Avnel Gold - Research Report from Edison Investment Research

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- Golden Upside

Avnel Gold (AVK:CN)'s drilling results announced on 22 February 2011 highlight the potential for bulk tonnage, open pittable gold mineralisation at the company's Kalana permit in south-western Mali. A relatively small underground mine currently extracts ~20kozpa from high-grade quartz veins on the property. However, Avnel is focused on the area's potential to host significantly larger bulk deposits. Extensive exploration work is being undertaken in partnership with TSX-listed IAMGOLD, which has the option to earn an initial 51% of Avnel's 80% stake in the 30-year permit by spending US$11m over three years and delivering a resource of 2Moz (although we believe the permit has the potential to deliver a resource of at least double this).

According to the IAMGOLD option agreement, Avnel is likely to end up owning 39.2% of at least a 2Moz resource at Kalana where the company's established presence would assist in the development of a new mine. Using a benchmark multiple of $125.5/oz derived for 'inferred ounces listed on the TSX', we calculate a value for Avnel of US$98m, which rises to US$135m if these resources were drilled out to 'indicated' status. However, our valuation excludes the value of the significant greenfields exploration potential at Kalana and Fougadian.

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TSX-listed Avnel Gold Mining has an 80% interest in Societe d'Exploitation des Mines d'Or de Kalana, owner of the 387.4km2 Kalana mine and exploitation permit. The Malian government holds the remaining 20%. The mine has historically produced over 190koz of gold. Avnel also owns a 90% interest in the 75km2 Fougadian exploitation permit located south of Kalana where IAMGOLD has an option to acquire 51%.

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