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Response to Dioro's 8th Supplementary Target's Statement

ASX200 gold producer, Avoca Resources Limited (ASX:AVO) notes the release of Dioro Exploration NL's (ASX:DIO) Eighth Supplementary Target's Statement on 14th August 2009.

Avoca is surprised by the recommendation from the Dioro board that its shareholders not accept Avoca's offer, given that the **Dioro board previously and unanimously recommended acceptance of Avoca's Offer to the Dioro shareholders only two weeks ago** (29 July) in a joint statement with Avoca.

Further, Avoca is concerned that the Dioro board has not taken the opportunity to provide its shareholders with its views as to the comparative virtues of Avoca's Offer and the proposed offer from Ramelius Resources Limited (ASX:RMS).

Given the limited time remaining for Dioro shareholders to decide whether to accept Avoca's Offer, which will close on Wednesday 19 August at 5pm (WST), Avoca contends the Dioro board should have provided comparative commentary on the Avoca and Ramelius offers – by considering the respective merits of those two companies, and their assets. Instead, the Dioro board has let its shareholders down by taking an incredibly short term view, and focussing solely on "current" trading prices.

The Ramelius bidder's statement was released to ASX on 13 August 2009 and contained no new material information to that which had already been disclosed by Ramelius to the market. Ramelius has since advised it will issue a replacement bidder's statement following its acknowledgement that its original bidder's statement was deficient in failing to recognise (despite Avoca's repeated public statements) that Avoca will not accept the Ramelius offer in respect of its 24.42% holding, and therefore that Ramelius will be unable to obtain 100% (or even 80%) of Dioro.

The Dioro board has had adequate time to consider the merits of the Avoca Offer and the proposed Ramelius offer. By not providing its shareholders with any discussion on the merits (or otherwise) of each offer well <u>before</u> the closing date of the Avoca Offer, Dioro shareholders have been deprived of their directors' considerations in assessing the relative merits of each bidder and offer.

Avoca Chairman Robert Reynolds said that he believed it was obvious to Avoca and many market commentators that Ramelius' shares were heavily overvalued.

"The risk for a Dioro shareholder in accepting Ramelius' offer is one of accepting illusory value that subsequently shrinks," Mr Reynolds said.

"From the time Avoca first announced its intention to make an offer for Dioro in April, we made it clear that we were not interested in a long, drawn out process. Avoca has increased its offer twice, extended it five times, made the offer unconditional and had received a unanimous recommendation from the Dioro board."

"Our declaration last Tuesday that our unconditional offer was final, and that we would not extend it beyond 19 August, simply reflected the fact that enough is enough."

Avoca believes its Offer is far superior to the proposed Ramelius offer. An outline of Avoca's comparative analysis of the two offers is set out on page four (Annexure A) for the benefit of all Dioro shareholders. This analysis clearly shows that the Avoca Offer provides Dioro shareholders with greater tangible benefits now, <u>**and significantly improved benefits in the future**</u>.

Avoca believes that Dioro shareholders should **ACCEPT AVOCA'S OFFER before it is too late** for reasons including the following:

- Avoca's Offer of 1 Avoca share for every 2.3 Dioro shares provides Dioro shareholders with significant value of 74.6 cents per share (based on the closing Avoca share price on 14 August 2009), which is an 89% premium to the Dioro pre-bid announcement share price;

- Avoca has a planned production profile from Higginsville of 160,000 to 200,000 ounces per year for the next 8 years. In contrast, Ramelius has announced a single-year planned production from its Wattle Dam underground gold mine of only approximately 70,000 ounces, finishing in the third quarter of 2010 (i.e. only one year). **There are no JORC reserves at Wattle Dam** and there is no guidance from Ramelius that Wattle Dam will extend beyond a single year of production;

- Considerable uncertainty exists over Ramelius' planned production from its proposed Wattle Dam underground mine, which is yet to commence ore development and stoping. It is **Avoca's view that Ramelius will have great difficulty mining 70,000oz at the grade described as the ore continuity at Wattle Dam appears very poor**;

- As Avoca already has an interest in approximately 24% of Dioro's issued share capital, and has **no intention of accepting Ramelius' offer**, it is not possible for the Ramelius offer to provide Dioro shareholders with CGT roll-over relief;

- Avoca's Offer is wholly unconditional and offers accelerated payment terms. In contrast, the proposed Ramelius offer is not yet open for acceptance, and remains conditional on regulatory approvals;

- Ramelius' share price and resultant market capitalisation of approximately $110 million (as at 14 August 2009) significantly overvalues the Wattle Dam asset based on production guidance from Ramelius, and the low 118,000 ounce resource base of Wattle Dam;

- Avoca has greater financial capacity and balance sheet strength to support Dioro and restore the value lost. Ramelius has a short life operation and uncertain future. Avoca provides certainty of value, stability and a clear growth path for Dioro shareholders.

It is Avoca's view that **the Dioro share price is where it is today because of the Avoca bid**:

- Prior to the announcement of Avoca's Offer for Dioro, the Dioro share price was 39.5 cents - and for the six months before Avoca's Offer, the Dioro VWAP was 34.5 cents in a rising gold price environment;

- It is also Avoca's view that the Dioro board cannot possibly recommend the inferior Ramelius offer under any circumstances, given its overvalued scrip, short production profile (1 year only), absence of any reserve base and very uncertain future. Dioro shareholders should not accept Ramelius shares **at any price**.

Avoca's Managing Director, Mr Rohan Williams, said Avoca, being Dioro's largest shareholder, is very much of the view that the asset base of Ramelius, and particularly the Wattle Dam underground gold mine, is not one that Dioro should become associated with."

"As the major shareholder in Dioro, we believe that combining it and Ramelius would be a major backward step."

"By joining Avoca, Dioro shareholders can become part of an ASX 200 Company with the credentials, track record and growth prospects to become Australia's pre-eminent mid-tier gold producer."

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ANNEXURE A

Avoca's reasons for stating that **its Offer is far superior to the proposed Ramelius offer are based on solid facts**, as outlined below.

Avoca is an ASX200 gold producer with a market capitalisation of A$451 million (as at 14 August 2009), and is forecast to produce 190,000oz of gold in the 2009/10 financial year. Ramelius is a company in transition from an open pit operation (which has ceased) to a proposed new underground mining operation, which is yet to commence production. Ramelius' market capitalisation is A$107 million at 14 August 2009 (which is less that 25% of the size of Avoca) and in Avoca's view is significantly over-valued. Ramelius has an uncertain future given that it has announced only one year of planned production from the Wattle Dam underground mine, which has not yet commenced production. In comparison, Avoca has a plus eight year planned mine life at its Trident operation, which is performing strongly.

In evaluating each company's shares (as the consideration being offered to Dioro shareholders), there is no comparison – Avoca is (and is regarded as) a quality company with a proven track record of delivering results, is a significant gold producer, has a well defined future production and earnings profile, and has a growth profile that is supported by a substantial annual exploration program on its extensive tenement holdings. In contrast, Ramelius is not yet in production from its underground mine which, it has stated, will cease production in the 3rd quarter of 2010 (i.e. only one year), has an uncertain future, no JORC compliant reserves together with a small resource base and a small tenement holding.

To further illustrate the significant difference in the quality and longevity of Avoca and Ramelius, a comparison of the valuation, production, reserves and resources, and mine life metrics of the two companies is set out in the table below:

Statistic	Avoca	Ramelius	Avoca advantage
Market capitalisation	$451 million	$107 million	4.2 times
FY2009/10 forecast production	190,000 oz	43,000 oz	4.4 times
Mine life	8 years	1 year	8.0 times
8 year planned production profile	+1.4 million oz	68,700 oz	20 times
Reserves	581,000 oz	Nil	Nm
Resources	1,448,000 oz	118,600 oz	12.2 times
Major Tenement holdings	Higginsville $2,700km^2$	Wattle Dam $215km^2$	12.6 times
Mill capacity	1.2M tpa	0.18M tpa	6.7 times
Market cap./resource ounce	$311 / ounce	$902 / ounce	2.9 times

Notes: nm = not meaningful; tpa = tonnes per annum
Source: ASX announcements

Hence, Avoca's view that the quality of its shares and its Offer for Dioro is far superior to the Ramelius offer, is clearly supported. If Dioro shareholders accept Ramelius shares, they will expose themselves to greater risk and uncertainty than if they accept the Avoca Offer.

KEY QUESTIONS DIORO SHAREHOLDERS SHOULD CONSIDER ARE:

1. What will happen once production ceases at Ramelius' Wattle Dam underground mine in the 3rd quarter of 2010? What is the plan?
2. How will the present market value of the company be maintained?
3. What is the Ramelius share price likely to do once production ceases?

4. How successful will the underground operations be with a mine plan that is not even based on JORC reserves?
5. Does Ramelius understand the Wattle Dam ore body well enough in the absence of any JORC reserves?

Dioro's directors should be informing Dioro shareholders in detail of the merits and risks of each offer. Dioro's directors should be evaluating each offer and providing answers to the questions above for their shareholders. In Avoca's view, and based on an objective assessment of the operational statistics set out above, Dioro directors, in properly discharging their fiduciary and statutory duties, could not possibly recommend Dioro shareholders accept Ramelius shares for their Dioro shares – given the consequence of exposure to the significant risks inherent in owning over-valued Ramelius shares.

Avoca Background

Avoca is an ASX 200 gold mining and exploration company based in Perth, Western Australia. Avoca has grown rapidly since its listing in 2002, and its acquisition of the Higginsville exploration project in 2004, located 130km south of Kalgoorlie.

Following the discovery of the Trident underground gold mine at Higginsville in late 2004, and the subsequent construction of the Higginsville Gold Project which included a new 1 million tonne per annum CIL treatment facility built on time and under budget, it poured its first gold bar on 1 July 2008. The time taken from exploration project acquisition to gold pour was four years. Presently, Trident is Western Australia's third largest underground gold mine and has recently commenced mining the thick and high grade 1005 level, which has contributed to record gold production levels. Avoca remains confident it will produce 190,000+ ounces of gold in FY2010 at an operating cash cost of A$452 per ounce (not including royalties).

Avoca has a highly credentialed management team with considerable expertise in exploration, project development and underground mining. Avoca's managing director, Rohan Williams, has more than 15 years experience in the region having worked as a geologist at the +15 million ounce St Ives field immediately north of Higginsville, and the +6 million ounce Norseman field immediately to the south.

The Avoca Board is confident that its management team will continue to expand and develop the existing 1.45 million ounce Higginsville resource base into realising its goal of a +10 year mine life for Higginsville.