



Further exploration success underwrites resource upside

As we have reported over recent weeks, Avoca Resources is kicking spectacular goals, although no-one appears to be watching. Those that have paid their admission however will be handsomely rewarded in our view. Aside from commissioning a brand-new, low-cost gold operation in the heart of Western Australia's goldfields, Avoca has reported highly encouraging exploration results that reinforce our view of the Higginsville goldfield's multi-million ounce potential.

Fat Prophets initially recommended buying AVO at 67 cents in February 2006 (Fat Mining14). Our last review of this stock was in July (Fat Mining 132).



Since reviewing Avoca Resources in early July, there has been a further softening of prices. As evident on the daily chart, the stock has recently been testing support at \$1.75, with an initial probe below here touching a low of \$1.635 on Wednesday.

From a charting perspective, this breach of support does raise a warning flag. However, with further support between \$1.60 and \$1.30, we believe that downside risks are limited.

Following a period of consolidation and base building over the coming weeks, we believe that potential remains for a revival of underlying upward momentum. In our opinion, a sustained break above \$2 will improve the near-term outlook with a further break above \$2.43 to expose the all-time high of May at \$2.91 to retest.

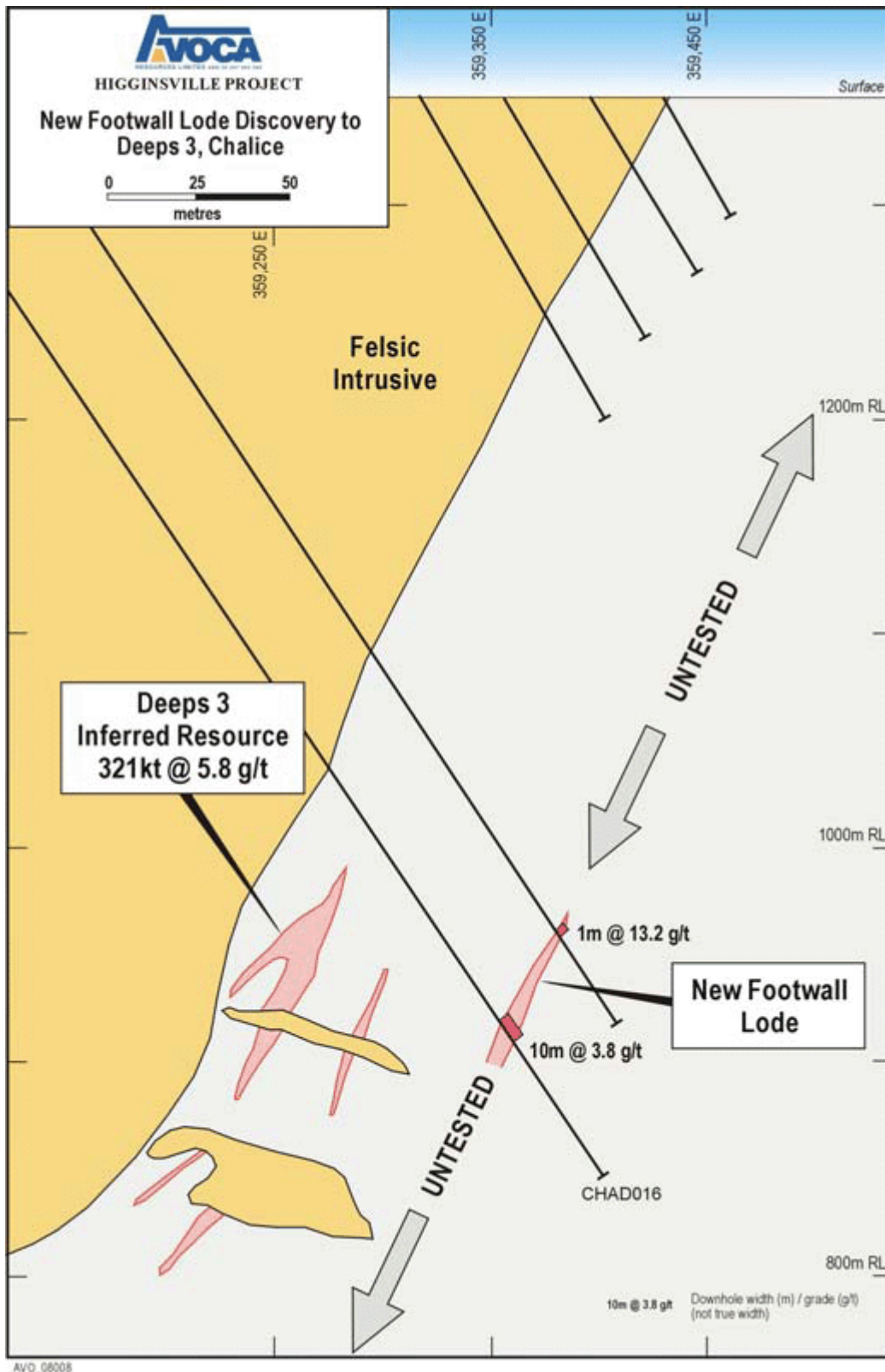


In our recent coverage of Avoca Resources we have focused on the successful commissioning of the company's new Higginsville gold project in Western Australia, in line with the company's time and budgetary objectives. We now turn our attention to the company's recent exploration activity, which demonstrates the relatively robust grade of the company's Higginsville gold mineralisation, as well as confirming the upside potential for the area to host a multi-million ounce series of deposits.

Avoca has reported exploration success from a number of different locations within its Higginsville project area. We will examine a few of these in detail.

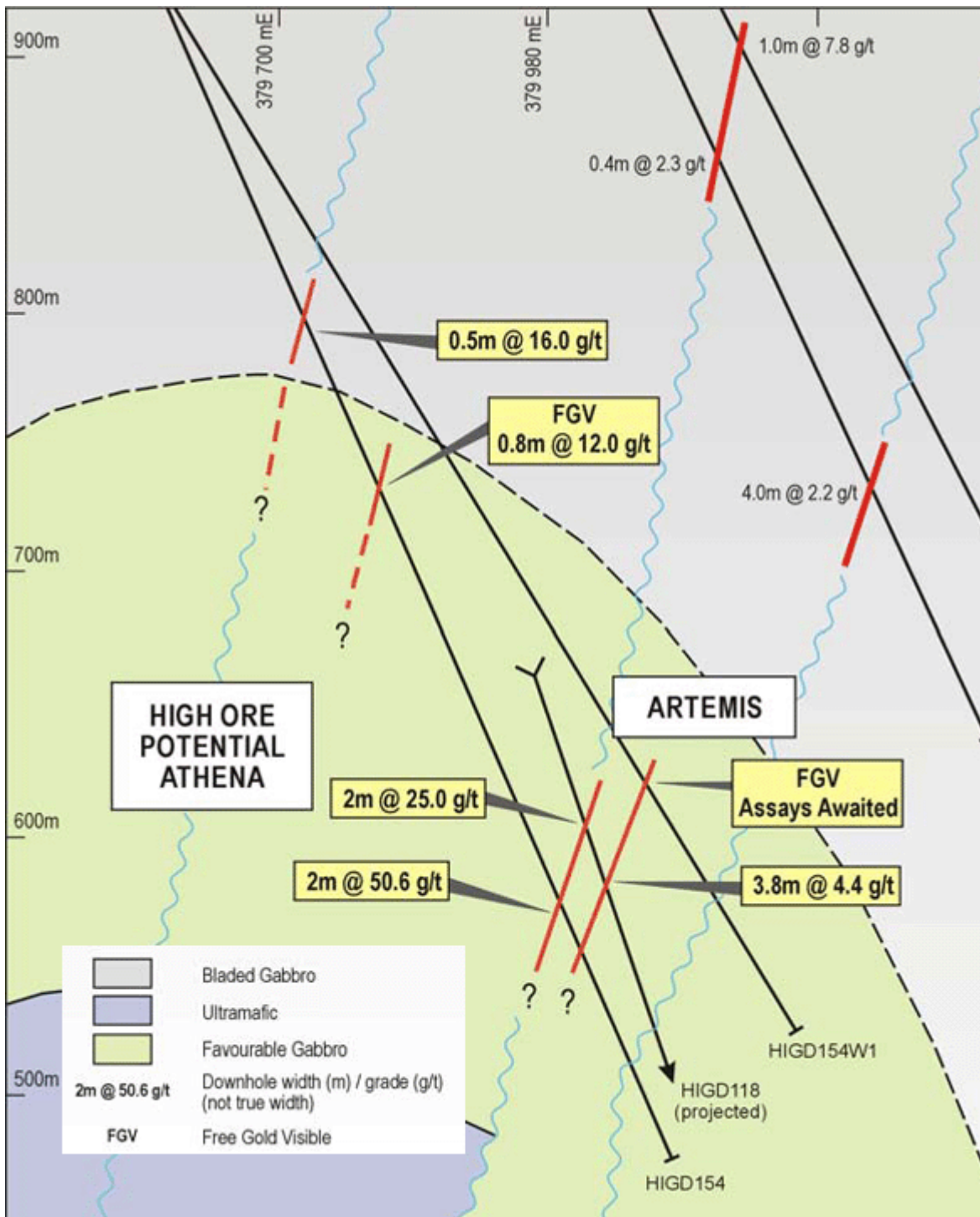
The best place to start is Chalice, which lies 30km to the west of Avoca's new Higginsville gold treatment plant. The deposit was acquired in mid-2007 as part of the company's consolidation of the gold belt between St Ives (15 million ounces) and Norseman (6 million ounces). The Inferred Resource at the time of purchase was 78,000 ounces grading 5.3g/t Au.

The company's recent drilling work has led to the discovery of a new high-grade lode located 100 metres east of the existing Deeps 3 Inferred Resource comprising 60,000 ounces @ 5.8g/t Au. The new intercept of 10 metres @ 3.8g/t Au from 509 metres depth represents a new mineralised structure, hosted within the footwall, not previously tested at Chalice. The discovery has the potential to substantially increase the Chalice underground resource base.



Elsewhere at Chalice, Avoca has targeted an area known as the Deeps 2, to better define the known mineralisation that lies 150 metres below the 1990s underground workings from which 40,000 ounces @ 5.0g/t Au were mined. Infill drilling by Avoca has successfully identified two parallel lodes, with the best results including 18 metres @ 4.9g/t Au from 386 metres and 2 metres @ 26.9g/t Au from 401 metres. The Deeps 2 area will now become part of the updated Chalice resource estimate planned for the September quarter.

Aside from Chalice, another interesting discovery has occurred at what is referred to as the Artemis discovery. Surface drilling by Avoca to test the down-plunge extensions of the Trident mineralised system has discovered a new Athena-like high-grade lode called Artemis, at a vertical depth of 750 metres. The high-grade Artemis lodes lie 150 metres east of the projected Athena lodes.



The Athena lodes are one of the most exciting components of the Higginsville resource base, because of their high gold grades. The lodes characteristically comprise a 1-5 metre wide laminated vein and commonly exhibit coarse visible gold. The style and structural vein setting is very similar to that seen at Norseman (+6 million ounces 55km south of Higginsville) and at Two Boys (a small 82,000 ounce high-grade deposit that graded 14g/t Au, 1.5km south of Trident).

Encouragingly, the Artemis lodes remain open in all directions, with better results including 2 metres @ 50.6g/t Au from 806 metres and 2.7 metres @ 20.3g/t Au also from 806 metres. With the discovery of the Artemis lodes, the linear plunge of Trident (and Poseidon South which is the up-plunge continuation of Trident) now reaches 1.8km in length and remains open to the north and at depth.

Based on the most up-to-date resource estimate announced in late-2007, the Higginsville resource base comprises 1.35 million ounces of gold, of which 69% is contained within the high-grade Trident deposit.

So the overall exploration picture at Higginsville is more attractive than ever.



In a sector dominated by numerous unfortunate corporate failures due to rising costs and declining operating margins, Avoca Resources is a welcome new face on the block as far as Australian gold investors are concerned. Whilst gold has risen in price for seven straight years and reached a record of US\$1,033.90 an ounce in March this year, profitability has been eroded by rapidly rising operating and development costs that have significantly reduced operating margins for all Australian gold companies.

This is of major concern for the industry and another reason as to why we believe gold prices will need to rise substantially in the future.

As a reflection of the difficult times in the Australian gold industry of late, Avoca's Higginsville operation is the first major new gold development in Western Australia since 2001. The key strength of the operation is a sizeable a +1 million ounce gold resource base that continues to grow in size and is of robust grade.

Annual forecast gold production will be between 160,000 and 190,000 ounces at a modest estimated life-of-mine cash operating cost of A\$369 per ounce. Our estimates assume higher costs of around A\$400 per ounce; however margins are still robust. The company has purchased put options over 438,933 ounces at a strike price of A\$830 per, giving it downside price protection over a 34-month period.

The company currently trades on a price-earnings multiple of 11.5 times 2009 consensus earnings forecasts, which is not expensive by any means.

Accordingly, Avoca Resources will remain firmly held within the Fat Prophets Mining & Resources Portfolio.

Snapshot AVO

Avoca Resources

Avoca Resources is an emerging gold producer based in Perth. In the six years since listed in 2002, the company has successfully made the transition from junior explorer to producer status, with the recent commissioning of its Higginsville gold project in Western Australia. The Higginsville resource base currently stands at 1.35 million ounces and growing. Annual forecast gold production will be between 160,000 and 190,000 ounces initially over four years at a modest estimated life-of-mine cash operating cost of A\$369 per ounce. In our view the Higginsville project has multi-million ounce resource potential.

Market Capitalisation

A\$383m

DISCLAIMER

Fat Prophets has made every effort to ensure the reliability of the views and recommendations expressed in the reports published on its websites. Fat Prophets research is based upon information known to us or which was obtained from sources which we believed to be reliable and accurate at time of publication. However, like the markets, we are not perfect. This report is prepared for general information only, and as such, the specific needs, investment objectives or financial situation of any particular user have not been taken into consideration. Individuals should therefore discuss, with their financial planner or advisor, the merits of each recommendation for their own specific circumstances and realise that not all investments will be appropriate for all subscribers. To the extent permitted by law, Fat Prophets and its employees, agents and authorised representatives exclude all liability for any loss or damage (including indirect, special or consequential loss or damage) arising from the use of, or reliance on, any information within the report whether or not caused by any negligent act or omission. If the law prohibits the exclusion of such liability, Fat Prophets hereby limits its liability, to the extent permitted by law, to the resupply of the said information or the cost of the said resupply. As at the date at the top of this page, Directors and/or associates of the Fat Prophets Group of Companies currently hold positions in Austal Ltd (ASB), Artist & Entertainment Group (AEM), ARGO Exploration (AXT), Australian Wealth Management (AUW), Avoca Resources (AVO), Avexa (AVX), Australian Worldwide Exploration (AWE), Biota (BTA), BHP Billiton (BHP), Babcock & Brown Japan Property Trust (BJT), Boart Longyear (BLY), Babcock & Brown Ltd (BNB), Bolnisi Gold (BSG), Cockatoo Coal (COK), Elkedra (EDN), Excalibur Mining Corp (EXM), Fat Prophets (FAT), Fat Prophets Options (FATO), Fosters Group (FGL), FoneZone (FZN), Global Mining Investments (GMI), Gold Bullion (GOLD), Harvey Norman (HVN), Infomedia (IFM), Intec (INL), Indophil Resources (IRN), Invocare (IVC), Lihir Gold (LHG), Lion Selection Ltd (LST), News Corporation (NWS), Macarthur Coal Ltd (MCC), Mantra Resources Option (MRUO), Merrill Lynch Gold Fund, Mineral Securities (MSX), Mundo Minerals (MUN), Newmont (NEM), Oceana Gold (OGC), Oil Search (OSH), Newmont (NEM), Oxiana (OXR), Paladio Group (PDO), Platinum Japan Fund (Unlisted), Progen Pharmaceuticals (PGL), Platinum Australia (PLA), Platinum Asset Management (PTM), Rio Tinto (RIO), Rubicon Japan Property Trust (RJT), Rams Home Loans (RHG), Roc Oil (ROC), SP Telemedia (SOT), Sirtex Med (SRX), St Barbara (SBM), Territory Resources (TTY), Telstra (TLS), Tox Free (TOX), View Resources (VRE), View Resources Options (VREO), Walter Diversified (WDS), Westonia Mining (WEZ), Woodside Petroleum (WPL), Zamia Gold (ZGM). These may change without notice and should not be taken as recommendations. The above disclaimer does not apply to investments held by the Fat Prophets Australia Fund Limited ACN 111 772 359 (FPAFL).