



Minco: Buy at 13.75p

Minco was floated on AIM in 2001 by serial Irish entrepreneur John Teeling as a play to explore for zinc and, to a lesser extent, gold in Ireland. In July 2003 the all-paper acquisition of Orca Gold passed control of the entity to Roger Turner and Matthew Dorman and shifted the focus of the company to silver exploration in Mexico.

Minco's lead project is a tailings recovery process at Laguna Zacatecana where a bankable feasibility study should be completed in the third quarter of 2005 and where production should commence in 2006. We believe that the Net Present Value of this scheme to Minco is worth at least 22p per share. Minco also has a 50% stake (with the scope to attain full ownership) in the Minera Sisa exploration project also in Mexico. Early drilling results on the silver/gold/copper concession have been encouraging. Of the Irish inheritance from the old Minco, the asset with the greatest upside is the Pallas Green zinc exploration project where Minco has a 23% stake in a joint venture with Noranda which is undertaking a 9,000 metre drilling campaign during 2005.

However, the appeal of Minco is its Mexican silver assets which underpin a valuation significantly in excess of the current share price and offer the prospect of generating significant cashflows from 2006. Minco is the purest "silver play" on the London market and on the basis of Laguna on its own it is significantly undervalued. We initiate coverage with a *buy* recommendation at 13.75p.

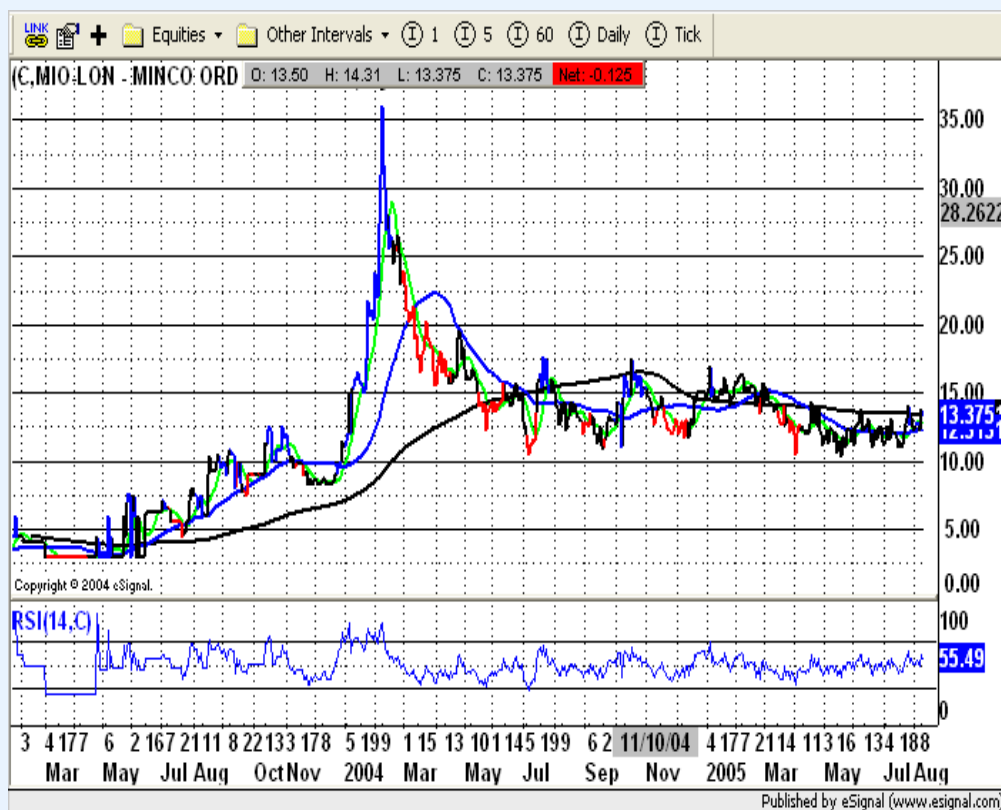
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Key Data	
EPIC	MIO
Share Price	13.75p
Spread	13-14.5p
NMS	15,000
Market Cap.	19 million pounds
12 Month Range	10.75p-17.75p
Shares Issued	138,468,787
Market	AIM
Website	www.minco.ie
Net Cash	2.8 million pounds
Contact	Matthew Dorman 44 20 7397 8150

Year to End Dec	Sales (million pounds)	PTP (million pounds)	EPS (p)	CFPS (p)	DPS (p)	PE Ratio	Yield (%)
2004A	-	(1.47)	(1.74)	-	-	n.a	n.a
2005E	-	(1.15)	(1.09)	-	-	n.a	n.a
2006E	-	(1.2)	(1.14)	-	-	n.a	n.a

Background

Minco listed on AIM in 2001, floated by John Teeling and his colleagues at 162 Clontarf Road Dublin who have also brought to the market: Pan Andean Resources, Petrel, African Gold, African Diamonds and, lately, Persian Gold. The original intention was to explore for zinc and gold in Eire and Minco rapidly accumulated 32 zinc licenses and 5 gold licenses. Although Minco detected both gold and zinc, metals prices were not running in its favour and the grades detected were not economically viable. Minco retains interests in a number of assets but these are no longer critical to its valuation.

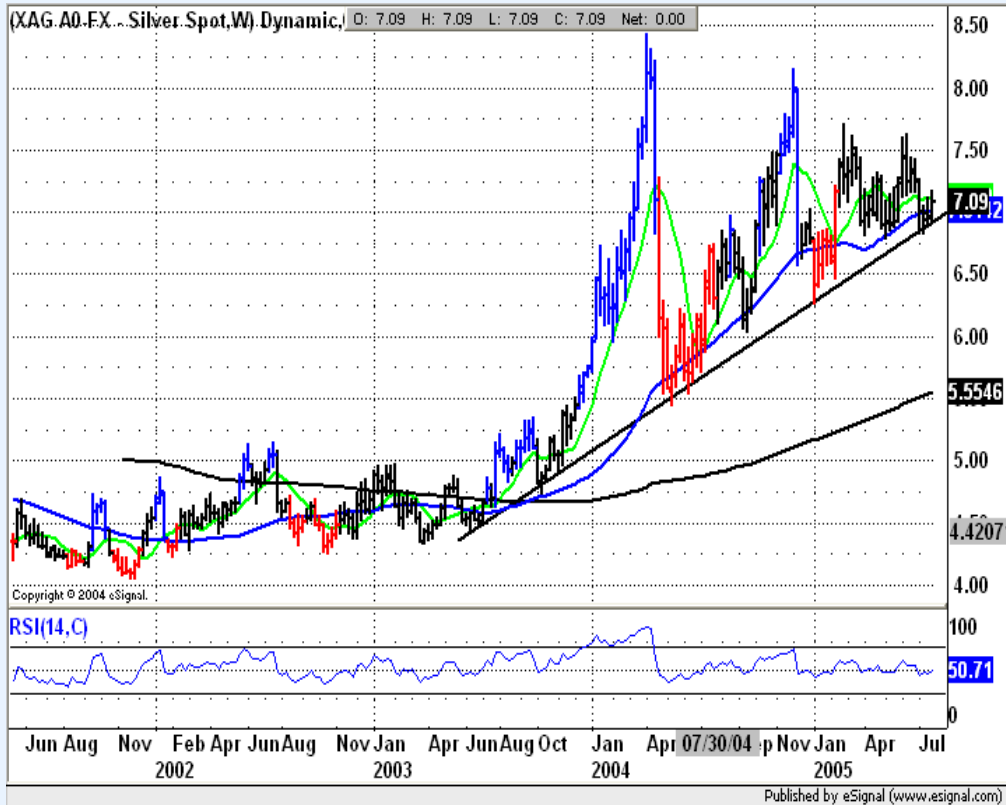


As a serial promoter Teeling understood that the Minco story needed some excitement in order to appeal to investors and thus in July 2003 the company bought Orca Resources for 35 million new Minco shares giving Orca a 49% stake in the enlarged entity. The founders of Orca, Roger Turner and Matthew Dorman came with impressive CVs, allowing Minco to appeal to a wider audience than the tradition Teeling fan club. Orca also had net cash and deal was deemed strong enough to facilitate a further small placing at 5p. Critically Orca bought with it a portfolio of silver (and to a lesser extent gold) assets in Mexico and the promise that Turner and Dorman would inject further assets into the company.

Minco has focussed on Mexico. Options over Russian assets have been taken and allowed to lapse. Its lead project is the Laguna lake tailings remediation. In February 2005 it acquired a 50% interest (and full boardroom control) of Minera Sisa SA de CV, a series of concessions covering 450 hectares in the Sierra Madre mountains, historically a very productive zone. Subsequent to the acquisition, and based on positive geochemistry, Minco has increased its land position considerably and now holds over 5000 hectares in contiguous blocks. In Ireland, the zinc joint venture with Noranda at Pallas Green may yield some value and indeed the company served up encouraging drilling results this week but the key attraction of Minco is as a pure silver play which is near to production in Mexico.

Silver

Historically there has normally been a link between the price of silver and that of gold: 1 oz of gold being worth roughly 50 oz of silver. This link de-coupled in the early 1980s when the Bunker- Hunt brothers attempted, unsuccessfully, to corner the world's silver market. It has decoupled to the disadvantage of silver in recent years because of fears that demand for silver would collapse as digital photography replaced conventional photography which uses silver in film.



Around two thirds of the world's annual demand for silver comes from mine production and the rest from Government sales and a recycling of scrap. However the slide in the silver price has resulted in few silver projects being brought on-stream and thus, despite the increasing use of digital photography, demand is easily outstripping new supply and Governmental and other stocks of silver are almost non-existent. In July 2002 Silver traded at \$5oz. Having briefly spiked over \$8oz on three occasions since then it now trades at \$6.95 oz and a clear uptrend is still intact. The implied silver price on the current gold price (\$435oz) is \$8.70 and should the historic relationship be re-asserted that offers a significant upside for silver.

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Corporate Strategy

Minco's stated aim is to expand its asset base by acquiring and developing projects which can either be brought into production so generating cashflow, relatively quickly, or which offer "world class" exploration upside. Its current focus is on silver, and to a lesser extent, gold in Mexico. We do not view its retained Irish zinc and gold assets as being part of the longer term growth strategy. Minco has shown itself willing to look at precious metals projects outside Mexico and though geographical diversification creates an extra pressure on a small management team, further non Mexican ventures are a possibility although it is likely that Mexico will remain the focus of operations and the most likely location for further expansion.

After several years of doing business in Mexico, Minco seems well integrated into the local business, federal and State communities, which gives it access to look at a steady stream of potential new projects, from which it can select the cream.

In parallel with development of its Mexican projects, Minco has also recruited an experienced in-country management team lead by Keith Koppert, a mining engineer with over 30 years experience. This team allows project evaluations to be completed initially in house with minimum delay and allows Minco to respond quickly to opportunities as they arise.

Operations

The two lead operations (Laguna and Minera Sisa) are both in Mexico. In Ireland the assets of greatest tangible value are Pallas Green and a 2% royalty interest in the Curraghinalt gold concession in Co Tyrone. We would expect Minco to acquire further properties, probably in Mexico, in due course.

Laguna Zacatecana silver tailings project

The Laguna Zacatecana lake is actually a shallow (on average 1.2 metre deep) man-made reservoir created in the nineteenth century and covering 200 hectares. Sitting on the bottom of the lake and in the land around the lake are the tailings from historic mining in the area (notably during the Spanish period). These residues from previous mining processes contain largely silver but also gold and, critically, mercury which was, in the past, central to the treatment process. These valuable wastes were in previous centuries flushed out of the mines and into nearby streams and thus have, in due course, arrived at the lake. The result is that the lake contains economically viable grades of silver and gold (which Minco wants) but also high quantities of Mercury which the local and regional Government wishes to be removed so that Laguna can be used as a clean water source. Minco has secured a 100% offtake for the mercury by-product produced and is in a position to sell 100% of its production for the whole project life.

Minco began the evaluation of this project in July 2003 and was granted an extraction license in the December of that year. In November 2004 MICON International completed a Feasibility Study which suggested that for a \$19.5 million capital outlay, Laguna could yield total silver equivalent production of 18 million ounces over eight years giving the project, which would have operating costs of \$2.28 per ounce, a Net Present Value of \$26.5 million. The NPV figure is arrived at using a 10% discount rate and the underlying

assumption was of a silver price of \$6.50 oz.

The final operational license which gives Minco clearance to go ahead was granted in April 2005 and a bankable feasibility study should be completed during the third quarter of 2005. Drilling undertaken since the initial feasibility study has already increased the resource estimate by 21% and it is expected that the resource estimate will increase further during 2005 and from when producing operations commence in late 2006. Given the low risk nature of the project it is to be hoped that the debt/equity ratios offered will be significantly better than the norm for a first project.

The NPV from the initial feasibility study is clearly too low. The resource estimate has already been increased by enough to assume that Minco will produce 2.7 million oz of silver per annum for eight years and we believe that tailings from the land around the lake are likely to take that figure to approximately 3.2 million ounces per annum. We also regard the \$6.50 oz silver assumption as too cautious on the medium term.

Based on our assumption that Laguna produces 3.2 million oz of silver equivalent over eight years; using a 10% discount rate and assuming that capital expenditure is no more than \$19 million and that operating costs are held at \$2.28 per oz of silver equivalent we believe that this project has a NPV of \$53 million at \$6.5 oz, \$59 million at \$7 oz and \$67 million at \$7.5 oz. Payback on the scheme will be within 18 months under any of these silver price assumptions.

Minco has indicated that the Mexican authorities have asked it to consider other schemes of a similar nature should the Laguna project go according to plan.

Minera Sisa

In February 2005 Minco completed the acquisition of a 50% stake in Minera Sisa SA de CV which owns and previously operated a small mine on a 450 hectare concession in the Sierra Madre mountains. At the same time it registered a further 1,800 hectares of contiguous land in the belief that deposits could extend without the Minera concession. It has subsequently increased the total land holding to more than 5,000 hectares. Minco paid an initial fee of \$2.4 million for its interests in the company which has been owned by the Salas family since 1967 and gained immediate control of the board. It is obliged to spend an additional \$1.7 million on exploring and developing the area. At that stage Minco and the Salas family will fund further work on a pro rata basis but we assume that the Salas family will not opt to fund their share. At that point Minco can earn its way up to a 100% interest in Minera Sisa by spending \$11.2 million on exploration and development work as well as giving 5 million Minco shares and \$950,000 to the Salas family.

We know that Minera Sisa contains gold, silver and also significant quantities of copper as this area has been mined from Spanish colonial times to the present day. The region which contains this concession contains a number of operating mines including La Cienega, the largest gold mine in Mexico.

The Sisa project has three main sectors: Zambranena, La Fragua-Orozco and Santa Cruz. It is in the last of these sectors where the Salas family have been operating a gold, silver and copper mine on an intermittent basis since 1967. This underground mine can be accessed via a 220 metre deep shaft and has a 100 tonne a day processing plant, mining equipment, warehousing, dormitories and other facilities. The mine is currently shut but could be re-opened if output could be increased. It is perhaps the Zambranena zone which offers the

greatest potential. The British geologist Hageman, working in the early part of the twentieth century, took a number of samples in excess of 30g/t gold and 1000g/t silver. This area could therefore contain bonanza grades. Elsewhere the hope is to establish finds which, although of lower grades, would be large enough to support a heavy tonnage open pit operation.

An independent study of the whole concession in 2002 indicated a resource potential of 10 million tonnes at average grades of 480 g/t of silver, 4.2g/t of gold and copper to give a gold equivalent of 12g/t. However this inferred resource does not meet international standards necessary to obtain any financing and extensive drilling needs to be undertaken on the property. Initial geochemical testing suggests that the Minera Sisa project contains one major structure on a contiguous strike zone of at least 5 kilometres long. However in order to establish any concrete valuation for this project extensive drilling needs to be undertaken and a 7,000 metre programme began in May 2005. The relatively remote location and the need to send assays outside of Mexico - there are no facilities within the Country means that first results will not be known until September at the earliest.

Until the first drilling results are revealed it is hard to place a firm value on Minera Sisa although the upside potential is obvious. Perhaps the fairest valuation would be in relation to similar companies, such as Gemco, and on that basis this operation might be worth 5.5 million pounds. However any success with the drill bit could increase that figure significantly.

Pallas Green

Perhaps the only Irish asset from "old Minco" with a significant value is Pallas Green, 13 contiguous licenses extending from Limerick City to the former Gortdrum mine in Tipperary. The target is Zinc and Ireland already boasts three large zinc mines making it the largest producer in Europe. For several years, until 2004, zinc prices were too low for anyone of note to consider significant exploration activity but prices have now been rising for most of the past 18 months.

Zinc is clearly not Minco's priority. Thus it has chosen to partner up with the mining major Noranda at Pallas Green. The Canadian major now has a 77% stake in the asset with Minco holding the remainder. A 2004 drilling programme established grades of up to 21.6% zinc over 3.26m and 18.21% zinc over 2.9 metres with significant lead and silver showings present as well. That has encouraged Noranda to drill a further 9,000 metres in 2005.

On August 8th 2005 Minco announced that as part of that drilling campaign, hole MN-2529-4 has encountered a 5.3 metre wide intersection containing an average grade of 14.97% zinc and 4.5% lead. The results of a number of other holes should be released within weeks. It is not yet clear that Pallas Green is a commercial find but it is believed that Noranda wishes to accelerate the 2005 drill programme and to drill again in 2006. Based on the latest drilling results Minco stated that it believed that the area "holds significant potential for an economic zinc discovery."

We are in little doubt that were Noranda to view the project as commercial it would wish to buy its junior partner out and also that Minco would be keen to realise the value in this asset. Since even if further drilling in 2005 and 2006 is successful, Minco would be forced to divert resources from Mexico to maintain its interest and since it could well take up to 8 years to bring any mine into production.

Until further results of the 2005 drilling programme are known it would be imprudent to value Pallas Green as being worth more than a couple of pence a share to Minco. However Pallas Green could just surprise on the upside with a windfall cash buyout payment from Noranda of several million dollars not beyond the bounds of medium term possibility. A collection of 18 other Irish licenses have a nominal value.

Curraghinalt, cash and Other Projects

Minco holds seven Irish gold exploration licenses to which we attach a nominal value. It also has a 2% royalty interest in the Curraghinalt gold project in Co. Tyrone which is owned by Toronto listed Tournigan Gold Corporation. In April 2005 Tournigan announced some encouraging drilling results and in May 2005 it announced a five stage plan to begin production within 18-36 months. There is still some scepticism about Tournigan's ability to deliver but if gold trades at \$400 oz, for every 100,000 oz Tournigan extracts Minco earns a royalty of \$800,000. Tournigan currently boasts an inferred resource of 262,000 oz and believes that it can prove up a much larger reserve with further drilling. In theory, the Minco royalty could be worth several million dollars but at this stage it is still worth attributing a heavy risk weighting on the scheme.

Minco also has net cash of 2.75 million pounds, worth 2p per share.

Management

The Teeling stable is still represented on the Minco board but the key strategic decisions are today taken by the experienced team from Orca.

The key management comprises:

Matthew Dorman - Chief Executive (age 44) has 15 years experience in mine development in South and Central America and in Asia. A fluent Spanish speaker, Dorman is a graduate chemical engineer. Among the projects which Dorman has lead the construction of are the San Gregorio gold mine in Uruguay, the Nelson gold project in Tajikistan and the Ma'aden 5 million tonne pa heap leach operation in Saudi Arabia. Prior to joining Orca he was General manager of the Uzbek operations of Aim listed Oxus Gold.

Roger Turner - Chairman (age 63) is a graduate of the Camborne School of Mines and spent 15 years in mine management in Canada before joining RTZ in London to work on project evaluation before founding his own consultancy. His first major corporate fundraising was as President of Nelson Gold Corp for whom he brought in \$52 million in 1994. In 1996 he founded Oxus Gold which he brought to AIM and for whom he raised \$35 million.

Richard Thornton - Director and Company Secretary (age 50) is a chartered accountant and has 25 years experience as finance director or in other senior and commercial positions outside the resource sector, with a number of both financial and business development accomplishments.

Danesh Varma - Chief Financial Officer (age 55) is not on the board and was appointed in May 2005 having previously held a similar position in two Canadian miners of a similar size. Varma has held a number of other senior positions in resource stocks and has also extensive corporate finance experience in Canada.

Dr John Teeling - Director (age 59) has a thirty year career as an investor and promoter and manager of a number of companies, not exclusively within the resource sector. Although Teeling helped raise the initial funding for Minco his operational role in the company is now limited. He is still the driving force behind AIM listed: African Diamonds, Pan Andean Resources, Petrel, Persian Gold as well as being involved in African gold and the privately run Cooley Distilleries, Irelands largest independent whiskey company.

Also on the board in a non-executive capacity are **Terence McKillen** who has thirty years experience in international resource companies; **John Kearney** a former CEO of the Northgate group based in Toronto and currently a director of a number of mining juniors including Anglesey Mining, **Jim Finn**, who is a director of a number of Teeling enterprises, **Jitendra Patel**, a British businessman who built up the Quickstop group.

The board is experienced not only in exploration matters and in corporate fund-raisings but in Dorman also has someone with direct experience of bringing assets into production. This is unusual among mining juniors.

Threats & Opportunities

Threats: The silver price has been far more volatile than the gold price in recent years. We believe that there are fundamental reasons why the silver price should, at least, maintain its real current value. However, Minco's lead project is robust even at a much lower price. We estimate that at a \$5oz price, Laguna has a NPV of \$30 million which goes a long way to underpinning the current market value. And \$5 oz is very much at lower end of recent silver price trends. However there is no doubt that a weaker silver price would reduce the NPV of Laguna significantly as well as meaning that smaller finds at Minera Sisa may not be viable.

Minera Sisa and Pallas Green are exploration projects and as such the risks are common to all exploration projects: non discovery or the discovery of commercially unviable grades and deposits.

It should be possible to fund the development of Laguna with bank finance however this has not yet been secured. Some equity funding may be required.

If there are delays in bringing Laguna on-stream the company will require further capital to accelerate its exploration programme at Minera Sisa and it may also seek additional funds to purchase further exploration assets.

Opportunities: Our valuation of Laguna is based on a silver price of \$6.50 an oz which is significantly below the current silver price. However any increase in the silver price increases the NPV significantly. At \$7.5 oz the NPV rises by 26%. At \$8.5 oz it increases by 57%. Minco is thus a geared play on the silver price.

Our assumptions about Laguna are also based on the assumption that it will yield 3.2 million oz of silver equivalent per annum over 8 years. We believe that additional ounces could be found on tailings around the lake which could increase that figure by a noticeable amount, so adding in a significant way to the NPV of the project.

In our valuation we ascribe a relatively low value to the exploration potential of Minera Sisa and Pallas Green. The size of existing commercial operations within the same respective geographic areas suggests that both have great upside potential although this can

only be established via further drilling.

When Laguna comes into production Minco will have a rarity value - as a silver producer listed in London - which, if silver starts to appreciate sharply in price, could allow the stock to be re-rated above its fundamental value.

The management team, notably Roger Turner and Matthew Dorman, are vastly experienced and have extensive contacts in South and Central America which may allow it to bring other value-adding projects to the Minco fold.

Most Recent Results

Results for calendar 2004 were released on May 6th 2005. Of operating losses of 848,466 Euro, 395,970 Euro relate to general administrative and corporate costs while exploration expenditure written off against the P&L account totalled 387,738 Euro. The rest of the losses relates to losses on movements in foreign exchange rates.

The completion of a 4.5 million pound (6.4 million Euro) fund-raising in November left Minco with year end net cash of 6.6 million Euro.

Balance Sheet & Cashburn

Since the year end the company has spent \$2.4 million (1.36 million) on the purchase of its stake in Minera Sisa. We would expect the corporate overhead to remain at around 40,000 Euro (28,000 pounds) per month. Since the last year end 1.85 million options have been exercised by John Teeling and John Finn at between 3.5p and 10p netting Minco 109,500 pounds while 435,000 warrants have been exercised at 12.5p bringing in a further 54,375 pounds.

However the company is now spending cash on its Minera Sisa exploration programme and on the feasibility studies at Laguna and so, on the basis that it is earning some interest income to offset corporate overheads, we believe that Minco currently has around 2.8 million pounds net cash. Moreover the management still have 3.05 million options priced at between 3.5p and 10p outstanding. Given that these options are in the money (heavily in many cases) we would expect them to be fully exercised over the current year. Moreover there are also 20 million warrants to buy ordinary shares at 12.5p also outstanding and if the shares show any sustained strength this would prove a useful source of cash.

Hence we believe that Minco has sufficient reserves to fund its exploration commitments and corporate overhead until such time as Laguna starts to generate cash, assuming that the construction of the Laguna project can be entirely debt funded. Since we also anticipate that this stock will be re-rated, we would expect a significant number of warrants to be exercised which will bolster Minco's balance sheet still further.

Shareholders

The major shareholders in Minco are: RAB Capital which owns 13.9 million shares (10% and Juno Limited which owns 6 million shares (4.2% of the issued equity). The board are significant holders, owning 33.8 million shares (24% of the equity) and an additional 3.1 million shares under option.

Valuation

If one assumes that all warrants and options are exercised Minco would 161 million shares in issue and would have net cash of around 5.5 million pounds. Without the exercise of the warrants and options it has net cash of 2.75 million pounds and 138 million shares in issue.

The biggest single asset is clearly Laguna and our assumptions are cautious (a \$6.5 oz silver price and an 8 year mine life producing 3.2 million oz of silver equivalent per annum). There is clear upside potential but on our conservative model we arrive at a Net Present Value of \$53 million (30.1 million pounds) for the scheme.

The Minera Sisa project can only be valued in relation to similar quoted entities and we therefore accord it a value of just 5.5 million pounds although noting that the exploration upside is potentially huge. We are less excited by the Irish assets of Minco as we can see less exploration upside and as such we would value them collectively as being worth no more than 3 million pounds.

On that basis we arrive at a sum of the parts valuation for Minco of 41.35 million pounds (30p per share) pre-exercise of warrants and options or 44.1 million pounds (27.3p per share) assuming full conversion. With the shares at 13.75p the upside potential is very significant indeed and we initiate our coverage with a **buy** recommendation.

This Report Cannot be Considered Impartial
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