Avoca Resources Ltd

Earnings Review **BUY**

Equity | Australia | Gold & Precious Metals
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Trident moving to production

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Trident Project - a company maker

Feasibility results confirm development of the Trident underground mine with an initial reserve of 581koz (3.4Mt @ 5.3g/t Au). Initial mine life based on reserves is 4 years (we model 6 based on 800koz resources) however capex of A$91M is based on a +10 year mine life. We believe that significant upside exists from exploration to support such a mine life. Life of mine cash costs are A$369/oz (ML A$355/oz) with <A$300/oz costs from FY09 once in the high grade Athena zone.

Compelling production growth

First production has been pushed out to March 2007 (previously January). Approximately 25koz production is targeted in the first 12 months (via toll treatment) rising strongly to 169koz year 2 (CY08) and >190koz for the following years. The production profile assumes a stand alone 1Mtpa treatment plant will be constructed by 2008.

Funding expected 1Q07

The capex estimate of A$91M is split A$39M on capital works/development & equipment, A$52M on a 1Mtpa plant, services, buildings and infrastructure. This is higher than our A$75M estimate reflecting industry cost pressures. A financing decision is expected 1Q07. We expect the majority to be raised via equity.

BUY

A higher production profile has (in part) offset higher capex and operating costs. We have adjusted our numbers with A$0.9M NPAT reduction FY07 (reflects start up March), NPAT down 8.8% FY08, up 5.5% FY09 & up 4.1% FY10. NPV has increased 2cps to A$1.12ps. AVO is trading at just 1.1x NPV (10% disc rate). Using a 5% DR increases NPV to A$1.45ps (0.8x). This is cheap compared to domestic peer average of 1.8-2.0x. AVO is attractively priced on FY08 & FY09 PEs 14.2x & 5.2x, PCF 7.6x & 3.4x. Our price target is A$2.00ps (1.8x NPV).

Stock Data

Price	A$1.23
Price Objective	A$2.00
Date Established	2-Nov-2006
Investment Opinion	C-1-9
Volatility Risk	HIGH
52-Week Range	A$0.495-A$1.51
Mrkt Val / Shares Out (mn)	US$143 / 148.8
Average Daily Volume	585,684
ML Symbol / Exchange	AVORF / ASX
Bloomberg / Reuters	AVO AU / AVO.AX
ROE (2007E)	-0.5%
Net Dbt to Eqty (Jun-2006A)	-31.4%
Est. 5-Yr EPS / DPS Growth	NA / NA
Free Float	100.0%

Estimates (Jun)

(A$)	2005A	2006A	2007E	2008E	2009E
Net Profit b/f Abnormals	(2)	(2)	0	19	54
EPS	(0.020)	(0.011)	(0.002)	0.087	0.238
EPS Change (YoY)	104.2%	46.5%	83.5%	NM	173.7%
Dividend / Share	0	0	0	0	0
Free Cash Flow / Share	(0.040)	(0.036)	(0.261)	(0.065)	0.310

Valuation (Jun)

	2005A	2006A	2007E	2008E	2009E
P/E	NM	NM	NM	14.16x	5.17x
Dividend Yield	0%	0%	0%	0%	0%
EV / EBITDA*	-56.69x	-74.79x	303.04x	5.39x	1.80x
Free Cash Flow Yield*	-2.48%	-2.92%	-27.72%	-7.80%	38.35%

* For full definitions of *iQmethod* SM measures, see page 11.

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Refer to important disclosures on page 12 to 13. Analyst Certification on page 11. Price Objective Basis/Risk on page 11.

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iQprofile SM Avoca Resources Ltd

Key Income Statement Data (Jun)	2005A	2006A	2007E	2008E	2009E
(A$ Millions)					
Sales	0	0	6	90	153
Operating Expenses	(2)	(2)	(6)	(44)	(51)
EBITDA	(2)	(2)	1	46	102
Depreciation & Amortization	0	0	0	(17)	(27)
EBIT	(2)	(2)	1	28	75
Net Interest & Other income	0	0	(1)	(1)	2
Associates	NA	NA	NA	NA	NA
Pretax Income	(2)	(2)	0	27	77
Tax (expense) / Benefit	0	0	0	(8)	(23)
Net Profit b/f Abnormals	(2)	(2)	0	19	54
Non-Recurring Items	0	0	0	0	0
Net Income (Reported)	(2)	(2)	0	19	54
Avg F Diluted Shares Outstanding	113	150	194	220	227
Key Cash Flow Statement Data					
EBITDA	(2)	(2)	1	46	102
Change in Working Capital	0	1	(1)	(2)	0
Deferred Taxation Charge	0	0	0	0	0
Other Adjustments, Net	1	1	1	1	1
Cash Flow from Operations	(1)	0	0	36	82
Capital Expenditure	(4)	(6)	(51)	(50)	(12)
(Acquisition) / Disposal of Investments	(2)	0	0	0	0
Other Cash Inflow / (Outflow)	0	0	0	0	0
Cash Flow from Investing	(6)	(6)	(51)	(50)	(12)
Shares Issue / (Repurchase)	4	11	78	4	0
Cost of Dividends Paid	0	0	0	0	0
Cash Flow from Financing	4	11	93	4	(5)
Free Cash Flow	(5)	(5)	(51)	(14)	70
Net Debt	(3)	(7)	(34)	(24)	(95)
Change in Net Debt	NA	NA	NA	NA	NA
Key Balance Sheet Data					
Property, Plant & Equipment	12	17	68	99	83
Other Non-Current Assets	0	1	1	1	1
Trade Receivables	0	0	0	0	0
Cash & Equivalents	3	7	49	39	105
Other Current Assets	0	0	0	0	0
Total Assets	15	26	118	140	189
Long-Term Debt	0	0	15	10	5
Other Non-Current Liabilities	0	0	0	0	0
Short-Term Debt	0	0	0	5	5
Other Current Liabilities	0	0	0	0	0
Total Liabilities	1	2	17	15	10
Total Equity	14	24	101	125	179
Total Equity & Liabilities	15	26	118	140	189
iQmethod* SM - Bus Performance					
Return on Capital Employed	-17.4%	-8.5%	0.8%	15.8%	33.3%
Return on Equity	-19.3%	-8.5%	-0.5%	16.9%	35.6%
Operating Margin	NA	NA	9.2%	31.4%	49.0%
EBITDA Margin	NA	NA	10.6%	50.7%	66.8%
iQmethod* SM - Quality of Earnings					
Cash Realization Ratio	0.4x	-0.1x	0.7x	1.9x	1.5x
Asset Replacement Ratio	115.5x	126.1x	572.6x	2.9x	0.4x
Tax Rate (Reported)	0%	21.4%	0%	30.0%	30.0%
Net Debt-to-Equity Ratio	-18.4%	-31.4%	-33.9%	-19.6%	-53.0%
Interest Cover	NA	NA	0.6x	19.2x	72.8x
Key Metrics					
Franking	0%	0%	0%	0%	0%

* For full definitions of *iQmethod* SM measures, see page 11.

Company Description

Avoca Resources is an emerging gold miner in Western Australia with its Trident deposit. First production is targeted early 2008 with an attractive growth profile and significant upside from exploration.

Table 1: Macro Assumptions

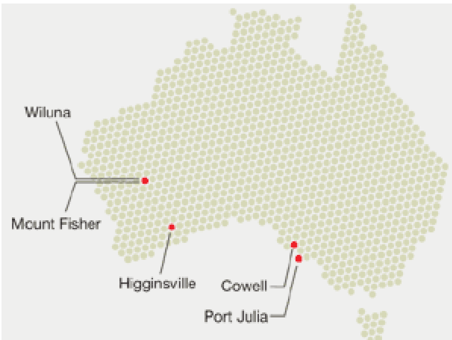
Assumptions	05A	06A	07E	08E	09E
Average Exch Rate (A$/US$)	0.76	0.75	0.76	0.73	0.72
Gold Price (US$/oz)	423	527	648	660	638

Source: ML Estimates

Stock Data

Price to Book Value	1.8x

Figure 1: AVO Major Projects



Source: AVO

Trident Project Parameters

Phase 1 sees targeted start up around March 2008 with an attractive growth profile (chart 1 & 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 (table 7). Ore characteristics comprise in excess of 13,000 tonnes per vertical metre and 2,500oz per vertical metre which AVO believe will see Trident become one of Australia's premier new generation gold mines.

Table 2: Trident project parameters

AVO ownership	100%
Plant Capacity (toll treat initially)	1.0Mtpa
Plant Gold Recovery	95%
Gold Production First 12 months	25koz
Annual Gold Production from Year 2	>168kozpa
Cash costs Year 1	~US$375/oz
Cash costs Year 3 onwards	<US$250/oz
Pre Production Capex – funded by bridge loan facility	~A$15M
Plant Capex for Year 2 Production*	~A$53M
Mine life**	~6 years
Mining Method	Underground
First Production	~March 2007

Source: AVO, *Total capex A$91M, we assume majority equity funded

Development & Mine Schedule

Below is the table outlining the planned development and stoping totals from the 3 main zones at Trident over the next 4 years (years are calendar).

Figure 2: Summary of Trident Production

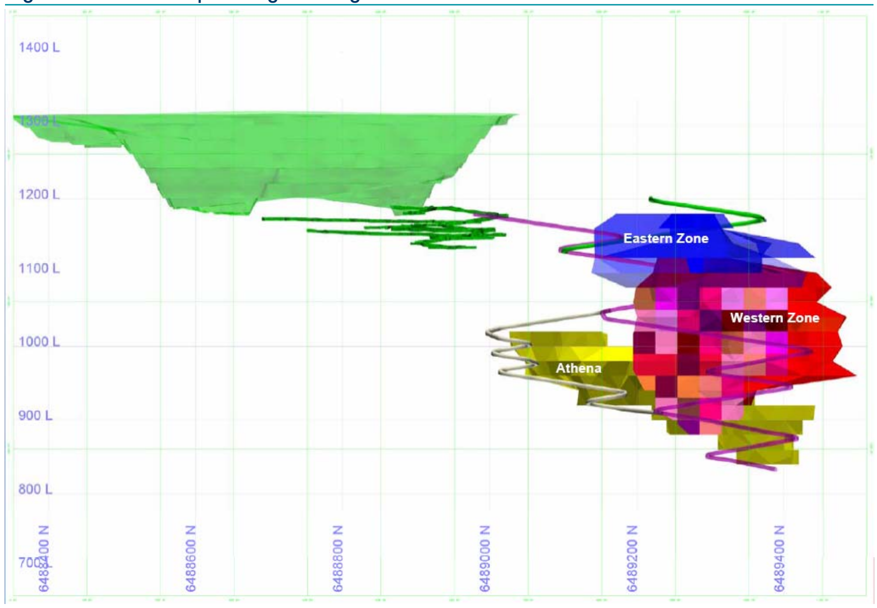
STOPING OPERATIONS		LOM Total	2007	2008	2009	2010
Western Zone (Bench)	t	362,032	8,205	120,817	20,215	212,795
	g/t	4.70	3.51	4.22	4.33	5.05
Western Zone (Open)	t	1,682,424	-	286,550	661,837	734,037
	g/t	4.92	-	6.48	5.00	4.25
Eastern Zone (Bench)	t	649,811	147,160	357,884	11,859	132,909
	g/t	4.50	4.40	4.8	4.04	3.85
Athena Lodes (Bench)	t	384,740		67,569	188,322	128,850
	g/t	8.94		7.9	9.17	9.16
Total Stoping	**t**	**3,079,006**	**155,364**	**832,820**	**882,232**	**1,208,590**
	g/t	**5.31**	**4.35**	**5.54**	**5.87**	**4.87**
Development Ore	t	**314,958**	**30,198**	**112,076**	**149,393**	**23,291**
	g/t	**5.47**	**3.79**	**5.69**	**5.52**	**6.25**
TOTAL Production	t	**3,393,964**	**185,563**	**944,895**	**1,031,626**	**1,231,881**
	g/t	**5.33**	**4.26**	**5.56**	**5.82**	**4.90**
	ounces	**581,284**	**25,431**	**168,920**	**192,892**	**194,041**

Source: AVO

Resources at Trident comprise the Eastern zone (118koz resources), Western zone (395koz) and Athena lode (284koz). Mineralisation in all zones is located very close together aiding in efficient production. The Western and Eastern zones are similar to St Ives mineralisation. The Western Zone is very thick (up to 40m true width) with mining planned in this area from late 2007. The Athena lode is similar to Norseman style mineralization containing laminated high grade veins with access targeted by early 2008. Stripping of the existing decline has commenced from the bottom of the Poseidon South pit. AVO is changing the 4.5m * 4.5m profile to a 5.2m * 5.5m profile to enable access for 50t trucks. We note that stripping over the current 200m decline may enable production from Poseidon South veins which AVO view as prospective. Hence upside exists from this area.

Mining methods will be a combination of 30 conventional large volume sub-level open stopes (Western Zone) and a series of narrow (<10m wide) sub-level open stopes (bench stoping) predominantly on the Eastern Zone and Athena lodes. At around 250-340m below sea level the ounces per vertical metre is very high as the WZ intersects Athena. This is potentially spectacular ore. The decline will need to be ~800m in length to reach this ore in 2008.

Figure 3: Trident Stope Design – Long Section



Source: AVO NB: top left is the old historic Poseidon pit

Geotechnical studies indicate the host rock of sufficient strength to enable mining large scale long-hole open stopes. Such large scale mining provides for relatively low cost extraction. Below 700m depth rock stresses could be an issue however at present the deepest ore intersections are at only 450m.

Metallurgy and Mill

Results from detailed metallurgical testwork indicate excellent recoveries with 95.9% in the Eastern zone, 95.8% Western Zone and 97.7% in the Athena lodes. Gravity concentration from testwork produced variable results averaging 40% but increasing to 84%.

AVO plans to build a 1.0Mtpa standalone plant to increase production to over 168koz in 2008. The major determinant on this timetable is lead time on the ball mill. We understand that for a new one it could be 12-18 months however AVO believes it will be able to get a second hand mill in order to meet the targeted production timetable. Assessment of open pit resources (251koz) is continuing.

The host rock is quartz gabbro with a medium to high abrasion index. Whilst this is good for ground conditions it makes crushing more costly. AVO states no excessive consumption of consumables was evident during the testwork. AVO plan to blend the primary underground ore with softer open pit ore types which should benefit the cost profile.

Infrastructure

Trident is located close to road and rail transport infrastructure; gas; potable water and optic fibre communication facilities. Additional establishment of infrastructure (included in capex estimates) to support the mining and milling operations include:

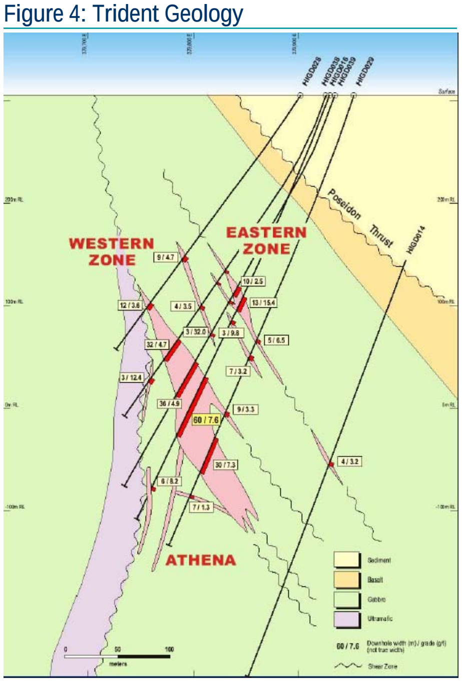
- 150 person village and change rooms
- Office complex
- Workshop
- Power reticulation
- Power station including gas lateral
- Borefield and pipeline

Labour & Equipment

Labour is probably the biggest issue in the mining industry at present given the current shortage of skilled labour. Recently AVO employed Sam Roesler to position of GM Higginsville. He is an experienced mining engineer with previous management roles at Lake Johnston Nickel, Black Swan, Kanowna Belle and Olympic Dam.

In terms of mining AVO is currently using a contractor called ACM Mining. As development progresses AVO will be tendering out for a major mining contract in the coming months.

Figure 4: Trident Geology



Source: AVO

Geology

The field comprises the same geology as that seen at St Ives, immediately to the north, and Norseman, immediately to the South (see figure 5). Traditionally these areas have had significant underground production. Three main mineralized domains are evident at Trident: the Athena lodes, the Western Zone and Eastern Zone. Recent discoveries of new high grade ore lode surfaces include the Poseidon South Athena veins and a new Western Zone style lode between 100m and 150m below the Western Zone. These new lodes lie along strike and down dip of the main mineralized structures present within the Trident ore system.

Both the Eastern and Western Zones are characterized by one or more steep east dipping mineralized shear zones that are developed with a favourable unit of the Poseidon Gabbro. The mineralized shear zones are often highly sulphidised with pyrrhotite and arsenopyrite and often contain visible gold, a feature common to all high grade mineralization at Higginsville. Both zones are St Ives style and dip at around 60 degrees to the East.

The Western Zone is a single lode of thick high grade mineralization with strike extent in the order of 250m and a dip extent of approximately 250m. The Western Zone is broadly disc-shaped in section where it reaches a true thickness of up to 40m in its centre. Mineralisation consists of a stock work system of quartz-arsenopyrite-pyrrhotite veins within a sheared and strongly altered quartz gabbro host rock.

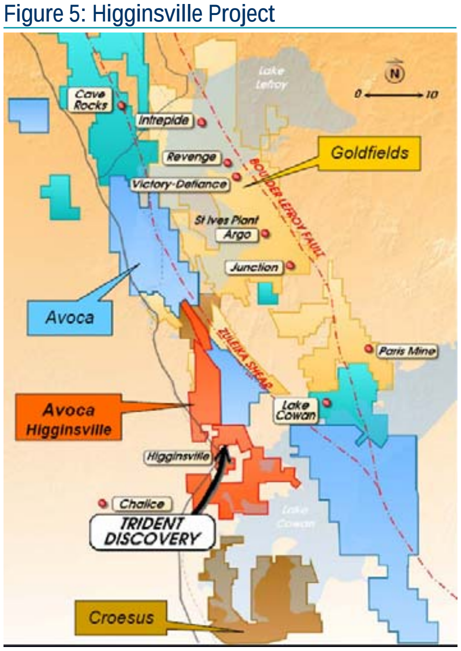
The Eastern Zone comprises 5 discrete high grade lodes that are typically between 80m-200m in strike extent and 50m-120m dip extent (sub vertical). Lode thicknesses vary between 2m and 10m true thickness. All 5 high grade lodes that comprise the Eastern Zone are classified as Indicated Resource.

The Athena lodes are different to the Eastern and Western Zones as they are characteristically defined by laminated quartz vein arrays. The Athena lodes characteristically comprise a 2m-5m wide laminated vein commonly exhibiting coarse visible gold. The style and structural vein setting is very similar to that seen at Norseman, and at Two Boys only 1.5km south of Trident. Like many of the Norseman deposits and Two Boys, Athena is a blind deposit and has required very detailed geological documentation of oriented surface diamond drill holes to develop an understanding of the mineralization style and controls.

Athena occurs at the junction of 3 different rock types. To date 12 different mineralized surfaces have been identified from AVO's drilling. Only 4 of these surfaces have been included in the current resource estimate due to insufficient drill density. Note that these surfaces can be difficult to define and further drilling is required from underground. Athena dips at ~75 degrees to the West. There also exists some flat links / tensional veins which carry high grade. The plunge of the Athena lodes is flat overall with some steeper internal plunges with high grade zones (this is exactly like at Norseman). A flat plunge is positive for underground noting that generally when you hit these ore zones they can extend for some distance.

Exploration – Higginsville

Figure 5: Higginsville Project



Source: AVO

AVO has control of a 1000sq km gold belt between the St Ives (15Moz) and Norseman (6Moz) gold camps. Exploration upside looks attractive with the average drill hole depth for the entire Higginsville field only 45m. Just 1% of holes (114 in total) have been drilled deeper than 250m in a field where the predominant gold target is for underground ore. Hence much of the prospective deeper lying rock units at Higginsville have not previously been drill tested. Note that the Trident deposit was discovered at a depth of 150m and considered a blind deposit. Potential exists for further discoveries at depth at Trident and AVO see outstanding potential below the historic 300koz Challenger pit with only 2 holes there drilled below 250m.

A total of A$5m has been allocated to exploration over the next 12 months. Drilling is focused but not restricted to the Trident project area. AVO is also planning to commence drilling at the nearby Erin prospects.

Corporate Growth Potential

We note recent press speculation that AVO is one several short listed bidders for the Norseman assets (located 50km south) with a decision expected by year end. Croesus Mining (holder of the assets) went into administration in June 2006. The assets comprise the Bullen and Harlequin underground mines producing around 110kozpa at cash costs of ~A$550/oz. The plant at Norseman is currently processing around 250ktpa from the 2 underground mines supplemented by open pit feed of another 250ktpa. Note that plant capacity is 700ktpa.

The Norseman field has been producing gold for over 70 years. It is hard to imagine a gold miner going into receivership given current gold prices however it appears that detrimental hedging and a flawed strategy were the major drivers.

Some in the market believe that CRS strategy was flawed as it focused on finding open pits instead of targeting the narrow high grade underground potential which has traditionally been the “bread and butter” at Norseman. We believe that Norseman could be a very good fit for AVO given the experience the team has with Norseman style deposits and synergies from the Norseman plant (50km away). Note that the geology of the Athena orebody is Norseman style. Capex is required to improve the assets (we suspect at least A$20M) plus a major focus on exploration is required to extend the underground mine life. This is where AVO’s expertise could be invaluable.

Corporate Appeal

We believe AVO is attractive given the growing resource and reserve base and location. Additionally exploration continues to deliver impressive results, which is expected to see resources and reserves grow. Goldfields are the major shareholder with 14% noting the Trident project is located around 70km to the south of Goldfields St Ives plant.

Hedging

At present AVO is unhedged however some debt may be required with minor hedging.

Trident Resources - upside

AVO sees likely conversion of 142koz inferred resources into reserves given these resources are in areas adjacent to planned capital development at Trident. Additionally numerous high grade ore intersections are presently unclassified due to insufficient drill density. Best results include 7m @ 8.8g/t Au, 4m @ 15.2g/t Au and 4m @ 13.9g/t Au from the Eastern Zone and 5m @ 31g/t Au, 3.7m @ 36.7g/t Au from the Poseidon South Athena vein. It is expected that once underground drill positions are established, many of the unclassified intersections will become part of future resources and subsequent reserves conversions. AVO believes potential exists to grow the total resources to 4Moz over time.

Table 3: Resources - Trident

Classification	Tonnage (Kt)	Au Grade (g/t)	Contained Au (kozs)
Measured	0	0.0	0
Indicated	3,521	5.8	655
Measured & Indicated	3,521	5.8	655
Inferred	838	5.3	142
Measured, Indicated & Inferred	4,359	5.7	797

Source: AVO

Historical reconciliation at the Poseidon mine (adjacent to Trident) was a 35% positive reconciliation which augurs well for the Trident deposit.

Open Pit Resources

In addition to Trident the near-surface potentially open-pittable resources at Higginsville amount to 4.4Mt @ 1.8g/t Au for 251koz. The majority of these resources are in the Indicated and Measured categories and classified in the early 1990s when gold price was A$450/oz. At current gold prices of A$/oz AVO believes that there is likely to be a positive conversion to reserve oz. AVO anticipate determining open pit reserve economics for these resources in late 2006. AVO is looking at a stage 2 pit at Fairplay and also likes the Mitchell 4 resource due to the higher grade (+3g/t Au) compared to other palaeochannel deposits at ~2g/t Au. Challenger (located 15km east of Trident) holds appeal noting it has historic production of 250koz.

Table 4: Open Pit Resources

	Indicated			Inferred			Total		
	Kt	Grade	Contained	kt	Grade	Contained	Kt	Grade	Contained
Fairplay Area	1,300	1.7	73	1,150	2.0	75	2,450	1.8	148
Palaechannels	845	2.2	60	48	2.7	4.2	893	2.2	65
Other	89	2.1	6	350	1.5	17	1,085	1.1	38
Total	2,234	1.9	139	1,548	1.9	96	4,428	1.8	251

Source: AVO

Regional Exploration & JVs

Outside Higginsville, the Company holds interests in wholly owned projects in Western Australia and South Australia. Additionally AVO holds interests in 9 JV projects. While most of the focus and activity has been on Trident during the past year, AVO was able to maintain ongoing regional exploration both within the Higginsville leases where 9 separate drilling programs outside Trident were completed. AVO is encouraged by drilling results returned by Barrick Gold at Zuleika South and Teck Cominco at Kalgoorlie East. AVO believes excellent potential exists for the discovery of a major gold deposit in each of these 2 projects.

Table 5: JV Projects

JV Partner	Project	Commodity	Earning
Barrick Gold	Zuleika South	Gold	51%
Teck Cominco	Kalgoorlie East	Gold	70%
MRA	Mungari	Gold	51%
Integra Mining	Cowarna	Gold	80%
Metex/Placer Dome	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%

Source: AVO

AVO has an extensive joint venture portfolio comprising 9 separate JVs throughout WA. 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$1.12/share.

Table 6: NPV @ 10% Discount Rate

	A$m	A$/share
Higginsville Gold Project	220.52	1.48
Taxation	(57.91)	(0.39)
Hedging	0.00	0.00
Exploration	10.00	0.07
Net (Debt)/Cash	(5.39)	(0.04)
TOTAL	167.21	1.12

Source: ML Estimates

AVO Production Summary

Table 7: Production and Cash Cost Summary

Higginsville Production (oz)	05A	06A	07E	08E	09E
Gold	0	0	7,139	99,502	173,333
Cash Operating Costs					
Higginsville (US$/oz)			378	307	203
Higginsville (A$/oz)			497	423	281
Total Cash Costs					
Higginsville (US$/oz)			577	472	351
Higginsville (A$/oz)			759	650	488

Source: ML Estimates

Profit and Loss

Table 8: Profit and Loss (A$M)

Profit and Loss	05A	06A	07E	08E	09E
Sales	0.0	0.0	6.4	90.1	153.4
Other Revenue	0.0	0.0	0.0	0.0	0.0
Total Revenue	0.0	0.0	6.4	90.1	153.4
Operating Costs	-0.2	-0.5	-3.6	-42.2	-48.8
Exploration	-1.3	-0.9	-1.0	-1.0	-1.0
Other Costs	-0.8	-1.0	-1.2	-1.2	-1.2
EBITDA	-2.4	-2.4	0.7	45.7	102.4
Depreciation & Amortisation	0.0	0.0	-0.1	-17.4	-27.3
EBIT	-2.4	-2.4	0.6	28.3	75.1
Net Interest	0.2	0.4	-0.9	-1.0	1.9
Pretax Profit	-2.2	-2.0	-0.3	27.3	77.0
Tax	0.0	0.4	0.0	-8.2	-23.1
Operating NPAT	-2.2	-1.6	-0.3	19.1	53.9
OEI	0.0	0.0	0.0	0.0	0.0
NPAT (Normalised for FCA)	-2.2	-1.6	-0.3	19.1	53.9
Significant Items	0.0	0.0	0.0	0.0	0.0
Reported NPAT	-2.2	-1.6	-0.3	19.1	53.9
Normalised EPS (¢)	-2.0	-1.1	-0.2	8.7	23.8
Reported EPS (¢)	-2.0	-1.1	-0.2	8.7	23.8
PER (X)	-62	-115.5	-699.5	14.2	5.2
DPS (¢)	0.0	0.0	0.0	0.0	0.0
Franking (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
EPS Growth	104.2%	n/a	n/a	n/a	173.7%
EBIT/Sales (%)	n/a	n/a	9.2%	31.4%	49.0%
Effective Tax Rate	0%	21%	0%	30%	30%
Interest Cover (X)	-0.1	-0.2	-1.6	0.0	0.0
Dividend Cover (X)	0.0	0.0	0.0	0.0	0.0

Source: AVO, ML Estimates

Sensitivities

Table 9: NPAT Sensitivities

NPAT change for:		06A	07E	08E	09E
+ 1c change in A$/US$	A$m		-0.08	-0.83	-1.43
	%		-23.7%	-4.3%	-2.7%
+ US$10/oz change in gold price	A$m		0.09	0.94	1.64
	%		26.8%	4.9%	3.0%

Source: ML Estimates

Substantial Shareholders

Table 10: Substantial Shareholders

Gold Fields	19.0	12.8%
CBA	11.1	7.5%

Source: IRESS

Comps Table

Table 11: 2007E Global Comps Table

	Price	QRQ Rec	Mkt Cap	P/NAV	P/E	P/CF	EV / Reserve Oz	EV / Resource Oz	FY/CY06E Production	Cash Costs	FY/CY07E Production	Cash Costs	FY/CY07E Production Hedged
Australasia	A$		A$M	(x)	(x)	(x)	(US$/oz)	(US$/oz)	(Koz)	(US$/oz)	(Koz)	(US$/oz)	
Newcrest (NCMGF)	26.40	C-2-8 Ntrl	8,822	2.40	28.4	12.7	217	122	1530	185	1693	181	49%
Oxiana (OXFLF)	3.18	C-2-7 Ntrl	4,404	2.08	10.8	7.8	900	51	178	352	186	355	0%
Lihir (LIHRF/Y)	3.08	C-1-9 Buy	3,955	1.90	21.9	11.3	138	70	629	321	823	249	30%
Sino Gold (SIOGF)	5.88	C-1-9 Buy	900	1.73	22.6	15.0	252	160	11	334	145	265	20%
Bolnisi Gold (BXLGF)*	3.11	C-1-9 Buy	860	1.44	na	na	247	184	0	0	117	250	0%
Kingsgate (KSKGF)	4.09	C-2-8 Ntrl	370	1.28	21.9	13.3	154	75	140	206	124	252	47%
Avoca Resources(AVORF)	1.23	C-1-9 Buy	183	1.12	na	na	246	163	0	0	10	352	0%
Perseverance(PRSVF)	0.38	C-1-9 Buy	218	1.12	24.6	8.1	184	62	91	348	101	323	41%
Oceana Gold (OCGDF)	0.67	C-2-9 Ntrl	441	0.98	na	10.8	163	52	0	0	254	270	45%
			Average	2.08	20.8	10.7	198	98					
North America (Seniors)	US$		US$M										
Goldcorp (GG)	28.01	C-1-7 Buy	19,667	2.26	24.1	15.8	474	226	1600	97	2800	200	0%
Kinross (KGC)	11.82	C-2-9 Ntrl	4,285	1.82	17.4	10.9	171	136	1460	320	1524	283	0%
Newmont (NEM)	47.49	B-2-8 Ntrl	20,063	2.10	20.2	9.3	207	147	5700	303	5400	360	0%
Barrick (ABX)	30.45	C-1-7 Buy	26,278	2.03	17.4	11.0	179	124	8600	285	8500	330	3%
			Average	2.08	19.5	11.9	266	152					
Pan American Silver (PAAS)	24.96	C-1-9 Buy	1,899	1.85	17.8	14.7	9.4	2.6	13400	1.60	18653	3.54	0%
North America (Mid-caps)	US$												
Agnico-Eagle Mines (AEM)	40.77	C-2-7 Ntrl	4,922	2.51	38.1	24.1	439	269	250	0	240	-80	0%
Centerra Gold Inc . (YCG)	13.37	C-2-9 Ntrl	2,891	2.16	23.3	16.1	421	216	570	378	719	346	0%
Eldorado Gold Corp. (EGO)	5.21	C-1-9 Buy	1,776	2.00	na	15.5	260	182	220	316	310	230	0%
Golden Star Resources (GSS)	3.00	C-2-9 Ntrl	620	1.69		8.0	178	111	247	358	460	365	0%
Hecla Mining Corp. (HL)	7.12	C-2-9 Ntrl	851	1.72	17.5	9.7	476	310	147	295	192	275	0%
IAMGOLD Corp. (YIMG)	10.01	C-1-7 Buy	2,925	1.76	18.5	11.0	703	177	550	305	560	318	0%
Meridian Gold Inc.(incl Esquel) - MDG	28.06	C-2-9 Ntrl	2,836	2.11	27.5	18.5	1185	444	260	-75	299	60	0%
Northgate Minerals Corp. (NXG)	3.12	C-2-9 Ntrl	626	1.26	6.6	4.9	51	45	320	76	320	95	19%
NA Palladium (1) - YPDL	8.95	C-2-9 Ntrl	472	2.02	32.0	11.2	189	137	335	250	349	158	
Royal Gold (RGLD)	33.89	C-2-7 Ntrl	800	2.19	40.6	25.8	na	na	n.a.	n.a.	n.a.	n.a.	na
			Average	2.07	20.3	14.3	340	200					
South Africa	ZAR$		ZAR$M										
AngloGold(AULGF)	325.00	C-1-7 Buy	85,995	1.22	14.0	8.0	185	7	5700	301	6196	248	31%
DRD (DRDGF)	7.00	C-2-9 Ntrl	2,316	0.76			16	8	863	433	852	435	0%
Gold Fields(GFIOF)	124.00	C-1-7 Buy	67,896	1.33	16.6	8.3	159	69	4,374	356	4,726	300	0%
Harmony(HGMCF)	110.40	C-1-9 Buy	44,010	1.56	25.4	12.9	183	30	2,444	424	3,050	357	23%
Western Areas (WARSF)	44.80	XRVWI											
			Average	1.34	17.4	8.8	168	32					
International													
Peter Hambro Min (UK) - PTHBF	10.06	C-1-9 Buy	809	1.30	13.4	na	15	na	250	209	276	265	0%
Zijin Min Group (China) - ZIJMF	5.17	C-2-7 Ntrl	16,566	3.29	28.2	20.8	352	na	528	273	527	283	0%
Polyus (Russia) - XPLGY	49.00	C-2-9 Ntrl	9,341	2.23	31.0	26.1	304	100	1186	266	1186	283	0%

Source: ML Estimates

Price Objective Basis & Risk

AVO is focused on developing the 797koz Au resource Trident project in Western Australia with first production targeted March 2007 with an initial 6 year mine life. AVO is trading at just 1.1x base case DCF valuation of A$1.12/share. This compares to domestic peer average of 1.8-2.0x and North American peer average of 2.1x. 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. Our price target of A$2.00psis based on 1.8x NPV.

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

Analyst Certification

I, Andrew Richards, hereby certify that the views expressed in this research report about securities and issuers accurately reflect the research model applied in such analysis. 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.

***iQ**method* SM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) * (1 - Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
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
Quality of Earnings		
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
Valuation Toolkit		
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	EV = Current Share Price * Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

***iQ**method* SM is the set of Merrill Lynch standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. 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.

***iQ**database* ® is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by Merrill Lynch.

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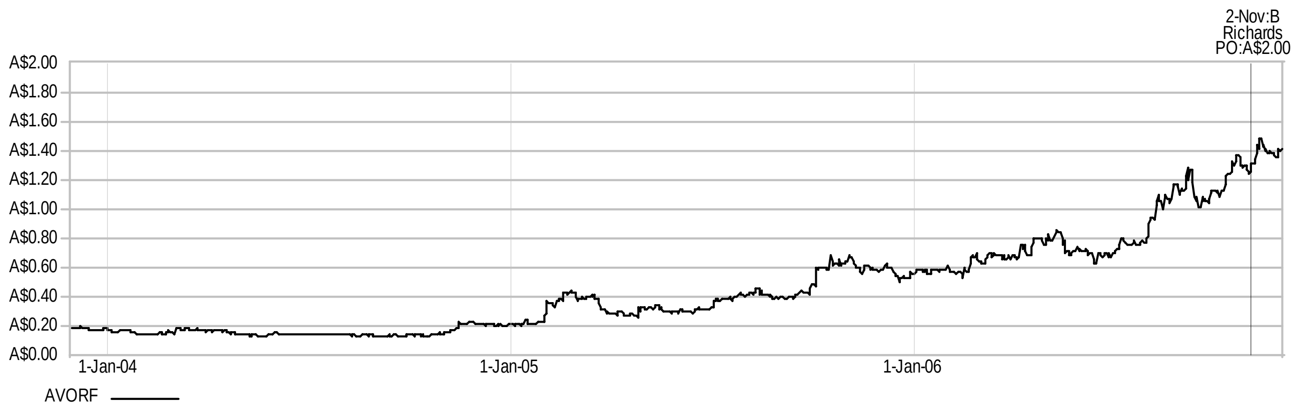
AVORF Price Chart



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 November 30, 2006 or such later date as indicated.

Investment Rating Distribution: Non-Ferrous Metals/Mining & Minerals Group (as of 30 Sep 2006)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	39	45.35%	Buy	17	43.59%
Neutral	42	48.84%	Neutral	10	23.81%
Sell	5	5.81%	Sell	1	20.00%

Investment Rating Distribution: Global Group (as of 30 Sep 2006)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1325	44.76%	Buy	434	32.75%
Neutral	1420	47.97%	Neutral	412	29.01%
Sell	215	7.26%	Sell	48	22.33%

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