



Stock: Avoca Resources (AVO)
Recommendation: HOLD
Current Price: \$1.53
Valuation: \$1.50

EVENT: AVO MAKES \$49m SCRIP TAKEOVER OFFER FOR DIO

Avoca (AVO) is offering 1 of its shares for every 2.82 Dioro (DIO) share. DIO owns 100% of the South Kalgoorlie operation including a 1.2Mtpa gold plant, and has a 49% interest in the Frog's Leg mine. The remaining 51% of Frog's Leg is owned by TSX listed La Mancha.

The offer represents a 58% premium to the 3 month DIO VWAP and values DIO shares at A\$0.53 each on AVO's April 9th closing price of \$1.495.

AVO has already acquired a 14.95% relevant interest in DIO by entering into unconditional share purchase agreements with DIO's two major shareholders, Harmony Gold and Baker Steel Capital Managers.

AVO is unable to acquire a greater than 15% interest in DIO until it receives FIRB approval due to its foreign major shareholder, Pala (19.72% interest). AVO will today apply for FIRB approval.

IMPACT

This takeover is a positive move. AVO is a long-standing market darling that is using its premium priced scrip to:

- Remove single mine risk
- Expand FY10 production to 250koz
- Capture potential synergies resulting from the close proximity of the three mines
- Expand the reserve base to 1.1Moz @ 3.6g/t
- Expand the resource base to 4.0Moz @ 2.6g/t

COMMENT

It is however important that investors remain focused on mining performance at Trident. The move on DIO is relatively small beer. Trident is the flagship operation and underpins most of AVO's market capitalisation.

Despite ~20 months of mining and ~9 months of processing under its belt AVO's recent announcement listed a head grade of 3.3g/t. Using Argonaut's underground cost library and factoring in the Morgan Stanley royalty (4% NSR for production >100kozpa, plus 10% of revenue derived from a gold price >A\$600/oz) Trident needs to feed >5g/t material into the plant to make cash.

Whilst acknowledging AVO's quality management team and applauding the move on DIO Argonaut retains a HOLD recommendation pending:

- Delivery of Trident reserve grades
- Disclosure of Trident operating costs
- Certainty of a cash positive gold business

HOLD

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