



RESEARCH

TOLHURST

Auzex Resources AZX

Short Term (<12m)

Long Term (>12m)

Last Price	Price Target	Risk Rating	Date	Sector
\$2.10	N/A	High	14 Mar 2007	Materials

NA

NA

Kingsgate Moly and Seven Hills Gold (NSW)

Event

A site visit was made to two Auzex (AZX) projects located in the New England region of NSW. The company's Kingsgate Molybdenum (Mo/Moly) development project ~25km east of Glen Innes, and the Seven Hills gold exploration prospect, approximately 40km north east of Glen Innes were both inspected.

Summary

Auzex is a small exploration company with a specific focus on large intrusive related gold, molybdenum, tungsten and tin deposits associated with granites. The company has three project areas; Northern NSW, North Queensland and the west coast of New Zealand.

Auzex is expecting to finalise a scoping study by May 2007 for the Kingsgate Molybdenum (Mo/Moly) project. Detailed geophysics, drill testing, a trial pit, metallurgical testwork and plant design activities have been completed in support of a proposed 250ktpa operation.

At the Seven Hills gold (Au) exploration prospect, Auzex has recently announced a significant intersection of **13m at 8.55g/t Au** from a blast hole rig drill hole from surface. The area has considerable gold geochemical anomalism, +1g/t gold in rock chip samples and was located by internal conceptual geological targetting. A followup RC drilling campaign has been completed with assay results expected over the next few weeks, and a rig is expected back for another round of drilling shortly.

The company had cash reserves of \$2.5m as at December 31 2006 and a cash burn rate of approximately \$700k per quarter. The company will need to raise further funds in order to progress its exploration and development momentum.

View

Given the strong global pricing and outlook for Molybdenum, Kingsgate certainly has the potential to again become a Moly producer. While the results of the scoping study are eagerly awaited, it is clear the main challenge for the project will be the ability to quantify the Moly resource. There are over 90 mineralised quartz pipes identified by previous old workings, mapping and more recently limited geophysics, however the transition from an exploratory definition to a risk reduced mineable proposition will be an important success discriminator.

Whilst a strict JORC resource may be difficult to attain, given the style of mineralisation, we recognise that numerous operations once underway have progressed with a short mine life over many decades.

The recently announced Seven Hills gold results have undoubtedly acted as a share price catalyst, moving the price from ~\$1.40/share to ~\$2.00/share. We agree that the Seven Hill Au project appears to be a highly prospective region and further resources should be made available to fully evaluate the potential of the area. We await the recent drill assay results and results of a pending round of drilling to validate the prospectivity further.

Analyst	Naji Aoukar
---------	-------------

Market Stats

Market Capitalisation	\$m	51.95
Shares Outstanding	m	24.74
12 Month Price Range		\$1.10 - \$2.10
Monthly Turnover	\$m	1.32
Monthly Volume	m	0.72
Monthly T'over (of total)	%	2.9%

Fundamentals

	2006A	2007E	2008E	2009E
Net Profit	\$m -1.17	na	na	na
EPS	¢ -6.1	na	na	na

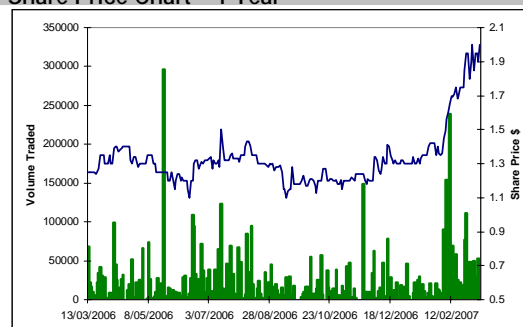
Significant Shareholders

	% Held
Peninsula Goldfields	27.3
Roger Mustard	4.55
Kenex Knowledge Systems	4.43

Management

Management	Position
John Lawton	Executive Chairman
Greg Partington	Executive Director
Paul Fredericks	Non Executive Director
Chris Baker	Non Executive Director

Share Price Chart – 1 Year



This information must be read in conjunction with the Analyst Certification and other important disclosures at the end of this document

Tolhurst Ltd ABN 52 003 237 536 A Participant of ASX Group. Australian Financial Service License No 238444

© Tolhurst Ltd.



Auzex Resources AZX

Short Term (<12m)

Long Term (>12m)

Last Price	Price Target	Risk Rating	Date	Sector
\$2.10	N/A	High	14 Mar 2007	Materials

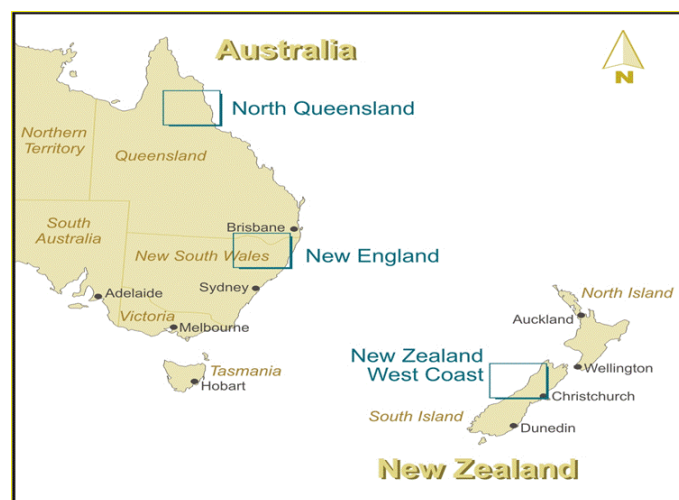
NA

NA

Kingsgate Molybdenum Project

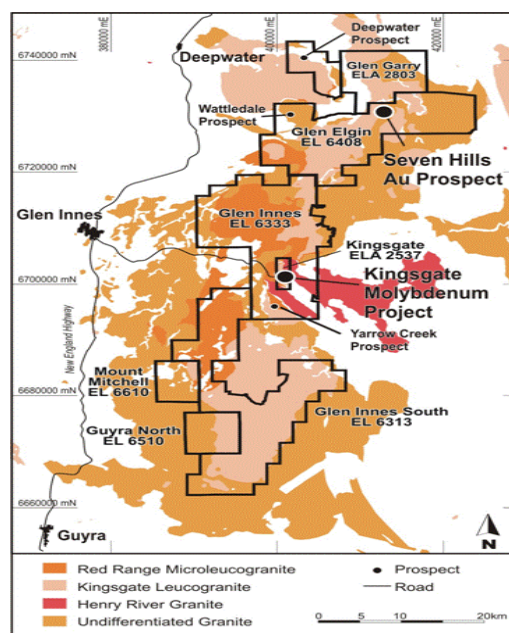
Kingsgate is located approximately 25km east of Glen Innes in the New England region of NSW. The project was Australia's second largest Moly producer between 1880 and 1920, extracting 350t of Moly and 200t of Bismuth (Bi). Near surface high grade quartz pipes were mined by open pit and underground methods throughout the area.

Figure 1: Location of Auzex Projects



Source: Company Data

Figure 2: Location Of New England Projects NSW



The mineralisation is typified by shallow plunging quartz lodes within a granite host. The quartz lodes contain massive molybdenite with grades up to 2.2% Mo. Further disseminated Mo mineralisation is also encountered adjacent to the pipes. These pipes are typically quartz rich and there is a strong zonation within the surrounding granitoids which show silicification at the contact moving out to chlorite alteration.

The results of drilling within the trial pit and additional sampling of the mined ore has defined an average grade of 0.34% Mo and 0.64% Bi, although much higher grade zones are not uncommon. The key exploration method apart from mapping and the down dip drilling of premined pipes is the use of Induced Polarisation (IP) which measures the chargeability and resistivity differences between the pipes and barren granite country rock.

An IP survey was only completed over a 400m x 200m area using a 10m line spacing and 5m electrode spacing. The IP has proved invaluable as a vector for defining the pipes, and as such a much greater part of the area will be surveyed. It is expected that a 3D version of the IP will aid the pinpointing of individual pipes for drill testing.

A 3D orebody model was created from drilling and a known quartz lode for a trial pit exercise, in order to gain information for the scoping study. The trial pit was completed in December 2006 with various types of mineralisation stockpiled at surface. An 800kg sample was also sent to AMMTEC in Perth for metallurgical evaluation. Preliminary metallurgical testwork from drillholes has indicated recoveries of 98% for pipe ore and 97% for the disseminated ore.

Auzex has identified an exploration target of 10,000 to 20,000 tonnes of Mo within the area. The scoping study is assessing the economics of a 250,000 tonne per annum project with an average grade of 0.3% Mo for a 4-5 year life. Initial capital estimates are \$15m to \$20m.

Auzex Resources AZX

Short Term (<12m)

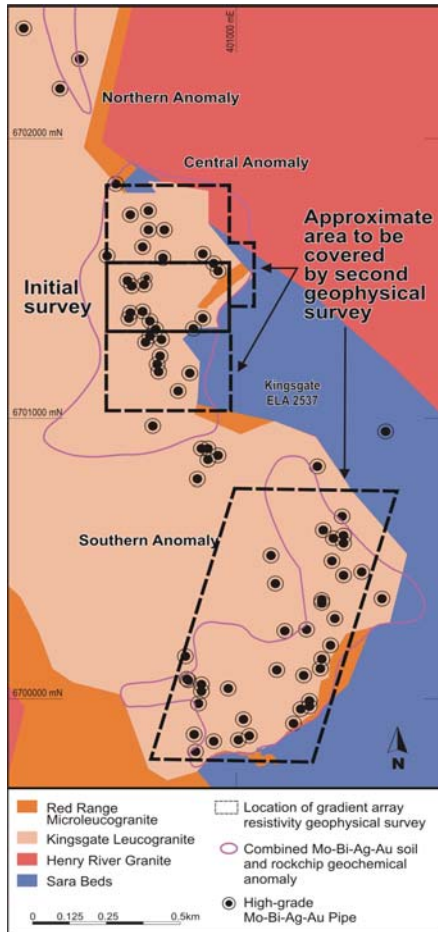
Long Term (>12m)

Last Price	Price Target	Risk Rating	Date	Sector
\$2.10	N/A	High	14 Mar 2007	Materials

NA

NA

Figure 3: Diagram of Pipe Locations and IP Surveys



Source: Company Data

Potential Value – Kingsgate

From Auzex inputs for capital, target resources, and metallurgical properties we have undertaken high level preliminary project economic estimates. Using a throughput rate of 250ktpa, a capital cost of A\$17m, and a Mo price of US\$20/lb we have calculated an NPV(8%) of **A\$45m** for a 5 year project. If we reduce the Mo price to US\$12/lb the NPV generated reduces to **A\$15m**. Our estimates are based on a number of assumptions which are yet to be validated in detail, hence we suggest the values should be used as a guide only.

Seven Hills Gold Project

The Seven Hills gold target lies approximately 40km NE of Glen Innes. The area is characterised by poor outcrop, and no previous known modern exploration. Early rockchip sampling initiated interest in the area with grades up to 24.4g/t Au. Soil geochemical sampling has also highlighted a large number of gold assays ranging from 100-600ppb, and an anomalous zone 3500m long and 1500m wide. Due to the difficulty in accessing suitable drill rigs, Auzex used a blast hole rig to drill shallow scout holes (28 holes for 313m) to test the geochemical and geological targets. In February 2007 a significant early gold intersection of **13m at 8.55g/t** was announced to the market and had a strong upward effect on the company's share price.

The geology noted from the blast holes indicated that the area is strongly weathered to depth as no basement or fresh rock was intersected. This confirms surface geological features and suggests the area is highly altered. Auzex has completed followup RC drilling to validate the

Figure 4: Plan of IP Anomalies

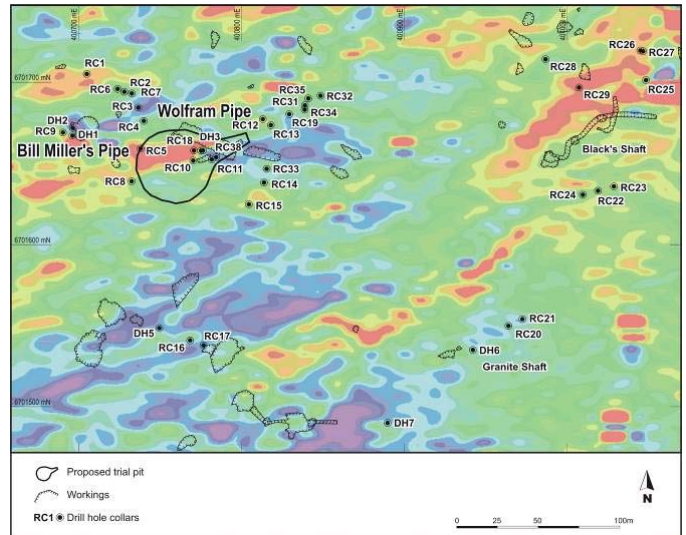
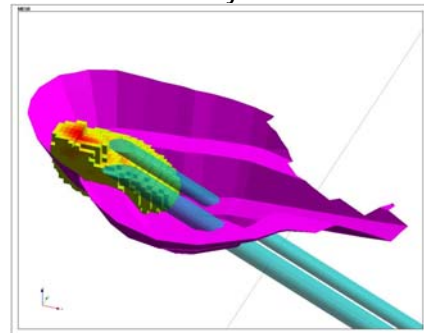


Figure 5: Trial Pit and 3D Orebody Model



Source: Company Data

Auzex Resources AZX

Short Term (<12m)

Long Term (>12m)

Last Price	Price Target	Risk Rating	Date	Sector	Short Term (<12m)	Long Term (>12m)
\$2.10	N/A	High	14 Mar 2007	Materials	NA	NA

results received from the earlier campaign and test further anomalism. Furthermore additional IP was also undertaken. Results from this work are expected shortly.

Other Exploration Projects

Auzex has numerous advanced exploration projects along the east coast of Australia and New Zealand, as summarised in the table below. As we did not assess these projects in any detail, only summary comments have been included below.

Figure 6: Auzex Exploration and Development Projects

Molybdenum	Gold	Tungsten	Tin	Base Metals
Kingsgate (NSW)	Seven Hills (NSW)	Kirwans (NZ)	Stanthorpe (NSW)	Deepwater (NSW)
Galala Range (Qld)	West Tinarro (Qld)		Khartoum Qld)	
	Running Brook (Qld)			

In addition to the Kingsgate Mo project, Auzex has advanced the Galala Range Mo project with drilling highlighting best results of 5m @ 0.21% Mo and 14m @ 0.15% Mo, within a large geochemical anomaly. The Running Brook project is yet another anomalous Au prospect with significant Cu, a large geochemical Au anomaly supported by high rock chip samples of 3.12 g/t Au and 8.17% Cu suggest this to be an interesting project.

Auzex also has interest in the Kirwan's tungsten project located on the west coast of New Zealand near the Reefton mine. The project is joint ventured with New Zealand Minerals who must spend NZ\$1.7m to earn 50%. The area has been trenched and sampled interesting 191m @ 0.12% W and 160m @ 0.1% W. At present Auzex is awaiting permit approvals prior to drilling the area.

Directors and Management

John Lawton - Executive Chairman is a founding director of Auzex and has been continuously associated with the minerals industry for over 30 years he was a co-founder and an executive director of Ross Mining NL. That company was listed on the ASX in 1987 and became a gold miner producing in excess of 170,000 ounces. Ross Mining attained a market capitalisation of \$270 million in 1996 built on a reputation for innovative, low cost production from low-grade deposits until it merged with another Australian gold producer in 2000.

Dr Greg Partington - Executive Director is a founding director of Auzex and is also the Managing Director of his own company, Kenex Knowledge Systems Ltd, based in New Zealand. He has 23 years experience in the exploration industry in Australia, Pacific Islands and Melanesia where he worked as the exploration manager for Northern Gold and general manager, exploration for Ross Mining NL. He also has seven years experience in developing earth science GIS databases, recently developing and managing the Epithermal and Mesothermal Gold Projects for Crown Minerals (a division of the New Zealand Ministry of Economic Development) and the Institute of Geological and Nuclear Sciences in New Zealand.

Paul Frederiks - Non Executive Director has more than 22 years experience in the Australian resources sector. He held the position of company secretary and chief financial officer of Ross Mining NL. Prior to that he was company secretary and financial controller of Atco-Apm Drilling Pty Ltd. Paul established his own consultancy (Frederiks Investments Qld Pty Ltd) providing company financial and secretarial services to both listed and unlisted public companies. He was Company Secretary of Billabong International Limited from July 2000 to November 2003 and assisted Billabong in its successful float on the Australian Stock Exchange in August 2000. He is currently Company Secretary of listed company Geodynamics Limited, and of Auzex's major shareholder, Peninsula Goldfields and a director of Smiths Aerospace Australia Pty Ltd. Paul is a fellow of both CPA Australia and Chartered Secretaries Australia

Chris Baker - Non Executive Director holds a BSc (Hons) in Mineral Technology (1976), and an MBA (1994) from Otago University. He is a Director of Saunders Unsworth Ltd, a Wellington based consultancy specialising in the management of public policy issues for its clients. Chris is currently advising and assisting large corporate and industry sectors in the areas of energy, mining, climate change, corporate strategy and Government relations. Chris has also held directorships in listed companies in Australia (Ross Mining NL – now part of Placer Dome, and Platsearch NL), joint ventures and a number of private companies. Chris is Chairman of the Coal Association of New Zealand,

This information must be read in conjunction with the Analyst Certification and other important disclosures at the end of this document

Tolhurst Ltd ABN 52 003 237 536 A Participant of ASX Group. Australian Financial Service License No 238444

© Tolhurst Ltd.



RESEARCH

TOLHURST

Auzex Resources AZX

Short Term (<12m)

Long Term (>12m)

Last Price	Price Target	Risk Rating	Date	Sector	NA	NA
\$2.10	N/A	High	14 Mar 2007	Materials		

and is on the Board of Canberra based coal technology research centre, the CO2 CRC. In this role, Chris represents a New Zealand government and industry partnership established to advance Carbon Capture and storage research for New Zealand.

Dr Roger Mustard – Chief Geologist is a founding shareholder of Auzex and has 13 years detailed gold exploration experience, primarily within Eastern Australia, and six years research through James Cook University. A significant portion of his exploration experience (and the subject of his Ph.D. research) was the study of the Timbarra gold deposit in northern New South Wales, and the application of his findings to the understanding of the geology and genesis of intrusion-related gold systems in general. Roger is recognized internationally for his advanced understanding, and considerable contribution to the recognition of this 'new' style of mineralisation. Roger's employment experience to date has included exploration and mine geology in the Drummond Basin of Central Queensland (including the Wirralie, Mt. Coolon, Yandan and Belyando gold mines) as Project Geologist with Ross Mining NL, and participation in the Gold Ridge gold mine (Solomon Islands) feasibility study.

Funding Summary

Auzex listed on the ASX in October 2005 raising \$5m, an additional \$3m was raised through a share purchase plan in July 2006. As at December 2006 Auzex had approximately \$2.5m in cash.

Peer Group

Defining a clear peer group for Auzex is not straight forward due to the variation in the portfolio held by each entity. We have compiled a short list of companies who have Molybdenum and Tungsten within their projects. With respect to Mo the peer group looking to develop similar size projects include Queensland Ores (QOL), Thor Mining (THR) and D'Aguilar Gold (DGR), while Molymines (MOL) is looking at a much larger scale project.

Figure 7: Selected Peer Group

Code	Company	Last Price c/share	Undil Mcap A\$m	Project	Throughput Kt	Capex A\$m	Resource Mt	Mo Grade %	WO3 Grade %
MOL	Moly Mines	200	104	Spinifex Ridge	15000	620	500	0.065%	na
KIS	King Island Scheelite	106	42	King Island	600	100	13.4	na	0.64%
VML	Vital Metals	54	40	Watershed	na	na	13.9	na	0.35%
AZX	Auzex Resources	210	33	Kingsgate	250	15-20	3.5	0.300%	na
THR	Thor Mining	26	30	Harts Range	300	44.5	2.4	0.260%	0.54%
MGO	Marengo Mining	21	27	Yandera	na	na	371	0.014%	na
QOL	Queensland Ores	39	23	Wolfram Camp	100	25	0.88	0.170%	0.42%
WLF	Wolf Minerals	70.5	12	Yanco Glen	na	na	1.48	na	0.21%
DGR	D'Aguilar Gold	9.6	12	Andurambah	2000	45	14.4	0.070%	na
CYL	Catalyst Minerals	20.5	3	Minnie Springs	na	na	na	na	na

Source: Company Reports, IRESS

Molybdenum Dynamics

Molybdenum typically occurs as Molybdenite (MoS_2) and contains ~60% Mo. Global production of ~179kt is 60% sourced as a by-product from the production of copper in large porphyry copper deposits and the remaining 40% is extracted from primary sources such as intrusives within large granitic bodies. The grade of porphyry Cu-Mo deposits is much lower than the primary deposit types, with grades ranging from 0.1%-0.5% Mo. The top producing countries are the US 34%, China 23%, Chile 22%, Peru 10% and Canada 5% while Coldelco, Phelps Dodge and Rio Tinto are significant producers from their major copper deposits. Pearl Blue Mining (TSX listed) is the worlds largest pure Mo company while quite a number of large projects globally are on the drawing board, including the Moly Mines Spinifex Ridge project in WA.

The main use for Mo is in steel making, most significantly in stainless steels and alloy steels. From 1990 to 2005 the average annual growth rate for Mo has been ~4% per annum. Forecasts of 4% growth per annum are projected to continue to 2020, while a supply deficit has been suggested by some producers over the next few years. As with many of the other metals, supply has been affected by lengthy underinvestment with the last big Mo mine in the western world commissioned in 1983.

This information must be read in conjunction with the Analyst Certification and other important disclosures at the end of this document

Tolhurst Ltd ABN 52 003 237 536 A Participant of ASX Group. Australian Financial Service License No 238444

© Tolhurst Ltd.



Auzex Resources AZX

Short Term (<12m)

Long Term (>12m)

Last Price	Price Target	Risk Rating	Date	Sector
\$2.10	N/A	High	14 Mar 2007	Materials

NA

NA

China's high level of steel production has provided strong internal demand for Mo and coupled with supply disruptions from the main Chinese producers, has reduced Chinese exports. The Chinese have also closed down small producers in recent times and have recently placed a tariff on exports. Furthermore continued roaster bottlenecks in the west have significantly driven up and supported the Mo price at very high levels.

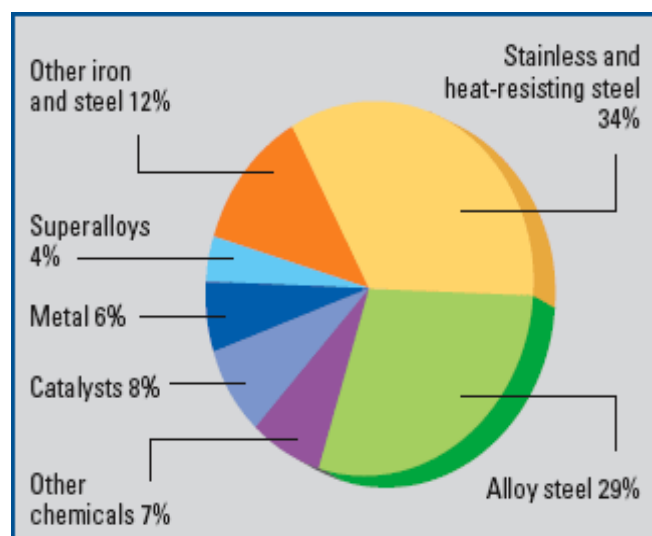
The average Mo price from 1994 to 2003 was **US\$3.97/lb** and between 2004 and 2006 has risen dramatically to **US\$24.4/lb**, and the market size at current prices is **US\$11bn**.

Molybdenum Processing and Uses

Mo ore is first crushed and milled and then differential flotation is used to produce a concentrate with around 50% Mo.

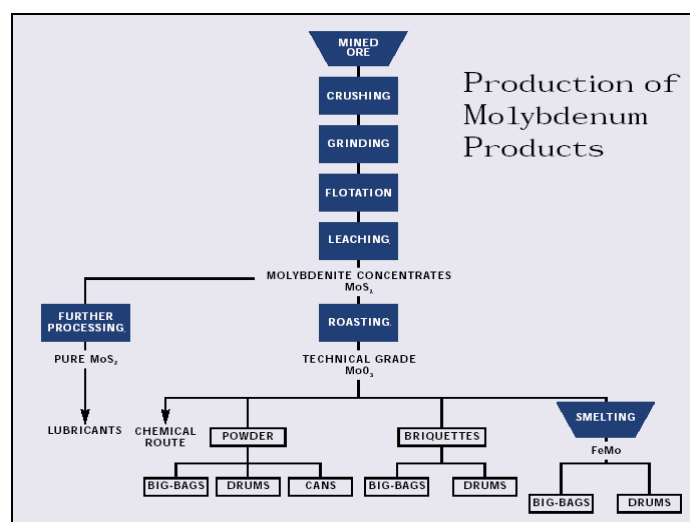
Most of the molybdenum concentrate is roasted (500-650C) to convert the sulfide to oxide, which is known as Technical Molybdic Oxide. Technical Oxide is the most common means of adding molybdenum to steel. Alternatively, a mixture of Technical Oxide and iron oxide can be reduced by aluminum in a thermite reaction to produce ferromolybdenum (also referred to as FeMo). Foundries generally use ferromolybdenum when adding molybdenum to cast irons and steels, and steel mills may prefer it to Technical Oxide for some types of steels.

Figure 8: Uses Of Molybdenum



Source: Pearl Blue Mining

Figure 9: Production Process



Source: International Mo Association

In summary Mo can be used as follows;

Used as an alloy in iron and steel making; present in 15-20 % of all stainless steels, potent hardening alloy, powerful anti-corrosive, increases hardness and ductility, only small quantities, less than 2% needed. Moly reduces sulphur in diesel fuel by acting as a catalyst, key alloy in pipelines, drillrigs and nuclear plants, 80,000km of oil and gas pipelines are planned globally, 1200km pipe requires 862t Mo, oil prices spur record pipeline production.



RESEARCH

TOLHURST

Auzex Resources AZX

Short Term (<12m)

Long Term (>12m)

Last Price	Price Target	Risk Rating	Date	Sector
\$2.10	N/A	High	14 Mar 2007	Materials

NA

NA

Molybdenum Pricing

Prices can be found for the various forms of Mo from the Roasted oxide (57%) to Ferro Mo grades and other products. As stated earlier the average Mo price from 1994 to 2003 was **US\$3.97/lb** and between 2004 and 2006 has risen dramatically to **US\$24.4/lb**. The March 2007 price for Mo oxide is quoted at **US\$29/lb**. The figure below highlights price over the last 5 years;

Figure 10: 5 Year Price of Molybdenum Oxide



Source: Pearl Blue Mining

Auzex Resources AZX

Short Term (<12m)

Long Term (>12m)

Last Price	Price Target	Risk Rating	Date	Sector	Short Term (<12m)	Long Term (>12m)
\$2.10	N/A	High	14 Mar 2007	Materials	NA	NA

Disclosure of Interest

Tolhurst Ltd ('Tolhurst') and/or entities and persons connected with it may have an interest in the securities the subject of the recommendations set out in this report. In addition, Tolhurst and/or its agents will receive brokerage on any transaction involving the relevant securities. Tolhurst may seek from the company subject to this Research Report and/or their shareholders, advisory mandates or mandates for dealings in securities, and therefore may receive commissions or fees from the companies, and/or their shareholders, at some time in the future.

Disclaimer

The information and opinions contained in this report have been obtained from sources Tolhurst believed to be reliable, but no representation or warranty, express or implied, is made that such information is accurate or complete and it should not be relied upon as such. Information and opinions contained in the report are published for the assistance of recipients, but are not relied upon as authoritative and may be subject to change without notice. Except to the extent that liability cannot be excluded, no Tolhurst Group company accepts any liability for any direct or consequential loss arising from any use of material contained in this report.

General Advice Warning

This report is intended to provide general advice. In preparing this advice, Tolhurst did not take into account the investment objective, the financial situation and particular needs of any particular person. Before making an investment decision on the basis of this advice, you need to consider, with or without the assistance of a securities adviser, whether the advice is appropriate in light of your particular investment needs, objectives and financial circumstances.

Explanation of Tolhurst's Recommendation and Risk Rating system:

Recommendations are assessments of each Tolhurst Analyst's view of potential total returns over Short Term and/or Long Term time horizons. A Short Term time horizon is less than 12 months; a Long Term time horizon is greater than 12 months.

Expected total Return is measured as (capital gain (or loss) + dividend)/purchase price

We have divided our recommendations into five main categories:

Buy: Expected Total Return more than 20%.

Accumulate: Expected Total Return between 5% - 20%

Hold: Expected Total Return between -5% and 5%

Sell: Expected Total Return less than -5%

Risk Ratings:

Risk is a subjective assessment of overall risk within a company including price volatility and earnings variability, external liquidity, and size. We divide our risk into three categories:

High: Company typically has high price volatility and earnings variability, low external liquidity and has a small market capitalisation.

Medium: Company typically has moderate price volatility and earnings variability, external liquidity and a medium size market capitalisation.

Low: Company typically has low price volatility and earnings variability, high external liquidity and is a large size market capitalisation.

Analyst verification

I verify that I, Naji Aoukar, have prepared this research report accurately and that any financial forecasts and recommendations that are expressed are solely my own personal opinions. In addition, I certify that no part of my compensation is or will be directly or indirectly tied to the specific recommendation or financial forecasts expressed in this report.

This report has been reviewed by peers within the research department.