



Coventry Resources SPECULATIVE BUY

Current Price: **\$0.20**

Ticker: **CVY**
Sector: **Materials**

Shares on Issue (m): **174.5**
Market Cap (\$m): **34.9**
Cash (\$m): **8.0**
Enterprise Value (\$m): **26.9**

52 wk High/Low: **\$0.34** **\$0.13**
12m Av Daily Vol (m): **0.42**

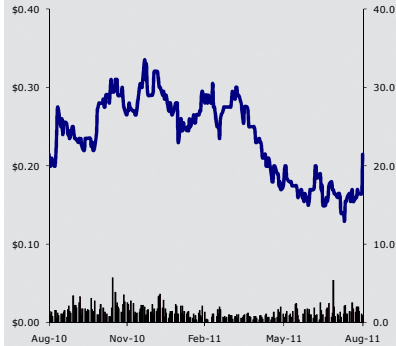
Directors:

Michael Haynes Executive Chairman
Anthony Goddard Technical Director
Faldi Ismail Non-Executive Director
Rhoderick Grivas Non-Executive Director

Substantial Shareholders:

Macquarie Bank 8.8%
Sun Valley Gold Master Fund 5.9%
Nuinsco Resources 5.7%

Share Price Graph



Analysts:
Patrick Chang
Troy Irvin
Tim Serjeant

31 August 2011

Superior Province

Initiation:

Coventry Resources (CVY) is a gold explorer with assets in the Superior Province in Canada, including the flagship Cameron Gold Project. CVY is progressing Cameron towards production, while concurrently conducting extensional and regional exploration.

Impact:

Positive

The Cameron Gold Project has good Resource potential:

- 1.0Moz @ 2.8g/t, independently estimated by Data Geo
- >40,000m of drilling has been completed since last Resource update. Newly identified mineralisation zones likely to report to the upcoming Resource upgrade
- ~128km² tenement holding in a world class gold province
- Well funded drilling campaign (\$7m cash) testing extensions of the Main Zone and numerous regional targets

View:

Positive

The existing Resource at Cameron could justify a standalone operation:

- Potential open cut followed by underground mining
- Good infrastructure in the region including highway, power, water and labour
- Existing site infrastructure including camp, workshop and an exploration decline developed to 243m
- Early metallurgical tests indicate high recoveries of up to 96%

Near term catalysts include:

- Ongoing – Drilling results from the Cameron deposit and regional targets
- December Q 2011 – Resource upgrade
- March Q 2012 – Mining Study Results
- Mid 2012 – Completion of Environment Studies and lodgement of Mining Application

Recommendation:

Spec Buy

Given the existing Resource, infrastructure, exploration potential and cash position, CVY is well leveraged to further exploration success. The current Resource could justify a standalone operation, and the Company is investigating the viability of a base case production scenario. The stock is trading at an EV / Resource oz of \$28, compared to the peer average of \$115. Argonaut believes that the Canadian asset is yet to be recognised and its potential under-appreciated by the Australian Market.

Emerging Canadian Gold Explorer

Overview

The Cameron Project has an independently estimated Resource of 1.0Moz @ 2.8g/t

CVY is a gold explorer with projects in the Superior Province in Ontario, Canada. The flagship Cameron Project has an independently estimated Resource of 1.0Moz @ 2.8g/t.

Since the acquisition of the project in 2010, CVY has completed ~40,000m of diamond drilling. This drilling campaign has successfully identified mineralisation to the north west and in the footwall zone of the main mineralisation at Cameron, and highlighted several promising regional targets.

The Company is concurrently progressing the development of Cameron while pursuing numerous exploration targets. The current drilling campaign (2 rigs) is focused on extensional and in-fill drilling at Cameron and early stage drilling at multiple regional targets.

Superior Location

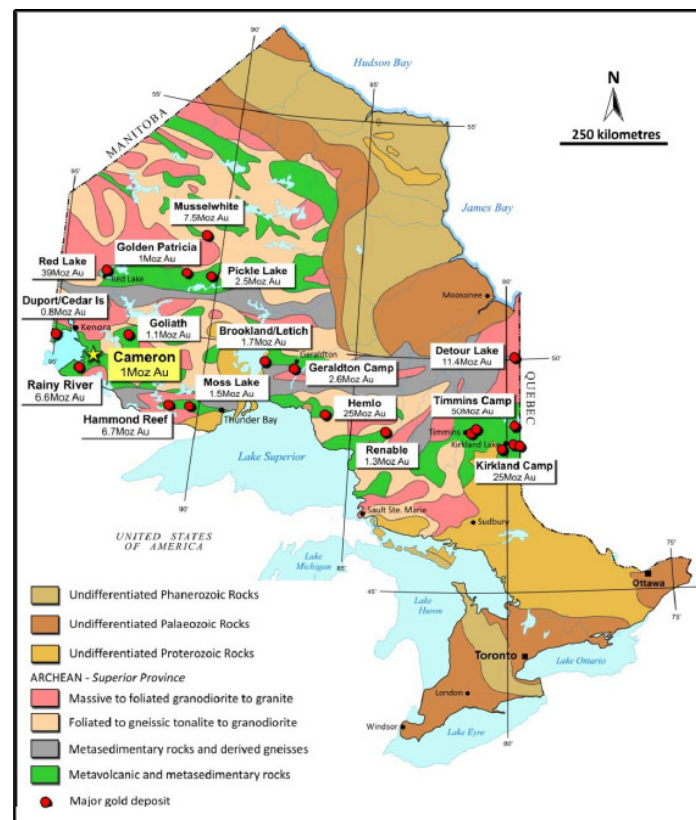
The Superior Province in Canada is a prolific gold district by...

CVY has a land holding of ~128km² in the Superior Province. The Archean-aged Terrane is a world class gold district, hosting many large gold and base metal deposits. The gold mineralisation style is similar to that of other Archean greenstone terranes such as the Yilgarn Craton in Western Australia. The total endowment of the Superior Province is estimated to be ~300Moz, making it one of the most prolific gold districts in the world. Some of the more significant deposits are:

- Red Lake – 39Moz gold
- Hemlo – 25Moz gold
- Timmins Camp – 70Moz gold
- Kirkland Lake / Larder Lake Camp – 40Moz gold

...with a total endowment of ~300Moz

Figure 1: Deposits in the Superior Province



Source: CVY

Cameron Gold Project

Cameron was acquired from Nuinsco during the GFC...

The Cameron Gold Project is located 90km SE of Kenora (population ~15,000), 56km northeast of the 6.7Moz Rainy River Gold Project. CVY acquired 100% of the project in 2010 from Nuinsco for C\$6m and 12m CVY shares. The previous owner of the project envisaged an underground operation and had completed considerable amount of work. An established workshop, a camp, an exploration decline (developed to a depth of 243m), and crushed stockpile containing 3koz @ ~4g/t came with the acquisition. Nuinsco retained a 3.0% NSR, and CVY has the option to purchase back 2% by issuing C\$2m worth of shares. CVY has since completed ~40,000m of diamond drilling.

Figure 2: Cameron Project location

...project acquired with established infrastructure...



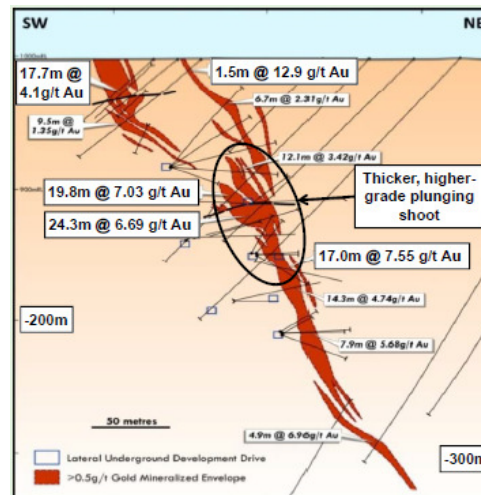
Source: CVY

Geology

...deposit is open to the NW and at depth...

The Cameron Gold Project is located to the northeast of the Pipestone-Cameron Fault (a crustal-scale deformation zone traceable over 100km), on the south eastern limb of the large-scale, east-northeast-trending Shingwak Lake Anticline. The mineralisation at Cameron outcrops at surface and is hosted in a sub-vertical shear zone. The deposit remains open to the north west and at depth.

Figure 3: Cameron Deposit cross section



Source: CVY

Reserves and Resources

The current Resource was independently estimated by Data Geo in February 2010, using ~85,000m of historic drilling results. A 1.5g/t cut-off was used.

...1.0Moz @ 2.8g/t calculated using a cut-off of 1.5g/t...

Table 1: Cameron Deposit cross section

JORC Resource			
Cameron	Mt	g/t	Moz
Indicated	4.2	3.2	0.4
Inferred	7.1	2.5	0.6
TOTAL	11.3	2.8	1.0

* 1.5g/t cut-off

Source: CVY

Metallurgy

...metallurgical tests indicate high recoveries using conventional methods...

Considerable metallurgical test work was undertaken by Lakefield Research in 1985 and 1987-88. Metallurgical tests have shown that recoveries of up to 96% were achieved using conventional flotation and cyanidation. Test work in 2004 recorded gravity recoveries of 63.5%.

Infrastructure

...well supported with existing infrastructure...

The Cameron Project benefits from well developed local infrastructure:

- The project is located ~30km east of the Trans-Canada Highway, with an all-weather gravel road linking the Project to the highway
- High-voltage power lines (11kV) traverse within ~30km of the Project along the Trans-Canada Highway
- Freshwater is available from local lakes and streams
- Most services, skills and supplies are readily available in the centres of Kenora and Fort Frances, with Winnipeg providing specialist consulting services
- Infrastructure installed by previous owner

Figure 4: Aerial photograph showing surface infrastructure at Cameron



Source: CVY

Resource Potential

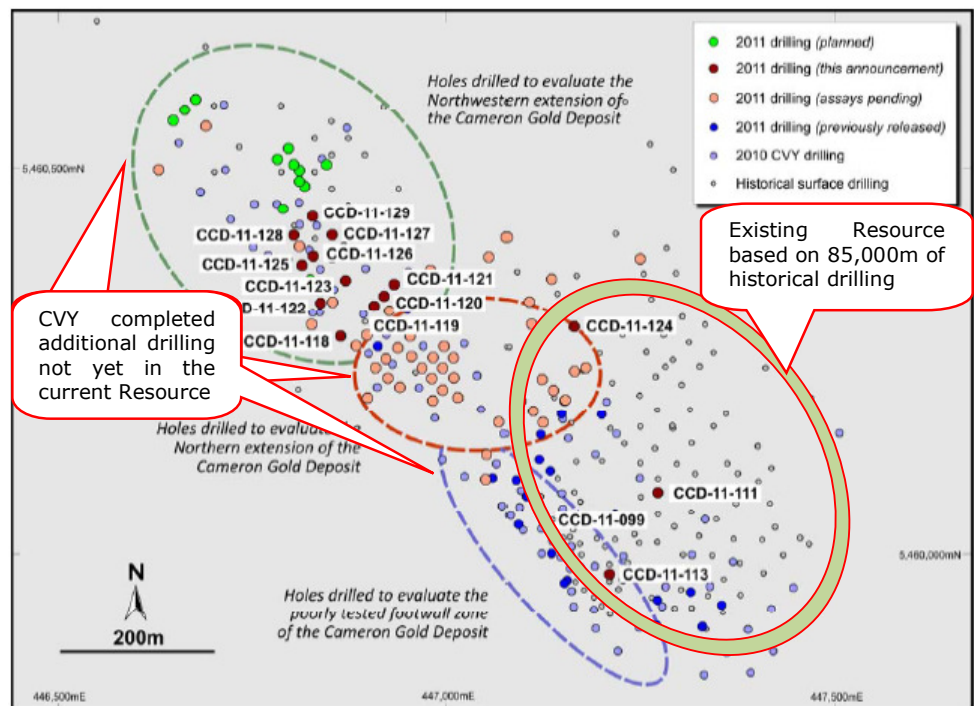
...potential for near term Resource increase...

The current Resource of 1.0Moz @ 2.8g/t is expected to increase in the near term:

- ~40,000m of diamond drilling completed since project acquisition
- Deposit open to the north west and at depth
- North west extension of the main mineralisation proved up by drilling (e.g. 7m at 11.0g/t from 30m and 16m at 3.5g/t from 42m)
- Shallow, high grade mineralisation identified in the footwall zone (e.g. 12m at 4.5g/t from 10m and 3m at 58.7g/t from 5m), strike extended to over 200m
- Application of a lower cut-off based on open cut mining (previous estimate based on underground mining)
- Several regional targets showing promise after first pass drilling

Figure 5: Plan showing collars of surface drill holes at Cameron

...good hits from north-western extension currently sitting outside the Resource...



Source: CVY, modified by Argonaut

CVY has an initial exploration target of 1.5-2.0Moz at the Cameron Project.

Development Potential

...could support an open pit operation followed by underground mining

Pending exploration success and positive feasibility studies, development could potentially commence with a single open pit operation to the depth of ~150-200m, followed by an underground operation. The new mineralisation identified in the footwall zone and north western extension could potentially report to open pit Resource and improve project economics.

Conventional gravity, flotation and cyanidation is expected to be used in gold recovery.

Contingent upon exploration success, several satellite deposits in the region could provide further feed to the mining operation at Cameron.

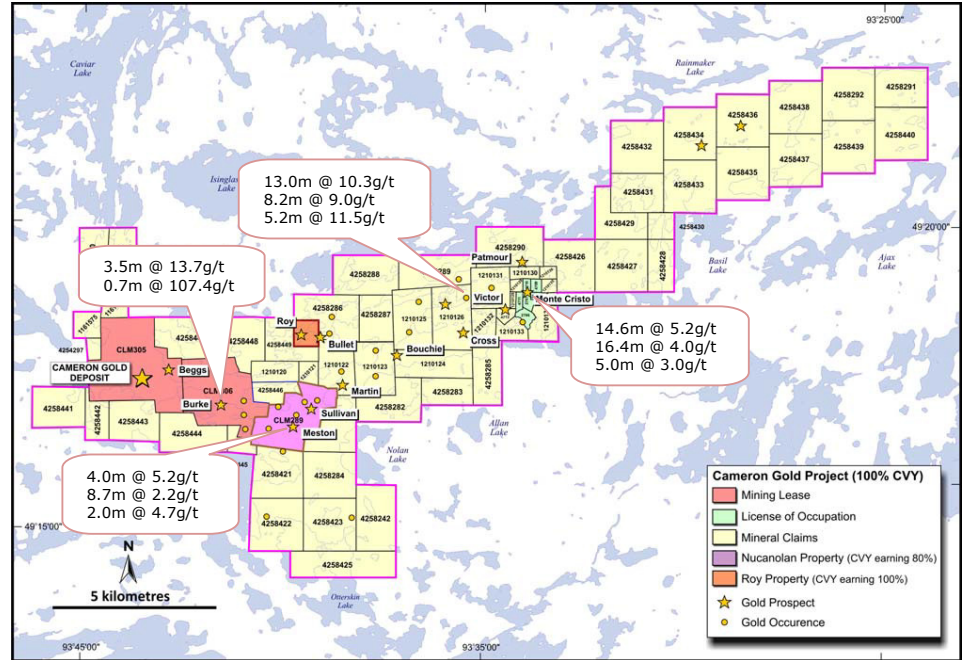
Regional Exploration

CVY has ~128km² of tenement in the region...

CVY has a land holding of ~128km² in the region. Regional exploration is limited and at an early stage, however numerous drill ready prospects have been identified so far.

Figure 6: Regional targets, some with encouraging early drill results

...several regional targets showing promise and could potentially provide satellite feed...

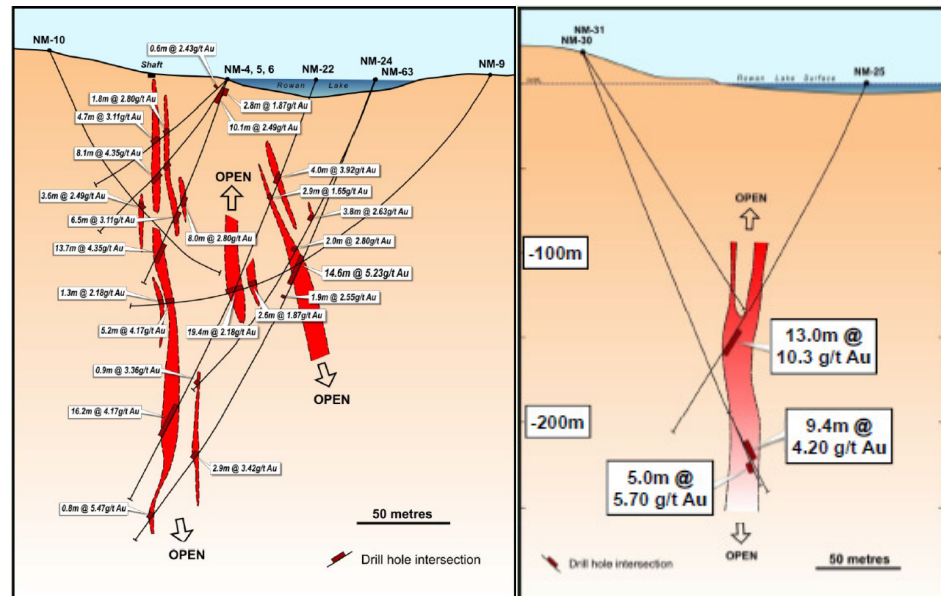


Source: CVY, Argonaut

Some of the better tested prospects include Monte Cristo and Victor.

...regional exploration program ongoing to test numerous targets

Figure 7: Cross section, Monte Cristo (left) and Victor (right)



Source: CVY

A regional exploration program including surface sampling and drilling is ongoing.

Valuation

Mining could commence with an open cut operation...

Argonaut provides a preliminary valuation based on the following envisaged mining scenario:

- A standalone processing facility at Cameron
- Mining commencing with a starter open pit operation, with a 5 year mine life averaging 61kozpa
- A further 3 years of mine life could come from a high grade underground operation
- Argonaut assumes that CVY would exercise its option to purchase the 2% NSR back from Nuinsco

Table 2: CVY Valuation

...followed by underground mining

Key Project Assumptions		
Cameron		
Ownership	%	100
Ore milled*	Mtpa	0.8
Head Grade (diluted)*	g/t	2.7
Recovery*	%	92
Production*	koz	60
Mine Life	yrs	8
Capex	US\$m	90
Cash Costs - uninflated*	US\$/oz	718
Long Term Pricing		
Gold price		1100
Exchange rate		0.80
Fiscal		
Government royalty	%	2
Tax Rate	%	29
Discount Rate	%	10.0
*Denotes average over life of mine		
Summary Valuation		
Coventry Resources	A\$m	\$ps
Cameron	59	0.34
Corporate	-10	-0.06
Cash Estimate	8	0.05
Exploration	10	0.06
Debt	0	0.00
Total @ 10.0% Discount Rate	67	0.39

Source: Argonaut

Management

Executive Chairman Michael Haynes is a geologist/geophysicist with 18 years of experience. He held technical positions with both BHP Minerals Limited and Billiton plc. before establishing his own consulting business. He is currently the Managing Director of Black Range Minerals Limited and the Chairman of Overland Resources Limited and Genesis Minerals Limited.

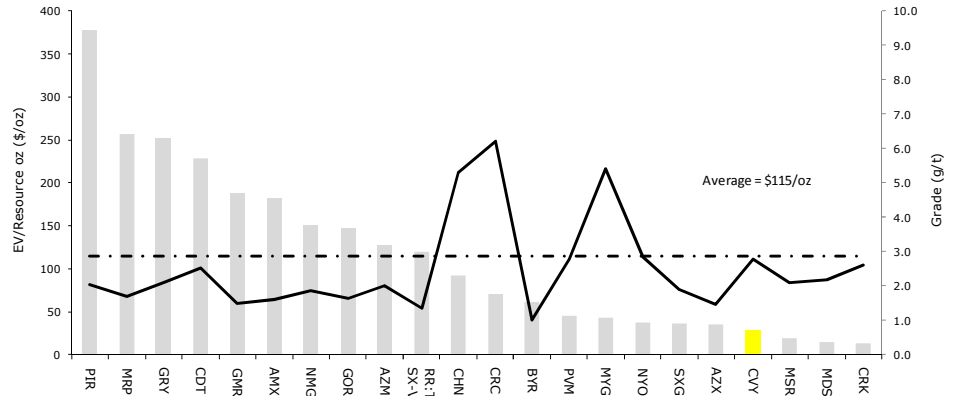
Technical Director Tony Goddard has more than 16 years exploration experience worldwide, primary for gold and copper, with companies including BHP, Rio Tinto, Equinox Resources, Phelps Dodge and Barrick Gold, as well as acting as an independent consultant. Tony has extensive global experience in project generation, identification and acquisition, most recently as regional generative geologist for Barrick Gold in Australia and Eurasia.

Peer Comparison

EV / Resource oz of \$28, vs. peer average of \$115

CVY is trading at an EV / Resource oz of \$28, well below the peer average of \$115. Given the existing Resource, infrastructure, exploration potential and cash position, CVY is well leveraged to further exploration success. CVY is inexpensive when compared to its peers.

Figure 8: Explorer peer comparison, EV / Resource oz



Source: Argonaut

Rainy River Resources (RR:TSX-V) is developing the Rainy River Project, located 56km south-southwest of Cameron. The Project was acquired from Nuinsco in June 2005, which had a Resource of 0.63Moz. Successful exploration has seen Rainy River expanding the Resource to 6.7Moz. RR has a Market Cap of C\$873m.

Risks

Technical

...access to some regional prospects limited to winter season...

Regional exploration is at an early stage and therefore is high risk. As some of the regional targets are located beneath lakes, drilling at these prospects could only be carried out during winter when the lakes are frozen. Canadian based companies predominantly employ diamond rigs. Although Canadian diamond drilling costs are inexpensive (<\$100/m in Canada vs. >\$200/m in WA), diamond drilling could be significantly slower.

Finance

...capital raisings required in future...

Funding is required for future exploration work at Cameron, and to commence a Feasibility Study. In the longer term, funding is required for project development at Cameron. Given the recent robust gold price, Argonaut perceives funding risk to be low.

Permitting

...low permitting risk as Cameron is in an established mining district...

Although Canada is a pro-mining, democratic jurisdiction, permitting could be slow, particularly when forestry and environmental permits are required. Given that the region is a mining centre, Argonaut perceives overall permitting risk to be low.

The potential open cut at Cameron is not expected to involve local lakes, however some potential satellite deposits are under lakes are could involve fishery permits.

Summary

Given the existing Resource, infrastructure, exploration potential and cash position, CVY is well leveraged to further exploration success. The current Resource could justify a standalone operation, and the Company is investigating the viability of a base case production scenario. The stock is trading at an EV / Resource oz of \$28, compared to the peer average of \$115. Argonaut believes that the Canadian asset is yet to be recognised and its potential under-appreciated by the Australian Market.

Contact Details
Research:

Ian Christie
 Director Research
 +61 8 9224 6872

Troy Irvin
 Director Research
 +61 8 9224 6871

Tim Serjeant
 Associate Director Research
 +61 8 9224 6806

Gianluca Paglia
 Analyst
 +61 8 9224 6824

Patrick Chang
 Analyst
 +61 8 9224 6835

Institutional Sales:

Paul Carter
 Executive Director
 +61 8 9224 6864

Chris Wippl
 Executive Director
 Head of Research & Sales
 +61 8 9224 6875

John Santul
 Consultant, Sales & Research
 +61 8 9224 6859

Damian Rooney
 Senior Institutional Dealer
 +61 8 9224 6862

Ben Willoughby
 Institutional Dealer
 +61 8 9224 6876

Bryan Johnson
 Institutional Dealer
 +61 8 9224 6834

Corporate and Retail Sales:

Kevin Johnson
 Executive Director
 +61 8 9224 6880

Glen Colgan
 Executive Director
 +61 8 9224 6874

James McGlew
 Director, Corporate Stockbroking
 +61 8 9224 6866

Simon Lyons
 Director, Retail Stockbroking
 +61 8 9224 6881

Geoff Barnesby-Johnson
 Senior Dealer
 +61 8 9224 6854

Andrew Venn
 Senior Dealer
 +61 8 9224 6865

Melaney Brans
 Dealer
 +61 8 9224 6873

Cam Fraser
 Dealer
 +61 8 9224 6851

Important Disclosure

The Analyst has an immaterial interest in CVY shares.

General Disclosure and Disclaimer

This research has been prepared by Argonaut Securities Pty Limited (ABN 72 108 330 650) ("ASPL") for the use of the clients of ASPL and its related bodies corporate (the "Argonaut Group") and must not be copied, either in whole or in part, or distributed to any other person. If you are not the intended recipient you must not use or disclose the information in this report in any way. ASPL is a holder of an Australian Financial Services Licence No. 274099 and is a Market Participant of the Australian Stock Exchange Limited.

Nothing in this report should be construed as personal financial product advice for the purposes of Section 766B of the Corporations Act. This report does not consider any of your objectives, financial situation or needs. The report may contain general financial product advice and you should therefore consider the appropriateness of the advice having regard to your situation. We recommend you obtain financial, legal and taxation advice before making any financial investment decision.

This research is based on information obtained from sources believed to be reliable and ASPL has made every effort to ensure the information in this report is accurate, but we do not make any representation or warranty that it is accurate, reliable, complete or up to date. The Argonaut Group accepts no obligation to correct or update the information or the opinions in it. Opinions expressed are subject to change without notice and accurately reflect the analyst(s)' personal views at the time of writing. No member of the Argonaut Group or its respective employees, agents or consultants accepts any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this research and/or further communication in relation to this research.

Nothing in this research shall be construed as a solicitation to buy or sell any financial product, or to engage in or refrain from engaging in any transaction. The Argonaut Group and/or its associates, including ASPL, officers or employees may have interests in the financial products or a relationship with the issuer of the financial products referred to in this report by acting in various roles including as investment banker, underwriter or dealer, holder of principal positions, broker, director or adviser. Further, they may buy or sell those securities as principal or agent, and as such may effect transactions which are not consistent with the recommendations (if any) in this research. The Argonaut Group and/or its associates, including ASPL, may receive fees, brokerage or commissions for acting in those capacities and the reader should assume that this is the case.

There are risks involved in securities trading. The price of securities can and does fluctuate, and an individual security may even become valueless. International investors are reminded of the additional risks inherent in international investments, such as currency fluctuations and international stock market or economic conditions, which may adversely affect the value of the investment.

The analyst(s) principally responsible for the preparation of this research may receive compensation based on ASPL's overall revenues.

© 2011. All rights reserved. No part of this document may be reproduced or distributed in any manner without the written permission of Argonaut Securities Pty Limited. Argonaut Securities Pty Limited specifically prohibits the re-distribution of this document, via the internet or otherwise, and accepts no liability whatsoever for the actions of third parties in this respect.