

Auzex Resources Limited

ABN 74 106 444 606

2007 Financial Report

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DIRECTORS' REPORT

Your Directors submit their report for the year ended 30 June 2007. The names and details of the Directors of Auzex Resources Limited (Auzex) in office at any time during or since the end of the financial year are:

Name & Qualifications	Age	Experience
<p>John Lawton B.Sc.(App.Sci.), MAusIMM MAICD <i>Executive Chairman</i></p>	<p>58</p>	<p>John Lawton is a founding director of Auzex and has been continuously associated with the minerals industry for 35 years, predominantly within and throughout Australia. During that time he has been directly involved with most aspects of the industry from exploration and development, to corporate management.</p> <p>John was a co-founder and executive director of Ross Mining NL throughout its existence from incorporation in 1986 to merger in 2000. Ross developed and operated seven gold mines in central Queensland, New South Wales and Solomon Islands, and had a reputation for innovative low-cost production from low-grade deposits.</p> <p>Between 1972 and 1986, John was involved as an exploration geologist throughout Australia for a range of commodities including gold, copper, lead, zinc, tin, tantalite and uranium.</p>
<p>Gregor Partington Ph.D, MAusIMM <i>Executive Director</i></p>	<p>49</p>	<p>Dr Gregor Partington is another founding director of Auzex and is also the Managing Director of his own company, Kenex Knowledge Systems Ltd, based in New Zealand, focusing on creating business opportunities in the spatial world.</p> <p>Greg has 25 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.</p> <p>Greg has expertise in mineral exploration, structural geology, database development and management, spatial analysis of data using Geographic Information Systems (GIS), and business management. He has focussed on gold exploration, but has experience in tin-tantalum deposits and platinum exploration.</p>

DIRECTORS' REPORT (Continued)

Name & Qualifications	Age	Experience
<p>Chris Baker B.Sc. (Hons), MBA, FAusIMM, IOD <i>Non-Executive Director</i></p>	53	<p>Chris has worked in the mining, resource and energy sectors in Australia and New Zealand, in operations, senior management and at the corporate level, most frequently in the role of General Manager.</p> <p>He is a Director of Saunders Unsworth Ltd, a consultancy specialising in the management of public policy issues for its clients. Chris has also held directorships in Joint Ventures, listed companies in Australia (namely Ross Mining NL – now part of Barrick Gold, and Platsearch NL) and a number of private companies.</p> <p>Prior to joining Saunders Unsworth in May 2002, Chris was employed by Todd Energy Ltd as General Manager of the company's mining interests. In addition to this role, Chris was the company's IT manager, had responsibility for climate change activities and, for a period, was General Manager of the retail electricity business.</p> <p>Chris has taken a lead in representing industry in the debate on Climate Change and the Kyoto Protocol in New Zealand. He has also worked in the international arena, including as industry representative in the NZ Government delegation to the UNFCCC Conference of the Parties in Milan in 2003.</p>
<p>Paul Frederiks B.Bus. (Acc), FCPA, FCIS, GAICD <i>Non-executive Director and Company Secretary</i></p>	46	<p>Paul Frederiks has extensive experience in public company financial and secretarial management with more than 24 years experience in the Australian resources sector.</p> <p>He held the position of company secretary and chief financial officer of Ross Mining NL for over eight years until June 2000. He also has expertise in statutory public company reporting, financial modelling and forecasting, treasury management and hedging, project financing, ASX listing rules and procedures, share registry maintenance, insurance matters, corporate policy development and corporate governance.</p> <p>Paul established his own consultancy in July 2000 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 January 2004 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 a non-executive director of Smiths Aerospace Australia Pty Ltd.</p>

All of the above named Directors acted as Directors of the Company for the whole of the financial year under review and up to the date of this report.

CORPORATE STRUCTURE

Auzex Resources Limited is a company limited by shares, incorporated and domiciled in Australia. It listed on the Australian Stock Exchange on 4 October 2005 under code AZX. Its registered office and principal place of business is Level 30, AMP Place, 10 Eagle Street, Brisbane QLD 4000.

DIRECTORS' REPORT (Continued)

PRINCIPAL ACTIVITIES

Auzex Resources Limited is an active mineral exploration company with substantial land holdings in three project areas being New England (NSW), North Queensland and West Coast New Zealand. The total area of tenements held is approximately 6500 km² contained within 25 granted and 10 application licences. All tenements are held 100% by Auzex in Australia and in New Zealand by its wholly owned subsidiary, Auzex Resources (NZ) Pty Ltd.

The Company's focus is on major gold, molybdenum, tungsten and tin deposits associated with granite and is convinced that its exploration strategy delivers value to shareholders through the use of new spatial data modelling techniques applied to a new style of ore deposit. Auzex has identified those areas with the best chances of exploration success in Eastern Australia and New Zealand. The Company considers the discovery of new mineral resources, as well as their development, rather than acquiring such assets through mergers and acquisitions provides the greatest value to its shareholders.

REVIEW AND RESULTS OF OPERATIONS

The Group realised an operating loss before tax for the financial year as set out below:

	2007 \$	2006 \$
Operating loss before income tax expense	(1,004,698)	(1,166,360)
Net loss attributable to members of Auzex Resources Limited	(1,004,698)	(1,166,360)
Earnings per Share	(cents)	(cents)
Basic and diluted loss per share	(4.0)	(6.1)

In the 12 months to June 2007, Auzex has made considerable progress. The key achievements and progress made during the period were as follows:

- A successful trial mining program at the **Kingsgate Molybdenum-Bismuth** project provided data for completion of a detailed scoping study of the project economics. The study concluded the project would be a high grade, low capital robust operation based on annual production of 250,000 tonnes over a minimum 5 year mine life providing separate molybdenum and bismuth concentrates.
- A large soil geochemical anomaly measuring 1500m x 800m defined the **Running Brook Gold-Copper** discovery in north Queensland. Trenching gave bedrock results of 150m at 0.26g/t Au.
- Soil geochemistry at **Seven Hills Gold** project in the New England region (NSW) established the presence of a large gold anomaly over a 3500m x 1500m area. Detailed mapping, trenching, geophysics and 3 short drilling programs established the presence of high grade gold at surface with poor continuity
- Two diamond drill holes were completed at the **Kirwans Tungsten** project in New Zealand. Results indicate the potential for a large low grade W resource over a 180m wide zone extending over a strike length of 600m with mineralisation to at least 200m depth. All Auzex properties in New Zealand are subject to a Joint Venture with New Zealand Minerals Ltd which is earning 50% equity by funding exploration expenditure of NZ\$1.7million.
- Exploration at the **Galala Range Molybdenum-Gold-Tungsten** project in north Queensland has focussed on the Mo-rich core of a 3.8km² soil anomaly. The potential exists to host a significant Mo resource. Best drill intercepts include 14m at 0.15% Mo from 15m.
- A large anomaly has been delineated at **Khartoum Tin** project in north Queensland. A 8km x 2km zone is highly anomalous in Sn-W-Bi-Ag. Eleven soil geochemical targets within this zone contain tin values up to 1.8% with rock samples up to 3.8%.
- An extensive zone at least 17km long at the **West Tinaroo Gold** project in north Queensland has been mapped and sampled. An area of sheeted veining measuring 3.75km by 100m wide has been explored in detail with rock samples up to 5g/t Au.
- A large greisen zone at **Deepwater Lead-Zinc-Silver-Tin** prospect in the New England region measuring 1500m x 400m has been mapped and drilled with encouraging Sn results.

EMPLOYEES

The Group had six full time employees as at 30 June 2007 (2006: four employees).

DIRECTORS' REPORT (Continued)**DIVIDEND**

The Directors do not propose to recommend the payment of a dividend in respect of the year ended 30 June 2007.

DIRECTORS' INTERESTS IN THE SHARES AND OPTIONS OF THE COMPANY

As at the date of this report, the interests of the Directors in the shares of Auzex Resources Limited were:

Director	Fully paid Ordinary Shares	Options over Ordinary Shares
J. Lawton	6,754,761	500,000
G. Partington	1,096,761	500,000
C. Baker	24,761	250,000
P. Frederiks	250,000	250,000

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Significant changes in the state of affairs of the Group during the financial year were as follows:

- Shareholders' contributed equity increased from \$6,395,389 to \$12,872,596, an increase of \$6,477,207. The movement was predominately as a result of the capital raising arising from a Share Purchase Plan completed in July 2006 and a share placement completed in April 2007.
- Total deferred exploration and evaluation expenditure capitalised increased from \$3,059,896 to \$7,207,175 as a result of extensive active exploration activity on the New England, North Queensland and New Zealand tenements.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

There has not arisen between 30 June 2007 and the date of this report any item, transaction or event of a relevant and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company, in subsequent financial years.

The Company estimates that the current cash reserves are sufficient to fund its operations for at least 12 months from the date of this report.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Directors foresee that the 2008 financial year will be spent in continuing the aggressive exploration of projects within its portfolio, and in particular the progression to toward a feasibility study on its Kingsgate molybdenum project. The Group has a number of high calibre molybdenum, gold, tungsten and tin targets in the process of being assessed for their economic potential.

ENVIRONMENTAL REGULATIONS AND PERFORMANCE

Auzex Resources Limited is committed to the effective environmental management of all its exploration activities. The Group recognises that its field exploration is a temporary land use, and is associated with a range of potential environmental impacts. Prior to commencement of operations, site planning must recognise these potential impacts and lead to the development of effective strategies for their control. During operations, the successful implementation of these strategies is a principal objective of site management. Following decommissioning, the site must be left in a safe and stable state, with all disturbed land successfully rehabilitated to an agreed standard. The Company has an Environmental Policy in place that explains the site requirements to achieve these objectives including operating in accordance with a site environmental management plan and identification and management of environmental risk and liability.

The Company's activities are subject to compliance with various laws including State and Commonwealth laws relating to the protection of the environment and aboriginal culture and heritage, native title and exploration for minerals. At the time of writing, the Group was not in breach of any environmental regulations regarding any field work undertaken on its exploration tenements.

DIRECTORS' REPORT (Continued)

REMUNERATION REPORT (Audited)

This report outlines the director and executive remuneration arrangements of the company and the group in accordance with the requirements of the Corporations Act 2001 and its regulations. It also provides the remuneration disclosures required by paragraphs Aus 25.4 to AUS 25.7.2 of AASB 124 Related Party Disclosures, which have been transferred to the Remuneration report in accordance with Corporation Regulation 2M.6.04. For the purposes of this report, key management personnel (KMP) of the group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the company and the group, directly and indirectly, including any director (whether executive or otherwise) of the parent company, and includes the five executives in the parent and group receiving the highest remuneration. For the purposes of this report, the term 'executive' encompasses the chief executive, general manager, chief financial officer and company secretary of the parent and group.

Remuneration Philosophy

The performance of the Company depends upon the quality of its Directors and Executives. To prosper, the Company must attract, motivate and retain highly skilled Directors and Executives.

To this end, the company embodies the following principles in its remuneration framework:

- Provide competitive salaries to attract high calibre executives;
- Links executive rewards to shareholder value through the issue of share options;
- Establishes appropriate performance hurdles under its share option scheme through key corporate milestones that are integral to the Company successfully completing its business plan.

The Board collectively develops and assesses the remuneration policy and practices of the Directors, Managing Director (MD) and Senior Executives who report directly to the MD.

Such assessment will incorporate the development of remuneration policies and practices which will enable the Company to attract and retain executives who will create value for shareholders. Executives will be fairly and responsibly rewarded having regard to the performance of the Company, the performance of the executive and the general market environment.

The Board undertakes its own self evaluation annually and considers attributes such as the qualitative and quantitative nature of the review, and the mix between total Board review and individual Director review.

Remuneration Structure

In accordance with best practice corporate governance, the structure of Non-executive Director and senior executive remuneration is separate and distinct.

Non-executive Director Remuneration

Objective - The Board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain Directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

Structure - The Constitution of Auzex and the ASX Listing Rules specify that the aggregate remuneration of Non-executive Directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the Directors as agreed. The latest determination was at the Annual General Meeting held in July 2005 when shareholders approved an aggregate remuneration of \$100,000 per year.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst Directors is reviewed annually. The Board considers advice from external consultants as well as the fees paid to Non-executive Directors of comparable companies when undertaking the annual review process. The amounts are set at a level that compensates the Directors for their significant time commitment in overseeing the progression of the Company's business plan.

DIRECTORS' REPORT (Continued)

REMUNERATION (Continued)

Non-executive Director Remuneration (continued)

Each Non-executive Director receives a fee for being a Director of the Company. No additional committee fees are paid to any Director. The current fee structure is to pay Non-executive Directors a base annual remuneration of \$25,000 p.a. There are no retirement benefits offered to Non-executive Directors other than statutory superannuation which is in addition to these amounts.

The Non-Executive Directors' were granted share options in the Company prior to its listing as a performance incentive to share in the success of Auzex Resources Limited due to the modest nature of directors fees. The performance incentives are based on significant rising share price hurdles for each tranche of options granted. The first tranche has an exercise price of 75 cents and the second tranche has an exercise price of \$1.00 as compared to the effective price of shares at the time of issue being 50 cents.

Non-executive independent Directors are also encouraged by the Board to hold shares in the Company. It is considered good governance for Directors to have a stake in the Company on whose Board he or she sits. The remuneration of Non-executive Directors for the period ending 30 June 2007 is detailed in Table 1 of this report.

Executive Director and Senior Management remuneration

Objective - The Company aims to reward Executives with a level and mix of remuneration commensurate with their position and responsibilities within the Company and so as to:

- Reward Executives for Company, business division and individual performance against targets set by reference to appropriate benchmarks;
- Align the interests of Executives with those of shareholders;
- Link reward with the strategic goals and performance of the Company; and
- Ensure total remuneration is competitive by market standards.

Structure - The Executive Directors' and key Executives' emoluments are structured to retain and motivate Executives by offering a competitive base salary together with performance incentives through share options which allow Executives to share in the success of Auzex Resources Limited. The performance incentives are based on significant rising share price hurdles for each tranche of options granted. For example for all options issued to Key Management Personnel prior to the listing of the Company, the first tranche has an exercise price of 75 cents and the second tranche has an exercise price of \$1.00 as compared to the effective price of shares at the time of issue being 50 cents.

The Company's Executive Chairman and Senior Executive remuneration packages are formalised in service agreements.

Remuneration consists of the following key elements:

- Fixed Remuneration – Base salary and superannuation;
- Variable Remuneration – Share Options.

Fixed Remuneration

The level of fixed remuneration is set so as to provide a base level of remuneration which is both appropriate to the position and is competitive in the market. Fixed remuneration is reviewed annually by the Board and the process consists of a review of Company and individual performance, relevant comparative remuneration in the market and internal and, where appropriate, external advice on policies and practices. The Board has access to external advice independent of management.

Due to the uncertainty of the future growth projections of the Company, senior Executives receive their fixed (primary) remuneration in cash. The fixed remuneration component of the 5 most highly remunerated senior managers (only two such individuals at 30 June 2007) is detailed in Table 2 of this report.

DIRECTORS' REPORT (Continued)

REMUNERATION (Continued)

Variable Remuneration

Objective - The objective of the Auzex Resources Option Plan is to retain, motivate and reward senior executives and staff in a manner which aligns this element of remuneration with the creation of shareholder wealth.

Structure – Variable remuneration is delivered to executives in the form of share options.

The Company uses a Total Shareholder Return (TSR) as the performance hurdle for the Auzex Resources Option Plan as outlined below. The use of a TSR based hurdle is currently market best practice as it ensures an alignment between comparative shareholder return and reward for executives. The Board considers at this stage in the Company's development, that share price growth itself is an adequate measure of TSR.

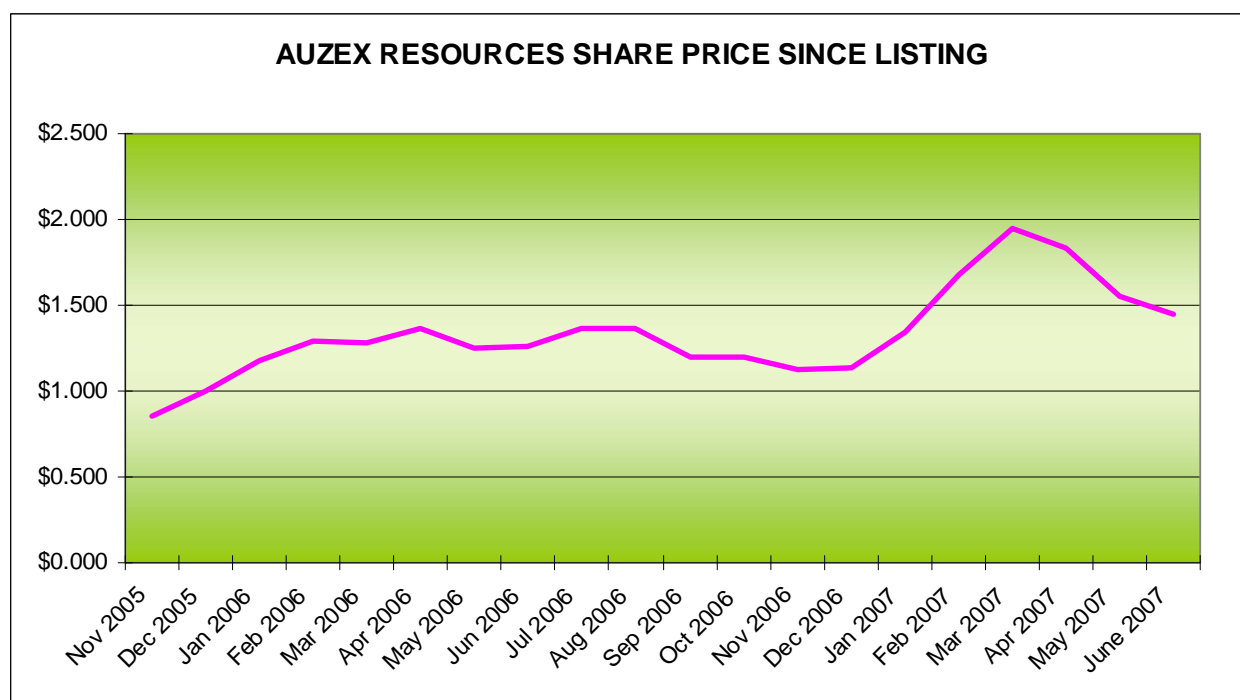
The Company's vesting criteria and performance hurdles for the issue of new options are as follows:

As to one half, on the first anniversary of the date of grant. The exercise price is 25% uplifted from the share price at date of grant. The employee will have 24 months after the first anniversary in which to exercise the options.

As to one half, on the second anniversary of the date of grant. The exercise price is 50% uplifted from the share price at date of grant. The employee will have 24 months after the second anniversary in which to exercise the options.

Relationship of rewards to performance

As discussed earlier, the Board considers at this stage in the Company's development, that share price growth itself is an adequate measure of TSR. Directors consider that the aforementioned performance hurdles under the Option Plan are fully aligned to TSR as the time based vesting criteria are inextricably aligned to TSR. The graph shows the performance of the Company as measured by its share price and therefore by definition its TSR.



DIRECTORS' REPORT (Continued)

REMUNERATION (Continued)

Employment Contracts

The Company's remuneration packages for the Executive Chairman and certain Executives are formalised in service agreements.

In July 2005, the Executive Chairman entered into an executive service contract with the Company to perform the role of Executive Chairman for a fixed term of two years from the date of listing (4 October 2005), subject to earlier termination by the Company for misconduct or non-performance. Under that agreement, John Lawton is entitled to receive annual remuneration of \$200,000.

The Executive Chairman may terminate the agreement by one month's written notice if there is a change of control of Auzex or the Board makes material changes to the Company's business plan. If the agreement is terminated by the Executive Chairman in either of those circumstances, the Company must pay the Executive Chairman, in addition to any period of notice (or in lieu of notice), the equivalent of seven months' salary. Otherwise, the Executive Chairman may terminate the agreement by six months' written notice.

In July 2005, the Chief Geologist entered into an executive service contract with the Company (at annual remuneration of \$120,000) for an initial two-year term from the date of listing that continues until terminated in accordance with the contract. Either party may terminate the agreement at any time by giving six weeks' notice or, in the case of the Company, with immediate effect by paying the executive three months' remuneration. In addition the Company may terminate the executive's employment at any time for misconduct or non-performance.

The Exploration Director operates a consultancy business, Kenex Limited, (Kenex) providing specialist technical services for the exploration program. His consultancy is paid for services on normal commercial terms except for services directly attributable to the Exploration Director which are discounted 50% from market rates. The Company has a two year agreement with Kenex, which commenced on completion of the Initial Public Offer in October 2005. Other than for breach and other usual grounds such as insolvency of the Company, Kenex cannot terminate the agreement during the initial two-year term. After that time it may terminate by six months' written notice. The Company may terminate the agreement at any time for breach by Kenex, if control of Kenex changes or otherwise by three months' written notice. All intellectual property generated under the agreement is the property of the Company and Kenex must maintain all records for a period of seven years.

The Marketing and Investor Relations Manager entered into an executive service contract with the Company for an initial two-year term commencing 16 May 2006 that continues until terminated in accordance with the contract. His current annual remuneration is \$109,000. Either party may terminate the agreement at any time by giving six weeks' notice or in the case of the Company, with immediate effect by paying the executive three months' remuneration. In addition the Company may terminate the executive's employment at any time for misconduct or non-performance.

The Company Secretary operates a consultancy business providing Company Secretarial and Accounting services (see profile in Director's Report). He does not have an executive management role in the Company but takes responsibility for producing the financial accounts, managing cash flows and provides a governance overview and general counsel to the Company. His consultancy is paid for services on normal commercial terms.

DIRECTORS' REPORT (Continued)**REMUNERATION (Continued)****Table 1 – Directors' Remuneration for the year ended 30 June 2007**

Directors		Short Term			Post Employment	Share based payment		Total
		Salary & Consulting Fees	Directors Fees	Non Monetary benefits	Super-annuation	Options (amortised cost)	Fully paid ordinary shares in listing	
J. Lawton Executive Chairman	2007	183,486	-	-	16,514	12,460	-	212,460
	2006	137,614	-	-	12,385	20,646	-	170,645
G. Partington Executive Director	2007	113,612	-	-	-	12,460	-	126,072
	2006	90,075	-	-	-	20,646	268,250	378,971
C. Baker Non-executive Director	2007	7,502	25,000	-	-	6,230	-	38,732
	2006	6,204	18,750	-	-	10,323	-	35,277
P. Frederiks Non-executive Director and Company Secretary	2007	48,712	25,000	-	-	6,230	-	79,942
	2006	44,050	18,750	-	-	10,323	-	73,123
Totals	2007	353,312	50,000	-	16,514	37,380	-	457,206
	2006	277,943	37,500	-	12,385	61,938	268,250	658,016

- J. Lawton commenced drawing a salary in accordance with the Prospectus from 1 October 2005.
- C. Baker and P. Frederiks were appointed directors on 11 August 2005. Consulting fees were paid to these two non-executive directors for the provision of professional services on an arms length basis.

Table 2 - Remuneration of the named executives who receive the highest remuneration for the year ended 30 June 2007

		Short Term		Post Employment	Share based payment		Total
		Salary & Consulting Fees	Non Monetary benefits	Super-annuation	Options (amortised cost)	Fully paid ordinary shares in listing	
R. Mustard Chief Geologist	2007	110,092	-	9,908	12,460	-	132,460
	2006	82,569	-	7,431	20,646	268,250	378,896
B. O'Donovan Investor Relations Manager	2007	107,500	-	9,675	64,219	-	181,394
	2006	11,654	-	1,049	8,335	-	21,038
Totals	2007	217,592	-	19,583	76,679	-	313,854
	2006	94,223	-	8,480	28,981	268,250	399,934

- Roger Mustard commenced full time employment with the Company on 1 October 2005 but was a consultant to the Company prior to that date.
- Brett O'Donovan commenced on 16 May 2006.

Options granted as part of remuneration for the year ended 30 June 2007

There were no options granted to any of the named executives above during the year,

DIRECTORS' REPORT (Continued)**SHARE OPTIONS****Unissued shares**

As at the date of this report, there were 3,935,000 unissued ordinary shares under options (2006 – 3,500,000). Option holders do not have any right, by virtue of the option, to participate in any share issue of the Company or any related body corporate. The options are unlisted, issued for nil consideration and have a term of five years. There were 435,000 share options granted during the financial year ended 30 June 2007 (2006 – 3,500,000). The weighted average exercise price of the options granted during the financial year ended 30 June 2007 is \$1.71 cents per share.

Shares issued as a result of the exercise of options

There were no options exercised during the financial year (2006 – Nil) or since the end of the financial year.

DIRECTORS' MEETINGS

During the period there were six Directors' meetings held. The number of Directors' meetings and the number of meetings attended by each of the Directors of the Company during the financial period are as follows:

	Directors' Meetings		Audit Committee Meetings	
	Number held whilst in office	Number Attended	Number held whilst in office	Number Attended
J. Lawton	6	6	2	2
G. Partington	6	6	2	2
C. Baker	6	6	2	2
P. Frederiks	6	6	2	2

The Company has an Audit Committee comprising all Directors which meets specifically as required.

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

The Directors received a declaration from the auditor of Auzex Resources Limited which is listed immediately after this report and forms part of this Directors' report.

The company did not receive any non-audit services from the entity's auditor, Ernst & Young during the year.

CORPORATE GOVERNANCE

The Directors recognise the need for the highest standards of corporate behaviour and accountability and therefore support and have adhered to the principles of Corporate Governance. The Company's Corporate Governance Statement is printed immediately following this Directors Report.

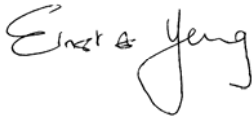
Signed in accordance with a resolution of the Directors.



J. Lawton
Chairman
Brisbane, 29 August 2007

Auditor Independence Declaration

In relation to our audit of the financial report of Auzex Resources Limited for the financial year ended 30 June 2007, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.



Ernst & Young



Mike Meintjes
Partner
Brisbane
29 August 2007

CORPORATE GOVERNANCE STATEMENT

The Board of Directors of Auzex Resources Limited is responsible for the corporate governance of the Company and is committed to achieving and demonstrating high standards of corporate governance.

Auzex Resources Limited's Corporate Governance Statement is structured with reference to the Australian Stock Exchange Corporate Governance Council's "Principles of Good Corporate Governance and Best Practice Recommendations" (ASX Recommendations), the principles of which are as follows:

Principle 1.	Lay solid foundations for management and oversight
Principle 2.	Structure the board to add value
Principle 3.	Promote ethical and responsible decision making
Principle 4.	Safeguard integrity in financial reporting
Principle 5.	Make timely and balanced disclosure
Principle 6.	Respect the rights of shareholders
Principle 7.	Recognise and manage risk
Principle 8.	Encourage enhanced performance
Principle 9.	Remunerate fairly and responsibly
Principle 10.	Recognise the legitimate interests of stakeholders

This Corporate Governance Statement contains certain specific information and discloses the extent to which the Company has followed the guidelines during the period. Where a recommendation has not been followed, that fact is disclosed, together with the reasons for the departure.

Auzex Resources Limited's corporate governance practices were in place throughout the year ended 30 June 2007. For further information on corporate policies adopted by Auzex Resources Limited, please refer to the Corporate Governance Tab under "About Auzex Resources" on our website located at www.auzex.com.

A description of the Company's main corporate governance practices is set out as follows:

STRUCTURE AND ROLE OF THE BOARD

The Board operates in accordance with the following principles and guidelines.

- The Board does comprise Directors with an appropriate range of qualifications and expertise.
- The terms and conditions of the appointment of Non-Executive Directors are set out in a letter of appointment. The appointment letter covers the following matters:
 - the level of remuneration;
 - the tenure of appointment;
 - the expectation of the Board in relation to attendance and preparation for all Board meetings;
 - the Directors code of conduct;
 - the procedures dealing with conflicts of interest; and
 - the availability of independent advice - The board has agreed a procedure for Directors to take independent professional advice at the expense of the Company. Prior approval of the Chairman is required, but this will not be unreasonably withheld.
- The Board meets as often as required to attend to the affairs of the Company and follow meeting guidelines set down to ensure all Directors are made aware of, and have available to them all necessary information enabling them to participate in an informed discussion of all agenda items.

The Board is responsible for the direction and supervision of the Company's business on behalf of the shareholders, by whom they are elected and to whom they are accountable. This includes ensuring that internal controls and reporting procedures are adequate and effective. The Directors recognise the need to maintain the highest standards of behaviour, ethics and accountability. The Board draws on relevant corporate governance best practice principles to assist it to contribute to the performance of the Company.

CORPORATE GOVERNANCE (Continued)

STRUCTURE AND ROLE OF THE BOARD (Continued)

The primary functions of the Board include responsibility for:

- Approving objectives, goals and strategic direction for management;
- Monitoring financial performance including adopting annual budgets and approving the Company's financial statements;
- Ensuring that adequate systems of internal control exist and are appropriately monitored for compliance;
- Selecting, appointing and reviewing the performance of the Executive Chairman and reviewing the performance of senior operational management;
- Ensuring significant business risks are identified and appropriately managed; and
- Reporting to shareholders on performance.

The Board may determine from time to time to establish specific purpose sub-committees to deal with specific issues. All matters determined by committees are submitted to the full Board as recommendations for Board decision. Minutes of committee meetings are tabled at the immediately subsequent Board meeting.

BOARD MEMBERS AND INDEPENDENCE

The Directors in office at the date of this statement are:

Name	Position	Independent	Term in Office	Expertise
John Lawton	Executive Chairman	No	3.9 years	Management and Resource Development
Greg Partington	Executive Director	No	3.9 years	Mineral Exploration, structural geology, database development & management
Chris Baker	Non-Executive Director	Yes	2 years	Finance, Governance and Management
Paul Frederiks	Non-Executive Director	No	2 years	Finance, Governance and Management

Directors of Auzex Resources Limited are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with the exercise of their unfettered and independent judgement.

In the context of Director independence, "materiality" is considered from both the Company and individual Director perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal or less than 5% of the appropriate base amount. It is presumed to be material (unless there is qualitative evidence to the contrary) if it is equal to or greater than 10% of the appropriate base amount. Qualitative factors considered include whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it and other factors which point to the actual ability of the Director in question to shape the direction of the Company's loyalty.

In accordance with the definition of independence above, and the materiality thresholds set, the Directors as marked in the previous table are considered to be independent. Therefore there are two Non-Executive Directors, one of whom is deemed independent, and two Executive Directors, none of whom are deemed independent. The Non-Executive Director who is not deemed independent is also the Company Secretary and provides accounting services to the Company.

CORPORATE GOVERNANCE (Continued)

BOARD MEMBERS AND INDEPENDENCE (Continued)

Due to the Company's size, requirements and resources, the Board considers that the existing skill mix of the Directors is highly appropriate and that the role of Chairman and CEO should be combined for the time being. In adopting this approach, the Board is conscious of the wealth of relevant industry and management experience that John Lawton brings to the Company. For this reason ASX Recommendations 2.1 (A majority of the Board should be independent Directors), 2.2 (The Chairperson should be an Independent Director), 2.3 (the roles of Chairperson and Chief Executive Officer should not be exercised by the same individual) and 2.4 (the Board should establish a nomination committee) have not been adopted. Further details of the members of the Board including their experience and expertise is set out in the Directors' Report.

NON-EXECUTIVE DIRECTORS

The two Non-Executive Directors periodically meet for a period of time, without the presence of management, to discuss the operation of the Board and a range of other matters including those relating to Remuneration and Directors Nominations. Relevant matters arising from these meetings are shared with the full Board.

TERM OF OFFICE

The Company's constitution specifies that all Directors (with the exception of the Executive Chairman) must retire from office no later than the third annual general meeting (AGM) following their last election. Where eligible, a Director may stand for re-election.

AUDIT COMMITTEE

The Audit Committee operates under a charter approved by the Board. Audit Committee meetings will be held periodically throughout the year. It is the policy of the Board that the members of the committee shall be a minimum of two Non-executive Directors. The Audit Committee will be chaired by a Non-executive Director other than the Chairman of the Board.

The main functions of the committee will be to:

- Assess the appropriateness of accounting policies, practices and disclosures and whether the quality of financial reporting is adequate;
- Review the scope and results of internal, external and compliance audits;
- Maintain open lines of communication between the Board and external auditors and the Company's compliance officers;
- Review and report to the Board on the annual report, the half-year financial report and all other financial information published by the Company or released to the market;
- Assess the adequacy of the Company's internal controls and make informed decisions regarding compliance policies, practices and disclosures;
- Ensure effective deployment of risk management processes;
- Nominate the external auditors and review the terms of their engagement, the scope and quality of the audit and the auditor's independence;
- Review the level of non-audit services provided by the external auditors and ensure that it does not adversely impact on auditor independence.

The Chairman of the Audit Committee reviews the performance of the committee with members and reports annually to the Board. Due to the small size of the Board, the Board considers it appropriate that all Directors sit on the Audit Committee which as discussed is separately chaired by a Non-executive Director. For this reason ASX Recommendation 4.3 (Structure the Audit Committee so that it consists of only Non-executive Directors, a majority of Independent Directors, an Independent Chairperson and at least three members) has not been adopted in regard to the first two points.

CORPORATE GOVERNANCE (Continued)

AUDIT COMMITTEE (Continued)

The members of the Audit Committee during the year were:

Chris Baker (Chairman)
John Lawton
Greg Partington
Paul Frederiks

For details on the number of meetings of the audit committee held during the year and the attendees at those meetings, refer to the Directors' Report.

CONTINUOUS DISCLOSURE

The Investor Relations Manager has been nominated as the person responsible for communications with the Australian Stock Exchange (ASX). This role includes responsibility for overseeing and co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public. The Company Secretary is responsible for ensuring compliance with the continuous disclosure requirements in the ASX listing rules.

The Company rigorously polices its continuous disclosure responsibilities to ensure a fully informed market at all times.

CORPORATE REPORTING

The Executive Chairman and Company Secretary have made the following certifications to the Board in regards to the reporting structure for the year ended 30 June 2007:

- That the Company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the Company and Group;
- That the above statement is founded on a sound system of internal control and risk management which implements the policies adopted by the Board and that the Company's risk management and internal control is operating efficiently and effectively in all material respects.

RISK ASSESSMENT AND MANAGEMENT

The Company is committed to having a culture of risk management and has established a risk management system that supports a pro-active approach to managing risk and to exploiting opportunity at all levels.

Management are required to ensure that appropriate controls and mitigation strategies are in place to effectively manage those risks.

PERFORMANCE

In order to ensure that the Board continues to discharge its responsibilities in an appropriate manner, it is the intention that all Directors will complete a structured self evaluation questionnaire that aimed to evaluate the performance of the Board as a whole on an annual basis. These responses will be collated and subsequently discussed by the Board to improve the functional operations of the Board. The Chairman meets privately with each Director as appropriate to discuss their individual performance. The Chairman's performance is reviewed by the Board.

The Company's Executive Director's performance and remuneration is reviewed annually by the Non-executive Directors.

The performance criteria against which Directors and Executives are assessed is aligned with the financial and non-financial objectives of Auzex Resources Limited.

CORPORATE GOVERNANCE (Continued)

REMUNERATION

It is the Company's objective to provide maximum stakeholder benefit from the retention of a high quality Board and small executive team by remunerating Directors and key executives fairly and appropriately with reference to relevant employment market conditions. The Executive Directors' and key executives' emoluments are structured to retain and motivate executives by offering a competitive base salary together with performance incentives through share options which allow executives to share in the success of Auzex Resources Limited.

The Company currently has two Non-Executive Directors and two Executive Directors. The Company's Executive Directors do not receive Directors' fees and their remuneration packages are formalised in service agreements. The Non-executive Directors' maximum aggregate remuneration as approved by shareholders is currently \$100,000 and is set at a level that compensates the directors for their significant time commitment in overseeing the progression of the Company's business plan.

There are no retirement benefits offered to Non-executive Directors other than statutory superannuation. For a full discussion of the Company's remuneration philosophy and framework and the remuneration received by Directors and Executives in the current period, please refer to the Remuneration Report, which is contained within the Directors' Report.

The Board is responsible for determining and reviewing the compensation arrangements for Directors themselves. Due to the size and specific project nature of the Company, the Board undertakes this compensation review collectively and therefore does not require a separately established Remuneration Committee. For this reason ASX Recommendation 9.2 (The Board should establish a Remuneration Committee) has not been adopted.

CODE OF CONDUCT

The Company supports and has adopted the Code of Conduct published by The Australian Institute of Company Directors in 1998. The insider trading provisions of the Corporations Act have been drawn to the attention of all Directors and Executives and it has been agreed that this will be a continuing policy on a regular basis. Directors have all entered into agreements to notify the Company within three days of any dealing in the Company's securities and it is an employment condition that all Executives notify the Company within three days of any dealing in the Company's securities.

COMMUNICATION TO SHAREHOLDERS

The Board of Directors aims to ensure that the shareholders, on behalf of whom they act, are provided with all information necessary to assess the performance of the Company. Information is communicated to the shareholders through:

- The Annual Report, which will be distributed to all shareholders (unless shareholders specifically indicate otherwise);
- Quarterly Reports to all shareholders (to be issued within four weeks of the end of the quarter);
- The Annual General Meeting, and other meetings called to obtain approval for Board action as appropriate; and
- The Company's Corporate Internet site at www.auzex.com.

Shareholders are actively encouraged to become "online shareholders" by registering electronically with the Company to receive an email notification of announcements as they are made.

All information disclosed to the ASX is immediately posted on the Company's website as soon as it is disclosed to the ASX.

INCOME STATEMENT**FINANCIAL YEAR ENDED 30 JUNE 2007**

	Note	Consolidated		Parent Entity	
		2007	2006	2007	2006
		\$	\$	\$	\$
Interest Income		199,582	127,990	198,641	127,990
Service Agreement – share based incentive		-	(460,500)	-	(460,500)
Write-off of Exploration Expenses		(131,241)	-	(131,241)	-
General & Administrative Expenses	3	(1,073,039)	(833,850)	(1,073,038)	(833,850)
Loss before Income Tax Expense		(1,004,698)	(1,166,360)	(1,005,638)	(1,166,360)
Income Tax Benefit attributable to Operating Loss	4	-	-	-	-
Loss after Income Tax Expense	12	(1,004,698)	(1,166,360)	(1,005,638)	(1,166,360)
Basic and diluted Loss per share (cents per share)	15	(4.0)	(6.1)	-	-

The above Income Statement should be read in conjunction with the accompanying notes.

BALANCE SHEET**AS AT 30 JUNE 2007**

	Note	Consolidated		Parent Entity	
		2007 \$	2006 \$	2007 \$	2006 \$
Current Assets					
Cash Assets	21A	4,250,548	2,567,816	3,845,696	2,567,816
Receivables and Prepayments	5	630,992	102,163	1,080,854	102,163
Total Current Assets		4,881,540	2,669,979	4,926,550	2,669,979
Non Current Assets					
Investments in Controlled Entities	20	-	-	-	-
Property, Plant and Equipment	6	155,994	194,572	155,994	194,572
Deferred Exploration and Evaluation costs	7	7,207,175	3,059,896	6,831,390	3,059,896
Total Non Current Assets		7,363,169	3,254,468	6,987,384	3,254,468
Total Assets		12,244,709	5,924,447	11,913,934	5,924,447
Current Liabilities					
Payables	8	748,391	327,174	460,373	327,174
Provisions	9	53,404	29,085	53,404	29,085
Total Current Liabilities		801,795	356,259	513,777	356,259
Provisions	9	87,700	-	87,700	-
Total Non-Current Liabilities		87,700	356,259	87,700	356,259
Total Liabilities		889,495	356,259	601,477	356,259
Net Assets		11,355,214	5,568,188	11,312,457	5,568,188
Equity					
Contributed Equity	10	12,872,596	6,395,389	12,872,596	6,395,389
Reserves	11	793,494	478,977	751,677	478,977
Accumulated Losses	12	(2,310,876)	(1,306,178)	(2,311,816)	(1,306,178)
Total Equity		11,355,214	5,568,188	11,312,457	5,568,188

The above Balance Sheet should be read in conjunction with the accompanying notes.

CASH FLOW STATEMENT**FINANCIAL YEAR ENDED 30 JUNE 2007**

	Note	Consolidated		Parent Entity	
		2007 \$	2006 \$	2007 \$	2006 \$
Cash Flows from/(used in) Operating Activities					
Goods and services tax received		390,460	131,701	381,822	131,701
Payments to suppliers and employees		(1,321,859)	(730,949)	(1,209,403)	(730,949)
Interest received		180,235	127,990	179,295	127,990
Net cash flows from/(used in) operating activities	21(b)	(751,164)	(471,258)	(648,286)	(471,258)
Cash Flows used in Investing Activities					
Purchase of property, plant & equipment		(40,371)	(207,219)	(40,371)	(207,219)
Payments for exploration and evaluation expenditure		(4,649,114)	(2,040,795)	(3,627,964)	(2,040,795)
Farm-in Revenue received		645,366	-	-	-
Sale of Fixed Assets		808	-	808	-
Net cash flow used in investing activities		(4,043,311)	(2,248,014)	(3,667,527)	(2,248,014)
Cash Flows from Financing Activities					
Proceeds from issue of shares		6,607,000	5,000,000	6,607,000	5,000,000
Costs of share issue		(129,793)	(482,073)	(129,793)	(482,073)
Proceeds from unallocated shares		-	729,000	-	729,000
Loans from/(to) related parties		-	26,010	(883,514)	26,010
Net cash flow provided by financing activities		6,477,207	5,272,937	5,593,693	5,272,937
Net increase / (decrease) in cash held		1,682,732	2,553,665	1,277,880	2,553,665
Add: Opening cash carried forward		2,567,816	14,151	2,567,816	14,151
Closing cash carried forward	21(a)	4,250,548	2,567,816	3,845,696	2,567,816

The above Cash Flow Statement should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY**FINANCIAL YEAR ENDED 30 JUNE 2007**

	Consolidated			
	Issued Capital	Accumulated Losses	Reserves	Total Equity
	\$	\$	\$	\$
At 1 July 2005	664,100	(139,818)	(80,802)559	443,480
Issue of Share Capital via IPO	5,000,000	-	-	5,000,000
Transaction costs of IPO	(562,876)	-	80,802	(482,074)
Issue of equity in exchange for debt forgiveness	200,666	-	-	200,666
Cost of share-based payment - recognition of share expense	364,499	-	297,001	661,500
Cost of share-based payment - recognition of share option expense	-	-	181,976	181,976
Unallocated Shares	729,000	-	-	729,000
Loss for the period	-	(1,166,360)	-	(1,166,360)
At 30 June 2006	6,395,389	(1,306,178)	478,977	5,568,188

	Issued Capital	Accumulated Losses	Reserves	Total Equity
	\$	\$	\$	\$
	At 1 July 2006	6,395,389	(1,306,178)	478,977
Cost of share-based payment - recognition of share option expense	-	-	272,700	272,700
Issue of Shares via Share Purchase Plan (SPP)	3,000,000	-	-	3,000,000
Allocation of subscription proceeds from prior year	(729,000)	-	-	(729,000)
Transaction costs of SPP	(10,000)	-	-	(10,000)
Issue of Shares via Placement	4,336,000	-	-	4,336,000
Transaction costs of Placement	(119,793)	-	-	(119,793)
Foreign Currency Translation Reserve	-	-	41,817	41,817
Loss for the period	-	(1,004,698)	-	(1,004,698)
At 30 June 2007	12,872,596	(2,310,876)	793,494	11,355,214

STATEMENT OF CHANGES IN EQUITY**FINANCIAL YEAR ENDED 30 JUNE 2007**

	Parent Entity			Total Equity \$
	Issued Capital \$	Accumulated Losses \$	Reserves \$	
At 1 July 2005	664,100	(139,818)	(80,802)559	443,480
Issue of Share Capital via IPO	5,000,000	-	-	5,000,000
Transaction costs of IPO	(562,876)	-	80,802	(482,074)
Issue of equity in exchange for debt forgiveness	200,666	-	-	200,666
Cost of share-based payment - recognition of share expense	364,499	-	297,001	661,500
Cost of share-based payment - recognition of share option expense	-	-	181,976	181,976
Unallocated Shares	729,000	-	-	729,000
Loss for the period	-	(1,166,360)	-	(1,166,360)
At 30 June 2006	6,395,389	(1,306,178)	478,977	5,568,188

	Issued Capital \$	Accumulated Losses \$	Reserves \$	Total Equity \$
	At 1 July 2006	6,395,389	(1,306,178)	478,977
Cost of share-based payment - recognition of share option expense	-	-	272,700	272,700
Issue of Shares via Share Purchase Plan (SPP)	3,000,000	-	-	3,000,000
Allocation of subscription proceeds from prior year	(729,000)	-	-	(729,000)
Transaction costs of SPP	(10,000)	-	-	(10,000)
Issue of Shares via Placement	4,336,000	-	-	4,336,000
Transaction costs of Placement	(119,793)	-	-	(119,793)
Loss for the period	-	(1,005,638)	-	(1,005,638)
At 30 June 2007	12,872,596	(2,311,816)	751,677	11,312,457

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – CORPORATE INFORMATION

The financial report of Auzex Resources Limited (the Company) for the year ended 30 June 2007 was authorised in accordance with a resolution of the Directors on 28 August 2007. Auzex Resources Limited is a Company limited by shares, incorporated and domiciled in Australia whose shares are publicly traded on the Australian Stock Exchange.

The nature of the operations and principal activities of the Group are described in the Directors' Report.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) Basis of Preparation

The financial report is a general purpose financial report which has been prepared in accordance with the requirements of the *Corporations Act 2001* and Australian Accounting Standards. The financial report has also been prepared on a historical cost basis and is presented in Australian dollars. The Directors have adopted the going concern assumption in preparing the financial report.

(B) Statement of Compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). The financial report also complies with International Financial Reporting Standards (IFRS).

Certain Australian Accounting Standards and interpretations have recently been issued or amended but are not yet effective and have not been adopted by the group for the annual reporting period ended 30 June 2007. The Directors have assessed the impact of these new or amended standards (to the extent relevant to the group) and have concluded that these Standards and interpretations will not impact the amounts recognised in the financial statements.

(C) Basis of Consolidation

The consolidated financial statements are those of the consolidated entity comprising Auzex Resources Limited and Auzex Resources (NZ) Pty Ltd (the Group). The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full.

Subsidiaries are all those entities (including special purpose entities) over which the Group has power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a group controls another entity.

(D) Significant Accounting Estimates and Assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

Share-based payment transactions

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using a Black Scholes model. The expense in each year of the vesting period is based on the changes to the estimated number of equity instruments expected to ultimately vest with the recipients.

Provision for site rehabilitation

The Company reviews rehabilitation requirements for its exploration tenements on a six-monthly basis by undertaking an in-house analysis of the costs to rehabilitate the sites as appropriate.

Impairment

The company determines on an annual basis whether impairment triggers have occurred for each area of interest included in Deferred Exploration and Evaluation Costs. Where an impairment trigger is identified, an estimation of the recoverable amount of the cash generating units to which these asset groups belong is required.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(E) Foreign Currency Translation

Both the functional and presentation currency of Auzex Resources Limited is Australian dollars (\$A). Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All exchange differences in the consolidated financial report are taken to the income statement except for exchange differences arising on translation of foreign operations which are taken directly to a separate component of equity. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currency of the overseas subsidiary Auzex Resources (NZ) Pty Ltd is New Zealand dollars (NZ\$). As at the reporting date the assets and liabilities of this overseas subsidiary is translated into the presentation currency of Auzex Resources Limited at the rate of exchange ruling at the balance sheet date and the income statements are translated at the weighted average exchange rates for the period. The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of a foreign operation, the cumulative amount recognised in equity relating to that particular foreign operation is recognised in profit or loss.

(F) Property, Plant & Equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

Depreciation is provided on a straight line basis on all property, plant and equipment. All classes are depreciated over periods ranging from 3 to 10 years (comparable to prior year).

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

Impairment

The carrying values of property, plant and equipment are reviewed for impairment at each reporting date, with recoverable amount being estimated when events or changes in circumstances indicate the carrying value may be impaired.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment exists when the carrying value exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognised in the income statement in the year the loss is recognised.

Derecognition and disposal

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(G) Exploration, Evaluation, Development and Restoration costs

Costs carried forward

Costs arising from exploration and evaluation activities are carried forward provided such costs are expected to be recouped through successful development, or by sale, or where exploration and evaluation activities have not, at balance date, reached a stage to allow a reasonable assessment regarding the existence of economically recoverable reserves.

Amounts received in respect to farm-in arrangements are offset against the relevant exploration and evaluation costs where these amounts have been capitalised

Costs carried forward in respect of an area of interest that is abandoned are written off in the year in which the decision to abandon is made.

Impairment

The carrying values of exploration, evaluation, development and restoration costs are reviewed for impairment in accordance with AASB 6 – *Exploration and Evaluation of Mineral Resources* when facts and circumstances suggest that the carrying amount of such an asset may exceed its recoverable amount. Any impairment loss identified is recognised as an expense in accordance with AASB 136 – *Impairment of Assets*.

Amortisation

Costs on productive areas will be amortised over the life of the area of interest to which such costs relate on the production output basis.

Restoration costs

Restoration costs that are expected to be incurred are provided for as part of the cost of the exploration, evaluation, development, construction or production phases that give rise to the need for restoration. Accordingly, these costs will be recognised progressively over the life of the facility as these obligations occur. The costs include obligations relating to reclamation, plant closure and other costs associated with the restoration of the site.

(H) Impairment of Assets

At each reporting date, the Company assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Company makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(I) Cash and Cash Equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Bank overdrafts are included within interest-bearing loans and borrowings in current liabilities on the balance sheet.

(J) Trade and Other Receivables

Trade receivables, which generally have 30 day terms, are recognised and carried at original invoice amount. An allowance for doubtful debts is made when there is objective evidence that the Company will not be able to collect the debts. Bad debts are written off when identified. Interest is taken up as income on an effective interest basis. Bills of exchange are measured at amortised cost using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(K) Interest Bearing Liabilities

All interest bearing liabilities are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the liability. After initial recognition, interest-bearing liabilities are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses are recognised in the income statement when the liabilities are derecognised.

(L) Contributed Equity

Ordinary shares are classified as equity. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

(M) Trade and Other Payables

Trade payables and other payables are carried at cost and represent liabilities for goods and services provided to the Company prior to the end of the financial year that are unpaid and arise when the Company becomes obliged to make future payments in respect of the purchase of these goods and services.

(N) Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

(O) Employee Benefits

(i) Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(P) Share-based Payment Transactions

The company provides benefits to employees (including directors) of the company in the form of share-based payment transactions, whereby employees render services in exchange for rights over shares ('equity-settled transactions').

The current plan in place to provide these benefits is the Auzex Option Plan, which provides benefits to Executive Directors and employees. The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by the use of a Black-Scholes model which is prepared by the Company and independently reviewed.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Auzex Resources Limited ('market conditions'). The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the Directors of the Company, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition. The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

(Q) Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. In the case of interest, revenue is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

(R) Earnings per Share

Basic earnings per share is determined by dividing the operating profit after tax by the weighted average number of ordinary shares outstanding during the financial period. Diluted earnings per share is determined by dividing the operating profit after tax adjusted for the effect of earnings on potential ordinary shares, by the weighted average number of ordinary shares (both issued and potentially dilutive) outstanding during the financial period.

(S) Segment Reporting

A business segment is a distinguishable component of the entity that is engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is a distinguishable component of the entity that is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different than those of segments operating in other economic environments.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(T) Farm-in Arrangement

The Company is a party to a farm in arrangement with New Zealand Minerals Limited (NZML). In the arrangement the Company (the 'transferor') transfers a part of its interest in mineral rights for an agreement by NZML (the 'transferee') to meet, certain expenditure which would otherwise have to be undertaken by the Company. The cash consideration received by the Company through the reimbursement of costs incurred is credited to the accounts where such costs were initially recorded.

(U) Income Tax

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised. The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

For Auzex Resources Limited, no deferred income tax asset is being recognised in the accounts as the benefit is not considered to be probable of being realised at this stage of the Company's development. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

(V) Other Taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet. Cash flows are included in the Cash Flow Statement on a net basis and the GST component arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

NOTES TO THE FINANCIAL STATEMENTS

	Consolidated		Parent Entity	
	2007 \$	2006 \$	2007 \$	2006 \$
NOTE 3 – EXPENSES AND LOSSES/(GAINS)				
Operating loss before income tax has been determined after charging/(crediting) the following specific items:				
Option Valuation expense	145,990	140,684	145,990	140,684
Depreciation of plant and equipment	78,042	28,942	78,042	28,942
Foreign exchange loss/(gain)	3,376	(163)	3,376	(163)
NOTE 4 - INCOME TAX				
The prima facie tax of 30% (2006 - 30%) on the operating loss differs from the income tax provided in the financial statements as follows:				
Prima facie tax on loss	(301,410)	(349,908)	(301,692)	(349,908)
Tax effect of amounts treated differently in accounts and for tax purposes:				
Other expenses	4,254	9,793	4,254	9,793
Employee share and option expenses	43,797	180,355	43,797	180,355
Section 40-880 deduction – capital raising	(33,773)	(33,773)	(33,773)	(33,773)
Exploration expenditure	(1,453,526)	(706,439)	(1,350,552)	(706,439)
Income tax benefit attributable to current year losses as reported in the Income Statement	(1,740,658)	(899,972)	(1,637,966)	(899,972)
Deferred tax asset not brought to account as realisation of the asset is not regarded as probable	1,740,658	899,972	1,637,966	899,972
Income tax expense attributable to operating loss	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 - INCOME TAX (Continued)

Deferred income tax

Deferred income tax at 30 June relates to the following:

	Balance Sheet		Income Statement	
	2007	2006	2007	2006
	\$	\$	\$	\$
Consolidated				
Deferred tax liabilities				
Exploration Expenditure	(2,162,153)	(839,715)	-	-
Other Deferred tax liability	(5,804)	-	-	-
Deferred tax assets				
Losses available for offset against future taxable income	2,874,596	1,133,938	-	-
Other deferred tax asset	16,981	13,392	-	-
Total deferred tax assets	723,620	307,615	-	-
Deferred tax asset not recognised	(723,620)	(307,615)	-	-
Gross deferred income tax assets	-	-	-	-
Deferred tax income/(expense)	-	-	-	-
Parent Entity				
Deferred tax liabilities				
Exploration Expenditure	(2,049,417)	(839,715)	-	-
Other Deferred tax liability	(5,804)	-	-	-
Deferred tax assets				
Losses available for offset against future taxable income	2,771,904	1,133,938	-	-
Other deferred tax asset	16,981	13,392	-	-
Total deferred tax assets	733,664	307,615	-	-
Deferred tax asset not recognised	(733,664)	(307,615)	-	-
Gross deferred income tax assets	-	-	-	-
Deferred tax income/(expense)	-	-	-	-

The deferred tax asset arising from estimated tax losses is not brought to account at balance date as realisation of the benefit is not yet regarded as probable.

The deferred tax asset will only be obtained if:

- future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;
- the conditions for deductibility imposed by tax legislation continue to be complied with; and
- no changes in tax legislation adversely affect the Company in realising the benefit.

NOTES TO THE FINANCIAL STATEMENTS

	Consolidated		Parent Entity	
	2007 \$	2006 \$	2007 \$	2006 \$
NOTE 5 – RECEIVABLES AND PREPAYMENTS (CURRENT)				
Accounts Receivable	408,163	-	-	-
GST Receivable	117,951	79,589	96,998	79,589
Interest Receivable	19,347	-	19,347	-
Sundry Receivables	7,416	4,639	2,880	4,639
Prepayments	78,115	17,935	78,115	17,935
Amount Receivable from Subsidiary		-	883,514	-
	630,992	102,163	1,080,854	102,163

Terms and conditions

Accounts receivable, GST receivable, interest receivable and sundry receivables are non-interest bearing.

NOTE 6 - PROPERTY, PLANT & EQUIPMENT

Plant and Equipment at cost	266,677	227,305	266,677	227,305
Less: accumulated depreciation	(110,683)	(32,733)	(110,683)	(32,733)
Total Property, Plant and Equipment	155,994	194,572	155,994	194,572
Reconciliation of Plant & Equipment				
Carrying amount at beginning	194,572	16,295	194,572	16,295
Additions	40,371	207,219	40,371	207,219
Depreciation Expense	(78,042)	(28,942)	(78,042)	(28,942)
Disposals	(907)	-	(907)	-
	155,994	194,572	155,994	194,572

NOTES TO THE FINANCIAL STATEMENTS

	Consolidated		Parent Entity	
	2007 \$	2006 \$	2007 \$	2006 \$
NOTE 7 – DEFERRED EXPLORATION AND EVALUATION COSTS				
Exploration Phase	7,207,175	3,059,896	6,831,390	3,059,896
Total	7,207,175	3,059,896	6,831,390	3,059,896
<i>Reconciliation of Deferred Exploration & Evaluation costs</i>				
Carrying amount at beginning	3,059,896	705,098	3,059,896	705,098
Add: Exploration Expenditure for period	5,214,990	2,354,798	4,633,082	2,354,798
Less: Farm-In Recoupment*	(936,470)	-	-	-
Less: Exploration written off for period	(131,241)	-	(131,241)	-
Less: Exploration transferred to Subsidiary	-	-	(730,347)	-
	7,207,175	3,059,896	6,831,390	3,059,896

The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective exploration tenements.

In November 2006, Auzex Resources wholly owned subsidiary, Auzex Resources (NZ) Pty Ltd (Auzex NZ) entered into a Joint Venture Agreement with NZ Minerals Limited (NZML) over tenements held on the west coast of the South Island of New Zealand. The key terms of the Agreement are as follows:

- NZML to fund NZ\$1.70 million expenditure to earn 50% interest in all Auzex NZ tenements;
- NZ\$850,000 expenditure commitment required before withdrawal;
- Auzex NZ retains management of all projects;

NOTE 8 - PAYABLES

Current

Trade Creditors	696,557	261,549	409,612	261,549
Accrued Liabilities	51,834	65,625	50,761	65,625
	748,391	327,174	460,373	327,174

Terms and conditions

Accounts payable and accrued liabilities are non-interest bearing.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 9 – PROVISIONS

	Consolidated		
	Employee Entitlements \$	Restoration Provision \$	Total Provisions \$
At 1 July 2006	16,385	12,700	29,085
Arising during the year	20,219	91,800	112,019
At 30 June 2007	36,604	104,500	141,104
Current 2007	36,604	16,800	53,404
Non current 2007	-	87,700	87,700
	36,604	104,500	141,104
At 1 July 2005	-	-	-
Arising during the year	16,385	12,700	29,085
At 30 June 2006	16,385	12,700	29,085
Current 2006	16,385	12,700	29,085
Non current 2006	-	-	-
	16,385	12,700	29,085

	Parent Entity		
	Employee Entitlements \$	Restoration Provision \$	Total Provisions \$
At 1 July 2006	16,385	12,700	29,085
Arising during the year	20,219	91,800	112,019
At 30 June 2007	36,604	104,500	141,104
Current 2007	36,604	16,800	53,404
Non current 2007	-	87,700	87,700
	36,604	104,500	141,104
At 1 July 2005	-	-	-
Arising during the year	16,385	12,700	29,085
At 30 June 2006	16,385	12,700	29,085
Current 2006	16,385	12,700	29,085
Non current 2006	-	-	-
	16,385	12,700	29,085

The restoration provision relates to the restoration of the two tenements where drilling has occurred during the financial year and consists of rehabilitating the drill pad sites and access tracks. Bank Guarantees totalling \$12,500 and \$120,000 are held respectively by the Queensland and NSW governments to secure tenement rehabilitation obligations.

NOTES TO THE FINANCIAL STATEMENTS

	Consolidated		Parent Entity	
	2007 \$	2006 \$	2007 \$	2006 \$
NOTE 10 – CONTRIBUTED EQUITY				
Issued and Fully Paid Capital				
27,455,605 (2006 – 21,840,000) fully paid ordinary shares	12,872,596	6,395,389	12,872,596	6,395,389
		Number of Shares	Issue price \$ per share	\$
Movement in ordinary share capital:				
30/06/05	Balance beginning of financial year	11,111,000	-	664,100
11/08/05	Issue of 2 shares in consideration for debt forgiveness to J. Lawton and Peninsula Goldfields Pty Ltd	2		200,666
11/08/05	Ordinary shares issued in consideration of services rendered	728,998	\$0.50	364,499
30/09/05	Ordinary shares issued pursuant to IPO	10,000,000	\$0.50	5,000,000
	Transaction costs of IPO	-	-	(562,876)
30/06/06	Unallocated Shares to be issued under Share Purchase Plan in July 2006		\$1.05	729,000
30/06/06	Balance beginning of financial year	21,840,000	-	6,395,389
01/07/06	Reversal of unallocated shares at 30/6/06 in relation to the Share Purchase Plan	-	-	(729,000)
10/07/06	Share Purchase Plan	2,905,605	\$1.0325	3,000,000
	Transaction costs of Share Purchase Plan	-	-	(10,000)
11/04/07	Share Placement	2,710,000	\$1.60	4,336,000
	Transaction costs of Placement	-	-	(119,793)
30/06/07	Balance end of financial year	27,455,605	-	12,872,596

Terms and Conditions of contributed equity

Ordinary Shares entitle their holder to one vote, either in person or by proxy, at a meeting of the company.

NOTES TO THE FINANCIAL STATEMENTS

	Consolidated		Parent Entity	
	2007 \$	2006 \$	2007 \$	2006 \$
NOTE 11 – RESERVES				
Ordinary shares transferred between shareholders in consideration of services rendered	297,001	297,001	297,001	297,001
Recognition of Share Option Expense	454,676	181,976	454,676	181,976
Foreign Currency Translation Reserve	41,817	-	-	-
	793,494	478,977	751,677	478,977
Reconciliation of Reserves				
Carrying amount at beginning	478,977	(80,802)	478,977	(80,802)
Transaction cost of IPO	-	80,802	-	80,802
Ordinary shares transferred between shareholders in consideration of services rendered	-	297,001	-	297,001
Recognition of Share Option Expense	272,700	181,976	272,700	181,976
Foreign Currency Translation Reserve	41,817	-	-	-
	793,494	478,977	751,677	478,977

	Consolidated		Parent Entity	
	2007 \$	2006 \$	2007 \$	2006 \$
NOTE 12 – ACCUMULATED LOSSES				
Balance at the beginning of year	(1,306,178)	(139,818)	(1,306,178)	(139,818)
Net Loss attributable to members of Auzex Resources Limited	(1,004,698)	(1,166,360)	(1,005,638)	(1,166,360)
Balance at the end of year	(2,310,876)	(1,306,178)	(2,311,816)	(1,306,178)

NOTES TO THE FINANCIAL STATEMENTS

NOTE 13 – EXPENDITURE COMMITMENTS

Exploration Tenement Commitments

In order to maintain current rights of its Exploration tenements, the Company is required to outlay annual rentals and to meet certain expenditure requirements of the New South Wales and Queensland governments. These commitments are minimum expenditure requirements, determined by the relevant Government body on an individual tenement basis for each year of tenure from the date of grant, to maintain the tenements in good standing. The commitment remains only for as long as the tenement is held, and may be subject to negotiation based on merit. The expenditure commitments listed below and which are not provided for in the financial report represent an estimate of the sum of all Queensland and New South Wales annual expenditure requirements of tenements and are payable as follows:

	Consolidated		Parent Entity	
	2007 \$	2006 \$	2007 \$	2006 \$
Payable not later than one year	2,039,000	1,063,000	1,287,000	1,063,000
Later than one year but not later than two years	2,182,000	426,000	1,244,000	426,000
	4,221,000	1,489,000	2,531,000	1,489,000
Operating Leases Commitments (non-cancellable)				
Payable not later than one year	6,400	3,600	6,400	3,600
	6,400	3,600	6,400	3,600
Capital Expenditure Commitments	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

NOTE 14 - EMPLOYEE BENEFITS AND SUPERANNUATION COMMITMENTS

	Consolidated		Parent Entity	
	2007 \$	2006 \$	2007 \$	2006 \$
Employee Benefits				
The aggregate employee benefit liability is comprised of:				
Provision for Annual Leave (current)	36,604	16,385	36,604	16,385
	36,604	16,385	36,604	16,385

Superannuation Commitments

The parent entity contributes to external accumulation funds for its employees which provide benefits for employees and their dependants on retirement, disability or death. These funds provide benefits on a defined contribution basis. Contributions are enforceable to the extent of the contribution required by the Superannuation Guarantee Levy.

Employer contributions paid or payable to the plans	86,582	26,502	86,582	26,502
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Auzex Option Plan

The Company has in place the Auzex Option Plan which was established to assist in the recruitment, reward, retention and motivation of Directors, employees of and key consultants to Auzex.

The options, issued for nil consideration, are issued in accordance with performance hurdles established by the Directors of Auzex Resources Limited and are issued for a term of four years. The options are valued using the Black-Scholes formula which is a function of the relationship between a number of variables that principally comprise the share price, option exercise price, risk free interest rate and the volatility of the Company's underlying share price. Accordingly, the formula requires a number of inputs, some of which must be assumed. For the purposes of the options issued during the year, the material assumptions used were:

- Share price was price at date of grant which ranged from \$1.18 to \$1.30 .
- Risk free interest rate of 6.25%.
- A volatility factor of 70%. The volatility was chosen based on an analysis of a basket of other exploration companies.
- An expected dividend yield of 0%.
- Option life of two to four years.

The financial impact of the grant of options above was estimated at \$99,367 for the financial year ended 30 June 2007 and \$202,032 in aggregate over the exercise period of the options. The options cannot be transferred and will not be quoted on the ASX.

Total Option Movements

The following table summarises all options issued under the aforementioned Option Plan

	2007		2006	
	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price
Balance at beginning of year	3,500,000	\$0.91	-	-
Granted during the year	435,000	\$1.71	3,500,000	\$0.91
Balance at end of year (see table below)	3,935,000	\$1.00	3,500,000	\$0.91
Vested and exercisable at end of year	1,600,000	\$0.70	-	-

NOTES TO THE FINANCIAL STATEMENTS

NOTE 14 - EMPLOYEE BENEFITS AND SUPERANNUATION COMMITMENTS (Continued)

Total Options held at the end of the reporting period

The following table summarises information about options held by employees as at 30 June 2007:

Grant Date	Number Options	Expiry Date	Exercise price
01/09/05	1,000,000	31/08/10	\$0.50
01/09/05	1,000,000	31/08/10	\$0.75
01/09/05	1,000,000	31/08/10	\$1.00
16/05/06	100,000	15/06/11	\$1.25
16/05/06	150,000	15/06/11	\$1.75
16/05/06	250,000	15/06/11	\$2.25
19/06/06	37,500	19/06/10	\$1.48
19/06/06	37,500	19/06/10	\$1.78
08/09/06	45,000	08/09/10	\$1.60
08/09/06	45,000	08/09/10	\$1.92
18/11/06	35,000	18/11/09	\$1.52
18/11/06	35,000	18/11/10	\$1.83
04/12/06	47,500	04/12/09	\$1.52
04/12/06	47,500	04/12/10	\$1.83
08/01/07	52,500	08/01/10	\$1.62
08/01/07	52,500	08/01/11	\$1.95
TOTAL	3,935,000		\$1.00

NOTE 15 - EARNINGS PER SHARE

Basic and diluted earnings/(loss) per share (cents per share)

The following reflects the operating results and share data used in the calculations of basic earnings per share:

Net Loss

Weighted average number of ordinary shares used in calculation of basic earnings per share

The share options of 3,935,000 are not dilutive and therefore have not been included in the calculation of diluted earnings per share.

Consolidated Entity	
2007	2006
(4.0)	(6.1)
(1,004,698)	(1,166,360)
25,267,933	19,235,567

NOTE 16 - SEGMENT INFORMATION

The Company operates in one geographical segment – namely Australasia. The Company operates in one industry segment, being the activity of exploration and development of mineral deposits. The Company is incorporated in Queensland and domiciled in Australia. The Company had six employees at 30 June 2007 (30 June 2006: 4 employee).

NOTES TO THE FINANCIAL STATEMENTS

	Consolidated		Parent Entity	
	2007 \$	2006 \$	2007 \$	2006 \$
NOTE 17 – REMUNERATION OF AUDITORS				
Amounts received or due and receivable by Ernst & Young Australia for:				
Audit and half year review of the financial report of the entity and any other entity in the consolidated entity	42,766	25,387	42,766	25,387
Other Services in relation to the entity and any other entity in the consolidated entity				
- assurance related	-	900	-	900
	42,766	26,287	42,766	26,287

NOTE 18 – KEY MANAGEMENT PERSONNEL

Details of Key Management Personnel

Directors	
J. Lawton	Executive Chairman
G. Partington	Executive Director
C. Baker	Non-executive Director
P. Frederiks	Non-executive Director and Company Secretary
Executives	
R. Mustard	Chief Geologist
B. O'Donovan	Investor Relations Manager

Remuneration of Key Management Personnel

The Board of Directors is responsible for determining and reviewing remuneration arrangements for Non-Executive Directors, the Executive Director and the Executive Chairman. The Board will assess the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board. The Remuneration of Non-Executive Directors determined by the Board is within the maximum amount approved by the shareholders from time to time.

It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Company. It is the Company's objective to provide maximum stakeholder benefit from the retention of a high quality Board and small executive team by remunerating Directors and key executives fairly and appropriately with reference to relevant employment market conditions. The Executive Directors' and key executives' emoluments are structured to retain and motivate executives by offering a competitive base salary together with performance incentives through share options which allow executives to share in the success of Auzex Resources Limited.

In July 2005, the Executive Chairman entered into an executive service contract with the Company to perform the role of Executive Chairman for a fixed term of two years from the date of listing (4 October 2005), subject to earlier termination by the Company for misconduct or non-performance. Under that agreement, John Lawton is entitled to receive annual remuneration of \$200,000.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 18 – KEY MANAGEMENT PERSONNEL (Continued)

The Executive Chairman may terminate the agreement by one month's written notice if there is a change of control of Auzex or the Board makes material changes to the Company's business plan. If the agreement is terminated by the Executive Chairman in either of those circumstances, the Company must pay the Executive Chairman, in addition to any period of notice (or in lieu of notice), the equivalent of seven months' salary. Otherwise, the Executive Chairman may terminate the agreement by six months' written notice.

In July 2005, the Chief Geologist entered into an executive service contract with the Company (at annual remuneration of \$120,000) for an initial two-year term from the date of listing that continues until terminated in accordance with the contract. Either party may terminate the agreement at any time by giving six weeks' notice or, in the case of the Company, with immediate effect by paying the executive three months' remuneration. In addition the Company may terminate the executive's employment at any time for misconduct or non-performance.

The Exploration Director operates a consultancy business, Kenex Knowledge Systems Ltd, (Kenex) providing specialist technical services for the exploration program. His consultancy is paid for services on normal commercial terms except for services directly attributable to the Exploration Director which are discounted 50% from market rates. The Company has a two year agreement with Kenex, which commenced on completion of the Initial Public Offer in October 2005. Other than for breach and other usual grounds such as insolvency of the Company, Kenex cannot terminate the agreement during the initial two-year term. After that time it may terminate by six months' written notice. The Company may terminate the agreement at any time for breach by Kenex, if control of Kenex changes or otherwise by three months' written notice. All intellectual property generated under the agreement is the property of the Company and Kenex must maintain all records for a period of seven years.

The Company Secretary operates a consultancy business providing Company Secretarial and Accounting services (see profile in Director's Report). He does not have an executive management role in the Company but takes responsibility for producing the financial accounts, managing cash flows and provides a governance overview and general counsel to the Company. His consultancy is paid for services on normal commercial terms.

The Marketing and Investor Relations Manager entered into an executive service contract with the Company for an initial two-year term commencing 16 May 2006 that continues until terminated in accordance with the contract. His current annual remuneration is \$109,000. Either party may terminate the agreement at any time by giving six weeks' notice or in the case of the Company, with immediate effect by paying the executive three months' remuneration. In addition the Company may terminate the executive's employment at any time for misconduct or non-performance.

Compensation of Key Management Personnel

	Consolidated		Parent Entity	
	2007 \$	2006 \$	2007 \$	2006 \$
Short-term employee benefits	620,904	409,666	620,904	409,666
Post Employment benefits	36,097	20,865	36,097	20,865
Share based payment	114,059	627,419	114,059	627,419
	771,060	1,057,950	771,060	1,057,950

Auzex Resources Limited has applied the option under *Corporations Amendments Regulation 2006* to transfer key management personnel remuneration disclosures required by AASB 124 *Related Party Disclosures* paragraphs Aus 25.4 to Aus 25.7.2 to the Remuneration Report section of the Directors' Report. These transferred disclosures have been audited.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 18 – KEY MANAGEMENT PERSONNEL (Continued)

Remuneration options: Granted during the year

There were no options granted to any of the named executives above during the year

Option holdings of Key Management Personnel

	Balance at beginning of period 01/07/06	Granted as Remuneration	Options Exercised	Balance at end of period 30/06/07	Total Vested & Exercisable 30/06/07
Directors					
J. Lawton	500,000	-	-	500,000	250,000
G. Partington	500,000	-	-	500,000	250,000
C. Baker	250,000	-	-	250,000	125,000
P. Frederiks	250,000	-	-	250,000	125,000
Executives					
R. Mustard	500,000	-	-	500,000	250,000
B. O'Donovan	500,000	-	-	500,000	100,000
Total	2,500,000	-	-	2,500,000	1,100,000

Shareholdings of Key Management Personnel

	Balance at beginning of period 01/07/06	Issued under Share Purchase Plan	Purchased on Market	Disposed of	Balance at end of period 30/06/07
Directors					
J. Lawton	6,750,000	4,761	-	-	6,754,761
G. Partington	1,092,000	4,761	-	-	1,096,761
C. Baker	20,000	4,761	-	-	24,761
P. Frederiks	250,000	-	-	-	250,000
Executives					
R. Mustard	1,092,000	34,761	-	-	1,126,761
B. O'Donovan	-	13,124	-	-	13,124
Total	9,204,000	62,168	-	-	9,266,168

NOTES TO THE FINANCIAL STATEMENTS

NOTE 19 - RELATED PARTY DISCLOSURES

Ultimate parent

Auzex Resources Limited is the ultimate parent Company incorporated in Queensland, Australia.

Wholly owned group transactions

Expenditure incurred by Auzex Resources Limited in relation to tenements held in the name of Auzex Resources (NZ) Pty Ltd amounted to \$429,006 for the year (2006 - \$170,671). This amount has been recharged to the subsidiary. In addition, exploration of \$301,341 relating to the New Zealand tenements that was capitalised in Auzex Resources Limited as at 30 June 2006 was transferred at cost to Auzex Resources (NZ) Pty Ltd during the year. Auzex Resources Limited also advanced funds of \$145,000 (2006 - nil) to Auzex Resources (NZ) Pty Ltd during the year. Loans made by Auzex Resources Limited to Auzex Resources (NZ) Pty Ltd are interest free, are reviewable on an annual basis and are repayable on demand.

Other related transactions

During the year, services were provided by Kenex Limited (Kenex) which provides technical assistance to Auzex to carry out its work program. Dr Greg Partington, who is an Executive Director of Auzex, controls Kenex. The Board considers that the Kenex agreement is a commercial arrangement entered into on favourable terms to Auzex. There is no obligation for the Company to acquire services exclusively from Kenex or for Kenex to exclusively provide services to the Company. However, Kenex has agreed to give priority to the Company over Kenex's other clients in the provision of services and all services provided under the agreement are for the exclusive benefit and advantage of Auzex. As the Company is not required to acquire any minimum amount of services from Kenex, there is no minimum payment required under the agreement.

Total amounts paid to Kenex during the year including the provision of services provided by Dr Partington was \$256,690 (2006 - \$269,154).

During the year, accounting and certain corporate advisory services were provided by Frederiks Investments Qld Pty Ltd (FIQ). Mr Paul Frederiks, who is a Non-executive Director and Company Secretary, controls FIQ. The Board considers that the FIQ agreement is a commercial arrangement entered into on reasonable arm's length terms. There is no obligation for the Company to acquire services exclusively from FIQ or for FIQ to exclusively provide services to the Company. As the Company is not required to acquire any minimum amount of services from FIQ, there is no minimum payment required under the agreement. Directors note that P. Frederiks does not participate in the executive management of the Company and provided these services as an outside party due to his extensive expertise in financial administration. Directors believe this arrangement enhances the corporate governance of the Company.

Total amounts paid to FIQ during the year including the provision of services provided by Mr Paul Frederiks was \$67,876 (2006 - \$44,050). In addition to this amount, Directors fees of \$25,000 were paid.

During the year, exploration tenement advisory services for the Company's New Zealand tenements were provided by Saunders Unsworth Ltd (SUL). Mr Chris Baker, who is a Non-executive Director, is a director of SUL. The Board considers that the SUL agreement is a commercial arrangement entered into on reasonable arm's length terms. There is no obligation for the Company to acquire services exclusively from SUL or for SUL to exclusively provide services to the Company. As the Company is not required to acquire any minimum amount of services from SUL, there is no minimum payment required under the agreement. Directors note that C. Baker does not participate in the executive management of the Company and provided these services to assist the Company in gaining access to relevant NZ government authorities due to his extensive network of contacts arising from the public policy work of SUL.

Total amounts paid to SUL during the year including the provision of services provided by Mr Chris Baker was \$7,502 (2006 - \$6,204). In addition to this amount, Directors fees of \$25,000 were paid.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 20 – INVESTMENTS IN CONTROLLED ENTITIES

Name of Entity	Country of Incorporation	Percentage of equity interest held by the consolidated entity	
		2007	2006
Auzex Resources (NZ) Pty Ltd	Australia	100%	100%

	Consolidated		Parent Entity	
	2007 \$	2006 \$	2007 \$	2006 \$
NOTE 21 - NOTES TO THE STATEMENT OF CASH FLOWS				
(A) Reconciliation of Cash				
Cash is defined in Note 2 to this financial report. Cash balance comprises:				
Cash on Hand	456	500	356	500
Cash at Bank	286,066	2,513,685	217,947	2,513,685
Term Deposits and Investments	3,818,235	-	3,500,000	-
Secured Term Deposit	145,701	53,631	127,393	53,631
Total Cash	4,250,548	2,567,816	3,845,696	2,567,816
(B) Reconciliation of the operating loss after tax with the net cash flows used in operations				
Operating loss after income tax	(1,004,698)	(1,166,360)	(1,005,639)	(1,166,360)
Depreciation and amortisation	78,042	28,942	78,042	28,942
Net loss on sale of property, plant & equipment	98	-	98	-
Exploration Expenditure written off	131,241	-	131,241	-
Share Option Valuation Expense	145,991	181,976	145,991	181,976
Less: capitalised to exploration	-	(41,292)	-	(41,292)
Shares issued in lieu of services	-	661,500	-	661,500
Less: capitalised to exploration	-	(201,000)	-	(201,000)
Net Exchange Differences	41,817	-	-	-
Changes in Assets & Liabilities				
Increase in trade & other receivables	(468,649)	(12,233)	(34,995)	(12,233)
Increase in prepayments	(60,180)	-	(60,180)	-
Increase/(decrease) in other creditors and accruals	273,155	48,124	(14,863)	48,124
Increase in provision for restoration	91,800	12,700	91,800	12,700
Increase in provision for employee benefits	20,219	16,385	20,219	16,385
Net Cash Flow used in Operating Activities	(751,164)	(471,258)	(648,286)	(471,258)

(C) Non-Cash Financing and Investing Activities

There were no non-cash financing and investing activities undertaken during the year.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 22 - CONTINGENT ASSETS AND LIABILITIES

Claims and other actions in accordance with the Native Title Act 1993 (Cth) may affect the Company's ability to access prospective exploration areas or subsequently to mine any such area. A number of the Company's tenements in Australia are currently affected by native title. Additional native title claims may be lodged in Queensland and New South Wales in which case the Company may have to pay compensation to settle any such claim or may have its access to any affected area restricted indefinitely or until the claim is settled. There are currently no restrictions on any of the Company's tenements.

There are no other material contingent assets or liabilities not otherwise disclosed elsewhere in these financial statements.

NOTE 23 - SUBSEQUENT EVENTS

There has not arisen between 30 June 2007 and the date of this report any item, transaction or event of a relevant and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company, in subsequent financial years.

The Company estimates that the current cash reserves are sufficient to fund its operations for at least 12 months from the date of this report.

NOTE 24- FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's principal financial instruments comprise cash and short-term deposits. The main purpose of these financial instruments is to manage the finances for the Company's operations. The Company has various other financial assets and liabilities such as sundry receivables and trade payables, which arise directly from its operations. It is, and has been throughout the period under review, the Company's policy that no trading in financial instruments shall be undertaken. The main risks arising from the Company's financial instruments are cash flow interest rate risk and foreign currency risk.

During its New Zealand field exploration activities, the Company has had some transactional currency exposures, principally to the New Zealand (NZ) dollar. Such exposure arises from purchases in the NZ currency other than the Company's functional currency being the Australian dollar. The Company has not entered into forward currency contracts to hedge these exposures due to the short time frame associated with the currency exposure and the relatively modest overall exposure at any one point in time.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 25 - FINANCIAL INSTRUMENTS

(A) Interest rate risk

The Company's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities at balance date, are as follows:

Consolidated

(i) Financial Assets

	Floating Interest Rate	Fixed Interest rate maturing in 1 year or less	Non Interest Bearing	Carrying Amount per Balance Sheet	Weighted average effective interest rate
	2007	2007	2007	2007	2007
Cash	286,066	3,963,936	456	4,250,548	5.5%
Receivables	-	-	630,992	630,992	N/A
	2006	2006	2006	2006	2006
Cash	2,513,685	53,631*	500	2,567,816	5.5%
Receivables	-	-	102,163	102,163	N/A

* secured against bank guarantees issued.

(ii) Financial Liabilities

	Floating Interest Rate	Fixed Interest rate maturing in 1 year or less	Non Interest Bearing	Carrying Amount per Balance Sheet	Weighted average effective interest rate
	2007	2007	2007	2007	2007
Trade creditors and accruals	-	-	748,391	748,391	N/A
	2006	2006	2006	2006	2006
Trade creditors and accruals	-	-	327,174	327,174	N/A

Parent Entity

(iii) Financial Assets

	Floating Interest Rate	Fixed Interest rate maturing in 1 year or less	Non Interest Bearing	Carrying Amount per Balance Sheet	Weighted average effective interest rate
	2007	2007	2007	2007	2007
Cash	217,947	3,627,393	356	3,845,696	5.5%
Receivables	-	-	1,080,854	1,080,854	N/A
	2006	2006	2006	2006	2006
Cash	2,513,685	53,631*	500	2,567,816	5.5%
Receivables	-	-	102,163	102,163	N/A

* secured against bank guarantees issued.

(iv) Financial Liabilities

	Floating Interest Rate	Fixed Interest rate maturing in 1 year or less	Non Interest Bearing	Carrying Amount per Balance Sheet	Weighted average effective interest rate
	2007	2007	2007	2007	2007
Trade creditors and accruals	-	-	460,373	460,373	N/A
	2006	2006	2006	2006	2006
Trade creditors and accruals	-	-	327,174	327,174	N/A

NOTES TO THE FINANCIAL STATEMENTS

NOTE 25 - FINANCIAL INSTRUMENTS (Continued)

(B) Net Fair Values

Financial Instruments

The carrying amounts of financial assets and financial liabilities are considered to approximate fair value.

The following methods and assumptions are used to determine the net fair values of financial assets and liabilities:

(a) Cash (refer Notes 2; and 21(A))

Cash includes cash on hand and in banks, and money market investments readily convertible to cash within 2 working days, net of outstanding bank overdrafts (if any).

(b) Receivables (refer Note 5)

The carrying amount approximates fair value.

(c) Trade creditors and accruals (refer Note 8)

Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the Company. All amounts are normally settled within 30 days, and discounts for early payment are normally taken where it is considered advantageous for the Company to do so.

(C) Credit Risk Exposures

The Company's maximum exposures to credit risk at balance date in relation to financial assets, is the carrying amount of those assets as recognised on the balance sheet. There are no derivative financial instruments currently being used by the Company.

(D) Currency Risk Exposures

The Company faces transactional exposure in respect of costs that are not denominated in Australian Dollars. The Company has not sought to hedge against transactional risks, as they are not currently evaluated as being significant.

DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of Auzex Resources Limited, I state that:

- 1) In the opinion of the Directors:
 - (a) the financial statements, notes and additional disclosures included in the directors' report designated as audited, of the Company and of the consolidated entity are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2007 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards and Corporations Regulations 2001; and
 - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- 2) This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001* for the financial period ending 30 June 2007.

On behalf of the Board.



J. Lawton
Chairman

Brisbane, 29 August 2007

Independent auditor's report to the members of Auzex Resources Limited

We have audited the accompanying financial report of Auzex resources Limited and the entities it controlled during the year, which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

The company has disclosed information as required by paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard 124 Related Party Disclosures ("remuneration disclosures"), under the heading "Remuneration Report" on pages 6 to 10 of the directors' report, as permitted by Corporations Regulation 2M.6.04.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2 (B), the directors also state that the financial report, comprising the financial statements and complies with International Financial Reporting Standards. The directors are also responsible for the remuneration disclosures contained in the directors' report.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement and that the remuneration disclosures comply with Accounting Standard AASB 124 Related Party Disclosures.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

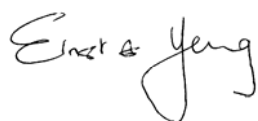
Independence

In conducting our audit we have met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

Auditor's Opinion

In our opinion:

1. the financial report of Auzex Resources Limited is in accordance with:
 - (a) the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position of Auzex Resources Limited and the consolidated entity at 30 June 2007 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations); and
 - (b) other mandatory financial reporting requirements in Australia.
2. the financial report also complies with International Financial Reporting Standards as disclosed in Note 2 (B)
3. the remuneration disclosures that are contained on pages 6 to 10 of the directors' report comply with Accounting Standard AASB 124 Related Party Disclosures.



Ernst & Young



Mike Meintjes
Partner
Brisbane
29 August 2007

