

26 July, 2010

Aura Energy Ltd (AEE)

Buy

Maiden Resource in Sweden

Event

Aura Energy (AEE), one of the best performing uranium stocks on the ASX over the last twelve months in a poor sector, has reported an initial resource for the Storsjön project in Sweden of 291mlbs uranium, grading 162ppm, with nickel, vanadium, molybdenum and zinc credits.

The resource has been established in about 5% of the project area, hence the company remains comfortable with the initial 1,000mlb target for the permit area. The maiden resource is already one of the largest published uranium resources in the world (see table below).

Valuation and Recommendation

AEE has a number of uranium projects in Australia, Sweden and Mauritania. Our valuation on AEE is reduced slightly to A\$0.41ps (-A\$0.04), with a reduced market-related valuation of the Australian exploration projects. Whilst we believe Sweden holds longer term potential, we expect the near-term driver for AEE will be more drilling results in Mauritania and a maiden JORC resource in early 2011.

AEE has expanded its tenement holdings in Mauritania, and the next drilling program later in 2010 has potential to prove up a large calcrete-hosted uranium deposit (ie 20mlbs at >300ppm). In addition, bedrock potential remains untested, and there are numerous anomalies on tenements which remain undrilled to date. ASX-listed Forte Energy (FTE) is also exploring for uranium in Mauritania.

Our risk-weighted valuation on AEE is A\$0.41ps. We anticipate this valuation will increase as a maiden JORC resource is established in Mauritania. We note Paladin's proposed A\$27m takeover of NGM resources (NGM) which highlights the undervalued nature of some junior uranium companies. We believe AEE's A\$13m market cap is particularly cheap relative to sector peers.

We retain our BUY on AEE for those investors seeking uranium exposure, and have a price target of A\$0.40ps on a twelve month view.

Rank	Project	Company	Mlbs	Grade (%)	Location
1	Viken	Continental	1047	0.02	Sweden
2	Elkon	ARMZ	705	0.12	Russia
3	Cigar Lake	Cameco/Areva	352	18.2	Canada
4	Imouraren	Areva	350	0.11	Niger
5	Jabiluka	ERA	343	0.46	NT
6	Itatira	INB	315	0.09	Brazil
7	Storsjön	Aura Energy	291	0.02	Sweden
8	Kvanefjeld	Greenland Minerals	283	0.03	Greenland
9	Rossing South	Extract	267	0.05	Namibia
10	Ezulwini	First Uranium	196	0.05	S Africa

Investment Summary

Share Price \$ps	\$0.15
Target Price (12 month) \$ps	\$0.40
Energy	
www.auraenergy.com.au	
Issued Capital M	83M
Market Cap \$M	\$13M
Net Cash (Est).	A\$1.5
Analyst Name	Geoff Muers

Changes to Forecasts

Recommendation was	Buy
Price Target was \$ps	A\$0.60
Profit 2010	Chg by 0% from NA
EPS 2010	Chg by 0% from NA

Share Price Chart



Year Hi-Lo \$ps	\$0.33 - \$0.12		
Avg Monthly Vol (M)	0.5		
Performance %	1 m	3 m	12 m
Absolute	6.7%	-17.9%	-5.9%
Rel Top 200	8.4%	-9.4%	-6.7%

Shareholders

	%
Technical Investing	9.5%
GCM Resources	9.5%
Board/Management	7.0%
Drake Resources	4.3%

Company Activities

AEE is a uranium exploration company, presently focused on exploring the Storsjön project in Sweden and uranium projects in Mauritania



Valuation

We presently have a valuation of A\$0.41ps on AEE. Our valuation includes the following assumptions:

Current Valuation of A\$0.41ps on AEE, with a twelve month price target of A\$0.40ps.

- Valuation of A\$25.1m or A\$0.28ps for the Mauritanian projects, based on resource potential (see valuation breakdown, below);
- Valuation of A\$20m or A\$0.22ps for the Storsjön project in Sweden, based on resource potential (see valuation breakdown, below);
- Valuation of A\$3.0m or A\$0.03ps for additional projects including Virka in Sweden, Gunbarrel JV and other projects in Western Australia;
- Cash of A\$1.5m estimated as at 30 June, 2010, or A\$0.02ps;
- Allowance for corporate and exploration costs of –A\$12.3m, assuming an average of A\$4.4mpa for 5 years, discounted by a further 25% to balance against overall discount factors.

We note the assumptions utilised in this valuation are high risk, however are designed to illustrate the upside potential on achievement of what we consider to be realistic exploration targets based on announced company information. For Mauritania we have used an average EV/lb multiple of listed sector (A\$4.4/lb) further discounted due to the early stage of the projects.

We can see upside to our valuation as further drilling enhances prospectivity and once further JORC resources are established, hence we remain comfortable with our revised price target of A\$0.40ps on a twelve month basis.

Appraised Valuation (AEE)

Valuation Summary Tables

	\$/share*	A\$m
Mauritania	0.28	25.1
Storsjön	0.22	20.0
Other Projects	0.03	3.0
Net Cash (debt.) est.	0.02	1.5
Corporate Costs	-0.13	-12.3
Total	0.41	37.3

* Est. Diluted shares (93.7m) inc out-of-money options.

	Potential			Value (A\$m)	Discount Factor	Current (A\$m)	AEE Equity
	Target (Mlbs)	Grade (ppm)	EV/lb (A\$)				
Reguibat Project	50	350	4.4	220	80%	44	25.1
Storsjön	1000	170	0.10	100	80%	20	20.0
Other Projects	<i>Subjective Assessment</i>						3.0

Recommendation & Risks

AEE offers a high degree of upside leverage to discovery

Whilst there are a number of inferences and assumptions in our valuation, it is clear to us that AEE has considerable upside potential based on comparisons with listed companies with established JORC resources of uranium (Appendix, page 7).

We consider AEE offers a high degree of leverage to discovery for those seeking uranium exposure, and thus we consider at current price levels the potential reward justifies the risks. We note the following key risks:

- **Resource/Timing risk:** Uncertainty regarding the potential size/grade of resources, and timing of JORC status, particularly in Mauritania;
- **Sovereign Risk:** Mauritania is rated high risk in terms of political/sovereign risk. Sweden is regularly ranked amongst the lowest risk countries globally for minerals development;
- **Funding Risk:** Based on our projections for cash-spend, we believe AEE will require additional funding to progress both Mauritania and Sweden;

Buy, price target of A\$0.40ps

We retain our BUY on AEE with a revised twelve month price target of A\$0.40ps, based on expectations of maiden JORC resource in Mauritania within the next twelve months. We note due to the early-stage of the projects, investment is high risk.

RISK STATEMENT *The analyst has determined that the risk profile for this company is significantly higher than for the market as a whole, and so may not suit all investors. Clients should make an assessment as to whether this stock and its potential price volatility is compatible with their financial objectives. Clients should discuss this stock with their Shaw advisor before making any investment decision.*

Storsjön Project, Sweden (AEE, 100%)

Maiden JORC resource of 291mlbs uranium in Sweden

Aura's Storsjön project is situated near Östersund in northern Sweden. Aura recently reported a maiden JORC resource of 291mlbs uranium, grading 162ppm, in addition to base metal credits. The resource has been established in about 5% of the project area. The company now has a better understanding of grade distribution, with some higher grade areas yet to be drilled to JORC status. We are allowing for 170ppm average grade in our 1,000mlb target JORC resource.

The initial resource is 810Mt @ 0.26% vanadium, 0.045% Zn, 0.032% Ni, 0.032% Mo and 0.016% uranium containing 131kt uranium, 2.1Mt of V₂O₅, 257Kt Ni, 263Kt Mo, and 363Kt Zn.

Aura's Storsjön Project adjoins Continental Precious Metals' (TSX: CZQ) Viken Project, which has a published resource of 1.05 billion pounds U₃O₈ grading 170ppm in addition to 1.5 billion pounds of molybdenum oxide and 16.7 billion pounds of vanadium pentoxide (0.27% V₂O₅ and 240ppm Mo in CZQ's resource). Viken is the second largest published uranium deposit in the world after Olympic Dam.

Uranium recovery of 90% indicated from testwork

Aura has contracted the Parker Centre at the CSIRO in Western Australia to carry out preliminary testwork using bioleach technology for the extraction of uranium and other metals from the Alum Shale. Initial results, combined with those published by CZQ show 90% recovery of metals from the shales may be possible. The Ranstad mine in the 1960's extracted over 200t of uranium from Alum shales, hence extraction has previously been conducted.

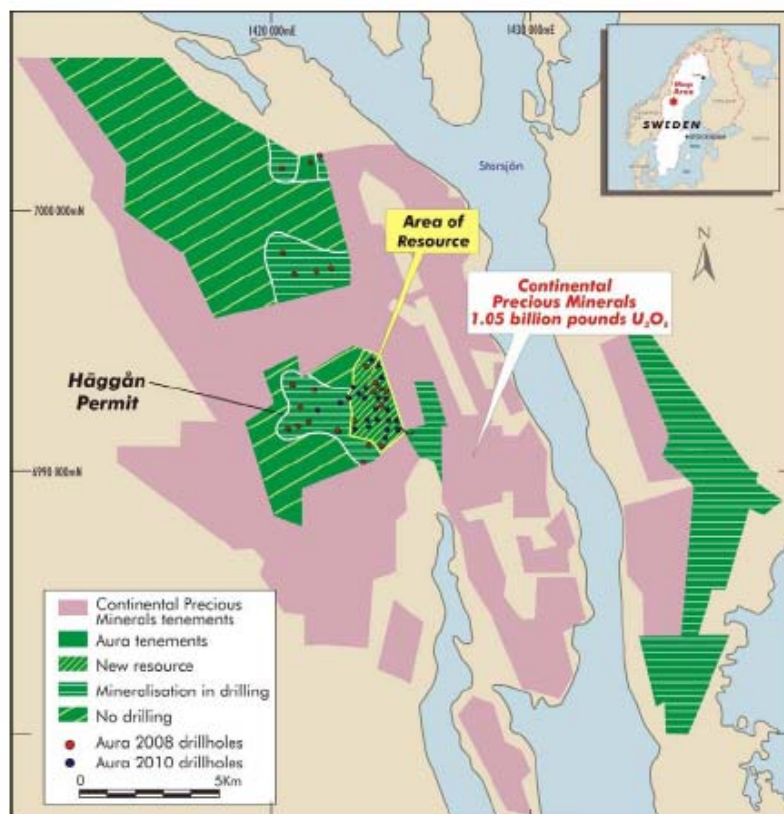
The project is part of the 'next generation' of shale-hosted base metal mines, with Finland's Talvivaara leading the way. Talvivaara is mining 24Mtpa grading 0.5% Zn, 0.23% Ni and minor copper/uranium with an intended 50ktpa of nickel production at US\$2/lb equivalent. Ramp-up is underway currently, post GFC-related financing issues in recent years.

An indicative 20Mtpa mining operation could produce 6.5mlbs of uranium annually

The ore value of Talvivaara is about US\$81/t at spot pricing, compared to US\$67/t for AEE. We believe a total processing/mining cost of <US\$12/t with high recoveries (>90% uranium) may be possible, in line with Talvivaara cost targets. In our view, an indicative 20Mtpa mining operation (at current resource grades, pre optimisation) could produce 6.5mlbs of uranium, 90mlbs vanadium, 11mlbs nickel and 16mlbs zinc. Clearly, there is much work to do here, and we feel AEE may seek a partner with deeper pockets to assist development.

The world's major miners are watching progress at Talvivaara closely, as the technology has the potential to change the face of metal extraction projects due to the relatively low capital and operating costs. Aura's deposit looks to have similar potential, hence we expect increased recognition as the project progresses. We believe a scoping study, combined with further metallurgical test work, will be the plan for Storsjön.

Location of JORC resource at Storsjön



Storsjön Area - Sweden : Tenements

Various Projects, Mauritania (AEE, 56%*)

Average grades of 428ppm reported in Mauritanian drilling

....and average grades of 550ppm reported in recent test-pits

Having been active in the 60's and 70's in Mauritania, international majors are now attracted to what is fast becoming the new African uranium province. The attractiveness to Australian companies was also highlighted recently by the takeover bid by Gryphon (ASX: GRY) for Shield Mining (ASX: SHX) who have gold exploration projects in the country. Canada's Red Back Mining (C\$6b+ market cap. TSX: RBI) operate the Tasiast mine in the country, which is fast becoming one of the largest gold deposits in Africa.

AEE has been earning into the projects in Mauritania from AIM-listed Global Coal Management (GCM). The Aura/GCM Alliance holds over 6000 km² of exploration licences in Mauritania. Based on recent drilling and expenditure, AEE has obtained a 56% interest in the tenements* and has been sole-funding exploration.

The company reported maiden drilling results in Mauritania on the 6 April, 2010 with half the drill holes in the 392-hole program to test calcrete targets returning anomalous uranium. Average grades of 428ppm uranium using a 200ppm cutoff were reported in reconnaissance drill holes, rising to 502ppm (0.05%) when all drillholes are collated.

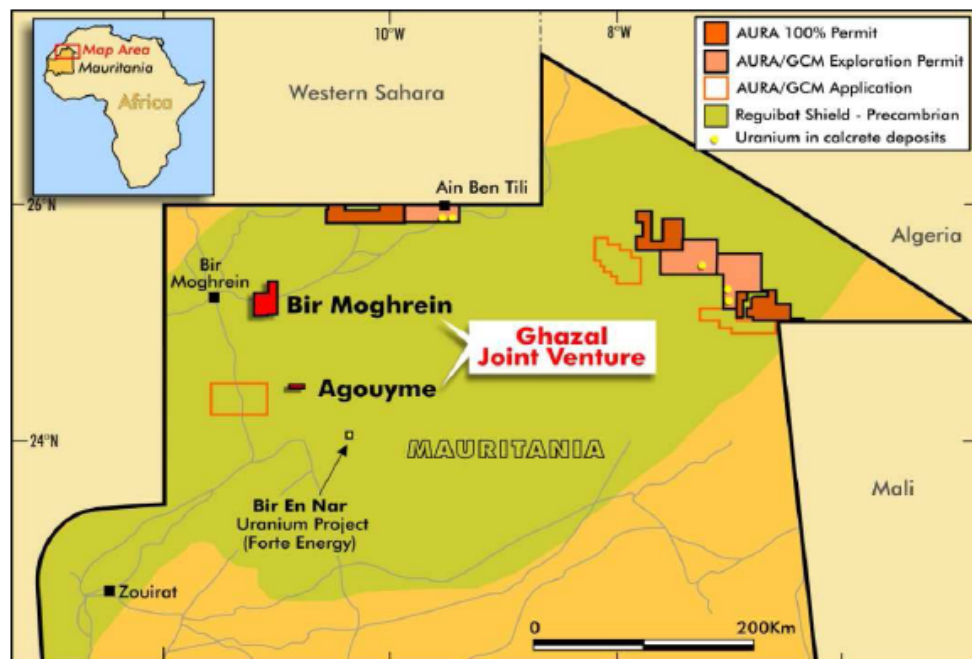
Due to sample loss in the top two metres, grade is believed to be under-reported and a new drilling method is proposed later in 2010 to establish JORC resources.

Numerous radiometric anomalies remain to be tested within AEE's other tenements, and drilling is planned later in 2010. A recent exploration campaign on the Ghazal joint venture properties revealed an average grade of 550ppm in anomalous trench samples (79% of those tested). Visible carnotite mineralisation was intercepted in the majority of trenches (refer to radiometric map, p5). AEE is earning a 55% stake in two permits by expenditure of A\$2m within 4 years.

Another ASX listed Australian company active in Mauritania is Forte Energy (A\$43m market cap @ 7cps). Forte (FTE) recently reported a maiden JORC resource of 1.33Mt @ 704ppm for 2.06mlbs of uranium. FTE has a market capitalisation of A\$43m, and French uranium group Areva (Euronext: CEI) owns 13% (20m shares).

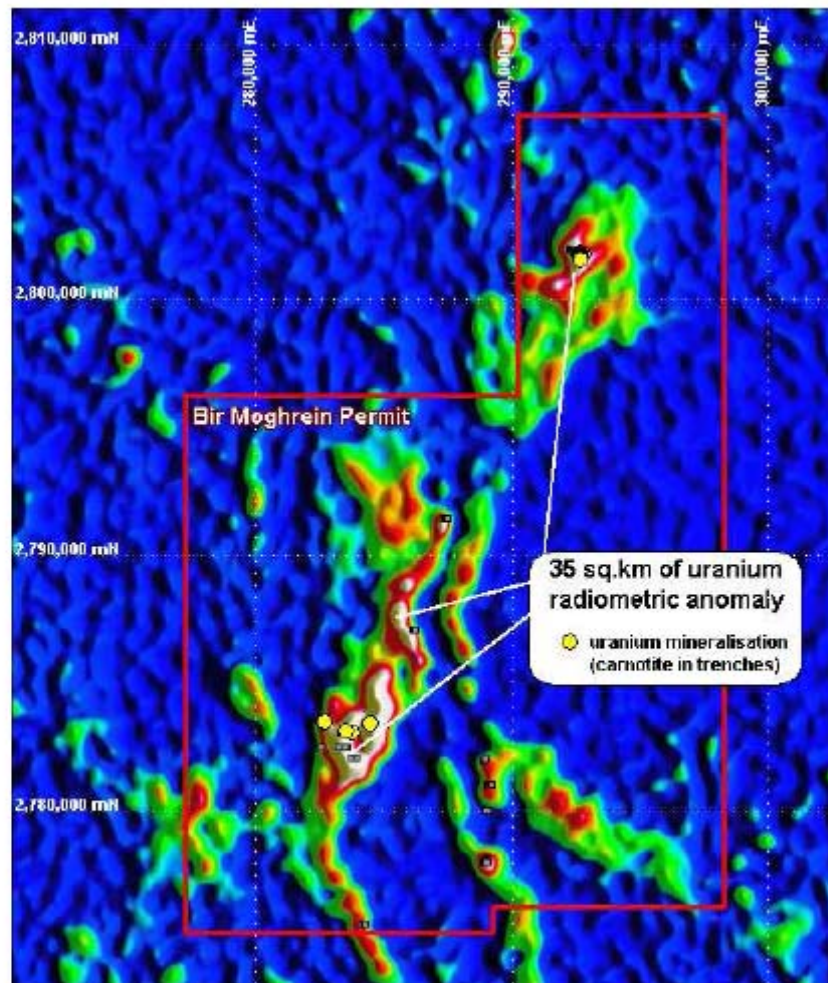
**GCM permits only, estimated.*

Average grades of 428ppm reported in Mauritanian drilling



Permit areas in Northern Mauritania

**Radiometric Map of
the Bir Moghreïn
permit (Gazal JV)**



Bir Moghreïn permit showing the extensive uranium radiometric anomalies.

NGM Resources (NGM) – Implications for AEE Valuation

**NGM has an 11mlb
uranium resource in
Niger**

NGM resources (now subject to a A\$27m takeover from Paladin Energy, PDN) is exploring the Takardeit project in Niger, east of Mauritania. International majors (Areva) are developing uranium mining in the country. NGM has 1500km² of tenements in the country, and an inferred resource of 23Mt @ 210ppm at Takardeit (11mlbs). Recent drilling has indicated potential to further expand this resource, and other discoveries have been reported (Aouligen, with 5.6m @ 468ppm reported at depth).

**Transaction multiple
of A\$2.50/lb (JORC
uranium resource)**

The company also has an iron ore project in Madagascar, where 1.5Bt of Itabirite ore (Brazil-style) is targeted. Based on the existing JORC resource, the transaction is priced at about A\$2.50/lb uranium compared to the market average of A\$4.40/lb. Assuming AEE prove up a 20mlb JORC calcrite resource in Mauritania, this could be valued at A\$50m using the implied value of the NGM transaction. At this point we believe AEE may have at least 65% equity, equating to an implied value of A\$32.5m or A\$0.39ps.

About Mauritania

**Mauritania has a
growing resources
industry, including
several Australian
companies active**

Mauritania has a military-led government. The legal system is a combination of Islamic law and French civil law. The country typically ranks highly in global surveys of macroeconomic & political risk.

Around half the population relies on agriculture, though there is a growing resources industry, led by iron ore. International majors such as ArcelorMittal are investing in the country and Australian company Sphere Minerals (ASX: SPH) is developing iron ore deposits (market capitalisation of around A\$270m). Other Australian companies include Forte Energy (ASX: FTE) and Shield Mining (ASX: SHX). A number of multinational companies, including a significant amount of Arabian money, is investing in the Oil and Gas industry of Mauritania. Roc Oil (ASX: ROC) has investments in Mauritania.

Conclusion

Mauritania offers the most upside in the short term

AEE has made good progress on exploration in Mauritania, and we remain attracted to the potential of both the existing discoveries and future exploration in the country. It is Mauritania where we see the most value-add through establishment of potentially economic JORC resources for calcrete-hosted uranium.

Market is undervaluing the Swedish project

We do believe the market is undervaluing the potential of the Storsjön project in Sweden, for both AEE and neighbours CZQ of Canada. Once the viability of extraction is established, we believe interest in the asset, which is one of the largest uranium resources globally on a contained basis, should pick up. We believe it will be in AEE's best interest to seek a joint venture partner to further develop Storsjön whilst concentrating on Mauritania.

Investors seeking speculative uranium exposure should acquire the stock

AEE has a large number of projects, and will need to continue to de-risk the portfolio and capital expenditure commitments by joint-venturing lower-priority properties as they have done successfully in Australia in the past*.

Should AEE be able to establish a JORC resource next year in Mauritania of scale (ie >20mlbs) and at a reasonable grade (ie >300ppm) then we expect a substantial uplift in market value. We recommend investors seeking speculative uranium exposure acquire the stock.

**For further detail on the Australian projects, refer to our report dated 30/03/2010.*

Board & Management

Strong exploration background of management...

The Board of AEE has a preference for early-stage exploration companies. The company is yet to establish a strong track record of exploration in Mauritania, however is gaining experience in operating in this difficult jurisdiction. We expect the Board and Management of AEE to be strengthened as the company grows in size.

We expect the Board to be strengthened over time

Brett Fraser (CH): Mr Fraser has been on the board of AEE since August 2006. He is an accountant with a background in the financial services industry, and qualifications in business, finance and marketing. Mr Fraser is currently chairman of Drake Resources Ltd (ASX: DRK) and Doray Minerals (DRM) and a non-executive director of Blina Diamonds (ASX: BNI).

Robert (Bob) Beeson (MD): Mr Beeson is a geologist with over 30yrs experience in base and precious metal exploration and development. Since joining Aura in March 2006, Mr Beeson has overseen the exploration programs in Sweden and Africa, in conjunction with his role as MD of Drake Resources. Mr Beeson has previous uranium experience including working for Mobil in the late 1970's and in southern Africa, and has particularly expertise in geochemistry.

Simon O'Loughlin (Non-exec. Dir): Mr O'Loughlin is a lawyer, currently a partner of O'Loughlin's lawyers in Perth. He has been the chairman of Bondi Mining (ASX: BDB) since 2006 and is also a non-executive director of WCP resources (ASX: WCP), Chesser Resources (ASX: CHZ) and Living Cell Technologies (ASX: LCT).

Jay Stephenson (Non-exec. Dir, Co. Sec) Mr Stephenson is an accountant with MBA qualifications, and has been on the Board since inception in 2005. He is currently a non-exec. Director of Drake Resources and Strategic Minerals Corporation (ASX: SMC).

Neil Clifford (Exploration Mgr-Africa): Mr Clifford was previously head of exploration for Billiton in Australia and Acacia resources, involved with discovery of the Sunrise Dam and Boddington gold projects, amongst other successes. Mr Clifford has extensive international exploration experience and is presently managing Aura's African exploration program.

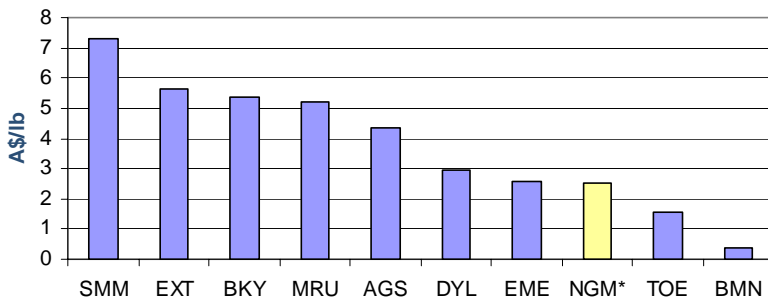
Appendix 1: Uranium Company Valuations

Ranked by Enterprise Value per Pound of Uranium (Attributable JORC Resource)

ASX-Code	Company	Market Cap. (A\$m)	Cash (est)	Country(s)	Deposit Type	Attrib. Resources (Mlbs)	Av Grade (ppm)	EV/lb (A\$)	Stage	Notes
AGS	Alliance Resources	114	37	Australia	Sands	18	3500	4.4	Development	In Litigation Currently
MRU	Mantra Resources	506	70	Tanzania	Sandstone	84	464	5.2	BFS	Like Kayalekera
SMM	Summit Resources	458	6.5	Australia	Metamorphic	62	720	7.3	Pre-BFS	PDN holds 82%
EXT	Extract Resources	1580	72	Namibia	Alaskite	267	500	5.6	Pre-BFS	RIO holds 9% of EXT
DYL	Deep Yellow	197	29	Namibia	Various	57	250	2.9	Pre-BFS	PDN Holds 19.6%, low grade
BKY	Berkeley Resources	151	8.5	Spain	Metamorphic	27	560	5.4	Resource	Est.equity of 51%
EME	Energy Metals	75	12	Australia	Sandstone	25	1500	2.6	BFS	Chinese 'takeover' proposal
TOE	Toro Energy	91	52	Australia	Calcrete	25	550	1.5	Pre-BFS	OZL major shareholder
BMN	Bannerman	75	17	Namibia	Alaskite, other	160	200	0.4	BFS	80% of project, low grade

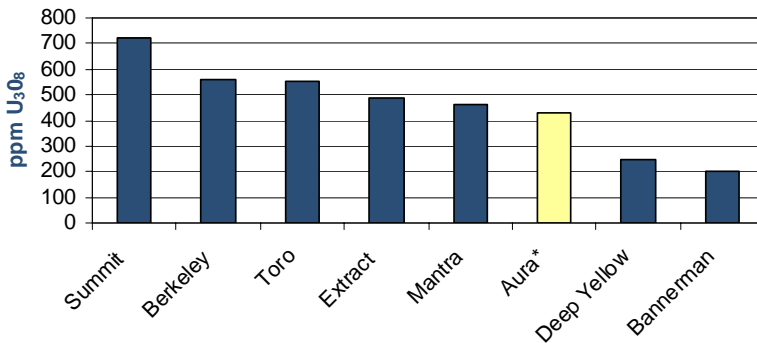
* Note: Estimated only, subject to variation, based on closing prices 21/07/10.

Uranium Companies: EV/Lb Resource



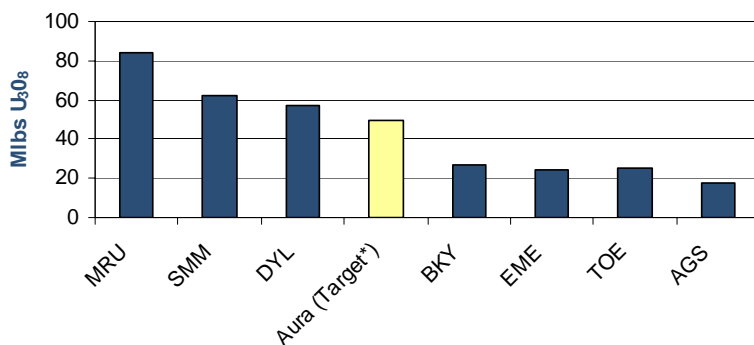
* Implied transaction multiple on proposed PDN acquisition. JORC resources.

Average Resource Grade



* Non-JORC, recent drilling in Mauritania. Other grades approximate only.

Average Resource Size



* Non-JORC, target in Mauritania

Company Directors

Mr Jay R. Stephenson
Mr Simon T. O'Loughlin
Mr Brett Fraser (CH)

Mr Robert (Bob) Beeson (MD)

Company Activities

Aura Energy Limited (AEE) is a uranium exploration company, focused on projects in Sweden and Mauritania.

Disclosures and Disclaimers

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