

Maiden Resource for Connemara

Earlier this week, Connemara announced a maiden resource on its **Stonepark Zinc Project**, a landmark event for the Group, the significance and potential of which has been overlooked by the market. Several other positive events have impacted the Connemara story recently, which we examine in this First Equity initiation research note.

Connemara's most advanced project, at Stonepark (Zinc) has been reinvigorated with a new JV partner, Group Eleven (G11), following its purchase of Teck's project interest last year. Recognising the potential upside ahead, Connemara's management shrewdly declined G11's offer to acquire its 23.44% holding last year. G11 is injecting new energy and vigour into the project, as illustrated by news this week of a maiden **Inferred resource** (NI43-101) of 5.3m tonnes at an attractive combined lead and zinc grade of 11.15% based upon historic Teck drilling data. As G11 highlighted, this resource is "only an initial stepping stone towards unlocking the full potential of the Limerick Basin".

The Company has had discovery success on its gold projects and is actively drilling at the 100% **Mine River Gold Project**, with assay results due in the coming months. Ireland is proving attractive for gold exploration and mine projects are under development.

Also, the Group is now under the leadership of a new Board level **CEO Patrick Cullen**, a geologist with a wealth of experience at both majors such as AngloGold and Placer Dome, along with junior exploration companies. He has been actively driving operations since Aug '17 and joined the Board in late Feb '18 as part of a wider Board restructuring.

- **Close-ology** approach to exploration, with projects near major discoveries and existing/previous mines.
- Connemara under leadership of **new Board level CEO Patrick Cullen**.
- The **Stonepark Zinc Project** lies adjacent to the **Pallas Green discovery** of 44m tonnes at 8% combined zinc and lead, described as "one of the largest undeveloped zinc deposits in the world". Drilling is underway.
- Exploration of two gold projects holding potential to be company makers at **Inishowen** and **Mine River**.
- **Mine River** area was focus of **Wicklow Gold Rush**. Acquisition of former JV partner Hendrick Resources ties up a 15km exploration trend. Drilling is currently underway. Dec '17 drilling confirmed high grade.
- **Inishowen** has similar geology to that of the **Curraghinalt 1.44m oz gold deposit** controlled by Dalradian Resources Inc. (Mcap £210m). Connemara drilling in '16 and '17 at Inishowen has continued to demonstrate mineralisation.
- Shares **tightly held** with a **high management ownership** level, Directors holding just under 20%.
- **Well-funded** to meet current and near-term campaigns following Feb '18 £0.9m financing. A further £1.4m cash could be added if near money priced warrants at 3.4p and 5p are exercised.

In this note we review Connemara's exploration project portfolio and compare it with other local peer group focused junior companies, at the exploration, development and mining stages to provide a candid opinion and recommendation for each.

Along with exploration news flow from the Stonepark JV in the next few months, we also await results from the gold prospective 100% owned Mine River, where 1,000 metres of drilling is to be conducted. Given the recent changes at Board level, new JV partner and impending exploration news flow at both Stonepark and Mine River, we recommend the shares as a '**BUY**', with a target price of **7.4p** based upon our current estimated baseline valuation for Connemara's Stonepark interest.



TP: 7.4p

MARKET DATA:

Price:	3.68p
SII:	113.9m
Market Cap:	£4.2m
Sector:	Resources
Ticker:	CON.L

ACTIVITIES:

Exploration & development of mineral projects in Ireland.

KEY PROJECTS – No of Licences:

Stonepark JV (zinc) – 6
 Inishowen (gold) - 12
 Mine River (gold) – 11
 Oldcastle JV (zinc)– 5
 Derrykearn (zinc) – 6
 Ladyswell (zinc) - 2

DIRECTORS & MANAGEMENT:

Patrick Cullen (CEO)
 John Teeling (Non-Exec Chairman)
 Jim Finn (FD)
 Michael McNeilly (Non-Exec)
 David Cockbill (Non-Exec)
 Gavin Berkenheger (C Geol)

MAJOR SHAREHOLDERS: (>4%)

Jim Nominees Limited	17.7%
Paul & Michelle Johnson	12.9%
John Teeling (Dir)	9.6%
Barclay Nominees	9.3%
Jim Finn (Dir)	7.3%
Michael O'Reilly	5.8%
Stateside Nominees Limited	5.3%
Hargreaves Lansdown Nom	4.3%
Metal Tiger plc	4.3%

First Equity Limited acts as Joint Broker to Connemara Mining Company plc.

ANALYST

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CORPORATE STRUCTURE & HISTORY

Remit & Broad Strategy:

The Group has been listed on AIM since July 2007, and has exclusively focused on the exploration of zinc and gold prospective licences in Ireland on ground that is mostly near to significant discoveries or mines. Such an exploration strategy is frequently termed a 'Closeology' approach.

Financings:

Connemara's exploration activities like many other similar junior explorers have been funded from shares placements, the first at IPO in 2007 raised £1m at 35p, and the most recent in March '18 added £0.9m to the corporate coffers at a placing price of 4.15p.

Subscribers in the latest financing were issued with a 1 for 1 warrant at an exercise price of 7p for a period of two years. If all these warrants are exercised, £1.52m in additional funds would be raised. To prevent any stale holders in the event of a bull run for the shares, the warrants carry an accelerator condition, in which any unexercised warrants would be cancelled should the holder fail to exercise after the shares exceed a weighted average price of 20p for five trading days in a row, after two weeks of receiving notification from the Company.

Along with **21.7m 7p Feb 2020 Warrants** from the recent placing, two other warrant blocks remain in issue, both of which are nearer to the current share price and could be exercised within the short term, namely;

20.0m - 5p warrants, expiring May 2018

11.6m - 3.4p warrants, expiring August 2019.

If all the above are exercised, Connemara's cash balances would rise by £1.4m.

Untypical Approach:

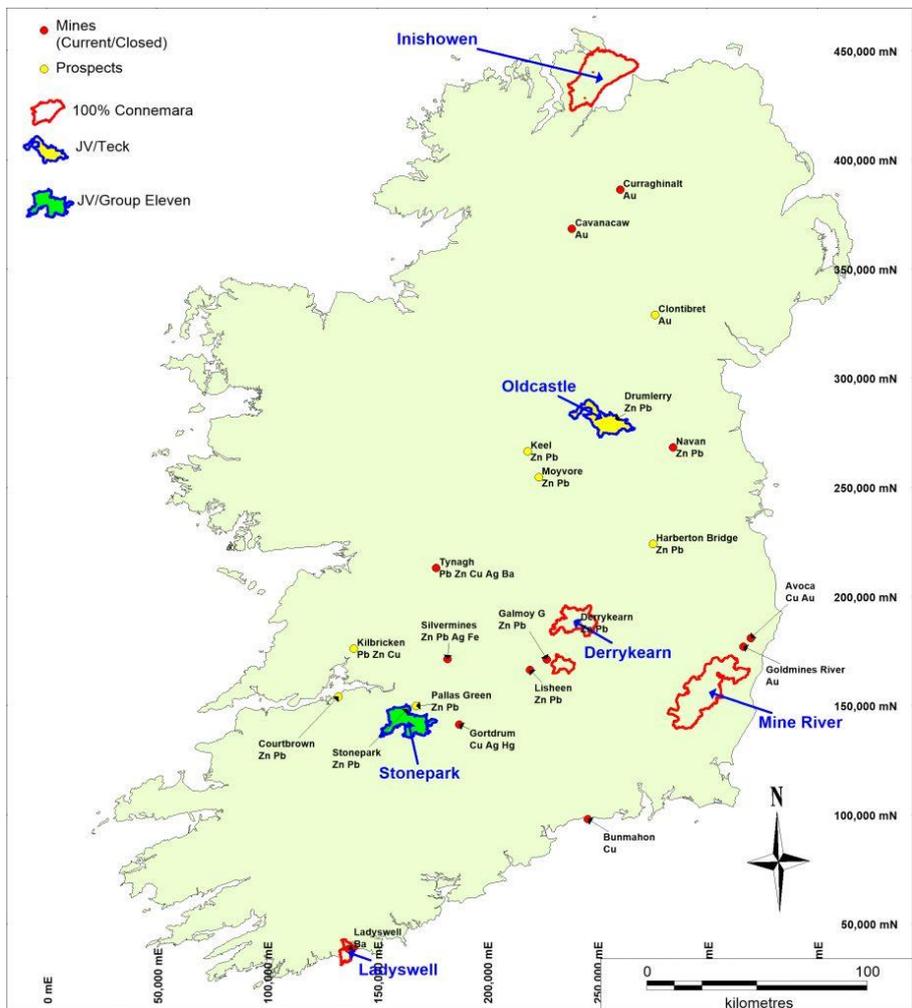
Unlike many other junior exploration companies, Connemara has been historically prudently run, with only occasional share placements. More over the directors, along with management and family have historically held a significant holding in the Company, typically over 20% of the issued share capital.

2018 Board Restructuring and New Vision:

In conjunction with the March '18 financing, Connemara Mining restructured its Board of Directors. This included several changes, most notably geologist Patrick Cullen assumed the CEO role (previously non-Board), with John Teeling becoming a non-executive Chairman (prev. executive Chairman) and two new non-executives joining the Board, Michael McNeilly (CEO of Metal Tiger plc) and David Cockbill, who has a City and financial background.

PROJECT OVERVIEW

- **INISHOWEN (Co Donegal)** – 100%, Gold Target, Similar geology to Curraghinalt gold deposit.
- **OLDCASTLE (Co Cavan & Meath)** – JV to 25% with Teck, Lead, Zinc deep targets approximately 20km north west of the giant Boliden Navan mine.
- **DERRYKEARN (Co Laois)** – 100, Lead/Zinc targets, grass roots stage exploration.
- **MINE RIVER (Co. Wicklow & Wexford)** – 100%, Gold Target, -Scene of 1795 Wicklow Gold Rush, historic and recent drilling.
- **STONEPARK (Co Limerick)** – 23.44%, Lead/Zinc Target – Advanced exploration - JV with Group Eleven.
- **LADYSWELL (Co Cork)** – 100%, Base Metal targets, grass roots stage exploration.



MAP 1: Connemara Mining Project Overview and existing deposits/mines. Source: Connemara Mining.

PROJECT PORTFOLIO

MINE RIVER (100% - Gold)

Mine River consists of 11 adjoining licences (approximately 475 sq. km) in counties Wicklow and Wexford, where the main exploration target is gold. The main gold strike length is 15km, along a south-west trend, as highlighted in Figure 1.

The area was the scene of the famous 1795 Wicklow Gold Rush, from which it is believed between 7,000 and 9,000 ounces of gold were mined.

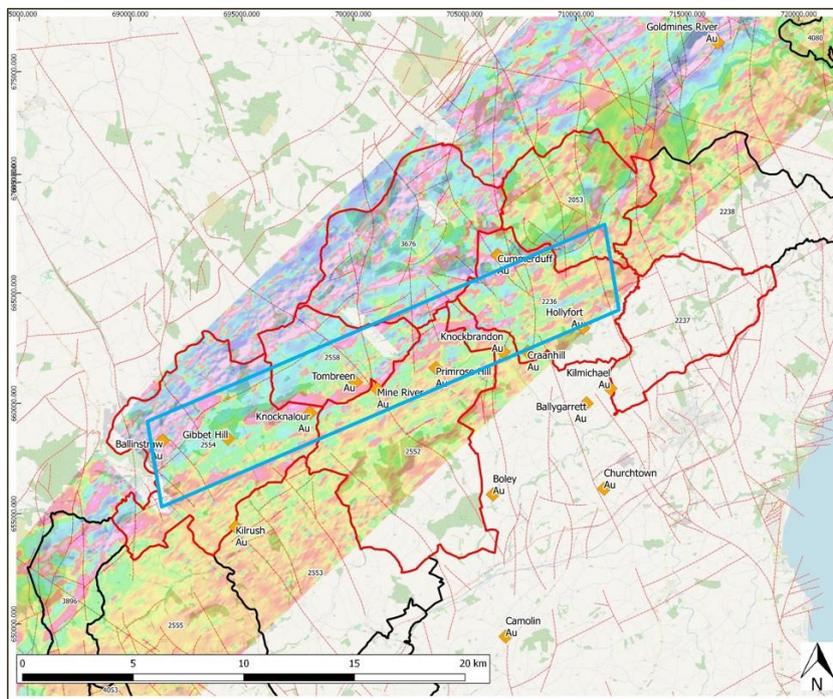
Connemara gained 100% full control over the project area in October '17, following the acquisition of the JV interests from private Canadian based Hendrick Resources, in return for a 2% net smelter royalty.

Since this acquisition, exploration on the properties has intensified. Drilling on two sites in November '17 at Gibbet Hill and Tombreen returned some encouraging gold grades, with a two-metre intersection showing 16.1 g/t gold, within an 8-metre section of 4.53 g/t gold at Tombreen. This compares favourably with a historical intersection of 21.28 g/t gold over 50 cm.

Hole	From m	To m	Width m	Gold g/t
17-TB-01	46.50	47.50	1.00	0.32
17-TB-01	63.00	66.00	3.00	0.17
17-TB-01	74.00	82.00	8.00	4.53
17-TB-01	78.00	80.00	2.00	16.10
17-TB-01	89.00	92.00	3.00	0.59
17-GH-01	36.00	37	1.00	0.25
17-GH-01	47.00	48	1.00	0.17
17-GH-01	60.50	61.50	1.00	0.21

Table 1: Highlighted gold intersections at Mine River.

In late March '18 drilling re-commenced over two gold target areas at Tombreen, 2.5km to the southwest of Knocknalour, with the aim of drilling 1,000 metres over 10 holes.



MAP 2: Mine River Licence map. Source Connemara Mining.

INISHOWEN (100% - Gold)

The most northerly of Connemara’s project portfolio, Inishowen consists of 12 licence blocks in County Donegal over an area of 425 sq km. These lie around 40km from Dalradian Resources Inc.’s Curraghinalt gold mine development project (Proven and Probable Mineral Reserve of 1.44m oz gold and 0.66m oz silver) and the small operating Galantas gold mine.

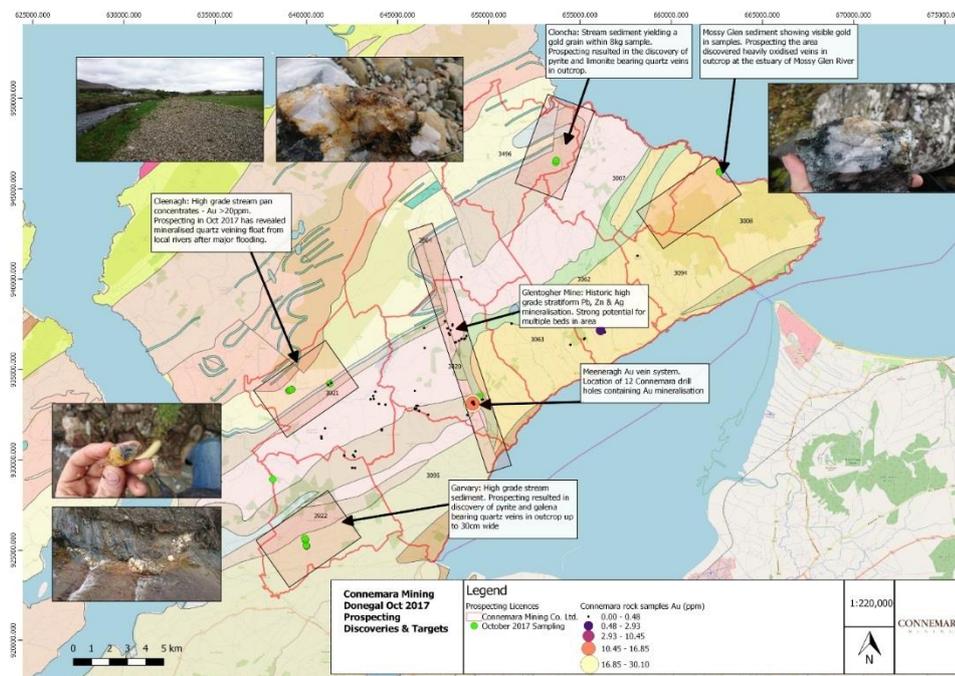
From exploration work conducted by previous operators and data from Tellus, Inishowen is believed to host significant gold potential. Connemara is the first company to drill for gold on the licence area.

Connemara’s exploration work has focused on five target areas within the licence block at Cleenagh, Garvary, Cloncha, Mossy Glen and what appears the most promising target, being Glentogher/Meenaragh, which includes the historic Glentogher Mine. In total 12 holes have been drilled at Meenaragh, amounting to around 1,100 metres.

The most recent exploration drilling was completed on the Meenaragh target in late '17, with a grade of 14.25 g/t gold intersected over a 0.5m length. The work included drilling 5 holes which intersected narrow quartz veins and intersected mineralisation in depths of up to 150 metres. A summary of the main gold intersections from work completed in both '16 and '17 is shown in Table 2:

Hole	From	To	Width	Gold
	m	m		
16-MR-3	23.05	26.10	3.05	5.8
16-MR-07	8.13	12.95	4.82	5.48
16-MR-07	8.35	8.48	0.10	74.50
16-MR-07	9.14	3.98	0.24	69
17-MR-08	21.50	22.00	0.50	14.25
17-MR-09	42.60	43.60	1.00	0.35
17-MR-11	5.90	6.40	0.50	0.43

Table 2: Highlighted gold intersections at Inishowen.



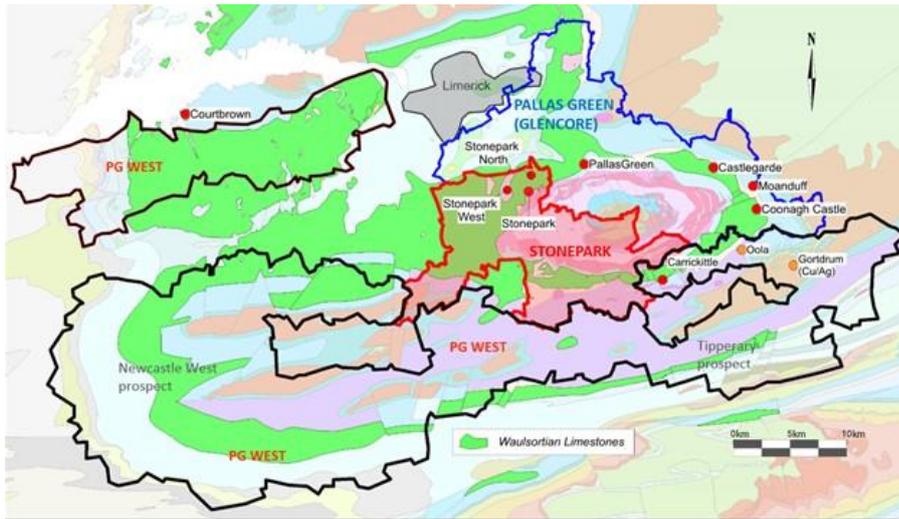
MAP 3: Inishowen Licence map. Source Connemara Mining.

STONEPARK (23.44% Zinc/lead)

This is Connemara’s most advanced project consisting of 6 licences over 183.5 sq. km, which is being pursued in a JV with TSX listed Group Eleven Resources Corp. (G11).

The original JV was with Teck, which sold its interest in the project to G11 in late '17, prior to the IPO of G11, for a consideration of C\$2.15m cash and a net smelter royalty of 4.5% (on 76.56% of production). The net smelter royalty has certain buy back provisions of up to C\$7m that are linked to project milestone events. Connemara’s management declined an offer on equivalent terms, which would have amounted to a consideration of C\$2.8m (assuming all buy-backs were exercised) and 1% net smelter royalty of 23.44% of production.

As illustrated in Map 4, the licence block lies just 5km from the Tobermalug and Caherconlish zinc discoveries at Pallas Green, upon which Glencore delineated a JORC ('16) resource of 44m tonnes at 7% zinc and 1% lead. G11 believe Pallas Green to be “one of the largest undeveloped zinc deposits in the world”.



Map 4: Stonepark licence and nearby deposits. Source Group Eleven

Between 2007 and 2012, Teck drilled a considerable 57,767 metres on the project, leading to the discovery of Stonepark ('07) and Stonepark North ('09). This was a free carry for Connemara while Teck earned in to 75% of the project (C\$3m)

Despite this amount of drilling being completed, no resource figure was declared by Teck. For a mining major such as Teck, Stonepark represented only a peripheral project and defining a resource was probably not viewed as being important. Junior exploration company G11 in comparison is taking a different and more pro-active approach. By using Teck’s historic drilling data between 2007 and 2011, G11 announced a maiden Inferred Resource (NI43-101) estimate on 17 April '18 amounting to 5.3m tonnes at a combined lead and zinc grade of 11.15% (Table 3). The mineral resource is open along and across strike. It is interesting to note the deposit is relatively shallow at depths of 190 to 395 metres. Pallas Green is in comparison substantially deeper. G11 view this initial resource as “an initial stepping stone to unlocking the full potential of the Limerick Basin”.

Inferred NI43-101					
Area	Tonnes ('000)	Grades %			Metal Content (lb'000) Zinc+Lead
		Zinc	Lead	Zinc+Lead	
Stonepark North	4,000	9.10	2.86	11.95	1,044,300
Stonepark West	900	6.82	2.22	9.04	173,400
Stonepark	400	6.98	0.99	7.97	73,600
Total	5,300	8.55	2.60	11.15	1,291,300

Table 3: Stonepark NI43-101 Inferred Resource (March '18).

Drilling work by new project partner G11 began in early April '18, with the objective of replicating the exploration success at Pallas Green in Stonepark and expanding the existing mineralisation zones and Inferred resource. Regional fieldwork started

earlier in the year. In addition, an Tellus airborne survey is set to commence next month. G11 plans to announce results from its initial drilling work in the coming weeks. From the recent placing, Connemara intends to allocate £250K to the project for 12-months expenditure to maintain its percentage.

OLDCASTLE (JV to 25%)

The project extends over 171 sq km and is being pursued in a JV with Teck, who can earn an interest of 75% by spending €1.35m to the end of '18, a target that should be met. Due to this earn in deal, no funds are being currently spent by Connemara on the project. When Teck reaches its JV earn in amount, Connemara can choose to participate to maintain its share, or dilute if it decides not to participate.

Oldcastle's geology is believed to be similar to the nearby Tara zinc mine, which is operated by Swedish group Boliden, and hosts a resource of 100m tonnes at 10.1% zinc, 2.6% zinc and 11 g/t silver. Recent news suggests the mine life will be extended a further 20 years.

To date just 4 holes have been drilled, to deep depths of 1.2km to 1.9km below surface. The results have been disappointing as the management highlighted. Due to the depth of the holes, drilling is very expensive, at around \$100K per hole.

DERRYKEARN (100%)

The project consists of 5 contiguous licences in County Laois and 1 satellite licence to the south of Rapla, within the Rathdowney Trend. Within the licence area, two historic mines at Tonduff and Derrykearn are located. Of additional note is the close proximity of the now closed Galmoy and Lisheen zinc/lead mines. The Rapla licence lies just 3km east of the Galmoy mine. Exploration work to date by Connemara has focused on reviewing historic data.

LADYSWELL (100%)

An early grass roots exploration project, the two licences in Cork overlay an area containing a previous barite mine, a mineral normally found with base metals. Historic base metals have been sampled on the licences, namely zinc, lead and copper. Data from the Tellus airborne geophysical survey is expected to be available on the licences later this year in Q4.

LOCAL PEER GROUP

Company	Ticker	Exchange	Mcap £	Ireland Focus	Main Project	Stage	Rec
Dalradian Res	DALR.L	AIM/TSX	£220.0m	100%	Curraghinalt	Development	SELL
Galantas Gold	GAL.L	AIM/TSX-V	£9.4m	100%	Cavanacow	Mining	HOLD
Group Eleven	ZNG.V	TSX-V	C\$9.6m (£5.3m)	100%	Stonepark	Exploration	BUY
Erris Resources	ERIS.L	AIM	£5.3m	50%	Abbeytown	Exploration	SELL
Connemara Mining	CON.L	AIM	£4.2m	100%	Stonepark	Exploration	BUY
Conroy Nat Res	CGNR.L	AIM	£3.8m	100%	Clay Lake	Exploration	BUY
IMC Exploration	IMCP.L	NEX	£1.5m	100%	Avoca T	Development	HOLD

Table 4: Peer group companies

Dalradian Resource Inc – The company that all Irish focused exploration and development companies aspire to become? Has proved up a considerable Proven and Probable mineral reserve of 1.44m ounces of gold at 8.54 g/t and 0.66m ounces of silver at 3.9 g/t. Resources also defined at the Measured, Indicated and Inferred levels. Feasibility study calculated an NPV of US\$301m, at a generous discount rate of 5%, based on an annual gold production rate of 130,000 oz p.a. in first ten years and assumed gold price of US\$1250. The economics of the project are clear and impressive enough, but the current market cap is close to the NPV figure and would exceed it if a more prudent and comparable discount rate of 10% was used in the calculation, which in our view signals an overvalued status, and hence a SELL rating.

Galantas Gold Corp – Recently operated a producing open pit gold mine in Omagh. Now developing an underground operation to exploit a resource that currently totals 521,109 ounces of gold at a high average grade of over 7 g/t. Only a small proportion of resource (32,202 ounces) is in the 'Measured' category (147,784 oz Indicated, 341,123 oz Inferred). Gold production of 30,000 oz p.a. envisaged from third year of operation in Phase 2. This would produce a positive cash flow of over £8m p.a. based on current gold prices of around \$1,300 per oz and modest CAPEX requirements (£13m). If cash flows of this size can be achieved, then current market valuation is too low. However, the previous open pit mining operation failed to excite the market, so investors may need to see evidence that underground mining development is being successfully executed before buying into the shares. Rated a HOLD for the moment, but view may be revised upwards later this year.

Group Eleven Resources Corp – Holds a substantial exploration portfolio of licences in Ireland, consisting of 99 licences covering 3,200 sq. km, which are mostly prospective for zinc-lead and near historic mines and deposits. Along with being Connemara's JV partner at Stonepark, G11 also has a JV with a Hong Kong based group over its Ballinalack project. Major shareholders include MAG Silver Corp (15.8%) and Teck Resources Ltd (5.6%). Group floated on the TSX Venture exchange late last year after raising C\$5m. Market valuation rather modest we believe, shares should be higher, although investors should be aware that further dilution may be required to explore its vast exploration land package. BUY rating.

Erris Resources plc – Irish project focused on gold targets at Abbeytown in County Sligo, where a 5,000-metre programme is underway. Other Group projects are in Sweden. Shares have dropped around 40% since listing in December '17 at 25p, following a £4m raising. Valuation still seems a touch too high, may continue to drop in short term. Equity downside may be limited given strong management team. – Short term SELL.

"Conroy Gold & Natural Resources – A JORC resource at Clay Lake - Clontibret of 517,000 ounces of gold at a grade of around 2.0 g/t. Current resource is on only 20% of Company's Clontibret gold target. In total they have, conceptually, up to 20m ozs across all prospective projects in Ireland. The relatively low gold grade, which people fear may prove sub-economic and long tenure of current management team, appears to have impacted sentiment towards stock, despite economic feasibility study being completed. These factors seem already priced into the shares, further drilling is underway and any positive news in near-term could move shares up. A tentative BUY. "

IMC Exploration Group plc – A NEX listed company. Recently underwent a strategic review in which it dropped several licences and decided to focus on its tailings and spoils heap project in Co Wicklow, along with zinc and gold prospective projects. A HOLD rating until feasibility study results are known on Co Wicklow project.

CONNEMARA VALUATION

It might be argued a valuation for the shares could be derived from the terms offered by G11 for Connemara's Stonepark interest last year. Given that this deal was declined by the management, this emphasizes that the value of the project could be much more.

Using the recently published Inferred resource estimate for Stonepark, we have computed a valuation for Connemara of \$11.97m for its 23.44% interest. This is calculated using a 3% in-the-ground value for estimated zinc and lead metal content at just below current spot prices (Table 5). For the moment this is a baseline discovery valuation, using the current Inferred resource figure, which is likely to be increased given that it is open along and across strike. The presence of the much larger nearby Pallas Green deposit, shows what could be achieved.

Our £8.43m valuation comprises the entire valuation for Connemara, which therefore prudently applies a nil value to pre-resource projects.

Stonepark Inferred Resource Value Est.	
	000' lb
Zinc	990,000
Lead	310,300
3% est (100%)	
Zinc	29,700
Lead	9,039
3% Value (23.44%)	
Zinc	6,962
Lead	2,119
Metal Value	
Zinc, \$1.40 per lb	\$9.75m
Lead, \$1.05 per lb	\$2.23m
\$ Value	\$11.97m
£ Value (\$1.42/£)	£8.43m
Shares In issue	113.9m
Value per Share	7.4p

Table 5: Stonepark Valuation estimate (Source: First Equity Ltd).

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First Equity Limited clients and contacts hold shares in Connemara Mining Company plc.

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