

## Discovery Zone deal adds value for Avalon

Michael Quinn, 17 October 2012



THE well-performed team now installed at Avalon Minerals (AVI) is already engaged in the sort of logical initiatives that should increase shareholder value. And given the raison d'être for the equity market is adding shareholder value, many of their peers might do well to pay close attention.

Avalon this week reported acquisition (subject to due diligence) of iron-copper resources just 10km from its Viscaria project, with the Discovery Zone prospect's 10.9 million tonnes grading 0.31% copper and 38.7% iron potentially adding significant life to Avalon's current base case scenario in northern Sweden.

The corollary of the increase project life is a significantly enhanced value aka NPV for Viscaria – and Avalon et al.

Avalon managing director Jeremy Read pointed out that the Discovery Zone potentially added in the order of \$US80-90-100 million to the base-case NPV of \$US61 million outlined last week. He is hoping that an upcoming 25-30,000m drill program on Avalon's current portfolio will boost that NPV by another \$US100-150 million.

However, as well as the risk that drilling doesn't come up quite as well as expected, there's the fact the work will cost some \$US10 million. Hence the attractiveness of the \$A4 million deal with Discovery Zone vendor Hannans Reward.

"It is a low risk way of securing the project," Read said. "I mean, even if we were not to extend any more of the project resource with the Discovery Zone and what we have we've already got a project."

Read said the scoping study had been well received by shareholders he had spoken to.

"They like the fact that we've attempted (and been able) to quantify the value-add by extending the resources," he said. "Do this, and we can add value, and so we've got people understanding that we've got very clear goals.

"We've been able to line up the building blocks now to deliver a project that has got an NPV of in excess of \$US300 million. Now we have to go and execute it, but the base case we've been able to extend from \$US60 million to \$US150 million."

The main queries centred on how the drilling would be financed, and the magnetite price used (in the scoping study). On the former Read suggested clarity in "coming weeks" – and on that score it could perhaps be noted the company recently got shareholder approval for undertaking a raising in the short term.

Brokers have commented that the track record of Read and his team means there will be likely plenty of interest to assist with the next round of financing.

With regards the magnetite price, Read suggested a pellet price of \$US150/t approximated the mid-point of the magnetite price range over the past couple of years.

Avalon was capitalised at less than \$A30 million this week, with cash estimated at about \$A2.2 million.

[Send a Letter to the Editor](#)

[Send this article to a friend](#)

Also in the October 17 - 23, 2012 edition

### AFRICA

Bisha bashes out big Q3

Desperate to be different

### AustMETS

The life and work of a mining icon

### EXPLORATION

Green light for Redstone

### FINANCE

Major Didipio impact for OceanaGold

No room on Panoramic plate for Hot Chili

### FROM THE CAPITAL

Investor relations implications in Forrest High Court case

### INSIGHT

West Africa: have you got what it takes?

#### **INTERCEPTS**

Arafura gets good news from taxman  
Aust mines cut Newmont gold output  
BHP Coal gains from industrial peace  
Centurion quick to see Myanmar chance  
Demand drives Metallica's planned production higher  
Fortescue on track with iron ore expansion  
Gold Fields issues final ultimatum  
Gold One shuts Ezulwini mine  
Greed will drive miners away, governments told  
Paladin's new mantra  
Perseus maintains Edikan mine outlook  
Rio Tinto lifts Pilbara iron ore record  
Roy Hill cranks up cash raising  
Royal Nickel in secret processing talks  
Sinosteel iron ore project on hold  
Xstrata continues copper output recovery

#### **MINING INTELLIGENCE**

Strategies for the rich and famous, Part II

#### **MINING IT**

Mexican students gain competitive advantage  
New faces at ARANZ Geo  
Software firm acknowledged for Russian innovation

#### **PEOPLE**

Nothing quite like time at the crease

#### **PROJECT WATCH**

Twenty years later

#### **SOUTH AMERICA**

Purdy pitches bullish nickel picture  
Seckold surfaces in Chile

#### **TECHNOLOGY**

Heap of options

#### **UNDERGROUND**

Newcrest set for new era in Cadia Valley

#### **VIEW FROM THE WEST END**

A day of sweet surprises

