

6 March 2018

Avanco Resources Limited (AVB) BUY Share Price: A\$0.076

CentroGold – a sleeping giant is about to wake

Target Price:

A\$0.19

AVB completed the acquisition of 100% of CentroGold in Sep 2017 and has been aggressively moving the project forward. Resources now stand at 2Moz (33Mt at 1.9g/t) contained entirely within open pits at low strip ratios. Drilling continues, with feasibility studies due in mid-CY18, ready for funding and development in late CY18/early CY19. Given AVB's expertise in cost-effectively building and operating assets in Brazil, we believe CentroGold is a very valuable asset which is being missed by the market. We generate a NPV of A\$262m for CentroGold, however apply a 50% risk weighting and therefore only include A\$128m (A\$0.04/sh) in our group valuation. Our PT is up 27% to A\$0.19/sh, maintain BUY.

CentroGold is an impressive asset & can get better

- 2Moz resource and growing, 70-80% conversion to reserves likely, in our view.
- Favourable mining & processing parameters, including high grade, open pitable, free-milling, low strip ratio.
- Extensive drilling, metallurgical testwork and studies completed by previous owners, allowing AVB to fast-track updated feasibility, design and implementation.
- Substantial exploration upside along 75km strike of highly prospective greenstone belt.

Permitting status likely to be a big advantage

- Mineral rights remain in good standing, full access for drilling and exploration activities, strong support from local communities.
- CentroGold was previously permitted, including environmental & construction licenses prior to the these being suspended due to an administrative oversight.
- AVB believe the suspension can be lifted around mid-CY18 which would save up to 2yrs of permitting time.

AVB offers exceptional growth

- AVB can grow copper equivalent production by 49% CAGR between 2018 and 2021.
- Copper equivalent output peaks in 2021 at 80.4kt with Antas, CentroGold and Pedra Branca all in production.
- The strong balance sheet (A\$32m cash & no debt) & the Company's low capex model dictates only modest funding requirements to deliver this growth.

Price target (1xP/NPV₁₀) up 27% to A\$0.19/sh; BUY

- We include CentroGold in our group valuation at 50% risk weighting due to the permitting & study status.
- Current share price valuing Antas only.

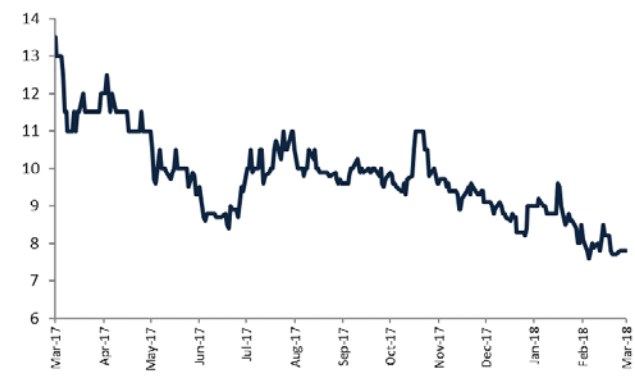
Company Data

Shares – ordinary (M)	2,456.9
Market capitalisation (\$M)	186.7
12 month low/high (\$)	\$0.074 / \$0.135
Average monthly turnover (\$M)	\$4m
GICS Industry	Materials / Metals & Mining

Financial Summary (fully diluted/normalised)

Year end Dec	2016A	2017A	2018F	2019F	2020F
Revenue (\$M)	59	90	104	108	304
Costs (\$M)	44	68	76	72	158
EBITDA (\$M)	16	22	28	36	146
NPAT (\$M)	-3	3	10	12	86
EPS (¢ps)	-0.1	0.1	0.3	0.4	3.0
EPS Growth (%)	0	>100%	300%	19%	625%
PER (x)	na	70	18	15	2
Cashflow (\$M)	12	21	30	33	124
CFPS (¢ps)	0.4	0.7	1.0	1.2	4.3
PCFPS (x)	14	8	6	5	1
Enterprise Value (\$M)	126	124	103	152	201
EV / EBITDA (x)	8	6	4	4	1
Payout ratio (%)	0%	0%	0%	0%	0%
Dividends (¢ps)	0	0	0	0	0
Yield (%)	0	0	0	0	0
Franking (%)	0	0	0	0	0

AVB – performance over one year



Disclosure and Disclaimer

This report must be read with the disclosure and disclaimer on the final page of this document.

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Analysis

Avanco Resource (AVB)

5-Mar-18

Year End December

PROFIT & LOSS	2016A	2017A	2018F	2019F	2020F					
Revenue	US\$M	59.3	90.3	103.9	108.0	304.0	Antas	Resource	Reserve	
Operating Costs	US\$M	42.5	56.6	68.1	64.9	151.0	Tonnes	Mt	16.46	3.63
Exploration	US\$M	1.0	0.0	2.5	2.5	2.5	Copper grade	%	1.43%	2.53%
Other	US\$M	0.1	11.8	5.0	5.0	5.0	Gold grade	g/t	0.32	0.55
EBITDA	US\$M	15.7	22.0	28.3	35.6	145.5	Contained copper	t	237,000	91,621
Depreciation & Amort.	US\$M	11.4	14.5	17.3	19.1	35.6	Pedra Branca			
EBIT	US\$M	4.2	7.5	10.9	16.5	109.9	Tonnes	Mt	10.48	10.8
Net Interest	US\$M	3.2	4.2	(0.9)	2.5	8.4	Copper grade	%	2.80%	2.1%
Pre-Tax Profit	US\$M	1.0	3.3	11.8	14.0	101.5	Gold grade	g/t	0.6	0.49
Tax	US\$M	3.7	0.8	1.8	2.1	15.5	Contained copper	t	289,000	222,480
Net Profit	US\$M	(2.7)	2.5	10.0	11.9	86.0	CentroGold			
Abnormal	US\$M	0.0	0.0	0.0	0.0	0.0	Tonnes	Mt	33	
Reported Profit	US\$M	(2.7)	2.5	10.0	11.9	86.0	Grade	g/t	1.9	
Dividends Paid	US\$M	0.0	0.0	0.0	0.0	0.0	Contained gold	Moz	1.999	
Adjustments	US\$M	0.0	0.0	0.0	0.0	0.0				

Share Price	(\$)	A\$0.08	US\$0.06
Iss. Shares	(M)	2456.9	2456.9
Issued shares	(M)	448.7	448.7
Fully Diluted	(M)	2905.6	2905.6
Mkt Cap.	(\$M)	A\$192M	US\$148M

CASHFLOW	2016A	2017A	2018F	2019F	2020F								
Net Op Cash Flow	US\$M	11.9	22.0	30.8	38.1	148.0	Antas	Production					
Net Interest	US\$M	0.4	0.2	0.9	(2.5)	(8.4)	Ore milled	Mt	0.51	0.71	0.70	0.70	0.70
Tax Paid	US\$M	0.0	(1.2)	(1.8)	(2.1)	(15.5)	Grade - copper	%	2.29%	2.05%	2.11%	2.20%	2.40%
Operating Cash Flow	US\$M	12.3	21.0	29.8	33.5	124.1	Grade - gold	g/t	0.58	0.60	0.55	0.55	0.55
Net Capex	US\$M	(19.7)	(6.6)	(3.3)	(113.0)	(168.0)	Copper in concentrate	t	11,188	14,102	14,249	14,938	16,296
Exploration	US\$M	(3.2)	(8.5)	(5.0)	(5.0)	(5.0)	Gold in concentrate	oz	7,779	11,365	10,446	10,521	10,521
Investing Cash Flow	US\$M	(22.9)	(15.1)	(8.3)	(118.0)	(173.0)	C1 Costs	US\$/lb	1.17	1.64	1.51	1.34	1.05
Free cash flow	US\$M	(10.6)	6.0	21.6	(84.5)	(48.9)	AISC	US\$/lb	1.58	1.94	1.91	1.72	1.39

Financing Cash Flow	2016A	2017A	2018F	2019F	2020F								
Net Borrowings	US\$M	0.0	0.0	0.0	60.0	0.0	Pedra Branca	Production					
Dividends	US\$M	0.0	0.0	0.0	0.0	0.0	Ore milled	Mt	0.0	0.0	0.0	0.0	0.0
Equity Issues	US\$M	0.0	0.0	0.0	35.0	0.0	Grade - Copper	%	0.00%	0.00%	0.00%	0.00%	0.00%
Other	US\$M	1.7	(4.5)	0.0	0.0	0.0	Grade - Gold	g/t	0.0	0.0	0.0	0.0	0.0
Financing Cash Flow	US\$M	1.7	(4.5)	0.0	95.0	0.0	Copper in concentrate	t	0	0	0	0	0
Net IncreaseCash	US\$M	(8.8)	1.5	21.6	10.5	(48.9)	C1 Costs	US\$/lb	0.00	0.00	0.00	0.00	0.00
							AISC	US\$/lb	0.00	0.00	0.00	0.00	0.00

BALANCE SHEET	2016A	2017A	2018F	2019F	2020F								
Cash	US\$M	22.9	24.4	45.9	56.4	7.6	CentroGold	Production					
Other Current	US\$M	16.8	19.1	19.1	19.1	19.1	Ore milled	Mt	0.0	0.0	0.0	0.0	2.1
Current Assets	US\$M	39.7	43.5	65.0	75.5	26.7	Grade - Gold	g/t	0.0	0.0	0.0	0.0	2.5
Fixed Assets	US\$M	61.1	50.1	53.4	166.4	334.4	Gold production	koz	0	0	0	0	150
Exploration	US\$M	21.2	38.6	38.6	38.6	38.6	C1 Costs	US\$/oz	0	0	0	0	551
Other	US\$M	2.2	4.0	4.0	4.0	4.0	AISC	US\$/oz	0	0	0	0	667
Non Current Assets	US\$M	84.5	92.8	96.0	209.0	377.0							
Total Assets	US\$M	124.1	136.2	161.1	284.5	403.7	REVENUE						
Borrowings	US\$M	0.0	0.0	0.0	0.0	0.0	Antas	US\$M	59	99	104	108	116
Payables	US\$M	10.4	15.5	15.5	15.5	15.5	Pedra Branca	US\$M	0	0	0	0	0
Other	US\$M	7.5	5.3	5.3	5.3	5.3	CentroGold	US\$M	0	0	0	0	188
Current Liab	US\$M	17.9	20.7	20.7	20.7	20.7	Total	US\$M	59	99	104	108	304
Borrowings	US\$M	0.0	0.0	0.0	60.0	60.0	CAPEX						
Provisions	US\$M	7.2	9.6	9.6	9.6	9.6	Antas	US\$M	18.2	2.6	3.3	3.0	2.0
Other	US\$M	10.7	14.5	14.5	14.5	14.5	Pedra Branca	US\$M	0.0	0.0	0.0	0.0	158.0
Non Current Liab	US\$M	17.8	24.0	24.0	84.0	84.0	CentroGold	US\$M	0	0	0	110	8
Total Liabilities	US\$M	35.7	44.8	44.8	104.8	104.8	Total	US\$M	18.2	2.6	3.3	113.0	168.0
Total Equity	US\$M	88.4	91.4	116.3	179.8	298.9							

RATIO ANALYSIS	2016A	2017A	2018F	2019F	2020F								
EPS	¢	(0.1)	0.1	0.3	0.4	3.0	Exchange Rate	A\$/US\$	0.74	0.77	0.77	0.75	0.75
PER	x	na	70.2	17.6	14.8	2.0	Copper price	US\$/lb	2.21	2.80	3.00	3.00	3.00
EPS Growth	%	(305.3)	(193.9)	300.0	18.6	625.1	Copper price	A\$/lb	2.97	3.65	3.90	4.00	4.00
CFPS	¢	0.4	0.7	1.0	1.2	4.3	Gold price	US\$/oz	1,247	1,258	1,310	1,275	1,250
PCFR	x	14.2	8.3	5.9	5.2	1.4	Gold price	A\$/oz	1,677	1,641	1,701	1,700	1,667
DPS	¢	0.0	0.0	0.0	0.0	0.0							
Yield	%	0%	0%	0%	0%	0%	NPV (+1Yr)						
Payout Ratio	%	0%	0%	0%	0%	0%	Antas					173 \$	0.06
Gearing ND/E	%	-26%	-27%	-40%	2%	18%	Pedra Branca East					204 \$	0.07
Interest Cover	x	1.3	1.8	na	6.6	13.1	CentroGold (50% risked)					128 \$	0.04
EBITDA Margin	%	26.4	24.4	27.2	33.0	47.9	Exploration (incl Pantera)					40 \$	0.01
EBIT Margin	%	7.1	8.3	10.5	15.3	36.2	Corporate costs					(43) \$	(0.01)
Return On Assets	%	3.4	5.5	6.8	5.8	27.2	Net Cash (Debt)					60 \$	0.02
Eff Tax rate	%	25	25	25	25	25	Total					561.6 \$	0.19

ASSUMPTIONS	2016A	2017A	2018F	2019F	2020F					
Exchange Rate	A\$/US\$	0.74	0.77	0.77	0.75	0.75				
Copper price	US\$/lb	2.21	2.80	3.00	3.00	3.00				
Copper price	A\$/lb	2.97	3.65	3.90	4.00	4.00				
Gold price	US\$/oz	1,247	1,258	1,310	1,275	1,250				
Gold price	A\$/oz	1,677	1,641	1,701	1,700	1,667				

Source: Petra Capital

CentroGold is a quality but underappreciated asset

Introduction and history

CentroGold is one of the largest undeveloped gold projects in Brazil, located in the state of Maranhão and approximately 600km north-east of AVB's Antas and Pedra Branca projects (Figure 1). The project is located 26km from the local town of Centro Novo and consists of 140,000Ha (75km of strike length) of contiguous tenure along a highly prospective and under explored greenstone belt.

AVB initially entered an agreement to purchase the CentroGold project (previously known as Gurupi) from TSX-listed Jaguar Mining in October 2016. The original agreement required AVB to earn into the project, however the deal was re-cut in September 2017, with AVB agreeing to purchase 100% of the project for US\$4m and an additional \$5m in 10 payments of US\$0.5m following completion of permitting (total consideration US\$9m cash). A net smelter royalty of between 1-2% also needs to be paid to Jaguar once in production.

CentroGold has been the focus of extensive exploration and studies in the past. Jaguar Mining purchased the project from Kinross Gold in late 2009 for US\$39m in Jaguar shares. CentroGold hosted 1.6Moz (35.9Mt at 1.35g/t) of gold at that time, with Jaguar increasing the resource to 3.14Moz (88.5Mt at 1.14g/t) at the time of AVB purchase.

Over 800 holes for >130,000m of drilling has been completed by the previous owners, along with extensive feasibility study work including metallurgy, hydrology and geotechnical studies. All of this data is in good condition and being used by AVB to fast-track updated resources and development plans which align with AVB's "low capex, high grade" model.

Jaguar had planned to develop CentroGold as a lower grade deposit with 5Mtpa throughput capacity. All licensing and approvals had been secured prior to an administrative error which saw the construction and environmental approvals suspended and the project deprioritised by Jaguar. AVB has identified a clear path to resolving these issues and aims to have CentroGold fully permitted and ready for mine construction at the start of the dry season in early CY19.

Access to key infrastructure is good, with established roads and water supplies; grid power is around 40km from the project. Topography is flat, with land mainly used for agricultural pasture with local areas of disturbance from artisanal miners; no environmental or construction challenges are expected (Figure 2). The area is predominantly a sand-soil with minimal clay content (unlike the Carajás) which will help minimise wet season impacts on construction and future mining operations. AVB has negotiated full access to the project area and is currently drilling with four rigs, as well as assessing nearby targets and regional exploration prospects within its granted tenure.

Figure 1: Location of CentroGold in northern Brazil



Source: Company reports

Figure 2: Drilling at CentroGold



Source: Company reports

AVB has a clear path to de-risking and quickly developing CentroGold

CentroGold currently consists of three large, coherent gold deposits, with the Contact and Blanket orebodies positioned immediately adjacent to each other, and Chega Tudo a further 7km to the west (Figure 3). Extensive drilling was undertaken by previous owners at each of these deposits, with a NI43-101-compliant resource of 3.14Moz and reserve of 2.3Moz (64Mt at 1.14g/t Au) published by Jaguar in mid-2012.

Utilising the extensive data available, AVB focused on the high-grade component within the larger lower grade resource. With minimal additional work, it initially defined a maiden resource of 694koz (12.2Mt at 1.8g/t) at the Blanket deposit in Dec 16, however this quickly grew to 1.3Moz with the addition of the Contact deposit. A further uplift to 1.9Moz was achieved with the inclusion of Chega Tudo & more recently 2Moz with an increase at Blanket.

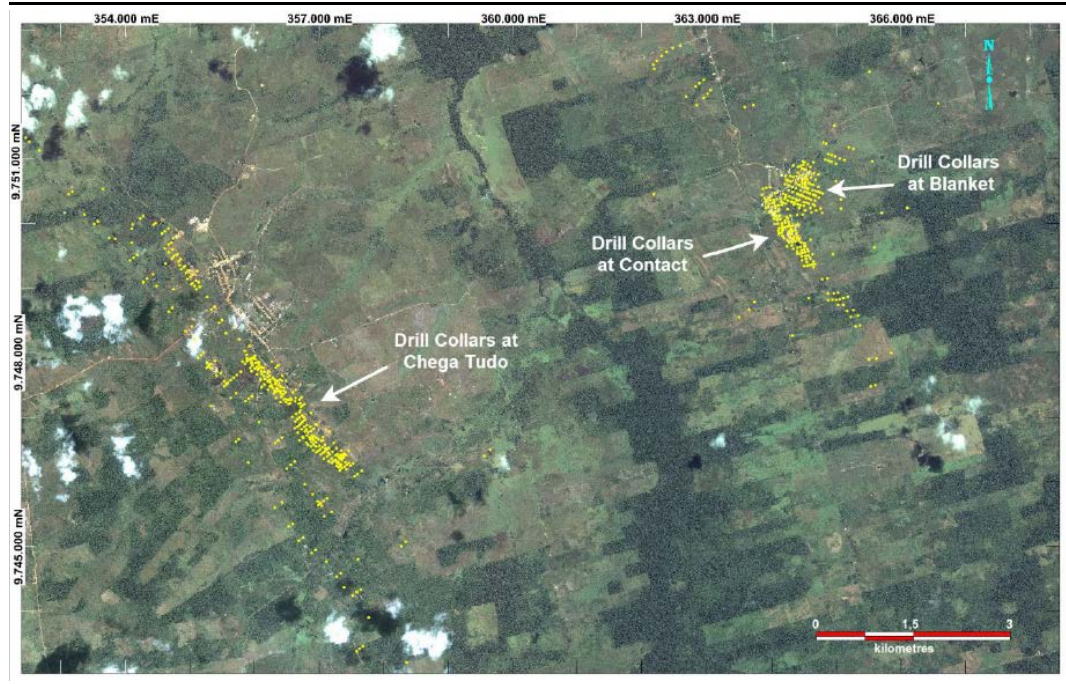
AVB has been aggressively drilling CentroGold with up to four rigs, with recent focus on infilling the Contact and Blanket deposits to ensure maximum conversion to reserves in upcoming feasibility studies. Given mineralisation is close to surface, continuous and open pitable, we would expect the current resource of 2Moz to convert at 70-80% into reserves. This is further supported by the methodology used to constrain new resources to conservative pit shells which should closely replicate final pit designs.

AVB has taken a different approach to defining resources, reserves and the proposed scope of a new gold development at CentroGold. AVB is focusing on higher grade zones within the broader lower grade deposit, with this approach aligning with AVB's business model of "low capex, high grade". Figures 4 and 5 illustrate the areas of high grade at Blanket and Contact deposits which are the focus for AVB. This approach is driving AVB toward developing an open pit operation with around 2.5Mtpa capacity at around 2g/t for 120-160koz of annual gold production.

Given the permitting status, this asset is currently being ascribed no value by the market, however, we believe this can quickly change over the coming 6-12 months with delivery of:

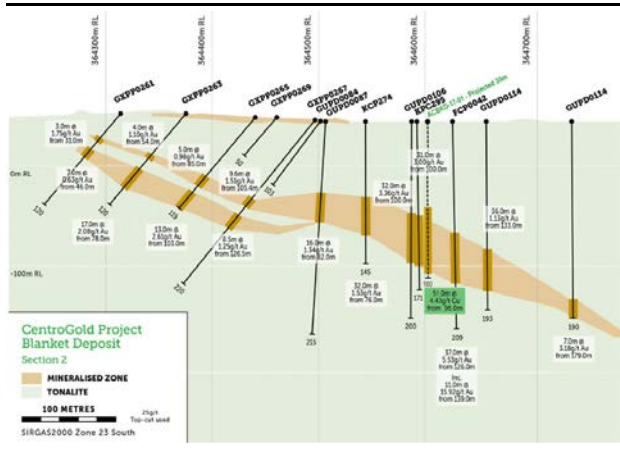
- Scoping, pre-feasibility and definitive feasibility studies in quick succession.
- Resolution of permitting issues and reinstatement of the construction and environmental licenses.
- Further resource upgrades as drilling continues with four rigs.
- Evaluation and follow-up drilling of nearby prospects where previous drilling on wide-spaced sections suggests coherent, near-surface zones of gold mineralisation could be present; minimal infill drilling could define additional resources quickly and allow inclusion in the mine plan as satellite ore sources to increase production and/or mine life.
- Exploration success from the broader tenement package where numerous targets have been identified but yet to be followed up.

Figure 3: Location of the three main deposits at CentroGold



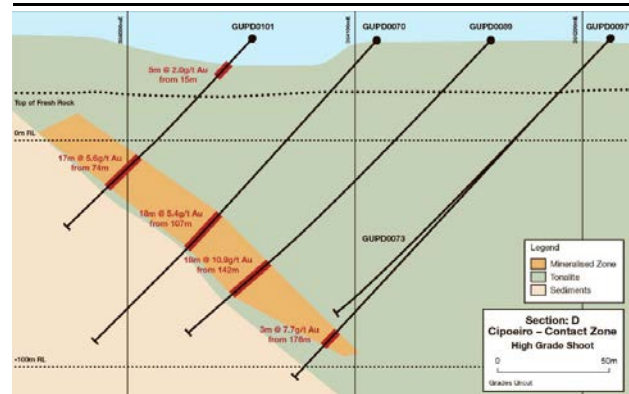
Source: Company reports

Figure 4: Section through the Blanket deposit



Source: Company reports

Figure 5: Section through Contact deposit



Source: Company reports

Permitting status

All the mineral rights and exploration licenses for CentroGold are confirmed to be in good standing with the Brazilian mining authority. The project previously had environmental and installation (construction) licenses granted by the environmental authorities. However, due to a regulatory oversight, these permissions have been suspended (by way of a court injunction) during the period of former ownership. AVB has been proactive in engaging with those regulatory authorities to seek reinstatement of these licenses.

The regulatory oversight (that brought about the injunction) relates primarily to surface rights in and around the proposed mine site. The surface rights (not the mineral rights) around the mine site are controlled by a federal authority called Instituto Nacional de Colonização e Reforma Agrária (INCRA). In the 1970's, INCRA subdivided the aforementioned surface rights into small allotments for the benefit of disadvantaged families in an effort to populate what was a rural area. INCRA allocated the allotments with certain restrictions on the land use and encouraged small-scale farming. The people allocated the allotments were not given title, so are tenants and not permitted to transfer the allotment to others.

After the environmental authority issued the environmental and installation licenses, it qualified the project to take receipt of a Mining License from the Agência Nacional de Mineração (ANM), or previously the Departamento Nacional de Produção Mineral (DNPM). It also permitted the project to move toward development/construction. However, it appears the environmental authorities overlooked the existence of the INCRA allotments. Consequently, the courts decided that the environmental authority did not follow proper process and since neither the environmental authority nor the project owner had formal agreements in place with INCRA, then the licensing should be suspended by an injunction. Consequently, the Mining Lease was never issued.

AVB is taking a proactive approach to resolving the above issue. It has engaged with INCRA to address the oversight and expedite the lifting of the injunction. Whilst this is a bureaucratic process, the Company believe INCRA will be accepting of a land swap arrangement and/or compensation. On reaching an agreement with INCRA it is anticipated that the courts will lift the injunction.

The INCRA agreement also includes references identifying the original tenants from unlawful occupiers. The INCRA agreement is also expected to confirm that the areas covered by the allotments is either fit for, or is presently used for agricultural purposes. This will support the case for the allotments to be released from INCRA control. The INCRA agreement will also allow AVB to approach the tenants of the allotments and commence the resettlement process in accordance with the guidelines in the INCRA agreement.

The previous owner of CentroGold, in anticipation of the above process, commenced the building of a new settlement of some 80 houses. These houses will assist, at least in part, the relocation program.

AVB has made significant progress since acquiring the project and the injunction could be lifted as early as mid-CY18. This would facilitate the re-issue of the environmental and installation licenses and allow AVB to apply for the Mining License (a formality). The Company will also likely apply for a revision to the installation license to align with any changes to the original mine design that maybe desired by AVB. Neither the revised installation license nor the Mining License are expected to delay the start of construction which is scheduled for the dry season in early 2019.

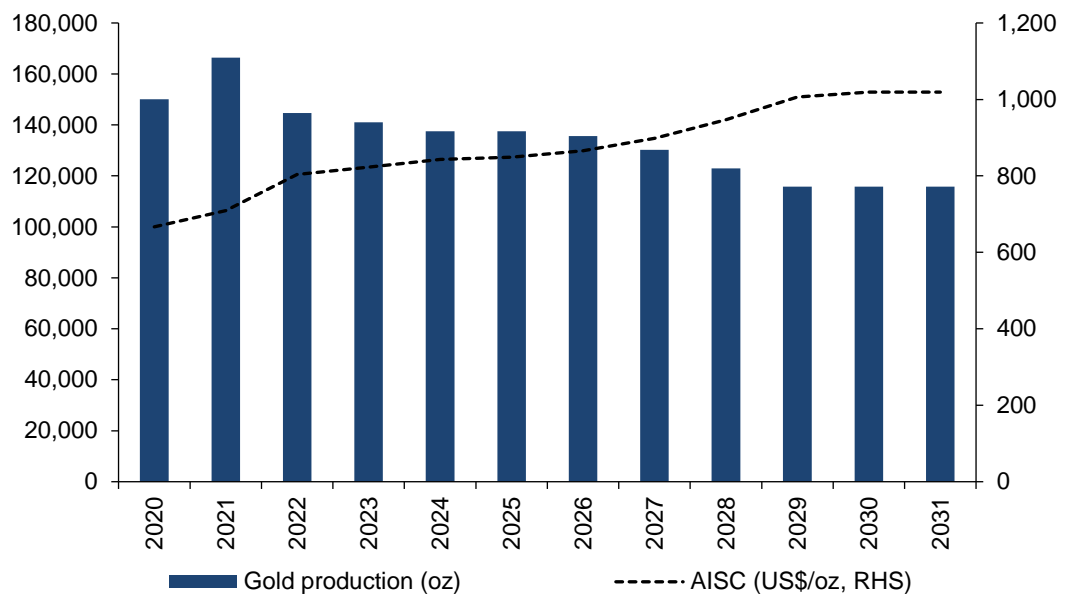
Getting access to the project has not been a problem for AVB as evidenced by the ongoing drilling activities at the Blanket and Contact deposits. The Company fosters and enjoys a good relationship with the community whom support the proposed development of CentroGold.

Production and cost profile

With a 2Moz resource and high conversion to reserves likely, we assume CentroGold is capable of supporting a 2.5Mtpa open pit and CIL processing operation for at least 12 years. At 90% recovery, this delivers 1.6Moz of recovered gold at average annual production of 134koz (peak production 166koz) (Figure 6). Our forecast average life-of-mine AISC is US\$860/oz.

We expect pre-construction ground works to begin in 2H CY18, with AVB needing to be ready for full construction at the start of the dry season in early CY19. We believe the existing relationship with MACA will assist this fast-tracked timeline.

Figure 6: CentroGold production and all-in sustaining cost (AISC) profile



Source: Petra Capital

Key mining, capex and cost assumptions

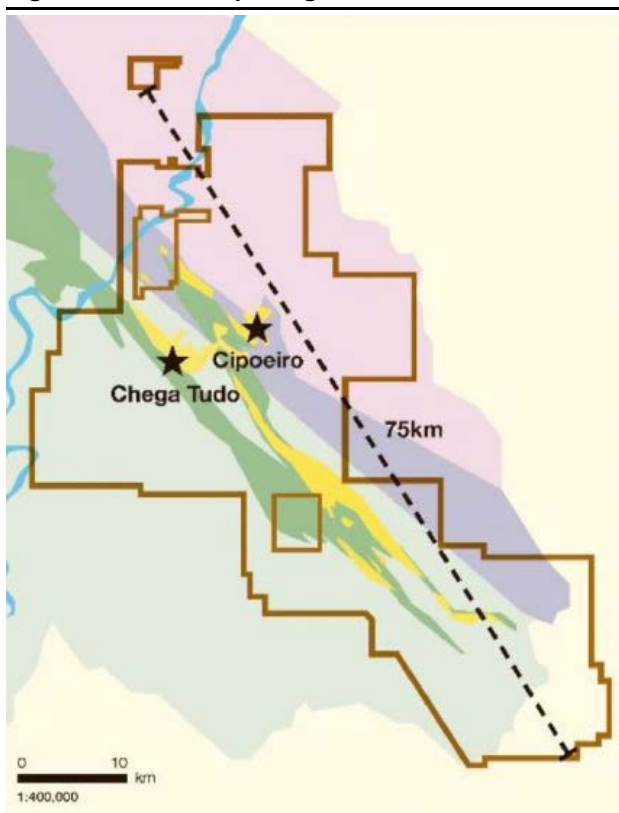
Whilst key development parameters for CentroGold have not yet been released, we have made a number of assumptions which we believe are appropriate for an asset of this size and the technical and financial capacity of AVB. These include:

- Permit resolution in 2H CY18, allowing for pre-construction ground works to begin by end CY18
- Full construction to align with the start of the dry season in Q1 CY19
- MACA used as the mining contractor, leveraging off the existing relationship and in-country experience
- Plant commissioning in MarQ CY20 and full production achieved by mid CY20
- US\$110m start-up capex, with second hand equipment used to save costs and expedite delivery
- 2.5Mtpa open pit and CIL operation producing gold bullion
- Open pit stripping ratio to average 4.8:1 over the life-of mine
- Contact deposit scheduled to be mined first, delivering higher grade in early years
- Mining inventory of 29.5Mt at 1.9g/t Au
- 90% recovery
- Mining costs of US\$3.25/t, processing costs of US\$17/t and G&A costs of US\$4/t
- Sustaining capital of US\$8m/year

Extensive exploration tenure yet to be tested

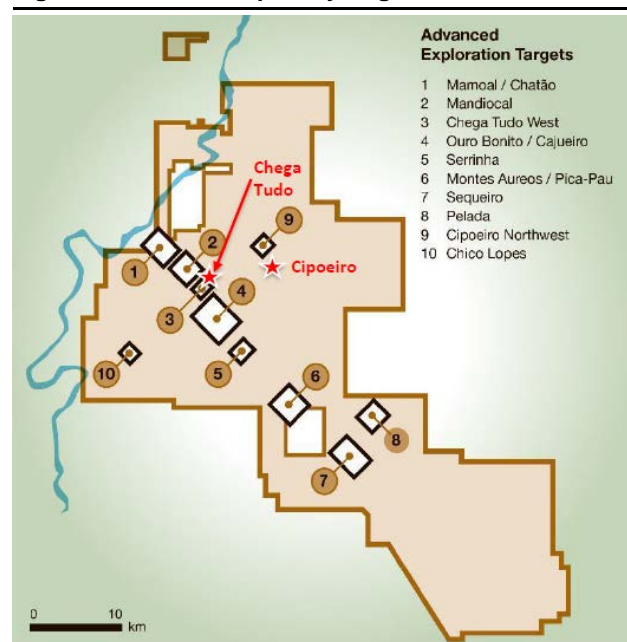
CentroGold consists of a contiguous package 137,000Ha of exploration licenses and applications covering 75km of prospective greenstone geology (Figure 7). Multiple gold occurrences occur along this trend, with evidence of current or historical small-scale artisanal mining. AVB has identified several high priority prospects, including a number which are located close to the proposed operations at Contact, Blanket and Chega Tudo (Figure 8). Some of these nearby prospects have historical drilling on broad-space sections, with gold mineralisation reportedly intersected in a number of holes. AVB intend to follow up with infill and extensional drilling with the aim of defining additional deposits which could be developed as satellite ore sources to assist in either boosting production and/or increasing mine life. There is also a good chance of making new discoveries which are capable of being developed into stand-alone projects, in our view.

Figure 7: Tenement package at CentroGold



Source: Company reports

Figure 8: Location of priority target areas



Source: Company reports

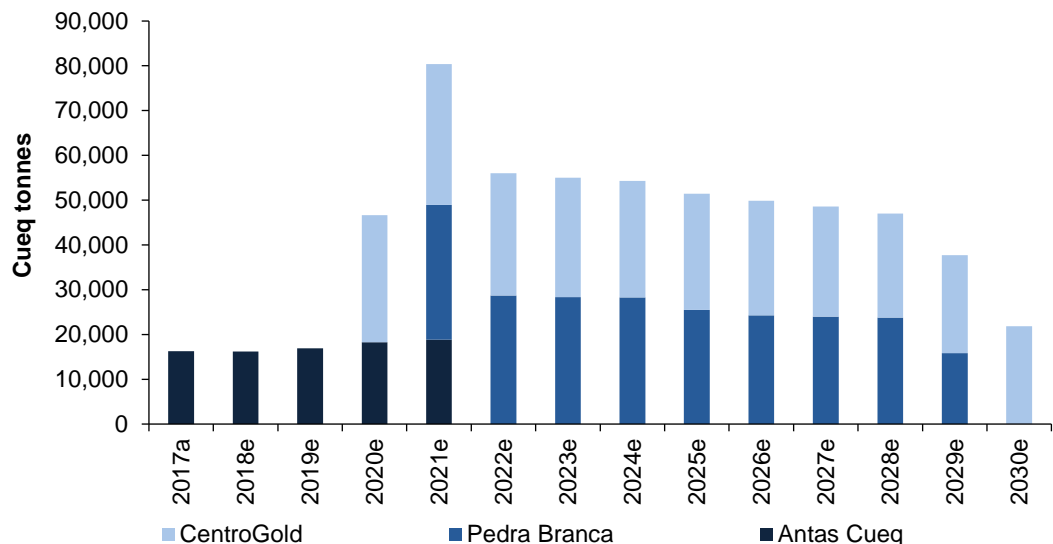
CentroGold slots in nicely to AVB’s development pipeline

The permitting status CentroGold was one of the key features of the project when it was acquired by AVB. When the license injunction is lifted and the Mining License is granted, the project will be fully permitted to start construction. When this occurs, AVB will save up to two years, given this is the standard timeframe to obtain the required mining and environmental permits for a new mining project in Brazil.

With the permits fast-tracked, it opens up a window for CentroGold to be constructed before the expected grant of approvals for construction of Pedra Branca. Assuming CentroGold permits and funding are secured by the end CY18, we believe construction can start in early CY19, with first gold around 12 months later. This would then allow the construction team to immediately move from CentroGold to Pedra Branca for the start of construction in CY20. Early stage earthworks and infrastructure construction at CentroGold would likely start as soon as the permit injunction is lifted i.e. 2H CY18

With CentroGold and Pedra Branca projects coming on stream in the next 2-3 years, the combined production profile of AVB is significant and long-lived. Figure 9 illustrates the copper equivalent production of AVB with Antas, CentroGold and Pedra Branca in operation; copper equivalent production peaks in 2021 at 80kt.

Figure 9: AVB’s copper equivalent production profile



Source: Petra Capital

Funding assumptions

AVB is in early stage discussions with Brazilian banks and other global resource-focused lenders to assist in funding its development pipeline. Multiple options are being considered, with AVB having the benefit of an operating assets generating free cash flow which can be leveraged into lower cost funding. Further, the funding partner has the opportunity to establish a longer term funding relationship with AVB, given the potential need for additional finance to build Pedra Branca and Pantera sometime thereafter. We are yet to include Pantera in our forecasts.

We assume a US\$60m debt facility is established to assist funding CentroGold. The balance of funding is likely secured from a combination of Antas cash flow and new equity; we assume US\$35m is raised at A\$0.10/sh with our valuation fully diluted for new shares. Importantly, this is the only funding event required to support the current development of both CentroGold and Pedra Branca, with cash flow from CentroGold assisting with the Pedra Branca development costs.

We believe AVB can pay the \$60m debt back in 2 years (early 2021), very soon after Pedra Branca is brought on-stream in 2020.

Valuation

We model AVB using DCF methodology at a 10% discount rate (real) on a 12-month forward-looking basis, using Petra commodity and currency forecasts. We calculate individual valuations for mining assets, net debt/cash and corporate costs (Figure 10). We include a nominal \$40m (A\$0.01/sh) of exploration value to account for the significant exploration upside within the extensive tenement portfolio, as well as the recent Pantera acquisition. All valuations are fully diluted for the issue of new equity required to assist funding the CentroGold development.

Given CentroGold is yet to be permitted and project development parameters are not yet defined, we include only 50% of our NPV in the AVB group valuation (A\$128m or A\$0.04/sh). We expect this discount to unwind as the project is de-risked over the course of CY18.

Figure 10: Valuation split at 10% discount rate, fully diluted

	A\$m	A\$/sh	%
Antas	173	\$0.06	31%
Pedra Branca East	204	\$0.07	36%
CentroGold (50% risked)	128	\$0.04	23%
Exploration (incl Pantera)	40	\$0.01	7%
Corporate costs	(43)	\$(0.01)	-8%
Net Cash (Debt)	60	\$0.02	11%
Total	562	\$0.19	100%

Source: Petra Capital

Figure 11: Summary of changes

		CY18e			CY19e			CY20e		
		New	Old	% var	New	Old	% var	New	Old	% var
Revenue	US\$m	104	104	0%	108	108	0%	304	116	161%
EBITDA	US\$m	28	28	0%	36	36	0%	146	50	191%
EBIT	US\$m	10.9	10.9	0%	16.5	16.5	0%	109.9	27.7	296%
NPAT	US\$m	10.0	10.1	-1%	11.9	13.2	-10%	86.0	19.9	333%
EPS	USc/sh	0.34	0.37	-6%	0.41	0.48	-15%	2.96	0.72	311%
DPS	USc/sh	0.00	0.00	na	0.00	0.00	na	0.00	0.00	na
NPV/sh	A\$/sh	0.19	0.15	31%						
Price target	A\$/sh	0.19	0.15	27%						
Antas										
Copper	kt	14.2	14.2	0%	14.9	14.9	0%	16.3	16.3	0%
Gold	koz	10.4	10.4	0%	10.5	10.5	0%	10.5	10.5	0%
C1 costs	US\$/lb	1.51	1.51	0%	1.34	1.34	0%	1.05	1.05	0%
AISC	US\$/lb	1.91	1.91	0%	1.72	1.72	0%	1.39	1.39	0%
Pedra Branca										
Copper	kt	0	0	na	0	0	na	0	0	na
Gold	koz	0	0	na	0	0	na	0	0	na
C1 costs	US\$/lb	0	0	na	0	0	na	0	0	na
AISC	US\$/lb	0	0	na	0	0	na	0	0	na
CentroGold										
Gold	koz	0	0	na	0	0	na	150	0	>100%
C1 costs	US\$/lb	0	0	na	0	0	na	551	0	>100%
AISC	US\$/lb	0	0	na	0	0	na	667	0	>100%

Source: Company reports, Petra Capital

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