

**Altona Mining Ltd (AOH.ASX, \$0.33/sh, Mkt Cap \$169m) – June Quarterly. Outokumpu development on track and Roseby resource grows significantly. BUY (PT \$0.80/sh)**

**Events:**

- Quarterly activities report for Q4 FY11.
- Little Eva drilling results.

**Details:**

- Significant resource upgrade at the Little Eva deposit within the Roseby Project near Mt Isa in Queensland.
- US\$20m debt facility put in place to ensure full funding until development capex at Roseby in mid 2012.
- Development at Outokumpu in Finland continues to progress, with the Kylylahti decline approaching 1km (scheduled to hit ore in October) and Luikonlahti mill refurb ~40% complete.
- Offtake agreement with New Boliden for the first 5 years of Cu-Au production at Outokumpu.
- Impressive drilling results continue at Little Eva, expected to lead to a target resource of up to 100Mt (from 75Mt currently). Recently announced intercepts at Little Eva include an impressive 270m at 0.54% Cu.

**Analysis:**

- **Roseby Project now >1Mt of contained copper.** A major 25km drilling program is progressing well at Roseby and recently resulted in the first of a number of expected resource upgrades at one of the larger deposits, being Little Eva, which increased from 30Mt to 75Mt at 0.5% Cu for 388kt of contained Cu. Roseby's global resource is now 177Mt at 0.6% Cu for 1.1Mt of contained Cu and 296koz Au. AOH's target resource at Roseby is 200Mt – 300Mt @ ~0.6% Cu for 1.2Mt – 1.8Mt of contained Cu.
- **Fully funded for development at Outokumpu and exploration at Roseby.** The Company's cash balance is \$58m which, together with a recent US\$20m debt facility put in place, will mean no equity dilution until mid 2012 (Roseby development capex) and results in Outokumpu development and Roseby exploration being fully funded.
- **Outokumpu on track for first production in early 2012.** The Kylylahti underground decline development is progressing well, with first ore expected to be hit in October. The Luikonlahti mill refurbishment is ~40% complete. Importantly, the authorities have recently accepted amendments to the Environmental Permit required to process Kylylahti ore at the Luikonlahti plant. The permit is expected to be awarded in August and completes the approvals process. The 550ktpa Outokumpu operation is forecast to produce 8ktpa Cu, 8kozpa Au and 2ktpa Zn at C1 cash costs of US\$1.28/lb (FSBe).

- **First 5 years of Cu-Au production locked in with New Boliden.** AOH has entered into an offtake agreement with Boliden in respect of the first 5 years of Cu-Au concentrate from Outokumpu, with pricing reflecting usual practice and mechanisms in the international concentrate market (terms of agreement are confidential). The Cu-Au concentrate will be trucked or railed to Boliden's Harjavalta smelter in Western Finland, ~400kms from the Luikonlahti plant. The offtake enables AOH with the benefit of regular shipments and payment.
- **Little Eva continues to deliver exciting drilling results.** 11km of the 25km drilling program has been completed to date (53 holes) with thick and shallow intersections being recorded at Little Eva, including recent results of 270m at 0.54% Cu from surface. Drilling is yet to commence at the other main Roseby deposit, being Blackard. Little Eva is now shaping up to be a large stand-alone operation processed via conventional flotation with excellent Cu recovery of 95%, rather than the previously envisaged strategy of simultaneous mining of Little Eva and Blackard providing a blended feed across two pits. We expect the updated DFS expected in early 2012 to centre on a standalone Little Eva operation to produce 35-40ktpa Cu.
- **Near term catalysts.** Resource upgrade at Roseby (October); first ore intersected at Kylylahti mine (October); Luikonlahti mill refurb and first production at Outokumpu (early 2012); and DFS at Roseby (Q2 2012).

#### **Recommendation:**

- **We continue to rate AOH a BUY with a price target of \$0.80/sh.**
- AOH is an emerging mid-tier copper producer with two quality projects across low sovereign risk jurisdictions, >1.2Mt of contained Cu resources and significant exploration upside at both Roseby and Outokumpu.