

AVOCA RESOURCES LTD

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(ASX Code: AVO)

www.avocaresources.com.au

SPECULATIVE BUY \$0.43

AVOCA IS POISED TO BECOME A MID-SIZED GOLD PRODUCER

Through successful exploration following a reinterpretation of the structural location of gold mineralisation within part of the Higginsville Project, Avoca Resources Ltd (Avoca) is very well placed to become a medium sized gold producer.

Avoca has recently outlined a JORC compliant Indicated Resource of 450,000 oz of gold located within steeply east dipping structures, comprising what is now called the Trident deposit, and is currently testing for extensions to thick (~40m) medium grade (~4.7 g/t) mineralisation that in places exhibits a wide (~10m) higher grade (~11 g/t) core.

Further exploration success could add significantly to the resource base and it is becoming increasingly apparent that Trident may represent a major new zone in a relatively heavily explored area. This outcome could ultimately see the project develop its own mill but existing mine development gives Avoca an opportunity to achieve early production and cash flow if the toll milling route is used initially.

Avoca has a strong cash position after its recent capital raising, so it is able to fund its exploration program and feasibility studies ahead of a development decision and, with no hedging, is set to benefit from the continuing gold price strength. We regard Avoca as a Speculative Buy for its potential to be re-rated on positive exploration results and further resource upgrades ahead of its potentially rapid move to a medium-sized gold producer.

Key Points

- Avoca has an Indicated Resource of 450,000 oz of gold at the newly defined Trident deposit
- Dimensions of the Trident Western Zone are now ~200m strike by ~200m down dip and up to 40m thick. It is still open along strike to south and at depth
- There is ready access to mining from an existing decline
- Early cash flow is expected if a toll treatment option is taken
- The resource is near existing treatment infrastructure
- Avoca has other regional exploration potential in Australia
- Avoca has experienced and focused management.



Issued Shares	134.6 million
On completion of placement second tranche	142.6 million
Unlisted employee options exercisable at various prices and dates	15.3 million
Market Capitalisation	\$57.6 million
Monthly Share Turnover	10.7 million
12-month High / Low	\$0.465 / \$0.125
Cash Reserves, proforma 30.6.05 + 1 st tranche placement	\$9.3m
Top 20 Shareholders	40.2%
Major Shareholder	Gold Fields Australasia P/L 14.8%

Directors

Robert Reynolds	Non-Exec. Chairman
Rohan Williams	Managing Director
David Quinlivan	Non-Executive
Stephanie Unwin	Non-Executive

The Trident Deposits At Higginsville

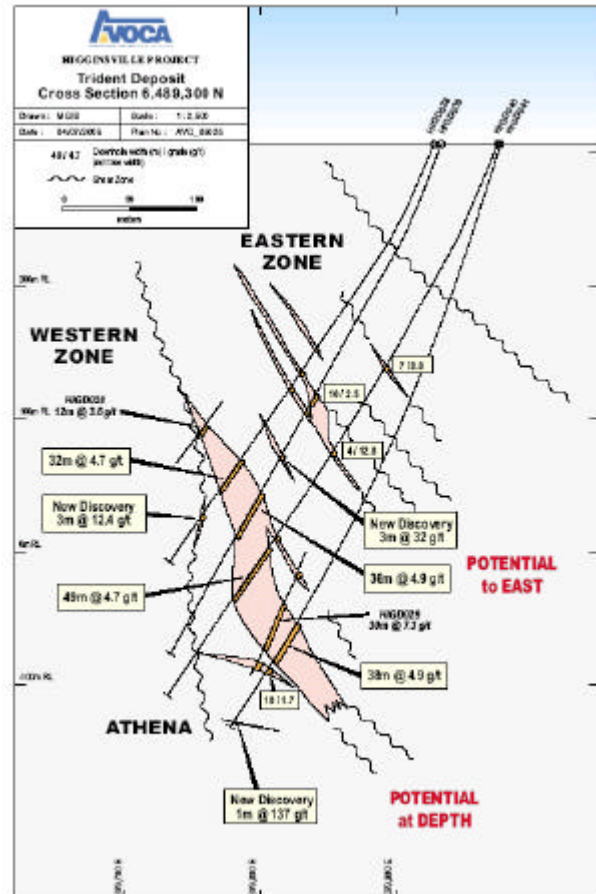
The Higginsville project is located between Kambalda and Norseman in the eastern goldfields of Western Australia. The project covers an area of 178 sq km and was successfully explored and worked first by Samantha Gold NL and then Resolute Ltd, who between them produced over 600,000 ounces of gold from open pit operations and approximately 25,000 ounces of gold from underground operations. In 1999 Resolute sold the exploration rights to WMC who later sold them to Gold Fields Ltd as part of their overall gold business divestment.

Avoca, which had been spun out of the successful Heron Resources in April 2002, acquired the project in June 2004 for \$4.5 million in cash and shares with additional staged payments totalling \$1.75 million on delineation of 150,000 ounces of reserves. At the time of acquisition, the project had Inferred Resources of 4.89Mt @ 2.8g/t for 445,000 ounces including 389,000t @ 7.59g/t for 95,000 ounces (5 g/t cut off grade).

Since acquisition, Avoca reinterpreted the structural model previously applied within part of the area and subsequently drilled in the opposite direction to which previous drilling had been conducted. The company had immediate and considerable success with the discovery of a new ore position, which it has named Trident. Two steeply east dipping mineralised zones define the Western and Eastern Zones of Trident, along with a new, high grade lode discovery called the Athena Lode. Previous drilling, angled to the east, had essentially run parallel to the mineralisation without intersecting it.

The Athena Lode is generally sub-horizontal in attitude broadly similar to that of the rich Two Boys underground deposit (82,000ozs at a recovered grade of 14g/t) that is located 1.5km south of Trident. The flat nature of the Athena Lode is markedly different to the Western and Eastern Zones. It lies close to the limit of current drilling and has been intersected only in the deepest hole on drill sections. Intersections include 1m at 137 g/t gold and 7m at 72 g/t gold and the mineralisation remains open to the north and south.

On 2 August 2005 Avoca released its initial resource statement for Trident. The total resource stands at 2.99 million tonnes averaging 5.0 g/t gold for 485,000 contained ounces. Avoca said it would restart drilling at the end of August, focusing on resource extensions in the highly prospective areas at the south end of the Western Zone and at depth.



Currently 77% of the resource is contained within the Western Zone. The resource has been defined over a distance of 200m down dip and 200m along strike and is up to 40m in thickness.

	Tonnes	Grade	Gold
	(Mt)	(g/t Au)	(Koz)
Western Zone	2.32	5.0	372
Eastern Zone	0.65	5.2	108
Athena Lodes	0.02	7.0	5
Total	2.99	5.0	485

Intersection grades are consistently of the order of 4.7 g/t to 4.9 g/t gold. A higher grade core also exists and on drill section 6,489,340N it averages over 10m in thickness and 11 g/t gold in grade. Whether further drilling will confirm such continuity or otherwise is yet to be seen. However, given the reasonable grade of the Western Zone as a whole it is probable that the deposit will be mined by bulk stoping methods in one pass.

In addition to the Trident deposit, several positions total 3 million tonnes of near surface mineralisation containing 179,000 oz of gold that may be amenable to open pit mining.

Currently there is very limited deep drilling at Higginsville with only 5% of holes drilled to date going beyond 100 metres in depth. Avoca believes that there is excellent exploration potential for the discovery of further mineralisation below lines of workings north of Trident, below the Poseidon North pit and to the west of Trident.

Avoca is currently in the process of completing a pre-feasibility study that will form the basis of a Bankable Feasibility Study to examine alternative development scenarios. The results of the prefeasibility study will be available in October, and are expected to give a clear indication of the relative merits of a stand alone mining and processing operation versus toll treatment at Gold Field's St Ives operation (2004 production: 542,600 oz; cash costs A\$416/oz) that is located about 70 km to the north east of Higginsville. The recently commissioned Lefroy mill has a throughput capacity of 5.5M tpa and was built at a cost of \$125 million.

A development decision is expected in the June quarter of 2006 following completion of a definitive feasibility study. If the stand alone option is selected, it is expected that construction of a treatment plant would commence in the third quarter of 2006 with the first gold production occurring a year later. Selection of the toll treatment option would see gold production commence in the third quarter of 2006.

An initial project based on toll treatment, although incurring transport costs and tolling fees, would see immediate cash flow and relatively minor capital expense. It would also allow Avoca to take advantage of the recent rise in the gold price and not be locked into hedging commitments that it might otherwise be required to be put in place.

The stand alone plant option is dependant on the ore reserve that eventuates and this may take some further time given the depth of drilling involved.

An early decision to access the orebody would allow not only production to commence but also drill buddies could be established to allow resource definition drilling, especially of higher grade zones, to take place from underground. Avoca will be able to take advantage of an existing decline at the base of a mined out open pit and will only need 200m of development to reach the current southerly limit of the Trident deposit

If the stand alone option is taken, possibly after a period in which the ore has been toll treated, the treatment plant design could utilise a low cost gravity circuit as testwork on recent drilling has shown that

85% of the gold may be recovered by this method. The remaining gold would likely be extracted by conventional CIL treatment. Additional benefits may accrue from tapping into the power line that feeds the St Ives plant rather than generate electricity on site.

Although the parameters for an operation based on underground mining and treatment through a dedicated mill have not yet been decided it is reasonable to infer that it would be relatively low cost. Bulk mining methods could be expected to lead to a mining cost of \$30 per tonne of ore.

Assuming an initial production scenario of 50,000 oz per year from the treatment of 0.4M tonnes of ore, cash costs of \$350/oz and a gold price of US\$450/oz (A\$600/oz) the project would generate profits of around \$12 million a year after royalties but before interest. Capital costs could be in the order of \$20 million.

If a large portion of the current resource converts into a reserve, which appears would be the case with the Western Zone, and with further exploration success then a mine life exceeding 10 years is a reasonable assumption.

Mt Fisher Gold-Nickel Project

The Mt Fisher Gold-Nickel Project is located 420km north of Kalgoorlie and 200km east of the Wiluna Gold Mine in the north-eastern goldfields. Avoca's project area totals 370 sq km in one contiguous tenement package, which controls the entire southern portion of the Mt Fisher greenstone belt.

This belt lies immediately to the west of the prolific Yandal greenstone belt that hosts the Jundee, Bronzewing and Darlot gold deposits. Avoca's tenement package lies immediately south of BHP Billiton's nickel joint venture with Cullen Resources. It is also south of Newmont Mining's gold joint venture with Cullen Resources.

While a large part of the Mt Fisher project is yet to be granted, Avoca has optioned a small mining lease south of the historic Mt Fisher gold mine where a mineralised quartz reef (Moray Reef) outcrops. Between 1949 and 1952, 2,384 ounces at a head grade of 66g/t were produced.

During 2004 Avoca completed a 64 hole 20x20m RC drill out of the central section of the Moray Reef. Results included 5m @ 35.4 g/t Au from 44m, 3m @ 27.5 g/t from 45m and 1m @ 187.0 g/t from 71m.

Avoca is currently considering all options with respect to exploitation of the reef. The project also exhibits nickel potential with a 5km strike length of a highly prospective komatiite unit. The komatiite unit is currently being explored to the north and south by BHP Billiton. In addition, a large intense aero-

magnetic anomaly is evident in the central project area, which is interpreted to represent a layered mafic-ultramafic intrusion.

Other WA Exploration Projects

The Jimberlana Project is centred on the gold mining town of Norseman, which is located 150km south of Kalgoorlie in the Eastern Goldfields province of Western Australia. Avoca's project tenements represent a large area that secures title to about 200km strike of the Jimberlana layered mafic/ultramafic intrusion.

Avoca believes that the strongly mineralised breccias located in offset positions on the dyke are analogous to those at the giant Sudbury nickel deposit in Canada, albeit on a smaller scale. Avoca is presently in discussion with an international nickel mining company seeking to form a joint venture.

The Wiluna South Project is located only 20km southeast and along strike of the 5 million ounce Wiluna gold camp and covers an area of 132 sq km. All of this tenure is underlain by Lake Way, which prior to Avoca's initial exploration program, had never been the subject of a focused exploration campaign for gold.

The project tenements are contiguous with the emerging Williamsons open pit operation currently being developed by Agincourt Resources Limited on Lake Way. Avoca's lake based reconnaissance aircore drilling program successfully resulted in the discovery of significant oxide mineralisation at a prospect named Yetti.

This project also exhibits uranium potential as both the Lake Way and Centipede uranium deposits, lead projects of the Nova Energy Limited IPO, are contiguous with Avoca's tenure. Nova's deposits together contain between 8,000 and 9,000 tonnes of U3O8 within a grade range of 0.09 to 0.1%. In September 2005, Avoca entered into an alliance with Encounter Resources whereby that company may earn a 60% interest in the uranium rights of the Lake Way tenement through exploration expenditure.

Under an alliance with **Encounter Resources**, Avoca has an initial free carried 20% interest in that company's WA uranium exploration portfolio. Projects include an area along strike from BHP Billiton's 52,500 tonnes U3O8 Yeeliree deposit and prospects within the Bangemall and Officer Basins.

South Australian Exploration Projects

The Cowell and Port Julia Projects are located to the north west of Adelaide on the east coast of the Eyre Peninsula. The project areas total 1,633 sq km and 2,139 sq km respectively and each consist of a

contiguous tenement package that overlies a sequence of basement rocks intruded by Hiltaba suite granites.

This setting is considered prospective for the discovery of typical iron oxide copper-gold (IOCG) deposits similar to Olympic Dam and Prominent Hill, as well as shear zone hosted massive sulphide copper-gold deposits similar to that found in the Moonta area.

The Redhill Project is located 140km north of Adelaide and approximately 50km south east of Port Pirie. The project area totals 549 sq km and overlies a sequence of basement rocks intruded by Hiltaba suite granites that occur beneath variable thicknesses of cover sequences. This setting is considered prospective for the discovery of kimberlitic intrusions with the potential to host diamonds as well as iron oxide copper gold (IOCG) deposits similar to Olympic Dam and Prominent Hill.

Teck Cominco has secured options to joint venture into each of the above projects. If exercised each option would require Teck to spend \$1.5M within 4 years to earn an 80% interest. Avoca's 20% interest will then be free carried to a decision to mine.

Exploration Joint Ventures

The Zuleika South joint venture covers a 40 km strike length of the under explored Zuleika Shear Zone located between the Higginsville and St Ives Gold camps. In September 2004, Barrick Gold agreed to earn a 51% interest in the project by spending \$3.0 million on exploration over a 5 year period.

The project also covers an area called Sinclair Soak that lies beneath Lake Cowan and contains the intersection of the Zuleika Shear Zone and the Boulder Lefroy Fault - two of the highest endowed gold structures in the Eastern Goldfields of WA.

Barrick has completed a gravity survey, preliminary target identification has been completed and an aircore drilling programme, utilizing a specialist track mounted rig, started in July 2005 to test for mineralisation beneath lake cover.

Drilling over a 4 sq km area encountered moderate alteration associated with some of the large structures interpreted from the regional data sets. Avoca has maintained a 100% interest in the nickel rights to this project.

The Cowarna joint venture is located 70km east of Kalgoorlie and surrounds the two historic mining centres at Randalls and Karonie. In July 2005, Integra Mining Limited and Avoca signed a joint venture whereby Integra can earn an 80% interest in by spending \$0.5 million over 5 years. The project area totals 522 sq km and covers a sequence of Archaean supracrustal rocks.

Integra's current resource base at these projects was upgraded to 13 million tonnes grading 2.6 g/t for 1.1 million ounces of contained gold in July 2005.

The Randalls gold deposits are all hosted by a conspicuous banded iron formation that can be traced using aeromagnetic data through Avoca's tenure where there are numerous small historic workings.

Gold mineralisation at Karonie is controlled by the Aldiss Fault that can also be traced using aeromagnetic data through Avoca's tenure for over 25km.

The **Mungari** joint venture covers 35 sq km and lies 10km to the south and along strike from the Frog's Leg gold deposit that is currently being jointly developed by Mines and Resources Australia Pty Ltd (MRA), a wholly owned subsidiary of the French government controlled Areva Group, and Dioro Exploration Ltd. The Frog's Leg deposit lies within the 5 million oz Kundana gold field.

In December 2003, MRA signed a joint venture agreement to earn a 51% interest in the Mungari project by spending \$0.75 million over 3 years.

Exploration completed so far by MRA includes an airborne magnetic and radiometric survey, field mapping and rock chip sampling, close spaced surface geochemical sampling and 11,192m of RAB drilling in 330 holes.

Board and Management

Avoca's Managing Director, Rohan Williams is a very experienced geologist and was previously Chief Geologist for WMC Resources at the St Ives gold mine. Other board members include David Quinlivan who is a mining engineer with extensive mining

feasibility and project management experience, former Delta Gold director Robert Reynolds and Stephanie Unwin who is a corporate lawyer.

Funding

On 20 September 2005, Avoca advised that it has arranged to place a total of 25 million shares at 40 cents each to raise a total of \$10 million. The placement is in two tranches with 17m shares subscribed for and the second tranche of 8 million shares dependent on shareholder approval, anticipated in late October 2005. Gold Fields Australasia, Avoca's largest shareholder, has subscribed for 2.5 million shares. The first tranche has been taken into account in the table on Page 1.

Recommendation

Avoca Resources has the potential to rapidly increase its resource base through along strike and down dip drilling at its flagship Trident gold deposit. The company has reinterpreted the structural location of gold mineralisation and is using this to its advantage in delineating further ore and open up a previously heavily explored area as a new frontier. The deposit can be readily accessed from an existing decline and if, at least an initial, toll treatment option is taken important cash flow could accrue for further exploration and the possible construction of a dedicated treatment plant. We believe Avoca is likely to continue to be re-rated as it achieves ongoing exploration success and moves to a mid-sized gold producer. We recommend Avoca as a Speculative Buy.

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