

March 2, 2011

O B Research

Minera IRL Ltd

Production, Development & Exploration

Peru & Argentina



Minera IRL Ltd.

Recommendation: Buy

December 31st 2011 target: C\$ 3.00

Key information:

Stock code	Toronto	IRL
	Lima	MIRL
	London	MIRL
Share price		C\$ 1.54
Shares outstanding		119.5
Shares outstanding FD		137.3
Market Capitalization		C\$ 184 million
Website	http://www.minera-irl.com/	



Growing resources, growing production

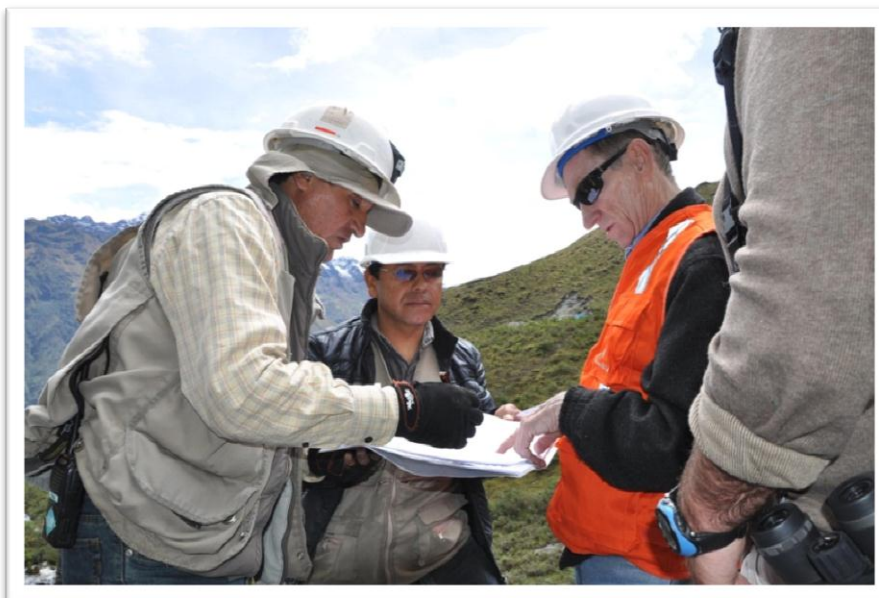
Introduction

We, at O B R, are happy to be able to continue our tradition of bringing our readers great companies with little coverage from other analysts, and in our view, consequently seriously undervalued. As these great companies develop this typically changes and we believe the story will repeat again with our next precious miner and core holding, Minera IRL.

Minera IRL is a company with a lot of interesting projects and we will walk you through most of them reasonably well. We do however recommend you as a reader to focus at two main parts of the company as we see it:

- Production of 80,000 ounces of gold (annualized), being reached in 2012 as Don Nicolas goes into production
- The value created in Ollachea as the Minapampas trend grows, moving from the PEA stage, through to pre-feasibility and later to bankable feasibility with large P&P reserves expected

We will guide you through the projects in order of importance according to our view at this point in time. Reading on, you will notice that the part we put the highest value on, is the project having the longest road to production (Ollachea). Further, the lowest valuation of the significant parts we put on the current gold production at Corihuarmi. Our reasoning here is that while the company will move to over 80,000 ounces of annualized production at Corihuarmi + Don Nicolas before its flagship project, Ollachea, is coming online, Ollachea is a rapidly growing resource with very attractive economics that will add a lot of value as it continues to grow. The journey to production at Ollachea will be at least half the fun and most likely also more than half the future value for us shareholders.



CEO Courtney Chamberlain (right), a man with a truly impressive resume & a 3% stake of Minera IRL

Ollachea: Minera IRL 's Peruvian flagship

Ollachea is a growing deposit in the south of Peru. Late 2009 a Preliminary Economic Assessment (PEA) was made showing an expected annual production of 117,000 ounces of gold at a cash cost of US\$ ~400/ounce and a modest capex of US\$ 157 million. The mine life was estimated to be 9 years.

The infrastructure surrounding Ollachea is favorable with adequately sized electricity lines on the property, the Southern Interoceanic Highway (Brazil to Peru) passing next to the property and also having water and workforce readily available. It is also worth noticing that snow in this area is not an issue expected to impact future production negatively despite the altitude of ~2500 meters above sea level. The challenges to address were basically to find flat areas for the mill & tailings and to decide how to best access the ore body. We talk more about the proposed solutions for that below.



The 5 km Minapampa trend largely lies under this valley and adjacent mountains and will be accessed and mined through a 1.3 km slightly inclined drive from the mill on the other side

After the PEA was done, late 2009, the project has evolved a lot and the market has not yet taken notice.

- The resources has through infill drilling to a large extent (80%) been converted from inferred to indicated resources. Current indicated resources are 1.15 million ounces with an average grade of 3.9 grams at current cutoff grade of 2 grams/ton. Additionally a further 500,000 ounces of inferred resources has been outlined for a total of 1.65 million ounces. The growth and conversion has been done in the central zone called Minapampa and along strike to the east.
- Minera is also drilling along strike to the west (a zone called Concurayoc) and is having huge success with several drill results showing even higher grade mineralization. For example DDH10-130 with 33 meters of 4.57 grams of gold and DDH10-127 with no less than five (!) zones: 3 meters grading 4.55g/t, 4 meters grading 7.05g/t, 4 meters grading 2.16g/t, 8 meters grading 3.78g/t and 11 meters grading 3.56g/t gold. Most results in this zone have ~90% true widths. These excellent results in the western part of the deposit will show up in a new inferred resource calculation later this spring.

It is in fact our opinion that the Ollachea deposit will be almost twice as large in the upcoming pre-feasibility study compared to what was used in the PEA once including Minapampa & Minapampa East zone and the inferred resources to the west at Concurayoc (the latter might however be reported separately).

Further it is our view that it is more an issue of timing whether the company will choose to have the full work done for Probable reserves in the upcoming Pre-feasibility study or whether, with the deposit still growing fast, it is better to do that in the bankable feasibility study next year.

Growth continues as Ollachea advances towards production

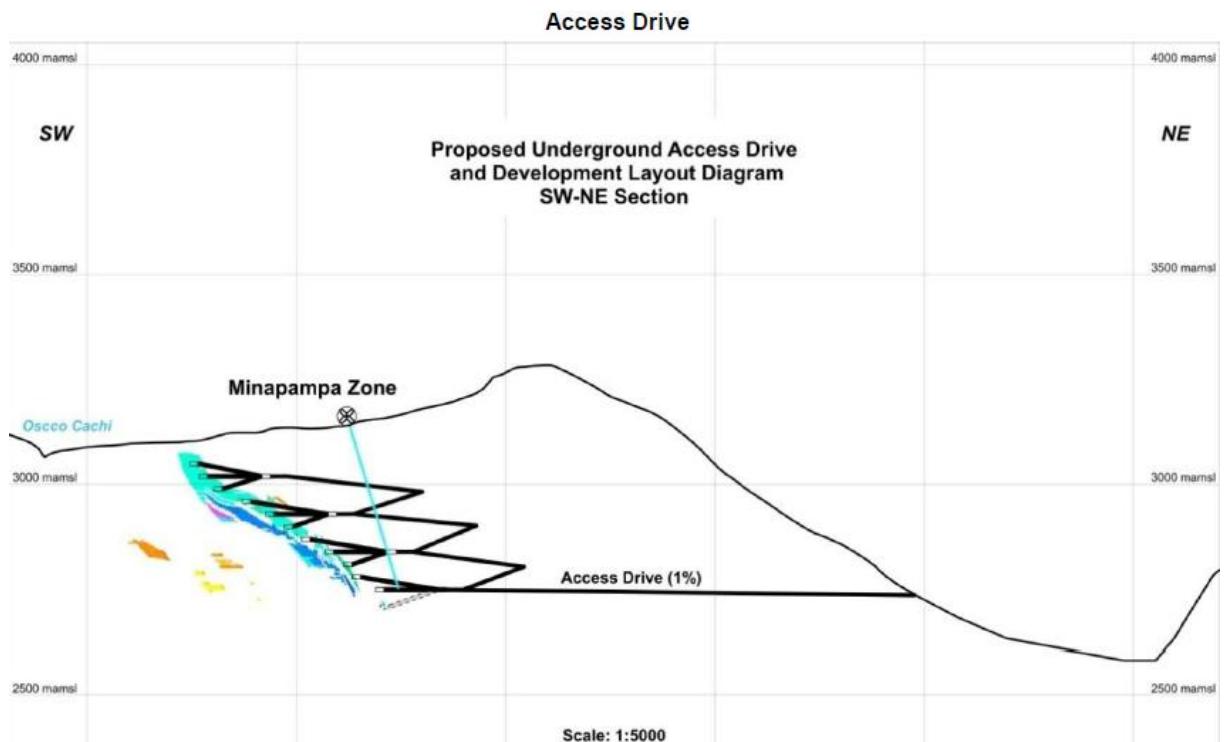
Ollachea is in a very strong growth phase which makes production plans and the two feasibility studies somewhat hard to predict. The various dates for the different milestones have been pushed forward in time due to the new discoveries and the growth of the deposit. We believe this is a price well worth paying since Ollachea is about to become big enough to attract the attention of even the larger gold producers. **Let's expand somewhat on the growth and the significant blue sky potential:**

The main zone at Ollachea is called Minapampa and is comprised of 7 main lenses with true widths between 2 – 25 meters with an average of ~7 meters. These lenses typically dip 50-55 degrees to the north while the deposit runs from east to west. The deposit is currently open along strike in both directions (east & west) and down dip (towards the north). Drilling is successfully ongoing to the west (Concurayoc 400 meters along strike from Minapampa) while in the east the drilling ended with drill hole DDH09-67 (45 meters of 2.81 grams (true width in that batch, 60-94%). When we say ended, we mean that the drilling from the surface ended there because the mountain become too steep to position a drill rig. The next step of exploration drilling in the east is going to be done using access of the planned tunnel under the mountain.

The drive for accessing the ore body

We mentioned above that one issue was to find a suitable place for the mill and the tailings storage given the mountainous terrain. Meanwhile, the company is also looking for the optimal solution to access the deposit for mining as well as continuing exploration both east and north. Both these directions continue under a mountain which would make drill holes longer and more expensive. The really neat solution to this problem is to construct a 1300 meter long tunnel (1.5 degree slope and almost along strike) from the planned mill on the lower flat areas on the other side of the mountain. Doing this will basically solve all the problems of exploration access both eastwards along strike and northwards down dip. The tunnel will also be used to access the ore body for production!

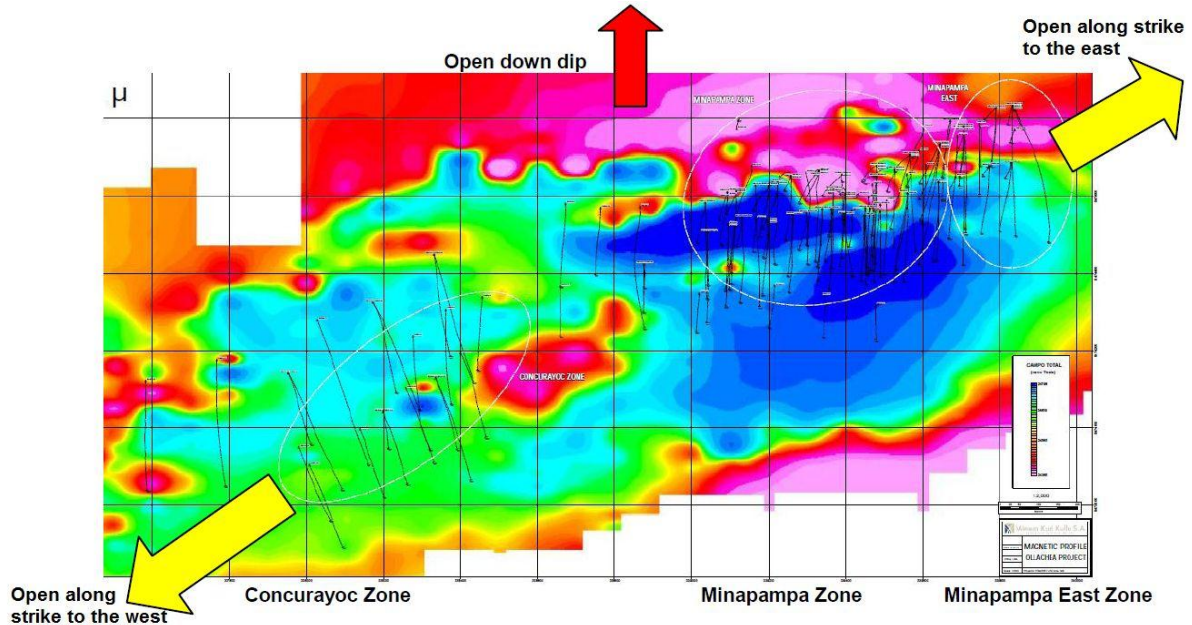
Driving the tunnel is expected to start in July 2011, once the pre-feasibility study is done, and take 15 months to complete. The drive will run under the mineralization and open up for prospecting along strike east as well as down dip.



Valuation of Ollachea:

We are of the view that the company is sitting on a large high-quality project that will be mined profitably once it is advanced through pre-feasibility and bankable feasibility studies.

This view is based on the positive PEA and the recent expansion of resources, a very positive infill & step out drilling to the east, as well as to the west of the Minapampas zone.



At the end of this year, we estimate that Ollachea will have 2.3 million ounces of resources, with 1.9 million of these classified as M&I and 0.4 million as inferred. Conservatively we are of the view that Minera IRL will probably wait for the bankable feasibility study, expected by late summer 2012, to release their first P&P reserve statement. This will without doubt be a major trigger for revaluation since we believe that the reserves outlined in this project, will be valued at US\$ 250/ounce or higher, given the expected cash cost below or at the industry average. We also expect total resources to top 3 million ounces by then.

For the end of 2011 we take the view to classify all ounces as resources, M&I and inferred. Further considering that Ollachea is an impressive deposit with a then recent pre-feasibility study and excellent infrastructure situated in a good jurisdiction, we estimate a fair valuation of these ounces to be: US\$ 120/ounce for M&I and US\$ 60/ounce for inferred.

This would indicate a target value of US\$ 252 million for Ollachea or ~ C\$ 2.11/share by the end of this year.

Don Nicolas: Minera IRL ´s second mine + exciting exploration

During the 2008 financial crisis, Minera IRL, being well financed through its producing unit Corihuarmi, managed to pick up a small company called Hidefield Gold that had discovered the Don Nicolas deposit in Patagonia, Argentina. Hidefield had also managed to put together a very large land package in what is now in 2011 one of the really hot areas with several exciting discoveries being made. We recommend that you read more about this area in this Mining Magazine article. It's important to understand that not only does this area have interesting geological potential, it is also mining friendly, which is not always the case in Argentina:

www.minera-irl.com/Portals/1//pdfs/PatagoniaMM0111.pdf

Basically one can divide Minera IRL ´s Patagonia assets into three parts:

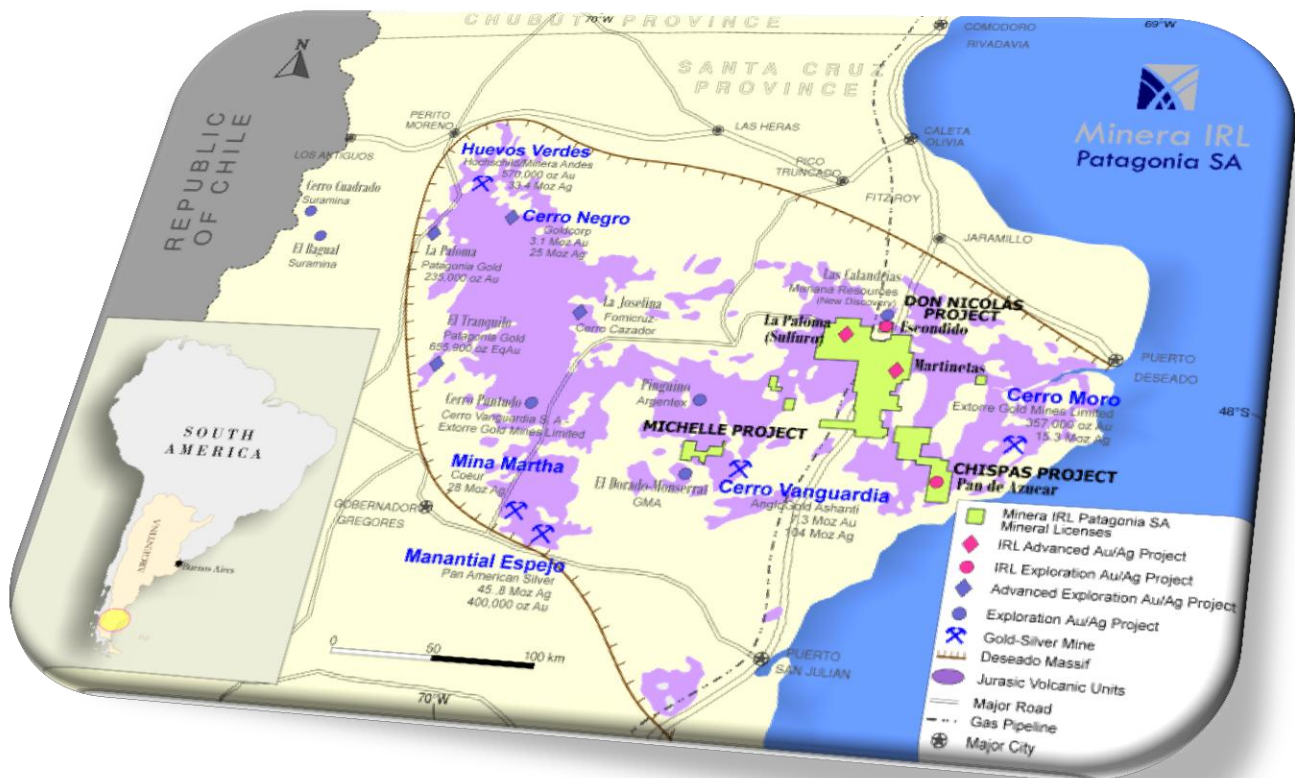
Don Nicolas:

Don Nicolas is a number of high grade veins at two different locations. The most important one is Sulfuro in the La Paloma area where the coming mill for the Don Nicolas project will be situated. It is likely that the large Sulfuro vein will be mined initially as an open pit and subsequently as an underground operation using a decline from the pit bottom. Several already discovered veins

around Sulfuro will also contribute with ore. The area is prospective for finding additional veins which will be a focus area, once commercial production is being achieved.

The other ore that will contribute to the mine will be the group of high grade Martinetas veins which will be mined using an open pit. The ore will then be transported by truck to La Paloma. In Martinetas, the company is also compiling a resource that could justify a small heap leach operation for lower grade material which could possibly add 10,000-15,000 ounces to the annual production.

Excluding the heap leach project, we expect Don Nicolas to produce ~60,000 ounces annually at a cash cost of US\$ 500 given the current high oil prices. We estimate the capex to US\$ 50 million excluding the heap leach project and we believe the reserve statement at the upcoming bankable feasibility study (Q3) will show 250,000 ounces of proven & probable reserves with additional M&I resources of 50,000 ounces + inferred 50,000. We choose to value these ounces at US\$ 71.5 million or 60 cents/share.



Escondido:

The fascinating story of Escondido is still in its infancy. It basically started with the neighboring company www.marianaresources.com drilling some really great holes, showing long intervals of bulk tonnage grades at their part of the property (Calandria Sur). It was soon obvious that this discovery continued on trend into Minera IRL’s Escondido property and the first scout drilling did not make anyone disappointed. 10 out of 11 holes hit long intervals of mineralized breccia starting close to surface. Highlights:

- 100 meters of 1.19 grams of gold + 7.7 grams of silver/ton directly from surface.
- 120 meters of 0.65 grams of gold + 5.7 grams of silver/ton from 7 meters depth.
- 25 meters of 1.45 grams of gold + 9.62 grams of silver/ton from 52 meters depth.

An additional 70 drill holes are expected this year from Escondido and in case that is not enough for the news hungry investor, we recommend looking for news from Mariana Resources as well. Both companies are working hard to prove up the necessary size of this common deposit to justify the capex of a mine in the future.

Conclusion

In early June 2010, we at O B Research were getting ready to present Orvana Minerals at C\$ 1.30 to our readers. It was a nervous moment, not because we doubted the ability of Orvana or its management, but rather because the expectations were very high after the success we had with OceanaGold. The expectations were very high and 9 months later we have the same feeling all over again. Orvana is now at C\$ 3.40 and the expectations on Minera IRL will be as high or even higher.

Minera IRL is a truly spectacular company. Through this whole process of researching Minera, the feeling has grown upon us that Ollachea in Peru is a real company maker. Our feeling when **considering Minera IRL's work in Argentina** (not to forget the coming mine here) is that among the many projects in Patagonia, currently valued at zero, another company maker might very well be found. We have a very apt management working in the right neighborhood.

As stated above, we value the sum of the parts to a total of C\$ 3.00 and we believe the current valuation to be very attractive in part due to basically no coverage from the major Canadian brokerage firms. This fact will change as we expect the company to eventually do a financing in Canada. We do not expect a financing any time soon with a treasury at over US\$ 30 million and free cash flow of US\$ ~10 million annually from Corihuarmi. But the company is moving on so many fronts during 2011 that money will be spent and news will flow. We believe the share price will be considerably higher at that time.



**O B Research, your partner in finding great companies well before these guys show up.
Do not forget to read the disclaimer below.**

O B Research

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We publish independent research on an irregular basis when we see exceptional value. If you are interested in receiving future research from us, please visit our website to register for our newsletter: <http://www.ob-research.com/>

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All facts and calculations in this research has been done with the help of public material on company websites, SEDAR and calculated to the best of our ability and knowledge. At a minimum we also contact the company by telephone to get further updates.

Factual errors might still occur however, and it is every reader's obligation to do their own research and not to solely rely on information given in this publication. This research material is our view about the stock and do not constitute advice to buy or sell shares in this or any other company. Even though the writers of these reports get no payment from the companies we write about, we might occasionally be reimbursed for costs while visiting production sites or arranging investor presentations.

Ollachea historical press releases and maps:

<http://www.minera-irl.com/Portals/1//pdfs/OllacheaDrillingResults.pdf>

<http://www.minera-irl.com/Portals/1//pdfs/Ollachea%20Update%201%20April.pdf>

<http://www.minera-irl.com/Portals/1//pdfs/Placing%20and%20Ollachea%20Project%20Update%20-%20Notice%20of%20General%20Meeting.pdf>

<http://www.minera-irl.com/Portals/1//pdfs/Ollachea%20Scoping%20Study%20-%202016%20Nov%202009.pdf>

<http://www.minera-irl.com/Portals/1//pdfs/Ollachea%20Pre-feasibility%20Update.pdf>

<http://www.minera-irl.com/Portals/1//pdfs/Drilling%20Results%20at%20the%20New%20Concurayoc%20Zone.pdf>

<http://www.minera-irl.com/Portals/1//pdfs/Ollachea%20Pre-feasibility%20Study%20Update.pdf>

<http://www.minera-irl.com/Portals/1//pdfs/Ollachea%20Payment%20to%20Río%20Tinto.pdf>

<http://www.minera-irl.com/Portals/1//pdfs/Positive%20Drilling%20Results%20from%20Concurayoc%20Zone.pdf>

<http://www.minera-irl.com/Portals/1//pdfs/Resource%20Upgrade-Ollachea%20Project.pdf>

Maps Ollachea:

http://www.minera-irl.com/Portals/0/pdfs/Drilling%20Plan_170910_106_.pdf

http://www.minera-irl.com/Portals/1/pdfs/OLLA-CON_Drilling%20Plan_261110.pdf