

INCOME STATEMENT

For the financial year ended 30 June 2007

	Note	Consolidated		Company	
		2007 \$	2006 \$	2007 \$	2006 \$
Revenue from continuing operations	5	1,284,064	376,572	1,284,064	376,572
Total revenue		1,284,064	376,572	1,284,064	376,572
Employee expenses		(2,591,673)	(1,222,977)	(2,591,673)	(1,222,977)
Employee expenses recharged to exploration		2,191,071	923,608	2,191,071	923,608
Equity based remuneration expense	22	(2,045,969)	(254,524)	(2,045,969)	(254,524)
Interest Expenses		(551,863)	-	(551,863)	-
Share based finance payments		(154,000)	-	(154,000)	-
Non-Executive Directors' Fees		(172,283)	(139,894)	(172,283)	(139,894)
Insurance expenses		(100,926)	(52,358)	(100,926)	(52,358)
Corporate advisory expenses		(363,182)	(65,175)	(363,182)	(65,175)
Conference and public relations		(75,381)	(68,282)	(75,381)	(68,282)
Operating lease expenses		(244,744)	(117,481)	(244,744)	(117,481)
Depreciation expense		(351,664)	(43,925)	(351,664)	(43,925)
Corporate expenses		(258,970)	(221,020)	(258,970)	(221,020)
Other expenses from ordinary activities		(436,137)	(242,510)	(436,137)	(242,510)
Exploration costs written off	13	(861,042)	(903,695)	(861,042)	(903,695)
Loss before income tax	6	(4,732,699)	(2,031,661)	(4,732,699)	(2,031,661)
Income tax benefit/(expense)	7(a)	281,720	435,162	281,720	1,014,802
Loss attributable to members for the year	22	(4,450,979)	(1,596,499)	(4,450,979)	(1,016,859)
Loss per share attributable to the ordinary equity holders of the Company.		Cents	Cents		
Basic earnings/(loss) per share	34	(2.7)	(1.2)		
Diluted earnings/(loss) per share	34	(2.7)	(1.2)		

The above income statement should be read in conjunction with the accompanying notes

BALANCE SHEET

As at 30 June 2007

	Note	Consolidated		Company	
		2007 \$	2006 \$	2007 \$	2006 \$
Current assets					
Cash and cash equivalents	8	109,347,608	7,496,481	109,347,608	7,496,471
Trade and other receivables	9(a)	978,831	106,875	978,831	106,875
Other financial assets	9(b)	20,000	-	20,000	-
Total current assets		110,346,439	7,603,356	110,346,439	7,603,346
Non-current assets					
Receivables	10	151,500	-	35,204,900	13,371,056
Investment in controlled entity at cost	11	-	-	10	10
Property, plant and equipment	12	2,376,991	602,638	924,268	602,638
Capitalised mineral exploration and evaluation expenditure	13	17,353,224	16,820,619	4,201,109	3,449,563
Mining properties under development	14	30,244,465	-	-	-
Deferred tax assets	15	687,297	691,615	2,214,909	2,219,227
Total non-current assets		50,813,477	18,114,872	42,545,196	19,642,494
Total assets		161,159,916	25,718,228	152,891,635	27,245,840
Current liabilities					
Trade and other payables	16	10,840,162	1,731,753	1,296,076	1,731,753
Provisions	18	134,581	74,956	134,581	74,956
Borrowings	17	13,000,000	-	13,000,000	-
Total current liabilities		23,974,743	1,806,709	14,430,657	1,806,709
Non-current liabilities					
Provisions	18	251,807	-	-	-
Convertible bonds	19	34,868,863	-	34,868,863	-
Total non-current liabilities		35,120,670	-	34,868,863	-
Total liabilities		59,095,413	1,806,709	49,299,520	1,806,709
Net assets		102,064,503	23,911,519	103,592,115	25,439,131
Equity					
Contributed equity	20	106,521,638	29,385,146	106,521,638	29,385,146
Accumulated losses	22	(10,287,102)	(5,836,123)	(8,759,490)	(4,308,511)
Equity compensation reserve	22	2,352,625	362,496	2,352,625	362,496
Other reserves	22	3,477,342	-	3,477,342	-
Total equity		102,064,503	23,911,519	103,592,115	25,439,131

The above balance sheet should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY

For the financial year ended 30 June 2007

	Note	Consolidated		Company	
		2007 \$	2006 \$	2007 \$	2006 \$
Total equity at the beginning of the financial year		23,911,519	14,000,294	25,439,131	14,948,266
Loss for the year	22	(4,450,979)	(1,596,499)	(4,450,979)	(1,016,859)
Movement in equity compensation reserve	22	1,990,129	247,544	1,990,129	247,544
Transfer from equity compensation reserve to contributed capital in respect of options exercised	22	55,840	6,980	55,840	6,980
Equity recognised on convertible bond	24	4,747,631	-	4,747,631	-
Deferred tax liability arising on the recognition of the convertible bond equity	24	(1,424,289)	-	(1,424,289)	-
Issue of options	24	154,000	-	154,000	-
Transactions with equity holders in their capacity as equity holders:					
Contributions of equity	20(b)	78,903,825	11,625,000	78,903,825	11,625,000
Transaction costs of equity issued	20(b)	(2,961,424)	(415,000)	(2,961,424)	(415,000)
Deferred tax asset arising on issue costs	20(b)	1,138,251	43,200	1,138,251	43,200
Total equity at the end of the financial year		102,064,503	23,911,519	103,592,115	25,439,131

The above statement of changes in equity should be read in conjunction with the accompanying notes.

CASH FLOW STATEMENT

For the financial year ended 30 June 2007

	Note	Consolidated		Company	
		2007 \$	2006 \$	2007 \$	2006 \$
Cash flows from operating activities					
Interest received		867,866	344,244	867,866	344,244
Interest paid		(513,144)	-	(513,144)	-
Payments to suppliers and employees		(1,838,035)	(1,059,921)	(1,838,035)	(1,059,921)
Net cash used in operating activities	33	(1,483,313)	(715,677)	(1,483,313)	(715,677)
Cash flows from investing activities					
Payments for exploration and evaluation		(8,008,288)	(5,253,841)	(2,337,340)	(133,733)
Payments for mine development		(13,023,769)	-	(25,000)	-
Payments for plant and equipment		(2,209,161)	(285,257)	(946,524)	(285,257)
Higginsville Gold Project acquisition		(1,750,000)	-	-	-
Payments for purchase of tenements		(60,000)	-	(60,000)	-
Security bonds		(145,000)	-	(145,000)	-
Proceeds on disposal of plant and equipment		-	3,000	-	3,000
Net cash used in investing activities		(25,196,218)	(5,536,098)	(3,513,864)	(415,990)
Cash flows from financing activities					
Proceeds from the issue of shares		78,813,501	11,625,000	78,813,501	11,625,000
Payments for transaction costs relating to share issues		(2,790,581)	(415,000)	(2,790,581)	(415,000)
Proceeds from borrowings		13,000,000	-	13,000,000	-
Proceeds from issue of convertible bonds		39,507,738	-	39,507,738	-
Loans advanced to controlled entity		-	-	(21,682,344)	(5,120,108)
Net cash provided by financing activities		128,530,658	11,210,000	106,848,314	6,089,892
Net increase in cash and cash equivalents held		101,851,127	4,958,225	101,851,137	4,958,225
Cash and cash equivalents at the beginning of the financial year		7,496,481	2,538,256	7,496,471	2,538,246
Cash and cash equivalents at the end of the financial year	8(a)	109,347,608	7,496,481	109,347,608	7,496,471

The above cash flow statement should be read in conjunction with the accompanying notes

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2007

Note 1 Summary of Significant Accounting Policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes separate financial statements for Avoca Resources Limited as an individual entity and the Consolidated Entity consisting of Avoca Resources Limited and its subsidiary ("Group").

(a) Corporate Information

The financial report of the Company for the year ended 30 June 2007 was authorised for issue in accordance with a resolution of the directors.

The Company is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange.

The nature of operations and principal activities of the Consolidated Entity are the mining of gold deposits at Higginsville and exploration and development of gold deposits in Western Australia.

The address of the registered office is Level 1, 31 Ventnor Ave, West Perth, WA, 6005.

(b) Basis of Preparation

This general purpose financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act 2001.

Compliance with IFRS

Australian Accounting Standards include AIFRS. Compliance with AIFRS ensures that the consolidated financial statements and notes of Avoca Resources Limited comply with the International Financial Reporting Standards (IFRS). The parent entity financial statements and notes also comply with IFRS.

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit and loss, certain classes of property, plant and equipment and investment property.

Critical accounting estimates

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

(c) Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Company and its controlled entity.

The financial statements for the controlled entity are prepared for the same reporting period as the Company, using consistent accounting policies.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Controlled entities are consolidated from the date on which control is transferred to the Consolidated Entity and cease to be consolidated from the date on which control is transferred out of the Consolidated Entity.

Where there is loss of control of a controlled entity, the consolidated financial statements include the results for the part of the reporting period during which the Company has control.

Investments in controlled entities are carried in the balance sheet of the company at cost less impairment losses, if any.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2007

(d) Statement of Compliance

Except for the amendments to AASB 101 Presentation of Financial Statements, which the Consolidated Entity has early adopted, Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Consolidated Entity for the annual reporting period ending 30 June 2007. These are outlined in the table below.

Reference	Title	Impact on Consolidated Entity financial report	Application Date of Standard	Application Date for Consolidated Entity
AASB 2005-10	Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 & AASB 1038]	No change to accounting policy required. Therefore no impact.	1 January 2007	1 July 2007
AASB 2007-1	Amendments to Australian Accounting Standards arising from AASB Interpretation 11 [AASB 2]	No change to accounting policy required. Therefore no impact.	1 March 2007	1 July 2007
AASB 2007-2	Amendments to Australian Accounting Standards arising from AASB Interpretation 12 [AASB 1, AASB 117, AASB 118, AASB 120, AASB 121, AASB 127, AASB 131 & AASB 139]	No change to accounting policy required. Therefore no impact.	1 January 2008	1 July 2008
AASB 2007-3	Amendments to Australian Accounting Standards arising from AASB 8 [AASB 5, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136, AASB 1023 & AASB 1038]	No change to accounting policy required. Therefore no impact.	1 January 2009	1 July 2009
AASB 2007-4	Amendments to Australian Accounting Standards arising from ED151 and Other Amendments	No change to accounting policy required. Therefore no impact.	1 July 2007	1 July 2007
AASB 2007-6	Amendments to Australian Accounting Standards arising from AASB 123 [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 and 12]	No change to accounting policy required. Therefore no impact.	1 January 2009	1 July 2009
AASB 2007-7	Amendments to Australian Accounting Standards [AASB 1, ASB 2, AASB 4, AASB 5, AASB 107 & AASB 128]	No change to accounting policy required. Therefore no impact.	1 July 2007	1 July 2007
AASB 7	Financial Instruments: Disclosures	No change to accounting policy required. Therefore no impact.	1 January 2007	1 July 2007
AASB 8	Operating Segments	No change to accounting policy required. Therefore no impact.	1 January 2009	1 July 2009
AASB 123 (revised June 2007)	Borrowing costs	No change to accounting policy required. Therefore no impact.	1 January 2009	1 July 2009
AASB Interpretation 10	Interim Financial Reporting and Impairment	No change to accounting policy required. Therefore no impact.	1 November 2006	1 July 2007
AASB Interpretation 11	Group and Treasury Share Transactions	No change to accounting policy required. Therefore no impact.	1 March 2007	1 July 2007
AASB Interpretation 12	Service Concession Arrangements	No change to accounting policy required. Therefore no impact.	1 January 2008	1 July 2008
AASB Interpretation 129 (revised June 2007)	Service Concession Arrangements	No change to accounting policy required. Therefore no impact.	1 January 2008	1 July 2008

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

(e) Foreign currency translation

Both the functional and presentation currency of the Company and its Australian controlled entities 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 such exchange differences are taken to the income statement in the consolidated financial report.

(f) Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

Depreciation

The cost of owned property, plant and equipment directly engaged in mining operations is written off over its expected economic life on a units-of-production method, in the establishment of which, due regard is given to the life of the

related area of interest. Plant and equipment under hire purchase or finance lease directly engaged in mining operations is written down to its residual value over the period of the hire purchase or lease. Other assets which are depreciated or amortised on a basis other than the units-of-production method typically are depreciated on a straight-line basis over the estimated useful life of the asset as follows:

- Land & Buildings 5 - 20 years
- Motor vehicles 4 - 5 years
- Office equipment 3 - 5 years
- Leasehold improvements Shorter of lease term or useful life of 5 – 10 years
- Mining Equipment 5 years

Impairment

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2007

Impairment cont.

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.

If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

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 item) is included in the income statement in the period the item is derecognised.

(g) Mine properties

Mine properties represent the accumulation of all acquisition, exploration, evaluation and development expenditure incurred by or on behalf of the Consolidated Entity in relation to areas of interest in which mining of mineral resource has commenced. When further development expenditure, including waste development, is incurred in respect of a mine property after the commencement of production, such expenditure is carried forward as part of the cost of that mine property only when substantial future economic benefits are established, otherwise such expenditure is classified as part of the cost of production.

Amortisation is provided on the units-of-production method, with separate calculations being made for each mineral resource. Estimated future capital and waste development costs to be incurred in accessing the reserves and measured resources are taken into account in determining amortisation charges. The units-of-production method results in an amortisation charge proportional to the depletion of the economically recoverable mineral resources (comprising proven and probable reserves plus, where appropriate, a portion of measured resources).

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest. Should the carrying value of the expenditure not yet amortised exceed its estimated recoverable amount in any year, the excess is written off to the income statement.

(h) Acquisition, exploration, evaluation and development costs

Acquisition costs

Exploration and evaluation costs arising from acquisitions are carried forward 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.

Exploration and evaluation costs

Costs arising from exploration and evaluation activities are capitalised as incurred, except where, at balance date, it is expected that the expenditure will not be recouped by future exploitation or sale of the area of interest.

Development costs

Costs arising from development activities are capitalised as incurred to the extent that such costs, together with any costs

arising from acquisition, exploration and evaluation carried forward in respect of the area of interest, are expected to be recouped through future exploitation or sale of the area of interest.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest. Where uncertainty exists as to the future viability of certain areas; the value of the area of interest is written off to the income statement or provided against.

(i) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

Borrowing costs which are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset.

(j) Rehabilitation costs

Long-term environmental obligations are based on the Consolidated Entity's environmental management plans, in compliance with current environmental and regulatory requirements.

Full provision is made based on the net present value of the estimated cost of restoring the environmental disturbance that has occurred up to the balance sheet date. Increases due to additional environmental disturbances, relating to the development of an asset, are capitalised and amortised over the remaining lives of the area of interest.

Annual increases in the provision relating to the change in the net present value of the provision are accounted for in the income statement as borrowing costs.

The estimated costs of rehabilitation are reviewed annually and adjusted as appropriate for changes in legislation, technology or other circumstances. Cost estimates are not reduced by potential proceeds from the sale of assets.

(k) Recoverable amount of assets

At each reporting date, the Consolidated Entity assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Consolidated Entity makes a formal estimate of the 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. Recoverable amount is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less cost to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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.

An assessment is also made at each reporting date as to whether there is any indication that a previously recognised impairment loss may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2007

(k) Recoverable amount of assets cont.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(l) Investments

All investments are initially recognised at the fair value of the consideration given, including acquisition charges associated with the investment.

After initial recognition, investments, which are classified as available-for-sale, are measured at fair value. Gains or losses on available-for-sale investments are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

The fair value of investments that are actively traded in organised markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date.

For investments with no active market, fair value is determined using valuation techniques. Such valuation techniques include using recent arm's length transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models. Where fair value cannot be reliably measured for certain unquoted investments, these investments are measured at cost.

(m) Trade and other receivables

Trade receivables, which generally have 60-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An allowance for doubtful debts is made when there is objective evidence that the Consolidated Entity will not be able to collect the debts. Bad debts are written off when identified.

(n) Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

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.

(o) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method.

Gains and losses are recognised in the profit or loss when the liabilities are derecognised.

(p) Trade and other payables

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

(q) Provisions

Provisions are recognised when the Consolidated Entity 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 the 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.

A provision for dividends is not recognised as a liability unless the dividends have been declared, determined or publicly recommended on or before the reporting date.

(r) Share-based payment transactions

The Consolidated Entity provides benefits to employees (including directors) and other permitted persons of the Consolidated Entity in the form of share-based payment transactions, whereby employees and other permitted persons render services in exchange for shares or rights over shares ("equity-settled transactions").

There is currently a Directors, Officers, Employees and Other Permitted Persons option plan.

The cost of these equity-settled transactions with employees and other permitted persons is measured by reference to the fair value at the date at which they are granted. The fair value is determined using a Black Scholes model.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company.

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 and other permitted persons 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 Consolidated Entity, 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 and 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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2007

(r) Share-based payment transactions cont.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

(s) Employee benefits

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.

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. 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.

Superannuation

Contributions made by the Consolidated Entity to employee superannuation funds are charged as an expense when incurred.

(t) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependant on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Operating Leases

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense in the income statement on a straight-line basis over the lease term.

Contingent rentals are recognised as an expense in the financial year in which they are incurred.

Finance Leases

Leases which effectively transfer substantially all the risks and benefits incidental to ownership of the leased item to the Consolidated Entity are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the income statement.

Capitalised leased assets are depreciated over the estimated useful life of the asset or where appropriate, over the estimated life of the mine.

The cost of improvements to or on leasehold property is capitalised, disclosed as leasehold improvements, and amortised over the unexpired period of the lease or the estimated useful lives of the improvements, whichever is the shorter.

(u) Revenue

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. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be measured reliably.

Interest

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Dividends

Revenue is recognised when the shareholders' right to receive the payment is established.

(v) 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 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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2007

(v) Income tax cont.

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:

- except where the deferred income tax asset relating to the deductible temporary difference 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 deductible temporary differences associated with investments in controlled entities, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences 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.

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.

(w) 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 gross basis and the GST component of cash flows 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.

(x) Issued capital

Issued and paid up capital is recognised at the fair value of the consideration received by the Consolidated Entity. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction in the proceeds received.

(y) Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit attributable to members of the company, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;
- divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(z) Segment Reporting

A business segment is a Group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

(aa) Joint Ventures

Interests in joint ventures have been brought to account by including the appropriate share of the relevant assets, liabilities and costs of the joint ventures in their relevant categories in the financial statements. Details of these interests are shown in Note 31.

Note 2 Financial Risk Management

The Group's activities expose it to a variety of financial risks; market risk, credit risk, liquidity risk and cash flow interest risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

(i) Market risk

Currently the Group is not exposed to any significant market risk.

(ii) Credit risk

The Group currently has no significant concentrations of credit risk.

(iii) Liquidity risk

The Group manages its liquidity risk by monitoring its cash reserves and forecast spending. Management is cognisant of the future demands for liquid financial resources to finance the Group's current and future operations.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2007

(iv) Cash flow and fair value interest rate risk

As the Group has significant interest bearing assets, the Group's income and operating cash flows are materially exposed to changes in market interest rates. The assets are short term interest bearing deposits, and no financial instruments are employed to mitigate risk. (Note 23 – Financial Instruments).

Note 3 Significant accounting judgements, estimates and assumptions

Significant accounting judgements, estimates and assumptions have been made as follows:

(i) Mine rehabilitation provision

The Consolidated Entity assesses its mine rehabilitation provision annually in accordance with the accounting policy stated in Note 1(j). Significant judgement is required in determining the provision for mine rehabilitation as there are many transactions and other factors that will affect the ultimate liability payable to rehabilitate the mine site. Factors that will affect this liability include future development, changes in technology, commodity price changes and changes in interest rates. When these factors change or become known in the future, such difference will impact the mine rehabilitation provision in the period in which they change or become known.

(ii) Units of production method of depreciation

The Consolidated Entity applies the units of production method of depreciation of its mine assets based on ounces of gold mined. These calculations require the use of estimates and assumptions. Significant judgement is required in assessing the available reserves and resources and the production capacity of the operations to be depreciated under this method. Factors that are considered in determining reserves and resources and production capacity are the Consolidated Entity's history of converting resources to reserves and the relevant time frames, the complexity of metallurgy, markets and future developments. The Consolidated Entity uses proved and probable reserves to depreciate assets on a units of production basis. However where a mineral property has been acquired and an amount has been attributed to the fair value of resources not yet designated as reserves the additional resources have been taken into account. When these factors change or become known in the future, such differences will impact pre-tax profit and carrying values of assets.

(iii) Determination of mineral resources and ore reserves

The Consolidated Entity estimates its mineral resources and ore reserves in accordance with the Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves 2004 (the 'JORC code'). The information on mineral resources and ore reserves were prepared by or under the supervision of Competent Persons as defined in the JORC code. The amounts presented are based on the mineral resources and ore reserves determined under the JORC code.

There are numerous uncertainties inherent in estimating mineral resources and ore reserves and assumptions that are valid at the time of estimation may change significantly when new information becomes available.

Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of reserves and may, ultimately, result in the reserves being restated. Such changes in the reserves could impact on depreciation and amortisation rates, asset carrying values,

deferred waste development costs and provisions for decommissioning and restoration.

(iv) Impairment of capitalised exploration and evaluation expenditure

The future recoverability of capitalised exploration and evaluation expenditure is dependent on a number of factors, including whether the Consolidated Entity decides to exploit the related lease itself or, if not, whether it successfully recovers the related exploration and evaluation asset through sale.

Factors which could impact the future recoverability include the level of proved, probable and inferred mineral resources, future technological changes which could impact the cost of mining, future legal changes (including changes to environmental restoration obligations) and changes to commodity prices.

To the extent that capitalised exploration and evaluation expenditure is determined not to be recoverable in the future, this will reduce profits and net assets in the period in which this determination is made.

In addition, exploration and evaluation expenditure is capitalised if activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves. To the extent that it is determined in the future that this capitalised expenditure should be written off, this will reduce profits and net assets in the period in which this determination is made.

(v) Impairment of capitalised mine development expenditure

The future recoverability of capitalised mine development expenditure is dependent on a number of factors, including the level of proved, probable and inferred mineral resources, future technological changes which could impact the cost of mining, future legal changes (including changes to environmental restoration obligations) and changes to commodity prices.

To the extent that capitalised mine development expenditure is determined not to be recoverable in the future, this will reduce profits and net assets in the period in which this determination is made.

(vi) Impairment of property, plant and equipment

Property, plant and equipment is reviewed for impairment if there is any indication that the carrying amount may not be recoverable. Where a review for impairment is conducted, the recoverable amount is assessed by reference to the higher of 'value in use' (being the net present value of expected future cash flows of the relevant cash generating unit) and 'fair value less costs to sell'.

In determining value in use, future cash flows are based on:

- Estimates of the quantities of ore reserves and mineral resources for which there is a high degree of confidence of economic extraction;
- Future production levels;
- Future commodity prices; and
- Future cash costs of production and capital expenditure.

Variations to the expected future cash flows, and timing thereof, could result in significant changes to any impairment losses recognised, if any, which could in turn impact future financial results.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2007

(vii) Deferred Waste

The Consolidated Entity has adopted a policy of deferring waste development costs and amortising them in accordance with the life-of-mine total units of production method. Significant judgement is required in determining the total units of production for each mine. Factors that are considered include:

- Any proposed changes in the design of the mine;
- Estimates of the quantities of ore reserves and mineral resources for which there is a high degree of confidence of economic extraction;
- Future production levels;
- Future commodity prices; and
- Future cash costs of production and capital expenditure.

(viii) Recoverability of potential deferred income tax assets

The Consolidated Entity recognises deferred income tax assets in respect of tax losses to the extent that the future utilisation of these losses is considered probable. Assessing the future utilisation of these losses requires the Consolidated Entity to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws. To the extent that future cash flows and taxable income differ significantly from estimates, this could result in significant changes to the deferred income tax assets recognised, which would in turn impact future financial results.

(ix) Share-based payment transactions

The Consolidated Entity 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 and applying an estimated probability that they will vest. The fair value is determined using a Black Scholes model, with the assumptions detailed in Note 21. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

(x) Financial guarantees

The fair value of financial guarantee contracts have been assessed using the interest differential approach.

Note 4 Segment Information

Business segments

The Consolidated Entity is involved in the mineral exploration and resource development sector.

Geographical segments

The Consolidated Entity is organised on a national basis with exploration and development interests within Western Australia and South Australia.

Note 5 Revenue and Other Income

From continuing operations

Other revenue

Interest receivable

	Consolidated		Company	
	2007 \$	2006 \$	2007 \$	2006 \$
Interest receivable	1,284,064	374,961	1,284,064	374,961
Profit on sale of assets	-	1,611	-	1,611
	1,284,064	376,572	1,284,064	376,572

Profit on sale of assets

Note 6 Loss from Continuing Activities

Loss before income tax includes the following specific expenses:

Depreciation:

Plant and equipment

Motor vehicles

Mining equipment

Rental expenses on operating leases

Exploration expenditure written off

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2007

Note	Consolidated		Company	
	2007 \$	2006 \$	2007 \$	2006 \$
Note 7 Income Tax Expense				
(a) Income tax expense				
Current tax expense/(benefit)	-	-	-	-
Deferred tax expense/(benefit)	15	(281,720)	(435,162)	(281,720)
		(1,014,802)	(281,720)	(1,014,802)
(b) Reconciliation of current tax expense/(benefit)				
Loss from continuing operations before income tax expense	(4,732,699)	(2,031,661)	(4,732,699)	(2,031,661)
Tax at the Australian rate of 30% (2006 – 30%)	(1,419,810)	(609,498)	(1,419,810)	(609,498)
Current tax benefit not brought to account	1,419,810	609,498	1,419,810	609,498
	-	-	-	-
(c) Tax losses				
Unused tax losses for which no deferred tax asset has been recognised	-	-	-	-
Potential tax benefit @ 30%	-	-	-	-
Note 8 Current Assets – Cash and Cash Equivalents				
Cash at bank and in hand	121,513	822,773	121,513	822,763
Deposits at call	18,984,168	6,673,708	18,984,168	6,673,708
Term deposits	90,241,927	-	90,241,927	-
	109,347,608	7,496,481	109,347,608	7,496,471
(a) Reconciliation to cash at the end of the year				
The above figures are reconciled to cash at the end of the financial year as shown in the cash flow statement as follows:				
Balances as above and per cash flow statement	109,347,608	7,496,481	109,347,608	7,496,471

Cash at bank and on hand

These attract interest between 0% and 6.15% (2006: 0% and 5%).

Deposits at call

The deposits are bearing floating interest rates of 6.15% (2006: 5.60%). These deposits have an average maturity of 1 day.

Term deposits

The deposits are bearing fixed interest rates of between 6.35% and 6.42%. These deposits have an average maturity of 48 days.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2007

	Consolidated		Company	
	2007 \$	2006 \$	2007 \$	2006 \$
Note 9 Current Assets – Trade and Other Receivables				
(a) Receivables				
GST recoverable	475,591	50,567	475,591	50,567
Accrued interest	447,915	30,717	447,915	30,717
Prepaid expenditure	55,325	24,391	55,325	24,391
Other receivables	-	1,200	-	1,200
	978,831	106,875	978,831	106,875
(b) Other financial assets				
Investment in listed entity	20,000	-	20,000	-
Note 10 Non-Current Assets – Receivables				
Security bonds	151,500	-	151,500	-
Loan to controlled entity (i)	-	-	35,053,400	13,371,056
	151,500	-	35,204,900	13,371,056
(i) The loan to the controlled entity is interest free, unsecured and has no set terms of repayment. The loan is in respect of acquisition, exploration and evaluation expenditure on the Higginsville Project.				
Note 11 Non-Current Assets – Investment in Controlled Entity at Cost				
Interest in share capital of 100% owned subsidiary (i)	-	-	10	10

(i) The Company owns 100% of the share capital of Avoca Mining Limited.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2007

	Consolidated		Company	
	2007 \$	2006 \$	2007 \$	2006 \$
Note 12 Non-Current Assets – Property, Plant and Equipment				
Land and buildings				
At cost	560,040	-	560,040	-
Accumulated depreciation	-	-	-	-
	560,040	-	560,040	-
Plant and office equipment				
At cost	551,477	249,844	551,477	249,844
Accumulated depreciation	(187,249)	(87,993)	(187,249)	(87,993)
	364,228	161,851	364,228	161,851
Motor vehicles				
At cost	248,170	137,375	-	137,375
Accumulated depreciation	(52,103)	(19,365)	-	(19,365)
	196,067	118,010	-	118,010
Mining equipment				
At cost	1,478,208	324,657	-	324,657
Accumulated depreciation	(221,552)	(1,880)	-	(1,880)
	1,256,656	322,777	-	322,777
	2,376,991	602,638	924,268	602,638
Reconciliation				
Plant and office equipment				
Net book value at start of the year	161,851	42,364	161,851	42,364
Additions	301,632	142,132	301,632	142,132
Depreciation	(99,255)	(22,645)	(99,255)	(22,645)
Net book value of disposals	-	-	-	-
Net book value at end of the year	364,228	161,851	364,228	161,851
Motor vehicles				
Net book value at start of the year	118,010	45,711	118,010	45,711
Additions	110,794	93,089	110,794	93,089
Depreciation	(32,737)	(19,401)	(32,737)	(19,401)
Net book value of disposals	-	(1,389)	(196,067)	(1,389)
Net book value at end of the year	196,067	118,010	-	118,010
Mining equipment				
Net book value at start of the year	322,777	-	322,777	-
Additions	1,153,550	324,657	1,153,550	324,657
Depreciation	(219,671)	(1,880)	(219,671)	(1,880)
Net book value of disposals	-	-	(1,256,656)	-
Net book value at end of the year	1,256,656	322,777	-	322,777
Land and Buildings				
Net book value at start of the year	-	-	-	-
Additions	560,040	-	560,040	-
Depreciation	-	-	-	-
Net book value of disposals	-	-	-	-
Net book value at end of the year	560,040	-	560,040	-

No items of property, plant and equipment have been pledged as security by the Consolidated Entity.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2007

Note	Consolidated		Company	
	2007 \$	2006 \$	2007 \$	2006 \$
Note 13 Non-Current Assets – Capitalised Mineral Exploration Expenditure				
In the exploration phase				
Cost brought forward	16,820,619	11,973,846	3,449,563	3,722,898
Exploration and acquisition expenditure incurred during the year at cost	8,952,392	5,750,468	1,612,588	630,360
Exploration expenditure written off	(861,042)	(903,695)	(861,042)	(903,695)
Transfers to mine properties under development	(7,558,745)	-	-	-
Cost carried forward	17,353,224	16,820,619	4,201,109	3,449,563
Note 14 Non-Current Assets – Mining Properties Under Development				
In the development phase				
Cost brought forward	-	-	-	-
Transfers from capitalised exploration and evaluation expenditure	7,558,745	-	-	-
Mine development expenditure incurred during the year at cost	22,685,720	-	-	-
Cost carried forward	30,244,465	-	-	-
Note 15 Non-Current Assets – Deferred Tax Assets				
(a) Net deferred tax asset				
Net deferred tax asset brought forward	691,615	213,253	2,219,227	1,161,225
Net deferred tax asset benefit / (expense) for the year	7	281,720	435,162	281,720
Net deferred tax asset arising on capital raising costs incurred	20(b)	1,138,251	43,200	1,138,251
Net deferred tax liability arising from the recognition of equity on the convertible bond.		(1,424,289)	-	(1,424,289)
Net deferred tax asset carried forward		687,297	691,615	2,214,909
(b) Reconciliation of net deferred tax asset				
Deferred tax assets arising in respect of:				
Unused tax losses carried forward	8,733,312	5,316,507	4,029,428	2,832,803
Accrued expenses	652	266,159	652	266,159
Leave liabilities	40,374	22,487	40,374	22,487
Deductible capital raising costs	807,988	149,179	807,988	149,179
	9,582,326	5,754,332	4,878,442	3,270,628
Deferred tax liabilities arising in respect of:				
Accrued income and prepayments	-	(16,532)	-	(16,532)
Convertible bonds	(1,421,201)	-	(1,421,201)	-
Mine properties	(2,810,861)	-	-	-
Capitalised exploration and evaluation expenditure	(4,662,967)	(5,046,185)	(1,242,332)	(1,034,869)
	(8,895,029)	(5,062,717)	(2,663,533)	(1,051,401)
	687,297	691,615	2,214,909	2,219,227

The deferred tax asset has been recognised in accordance with the Consolidated Entity's accounting policy at note 1(v) on the assumption that the Consolidated Entity will utilise the available tax losses in the near future.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2007

	Consolidated		Company	
	2007 \$	2006 \$	2007 \$	2006 \$
Note 16 Current Liabilities – Trade and Other Payables				
Trade payables and accruals	10,321,711	1,684,272	777,625	1,684,272
Interest on convertible bonds	309,041	-	309,041	-
Other payables	207,237	47,481	207,237	47,481
Employee benefits payable	2,173	-	2,173	-
	10,840,162	1,731,753	1,296,076	1,731,753

(a) Interest rate risk exposure

Details of the Group's exposure to interest rate changes on liabilities are set out in note 23.

(b) Fair value disclosures

Details of the fair value of liabilities for the Group are set out in note 23.

(c) Security

There are no secured liabilities.

(d) Exploration and mine development liabilities

Included in trade and payables and accruals is an aggregate amount of \$9,789,405 (2006: \$1,252,258) in relation to exploration and evaluation of mineral resources.

	Consolidated		Company	
	2007 \$	2006 \$	2007 \$	2006 \$
Note 17 Current Liabilities – Borrowings				
Advance – unsecured	13,000,000	-	13,000,000	-
	13,000,000	-	13,000,000	-
Financing Facilities Available				
At reporting date, the following facilities had been negotiated and were available:				
Total Facilities:				
Unsecured Bank Advance	13,000,000	-	13,000,000	-
Unsecured Performance Guarantee Facility	2,000,000	-	2,000,000	-
	15,000,000	-	15,000,000	-
Facilities used at reporting date:				
Unsecured Bank Advance	13,000,000	-	13,000,000	-
Unsecured Performance Guarantee Facility	-	-	-	-
	13,000,000	-	13,000,000	-
Facilities unused at reporting date:				
Unsecured Bank Advance	-	-	-	-
Unsecured Performance Guarantee Facility	2,000,000	-	2,000,000	-
	2,000,000	-	2,000,000	-

During October 2006 the Company entered into a \$15 million unsecured cash advance facility with Société Générale CIB Australia Branch. Subsequent to the end of the financial year the company increased the amount of this facility by \$1 million to \$16 million and has converted the remaining undrawn portion of the facility being \$3 million into a Performance Guarantee Facility to be used for the Higginsville Gold Project.

The maturity date of the facility is 18 October 2007 and bears interest at the bank bill rate for the relevant interest period plus 2.5%. Interest is payable on the last day of each interest period or other period as agreed by the bank. The Company anticipates at maturity that the facility will be renewed on similar terms.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2007

	Consolidated		Company	
	2007 \$	2006 \$	2007 \$	2006 \$
Note 18 Provisions				
Current				
Provision for annual leave	134,581	74,956	134,581	74,956
Non-Current				
Provision for rehabilitation #1	251,807	-	-	-
<p>#1 The Consolidated entity created a provision during the year for the estimated cost of rehabilitating the Higginsville minesite taking into account the work done at the end of the year. The basis for accounting for rehabilitation costs is set out in Note 1(j). Because of the long term nature of the liability the biggest uncertainty in estimating the provision is the costs that will be incurred and the life of the mine.</p>				
Note 19 Non Current Liabilities – Convertible Bonds				
Convertible Bonds	34,868,863	-	34,868,863	-

The company issued AUD\$40 million in convertible bonds on 14 May 2007. The convertible bonds are unsubordinated, unsecured and have an underlying coupon rate of 6.0% per annum payable semi annually in arrears. The convertible bonds are convertible into ordinary shares at \$1.75 per share.

The company has treated the convertible bonds as a compound financial instrument and recognised a liability component and an equity component in respect of these bonds. An amount of \$34,868,863 has been recognised as a non current liability and a reserve net of tax for \$3,323,342 has been recognised in equity.

	Issue Price	Company		Company	
		2007 No.	2006 No.	2007 \$	2006 \$
Note 20 Contributed Equity					
(a) Share capital					
Issued share capital		209,979,473	148,839,348	106,521,638	29,385,146
(b) Share movements during the year					
At the beginning of the year		148,839,348	117,039,348	29,385,146	18,124,966
Share placement October 2005	\$0.40	-	24,500,000	-	9,800,000
30 June 2006 options exercised	\$0.25	-	7,300,000	-	1,825,000
Share placement 5 December 2006	\$1.395	64,500	-	90,000	-
Options exercised	\$0.25	500,000	-	125,000	-
Options exercised	\$0.37	1,000,000	-	370,000	-
2006 Options exercised	\$0.25	300,000	-	75,000	-
Share placement 3 April 2007	\$1.32	53,100,000	-	70,092,000	-
Share placement 23 May 2007	\$1.32	6,175,625	-	8,151,825	-
Add: transfer from equity compensation reserve in respect of options exercised (note 22)		-	-	55,840	6,980
Less: costs related to shares issued		-	-	(2,961,424)	(415,000)
Deferred tax asset arising on capital raising costs (note 15)		-	-	1,138,251	43,200
At the end of the year		209,979,473	148,839,348	106,521,638	29,385,146

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2007

Note 20 Contributed Equity cont.

(c) Ordinary shares

The Company is a public Company limited by shares. The Company was incorporated in Perth, Western Australia.

The Company's shares have no par value and are fully paid.

The Company's shares are limited whereby the liability of its members is limited to the amount (if any) unpaid on the shares respectively held by them. Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

(d) Option plan

Information relating to the Avoca Resources Limited Directors, Officers and Employees Option Plan is set out in note 21.

Note 21 Option Plan

The establishment of the Avoca Resources Limited Directors, Officers and Employees Option Plan ('the Plan') was approved by a special resolution at a General Meeting of shareholders of the Company held on 25 September 2001. All eligible directors, executive officers and employees and consultants of Avoca Resources Limited who have been continuously employed by the Company are eligible to participate in the Plan.

The Plan allows the Company to issue free options to eligible persons. The options can be granted free of charge and are exercisable at a fixed price in accordance with the Plan.

Options issued under the Plan have vesting periods of between 12 and 48 months except under certain circumstances whereby options may be capable of exercise prior to the expiry of the vesting period.

(a) Options issued during the year

During the financial year the Company granted the following unlisted options over unissued shares:

Number of options granted	Exercise price	Expiry date
3,800,000	\$0.90	30 June 2011
2,000,000	\$1.60	30 November 2011
350,000	\$1.39	31 October 2009
700,000	\$1.65	31 December 2011

During the year 1,000,000 options were exercised by payment of 37 cents each and 800,000 options were exercised by payment of 25 cents each.

(b) Options on issue at the balance date

The number of options outstanding over unissued ordinary shares at 30 June 2007 is 14,100,000 (2006: 9,050,000). The terms of these options are as follows:

Number of options outstanding	Exercise price	Expiry date
2,450,000	\$0.25	30 June 2009
200,000	\$0.25	30 June 2009
4,100,000	\$0.45	31 July 2010
500,000	\$0.75	1 March 2010
3,800,000	\$0.90	30 June 2011
2,000,000	\$1.65	30 November 2011
350,000	\$1.39	31 October 2009
700,000	\$1.65	31 December 2011
<u>14,100,000</u>		

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2007

Note 21 Option Plan (continued)

(c) Subsequent to the balance date

Subsequent to the balance date to the date of signing this report 2,250,000 unlisted options due to expire on 30 June 2009 were exercised and converted to fully paid shares by payment of 25 cents per share.

1,250,000 unlisted options have been issued to employees since the year end. The options were issued on 9 July 2007 and are subject to vesting periods of between 24 and 48 months. The options are exercisable at various prices between \$1.64 and \$1.84 and expire on 30 June 2012.

2,000,000 unlisted options have been issued to Chalice Gold Mines in part consideration for the acquisition of tenements from Chalice Gold Mines Limited. The options were issued on 24 July 2007 and are exercisable at \$1.79 and expire on 24 July 2010.

Reconciliation of movement of options over unissued shares during the period including weighted average exercise price (WAEP)

	2007		2006	
	No.	WAEP (\$)	No.	WAEP (\$)
Options outstanding at the start of the year	9,050,000	\$0.3815	11,750,000	\$0.2600
Options granted during the year	6,850,000	\$1.2061	4,600,000	\$0.4830
Options exercised during the year	(1,800,000)	\$0.3167	(7,300,000)	\$0.2500
Options expiring unexercised during the year	-	-	-	-
Options outstanding at the end of the year	14,100,000	\$0.7904	9,050,000	\$0.3815

The weighted average remaining contractual life of options outstanding as at 30 June 2007 is 1,481 days.

The number of outstanding options which are exercisable at 30 June is 2,750,000.

Basis and assumptions used in the valuation of options.

The options were valued using the Black-Scholes option valuation methodology. All options are subject to a 24 month vesting period.

Date granted	Number of options granted	Exercise price	Expiry date	Risk free interest rate used	Volatility applied	Option valuation (cents)
27 July 2006	3,800,000	\$0.90	30 June 2011	5.94%	62.8%	\$0.3005
15 November 2006	2,000,000	\$1.60	30 November 2011	5.62%	65.7%	\$0.5670
6 November 2006	350,000	\$1.39	31 October 2009	5.94%	62.8%	\$0.4400
22 December 2006	700,000	\$1.65	31 December 2011	5.79%	65.7%	\$0.4550

	Note	Consolidated			Company		
		Accumulated losses \$	Equity compensation reserve (i) \$	Other Reserve	Accumulated losses \$	Equity compensation reserve (i) \$	Other Reserve
Note 22 Reserves and Accumulated Losses							
Balance brought forward at 1 July 2006		(5,836,123)	362,496	-	(4,308,511)	362,496	-
Loss for the period		(4,450,979)	-	-	(4,450,979)	-	-
Transfer to equity compensation reserve in respect of options issued		-	2,045,969	-	-	2,045,969	-
Transfer to issued capital in respect of options exercised ⁽ⁱⁱ⁾	20	-	(55,840)	-	-	(55,840)	-
Options issued over unissued shares		-	-	154,000	-	-	154,000
Equity recognised on convertible bond		-	-	4,747,631	-	-	4,747,631
Deferred tax liability arising on the recognition of the convertible bond equity		-	-	(1,424,289)	-	-	(1,424,289)
Balance carried forward at 30 June 2007		(10,287,102)	2,352,625	3,477,342	(8,759,490)	2,352,625	3,477,342

(i) The equity compensation reserve is used to recognise the fair value of options issued but not exercised.

(ii) Options exercised during the year have been previously recognised as an expense and as such a transfer has been made from the Equity compensation reserve to contributed equity (note 20).

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2007

Note	Weighted average effective interest %	Funds available at floating interest rate \$	Assets / (liabilities) non interest bearing \$	Total \$
Note 23 Financial Instruments				
The Consolidated Entity's exposure to interest rate risk (note 2(d)) is as follows:				
2007				
Financial Assets				
Cash and cash equivalents	6.15%	19,105,261	420	19,105,681
Term deposits	6.39%	90,241,927	-	90,241,927
Security bonds	5.75%	145,000	6,500	151,500
Trade and other receivables	6.39%	447,915	475,591	923,506
Other	-	-	20,000	20,000
Total financial assets		109,940,103	502,511	110,442,614
Financial liabilities				
Bank overdraft	-	-	-	-
Trade and other payables	-	-	(10,840,162)	(10,840,162)
Borrowings	8.75%	(13,000,000)	-	(13,000,000)
Convertible bonds	6.00%	(34,868,863)	-	(34,868,863)
Total financial liabilities		(47,868,863)	(10,840,162)	(58,709,025)
Net financial assets/(liabilities)		62,071,240	(10,337,651)	51,733,589
2006				
Financial assets				
Cash and cash equivalents	5.60%	7,496,461	20	7,496,481
Trade and other receivables	5.60%	30,717	51,767	82,484
Total financial assets		7,527,178	51,787	7,578,965
Financial liabilities				
Trade and other payables	-	-	(1,731,753)	(1,731,753)
Total financial liabilities	-	-	(1,731,753)	(1,731,753)
Net financial assets/(liabilities)		7,527,178	(1,679,966)	5,847,212

The carrying value of financial instruments equates to fair value.

	Consolidated		Company	
	2007 \$	2006 \$	2007 \$	2006 \$
Note 24 Equity – Other Reserves				
Equity recognised on convertible bond	4,747,631	-	4,747,631	-
Deferred tax liability arising on the recognition of the convertible bond equity	(1,424,289)	-	(1,424,289)	-
Issued options	154,000	-	154,000	-
	3,477,342	-	3,477,342	-

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2007

Note 25 Dividends

No dividends were paid or proposed during the financial year.

The Company has no franking credits available as at 30 June 2007.

Note 26 Key Management Personnel Disclosures

(a) Directors

The following persons were directors of Avoca Resources Limited during the financial year:

(i) **Chairman – non-executive**

Robert G Reynolds

(ii) **Executive director**

Rohan I Williams, Managing Director

(iii) **Non-executive directors**

Stephanie J Unwin

David F Quinlivan

Jan A Castro (Appointed 7 February 2007)

(b) Other key management personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year:

Name	Position	Employer
Anthony P James	Operations Manager	Avoca Resources Limited

(c) Key management personnel compensation

Compensation Policy

Compensation levels are competitively set to attract and retain appropriately qualified and experienced Directors and senior executives. The Board obtains independent advice on the appropriateness of compensation packages, given trends in comparative companies both locally and internationally. Compensation packages include fixed compensation with bonuses or equity based compensation entirely at the discretion of the Board based on the performance of the Consolidated Entity.

Total compensation for all Non-Executive Directors was last voted upon by shareholders on 25 July 2005, whereby it is not to exceed \$250,000 per annum. Non-Executive Directors do not receive bonuses. Directors' fees cover all main Board activities. An additional fee is paid to each Board committee on which a director sits. The payment of additional fees for serving on a committee recognises the additional time commitment required by directors who serve on one or more committees.

At the date of this report the Company has entered into an agreement with the Managing Director which includes a performance based component. Upon meeting certain key performance criteria set by the Chairman and the Board, the Managing Director can earn up to 35% of his base salary as a short-term cash incentive. Any long term incentive in the form of an option package will be issued at the sole discretion of the Board.

Refer also to the Corporate Governance Statement for more detail on the Board's policy in this area.

Details of Compensation for Directors and Executive Officers

Details of the compensation of each Director and specified executive of the Consolidated Entity are as follows:

2007	Short Term		Post Employment	Share Based Payments	Total (\$)
	Base Emolument (\$)	Consulting Fees (\$)	Superannuation Contributions (\$)	Value of Options #1 (\$)	
Directors					
R G Reynolds ⁽ⁱ⁾	60,000	16,000	5,400	16,725	98,125
R I Williams ⁽ⁱⁱ⁾	276,494	-	39,599	741,977	1,058,070
S J Unwin ⁽ⁱⁱⁱ⁾	35,000	-	3,150	10,035	48,185
D F Quinlivan ^(iv)	35,000	-	3,150	10,035	48,185
J A Castro	14,583	-	-	-	14,583
Executives					
A P James ^(v)	252,502	-	22,725	339,691	614,918
Total	673,579	16,000	74,024	1,118,463	1,882,066

#1 Value of Options have been accounted for in accordance with the policy detailed at note 1(r). These amounts are non-cash.

(i) Options represent 17.04% of RG Reynolds compensation for the year.

(ii) Options represent 70.12% of RI Williams compensation for the year.

(iii) Options represent 20.82% of SJ Unwin compensation for the year.

(iv) Options represent 20.82% of DF Quinlivan compensation for the year.

(v) Options represent 55.24% of AP James compensation for the year

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2007

Details of Compensation for Directors and Executive Officers cont.

2006	Short Term		Post Employment	Share Based Payments	
Directors	Base Emolument (\$)	Bonus (\$)	Superannuation Contributions (\$)	Value of Options (\$)	Total (\$)
R G Reynolds ⁽ⁱ⁾	58,333	-	5,250	15,331	78,914
R I Williams ⁽ⁱⁱ⁾	262,913	100,000 ^(vi)	23,400	109,188	495,501
S J Unwin ⁽ⁱⁱⁱ⁾	35,000	-	3,150	9,199	47,349
D F Quinlivan ^(iv)	35,000	-	3,150	9,199	47,349
Executives					
A P James ^(v)	78,462	-	7,062	4,913	90,437
Total	469,708	100,000	42,012	147,830	759,550

(i) Options represent 19.4% of RG Reynolds remuneration for the year.

(ii) Options represent 22.0% of RI Williams remuneration for the year.

(iii) Options represent 19.4% of SJ Unwin remuneration for the year.

(iv) Options represent 19.4% of DF Quinlivan remuneration for the year.

(v) Options represent 5.4% of AP James remuneration for the year (commenced on 6 March 2006).

(vi) Bonus of \$50,000 in relation to the 2005 and 2006 financial years respectively.

Service Agreement

Compensation and other terms of employment for the Managing Director are set out in a Service Agreement.

The contractual arrangements contain certain provisions typically found in contracts of this nature. The agreement commenced on 4 November 2002, is for no fixed term and is subject to a 2 month notice period of termination.

Payment of termination benefit by the employer, other than amongst other things for gross misconduct is equal to the payment limit set by Sub-section 200G of the Corporations Act 2001.

(d) Equity instrument disclosures relating to key management personnel

Unlisted Options Provided as Compensation

- (i) The remuneration of R I Williams includes 2,000,000 unlisted options issued pursuant to shareholders approval at a General Meeting held on 15 November 2006 and issued on 22 November 2006. The options were issued for nil consideration and are exercisable by payment of \$1.60 each on or before 30 November 2011 and have a 12 month vesting period. The options were valued using the Black Scholes option valuation methodology to be 56.7 cents each. There are no performance conditions associated with the issue and exercise of the options.
- (ii) The remuneration of AP James set out in the compensation table above includes 1,000,000 options issued on 24 July 2006. The options were issued for nil consideration and are exercisable by payment of 90 cents each on or before 31 July 2010 and have a 12 month vesting period. The options were independently valued using the Black Scholes option valuation methodology to be 30.05 cents each. There are no performance conditions associated with the issue and exercise of the options.

The fair value of the options is allocated to each reporting period evenly over the period from grant date to vesting date. The options were provided at no cost to the recipient and are subject to a continuing employment service condition.

Option holdings

The numbers of options over ordinary shares in the Company held during the financial year by each director of Avoca Resources Limited and other key management personnel of the Group, are set out below:

2007	Balance at start of the year	Granted during the year	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year
Directors						
R G Reynolds	500,000	-	-	-	500,000	-
R I Williams	3,250,000	2,000,000	-	-	5,250,000	-
S J Unwin	300,000	-	-	-	300,000	-
D F Quinlivan	300,000	-	-	-	300,000	-
Other key management personnel						
A P James	500,000	1,000,000	-	-	1,500,000	-
2006						
Directors						
R G Reynolds	300,000	500,000	(300,000)	-	500,000	-
R I Williams	3,250,000	1,000,000	(1,000,000)	-	3,250,000	-
S J Unwin	200,000	300,000	(200,000)	-	300,000	-
D F Quinlivan	-	300,000	-	-	300,000	-
Other key management personnel						
A P James	-	500,000	-	-	500,000	-

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2007

Share holdings

The number of shares in the Company held during the financial year by each director of Avoca Resources Limited and other key management personnel of the Group, including their personally related parties are set out below. There were no shares granted during the reporting period as compensation.

2007	Balance at start of the year	Received during the year on exercise of options	Shares purchased during the year	Shares sold during the year	Balance at the end of the year
Directors					
R G Reynolds	2,205,000	-	823,788	-	3,028,788
R I Williams	1,440,000	-	7,576	(320,000)	1,127,576
S J Unwin	272,500	-	3,788	-	276,288
D F Quinlivan	-	-	-	-	-
J A Castro	-	-	-	-	-
Other key management personnel					
A P James	21,000	-	3,788	-	24,788

2006	Balance at start of the year	Received during the year on exercise of options	Shares purchased during the year	Shares sold during the year	Balance at the end of the year
Directors					
R G Reynolds	1,905,000	300,000	-	-	2,205,000
R I Williams	440,000	1,000,000	-	-	1,440,000
S J Unwin	72,500	200,000	-	-	272,500
D F Quinlivan	-	-	-	-	-
Other key management personnel					
A P James	-	-	21,000	-	21,000

(e) Loans made to key management personnel

No loans were made to a director of Avoca Resources Limited or any other key personnel, including personally related entities during the reporting period.

(f) Other transactions with key management personnel

During the financial year Mr R G Reynolds provided consulting services to the Consolidated Entity. The consideration for these services was \$16,000 (2006: \$17,000).

	Consolidated		Company	
	2007 \$	2006 \$	2007 \$	2006 \$
Note 27 Remuneration of Auditors				
Audit and review of the Consolidated Entity's financial statements	21,390	13,200	21,390	13,200
Taxation services	15,800	1,750	15,800	1,750
	37,190	14,950	37,190	14,950

Note 28 Contingencies

(i) Contingent liabilities

There were no material contingent liabilities not provided for in the financial statements of the Company or Consolidated Entity as at 30 June 2007 other than:

Native Title and Aboriginal Heritage

Native title claims have been made with respect to areas which include tenements in which the Company has an interest. The Company is unable to determine the prospects for success or otherwise of the claims and, in any event, whether or not and to what extent the claims may significantly affect the Company or its projects. Agreement is being or has been reached with various native title claimants in relation to Aboriginal Heritage issues regarding certain areas in which the Company has an interest.

Contract with Australian Contract Mining

The company announced on 21 May 2007 that it had issued a Letter of Intent to award the development and haulage contract in respect of the Company's Higginsville mine to Australian Contract Mining Pty Ltd (ACM). The contract is intended to be a 5 year contract from 1 July 2007. In the event the Company terminates the contract within 36 months of the commencement date the Company will be liable to pay a termination payment of between \$0.55 million and \$2.5 million depending on when the contract is terminated.

At the date of signing of this report the contract has not yet been executed.

(ii) Contingent assets

There were no material contingent assets as at 30 June 2007.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2007

Note 29 Commitments

(a) Exploration

The Consolidated Entity has certain obligations to perform minimum exploration work on mineral leases held. These obligations may vary over time, depending on the Consolidated Entity's exploration programmes and priorities. As at balance date, total exploration expenditure commitments on tenements held by the Consolidated Entity have not been provided for in the financial statements and which cover the following twelve month period amount to be \$3,955,601 (2006: \$3,434,600). These obligations are also subject to variations by farm-out arrangements or sale of the relevant tenements. This commitment does not include the expenditure commitments which are the responsibility of the joint venture partners.

(b) Operating Lease Commitments

Commitments for minimum lease payments in relation to non-cancellable operating leases are as follows:

	Consolidated		Company	
	2007 \$	2006 \$	2007 \$	2006 \$
Within one year	1,078,783	153,285	153,225	153,285
Later than one year but not later than five years	1,037,529	613,140	612,900	613,140
Later than five years	72,000	-	-	-
	2,188,312	766,425	766,125	766,425

Operating lease commitments relate to the lease of the Company's Perth office and lease of equipment associated with the development of the Company's Higginsville mine.

(c) Contractual Commitments

As at 30 June 2007 the Company was contracted to incur capital expenses in respect of the development of the Higginsville mine. The amount contracted for but not included as a liability as at 30 June 2007 was \$8,813,780.

The company announced on 21 May 2007 that it had issued a Letter of Intent to Award Contract to GR Engineering Services Pty Ltd (GRES) for the engineering, procurement and construction of a new 1 Mtpa CIL treatment plant. The maximum amount payable by the Company under this contract will be \$48.6 million with any cost savings below \$48.6 million to be shared equally between the Company and GRES.

Note 30 Related Party Transactions

The only related party to the entity not covered by the disclosures relating to key management personnel at note 26 is the wholly owned subsidiary Avoca Mining Limited (note 11).

During the year the Company advanced funds to Avoca Mining Limited totalling \$21,673,101 (2006: \$5,120,108). The funds were expended on exploration, evaluation and development activities at the Higginsville Gold Project.

There were no other related party transactions during the year.

Note 31 Interest in joint ventures

Included in capitalised exploration and evaluation expenditure (refer note 13) of the Consolidated Entity is an amount of \$80,760 which represents the Entity's interest in the assets and liabilities employed in joint ventures entered into by the Entity. There are no other amounts in the assets and liabilities of the Entity representing the Entity's interest in assets and liabilities employed in joint ventures.

The Entity's involvement in joint ventures is shown below:

	Interest %	Consolidated		Company	
		2007 \$	2006 \$	2007 \$	2006 \$
Wiluna South Gold Uranium Project JV ⁽ⁱ⁾	40	80,760	-	-	-

(i) Represents the Consolidated Entity's share of the uranium rights in respect of the joint venture.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2007

Note 32 Events Occurring After the Balance Sheet Date

- (i) On 5 July 2007 the Company announced that it had reached a conditional agreement with Rex Minerals Limited (Rex) for the sale of the Company's South Australian Iron Oxide Copper-Gold Project. The consideration to Avoca for the sale of the Project is to be 6,000,000 shares in Rex at an initial listing price of \$0.25 per share and 1,000,000 four year options to acquire Rex shares at an exercise price of \$0.30 per share. The sale by the Company is conditional on Rex being admitted to the Official List of the ASX.
- (ii) On 25 July 2007 the Company announced that it had completed Tranche 1 of the acquisition of tenements from Chalice Gold Mines Limited as approved by the Company shareholders on 29 June 2007. The acquisition was satisfied by the issue of 3,496,503 fully paid shares in the Company (issued at \$1.43) and 2,000,000 three year options to acquire fully paid shares with a conversion price of \$1.79.
- (iii) On 27 July 2007 the Company granted 1,250,000 unlisted options over unissued shares to employees. The options are subject to vesting periods of between 24 and 48 months and are able to be exercised at between \$1.67 and \$1.88 each prior to 30 June 2012. The options were independently valued using the Black Scholes methodology at between 37.56 cents and 42.55 each.
- (iv) The Company issued 2,250,000 fully paid shares to Rohan Williams on 29 August 2007 upon the conversion of employee options. These options were previously approved by shareholders on 17 June 2004. The conversion price of the options was 25 cents each.

Other than the above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company to affect substantially the operations of the Consolidated Entity, the results of those operations or the state of affairs of the Consolidated Entity in subsequent financial years.

	Consolidated		Company	
	2007 \$	2006 \$	2007 \$	2006 \$
Note 33 Reconciliation of Loss after Tax to Net Cash Inflow from Operating Activities				
Loss from ordinary activities after income tax	(4,450,979)	(1,596,499)	(4,450,979)	(1,016,859)
Depreciation	351,664	43,925	351,664	43,925
Profit on sale of assets	-	(1,611)	-	(1,611)
Exploration costs written off	861,042	903,695	861,042	903,695
Share based payments expense	2,045,969	254,524	2,045,969	254,524
Reversal of provision for non recovery of loan	-	-	-	-
Movement in deferred tax asset	4,318	(435,162)	4,318	(1,014,802)
Change in operating assets and liabilities:				
(Increase)/decrease in prepaid expenses	(30,934)	36,161	(30,934)	36,161
(Increase)/decrease in receivables	(423,824)	(2,727)	(423,824)	(2,727)
(Increase)/decrease in accrued interest income	(417,198)	(30,717)	(417,198)	(30,717)
Increase/(decrease) in payables	517,004	84,412	517,004	84,412
Increase/(decrease) in provisions	59,625	28,322	59,625	28,322
Net cash outflow from operating activities	(1,483,313)	(715,677)	(1,483,313)	(715,677)

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2007

	Consolidated	
	2007 \$	2006 \$
Note 34 Earnings per Share		
(a) Basic earnings per share		
Loss attributable to ordinary equity holders of the Company	(2.7)	(1.2)
(b) Diluted earnings per share		
Loss attributable to ordinary equity holders of the Company	(2.7)	(1.2)
(c) Loss used in calculation of basic and diluted loss per share		
Loss after tax from continuing operations	(4,450,979)	(1,596,499)
(d) Weighted average number of shares used as the denominator		
Weighted average number of shares used as the denominator in calculating basic earnings per share	163,094,870	137,008,115

The Consolidated Entity has on issue 14,100,000 (2006: 9,050,000) options over unissued ordinary shares which are not considered dilutive.

(e) Information concerning the classification of securities

(i) Options

Options to acquire ordinary shares granted by the Company and not exercised at the reporting date are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The options have not been included in the determination of basic earnings per share.

DIRECTORS' DECLARATION

In the opinion of the Directors of Avoca Resources Limited ("the Company")

- (a) the financial statements and notes set out on pages 47 to 73 are in accordance with the Corporations Act 2001, including:
- (i) complying with Accounting Standards and the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the financial position of the Company and Consolidated Entity as at 30 June 2007 and of their performance, as represented by the results of their operations, changes in equity and their cash flows, for the financial year ended on that date.
- (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.

The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2007.

This declaration is made in accordance with a resolution of the Directors.

A handwritten signature in black ink, appearing to read 'R I Williams', with a long horizontal flourish extending to the right.

Signed at Perth this 26th day of September 2007.

R I Williams
Director

**INDEPENDENT AUDITOR REPORT
TO THE MEMBERS OF AVOCA RESOURCES LIMITED**

Scope

We have audited the attached financial report, being a general purpose financial report of Avoca Resources Limited for the financial year ended 30 June 2007 as set out on pages 47 to 74 comprising the company and the entity it controlled at the year's end or from time to time during the financial year.

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 Australian Accounting Standards (including Australian Accounting Interpretations) and the Corporations Act 2001.

This responsibility also includes establishing and maintaining internal control 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.

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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control 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 control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by 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 complied with the independence requirements of the Corporations Act 2001.

Auditor's Opinion

In our opinion, the financial report of Avoca Resources Limited is in accordance with the Corporations Act 2001, including:

- a) 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
- b) complying with Australian Accounting Standards (including Australian Accounting Interpretations) and the Corporations Regulations 2001.

Butler Settineri (Audit) Pty Ltd

BUTLER SETTINERI (AUDIT) PTY LTD

Lucy Gardner

LUCY P GARDNER
Director

Perth
Date: 26 September 2007

Butler Settineri (Audit) Pty Ltd
A.C.N. 112 942 373
Registered Company Auditor Number 289109

Chartered
Accountants



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