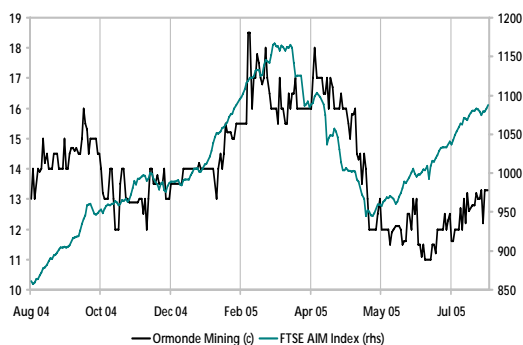


## Share price performance (13.3c)



## Company data

No. of shares	152.4m
Market cap	€20.3m (£13.7m)
52-week high/low	22c/10.8c
Average daily volume	0.405m
Reuters/Bloomberg	ORM.I / ORM ID
Quote	IEX/AIM
Sector	Resource
Net cash	€3m

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## Disclosures

**Davy is part of Bank of Ireland Group**  
**Davy acts as stockbroker to Ormonde Mining**

**Please see full disclosures page 4**

# Ormonde Mining

## Confidence in La Zarza grows

The La Zarza gold copper project in south west Spain is of pivotal importance to Ormonde. We have long believed it to be a significant and differentiating asset which allows Ormonde to set itself above a crowded exploration community on AIM. Such status means La Zarza needs to deliver on its promise. The recently announced final results from the first drilling campaign indicate that it is on track to do just that.

The results confirm management's expectations for grade and mineralisation based on the drilling results available at present. While there are some variations from the grades of the inferred resource numbers produced by former operators - Ormonde's results show better gold grades in places but lower copper grades; this is to be expected until drilling density increases. The results provide the confidence that, the mineral endowment of the La Zarza deposit on which our valuations are based, remains intact.

The first drilling campaign is the initial step in the process of confirming La Zarza as a significant new European gold and copper project. The next step is to establish what amount of gold and copper can be extracted (recovered) from La Zarza. To find this out, the first drilling campaign was also designed to provide composite rock samples. These were sent to a laboratory in the UK where the required metallurgical test work is now underway. The results will be used to assess the best way to extract the maximum economic value from La Zarza. Earlier, preliminary metallurgical studies in the 1990's suggested that a gold recovery rate of up to 55% was possible using conventional non-optimised mineral processing. It is hoped that the new testwork will improve on these levels.

The results of this metallurgical testwork should be completed by the end of Q3, early Q4, and will allow the economic scoping study now underway to be completed. This study will also define, in broad terms, the operating and capital costs required to develop La Zarza.

Not surprisingly, we believe that La Zarza makes up the core value of the group, contributing 24c of our 34.4c per share valuation. (This valuation assumes a 27 months forward price for copper of \$2,750 per tonne, compared to a spot price of \$3,500 per tonne, gold at \$400 per ounce and a gold recovery rate through leaching of 67.5%).

We believe that Ormonde has a realistic chance of developing a reasonably sized gold and copper mine in Europe. So far the market has missed this. Positive metallurgical results at the end of September should be the catalyst to re-rate the stock to a much more appropriate level. Our target price is 35c (24p) per share.

## Update and valuation

The second drilling campaign at La Zarza, commencing with the 12th drill hole, has begun. Not all drill holes will record success simply because some will be targeted at establishing boundaries to the orebody. It is hoped that by the end of 2005, sufficient drilling (we expect around 5,000 meters) will be completed to allow an initial resource estimate according to JORC code guidelines to be made, resulting in some of the inferred mineral resource being converted to indicated status.

It is likely that an almost semi-continuous drilling programme will take place at La Zarza from this point-in-time.

## Other group projects

Ormonde has built-up a suite of projects in Spain all focussed primarily on gold. Of these, Salamon, located in north west Spain is the most advanced with around 200,000 ounces of gold close to inferred status. A recent deeper drill hole on this project returned excellent results and could herald an increase of resources. Whether it is the start of a new series of results that will be sufficient to push the project to the targeted 0.5 million ounces is not possible to say as yet, but it must increase the chances. Later this year, a series of short drill holes will be completed in a target area to the west along the main fault feature. This activity is targeted at picking out possible satellite pods of mineralisation similar to the Salamon feature.

In the Tracia licence area, a grassroots project in the Galicia region, existing gridlines of geochemical data are being extended and refined to show other chemical signatures believed to be closely allied to gold occurrences. Trenching at several locations was followed by drilling this year. The reported results returned anomalously high values of gold in core. The latest geochemical data will be used to refine the next set of targets to be drilled in the last quarter of this year.

Field mapping and geochemical surveys continue on the Salamanca project, also located in western Spain, with drilling anticipated to commence towards the end of the year or early 2006.

Given the likelihood of a more active drilling programme on La Zarza, the Portas target in the Trives licence area, will not be drilled until the first quarter of 2006.

## Valuation

The results from drilling and data gathering since Ormonde became involved in La Zarza, means that economic modelling has now become more focussed. We have created a value matrix for La Zarza based on a number of different metal prices, the existing resources in the deposit and assumed that the primary process route will be through flotation and leaching. The La Zarza value used in our price target assumes a copper price of \$2,750 per tonne, gold at \$400 per ounce and a net 67.5% gold recovery. We also show the same valuation based on very low metal prices and current metal prices, (although because the spot price of copper is higher than the future price, our preference is not to value the project using current prices). We built-in a production start in early 2008 with mining rates climbing to 750,000 tonnes of ore per annum within a couple of years. The model assumes gold output of 55,000 ounces per annum and contained copper production of nearly 7,000 tonnes per annum.

Not surprisingly, the results show that La Zarza is a major source of potential value to Ormonde.

**Table 1. Value matrix for La Zarza prospect in 2005 euro**

	Gold recovery @67.5% value	Per share	Gold recovery @55% value	Per share
Mid case metal pricing (1)	€37m net	24c	€27.5m net	18c
<b>Sensitivity analysis</b>				
Current metal prices (2)	€52.6m net	35c	€42.6m net	28c
Low case metal pricing (3)	€17.3m net	11c	€7.2m net	5c

(1) Gold @ \$400/oz, Cu @ \$2,750 per tonne  
(2) Gold @ \$430/oz, Cu @ \$3,500 per tonne  
(3) Gold @ \$325/oz, Cu @ \$2,250 per tonne

This valuation does not look at any upside for La Zarza which exists through a number of different routes.

Ormonde will more than likely end up with 100% of the project, as the local equity holder is unlikely to want to maintain their share of operating and capital costs when Ormonde's earn-in to the 70% level is completed. When Ormonde has a 100% equity stake, the local company will receive a 2.25% revenue royalty.

The deposit is open to the east and at a depth, such that it is quite reasonable to assume that the eventual deposit size will be larger.

In the event that Ormonde holds a 100% equity stake, the deposit size is expanded by 33%, and today's metal prices are applied in the model, the value of La Zarza is €85m (2005 euro) or 56c per share.

**Table 2. Group valuation**

	€m value	Per share (c)
La Zarza – Mid case	37m	24
Exploration properties	12.8	8.4
Cash	3.0	<u>2</u>
		34.4
Fully diluted		<u>33</u>

The La Zarza valuation is based on a mid case metal price regime as shown above (not higher current prices).

We assume a value for Ormonde's exploration properties of €15.5m. The approach is to assume a generic target for each exploration project of 0.5m ounces and then assign a probability of that being realised. Each risk adjusted ounce is then valued at \$50, which is what we believe is the fair value of an ounce of gold at the pre-development stage. Taking into account cash, this approach produces a value per share of 34.5c for Ormonde. This is our immediate target price.

Ormonde raised over €4m in April of this year. All expenditures are on budget and there is some €3.0m still available to advance group projects.

## Disclosures

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Davy acts as stockbroker to Ormonde Mining.

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