

## Avalon's arctic project: like Mt Isa in the snow



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QUEENSLAND is to get its first iron ore mine courtesy of the \$US589 million life-extending underground development of Xstrata's Ernest Henry copper/gold mine near Cloncurry as a copper/gold and magnetite producer.

While the magnetite is a novelty for Queensland, the combination of copper/gold/magnetite is also a novelty in the Australian mining scene.

All that goes some way to explaining why the local market has yet to get behind plans by **Avalon Minerals** (ASX: AVI) to become a copper/magnetite producer by the end of 2012. Having said that, the location of its Viscaria project, north of the Arctic Circle and next to Kiruna in northern Sweden, could also be testing the interest of local punters.

But just think "Mount Isa in the snow" when thinking of Kiruna, population about 20,000 and a producer of 30 million tonnes annually of iron concentrates from LKAB's operations, which have an underground history stretching back more than 100 years.

Avalon's Viscaria was discovered in the 1970s, four kilometres from the iron ore operations and was a copper producer for 15 years until 1997.

Avalon picked up the project from former US copper heavyweight Phelps Dodge before copper prices took off.

And now that iron ore has taken off, it has come up with a neat copper/magnetite (grading 30 per cent iron before upgrading) development concept.

There is some work to do on confirming tonnage potential at Viscaria beyond the known copper resource (518,000 tonnes of contained metal) but early planning is indicating the potential for a \$US160 million development with a mine life of more than 10 years that would produce close to 16,000 tonnes of contained copper annually, along with 735,000 tonnes of magnetite.

Assume a copper price of \$US2.50 a pound (currently \$US4.43 a pound) and magnetite of \$US96 a tonne (currently more than \$US200 a tonne) and the development would throw off heaps of cash, enough to pay back the capital cost in under three years.

View it as a copper mine and add in the magnetite credits, and you are talking about copper cash costs of a little more than US60¢ a pound.

Avalon last traded at 23.5¢ a share, valuing the company at \$50 million or \$41 million at the enterprise level after taking into account its \$9 million in cash.

On the copper resource at Viscaria alone, Avalon has the lowest enterprise value per tonne of contained copper ratio of all of ASX-listed copper juniors. To turn that around, the company will need to hit its targets this year.

As detailed by the company in ASX releases, the first of them is to secure supply deals for the copper and magnetite in the June quarter. We all know where the copper concentrates used to go when Viscaria was last in production, so there are no prizes for guessing who the customer could be on that.

As for the magnetite, the world's biggest underground iron ore operation is next door.

Once the offtake deals are done, the next target is completion of the definitive feasibility study in the September quarter and, all going well, project financing in the December quarter and construction completion in the December quarter of 2012.