

AVANCO RESOURCES LIMITED (AVB)

Hartleys Site Visit

We recently attended an in-depth, 5 day site visit to AVB's three assets in Brazil. Although ASX listed, AVB is very much a Brazilian company with virtually all its executive team located in-country and speaking the language. It has a very good understanding of the social, mining and political landscape in Brazil and has a proven track record of getting projects into production.

Antas

The Antas mine in the Carajás region, which has been operational for the past 18 months, boasts an impressively tidy and well laid out 700ktpa plant. Open pit operations appear to be running well with Australian contractor MACA undertaking the mining works, guided by a close knit AVB management team, consisting of both expat and Brazilian professionals. Antas remains open at depth, where opportunities are currently being tested to extend the reserve below the current pit design. The operation remains on target to meet annual guidance of 13.5-14.0kt Cu at cash cost US\$1.35-US\$1.50/lb.

Pedra Branca

AVB released a PFS for the nearby Pedra Branca East deposit and is currently crunching the numbers to optimize, refine and deliver an updated study by year end. Pedra Branca East is larger than Antas and could yield 24kt Cu and 16koz Au per annum. It can be enhanced by the adjacent Pedra Branca West deposit, which is smaller and structurally complex. The challenge for AVB is that the deposit will be mined as an underground operation, an area not currently in AVB or MACA's remit.

CentroGold

The CentroGold project, in the adjacent northern State of Maranhão has been acquired from TSX listed Jaguar Mining (JAG) who, like previous owners such as Kinross, were weighing up the economics of a large tonnage, low grade operation. AVB is seeking to extract the higher grade portions in a smaller scale open pit operation (~2Mtpa) and is applying its Brazilian knowhow to advance its social licence to operate. CentroGold currently has a 1.3Moz resource over the Blanket and Contact zones of the Cipoeiro deposit and a maiden Chega Tudo resource is expected to be released by the end of October 2017. We see opportunity for a multimillion ounce operation with the inclusion of the likes of the Chega Tudo, Mandiocall and Sequeiro prospects on the adjacent shear zone. At present, two drill rigs are on site undertaking infill and met drilling with a Scoping Study due out by December. We would like to see a third rig assess opportunities at the sparsely drilled prospects on the parallel shear zone to Cipoeiro, where we believe numerous opportunities lie. CentroGold is shaping up to be a very good asset for AVB. We suspect it has crept in front of Pedra Branca in terms of priority.

Increased Price Target, Maintain Speculative Buy

AVB's strengths are its technical abilities and Brazilian knowhow, two key elements for future success at the projects we visited. We have updated our model and brought the timing forward on CentroGold as guided. Subsequently, we maintain our Speculative Buy recommendation with an increased price target of 18cps (from 16cps), NAV of 16cps (from 15cps) and spot NAV of 20cps. A positive resolution in the CentroGold licensing issue could see us move to a Buy recommendation.

17 Oct 2017

Share Price	\$0.10
Valuation	\$0.16
Price Target (12 month)	\$0.18

Brief Business Description:
Cu-Au developer and explorer

Hartleys Brief Investment Conclusion

Brazilian Cu-Au miner, expected to produce ~14ktpa Cu & 10kozpa Au from Antas this year, with growth potential at Pedra Branca and further afield.

Chairman & MD

Vernon Tidy (Interim Chairman & Non-Exec Director)
Tony Polglase (Managing Director)

Top Shareholders

Appian Natural Resources Fund	18.5%
Greenstone	16.7%
Blackrock Group	12.9%
Glencore	8.3%

Company Address

Suite 3, 257 York Street
Subiaco, WA 6008

Issued Capital 2456.9m

- fully diluted 2648.9m

Market Cap A\$240.8m

- fully diluted A\$259.6m

Cash (30 Jun 17a) A\$33.5m

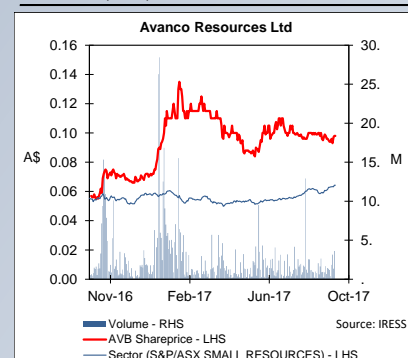
Debt A\$0.0m

EV A\$207.3m

EV/Resource lb A\$0.15/oz

Prelim. (A\$m)	CY16a	CY17e	CY18e
Prod (kt Cu)	10.3	14.0	14.3
Op Cash Flw	16.1	44.4	46.8
Norm NPAT	4.8	15.8	22.2
CF/Share (cps)	0.2	0.8	1.1
EPS (cps)	0.2	0.8	1.1
P/E	42.4	12.8	9.1

	Mt	Cu (%)	Au (g/t)
Resources	33.2	1.95	0.49
Reserves (Total)	3.0	2.64	0.58



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Avanco Resources Ltd							Share Price							Speculative Buy							
AVB							\$0.098														
Key Market Information														Company Information							
Share Price							\$0.098							Vernon Tidy (Interim Chairman & Non-Exec Director)							
Market Capitalisation - ordinary							A\$241m							Suite 3, 257 York Street							
Net Cash							A\$33m							Tony Polglase (Managing Director)							
Market Capitalisation - fully diluted							A\$260m							Luis Ferraz (Non-Exec Director)							
EV							A\$293m							Paul Chapman (Non-Exec Director)							
Issued Capital							2456.9m							Luis Azevedo (Executive Director)							
Options							192.0							Simon Mottram (Executive Director)							
Issued Capital (fully diluted inc. all options)							2648.9m														
Issued Capital (fully diluted inc. all options and new capital)							3544.6m							www.avancoresources.com							
Valuation							\$0.16														
12month price target							\$0.18														
P&L	Unit	Dec 16	Dec 17	Dec 18	Dec 19	Dec 20															
Net Revenue	A\$m	66.2	125.2	140.0	231.5	441.9															
Total Costs	A\$m	-55.6	-86.8	-86.0	-129.0	-236.2															
EBITDA	A\$m	10.6	38.4	53.9	102.5	205.7															
- margin		16%	31%	39%	44%	47%															
Depreciation/Amort	A\$m	0.0	-20.2	-21.8	-29.2	-43.4															

VALUATION

We have updated our model and brought the timing forward on CentroGold to 2H19 as guided in the recent acquisition announcement. Our sum of parts valuation for AVB also assumes Antas is now at full plant capacity (0.7Mtpa) and Pedra Branca moves into production in early-CY20. We model Antas out to mid-CY25 (8.75yrs remaining) and assume additional resource tonnes convert, and are included in the mining inventory. We model a staged 9.5 years at Pedra Branca, and see potential upside at both projects. We have modelled CentroGold as a 8 year, 2Mtpa operation, which adds 6cps to AVB's NAV. CentroGold is somewhat risked as licensing issues currently remain unresolved but a clear pathway to resolution is apparent and will be a catalyst for an upgrade to a Buy recommendation. We model a nominal \$90m (\$0.03/share) for exploration upside and will revisit this valuation pending the results on the ongoing exploration efforts close to Antas and CentroGold. We believe AVB is well positioned for brownfield exploration success at both projects and more regionally. We assume the 192M options @ 10c are exercised in June 2018 (150M) and December 2019 (42M).

Hartleys models Antas to 2025, CentroGold to 2027 & Pedra Branca to 2029

Hartleys sum of parts valuation for AVB is A\$0.16/share

Fig. 1: Hartleys Sum of Parts Valuation for AVB

Share Price Valuation (NAV)	Risk Est. A\$m	Est. A\$/share
100% Pedra Branca (pre-tax NAV at disc. rate of 12%)	127	0.04
100% Antas (pre-tax NAV at disc. rate of 8%)	233	0.07
100% CentroGold (pre-tax NAV at disc. rate of 14%)	197	0.06
Other Exploration	90	0.03
Forwards	0	0.00
Corporate Overheads	-17	0.00
Net Cash (Debt)	33	0.01
Tax (NPV future liability)	-102	-0.03
Options & Other Equity	17	0.00
Hedging	-2	0.00
Total	577.2	0.16

Source: Hartleys Estimates

Fig. 2: Earnings Changes

Unit		31 Dec 16	31 Dec 17				31 Dec 18		
		Actual	Old	New	% diff		Old	New	% diff
Cu Production	kt	10.3	14.0	14.0	0.0%		14.3	14.3	0.0%
Au Production	koz	7.4	10.8	10.8	0.0%		10.8	10.8	0.0%
Cash costs (C1)	A\$/lb Eq	2.07	2.18	2.13	-2.5%		2.05	1.99	-2.7%
Total operating costs (AISC)	\$A/lb Eq	3.03	3.48	3.39	-2.5%		3.58	3.48	-2.7%
Net Revenue	A\$m	66.2	128.7	125.2	-2.7%		144.6	140.0	-3.2%
Total Costs	A\$m	-55.6	-89.1	-86.8	-2.5%		-88.6	-86.0	-2.9%
EBITDA	A\$m	10.6	39.7	38.4	-3.2%		56.0	53.9	-3.7%
- margin		16%	31%	31%	-0.5%		39%	39%	-0.5%
Depreciation/Amort	A\$m	0.0	-20.2	-20.2	-0.2%		-23.9	-21.8	-8.6%
EBIT	A\$m	10.6	19.5	18.2	-6.4%		32.2	32.1	-0.1%
Net Interest	A\$m	-4.9	0.6	0.6	0.0%		-5.7	-5.7	0.1%
Norm. Pre-Tax Profit	A\$m	5.7	20.0	18.8	-6.2%		26.4	26.4	-0.1%
Norm. Tax Expense	A\$m	-0.9	-3.2	-3.0	-6.2%		-4.2	-4.2	-0.1%
- rate		16.0%	16%	16.0%	0.0%		16.0%	16.0%	0.0%
Reported Tax Expense	A\$m	0.0	0.0	0.0	n/a		0.0	0.0	n/a
Normalised NPAT	A\$m	4.8	16.8	15.8	-6.2%		22.2	22.2	-0.1%
Abnormal Items	A\$m	0.9	3.2	3.0	-6.2%		4.2	4.2	-0.1%
Reported Profit	A\$m	5.7	20.0	18.8	-6.2%		26.4	26.4	-0.1%
Minority	A\$m	0	0	0	n/a		0	0	n/a
Profit Attrib	A\$m	5.7	20.0	18.8	-6.2%		26.4	26.4	-0.1%
capex + exploration	A\$m	-4.2	-19.4	-18.9	-2.6%		-30.2	-68.4	126.8%
Net Debt	A\$m	-24.0	-50.2	-49.5	-1.3%		-129.0	-87.9	-31.8%
Dividends Per Share	cps	-	-	-	n/a		-	-	n/a

Source: Hartleys Estimates

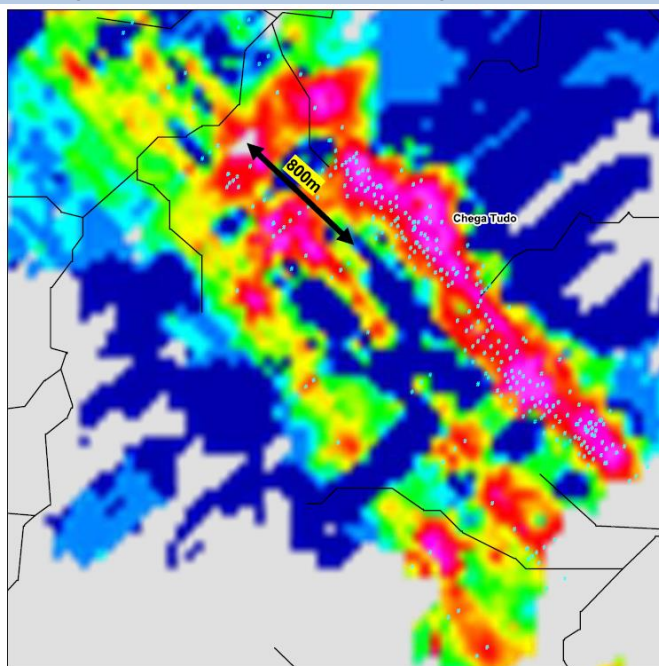
ACCELERATING CENTROGOLD

AVB recently announced that it is accelerating its 100% acquisition of the CentroGold Project. The Company will pay US\$9M for the Project (US\$2M on signing, US\$2M within 60 days, and an additional US\$5M in 10 monthly payments of US\$500K, following completion of permitting). A Scoping Study will be finalised by end of 2017 with a DFS targeting completion in 1H18. AVB believes there is potential for 100Kozpa Au from operations commencing in 2H19. The project is subject to licensing issues, which AVB is working to resolve through engagement with the local community and government.

In the late 70's and early 80's, parcels of land surrounding what is now CentroGold, were leased by INCRA (The Brazilian National Institute for Colonisation and Agrarian Reform) to the local people under the condition that they would farm the land. The parcels of land have subsequently been on-sold over the years, but were not actually the holder's assets to sell. Issues now exist with licensing of the CentroGold Project as AVB has to compensate the original recipients of the land parcels, and not the current holders who have essentially acquired the land illegally. AVB is actively engaging with the 80 households located within the project area, and will seek to relocate and offer employment opportunities even though all but 3 houses are illegally situated. It also has to deal with numerous Garimpeiros (artisanal miners), but will offer alternative locations for them to exploit the saprolite. Given the tough work conditions, one can expect many Garimpos to seek more stable employment with AVB, which will also be tabled.

CentroGold currently has a 1.3Moz resource over the Blanket and Contact zones of the Cipoeiro deposit. We see opportunity for a multimillion ounce operation with the inclusion of the likes of the Chega Tudo, Mandiocac and Sequeiro prospects on the adjacent shear zone. Two drill rigs are on site undertaking infill and met drilling to augment a Scoping Study for Cipoeiro, due out by the end of the year. We would like to see a third rig assess opportunities at the sparsely drilled prospects on the parallel shear zone, where we believe numerous opportunities lie.

Fig. 3: Large soil anomaly over Chega Tudo at CentroGold



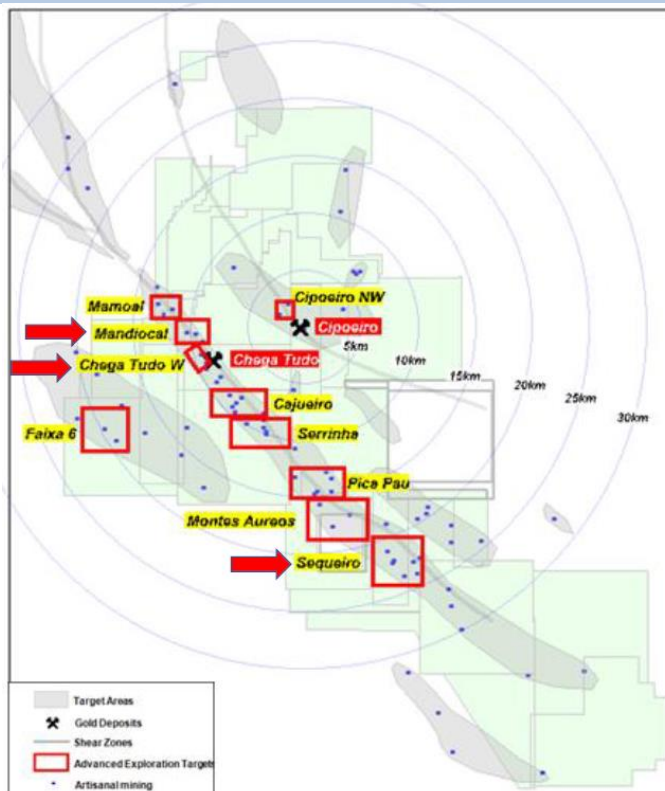
Source: Avanco Resources

AVB is actively engaging with the local community and government to work through licensing issues, which may delay CentroGold's development.

A maiden resource is due to be released for Chega Tudo before the end of October 2017.

Fig. 4: Numerous potential targets at CentroGold

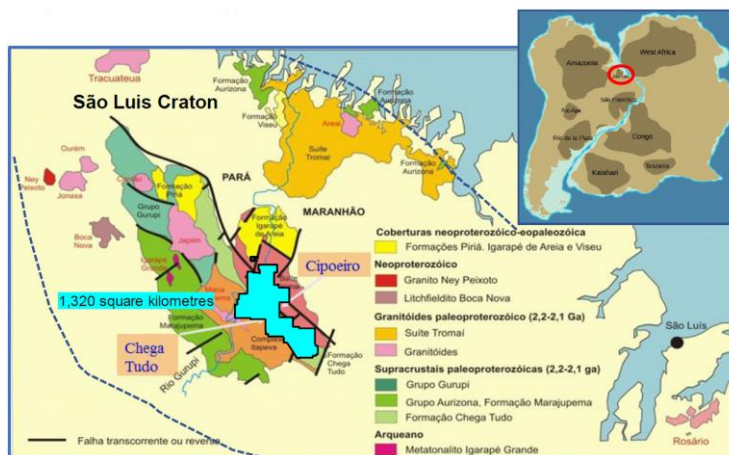
At CentroGold, we see opportunity for a multimillion ounce operation with the inclusion of the likes of the Chega Tudo, Mandiocal and Sequeiro prospects on the adjacent shear zone to Cipoeiro



Source: Avanco Resources

Fig. 5: CentroGold is within the Sao Luis Craton

CentroGold lies within the Sao Luis Craton, a fragment of the well-endowed Birimian terrane of the West African Craton.



Source: Avanco Resources

PEDRA BRANCA

The Pedra Branca East boxcut has already been established to show the Company's intent in developing the underground. Full scale mining will not commence until early 2019 at best as the mine still requires full approval. AVB is currently optimising the Pedra Branca PFS, and hopes to release an update by the end of the year.

Fig. 6: *The box cut at Pedra Branca*



Source: Hartleys Site Visit

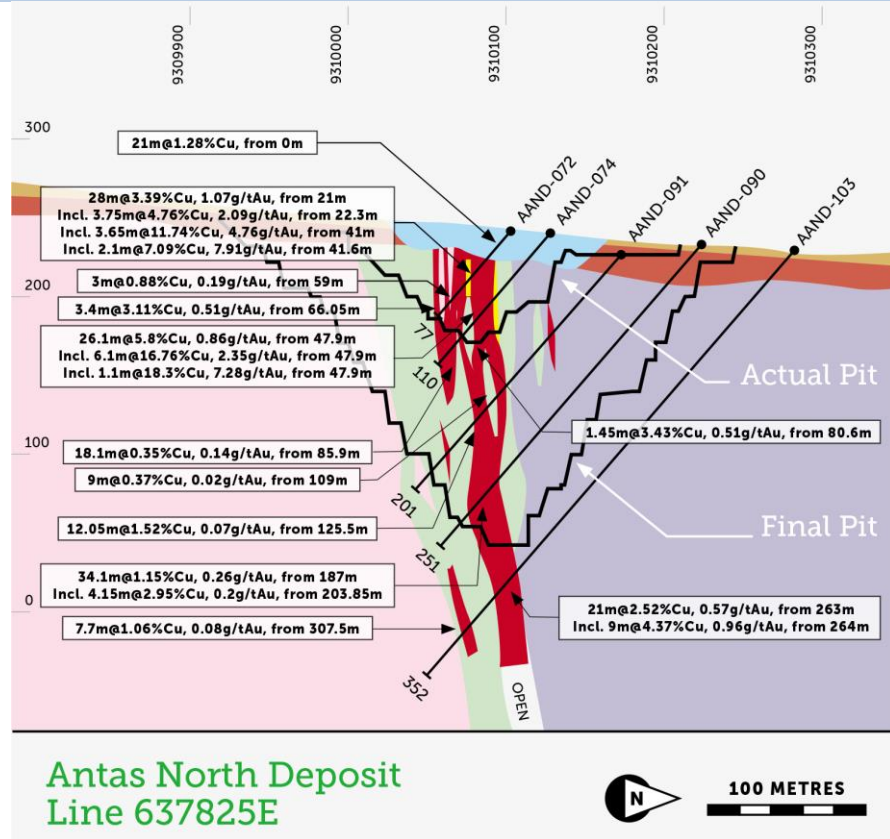
The Pedra Branca East box cut has been established ahead of schedule, while AVB crunch the numbers to optimise the PFS.

Fig. 7: *Panoramic photo of the Antas pit*



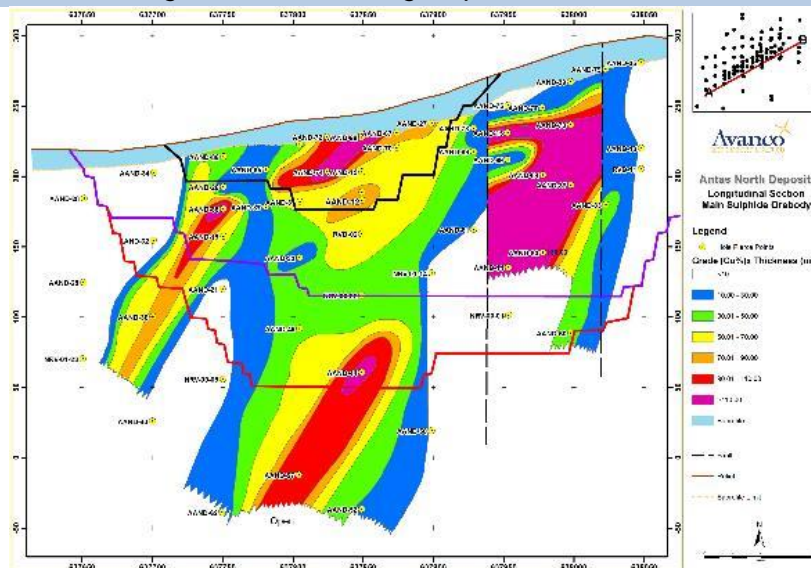
Source: Hartleys Site Visit

Antas is now operating at steady state, 18 months after first production.

Fig. 8: *Antas North remains open at depth – cross section*

Source: Avanco Resources

A 5,000m infill and extensional drilling program aims to upgrade resource and reserves at Antas. 1Mt of additional reserve is being targeted and is expected to be released by the end of CY17.

Fig. 9: *Long section showing depth extent at Antas North*

Source: Avanco Resources

PRICE TARGET

Our price target for AVB is \$0.18 and assumes Antas is at full plant capacity (0.7Mtpa) as at SepQ CY17, and that Pedra Branca gets approved and moves into production in 2020. Both projects combined will see AVB take steps towards becoming a mid-tier copper producer with a relatively large, long life copper mining business. Further discoveries, mine extensions and/or optimisation of Pedra Branca West will see AVB reach its 50ktpa Cu and 35kozpa Au target. We also include CentroGold and assume production commences in the latter part of CY19 but this is risked on account of the existing licensing issues. Our price target includes weighting for the base case at consensus and spot prices, a weighting for the net cash backing and an upside scenario where an additional 5 years is added to the Antas mine life and Pedra Branca West is included in the mine plan.

12-month price target
of \$0.18

Fig. 10: AVB price target methodology

Price Target Methodology	Weighting	Spot	12 mth out
NPV base case	60%	\$0.16	\$0.19
NPV at spot commodity and fx prices	20%	\$0.20	\$0.22
Net cash backing	10%	\$0.01	\$0.01
NPV upside (5 yrs added to Antas + Pedra Branca West)	10%	\$0.19	\$0.22
Risk weighted composite		\$0.16	
12 Months Price Target		\$0.18	
Shareprice - Last		\$0.098	
12 mth total return (% to 12mth target)		86%	

Source: Hartleys Estimates

RISKS

Fig. 11: Key assumptions and risks for valuation

Assumption	Risk of not realising assumption	Risk to valuation if assumption is incorrect	Comment
0.7Mtpa Antas & 1.2Mtpa Pedra Branca 2Mtpa CentroGold	Moderate	Meaningful	AVB is highly leveraged to the success of the Antas Copper project. We model a 0.7Mtpa 'starter' project followed by a 1.2Mtpa project at Pedra Branca. Meanwhile, we model CentroGold commencing operations in CY19. If either project varies from our modelled scenarios our valuation will be at risk to the downside
Model parameters	Moderate	Meaningful	We have made a number of large assumptions in our valuation of AVB, changes in these assumptions can change our valuation to both the upside and downside.
Exploration potential	Moderate	Meaningful	We assume exploration upside at all projects and throughout the region. We believe this assumption is reasonable given the geological prospectively of the world class Carajás province.
Funding	Moderate	High	We model Pedra Branca to be funded with new conventional debt (70%) and equity (30%), and CentroGold to be funded with 60% debt and 40% equity. We believe this assumption is acceptable given the Antas 'starter' project is fully funded.

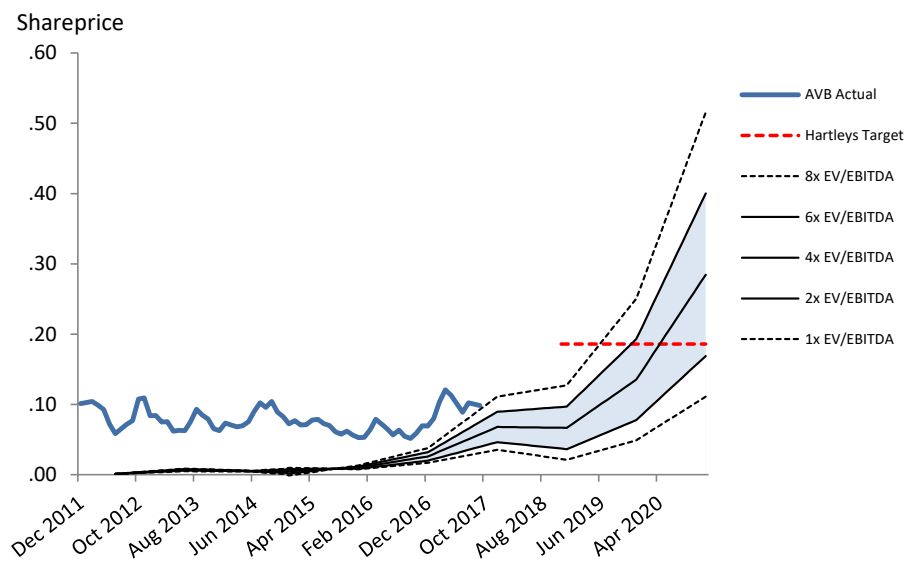
Conclusion

At this early Stage we have made significant assumptions but believe these are achievable.

Source: Hartleys Research

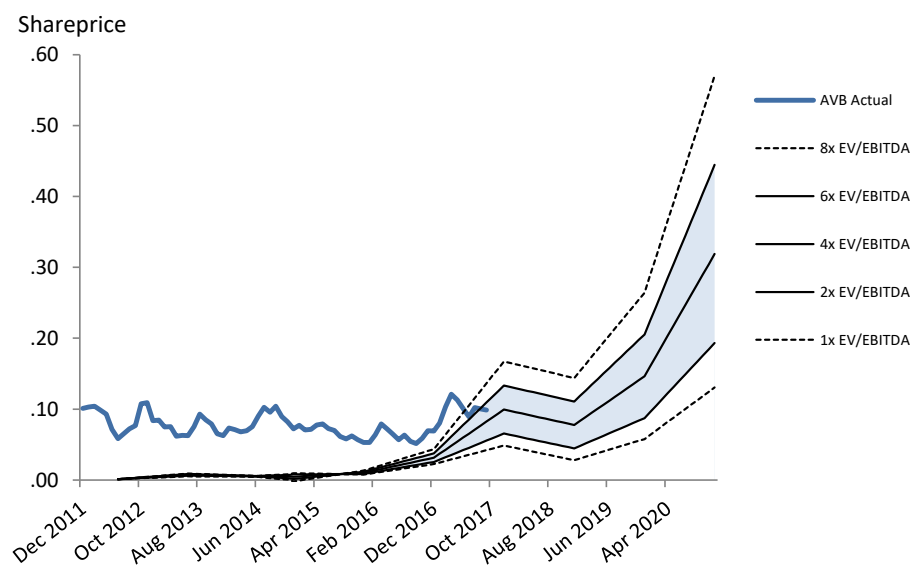
EV/EBITDA BANDS

Fig. 12: Using Hartleys base case commodity forecasts



Source: Hartleys Estimates, IRESS

Fig. 13: Using spot commodity prices



Source: Hartleys Estimates, IRESS

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Hartleys Recommendation Categories

Buy	Share price appreciation anticipated.
Accumulate	Share price appreciation anticipated but the risk/reward is not as attractive as a "Buy". Alternatively, for the share price to rise it may be contingent on the outcome of an uncertain or distant event. Analyst will often indicate a price level at which it may become a "Buy".
Neutral	Take no action. Upside & downside risk/reward is evenly balanced.
Reduce / Take profits	It is anticipated to be unlikely that there will be gains over the investment time horizon but there is a possibility of some price weakness over that period.
Sell	Significant price depreciation anticipated.
No Rating	No recommendation.
Speculative Buy	Share price could be volatile. While it is anticipated that, on a risk/reward basis, an investment is attractive, there is at least one identifiable risk that has a meaningful possibility of occurring, which, if it did occur, could lead to significant share price reduction. Consequently, the investment is considered high risk.

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The analyst travelled to site at the expense of AVB, with all associated costs being covered by AVB.