

Trident progressing well

First high grade Trident ore

AVO has stockpiled 2,915t @ 3.24g/t Au of development ore and 31,517t of low grade ore. Development at the Trident decline advanced 1,867m during the quarter with total development now exceeding 3km. The quarterly report resulted in no changes to our earnings estimates.

Plant construction on time and budget

During the quarter site works commenced for the 1Mtpa Higginsville CIL treatment plant. By quarter end AVO had completed 20% of the work associated with the treatment plant construction on time and budget. The plant is expected to be commissioned in June 2008. In the meantime AVO is pursuing toll treatment options with 3rd parties in the region.

Resource update soon

AVO expects to release a resource estimate update for the Higginsville Gold Project by the end of calendar 2007 with a reserves estimate to follow in early 2008. Drilling continues to point to potentially significant increases. FY08 surface exploration budget is A\$11m.

BUY

AVO is an emerging gold producer offering attractive production growth with 170-190kozpa rates targeted FY09. Mine life is around 6 years with strong upside from exploration. Within 18-24 months AVO should be mining in the high grade Athena zone where cash costs may decline to as low as US\$200/oz. We expect low cash costs will make AVO one of Australia's highest margin gold miners. AVO is trading at 1.6x NAV versus peer average of ~2.0x. We have a price target of A\$2.75/sh (1.7x NAV).

Estimates (Jun)

(A\$)	2005A	2006A	2007E	2008E	2009E
Net Profit b/f Abnormals	(2)	(2)	(5)	17	47
EPS	(0.020)	(0.011)	(0.026)	0.078	0.212
EPS Change (YoY)	NM	46.5%	-136.4%	NM	170.9%
Dividend / Share	0	0	0	0	0
Free Cash Flow / Share	(0.040)	(0.036)	(0.148)	(0.256)	0.226

Valuation (Jun)

	2005A	2006A	2007E	2008E	2009E
P/E	NM	NM	NM	33.24x	12.27x
Dividend Yield	0%	0%	0%	0%	0%
EV / EBITDA*	-121.01x	-161.63x	-146.08x	13.23x	5.55x
Free Cash Flow Yield*	-1.17%	-1.38%	-7.37%	-14.75%	12.99%

* For full definitions of *iQmethod*SM measures, see page 8.



Andrew Richards >> +61 2 9226 5630

Research Analyst
Merrill Lynch (Australia)
andrew_b_richards@ml.com

Stuart Howe >> +612 9226 5728

Research Analyst
Merrill Lynch (Australia)
stuart_howe@ml.com

Stock Data

Price	A\$2.60
Price Objective	A\$2.75
Date Established	8-Oct-2007
Investment Opinion	C-1-9
Volatility Risk	HIGH
52-Week Range	A\$1.15-A\$2.72
Mkt Val / Shares Out (mn)	US\$356 / 148.9
Average Daily Volume	1,160,126
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 9 to 10. Analyst Certification on page 8. Price Objective Basis/Risk on page 8.

31 October 2007

iQprofileSM Avoca Resources Ltd

Key Income Statement Data (Jun)	2005A	2006A	2007E	2008E	2009E
(A\$ Millions)					
Sales	0	0	0	86	150
Operating Expenses	(2)	(2)	(3)	(42)	(53)
EBITDA	(2)	(2)	(3)	44	97
Depreciation & Amortization	0	0	0	(15)	(27)
EBIT	(2)	(2)	(3)	30	70
Net Interest & Other income	0	0	(2)	(5)	(3)
Associates	NA	NA	NA	NA	NA
Pretax Income	(2)	(2)	(6)	25	67
Tax (expense) / Benefit	0	0	1	(7)	(20)
Net Profit b/f Abnormals	(2)	(2)	(5)	17	47
Non-Recurring Items	0	0	0	0	0
Net Income (Reported)	(2)	(2)	(5)	17	47
Avg F Diluted Shares Outstanding	113	150	192	223	223

Key Cash Flow Statement Data

EBITDA	(2)	(2)	(3)	44	97
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
Cash Flow from Operations	(1)	0	(4)	29	75
Capital Expenditure	(4)	(6)	(25)	(87)	(25)
(Acquisition) / Disposal of Investments	(2)	0	0	0	0
Other Cash Inflow / (Outflow)	0	0	0	0	0
Cash Flow from Investing	(6)	(6)	(25)	(87)	(25)
Shares Issue / (Repurchase)	4	11	69	0	0
Cost of Dividends Paid	0	0	0	0	0
Cash Flow from Financing	4	11	130	(8)	0
Free Cash Flow	(5)	(5)	(29)	(57)	50
Net Debt	(3)	(7)	(48)	9	(41)
Change in Net Debt	NA	NA	NA	NA	NA

Key Balance Sheet Data

Property, Plant & Equipment	12	17	44	114	111
Other Non-Current Assets	0	1	1	1	1
Trade Receivables	0	0	0	0	0
Cash & Equivalents	3	7	109	44	94
Other Current Assets	0	0	0	0	0
Total Assets	15	26	154	160	207
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
Total Liabilities	1	2	65	53	53
Total Equity	14	24	89	107	154
Total Equity & Liabilities	15	26	154	160	207

iQmethodSM - Bus Performance*

Return on Capital Employed	-17.4%	-8.5%	-3.3%	14.6%	28.2%
Return on Equity	-19.3%	-8.5%	-8.7%	17.8%	36.2%
Operating Margin	NA	NA	NA	34.2%	47.0%
EBITDA Margin	NA	NA	NA	51.6%	64.7%

iQmethodSM - Quality of Earnings*

Cash Realization Ratio	0.4x	-0.1x	0.7x	1.7x	1.6x
Asset Replacement Ratio	115.5x	126.1x	95.3x	5.8x	0.9x
Tax Rate (Reported)	0%	21.4%	10.6%	30.0%	30.0%
Net Debt-to-Equity Ratio	-18.4%	-31.4%	-54.0%	8.2%	-26.9%
Interest Cover	NA	NA	-1.5x	3.9x	11.1x

Key Metrics

Franking	0%	0%	0%	0%	0%
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* For full definitions of iQmethodSM measures, see page 8.

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	4.3x
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Trident Project on track

During the quarter AVO stockpiled 2,915t @ 3.24g/t Au of development ore from the upper levels of the Eastern Zone. By the end of the quarter AVO had also stockpiled 31,517t of low grade ore. The majority of this low grade ore is additional to current reserve estimates. Development of the decline advanced 1,867m. 1,413m of the advance was capital development with 454m classified as operating development. The employment of a second jumbo from early July substantially increased development rates. Rehabilitation of the underground workings of Poseidon South was completed during the quarter with several drill sites established to enable extension drilling.

Figure 1: AVO Major Projects



Source: AVO

Higginsville Treatment Plant

Site works for the 1Mtpa CIL treatment plant commenced during the quarter. The project is on time and on budget with approximately 20% of the work associated with the plant completed by the end of the quarter. The plant is expected to be commissioned in June 2008.

Infrastructure

The second, southern vent rise was completed and a primary ventilation fan installed assisting the increased rate of development by the two jumbos. Key site buildings were completed, the contract for electrical installation was awarded and the building supply contract for the mine camp completed. The ROM pad was also completed.

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	-170-190kozpa
Cash costs LOM	-A\$370/oz
Plant Capex for Year 2 Production	-A\$52M
Mine life*	-6 years
Mining Method	Underground
First Production	-Aug 2007

Source: AVO, *Based on resources

Cash position

AVO had \$91m cash at the end of the quarter. The cash position decreased by \$18m during the September quarter after spend on development and construction at Trident. AVO has drawn \$13M under a cash facility provided by Societe Generale and has an un-drawn A\$3M performance bond facility with SG which is to be used for the Higginsville gold project.

Exploration budget increased

During the quarter AVO announced it had increased the FY08 surface exploration budget for Higginsville to A\$11m (previously A\$5m). Exploration drilling during the quarter intersected several new high grade reefs within close proximity to Poseidon South and significant (+100m) extensions to the Eastern Zone and Athena ore surfaces. AVO now expects to release an updated resource estimate for the Higginsville Gold Project before the end of calendar 2007 with a reserve estimate to follow in early 2008 (note possible slight delay to previous estimate of a release during November 2007).

Wills prospect

Aircore drilling has been completed at the Wills prospect. A program of 98 holes (4679m) was completed to infill and extends the mineralisation discovered in the previous quarter. Previous drilling indicated potential for possible open pit operations that could augment the planned Trident production. Wills is located 25km from Trident. We await assay results.

Chalice exploration

AVO has commenced exploration on the Chalice region tenements. The focus is to upgrade the existing 79koz of high grade Inferred Resource beneath the Chalice pit and drill testing targets within previously unexplored regions of the Chalice Gold Belt. AVO has now commenced a diamond drill program at Chalice targeting geophysical "IP" anomalies.

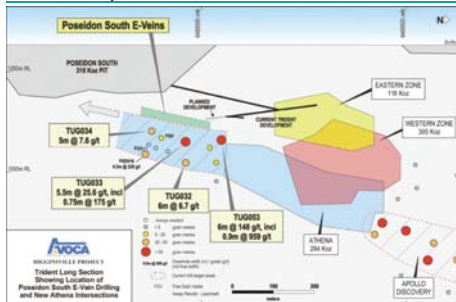
Vine JV Prospect (AVO 64% earning 74%)

A nine hold RC and diamond drilling program has completed testing several targets. Significant results include 6.0m @18g/t Au from 46m, 4.0m @7.9g/t Au from 84m, 3.0m @ 7.4g/t Au from 116m and 2.0m @ 9.0g/t Au from 186m.

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.

Chart 1: Exploration Success



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%

Source: AVO

Valuation

Our base case valuation for AVO is based on a 6 year mine life using a 10% discount rate which equates to A\$1.63/share.

Table 4: NPV @ 10% Discount Rate

	A\$m	A\$/share
Higginsville Gold Project	369.68	1.73
Taxation	(86.01)	(0.40)
Hedging	0.00	0.00
Exploration	15.00	0.07
Net (Debt)/Cash	48.28	0.23
TOTAL	346.95	1.63

Source: ML Estimates

AVO Production Summary

Table 5: Production and Cash Cost Summary

Higginsville Production (oz)	06A	07E	08E	09E
Gold	0		99,502	173,333
Cash Operating Costs	06A	07E	08E	09E
Higginsville (US\$/oz)			311	223
Higginsville (A\$/oz)			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	149.7
Other Revenue	0.0	0.0	0.0	0.0
Total Revenue	0.0	0.0	86.2	149.7
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	96.9
Depreciation & Amortisation	0.0	-0.3	-14.9	-26.6
EBIT	-2.4	-3.4	29.5	70.3
Net Interest	0.4	-2.2	-4.6	-2.9
Pretax Profit	-2.0	-5.5	24.9	67.4
Tax	0.4	0.6	-7.5	-20.2
Operating NPAT	-1.6	-4.9	17.4	47.2
OEI	0.0	0.0	0.0	0.0
NPAT (Normalised for FCA)	-1.6	-4.9	17.4	47.2
Significant Items	0.0	0.0	0.0	0.0
Reported NPAT	-1.6	-4.9	17.4	47.2
Normalised EPS (¢)	-1.1	-2.6	7.8	21.2
Reported EPS (¢)	-1.1	-2.6	7.8	21.2
PER (X)	-244.1	-101.0	33.2	12.3
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	141.6%	n/a	170.9%
EBIT/Sales (%)	n/a	n/a	34.2%	47.0%
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	36.1	16.9%
CBA	23.6	11.1%
JP Morgan Chase	11.2	5.3%

Source: IRESS

Gold comps table

Table 9: Global Gold comps table

	Price	QRO Rec	Mkt Cap	P/NAV	P/E	P/CF	Div Yield	EV / Reserve Oz	EV / Resource Oz	FY/CY07E Production (Koz)	Cash Costs (US\$/oz)	FY/CY08E Production (Koz)	Cash Costs (US\$/oz)	FY/CY08E Production Hedged
Australasia														
	A\$		A\$M	(x)	(x)	(x)	%	(US\$/oz)	(US\$/oz)					
Newcrest (NCMGF)	31.30	C-1-8 Buy	14,170	2.23	27.6	15.2	0.2%	327	197	1617	224	1865	162	0%
Lihir (LIHRF/Y)	4.11	C-1-9 Buy	7,828	2.00	36.9	21.1	0.0%	258	151	755	370	900	279	0%
Kingsgate (KSKGF)	5.32	C-2-8 Ntrl	493	1.87	59.8	25.5	0.0%	194	94	86	436	98	422	0%
Sino Gold (SIOGF)	7.70	C-1-9 Buy	1,395	1.83	26.3	17.8	0.0%	329	221	67	451	245	300	30%
Oxiana (OXFLF)	4.03	C-2-7 Ntrl	6,219	1.67	26.3	16.3	1.5%	466	82	102	445	100	502	0%
Avoca Resources (AVORF)	2.60	C-1-9 Buy	387	1.60	33.2	19.7	0.0%	657	299	0	0	100	311	0%
Bolnisi Gold (BXLGF)	2.80	C-1-9 Buy	800	1.32	na	na	0.0%	297	221	0	0	36	457	0%
Oceana Gold (OCGDF)	3.40	C-2-9 Ntrl	449	1.28	69.2	10.4	0.0%	151	56	188	490	300	328	38%
			Average	1.99	30.0	16.8		339	162					
North America (Seniors)														
	US\$		US\$M											
Goldcorp (GG)	33.77	C-1-7 Buy	23,774	2.70	40.7	22.8	0.0%	595	278	2214	154	2695	158	0%
Kinross (KGC)	18.98	C-1-9 Buy	11,236	2.90	35.8	20.9	0.0%	326	368	1633	341	2033	319	0%
Newmont (NEM)	46.44	B-2-8 Ntrl	20,944	2.29	29.6	14.8	0.9%	230	172	5348	423	6070	421	0%
Barrick (ABX)	42.39	C-2-7 Ntrl	36,667	3.03	25.8	15.7	0.7%	283	190	8202	349	8285	376	0%
Buenaventura (BVN)	55.75	C-2-7 Buy	7,093	1.96	15.0	17.9	0.8%	434		1024	317	1185	304	28%
			Average	2.71	30.5	17.9		362	214					
Pan American Silver (PAAS)	32.03	C-1-9 Buy	2,434	2.39	20.5	14.7	0.0%	10.3	3.4	17000	2.00			0%
Silver Wheaton (SLW)	15.92	C-2-9 Neutral	3,528	2.53	41.8	30.1	0.0%	40.3	8.8	15000	4.00	17500	4.00	0%
JSC Polymetal (XOLPF)	7.12	C-1-9 Buy	2,243	2.24	15.5		0.0%	5.3	4.4	21347	2.59	24429	2.70	52%
North America (Mid-caps)														
	US\$													
Agnico-Eagle Mines (AEM)	54.89	C-2-7 Ntrl	7,355	2.96	51.8	32.1	0.2%	669	410	241	-485	389	-63	0%
Centerra Gold Inc. (YCG)	12.06	C-2-9 Ntrl	2,605	2.87	21.9	15.3	0.0%	386	198	548	429	790	348	0%
Eldorado Gold Corp. (EGO)	6.81	C-2-9 Ntrl	2,336	2.20	na	20.0	0.0%	340	239	302	278	378	229	0%
Golden Star Resources (GSS)	3.57	C-2-9 Ntrl	833	1.55	35.7	13.3	0.0%	197	134	253	668	505	541	0%
Hecla Mining Corp. (HL)	9.30	C-2-9 Ntrl	1,116	2.07	23.6	13.0	0.0%	524	380	143	440	143	420	0%
IAMGOLD Corp. (YIMG)	8.18	C-1-7 Buy	2,397	1.54	26.4	11.2	0.4%	562	142	1015	416	1019	420	0%
Northgate Minerals Corp. (NXG)	3.17	C-2-9 Ntrl	636	1.55	13.5	7.5	0.0%	164	82	280	185	273	98	19%
NA Palladium (1) (YPDL)	7.48	C-2-9 Ntrl	393	1.69	39.4	13.4		151	109	251	83	258	124	
Yamana (YYRI)	14.01	C-1-7 Buy	4,957	2.30	15.4	12.3	0.3%	na	na	605333	-114	1155377	0	na
Royal Gold (RGLD)	33.95	C-2-7 Ntrl	985	2.16	36.8	22.2	0.8%	na	na		0		0	na
			Average	2.42	29.1	19.7		353	223					
South Africa														
	ZAR\$		ZAR\$M											
AngloGold(AULGF)	295.40	C-1-7 Buy	78,163	0.82	12.9	7.3	3.5%	177	66	5693	328	6612	295	31%
DRD (DRDGF)	5.60	C-2-9 Ntrl	2,106	0.72			0.0%	46	7	477	527	416	584	0%
Gold Fields(GFIOF)	116.55	C-1-7 Buy	76,025	1.07	27.4	9.1	1.7%	122	47	4285	376	4455	407	0%
Harmony(HGMCF)	70.18	C-3-7 Buy	28,075	0.88	33.6	14.6	0.0%	83	8	2334	407	2417	522	23%
			Average	0.93	22.1	9.1		138	49					
International														
Peter Hambro Min (UK) PTHBF	13.89	C-1-9 Buy	1,127	1.67	12.4	na	0.0%	25	na	275	115	390	138	0%
Zijin Min Group (China) ZIJMF	4.52	C-2-7 Ntrl	47,519	2.76	17.3	11.1	2.0%	793	na	804	285	844	290	0%
Polyus (Russia) XPLGY	45.50	C-2-9 Ntrl	7,889	1.90	38.2	29.0	0.0%	263	65	1192	338	1249	353	0%
Lingbao Gold			2,185		24.3	59.3		221	152	322	230			

Source: Merrill Lynch estimates

Price objective basis & risk

Avoca Resources (AVORF)

AVO is focused on developing the 797koz Au resource Trident project in Western High grade production commenced in August with an initial 6 year mine life. AVO is trading at 1.6x NAV which is cheap compared to domestic peer average 2.0x. Our price target is A\$2.75ps (1.7x 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 production rises.

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*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

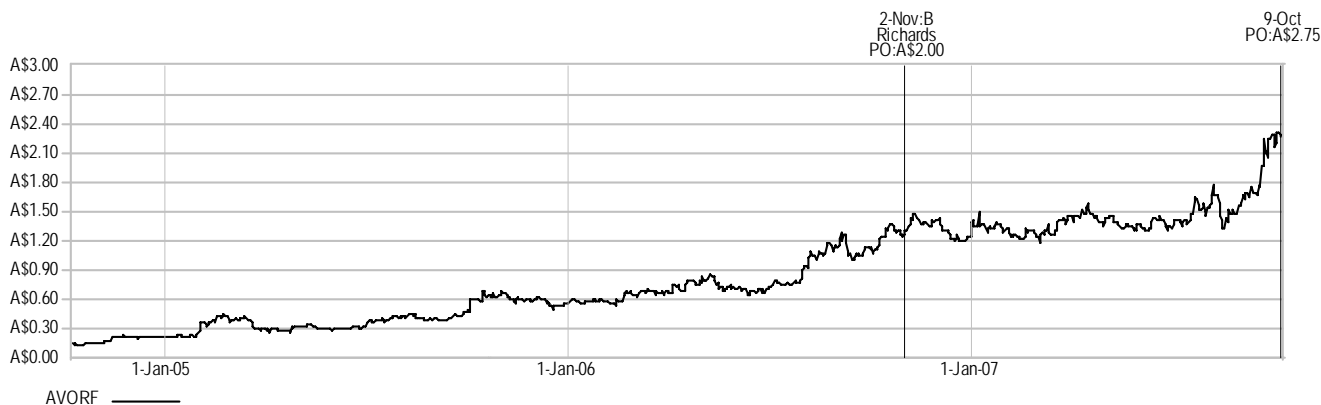
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Important Disclosures

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 September 30, 2007 or such later date as indicated.

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

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	60	52.17%	Buy	15	30.00%
Neutral	44	38.26%	Neutral	14	35.90%
Sell	11	9.57%	Sell	1	14.29%

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

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1701	47.03%	Buy	437	29.15%
Neutral	1611	44.54%	Neutral	425	29.11%
Sell	305	8.43%	Sell	58	21.09%

* 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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