

Initiation Report

May 27, 2010

Minerco Resources, Inc.

OTC BB: MINED.OB

Recent Price:

\$0.1045

Recommendation:

Speculative Buy

Price Target:

\$0.41

**Summary:** Minerco is an emerging clean tech/alternative energy company with strong presence in Honduras. Contracts to build a 6 megawatt hydroelectric (run of the river) power plant in northwestern Honduras is expected to be executed in the near future.

At a Glance	
TICKER	MINED
FISCAL	July 31
SECTOR	Alternative Energy/Clean Tech
RECENT PRICE (12/21/09)	\$0.105
TARGET PRICE-12-18 Month	\$0.41
MARKET CAP \$mil	\$34.0
52 -WEEK HIGH	\$0.15
52-WEEK LOW	\$0.04
PRICE/FWD OP CASH FLOW	6.8
FORWARD PRICE/SALES	5.8
PRICE/BOOK VALUE (mrq)	N/A
SHARES OUTSTANDING (May21,2010)	331.5 mil
FULLY DILUTED (May 21,2010)	331.5 mil
FLOAT	142.5 mil
DAILY VOLUME(50 DAY)	8,987,312
INSIDER SHAREHOLDERS %	28.2%
CEO	Scott Vanis

**Investment Rationale:**

- Pure play on major investment themes: clean tech, alternative energy, climate change and sustainable growth.
- Anticipate receiving long term power purchase and sales agreement with Government of Honduras. Current power production is 70% fossil fuel based and Government has incentives to reduce this while increasing total power supply.
- Very high financial returns: operating margin-90%, IRR%-34%.
- Experienced Management team. Scott Vanis, CEO and/or Marco Rodriguez have been working on this project for about three years.

- Low equity requirements due to ability to secure term loans based on long term power sale contracts. Electricity demand is growing and should be sustained for the next 20-30 years due to current low level of development in Honduras.
- Government support at local and national levels.
- Very significant expansion potential to other alternative energy projects: hydro, wind, etc. Securing approval on this first project (Chiligatoro Hydro-Electric) will pave the way for subsequent projects.
- Since hydro-electric power production produces no carbon dioxide, the Company receives Carbon Emissions Reduction credits. These are eligible for sale to other companies according to the Kyoto Protocol. Estimated revenue from sale of these credits is estimated at 6.3% of power sales.
- Key equipment (turbines) will be exported from the United States so favorable financing is possible from manufacturers and/or US Government agencies.
- Honduras has deep and strong ties to the US Government and political risk should be acceptable if not insurable.

## **Company History**

The Company was incorporated on June 21, 2007 under the laws of the State of Nevada to pursue oil and natural gas leases and related interests. An S-1 registration statement registering 23,757,500 shares was filed and deemed effective by the SEC on February 6, 2009. On March 22, 2010 there were 55,257,500 shares issued and outstanding. On March 23, 2010 Michael Too resigned as an officer and Director of the Company and V. Scott Vanis was appointed President, Secretary, Treasurer, member of the Board of Directors. On May 21, 2010 the authorized and outstanding shares were split on a 6 to one forward basis so that the authorized and outstanding shares became 450,000,000 and 331,545,000 on that date.

## **Business Plan**

### **Problems Addressed**

The Government wants to resolve three major problems:

1. Reduce the dependence on fossil fuel power generation due to high and variable costs of petroleum fuel (bunker fuel predominately) thereby reducing green house gas generated and accruing environmental benefits to the society.
2. Increase power generating capacity across the system so as to support a growing, developing economy, eliminate black outs, etc.
3. Improve access of rural areas to electricity thereby improving the standard of living.

### **Proposed Solution**

Build a run of the river hydroelectric power plant in northwestern Honduras capable of generating 6 megawatts of power on an average basis throughout the year. The selected project (Chiligatoro) location is only three km from the national grid and will be located on the Chiligatoro and Manazapa Rivers. A run of the river hydro-electric plant diverts a portion of the water stream through a pipe called a penstock which feeds the power station turbine down river. There is no dam above the power station and the diverted water is returned to the



river below the station. The turbines are driven by the kinetic energy from the water which is created from the elevation drop. The diversion mechanism will be built at 5,700 feet above sea level and the power station is at 4,300 feet above sea level therefore the vertical drop is 1,400 feet. A 34.5 KVA Substation will be built enabling connection to the 3 phase power grid.

The advantage of a run of the river system is you do not have to flood the basin above the power station creating a large reservoir that impacts the environment and may cause people living nearby

to be relocated. The disadvantage is that the flow is dependent on the rainfall and power generation may be quite seasonal. A run of the river plant has little ability to store water for the dry season so cannot coordinate supply with other producers. The micro-climate in this location is believed to have significant rainfall even in the dry season.

Additional local benefits are up to 100 employment positions during construction and as many as 30 permanent positions during the power generation period.



### Honduras Electrical Sector Overview

The electricity sector in Honduras is characterized by the dominance of a vertically integrated utility (except for about half of the generation capacity); an incomplete attempt in the early 1990s to reform the sector; the increasing share of thermal generation over the past two decades; the poor financial health of the state utility ENEE (Empresa Nacional de Energia Electrica); the high technical and commercial losses in transmission and distribution; and the low electric coverage in rural areas

## **History**

ENEE (Empresa Nacional de Energia Elctrica) was created in 1957 by Decree 48, the Ley Constitutiva de la Empresa Nacional de Energía Eléctrica—the Constitutive Law. Its mandate was to promote the country's electrification through the study, construction and operation of electrification works, government representation in any company in which the Government was a shareholder, and to provide assistance to any private generator or distributor that would require it.

## **1994 New Electricity Law**

The 1994 New Electricity Law, passed under the administration of President Carlos Roberto Reina, was born as a response to a new energy crisis. It contained the provisions for the establishment of a competitive power market (vertical unbundling, freedom of entry to all sector activities, open access to transmission and distribution networks, and freedom of choice for large users); the separation of the roles of policymaking, regulation, and provision of electricity services; application of cost-recovery tariffs and targeted subsidies; and private provision of electricity services.

The establishment of the new competitive market failed: the distribution networks were not unbundled and privatized, and ENEE continued operating as a vertically integrated state-owned enterprise that maintained its central role in energy planning and policy making. In addition, the principles of cost covering tariffs and targeted subsidies were not properly implemented due both to inadequate political commitment and to an important dependency on imported oil for power generation, which led to high and volatile generation prices that were not passed on to retail tariffs.

In the 1990s, thermoelectric generation has come to lead a system that was dominated by hydropower: Hydropower plant capacity decreased from 90 percent to only 30 percent. The reason for this shift is twofold. First, hydro-electric development became more expensive when funding for interest-free loans for its development from International Financial Institutions was cut. Second, the lower risks and shorter maturity of thermal generation projects, as perceived by private investors, directed generation expansion towards the use of heavy fuel oil and medium speed diesels.

## **Independent Power Producers**

Power Purchase Agreements (PPAs) that ENEE has signed with Independent Power Producers running fossil fuel power plants now account for the majority of energy generation in Honduras. According to the Interamerican Development Bank, these PPAs were "expensive and with clauses that made them very inflexible".

ENEE signed its first Power Purchase Agreement (PPA) with an Independent Power Producer (IPP) for the provision of thermal energy in 1993. The contract was signed with Electricidad de Cortés (Elcosa) for a period of 17 years. Multiple PPAs were signed in the following ten years, which eventually included tax exemptions for up to five years and the payment of fixed and variable charges, the former independently of whether energy was actually being produced, as it is typically the case in Power Purchase Agreements.

## **Renewable Energy Promotion**

Decrees No. 85-98 and 267-98 were approved in 1998 by the Honduras Congress with the aim of promoting the development of renewable energy generating plants. The new legislation includes tax breaks to developers and a secure buyer arrangement for energy at prices equivalent to the system's short-term marginal cost. ENEE, which is the default buyer, must pay a premium (10 percent of the same short-run marginal cost) for the electricity generated when the installed capacity is below 50 MW. This framework has facilitated the negotiation of approximately 30 public-private partnerships with ENEE for small renewable energy plants. In addition, Decree No. 85-98 also establishes tax exemptions in favor of developers: import and sales taxes on equipment, and a five-year income tax holiday.

The government considers renewable resources a vital element of its strategy to diversify energy supply,

reduce vulnerability to external shocks, and mitigate the environmental impacts of energy production. The development of large hydropower projects and the provision of further incentives for grid-connected renewable projects are the present priorities of the government in the renewable energy sector. The penetration of renewable energy technologies into rural electrification programs is still limited and most of the rural electrification activities are grid extensions.

According to the World Bank, the potential for the development of off-grid and small renewable sources is largely unexploited.

### Honduras Electricity Supply

With an installed generation capacity of 1,568 MW (last available data from 2007), Honduras relies on a thermo (fossil fuel)-based power system (accounting for nearly two-thirds of its total installed capacity), which is very vulnerable to high and volatile international oil prices. The generation mix is as follows:

Source	Installed capacity (MW)	Installed capacity (%)
<b>State owned</b>	<b>589</b>	<b>38</b>
Hydroelectric	464	30
Thermal	125	8
<i>Diesel motors</i>	<i>92</i>	<i>6</i>
<i>Gas turbines</i>	<i>33</i>	<i>2</i>
<b>Privately owned</b>	<b>979</b>	<b>62</b>
Hydroelectric	55	4
Thermal	924	59
<i>Diesel motors</i>	<i>816</i>	<i>52</i>
<i>Gas turbines</i>	<i>40</i>	<i>3</i>
<i>Biomass</i>	<i>68</i>	<i>4</i>
<b>TOTAL</b>	<b>1,568</b>	<b>100</b>

**Figure 1: Honduras Electricity Breakdown**

Source: ENEE

Firm electricity generation capacity is substantially lower than installed capacity due to seasonality (i.e. the natural uncertainty affecting hydro-electric generation), the old age of some of the plants, and mothballing of thermal capacity.

Expansion plans include the net addition of 1,479 MW of generation capacity in the period 2007-2015. The projected expansion by source is as follows:

- Coal: 600 MW (2011 and after)
- Hydro-electricity: 570 MW (2007-2015)
- Renting (mainly thermal) or imports: 300 MW (2008 forward)
- Medium Speed Diesel: 300 MW
- Wind: 60 MW (2009)
- Geothermal: 86 MW (2010)

- Other renewable (mainly biomass): 15 MW
- Other thermal expansion (Gas turbines): 90 MW

Total gross addition: 2,021 MW

Removals: -542 MW

Net addition: 1,479 MW

Note: Not all of these expansion projects will be feasible.

### Honduras Electricity Demand

Total electricity sold in 2007 was 4,932 GW·h [2]. In 2005, electricity sold by connection was 4,376 kWh [2], which was much higher than in the neighboring countries Guatemala (2,337 kWh per connection), Nicaragua (2,931 kWh per connection) and El Salvador (3,109 kWh per connection) [1]. It is, however, much lower than in the more developed Central American countries, such as Costa Rica (7,969 kWh) and Panama (7,574 kWh). [1]

### Demand projections

Peak demand has grown over seven percent (7%) annually in recent years. For the period 2009-2012, the expected annual rate of growth of energy demand is expected to be around six percent (6%), while peak demand could increase at around seven percent (7%). The actual growth rate will depend on whether electricity tariffs will be increased, the success of a current program to integrate renewable energy generation and on whether technical distribution losses can be reduced.

While peak demand in 2008 was below total installed capacity, it was slightly above firm capacity. ***According to supply and demand projections by the World Bank, new generation capacity to be commissioned in the period 2007-2012 will not be enough to meet demand growth, which means that an energy shortfall is expected to happen in the near future.***

### Business Model

An extensive series of studies must be performed before construction can begin. An over view of the project is as follows:

1. Feasibility Studies
2. Permitting
3. Land Purchase
4. Plant Construction
5. Power Generation

The Procedure for Studies and Operations are benchmarked below:

1. Study and selection of works related to operation and exploration of Hydro-plant (closing, transmission, networks, etc.)
2. Hydrological parameters, Hydro-economic and Hydro-energetic studies
  - Average runoff, variation coefficient characteristics
  - Levels of reservoir
  - Expense design, load, power, energy
  - Type and number of turbines
  - Civil works estimation
  - Equipment needed

3. Technical and economic indexes
4. Fossil fuel substitution due to clean generation
5. Functional relations of different works in and around project
6. Categorization of principal works
7. Proposition and fundamentals of river closure
8. Volume of civil works
9. Hydraulic calculations of conducting pipe, diameter, losses, etc.
10. Discharge levels and analysis of protection against floods at the generating station site
11. Estimated budget
12. Blueprints and designs
13. Permitting
14. Land purchases
15. Hydro Plant Construction
16. Continuous Power Generation

### Competitive Advantage

Minerco has invested considerable time in developing relationships with local and national politicians and key decision makers and considers this a key asset.

### Marketing Strategy

The Company will contract with established local operators to reduce costs and to identify additional projects suitable to the Company strategy. Sales are negotiated upfront and covered under long term contracts.

### Funding Requirements

The Chiligatoro Project will require about \$12 million in capital and will be based on a 30 year power purchase agreement guaranteed by the Government, and payable in US\$ expected to be at the rate of \$108/MW. Based on this contract the Company believes they can secure 90% debt financing. Consequently the Company will have to raise about \$1.2 million in equity over the next 12 months.

Due to the many independent power opportunities the Company plans to start a second project within two years that would be about twice the power output of the Chiligatoro Project and have similar revenue, margins and capital costs: 12 MW power, \$24 million capital. A third project of the same magnitude and margins is assumed for the next year.

### Valuation

A complete set of financial statements have been prepared on a pro forma basis. From this a discounted cash flow model was prepared to determine the current asset value of the Company. ***See the Risk Assessment section for key assumptions.***

These are very high return projects due to the relatively high fixed costs and low operating costs of the business by its very nature. In addition, the valuation of the cash flows is high due to the low cost of capital attributable to this business. Two key elements of this are the five year tax holiday and 90% debt financing assumption. Although the cost of equity is high (25%) the cost of debt is low (10% or 8.5% net after tax) therefore on a weighted average basis the cost of capital is only 10.2% (90% x 8.5% + 10% x 25%). In addition the amount of

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financing needed for the second project is reduced by the high initial cash flow from the Chiligatoro Project. Once the Power Purchase contract is in place and the debt financing arranged the Company should be able to raise equity funds through a PIPE or other arrangement.

A Discounted Cash Flow model gives a Net Asset Value of \$0.45/share under these Base Case assumptions: 90% debt financing, 10% interest rate, equity raised at share prices in years 1,2 and 3 of \$0.10, \$0.20 and \$0.30/share

Sensitivity Analysis. The key financing assumptions evaluated were the % debt, interest rate and equity dilution.

For the lower debt Cases, the DCF is reduced due to the combination of the dilution from issuing additional shares and the higher weight average cost of capital. These calculations may be too severe though since the cash flows are sufficient to repay all of the debt in five years even for the 70% debt Case.

	% Debt		
	90%	80%	70%
NAV, \$/sh	\$0.45	\$0.36	\$0.30
Shares Out,mil	357.7	383.4	408.8

Assuming 90% debt, and looking at the effect of higher interest rates, one sees the reduction in NAV as expected. The sensitivity to interest rates is fairly strong:

	Interest Rate, %		
	10%	12%	14%
NAV,\$/sh	\$0.45	\$0.40	\$0.35

Assuming 90% debt financing and 10% interest, the sensitivity to a 50% lower share price is only \$0.02/share lower NAV. The reason for this is the number of shares outstanding only increases by 7%.

	Share Price For Offering, Yr 1/Yr2/Yr3	
	\$0.10/\$0.20/\$0.30	\$0.05/\$0.10/\$0.15
NAV,\$/sh	\$0.45	\$0.42
Shares Out, mil	357.7	383.8

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The key variable can be combined into a Optimistic, Pessimistic and Probable Scenario's.

	Optimistic	Pessimistic	Probable
% Debt	90%	70%	80%
Interest Rate	10%	14%	10%
Share Price, \$/sh Yr1/Yr2/Yr3	\$0.10/\$0.20/\$0.30	\$0.05/\$0.10/\$0.15	\$0.10/\$0.20/\$0.30
NAV,\$/sh	\$0.45	\$0.21	\$0.36

The 12-18 month Price Target is set at \$0.41 as the average of the Optimistic and Pessimistic Cases. These calculated NAV values are the present value of the projected cash flows and if the key milestones are met the share price may reach these values.

### Milestones

- Acceptance of Feasibility Study and Environmental Impact Statement by Honduran Government
- Finalization of Power Purchase Agreement by Honduran Government
- Secure financing: debt and equity

### Management

V. Scott Vanis President, Principal Executive Officer, Principal Financial Officer, Principal Accounting Officer, Secretary, Treasurer, and a member of the Board of Directors. Mr. Vanis has substantial energy industry experience. From May of 2007 to the present, Mr. Vanis has served as President of TC Energy International, SA, which provides international finance and acquisition services to energy companies, national oil companies and foreign governments. Mr. Vanis facilitated the identification, acquisition and financing of high-value properties in Latin and South America. From June 2003 to the present Mr. Vanis, has served as President of VSV Resources, LLC providing engineering consulting services to exploration and production companies, energy companies, national oil companies and foreign governments. He specialized in complicated, high risk operational procedures throughout the world. During his tenure with VSV, Mr. Vanis has also served as a liaison consultant to the Panamanian & Honduran governments to evaluate potential energy reserves and projects in their respective countries. From June of 2001 to June of 2003, Mr. Vanis was a Staff Petroleum Engineer with Pinnacle Technologies, Inc. and from June of 2000 through June of 2001 he was with BJ Services, Inc. as a Field Petroleum Engineer. Mr. Vanis holds of Bachelor of Science in Petroleum Engineering from The University of Tulsa.

### Risk Assessment

Regulatory: Approval of the project by various ministries in Honduras has not been finalized.

Political: Honduras experienced a military coup last year and elected Government officials were deprived of their office. Honduras has been reasonably stable history of democracy.

Operational: The turbines used to produce power are well established and mature technology. The risk is that a period of exceptionally dry weather occurs at a time when the project is just starting. The Feasibility Study will evaluate this risk.

Financial: Although this is an attractive project with excellent potential the Company has not raised any money nor has any commitments from investors.

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Currency and Foreign Exchange: Honduras has had relatively high inflation recently (5.9% in 2009 and 11.4% in 2008 per CIA Fact book). The Government has retained a fixed exchange rate (18.9 lempira/US\$) despite increasing public debt. The power purchase agreement is in US\$ which is the custom in the country.

Organizational: The Company has not been in business very long and has no history of operations. They will rely on contracted parties to run the business in Honduras.

Penny Stock Rules: The Company has essentially no trading history. The stock is considered a 'penny stock' by SEC and FINRA regulations which prevent registered representatives from recommending the stock to clients, and other trading restrictions apply.

### Sources:

1. Electricity Sector in Honduras, Wikipedia
2. ENEE (Empresa Nacional de Energia Electrica)
3. The World Bank
4. Interamerican Development Bank
5. Minerco Resources, Inc

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## DCF Model

(\$ Millions)

### Input

EBIT	5,126,480.0		
EBIT*(1-Tax rate)	3,588,536.0		
D&A	(1,080,000.0)		
Tax Rate, after 5 Year Tax Holiday	30.0%	Years 1-5	0
Chg. Working Capital	-		
Last fiscal year end	7/31/2010		
Fully Diluted Shares O/S	357,653,589.0		
Share Price	0.05		
Length of the stage	10		
<b>Wtd Avg Tax rate</b>	15%		

### Assumptions

		Terminal Gr rate
Growth Rate assumption	0.0%	2.0%
Debt Ratio	90.0%	20.0%
Beta used for stock	2.0	1.0
Risk free rate	5.2%	5.2%
Risk Premium	10.0%	5.0%
Cost of Debt	10.0%	7.0%
Cost of Equity	25.2%	10.2%
Equity/(Debt+Equity)	10.0%	80.0%
After-tax Cost of debt	8.5%	4.9%
Debt/(Debt +Equity)	90.0%	20.0%
<b>Wt.Avg.Cost of Capital(WACC)</b>	10.2%	9.1%

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Terminal Year
	-	1	2	3	4	5	6	7	8	9	10	
Expected Growth Rate		#DIV/0!	216.1%	55.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
EBIT	0	4,526,480	14,308,280	22,200,634	22,129,517	22,056,978	21,982,988	21,907,518	21,830,539	21,752,020	21,671,931	
EBIT * (1 - tax rate)	0	4,526,480	14,308,280	22,200,634	22,129,517	15,439,885	15,388,092	15,335,263	15,281,377	15,226,414	15,170,352	
'+ Depreciation & Amortization	0	600,000	1,800,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	
'- Capex	(12,000,000)	(24,000,000)	(24,000,000)	0	0	0	0	0	0	0	0	
'- Chg. Working Capital	0	0	0	0	0	0	0	0	0	0	0	
<b>Free Cashflow to Firm</b>	(12,000,000)	(18,873,520)	(7,891,720)	25,200,634	25,129,517	18,439,885	18,388,092	18,335,263	18,281,377	18,226,414	18,170,352	259,576,453
Cost of Capital		10.2%	10.2%	10.2%	10.2%	10.2%	10.2%	10.2%	10.2%	10.2%	10.2%	
Discount Factor		0.9077	0.8239	0.7478	0.6788	0.6161	0.5593	0.5076	0.4608	0.4182	0.3796	
Present Value		(17,131,270)	(6,501,970)	18,846,097	17,058,104	11,361,651	10,283,870	9,307,728	8,423,685	7,623,091	6,898,106	98,544,366

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	Valuation
Present Value of FCFF	66,169,091
Present Value of Terminal Value of Firm	93,663,342
Implied Enterprise Value	159,832,433
Present Value of Terminal Value of Firm as a % of total Implied Enterprise Value	58.6%
-Add: Cash and Cash Equivalents	-
-Less: Minority Interest	-
-Less: Preferred Stock	-
-Less: Total Debt	-
Implied Market Value of Equity	159,832,433
Total shares O/S	357,653,589
<b>Market Value of Equity/share</b>	<b>0.45</b>

<b>Switch: Terminal Value (1 for EBITDA multiple)</b>	1
EBITDA 2020 E	24,671,931.0
EBITDA Multiple	10.00
Terminal Value based on EBITDA multiple	246,719,310.3
Present Value of Terminal Value based on EBITDA multiple	93,663,341.6
Terminal Value	93,663,341.6

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APPENDIX TABLE 2 Key Assumptions and Pro Forma Cash Flow and Financial Statements

Projected Cash Flow  
6 MW/hr in US\$

## Key Assumptions

Electricity Production, Megawatts/yr	6	
Sales Price, \$/MW	108	
Certified Emission Reduction (CER) Credits, tons CO2/yr	30,000	one tone CO2 not produced
CER Value, \$/credit	\$12	Assumed NEED SOURCE One project in Yr2, one in Yr3
Future Projects, MW	12	
Future Projects, Revenue, \$/yr	11,000,000	Assume additional hydro/wind/alternative at same margins/costs as Chiligatoro begin year 3
Future Projects, Capital Cost, \$	24,000,000	Est pro rata to Chiligatoro capital and revenue
Operating Expenses, \$/mo	55,000	Includes maintenance, local G&A, socialization
Income Tax Holiday, yrs (Honduras)	5	stated in Business Plan- assume applicable to US Income taxes
Income Tax Rate, %	30%	
Inflation Rate, %/yr	2%	Net of local inflation/devaluation, cost reductions
Capital Costs		
Feasibility Studies (Phase 1,2,3,4)	350,000	
Key Equipment (turbines)	5,000,000	
Civil work and other construction	6,650,000	
Financing, debt, % equity	90%	Est due to long term power sale agreement, CER credits
Equipment/Other Loan, term, %	10	10.0% est 4% discount to commercial bank rates (turbine vendor/US Govt)
Depreciation Basis, avg life, yrs	20	
Terminal Value, Multiple of EBITDA	10	
Accounts	30	

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Receivable/Payable  
,days

Income Statement	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12
Revenue												
Power Generation- Chiligatoro	0	5,676,480	5,676,480	5,676,480	5,676,480	5,676,480	5,676,480	5,676,480	5,676,480	5,676,480	5,676,480	5,676,480
Power Generation- Other			11,000,000	22,000,000	22,000,000	22,000,000	22,000,000	22,000,000	22,000,000	22,000,000	22,000,000	22,000,000
Certified Emission Reduction Credits, \$		360,000	360,000	1,080,000	1,080,000	1,080,000	1,080,000	1,080,000	1,080,000	1,080,000	1,080,000	1,080,000
Total Revenue		6,036,480	17,036,480	28,756,480	28,756,480	28,756,480	28,756,480	28,756,480	28,756,480	28,756,480	28,756,480	28,756,480
Expenses												
Operating Expenses	0	660,000	673,200	3,295,746	3,361,661	3,428,894	3,497,472	3,567,421	3,638,770	3,711,545	3,785,776	3,861,491
SG&A (corporate)		250,000	255,000	260,100	265,302	270,608	276,020	281,541	287,171	292,915	298,773	304,749
EBITDA	0	5,126,480	16,108,280	25,200,634	25,129,517	25,056,978	24,982,988	24,907,518	24,830,539	24,752,020	24,671,931	24,590,240
Depreciation		(600,000)	(1,800,000)	(3,000,000)	(3,000,000)	(3,000,000)	(3,000,000)	(3,000,000)	(3,000,000)	(3,000,000)	(3,000,000)	(3,000,000)
EBIT	0	4,526,480	14,308,280	22,200,634	22,129,517	22,056,978	21,982,988	21,907,518	21,830,539	21,752,020	21,671,931	21,590,240
Interest Expense	0	(1,080,000)	(2,916,140)	(3,971,249)	(1,924,122)	0	0	0	0	0	0	0
Net Income Before Tax	0	3,446,480	11,392,140	18,229,385	20,205,395	22,056,978	21,982,988	21,907,518	21,830,539	21,752,020	21,671,931	21,590,240
Income Tax	0	0	0	0	0	(6,617,093)	(6,594,896)	(6,572,255)	(6,549,162)	(6,525,606)	(6,501,579)	(6,477,072)
Net Income	0	3,446,480	11,392,140	18,229,385	20,205,395	15,439,885	15,388,092	15,335,263	15,281,377	15,226,414	15,170,352	15,113,168
Terminal Value												245,902,400

## Venture Research LLC

### Cash Flow Statement

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12
Net Income	0	3,446,480	11,392,140	18,229,385	20,205,395	15,439,885	15,388,092	15,335,263	15,281,377	15,226,414	15,170,352	15,113,168
Add Depreciation	0	600,000	1,800,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
Current Accounts- Change Account Receivable		(503,040)	(916,667)	(976,667)	0	0	0	0	0	0	0	0
Current Accounts- Change Account Payable		55,000	1,100	218,545	5,493	5,603	5,715	5,829	5,946	6,065	6,186	6,310
Operating Cash Flow	0	3,598,440	12,276,573	20,471,264	23,210,888	18,445,487	18,393,807	18,341,092	18,287,323	18,232,479	18,176,538	18,119,478
Investments	(12,000,000)	(24,000,000)	(24,000,000)									
Financing	12,000,000	20,401,560	11,723,427	(20,471,264)	(19,241,224)							
" Debt	10,800,000	18,361,404	10,551,084	(20,471,264)	(19,241,224)							
" Equity	1,200,000	2,040,156	1,172,343									
Beg Cash	0	0	0	0	0	3,969,664	22,415,151	40,808,958	59,150,050	77,437,373	95,669,852	113,846,389
Cash Flow, net	0	0	0	0	3,969,664	18,445,487	18,393,807	18,341,092	18,287,323	18,232,479	18,176,538	18,119,478
End Cash	0	0	0	0	3,969,664	22,415,151	40,808,958	59,150,050	77,437,373	95,669,852	113,846,389	131,965,867

## Venture Research LLC

### Balance Sheet

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12
Cash	0	0	0	0	3,969,664	22,415,151	40,808,958	59,150,050	77,437,373	95,669,852	113,846,389	131,965,867
Accounts Receivable	0	503,040	1,419,707	2,396,373	2,396,373	2,396,373	2,396,373	2,396,373	2,396,373	2,396,373	2,396,373	2,396,373
PP&E	12,000,000	36,000,000	60,000,000	60,000,000	60,000,000	60,000,000	60,000,000	60,000,000	60,000,000	60,000,000	60,000,000	60,000,000
Acc Depreciation	0	(600,000)	(2,400,000)	(5,400,000)	(8,400,000)	(11,400,000)	(14,400,000)	(17,400,000)	(20,400,000)	(23,400,000)	(26,400,000)	(29,400,000)
Net PP&E	12,000,000	35,400,000	57,600,000	54,600,000	51,600,000	48,600,000	45,600,000	42,600,000	39,600,000	36,600,000	33,600,000	30,600,000
Total Assets	12,000,000	35,903,040	59,019,707	56,996,373	57,966,037	73,411,525	88,805,331	104,146,423	119,433,746	134,666,225	149,842,762	164,962,240
Accounts Payable	0	55,000	56,100	274,645	280,138	285,741	291,456	297,285	303,231	309,295	315,481	321,791
Term Loan	10,800,000	29,161,404	39,712,488	19,241,224	0	0	0	0	0	0	0	0
Common Stock, no par value	0	0	0	0	0	0	0	0	0	0	0	0
Paid in Capital	1,200,000	3,240,156	4,412,499	4,412,499	4,412,499	4,412,499	4,412,499	4,412,499	4,412,499	4,412,499	4,412,499	4,412,499
Retained earnings	0	3,446,480	14,838,620	33,068,005	53,273,400	68,713,285	84,101,376	99,436,639	114,718,017	129,944,431	145,114,782	160,227,950
Shareholders Equity	1,200,000	6,686,636	19,251,118	37,480,504	57,685,899	73,125,783	88,513,875	103,849,138	119,130,515	134,356,929	149,527,281	164,640,449
Liabilities and Equity	12,000,000	35,903,040	59,019,707	56,996,373	57,966,037	73,411,525	88,805,331	104,146,423	119,433,746	134,666,225	149,842,762	164,962,240
	-	-	-	-	-	-	-	-	-	-	-	-

### Equity Raise Assumptions and Dilution

Equity Raise, \$	1,200,000	2,040,156	1,172,343
Assumed Equity Share Price, \$/sh	\$0.100	\$0.200	\$0.300
Issued Price, % Calc NAV/sh	22%	45%	67%
# Shares Issued	12,000,000	10,200,780	3,907,809
Share Outstanding, 5/21/2010	331,545,000.00		
Additional Shares Issued	26,108,589		
Total Shares Outstanding	357,653,589		

## Certifications

The analyst contributing to this report certifies that the views expressed herein accurately reflect the analyst's personal views as to the subject securities.

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When paid in stock, VR

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Mr. Mahaffey began his career with Exxon in engineering and later moved into board room level international business development for a major petrochemical company. He conducted merger and acquisition services for The Sterling Group in Houston, TX and led an LBO program for a Boston based investment firm. He worked with an SEC Registered Investment Advisor and has held Series 7 and 65 licenses. He has covered oil and gas, energy and other stocks as an independent equity analyst with Redchip and other research providers. He is a private investor in oil and gas prospects. He received a "Five Star" rating from Yahoo Finance for stock performance results. He has co-founded ventures in the gaming, international distribution and oil service industries. He has been quoted in numerous local and international publications including Bloomberg News. Mr. Mahaffey holds a BS in Chemical Engineering from Louisiana State University and an MBA from The Wharton School, University of Pennsylvania. He holds the Chartered Financial Analyst (CFA) charter and is a member of the New York Society of Securities Analysts.

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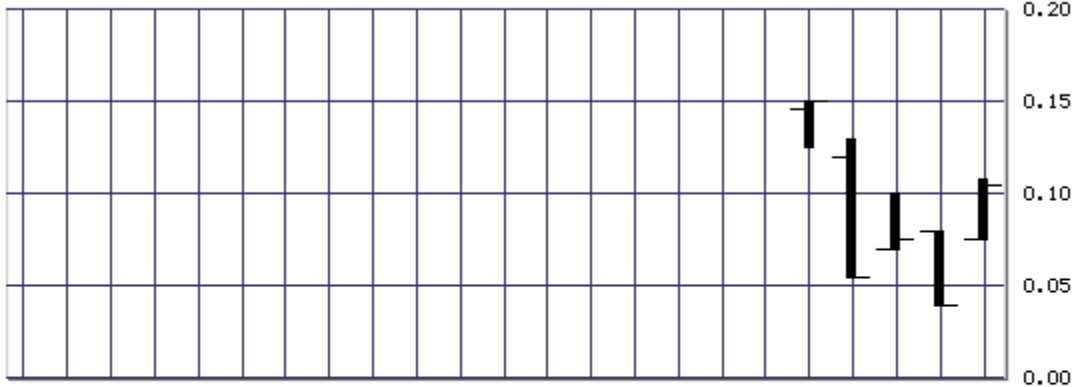
**MINED** Minerco Resources Inc

5/26/2010 3:59 PM

Last:	Change:	Open:	High:	Low:	Volume:
<b>0.1045</b>	↑ 0.0645	0.0755	0.108	0.075	65,571,077
Percent Change:	Yield:	P/E Ratio:	52 Week Range:		
61.72%	n/a	n/a	0.04 to 0.150003		

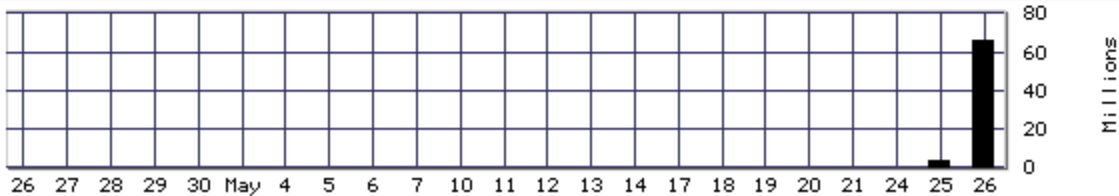
MINED Daily

5/26/10



Volume

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## Company Data

<b>Company Name:</b>	Minerco Resources Inc
<b>Dow Jones Industry:</b>	Not Available
<b>Exchange:</b>	OTC BB
<b>Shares Outstanding:</b>	331,544,337
<b>Market Cap:</b>	34.6 Million
<b>Short Interest:</b>	Exchange provides no short interest data.
<b>52-Week EPS:</b>	-0.00119
<b>52-Week High:</b>	0.150003 on Thursday, May 20, 2010
<b>52-Week Low:</b>	0.04 on Tuesday, May 25, 2010
<b>P/E Ratio:</b>	n/a
<b>Yield:</b>	n/a
<b>Average Price:</b>	0.1016 (50-day) 0.1016 (200-day)
<b>Average Volume:</b>	8,987,312 (50-day) 8,987,312 (200-day)