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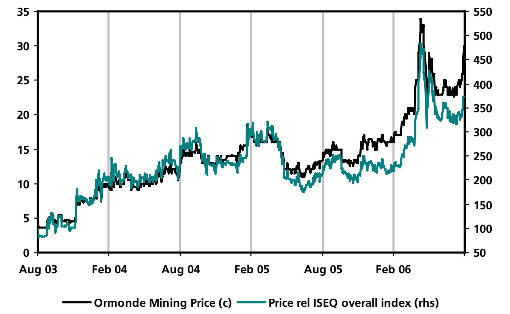
Share Price Performance



Company data	
Reuters/Bloomberg/Xetra	ORM.I/ORM ID/ORQ
Sector	Resource
Shares (m)	168.0
Daily No. Shares Traded (m)	0.336
Free Float (%)	100.0
52 Week High/Low	34/12.5
Capital Structure	
Mkt. Cap (€m)	37.0
Net Debt/(Cash)	0.0
Deferred Consideration	N/A
Pref Shares/Non Eq Min	N/A
Equity Minorities	N/A
E.V. (€m)	41.0

Recent research and research resources

Recent research and financial data on Ormonde Mining
Sector research and data on Resource

Equity Report: Operational update

Ormonde Mining

Price: **22c**	Target: **35.0c**	Issued: **25/08/05**	*Previous 45.0c*	*Issued: 24/08/05*

Tungsten cash flow opportunity - a bright idea

Cash flow opportunities

- There are two projects in the Ormonde portfolio that should be cash generating within the medium term: La Zarza, a copper and gold venture in the pyrite belt, and the Barruecopardo tungsten project located in the Salamanca area in western Spain.
- Sampling results from Barruecopardo bring this short-term cash flow opportunity closer to realisation.
- At current prices and assuming a relatively conservative recovery rate, the project should generate around €1.6m p.a. This could start in late 2007.
- With enough reserves for at least six years of production, this cashflow has a value of 4c per share. Adding in the dumps should add a further 2.5c per share. While the scale of the projects is not transforming, there is upside through better recovery and better pricing.
- One of the more difficult challenges facing small mining companies is the requirement to finance overhead and plc costs through the cycle. This often involves small-scale dilutive funding exercises. Ormonde's tungsten project provides a potentially low-cost cash cushion for the group.

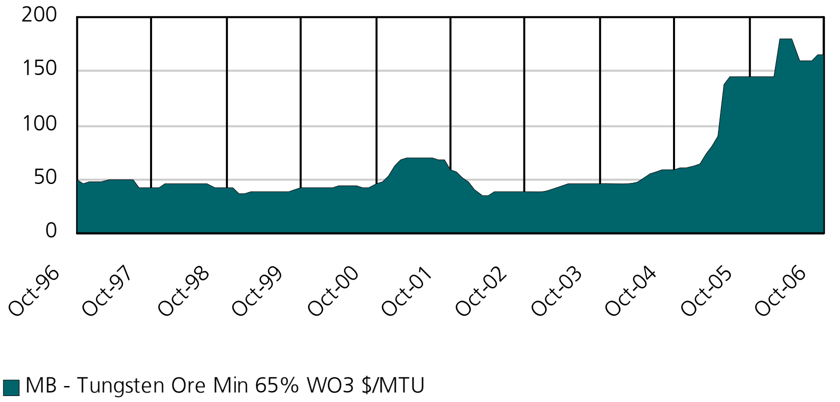
Valuation

- We value La Zarza at 18c per share (based on the tonnes, grade and pricing assumptions in Ormonde's recent update), tungsten at 6.5c per share and cash at 2.4c per share. With a target price of 35c per share, its gold programmes have an implicit value of 8c per share. Gold exploration drilling, now mobilising in Salamanca and Tracia and with initial results expected before the end of the year, will be very instructive.

The Barruecopardo tungsten project

For some, the history of tungsten projects is defined by poor pricing from the 1980s up to relatively recently. This primarily reflected the dynamics of the supply and demand situation in the Chinese market. However, prices have improved dramatically over the last number of years due to a strong pick-up in global demand but also tighter controls on domestic production and exports by the Chinese authorities, the biggest player in the market by far.

Table 1: Tungsten ore price chart ($/MTU)



Source: Datastream

This price increase clearly presents an opportunity for any company with access to tungsten. Ormonde is a case in point.

Barruecopardo

In January 2006, Ormonde acquired an option covering the dumps and tailings located next to the old Barruecopardo open pit tungsten mine in the Salamanca area in western Spain. The option has recently been exercised, and Ormonde now has a full 100% equity position in the project. So far all sampling programmes confirm Ormonde's understanding of the project.

Former operations at this large open pit recovered just 40% of the contained tungsten, leaving considerable value behind in the ore that was sent to the tailings and dumps. This reflected the processing technology applied at the time.

Ormonde intends to access this tungsten by using a gravity-based spiral system. While this is a simple and low-cost technique, it was not available to the industry during the 1980s. For instance, the Barruecopardo mine, which closed in the early 1980s due to low tungsten prices, used jigs to process the ore.

The mine records indicate that there are 3.4m tonnes of tailings and 12.0m tonnes of oversize material in the dumps.

Table 2 illustrates how processing the tailings and dumps can create value for Ormonde. We assume the following:

– A little over 70% of the tailing material is processed.
– This allows production of around 400,000 tonnes per annum of material containing 0.1% WO3 (the tungsten ore).
– If we in turn assume that around 60% of the payable material is recovered, the project should produce around 24,000 MTU (the 10 kilogram unit in which the concentrated ore is traded) per annum.
– A capital cost of $1.5m is assumed and operating costs of €3.25 per tonne processed.
– When the tailings are processed, we assume that 3m tonnes of dump material will be processed and that just under 40% of that will be fine enough to put through the spirals.

The value impact per share is a little under 4c (euro) based on the tailing only. If the finer fraction of the dumps were also to be processed, the per share value rises to 6.5c (euro) per share. Upside is possible through better recovery and improved pricing in both scenarios.

Table 2: Tungsten tailings project – cash flow potential ($) (dumps not included)

Project year		*1*	*2*	*3*	*4*	*5*	*6*
Production	tonnes	400,000	400,000	400,000	400,000	400,000	400,000
Total processed	tonnes	400,000	800,000	1,200,000	1,600,000	2,000,000	2,400,000
Recovered WO3 ore	tonnes	240,000	240,000	240,000	240,000	240,000	240,000
Grade	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Contained WO3	tonnes	240	240	240	240	240	240
MTU		24,000	24,000	24,000	24,000	24,000	24,000
Price per MTU	$	150	150	150	150	150	150
Revenue	$	3,600,000	3,600,000	3,600,000	3,600,000	3,600,000	3,600,000
Opex	$	1,625,000	1,625,000	1,625,000	1,625,000	1,625,000	1,625,000
Net cash flow	$	1,975,000	1,975,000	1,975,000	1,975,000	1,975,000	1,975,000
Capital invested	$	-1,500,000					
Free cash flow	$	475,000	1,975,000	1,975,000	1,975,000	1,975,000	1,975,000
NPV - 8% discount	$	8,000,000					
Project share		100%					
Per share – tailings only	(euro c)	3.8					

Source: Davy

Tungsten

Tungsten is primarily used in applications where its hardness and high melting point make it an ideally suited product. Its best-known application is as the metal filament in light bulbs. The most widely- used application, accounting for around 65% of use, is the creation of hard metals. These have a wide range of industrial applications such as cutting and grinding tools and instruments. The global market is mature and consumes around 75,000 tonnes per annum. Growth in demand reflects underlying long-term economic expansion. The initial concentrated ore (WO3) and more refined material called APT are priced through a contract-based system. There is no terminal price market to allow day-to-day price visibility.

China remains the most important part of the global tungsten market. It is by far the largest supplier of ores, producing around 90% of global supply (source: USGS). It makes up a little over 20% of global consumption, but this should rise rapidly as the pace of industrialisation increases. The largest consumer of the product is the European region, which accounts for about 35% of global demand.

Any large-scale tungsten investment will have to grapple with the huge Chinese position on the supply side. Clearly, undisciplined selling could have a material impact on prices, with negative consequences for returns on investment. However, the strength of the Ormonde project is that relatively small amounts of capital and management time are involved at Barruecopardo. The upside is quick cash flow and exposure to a commodity with particularly strong pricing at present.

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