

Avoca Resources Limited



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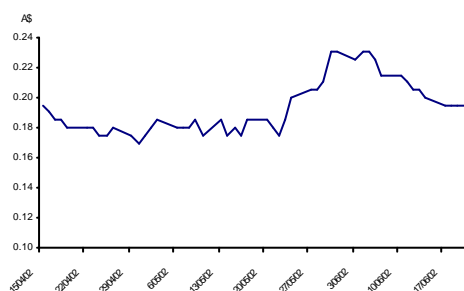
Recommendation

short-term view:	outperform
long-term view:	outperform
risk factor:	Speculative

Investment Fundamentals

asx code	AVO AU
stock price:	\$0.20
market cap:	\$11.0m

Performance



Source: ASX

Leverage to exploration success

Event

- Coverage of Avoca is being initiated following its listing on the Australian Stock Exchange in April 2002 following a successful \$7.0 million capital raising. Avoca was formed to enable the spin-out of Heron Resources Limited's non nickel laterite assets.
- Avoca offers leverage to exploration success on a large portfolio of projects, 100% owned and joint ventured, with the potential to host large precious and/or base metal deposits.
- A high level of exploration activity in the near term, both on its 100% owned and its joint ventured projects, provides the opportunity for discovery.

Key points

- Avoca has a portfolio of projects consisting of wholly owned and joint ventured projects in the Eastern Goldfields of Western Australia and wholly owned projects in the Stuart Shelf Province of South Australia.
- Key wholly owned projects are Wiluna South, Mungari and Stuart Shelf. Drilling is underway at Wiluna South, east of the Williamson gold project, and planned to start in July at Mungari, 10km south of the Frog's Leg deposit, and Moonta, the southern portion of the Stuart Shelf Project.
- A high level of activity is also expected on Avoca's 14 joint ventures in the Eastern Goldfields, with the joint venture partners required to spend about \$9.0 million to earn their various equity levels.
- Avoca has formed a strategic alliance with the local subsidiary of Gold Fields Limited, whereby Gold Fields subscribed for \$1.5 million of the capital raising and has the first right of refusal to farm into Avoca projects. Under this alliance Avoca effectively becomes Gold Fields green fields exploration arm in the Eastern Goldfields.
- The technical management team provide Avoca with extensive exploration experience in the Eastern Goldfields. This is supported by the tenement management and acquisition experience within the former Heron Resources team.

Action:

- Avoca is rated a short and long term outperform driven by the high level of exploration activity, in its own right and by its joint venture partners, on projects with potential to host large deposits.

Investment fundamentals

- Avoca Resources offers leverage to exploration success on both its 100% owned properties and its various joint ventured projects. The portfolio of projects, located in the Eastern Goldfields and the Stuart Shelf, have scope for the discovery of large precious and/or base metal deposits.
- Exploration activity in the near term provides the opportunity for discovery, with drilling in progress at Wiluna South, east of the Williamson gold project, and planned to start in July at Mungari, 10km south of the Frog's Leg deposit, and Moonta in South Australia.
- Avoca's joint ventures in the Eastern Goldfields with major gold miners should also provide a steady news flow, with the joint venture partners required to spend about \$9.0 million to earn their various equity levels.
- The strategic alliance with Gold Fields Limited provides a cornerstone investor and a major partner while Avoca offers its expertise as a green fields explorer in the Eastern Goldfields, giving Gold Fields the first right of refusal to farm into Avoca projects.

Background

- Avoca Resources, a precious and base metals exploration company, was formed to enable the spin-out of Heron Resources Limited's non nickel laterite assets. These assets include wholly owned and joint ventured projects in the Eastern Goldfields of Western Australia and wholly owned projects in the Stuart Shelf Province of South Australia. Avoca was incorporated in June 2001 and was listed on the Australian Stock Exchange on 15 April 2002 following a successful \$7.0 million capital raising.
- The local subsidiary of South African gold producer Gold Fields Limited has formed a strategic alliance with Avoca. Under this alliance Gold Fields subscribed for \$1.5 million of the capital raising and has the first right of refusal to farm into Avoca projects when they are offered for joint venture.
- Avoca's key wholly owned exploration projects are the Wiluna South Gold Project, Mungari Gold Project and the Stuart Shelf Copper-Gold Projects. Exploration activities are underway at Wiluna South and Mungari and will commence shortly on the granted tenements in the Stuart Shelf. In addition to these projects, Avoca has a series of joint ventures in the Eastern Goldfields with a range of the world's major gold mining companies. The joint ventures require the expenditure of about \$9.0 million in total for the partners to earn their various equity levels in Avoca's Projects.

Capital structure

- Avoca Resources has about 57 million shares (and 9.4 million unlisted options) on issue, which consists of about 22 million shares issued to project vendors and 35 million issued via the IPO, which raised \$7.0 million including \$1.0 million in oversubscriptions. Of the vendor shares, about 21 million were issued to Heron Resources, which completed an in-specie distribution of Avoca shares to its shareholders on a one for five basis. Heron also received 6.0 million unlisted options which it has retained.
- Major shareholders include Gold Fields Limited with 7.5 million shares (13% of issued capital; 11% fully diluted), entities associated with non executive director Ian Buchhorn with 7.1 million shares (12% of issued capital) and the OMG Group with 3.2 million shares (5.6% of issued capital).
- A total of 7.8 million shares have been escrowed, with 6.7 million shares issued to related parties of Avoca and Heron escrowed for 24 months and 1.0 million shares issued to unrelated vendors escrowed for 12 months. Heron's 6.0 million unlisted options and the Avoca Director's 1.4 million unlisted options have been escrowed for 24 months.

The portfolio of projects

- Avoca's projects are divided into those in the Eastern Goldfields Province, extending from Wiluna in the north to Norseman in the south, and those in the Stuart Shelf Province, extending from Olympic Dam in the north to Moonta in the south. The company's objective is the discovery of high value precious metal deposits, with a focus on gold and platinum group metals. Avoca has in excess of 6,000km² of tenements in the Eastern Goldfields and over 16,400km² of combined exploration licences and applications in the Stuart Shelf.
- The key wholly owned projects are the Wiluna South Gold Project, the Mungari Gold Project and the Stuart Shelf Copper-Gold Projects, with a particular emphasis on the projects located on the Yorke Peninsula. Avoca also has 14 joint ventures in progress with a range of the world's major gold mining companies earning equity in projects located in the Eastern Goldfields

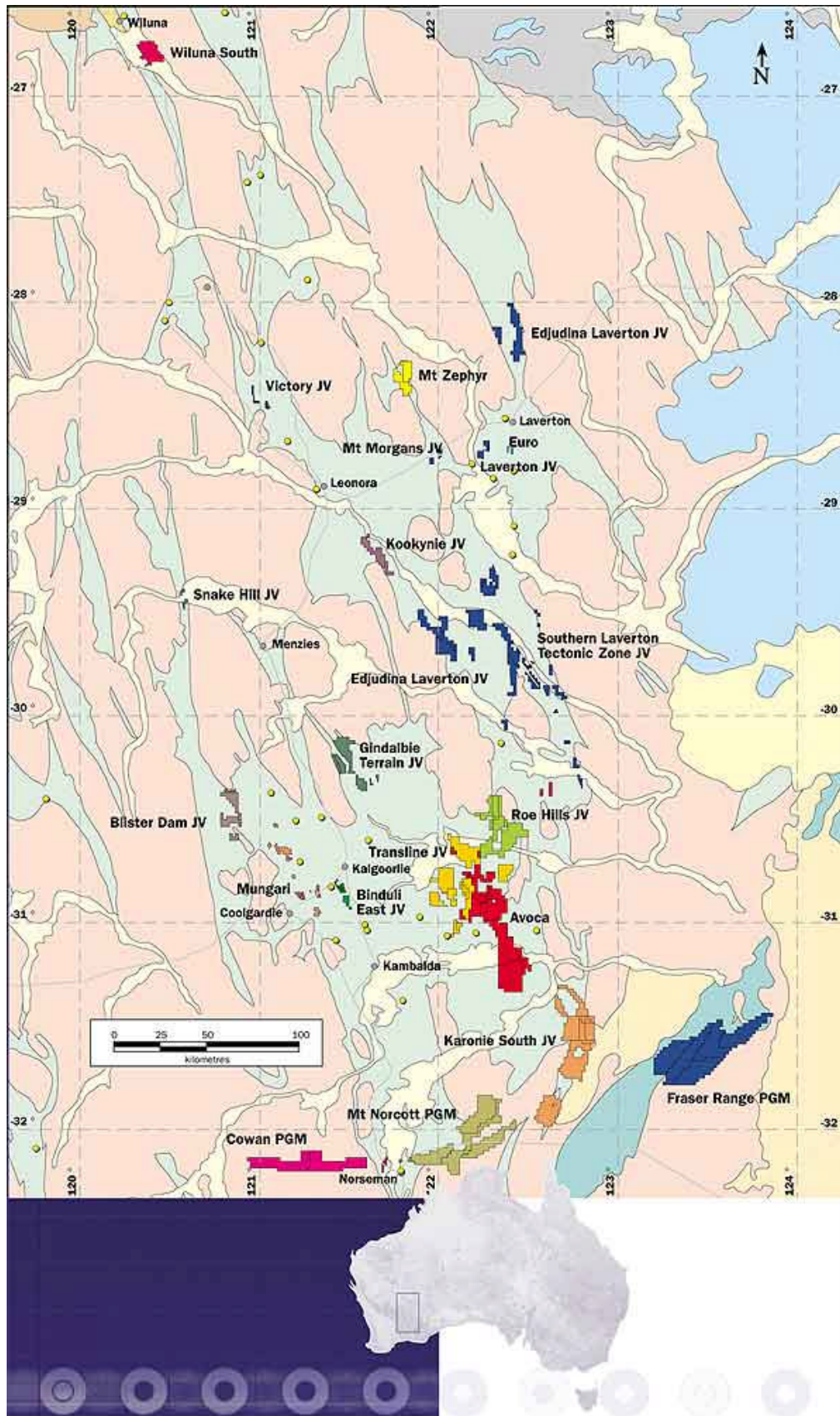
Wiluna South Gold Project

- The Wiluna South project is located about 12km south of the 5.0Moz Wiluna Gold Mine and immediately east of Newmont Limited's Williamson gold project, which is shaping up as a significant oxide gold deposit. The project area is completely covered by lake sediments associated with Lake Way and has not previously been subjected to gold exploration. Geophysical interpretation has indicated that the area contains 12km of the Wiluna Mine sequence, with Avoca targeting multi million ounce Wiluna style deposits.
- Avoca started a 200 hole aircore drilling program in early June 2002, using a track mounted drill rig and specialist lake sediment drilling contractors. This drilling is designed to provide geological/stratigraphic information as well as geochemical data, with nine wide spaced traverses (800m – 2.0km line spacing) to be completed across structural targets. These targets, consisting of north – south structures interpreted to be part of the same suite of structures that control mineralisation at the Wiluna Mine, have been identified from aeromagnetic interpretation.
- The wide spaced (reconnaissance) nature of the current drilling program means that a low order of anomalism may be material and would require follow up aircore drilling. This follow up program is likely to proceed soon after the completion of the first program, subject to receiving encouraging results in the current drilling. As the drilling is wide spaced it is not anticipated that the current program will return ore grade results.
- Any geochemical anomalies identified by the phased aircore drilling would need to be tested by RC and/or diamond drilling. This bedrock program, if required, could take place as early as the end of the September quarter and would provide an improved understanding of the geology and the orientation of any mineralised structures.

Mungari Gold Project

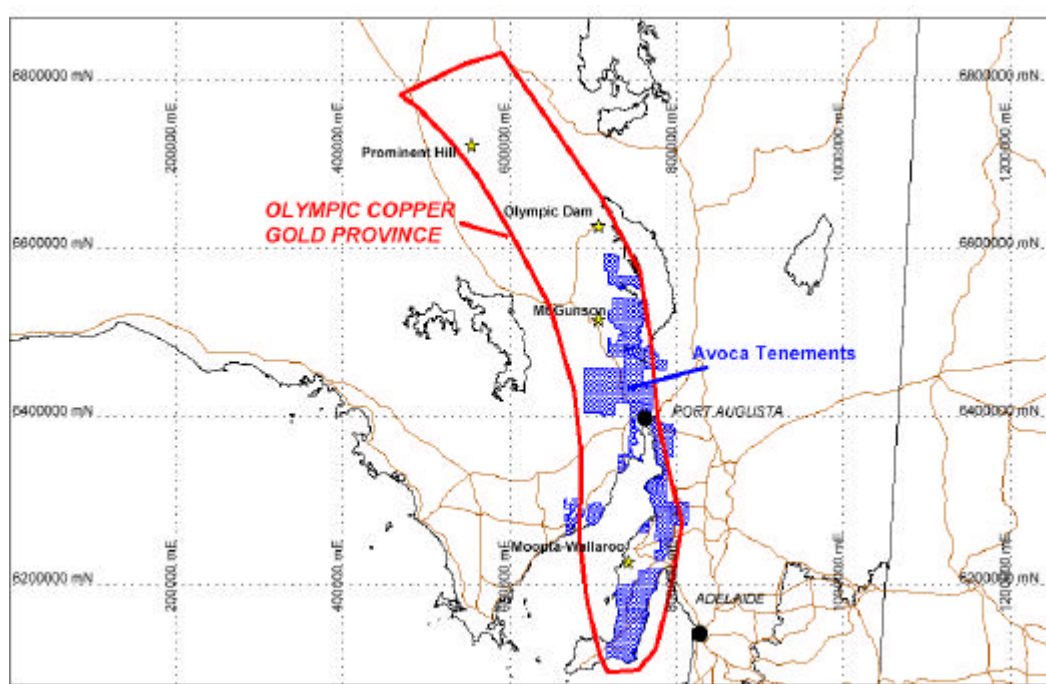
- The Mungari Gold Project is located about 15km south west of Kalgoorlie and 10km south of the Mines and Resources Limited/Dioro Exploration NL Frog's Leg deposit. Frog's Leg, a 780,000oz resource, currently sits at the southern end of the +5.0Moz Kundana mine camp, which is adjacent to the regional Zuleika Shear. This mine camp hosts a range of deposit styles varying from the narrow very high grade 1.0Moz Raleigh deposit through to the lower grade bulk tonnage 915,000oz White Foil deposit and includes the Hornet – Rubicon – Pegasus discoveries of Gilt Edged Mining. The bulk of the resources within the Kundana mine camp were discovered over the past 3 – 5 years largely due to the application of modern exploration techniques.
- Avoca's tenement package consists of two separate blocks, one overlying about 4.0km of the regionally important Zuleika Shear and the other covering a similar strike length of the parallel Kunanalling Shear. Reconnaissance mapping and sampling completed by Avoca over the Zuleika Shear block has returned anomalous gold (up to 0.3g/t) and arsenic values in proximity to the Zuleika Shear Zone.
- The key tenement covering the Zuleika Shear was granted in late May 2002, with Avoca scheduled to commence a detailed soil sampling program by the end of June 2002. Any anomalies identified will be drill tested in July 2002. This project offers scope for the discovery of high grade gold deposits similar to Raleigh or Frog's Leg, which Avoca could either develop in its own right or sell/joint venture to one of the existing operators in the area.

Eastern Goldfields' Projects



Source: Avoca Resources June 2002

South Australian Projects



Source: Avoca Resources June 2002

Stuart Shelf Province, South Australia

- The Stuart Shelf, which hosts WMC's Olympic Dam operation, returned to market attention in late 2001 with Minotaur Resources/BHP Billiton's Prominent Hill copper – gold discovery. Avoca's tenements in the region, extending from just south of Olympic Dam in the north to south of Moonta in the south, have been divided into the Torrens Project, the Cowell Project and the Moonta Project.
- The exploration target being applied is for iron oxide copper gold deposits (IOCAD's), which are generally very large low – medium grade deposits such as Olympic Dam. These targets in the Stuart Shelf are generally located within basement rocks covered by varying depths of younger sediments, ranging from about 100m to in excess of 1,000m. For example, Olympic Dam is located beneath about 300m of unmineralised sediments.
- Avoca has had ten of its thirteen exploration licences granted and is about to start detailed gravity surveys and soil sampling over previously identified coincident gravity and magnetic anomalies. These anomalies consist of granites, large scale fault systems, haematite alteration and up lifted basement blocks. Initial work will take place on the Moonta Project, which is located on the eastern side of the Yorke Peninsula. Diamond drilling of the anomalies is scheduled for July 2002.

Joint venture partners funding exploration

- Avoca has a range of joint venture projects in the Eastern Goldfields, whereby its partners are earning or have earned controlling interests. Joint venture partners include some of the world's major gold mining companies such as Gold Fields, AngloGold, Placer Dome, Newcrest and Aurion Gold. The current portfolio of joint ventures require the expenditure of about \$9.0 million in total for the partners to earn their various equity levels, with Avoca generally retaining a 20 – 30% free carried interest to a decision to mine. Heron retains all nickel rights on selected joint venture projects.
- The joint venture structure enables Avoca to diversify its interests, thereby maximising the opportunity for discovery, whilst minimising its direct expenditure commitment. A review of current joint venture partner activity is expected in Avoca's June quarter report, its first quarterly report as a listed entity.

Directors and management

- Robert Reynolds - *Chairman* – A Chartered Accountant with over 35 years experience who was a Director of Delta Gold from 1988 until 2001.
- Rohan Williams - *Managing Director* – A geologist with over 14 years experience who prior to joining Avoca was Chief Geologist at WMC Resources' St Ives Gold operation.
- Ian Buchhorn – *Non Executive Director* – A Mineral Economist and Geologist with over 28 years experience who is also Managing Director of Heron Resources Ltd.
- Stephanie Unwin - *Non Executive Director* – A Senior Associate of Pullinger Readhead Stewart who has extensive experience in providing legal services to resource companies.
- Geoff Collis – *Exploration Manager* – A Geologist with over 16 years experience in a range of commodities both in Australia and overseas.

Recommendation Definition

'Out perform' - return > 5% in excess of sector return

'Market perform' - return within 5% of sector return

'Under perform' - return > 5% below sector return

Short-term: 3-12 months

Long-term: 3 years

Risk Factor Definition

This factor has been calculated from the volatility of historic price movements.

Spec - Highest Risk- Stock should be expected to move up or down 60 - 100% in a year - Investors should be aware this stock is highly speculative.

High - Stock should be expected to move up or down at least 40 - 60% in a year - Investors should be aware this stock could be speculative.

Medium - Stock should be expected to move up or down at least 30 - 40% in a year.

Low/Medium - Stock should be expected to move up or down at least 25 - 30% in a year.

Low - Stock should be expected to move up or down at least 15 - 25% in a year.

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