

# Avanti's feasibility report dramatically increases NPV Production: 2014



## AJ Ali Chief Financial Officer

**Avanti Mining Inc. (TSX-V: AVT) is developing its core asset, the Kitsault Molybdenum (Mo) project, located near coastal British Columbia, 140 km north of Prince Rupert. As a former producing mine, the Kitsault project enjoys an existing infrastructure that reduces the capital cost needed to develop the mine, and a strip ratio of rocks to ore of less than 1:1. The final feasibility study for the property, prepared by Amec, has increased the project's net present value (NPV) from the pre-feasibility study by 44%. Results of the final study announced on December 20, 2010 reported an after-tax NPV, at an 8% discount rate, of US\$794 million and an IRR of nearly 27%, assuming a base case average molybdenum price of US\$16.76/lb. Initial capital costs were estimated at US\$795 million, with an expected pay-back period of 2.6 years.**

**Resource Intelligence:** Could you give investors a sense of the potential economic value of the project given that moly prices are around US\$16/lb?

**AJ Ali:** We believe Kitsault is an \$800 million mine, this is our reasoning: at average moly prices of \$16.76/lb the project's after-tax value NPV is US\$794 million at an 8% discount factor. How-

ever, we strongly believe we will be adding silver revenue as by-product, and our advisors believe moly prices will increase over time. Given that Avanti is a pure moly play, the share price should respond dramatically to any increase in the price of moly and increases in our cash flow.

**RI:** What is the impact of Avanti's recent financing?

**AA:** We have about 417 million shares outstanding. Fully diluted we have approximately 558 million shares outstanding, that includes the December 31 financing that we did with SeAH Holdings Corp of Korea. Based on valuation and our financing strategy, which is to sell 30% of the project, our shareholders will be left with 70%, which is worth approximately US\$560 million so each share is worth US\$1 based on this valuation.

**RI:** How much did that deal with SeAH Holdings raise and what are your priorities for those proceeds?

**AA:** We raised a total of \$15 million, \$4 million of which is earmarked for exploration to check out the Kitsault deposit that's open to the south side of the pit and to do some additional drilling on Roundy Creek, which has spectacularly high-grade intersections and is very close to Kitsault. The remaining \$11 million is earmarked for environmental assessment, permitting and detailed design engineering as well as financing and marketing arrangements so that by the end of 2011 we hope to have the project "shovel ready" to start construction.

**RI:** What were the other developments over the past year that added to the project's attractiveness?

**AA:** The biggest thing is that we have increased dramatically the value of the project from last year's pre-feasibility of US\$550 million to almost US\$800 million. In addition, we have additional future upside in by-product silver revenue, which was not included in the final feasibility study because the metallurgical test work is not complete. We know the resource has silver and lead in it, we are doing metallurgical work and in 2011 the results of by-product revenue will add to the value of the Kitsault project.

**RI:** What are the implications of Avanti's win in the Supreme Court?

**AA:** It is a positive development for us. Now that the Statutory Right of Way to use the road has been upheld by the Supreme Court of BC, we are open for business.

**RI:** What are the benefits of re-mining an old mine?

**AA:** The existing infrastructure reduces the capital cost that we need to develop the mine. If that infrastructure was not there, the capital cost would be a lot higher. We have the road and ocean access and, more importantly, power right to the mine gate. Secondly, the fact that it's a re-start of an old mine also has advantages from an environmental perspective: the area has already been disturbed so it is a brown field start-up. Not only that, the reclamation plan that was carried out in the last 15 years by the previous owner demonstrates that it can be reclaimed effectively. Lastly, the economic advantages: because of previous mining, the strip ratio of rocks to ore is much better: it is less than 1:1. This means no major pre-stripping is necessary (see picture of existing pit).

**RI:** How different is mining then and now that would give you perhaps better results than when the mine was first opened?



Current view of present Kitsault Mine

**AA:** The mining methods we are going to use is very similar but with larger equipment fleet; the processing equipment and technologies have improved so we should be able to recover and develop the molybdenum more efficiently compared to 30 years ago. Our costs will place us as one of the lowest-cost primary moly producers in the world. And, there will be less impact to the environment.

**RI:** What are the next steps to take the project from the current stage to mine-ready?

**AA:** The biggest priority is to arrange financing of the US\$795 million capital expenditure to be able to build it. The strategic partners we have are certainly going to help towards that. Secondly we need the environmental certificate and the mining permits. Environmental studies have been underway since 2008 in addition to data available from past reclamation activities; there are going to be public hearings early this year and we expect to receive the permits before the end of this year, after the conclusion of the BC and Canadian environmental review process.

**RI:** Can you explain the new relationship with SeAH Holdings?

**AA:** We plan to go into a partnership with SeAH so they will become part owner of Kitsault. There is another Asian steel producer who is interested in buying 10%. Both those partners will end up owning, between them, approximately 30% of the asset. The proceeds from selling them 30% of the asset will be our equity contribution towards developing the project. It is a good deal for our shareholders as we will not be increasing the number of shares.

**RI:** Based on media reports so far 2011 is mostly forecast to remain a good year for moly. What's your market outlook for 2011?

**AA:** My outlook is based upon a very extensive study we commissioned from the CPM Group of New York who produces an independent study annually. They forecast a shortfall of moly sup-

ply and an increase in prices in the short term, in the next couple of years, to as high as US\$28/lb. Prices are starting to move higher with current price of almost US\$17/lb. We are very bullish about moly in 2011 and beyond.

**RI:** Can you give an example of the effect?

**AA:** In the first five years of operation, if moly stayed at \$30 for only 12 months, the entire capital costs would be repaid in just 13 months.

**RI:** Why is there a forecasted supply shortfall?

**AA:** The overall world economic recovery is projected to show growth in moly demand of about 4% per annum. World demand is not being met because new projects are not on-stream. It takes three to four years to develop a mine. What CPM is forecasting is that the supply will be lagging behind the demand so they are expecting a surge in prices. When companies like Avanti and others start to come on in 2014 or 2015 CPM forecasts the prices to come down.

To be conservative, we have used those projected low prices for the start of production in our feasibility base case economics. As you can see, it is a very conservative forecast.

**RI:** Amidst these positive sentiments, how should investors evaluate Avanti?

**AA:** We are big and we are low cost. The mine life of the Kitsault deposit is 16 years but we have two other deposits which are not even part of the feasibility study. Currently on measured resources we will be the fifth largest moly mine in the world. Our total operating costs are only \$5.50/lb. In the four years prior to the recession moly averaged about US\$30/lb. As Steve Smith, managing director of Mining and Metals at West LB, our lead financial advisor, said, being a low-cost if not the lowest-cost producer means we are virtually invulnerable to market crashes. For example, Thompson Creek produces the equivalent to our 30 million planned output; however our costs will be about \$1.20 less per pound – a savings of \$36 million. The benefits of our location and infrastructure cannot be underestimated. The silver is another upside. Yet another upside is the current price of moly at US\$17/lb and it's leveraging to our share price. So there are many upsides to the stock. Because the cash cost of producing at the mine is low the NPV of Kitsault is high at about US\$800 million, and that is with average price in our base/case of US\$16.76. If you add only US\$1 to the average price of moly over the mine life the revenue goes up by approximately US\$400 million (undiscounted).

**RI:** What would your milestones be over the next three to five years?

**AA:** Our top priority is to get Kitsault into production, ahead of any competitor. We expect to start construction about this time next year and by 2014 we will be in production. After we finance this project and start construction we will be looking at the opportunity of growing the company through additional acquisitions so we are not dependent on just one mine for cash flow and earnings for our shareholders.



## Investor Highlights:

**Stage: Completed Feasibility**

**Market Cap: \$148,000,000 as of January 21, 2011**

**Share price: \$0.355 as of January 21, 2011**

**Commodity: Molybdenum**

**Production planned: Spring of 2014**

**Mine Life: 16 years**

**Cash: US\$18 million as of December 31, 2010**

### Highlights:

- Completed highly positive feasibility report
- Fast tracked 3 years to production in 2014
- LOI signed with two strategic partners. Advanced negotiations with steel producers
- Pure moly play that is tightly leveraged to the price of moly
- Share liquidity insures smooth markets
- Fifth largest moly mine in the world
- Low-cost primary moly producer
- Trades at 10% of net asset value versus Thompson Creek at 100%
- Infrastructure: Road & power
- Proven management



Existing substation at Kitsault Mine