

## Altona Mining Ltd (AOH.ASX)

### Drill Results at Little Eva Demonstrate Potential for Large Scale Mining

#### EVENT:

- Drill results at the Little Eva deposit, located at the Company's Roseby Project, Mt Isa QLD.

#### DETAILS:

- The initial round of results from the 25,000m RC drilling program have been received at one of the larger deposits at Roseby, being Little Eva.
- 6,000m for 33 holes have been completed to date at Little Eva. Results are in for 12 holes highlighting thick and shallow intercepts as follows:
  - **233m @ 0.6% Cu (from surface)**
  - **133m @ 0.7% Cu, including 28m @ 1.96% Cu (from 5m)**
- This new drilling is outside the current mineral resource at Little Eva of 30Mt at 0.7% Cu and Roseby's current global resource inventory, being 133Mt at 0.7% Cu for >900kt of contained Cu.
- AOH is seeking to re-interpret previous resource estimates at Roseby through the application of lower cut-off grades, large scale bulk mining methods and improved modelling. The current 25,000m drilling program is seeking to verify this approach.

#### ANALYSIS:

- **Material resource upgrade expected in near term at Little Eva.** These results together with a number of holes drilled in prior years which have been resubmitted for assay highlight the strong potential for a material resource upgrade in the near term at Little Eva. A resource update is expected by August and our expectation is that the resource will almost double to ~60Mt at a grade of 0.6% - 0.7% Cu. The current drilling program is targeting to increase the global Roseby resource by >50% towards 200Mt. With current resources of ~900kt of contained Cu, Roseby is already one of the largest Cu inventories in Australia not in the hands of a major.
- **Bulk mining approach will result in improved economics and larger resource.** The cross section of Little Eva illustrates the significant amount of mineralisation not currently included in the deposit's resource inventory. Application of lower Cu cut-off grades (i.e 0.3% Cu), improved modelling (pits in prior studies used US\$2/lb Cu prices), a bulk mining approach, lower strip ratios and large intersects outside old pit designs can be brought into the new pit and resource calculation.
- **Regular news flow expected.** Drilling results are expected to continue to be released throughout July prior to the first of a number of resource upgrades expected in August. An updated Feasibility Study is expected early next year at Roseby highlighting a likely production profile of 35ktpa – 45ktpa Cu for capex of \$250m - \$300m.

#### RECOMMENDATION:

- **We reiterate our BUY recommendation and our price target of \$0.80/share, 175% above the current share price.**
- The Company is well funded following a \$70m equity issue completed earlier this year to fully fund development at Outokumpu, optimise the Roseby Feasibility Study and complete further drilling for resource extension.

Rating	BUY
Previous	BUY
Price target	\$0.80
Previous	\$0.80

Share Price (\$)	\$0.29
52 week low/high (\$)	0.08/0.45
Valuation (\$/share)	<b>\$0.81</b>
Methodology	DCF
Risk	High

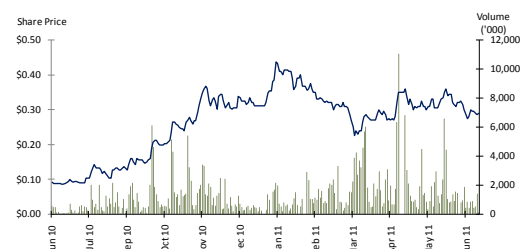
Capital Structure	
Shares on issue (m)	472.1
<b>Market Cap (\$m)</b>	<b>136.9</b>
Net Debt/(Cash) (\$m)	-70.0
<b>EV (\$m)</b>	<b>66.9</b>
Options on issue (m)	4.0
12mth Av Daily Volume ('000)	1,280

Board	
Kevin Maloney	Chairman
Alistair Cowden	Managing Director
Peter Ingram	Non Executive Director
Heikki Solin	Non Executive Director
Fiona Harris	Non Executive Director
Jason Brewer	Non Executive Director

Major Shareholders	
Tulla Resources Group	7.5%
Perpetual	7.0%

Key Financials				
Year to Dec	2010a	2011e	2012e	2013e
Revenue (\$m)	0.0	0.0	32.4	79.5
EBITDA (\$m)	-7.1	-8.5	16.0	51.7
NPAT rep (\$m)	5.5	-8.0	13.3	45.3
NPAT adj (\$m)	-9.1	-8.0	13.3	45.3
EPS adj (c)	-4.1	-2.4	2.6	8.9
PER (x)	-7.1	-12.2	11.1	3.2
EV/EBITDA (x)	-9.4	-7.9	4.2	1.3
Op Cashflow (\$m)	-7.5	-7.9	15.9	46.6
Capex (\$m)	-0.3	-32.3	-9.1	-126.0
FCF (\$m)	-7.8	-40.2	6.8	-79.4

#### Share Price Graph



*Foster Stockbroking acted as Co-Lead Manager to the \$70m equity issue conducted in February 2011 by Altona Mining Ltd. Foster Stockbroking received a fee for this service.*

**Altona Mining Ltd (AOH.ASX)**

Full Year Ended 30 June

Profit & Loss (\$m)	2010a	2011e	2012e	2013e
Revenue	0.0	0.0	32.4	79.5
Other Revenue	0.0	0.0	0.0	0.0
<b>Revenue</b>	<b>0.0</b>	<b>0.0</b>	<b>32.4</b>	<b>79.5</b>
Operating costs	4.8	0.0	7.8	19.3
Exploration costs	0.0	5.0	5.0	5.0
Corporate costs	2.3	3.5	3.5	3.5
<b>EBITDA</b>	<b>-7.1</b>	<b>-8.5</b>	<b>16.0</b>	<b>51.7</b>
EBITDA margin (%)	nm	nm	49.5	65.0
D & A	0.1	0.0	4.6	4.7
<b>EBIT</b>	<b>-7.2</b>	<b>-8.5</b>	<b>11.4</b>	<b>47.0</b>
EBIT margin (%)	nm	nm	35.3	59.1
Net Interest exp / (income)	2.0	-0.4	-1.8	1.7
Associates	0.0	0.0	0.0	0.0
<b>Profit before tax</b>	<b>-9.2</b>	<b>-8.0</b>	<b>13.3</b>	<b>45.3</b>
Tax exp / (benefit)	-0.2	0.0	0.0	0.0
<b>NPAT pre minorities</b>	<b>-9.1</b>	<b>-8.0</b>	<b>13.3</b>	<b>45.3</b>
Minority Interests	0.0	0.0	0.0	0.0
<b>NPAT pre sig items</b>	<b>-9.1</b>	<b>-8.0</b>	<b>13.3</b>	<b>45.3</b>
Significant items	14.5	0.0	0.0	0.0
<b>NPAT reported</b>	<b>5.5</b>	<b>-8.0</b>	<b>13.3</b>	<b>45.3</b>
<b>NPAT adjusted *</b>	<b>-9.1</b>	<b>-8.0</b>	<b>13.3</b>	<b>45.3</b>
WA # Shares (m)	222.2	339.8	506.2	506.8
EPS adj ¢	-4.1	-2.4	2.6	8.9

\* NPAT adjusted for significant items and amortisation of intangibles

Cash Flow (\$m)	2010a	2011e	2012e	2013e
<b>EBITDA</b>	<b>-7.1</b>	<b>-8.5</b>	<b>16.0</b>	<b>51.7</b>
Net Interest exp / (income)	-2.0	0.4	1.8	-1.7
Tax	0.2	0.0	0.0	0.0
Δ Working Capital	-1.2	0.1	-2.0	-3.5
Other	2.7	0.0	0.0	0.0
<b>Operating Cashflow</b>	<b>-7.5</b>	<b>-7.9</b>	<b>15.9</b>	<b>46.6</b>
Capex	-0.3	-32.3	-9.1	-126.0
Net Acquisitions	18.1	0.0	0.0	0.0
Asset Sales	0.0	0.0	0.0	0.0
Other	-2.0	0.0	0.0	0.0
<b>Investing Cashflow</b>	<b>15.9</b>	<b>-32.3</b>	<b>-9.1</b>	<b>-126.0</b>
Equity proceeds	3.7	66.8	0.3	0.8
Debt proceeds	0.0	0.5	0.0	90.0
Debt repayment	-1.1	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0
<b>Financing Cashflow</b>	<b>2.7</b>	<b>67.3</b>	<b>0.3</b>	<b>90.8</b>
Net Cashflow	11.1	27.1	7.0	11.3
<b>Free Cashflow</b>	<b>-7.8</b>	<b>-40.2</b>	<b>6.8</b>	<b>-79.4</b>

Balance Sheet (\$m)	2010a	2011e	2012e	2013e
Cash	12.7	39.8	46.8	58.1
Receivables	1.6	2.2	3.2	3.7
Inventories	0.0	1.0	2.0	4.9
PPE	13.6	46.0	50.5	171.7
Exploration	25.7	25.7	25.7	25.7
Other	1.5	1.4	2.5	2.5
<b>Total Assets</b>	<b>55.1</b>	<b>116.0</b>	<b>130.6</b>	<b>266.7</b>
Payables	1.3	2.6	2.6	2.6
Provisions	1.5	1.4	2.4	2.4
Tax liabilities	0.0	0.0	0.0	0.0
Debt	12.9	0.0	0.0	90.0
Other	0.0	0.0	0.0	0.0
<b>Total Liabilities</b>	<b>15.7</b>	<b>4.0</b>	<b>5.0</b>	<b>95.0</b>
Reserves and capital	78.6	159.0	159.2	159.2
Retained earnings	-39.3	-47.3	-34.1	11.2
Minorities	0.0	0.0	0.0	0.0
<b>Total Equity</b>	<b>39.3</b>	<b>112.0</b>	<b>125.6</b>	<b>171.6</b>

Source: Company; FSB estimates

**Recommendation: BUY**

Price Target \$0.80

Capital Structure	
Shares on Issue (m)	472.1
<b>Market Cap (\$m)</b>	<b>136.9</b>
Net Debt/(Cash) (\$m)	-70.0
<b>EV (\$m)</b>	<b>66.9</b>

Key Metrics	2010a	2011e	2012e	2013e
PER (x)	-7.1	-12.2	11.1	3.2
EV/EBITDA (x)	-9.4	-7.9	4.2	1.3

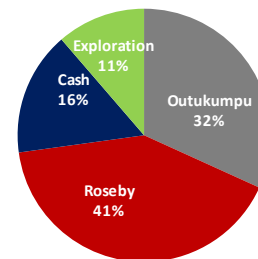
Key Assumptions	2011e	2012e	2013e	2014e
Copper Price (US\$/lb)	\$3.96	\$4.38	\$4.25	\$3.75
Gold Price (US\$/oz)	\$1,322	\$1,400	\$1,475	\$1,375
Zinc Price (US\$/lb)	\$1.04	\$1.08	\$1.03	\$0.98
AUD/USD	0.98	0.98	0.93	0.88

Production Summary	2011e	2012e	2013e	2014e
Copper Production (t)	0	3,271	7,851	27,951
Gold Production (oz)	0	3,336	8,006	12,634
Zinc Production (t)	0	665	1,595	1,595
C1 cash costs (US\$/lb)	\$0.00	\$1.06	\$1.03	\$1.33

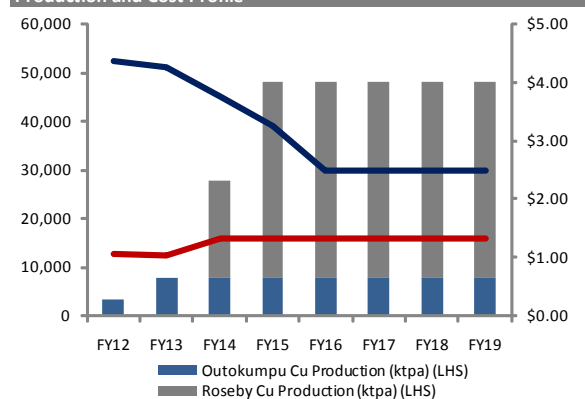
Cu Resource	Mt	Cu %	Cont (kt)
Outokumpu	17.8	0.87%	155
Roseby	132.5	0.68%	901
<b>TOTAL</b>	<b>150.3</b>	<b>0.70%</b>	<b>1,056</b>

Valuation Summary	NPV (\$m)	P/NPV	\$/Share
Roseby	362	0.50	\$0.35
Outokumpu	175	0.80	\$0.27
Net cash/(debt)	70	1.00	\$0.13
Exploration	50	1.00	\$0.10
Unpaid capital	3	1.00	\$0.01
Corporate costs	-25	1.00	-\$0.05
<b>TOTAL</b>	<b>636</b>		<b>\$0.81</b>

**Valuation Split**



**Production and Cost Profile**



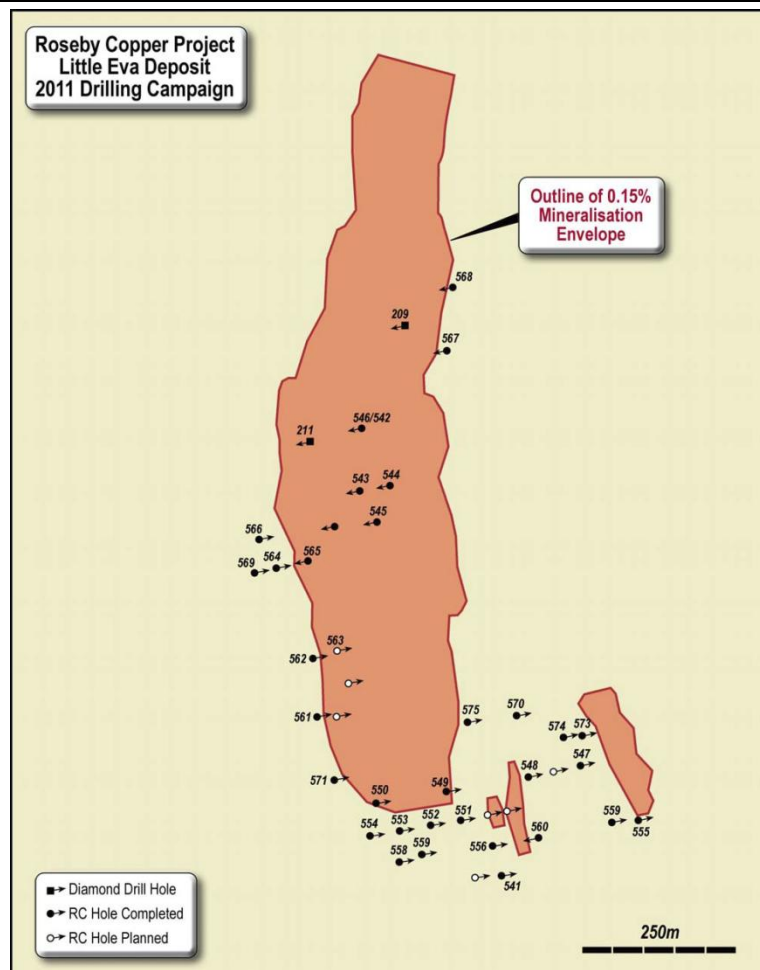
## DRILLING PROGRAM AT LITTLE EVA DEPOSIT (ROSEBY PROJECT, QLD)

### Overview

- The initial round of results from the 25,000m RC drilling program have been received at one of the larger deposits at Roseby, being Little Eva.
- 6,000m for 33 holes have been completed to date at Little Eva. Results are in for 12 holes highlighting thick and shallow intercepts as follows:
  - **233m @ 0.6% Cu (from surface)**
  - **133m @ 0.7% Cu, including 28m @ 1.96% Cu (from 5m)**
  - 120m @ 0.8% Cu (from surface)
  - 114m @ 0.5% Cu (from 99m)
  - 76m @ 1.35% Cu (from 51m)
  - 58m @ 0.46% Cu (from surface)
  - 24m @ 0.91% Cu (from surface)
- This new drilling is outside the current mineral resource at Little Eva of 30Mt at 0.7% Cu and Roseby's current global resource inventory, being 133Mt at 0.7% Cu for >900kt of contained Cu.
- AOH is seeking to re-interpret previous resource estimates at Roseby through the application of lower cut-off grades, large scale bulk mining methods and improved modelling. The current 25,000m drilling program is seeking to verify this approach.

*Drill results at Little Eva highlight thick and shallow intercepts which are expected to result in a significant resource increase in August 2011.*

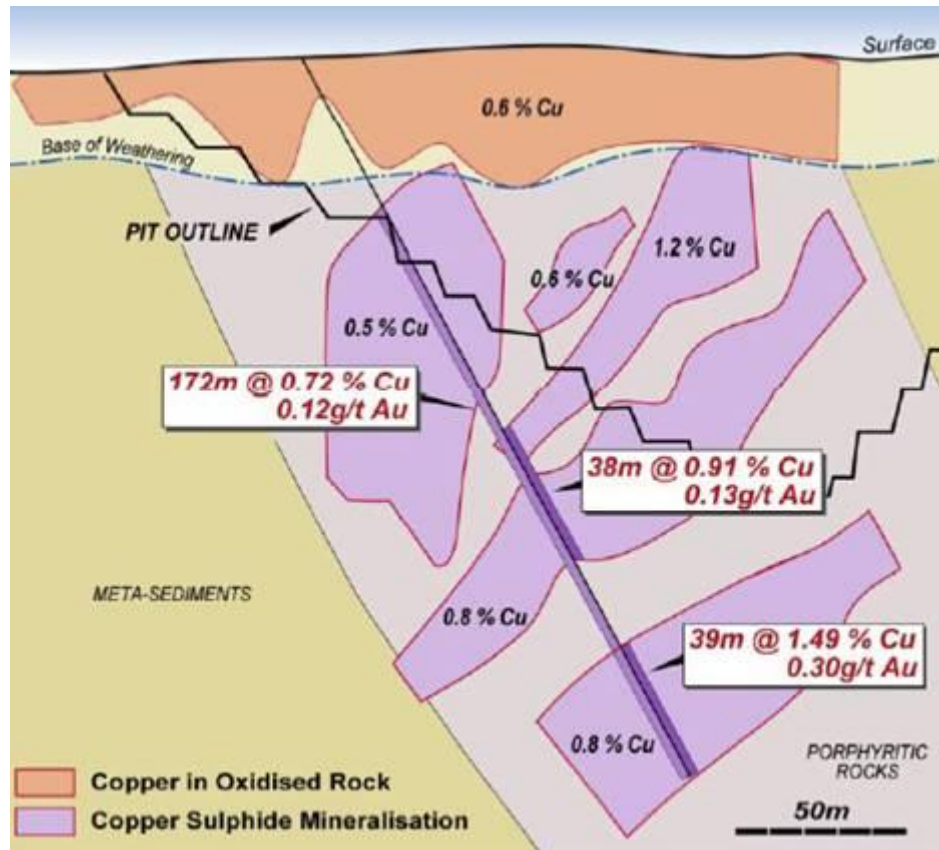
Figure 1: RC drilling at the Little Eva deposit



Source: Altona Mining Ltd

- The cross section of Little Eva below illustrates the significant amount of mineralisation not currently included in the deposit’s resource inventory.
- Application of lower Cu cut-off grades (i.e 0.3% Cu), improved modelling (pits in prior studies used US\$2/lb Cu prices), a bulk mining approach, lower strip ratios and large intersects outside old pit designs can be brought into the new pit and resource calculation.

**Figure 2: Little Eva demonstrates approach in new DFS**



*Numerous intercepts at Roseby can be incorporated into an updated resource through application of lower cut off grades and bulk mining approach.*

Source: Altona Mining Ltd

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