

**Recommendation: Buy (S)**  
**Target Price: \$5.70**

Current Price	C\$3.97	Shares Outstanding (MM)	
52 Wk High	C\$5.74	Basic	60.8
52 Wk Low	C\$3.60	Diluted	64.5
Cash (MM)	\$26.6	Mngt. & Dir.	32
Total Debt (MM)	\$0.0	Market Cap.	C\$241.4
NAVPS	C\$5.70	Float	C\$228.7
Price/NAV	0.70	EV	\$190.6
Dividend	\$0.00	Reserves	
Dividend Yield	0	Res. (*sprott est)	75 MMLb

## ◆ Aurora Energy Resources Inc. (AXU-TSX) *Rapid Growth Through The Drill*

Unless otherwise denoted, all figures shown in C\$

### Investment Thesis:

Aurora Energy is an emerging uranium development company controlling one of the largest undeveloped uranium deposits in Canada, the Michelin deposit, having a defined 35.6 MMLbs of uranium in resource. The Company has an advanced portfolio of development and exploration projects on which it is spending in excess of \$15MM and drilling 40,000 meters through 2006. This exploration program represents one of the largest individual uranium exploration programs globally. While many junior uranium companies are content on valuations based solely on historic resources, Aurora is actively advancing its programs. Based on the quality of the assets, we anticipated measurable success through 2006 culminating in an economic scoping study in early 2007 at Michelin.

### Highlights:

- Initiating Coverage**  
We are initiating coverage with a Speculative Buy recommendation and \$5.70 target.
- Michelin To Grow**  
With a compliant 43-101 resource of 35.6 MMLbs of uranium, we anticipate AXU will be able to double the existing resource through its planned 10,000-meter drill program on the project.
- Strong Portfolio Provides Blue-Sky**  
Properties such as Rainbow, Michelin East, Jacques Lake and Melody Hill have the potential to host significant mineralization similar to or higher grade to that of the Michelin Deposit.

### Company Description:

Aurora is the 100% owner of the largest undeveloped uranium deposits in Canada. Currently, the Michelin deposit in Labrador is one of six areas of interest.



Source: BigCharts.com, July 05, 2006

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**Investment Thesis:** Aurora Energy offers the investor exposure to a defined, 43-101 compliant, 35 MMlb uranium deposit located in one of Canada's foremost mining districts. The Company is aggressively advancing its 100%-owned Michelin Deposit and portfolio of other advanced uranium projects through a \$14.5MM, 40,000-meter drill program, one of the largest in Canada. Based upon results from the Company's last exploration campaign, we anticipate that it will be able to double the existing resource at Michelin and expand the historical resources defined on its other properties. With only two years of fieldwork completed, and only one of those drilling, Aurora has been able to double the historic Michelin resource of 18 MMlbs and define a number of previously unidentified targets.

Unlike those juniors exploring in the Athabasca basin, Aurora has a defined surficial resource currently open in all directions. New discoveries at Jacques Lake and Melody Hill add significant blue-sky to the project. Based on Aurora's early work, we see the Labrador's Central Mineral Belt evolving into a district hosting a number of lower-grade, bulk-tonnage uranium deposits. The most substantial of these is Aurora's Michelin Deposit; however, the belt is underexplored and has not had any significant work completed for over 20 years.

Aurora represents one of the few junior uranium companies that is actively drilling and advancing its projects that have a 43-101 compliant resource and are not hanging its valuation on "historic pounds in the ground." Though accepted two years ago as uranium juniors were emerging, the current market conditions will only accept those companies advancing assets through aggressive work programs defining and expanding historical resources into NI 43-101 compliancy. The Company will have steady news flow over the next 12 months and complete an economic scoping study in Q1 of 2007. We recommend Aurora Energy for those looking for exposure to uranium exploration and development within the stable North American political environment, as well as having the opportunity to leverage both an increasing resource base and commodity price over the next 24-36 months. We are initiating coverage on Aurora Energy with a Speculative Buy recommendation and \$5.70 target

**Uranium To Diverge From Base Metals:** Our thesis and outlook on the uranium sector is well known. Growing global demand for power and the realization of energy portfolio management driven by environmental emission concerns and overweight national reliance on fossil fuels have returned nuclear-generated power to the forefront of the public policy agenda. World energy production and consumption has been growing at approximately 2% pa, and projections suggest that this will continue through 2030. The International Energy Association, in its most recent reference case, projects that global primary energy demand will increase by two-thirds over the next three decades, reaching 16.5 BB tonnes of oil equivalent.

The uranium price has responded to this newfound nuclear renaissance and is now sitting at \$46.50/lb on the term market, up over 280% in the last two-and-a-half years.

Unlike the base metal market where we have a tradeable and liquid futures market and a defined backwardation to the forward price curve resulting from investor interpretation of global demand and supply development; in the uranium industry we have neither. There is no futures market for uranium and currently there is no forward curve for the commodity, speculative or not. In the base metal industry, we have clarity to supply. Though cyclical, we are very aware of the development profile for the various metals, whereas for uranium we cannot say the same. The thesis remains that due to 25 years of under-investment in the industry, resulting from the lack of planned nuclear reactor expansion over that period, the uranium mining industry is faced with a looming supply shortage and the possibility that production, either existing or planned, may not be able to meet global requirements post 2010.

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**Choosing Uranium Junior Investments:** We continue to recommend owning a basket of uranium equities; however, with increased volatility in the market, picking those equities for exposure becomes more important than ever. We suggest weighting uranium investments into two categories: those with exposure to production or imminent production, and those companies aggressively advancing their projects. Aurora Energy falls into the latter. The Company is spending \$15MM on a 40,000-meter drill program through 2006 which, by our calculation, is one of the most aggressive exploration programs for uranium globally. To put this into perspective, Cameco, with a market capitalization in excess of \$14BB, will be spending just over \$25MM this year on its global exploration efforts. The junior uranium market remains more volatile than most as the number of companies participating is large and, for the most part, the assets newly acquired and the companies newly formed. We maintain that a company can no longer rely solely on a non-confirmed in situ uranium valuation without aggressively proving up the historical resource and moving that asset forward towards production. Aurora has not only confirmed the historic Michelin resource but also doubled it, and based upon our valuation, the likelihood of this deposit doubling again is high.

**Valuation:** Currently Aurora has defined a 43-101 resource of 35.6 MMlbs for the Michelin deposit including an additional 3.7 MMlbs of historic resources that are being followed up and confirmed through this year's exploration program. Based upon the consistency of mineralization and the down dip intersections from last year's drill program that were not included in the resource estimated due to drill density and distance between intervals, we are confident that with continued work Aurora could easily expand the existing resource at Michelin in excess of 70 MMlbs.

As Aurora is not set to complete its initial scoping study at Michelin until early 2007, we have no economic framework to hang an NAV valuation derived through a discounted cash flow. As such, we are applying a US\$5.00/lb resource multiple to NI 43-101 compliant resources and US\$3.50/lb for those historical or speculative resources that we have inferred through modeling. We justify our \$5.00/lb resource valuation, as Aurora is one of only three of the companies listed below that has over 70% of its current resource valuation adhering to NI-43-101 standards. As Aurora proves up these historical and inferred resources, we will adjust our multiple accordingly. Assuming the above, we value Aurora at \$5.70/share fully diluted assuming a \$0.90 Canadian dollar exchange.

Aurora Resource Based Valuation				
Resource	MMlbs U3O8	Resource Multiple US\$	Total Value US\$ (MM)	
Michelin*	35.6	\$5.00	\$178	
Michelin Extension**	40	\$3.50	\$140	
Other Properties	3.7	\$3.50	\$13	
		<b>Total</b>	<b>\$331</b>	
		<b>C\$/share FD</b>	<b>\$5.70</b>	

\* NI 43-101 Compliant; \*\* Sprott Estimates  
Source: Company Reports and Sprott Securities

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Peer Comparison				
	Market Cap. C\$MM	EV/Resource US\$/lbs	NAV C\$/share	P:NAV
<b>Aurora Energy*</b>	<b>\$263</b>	<b>\$3.15</b>	<b>\$5.70</b>	<b>0.67x</b>
Energy Metals	\$382	\$1.36	UR	UR
International Uranium	\$527	\$5.82	\$7.56	0.71x
Paladin	\$1,732	\$9.07	\$3.44	0.94x
SXR Uranium One	\$1,082	\$2.38	\$8.80	0.90x
Tournigan Gold	\$207	\$3.33	\$3.34	0.51x
UEX	\$682	\$6.55	\$6.15	0.49x
Western Prospector	\$99	\$1.16	\$7.65	0.26x
<b>Average</b>		<b>\$4.10</b>		<b>0.64x</b>

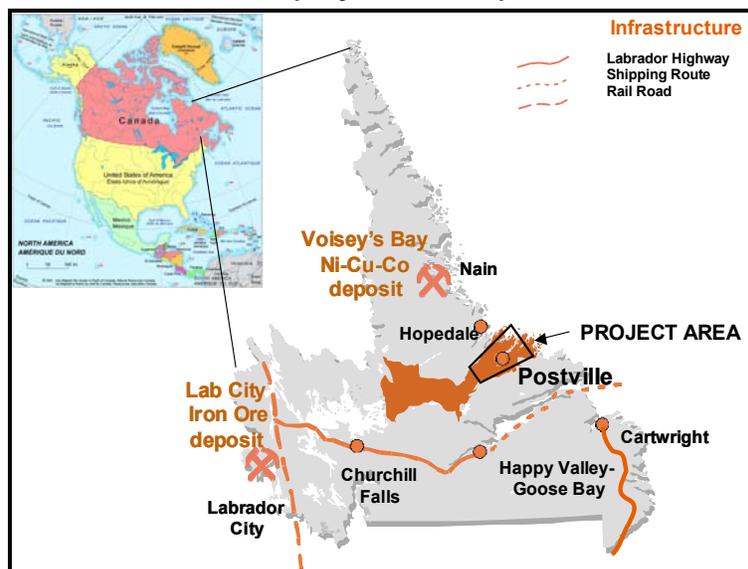
Source: Sprott Securities

Comparing Aurora to uranium companies with similar advanced projects and/or a historical resource base, we find that assuming our resource expansion AXU is currently valued below the peer group average of \$4.10/share.

**Company History:** Aurora Energy Inc. was incorporated on June 8, 2005, to hold the uranium exploration assets located in the Central Mineral Belt of Newfoundland and Labrador, Canada, of Fronteer Development Group Inc. and Altius Resources Inc. Fronteer and Altius acquired the properties by way of staking in 2003 and operated the properties as a 50/50 joint venture until the transfer of the properties to the Corporation in June 2005. The properties consist of a total of 82,900 hectares in 30 license or groups of mineral claims. At the time of the Company's IPO, Fronteer Development held a 57% interest in 30 mineral licenses covering a total area of 82,900 ha in central Labrador, including the Michelin mineral licence, which is located approximately 210 km north of Happy Valley-Goose Bay. The Michelin mineral license is comprised of 190 claims covering an area of 4,750 ha. The licence was originally issued to Altius in February 2003 for a five-year period but was transferred to Aurora early in January 2006.

In March of 2006, Aurora Energy listed on the TSX via an IPO. Upon completion, Fronteer Development maintained a 49.3% interest and Altius a 19.9% interest in the Company.

Property Location Map



Source: Company reports

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**Resource Base:** The Company has completed two full seasons of exploration on the property. The first year consisted of ground geophysics, sampling, mapping and prospecting and the second year consisted of initial drill testing and resource confirmation at the Michelin deposit.

The Michelin deposit has a 43-101 compliant resource of 35.6 MMlbs of uranium at an average grade of 0.12% U3O8. The remaining 3.5 MMlbs of historical resource are spread amongst the Company's other advanced assets. The table bellows relays that information.

Zone	Category	Tonnes	% U3O8	Lbs U3O8 (MMlbs)
Michelin	Measured	342,000	0.113	0.85
	Indicated	8,615,000	0.113	21.37
	Inferred	4,116,000	0.148	13.36
Inda*	Historic	514,519	0.155	1.76
Nash*	Historic	215,971	0.224	1.07
Rainbow*	Historic	272,232	0.100	0.60
Gear*	Historic	76,860	0.145	0.25
<b>Total</b>		<b>14152582</b>	<b>0.125</b>	<b>39.25</b>

\* Non NI 43-101 Compliant  
Source: Company reports

**History:** Exploration for uranium in the Michelin area started in 1955 by Brinex, with the first significant showing being found in 1956. In 1966, Brinex and Metallgesellschaft formed a joint venture to explore part of the lease. In 1968, the Michelin Deposit, and the Gear, Inda and Nash showings were discovered. All of these discoveries were made by follow-up ground spectrometer surveys on anomalies detected from airborne radiometric surveys. During the 1970s, Brinex carried out further detailed exploration on the Michelin deposit and completed approximately 33M meters of diamond drilling in 290 holes. In addition Brinex drove an inclined tunnel of approximately 580 meters and the other underground workings to access the mineralized zones at depth for bulk sampling. To date there has been no mining at the Michelin Deposit. In 1980, Brinex defined a drill-indicated resource totalling 6.8 MM tons at an average grade of 0.13% uranium and an inferred resource of a further 235M tons at the same grade. Due to the drastic decline in the price of uranium in the 1980s and 1990s, however, Brinex did not carry out further work and eventually allowed the properties to lapse.

**Assets:** The Michelin Deposit: Aurora's prime asset is the Michelin deposit where the Company has defined 35.6 MMlbs of uranium through drilling and resource confirmation work. Drilling continues and based upon the results of last year's work campaign, we believe that the Company will be able to easily double the existing resource of the deposit. The deposit manifests at surface and extends to 650 m in depth. We envision an open pit-bulk mining operation that later in its life will go underground focusing on discrete zones that run 0.2% U3O8 or higher (twice the average grade of the deposit).

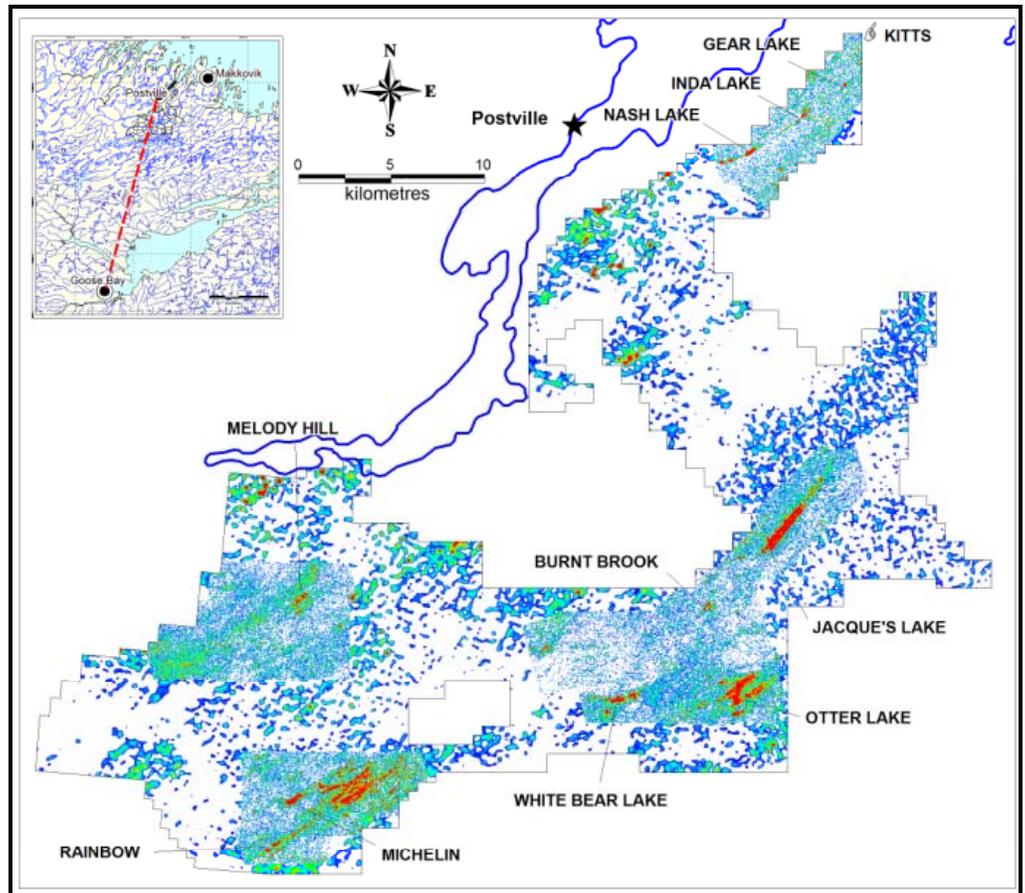
The Michelin deposit is associated with an airborne radiometric anomaly approximately 900 meters long and 500 meters wide. This anomaly is associated with quartzon-feldspathic gneiss of the Aillik Group and flanked by intrusive phase of the Helikian age Burnt Lake granite. The deposit consists of several east-northeast trending and moderately south dipping subparallel mineralized zones along a strike length of approximately 1,200 m. The mineralized zones appear to be conformable with the lithologic units. Uranium mineralization at the Michelin deposit is commonly associated with hematization, which imparts a distinctive pink color to the host rock. The uranium occurs in band varying from up to several centimeters in thickness, which in aggregate, form wider and more persistent zones of mineralization. The fine banding is associated with thinly bedded tuffaceous layers and coarse banding in rhyolites up to 10 cm thick. Primary uranium ore consists mostly of pitchblende (>99% UO2). The current exploration concept is

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focused on exploring for structurally controlled uranium mineralization that bears affinity to the IOCG style deposit of which it is believed that Michelin may be a hybrid of.

The Michelin remains the Company's main focus through 2006 with one of the four drills focusing on the deposit for the season budgeted for a minimum of 10,000 meters of drilling. Based upon wide step-out holes completed last year and the consistent nature of the mineralization, we anticipate that Aurora will be able to double the existing resource this year. The Company intends on completing an economic scoping study for delivery in early Q1 2007, at which time a pre-feasibility study will be initiated.

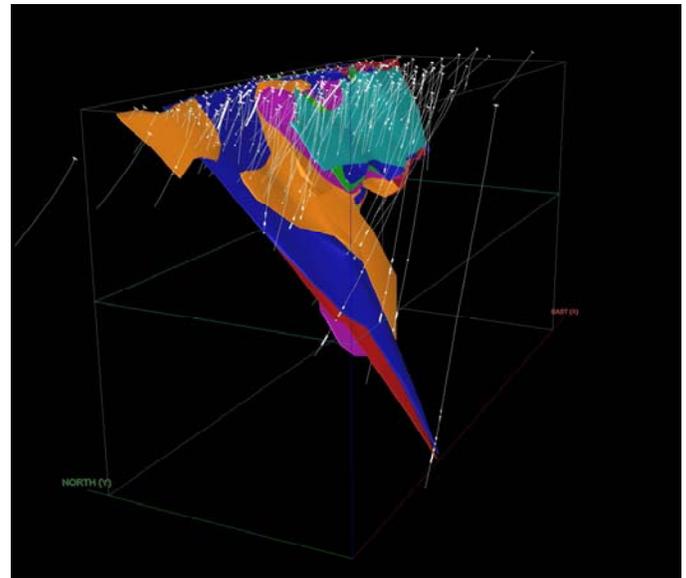
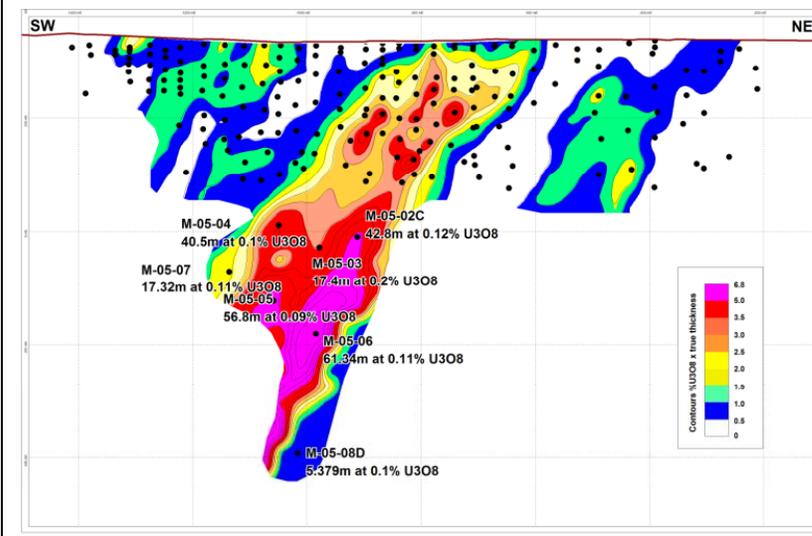


Source: Company reports

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**LONG SECTION OF THE MICHELIN DEPOSIT**



Source: Company reports

**Advanced Projects:** Michelin East and Rainbow: Approximately 3 kilometers from the Michelin deposit, 10 historic holes have been completed on the Rainbow deposit where approximately 600M lbs of uranium has been defined. Initial work suggests that the surface manifestation of the mineralization resembles that of the Michelin deposit on a grade/thickness basis. The Company intends to follow up this historical work in an attempt to both verify and extend the resource.

**Jacques Lake:** Defined by a narrow northeast trending U/Th anomaly in width with a strike length in excess of 3 kilometers, the Jacques Lake area is located 30 kilometers east-northeast of the Michelin deposit. The area contains a train of 165 radioactive boulders and historic outcropping mineralization in previously discovered trenches. Drilling in 2005 by Aurora confirmed the presence of mineralization and returned a high grade of 0.1% over 9.2 meters.

**Otter Lake:** This area contains the Emben main, Emben West, Emben Central and Emben South targets situated approximately 20 km east of the Michelin deposit. Early work by Brinex discovered a number of highly radioactive boulders, which were reportedly comparable to the radioactive boulders at the Michelin deposit. Recent drilling by Aurora in 2005 at the Otter South target returned a high grade intercept of 1.0% U over 0.5 meters. There are also plans to drill this area.

**White Bear Lake:** White Bear Lake is located approximately 15 kilometers east of the Michelin deposit and was drill tested by Brinex in 1977 returning a high of 0.22% over 20 meters. The area has not been followed up since that time. Based upon Aurora's ground geophysical and geochemical programs, the company plans to drill test new targets from this discovery over the course of the 2006 exploration season.

**Melody Hill:** This area is located 10 kilometers north of the Michelin deposit. Aurora suggests that uranium mineralization may be spatially associated with northeast trending faults, which cut the high-grade radioactive boulder trains (values from 0.05 to 20.4% uranium). The Melody Hill boulders were discovered by Brinex in 1956. Historical results produced an average of 8.4% U3O8 from 27 boulders and a high of 28.2% from a grab sample collected by Aurora in 2004. Despite Brinex having drilled 58 holes beneath the boulder field, their bedrock source has remained unsourced. New targets identified from Aurora's recent survey are bulls-eye gravity highs that correlate directly with uranium-rich anomalies in lake-bottom

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sediments. These anomalies align directly with the up-ice boulder fields suggesting that the boulders were derived from a bedrock source beneath the lake. Drilling of these targets will be deferred until the winter drilling season when a drill rig can be positioned on the ice to test the geology beneath the lake.



Source: Company reports

Other targets held by Aurora that will undergo material follow-up and exploration work as part of its 2006 program include Inda and Nash Lakes. At Inda Lake, a small historic deposit has been previously defined related to a northeasterly trending anticlinal structure over a strike length of 1.1 kilometers. An average grade of 0.19% has been reported from 23 drill holes having over a 640-meter strike and 2.4-meter width. At Nash Lake, a historic resource is reported to extend 365 meters along strike and 140 meters vertical having an average thickness of 1.85 meters. A mineral resource totalling 550M tonnes at an average grade of 0.16% is reported.

**Key Management And Directors:** Aurora Energy is managed by the same proven technical and management team as Fronteer Development, the majority stakeholder and operator of the private group prior to IPO. The team is lead by:

Dr. Mark O'Dea Ph.D., P. Geo., President and CEO, Director: Dr. O'Dea graduated from Carlton University in 1989 with a B.Sc. honours degree in Geology. He then completed his Ph.D. in structural geology at Monash University in Melbourne, Australia, in 1995. Following this, he joined the Mining and Exploration Division of SRK Consulting as a senior geologist in 1997 and in April 1999, he founded Riftore Consulting Inc. Dr. O'Dea has been President and CEO of Aurora since day one and led the Company through its initial public offering. In addition to Aurora, he has been the President and CEO of Fronteer Development Group Inc. since May 2001. He is also on the Board of Directors of Frontera Copper Corporation.

Dr. Rick Valenta Ph.D., P. Geo., Chief Geoscientist: Dr. Valenta obtained his Ph.D. in structural geology from Monash University of Australia in 1988. Between 1995 and 2003, he participated in a number of mineral discoveries for MIM Exploration while holding the positions of Chief Geologist, Regional Manager for Central America, and Principal Geologist. Dr. Valenta is also the Vice President, Exploration and Chief Operating Officer of Fronteer Development Group.

Ian Cunningham-Dunlop, P. Eng., Vice President Exploration: Ian Cunningham-Dunlop brings over 20 years of experience in mineral exploration to the Aurora team. He has primarily worked for senior mining companies such as Barrick Gold Corporation., Homestake Canada Inc., Santa Fe Canadian Mining Ltd., and Goldfields Canadian Mining Ltd.

Mr. Oliver Lennox-King, Chairman: Mr. Lennox-King serves as Lead Director and as a Director of the Corporation. Mr. Lennox-King also serves as the Lead Director of Fronteer (2003 to present). He has 21 years of senior experience in the mining industry with involvement in marketing and administration. Mr.

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Lennox-King spent 11 years as a mining analyst with a brokerage company, and has been engaged during the past 13 years in executive positions and directorships with junior mining companies. Mr. Lennox-King also currently serves as a Director of Metallica Resources Inc. (AMEX and TSX: MR), Tiomin Resources Inc. (TSX: TIO), Hornby Bay Exploration Ltd. (TSXV: HBE-X) and CGX Energy Inc. (TSXV: OYL.U). Mr. Lennox-King was the co-founder and Chairman of Pangea Goldfields Inc. (TSX: PGD) and Southern Cross Resources Inc. (now SXR Uranium One Inc. (TSX: SXR)) as well as the co-founder and President of Tiomin Resources Inc. Mr. Lennox-King holds a B.Com. degree from the University of Auckland, New Zealand.

Mr. Brian Dalton, Director: Mr. Dalton is currently President and CEO and founder of Altius Minerals Corp. (1997 to present). Mr. Dalton was previously employed as a prospector for various mineral exploration companies and currently serves as a Director of Rambler Metals and Mining plc (AIM: RMM). Mr. Dalton is a former president of the Newfoundland and Labrador Branch of the Geological Association of Canada and is current Chairman of both the Newfoundland and Labrador Chamber of Mineral Resources and the Minister's Mineral Industry Advisory Board of Newfoundland and Labrador.

**Catalysts:** The company is completing a \$14.5MM, four-drill rig, 40,000-meter diamond drill program. Drilling at the Michelin and surrounding projects has been ongoing for two months. We expect drill results to shortly begin filtering out into the public domain. The environmental baseline and monitoring program has begun and based upon results stemming from the current drilling, Aurora will complete an updated resource estimate and economic scoping study for the Michelin deposit, expected for delivery in early 2007. Metallurgical testing is underway and based upon the results of this season's efforts, the company intends on initiating pre-feasibility work starting early in 2007.

With a work program of the size and scale planned by Aurora, we can expect a constant flow of news over the next six months.

**Summary:** Aurora Energy offers the investor exposure to a North American-based advanced uranium portfolio having substantial potential upside through continued resource definition and exploration. Aurora holds the most prospective uranium properties and resources in the Central Labrador Mineral Belt, the second largest uranium district in Canada next to Saskatchewan's Athabasca Basin. In less than one year, the company has increased the historic resource from its 100%-owned Michelin deposit from 19 MMLbs to in excess of 35 MMLbs. Through solid geological work, the company continues with one of the most aggressive exploration programs in North America. It is our expectation that the company will be able to double the existing resources this year as many intersections last year were not included in the compliant resource estimate due to spacing and 43-101 requirements.

Production is a long way out as Aurora is operating in one of the most highly regulated mining environments in the world. However, with aggressive development, it is possible to see production by 2010-2011 just in time for completion of the HEU agreement between Russia and the United States.

The Company intends to have an initial economic scoping study completed by Q1 2007 at Michelin. We envision Michelin and Aurora's other advanced properties representing low-grade, bulk tonnage targets amenable to open-pit mining with later underground mining at Michelin through the pit base. We maintain that Canada, and Newfoundland/Labrador, though heavily regulated, represent a world-class mining environment. With continued efforts and our anticipated global uranium shortfall, we expect that Aurora will eventually become a takeover play as majors falter at their existing projects and are unable to meet uranium delivery commitments.

We are initiating coverage with a Speculative Buy recommendation and \$5.70 target.

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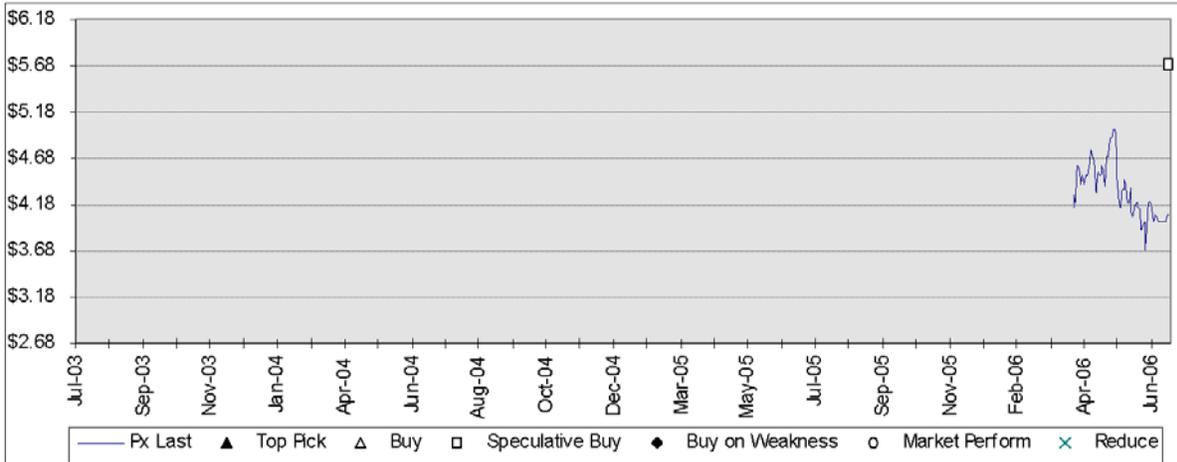
We, Justin Reid and David Wargo, hereby certify that the views expressed in this research report accurately reflect our personal views about the subject company(ies) and its (their) securities. We also certify that we have not been, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

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**Aurora Energy Resources Inc. (AXU-T)**

Source: Sprott Securities Inc.



**Disclosure Statements**

Recommendation / Target Chg  
Date C\$

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06-Jul-06 5.70 (B-S)

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<b>Buy</b>	expected to outperform its peer group
<b>Market Perform</b>	expected to perform with its peer group
<b>Reduce</b>	expected to underperform its peer group

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Additionally, our target prices are set based on a 12-month investment horizon.

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