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RESEARCH NOTE

Minco plc (AIM:MIO)

Company Research Update | **Mining** | **5th August 2010**

Recommendation: BUY
Price Target 13p

Inferred Resource Estimate raised to 24.1Mt

Xstrata plc, the 76.4% owner and operator of the Pallas Green joint venture, has reported a new inferred resource estimate of 24.1 million tonnes. The Group calculates an average grade of 7.85% zinc and 1.35% lead, using a 4% zinc and lead cut off. This compares with a previous estimate of 11.3 million tonnes for the Tobermalug prospect alone, which had gradings of 10.2% zinc and 1.9% lead using a 6% zinc cut off. This news does confirm extensive mineralization at Pallas Green which we believe has scope to grow considerably further.

It also confirms the resource size is similar to Vedanta Resources' Lisheen mine (located 25km northeast of Pallas Green), which recorded 23Mt at 13.1% zinc and 2.2% lead. Lisheen is expected to be commercially exhausted by 2013 or 2014. We consider, however, that by initially employing otherwise redundant facilities and capital equipment of this mine, Pallas Green would be in position to enter large-scale production well ahead of 2017 indicated in Xstrata's half year results presentation earlier this week. As was detailed in our Research Update from yesterday (Minco plc – 'Xstrata signals start date for Pallas Green – BUY, price target 13p/share'), we also consider that Xstrata Zinc's indicated capital cost of US$300m and annual production of 160kt of zinc equivalent (which is equal to about 6,000t mined daily) are both very much 'worse case' scenarios.

Xstrata has also detailed other successes emanating from last February's decision to commence the largest drilling programme ever undertaken in Ireland, in which it mobilised 16 rigs to complete 70,000 metres of diamond drilling in about 150 holes. The Group confirmed "the exploration programme at Pallas Green has continued to provide positive results", it also reconfirmed the discovery of a fourth high grade zone 'Knockroe' that we reviewed in research dated 3rd June (Minco plc – 'Strong Q3'2010 News Flow Anticipated – BUY, price target 13p/share'). Knockroe takes the total number of distinct lenses of massive zinc-lead sulpherisation in the Catherconlish area to five. We expect more to be identified.

The original source of Pallas Green's mineralisation has clearly not yet been found. Whilst possessing significant commercial value, any disappointment likely to be expressed by investors with regard to today's data would likely be with the fall off in gradings compared with those previously achieved. They will, however, be seen to improve as further drilling closes in on the original source. Significant intersections reported at Knockroe, for example, averaged 9.38% zinc and 1.06% lead, but also included holes with over 20% combined grading. Last month, adjacent licence block holder, the Connemara Mining Company plc. (whose own JV partner is Teck Resources), also reported drilling at Stonepark North, some 4km from Knockroe, that intersected 10.6% zinc and 5.3% lead along with individual grab samples close to 30% combined. This suggests that the source will eventually be located closer to the border of the two licence blocks.

We have already stated that we believe that Minco and Connemara are sitting on the same giant mineralising system with a resource as large as 60Mt on a combined grading of around 12%. As such, we believe that the Limerick Basin will host the next world class zinc mine which will claim a ranking amongst the global top 5. Given the extent of drilling already planned for Pallas Green by Xstrata along with the expected major acceleration by Teck on Stonepark, we believe the original source and true extent of this mineralization will be firmly established over the next 24 months.

On this basis, one possibility could be for Teck and Xstrata to form their own JV in order to jointly exploit their adjacent opportunities. The two mining giants have been seen to work successfully together in the past and given the proximity of the two licence blocks this appears to be the obvious next step. Almost certainly they would then plan their own on-site processing and milling with a handling capacity larger than is presently available at Lisheen. Clearly, however, such high level scenarios will not include either Minco plc or the Connemara Mining Company plc. As exploration businesses, both could be expected to receive 'early exit' proposals from their operational partners to buy out their minority holdings. This would likely offer an excellent and rapid payback for shareholders of both companies. Given the familiarity of the two Boards of Directors and the identical legal structures of their JV agreements, however, investors will speculate as to whether the two companies might find life more comfortable under the same roof before such active negotiations commence.

<u>We retain our BUY recommendation on Minco plc with a price target of 13p/share. We also retain our SPECULATIVE BUY recommendation on the Connemara Mining Company plc with a price target of 48p/share.</u>

Analyst: Barry Gibb - 020 7930 8222 - barry@beaufort-int.co.uk
Beaufort International Associates Limited - 49 Whitehall London SW1A 2BX

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Disclosures

Company	Code	Relevant Disclosures
Minco plc	MIO	1,2,3,6
Xstrata plc	XTA	None
Connemara Mining Company plc	CON	None
Vedanta Resources plc	VED	None
Teck Resources Limited	TCK	None

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