

A\$ gold prod now bankable



Merrill Lynch

Anna Kassianos >>
Research Analyst
Merrill Lynch (Australia)
anna_kassianos@ml.com

+61 2 9226 5630

FY09 earnings cut 27% to exclude ramp-up production

We have revised our FY09 earnings from A\$55M to A\$41M (-27%) and increased NAV by 10% to A\$2.89ps. Decreased earnings takes into account that production ramp up is not booked to bottom-line profit, but capitalised. Increased NAV resulted from Net Debt position update. From hereon in we will be banking all production to P&L. Even with our earnings cut we are positioned 18% above EPS consensus. We retain our BUY and 12 month PO of A\$2.60ps (0.9x NAV vs ASX gold peers trading at 1.06x) for AVO achieving its production hurdles satisfactory to financier's condition, and guidance maintained.

Production in good shape

Production hurdle for project financing was yesterday (December 10) announced as successfully complete. This is very positive signal for AVO's production targets: 160koz for FY09 at A\$400 to A\$450/oz cash cost excluding royalties (we are a touch below guidance at 158koz and mid point of cost guidance at A\$433/oz, excluding ramp up) and at full production FY10 onwards at 190koz. In short, Higginsville plant is performing to specification, with some metrics above. We estimate it will be running at full production levels for the remainder of FY09.

A\$7M cash requirement estimated; B/S remains intact

As at Sept qtr, A\$60.8M in drawdowns had been made on A\$71M project financing facility. On our modelled cashflows, we estimate a further A\$7M cash drawdown will be required in Dec qtr 2008. Based on our model, FY09 Net Debt position is estimated at A\$49M. Estimates are contingent on mining and gold production targets being met.

#1 pick amongst ASX gold small caps

ML batting order for small cap golds remains unchanged: AVO, SGX, OGC, KCN.

Estimates (Jun)

| (A\$) | 2007A | 2008A | 2009E | 2010E | 2011E |
|--------------------------|---------|---------|---------|-------|-------|
| Net Profit b/f Abnormals | (4) | (1) | 41 | 71 | 65 |
| EPS | (0.023) | (0.006) | 0.182 | 0.316 | 0.290 |
| EPS Change (YoY) | -115.9% | 73.6% | NM | 73.1% | -8.2% |
| Dividend / Share | 0 | 0 | 0 | 0 | 0 |
| Free Cash Flow / Share | (0.123) | (0.649) | (0.015) | 0.433 | 0.406 |

Valuation (Jun)

| | 2007A | 2008A | 2009E | 2010E | 2011E |
|-----------------------|---------|----------|---------|--------|--------|
| P/E | NM | NM | 9.16x | 5.29x | 5.77x |
| Dividend Yield | 0% | 0% | 0% | 0% | 0% |
| EV / EBITDA* | -52.82x | -125.22x | 4.16x | 2.21x | 1.77x |
| Free Cash Flow Yield* | -6.50% | -38.48% | -0.942% | 26.46% | 24.82% |

* For full definitions of *iQmethod*SM measures, see page 7.

Stock Data

| | |
|-----------------------------|------------------|
| Price | A\$1.67 |
| Price Objective | A\$2.60 |
| Date Established | 4-Dec-2008 |
| Investment Opinion | C-1-9 |
| Volatility Risk | HIGH |
| 52-Week Range | A\$0.875-A\$2.91 |
| Mrkt Val / Shares Out (mn) | US\$246 / 222.5 |
| Average Daily Volume | 526,723 |
| ML Symbol / Exchange | AVORF / ASX |
| Bloomberg / Reuters | AVO AU / AVO.AX |
| ROE (2009E) | 30.0% |
| Net Dbt to Eqty (Jun-2008A) | 41.4% |
| Est. 5-Yr EPS / DPS Growth | NA / NA |
| Free Float | 100.0% |



>> Employed by a non-US affiliate of MLPF&S and is not registered/qualified as a research analyst under the NYSE/NASD rules.

Refer to "Other Important Disclosures" for information on certain Merrill Lynch entities that take responsibility for this report in particular jurisdictions.

Merrill Lynch does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Refer to important disclosures on page 8 to 9. Analyst Certification on Page 6. Price Objective Basis/Risk on page 6.

11 December 2008

iQprofileSM Avoca Resources

| Key Income Statement Data (Jun) | 2007A | 2008A | 2009E | 2010E | 2011E |
|----------------------------------|------------|------------|------------|------------|------------|
| (A\$ Millions) | | | | | |
| Sales | 0 | 4 | 176 | 244 | 226 |
| Operating Expenses | (5) | (7) | (73) | (95) | (92) |
| EBITDA | (5) | (3) | 103 | 149 | 134 |
| Depreciation & Amortization | 0 | 0 | (36) | (43) | (44) |
| EBIT | (5) | (3) | 66 | 106 | 90 |
| Net Interest & Other income | 1 | 0 | (7) | (5) | 3 |
| Associates | NA | NA | NA | NA | NA |
| Pretax Income | (5) | (4) | 59 | 101 | 93 |
| Tax (expense) / Benefit | 0 | 3 | (18) | (30) | (28) |
| Net Profit b/f Abnormals | (4) | (1) | 41 | 71 | 65 |
| Non-Recurring Items | 0 | 0 | 0 | 0 | 0 |
| Net Income (Reported) | (4) | (1) | 41 | 71 | 65 |
| Avg F Diluted Shares Outstanding | 194 | 218 | 224 | 224 | 224 |

Key Cash Flow Statement Data

| | | | | | |
|---|-------------|--------------|-------------|-------------|--------------|
| EBITDA | (5) | (3) | 103 | 149 | 134 |
| Change in Working Capital | 3 | 0 | 1 | 0 | (1) |
| Deferred Taxation Charge | 0 | (2) | 0 | 0 | 0 |
| Other Adjustments, Net | 1 | 7 | 3 | 3 | 3 |
| Cash Flow from Operations | (1) | 4 | 81 | 117 | 111 |
| Capital Expenditure | (23) | (145) | (84) | (20) | (20) |
| (Acquisition) / Disposal of Investments | (2) | 0 | 0 | 0 | 0 |
| Other Cash Inflow / (Outflow) | 0 | 0 | 0 | 0 | 0 |
| Cash Flow from Investing | (25) | (145) | (84) | (20) | (20) |
| Shares Issue / (Repurchase) | 76 | 6 | 0 | 0 | 0 |
| Cost of Dividends Paid | 0 | 0 | 0 | 0 | 0 |
| Cash Flow from Financing | 129 | 36 | 21 | (22) | (22) |
| Free Cash Flow | (24) | (141) | (3) | 97 | 91 |
| Net Debt | (61) | 48 | 49 | (49) | (142) |
| Change in Net Debt | NA | NA | NA | NA | NA |

Key Balance Sheet Data

| | | | | | |
|-------------------------------|------------|------------|------------|------------|------------|
| Property, Plant & Equipment | 50 | 204 | 249 | 222 | 191 |
| Other Non-Current Assets | 1 | 15 | 15 | 15 | 15 |
| Trade Receivables | 1 | 2 | 2 | 2 | 2 |
| Cash & Equivalents | 109 | 2 | 19 | 95 | 167 |
| Other Current Assets | 0 | 2 | 2 | 2 | 2 |
| Total Assets | 161 | 236 | 298 | 348 | 388 |
| Long-Term Debt | 35 | 44 | 46 | 25 | 0 |
| Other Non-Current Liabilities | 0 | 42 | 42 | 42 | 42 |
| Short-Term Debt | 13 | 6 | 22 | 22 | 25 |
| Other Current Liabilities | 0 | 4 | 4 | 13 | 9 |
| Total Liabilities | 59 | 120 | 142 | 120 | 94 |
| Total Equity | 102 | 116 | 157 | 228 | 293 |
| Total Equity & Liabilities | 161 | 236 | 298 | 348 | 388 |

iQmethodSM - Bus Performance*

| | | | | | |
|----------------------------|-------|-------------|-------|-------|-------|
| Return on Capital Employed | -4.2% | -0.9% | 19.1% | 25.7% | 19.7% |
| Return on Equity | -7.1% | -1.5% | 30.0% | 36.9% | 25.0% |
| Operating Margin | NA | - | 37.7% | 43.3% | 39.7% |
| | | 1,408,328.8 | | | |
| | | % | | | |
| EBITDA Margin | NA | -86.1% | 58.5% | 61.1% | 59.4% |

iQmethodSM - Quality of Earnings*

| | | | | | |
|--------------------------|--------|----------|-------|--------|--------|
| Cash Realization Ratio | 0.1x | -2.2x | 2.0x | 1.7x | 1.7x |
| Asset Replacement Ratio | 66.1x | 1,246.0x | 2.3x | 0.5x | 0.5x |
| Tax Rate (Reported) | 6.0% | 66.0% | 30.7% | 30.0% | 30.0% |
| Net Debt-to-Equity Ratio | -60.2% | 41.4% | 31.0% | -21.3% | -48.3% |
| Interest Cover | -7.5x | -7.5x | 8.8x | 14.1x | 26.6x |

Key Metrics

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

 * For full definitions of iQmethodSM measures, see page 7.

Company Description

Avoca Resources is an emerging gold miner in Western Australia with its Trident deposit. First production is targeted 2H08 with an attractive growth profile and significant upside from exploration.

Investment Thesis

Avoca is a single gold mine developer and has just completed ramp up to full production in Dec 2008 following successful completion of financier performance tests, and a successful gold pour commissioning in Jul 2008. While production performance are risks, we see good value with full production expected very soon, and FY09 production of 160koz, moving up to 190koz in FY10. Exploration drill results and potential resource upgrades are also expected to be an ongoing positive in AVO newsflow.

Stock Data

Price to Book Value 2.3x

Project financing remains intact

The A\$71M project financing facility remains intact and based on conditions and loan term for each component of the facility, it does not need to be refinanced. Based on our modelled cashflows, they will only need to drawdown A\$69M of the facility for operational purposes. This means according to our model A\$2M remains for any unforeseen issues. **This is positive for AVO and allows the management team to keep in pursuit of its 190kozpa gold production target and in search of exploration upside.** The A\$25M revolving line of credit and A\$3M performance bond facilities had an initial term of 30 months, but now with the production hurdle condition being met, there may be potential to extend to 42 months. The A\$43M non revolving facility has a fixed loan term of 30 months post commissioning. We have assumed repayments from free cash flow as follows:

- A\$22M in 2H of FY10
- A\$22M in 2H of FY11
- A\$25M in 1H of FY12

Valuation

Our base case valuation at a 10% real discount rate has been upgraded 10% on the back of a rollover of our estimated Net Debt position for AVO. We continue to value Chalice prefeasibility as exploration, with production and cost metrics are considered too early stage. Exploration spend for near mine exploration targets and deposits has been used as the basis for estimating exploration upside potential.

Table 1: AVO NAV @ 10% real WACC

| | A\$m | A\$/share |
|-------------------|---------------|-------------|
| Higginsville Gold | 700.27 | 3.15 |
| Taxation | -167.71 | -0.75 |
| Gold Puts | 3.88 | 0.02 |
| Exploration | 57.96 | 0.26 |
| Net Debt/Cash | 48.57 | 0.22 |
| TOTAL | 642.97 | 2.89 |

Source: Merrill Lynch Research

FY09 production expectation

We have made minor adjustments to AVO production profile. We have lowered overall mined head grade for FY09 from 5.13g/t Au and increased mined ore by 15kt in Jun 09 qtr. Our mill and recovery profile remains largely intact, with the exception of our lower mill feed grade assumption for Mar 09 qtr from 4.9g/t Au.

Table 2: AVO FY09 Production Profile by qtr

| | Sep 08 Qtr A | Dec 08 Qtr E | Mar 09 Qtr E | Jun 09 Qtr E | FY09E |
|--------------------------|--------------|--------------|--------------|--------------|-------|
| Mined Ore (kt) | 179 | 280 | 300 | 315 | 1,074 |
| Head Grade (g/t Au) | 3.8 | 4.0 | 5.5 | 5.8 | 4.91 |
| Milled Ore (kt) | 252 | 316 | 316 | 316 | 1,200 |
| Mill Feed Grade (g/t Au) | 2.9 | 3.8 | 4.7 | 5.3 | 4.24 |
| Recovery (%) | 92.8% | 96.5% | 98.0% | 98.0% | 96.5% |
| Recovered Gold (koz) | 22 | 37 | 47 | 53 | 159 |

Source: Merrill Lynch Research

Profit & Loss

Table 3: Financial Statements & Ratio Analysis - YE June 30 (A\$)

| Profit and Loss | 07A | 08A | 09E | 10E | 11E |
|----------------------------------|-------------|-------------|-------------|-------------|-------------|
| Sales | 0.0 | 0.0 | 175.6 | 244.1 | 225.7 |
| Other Revenue | 0.0 | 3.9 | 0.0 | 0.0 | 0.0 |
| Total Revenue | 0.0 | 3.9 | 175.6 | 244.1 | 225.7 |
| Operating Costs | -1.1 | -0.7 | -65.0 | -87.0 | -83.7 |
| Exploration | -0.9 | -2.9 | -2.9 | -2.9 | -2.9 |
| Other Costs | -3.0 | -3.5 | -5.0 | -5.0 | -5.0 |
| EBITDA | -5.0 | -3.3 | 102.7 | 149.2 | 134.1 |
| Depreciation & Amortisation | -0.4 | -0.1 | -36.5 | -43.5 | -44.4 |
| EBIT | -5.3 | -3.4 | 66.2 | 105.7 | 89.7 |
| Net Interest | 0.6 | -0.5 | -7.2 | -4.5 | 3.1 |
| Pretax Profit | -4.7 | -3.9 | 59.0 | 101.2 | 92.9 |
| Tax | 0.3 | 2.6 | -18.1 | -30.3 | -27.9 |
| Operating NPAT | -4.5 | -1.3 | 40.9 | 70.8 | 65.0 |
| OEI | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| NPAT (Normalised for FCA) | -4.5 | -1.3 | 40.9 | 70.8 | 65.0 |
| Significant Items | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Reported NPAT | -4.5 | -1.3 | 40.9 | 70.8 | 65.0 |
| Normalised EPS (¢) | -2.3 | -0.7 | 18.2 | 31.6 | 29.0 |
| Reported EPS (¢) | -2.3 | -0.6 | 18.2 | 31.6 | 29.0 |
| PER (X) | -71.7 | -271.6 | 9.1 | 5.2 | 5.7 |
| 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 | 115.9% | n/a | 2386.1% | 73.1% | -8.2% |
| EBIT/Sales (%) | n/a | n/a | 37.7% | 43.3% | 39.7% |
| Effective Tax Rate | 6% | 66% | 31% | 30% | 30% |
| Interest Cover (X) | -0.1 | 0.1 | -0.1 | 0.0 | 0.0 |
| Dividend Cover (X) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

Source: Merrill Lynch Research

Production Summary

Table 4: Production Statistics

| Higginsville Production (koz) | 07A | 08A | 09E | 10E | 11E |
|---|------------|------------|------------|------------|------------|
| Gold | 0 | 0 | 159 | 189 | 193 |
| Cash Operating Costs¹ | 07A | 08A | 09E | 10E | 11E |
| Higginsville (US\$/oz) | 0 | 0 | 327 | 316 | 325 |
| Higginsville (A\$/oz) | 0 | 0 | 475 | 460 | 434 |
| Total Cash Costs¹ | 07A | 08A | 09E | 10E | 11E |
| Higginsville (US\$/oz) | 0 | 0 | 557 | 546 | 555 |
| Higginsville (A\$/oz) | 0 | 0 | 809 | 795 | 742 |

Source: Merrill Lynch Research, AVO

¹ Merrill Lynch estimate of cash operating costs, and total cash costs are inclusive of royalties. Includes a 4% NSR to Morgan Stanley after 100koz production and a 10% royalty for every dollar above a A\$600/oz gold price.

Table 5: Global gold valuation comparables

| ML Ticker | Share Price | Shares O/S | Market Cap | EV | Rating | Price v VWAP (% var) | | | | EPS (cps) | | | P/CFPS (x) | | | P/E (x) | | | NAV | P/NAV | |
|---------------------------|-------------|------------|------------|--------|--------|----------------------|------|------|------|-----------|--------|--------|------------|--------|--------|----------|--------|--------|-----|--------|------|
| | | | | | | 30d | 90d | 120d | 240d | 2008 A/E | 2009 E | 2010 E | 2008 A/E | 2009 E | 2010 E | 2008 A/E | 2009 E | 2010 E | | | |
| Australian | | | | | | | | | | | | | | | | | | | | | |
| Avoca Resources | AVORF | 1.67 | 223 | 372 | 418 | 1 - Buy | 22% | 2% | -3% | -16% | -1 | 18 | 32 | 102 | 5 | 3 | n/a | 9 | 5 | 2.89 | 0.58 |
| Kingsgate | KSKGF | 2.80 | 93 | 260 | 225 | 2 - Neutral | 2% | -34% | -39% | -39% | 37 | 17 | 35 | 4 | 5 | 3 | 8 | 16 | 8 | 4.28 | 0.65 |
| Lihir Gold | LIHRF | 2.35 | 2,188 | 5,142 | 4,985 | 3 - Underperform | 16% | 7% | -3% | -19% | 7 | 9 | 11 | 19 | 12 | 11 | 34 | 26 | 22 | 2.16 | 1.09 |
| Newcrest Mining | NCMGF | 27.31 | 453 | 12,381 | 12,727 | 1 - Buy | 23% | 17% | 10% | -5% | 114 | 161 | 195 | 12 | 10 | 9 | 24 | 17 | 14 | 25.12 | 1.09 |
| Oceana Gold | OCGDF | 0.17 | 162 | 27 | 159 | 1 - Buy | -29% | -54% | -67% | -90% | 18 | 33 | 40 | 0 | 0 | 0 | 1 | 1 | 0 | 1.96 | 0.09 |
| Sino Gold | SIOGF | 4.10 | 291 | 1,194 | 1,119 | 1 - Buy | 31% | 8% | -2% | -19% | 11 | 36 | 58 | 313 | 8 | 5 | 36 | 11 | 7 | 4.89 | 0.84 |
| Market Cap Wt Avge | | | | | | | 21% | 13% | 5% | -10% | 76 | 108 | 132 | 34 | 10 | 9 | 27 | 19 | 15 | | 1.06 |
| Americas Seniors | | | | | | | | | | | | | | | | | | | | | |
| Barrick Gold | ABX | 27.75 | 872 | 24,198 | 28,513 | 1 - Buy | 15% | -6% | -13% | -26% | 198 | 170 | 177 | 8 | 10 | 9 | 14 | 16 | 16 | 17.00 | 1.63 |
| Goldcorp | GG | 24.53 | 729 | 17,882 | 21,909 | 1 - Buy | 14% | -7% | -17% | -26% | 67 | 52 | 71 | 17 | 22 | 15 | 37 | 47 | 35 | 14.75 | 1.66 |
| Kinross Gold | KGC | 14.80 | 659 | 9,753 | 11,173 | 1 - Buy | 19% | 8% | -2% | -17% | 46 | 61 | 70 | 16 | 13 | 12 | 32 | 24 | 21 | 8.45 | 1.75 |
| Newmont Mining | NEM | 32.23 | 454 | 14,632 | 20,915 | 2 - Neutral | 16% | -7% | -15% | -25% | 202 | 161 | 208 | 10 | 13 | 11 | 16 | 20 | 15 | 17.00 | 1.90 |
| Market Cap Wt Avge | | | | | | | 16% | -4% | -13% | -25% | 141 | 120 | 140 | 12 | 14 | 12 | 23 | 27 | 22 | | 1.72 |
| Americas Mid-Tiers | | | | | | | | | | | | | | | | | | | | | |
| Agnico-Eagle Mines | AEM | 31.74 | 154 | 4,888 | 5,574 | 1 - Buy | 4% | -26% | -33% | -42% | 46 | 76 | 160 | 34 | 17 | 8 | 69 | 42 | 20 | 23.50 | 1.35 |
| Centerra Gold | YCG | 2.06 | 216 | 445 | 352 | 2 - Neutral | 39% | -18% | -34% | -70% | 54 | 61 | 77 | 2 | 2 | 2 | 4 | 3 | 3 | 4.25 | 0.48 |
| Eldorado Gold | EGO | 5.33 | 366 | 1,951 | 1,885 | 1 - Buy | 13% | -8% | -16% | -19% | 23 | 24 | 37 | 15 | 15 | 10 | 23 | 22 | 14 | 4.00 | 1.33 |
| Gammon Gold | YGAM | 3.42 | 120 | 410 | 440 | 3 - Underperform | -18% | -45% | -53% | -57% | 6 | 12 | 25 | 8 | 6 | 4 | 57 | 29 | 14 | 3.00 | 1.14 |
| Golden Star Resources | GSS | 0.46 | 236 | 109 | 295 | 3 - Underperform | -35% | -65% | -73% | -83% | -21 | 6 | 10 | 17 | 1 | 1 | n/a | 8 | 5 | 1.25 | 0.37 |
| IAMGOLD | IAG | 4.22 | 296 | 1,249 | 1,413 | 2 - Neutral | 16% | -8% | -15% | -31% | 33 | 34 | 26 | 5 | 5 | 5 | 13 | 12 | 16 | 5.25 | 0.80 |
| Northgate Minerals | NXG | 0.67 | 255 | 171 | 190 | 3 - Underperform | -4% | -44% | -57% | -72% | 31 | 11 | 18 | 1 | 2 | 1 | 2 | 6 | 4 | 1.20 | 0.56 |
| Royal Gold | RGLD | 36.29 | 34 | 1,245 | 1,175 | 3 - Underperform | 11% | 9% | 8% | 13% | 83 | 69 | 118 | 24 | 23 | 18 | 44 | 53 | 31 | 17.50 | 2.07 |
| Market Cap Wt Avge | | | | | | | 8% | -18% | -24% | -32% | 42 | 56 | 103 | 23 | 14 | 9 | 46 | 33 | 18 | | 1.30 |
| South African | | | | | | | | | | | | | | | | | | | | | |
| AngloGold Ashanti | AULGF | 271.00 | 351 | 85,647 | 98,963 | 1 - Buy | 40% | 40% | 31% | 15% | -2143 | 2483 | 1712 | -28 | 8 | 8 | n/a | 11 | 16 | 247.70 | 1.09 |
| DRDGold | DRDGF | 5.28 | 377 | 1,894 | 2,344 | 3 - Underperform | 36% | 25% | 18% | -14% | 30 | 60 | 73 | 81 | 5 | 4 | 17 | 9 | 7 | 2.91 | 1.81 |
| Gold Fields | GFIOF | 91.00 | 653 | 56,792 | 65,662 | 3 - Underperform | 28% | 29% | 20% | -2% | 484 | 548 | 568 | 8 | 7 | 7 | 19 | 17 | 16 | 70.37 | 1.29 |
| Harmony Gold | HGMCF | 102.00 | 403 | 38,733 | 44,476 | 2 - Neutral | 33% | 36% | 31% | 22% | 19 | 362 | 474 | 24 | 15 | 14 | 548 | 28 | 22 | 82.63 | 1.23 |
| Market Cap Wt Avge | | | | | | | 35% | 36% | 27% | 11% | -848 | 1409 | 1078 | -5 | 9 | 9 | 122 | 16 | 17 | | 1.19 |

(1) Presented in local currencies

(2) Gold price assumptions: CY08 \$910/oz, long-term \$800/oz

(3) VWAP = Volume Weighted Average Price

Source: Merrill Lynch

Price objective basis & risk

Avoca Resources (AVORF)

Our 12 month PO of \$2.60/sh is at 0.9x our NAV of \$2.89/sh (10% real discount rate). AVO is currently trading at 0.58x, ie below the current P/NAV for the Australian gold sector of 1.06x. We believe that once full production run rate is consistently achieved, the company could re-rate and has the potential to trade significantly higher than its current level, and longer term trade at a gold premium to NAV. Risks to our valuation are exchange rate, gold prices, as well as operating costs for the Higginsville project.

Analyst Certification

I, Anna Kassianos, 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.

Australia-Metals, Mining & Steel Coverage Cluster

| Investment rating | Company | ML ticker | Bloomberg symbol | Analyst |
|---------------------|----------------------------|-----------|------------------|-----------------|
| BUY | | | | |
| | Atlas Iron | ATLGF | AGO AU | Mike Harrowell |
| | Avoca Resources | AVORF | AVO AU | Anna Kassianos |
| | BHP Billiton Ltd | BHPLF | BHP AU | Vicky Binns |
| | BHP Billiton-ADR | BHP | BHP US | Vicky Binns |
| | BlueScope Steel | BLSFF | BSL AU | Mike Harrowell |
| | Energy Res Aust | EGRAF | ERA AU | Olivia Ker, CFA |
| | Felix Resources Limited | FLRFF | FLX AU | Stuart Howe |
| | Iluka Resources | ILKAF | ILU AU | Mike Harrowell |
| | Mount Gibson Iro | MTGRF | MGX AU | Mike Harrowell |
| | Newcrest Mining | NCMGF | NCM AU | Anna Kassianos |
| | OceanaGold | OCGDF | OGC AU | Anna Kassianos |
| | OM Holdings Ltd | XOMHF | OMH AU | Vicky Binns |
| | Rio Tinto Ltd | RTNTF | RIO AU | Vicky Binns |
| | Sims Group | SMUPF | SGM AU | Mike Harrowell |
| | Sino Gold | SIOGF | SGX AU | Anna Kassianos |
| NEUTRAL | | | | |
| | Centennial Coal Company | CCOAF | CEY AU | Stuart Howe |
| | Kingsgate Consolidated Ltd | KSKGF | KCN AU | Anna Kassianos |
| | OneSteel | OSTLF | OST AU | Mike Harrowell |
| | OZ Minerals Ltd | OZMLF | OZL AU | Mike Harrowell |
| | Paladin Energy | PALAF | PDN AU | Olivia Ker, CFA |
| UNDERPERFORM | | | | |
| | Alumina | AWCMF | AWC AU | Vicky Binns |
| | Alumina Ltd-ADR | AWC | AWC US | Vicky Binns |
| | Gloucester Coal | GCRLF | GCL AU | Stuart Howe |
| | Lihir Gold Ltd | LIHRF | LGL AU | Anna Kassianos |
| | Lihir Gold-ADR | LIHR | LIHR US | Anna Kassianos |
| | Macarthur Coal Ltd. | MACDF | MCC AU | Stuart Howe |
| | Midwest Corp Ltd | MISKF | MIS AU | Mike Harrowell |
| | Minara Resources | MREJF | MRE AU | Mike Harrowell |
| | Murchison Metals | MUMTF | MMX AU | Mike Harrowell |
| | Panoramic Resources Ltd | PANRF | PAN AU | Mike Harrowell |

iQmethodSM 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 |
| 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 | $\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Sales} + \text{Other LT Liabilities}$ | |
| EV / EBITDA | Enterprise Value | Basic EBIT + Depreciation + Amortization |

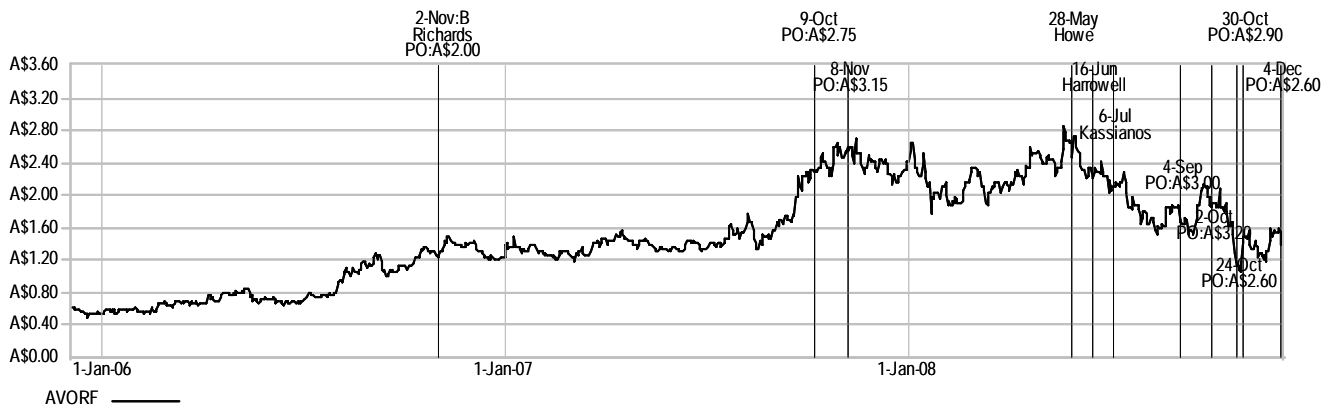
iQmethodSM is the set of Merrill Lynch standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of *iQmethod* are: A consistently structured, detailed, and transparent methodology. Guidelines to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

iQdatabase[®] 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.

iQprofileSM, *iQmethodSM* are service marks of Merrill Lynch & Co., Inc. *iQdatabase[®]* is a registered service mark of Merrill Lynch & Co., Inc.

Important Disclosures

AVORF Price Chart



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

Prior to May 31, 2008, the investment opinion system included Buy, Neutral and Sell. As of May 31, 2008, the investment opinion system includes Buy, Neutral and Underperform. Dark Grey shading indicates that a security is restricted with the opinion suspended. Light grey shading indicates that a security is under review with the opinion withdrawn. The current investment opinion key is contained at the end of the report. Chart is current as of November 30, 2008 or such later date as indicated.

Investment Rating Distribution: Non-Ferrous Metals/Mining & Minerals Group (as of 01 Oct 2008)

| Coverage Universe | Count | Percent | Inv. Banking Relationships* | Count | Percent |
|-------------------|-------|---------|-----------------------------|-------|---------|
| Buy | 80 | 56.74% | Buy | 15 | 21.13% |
| Neutral | 32 | 22.70% | Neutral | 11 | 44.00% |
| Sell | 29 | 20.57% | Sell | 6 | 27.27% |

Investment Rating Distribution: Global Group (as of 01 Oct 2008)

| Coverage Universe | Count | Percent | Inv. Banking Relationships* | Count | Percent |
|-------------------|-------|---------|-----------------------------|-------|---------|
| Buy | 1647 | 45.31% | Buy | 429 | 28.83% |
| Neutral | 858 | 23.60% | Neutral | 240 | 31.41% |
| Sell | 1130 | 31.09% | Sell | 227 | 22.02% |

* Companies in respect of which MLPF&S or an affiliate has received compensation for investment banking services within the past 12 months. For purposes of this distribution, a stock rated Underperform is included as a Sell.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of a stock's: (i) absolute total return potential and (ii) attractiveness for investment relative to other stocks within its *Coverage Cluster* (defined below). There are three investment ratings: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

| Investment rating | Total return expectation (within 12-month period of date of initial rating) | Ratings dispersion guidelines for coverage cluster* |
|-------------------|---|---|
| Buy | ≥ 10% | ≤ 70% |
| Neutral | ≥ 0% | ≤ 30% |
| Underperform | N/A | ≥ 20% |

* Ratings dispersions may vary from time to time where Merrill Lynch Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

INCOME RATINGS, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend. *Coverage Cluster* is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent Merrill Lynch Comment referencing the stock.

In the US, retail sales and/or distribution of this report may be made only in states where these securities are exempt from registration or have been qualified for sale: Avoca Resources.

MLPF&S or an affiliate expects to receive or intends to seek compensation for investment banking services from this company within the next three months: Avoca Resources.

The analyst(s) responsible for covering the securities in this report receive compensation based upon, among other factors, the overall profitability of Merrill Lynch, including profits derived from investment banking revenues.

Other Important Disclosures

Information relating to Non-U.S. affiliates of Merrill Lynch, Pierce, Fenner & Smith Incorporated (MLPF&S):

MLPF&S distributes research reports of the following non-US affiliates in the US (short name: legal name): Merrill Lynch (France): Merrill Lynch Capital Markets (France) SAS; Merrill Lynch (Frankfurt): Merrill Lynch International Bank Ltd, Frankfurt Branch; Merrill Lynch (South Africa): Merrill Lynch South Africa (Pty) Ltd; Merrill Lynch (Milan): Merrill Lynch International Bank Limited; MLPF&S (UK): Merrill Lynch, Pierce, Fenner & Smith Limited; Merrill Lynch (Australia): Merrill Lynch Equities (Australia) Limited; Merrill Lynch (Hong Kong): Merrill Lynch (Asia Pacific) Limited; Merrill Lynch (Singapore): Merrill Lynch (Singapore) Pte Ltd; Merrill Lynch (Canada): Merrill Lynch Canada Inc; Merrill Lynch (Mexico): Merrill Lynch Mexico, SA de CV, Casa de Bolsa; Merrill Lynch (Argentina): Merrill Lynch Argentina SA; Merrill Lynch (Japan): Merrill Lynch Japan Securities Co, Ltd; Merrill Lynch (Seoul): Merrill Lynch International Incorporated (Seoul Branch); Merrill Lynch (Taiwan): Merrill Lynch Securities (Taiwan) Ltd.; DSP Merrill Lynch (India): DSP Merrill Lynch Limited; PT Merrill Lynch (Indonesia): PT Merrill Lynch Indonesia; Merrill Lynch (KL) Sdn. Bhd.: Merrill Lynch (Malaysia); Merrill Lynch (Israel): Merrill Lynch Israel Limited; Merrill Lynch (Russia): Merrill Lynch CIS Limited, Moscow; Merrill Lynch (Turkey): Merrill Lynch Yatirim Bankasi A.S.; Merrill Lynch (Dubai): Merrill Lynch International Bank Ltd, Dubai Branch; MLPF&S (Zürich rep. office): MLPF&S Incorporated Zürich representative office.

This research report has been prepared and issued by MLPF&S and/or one or more of its non-U.S. affiliates. MLPF&S is the distributor of this research report in the U.S. and accepts full responsibility for research reports of its non-U.S. affiliates distributed in the U.S. Any U.S. person receiving this research report and wishing to effect any transaction in any security discussed in the report should do so through MLPF&S and not such foreign affiliates.

This research report has been approved for publication in the United Kingdom by Merrill Lynch, Pierce, Fenner & Smith Limited, which is authorized and regulated by the Financial Services Authority; has been considered and distributed in Japan by Merrill Lynch Japan Securities Co, Ltd, a registered securities dealer under the Financial Instruments and Exchange Law in Japan; is distributed in Hong Kong by Merrill Lynch (Asia Pacific) Limited, which is regulated by the Hong Kong SFC; is issued and distributed in Taiwan by Merrill Lynch Securities (Taiwan) Ltd.; is issued and distributed in Malaysia by Merrill Lynch (KL) Sdn. Bhd., a licensed investment adviser regulated by the Malaysian Securities Commission; is issued and distributed in India by DSP Merrill Lynch Limited; and is issued and distributed in Singapore by Merrill Lynch International Bank Limited (Merchant Bank) and Merrill Lynch (Singapore) Pte Ltd (Company Registration No.'s F 06872E and 198602883D respectively). Merrill Lynch International Bank Limited (Merchant Bank) and Merrill Lynch (Singapore) Pte Ltd. are regulated by the Monetary Authority of Singapore. Merrill Lynch Equities (Australia) Limited, (ABN 65 006 276 795), AFS License 235132, provides this report in Australia. No approval is required for publication or distribution of this report in Brazil.

Merrill Lynch (Frankfurt) distributes this report in Germany. Merrill Lynch (Frankfurt) is regulated by BaFin.

Copyright, User Agreement and other general information related to this report:

Copyright 2008 Merrill Lynch, Pierce, Fenner & Smith Incorporated. All rights reserved. This research report is prepared for the use of Merrill Lynch clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Merrill Lynch. Merrill Lynch research reports are distributed simultaneously to internal and client websites eligible to receive such research prior to any public dissemination by Merrill Lynch of the research report or information or opinion contained therein. Any unauthorized use or disclosure is prohibited. Receipt and review of this research report constitutes your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this report (including any investment recommendations, estimates or price targets) prior to Merrill Lynch's public disclosure of such information. The information herein (other than disclosure information relating to Merrill Lynch and its affiliates) was obtained from various sources and we do not guarantee its accuracy. Merrill Lynch makes no representations or warranties whatsoever as to the data and information provided in any third party referenced website and shall have no liability or responsibility arising out of or in connection with any such referenced website.

This research report provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment or any options, futures or derivatives related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities or other investments, if any, may fluctuate and that price or value of such securities and investments may rise or fall. Accordingly, investors may receive back less than originally invested. Past performance is not necessarily a guide to future performance. Any information relating to the tax status of financial instruments discussed herein is not intended to provide tax advice or to be used by anyone to provide tax advice. Investors are urged to seek tax advice based on their particular circumstances from an independent tax professional.

Foreign currency rates of exchange may adversely affect the value, price or income of any security or related investment mentioned in this report. In addition, investors in securities such as ADRs, whose values are influenced by the currency of the underlying security, effectively assume currency risk.

Officers of MLPF&S or one or more of its affiliates (other than research analysts) may have a financial interest in securities of the issuer(s) or in related investments.

Merrill Lynch Research policies relating to conflicts of interest are described at <http://www.ml.com/media/43347.pdf>.

Fundamental equity reports are produced on a regular basis as necessary to keep the investment recommendation current.

iQmethod, iQmethod 2.0, iQprofile, iQtoolkit, iQworks are service marks of Merrill Lynch & Co., Inc. iQanalytics®, iQcustom®, iQdatabase® are registered service marks of Merrill Lynch & Co., Inc.