Research Note

Proactive Investors
Run by Investors for Investors

Suite 5, Level 8, 99 York Street, Sydney NSW 2000
P: +61 2 9299 5001 I F: +61 2 9299 8001
action@proactiveinvestors.com.au
www.proactiveinvestors.com.au

Ironbark Zinc Limited

29th August 2013

Ironbark Zinc to up the ante at Citronen Zinc Project with higher zinc prices

Recommendation: Speculative Buy

ASX Code: IBG

Share Price: $0.06

52 Week High: $0.13 Low: $0.04

Issued Ordinary Shares: 368.4M

Market Cap: $22.1M

Cash: $2.1M

Enterprise Value: $20.0M

1 Year Share Price Graph

Sector: Materials

Author: Richard Badauskas

Proactive Investors +61 2 9299 5001

action@proactiveinvestors.com.au

Key Points

- Ironbark Zinc is the 100% owner of the world class Citronen zinc and base metal project that is located in Northern Greenland.

- The project area contains one of the world's largest undeveloped zinc resource and currently hosts a **JORC compliant resource of 71 million tonnes at 5.7% of zinc, (Zn) and lead (Pb), containing 13 billion pounds of zinc and lead.**

- Mineralisation remains open in all directions for exceptional exploration upside that could **quadruple current resources**.

- Life of Mine OPEX is estimated at US$3.42 billion to produce total revenue of US$5.65 billion. The Internal Rate of Return is estimated at 32.0% (22.2% post tax), and Net Present Value is US$609 million (US$354 million post tax).

- Ongoing metallurgical testing is delivering breakthroughs that have recently boosted zinc recoveries above 90% and will bring down OPEX.

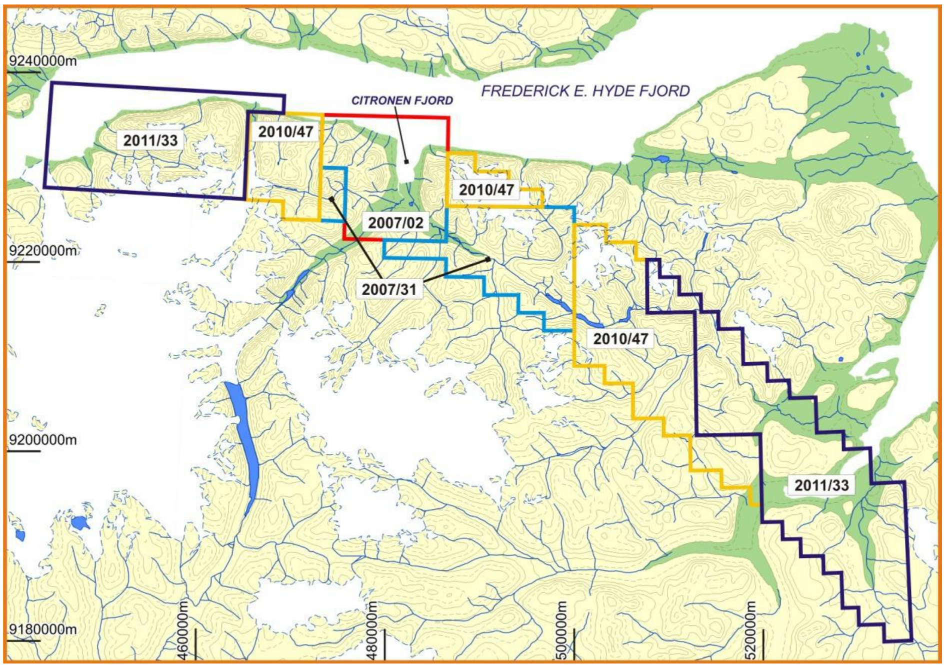
- The massive project has attracted major investors that include GlencoreXstrata, which is the world's largest zinc miner and trader and Nyrstar which is the world's largest zinc and lead smelter group.

- Citronen is highly undervalued with an Enterprise Valuation of $0.0015 per pound of zinc resource, within a pricing environment that validates a pre-production EV of up to $0.049 per pound. This equates to an EV of $1.49 per share, once funding is in place.

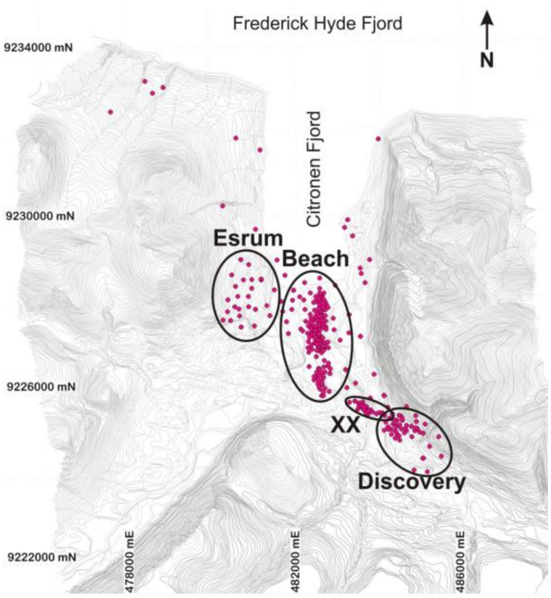
Suite 5, Level 8, 99 York Street, Sydney NSW 2000
P: +61 2 9299 5001 I F: +61 2 9299 8001
action@proactiveinvestors.com.au
www.proactiveinvestors.com.au

Background

The total number is now 313 drill holes for 67,069 metres. The resources at Citronen are contained within near surface and underground prospects known as Esram, Beach Zone, XX and Discovery Zone that are contained within mineral lease 2007/02, and are open ended along strike.



MAP ONE, CITRONEN PROJECT AREA LEASES INCLUDE 2007/02 AND POTENTIAL STRIKE EXTENSIONS



MAP TWO, DRILL HOLES INDICATED IN RED AT ESRUM, BEACH, XX AND DISCOVERY WITHIN LEASE 2007/02

Suite 5, Level 8, 99 York Street, Sydney NSW 2000
P: +61 2 9299 5001 I F: +61 2 9299 8001
action@proactiveinvestors.com.au
www.proactiveinvestors.com.au

The JORC compliant mineralisation at Citronen is adjacent to a deep water fjord and is considered to be of a SEDEX style zinc deposit that commences from the surface, is shallow, flat lying and shows no sign of limitation in its scale. This includes a conceptual Exploration Target of **302Mt - 347Mt @ 4.4% - 5.0%** zinc and lead, for a combined total potential of up to 36 billion pounds of metal at a 2% zinc cut-off.

Development of resources along strike has potential to rank Citronen as a very long life mine that is ranked in the “Super Giant” Category of global resource projects.

The project has attracted three major investor and strategic partners that have assisted with the funding of exploration, completion of a feasibility study, on-going technical studies, and with a funding and developmental pathway for the on-site process plant.

GlencoreXstrata is a long term cornerstone investor that holds 42.1 million shares in Ironbark Zinc. In October of 2011 Glencore agreed to provide an additional funding facility of US$50 million that converts at $0.42 per share for $30 million and $0.50 per share for the remaining $20 million. The undrawn facility has a provision that may allow Glencore to acquire off-take and marketing rights over part of the production from Citronen.

In 2009 Nyrstar invested $6.6 million to acquire 52.8 million shares of Ironbark Zinc at $0.125 per share, along with a life of mine off-take agreement for 35% of production from Citronen. In 2010 NYR invested an additional $15 million to acquire 42.8 million shares at $0.35.

Ironbark has an engineering and construction Memorandum of Understanding with China Nonferrous Metal Industry’s Foreign Engineering and Construction Co. Ltd for a fixed price Engineering, Procurement and Construction contract. The MOU encompasses a 70% debt funding proposal through Chinese banks and provides China Nonferrous with a right to buy an additional 20% direct interest in the Citronen Project.

Ironbark is reviewing potential acquisition targets via the undrawn funding facility. The Company also owns a portfolio of three base and precious metals projects in New South Wales that include the Captains Flat Project with the historic Lake George Mine and adjoining Peakview project that includes mineralised targets along an 80 kilometre strike line. The Belara project includes 2 historic base and precious metals mines where a maiden resource was developed in 2007.

Peakview includes high grade targets at Fiery Creek and Macanally Prospects that have returned up to 235 g/t au and 14.9% cu from sampling along historic workings. Sampling and mapping have identified a 7 kilometre strike line that includes multiple parallel zones of mineralisation. Planning and permitting for a drilling programme are well advanced to test these structures.

Current Status

Ironbark recently completed a Feasibility Study that was primarily conducted by independent engineers. Highlights of the study include:

- Located in Greenland – a country with low sovereign risk and zinc mining history
- Located adjacent to deep, protected water on the doorstep of Europe and North America

Suite 5, Level 8, 99 York Street, Sydney NSW 2000
P: +61 2 9299 5001 I F: +61 2 9299 8001
action@proactiveinvestors.com.au
www.proactiveinvestors.com.au

- Simple, flat and continuous ore zones
- Open-pit fresh sulphide potential with very low strip ratios available to supplement higher grade underground mined mineralisation
- Simple, predominantly underground room and pillar mining operation planned
- Long mine life, with mineralisation open in almost every direction
- One of few world class deposits wholly owned by junior company

IMAGE ONE, CONCEPTUAL LAYOUT OF THE MINE, PROCESS FACILITIES AND DOCK FOR EXPORT OF CONCENTRATES

CAPEX is estimated at US$484.8 million (including First Fills). OPEX is estimated at US$0.68 per pound of zinc production, payable, net of by-product credits for the first 5 years of 14 year mine life.

During the first 5 years of production a concentrate will be produced that contains ~55% Zn and ~50% Pb. Annualised production of zinc is estimated at 185,677 tonnes / 408.5 million pounds, and lead at 48,045 tonnes / 105.7 million pounds.

The study estimates a Net Present Value of US$609 million (US$354 million post tax), and generates a high Internal Rate of Return of 32.0% (22.2% post tax) and an Equity Return of 37.9%.

The study utilised a long term zinc price of US$0.835 per pound, and lead price of US$0.95 per pound for the life of mine; and a zinc price of US$0.85 per pound and lead price of US$0.90 per pound for the first 5 years, and confirms **that the mine would be profitable to-day.**

Zinc market

Spot zinc is currently trading at US$0.89 per pound, and may be reacting to a recent 10% fall in LME warehouse stock levels.

Suite 5, Level 8, 99 York Street, Sydney NSW 2000
P: +61 2 9299 5001 I F: +61 2 9299 8001
action@proactiveinvestors.com.au
www.proactiveinvestors.com.au

Zinc is the fourth most globally used metal, with 50% of production utilised in the galvanising of metals in the construction, roofing and vehicle markets. China is the growth driver, and only uses one quarter of the zinc used by western brands to galvanise a unit of local steel. Chinese demand for zinc is expected to soar as Chinese producers target export markets and are required to meet western quality standards.
Chinese use of zinc has quintupled since 1999 and currently stands at 5.4 million tonnes per year. Wood Mackenzie forecasts that global demand for zinc will soar from a current annualised consumption rate of 11 million tonnes, and reach 20 million tonnes by 2025. Major drivers include growth within the Chinese car industry that has explosive potential for zinc consumption.

A number of large zinc mines are likely to close over the next four years, including Brunswick (just closed), Lisheen, Century and Skorpion, and in total are estimated to remove 1.7 million tonnes or 11% of annual global zinc supply. Average mine grade for zinc has also dropped sharply from 7.0% to a current 5.8% and provides additional pressure on metal pricing.

There are few large projects under development, and many of these are located in countries with high sovereign risk. This indicates that zinc prices are likely to rise as supply tightens, making the development timetable for new mines such as Citronen - "opportune."

Catalysts

- Continued improvement in zinc demand and price revival
- Portfolio development via undrawn US$50 million credit facility
- Development of MOU with China Nonferrous for process plant development and construction, and completion of all technical and economic studies followed by formal funding approval by end of 2013.
- Commencement of construction
- Commissioning in 2016.

Valuation

Ironbark is currently trading at $0.055 for a market capitalisation of just $20.3 million. This puts a valuation on its mineral assets of $18.2 million after deducting the June Quarterly cash balance of $2.1 million. The Enterprise Valuation of Citronen is $17.2 million (after allowing $1 million for other assets), or **$0.0015 per pound of JORC compliant zinc equivalent resource.**

Glencore is a long term investor and has provided Ironbark Zinc with an undrawn US$50 million equity funding facility that converts at $0.42 and $0.50 per share, and assumes an **Enterprise Valuation of $0.012 - $0.014 per pound of zinc equivalent.** This long term valuation is supported by Nyrstar with major funding support in 2010 at $0.35 per share

The EV/Zinc Equivalent is well below the Glencore funded and developed Perkoa Project owned by Blackthorn Resource with an Enterprise Valuation of $0.0.049 per pound.
.
By comparison, Ironbark Zinc is evaluating the annualised production of 408,500,000 pounds of zinc and 105,700,000 pounds of lead for a mine life of 14 years. The current Enterprise Valuation at Citronen is only 3.06% of that accorded to zinc resources at Perkoa. Investors should note that the current market valuation:

Suite 5, Level 8, 99 York Street, Sydney NSW 2000
P: +61 2 9299 5001 I F: +61 2 9299 8001
action@proactiveinvestors.com.au
www.proactiveinvestors.com.au

- Significantly undervalues JORC resources at Citronen
- Discounts the upside potential of the exploration target of **302Mt to 347Mt @ 4.4 to 5.0%** zinc, along strike at Citronen. Perkoa does not have similar exploration upside
- Discounts the strategic value of the shareholder relationships established with Glencore and Nyrstar
- Discounts the potential inherent in the MOU executed with China Nonferrous to majority fund the design and construction of the process plant at Citronen
- Discounts the strategic potential inherent in the $50 million undrawn credit line provided by Glencore
- Discounts the upside potential within the Australian exploration portfolio

Applying an Enterprise Valuation of $0.049 per pound to 11 billion pounds of JORC compliant zinc and lead resources at Citronen equates to a pre-production EV of US$539 million or $1.46 per share on un-diluted capital. This does not take into account exploration potential or make allowance for a rise in zinc prices.

The obvious catalyst here is completion, approval and funding of the EPC by China Nonferrous to build the mine and process plant.

Proactive Investors Australia is the market leader in producing news, articles and research reports on ASX “Small and Mid-cap” stocks with distribution in Australia, UK, North America and Hong Kong / China.

Suite 5, Level 8, 99 York Street, Sydney NSW 2000
P: +61 2 9299 5001 I F: +61 2 9299 8001
action@proactiveinvestors.com.au
www.proactiveinvestors.com.au

Disclaimer

You understand and agree that no content published constitutes a recommendation that any particular security, portfolio of securities, transaction, or investment strategy is suitable or advisable for any specific person. You further understand that none of the information providers or their affiliates will advise you personally concerning the nature, potential advisability, value or suitability of any particular security, portfolio of securities, transaction, investment strategy, or other matter.

You understand that the Site may contain opinions from time to time with regard to securities mentioned in other products, including company related products and that those opinions may be different from those obtained by using another product related to the Company. You understand and agree that contributors may write about securities in which they or their firms have a position, and that they may trade such securities for their own account. In cases where the position is held at the time of publication and such position is known to the Company, appropriate disclosure is made.

However, you understand and agree that at the time of any transaction that you make, one or more contributors may have a position in the securities written about. You understand that price and other data is supplied by sources believed to be reliable, that the calculations herein are made using such data, and that neither such data nor such calculations are guaranteed by these sources, the Company, the information providers or any other person or entity, and may not be complete or accurate.

From time to time, reference may be made in our marketing materials to prior articles and opinions we have published. These references may be selective, may reference only a portion of an article or recommendation, and are likely not to be current. As markets change continuously, previously published information and data may not be current and should not be relied upon.

The contributors make every effort to ensure that the information and material contained in this report is accurate and correct and has been obtained from reliable sources. However, no representation is made about the accuracy or completeness of the information and material and it should not be relied upon as a substitute for the exercise of independent judgment. Proactive Investors does not accept any liability, including negligence, for any loss or damage arising from the use of, or reliance on, the material contained in this report. There are general risks associated with any investment in securities. Investors should be aware that these risks might result in loss of income and capital invested.

WARNING: No recipients should rely on any recommendation (whether express or implied) contained in this document without obtaining specific advice from their advisers. All investors should therefore consider the appropriateness, in light of their own objectives, financial situation and/or needs, before acting on the advice.

DISCLOSURE: Proactive Investors, its directors, associates, employees or representatives may not effect a transaction upon its or their own account in the investments referred to in this report or any related investment until the expiry of 24 hours after the report has been published.