

Update – Annual Report

Tertiary Minerals PLC

Ticker: AIM:TYM

Price: 8.62p[#]

Market Cap: £10.24 million

[#]Priced at close, 17.01.2012**LONG TERM BUY – Target Price 29.00p**

Threefold uplift in three years ...

Tertiary releases annual report

Tertiary Minerals PLC, the mineral exploration and development company primarily focused on its two fluorspar¹ projects, the Storuman project in Sweden and the Lassedalen project in Norway, released its 2011 Annual Report on Friday, 13 January 2012. This followed last month's announcement of its final results for the year ended 30 September 2011.

These results showed a loss of £289,673 (2010: £321,563 loss), which equates to a loss per share of 0.26 pence (2010: 0.36 pence/share loss), a cash position of £1.2 million and net assets of £2.8 million. These numbers were in line with VSA Capital's expectations.

Fluorspar prices remain high

The fluorspar industry remains tight and as at 10 January 2012 the average price of acidspar was unmoved at US\$600 per tonne. As a result we remain confident that the net present value of US\$244 million and internal rate of return of 78 percent mentioned in our October Initiation Report are still applicable to the Storuman Project.

Discovery of larger mineralised area encourages share price

Soon after the release of our Initiation Report Tertiary announced the outcome of its 2011 drilling programme which brought a step change in its expectations for the ultimate size of the Storuman Project. The results showed that there is an area of mineralisation within the licence which is potentially much larger than that defined so far; note the 2011 maiden JORC resource estimate, which assumed a fluorspar price of US\$357 per tonne, concluded that the Project hosts approximately 27.8 million tonnes of ore at 10.21 percent of fluorspar, giving it 2.84 million tonnes of contained fluorspar. On the day of its release, this news saw the share price almost double to close at 9.13 pence. This was followed by a week long climb to almost 12 pence.

Storuman: Plan for 2012

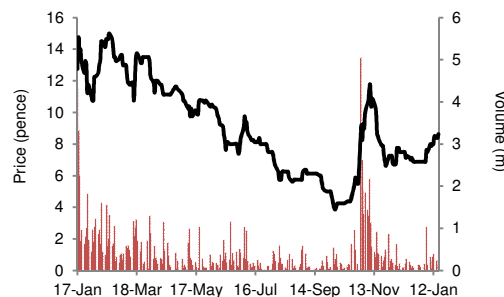
Preliminary feasibility studies and permitting processes are now underway, with pre-feasibility studies expected to be finished towards the end of 2012 and permitting to go through to the summer of 2013. The Company announced in its Annual Report that it anticipates that it will submit an application for a mining lease at the end of the year.

Maiden resource estimate for Lassedalen

This morning Tertiary released a maiden JORC resource estimate for the Lassedalen Project in southern Norway, the Company's secondary fluorspar project. Exhibit 2 below shows that the estimate reports an inferred resource of four million tonnes at 24.6 percent, giving a contained fluorspar estimate of almost one million tonnes. A cut of 10 percent was used. The tonnage is in line with expectations but the grade is slightly lower than the 29 percent previously estimated by the Company.

VSA Capital maintains BUY recommendation

Tertiary's share price closed yesterday at 8.62 pence. VSA Capital initiated research on Tertiary Minerals in October 2011 with a target share price of 31 pence (calculated using a relative valuation; specifically, a peer group comparison using enterprise value per resource). If this model is updated with current market prices and the marginally lower resource, our target price becomes 29 pence. However, we must note that the companies used as comparisons are a number of years ahead of Tertiary's production timeline (which VSA estimates will not commence prior to 2015), and so we do qualify that it reflects a long term view of the Company's value. Hence we conclude as we have done in the past, that while this valuation should be viewed with some caution, what we can take from this exercise is that Tertiary Minerals is largely undervalued. Accordingly, we continue to place a BUY recommendation on this stock.



Source: Bloomberg

Company Name	Tertiary Mines PLC		
Ticker Bloomberg/Reuters	TYM		
Market	AIM		
Price	8.62p		
Issued shares	118.8m		
Market cap	£10.24m		
Net cash (debt)	£1.18m		
Enterprise value	£9.06m		
Company description	Mineral exploration and development company with fluorspar assets in the Nordic countries.		
Next news	Metallurgical Results		
	1 mth	3 mths	12 mths
Price Changes	15%	49%	-48%
12 mths high/low	15.75 / 3.88p		
Major shareholders	Barclayshare Nominees Ltd (12.31%) Patrick Lyn Cheetham (8.73%) HSDL Nominees Ltd (8.14%) TD Waterhouse Nominees (Europe) Ltd (7.04%) Ronald Bruce Rowan (6.73%)		

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¹ Fluorspar (that is calcium fluoride) is an essential raw material in the fluorine chemicals business and in the aluminium and steel sectors.

TERTIARY RELEASES ANNUAL REPORT IN LINE WITH EXPECTATIONS

Tertiary Minerals PLC, the mineral exploration and development company primarily focused on its two fluorspar projects, the Storuman project in Sweden and the Lassedalen project in Norway, released its 2011 Annual Report on Friday, 13 January 2012. This followed last month's announcement of its final results for the year ended 30 September 2011.

These results showed a loss of £289,673 (2010: £321,563 loss), which equates to a loss per share of 0.26 pence (2010: 0.36 pence/share loss), a cash position of £1.2 million and net assets of £2.8 million. These numbers were generally in line with VSA Capital's expectations as can be seen in Exhibit 1 below (although note that the cash figure was 20 percent lower than our forecasts).

Exhibit 1: Variance in VSA Estimates and Actual 2011 Financial Results (£ '000)

	Actual	VSA Estimate	% Difference
EPS (pence)	-0.2574	-0.2500	2.88
Cash at End of Year	1,178	1,419	20.47
NAV	2,788	2,632	5.60

Source: Tertiary Minerals PLC and VSA Capital Ltd

Note that our forecasts for the next two financial years can be viewed in the attached Appendix and these show that the Company will need to raise funds to continue its operations into the 2013 financial year.

DISCOVERY OF LARGER MINERALISED AREA ENCOURAGES SHARE PRICE

On 31 October 2011 Tertiary Minerals announced that it had discovered large extensions to the known fluorspar mineralisation as well as new areas of high-grade mineralisation at its Storuman fluorspar project in Sweden. These findings came from the summer drill programme results. That programme comprised 11 drill holes which looked at untested areas to the west of the defined mineral resource. Of the 11 holes, six tested for potential extensions along the southwest side of the mineral resource over a total distance of 1.4 kilometres; five of these intersected significant fluorspar mineralisation with a best result of 4.38 metres grading 14.1 percent fluorspar from a 29.50 metre depth.

The extensions to the fluorspar mineralised area demonstrated by this latest programme include some areas where open-pit mining may be possible but generally the results reinforce the need to include an evaluation of underground mining options in the preliminary feasibility studies now in progress. This may alter the production rates of 103,000 tonnes per annum specified in the 2010 Scoping Study. However, the Company is most excited by the fact that the results show that the footprint of the mineralisation is significantly larger than that previously thought. Once defined this should increase the value of the asset, a sentiment acknowledged by the market; on the day of its release, this news saw the share price almost double to close at 9.13 pence followed by a week long climb to almost 12 pence.

STORUMAN PROJECT: PLAN FOR 2012

Preliminary feasibility studies and permitting processes are now underway, with pre-feasibility studies expected to be finished towards the end of 2012 and culminate in an application for a mining lease. Permitting, however, will go through to summer 2013. Meanwhile, Tertiary's plans for a summer drill programme (to aid its definite feasibility study) have been pushed back until at least spring of this year.

SGS in Cornwall is carrying out further metallurgical development testwork for the Storuman project. The testwork, which is being carried out on drill core samples generated from the 2010 drilling programme, began in late June 2011 and was to take 30 weeks to complete. Accordingly the work should have been finished by the end of this month. However, as we have seen with drilling results and resource estimates, metallurgical test labs are also experiencing delays due to the significant demand for their services. Hence, Tertiary does not expect to receive the results from this testwork until the end of the current quarter.

MAIDEN RESOURCE ESTIMATE ANNOUNCED FOR LASSEDALEN

This morning Tertiary released a maiden JORC resource estimate for the Lassedalen Project in southern Norway, the Company's secondary fluorspar project. Exhibit 2 on the following page shows that the estimate reports an inferred resource of four million tonnes at 24.6 percent giving a contained fluorspar estimate of almost one million tonnes. A cut of 10 percent was used.

Exhibit 2: Resource Estimate

Classification	Ore (million tonnes)	CaF ₂ %	Contained CaF ₂ (million tonnes)
Inferred	4.000	24.6%	0.984

Source: SRK Consulting (Sweden) AB

The tonnage is in line with expectations but the grade is slightly lower than the 29 percent previously estimated by the Company. This brings our target price down slightly from 31 pence to 29 pence.

Nonetheless, being almost three times higher in grade than the Company's larger tonnage and flagship Storuman Project and seemingly easier to mine than that Project, we believe that it is likely that the Lassedalen Project will have a quicker timeline to profitable production (pending the overdue results of metallurgical results) than the Storuman Project which is still some years away.

The report confirmed that the Lassedalen Project is more amenable to underground mining and discussed two separate zones of mineralisation, the South Vein, defined by surface and underground drill sampling and the North Vein which is a possible branch vein from the western end of the South Vein. However, limited available data places some uncertainty around the North Vein and hence it is only the South Vein that is included in the resource estimate. These calculations were done using a mine-gate fluor spar price of US\$350/tonne which is estimated by the Company to be roughly equivalent to US\$380/tonne CIF Rotterdam. At present the CIF Rotterdam price for Chinese fluor spar averages US\$600/tonne which shows that the resource estimate is quite conservative. Further, Tertiary considers that mineralisation at Lassedalen has not been closed off by the historical drilling along strike or at depth and that there is good potential for the discovery of additional mineralisation. Hence we would expect this estimate to be upgraded in the future as the project is developed.

While the delays of independent consultants and labs mentioned above have barely affected the timing of the resource estimate release (it was due at the end of 2011), we are still waiting to receive the results of a metallurgical testwork programme which were also expected by the end of 2011.

VALUATION

The challenge inherent in the valuation of fluor spar companies is the lack of publically traded comparators. Further, even those companies that are listed often do not derive their principal value from their respective fluor spar projects, as Tertiary does (for example, Speewah Metals and Sephaku Holdings). While we have identified two pure fluor spar public companies (and used these as the basis for our valuation in our Initiation Report), Canada Fluor spar Inc (TSX.V:CFI) and Fluor min PLC (AIM:FLOR), these companies are at a different stage of development than Tertiary (with Fluor min already in production).

Alongside our reliance on equity markets peer comparisons, we have also used recent transactions as a way to value Tertiary. As noted in our Initiation Report, earlier this year Canada Fluor spar took on Arkema as a strategic investor in a deal that valued the company at US\$38.50 per tonne of fluor spar. Similarly, Vergenoeg Mining Co Pty, which operates the Vergenoeg Fluor spar Mine, was valued at US\$118.2 million (adjusted for inflation to reflect today's prices) when Minersa purchased 55 percent of the company from Metorex Ltd in December 2009. This deal values the company at US\$2.40 per tonne of contained fluor spar.

From Exhibit 3 on the following page we can see that if the valuations of its peers (both from equity market values and transaction values) are attributed to Tertiary it should be trading 29 pence. This number is slightly lower than our original target price of 31 pence due to the Lassedalen's resource estimate coming in marginally lower.

Exhibit 3: Peer Comparison

Company	Resource (M)	Shares Out (M)	Share Price	Market Cap (local M)	Debt (M)	Cash (M)	EV (local, M)	Deal value (local, M)	Local: USD	EV (USD M)	Deal value (USD M)	EV/Resource (USD/t)	Deal Value/Resource (USD/t)
Equity Market													
Canada Fluorspar Inc	4.1	103.6	0.41	42.5	0.4	11.4	31.5	N/A	1.0	31.0	N/A	7.5	N/A
Fluormin PLC	10.7	56	0.58	32.3	0.0	1.3	31.1	N/A	1.5	47.6	N/A	4.5	N/A
Equity Average (USD)												6.0	
M&A													
Canadian Fluorspar	2.1	N/A	N/A	N/A	N/A	N/A	N/A	77.9	1.0	N/A	79.1	N/A	38.5
Vergenoeg Mining Co Pty Ltd	49.1	N/A	N/A	N/A	N/A	N/A	N/A	118.2	1	N/A	118.2	N/A	2.41
M&A Average (USD)												20.4	
Total Average (USD/t)												13.22	
Tertiary Value (USD M)												50.24	
Tertiary Value (GBP M)												32.76	
Tertiary Value (per share)												0.31	

Source: Canada Fluorspar Inc, Minersa, Metorex Ltd and Bloomberg (share price closes as of 13 January 2012)

However, we must reiterate that the companies used are a number of years ahead of Tertiary's production timeline (which VSA estimates will not commence prior to 2015), and so we do qualify that it reflects a long term view of the Company's value. Hence we conclude, as we have done in the past, that while this valuation should be viewed with some caution, what we can take from this exercise is that Tertiary Minerals is largely undervalued. Accordingly, we continue to place a BUY recommendation on this stock.

APPENDIX: FINANCIAL FORECASTS

Year End September	2009	2010	2011	2012E	2013E
Income Statement					
Gross Operating Profit	0	0	0	0	0
Pre-licence exploration costs	(38)	(33)	(13)	0	0
Impairment of Deferred Exploration Costs	(28)	(69)	0	0	0
Administration Expenses	(211)	(220)	(282)	(300)	(315)
EBIT	(277)	(323)	(295)	(300)	(315)
Interest Income	7	1	5	1	1
	(270)	(322)	(290)	(299)	(314)
Interest Expense	0	0	0	0	0
Income Before Tax	(270)	(322)	(290)	(299)	(314)
Tax	0	0	0	0	0
Net Income	(270)	(322)	(290)	(299)	(314)
EPS (pence)	(0.36)	(0.36)	(0.26)	(0.27)	(0.28)

Year End September	2009	2010	2011	2012E	2013E
Cash Flow Statement					
EBIT	(277)	(323)	(295)	(300)	(315)
Issue of Shares in Lieu of Net Wages	15	5	0	0	0
Depreciation Charge	3	2	6	0	0
Impairment Charge	28	69	0	0	0
Share Based Payment Charge	30	37	54	0	0
Change in Receivables	1	10	(46)	0	0
Change in Payables	(18)	19	69	0	0
Operating Cash Flow	(217)	(180)	(212)	(300)	(315)
Interest Received	7	1	5	1	1
Purchase of Intangible Assets	(100)	(169)	(667)	(500)	(500)
Purchase of Property, Plant, Equipment	(0)	(1)	(28)	(30)	(30)
Investing Cash Flow	(93)	(169)	(689)	(529)	(529)
Issue of Share Capital (net)	404	0	1,717	0	0
Financing Cash Flow	404	0	1,717	0	0
Net Change in Cash	94	(349)	816	(829)	(844)
Cash at Beginning of Year	592	725	370	1,178	349
Exchange Differences	39	(6)	(8)	0	0
Cash at End of Year	725	370	1,178	349	(495)

Year End September	2009	2010	2011	2012E	2013E
Balance Sheet					
Cash & Cash Equivalents	725	370	1,178	349	(495)
Receivables	52	42	88	88	88
Current Assets	777	412	1,266	437	(407)
Intangible Assets	595	709	1,376	1,876	2,376
Property, Plant & Equipment	3	1	23	53	83
Available for Sale Investment	167	167	286	288	288
Non-current Assets	765	878	1,685	2,217	2,747
Total Assets	1,542	1,290	2,953	2,654	2,340
Trade & Other Payables	77	96	165	165	165
Current Liabilities	77	96	165	165	165
Total Equity	1,466	1,195	2,788	2,489	2,175
Total Liabilities & Equity	1,542	1,290	2,953	2,654	2,340

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