

# Trident charging ahead

## Development rates rising

Development advance at the Trident decline was excellent at 836m (480m Mar qtr) reflecting very good ground conditions. A second jumbo commenced in early July increasing development rates to >600m per month. Approximately 10.5kt of low grade material was mined at 1.5g/t Au. We have adjusted NPAT down 8% FY07 and 4% FY08 due to higher costs.

## Key items being completed

The underground mining contract was awarded to Australian Contract Mining. The 1Mtpa plant EPC contract was awarded to GR Engineering Services with a guaranteed maximum price of A\$49M and planned commissioning in June 2008. Major equipment items have been ordered including a 1Mtpa ball mill (arrival 1Q08), crushers (4Q07), gravity concentrator, pumps and screens.

## Exploration success continues

Recent drilling has extended the Athena 30 surface by at least 100m and the Athena 40 surface in excess of 200m beyond the resource boundary. Best result was 6m @ 148g/t Au. More recently AVO discovered the shallow Wills prospect located 25km north of Trident. Results include 5m @ 5.7g/t Au from 23m depth.

## BUY

AVO is an emerging gold producer at the junior end with first production expected in July 2007. Production growth is very attractive with 25koz this year rising to 170koz 2008 and 190kozpa from 2009. Mine life is around 6 years with strong upside from exploration. AVO is trading at 1.25x NAV versus peer average of 1.65x. We have a price target of A\$2/sh. Within around 18 months AVO should be mining in the high grade Athena zone where cash costs may decline to as low as US\$200/oz. Low cash costs will make AVO one of Australia's highest margin gold miners. Our price target is A\$2.00ps (1.6x NAV).

## Estimates (Jun)

| (A\$)                    | 2005A   | 2006A   | 2007E   | 2008E   | 2009E  |
|--------------------------|---------|---------|---------|---------|--------|
| Net Profit b/f Abnormals | (2)     | (2)     | (5)     | 14      | 43     |
| EPS                      | (0.020) | (0.011) | (0.026) | 0.063   | 0.194  |
| EPS Change (YoY)         | 104.2%  | -46.5%  | 141.6%  | -344.7% | 207.6% |
| Dividend / Share         | 0       | 0       | 0       | 0       | 0      |
| Free Cash Flow / Share   | (0.040) | (0.036) | (0.148) | (0.250) | 0.242  |

## Valuation (Jun)

|                       | 2005A   | 2006A   | 2007E   | 2008E   | 2009E  |
|-----------------------|---------|---------|---------|---------|--------|
| P/E                   | NM      | NM      | NM      | 23.81x  | 7.74x  |
| Dividend Yield        | 0%      | 0%      | 0%      | 0%      | 0%     |
| EV / EBITDA*          | -69.36x | -91.90x | -77.67x | 7.69x   | 2.91x  |
| Free Cash Flow Yield* | -2.03%  | -2.40%  | -12.78% | -24.91% | 24.13% |

\* For full definitions of *iQmethod*<sup>SM</sup> measures, see page 9.



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## Stock Data

|                             |                  |
|-----------------------------|------------------|
| Price                       | A\$1.50          |
| Price Objective             | A\$2.00          |
| Date Established            | 2-Nov-2006       |
| Investment Opinion          | C-1-9            |
| Volatility Risk             | HIGH             |
| 52-Week Range               | A\$0.840-A\$1.65 |
| Mrkt Val / Shares Out (mn)  | US\$190 / 148.9  |
| Average Daily Volume        | 929,934          |
| ML Symbol / Exchange        | AVORF / ASX      |
| Bloomberg / Reuters         | AVO AU / AVO.AX  |
| ROE (2007E)                 | -8.7%            |
| Net Dbt to Eqty (Jun-2006A) | -31.4%           |
| Est. 5-Yr EPS / DPS Growth  | NA / NA          |
| Free Float                  | 100.0%           |



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Refer to important disclosures on page 10 to 11. Analyst Certification on page 9. Price Objective Basis/Risk on page 9.

02 August 2007

# iQprofile<sup>SM</sup> Avoca Resources Ltd

| Key Income Statement Data (Jun)  | 2005A      | 2006A      | 2007E      | 2008E     | 2009E     |
|----------------------------------|------------|------------|------------|-----------|-----------|
| <b>(A\$ Millions)</b>            |            |            |            |           |           |
| Sales                            | 0          | 0          | 0          | 86        | 152       |
| Operating Expenses               | (2)        | (2)        | (3)        | (42)      | (53)      |
| <b>EBITDA</b>                    | <b>(2)</b> | <b>(2)</b> | <b>(3)</b> | <b>44</b> | <b>99</b> |
| Depreciation & Amortization      | 0          | 0          | 0          | (20)      | (34)      |
| <b>EBIT</b>                      | <b>(2)</b> | <b>(2)</b> | <b>(3)</b> | <b>25</b> | <b>65</b> |
| Net Interest & Other income      | 0          | 0          | (2)        | (5)       | (3)       |
| Associates                       | NA         | NA         | NA         | NA        | NA        |
| Pretax Income                    | (2)        | (2)        | (6)        | 20        | 62        |
| Tax (expense) / Benefit          | 0          | 0          | 1          | (6)       | (19)      |
| <b>Net Profit b/f Abnormals</b>  | <b>(2)</b> | <b>(2)</b> | <b>(5)</b> | <b>14</b> | <b>43</b> |
| Non-Recurring Items              | 0          | 0          | 0          | 0         | 0         |
| Net Income (Reported)            | (2)        | (2)        | (5)        | 14        | 43        |
| Avg F Diluted Shares Outstanding | 113        | 150        | 192        | 223       | 223       |

## Key Cash Flow Statement Data

|   |            |            |             |             |             |
|---|------------|------------|-------------|-------------|-------------|
| EBITDA                                  | (2)        | (2)        | (3)         | 44          | 99          |
| Change in Working Capital               | 0          | 1          | 1           | (4)         | 0           |
| Deferred Taxation Charge                | 0          | 0          | (1)         | 0           | 0           |
| Other Adjustments, Net                  | 1          | 1          | 1           | 1           | 1           |
| <b>Cash Flow from Operations</b>        | <b>(1)</b> | <b>0</b>   | <b>(4)</b>  | <b>31</b>   | <b>78</b>   |
| <b>Capital Expenditure</b>              | <b>(4)</b> | <b>(6)</b> | <b>(25)</b> | <b>(87)</b> | <b>(25)</b> |
| (Acquisition) / Disposal of Investments | (2)        | 0          | 0           | 0           | 0           |
| Other Cash Inflow / (Outflow)           | 0          | 0          | 0           | 0           | 0           |
| <b>Cash Flow from Investing</b>         | <b>(6)</b> | <b>(6)</b> | <b>(25)</b> | <b>(87)</b> | <b>(25)</b> |
| Shares Issue / (Repurchase)             | 4          | 11         | 69          | 0           | 0           |
| Cost of Dividends Paid                  | 0          | 0          | 0           | 0           | 0           |
| <b>Cash Flow from Financing</b>         | <b>4</b>   | <b>11</b>  | <b>130</b>  | <b>(8)</b>  | <b>0</b>    |
| <b>Free Cash Flow</b>                   | <b>(5)</b> | <b>(5)</b> | <b>(29)</b> | <b>(56)</b> | <b>54</b>   |
| <b>Net Debt</b>                         | <b>(3)</b> | <b>(7)</b> | <b>(48)</b> | <b>7</b>    | <b>(47)</b> |
| Change in Net Debt                      | NA         | NA         | NA          | NA          | NA          |

## Key Balance Sheet Data

|                               |           |           |            |            |            |
|-------------------------------|-----------|-----------|------------|------------|------------|
| Property, Plant & Equipment   | 12        | 17        | 44         | 109        | 99         |
| Other Non-Current Assets      | 0         | 1         | 1          | 1          | 1          |
| Trade Receivables             | 0         | 0         | 0          | 0          | 0          |
| Cash & Equivalents            | 3         | 7         | 109        | 46         | 100        |
| Other Current Assets          | 0         | 0         | 0          | 0          | 0          |
| <b>Total Assets</b>           | <b>15</b> | <b>26</b> | <b>154</b> | <b>156</b> | <b>200</b> |
| Long-Term Debt                | 0         | 0         | 53         | 53         | 0          |
| Other Non-Current Liabilities | 0         | 0         | 0          | 0          | 0          |
| Short-Term Debt               | 0         | 0         | 8          | 0          | 53         |
| Other Current Liabilities     | 0         | 0         | 0          | 0          | 0          |
| <b>Total Liabilities</b>      | <b>1</b>  | <b>2</b>  | <b>65</b>  | <b>53</b>  | <b>53</b>  |
| <b>Total Equity</b>           | <b>14</b> | <b>24</b> | <b>89</b>  | <b>103</b> | <b>147</b> |
| Total Equity & Liabilities    | 15        | 26        | 154        | 156        | 200        |

## iQmethod<sup>SM</sup> - Bus Performance\*

|                            |        |       |       |       |       |
|----------------------------|--------|-------|-------|-------|-------|
| Return on Capital Employed | -17.4% | -8.5% | -3.3% | 12.6% | 26.8% |
| Return on Equity           | -19.3% | -8.5% | -8.7% | 14.6% | 34.5% |
| Operating Margin           | NA     | NA    | NA    | 28.6% | 42.6% |
| EBITDA Margin              | NA     | NA    | NA    | 51.6% | 65.1% |

## iQmethod<sup>SM</sup> - Quality of Earnings\*

|                          |        |        |        |       |        |
|--------------------------|--------|--------|--------|-------|--------|
| Cash Realization Ratio   | 0.4x   | -0.1x  | 0.7x   | 2.2x  | 1.8x   |
| Asset Replacement Ratio  | 115.5x | 126.1x | 95.3x  | 4.4x  | 0.7x   |
| Tax Rate (Reported)      | 0%     | 21.4%  | 10.6%  | 30.0% | 30.0%  |
| Net Debt-to-Equity Ratio | -18.4% | -31.4% | -54.0% | 7.1%  | -31.7% |
| Interest Cover           | NA     | NA     | -1.5x  | 3.3x  | 10.1x  |

## Key Metrics

|          |    |    |    |    |    |
|----------|----|----|----|----|----|
| Franking | 0% | 0% | 0% | 0% | 0% |
|----------|----|----|----|----|----|

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 9.

## Company Description

Avoca Resources is an emerging gold miner in Western Australia with its Trident deposit. First production is targeted 2H07 with an attractive growth profile and significant upside from exploration.

## Table 1: Macro Assumptions

| Assumptions                      | 06A  | 07E  | 08E  | 09E  |
|----------------------------------|------|------|------|------|
| Average Exchange Rate (A\$/US\$) | 0.75 | 0.79 | 0.80 | 0.76 |
| Gold Price (US\$/oz)             | 527  | 636  | 685  | 665  |

Source: ML Estimates

## Stock Data

|                     |      |
|---------------------|------|
| Price to Book Value | 2.5x |
|---------------------|------|

## Trident Project

A letter of intent was issued to Australian Contract Mining for underground development and haulage. The contract is for 26km of ore and waste development over a 4 year period. Total development to date has now exceeded 1km.

Rehabilitation of the underground workings of Poseidon South is nearing completion. Rehabilitation of the old Poseidon South decline down to the 4 Level was completed during the quarter. Work is continuing on 4 Level so that a decline link from the main Trident decline can provide access and exploration drilling positions to assess potential stope locations associated with the newly defined Poseidon South E veins and Athena lode extensions.

## Higginsville Treatment Plant

GR Engineering Services were given possession of the plant site on July 27 following statutory approvals to commence clearing. All of the major equipment items have been ordered for planned commissioning June 2008.

## Infrastructure - progressing well

Surface infrastructure and site works commenced during the quarter with completion of the primary vent shaft enabling AVO to increase the rate of development to 2 jumbos this quarter. The vent shaft was a 4m diameter raise bore that was drilled over a distance of 152m. A second 3m diameter, 122m long vent shaft had commenced by quarter end. Mine services area was established with the installation of a surface power station that provides underground high voltage reticulation. Forty additional rooms were delivered to the Higginsville camp to be fully commissioned in early August increasing capacity to 100. Concrete works were completed for mining workshops and corefarm pads.

## Trident Project Parameters

Phase 1 sees targeted start up this quarter with an attractive growth profile (table 7). Costs are higher in year 1 due to toll treatment however they are expected to reduce dramatically following completion of the 1Mtpa plant and as higher grade ore is accessed in the Athena lode. Life of mine cash costs are estimated at A\$369/oz with <A\$300/oz costs from FY09 once in the high grade Athena zone.

Table 2: Trident project parameters

|                                       |             |
|---------------------------------------|-------------|
| AVO ownership                         | 100%        |
| Plant Capacity (toll treat initially) | 1.0Mtpa     |
| Plant Gold Recovery                   | 95%         |
| Gold Production First 6 months        | 25koz       |
| Annual Gold Production from Year 2    | ~190kozpa   |
| Cash costs LOM                        | ~A\$370/oz  |
| Plant Capex for Year 2 Production     | ~A\$52M     |
| Mine life*                            | ~6 years    |
| Mining Method                         | Underground |
| First Production                      | ~July 2007  |

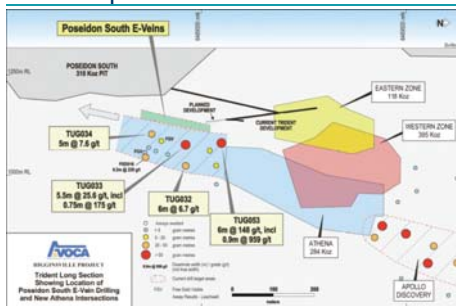
Source: AVO, \*Based on resources

Figure 1: AVO Major Projects



Source: AVO

Chart 1: Exploration Success



Source: AVO

## Exploration - Athena extended

During the quarter AVO announced the results from a 26 hole underground diamond drilling program targeting high grade mineralisation between the Poseidon South open pit (+285koz) and the 581koz Trident mining reserve. Trident drilling has extended the Athena 30 surface by at least 100m and the Athena 40 surface in excess of 200m beyond the existing resource boundary. All new results lie outside existing resources and are within 100m of the Trident decline. Best results:

- 6.0m @ 148g/t gold from 100m, includes 0.90m @ 959g/t gold
- 5.5m @ 25.6g/t gold from 63.8m, includes 0.75m @ 175g/t gold

Poseidon South - Significant extensions to previously mined high grade lodes. Best results:

- 2.1m @ 28.7g/t gold from 37.5m, includes 0.95m @ 57g/t gold
- 4.9m @ 13.6g/t gold from 35m, includes 1.0m @ 48.8g/t gold
- 127m @ 7.3g/t gold from 23.3m, includes 1.0m @ 56.2g/t gold

## Wills Prospect

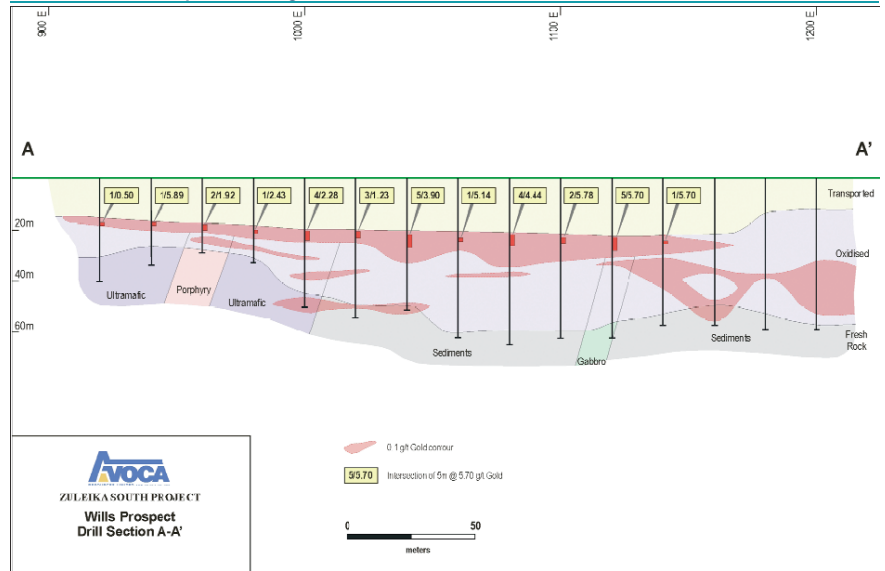
On July 20<sup>th</sup> AVO announced the discovery of significant gold mineralisation at shallow depths from the Wills Prospect located only 25km north of AVO's Trident mine. Results define a coherent blanket of supergene oxide lying at a depth of 17-23m.

Best results comprise:

- 2m @ 10g/t Au from 17m depth
- 5m @ 5.7g/t Au from 23m depth
- 5m @ 3.9g/t Au from 21m depth
- 4m @ 4.4g/t Au from 21m depth
- 2m @ 5.8g/t Au from 23m depth

Mineralisation appears to define an east-north east trend over 1km in length, is open along strike in both directions, and is evident over widths of up to 200m.

Chart 2: Wills Prospect Drilling



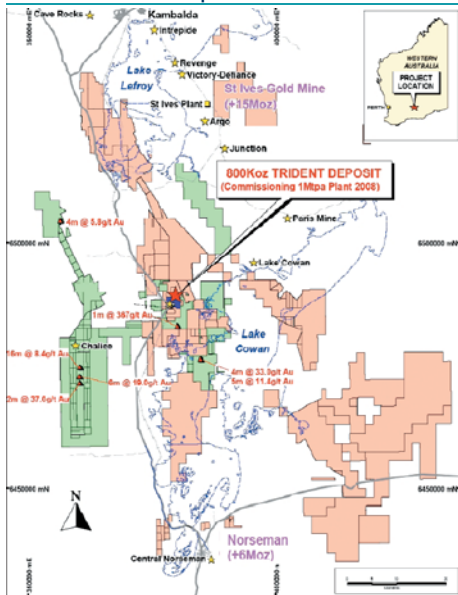
Source: AVO

The location of the discovery provides an opportunity for a possible open pit operation that may augment the planned Trident production. Further drilling is scheduled early August to fully define the extents of the supergene mineralisation while bedrock testing for primary mineralisation will commence in September. It is early days but based on rough dimensions of 250m long \* 250m wide \* 6m thick. Assuming SG of 2 equates to 750kt of ore at a grade of 4g/t Au = ~100koz.

## Chalice Project

Earlier in the year AVO purchased the Chalice project increasing land holdings from 1000 sq km to over 2000 sq km within the Higginsville region. AVO believe the Chalice and Trident gold deposits contain many similarities. AVO plans to assess the Chalice underground Inferred Resource of 460kt @ 5.31g/t Au for 79koz and believes the underground deposit could become AVO's second underground gold mine in the district. Exploration upside is attractive with follow up drilling required on intercepts around Chalice including 4m @ 33g/t Au, 6m @ 19g/t and 1m @ 367g/t Au (see chart below for locations). The Chalice Higginsville project lies within a 30km radius of the site of the new 1Mtpa CIL treatment plant AVO plans to commission in 2008.

Chart 3: Location Map



Source: AVO

**Table 3: JV Projects**

| JV Partner       | Project         | Commodity | Earning |
|------------------|-----------------|-----------|---------|
| Teck Cominco     | Kalgoorlie East | Gold      | 70%     |
| La Mancha        | Mungari         | Gold      | 51%     |
| Integra Mining   | Cowarna         | Gold      | 80%     |
| Metex/Barrick    | Laverton        | Gold      | 70%     |
| Great Gold Mines | S. Laverton     | Gold      | 80%     |
| Regal Resources  | Mt Goose        | Gold      | 80%     |
| Encounter Res.   | Lake Way        | Uranium   | 60%     |
| Encounter Res.   | Various         | Uranium   | 80%     |
| Stellar Res.     | Cowell SA       | Gold      | 75%     |

Source: AVO

## Regional Exploration & JVs

Outside Higginsville, AVO has an extensive joint venture portfolio comprising 9 separate JVs throughout WA and SA. These provide AVO with exposure to several gold and uranium projects while limiting its funding commitments to these projects.

## Valuation

Our base case valuation for AVO is based on a 6 year mine life using a 10% discount rate which equates to A\$1.20/share.

**Table 4: NPV @ 10% Discount Rate**

|                           | A\$m          | A\$/share   |
|---------------------------|---------------|-------------|
| Higginsville Gold Project | 251.16        | 1.18        |
| Taxation                  | (59.06)       | (0.28)      |
| Hedging                   | (0.00)        | (0.00)      |
| Exploration               | 15.00         | 0.07        |
| Net (Debt)/Cash           | 48.28         | 0.23        |
| <b>TOTAL</b>              | <b>255.38</b> | <b>1.20</b> |

Source: ML Estimates

## AVO Production Summary

**Table 5: Production and Cash Cost Summary**

| Higginsville Production (oz) | 06A        | 07E        | 08E        | 09E        |
|------------------------------|------------|------------|------------|------------|
| Gold                         | 0          | 0          | 99,502     | 173,333    |
| <b>Cash Operating Costs</b>  | <b>06A</b> | <b>07E</b> | <b>08E</b> | <b>09E</b> |
| Higginsville (US\$/oz)       |            | 0          | 311        | 221        |
| Higginsville (A\$/oz)        |            | 0          | 392        | 290        |

Source: ML Estimates

## Profit and Loss

**Table 6: Profit and Loss (A\$M)**

| Profit and Loss                  | 06A         | 07E         | 08E         | 09E         |
|----------------------------------|-------------|-------------|-------------|-------------|
| Sales                            | 0.0         | 0.0         | 86.2        | 151.6       |
| Other Revenue                    | 0.0         | 0.0         | 0.0         | 0.0         |
| Total Revenue                    | 0.0         | 0.0         | 86.2        | 151.6       |
| Operating Costs                  | -0.5        | -1.0        | -39.3       | -50.3       |
| Exploration                      | -0.9        | -0.6        | -1.0        | -1.0        |
| Other Costs                      | -1.0        | -1.5        | -1.5        | -1.6        |
| EBITDA                           | -2.4        | -3.1        | 44.4        | 98.8        |
| Depreciation & Amortisation      | 0.0         | -0.3        | -19.8       | -34.2       |
| EBIT                             | -2.4        | -3.4        | 24.7        | 64.5        |
| Net Interest                     | 0.4         | -2.2        | -4.6        | -2.9        |
| Pretax Profit                    | -2.0        | -5.5        | 20.1        | 61.7        |
| Tax                              | 0.4         | 0.6         | -6.0        | -18.5       |
| Operating NPAT                   | -1.6        | -4.9        | 14.0        | 43.2        |
| OEI                              | 0.0         | 0.0         | 0.0         | 0.0         |
| <b>NPAT (Normalised for FCA)</b> | <b>-1.6</b> | <b>-4.9</b> | <b>14.0</b> | <b>43.2</b> |
| Significant Items                | 0.0         | 0.0         | 0.0         | 0.0         |
| <b>Reported NPAT</b>             | <b>-1.6</b> | <b>-4.9</b> | <b>14.0</b> | <b>43.2</b> |
| Normalised EPS (¢)               | -1.1        | -2.6        | 6.6         | 19.7        |
| Reported EPS (¢)                 | -1.1        | -2.6        | 6.6         | 19.7        |
| PER (X)                          | -140.8      | -57.7       | 22.7        | 7.6         |
| DPS (¢)                          | 0.0         | 0.0         | 0.0         | 0.0         |
| Franking (%)                     | 0.0%        | 0.0%        | 0.0%        | 0.0%        |
| Yield (%)                        | 0.0%        | 0.0%        | 0.0%        | 0.0%        |
| EPS Growth                       | n/a         | 144.1%      | n/a         | 198.6%      |
| EBIT/Sales (%)                   | n/a         | n/a         | 28.6%       | 42.6%       |
| Effective Tax Rate               | 21%         | 11%         | 30%         | 30%         |
| Interest Cover (X)               | -0.2        | 0.7         | -0.2        | 0.0         |
| Dividend Cover (X)               | 0.0         | 0.0         | 0.0         | 0.0         |

Source: AVO, ML Estimates

## Sensitivities

**Table 7: NPAT Sensitivities**

| NPAT change for:                 |      | 07E  | 08E   | 09E   |
|----------------------------------|------|------|-------|-------|
| + 1c change in A\$/US\$          | A\$m | 0.00 | -0.76 | -1.34 |
|                                  | %    | 0.0% | -5.4% | -3.1% |
| + US\$10/oz change in gold price | A\$m | 0.00 | 0.86  | 1.56  |
|                                  | %    | 0.0% | 6.1%  | 3.6%  |

Source: ML Estimates

## Substantial Shareholders

**Table 8: Substantial Shareholders**

|          |      |       |
|----------|------|-------|
| Pala Inv | 31.2 | 14.6% |
| CBA      | 27.0 | 12.7% |

Source: IRESS

## Comps Table

Table 9: 2007E Global Comps Table

|                                     | Price        | QRQ Rec       | Mkt Cap        | P/NAV       | P/E         | P/CF        | Div Yield | EV / Reserve Oz  | EV / Resource Oz | FY/CY07E Production | Cash Costs       | FY/CY08E Production | Cash Costs       | FY/CY08E Production Hedged |
|-------------------------------------|--------------|---------------|----------------|-------------|-------------|-------------|-----------|------------------|------------------|---------------------|------------------|---------------------|------------------|----------------------------|
| <b>Australasia</b>                  | <b>A\$</b>   |               | <b>A\$M</b>    | <b>(x)</b>  | <b>(x)</b>  | <b>(x)</b>  | <b>%</b>  | <b>(US\$/oz)</b> | <b>(US\$/oz)</b> | <b>(Koz)</b>        | <b>(US\$/oz)</b> | <b>(Koz)</b>        | <b>(US\$/oz)</b> |                            |
| Newcrest (NCMGF)                    | 26.07        | C-1-8 Buy     | 8,712          | 1.87        | 42.2        | 15.3        | 0.2%      | 266              | 136              | 1617                | 223              | 1813                | 182              | 35%                        |
| Kingsgate (KSKGF)                   | 4.88         | C-2-8 Ntrl    | 456            | 1.71        | -17.7       | -10.8       | 0.0%      | 216              | 105              | 86                  | 436              | 110                 | 372              | 0%                         |
| Oxiana (OXFLF)                      | 3.44         | C-2-7 Ntrl    | 5,291          | 1.69        | 15.6        | 10.4        | 2.3%      | 359              | 63               | 99                  | 446              | 101                 | 491              | 0%                         |
| Oceana Gold (OCGDF)                 | 3.73         | C-2-9 Ntrl    | 492            | 1.52        | na          | 151.6       | 0.0%      | 130              | 48               | 189                 | 497              | 300                 | 328              | 28%                        |
| Lihir (LIHRF/Y)                     | 2.99         | C-1-9 Buy     | 5,694          | 1.50        | 44.0        | 18.8        | 0.0%      | 189              | 110              | 811                 | 348              | 900                 | 268              | 0%                         |
| Bolnisi Gold (BXLGF)                | 2.74         | C-1-9 Buy     | 782            | 1.25        | na          | na          | 0.0%      | 252              | 187              | 0                   | 0                | 117                 | 236              | 0%                         |
| Avoca Resources (AVORF)             | 1.50         | C-1-9 Buy     | 223            | 1.25        | na          | na          | 0.0%      | 316              | 144              | 0                   | 0                | 100                 | 311              | 0%                         |
| Sino Gold (SIOGF)                   | 5.54         | C-1-9 Buy     | 1,010          | 1.24        | 240.8       | 72.2        | 0.0%      | 249              | 148              | 75                  | 383              | 245                 | 300              | 24%                        |
| Perseverance (PRSVF)                | 0.14         | C-1-9 Buy     | 125            | 0.58        | -7.5        | 3.4         | 0.0%      | 152              | 51               | 127                 | 385              | 196                 | 388              | 31%                        |
|                                     |              |               | <b>Average</b> | <b>1.66</b> | <b>41.0</b> | <b>19.2</b> |           | <b>251</b>       | <b>112</b>       |                     |                  |                     |                  |                            |
| <b>North America (Seniors)</b>      | <b>US\$</b>  |               | <b>US\$M</b>   |             |             |             |           |                  |                  |                     |                  |                     |                  |                            |
| Goldcorp (GG)                       | 24.81        | C-1-7 Buy     | 17,466         | 1.98        | 30.3        | 17.8        | 0.0%      | 434              | 203              | 2497                | 151              | 2578                | 161              | 0%                         |
| Kinross (KGC)                       | 12.64        | C-1-9 Buy     | 7,331          | 1.93        | 33.3        | 18.3        | 0.0%      | 221              | 250              | 1657                | 338              | 2169                | 320              | 0%                         |
| Newmont (NEM)                       | 41.59        | B-2-8 Ntrl    | 18,757         | 2.05        | 36.1        | 13.4        | 1.0%      | 214              | 159              | 5492                | 417              | 6107                | 411              | 0%                         |
| Barrick (ABX)                       | 32.70        | C-1-7 Buy     | 28,449         | 2.34        | 21.4        | 12.8        | 0.7%      | 222              | 149              | 8202                | 349              | 8285                | 376              | 0%                         |
| Buenaventura (BVN)                  | 39.44        | C-1-7 Buy     | 5,018          | 2.54        | 13.4        | -31.0       | 1.7%      | 325              | 164              | 1053                | 301              | 1176                | 301              | 28%                        |
|                                     |              |               | <b>Average</b> | <b>2.16</b> | <b>27.6</b> | <b>11.7</b> |           | <b>275</b>       | <b>164</b>       |                     |                  |                     |                  |                            |
| Pan American Silver (PAAS)          | 27.39        | C-1-9 Buy     | 2,082          | 2.04        | 22.8        | 17.1        | 0.0%      | 8.8              | 3.0              | 17000               | 2.00             |                     |                  | 0%                         |
| Silver Wheaton (SLW)                | 13.48        | C-2-9 Neutral | 2,979          | 2.14        | 29.4        | 23.5        | 0.0%      | 33.2             | 7.2              | 15000               | 4.00             | 17500               | 4.00             | 0%                         |
| JSC Polymetal (XOLPF)               | 6.05         | C-1-9 Buy     | 1,906          | 1.90        | 14.7        | #VALUE!     | 0.0%      | 4.7              | 3.9              | 21347               | 2.59             | 24429               | 2.70             | 52%                        |
| <b>North America (Mid-caps)</b>     | <b>US\$</b>  |               |                |             |             |             |           |                  |                  |                     |                  |                     |                  |                            |
| Agnico-Eagle Mines (AEM)            | 41.76        | C-1-7 Buy     | 5,053          | 2.25        | 38.0        | 22.2        | 0.3%      | 436              | 267              | 241                 | -488             | 414                 | -21              | 0%                         |
| Centerra Gold Inc. (YCG)            | 6.90         | C-2-9 Ntrl    | 1,490          | 1.47        | 36.3        | 17.4        | 0.0%      | 218              | 112              | 548                 | 429              | 790                 | 353              | 0%                         |
| Eldorado Gold Corp. (EGO)           | 4.43         | C-2-9 Neutral | 1,511          | 1.43        | na          | 15.7        | 0.0%      | 232              | 163              | 238                 | 263              | 378                 | 229              | 0%                         |
| Golden Star Resources (GSS)         | 3.63         | C-2-9 Ntrl    | 838            | 1.58        | 45.4        | 30.3        | 0.0%      | 202              | 137              | 373                 | 554              | 501                 | 444              | 0%                         |
| Hecla Mining Corp. (HL)             | 7.85         | C-2-9 Ntrl    | 942            | 1.74        | 19.5        | 11.2        | 0.0%      | 456              | 331              | 143                 | 420              | 143                 | 420              | 0%                         |
| IAMGOLD Corp. (YIMG)                | 8.75         | C-1-7 Buy     | 2,564          | 1.51        | 33.7        | 12.7        | 0.3%      | 621              | 156              | 1015                | 416              | 1019                | 420              | 0%                         |
| Meridian Gold Inc.(incl Esquel) MDG | 27.40        | C-2-9 Ntrl    | 2,767          | 2.26        | 29.8        | 20.6        | 0.0%      | 611              | 446              | 320                 | -45              | 343                 | -29              | 0%                         |
| Northgate Minerals Corp. (NXG)      | 3.15         | C-2-9 Ntrl    | 632            | 1.43        | 10.5        | 6.5         | 0.0%      | 253              | 126              | 280                 | 185              | 273                 | 98               | 19%                        |
| NA Palladium (1) (YPDL)             | 9.29         | C-2-9 Ntrl    | 488            | 2.10        | 33.2        | 11.6        | 0.0%      | 195              | 141              | 251                 | 83               | 258                 | 124              |                            |
| Yamana (YYRI)                       | 11.41        | C-1-7 Buy     | 4,028          | 1.87        | 14.3        | 12.5        | 0.4%      | na               | na               | 609                 | -114             | 787                 | 0                | na                         |
| Royal Gold (RGLD)                   | 24.88        | C-2-7 Ntrl    | 722            | 1.70        | 35.2        | 25.9        | 1.0%      | na               | na               |                     | 0                |                     | 0                | na                         |
|                                     |              |               | <b>Average</b> | <b>1.88</b> | <b>27.1</b> | <b>17.1</b> |           | <b>331</b>       | <b>196</b>       |                     |                  |                     |                  |                            |
| <b>South Africa</b>                 | <b>ZAR\$</b> |               | <b>ZAR\$M</b>  |             |             |             |           |                  |                  |                     |                  |                     |                  |                            |
| AngloGold(AULGF)                    | 292.71       | C-1-7 Buy     | 77,451         | 0.81        | 20.1        | 10.7        | 1.4%      | 184              | 68               | 5693                | 326              | 6612                | 295              | 31%                        |
| DRD (DRDGF)                         | 4.41         | C-2-9 Ntrl    | 1,546          | 0.57        |             |             | 0.0%      | 34               | 5                | 488                 | 531              | 616                 | 428              | 0%                         |
| Gold Fields(GFIOF)                  | 112.09       | C-1-7 Buy     | 73,100         | 1.03        | 27.2        | 10.0        | 1.7%      | 117              | 45               | 4285                | 376              | 4980                | 347              | 0%                         |
| Harmony(HGMCF)                      | 95.76        | C-1-7 Buy     | 38,161         | 1.21        | 41.5        | 16.3        | 0.3%      | 108              | 10               | 2393                | 445              | 3155                | 402              | 23%                        |
|                                     |              |               | <b>Average</b> | <b>0.97</b> | <b>27.2</b> | <b>11.5</b> |           | <b>141</b>       | <b>47</b>        |                     |                  |                     |                  |                            |
| <b>International</b>                |              |               |                |             |             |             |           |                  |                  |                     |                  |                     |                  |                            |
| Peter Hambro Min (UK) PTHBF         | 9.55         | C-1-9 Buy     | 775            | 1.05        | 15.6        | na          | 0.0%      | 17               | na               | 275                 | 125              | 485                 | 138              | 0%                         |
| Zijin Min Group (China) ZIJMF       | 4.52         | C-2-7 Ntrl    | 47,519         | 2.76        | 20.8        | 13.1        | 2.0%      | 825              | na               | 505                 | 285              | 1010                | 290              | 0%                         |
| Polyus (Russia) XPLGY               | 39.10        | C-2-9 Ntrl    | 6,779          | 1.63        | 24.7        | 20.8        | 0.0%      | 202              | 50               | 1192                | 276              | 1249                | 287              | 0%                         |

Source: ML Estimates

## Price objective basis & risk

### Avoca Resources (AVORF)

AVO is focused on developing the 797koz Au resource Trident project in Western Australia with first production targeted this quarter with an initial 6 year mine life. AVO is trading at just 1.25x NAV which is cheap compared to domestic peer average 1.65x. Our price target is A\$2.00ps (1.65x NAV). The discount to peers reflects the developmental nature of the asset. We believe that this discount will narrow as exploration continues, resources and reserves grow and the project moves into construction and commissioning phase

Risks comprise commodity price and exchange rate movements, potential delays to plant construction and commissioning issues.

## Analyst Certification

I, Andrew Richards, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### *iQmethod*<sup>SM</sup> Measures Definitions

| Business Performance       | Numerator   | Denominator   |
|----------------------------|---|---|
| Return On Capital Employed | $\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$                            | Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill |
| Return On Equity           | Net Income  | Shareholders' Equity  |
| Operating Margin           | Operating Profit  | Sales   |
| Earnings Growth            | Expected 5-Year CAGR From Latest Actual   | N/A   |
| Free Cash Flow             | Cash Flow From Operations – Total Capex   | N/A   |
| <b>Quality of Earnings</b> |   |   |
| Cash Realization Ratio     | Cash Flow From Operations   | Net Income  |
| Asset Replacement Ratio    | Capex   | Depreciation  |
| Tax Rate                   | Tax Charge  | Pre-Tax Income  |
| Net Debt-To-Equity Ratio   | Net Debt = Total Debt, Less Cash & Equivalents  | Total Equity  |
| Interest Cover             | EBIT  | Interest Expense  |
| <b>Valuation Toolkit</b>   |   |   |
| Price / Earnings Ratio     | Current Share Price   | Diluted Earnings Per Share (Basis As Specified)                     |
| Price / Book Value         | Current Share Price   | Shareholders' Equity / Current Basic Shares                         |
| Dividend Yield             | Annualised Declared Cash Dividend   | Current Share Price   |
| Free Cash Flow Yield       | Cash Flow From Operations – Total Capex   | Market Cap. = Current Share Price * Current Basic Shares            |
| Enterprise Value / Sales   | $\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Other LT Liabilities}$ | Sales   |
| EV / EBITDA                | Enterprise Value  | Basic EBIT + Depreciation + Amortization                            |

*iQmethod*<sup>SM</sup> is the set of Merrill Lynch standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and valuations. The key features of *iQmethod* are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

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## Important Disclosures

### AVORF Price Chart



B : Buy, N : Neutral, S : Sell, PO : Price objective, NA : No longer valid

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark Grey shading indicates the security is restricted with the opinion suspended. Light Grey shading indicates the security is under review with the opinion withdrawn. Chart current as of June 30, 2007 or such later date as indicated.

### Investment Rating Distribution: Non-Ferrous Metals/Mining & Minerals Group (as of 01 Jul 2007)

| Coverage Universe | Count | Percent | Inv. Banking Relationships* | Count | Percent |
|-------------------|-------|---------|-----------------------------|-------|---------|
| Buy               | 58    | 50.88%  | Buy                         | 16    | 34.04%  |
| Neutral           | 43    | 37.72%  | Neutral                     | 10    | 27.78%  |
| Sell              | 13    | 11.40%  | Sell                        | 0     | 0.00%   |

### Investment Rating Distribution: Global Group (as of 01 Jul 2007)

| Coverage Universe | Count | Percent | Inv. Banking Relationships* | Count | Percent |
|-------------------|-------|---------|-----------------------------|-------|---------|
| Buy               | 1675  | 47.16%  | Buy                         | 435   | 29.21%  |
| Neutral           | 1633  | 45.97%  | Neutral                     | 438   | 29.67%  |
| Sell              | 244   | 6.87%   | Sell                        | 47    | 21.66%  |

\* Companies in respect of which MLPF&S or an affiliate has received compensation for investment banking services within the past 12 months.

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