

## Initiating Coverage

## Buy

Target Price: CAD 2.50

### Overview

<b>Industry:</b>	Exploration
<b>Country:</b>	Canada
<b>Reuters:</b>	RTH.V
<b>WKN</b>	A1H8DL
<b>Website:</b>	rathdowneyresources.com

<b>Current Price:</b>	0,93
	High      Low
<b>Price 52W.:</b>	1,25      0,50
<b>Market Cap. (Mill. CAD)</b>	75,9
<b>No. Of Shares (in Mill.)</b>	81,6

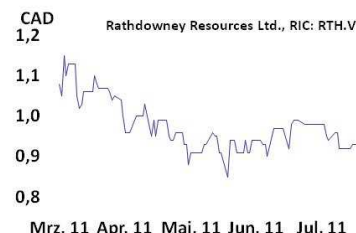
### Shareholders

<b>Free Float</b>	82,00%
<b>Hunter Dickinson Inc.</b>	18,00%

### Performance

<b>4 Weeks</b>	-5,1%
<b>13 Weeks</b>	-6,1%
<b>26 Weeks</b>	55,0%
<b>52 Weeks</b>	-
<b>YTD</b>	55,0%

### 52-Week Chart



### Analyst Coverage

Dr. Norbert Kalliwoda  
nk@kalliwoda.com

Sven Bedbur  
sb@kalliwoda.com

Phone: +49 69 97 20 58 53  
www.kalliwoda.com

# Rathdowney Resources Ltd.

## Two Attractive Zinc-Lead Exploration Projects

- Rathdowney Resources Ltd. is a Canadian listed zinc-lead exploration company. It operates two exploration ventures, one located in Ireland and a second more advanced project in Poland. Both projects are situated in the midst of world-class Mississippi Valley Type (MVT) zinc-lead districts. Rathdowney is backed by Hunter Dickinson Inc. (HDI), which is internationally recognized for its successful track record in metals resource exploration, discovery, and mine development since 1986.
- The Irish projects are situated in the Irish midlands. Rathdowney had been granted fifty exclusive prospecting licenses covering 1,730 km<sup>2</sup> making it the third largest ground holder in the Irish Ore Field. Historical mineral exploration has taken place at many of the project locations, but focused mainly on copper-silver deposits. An early-stage exploration program has been completed by Rathdowney and has highlighted several anomalies with similar characteristics to nearby major European zinc mines. A total of 45 drilling targets have been identified and a 15,000 m diamond drilling program started in April 2011.
- The Polish Olza Zinc-Lead Project in Southern Poland lies in the midst of the Upper-Silesian lead-zinc district where Rathdowney owns two exploration licenses in the region of Zawiercie and Rokitno. The company also applied for a third license in the region of Chechlo. In the 1970s extensive drilling confirmed approximately 100 million tons (Mt) of zinc and lead resources in the Eastern European C-1, C-2 classification scheme. No modern exploration has taken place on the projects. Rathdowney started with an Induced polarization (IP) program in April 2011 and has begun diamond drilling in mid June 2011 to define a resource according to Canadian National Instrument (NI) 43-101.
- Rathdowney is well funded to carry out its technical programs. The company currently holds ~CAD 34m in cash. The expected exploration budget in 2011 is CAD 3.3m in Ireland and CAD 21.2m in Poland. Should a successful drilling program trigger the need for further financing we don't anticipate any challenges given the strong backing from HDI.
- For our In-situ valuation we use a conservative estimation of initially 16.3 Mt in the C1 and 46.4 Mt in the C2 category. Grades range between 2 to 6 percent while applying a 2 percent cut-off grade. The result of our valuation suggests that Rathdowney is significantly undervalued. We believe the main reason for the current valuation is based on the project still lacking a NI 43101 compliant resources and the lack of liquidity in the company's shares. Given the current work program and quality of historical data available, we see a high livelihood for the company to successfully convert much of the C1 and C2 to NI 43-101 compliant resources by mid 2013 and expect the equity markets to attribute a value of CAD 1.70 at the time the company confirms an initial combined Inferred and Indicated resource of 25 Mt. As the resource confirmation grows beyond 60 Mt or a Preliminary Economic Assessment (PEA) is completed for a starter zone containing 25 Mt Measured and Indicated Resource at 6 Zinc equivalent grade, we expect our target valuation of CAD 2.50 to be achieved by late 2012. However investors will value the company significantly higher once it is able to transform its resources to reserves by completing a Feasibility Study. In time we also see good potential for the initial 100 Mt resource target to be exceeded, similar as the resource growth that was experienced at the nearby Pomorzany mine where the 50 Mt resource known in the 1970s has meanwhile grown to 94 Mt.
- The risks associated with any investment in an exploration project are substantial, which is why a careful assessment of risk and reward is essential. In the case of Rathdowney we believe the chances compensate the risks associated with the Rathdowney projects and recommend Rathdowney as a "BUY". Based on our In-Situ valuation and peer comparison we set an 18 month target share price at CAD 2.50 giving the stock a potential performance of over 270%. We have not yet assigned any value to the Irish project or to the additionally targeted Polish license areas. Positive news flow from these areas would provide further upside.

## Inhalt

<b>1. Company Profile</b> .....	<b>3</b>
<b>2. Exploration Ventures</b> .....	<b>4</b>
2.1. The Irish Projects.....	4
2.2. The Polish Olza Zinc-Lead Projects.....	5
<b>3. Zinc-Lead Market</b> .....	<b>10</b>
<b>4. Valuation</b> .....	<b>11</b>
<b>5. Conclusion</b> .....	<b>15</b>

## 1. Company Profile

Rathdowney Resources Ltd. (“Rathdowney”), is a zinc-lead exploration company. It currently has exploration projects located in Ireland and Poland. Both projects lie in midst of world-class Mississippi Valley Type (MTV) zinc-lead districts. Rathdowney is organized in subsidiaries according to the countries in which the company operates. The company has, through subsidiary companies, full ownership over both of its exploration level project companies.

Rathdowney has a multi-disciplinary management and project team consisting of 18 well qualified professionals, including 8 geologists, who are guided by a technical advisory board that includes strong base-metal expertise. In the past the company had retained specialist consultants and in-house experts to capture and compile large databanks from previous exploration programs and evaluated these in collaboration with local experts who have decades of experience, specifically in the Upper Silesian MVT district.

On 17.03.2011 Rathdowney started trading on the TSX following a Reverse Takeover of Coreland Capital Inc. From the total of 81,602,881 shares outstanding 34,283,550 originated from a capital raise by Rathdowney in connection with the public offering. These shares were freely tradable from closing. The remaining equity stems from previous financing rounds and the merger with Coreland Capital. Those shares are a subject to a two year holding period, whereby every six months a quarter of the shares are released to free trading. The first such release will be mid-September 2011.

Hunter Dickinson Inc. (HDI) and Rathdowney senior management and Board own 18% of the company. HDI is the controlling shareholder of Rathdowney and holds 8,828,571 shares amounting to an 11% ownership stake. It acquired an interest in Rathdowney in 2007 and now controls the board and provides key parts of the management and technical team to the company. HDI is based in Vancouver, Canada and has a very successful track record in global exploration, discovery, and mine development since 1985. The majority of shareholders in Rathdowney are believed to be strategic, long-term commodity investors mainly coming from China, North America and the Middle East. In consequence we see low stock turnover, resulting in high share price volatility.

Rathdowney is well funded to carry out its technical programs. The company currently holds ~CAD 34m in cash. The expected exploration budget in 2011 is CAD 3.3m in Ireland and CAD 21.2m in Poland. Rathdowney complies with high transparency standards to the benefit of its existing and prospective shareholders. The company is expected to issue regular press releases regarding the results from its drilling programs in Poland and Ireland and states it will be meeting with investors through roadshows in Canada, USA, Great Britain and continental Europe to improve awareness for its projects in the investment community. This should strengthen the company’s share price by QIII 2011 despite a currently soft equity market for metals and mining companies. The Toronto TSX Base Metal Index has lost 6% in value since mid April. Meanwhile Rathdowney’s share price has declined from 1 CAD to 0.92 CAD or 8%.

## 2. Exploration Ventures

### 2.1. The Irish Projects

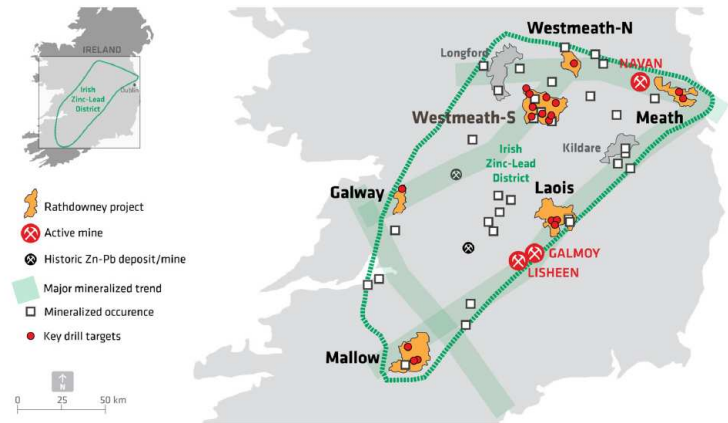
The Irish projects lie in the Irish midlands. Major European zinc mines are found in the region including the Boliden mine at Navan, the Anglo American mine at Lisheen and the now closed Lundin mine at Galmoy. The companies of Lundin, Teck and Xstrata recently made substantial discoveries in the region.

In the period between 2007 and 2009 Rathdowney was granted fifty exclusive prospecting licenses covering 1,730 km<sup>2</sup> in the Irish midland, making it the third largest ground holder in the Irish Ore Field. The areas included by the licenses are Westmeath-North and - South, Meath, Laois, Mallow, Galway, Longford and Kildare. The largest is Mallow with a size of 337 km<sup>2</sup>. All areas lie on proven mineralized trends.

Rathdowney's objective is to find various economic zinc-lead deposits. Through its initial exploration program the company collected some 20,000 soil samples and performed two airborne geophysical and gravity gradiometry surveys between 2007 and 2009. The programs highlighted several anomalies with similar characteristics to nearby existing mines in the areas of Lisheen, Galmoy and Pallas Green. In the above mentioned license areas Rathdowney identified 45 priority drilling targets. A CAD 3.3 million drilling program started on April 8th, 2011, initially with on rig in the area of Mallow. Two additional rigs are planned in the areas of Mallow and Westmeath-South and a total of 15000 m of drilling should be completed by mid-2012. Once drilling leads to a relevant discovery, we would expect the company to focus all its drilling capacities in such an area to rapidly outline a resource. We expect the Irish exploration team to deliver regular news updates to the financial markets on its drilling program

Rathdowney started its Irish exploration program in 2007. During the financial crisis the company decided to pursue an additional, more advanced development project. A geologist working in the Irish project had Polish background and was fortunate to know of significant zinc/lead resources in Poland, for which Rathdowney was able to secure exclusive exploration rights to.

#### The Irish Project



Source: Company

#### Irish Zinc Lead Deposits

Deposit	Mt	Zn%	Pb%	Zn+Pb%	Status
Navan	100,8	8,0	1,9	9,9	operating
Caherconlish	24,1	7,9	1,4	9,2	partially explored
Lisheen	22,6	11,9	2,0	14,0	operating
Silvermines	14,5	6,8	2,8	9,6	past mine
Tynagh	9,2	5,0	6,2	11,2	past mine
Galmoy	8,6	12,4	2,8	15,2	in salvage
Ballinalack	5,7	6,8	1,1	7,9	prospect
Harbeton Bridge	3,9	8,1	1,2	9,3	prospect
Tatestown	3,6	5,3	1,5	6,8	prospect
Keel	1,9	7,7	1,0	8,7	prospect

Source: Company

## 2.2. The Polish Olza Zinc-Lead Projects

### Exploration Strategy

The eastern European classification system is not as trusted by western investors as the CIM standard. Therefore resources defined according to the former standard are assigned a relatively lower market value. Rathdowney's current market valuation is reflective of this. The company's strategy is to unlock the resource values by establishing NI 43-101 compliant resources. If this succeeds and resources are plentiful the company is expected to undertake the necessary steps to establish an economic assessment of the resources and thereby transfer confirmed resources to reserves, thus complete a feasibility study on the project.

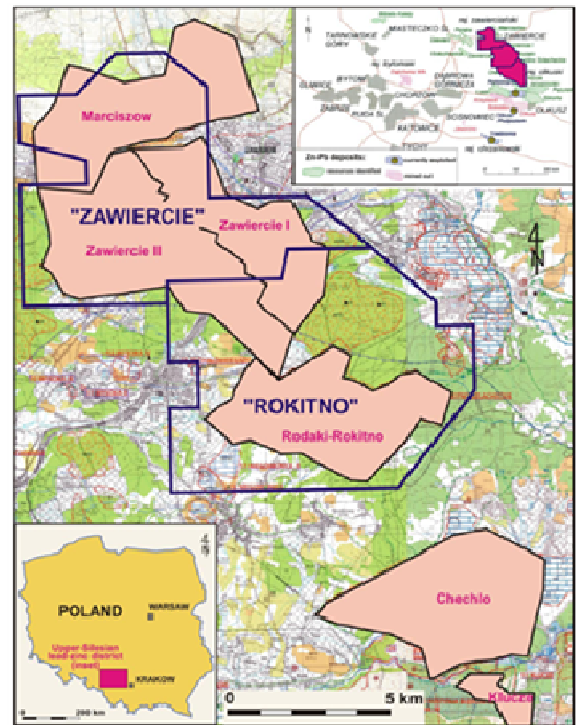
### Geology

The Polish Olza Zinc-Lead Project lies in the midst of the Upper-Silesian lead-zinc district and focuses on the region of Zawiercie, Rokitno, and Chechlo. Mining activity in the Upper-Silesian has been recorded from the 12th century onwards. The region hosts world-class MVT (Mississippi Valley Type) deposits which are accumulations of lead and zinc sulphides hosted within dolomites that had developed secondary permeability. Warm saline fluids brought in the metals and deposited ore in these open-space cavities, as well as replacement of the original dolomitic host rock. Zinc sulphide mineralization in most MVT deposits is iron poor and therefore yield high grade (>60%), well marketable zinc concentrates. MVT deposits typically form districts covering hundreds or thousands of square miles. Within such districts there is often a strong similarity between individual deposits.

### Historical Mining

TGH Boleslaw, a government owned zinc-lead mining and smelting company, estimates that in the past fifty years of the last century about 110 million of tons of zinc-lead concentrate have been produced in the Silesia-Cracow region. The Panstwowy Instytut Geologiczny (PGI), a polish geological institute, estimated that 57 million tons of no-sulfide zinc mineralization lie in the Slilesia-Cracow region which also hosts multiple deposits of sulfide zinc ores totaling ~140 million tons and located between the towns of Olkusz and Zawiercie. Currently the only operating mine is the underground Pomorzany mine owned by the state operator ZGH Boleslaw. This mine is expected to close in 2016 due to depleting ore reserves. The resource footprints of Laski, Klucze, Jaroszowiec-Pazurek and Sikorka surrounding the Pomorzany are believed to contain only low grade and probably uneconomically resources, as previous estimates by Pomorzany geologists have shown. Rathdowney owns what appears to be the only project that could replace the Pomorzany mine once it is exhausted in under 3-4 year's time.

License areas



Source: Company



## Historical Exploration Work

Extensive historical exploration drilling was undertaken by Polish state organizations, and run by the Cracow Geological Company and the Warsaw Geological Institute between 1970 and 1990. No drill core has been preserved from these drilling campaigns and core recovery was generally poor, leading to significant underestimates of the resource potential of this area. Most of the historical drill holes have been filled with concrete. However, the results of these drilling programs have been well documented. In the 1990s and in 2008 the Panstwowy Instytut Geologiczny (PGI) performed further resource evaluations on the basis of the historical drilling evidence using additional parameters and estimates from existing mines in the Upper-Silesian region.

The results of the historical drilling in the areas of Zawiercie, Rokitno, Marciszow and Chechlo are shown in the appendix. According to a technical report of CSA Global on the Rathdowney project areas, records of the Polish State mineral base strongly imply that the Zawiercie I deposit represents the best undeveloped Zn-Pb sulfide deposit in the Cracow-Silesian district. The studies undertaken in 2008 confirmed the deposit's size in the Zawiercie I area and Zawiercie II area as outlined in the table below, thus forming the basis for our valuation.

## Basis for Valuation

Deposits					
Zn-Pb Deposit	Year of Estimate	Resource Category	Tonnage (Mt)	Zn (%)	Pb (%)
Zawiercie I	1994	C-1	16.3	6.00	2.50
Zawiercie II	1992	C-2	35.5	2.07	2.05
Rokitno	1994	C-2	10.9	4.70	1.30

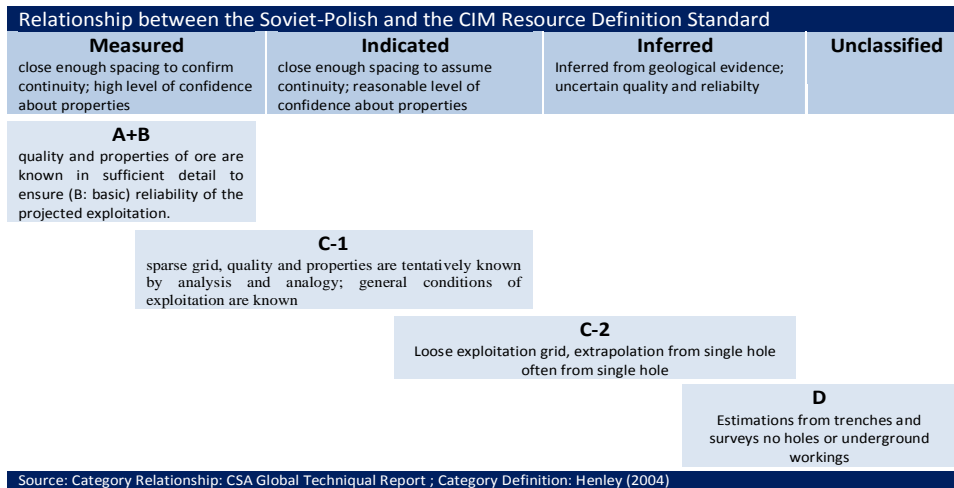
Source: Company

The reasons we use the above estimates in our valuation are:

- (1) Only the resource footprint areas of Zawiercie and Rokitno are considered in our valuation, because the size of the resource footprint of Marciszow is unknown at this time and approval of the Chechlo license has not been granted. In addition, historical drilling in those areas was widely spaced.
- (2) In order to be able to compare historical drilling estimates in the area of Rathdowney's projects with other exploration projects we included only estimates after the year 1991 in our valuation. All cut-off grades applied in the studies undertaken in this period are 2%. Prior studies used a lower grade mineralization cut-off grade. Exploration companies usually report their estimates using a cut off grade no lower than 2%.

## Comparing CIM and Soviet resource classification standard

The third column of the last table shows the relationship of the resource categories being compared. The classification scheme is according to Soviet- Polish standards. A resource defined under the Soviet-Polish classification system cannot be transferred to a NI 43-101 defined resource under the generally accepted CIM classification standard. According to the technical report of CSA Global an approximate relationship between the two standards can be shown by the below figure. However the relationship heavily depends on the kind of metal under consideration. In both standards drilling must be carried out on grids of prescribed density at each stage and, the quality of work depends much on the experience of the project team.



In the Soviet system simple interpolation from parallel section lines were used to compute weighted averages of grades in the bounding drill holes. No geological statistical methods were used. Unlike the CIM standard under the Soviet standard there is no distinction between resources and reserves whereas a drilled deposit can at the maximum obtain a C1 category.

There is a high likelihood that the historical estimates underestimated potential economic resources. According to Henley 2004(\*Fussnote) <sup>1</sup>the states under Soviet influence, as the owners of all mineral rights, had an interest to have less resources converted to economic reserves to prevent their net worth from being reduced. They therefore established several incentives to minimize Soviet Standard reserve estimates:

- Royalties were related to the size of the official reserve. If the officially reported reserves were not met over the life of a mine, penalties would be payable. Both for overestimating or for underestimating the resource. In the latter cases it was possible to use lower grade ore to dilute actual grades and meet the official reserve size definitions. As lower royalties had to be paid for lower grade ore, mining operators had a clear incentive to use conservative sizes and especially grades for resource estimation to achieve lower royalty obligations and lessen the risk of a penalty.
- The Soviet system accredits for grade variability in a deposit. Whereby a deposit with tight grid spacing and relative high grade variability would be considered a lower resource category compared to the CIM Standard where grade variability is not considered. The Soviet system also incorporates environmental and economic criteria in their decision process to delineate resources. These factors lead to the assumption that resources under NI43101 get assigned a relatively higher category since no economic factors need to be considered for a pure resource calculation.

During Soviet times mining was carried out step, by step only satisfying immediate metal demand. In the case of ZGH Boleslaw, the state owned operator of the Pomorzany mine, the zinc smelter operated by the company will likely have dictated the concentrate feed requested from the mine. This behavior has continued into present times and has led ZGH Boleslaw to neglect the opportunity to obtain the licenses now owned exclusively by Rathdowney. Rathdowney had the advantage of having a geologist with polish background on its staff who knew about the potential and through HDI had the capital backing to pursue the opportunity.

<sup>1</sup> "The Russian Reserves & Resource Reporting System" by S. Henley, 2004

## Building upon Historical Data

In its efforts to identify all relevant C1 and C2 resources and transfer these efficiently to a NI 43-101 resource Rathdowney first acquired all historical documentation related to the exploration areas. The company mentions that the historical methods used in the data handling and the record keeping at the state mining agencies are of high quality. In 2010 Rathdowney acquired exploration licenses for the Zawiercie and Rokitno areas. The former license covers the resource footprint areas of Zawiercie I, Zawiercie II and also a part of the Marciszow area, the size of which is currently unknown. The Rokitno license covers the area of resource footprint of Rodaki-Rokitno, as well as the southernmost extensions of Zawiercie I and Zawiercie II. Each license includes the right to explore zinc and lead for 5 years. In addition Rathdowney has applied for approval for the Chechlo license which straddles the limits of a natural park. The approval of the Chechlo license is expected within the next three months, after an environmental assessment study is finalized.

## Transforming C1 / C2 resources to 43-101 resources

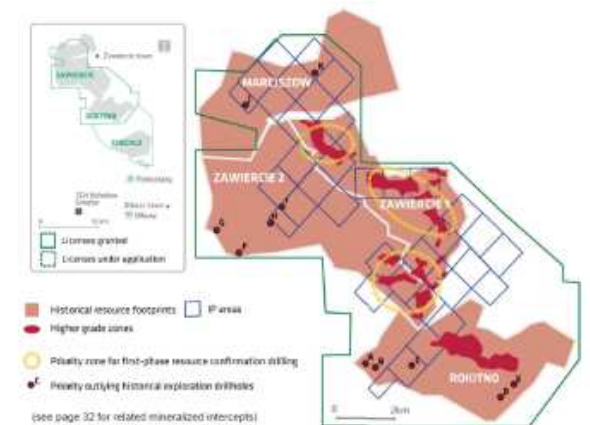
No modern exploration has been conducted in the license areas to date and core from historical drilling programs has not been available. To transition historical resources to NI 43-101 compliance requires for a drilling program to be undertaken, whereby the results are to be analyzed by an independent metallurgical lab following the industry's best practices in terms of quality control and quality assurance (QA& QC), while a Qualified Person (as defined by 43-101) would establish the size and rating of the resource.

Part of the process will include for a Qualified Person (QP) to verify, on behalf of the company, both the half-core preserved as evidence and the lab selected for sample assaying, in this case an Ireland-based branch of the Stewart Group, now owned by the world-renowned ALS-Chemex.

## Using Modern Technology

Historical resource drilling areas are shown in light red on the above map. In the areas marked as lower grade and white, a lesser degree or no historical drilling has taken place. Extensions of the resource are very likely, except to the north due to the location of the town of Zawiercie. A Gradient Array Induced Polarization (IP) geophysical survey is being tested at locations shown on the above map as blue squares. This type of modern exploration program has never been undertaken in the region and should provide Rathdowney with optimized drill targeting and identify further resource potential. However, there appears to be sufficient historical information to start a drilling program before the IP survey is completed and rapid analysis of drill results by the project geologist is expected to provide suitable guidance to help fine-tune the drilling program.

## Exploration Strategy



Source: Company

## Drilling Program

The company initiated a two-phase diamond drilling program on 50m centers in order to delineate mineral resources compliant with CIM standards. In the first phase of the drilling program, 75 drill holes (~17,000 m of drilling) are intended to confirm the historical high-grade zones in Zawiercie I and the southern part of Zawiercie II, whereas 45 holes (~13,000 m of drilling) will focus on the Rokitno permit area. Some drill hole targets are located outside historical drilling areas and are intended to test possible resource extensions.



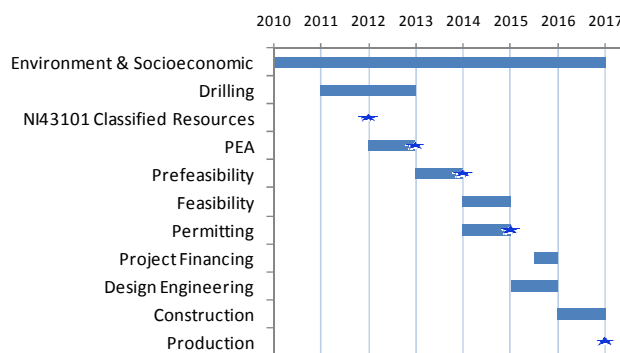
After some delay with licensing the drilling contractors, Rathdowney started drilling in mid June 2011 with two polish drill rigs and expects to report on its first drill holes in September 2011. At present the company is also finalizing the approvals of foreign drilling contractors, in order to increase the drilling capacity to four rigs (by mid July 2011) and then increase add an additional two rigs every month, until it reaches its full capacity of eight rigs by October 2011.

The company expects the total cost of bringing the identified C1 and C2 resources to 43-101 compliance to fall within its budget of approximately CAD 21 million. Rathdowney expects to report on a first NI 43-101 compliant resources by early 2012. Importantly, the CIM standard would permit, subject to the opinion of a Qualified Person (QP), for historical drilling results to be converted to NI 43-101 resources when a certain percentage of confirmation drill holes show close correlation with historical data.

The company believes this could possibly be the case once 20%-30% of the drill program has been completed but has budgeted for having to drill 100% of the historically documented resource. The first few holes are twins of historical holes in the Zawiercie I area. In a correlation scenario the project value would increase considerably since not only would the CIM standard resource be identified, the company could also move faster towards the completion of an economic assessment and save considerable funds from its current budget for this process. Once enough NI 43-101-compliant resources are documented such that past investment costs are capitalized, a pre-feasibility study will be started. Drilling will then focus on resource expansion. At the same time a new financing round will be started. A feasibility study follows the finalization of the pre-feasibility study. The permitting process for producing in Poland requires input similar to the pre-feasibility study and thus will be started at the same time as the feasibility study.

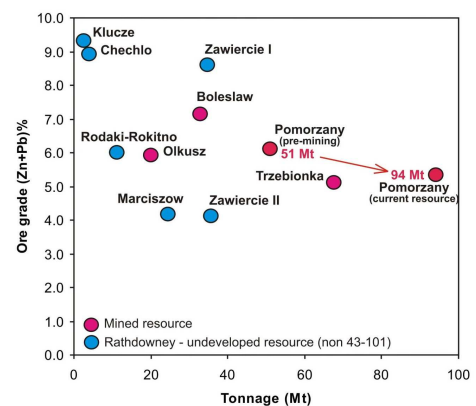
Once a permit is approved, the construction of the mine starts. After construction the production process begins and positive cash flows depending on the production costs and the metal prices are possible. The graphic below (left) shows one possible scenario of the different development stages from exploration to production.

### Estimated Project Development



Source: Dr. Kalliwoda Research GmbH

### Upper Silesian Zinc Resource Footprints



Source: Company

The main value drivers during the exploration stage of the project are the size of the resources and results of a first economical assessment of the project. Strong upside potential lies in the size of the resource which could, same as in the case of the Pomorzany mine, almost double from its initial estimates from the '70 and this was used by Rathdowney as reference in the graphic above (right). Additional upside may be available through a corporate combination with the existing Pomorzany assets.

### 3. Zinc-Lead Market

From the demand side world output is expanding and emerging economies begin to build a middle class resulting in an increased demand for construction, trains, cars and white goods. These products need steel. Zinc main use, besides its usage to for bronze, brass, and zinc based alloys, is for galvanizing steel to protect it from corrosion. Zinc is a late cyclical resource and so the demand from developed countries is expected to increase. This is also true for China and India. However an additional demand effect is expected from these countries as more consumer driven goods and quality are demanded raising the share of galvanized steel on total steel demand and the use of zinc in one ton of steel increases. Traditionally China has been switching back and forth between importing and exporting zinc depending on the price. But lately it is expected to consume about 44% of the world zinc supply in 2011, according to the Mining Journal, Dec 2010. China has built up a huge capacity of zinc smelters much higher than the countries zinc supply.

In the year 2010 about 12.86 million tons of zinc metal was produced, whereas around 12.56 million tons were used and roughly 12.32 million tons were produced by zinc mines, stated by the United Nations founded "International Lead and Zinc Study Group (ILZSG)". Currently a production overhang exists on the zinc metal side. However this is expected to change. Around the world, almost 2.4 million tonnes per year of zinc mine production will close between 2011 and 2016. The Skorpion mine in Namibia, the Tara and Lisheen mines in Ireland, the Perseverance and Brunswick mines in Canada and the Cerro Lindo operation in Peru, the Pomorzany mine in Poland among others face depleting reserves and thereof closure. Additional pressure on the supply side stems from the fact that over the last few years there has been very little investment in exploration and discovery. For these matters the market expects a zinc gap to develop in the upcoming years.

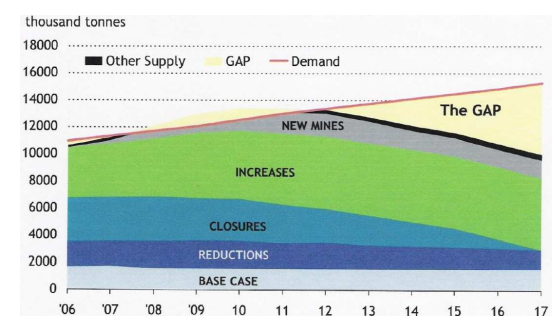
The long-term development of the size of the gap depends on the future zinc price level. A stabilization of the price on a high level, which can be expected if the demand side picks up very strong, will increase the supply. Past unprofitable mines will reopen, more resources can be developed to reserves and new exploration projects will be started. However these effects take a long lead time. Expecting a zinc price near the current level, coming along with a corresponding normal demand development, would shift the focus to the Chinese mining companies who are suspected to have high cost production. It depends on the Chinese state if it lets unprofitable mines in operation putting no further pressure on the supply side, since its concerns focuses also on other topics such as the unemployment rate within a region. In the long term easing the supply side pressures a bit is the development of a more advanced recycling industry, substitution products and production technology.

Zinc Mine Closures 2010-2014

Mine	Country	Capacity	Closure year
Brunswick	Canada	245	2010
Iscaycruz	Peru	175	2011
Lisheen	Ireland	175	2014
Paragsha	Peru	145	2014
Golden Gove	Australia	135	2014
Pomorzany	Poland	75	2013
Galmoy	Ireland	55	2011
Mt. Garnet	Australia	55	2013
Myra Falls	Canada	50	2011
Guemassa	Morocco	45	2012
Mae Sod	Thailand	45	2013
El Mochito	Honduras	42	2012
Simsa	Peru	40	2013
zhacue	China	35	2014
Duck pond	Canada	34	2014
Flinders	Australia	32	2010
Kassandra	Greece	30	2013
Trout Lake	Canada	30	2012
Jaguar	Australia	25	2012
Aldal	China	20	2010
Caballo Blanco	Bolivia	20	2014
Raura	Peru	20	2012
		1528	

Source: Brook Hunt

Zinc Demand and Supply



Source: Company

## 4. Valuation

In the framework of a Peer group analysis of companies at a similar exploration stage we can compare the enterprise value of such companies in relation to their estimated resources. We look to such a peer group comparison to forecast a reasonable valuation of mining exploration project when these are still missing engineering based economic assessment. Once an economic assessment is available we would be looking at Net Asset Value (NAV) and Internal Rate of Return (IRR) to compare projects and discounts on these based on their engineering, permitting and financing stage. This will establish a suitable discount rate to reflect the risk (P) of not yet being in production (P x NAV).

For each project in our in-situ based peer comparison of zinc focused companies, we use the resource sizes determined by a 2% cut-off grade. A lower cut-off grade would result in lower average zinc and lead grade but a larger deposit size. Resource classification categories were defined as category "A" referring to a C-1 or NI 43-101 Measured & Indicated resource and category "B" referring to a C-2 or a NI 43-101 Inferred resource. Resources in the "B" category were only accounted by 80% of their respective deposit size while "A" was accounted for by 90%. In a further step deposit sizes are adjusted by the percentage of ownership. To make projects with different kinds of resources comparable a zinc equivalent is calculated. For the calculation of the zinc equivalent formula we use:

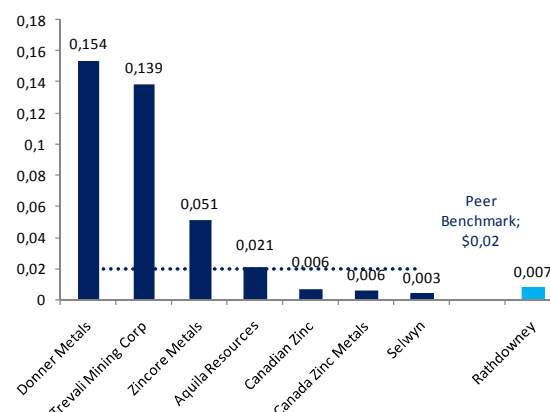
$$\text{ZnEQ} = \left\{ \sum n \text{ commodities (long term street consensus commodity price} \times \text{commodity recovery percentage} \times \text{commodity grade)} \right\} / \text{long term street consensus Zinc price}$$

Across all projects a constant recovery rate was assumed of 94% for zinc, 91% for lead, 85% for silver, 80% for copper and 80% for gold. For the in-situ valuation we assume stable long term commodity prices at the long-term street consensus median (see current BMO Street Consensus) of zinc at US\$0.9/lb, lead at US\$0.88/lb, silver at US\$17.25/oz, gold at US\$1063.00/oz and copper at US\$2.50/lbs.

InSitu Valuation				
Company	Share price	Enterprise Value (EV)	ZnEq	EV / ZnEq
	Currency of Primary exchange	Mio. CAD	Mio. lbs	CAD / lbs
Canada Zinc Metals	0,40	30	5.517	0,00571
Aquila Resources	0,58	45	2.301	0,02058
Canadian Zinc	0,66	51	8.464	0,00634
Donner Metals	0,28	25	167	0,15408
Selwyn	0,21	72	21.927	0,00342
Trevali Mining Corp	1,23	118	890	0,13868
Zincore Metals	0,35	49	1.003	0,05105
<b>Peer Benchmark</b>				<b>0,02000</b>
Rathdowney	0,93	42	5.977	0,00737
<b>Upside potential</b>				<b>171%</b>

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Enterprise Value in CAD / Zinc Equivalent lb



Source: Dr. Kalliwoda Research GmbH

The above graph shows the in-situ valuation for Rathdowney, with its peer group including companies at a similar exploration stage. In the case of Donner Metals we use a cutoff grade of 3% as this is the lowest cut-off reported by the company.

Based on our conservative resource estimation Rathdowney has a current enterprise valuation in CAD per zinc equivalent resources of CAD 0.00737/ lb. The industry average is CAD 0.02 / lb that is more than two and a half times higher than the value of Rathdowney.

To achieve a higher valuation drill results will need to show some correlation with historical drill data and a NI 43 101 resource estimate will need to confirm the current C1 and C2 category resources. For every early exploration project there is a risk that the drilling results do not confirm expectation from pre exploratory work undertaken. We believe these risks are limited due to the following factors:

- (1) The level of data available from historical work.
- (2) The HDI competence in streamlining the drilling program (having drilled over 2 million meters since 1986).
- (3) We expect the QC & QA process to follow HDI standards and procedures which are said to be industry leading and more stringent than NI-43 101 standards. In consequence we anticipate a high level of trust by the investment community in the drill results once reported by the company.
- (4) The shallow ore body makes it possible to drill many holes and delineate more resources in a short time period.
- (5) There is a risk that the exploration finds lack of continuity of the resources. However the technical report by CSA Global suggests that although estimated results in Upper Silesian exploration projects can be varying due to the lensiod nature of the deposits, generally there exists overall continuity.

An InSitu valuation only compares the expected size of a deposit. We cannot cover the details of risks associated with projects in the peer group and recognize, despite the basis of our data being limited, that an In-Situ value comparison is the most practical approach to compare projects at this similar development stage. This methodology is widely accepted amongst the investment community close to the mining sector when evaluating projects at this particular development stage. However, we can consider early economic indicators.

### Early Economic Indicators

While the company is not providing any economic assessment of its Polish assets we are looking to assess variables that could positively or negatively impact the expected costs of mining on a per unit basis (cash cost) and the capital cost to construct a mine in the location of the polish project.

In general European mining areas lie in the upper quartile of the producing cost distribution of worldwide mining costs. Taking this as a point of reference project specific factors could lead to an increase or decrease in development and production costs.

#### **The following factors have the potential to trigger a decrease in development and operating costs:**

- A shallow strata-bound ore body is expected. The depth of the targets for Rathdowney lies between 110-150 meters (average 139m). This indicates low mining costs relative to deep vertical targets.
- A zinc smelter and concentrator are located within 30 kilometers from the concession areas. The concentrator can process 2.5 million tons of ore and the smelter can produce 100,000 tons of refined zinc annually. Currently the smelter is running below its capacity and is on the lookout for additional concentrate feed. This local smelter is custom-designed for exactly the concentrate type expected to come from the Rathdowney project. Thereby Rathdowney would likely not have to pay any penalty for unfit ore as is often the case in the industry.

- On could consider railing ore directly to the milling and concentration facilities at the Pomorzany mine and therefore save on the capital expense to build such facilities at the Zawiercie or Rokitno project locations
- Due to extensive mining activity in the region there is a large pool of human resources that would incur little training to integrate into the new mining operations.
- Local infrastructure is well established with paved road and railways near or in the license areas. Large cities with international airports are close. A rail track runs directly through the concession area to the smelter, such that that transportation costs could be very low.
- The closing of the Pomorzany mine scheduled for 2016 should increase the supply of skilled workers, available energy and spare capacity at the nearby ZGH smelter.
- HDI cultivates long-term relationship with exploration equipment suppliers. This and economics of scale enable the group of HDI companies to negotiate favorable contracts for exploration equipment and services and can benefit delivery times even when supply is tight.
- With the backing of HDI we expect no problems in to occur for Rathdowney to raise capital to finance upcoming development steps.
- Poland's corporate tax rate is one of the world's lowest, at 19%.

**The following factors have the potential to trigger an increase in development and operating costs:**

- Approximately half of the resources in the suspected high-grade zones of Zawiercie I, lie beneath the sparsely-populated southern outskirts of the town of Zawiercie. Some railways and roads cross the Zawiercie license area. The necessity of obtaining landowner permissions for land access might prolong the time required to confirm the resources, however the company's relations with the local community have so far been very positive.
- Half of the Rokitno license area lies within the limit of a Nature 2000 environmental protection area. There are restrictions of actions like felling trees, however obtaining permits for exploration and mining is possible.
- We view chances of the development of an underground operation as very high given that part of the license areas lies beneath a zone of environmental conservation and the outskirts of a town. The nearby Pomorzany mine operates as an underground mine. Underground mining incurs a higher operating cost compared with open pit mining but can be economical at zinc equivalent grades of 6%, especially at shallow depths such as 100-150 meters.
- The area is known for a high flow of groundwater. The Pomorzany mine is a very wet mine and a significant part of its operating cost is spend on controlling the groundwater table and pumping groundwater out of the mine.



## Risk Management and Best Practices

Rathdowney has implemented strategies to mitigate the risks to in order to be able to transform the C1 / C2 resources. In particular Rathdowney conforms to HDI best practices standards. We believe the backing of the program and company through HDI will ensure highest level of QC & QA processes and sufficient access to capital as needed. In addition, HDI possesses considerable environmental, socioeconomic and permitting expertise that limits the overall permitting risk.

As an example we see it as a positive that Rathdowney is undertaking hydrogeological modeling early for the Polish projects in order to plan ahead for groundwater management. For these tasks the company has hired leading expert consultants Schlumberger (water) and ERM (environment).

Rathdowney has implemented a very proactive Community Relations engagement program with a team of three dedicated professionals and advisors from Hunter Dickinson and a community engagement office in Krakow. The company is actively informing all landowners, councils and the community of the four regional communes about the project and has opened a community engagement office in Zawiercie as well as a polish language Internet site.

The community is showing positive response to the company's project and strong interest in possible job opportunities. Currently unemployment is at 20%, and the closing of the Pomorzany mine would increase this regional unemployment problem further. Rathdowney estimates that each direct new mining job it would be creating would bring 3 additional jobs in various sectors to the region. This connection is actively being communicated to the company's stakeholders and especially the local communities.

The government is expected to have an interest in offsetting the loss of jobs and taxes from the closing Pomorzany mine. The local ZGH smelter would likely seek to ensure ongoing supply of zinc concentrate once Pomorzany is closed and would benefit from a mine in close proximity. As there are no other exploration projects or activities in the area we view the chances of the government resisting the permitting process as very small. In addition, Poland is seeking closer integration with Europe where all legislation must be accountable and private ownership and corporate interests defensible.

## 5. Conclusion

Rathdowney's Poland project carries considerable upside potential both regard to the deposit size (as the Soviet standards tended to underestimate the size, category and grade of mineral resources) and the fact that the ore field is open to the north, west and south. No resources from the Marciszow and Chechlo areas have been included in the valuation basis, although most of the Marciszow resource footprint is enclosed in the Zawiercie license. Also, we are confident that license approval for the Chechlo area will be successful. The greatest upside is enclosed in the Ireland project with the potential for a significant discovery at its well defined drill targets.

Recently M&A activity in the sector has increased. Especially zinc smelters are showing strong interest in acquiring zinc and lead mines to ensure their long-term supply of zinc concentrate. Recently HDI sold a small Zinc producer in Mexico at +US\$ 400 million to the Belgium Smelter Nyrstar. China has built up huge capacities in zinc smelters and their own mines cannot provide the smelters the concentrate they need to meet domestic Chinese demand. This increases pressure on the supply of concentrate to European zinc-smelters.

Poland's largest zinc smelter ZGH Boleslaw is located very near to the licensing areas of Rathdowney and is also the owner of a zinc concentrator and the above mentioned Pomorzany mine. The ore reserves of Pomorzany are dwindling fast and are expected to be depleted by 2016. The Polish Government is expected to privatize ZGH Boleslaw within the next 18 months. This would offer the opportunity for Rathdowney to buy the concentrator and transport its ore along the already established railroad. However for the zinc concentrator and the Pomorzany mill Rathdowney might well be the only potential buyer since the assets would have a very low value without access to the resources owned by Rathdowney. Depending on the transaction price this could reduce the costs of mine development for Rathdowney, as it could avoid the need to build new concentrator and milling facilities. We will be monitoring this opportunity and anticipate a favourable price point for which the assets can be purchased from ZGH Boleslaw or its successor.

The risks associated with any investment in an exploration project are substantial, which is why a careful assessment of risk and reward is essential. In the case of Rathdowney we believe the chances compensate the risks associated with the Rathdowney projects. Given the huge upside potential from the current share price to our target price and a high probability of positive news flow in upcoming quarters, the target price translates to a "BUY" recommendation.

We believe that Rathdowney does not face any serious challenges in establishing significant resources and finding a competitive position relative to its peers. While a re-rating of the company above the peer average is likely in the medium terms (beyond 2013) we initiate our coverage of Rathdowney with target price that values the company at industry averages on an in-situ basis. Our target price by late 2012 is 2.50CAD.

## Appendix

### Historic Estimates for Zawiercie Zn-Pb Deposit

Zawiercie Historical PGI Estimates								
Deposit	Year	No. of holes	Metres drilled	Period of drilling	Category	Mt	% Zn	% Pb
Zawiercie I	1994	510	Unknown	Most pre-1975	C-1	16.3	6.00	2.50
Zawiercie I	1990				C-1	34.5	4.92	1.98
Zawiercie I	1977				C-1	24.7	4.27	1.58
Zawiercie I	1975				C-2	34.5	4.92	1.98
Zawiercie II	1992	240	Unknown	Most pre-1975	C-2	35.5	2.07	2.05
Zawiercie II	1990				C-2	42.6	2.56	2.99
Zawiercie II	1975				C-2/D	21.0	2.26	2.96

Source: Technical Report CSA Global

### Historic Estimates for Marciszow Zn-Pb Deposit

Rodaki-Rokitno Historical Estimates							
Year	No. of holes	Total metres drilled	Period of drilling	Category	Mt	% Zn	% Pb
1994	146	40,963	1974-77	C-2	10.9	4.70	1.30
1990				C-2	30.9	3.52	0.94
1978				C-2	30.9	3.52	0.94

Source: Technical Report CSA Global

### Historic Estimates for Marciszow Zn-Pb Deposit

Zn-Pb Deposit	Year of Estimate	Category	Tonnage	Metal Grade			Contained Metal	
			Mt	Zn%	Pb%	Zn+Pb%	Mt Zn	Mt Pb
Marciszow	1990	C-2	24.3	2.75	1.46	4.21	0.670	0.356
Marciszow	1981	C-2	24.3	2.75	1.46	4.21	0.668	0.355

Source: Technical Report CSA Global

### Historic Estimates for Marciszow Zn-Pb Deposit

Zn-Pb Deposit	Year of Estimate	Category	Tonnage	Metal Grade			Contained Metal	
			Mt	Zn%	Pb%	Zn+Pb%	Mt Zn	Mt Pb
Chechlo	1993	C-1/C-2	3.5	4.80	4.11	8.90	0.167	0.143
Chechlo	1990	C-1/C-2	10.2	4.20	3.09	7.29	0.426	0.314
Chechlo	1977	C-1/C-2	10.2	4.20	3.09	7.29	0.426	0.314
Chechlo	1967	C-2	12.0	-	-	-	-	-

Source: Technical Report CSA Global

## Peer Valuation Table

Companies and Projects Included in InSitu Valuation - Key Data											
Company	Area	Ownership	Stage	Resource		Zn	Pb	Grades			ZnEq
				Category	tons			Ag	Au	Copper	
			green: pre NI 43-101	A: M&I, C-1; B: Inferred, C-2, estim.	metric, in Mio., non-adj.	in %	in %	in g/t	in g/t	in %	in %
Canada Zinc Metals	Akie, Canada	90%	NI43-101	B	50,9	5,3%	1,0%	9,6	-	-	6,8%
Aquila Resources	Back Forty Deposit, USA	40%	NI43-101	A	17,9	2,4%	-	19,6	1,6	0,2%	14,0%
				B	3,4	1,9%	-	25,2	1,3	0,5%	13,1%
Canadian Zinc	Praire Creek mine, Canada	100%	NI43-101	A	5,8	10,7%	9,9%	161,1	-	-	35,3%
				B	5,5	13,5%	11,4%	214,8	-	-	44,8%
Donner Metals	PD1 Deposit, Canda	50%	NI43-101	A	1,7	4,6%	1,2%	19,9	-	1,2%	9,9%
Selwyn	Selwyn Project, Canada	50%	NI43-101	A	156,9	5,3%	1,8%	-	-	-	6,6%
				B	238,0	4,6%	1,4%	-	-	-	5,6%
Trevalli Mining Corp	Santander, Peru	100%	NI43-101	A	5,4	3,3%	1,3%	38,0	-	-	8,1%
				B	0,2	2,9%	0,5%	18,0	-	-	5,0%
Zincore Metals	Accha, Peru	100%	NI43-101	A	5,1	8,2%	0,9%	-	-	-	8,4%
				B	1,4	5,9%	0,7%	-	-	-	6,2%
Rathdowney	Zawiercie, Poland	100%	green	A	16,3	6,0%	2,5%	-	-	-	7,9%
				B	35,5	2,1%	2,1%	-	-	-	3,8%
	Rokitno, Poland	100%	green	B	10,9	4,7%	1,3%	-	-	-	5,6%

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## Contact

<b>DR. KALLIWODA</b> <b>RESEARCH GmbH</b> Primary Research   Fair Value Analysis   International Roadshows		Rüsterstraße 4a 60325 Frankfurt Tel.: 069-97 20 58 53 www.kalliwoda.com
<b>Head:</b> <b>Dr. Norbert Kalliwoda</b> E-Mail: nk@kalliwoda.com	CEFA-Analyst; University of Frankfurt/Main; PhD in Economics; Dipl.-Kfm.	<u>Sectors:</u> IT, Software, Electricals & Electronics, Mechanical Engineering, Logistics, Laser, Technology, Raw Materials
<b>Sven Bedbur</b> E-Mail: sb@kalliwoda.com	Dipl.-Kfm. Analyst; University of Frankfurt/Main	<u>Sectors:</u> IT Services & Software, Financial Services, Mining & Exploration
<b>Adrian Kowollik</b> Email: ak@kalliwoda.com	Dipl.Kfm; Humboldt-Universität zu Berlin, CFA candidate	<u>Sectors:</u> Media, Gaming, Internet, Technology, Eastern European stocks
<b>Emily Haines</b> Email: eh@kalliwoda.com	M.Sc. in Neurobiology; University College London	<u>Sectors:</u> Biotech, Healthcare, Pharmaceutical
<b>Dr. Christoph Piechaczek</b> E-Mail: cp@kalliwoda.com	Dipl.-Biologist; Technical University Darmstadt; Univ. Witten-Herdecke.	<u>Sectors:</u> Biotech & Healthcare; Medical Technology Pharmaceutical
<b>Maximilian F. Kaessens</b> E-Mail: mk@kalliwoda.com	Bachelor of Science in Business Administration (Babson College (05/2012), Babson Park, MA (US))	<u>Sectors:</u> Financials, Real Estate
<b>Dr. Erik Schneider</b> <b>E-Mail:</b> es@kalliwoda.com	Dipl.-Biologist; Technical University Darmstadt; Univ. Hamburg.	<u>Sectors:</u> Biotech & Healthcare; Medical Technology Pharmaceutical
<b>David Schreindorfer</b> E-Mail: ds@kalliwoda.com	MBA, Economic Investment Management; Univ. Frankfurt/ Univ. Iowa (US).	<u>Sectors:</u> IT/Logistics; Quantitative Modelling
<b>Hellmut Schaarschmidt;</b> E-Mail: hs@kalliwoda.com	Dipl.-Geophysicists; University of Frankfurt/Main.	<u>Sectors:</u> Oil, Regenerative Energies, Specialities Chemicals, Utilities
<b>Michael John</b> E-Mail: mj@kalliwoda.com	Dipl.-Ing. (Aachen)	<u>Sectors:</u> Chemicals, Chemical Engineering, Basic Metals, Renewable Energies, Laser/Physics
<b>Dr. Thomas Krassmann</b> E-Mail: tk@kalliwoda.com	Dipl.-Geologist, M.Sc.; University of Göttingen & Rhodes University, South Africa;	<u>Sectors:</u> Raw Materials, Mining, Precious Metals, Gem stones.
<b>Patrick Bellmann</b> E-Mail: pb@kalliwoda.com	Junior-Analyst; WHU - Otto Beisheim School of Management, Vallendar (2012)	<u>Sectors:</u> Support Research and Quantitative Approach
<b>Robin-Andreas Braun</b> E-Mail: rab@kalliwoda.com	Junior-Analyst; University of Frankfurt/Main (2012)	<u>Sectors:</u> Support Research and Quantitative Approach
<b>Nele Rave</b> E-Mail: nr@kalliwoda.com	Lawyer; German School London	<u>Legal Advisor</u>

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