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Equity Report: Drilling results and valuation update

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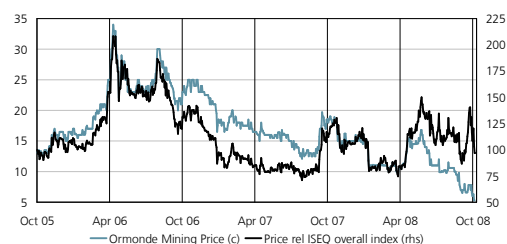
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Ormonde Mining

Price: 5c Target: 20.0c Issued: 30/10/08 Previous 35.0c Issued: 25/08/05

Tungsten now the backbone of the company

Share Price Performance



Company data

Reuters/Bloomberg/Xetra	ORM.I/VORM ID/ORQ
Sector	Resource
Shares (m)	217.2
Daily No. Shares Traded (m)	0.172
Free Float (%)	94.7
52 Week High/Low	19/5.3

Capital Structure

Mkt. Cap (€m)	11.5
Net Debt/(Cash)	(1.1)
Deferred consideration	N/A
Pref Shares/Non Eq Min	N/A
Minority interests	N/A
E.V. (€m)	10.4

Recent research and research resources

Recent research and financial data on [Ormonde Mining](#)
 Sector research and data on [Resource](#)

Excellent drilling results from tungsten project

- Hole 48, an infill drill hole on Ormonde Mining's Barruecopardo tungsten project in Salamanca, Spain, returned the best interval of tungsten ore yet recorded – 20 metres grading 1.2% WO₃.
- These results support and confirm estimates of structure and continuity in the deposit.
- The findings also indicate considerable mining flexibility with both bulk and selective methods possible.

Focus on development of Barruecopardo project

- Management is attempting to achieve first production from Barruecopardo before the end of 2009.
- Ormonde has stated that it is examining all development and funding options with regard to Barruecopardo. These include potential arrangements with end-users of tungsten concentrate.

Group valuation is now 15.1p per share

- Ormonde's copper/gold La Zarza project will require additional tonnes of resources to be viable at current copper prices and is now excluded from our valuation. However, recent currency movements (i.e. a stronger dollar) are very much in Ormonde's favour.
- The core value in the group is now carried by the tungsten project, which we believe is worth 13.3p per share risked.
- Adjusting for La Zarza, cash and favourable currency movements, we value the group at just over 15p. This compares with a current market price of 4.5p.

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Tungsten project has not yet disappointed

- Ormonde's infill drilling programmes continue to support management's expectations with respect to the grade and geometry of the deposit. This means that there is considerable flexibility with regard to development options.

The tungsten project continues to live up to best expectations. So far, some 3m tonnes of inferred resource have been outlined, grading 0.6% WO₃. Initial efforts focussed on developing a 200,000-tonne-per-annum mine, but this is likely to be increased to maximise returns.

This has been aided by the predictability and widths of mineralisation. Bulk mining now looks to be possible, allowing greater levels of throughput.

Grade and tonnage potential also support the project's viability. The primary source of additional tonnes is at depth. Based on the strike length established, every additional 100 metres of resource depth extension would deliver another 1.8m tonnes.

We model that at current tungsten concentrate prices of \$180 per tonne, Barruecopardo is worth 13.3p per share after risking at 80% for technical and pre-development status.

The cost of development has been estimated at €15m. In its recent interim statement, Ormonde indicated that it would look at end-users of tungsten to progress the development of Barruecopardo. Such an outcome should be welcomed by shareholders and mirrors a number of deals done in the industry over the last two years.

Ormonde's project is an uncomplicated mining proposition in a stable political region with early indications for low capital cost.

Tungsten prices

- So far no weakness has been seen in tungsten concentrate prices

There has been no evident weakness in concentrate pricing or APT pricing, the two most common contract price points in the industry. Several industry participants have recently confirmed that current prices are in the order of \$180 per mtu for concentrate.

- China produces over 80% of primary tungsten and accounts for over 40% of consumption

As China is by far the most important element in the market, a degree of uncertainty will always exist with respect to pricing. However, internal Chinese demand appears to be such that a resumption of exports to the west is not envisaged. This means that any growth in ex-Chinese demand (probably around 2% per annum globally) has to be sourced in the west. This requires new mining projects.

Supply-side response to higher tungsten prices is delayed

Several years of high prices (\$180 per mtu) have created a great deal of interest in tungsten, but this interest has not translated into the physical supply-side response that might have been expected.

Several name-plate projects have had adverse developments through a combination of high capital cost and withdrawal of funding options.

- In Australia, the Vital Metals Group has slowed the 'Watershed' project's feasibility study to conserve cash. Vital Metals does not believe that this will alter the project's timelines, but it is an extra risk at the very least.
- In Canada, North American Tungsten announced that the option for a strategic investment to be undertaken by Chinese company Hunan Nonferrous Metals Corporation was no longer feasible.
- Dragon Capital, owners of the Nui Phao project held through Tiberon, announced capital costs of \$456m. Cash resources are being conserved while such funding is being put in place.

Clearly, a risk to pricing still exists. However, as with a number of speciality metals, supply-side issues provide a measure of comfort that current pricing can be maintained.

La Zarza project

The rapid decline in copper prices throws a harsh light on the La Zarza copper and gold project in the pyrite belt in southwest Spain. The company has made considerable progress in reducing the capital required to develop the project – chiefly by focussing on copper and gold and not looking to develop zinc and lead in the early years of the development.

While grade and continuity can support a positive cash operating margin, lower copper prices mean that additional tonnes of copper ore are required to recover the initial capital invested – now slated at around €65m.

However, the project still has considerable potential, especially if additional tonnes of copper resources can be put in place through drilling. It is also likely that when the project has been established and initial development capital has been repaid, the zinc and lead resource will be a real option to be developed. However, confirming additional resources at La Zarza requires funds which Ormonde believes are currently better invested in the tungsten project.

Although we believe that La Zarza still has value in its contained metals, especially if capital costs decline as new mining projects are deferred or cancelled, for now we are no longer including it in our group valuation.

- Over the last three months, copper prices have more than halved from a high of \$8,720 in June
- This has significant implications for the economic liabilities of La Zarza

Valuation

Table 1: Revised Ormonde valuation (unrisked)*

<i>Project</i>	<i>\$m</i>	<i>£m</i>	<i>p per share</i>
La Zarza silicatado	0.0	0.0	0.0
La Zarza zinc	0.0	0.0	0.0
Salamanca tungsten	46.0	28.7	13.3
Salamanca gold	5.0	3.1	1.4
Cash	1.5	0.9	0.4
Totals	52.5	32.7	15.1

* October 28th 2008
Source: Davy

The main stay of the valuation above is the tungsten project. We apply a price of \$180 per mtu sold. This is not escalated through the life of the project.

Future cash flows are discounted at 8% and then risked at 80% to reflect technical and start-up risk.

The gold project is our estimate of the gold exploration portfolio in the group as it currently stands.

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