

Growth Stocks Weekly

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Performance: Year ended April 1996 116.9%; 1997 28.1%; 1998 36.4%; 1999 39.4%; 2000 180.9%; 2001 -50.5%; 2002 18.7%; 2003 28.8%; 2004 166.7%; 2005 28.2%; 2006 153.3%

Junior Gold and Natural Resource Sector Report July 16, 2006

Discounted Nickel-Chromium-Gold Developer **UPDATE**

ORIEL RESOURCES (ORL-TSX, ORI-AIM)



Weekly chart, High C1.75, Low \$0.43, Last Trade \$0.68

On June 6th Oriel Resources [TSX:[ORL](#); AIM:[ORI](#)] announced the outcome of their SRK Feasibility Study. The study's outcome is leading the company to "fast-track development of the Voskhod Project," according to their press release.

Oriel Resources purchased the Voskhod chrome mine in northwestern Kazakhstan in February of 2005 for \$15 million. The SRK study estimates operation cash flow for the life of the mine to be \$1.2 billion with average annual cash flow of \$85 million. With capital costs estimated at \$131 million, this provides an exceptional return:

	<u>Pretax</u>	<u>Posttax</u>
NPV	US\$472 million	US\$320 million
IRR	50%	41%

The most notable highlight of the SRK study is the potential for significant production increases, which could make Oriel Resources one of the three top chrome suppliers in the world.

The study stated that there were resources for an 80% increase in saleable chrome-ore per annum, reaching 900,000 tonnes.

Additionally, the chrome-ore at the Voskhod mine is considered high quality, generally up to 48% Cr₂O₃, while up to 57% Cr₂O₃ grade concentrate is anticipated to be produced.

The study shows an indicated resource of 19.51 million tonnes at 48.47% Cr₂O₃, a 9.5% increase of contained chrome content over the Preliminary Assessment Study (PAS), and an inferred resource of 1.57 million tonnes at 41.05% Cr₂O₃, a six-fold increase of contained chrome content over the PAS.

SRK used an ore price of \$145 per tonne in the study financial model. According to the release, Heinz Pariser forecast a price of \$154-\$224 (average of \$183) per tonne through to 2015.

According to the company, capital expenditure is estimated at \$131 million. Endeavour Financial are advising on project finance options and is confident that the Voskhod Project will support a debt facility in excess of \$100 million.

With operation cash flow for the life of the mine expected to be \$1.2 billion with average annual cash flow of \$85 million, the project is expected to have a mine life of 14 years with the potential to extend over 20 years.

The executive chairman of Oriel Resources, Dr. Sergey Kurzin commented on the SRK feasibility study in the release:

“Results from the SRK feasibility study are extremely encouraging with an almost 100% increase in the mine’s output from our initial studies. Heinz Pariser’s extremely positive market report shows growing ore demand especially in Asia which, in conjunction with our own advanced negotiations with potential off-takers, exceeded our initial expectations and this demand is significantly greater than Voskhod’s production output. This has resulted in the company decision to increase the output of saleable chrome ore product by 80%, therefore considerably enhancing the project’s economics.”

“We have made excellent progress in a short space of time and will have the mine in production in early 2008; only 3 years from acquisition. The development of the road, rail and power-supply infrastructure, whilst increasing the capital cost, will give us the security of independent and long-term production.” Kurzin stated.

The mine, located in a region close to road and rail infrastructure, is also situated between Eastern Europe and resource-hungry China.

Additionally, the world’s largest chrome mine, Donskoy GOK, owned by KazChrome, is located approximately three kilometres north from the Oriel project, giving the region a great deal of experience when it comes to the critical metal we have come to rely upon for a number of applications.

Chromium

Chromium’s uses are numerous, including its uses in creating stainless steel, heat-resisting metals and super-alloys. Basically, for a metal such as chromium, there exists no simple substitute, as it is a practical, technologically critical and a widely used metal.

Summary of SRK’s feasibility study highlights

- increased annual production will place Voskhod in top three global suppliers of high-grade chrome ore, a critical ingredient in the growing stainless steel market;
- 80-per-cent increase in average annual saleable chrome ore to 900,000 tonnes;

- Voskhod chrome ore is of very high grade; typically up to 48 per cent Cr₂O₃ with up to 57 per cent Cr₂O₃ grade concentrate anticipated to be readily produced;
- Voskhod maintains a long mine life of 14 years, with potential to extend life to over 20 years;
- increase in CIM and National Instrument 43-101 compliant indicated and inferred mineral resources;
- indicated resource of 19.51 million tonnes at 48.47 per cent Cr₂O₃, being a 9.5-per-cent increase of contained chrome content over the PAS;
- inferred resources of 1.57 million tonnes at 41.05 per cent Cr₂O₃, being a six-fold increase of contained chrome content over the PAS; and
- capital expenditure estimated at \$131-million (U.S.), including 10 per cent contingency, VAT (recoverable) and import duties.
- Endeavour Financial is advising on project finance options and is confident that the Voskhod project will support a debt facility of more than \$100-million (U.S.);
- life-of-mine operation cash flow estimated at \$1.2-billion (U.S.) with average annual cash flow of \$85-million (U.S.);
- extension to the Voskhod contract licence area awarded, which includes the Karaagash deposit, which has Russian C2 and P1 classified resources of about 7.8 million tonnes. These estimates have not yet been audited and do not comply with NI 43-101 standards;
- off-take demands for Voskhod ore from both ferrochrome plants and metal traders in Russia, China and Western Europe have exceeded 1.7 million tonnes;
- further development of on-site infrastructure such as roads, rail and power supply allows for the security of independent, long-term production;
- commencing the second quarter of 2008, life-of-mine operating costs of \$20.80 (U.S.) per tonne of run-of-mine (ROM) ore; and
- SRK used a conservative ore price of \$145 (U.S.) per tonne in the feasibility study financial model, whereas market expert, Heinz Pariser forecast a price between \$154 (U.S.) to \$224 (U.S.) (average \$183 (U.S.)) per tonne through to 2015.

Corporate Review

Originally brought to market on London's Alternative Investment Market (AIM) market in 2004 by Canaccord Capital, Oriel listed its shares on the TSX in February 2005. The company's London market is composed primarily of institutional holders. Management listed onto the TSX to provide enhanced liquidity for the stock through the development of a North American retail audience and an institutional following.

Oriel was the first mining company on the AIM (the junior board on the London Stock Exchange) to co-list on the TSX. Many TSX-listed companies have gone to list on AIM to access the UK institutional market, but Oriel is unique so far, in coming the other way to attract retail interest in North America.

Oriel came to North America fully financed, having raised £40 million (C\$90 million) at a 65p (C\$1.46) issue price last year, one of the larger new issues on AIM. The company's shares were reportedly six times oversubscribed during funding, then valuing Oriel at £104 million (C\$234 million).

Low-cost rapid-payback ferroalloy opportunities are rare for North American investors. Executive Chairman Dr. Sergey Kurzin has worked extensively in Kazakhstan for over a decade, working with several Toronto Stock Exchange (TSX)-listed mining companies to source and develop mining assets, and has found Kazakhstan an excellent place to do business.

Dr. Kurzin is a former nuclear physicist and was responsible for securing a number of key former Soviet Union (FSU) deposits for development by Western companies, including delivering the Julietta and Kupol projects to Bema Gold, and the Varvarinskoye copper-gold project to European Minerals.

Dr. Kurzin says following simple rules in Kazakhstan makes business relatively straightforward - never be a minority partner to a Russian company and stay away from properties that have nearby towns relying on the cash flow.

The share price of Oriel put up a fairly disappointing performance since its listing in the UK and later in Canada. The price is now under 30p on the AIM (C\$0.68 equivalent), representing a 54% decline from 65p (C\$1.46) where the company raised C\$94 million.

Oriel's London AIM market is relatively liquid, and North American investors are seeing greater liquidity as market-

makers are starting to activate as retail investor participation grows.

With Endeavour Capital now behind Oriel and given their record of success with Wheaton River (now merged with Goldcorp), Northern Orion, Bankers Petroleum and several other success stories, the company is starting to attract significant new institutional and retail investor support. We believe the share price has seen its lows, is under fresh accumulation, and is commencing an uptrend that should offer a significant return to shareholders acquiring positions at these prices.

Conclusion

Following the highly positive Definitive Feasibility Study from SRK, Oriel has decided to commence development of its Voskhod chrome deposit. The objective is to generate cash flow prior to undertaking the development of their massive Shevchenko project, thereby enhancing shareholder value and market capitalization ahead of any equity placement. Management is positioning the company in an effort to maximize shareholder value. By avoiding dilution at today's low share price, Oriel gains some time to prove up their production capability and commence free cash flow with Voskhod. This should result in a significantly better share price level from which to finance Shevchenko's capital costs.

Ignoring their massive Schevchenko project, and with an indicated NPV of US\$472 million (pre-tax) and US\$320 million (post tax) for Voskod, this is a significantly undervalued opportunity – especially given just over 200 million shares issued. The combined independent NPVs of the company's two major projects equals well over US\$800 million, with further significant upside given that the Shevchenko NPV is based on only 58% of the known resource. Endeavour Financial is leading advanced negotiations with a number of leading international banks on debt financing options. Endeavour is confident that the project economics is sufficiently robust to support over \$100-million (U.S.) of debt which, in addition to over \$30-million (U.S.) of Oriel's cash reserves, provides the security the project financing requires. We see strong potential upside for new investors from the current market cap of only C\$140 million.

Technically, a trading range has developed between C\$0.55 and C\$0.75 which should break out to the upside, a scenario strongly supported by the rising MACD and OBV currently evidenced on our weekly chart since the December 2005 bottom. Patient investors should see a 5 to 10-fold return from these levels as the commodity secular bull market continues and Oriel starts to cash flow.

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