

Altona Mining Ltd (AOH.ASX)

18 April 2011

Initiation. Emerging Copper Producer.

Event:

- We initiate on AOH with a BUY recommendation and a price target of \$0.80/share.

Investment Thesis:

- Emerging mid-tier 50ktpa Cu producer:** AOH has two key assets in first world, low political risk jurisdictions in Finland and Australia. Outokumpu in Finland is expected to begin production in early 2012 at a rate of 8ktpa Cu (FSBe). Roseby in Australia is scheduled to come on line in FY14 ramping up to 40ktpa Cu (FSBe). Global resources total more than 1Mt of contained Cu at a grade of 0.7%.
- Near term production at Outokumpu:** Outokumpu is fully funded and currently being developed with commissioning at the Kyllylahti underground mine and Luikonlahti processing plant expected by late 2011 before first production early 2012. The Project's economics are robust following the acquisition of the Luikonlahti processing plant in late 2009, which significantly reduced the capital intensity (A\$41m) and technical risk of the Project. The 550ktpa operation is forecast to produce 8ktpa Cu, 8kozpa Au and 2ktpa Zn at C1 cash costs of US\$1.28/lb (FSBe).
- Potential large scale Roseby Project in Mt Isa:** Roseby is one of the largest undeveloped copper deposits in Australia with more than 900kt of contained copper resource. An optimised Feasibility Study was recently commissioned together with an aggressive drilling program expected to result in a 50% increase in resources. We model first production coming online in FY14 following a capex spend of A\$250m, delivering 40ktpa Cu and 9kozpa Au in concentrate at cash costs of US\$1.33/lb.
- Exploration and regional upside:** Recent drilling results at Roseby confirmed the potential for strike extensions and management has a 25,000m RC drilling program in place with a target to increase resources at Roseby by more than 50%. Upside also exists at Outokumpu, with regional satellite deposits providing the opportunity for additional production centres and mineral inventory upside.

Recommendation:

- We initiate on AOH with a BUY and a price target of \$0.80, which represents a ~200% premium to the current share price.**
- AOH has two quality projects across low sovereign risk jurisdictions, >1Mt of contained Cu resources and significant exploration upside at both Roseby and Outokumpu.
- Our price target is set broadly in line with our risked DCF of \$0.81/share, which incorporates a valuation of A\$140m (\$0.27) for Outokumpu and A\$181m (\$0.35) for Roseby. Therefore at current trade of \$0.27, Roseby represents a free option.
- A recently completed \$70m equity issue was heavily over-subscribed at \$0.31. With the stock currently trading at \$0.27 and now fully funded until first production at Outokumpu, we consider the investment opportunity to be highly compelling.
- Despite having >1Mt of contained Cu resources and fully funded to commence production at Outokumpu in early 2012, AOH is the cheapest ASX listed copper stock on an US\$EV/lb resource basis, trading at just US\$0.03/lb.

Metals & Mining

Rating	BUY
Previous	N/A

Share Price (\$)	\$0.27
52 week low/high (\$)	0.08/0.45
Price Target (\$)	\$0.80
Previous (\$)	n/a
Valuation (\$/share)	\$0.81
Methodology	DCF
Risk	High

Capital Structure

Shares on issue (m)	472.1
Market Cap (\$m)	127.5
Net Debt/(Cash) (\$m)	-70.0
EV (\$m)	57.5
Options on issue (m)	4.0
12mth Av Daily Volume ('000)	1,005

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)	-6.6	-11.4	10.3	3.0
EV/EBITDA (x)	-8.1	-6.8	3.6	1.1
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
Revenue	0.0	0.0	32.4	79.5
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
EBITDA	-7.1	-8.5	16.0	51.7
EBITDA margin (%)	nm	nm	49.5	65.0
D & A	0.1	0.0	4.6	4.7
EBIT	-7.2	-8.5	11.4	47.0
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
Profit before tax	-9.2	-8.0	13.3	45.3
Tax exp / (benefit)	-0.2	0.0	0.0	0.0
NPAT pre minorities	-9.1	-8.0	13.3	45.3
Minority Interests	0.0	0.0	0.0	0.0
NPAT pre sig items	-9.1	-8.0	13.3	45.3
Significant items	14.5	0.0	0.0	0.0
NPAT reported	5.5	-8.0	13.3	45.3
NPAT adjusted *	-9.1	-8.0	13.3	45.3
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
EBITDA	-7.1	-8.5	16.0	51.7
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
Operating Cashflow	-7.5	-7.9	15.9	46.6
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
Investing Cashflow	15.9	-32.3	-9.1	-126.0
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
Financing Cashflow	2.7	67.3	0.3	90.8
Net Cashflow	11.1	27.1	7.0	11.3
Free Cashflow	-7.8	-40.2	6.8	-79.4

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
Total Assets	55.1	116.0	130.6	266.7
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
Total Liabilities	15.7	4.0	5.0	95.0
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
Total Equity	39.3	112.0	125.6	171.6

Source: Company; FSB estimates

Capital Structure	
Shares on Issue (m)	472.1
Market Cap (\$m)	127.5
Net Debt/(Cash) (\$m)	-70.0
EV (\$m)	57.5

Key Metrics	2010a	2011e	2012e	2013e
PER (x)	-6.6	-11.4	10.3	3.0
EV/EBITDA (x)	-8.1	-6.8	3.6	1.1

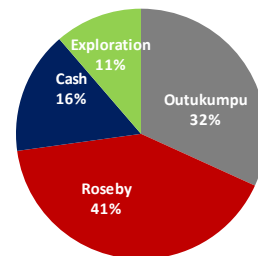
Key Assumptions	2011e	2012e	2013e	2014e
Copper Price (US\$/lb)	\$3.96	\$4.38	\$4.25	\$3.75
Gold Price (US\$/oz)	\$1,322	\$1,400	\$1,475	\$1,375
Zinc Price (US\$/lb)	\$1.04	\$1.08	\$1.03	\$0.98
AUD/USD	0.98	0.98	0.93	0.88

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

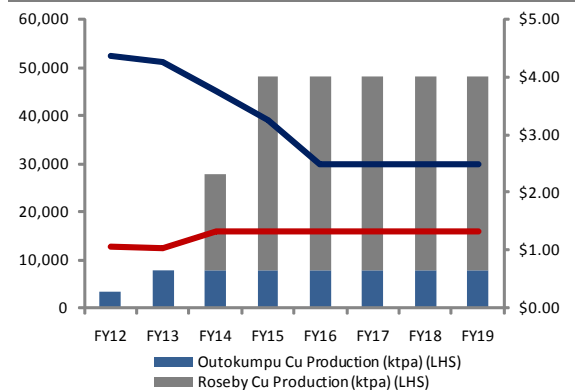
Cu Resource	Mt	Cu %	Cont (kt)
Outokumpu	17.8	0.87%	155
Roseby	132.5	0.68%	901
TOTAL	150.3	0.70%	1,056

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
TOTAL	636		\$0.81

Valuation Split



Production and Cost Profile

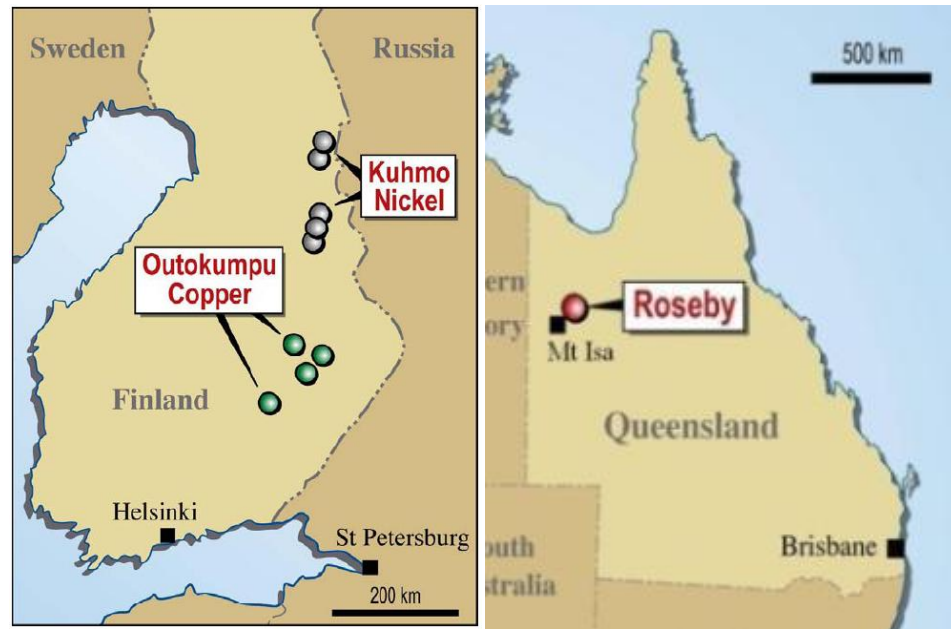


OVERVIEW

- Altona Mining Ltd ('AOH' or the 'Company') is a copper explorer and developer with two major assets and a defined strategy to build a business producing from multiple mines in historic major copper mining camps.
- AOH emerged following a merger by way of Scheme of Arrangement between Vulcan Resources Ltd and Universal Resources Ltd in early 2010. Following the approval of the merger, Vulcan Resources completed a share consolidation and adopted Altona Mining as the Company's new name.
- The Company's two key assets are the Outokumpu Project in Finland (previously held by Vulcan Resources) and Roseby Project in Queensland (previously held by Universal Resources). AOH is targeting a combined production profile from Outokumpu and Roseby of 50ktpa copper.

AOH's Outokumpu and Roseby Projects are targeting a combined copper production profile of up to 50ktpa.

Figure 1: AOH Project Locations



Source: Altona Mining Ltd

- Outokumpu is a high priority for AOH with a Definitive Feasibility Study (DFS) completed and plant refurbishment and underground development currently underway. FSBe production from the underground operation is ~8ktpa Cu, ~8kozpa Au and ~2ktpa Zn. We expect mine commissioning to be achieved by late 2011 with first production in Q1 2012.
- Roseby is near Mt Isa in Queensland and has the potential to be a larger scale project with FSBe production of ~40ktpa Cu and ~9kozpa Au. First production is expected in FY14 and an optimised DFS is being completed together with an aggressive drilling program expected to result in a 50% increase in resources towards 1.5Mt of contained Cu. Roseby is one of Australia's largest undeveloped copper resources in a premier region of Mt Isa, with more than 900kt in current contained copper resources.

Figure 2: FSBe Project Parameters

	Outokumpu	Roseby
Location	Finland	Queensland
Ownership	100%	100%
Type	Underground	Open Pit
Status	DFS complete; plant refurb and mine development underway	DFS being optimised; 25km drilling program underway to increase resources by 50%
Reserve	4.3Mt @ 1.6% Cu, 0.7 g/t Au	47.9Mt @ 0.7% Cu, 0.04 g/t Au
Resource	8.4Mt @ 1.3% Cu, 0.7 g/t Au	132.5Mt @ 0.7% Cu, 0.06 g/t Au
Plant	550ktpa	8Mtpa
First Production	FY12	FY14
Production Profile	~8ktpa Cu, ~8kozpa Au, ~2ktpa Zn	~40ktpa Cu, ~9kozpa Au
Mine life	8 years	11 years
Capex	A\$41.3m	A\$250m
Cash costs (US\$/lb)	US\$1.28/lb	US\$1.33/lb
Unrisked NPV	A\$175m	A\$362m
Risked NPV	A\$140m	A\$181m

Source: FSB Research

- Xstrata has an option on Roseby in which they can earn a 51% interest in a defined area beneath and around the Roseby Project's current copper resource through:
 - Spending A\$15m on exploration; or
 - Spending A\$10m on exploration and conducting a DFS by 30 June 2012.

Should Xstrata fulfil its terms and earn a 51% interest, it is obliged to purchase 51% of the balance of the Roseby Project. The purchase price will be an amount as agreed to by both parties or as determined by an independent expert. In addition, Xstrata also has the option to outright purchase 51% of the Roseby Project by 30 June 2012 for an agreed or expert valuer determined fair market value. AOH's increased focus on exploration and completion of an updated and optimised Feasibility Study at Roseby will greatly assist in extracting full value should Xstrata exercise this option.

- AOH maintains a strong pipeline of exploration targets at Roseby. Recent drilling results confirmed the potential for strike extensions highlighting the significant exploration upside that exists. Management has a 25,000m RC drilling program in place with a target to increase resources at Roseby by more than 50%.
- Upside also exists at Outokumpu, with regional satellite deposits providing the opportunity for additional production centres and mineral inventory upside.
- The Company is well funded following a recently completed \$70m equity issue at \$0.31/share to fund development at Outokumpu Project, optimisation of the Roseby Feasibility Study including further drilling for resources extension and further exploration for nickel-copper in Finland.

AOH has an aggressive drilling program in place at Roseby with the objective of increasing resources by >50%.

- The events of the past 18 months have transformed AOH into an emerging mid-tier base metals producer from two stable jurisdictions (Finland and Australia), with plenty of exploration upside and fully funded to first production at Outokumpu:
 - Finalised the merger between Vulcan and Universal;
 - Acquired the Luikonlahti processing plant in Finland;
 - Completed an updated DFS at Outokumpu;
 - Commenced underground mine development at Outokumpu and refurbishment of the Luikonlahti processing plant;
 - Commenced an aggressive drilling program and updated Feasibility Study based on a 'bulk tonnage' operation at Roseby; and
 - Completed a \$70m equity issue.
- AOH is listed on both the ASX and Frankfurt Stock Exchange with a market capitalisation of ~\$130m and \$70m in cash. A \$20m debt facility is available to be used for opportunities as they may arise. This facility has not been drawn upon as yet. The Company also has \$13m in convertible notes outstanding which are to be converted into shares on 30 June 2011 at \$1.80 or the 30 day VWAP prior to maturity. The notes were inherited from a previous financing conducted by Universal Resources.

OUTOKUMPU COPPER PROJECT, FINLAND (AOH - 100%)

Location

- Outokumpu is located in South East Finland, 400km NE of the capital Helsinki.
- Finland is a first world Euro-zone country with a long history of mining and mining equipment manufacturing.
- Political risk is considered extremely low and the country features a stable tax regime and no royalties. The corporate tax rate is currently set at 26% and there are no issues with repatriation of funds.
- The Finnish mining and mineral processing industry has developed world heavy-weights such as Metso and Outotec who continue to operate in the country. In addition, the country is well serviced by smelters and refineries, including Boliden (copper and zinc), Norilsk (nickel) and OMG (cobalt).
- The government has been supportive of the Outokumpu Project with the provision of financial assistance in the form of grants totalling A\$5.6m and support for training.
- The Outokumpu field has historically produced some 2Blbs Cu and 1Moz Au from 3 mines over a period spanning 75 years.

Finland is considered to be a low risk sovereign jurisdiction with a long history of mining.

Resources and Reserves

- Since 1984, more than 60,000m of drilling by AOH and Outokumpu Oy (previous project owners) has contributed to the current resource inventory at the Kylylahti deposit.

Figure 3: Kylylahti Resources and Reserves

Kylylahti Resources	Mt	Cu (%)	Co (%)	Ni (%)	Zn (%)	Au (g/t)
Measured	0.6	1.35	0.27	0.17	0.47	0.6
Indicated	7.5	1.25	0.24	0.2	0.54	0.7
Inferred	0.3	0.97	0.24	0.18	0.7	0.57
Total	8.4	1.25	0.24	0.20	0.54	0.68
Contained Metal		105,000	20,160	16,800	45,360	183,560

Kylylahti Reserves	Mt	Cu (%)	Co (%)	Ni (%)	Zn (%)	Au (g/t)
Probable	4.3	1.56	0.29	0.17	0.58	0.65
Contained Metal		67,850	12,600	6,200	25,200	90,800

Source: Altona Mining Ltd, FSB Research

- The Saramaki, Hautalampi and Valkeisenranta deposits all have the potential to act as satellite projects but are not currently included as part of the Outokumpu operation.

Figure 4: Total Outokumpu Resources

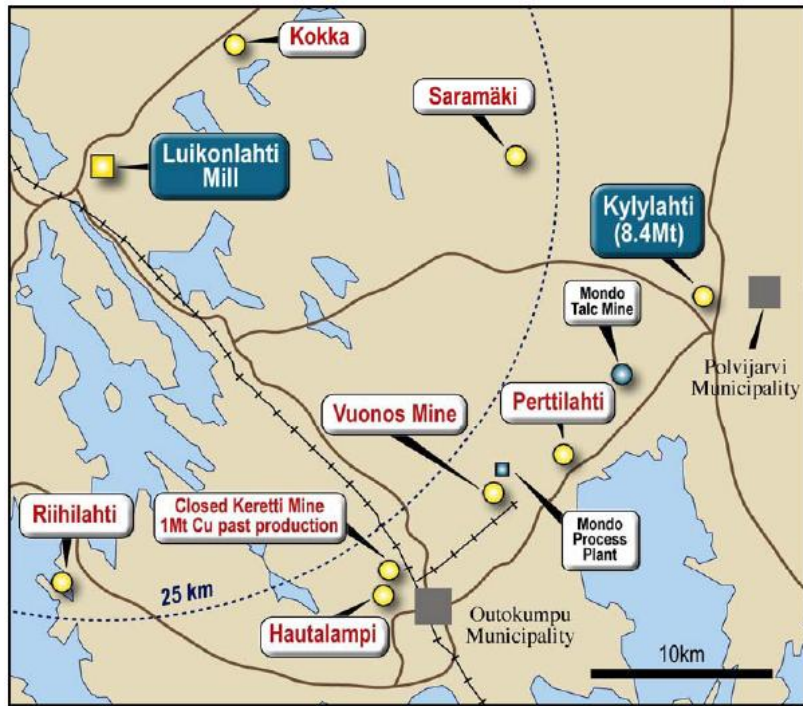
Outokumpu Resources	Mt	Cu (%)	Co (%)	Ni (%)	Zn (%)	Au (g/t)
Kylylahti	8.4	1.25	0.24	0.20	0.54	0.68
Saramaki	3.4	0.71	0.09	0.05	0.63	-
Vuonos	0.8	1.76	0.14	-	1.33	-
Hautalampi	3.2	0.36	0.11	0.43	0.07	-
Riihilahti	0.1	1.69	0.04	0.16	-	-
Valkeisenranta	1.5	0.29	0.03	0.71	-	-
Sarkiniemi	0.1	0.35	0.05	0.70	-	-
Sarkalahti	0.2	0.33	-	1.02	-	-
Niinimaki	0.1	0.32	0.04	1.07	-	-
Total	17.8	0.87	0.16	0.27	0.41	0.68
Contained Metal		154,599	28,432	47,979	72,857	120,836

Source: Altona Mining Ltd, FSB Research

The Kylylahti deposit, with reserves of 4.3Mt at 1.6% Cu, will be mined as part of the Outokumpu operation.

Figure 5: Location of Kylylahti Mine and Luikonlahti Plant

The Kylylahti underground mine is located 43kms by sealed road from the Luikonlahti processing plant.

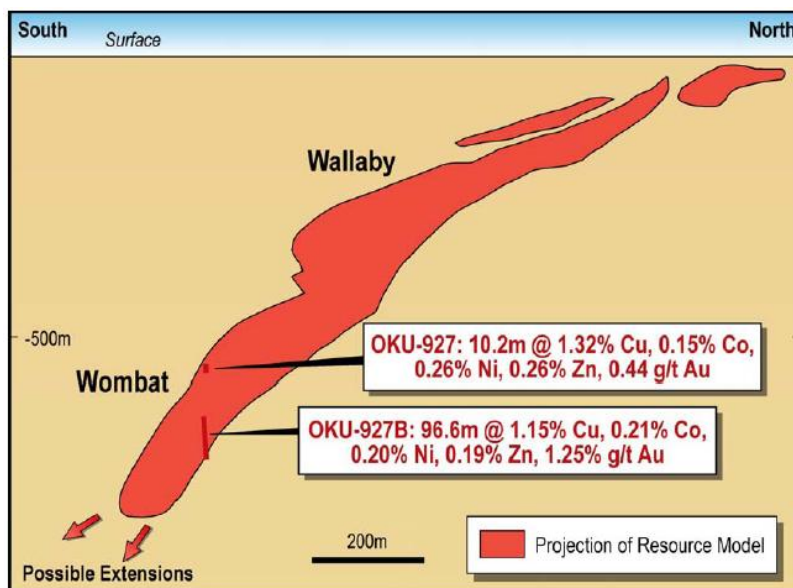


Source: Altona Mining Ltd

Geology

- The Kylylahti ore body dips southward with grade and thickness increasing at depth. Geology is comprised of two ore types being semi-massive sulphides and disseminated sulphides, both with known mineral processing characteristics. The sulphides are typically chalcopyrite and pyrite. The ore body has a robust geometry and is up to 50m thick in some sections.

Figure 6: Kylylahti Resource Model



Source: Altona Mining Ltd

Feasibility Study

- The original DFS for the Kylylahti underground operation was completed in 2008 immediately prior to the GFC and assumed the construction of a processing plant. A DFS was also completed on the refurb of the Luikonlahti plant by the previous owner, Finn Nickel, in 2009.
- AOH has recently updated and optimised the Project DFS with the integration of the earlier feasibility studies. The updated DFS completed in August 2010 highlighted a 550ktpa underground operation producing three types of concentrate (Cu-Au, Zn and Ni-Co). The DFS is based on the sale of conventional Cu-Au and Zn concentrates only.
- The robust economics of the Project were achieved largely through the fact that the Luikonlahti plant was already in place requiring refurbishment only, rather than full plant build.

AOH completed an updated DFS for Outokumpu in 2010 highlighting an operation producing 8ktpa Cu, 8.4kozpa Au and 1.6ktpa Zn.

Figure 7: Outokumpu DFS – August 2010

Plant size	550,000tpa
Production profile	8ktpa Cu, 8.4kozpa Au, 1.6ktpa Zn
Capital cost (before Government grants)	A\$46.1m
LOM average cash operating cost	US\$1.33/lb
Pre-tax, unlevered NPV	A\$94.5m
IRR	37%
First production	Q1 2012
Mine life	8-9 years

Source: Altona Mining Ltd

Operations

- Mining will be straightforward utilising a long hole open stope method with cemented waste fill. Ground conditions are amenable to this method and help the economics of the operation by maximising recovery and leaving behind little ore in the mine.
- Mining will be undertaken from a depth of 120m to ~800m.
- The relatively simple mineral processing will be done in three-stage crushing, grinding and flotation.
- Ore will be trucked to a ROM pad at the head of the decline and then hauled to the ROM pad at the Luikonlahti process plant. No permits are required to truck the ore.
- A standard flotation circuit will be used to generate a Cu-Au concentrate, a Zn concentrate and a low grade Co-Ni concentrate. Recoveries are expected to average 91.5% (Cu), 72% (Au) and 50% (Zn).
- Our modelling of Outokumpu assumes throughput of 550ktpa delivering production of ~8ktpa copper, ~8koz of gold and ~2ktpa of zinc commencing early 2012, with a mine life of 8 years. Satellite mines in the area provide significant expansion potential. AOH owns six deposits that are within trucking distance of the mill.

Outokumpu will comprise of underground mining at Kylylahti and conventional flotation at the Luikonlahti process plant.

- We note that the current optimised Outokumpu plant throughput is set at 550ktpa; however the plant was originally designed with a capacity of 800ktpa. The Kylylahti Mine was optimised at a lower copper price and we consequently consider there to be an opportunity to increase throughput in the early years of operation to take advantage of higher copper price forecasts through to 2015. We believe that a 700ktpa run-rate could be achieved with additional balls mills, motor upgrades and better material handling. The Company will commence studies and permitting in an effort to increase capacity to 1Mtpa.
- While the focus will be on Cu, Au and Zn, there is also potential for a low grade Ni-Co product which will be stored on site. The August 2010 DFS recognised no value for this product, while the potential exists for the production of up to 950tpa of Co and 450tpa of Ni in concentrate. Management are investigating various options for commercialisation of this product.
- All mining and environmental permits are in place for the Kylylahti mine and the environmental permit amendment for the Luikonlahti plant is expected to be completed in June 2011.

Capital Costs

- The development of Outokumpu involves the refurbishment of the Luikonlahti plant and decline development for an underground operation at Kylylahti, located 43kms by sealed road from the plant.
- AOH used its strong cash position at a time of depressed markets in early 2010 to acquire the Luikonlahti concentrator and processing plant from Finn Nickel for ~A\$6m. The plant has a history of operations spanning two decades and processed 7.7Mt of Cu-Co-Ni-Zn ore practically identical in grade and metallurgical characteristics to the Kylylahti deposit. The acquisition strengthened the overall economics of AOH's Outokumpu Project through reducing capex significantly (previous Feasibility Study highlighted capex of US\$80m for the concentrator, infrastructure, paste plant and tailings area).
- The Company is currently undertaking refurbishment works to bring the plant back into operation after a four-year hiatus on care and maintenance.
- The Finnish Government has been very supportive of the project with grants totalling A\$5.6m to be applied towards the refurbishment of the Luikonlahti processing plant.

The Luikonlahti plant has a long history of processing ore practically identical to that of Kylylahti.

Figure 8: Luikonlahti Plant



Source: Altona Mining Ltd

- Decline tunnelling at Kylylahti commenced in December 2010, with Helsinki-based contractor YIT being awarded the contract for the development of the decline. Nearly 350m of tunnelling was completed by late March 2011 in a relatively straightforward mining plan. First ore will be achieved at a 1.6km decline length, expected in late 2011.

Figure 9: Kylylahti Mine Decline



Source: Altona Mining Ltd

- The August 2010 DFS identified capex requirements of US\$39.4m for the refurb and decline development at Outokumpu. We have used this estimate in our modelling and assume 80% is incurred in FY11 and 20% in FY12.
- Given the brownfield developmental nature of the project, we note the low capital intensity (less than A\$6,000/tpa) and reduced technical risk at Outokumpu given the plant has a history of treating similar ore types to Kylylahti.
- Outokumpu is fully funded following the Company's recently completed equity raising, together with existing cash on hand and Finnish government grants.

Figure 10: FSBe Capital Cost Assumptions (US\$m)

Pre-production mine development	15.0
Concentrator refurbishment	16.0
Mine site infrastructure	7.0
Owners costs	1.3
TOTAL (incl. 10% contingency)	39.3

Source: Altona Mining Ltd, FSB Research

Operating Costs

- Decline as well as level development will initially be done on a contract basis through YIT. The Company will conduct its own mining activities from 2012 while underground haulage will be on a contract basis.
- Our opex assumptions are highlighted in Figure 11, with C1 cash costs of US\$1.28/lb which are in line with the August DFS C1 cash costs estimate of US\$1.33/lb.

Figure 11: FSBe Operating Cost Assumptions

Mining (including trucking to mill)	US\$40/t
Processing	US\$12/t
G&A	US\$2/t
Transport and sales	US\$2/t
Treatment charges (t)	US\$50/t
Refining charges (lb)	US\$0.05/lb
C1 cash costs net of credits	US\$1.28/lb

Source: FSB Research

Infrastructure

- Owing to a long history of development, the Outokumpu area is particularly well serviced by infrastructure, with extensive road, rail and air networks. Communication networks are also considered superior given the country's history in mobile telephony innovation.
- There is a 2km paved road to the mill site leading from the national highway. A national rail line is 1.5kms from the plant and a disused rail spur to the concentrate shed requires refurbishment to be re-established.
- Access to the national power grid and water are already in place.

Sales and Transport

- The final products from Outokumpu will be clean, readily marketable Cu-Au and Zn concentrates with no penalty elements. As discussed the Company is also examining the possibility of sales of a potential Ni-Co concentrate.
- Concentrates will be shipped to either Boliden's Harjavalta copper smelter 470km or to Kokkola Port 350kms via rail (rail spur would require refurbishment) or truck haulage.
- No offtake is in place and it is expected that the concentrate produced from Outokumpu will be sold to both local and offshore customers. Sample Cu-Au concentrates have been supplied to various smelters and refiners confirming no penalty elements in the product.
- No hedging is in place at Outokumpu.

Concentrate produced from Outokumpu will be sold to local and offshore customers. No offtake or hedging is in place.

Financials and Valuation

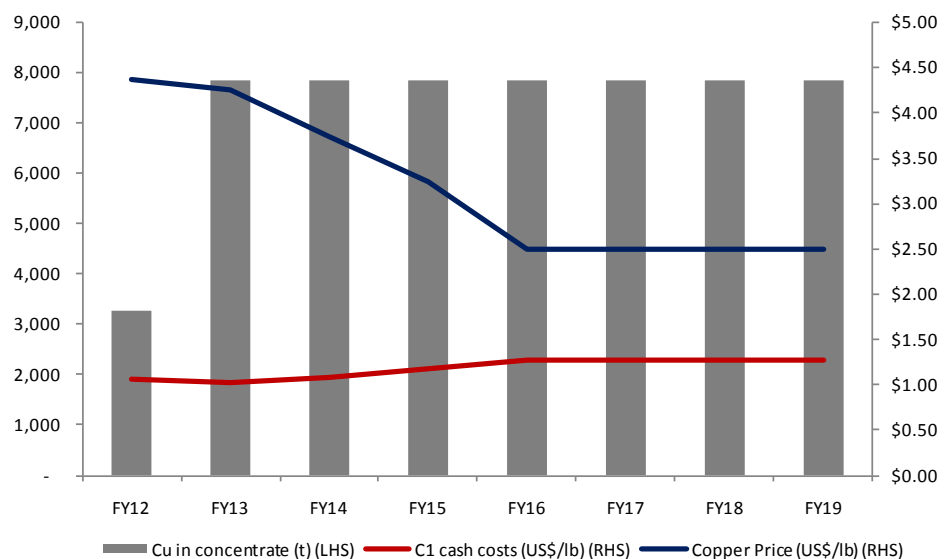
- Our forecast financials for the Outokumpo Project are highlighted in Figure 12 below. We expect first production to commence in 1Q 2012 and fully ramp up in FY13 to 550ktpa.
- With forecast cash costs of US\$1.28/lb and capex of \$40m to refurb the plant and develop the decline at Kylälahti, Outokumpo is expected to deliver free cash flows of >\$50m in the early years of operation whilst the copper price is expected to remain high.
- 19m Eur in tax losses reduce tax payments in early years.

Figure 12: FSBe Outokumpu Operational and Financial Summary

Year Ending 30 June	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Operating Parameters									
Throughput (Mt)	-	0.23	0.55	0.55	0.55	0.55	0.55	0.55	0.55
Cu head grade	1.56%	1.56%	1.56%	1.56%	1.56%	1.56%	1.56%	1.56%	1.56%
Cu in concentrate (t)	-	3,271	7,851	7,851	7,851	7,851	7,851	7,851	7,851
Au in concentrate (oz)	-	3,336	8,006	8,006	8,006	8,006	8,006	8,006	8,006
Zn in concentrate (t)	-	665	1,595	1,595	1,595	1,595	1,595	1,595	1,595
C1 cash costs (US\$/lb)	\$0.00	\$1.06	\$1.03	\$1.09	\$1.18	\$1.28	\$1.28	\$1.28	\$1.28
Price Assumptions									
Copper Price (US\$/lb)	\$3.96	\$4.38	\$4.25	\$3.75	\$3.25	\$2.50	\$2.50	\$2.50	\$2.50
Gold Price (US\$/oz)	\$1,322	\$1,400	\$1,475	\$1,375	\$1,200	\$1,000	\$1,000	\$1,000	\$1,000
Zinc Price (US\$/lb)	\$1.04	\$1.08	\$1.03	\$0.98	\$0.93	\$0.90	\$0.90	\$0.90	\$0.90
AUD	\$0.98	\$0.98	\$0.93	\$0.88	\$0.83	\$0.80	\$0.80	\$0.80	\$0.80
Financials and Cash Flow									
Revenue (A\$m)	0.0	32.4	79.5	74.2	68.2	54.1	54.1	54.1	54.1
Operating Costs (A\$m)	0.0	7.8	19.3	21.6	24.8	27.7	27.7	27.7	27.7
EBITDA (A\$m)	0.0	24.5	60.2	52.6	43.4	26.4	26.4	26.4	26.4
Depreciation (A\$m)	0.0	4.6	4.7	4.9	5.0	5.2	5.5	5.8	6.3
EBIT (A\$m)	0.0	19.9	55.5	47.7	38.4	21.2	20.9	20.6	20.1
Capex (A\$m)	32.3	9.1	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Tax (A\$m)	0.0	0.0	0.0	0.0	4.4	5.2	5.2	5.1	5.0
Project Cash Flow (A\$m)	-32.3	15.5	59.2	51.6	38.0	20.2	20.2	20.3	20.5

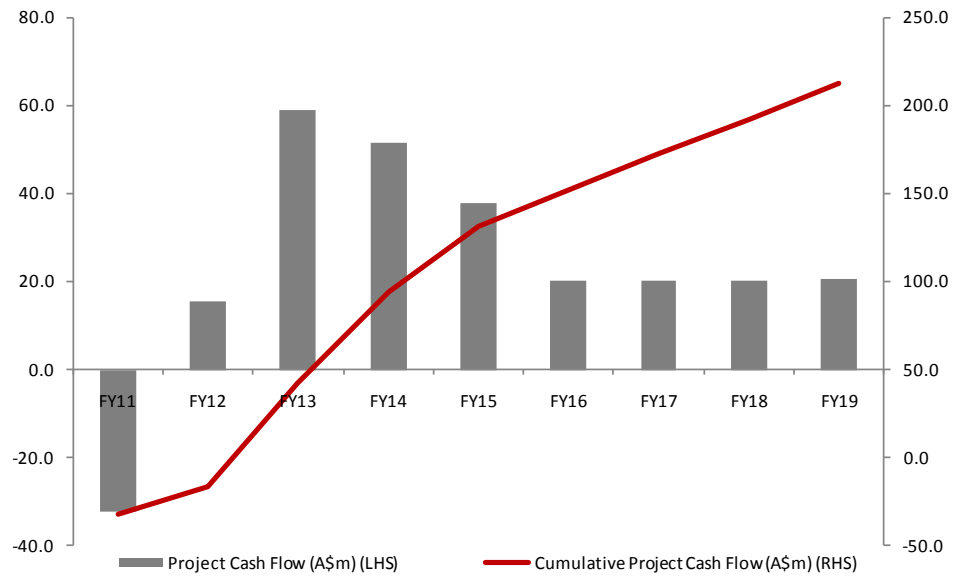
Source: FSB Research

Figure 13: FSBe Outokumpu Production and Cash Cost Profile



Source: FSB Research

Figure 14: FSBe Outokumpu Free Cash Flow



Source: FSB Research

- Our NPV for Outokumpu is \$175m, which we risk by 20% to account for timing and commissioning.
- There is upside to our valuation should the plant throughput be increased to 1Mtpa and a commercialisation option be identified for the Co-Ni concentrate. There is also the potential to include regional deposits into the operation (Saramaki, Hautalampi and Valkeisenranta) which would act as satellite projects.

FSB risked valuation for Outokumpu is ~\$140m with upside from increased plant throughput (1Mtpa) and regional deposits which may act as satellite projects.

Figure 15: Valuation Summary

Cumulative free cash flow (A\$m)	222
Mine life (yrs)	9
Discount rate	10%
12 month NPV (A\$m)	175
P/NPV	0.80
Risked NPV (A\$m)	140
Per share	\$0.27

Source: FSB Research

Kylylahti remains open at depth with potential to increase resources/reserves and extend the Project's mine life.

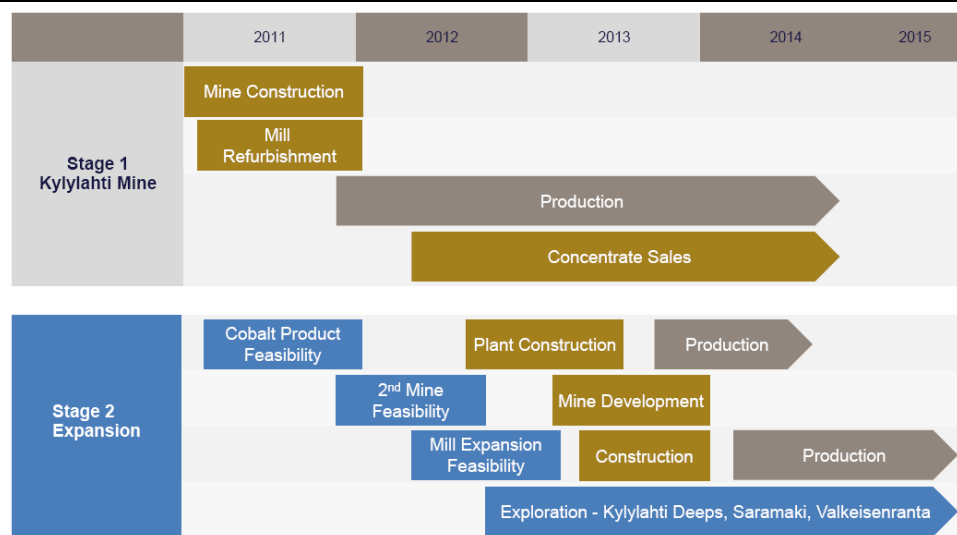
Exploration

- Exploration upside exists at Kylylahti with the deposit remaining open at depth. Further drilling has yielded the potential for resource/reserve growth and mine life extension. We highlight a recent significant drill intercept grading 2.8% Cu over 82m at a depth of 570m.
- Drilling at Kylylahti will recommence once cash flow from operations begins.
- Regional satellite deposits in the area provide for additional production centres and mineral inventory upside.
 - AOH management are conducting studies on potentially de-watering and re-opening the Hautalampi underground Cu-Ni-Co mine located 45kms from Luikonlahti. The Company intends to commence studies on recommissioning the mine. Previous studies indicated a potential 350ktpa operation yielding 4.5ktpa Cu concentrate at 25% Cu and 14ktpa Ni-Co concentrate grading 8% Ni and 2.3% Co, requiring capex of 6.5m Euro. Additional testing will be conducted to test whether the Ni and Co from Hautalampi could be blended with stockpiles from Kylylahti to produce a saleable concentrate.
 - Studies will commence on the Valkeisenranta deposit, located 110km from Luikonlahti. Best drill intercepts include 49m @ 1.50% Ni and 0.43% Cu.
 - The Kuhmo Nickel JV (AOH 95%) is located 300km north of Kylylahti and features an endowment of over 33kt of Ni. Drilling has yielded a 22.1m intercept grading 1.8% Ni, 0.6% Cu and 2.8g/t PGMs.

Work Program

- Commissioning and first production from Kylylahti are expected by 1Q 2012, following the completion of the refurbishment at Luikonlahti.
- Feasibility studies will be completed on the potential Co-Ni product at Kylylahti and Hautalampi underground Cu-Ni-Co operation.

Figure 16: Outokumpu Work Program



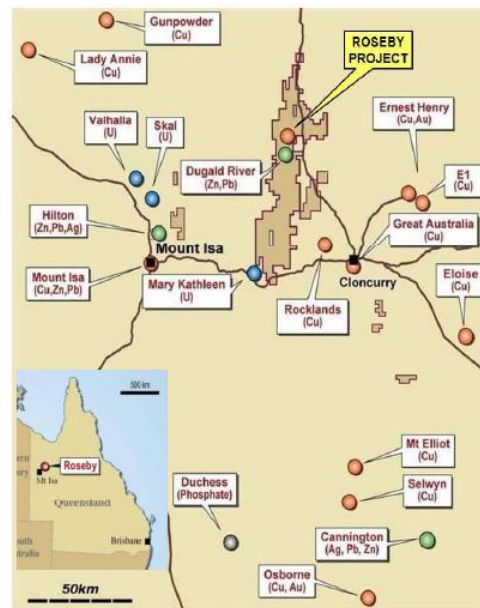
Source: Altona Mining Ltd

ROSEBY COPPER PROJECT, QUEENSLAND (AOH - 100%)

Location

- At Roseby, AOH has a major regional presence with a land holding of >1,400km² 95km NE of Mt Isa, a region known to be host to a large number of base metal deposits.
- The Project is ~65km NNW of Cloncurry (a regional mining town) and within 100km of Xstrata's large Ernest Henry mine and smelting operations. It also adjoins MMG's Dugald River zinc project.

Figure 17: Mt Isa Regional Overview



Source: Altona Mining Ltd

Resources and Reserves

Roseby is one of the largest undeveloped copper resources in Australia with >900kt.

- Resources at Roseby currently stand at 132Mt grading 0.7% Cu and 0.06 g/t Au. Initial open pit reserves have also been delineated with 48Mt grading 0.7% Cu and 0.04 g/t Au for ~330kt contained copper and ~60koz of contained gold.
- The resource of ~900kt of contained Cu is one of the largest inventories in Australia not controlled by one of the majors.
- Most resources are open along strike and all are open at depth (generally 100m – 150m), providing good resource upside.

Figure 18: Roseby Resources and Reserves

Roseby Resources	Mt	Cu (%)	Au (g/t)	Cu (t)	Au (oz)
Measured	30.1	0.69	0.03	208,000	29,000
Indicated	56.1	0.68	0.07	381,000	108,000
Inferred	46.4	0.68	0.07	315,000	119,200
Total	132.5	0.68	0.06	904,000	256,000

Roseby Reserves	Mt	Cu (%)	Au (g/t)	Cu (t)	Au (oz)
Probable	18.8	0.70	0.01	131,600	6,000
Proven	29.1	0.69	0.06	201,000	56,100
Total	47.9	0.70	0.04	332,600	62,100

Source: Altona Mining Ltd, FSB Research

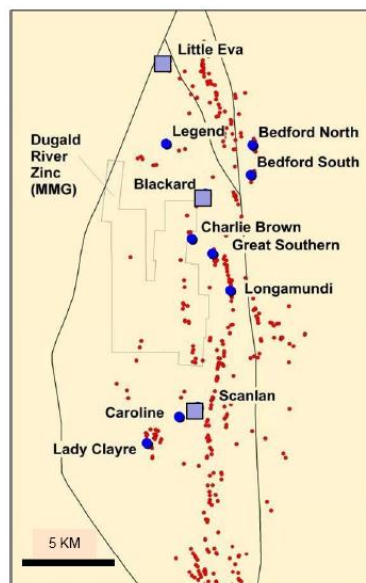
- The Roseby resource estimate has been completed on the back of 225,000m of RC and diamond drilling and is spread across 11 deposits.

Figure 19: Roseby Resources

Roseby Resources	Mt	Cu (%)	Au (g/t)	Cu (t)	Au (oz)
<u>Native Dominant Deposits</u>					
Blackard	46.3	0.63	0.01	293,000	16,190
Legend	6.1	0.6	0.01	36,597	1,942
Longamundi	10.4	0.66	0.01	69,037	3,632
Great Southern	6.0	0.61	0.01	36,330	2,000
Scanlan	19.6	0.68	0.01	134,160	7,370
Charlie Brown	0.7	0.4	0.01	2,820	230
Caroline	3.6	0.53	0.02	18,820	2,390
Sub-total	92.7	0.64	0.01	590,764	33,754
<u>Sulphide Dominant Deposits</u>					
Little Eva	30.4	0.78	0.14	237,690	132,230
Ivy Ann	4.0	0.72	0.12	28,800	15,432
Lady Clayre	3.7	0.88	0.51	32,747	59,309
Bedford	1.8	0.93	0.24	16,503	13,793
Sub-total	39.8	0.79	0.17	315,740	220,764
TOTAL	132.5	0.68	0.06	906,504	254,518

Source: Altona Mining Ltd, FSB Research

Figure 20: Roseby Deposits



Source: Altona Mining Ltd

Geology

- Roseby is well placed within the Proterozoic Mt Isa Inlier, a province known to be host to several large developed and undeveloped base and precious metals deposits.
- The resources comprise both recoverable native copper and primary chalcopryrite mineralisation, positioned within a 2-3km wide structurally controlled corridor and an open strike of >25km.

Feasibility Study

- AOH completed a DFS at Roseby in late 2009 based upon a 5Mtpa, 26ktpa Cu operation.
- Since then, the Project's fundamentals have changed as has the copper price environment. Prior resource estimation applied economic cut-off grades at much lower Cu prices rather than using a geological cut-off grade.
- Consequently, management are currently seeking to optimise the 2009 Feasibility Study and make significant improvements to the proposed production rate. The primary driver of the optimisation will be a material increase in the resource size through the application of lower cut-off grades, together with a comprehensive drilling program of infill and extensional drilling.

AOH is optimising the 2009 Feasibility Study which is expected to increase the production rate from 26ktpa to 40ktpa.

Figure 21: 2009 Roseby DFS Results

Plant size	5Mtpa
Production profile	26ktpa Cu, 7kozpa Au
Capital cost	A\$217m
LOM average cash operating cost	US\$1.42/lb
Pre-tax, unlevered NPV	A\$123m
IRR	20%
First production	2014
Mine life	10 years

Source: Altona Mining Ltd

Operations

- The DFS is being updated for higher production rates and a 'bulk' mining strategy. Management will seek to optimise the mining approach and cut-off grades showing clear potential for 'bulk mining, big pit' approach at lower cut-off grades.
- FSB modelling is based on an enlarged 8Mtpa operation to produce ~40ktpa Cu and ~9kozpa Au in concentrate for a mine life of 11 years. We consider this feasible based on our resource target of 200Mt (50% increase on current 132Mt) and resource to reserve conversion ratio of 40%.
- The mine plan centres around three open pits (Blackard, Scanlan and Little Eva) mining to depths of ~150m with weighted average strip ratios over LOM of 2.5:1.
- The DFS identified a blend of soft native copper (Blackard and Scanlan) and hard sulphide (Little Eva) ores to be fed to the mill. Met test results indicate that these ores have different recoveries (soft native copper ore - 65% and hard sulphide - 93%) but can be blended using a conventional SAG milling and flotation concentrator flowsheet augmented by gravity recovery jigs for any coarse native copper giving an average recovery of 75%. Bleding of hard and soft ores reduces milling costs. The Project will also mine conventional oxide ore which is not amenable to recovery via flotation which will be stockpiled for potential future treatment.
- The blended feed will be processed via conventional flotation to produce a Cu-Au concentrate.
- AOH is expected to submit a revised Environmental Management Plan to the Queensland authorities in the near term, which is a pre-requisite to the issuance of a mining licence.

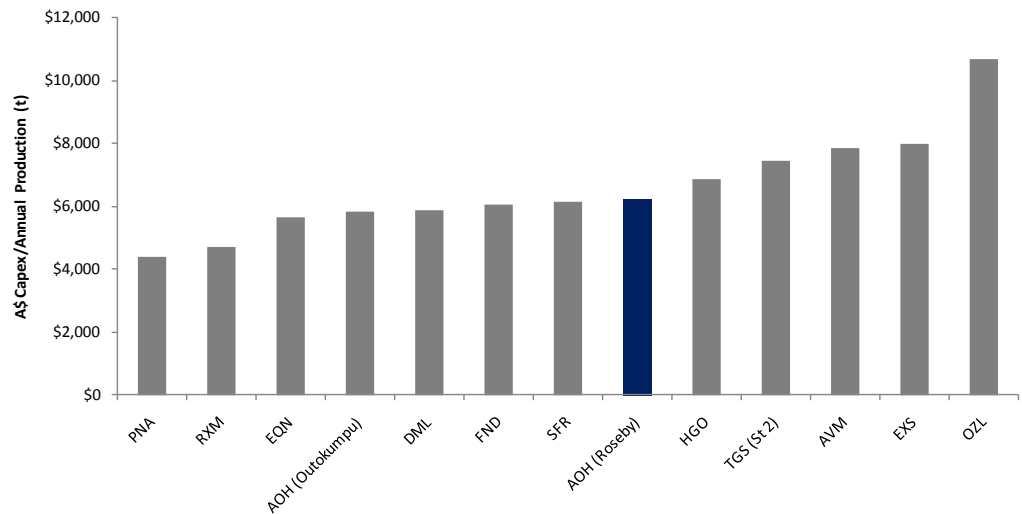
Our modelling assumes increased plant throughput to 8Mtpa to produce ~40ktpa Cu and ~9kozpa Au.

Capital Costs

- The previously completed DFS based on a 5Mtpa plant highlighted capex of US\$217m.
- We assume a capex split equally across FY13 and FY14 of A\$250m for an increased 8Mtpa plant, which equates to A\$6,250/t of annual production and is in line with industry averages as illustrated in Figure 22.
- Whilst cash flow generated from Outokumpu can be applied towards the capex at Roseby, it will not be enough to fully fund the Project (~\$30m free cash flow per annum at Outokumpu). Consequently, Roseby will need to be funded through debt and/or equity markets in late 2012/early 2013 following the completion of the updated Feasibility Study.

FSBe capex of A\$250m for Roseby equates to A\$6,250/t of annual production and is in line with industry average.

Figure 22: Capital Intensity of ASX Listed Copper Companies



Source: FSB Research, Company Announcements

Operating Costs

- Our opex assumptions for Roseby are highlighted below, with forecast C1 cash costs of US\$1.33/lb which compares to the DFS based on the smaller 5Mtpa operation of US\$1.42/lb. It is assumed that mining will be undertaken by a contractor.

Figure 23: FSBe Operating Cost Assumptions

Weighted average LOM strip ratio	2.5:1
Mining	A\$3/t
Processing	A\$8/t
Treatment charges (t)	\$50/t
Refining charges (lb)	\$0.05/lb
C1 cash costs net of credits	US\$1.33/lb

Source: FSB Research

Xstrata Option Agreement

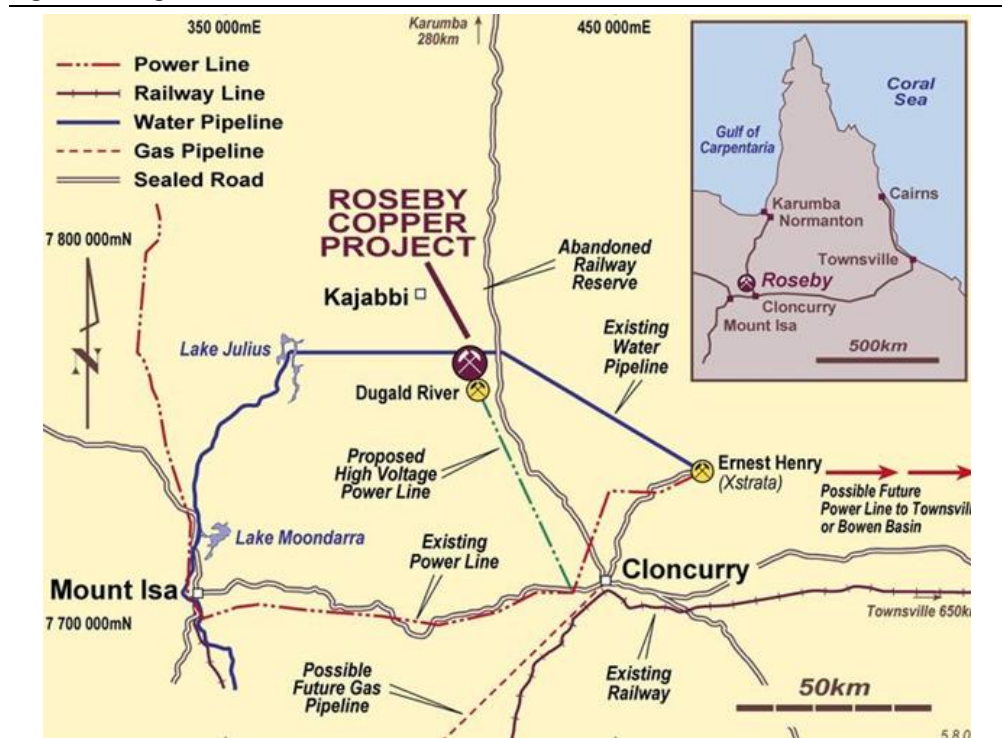
- AOH and Xstrata signed an agreement in March 2005 under which Xstrata could earn a 51% interest in a defined area beneath (200m - 400m depth) and around the Roseby Project's large copper resource through:
 - Spending A\$15m on exploration; or
 - Spending A\$10m on exploration and conducting a DFS by 30 June 2012.
- As at the end of 2010, Xstrata have spent A\$6.4m.
- Should Xstrata fulfil their terms and earn a 51% interest, it is obliged to purchase 51% of the balance of the Roseby Project, inclusive of current copper resources, reserves and exploration tenure. The purchase price will be an amount as agreed to by both parties or as determined by an independent expert.
- In addition, Xstrata also have the option to outright purchase 51% of the Roseby Project by 30 June 2012 for an agreed or expert valuer determined fair market value.
- In our view, AOH's increased focus on exploration and completion of an updated and optimised Feasibility Study will greatly assist in extracting full value for Roseby should Xstrata exercise their option.

The aggressive drilling program at Roseby and optimised Feasibility Study will ensure full value is received for Roseby should Xstrata exercise their option.

Infrastructure

- Roseby lies close to existing roads, main powerlines and water access, as identified in the original DFS. We believe this infrastructure will be suitable for the expanded operation (8Mtpa), but a reassessment will be required.
- Grid power is available at Chumvale to the west of Cloncurry.
- The water pipeline from Lake Julius to Ernest Henry crosses the Project area.
- Rail is available from Cloncurry to the Townsville port.

Figure 24: Regional Infrastructure



Source: Altona Mining Ltd

Financials and Valuation

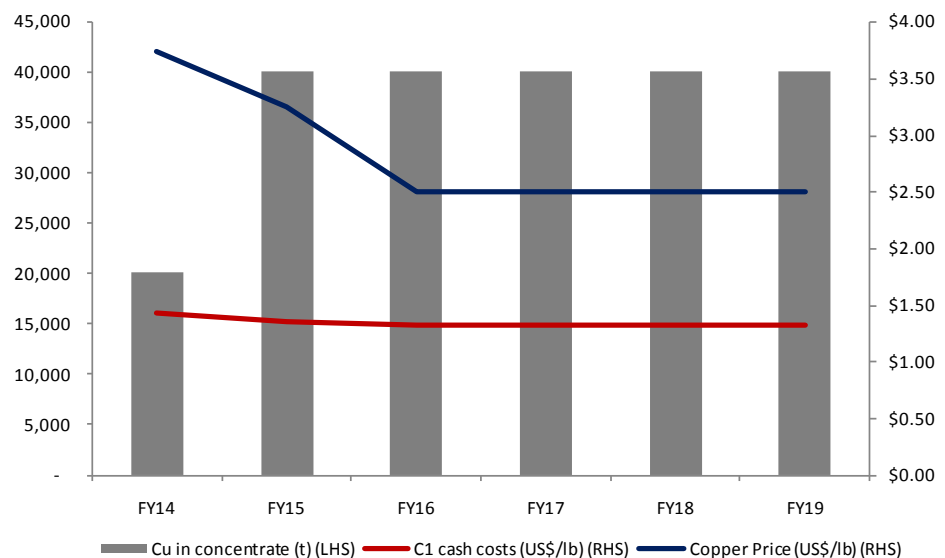
- Our forecast financials for Roseby are highlighted in Figure 25 below. We model first production coming online in FY14.
- We expect full ramp up by FY15 with a production profile of ~40ktpa Cu and ~9kozpa Au at cash costs of US\$1.33/lb. Tax losses totalling \$50m reduce income tax in the early years of the operation.
- Based on our LT commodity and FX assumptions, the Project will be generating >\$80m in FCF which can be used to fund exploration, acquisitions or dividend payments.

Figure 25: FSBe Roseby Operational and Financial Summary

Year Ending 30 June	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Operating Parameters									
Throughput (Mt)	-	-	-	4.0	8.0	8.0	8.0	8.0	8.0
Cu head grade	0.67%	0.67%	0.67%	0.67%	0.67%	0.67%	0.67%	0.67%	0.67%
Cu in concentrate (t)	-	-	-	20,100	40,200	40,200	40,200	40,200	40,200
Au in concentrate (oz)	-	-	-	4,628	9,256	9,256	9,256	9,256	9,256
C1 cash costs (US\$/lb)	\$0.00	\$0.00	\$0.00	\$1.43	\$1.35	\$1.33	\$1.33	\$1.33	\$1.33
Price Assumptions									
Copper Price (US\$/lb)	\$3.96	\$4.38	\$4.25	\$3.75	\$3.25	\$2.50	\$2.50	\$2.50	\$2.50
Gold Price (US\$/oz)	\$1,322	\$1,400	\$1,475	\$1,375	\$1,200	\$1,000	\$1,000	\$1,000	\$1,000
AUD	\$0.98	\$0.98	\$0.93	\$0.88	\$0.83	\$0.80	\$0.80	\$0.80	\$0.80
Financials and Cash Flow									
Revenue (A\$m)	0.0	0.0	0.0	189.9	349.1	277.0	277.0	277.0	277.0
Operating Costs (A\$m)	0.0	0.0	0.0	81.1	161.8	160.3	160.3	160.3	160.3
EBITDA (A\$m)	0.0	0.0	0.0	108.9	187.4	116.6	116.6	116.6	116.6
Depreciation (A\$m)	0.0	0.0	0.0	23.3	23.9	24.6	25.4	26.3	27.3
EBIT (A\$m)	0.0	0.0	0.0	85.6	163.4	92.0	91.2	90.3	89.3
Capex (A\$m)	0.0	0.0	125.0	131.3	6.3	6.3	6.3	6.3	6.3
Tax (A\$m)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	22.4	24.9
Project Cash Flow (A\$m)	0.0	0.0	-125.0	-22.4	181.1	110.4	110.4	88.0	85.5

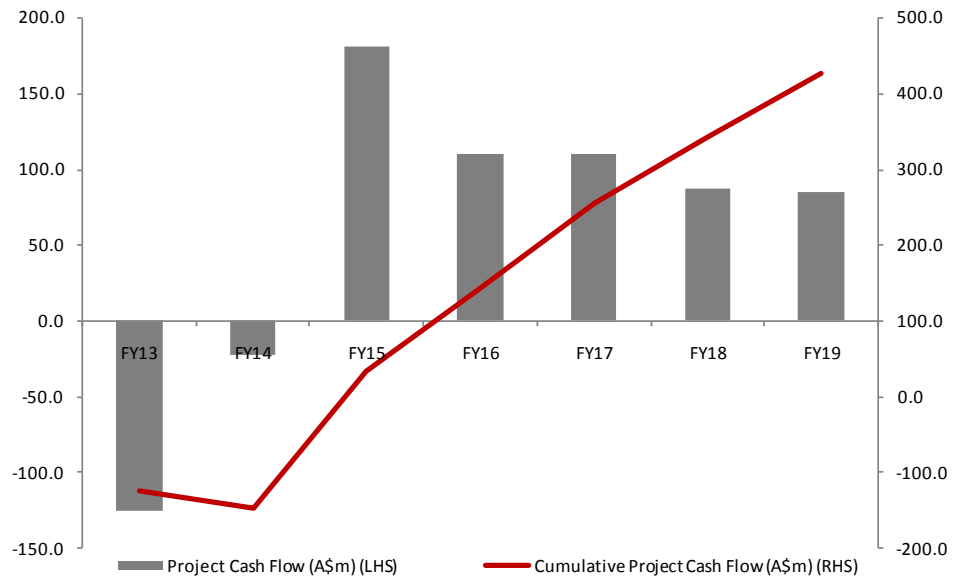
Source: FSB Research

Figure 26: FSBe Roseby Production and Cash Cost Profile



Source: FSB Research

Figure 27: FSBe Free Cash Flow



Source: FSB Research

- Our NPV for Roseby is \$362m, which we discount by 50% to account for risk relating to the updated Feasibility Study, financing, development and timing of commissioning.

Figure 28: Valuation Summary

Cumulative free cash flow (A\$m)	826
Mine life (yrs)	11
Discount rate	10%
12 month NPV (A\$m)	362
P/NPV	0.50
Risked NPV (A\$m)	181
Per share	\$0.35

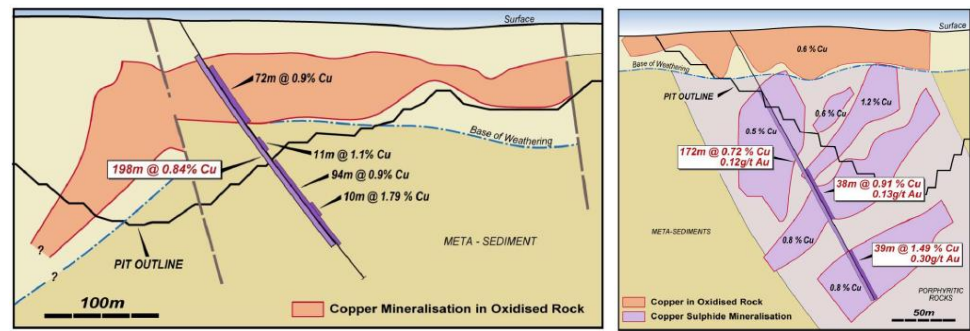
Source: FSB Research

Exploration

- A recent 4,300m RC drilling program focused on the Blackard, Legend and Scanlan deposits yielded promising results with copper intercepts grading up to 1.1% Cu over impressive thicknesses (219m at 0.6% Cu from 2m at Blackard and 129m at 0.6% Cu from surface at Scanlan). The objective of the drilling was to test for strike and dip extensions and for the potential of ‘bulk mining’ at low cut-off grades. Results highlighted the potential for strike extensions of up to 500m at the Blackard and Scanlan key deposits.
- Continued exploration aims to extend resources, upgrade classification and delineate new estimates. This aggressive campaign is looking to increase resources significantly by 50% to ~200Mt by 2H 2011.
- The new resource estimate will also include previous drilling beneath the current resources undertaken by Xstrata. Recent drilling completed by Xstrata under their option agreement to explore the area beneath and around the existing resource at Roseby has also highlighted significant sulphide potential (13m at 1.1% Cu from 250m). The Blackard and Scanlan deposits show thick sulphide intersections below native copper mineralisation in weathered rocks indicating potential for substantial mineralisation below 100m depth in fresh rock.
- The exploration program for 2011 includes 25kms of RC drilling worth \$3.5m.

AOH are aiming to increase resources at Roseby by >50% by 2H 2011 from the current ~900kt of contained Cu.

Figure 29: Cross Section of Blackard and Little Eva

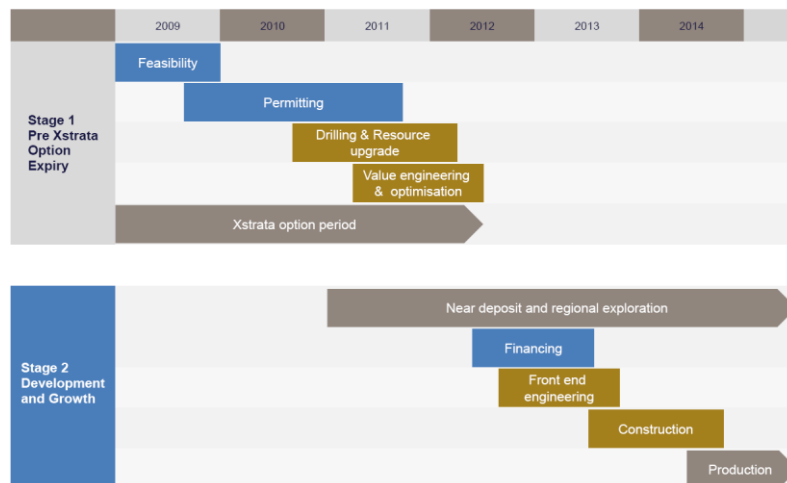


Source: Company

Work Program

- Primary milestones for Roseby include the resource upgrade (2H 2011), updated Feasibility Study (early 2012) and permitting (ongoing).

Figure 30: Roseby Copper Growth Plan

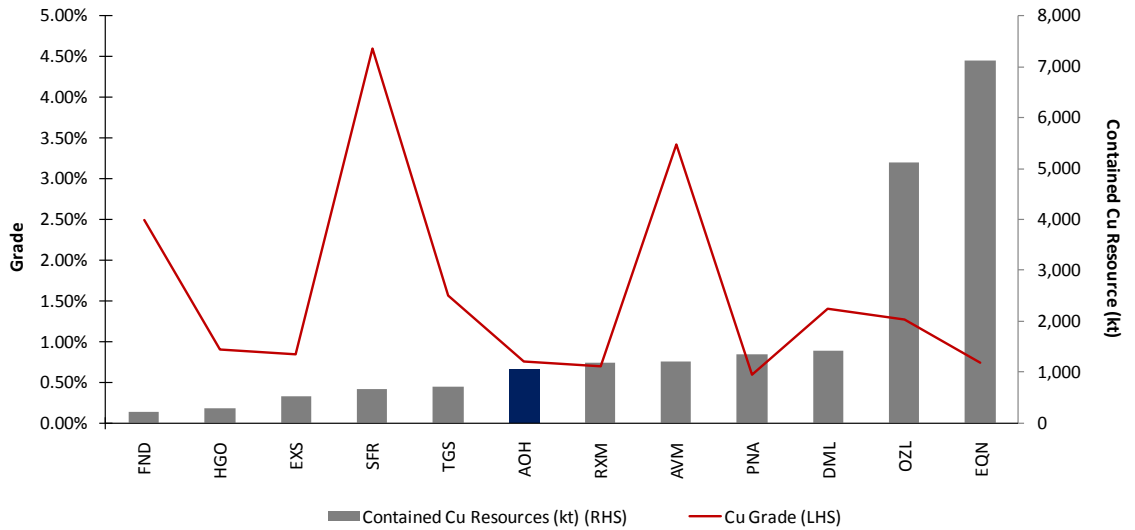


Source: Company

PEER COMPARISON

- AOH already has >1Mt of contained copper and, with an aggressive drilling program lined up at Roseby, plans to increase resources by >50% by the end of 2011.

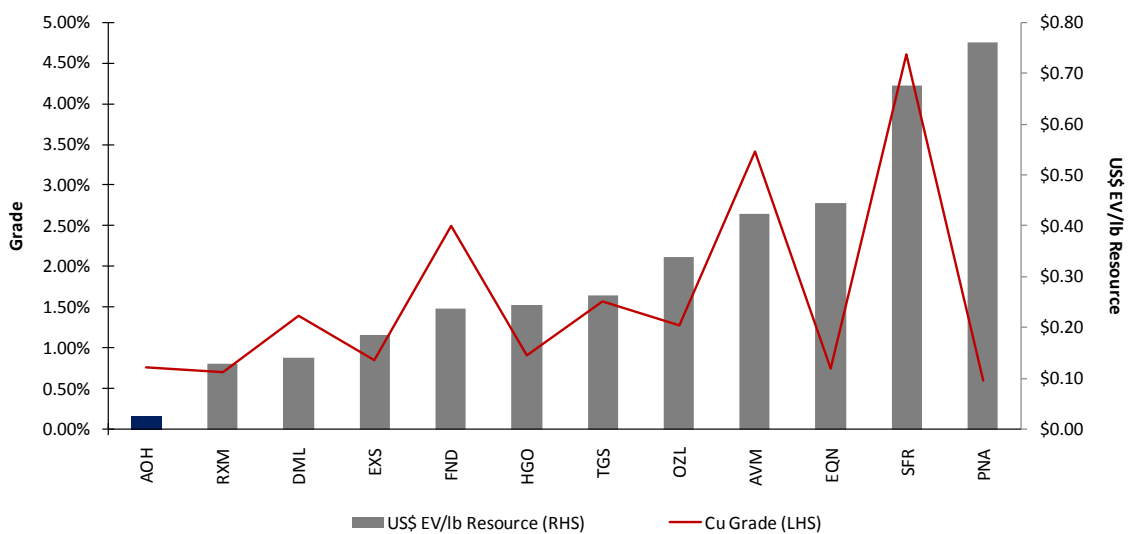
Figure 31: Contained Copper Resources and Grade



Source: FSB Research, Company Announcements

- Despite having more than 1Mt of contained Cu resources and fully funded to commence production in early 2012 at Outokumpu, AOH is one of the cheapest ASX listed copper stock on an US\$EV/lb resource basis.
- We note direct peers in EXS, FND and HGO are all trading at significant EV/lb premiums to AOH.

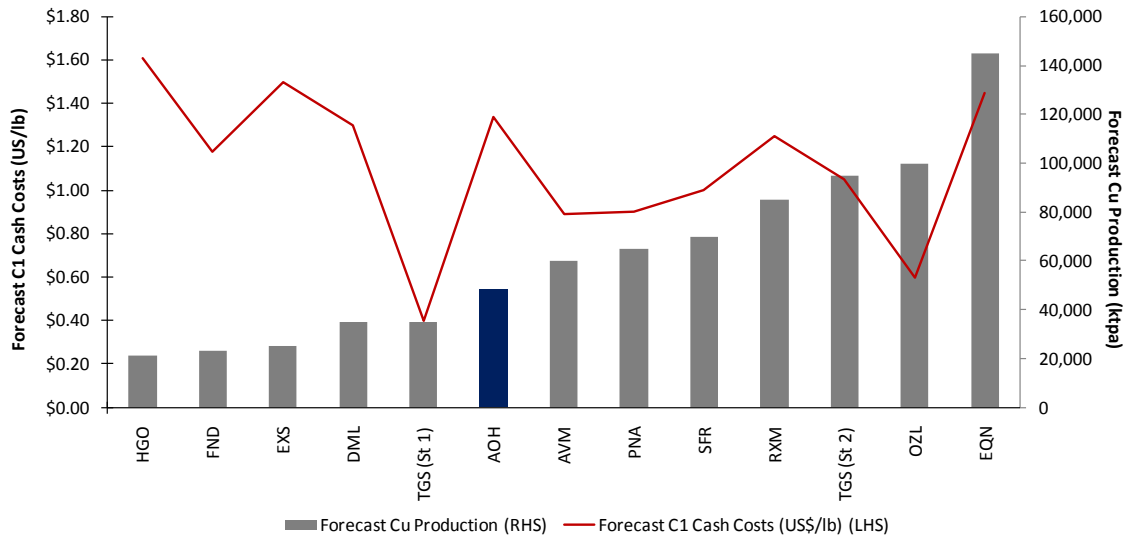
Figure 32: US\$ EV/lb Resource and Grade



Source: FSB Research, Company Announcements

- When Roseby fully ramps up in FY15, we forecast group production to be ~48ktpa Cu at US\$1.32/lb cash costs.

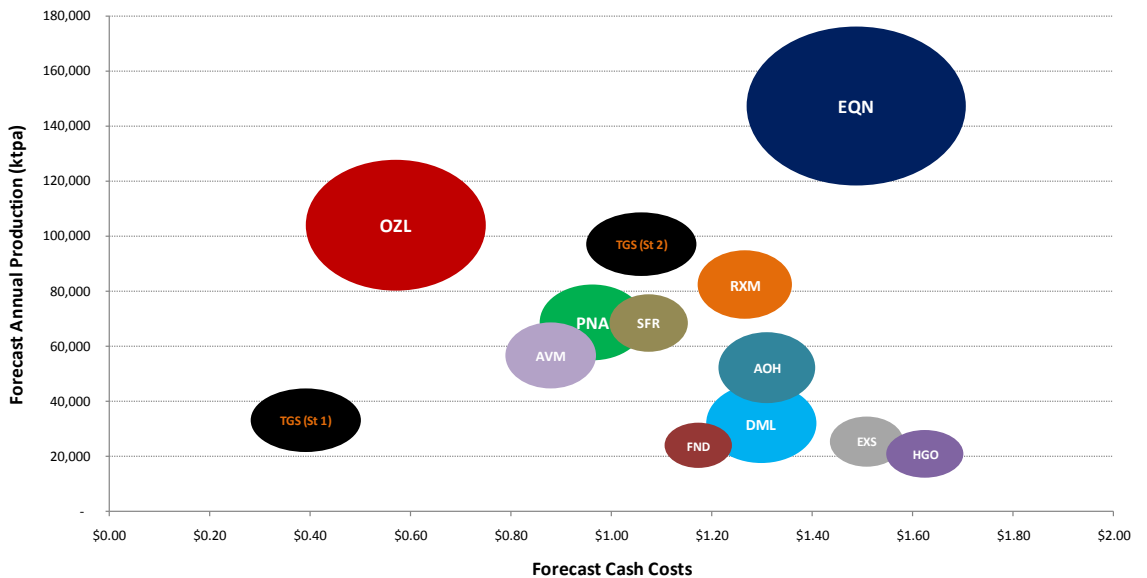
Figure 33: Forecast Copper Production versus C1 Cash Costs



Source: FSB Research, Company Announcements

- The bubble chart in Figure 34 highlights AOH's value proposition. With expected production of almost 50ktpa Cu and cash costs of US\$1.32/lb, the Company is well placed and sits amongst a cluster of peers with much higher respective valuations (HGO - ~\$250m, EXS - ~\$220m and FND - ~\$120m).

Figure 34: Bubble Chart (size of bubble represents contained copper resource)



Source: FSB Research

VALUATION AND PRICE TARGET

Risked Discounted Cash Flow (DCF) - \$420m, \$0.81/share

Price Target - \$0.80/share

- Our AOH price target of \$0.80/share is broadly in line with our consolidated DCF of \$420m, equivalent to \$0.81/share on a fully diluted basis.
- Our DCF valuations for Outokumpu and Roseby are based on a LT Cu price of US\$2.50/lb and AUD/USD of 0.80.
- Outokumpu and Roseby have been risked by 20% and 50% respectively to account for timing, funding (at Roseby) and commissioning risks.
- We ascribe a subjective \$50m valuation for the exploration upside primarily at Outokumpu with the potential to include satellite deposits as part of the operation.

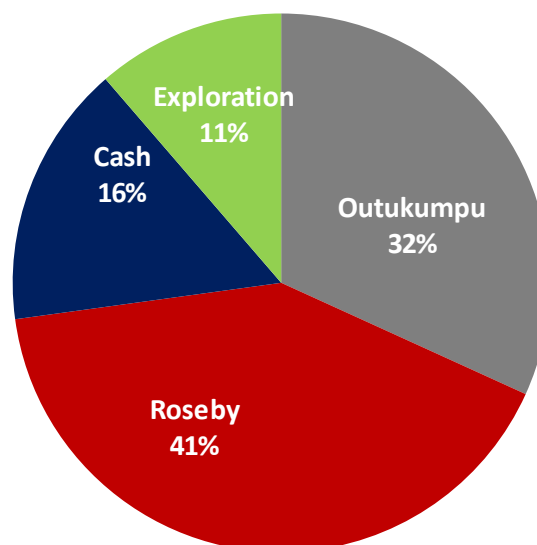
Our price target of \$0.80 represents upside of ~200% to the current share price.

Figure 35: Valuation Summary

	Unrisked (\$m)	P/NPV	Risked (\$m)	Per Share
Roseby	362	0.50	181	\$0.35
Outokumpu	175	0.80	140	\$0.27
Net cash/(debt)	70	1.00	70	\$0.13
Exploration	50	1.00	50	\$0.10
Unpaid capital	3	1.00	3	\$0.01
Corporate costs	-25	1.00	-25	-\$0.05
TOTAL	636	0.66	420	\$0.81
			Price Target	\$0.80
			Current Price	\$0.27
			Upside	196%

Source: FSB Research

Figure 36: Valuation Split



Source: FSB Research.

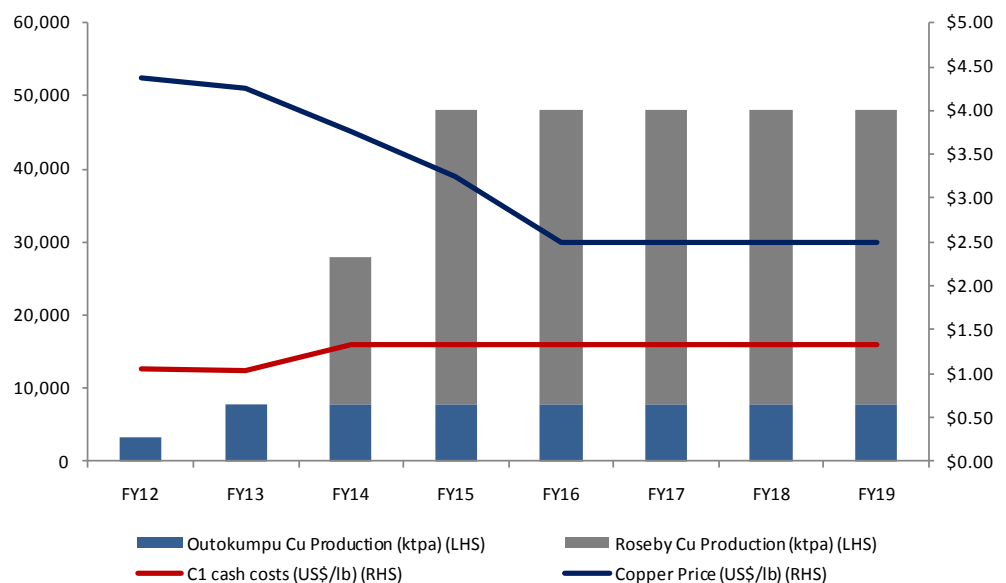
- Our estimates for group production are 48ktpa Cu, 16kozpa Au and 2ktpa Zn when Roseby fully ramps up in FY15.
- C1 cash costs are expected to be US\$1.32/lb which, based on our LT Cu price forecast of US\$2.50/lb, should deliver group cash flows of >\$100m p.a.

Figure 37: FSBe Consolidated Operational and Financial Summary

Year Ending 30 June	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Operating Parameters									
Throughput (Mt)	-	0.2	0.6	4.6	8.6	8.6	8.6	8.6	8.6
Cu in concentrate (t)	-	3,271	7,851	27,951	48,051	48,051	48,051	48,051	48,051
Au in concentrate (oz)	-	3,336	8,006	12,634	17,262	17,262	17,262	17,262	17,262
Zn in concentrate (t)	-	665	1,595	1,595	1,595	1,595	1,595	1,595	1,595
C1 cash costs (US\$/lb)	\$0.00	\$1.06	\$1.03	\$1.33	\$1.33	\$1.32	\$1.32	\$1.32	\$1.32
Price Assumptions									
Copper Price (US\$/lb)	\$3.96	\$4.38	\$4.25	\$3.75	\$3.25	\$2.50	\$2.50	\$2.50	\$2.50
Gold Price (US\$/oz)	\$1,322	\$1,400	\$1,475	\$1,375	\$1,200	\$1,000	\$1,000	\$1,000	\$1,000
Zinc Price (US\$/lb)	\$1.04	\$1.08	\$1.03	\$0.98	\$0.93	\$0.90	\$0.90	\$0.90	\$0.90
AUD	\$0.98	\$0.98	\$0.93	\$0.88	\$0.83	\$0.80	\$0.80	\$0.80	\$0.80
Financials and Cash Flow									
Revenue (A\$m)	0.0	32.4	79.5	264.1	417.3	331.0	331.0	331.0	331.0
Operating Costs (A\$m)	0.0	7.8	19.3	102.6	186.5	188.0	188.0	188.0	188.0
EBITDA (A\$m)	0.0	24.5	60.2	161.5	230.8	143.0	143.0	143.0	143.0
Depreciation (A\$m)	0.0	4.6	4.7	28.2	29.0	29.9	30.9	32.1	33.6
EBIT (A\$m)	0.0	19.9	55.5	133.3	201.8	113.2	112.2	110.9	109.4
Capex (A\$m)	32.3	9.1	126.0	132.3	7.3	7.3	7.3	7.3	7.3
Tax (A\$m)	0.0	0.0	0.0	0.0	4.4	5.2	5.2	27.5	29.9
Project Cash Flow (A\$m)	-32.3	15.5	-65.8	29.2	219.1	130.5	130.6	108.3	105.9

Source: FSB Research

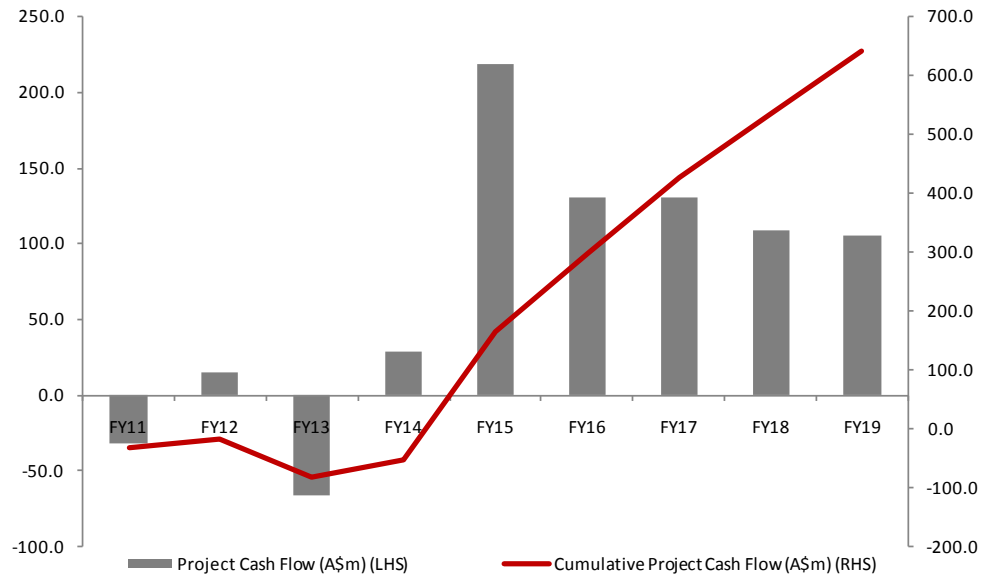
Figure 38: FSBe Consolidated Production and Cash Cost Profile



Source: FSB Research

Figure 39: FSBe Consolidated Free Cash Flow

With FSBe C1 cash costs of US\$1.32/lb and LT Cu price forecast of US\$2.50/lb, group cash flows should exceed \$100m by FY15.



Source: FSB Research

Figure 40: Sensitivity Analysis

LOM LT Copper Price (US\$/lb)	\$2.00	\$2.25	\$2.50	\$2.75	\$3.00
Risked NPV (A\$m)	332	377	420	463	506
Risked Valuation (\$/share)	\$0.64	\$0.72	\$0.81	\$0.89	\$0.97
Roseby Capex (\$m)	200	225	250	275	300
NPV (A\$m)	432	426	420	414	408
Risked Valuation (\$/share)	\$0.83	\$0.82	\$0.81	\$0.80	\$0.78
Change in Roseby Opex (\$m)	-20%	-10%	0%	10%	20%
NPV (A\$m)	476	448	420	392	363
Risked Valuation (\$/share)	\$0.91	\$0.86	\$0.81	\$0.75	\$0.70
Change in Outokumpu Opex (\$m)	-20%	-10%	0%	10%	20%
NPV (A\$m)	435	427	420	413	406
Risked Valuation (\$/share)	\$0.84	\$0.82	\$0.81	\$0.79	\$0.78

Source: FSB Research

RECOMMENDATION

- **We initiate on AOH with a BUY and a price target of \$0.80, which represents a ~200% premium to the current share price.**
- AOH has two quality projects across low sovereign risk jurisdictions, >1Mt of contained Cu resources and significant exploration upside at both Roseby and Outokumpu.
- Our price target is set broadly in line with our risked DCF of \$0.81/share, which incorporates a valuation of A\$140m (\$0.27) for Outokumpu and A\$181m (\$0.35) for Roseby. Therefore at current trade of \$0.27, Roseby represents a free option.
- A recently completed \$70m equity issue was heavily over-subscribed at \$0.31. With the stock currently trading at \$0.27 and now fully funded until first production at Outokumpu, we consider the investment opportunity to be highly compelling.
- Despite having >1Mt of contained Cu resources and fully funded to commence production at Outokumpu in early 2012, AOH is the cheapest ASX listed copper stock on an US\$EV/lb resource basis, trading at just US\$0.03/lb.

BOARD MEMBERS

Kevin Maloney (Non Executive Chairman)

- Kevin has had an extensive career in retail banking, finance and resources. He joined Elders Resources in 1981 after spending 20 years with ANZ. During his time at Elders, Kevin held numerous positions including CEO.
- Founder and Executive Chairman of the MAC Services Group Limited. Currently a Non-Executive Director of Northern Energy Corporation Limited.

Alistair Cowden (Managing Director)

- Alistair is a geologist with almost 30 years experience in the Australian mining industry, initially with majors and in the last fifteen years with junior companies.
- Spent 6 years with WMC at Kambalda in both nickel and gold and was part of the discovery and development teams for several large gold mines in Australia and platinum mines in Zimbabwe whilst with Delta Gold.
- Founding Chairman of Vulcan Resources Limited and subsequently Managing Director until the merger with Universal Resources Limited.

Jason Brewer (Non Executive Director)

- Jason has >16 years international experience in the natural resources sector and investment banking.
- Experience in gold and base metals, having worked at the Kidd Creek Copper and Zinc mine in Canada for Falconbridge, the Lanfranchi Nickel Mine in Western Australia for WMC and the Kinross Gold Mine in South Africa for Gencor.
- Currently a Board member of Continental Coal Limited and De Grey Mining Limited.

Fiona Harris (Non Executive Director)

- Fiona has been a professional non-executive director for the past 15 years. She began her career with chartered accountants KPMG and was a partner in their Sydney office when she left in late 1994.
- Also currently a Board member of Perron Group Limited (and PG Holdings Ltd), Territory Resources Limited, Aurora Oil & Gas Limited and Sundance Resources Limited.

Peter Ingram (Non Executive Director)

- A geologist with >40 years experience in the mining and mineral exploration industries within Australia, including over 30 years experience in public company management.
- In addition to previously being the Managing Director of Metana Minerals NL, Chairman of Glengarry Resources NL and a director of Dragon Mining NL, Eastmet Limited and Australia Oriental Minerals NL, Peter was a founding councillor of the Association of Mining and Exploration Companies (AMEC). He is an Honorary Life Member and past President of AMEC.

Heikki Solin (Non Executive Director)

- Heikki has over 40 years experience in the international mining industry which he has served in various capacities, mainly for Finland's mining major Outokumpu, but also as an independent business consultant.

RISKS

Commodity Prices

- Lower commodity prices would impact negatively on both Outokumpu and Roseby. Commodity prices are influenced by numerous external factors such as supply/demand economics, interest rates, global consumption expectations and speculative investors.

Development and Funding

- Our modelling and valuations assume the successful development and funding of both projects. Outokumpu is fully funded following the most recent equity issue; however Roseby still requires significant funding from debt and/or equity markets.
- The construction of Roseby will depend upon the availability of equipment and contractors, currently in short supply across Australia.

Resource/Reserve Growth

- Our valuation of Roseby assumes successful growth in resources from 132Mt to 200Mt and resource to reserve conversion of 40%. Should exploration not be successful in proving up additional reserves, our mine life and valuation of Roseby will be negatively impacted.

Operational, Opex and Capex

- Lower than expected head grades, recoveries and higher strip ratios (at Roseby) would all negatively affect forecast production levels.
- Increases in the opex and/or capex at Outokumpu or Roseby would have a negative impact on the respective project valuations.

Xstrata Option

- Xstrata has an option in place to potentially purchase 100% of Roseby by 30 June 2012, with the purchase amount to be agreed to by both AOH and Xstrata or as determined by an independent expert. Should Xstrata act prior to AOH completing the updated Feasibility Study and resource upgrade, there is a risk of control passing at a sub optimal valuation.

Project Delays

- Delays to the proposed project schedules coming on line will result in delayed cash flows and reduced valuations.

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Specific disclosure: Foster Stockbroking and/or associated parties have received fees in the past 12 months for services provided to AOH in respect of the February 2011 equity capital raising.