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Avanti delivers positive prefeasibility for Kitsault

VANCOUVER — With the receipt of a positive prefeasibility study, **Avanti Mining** (AVT-V) has taken another step towards its goal of reopening the historic Kitsault molybdenum mine in northern British Columbia.

Building on last year's economic assessment for the project, the Kitsault prefeasibility study investigated the merits of restarting the open-pit mine to tap into 215.3 million tonnes of proven and probable reserves grading 0.085% molybdenum. The report concluded the reserves could support an operation churning through 40,000 tonnes of ore each day to produce 24.5 million lbs. moly annually over a 15-year mine life.

For an initial capital investment of US\$641 million, Avanti could build a mine able to produce a pound of molybdenum for US\$4.43. Using a base-case molybdenum price of US\$15.88 per lb., the Kitsault project carries an after-tax net present value of US\$551 million, using an 8% discount rate, and would generate a 20.6% internal rate of return.

By the end of its 15 years of operation, a mine at Kitsault would have produced 368 million lbs. molybdenum.

The Kitsault mine was in operation from 1967 to 1972, then again from 1981 to 1982. Combined production from both periods totals 30 million lbs. molybdenum, from 13.5 million tonnes of ore grading 0.11% moly. Earlier operators encountered significant resistance from local native groups; the resistance contributed to the mine's shutdowns but the driving force both times was a falling molybdenum price.

Avanti bought the mine for US\$20 mil-

lion in October 2008. The company has since put considerable effort into developing healthy relationships with its Nisga'a neighbours. In late 2008, that effort produced a communication protocol between Avanti and the Nisga'a. In addition, the Nisga'a negotiated and signed their First Nation Treaty recently, which means the agreement clearly demarcates land and mineral title ownership.

The project's location and existing infrastructure certainly aids its economics. Kitsault is located 140 km north of Prince Rupert, just south of the head of Alice Arm, which is a long, deep inlet of the Pacific Ocean. There is road access to the mine site, which is 12 km from the water, and BC Hydro transmission lines already service the site.

Avanti also plans to develop a run-of-river hydroelectric project based around its water diversion efforts, which will be designed to manage the 2 metres of precipitation that falls in the area each year. The company says the hydroelectric project "may represent a long-lived project asset with implications for project reclamation financing."

However, two royalties also enter the Kitsault economics equation. Amax Zinc Newfoundland, a subsidiary of **Freeport-McMoRan Copper & Gold** (FCX-N), holds a 9.22% net profits interest and **Alcoa** (AA-N) holds a 1% royalty.

An operating mine at Kitsault would employ some 330 people, in addition to the 250 workers that will be needed to build the operation.

Avanti has already started work on a feasibility study for Kitsault, which the

company plans to complete before the end of 2010. The feasibility will focus on pit optimization and metallurgical optimization, including a roaster trade-off study and lead-silver recovery test work.

While the feasibility study is under way, Avanti plans to advance the permitting and financing aspects of the project. The company would like to begin construction by 2011 and production by 2013.

Avanti also recently finalized a deal to convert most of an outstanding \$20-million loan into shares. In 2008, Avanti borrowed \$20 million from Resource Capital Fund (RCF); in July, the company changed the loan into a convertible debenture. In October, RCF agreed to convert US\$15.1 million of the debenture into units of Avanti, at a conversion price of 16¢ per unit. Each unit comprises a share and half a warrant exercisable at 21.6¢ for four years.

With the conversion, RCF will receive 102 million shares, bringing its current ownership stake in Avanti to 52.6%. RCF has the right to participate in future equity financings by Avanti to maintain an interest of at least 40%.

In addition, RCF has agreed to fix the conversion price of the remaining US\$5-million loan at 24¢ until Avanti completes its next equity financing, at which point the conversion price will fix at the price of the offering.

On news of the prefeasibility study, Avanti shares gained 8.5¢ to close at 25¢, a new 52-week high. Last December, Avanti shares could be had for 8.5¢ apiece. Following the RCF debenture conversion, Avanti has 254 million shares outstanding.