 largest zinc mines. Based on this, the feasibility study for Pallas Green should be expected to commence in 2012 which could then be followed by production as early as 2015.

The second announcement will be an interim statement regarding the oxide pilot plant testing results for Minco's 39.7%-owned associate, Xtierra Inc. (TSX-V:XAG). Success here will signal the passing of the last major hurdle before formally taking a positive construction decision at Bilbao. With no particular resistance to the site's routine permitting anticipated and with a considerable portion of the expected project capital financing needs already optioned, Xtierra should commence production of its polymetallic resource during 2012. Beaufort projects a 12-14 year LOM with full project financing payback being more than achieved within its first 12 months of operation.

Based on this, both Minco plc and Xtierra Inc. appear dramatically undervalued. The coincidence of these two events is likely to trigger a dramatic re-rating of both companies. Recognition of this potential should take Minco plc shares significantly beyond the conservative 13p/share price target currently set by Beaufort Research.

## **Pallas Green – JORC at 24.1Mt and Rising**

Minco plc's share price apparently failed to notice last August's formal confirmation from Xstrata (see: [http://www.minco.ie/newsReleases/2010/MIO\\_%28Resource%20Update%29\\_20100805.pdf](http://www.minco.ie/newsReleases/2010/MIO_%28Resource%20Update%29_20100805.pdf)) that Pallas Green's Caherconlish area had hiked its JORC-compliant resource estimate from 11.3Mt to 24.1Mt. Given that the core zone(s) associated with the southern boundary fault structure of this 'typical Irish-type' mineralisation have yet to be identified, management is confident that the combined grading can improve significantly from the already impressive 9.2%. This deposit now ranks as the second largest in Ireland behind Europe's largest zinc mine, the Boliden/Tara mine at Navan, north of Dublin in Co. Meath. But while the Tara mine is expected to be commercially exhausted by 2017, the full extent of Pallas Green's resource has yet to be recognised. Moreover, the mineralising system at Pallas Green, which has only been explored for a portion of its strike extent, is believed to have the potential to host more than one mineral deposit.

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Minco's own corporate presentation suggests development at Caherconlish takes the resource estimate to, perhaps, 40Mt (see:[http://www.minco.ie/corporate/corporateDownloads/MIO\\_20100910%20%28London%29.pdf](http://www.minco.ie/corporate/corporateDownloads/MIO_20100910%20%28London%29.pdf)). Beaufort Research, more optimistically, suggests potential for 60Mt on a combined grading of 10.5%. The latter not being considered unrealistic, given that Ireland boasts more zinc per sq. km. than any other territory globally and the fact geological evidence has long anticipated a find in the SW on the same scale as the Tara mine. Caherconlish is, of course, just one area within the 294sq. km located on the southern boundary of the Midland Orefield that comprises the Pallas Green licence block. Ireland's zinc province stretches north-east to south-west in three principal basement trends, all of which are dotted with economic deposits. Appearing ideally located, additional major resource discoveries on Minco's wider licence block are also a very real possibility.

Xstrata appears to echo this view. In its half-year report (published August 4<sup>th</sup> 2010), Xstrata's CEO, took the unusual step of specifically identifying Pallas Green going on to declare that '*recent discoveries continue to show encouraging signs of a potential world class resource*'. Beaufort is confident that Xstrata's ambition for Pallas Green will be made apparent to all before the end of this year. By then, Pallas Green's JV operating partner and 74.6% owner will have completed the 2010 exploration programme. This will have been the largest exploration programme ever recorded for Ireland, comprising 70k metres of diamond drilling with 16 rigs in operation. As a result, several new zones have been discovered in the Caherconlish area, including NW and WNW extensions and a brand new one, since named Knockroe, the net result of which is to raise the JORC-compliant resource estimate to 24.1Mt (up from 11.3Mt previously).

Xstrata's commitment to the 2011 exploration and development budget and programme will effectively underwrite Pallas Green's enormous potential and confirm its future intention. The size of Minco and Xstrata's 2011 JV exploration budget will be released before this year end. Beaufort is confident that this will surpass the record level set in Ireland last year, possibly rising to as large as US\$15m. Having already identified a very significant resource on the site, yet further growth of the exploration budget would confirm Xstrata's commitment to develop Pallas Green and agreement with Minco's management that the resource has potential to grow significantly further.

Xstrata incorporates Six Sigma methodology (enhanced by lean change management and team facilitation elements) as an intrinsic part of its key decision making culture. When a development prospect successfully passes defined thresholds or "gates", it is moved from departments that consider only the technical aspects of exploration to ones that schedule financial, processing, mine development and planning aspects. A Six Sigma review will likely be applied almost in conjunction with approval of Pallas Green's 2011 exploration budget. Given the inferred resource is understood to already exceed the minimum threshold required by Xstrata and that it easily achieves or surpasses other criteria, such as environmental, political considerations etc., it will clearly pass muster.

From this point, and subject only to feasibility, Xstrata is expected to commit to develop the mine. Given Xstrata's declared preference for control of 100% of its production, the Group routinely tables bids to buy-out minority holders. In the interests of maximising leverage, it generally does not wait until feasibility has been completed, particularly when characteristics of the mine are expected to be similar to other workings in the vicinity. With these studies expected to commence in little over a year from now and understanding that Xstrata is keen to boost its global zinc output, there is a very real possibility of it formalising an offer to either buy out the Pallas Green minority or to propose a take-over of Minco plc within the next year.

Putting this opportunity into perspective, a couple of further points need to be considered. Firstly, one should recognise the extent of Xstrata's forward planning by noting that it has already provided indicative capex requirements (for the creation of mill, access and processing plant etc.) for the Pallas Green site. Its 2010 half year report details this as US\$300m and (based on construction between 2013 and 2016) provides for production to start by 2017. Realistically, however, it is worth noting that Vedanta Resource's Lisheen zinc mine (23Mt @13.1%Zn, 2.2%Pb) is located just 25km to the NE. This mine is easily accessible using the rail line that passes through Pallas Green but is expected to be commercially exhausted by Q3'2013. We understand that Vedanta Resources has already offered use of its soon-to-be redundant plant and workforce to Xstrata plc. Given the anticipated size of Pallas Green's resource, this is likely to be seen as a short term solution but nevertheless provides the opportunity for Xstrata to commence production as early as 2015.

Secondly, it is worth considering the in-situ value, or 'net smelter return' of Pallas Green based solely on the 24.1Mt already declared by Xstrata. Based on current zinc and lead prices, this gives the resource a NSR of around US\$4.8bn. Adopting the highly prudent '10% rule of thumb' that assumes a worst case outcome for conversion to actual mined reserves, the base case valuation of Minco's 23.6% holding appears to be something over US\$100m. This, of course, fails to account for anticipated growth of resource and the Group's minority holding in Xtierra Inc. Being fully aware of the available opportunity, Minco's seasoned management are ideally positioned to drive a hard bargain with Xstrata which, realistically, could be a multiple of the above base case valuation. The apparent imminence of such a proposal makes the Minco's current £10 m capitalisation appear somewhat out of touch with reality.

### **Xtierra Inc. – Polymetallic Production in 2012**

Xtierra Inc. (TSX-V: XAG) has two advanced silver/zinc/lead/copper/gold properties in the Central Mexican Mineral Belt. Of these, 100%-owned Bilbao has a NI 43-101 resource estimate equivalent to 110 million silver equivalent ounces, of which 3.6Mt is indicated and 2.4Mt inferred. Having raised new funding in April, Xtierra ended its half year to 30<sup>th</sup> June with CAD\$5m in cash or near-cash which will adequately finance the Group for 2010.

A decision was taken earlier this year to retain specialist project management services company, Dowding, Reynard and Associates (DRA), to prepare a feasibility study on its Bilbao project. Although this was seen to push back the projected completion of an earlier in-house study, DRA's appointment was taken to ensure a 'bankable' 43-101 economic report would be available during Q1'2011. Based on the report's findings, a production decision will be taken and funding subsequently sought. The net result of this should be to speed the overall process to production by several months.

Key to the report will be results from the oxide pilot plant test work commenced during Q3'2010. An interim announcement providing the headline results will be released by year-end and followed by a detailed examination by early Q1'2011. Beaufort is confident that this assessment will confirm the excellent metal recovery results achieved in bench-scale tests from near-surface oxide ores can be replicated on a large scale continuous process basis. This will form an important part of the feasibility study and underwrite the project's viability.

Based on this, we believe it would be realistic for Xtierra to seek a final phase of equity funding early in the New Year, followed by Project Financing discussions starting in Q2'2011. A current estimate of capital requirement is US\$50m which could possibly be whittled down by seeking reconditioned plant and other such economies, including contract mining. A significant portion of such funding needs would therefore be covered by Pacific Road Holdings NV, which is both a 32% shareholder of Xtierra Inc. and has an option to provide project financing up to US\$32m for the Bilbao and Laguna projects.

Based on annual production numbers released by the company, it is an elementary exercise to model free cash flow emanating from the Bilbao project. Even after adopting prudent assumptions for forward metal pricing, this suggests all project financing needs will be more than covered during the first 12-months of operation. Even after heavily discounting the net present value of the remaining years of production at Bilbao and, unrealistically awarding a nil value to the Company's other exploration and development- projects, Xtierra clearly should trade at a multiple of its current share price. Our optimism for Xtierra's prospects are further reinforced by today's update from the company. According to Minco, Xtierra recently reported results from a 6,000 metre diamond drilling program completed at its Bilbao project, Zacatecas, Mexico. The key extract is:-

'Results of drilling completed in the first three parts of the program indicate that the Bilbao resource extends further to the south, west and northwest of the existing resource and importantly, remains open to the southwest. The additional mineralization discovered will add to the existing resource base. Of particular note are the higher grades of zinc and lead encountered in the southwest area and the discovery of high grade silver and gold mineralization along the western flank of the deposit. Drilling also confirmed the presence of thick zones of oxide mineralization near to surface and amenable to open-pit extraction in the northern part of the deposit.'

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Company	Code	Relevant Disclosures
Minco plc	MIO	1,2,3,6
Xtierra Inc	XAG	None
Xstrata plc	XTA	None
Vedanta Resources plc	n/a	None
Pacific Road Holdings NV	n/a	None
Dowding, Reynard & Associates	n/a	None

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