StoneBridge

Research Report

Thursday, 7th October 2010

GOLD

INITIATING COVERAGE

AUZEX RESOURCES LTD | AZX

BUY

A BOLT FROM THE BLUE PROVIDES A GOLDEN OPPORTUNITY

Analyst | Luke Smith
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ASX code | AZX

Last price | $0.41

Fully diluted shares | 91M

Market cap | A$34M

52 week hi/low | $0.50 / $0.09

12 month price target[1] | $0.86

Valuation | $0.86

Valuation methodology | DCF

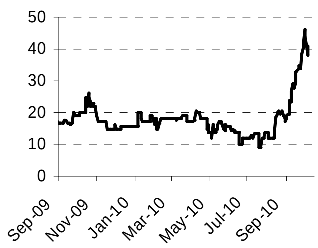
EV/Reserve | na

EV/Resource | $25/oz

Auzex Resources Limited (AZX) is an advanced gold explorer which owns 50% of the 2 million ounce Bullabulling Gold project in Western Australia. A follow up drill program is planned to commence in October, with the resource open at depth, laterally and along strike, indications are an upgrade to the resource is likely by Q1 2011. The drill program along with the commencement of a feasibility study will provide the key catalysts for the stock price over the next 6 months. We initiate coverage of AZX with a BUY Recommendation and price target of $0.86/share.

- **Large and growing resource:** AZX's flagship asset is the Bullabulling open pit gold project, a large, shallow and mostly contiguous 2 million ounce resource which we strongly believe will grow over the next six months.
- **Potential long life asset**: The size of the resource indicates that Bullabulling is potentially a long life (10+ year) asset, a key ingredient for robust project economics.
- **Good access to infrastructure:** Bullabulling is adjacent to the Great Eastern Highway which links Perth with Kalgoorlie. Additionally, both mains power and water dissect the project area, offering relative significant costs savings both in capital and operating costs.
- **Experienced management**: The management team led by John Lawton have successfully developed and operated several low grade gold projects in Australia, predominantly as Ross Mining NL during the 1990's.
- **Likely asset consolidation a positive:** AZX own 50% of Bullabulling with the remaining 50% held by London (AIM market) listed GGG Resources plc (GGG). GGG trades on a materially higher EV/resource ounce multiple of A$40/oz than AZX ($25/oz). If both companies publicly stated desire to amalgamate the project ownership becomes reality we envisage a positive revision of the EV/oz multiple ascribed by the market to AZX.
- **Unknown story:** AZX is still relatively unknown, with a market capitalisation of A$34 million and A$3.9 million in cash. We believe there is significant potential for the share price to re-rate on the current resource base alone.
- **We are initiating coverage of Auzex Resources Limited with a BUY Recommendation and price target of $0.86/share (fully diluted), based on a risk adjusted DCF valuation of A$74 million for 50% of the Bullabulling Project. The current enterprise value per resource ounce is A$25/oz, considerably lower than its ASX listed peers (average A$120/oz). We anticipate an appreciation of the share price (and EV/oz multiple) over the next six months as the story becomes more widely know and the resource is upgraded.**

Share price performance | AZX



Year end June	2009A	2010A	2011F	2012F
Revenue - A$M	0.0	1.5	0.1	1.0
EBITDA - A$M	(4.1)	0.7	(1.5)	(2.0)
NPAT - A$M	(4.2)	0.2	(1.1)	(1.5)
Free Cash Flow - A$M	1.4	(0.6)	(5.5)	(32.2)
EPS - cents	(10.6)	0.8	(1.2)	(1.0)
PER - x	na	na	(32.2)	(38.4)

Notes: 1. Price target is equivalent to DCF valuation.

Year end June	2009A	2010A	2011F	2012F
PROFIT & LOSS SUMMARY (A$M)				
Sales revenue	**0.0**	**1.5**	**0.0**	**0.0**
Other revenue	0.0	0.0	0.1	1.0
Operating Costs	0.0	0.0	0.0	0.0
Exploration Expense	(3.9)	(0.1)	(0.2)	(0.2)
Corporate & Admin	(0.2)	(0.7)	(1.4)	(2.9)
EBITDA	**(4.1)**	**0.7**	**(1.5)**	**(2.0)**
Depreciation	(0.1)	(0.0)	(0.1)	(0.1)
EBIT	**(4.2)**	**0.6**	**(1.6)**	**(2.2)**
Interest Expense	0.0	0.0	0.0	0.0
Pre-tax profit	**(4.2)**	**0.6**	**(1.6)**	**(2.2)**
Tax expense	0.0	(0.1)	0.5	0.6
Net income	**(4.2)**	**0.6**	**(1.1)**	**(1.5)**
Abnormals	0.0	(0.4)	0.0	0.0
NPAT	**(4.2)**	**0.2**	**(1.1)**	**(1.5)**
CASHFLOW SUMMARY (A$M)				
NPAT	(4.2)	0.2	(1.1)	(1.5)
Int, Tax, Expl Expensed	3.9	0.2	(0.3)	(0.4)
Int, Tax, Expl Incurred	(0.2)	(0.7)	(0.7)	(0.8)
Depreciation/Amortisation	0.1	0.0	0.1	0.1
Working Capital (Inc)/Dec	1.6	(0.1)	0.1	0.0
Other	0.2	0.0	0.0	0.0
Operating Cash Flow	**1.4**	**(0.4)**	**(1.9)**	**(2.7)**
Capex(net of asset sales)	0.0	(0.5)	(3.6)	(29.6)
Disposals/(Acquisitions)	0.0	0.5	0.0	0.0
Other investing cash flows	0.0	(0.7)	0.0	0.0
Free Cash Flow	**1.4**	**(1.0)**	**(5.5)**	**(32.2)**
Dividends	0.0	0.0	0.0	0.0
New Equity	0.0	2.2	9.8	41.6
Debt Drawdown/(Repay)	0.0	0.0	0.0	0.0
Net Cash Inc/(Dec)	**1.4**	**1.2**	**4.4**	**9.3**
FX impact on cash	0.0	0.0	0.0	0.0
Cash at End Period	0.7	0.8	5.2	14.5
Net Cash/(Debt)	**0.0**	**0.8**	**5.2**	**14.5**
BALANCE SHEET (A$M)				
Cash	0.7	0.9	5.2	14.5
Receivables	0.0	1.0	1.0	1.0
Inventories	0.0	0.0	0.0	0.1
Other current assets	0.0	0.0	0.0	0.0
Total current assets	**0.8**	**1.9**	**6.1**	**15.5**
Property, Plant & Equip.	0.1	0.5	4.0	33.4
Expl, eval & development	9.6	10.3	10.8	11.4
Other non-current assets	0.0	1.0	1.0	1.0
Total non-current assets	**9.7**	**11.8**	**15.8**	**45.8**
Total assets	**10.4**	**13.7**	**21.9**	**61.3**
Payables	0.1	0.3	0.0	0.1
Short-term debt	0.0	0.0	0.0	0.0
Other current liabilities	0.0	0.0	0.0	0.0
Total current liabilities	**0.1**	**0.4**	**0.0**	**0.1**
Long-term debt	0.0	0.0	0.0	0.0
Other non-current liabilities	0.1	0.3	0.2	0.2
Non-current liabilities	**0.1**	**0.3**	**0.2**	**0.2**
Total liabilities	**0.2**	**0.7**	**0.2**	**0.3**
NET ASSETS	**10.2**	**13.0**	**21.7**	**61.0**
Contributed equity	17.9	20.1	29.9	71.5
Retained profits	(8.4)	(8.2)	(9.3)	(11.3)
Reserves	0.7	1.1	1.1	0.8
EQUITY	**10.2**	**13.0**	**21.7**	**61.0**

Year end June	2009A	2010A	2011F	2012F
RATIOS AND MULTIPLES				
Income				
Revenue growth | %	na	na	na	na
EBITDA growth | %	na	na	na	na
EBITDA margin | %	na	na	na	na
EBIT margin | %	na	na	na	na
Effective Tax rate | %	na	na	na	na
Net interest cover | x	na	na	na	na
Balance Sheet				
ROA | %	na	na	na	na
ROE | %	na	na	na	na
Net debt/equity | %	na	na	na	na
Net debt/(debt+equity) | %	na	na	na	na
Shares Outstanding				
Basic | M	39.4	51.0	97.5	185.3
Other | M	0.0	8.3	7.8	0.0
Fully diluted | M	39.4	59.3	105.3	185.3
Valuation metrics				
Market cap | M	15.2	19.6	37.5	71.3
Net debt (cash) | $M	0.0	(0.8)	(5.2)	(14.5)
Options | $M	0.0	3.2	3.0	0.0
Enterprise value | $M	15.2	22.0	35.4	56.8
EV/EBITDA | x	**na**	**na**	**(23.5)**	**(27.8)**
EPS | c	(10.6)	0.8	(1.2)	(1.0)
P/E | x	na	na	(32.2)	(38.4)
FCF / Share | c	3.6	(1.2)	(5.6)	(17.4)
Price / FCF | x	**na**	**na**	**(6.9)**	**(2.2)**
Dividend Yield | %	0.0	0.0	0.0	0.0
Franking | %	0.0	0.0	0.0	0.0

VALUATION

NPV by project	**(A$M)**	**A$/share**
Bullabulling Gold Project	73.7	0.82
Khartoum Tin Project	2.0	0.02
Kingsgate Moly Project	2.0	0.02
Corporate	(5.3)	(0.06)
Options	1.7	0.02
Cash	3.9	0.04
Debt		
NPV @ 8%	**78.0**	**0.86**

NPV % BY PROJECT

Bullabulling Gold Project	74	95%
Khartoum Tin Project	2	3%
Kingsgate Moly Project	2	3%

Year end June	2009A	2010A	2011F	2012F
PRODUCTION SUMMARY				
Production (koz)				
Bullabulling Gold Project	na	na	na	na
Total Production (koz)				
CASH COSTS (A$/oz)				
Bullabulling Gold Project	na	na	na	na
Average Cash Costs (A$/oz)				

COMMODITY PRICE ASSUMPTIONS

Year end June	2009A	2010F	2011F	2012F	Long-term
Gold (US$/oz)	916	1,200	1,257	1,293	1,250
Exchange Rate (US$/A$)	0.71	0.90	0.92	0.92	0.92

BOARD OF DIRECTORS

Chris Baker	Non-Executive Chairman
John Lawton	Managing Director
Greg Partington	Executive Director
Eugene Iliescu	Non-Executive Director
Paul Frederiks	Non-Executive Director

SUBSTANTIAL SHAREHOLDERS

Shareholder	Shares (M)	(%)
Baker Steel	8.3	10.2%
GGG Resources	8.0	9.8%
John Lawton (MD)	7.5	9.2%

RESERVES AND RESOURCES

JORC Inferred Resource:

Project	Tonnes	Grade (g/t Au)	Oz
Bullabulling Gold	41.5	1.5	1,982,000
Total (attributable)			**991,000**

1.98Mo

JORC Reserves:

No Reserves

Total (attributable)

1 Investment case and valuation

INVESTMENT CASE

AZX is rapidly gaining attention as an up and coming gold story in a diminishing Australian gold sector. In August 2010 AZX moved from the ranks of a junior explorer like a bolt out of the blue to a fully fledged advanced gold explorer and potential developer of a large gold mine with the announcement of a 2 million ounce resource at Bullabulling in Western Australia. AZX provides a strong investment case based upon:

- The Bullabulling Gold Project has a large, shallow and largely contiguous 2 million ounce resource base which we strongly believe will grow,
- The size of the resource lends itself to the potential of a long life (10+ year) asset, a key ingredient for robust project economics,
- The management team lead by John Lawton have successfully developed and operated low grade gold projects in Australia before,
- Although it is too early to be definitive the project has potential to be relatively low cost due to the availability of power, water and local workforce, and
- The AZX story is still relatively unknown, with a market capitalisation of circa A$34 million and A$3.9 million in cash there remains significant potential for the share price to re-rate as the story develops and the company becomes more widely known.

VALUATION

Initiating coverage with a BUY Recommendation and a $0.86/share price target

We value AZX using a risk adjusted discounted cash flow method. Our $0.86/share price target includes a DCF valuation for the Bullabulling Gold Project and corporate overheads in combination with a sum of the remaining parts being cash, options and other projects on a fully diluted basis.

Our DCF valuation of Bullabulling has been risk adjusted in two stages:

- Inferred Resource: 30% risk adjustment, plus
- Ownership 50%: 20% risk adjustment

Due to the current resource being at an Inferred level and therefore requiring upgrading before a feasibility study can be completed we have discounted the project valuation by 30%. Upon an upgrade of the resource to a material Measured and Indicated Resource (>1 million ounces) we would reduce the discount.

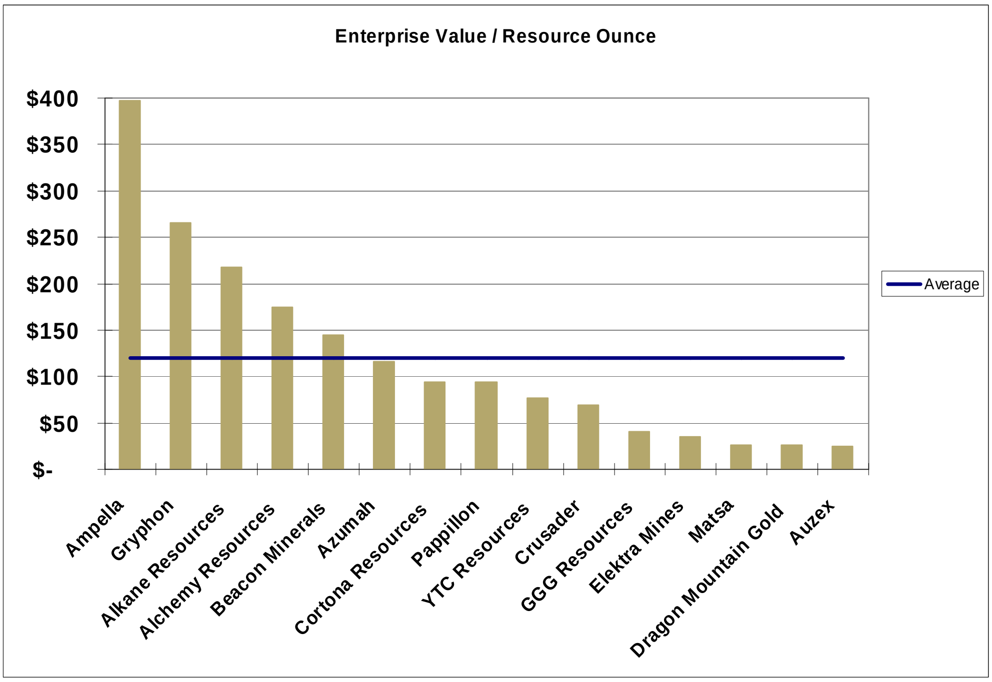
We have discounted the Bullabulling valuation a further 20% due to AZX not having a controlling interest in the project. The market will generally discount a company for not having a majority/controlling stake in its key project and we have done so accordingly. We believe that should AZX move to a majority share of Bullabulling or AZX and GGG merge to result in one entity owning 100% than this would be value accretive for AZX.

Our headline DCF valuation for 100% of Bullabulling at an 8% discount rate is A$263 million based on a nominal US$1250/oz gold price and USD exchange rate $0.92. Our risk weighted attributable valuation for Bullabulling is A$74 million or $0.82 per share fully diluted.

Using a combination of market value, exploration spend to date and exploration potential, we attribute a nominal value of A$2 million each to the other two significant projects in the portfolio being the Khartoum Tin Project and Kingsgate Molybdenum Project. The average market value assigned to AZX during 2009 prior to it acquiring the Bullabulling Project in January 2010 was A$6 million. The two projects have had A$1.5m and A$5.8m spent on them respectively over the past five years.

PEER COMPARISON

AZX as an advanced explorer on the ASX is amongst a large peer group with resources in excess of 0.5 million ounces. The variation in enterprise value per resource ounce is enormous, ranging from A$20/oz to in excess of A$400/oz. A group of 15 peers represented in the chart below give an average EV/oz multiple of A$120/oz with a median of A$90/oz. Currently AZX is trading at a multiple of A$25/oz leaving it well below its peers.



Source: StoneBridge Research, Iress, Company presentations

All company's resources and projects have unique attributes which always makes it difficult to compare like with like, ie JORC category, geographic location, depth, grade etc. Using a large peer group assists in averaging out these qualitative differences between projects and companies. We believe that AZX's Ev/oz multiple will increase as the story becomes more widely recognized and as the resource is upgraded to and Indicated and Measured level. The Bullabulling Project's, location in Western Australia is within close proximity of power, water and established mining towns gives it's an enviable logistical and economic advantage.

2 Company overview

BACKGROUND

Auzex Resources Limited (AZX) was founded by Managing Director John Lawton and Executive Director Greg Partington in 2003 and listed on the ASX in October 2005. AZX's head office is in Brisbane, with a regional office in Perth.

AZX raised A$5 million upon listing at 50 cents with the company's focus being early stage exploration utilizing in house technical expertise. The majority of funds were expended on a portfolio of molybdenum, bismuth, tin and gold projects in NSW and Queensland as well as the west coast of New Zealand.

AZX subsequently raised A$3 million at $1.05 per share via a Share Purchase Plan (SPP) in 2006 and raised a further A$4.3 million and A$2.7 million at $1.60 & $0.90 per share respectively during 2007. The onset of the GFC saw investors exit en mass from exploration companies with AZX's share price collapsing to as low as $0.11 in 2009.

Between 2005 and 2009 the majority of funds were spent on exploration at the Kingsgate Molybdenum Project and the Khartoum Tin Project.

Acquired the Bullabulling Gold Project for A$2 million.

In January 2010 AZX acquired an option over 100% of the Bullabulling Gold Project in Western Australia which it subsequently exercised for a consideration of A$2 million (including $1.25 million in security bonds over the mining tenements). In February 2010 AZX signed a Heads of Agreement with GGG Resources plc (GGG) whereby GGG for a total consideration of A$2.5 million would acquire a 50% JV interest in the Bullabulling Gold Project.

AZX commenced drilling at Bullabulling in June 2010 and raised A$3.7 million via a placement and rights issue in July 2010 at $0.12 per share. In August 2010 AZX announced an increased resource of 1.98 million ounces at an average grade of 1.5g/t gold.

AZX primary focus is the 50% owned Bullabulling Gold Project

Accordingly AZX's primary focus is the 50% owned Bullabulling Gold Project where it expects to complete a Bankable Feasibility Study prior to the end of 2011.

SUMMARY OF PROJECTS

Project	Ownership	Location	Highlight
Bullabulling Gold	50%	Western Australia	1.98Moz Inferred Resource and growing.
Khartoum Tin	100%	Queensland	Low grade (0.2-0.3%) tin exposed at surface over a large area.
Kingsgate Molybdenum	100%	NSW	Feasibility Study completed on a low tonnage high grade project.

CAPITAL AND SHAREHOLDER STRUCTURE

Simple capital structure

Ordinary Shares on Issue	82.0 million
Options on Issue (ex prices 20-25 cents)	8.3 million
Fully Diluted	90.3 million

BOARD AND MANAGEMENT

Mr Chris Baker, Non-Executive Chairman

Majority of the Board have previously worked together in Ross Mining during the 1990's.

- Mr Baker has more than 30 years experience in the resources and science fields including a BSc in Mineral Technology and a MBA from the University of Otago, NZ.
- He is heavily involved in the New Zealand resources industry, currently as Chairman of the Coal Association of New Zealand and a Managing Partner of Saunders Unsworth Ltd, a NZ based Public Policy Consultancy for the Energy, Mining and Climate Change industries. He is also CEO of Straterra Inc., representing the NZ

resources sector.

- He holds an equity interest in AZX of 388,000 shares and 77,000 options.

Mr John Lawton, Managing Director

- Mr Lawton, a geologist with almost 40 years of experience in the mining industry of which the majority has been in Australia. He co-founded AZX in 2003.
- Mr Lawton was a co-founder and executive director of Ross Mining NL from 1986 to its merger with Delta Gold in 2000. Ross Mining built and operated seven mines including in NSW and Queensland and paid dividends for six consecutive years during the 1990's.
- He holds an equity interest in AZX of 7.5 million shares and 55,600 options.

Dr Greg Partington, Executive Director

- Dr Partington is a founding Director of AZX with extensive experience in exploration and a PhD in Geology from the University of Western Australia.
- He has almost 30 years experience throughout Australia and the South Pacific including as Exploration Manager for Northern Gold and General Manager Exploration for Ross Mining.
- Dr Partington is also a director of his own company Kenex Knowledge Systems Ltd, based in NZ and Western Australia. Kenex is focused on geology and related business opportunities.
- He holds an equity interest in AZX of 1.8 million shares and 197,000 options.

Mr Eugene Iliescu, Non Executive Director

- Mr Iliescu has 30+ years experience in operations management and project development including with Ross Mining at the Gold Ridge Gold Mine in the Solomon Islands as well as Duke Energy in the development of the Bass Strait Tasmanian Natural gas Pipeline. He was also involved with the Geodynamics geothermal project in South Australia.
- Mr Iliescu was previously the Managing Director of Ronphos's phosphate operation in Nauru. He is currently Managing director of Gentor Resources LLC and a Non Executive Director of Kenex Pty Ltd.
- He holds an equity interest in AZX of 1.8 million shares and 654,000 options.

Mr Paul Frederiks, Non Executive Director & Company Secretary

- Mr Frederiks has almost 30 years experience in the Australian resources sector in financial and secretarial management including 8 years with Ross Mining as CFO until 2000.
- In 2000 he founded Frederiks Investments Qld Pty Ltd, a company specialising in financial and secretarial services to both listed and unlisted companies. He was company secretary for Billabong International Limited from 2000 to 2004 where he was involved in the successful float on the ASX.
- Mr Frederiks is currently Company Secretary of Geodynamics (ASX:GDY) and a Non-Executive Director of China Steel Australia Limited (ASX:CNH).
- He holds an equity interest in AZX of 1.0 million shares and 220,000 options.

3 Bullabulling Gold Project (50%)

BACKGROUND

The Bullabulling Gold Project (Bullabulling) was previously mined in the 1990's by Resolute Mining Ltd (Resolute). Resolute mined approximately 8 million tonnes at a reported grade of 1.45g/t Au, producing 371,474ozs from nine separate pits along a 12km section of the Bullabulling Shear Zone. Resolute used a carbon in pulp (CIP) milling and processing operation with the mill having subsequently been decommissioned and removed from the site.

In 2002 Jervois Mining Limited (Jervois) acquired the project from Resolute with a then resource of 9.3Mt @ 1.44g/t for 431,600 ounces of gold. Between 2002 and 2010 Jervois operated a small dump leach mine producing approximately 14,000ozs, mostly from shallow laterite mineralisation.

AZX acquired the project and 431,000oz resource in early 2010 from Jervois for A$2 million (including $1.25m of environmental bonds over the mining leases). AZX subsequently vended 50% of the project to GGG Resources plc (GGG) for A$2.5 million through an unincorporated joint venture. All drilling, feasibility and development costs are jointly funded by AZX and GGG with operational management of the project overseen by a JV management committee consisting of two representatives from each company.

Figure 1: Floor of the Bacchus Pit looking south

Source: Stonebridge Research, site visit August 2010.

JV PARTNER

GGG Resources plc (GGG): GGG is a London (AIM market) listed exploration company with is sole significant exploration asset being its 50% ownership of Bullabulling Gold project. GGG's market capitalisation is A$47 million (£27m) with approximately A$4.5m (£2.7m) in cash and 8 million AZX shares (value: A$3m) giving it an enterprise value of A$40m or A$40/oz of resource.

GGG's chairman is Dr Peter Ruxton and its Managing Director is Dr Jeffrey Malaihollo both of whom are well known in the London resources sector. Importantly Dr Peter Ruxton was Exploration Manager at Ross Mining from 1994 to 1997. Subsequently he was an investment manager at CDC plc and then Actis until 2008 where he was responsible for initiating, managing and exiting in excess of US$180 million worth of mining investments on behalf of CDC/Actis.

GGG's significant shareholders include Baker Steel, Genesis Investment fund, CQS Fund Management and AZX (6.2%).

PROJECT OVERVIEW

Bullabulling is approximately 60km south west of Kalgoorlie and 30km west of Coolgardie in the Eastern Goldfields of Western Australia, providing an enviable location for a gold project. The project area is dissected by the Great Eastern Highway, water pipeline and power line that join Perth with Kalgoorlie and therefore provide significant infrastructure savings for any potential development.

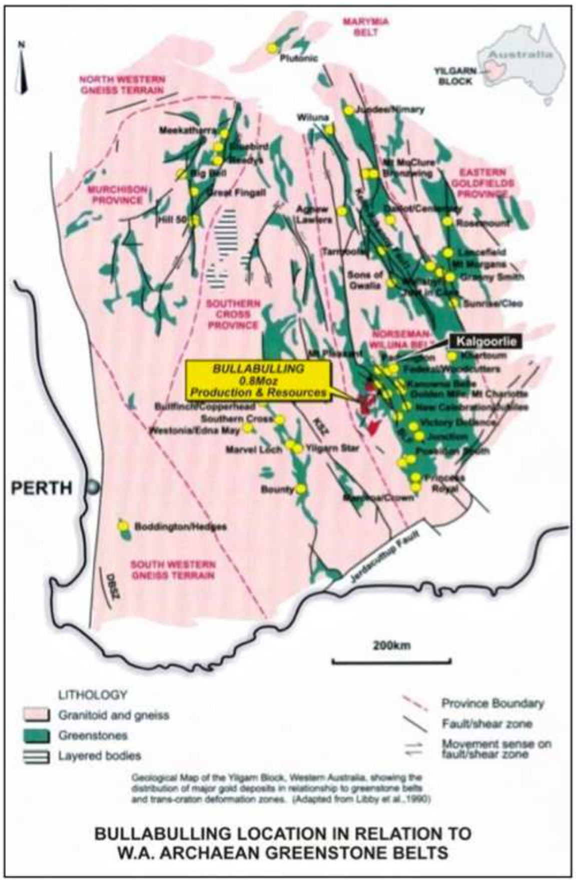


Figure 2: Bullabulling location, Western Australia

Source: AZX

The project area of $60km^2$ is held through a series of mining leases, the majority of which overlay the Bullabulling Shear Zone as illustrated in Figure 3. The shear zone is shown in white with the purple outline of the previously mined areas.

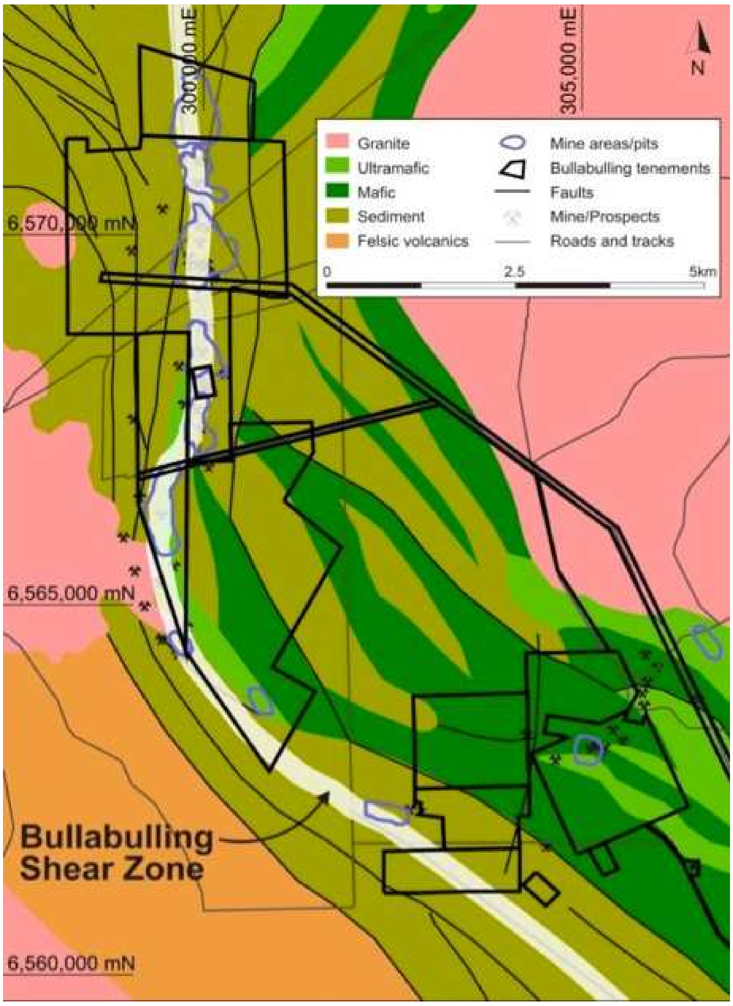


Figure 3: Bullabulling Shear Zone

Source: AZX

RESERVES AND RESOURCES

AZX announced its maiden JORC resource for Bullabulling in August 2010 of 2 million ounces. The JORC Inferred Resource is based on a cut off grade of 0.7g/t and to a maximum depth of 120 metres or the 315 RL. The resource is open in all directions with the mineralisation expected to continue at below 120m with indications of increasing grades at depth. The resource estimation was completed by CSA Global, an independent Perth based consultant.

Mineral Resource estimate	Cut Off (g/t Au)	Class	Tonnes	Gold grade g/t	Contained Ounces
August 2010	0.7	Inferred	41,517,000	1.5	1,982,000

Source: AZX

The previous resource at Bullabulling was a Measured and Indicated Resource of 431koz and based upon some 10,522 drill holes (403km of drilling) although about 50% of holes were RAB holes. Due to the high density of historic drilling a small amount of QA/QC drilling will be required to upgrade some areas of the current resource to Measured and Indicated.

A 5,000 metre QAQC drilling program is commencing in October with the target of rapidly upgrading the resource to a Measured and Indicated level. This resource upgrade is due prior to Q1 2011.

In addition a 12,000 metre infill and exploration drilling program will be undertaken to expand the current resource. A 1,200 metre diamond drill program primarily for metallurgical testwork is also planned. This drilling campaign is effectively the start of the feasibility study for the project with an estimated cost of A$2 million of which AZX will contribute 50%.

The current grade tonnage curve albeit at an Inferred level gives an early indication to the possible scope of increasing overall ounces should the economics prove a lower cut off optimal.

Bullabulling Grade Tonnage Curve, Surface (200 RL) to 120m depth (315 RL)			
Gold cut-off g/t Au	Tonnes	Average Grade Au g/t	Contained Ounces
1	22,202,000	2.06	1,468,400
0.9	26,739,000	1.87	1,606,500
0.7	41,517,000	1.48	1,981,600
0.6	54,231,000	1.29	2,245,900
0.5	75,013,000	1.08	2,611,800
0.4	107,094,000	0.89	3,071,800
0.3	162,171,000	0.71	3,683,200

Source: AZX

EXPLORATION UPSIDE

The current 2 million ounce resource is predominantly from a 2.2km long corridor of the 20km Bullabulling shear zone between and including the Bacchus and Phoenix pits. Gold mineralisation is known to exist along at least 12km of the shear zone leaving a significant amount of exploration upside for the Bullabulling project. There are numerous targets with anomalous gold in soil and shallow drilling with gold hits that warrant follow up with further deeper drilling. The average depth of drilling to date at Bullabulling is 34 metres with very limited drilling beyond 60 metres depth.

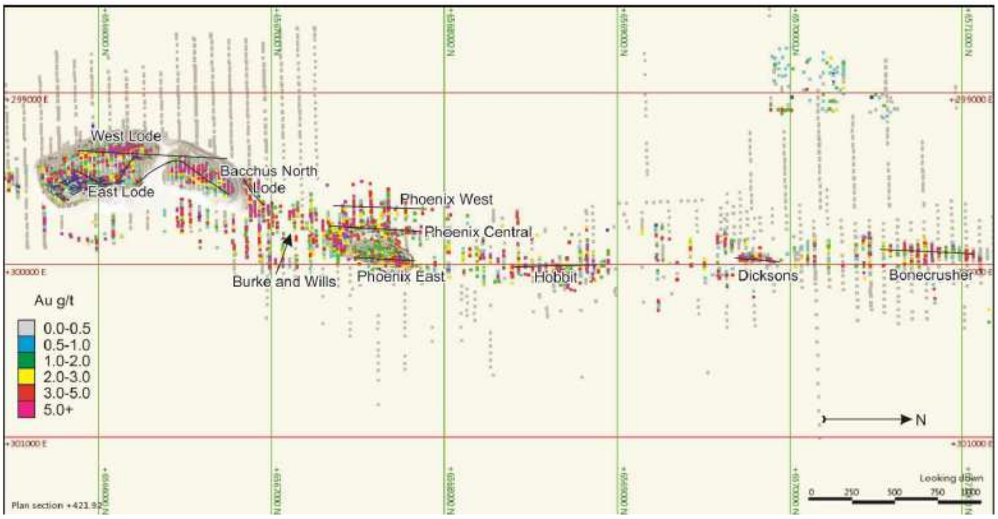


Figure 4: Plan view of drilling along the Bullabulling Shear zone

Source: AZX

The limited drilling immediately to the east of the Bacchus pits is showing potential for another stacked lense of mineralisation. Should this be confirmed then it is highly likely the width of the possible open pits could be up to 600 metres and this would also have the potential to lower the strip ratio.

The updated resource is likely to be extended to a depth of 150 metres and possibly include lateral extensions to the east of the Bacchus pit. Previous drilling below the Bacchus North Pit indicates good potential for an increase at depth. Drilling conducted by Resolute included the following intersections.

Hole No.	Northing	Easting	Dip	From (m)	To (m)	Intersection
BDC008	11636	8659	-60E	151	158	7m @77.0g/t Au
BDD001	11632	8653	-50E	148	153	5m @14.0g/t Au
BSC272	11630	8710	-60E	149	153	4m @ 5.1g/t Au
BULRC03	11615	8664	-55E	148	151	3m @ 4.4g/t Au
BULRC04	11615	8660	-70E	155	158	3m @9.2 g/t Au
BKC0003	12075	8817	-60E	148	156	8m @ 23.2g/t Au
BKC0003	12075	8817	-60E	162	166	4m @ 6.0 g/t Au

If continuity of these high grade intercepts is confirmed from infill drilling than the current resource will be increased.

We believe that the planned infill, extensional and deeper drilling is likely to add significantly to the current resource. We estimate between 400,000 and 800,000 ounces at a 0.7g/t cut off grade will be added.

DEVELOPMENT

With a JORC Inferred Resource of 2 million ounces (at a cut off of 0.7g/t Au) the Bullabulling project has significant potential, especially with the A$ gold price above A$1300 per ounce. Yet an Inferred Resource cannot be converted into a Reserve through a feasibility study. The Resource needs to be upgraded through additional infill drilling which will give the consultants and the company the confidence to upgrade the resource. A large portion of the current resource will be upgrade through a small amount of drilling but until then any modeling needs to be significant risk weighted.

We have conceptually modeled a development scenario based on the following:

- An additional 10Mt @ 1.5g/t for 500,000oz added to the resource (<150m depth),
- A 75% conversion to mining pit inventory with dilution and mining loss combined of 10% due to the large bulk tonnage nature of the project resulting in a grade of 1.3g/t,
- Construction through 2012 with first production in Q1 2013,
- A strip ratio of 4:1 and a mill throughput of 4mtpa with recovery of 90%, and
- Cash costs of A$700 – A$750 per ounce.

Due accessibility of key infrastructure including power and water as well as not having to operate a fly in fly out roster and the size of mill the cost structure will be relatively competitive to most gold mines in the Eastern Goldfields.

An additional royalty payment to Jervois of A$30 per ounce for the first 400,000 oz. of gold produced, reducing to A$20 per ounce thereafter is applicable to the project. This is in addition to a 1% Newmont royalty and the standard Western Australian State Government gold royalty.

Capital requirements will be dependent on various factors including the size of mill, processing route chosen, placement of tailings dams etc. Based on capital costs of recent project start ups in the Eastern Goldfields and general industry figures we have used a nominal A$150 million capital cost plus A$10 million for the Bankable Feasibility study and associated drilling. These capital costs have a practical accuracy of +/- 30%.

4 Other Projects

KHARTOUM TIN PROJECT (100%)

Located approximately 100km south west of Cairns in North Queensland, Khartoum is at a relatively early stage of exploration with an initial drill program completed in 2007.

- The prospectivity of the project is highly encouraging due to extensive outcropping mineralised formations across 50 km^2.
- A successful six drillhole "scout" program completed in December 2007 intersected mineralisation in every hole. The program was conducted over a 2.5km strike extent with wide intervals intersected from surface to a depth of 132m.
- The majority of mineralized intersections varied between 0.13% and 0.26% tin. The best result included 104m at 0.21% tin from 12m and 34m at 0.26% tin from 99m.
- Subsequent preliminary metallurgical testwork returned encouraging results with an indicated combined tin recovery from gravity and flotation of 71%.

AZX has spent approximately A$1.5 million on surface exploration and drilling at Khartoum and believes the project has conceptual potential as a large tonnage, low grade deposit of 80 – 100 million tonnes at 0.2%-0.3%Sn. We emphasis this project is at an early stage yet warrants further exploration. We have a nominal valuation of A$2 million for the project based on the exploration spend to date, exploration potential and the underlying AZX market assigned value pre Bullabulling. (AZX's average market capitalisation during 2009 was A$6 million when its principal projects were Khartoum and Kingsgate.)

KINGSGATE MOLYBDENUM PROJECT (100%)

The Kingsgate Molybdenum Project is located 20km east of Glen Innes in northern NSW and is close to road, power and water. Historically (1880's to 1920's) the old Kingsgate Mine was the second largest producer of Molybdenum in Australia. No modern exploration had been carried out on Kingsgate since mining ceased in the early 1900's to when AZX commenced exploration in late 2004.

- Historically ore was mined from high grade quartz pipes.
- Trial Mining was successfully completed in December 2006 from which a scoping study was completed in 2007.
- Drilling results from intersections within the quartz pipe returned average grades of 0.34% Mo and 0.64% Bismuth. Best results from the resource drilling program include 5m at 1.35% Mo and 0.69% Bi from 42m and 7m at 0.70% Mo and 0.52% Bi from 43m. These are high grade molybdenum intersections and highly encouraging.
- The project is free of native title issues.

AZX has spent approximately $5.8 million to date on Kingsgate and the project was the key focus of the company between 2005 and 2008. We have attributed a nominal value to the project of A$2 million based on the exploration spend to date, exploration potential and the underlying AZX market assigned value pre Bullabulling.

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Analyst Certification

At the time of writing this report, the author held shares/options in Auzex Resources Limited (AZX).

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