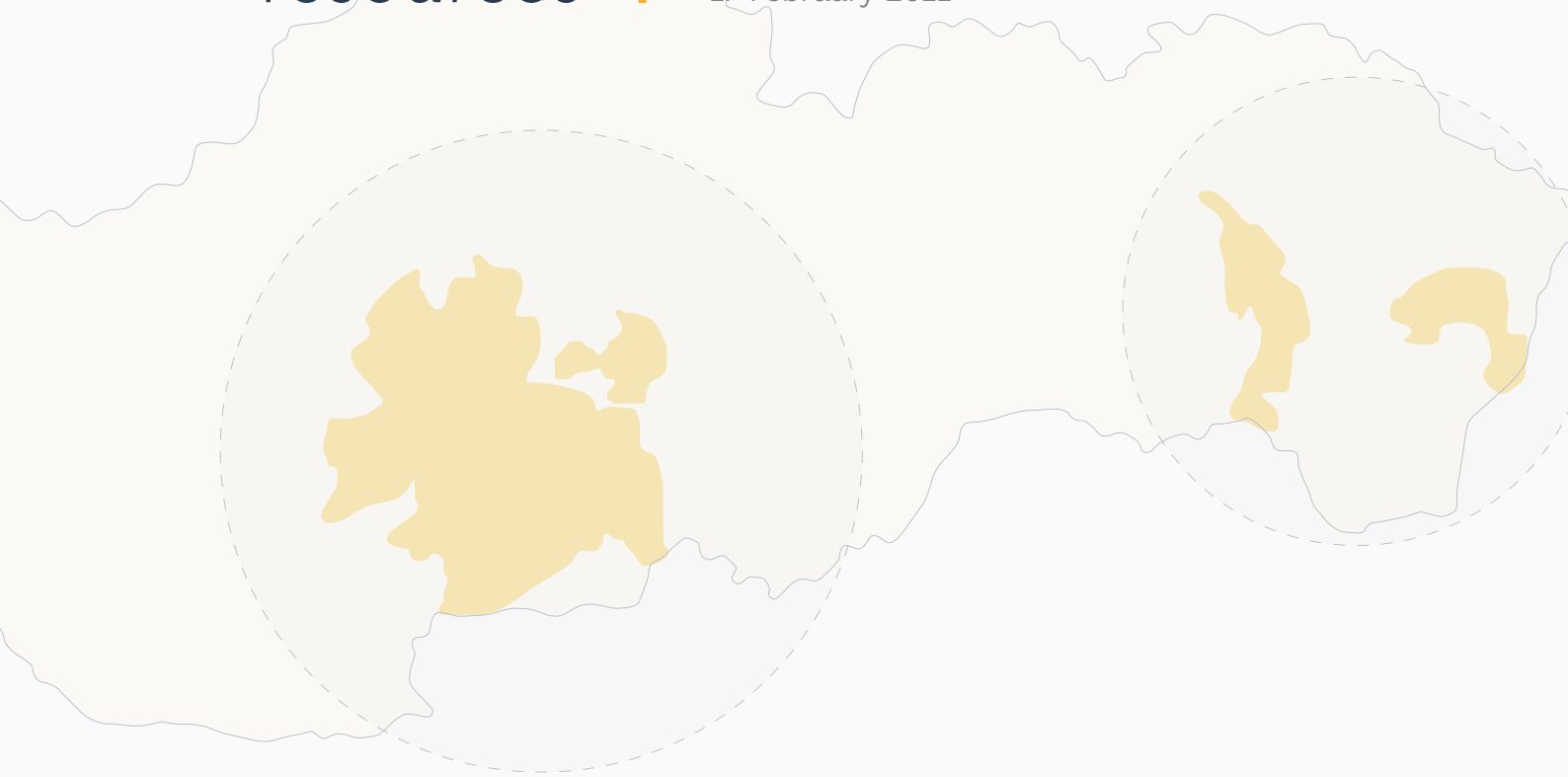




Optiva Note

17 February 2011



Ortac Resources Limited is an AIM listed
exploration & development company
focused on global development of
natural resource projects



optiva securities

Jason Robertson	(Analyst/Corporate Broker)	+44 (0)20 3137 1906	jason.robertson@optivasecurities.com
Christian Dennis	(Corporate Broker)	+44 (0)20 3137 1903	christian.dennis@optivasecurities.com
Graeme Dickson	(Dealing Desk)	+44 (0)20 3411 1880	graeme.dickson@optivasecurities.com
Vishal Balasingham	(Institutional Sales)	+44 (0)20 3411 1881	vishal.balasingham@optivasecurities.com

ORTAC RESOURCES Ltd*

17 February 2011

BUY

12mth PRICE TARGET 3.39p

Stock Data

Current Price:	1.55p
Market Cap:	£36m
Shares Outstanding:	2.306bn

Company Profile

Sector:	Gold, Resources
Ticker:	OTC.L
Exchange:	AIM - London
Website:	ortacresources.com

Core Activities

Advancement of gold development and exploration interests in Slovakia.

Performance Data

Recent Week Range: 2.98p-0.77p*

* Since reversal on 22 Sep 2010

Key Metrics

Net Cash estimate	£11m (Feb 2011)
Investments	£0.74m

Directors

Anthony Balme	Chairman
Vassilios Carellas	CEO
Charles Wood	FD
Dusty Nicol	Non-Exec
David Paxton	Non-Exec

Major Shareholders

Anthony Balme (Dir)	6.9%
Canaccord Nom	4.8%

*Optiva Securities acts as joint broker to Ortac Resources Ltd.

ORTAC well placed and on-track to meet further project milestones.

Last week advanced gold development company Ortac Resources revealed it had raised over £8m from investors in an oversubscribed placing at 1.5p per share. Along with current cash resources and liquid assets totalling £3.74m the Group is now financially strong enough to execute its plans over the next two years. Current cash resources will be earmarked for the various activities required to move Kremnica towards production, along with exploration drilling to increase the total JORC resource estimate and convert further ounces into higher confidence categories. In addition some funds will be used on the exploration licence portfolio and to assess advanced stage opportunities in the region.

The placing was announced just two weeks after the Group's JORC resource upgrade to 1.09m oz of gold equivalent at a cut off grade of 0.75 g/t by Snowden Mining Industry Consultants. Despite a 43% increase in the resource from the previous figures published by St Barbara in Sept 2009 of 763,100 oz gold equivalent, the market appears to have misunderstood the progress being made by the Group, which has thus created an additional buying opportunity for investors today. In our opinion the management are adopting a much more thorough approach in proving up the resource than previous permit holders to pave the way for future milestones to be achieved more swiftly such as the securing of mine construction debt finance. Considering that the current resource represents only 1.2km of the known 6.5km strike length, the management look on course to prove up a resource of at least 2m oz gold equivalent at Kremnica. On top of this, potential exists in eastern Slovakia to add further ounces to this amount.

RECOMMENDATION & VALUATION

Following our initiation note on 5 January 2011, we continue our Buy recommendation as Ortac Resources continues to de-risk its key project and move towards the value realisation point of production. An NPV of US\$90.6m is estimated for mining 565,000 ounces of gold and 3.7m ounces of silver at Kremnica over a 12 year mine life period. The remaining Inferred gold equivalent ounces at US\$40 per ounce have been added to the valuation model. Including the dilutive impact of the recent placing and weaker US dollar our valuation remains broadly the same at 3.39p per share (5 Jan '11: 3.45p), representing a substantial potential upside of 119% from the current price of 1.55p. A number of significant price enhancing newsflow catalysts could be announced within the next 12 months including details of the scoping study, exploration drilling results and resource upgrades.

There is also potential for new project acquisitions to be added within the highly prolific gold belt that runs from Ortac's Kremnica gold project in Slovakia through central and south eastern Europe. With Ortac's £11.74m cash deducted from its market cap, the market is essentially valuing the Group at only US\$35.6 per ounce of gold equivalent JORC resource. Considering the potential close time frame to production and amount of resource in the mine ready Measured and Indicated JORC categories this valuation is simply too low. Any positive short term newsflow event within the next two months could therefore lead to an immediate bounce in the stock.

... easily achievable and could be exceeded given that the current resource statement includes only 1.2km of the known 6.5km strike length.

... located in a geo-politically low risk country ...

... Group is financially strong and well placed to fast track Kremnica towards production.

Cash costs are estimated at US\$450 per ounce in the first three years and then rising 3% per annum thereafter. An average gold price of US\$1,060 is projected for the first five years.

Under this scenario the NPV more than doubles from US\$90.6m to US\$236m, with a price per share of 7.33p.

KEY POINTS

- ❖ Kremnica is an advanced development project that looks to be less than 24 months from initial gold production. Ortac is benefiting from work done by previous Canadian listed permit holders that spent over €17m drilling 25km of holes.
- ❖ A JORC code compliant resource of 1,086,000 ounces of gold equivalent has been defined at Kremnica using a 0.75 g/t cut-off. Of this total a majority 53.3% lies within the Measured and Indicated categories.
- ❖ The management anticipate that with further exploration work, the resource can be increased to 2m ounces of gold equivalent within the Kremnica mining licence area. We believe this is easily achievable and could be exceeded given that the current resource statement includes only 1.2km of the known 6.5km strike length and the deposit is open in both directions and at depth.
- ❖ Furthermore the management reckon that the exploration licence areas immediately to the south of the Kremnica mining licence area holds potential to host further significant resources.
- ❖ Additional exploration potential lies within licences held in eastern Slovakia. Zlata Bana is the most advanced and could be quickly converted from a Slovak to JORC code compliant resource of 360,000 to 500,000 ounces of gold equivalent in the Indicated and Inferred categories.
- ❖ Ortac benefits from being located in a geo-politically low risk country and within the confines of the European Union. Skilled labour can be obtained in Slovakia at very economic rates, which will keep cash costs low once Kremnica is in production and help minimise exploration spend.
- ❖ With cash and liquid resources of around £12m, the Group is financially strong and well placed to fast track Kremnica toward production. The budget ahead also provides some flexibility for funds to be allocated towards any opportunistic project acquisitions that may arise.

VALUATION & PRICE TARGET

For Kremnica we have calculated a pre-tax Net Present Value of US\$90.6m. This is based upon mining 565,000 ounces of gold and 3.7m ounces of silver over a 12 year mine life period using a 10% discount factor. CAPEX is estimated at US\$70m, which we assume will be financed through 70% debt and 30% equity. Cash costs are estimated at US\$450 per ounce in the first three years and then rising 3% per annum thereafter. An average gold price of US\$1,060 is projected for the first five years. The NPV calculations account for a net smelter royalty of 2% payable to Tournigan and the remaining payments outstanding on the licences of US\$3.75m. First year gold production is estimated at 20,000 oz, rising to 55,000 per annum in year three, along with associated silver output.

Using this NPV estimate for Kremnica we have calculated a price per share of 3.39p. This figure includes Ortac's £0.74m holding in Vatukoula Gold (VGM.L) and a \$17.9m valuation (\$40 per ounce) for the remaining Inferred ounces of gold equivalent at Kremnica that are not factored into our mine model. For prudence a nil value has been applied to the Brazilian iron ore project and exploration licences in eastern Slovakia. The model is sensitive to the gold price. For example a flat price of US\$1,200 per ounce is projected for the next 12 years, the NPV comes to US\$138.8m. A gold price nearer to current levels of US\$1,400 pushes the NPV up to US\$200.9m (price target of 6.4p).

Of greater note is the impact on the NPV of a higher production rate that utilises all of the current JORC resource of 1.1m oz equivalent, with mining ramping up to 90,000 oz gold in year three, instead of 55,000 oz gold per annum at full output. Under this scenario the NPV more than doubles from US\$90.6m to US\$236m, with a price per share of 7.33p.

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Optiva Securities Limited, 2 Mill Street, Mayfair, London, W1S 2AT
Tel: 0203 137 1902, Fax: 0870 130 1571

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Bratislava



Ortac Resources Ltd.

Craigmuir Chambers
Road Town
Tortola
British Virgin
Islands VG, 1110

Bratislava Representative Office

C/o St. Stephan Gold sro
Konventna 9
Bratislava 81103
Slovak Republic

Ortac Resources Plc.

Level 3
97 Jermyn Street
St James's
London
SW1Y 6JE