

Avalon Minerals Limited AVI (\$0.14)

Recommendation: SPECULATIVE BUY

Aiming to double the high grade

Analyst: Alex Passmore

OUR VIEW

Jeremy Read (ex-Meridian Minerals and Discovery Metals Ltd) recently joined AVI as Managing Director and has successfully set out the company's exploration strategy which has been well received by the market with the stock doubling since February. AVI is still cheap trading on US\$0.025/lb of copper in resource versus its peers on US\$0.08/lb. A key factor in bringing the flagship Viscaria Copper Project in Sweden to fruition is the proving up of sufficient high grade mineralised zones in the VMS / Skarn deposit. A preliminary drilling programme is underway, which will be followed by a scoping study looking at the viability of a dual underground and open pit operation. The results of this study are due for publication in July 2012. Following the scoping study the company is aiming to double the high grade resource at Viscaria A zone via a major 6 month drilling program which commences in October 2012 and will run for 6 months. In addition to the A zone the company has several regional targets: (1) the lower grade Viscaria B and D zones, (2) Tjarro – a skarn similar in mineralisation to Viscaria D, (3) Karkejaure – a large coincident mag/gravity anomaly and (4) Copper lake – several historic Cu workings. We rate AVI a speculative buy ahead of the scoping study and further drilling results.

Investment Highlights

- AVI owns two key project areas in Sweden - the Viscaria Project which is located approximately 1,200km north of the Swedish capital Stockholm, and the Adak Project located 400km south of Viscaria. Both projects are part of large mineralised systems, and were acquired in March 2008 from Phelps Dodge Exploration Sweden AB - a subsidiary of global giant Freeport-McMoRan Exploration Corporation.
- **The right address.** AVI's flagship project is Viscaria, which is located in the Kiruna region of northern Sweden. The Kiruna region is regarded as a world class Iron Oxide Copper Gold (IOCG) province, and Viscaria lies within 4km of LKAB's giant Kirunavaara Iron Ore Mine (Europe's largest iron ore mine and the world's second largest underground mine) and 80km north of Boliden's Aitik Copper Mine (Europe's largest open cut mine). The project is located adjacent to road, rail and hydro power infrastructure and a short distance from the regional mining centre of Kiruna (population 20,000).
- **Historic production.** Viscaria was mined in the 1970's with total material extracted 12.5Mt at 2.3% Cu and 2% Zn via underground. There is 30km of lateral and decline development in the A zone underground. The deepest mined areas are at around 750m below surface.
- **Geological interpretation.** We have seen various geological interpretations for the Viscaria deposit. The deposit is in an IOCG province although hosted in a 150km long belt of greenstone rocks. The highest grades reportedly occur in limestone with deposit genesis described as a VMS in most literature. The higher grades are probably remobilised skarn-type mineralisation which bodes well for delineating further high grade pods (particularly via the use of Geophysical survey including EM).
- **High grade (+2% Cu) mineralisation is the key.** AVI are aiming to double the high grade mineralisation at Viscaria in the short term. The company currently has a defined resources of 44.7Mt at 1.2% Cu however within this broader resource is a higher grade component of 9.4Mt at 2.7% Cu. The company's current 2,000m drill program is designed to identify the controls on higher grade material with an aspirational target of doubling the existing high grade component.
- **New management team has a solid track record.** Jeremy Read and Quinton Hills are both ex-Discovery Metals Ltd and Meridian Minerals Ltd which have had recent successes. The company has set achievable short term exploration and development milestones which were well received by the market.

Investment Summary

Directors

Tan Sri Abu Sahid Mohamed
Dato Siew Mun Chuang
Jeremy Read
Paul Niardone
Siew Mun Wai
Seng Han Gary Goh

Position

Chairman
Deputy Chairman
Managing Director
Non-Executive Director
Non-Executive Director
Non-Executive Director

Shareholders

Abu Sahid Bin Mohamed
Siew Mun Chuang
Galena Fund
Morgan Nominees
Brookman Resources

Holding (%)

17.1
9.5
7.3
3.5
3.4

Company Statistics & Performance

Shares on issue (m)	290.9	3mth ADT (\$m)	0.061
ITM Options (m)	0.0	EV (\$m)	38.9
Market Cap. (\$m)	42.2	Debt est (\$m)	0.0
52 week range	\$0.05-\$0.22	Cash est (\$m)	3.2



Figure 1: Scandinavian focused copper explorer



Figure 2: Viscaria Copper Project

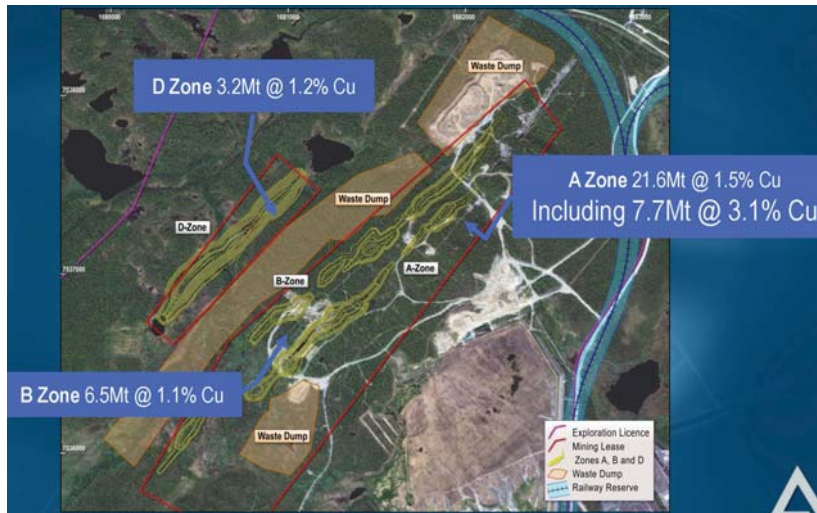


Figure 3: Regional exploration targets

