

**FAR EAST CAPITAL LIMITED**

Suite 24, Level 6, 259 Clarence Street  
 SYDNEY NSW AUSTRALIA 2000  
 Tel : +61-2-92470077 Fax : +61-2-92470044  
 Email : [wgrigor@fareastcapital.com.au](mailto:wgrigor@fareastcapital.com.au)  
[www.fareastcapital.com.au](http://www.fareastcapital.com.au)  
 AFSLicence No. 253003 A.C.N. 068 838 193



*The Mining Investment Experts*

**OZEQUITIES  
 COMMENTARY  
 On Presentation**

27 June, 2007

Analyst: Warwick Grigor

## **Aura Energy Ltd (“AEE”)**

### ***“Modestly Priced Uranium Explorer Snares Promising Swedish Ground”***

#### **Many Exploration Stocks Over-Priced ...**

We are all cognisant that many uranium exploration stocks are over-priced and destined for a fall, once reality sets in, but there is no telling just when that will happen. Some people think that the bubble will burst at some stage and many stocks will collapse in a heap, but there is room for a different perspective – one that results in a long-term decline rather than a collapse.

#### **Similarities to Exploration Enthusiasm in Oil**

Cast your mind back to oil stocks a few years ago. There was a boom in these stocks that defied reality for a time. Shares doubled on sniffs of oil and gas as exploration wells were being drilled, even though you normally get background readings. Punters were driving stocks higher with blind enthusiasm. Over a period of about a year the investors began to wise-up and they started to realise that there was more to a commercial oil discovery than just indicators of hydrocarbons. As the flood of IPOs in the oil sector gathered momentum, and exploration failed to deliver for many companies, money started to drift out of the sector and a long term down trend developed in the high risk exploration end (coupled with leaders falling as the oil price came under pressure).

#### **Exploration in Uranium is Bound to Disappoint**

What is notable about the uranium exploration sector is that very few companies are actually doing meaningful exploration. There is copious talk of radiometric anomalies and selective surface sampling but most companies have not tested the targets with the rotary lie-detector yet. Many issues await explorationists in the sector more than most people appreciate.

Whilst we are re-stating the obvious here, for many experienced players, there is merit in reminding investors of the cycles that are too often ignored.

#### **But You Still Have to Be There, in Uranium**

The comments above are not designed to scare you away from the uranium sector. This is one of the greatest bull markets in a commodity you will ever see and it would be pointless to be over-conservative and ignore the huge profits that can be made – albeit out of the naivety of others. We just urge you to think smart – take profits and switch into better quality exploration stocks. In particular, you should target stocks that have not already had exploration success factored into them, prematurely

#### **... But Aura Energy is Still Modestly Priced**

One company that we are warming to each time we sit down with them is Aura Energy (AAE). With only 36 mill. shares on issue, and 18 mill. options, the diluted market capitalisation of approximately \$20m is not excessive and leaves plenty of room for upside from the current price of 42¢.

#### **A Range of Exploration Projects**

The portfolio comprises a range of styles of mineralisation in Australia and overseas;

- i) calcretes in WA; Wondinong, Lake Way SE
- ii) alum shale in Sweden
- iii) sandstone-hosted in the Gunbarrel Basin
- iv) unconformity style in the Kimberley, WA

#### **Promising New Acquisition in Sweden**

Perhaps AEE’s most exciting project in terms of ultimate dimension is the Alum Shale project in Sweden, where three licence applications are hoped to be granted by September. The address is good – adjacent to a 77 mill. lb resource at Viken (with 166 mill lb Mo).

The two western licences, named Marby and Haggan, are within a few kilometres of intercepts that typically run at 150-200 ppm U<sub>3</sub>O<sub>8</sub> and 300-400 ppm Mo. Similar grades are on the eastern block but there is already one hole with an assay of 23m at 165 ppm U<sub>3</sub>O<sub>8</sub> 262 ppm Mo (0.026%). The grades are low but so is the waste to ore ratio, which is expected to be in the order of 1:1.

Basically this could a wonderful opportunity for AEE. The potential for molybdenum and other credits could result in a uranium equivalent grade of 250-300 ppm, which starts to look economic at these uranium prices. Much more information is required but this is a good start.

#### **Wondinong Has Just Been Drilled Again**

Although we are sceptical of the commerciality of many of the WA calcretes (for metallurgical reasons, on top of the political impediments), it must be acknowledged that uranium is present.

AEE’s has recently completed a 335 hole program at Wondinong over a 200m x 200m grid. This is aiming to extend the known mineralisation to the north, out from a margin that previously provided some of the best grades on the block, and to the south. Holes have been drilled to a depth of 5m, with every 20<sup>th</sup> hole going to 25m. To date the only uranium mineralisation

encountered has been in the top levels shallower than 5m.

The project is located in relatively young geology in the delta of Lake Austin. XRF assays have shown almost a 1:1 correlation with gamma counts, suggesting this is geologically a young deposit close to equilibrium.

The economic potential of Wondinong is yet to be established. It is low grade; only 60% of the holes have a grade exceeding 100 ppm, and only 28% of them exceeds 200 ppm. A guesstimate of the total resource on the block could be in the order of 1,000 t U<sub>3</sub>O<sub>8</sub>. If the grade is 150 ppm, this implies a 6-7 mill. tonne orebody.

In its presentation, AEE says that a 450 ppm deposit is worth 5 gpt gold. That means a 150 ppm deposit is worth 1.65 gpt gold, and the gold equivalent would be about 260,000 oz. This is a simplification but it does explain why AEE thinks it is worth pursuing – at least as a building block if not a company maker.

The low grade combined with the small size leads us to think that the only development opportunity would be to combine the project with another – unless the uranium price hits US\$200/lb. Remember the leverage that comes with marginal projects with low grades.

#### Lake Way South East is Earlier Stage

This is located on the SE edge of the same lake that hosted the Lake Way (Nova) and Maitland uranium deposits. There grades of these are higher than at Wondinong so there may be more upside once AEE gets around to assessing the anomalies.

#### Gunbarrel Basin JV with Mega Uranium

AEE presented an interesting slide on its road show that represented the western side of the Eucla Basin as having similarities with the highly sought after eastern side, in South Australia. On the western side there are already three known uranium deposits – Thatcher Soak (6,000 t), Mulga Rock (46,000 t) and Pontoon (15-20,000 t).

AEE has a licence downstream from Thatchers Soak, in JV with Mega Uranium. Mega has to spend a minimum of \$1.5m and a total of \$3m to earn 50%.

Radiometrics have been flown and an EM survey is being conducted now, with a view to building a 3D model.

#### Corporate Alliance

AEE has done a deal (alliance) with London-based Global Coal Management (staffed by ex-RIO personnel) which may lead to African opportunities and funding with AEE having a minority interest. These alliances can be good value provided personnel put time into identifying the projects.

#### Cash

AEE has \$3.6m in the bank now and no immediate plans to raise cash, but I am sure it would be pragmatic with respect to fund raising, particularly if the shares were much stronger

#### The Bottom Line

AEE has plenty of room for upside. It has stepped into a new league with the Swedish project. Provided uranium and molybdenum prices stay firm for an extended period we should expect to see growing interest in this initiative.

The shares still fall in the high risk/high reward category, but they are closer to having their feet on the ground than many others out there.

Contact OZEQUITIES NEWSLETTER "Australia's Most Comprehensive Daily Digest of Equities News", at [ozequities@pacific.net.au](mailto:ozequities@pacific.net.au). Tel: +613 97485033. Warwick Grigor is a director of Far East Capital Ltd, an ASIC Licensed research and investment firm. He and his associates have no material interest in the securities of Aura Energy Ltd, being shareholders. This report provides information of a general nature and it does not contain a recommendation, express or implied, to deal in the securities mentioned herein. A professional investment advisor should be consulted before acting on the contents of this note. Copyright © Far East Capital Ltd 2007