

Avalon presents a rare-earth opportunity

By Mike Kachanovsky

Buying shares in a mineral-exploration stock these days amounts to a leap of faith. The sector is slugging through a nasty correction in the midst of a credit crisis and a recessionary backdrop for the overall economy. Sentiment levels for the junior miners are at rock-bottom lows, and most analysts and advisory newsletters are in the bearish camp.

It should surprise no one then that even high-quality companies are trading in extreme value territory. For those with the highest risk tolerance, the conditions then could not be better to wade in and start loading up on the bargain price levels that are available in this environment.

I do not try to guess when the recovery will come. I am satisfied that the long-term, secular bull market for all metals is a long way from over, and therefore, I am confident that in time the best of the juniors will regain their luster and go on to set new highs. It is during the episodes of extreme bearishness that buying value is like shooting fish in a barrel. Lock and load!

Avalon Ventures Ltd. (AVL-TSX, \$1.35) is a Canadian junior exploration company that has assembled an excellent portfolio of projects with leverage to rare-earth elements and exotic metals. Most people have never heard of the group of 15 rare-earth elements, plus other metals like rubidium, yttrium, and tantalum, but they represent essential raw materials needed for the fabrication of many high-tech products in demand for our society. For example, every hybrid automobile produced requires around 30 kilograms of these metals.

This subsector is fundamentally set up like a powder keg in search of a spark. There are limit-



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ed sources of supply for these metals, and worldwide demand is projected to continue increasing. Most production is generated as a by-product from processing operations geared to other metals. China is the dominant world supplier, and it is worth pointing out that the country has placed export restrictions on many metals recently, so there are potential risks in security of supply as the market tightens.

Due to the strong demand from industrial consumers, there is limited inventory. The fundamentals for these metals would suggest that any interruption in supply could trigger potentially explosive upward price adjustments, and for the tiny group of mining companies that have leverage to the sub-sector, one might expect similar behavior for the stock prices.

Avalon has established a leadership position in defining deposits that could become the next important producing mines, and it is active within the politically stable confines of Canada. Among the many projects 100 percent owned by the company, the Thor Lake rare-metals property is the flagship that is currently advancing towards development into a mine.

While rare-earth elements typically occur together as oxide minerals distributed within a deposit, the relative concentration of each is variable. The "heavier" rare earths are the ones that are of greater value in spot-market pricing, with metals such as neodymium, europium, and terbium usually occurring in lower concentrations. It is the enrichment of the heavier rare-earth elements, along with appealing grades of yttrium, niobium and tantalum, which make Thor Lake a prime candidate for development.

Located north of Great Slave

Lake in the Northwest Territories, there are logistical challenges to deal with that will add to the development costs for the project. However the rich grades of the metals hosted in the mineralization at Thor Lake make for attractive economics nonetheless. Avalon has been working to clear each of the formidable hurdles that lie in the path of advancement.

An NI-43-101-compliant resource estimate, one that meets reporting requirements for a publicly traded company, has been completed that outlines more than 14 million tonnes of high-grade resources in the inferred category. Followup exploration work is ongoing with the objective to define a larger block in the indicated category and complete a prefeasibility study by February 2009.

Metallurgical work is also underway in order to establish the recovery efficiency for each of the metals in a processing circuit, a critical consideration to determine the potential economics for mine development.

Avalon is well funded to continue with all of this work, having successfully raised over \$16 million in an equity offering late last year. Investors may fret about access to capital for the sector as a whole, but need not lose any sleep while Avalon is fully cashed up to continue its work programs.

The share structure remains attractive with fewer than 74 million shares on a fully diluted basis providing shareholders strong leverage to the upside potential for the sector. The market capitalization is below \$100 million. Considering the large high-grade deposit that has been defined so far, Avalon presents attractive value and lower risk levels than the peer group.

It is also worth pointing out that the company controls several other attractive prospects with leverage to the rare earths and exotic metals, including an ad-

vanced-stage lithium project in northwestern Ontario, and a base-metals prospect in Nova Scotia with enriched indium grades. This added measure of diversification will serve to lower the risk for investors and add value as the sector grows in awareness among investors.

For those who choose to buy now there is no shortage of great stocks trading at or near their lows. That is the good news. However, what is in value territory today could slip even further into value territory tomorrow. That is the bad news. It means that to reap the benefits of a bargain shopping spree, investors had better be prepared with patience and fortitude. Do your homework, look under every rock, and if the story looks attractive then buy without remorse for what may come to pass next week. A sector-wide recovery is coming and it will be the best deodorant for a portfolio that is stocked with companies that are currently out of favor.

In the months ahead, the story for Avalon Ventures looks good. It requires great focus to drive forward despite the challenging circumstances facing the mining industry at the current time. The company has effective and competent management with the technical skills necessary to complete exploration and advance a project up the value curve.

The combination of an excellent suite of exploration prospects and a strong treasury should provide a tailwind to support a higher share price. If a mini-mania for the rare-earth sector should develop, all the companies with leverage to these metals will enjoy tremendous upside, and Avalon looks like one company that could lead the market.

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