

Avalon Minerals Ltd (AVI) – *Drilling at Viscaria continues to extend mineralisation*

OVERVIEW:

- AVI continues to aggressively drill out the flagship Viscaria Cu-Fe Project in Northern Sweden.
- The Company's current drill program consists of 25,000m, of which ~12,000m has been completed, targeting high grade extensions at both the D and A Zone deposits at Viscaria.
- The primary focus of drilling to date has been at the D Zone deposit, with recent select intersections including:
 - 10.7m @ 2.1% CuEq, including 3.8m @ 1.9% CuEq;
 - 10m @ 1.9% CuEq, including a large zone of 42.3m @ 1.2% CuEq;
 - 14m @ 1.6% CuEq, including a large zone of 23m @ 1.2% CuEq;
 - 34m @ 1.2% CuEq, including 11.2m @ 1.6% CuEq;
 - 38m @ 1.0% CuEq, including 4.3m @ 1.7% CuEq; and
 - 24m @ 0.9% CuEq, including 4.0m @ 2.3% CuEq.
- D Zone remains open along strike and at depth, highlighting excellent potential for the resource to be significantly extended, particularly at depth where grades are seen to be increasing.
- AVI's objective at D Zone is to extend the strike by 300m and depth by 35m. The drilling depth has ranged from ~100m to ~300m and has extended the known mineralisation zones 30m-150m down dip and up to 100m along strike so far. Further assays results are expected at both D Zone and A Zone within the next few weeks.
- Regional drilling is expected to take place in late March/April at the two most prospective satellite targets being Tjarro and Tjavel, where historical rock chips returned values up to 12.4% Cu and have strong EM conductors and magnetic anomalies.
- The Company's cash position as at end of December was ~\$7m.

ANALYSIS:

- The assay results released thus far, particularly at the D Zone, provide us with confidence that the Company is on track to achieve the previously scoped 'Development Case A' and 'Development Case C' production scenarios, which require an increase in the strike and depth of the D Zone deposit and in turn the NPV by an additional ~\$80m towards ~\$130m.
- The mineralisation intersected at D Zone has highlighted a thick, plunging and high-grade Cu-Fe zone which extends at depth and along strike, indicating potential for mining via both open pit and underground.
- A Scoping Study released in October 2012 provided a pathway to deliver a potential production profile of up to ~30ktpa Cu and NPV of up to ~\$350m following the completion of the current drill program and regional consolidation (i.e. Hannans Reward's Discovery Zone).

RECOMMENDATION:

- **We retain our BUY recommendation however we lower our price target from \$0.20/sh to \$0.15/sh**, following a refinement to our modelling. We model an OP and UG operation, ramping up ~25ktpa Cu and 0.5Mtpa Fe at cash costs of ~US\$1.00/lb (net of Fe credits).
- There remains a steady state of news flow over the next 4-6 weeks consisting of ongoing assay results (at D and A Zone), regional drilling results (Tjarro), an interim resource upgrade and further analysis of economics on the D Zone. We also expect a major upgrade in the Viscaria resource in mid 2013, at which point the economics of the Project will be refined and DFS will commence in H2 2013.

Rating	BUY
Previous	BUY
Price Target (A\$)	\$0.15
Previous (A\$)	\$0.20

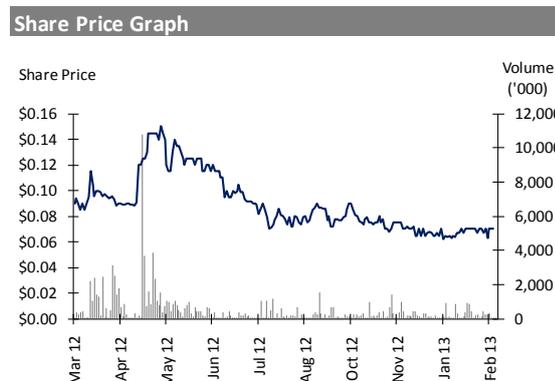
Share Price (A\$)	\$0.060
52 week low - high (A\$)	\$0.06 - \$0.17
Valuation (A\$/share)	\$0.16
Methodology	Risked DCF
Risk	High

Capital Structure	
Shares on Issue (m)	464.8
Market Cap (A\$m)	27.9
Net Debt/(Cash) (A\$m)	-7.0
EV (A\$m)	20.9
Options on issue (m)	28.3
12mth Av Daily Volume ('000)	490

Board and Management	
Tan Sri Abu	Chairman
Dato Philip Siew	Deputy Chairman
Jeremy Read	Managing Director
Garry Goh	Non Executive Director
Paul Niardone	Non Executive Director
Edward Siew	Non Executive Director

Major Shareholders	
Acorn Capital	12%
Tan Sri Abu	12%
Siew Mun Chuang	7%
Galena	7%

Catalysts	
Interim resource upgrade	Mar-13
Major resource upgrade	Jul-13
DFS commences	H2 2013



Analyst	
Mark Hinsley	+612 9993 8166
	mark.hinsley@fostock.com.au