

## Directors' Report

The Directors present their report on the consolidated entity consisting of Avoca Resources Limited and the entity it controlled at the end of and during the year ended 30 June 2008.

### Directors

The following persons held office as Directors of Avoca Resources Limited during the whole of the financial year and up to the date of this report:

Robert G Reynolds  
Rohan I Williams  
Stephanie J Unwin  
David F Quinlivan  
Jan A Castro

### Principal activities

During the year the principal continuing activities of the Group consisted of:

- Mineral exploration and development in Western Australia.
- Development of the Higginsville Gold Project and construction of associated infrastructure.

The following significant changes in the nature of the activities of the Group occurred during the year:

- Construction commenced and completed on surface infrastructure at the Higginsville Gold Project, which included 1Mtpa CIL gold treatment plant, 10 megawatt power station, services infrastructure for electricity and water and construction of the accommodation village.

### Dividends

No dividend has been paid since the end of the previous financial year and no dividend is recommended for the current year.

### Review of operations

The consolidated operating loss for the financial year of the consolidated entity after providing for income tax amounted to \$1,323,371 (2007: \$4,450,979).

During the year, the consolidated entity incurred capitalised expenditure on property, plant and equipment including mine properties under development of \$146,226,489 (2007: \$32,370,481) primarily resulting from the development of the Higginsville Gold Project. Capitalised mineral exploration, evaluation and acquisition expenditure incurred during the year for the consolidated entity was \$17,403,468 (2007: \$8,952,392).

At 30 June 2008 the consolidated entity had \$1,569,410 (2007: \$109,347,608) in cash and cash equivalents available. Available undrawn debt funding was \$23,000,000 (2007: nil) at balance date.

Further information on the operations and financial position of the Group and its business strategies and prospects is set out in the review of operations and activities on pages 6 - 21 of this annual report.

### Significant changes in the state of affairs

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

- An increase in contributed equity of \$14,447,016 (from \$106,521,638 to \$120,968,654) as a result of:

	<b>2008</b>
	<b>\$</b>
Issue of 5,695,000 fully paid ordinary shares @ between \$0.25 and \$0.90 each on the exercise of employee options	3,488,070
Issue of 2,000,000 fully paid ordinary shares @ \$1.79 each on exercise of options by Chalice Gold Mines Limited	4,783,276
Value of conversion rights on issue of convertible notes, net of deferred tax	1,000,000
Issue of 187,499 fully paid ordinary shares as consideration for the acquisition of various tenement interests	421,250
Issue of 3,496,503 fully paid ordinary shares as consideration for the acquisition of the Chalice tenement	5,000,000
<b>Less:</b>	
Transaction costs arising on share issues, net of current deferred tax	(245,580)
Net increase in share capital	<u>14,447,016</u>

- Net cash received from the increase in contributed equity amounting to \$6,343,000 was used principally to finance the exploration and development of the Higginsville Gold Project.

- Significant revenues, gains and expenses

	<b>2008</b>
	<b>\$</b>
<b>Revenues and Gains:</b>	
Interest income	3,578,551
Gain on disposal of exploration tenements	273,987
	<u>3,852,538</u>
<b>Expenses:</b>	
Write off exploration expenditure	2,922,529
Interest and finance charges	458,063
	<u>3,380,592</u>

## Directors' Report

### Significant changes in the state of affairs (continued)

#### (d) Financing facility

On 21 May 2008 the Company announced that it had reached financial close with respect to an AUD\$71 million multi-option secured facility. The debt facility comprises 3 tranches:

- (i) AUD\$23 million revolving line of credit with an initial term of 30 months from project commissioning which can be extended to a 42 month loan tenor upon certain conditions being met (Tranche 1);
- (ii) AUD\$43 million non-revolving facility with a 6 monthly amortising repayment schedule over a 30 month loan tenor from project commissioning (Tranche 2); and
- (iii) AUD\$5 million performance bond guarantee facility available for the term of the Tranche 1 facility.

In addition, the Company completed the purchase of put options for 438,933 ounces at a strike price of AUD\$830 per ounce. The put options are being financed on a deferred premium basis over a 34 month period.

### Matters subsequent to the end of financial year

Since balance date a conversion notice was received from a bond holder requesting the conversion of 5 bonds to 571,428 ordinary shares, representing a \$1 million increase in share capital. The ordinary shares were issued on 15 July 2008.

On 22 August 2008 the Company announced that recent infill drilling had intersected shallow high grade mineralisation at its Musket prospect situated 40km south-east of the Trident gold mine. The Company's focus at Musket is to prove up sufficient resources to develop an open pit mine capable of providing additional feed to the Higginsville treatment plant.

On 5 September 2008 the Company received notification from Australian Securities Exchange (ASX) that Avoca Resources Limited is officially a company listed on the ASX 200.

Other than the above, no other matter or circumstance has arisen since 30 June 2008 that has significantly affected, or may significantly affect:

- (a) the Group's operations in future financial years, or
- (b) the results of those operations in future financial years, or
- (c) the Group's state of affairs in future financial years.

### Likely developments and expected results of operations

Since 30 June 2008, Avoca Mining Pty Ltd continues to commission and performance test the 1Mtpa CIL gold treatment plant at Higginsville. The Company expects to complete the commissioning and testing of the plant over the following four months, and have achieved sustained operational performance at designed throughput rates.

The Group will continue its ongoing focus on exploration and evaluation activities within the Higginsville region comprising tenements located at Chalice, Two Boys, Fairplay and Musket.

Further exploration work will be undertaken on the Trident ore body, to increase the reserve and resource inventory and to investigate extensions to the ore body.

Additional comments on operations of the Group are included in this annual report under the review of operations and activities on pages 6 - 21.

Further information on likely developments in the operations of the Group and the expected results of operations have not been included in this annual financial report because the directors believe it would be likely to result in unreasonable prejudice to the Group.

### Environmental regulation and performance

The Group holds a number of licenses to regulate its exploration and mining activities in Australia. These licenses are subject to various environmental regulations.

So far as the Directors are aware, no material breach of relevant environmental legislation occurred during the year and up to the date of this report.

### Information on directors

The names and details of the Directors of Avoca Resources Limited during the financial year and until the date of this report are:

#### **Robert G Reynolds - CA, MAICD, MAIMM.**

Chairman - non-executive. Age 60

#### Experience and expertise

Mr Reynolds is a Chartered Accountant with over 35 years experience in commerce and practice. He joined Delta Gold Limited as its accountant and company secretary and became an executive director in 1988. He became a non-executive director in 1996 and remained as such until the merger with Goldfields Limited in late 2001. Mr Reynolds jointly oversaw the growth of Delta Gold Limited from a junior explorer to a medium size gold mining company. His role was corporate planning, overseeing corporate governance and supervision of administration and financial management.

#### Other current directorships in public companies

Mr Reynolds holds directorships in Global GeoScience Limited, appointed 19 December 2007; Exeter Resource Corporation, a company listed on TSXV appointed 28 June 2007 and Carlyle Mining Corp. a company listed on TSXV, appointed 24 January 2007.

#### Former directorships in last 3 years

None.

#### Special responsibilities

Mr Reynolds is Chair of the audit committee and member of the remuneration committee.

#### Interests in shares and options

2,028,788 ordinary shares in Avoca Resources Limited.  
500,000 options over ordinary shares in Avoca Resources Limited.

## Directors' Report

### Information on directors (continued)

#### **Rohan I Williams - B.Sc (Hons), MAIMM.**

Managing Director - Executive. Age 43

##### Experience and expertise

Mr Williams is a Geologist with over 18 years experience. Prior to joining Avoca Resources Limited was Chief Geologist of WMC Limited's St Ives Gold Operation. Mr Williams' previous exploration successes include the 1 million oz Belleisle gold deposit at St Ives Gold, the Daisy gold deposit at Central Norseman Gold Corporation and the Coronet Nickel Mine at Kambalda Nickel Operations.

##### Other current directorships in public company

Mr Williams holds no other directorships of listed companies.

##### Former directorships in last 3 years

None.

##### Interests in Share and Options

3,407,696 ordinary shares in Avoca Resources Limited.  
3,000,000 options over ordinary shares in Avoca Resources Limited.

#### **Stephanie J Unwin - LLB, B.Econ.**

Director - non-executive. Age 37

##### Experience and expertise

Ms Unwin is a commercial lawyer with a corporate resources background. She is currently Legal Counsel and Company Secretary for Verve Energy. Ms Unwin commenced her career with the Australian Securities and Investments Commission followed then, with Freehills. She then joined Craig Readhead & Co and was made a partner of the merge boutique practice Pullinger Readhead Stewart. Ms Unwin subsequently joined Maxim Litigation Consultants as a Principal. Ms Unwin has had extensive experience in providing both corporate and commercial legal services to predominantly resource companies, including joint ventures, takeovers, acquisitions, fundraising, initial public offerings and ASX and ASIC compliance matters as well as dispute resolution services.

##### Other current directorships

Ms Unwin holds no other directorships of listed companies.

##### Former directorships in last 3 years

None.

##### Special responsibilities

Ms Unwin is Chair of the remuneration committee and member of the occupational health safety & environment committee and risk and governance committee.

##### Interests in Share and Options

300,000 ordinary shares in Avoca Resources Limited.  
No options over ordinary shares in Avoca Resources Limited.

#### **David F Quinlivan - B.C (Mining) (AWASM), FAIMM, CP Min, ASIA, SIA.**

Director - non-executive. Age 53

##### Experience and expertise

Mr Quinlivan is a Mining Engineer and has been involved in the mining industry for over 30 years with broad operational and mining project management experience including numerous mining feasibility studies.

##### Other current directorships in public company

Mr Quinlivan is the principal of Borden Mining Services and a non-executive director of Churchill Mining Plc.

##### Former directorships in last 3 years

Former non-executive director of Jupiter Energy Limited, resigned 9 July 2007.

##### Special responsibilities

Mr Quinlivan is Chair of the occupational health safety and environment committee and a member of the audit committee.

##### Interests in Share and Options

No ordinary shares in Avoca Resources Limited.  
300,000 options over ordinary shares in Avoca Resources Limited.

#### **Mr Jan A Castro - JD, BA.**

Director - non-executive. Age 40

##### Experience and expertise

Jan Castro is a Managing Director of Pala Investments AG, the exclusive investment advisor to Pala Investments Holdings Ltd., an investment fund focusing on the mining sector with over \$1 billion under management. Prior to establishing Pala Investments AG in July 2006, Jan was Senior Vice President-Investments and Corporate Affairs for Mechel OAD, a major Russian mining and metals company listed on the New York Stock Exchange.

##### Other current directorships in public company

Mr Castro holds directorships in Anatolia Minerals Development Limited, a company listed on the TSX.

##### Former directorships in last 3 years

None.

##### Special responsibilities

Mr Castro is Chair of the risk and governance committee and member of the audit committee.

##### Interests in Share and Options

No ordinary shares in Avoca Resources Limited.  
No options over ordinary shares in Avoca Resources Limited.

#### **Company Secretary**

The company secretary is Mr Kevin Hart CA.

Mr Hart was appointed to the position of Company Secretary on 18 October 2004. He has over 20 years experience in accounting, management and administration of public listed entities in the mining and exploration industry.

He is currently a partner in an advisory firm which specialises in the provision of Company secretarial services to ASX listed entities.

## Directors' Report

### Meetings of directors

The number of meetings of the Company's Board of Directors and each Board committee held during the year ended 30 June 2008 and the number of meetings attended by each Director was:

Director	Full Meetings of Directors		Meetings of Committees							
			Audit		Occupational Health, Safety & Environment		Remuneration		Risk & Governance	
	A	B	A	B	A	B	A	B	A	B
Robert G Reynolds	11	11	3	3	*	*	1	1	*	*
Rohan I Williams	11	11	*	*	*	*	*	*	*	*
Stephanie J Unwin	11	11	*	*	3	3	1	1	1	1
David F Quinlivan	10	11	2	3	3	3	*	*	*	*
Jan A Castro	10	11	3	3	*	*	*	*	1	1

A Number of meetings attended

B Number of meetings held during the time the director held office or was a member of the committee during the year.

\* Not a member of the relevant committee

### Remuneration report

The remuneration report is set out under the following main headings:

- A Principles used to determine the nature and amount of remuneration
- B Details of remuneration
- C Service agreements
- D Share-based compensation
- E Additional information

The information provided in this remuneration report has been audited as required by section 308(3C) of the *Corporations Act 2001*.

#### A Principles used to determine the nature and amount of remuneration

The objective of the Group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and conforms with market practice for delivery of reward. The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage / alignment of executive compensation
- transparency
- capital management.

In consultation with external remuneration consultants, the Group has structured an executive remuneration framework that is market competitive and complimentary to the reward strategy of the organisation.

Alignment to shareholders' interests:

- focuses on sustained growth in shareholder wealth, consisting of growth in share price, and delivering constant return on assets as well as focusing the executive on key non financial drivers of value
- attracts and retains high calibre executives
- has economic profit as a core component of plan design.

Alignment to program participants' interests:

- rewards capability and experience
- reflects competitive reward for contribution to growth in shareholder wealth
- provides a clear structure for earning rewards
- provides recognition for contribution.

The framework provides a mix of fixed and variable pay, and a blend of short and long term incentives. As executives gain seniority within the group, the balance of this mix shifts to a higher proportion of "at risk" rewards.

The Board has established a remuneration committee which provides advice on remuneration and incentive policies and practices and specific recommendations on remuneration packages and other terms of employment for executive directors, other senior executives and non-executive directors. The committee also oversees the remuneration policies for employees. The Corporate Governance Statement provides further information on the role of this committee.

## Directors' Report

### A Principles used to determine the nature and amount of remuneration (continued)

#### Non-executive directors

Total remuneration for all Non-Executive Directors was last voted upon by shareholders on 14 November 2007, whereby it is not to exceed \$500,000 per annum. Non-Executive Directors do not receive bonuses.

Directors' fees cover all main Board activities. An additional fee is paid for 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. No payments were made during the year for serving on committees.

#### Executive Pay

- base pay and benefits, including superannuation,
- short term performance incentives, and
- long term incentives through participation in the Avoca Resources Limited Directors, Officers, Employees and other permitted persons Option Plan.

The combination of these comprises the executive's total remuneration.

#### Base pay

Structured as a total employment cost package which may be delivered as a combination of cash and prescribed non-financial benefits at the executives' discretion.

Executives are offered a competitive base pay that comprises the fixed component of pay and rewards. External remuneration consultants provide analysis and advice to ensure base pay is set to reflect the market for a comparable role. Base pay for executives is reviewed annually to ensure the executive's pay is competitive with the market. An executive's pay is also reviewed on promotion.

There are no guaranteed base pay increases included in any executives' contracts.

#### Benefits

Executives can salary sacrifice certain benefits including motor vehicle and remote area housing benefits.

#### Superannuation

Retirement benefits are paid to complying superannuation funds nominated by the executives. During the period ended 30 June 2008, the Company contribution rate was 9% of ordinary time earnings. Effective 1 March 2008 the remuneration committee approved an increase in this rate to 11% of ordinary time earnings for all employees.

#### Short term incentives

The remuneration committee is responsible for setting appropriate targets and key performance indicators that link to the short-term incentive plan ('STI'). The committee has not established any ongoing short-term incentives apart from:

- A once off construction completion bonus which is a discretionary short-term incentive pool capped at \$500,000, which recognises all employee contributions towards the successful development of the Higginsville Gold Project.

The allocation of this short-term incentive is based on a number of objectives including expenditure compliance to budget, on time completion of construction works and personal contribution made. This STI has not been paid at 30 June 2008, however a provision for this amount was made at balance date.

- 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.

The remuneration committee is responsible for assessing whether the KPI's are met. To help make this assessment, the committee receives detailed reports on performance from management and external remuneration consultants.

The short-term bonus payments may be adjusted up or down in line with under or over achievement against the target performance levels. This is at the discretion of the remuneration committee.

The remuneration committee will develop over the following financial year further policy and plans around short-term incentives that reflect the operational changes to the group's activities as the group transitions from a focus on exploration and mine construction to a focus on gold production.

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

#### Long-term incentives

Long term incentives are provided to certain employees via the Avoca Resources Limited Directors, Officers, Employees and other permitted persons Option Plan, see page 42 for further information.

## Directors' Report

### B Details of remuneration

#### Amounts of remuneration

Details of the remuneration of the directors, the key management personnel of the Group (as defined in AASB 124 Related Party Disclosures) and specified executives of Avoca Resources Limited and the Avoca Resources Limited Group are set out in the following tables.

The key management personnel of the Group are the directors of Avoca Resources Limited (see pages 37 to 38 above) and those executives that report directly to the managing director being:

- A P James - Operations Manager
- G A Dyker - Chief Financial Officer
- S Roesler - Higginsville General Manager

Year ended 30 June 2008	Short-term employee benefits				Post-employment benefits	Long-term benefits	Share-based payments	Total \$
	Cash salary and fees \$	Consulting Fees \$	Cash bonus \$	Non-monetary benefits \$	Super-annuation \$	Long service leave \$	Options \$	
<b>Name</b>								
<b>Non-executive directors</b>								
R G Reynolds (Chairman) #1	60,000	19,000	-	-	6,000	-	1,394	86,394
S J Unwin	35,000	-	-	-	3,383	-	836	39,219
D F Quinlivan	35,000	-	-	-	3,383	-	836	39,219
J A Castro	35,000	-	-	-	-	-	-	35,000
<b>Sub-total non-executive directors</b>	<b>165,000</b>	<b>19,000</b>	<b>-</b>	<b>-</b>	<b>12,766</b>	<b>-</b>	<b>3,066</b>	<b>199,832</b>
Managing Director								
R I Williams ^	386,005	-	150,000	-	52,662	10,000	530,493	1,129,160
<b>Other senior executives</b>								
A P James ^	284,997	-	40,000	-	27,650	7,500	73,797	433,944
G A Dyker #2 ^	241,184	-	40,000	-	23,573	5,553	67,409	377,719
S Roesler *	204,997	-	30,000	-	41,816	8,369	91,249	376,431
<b>Total key management personnel compensation (Group)</b>	<b>1,282,183</b>	<b>19,000</b>	<b>260,000</b>	<b>-</b>	<b>158,467</b>	<b>31,422</b>	<b>766,014</b>	<b>2,517,086</b>

Year ended 30 June 2007	Short-term employee benefits				Post-employment benefits	Long-term benefits	Share-based payments	Total \$
	Cash salary and fees \$	Consulting Fees \$	Cash bonus \$	Non-monetary benefits \$	Super-annuation \$	Long service leave \$	Options \$	
<b>Name</b>								
<b>Non-executive directors:</b>								
R G Reynolds (Chairman) #1	60,000	16,000	-	-	5,400	-	16,725	98,125
S J Unwin	35,000	-	-	-	3,150	-	10,035	48,185
D F Quinlivan	35,000	-	-	-	3,150	-	10,035	48,185
J A Castro	14,583	-	-	-	-	-	-	14,583
<b>Sub-total non-executive directors</b>	<b>144,583</b>	<b>16,000</b>	<b>-</b>	<b>-</b>	<b>11,700</b>	<b>-</b>	<b>36,795</b>	<b>209,078</b>
Managing Director								
R I Williams ^	276,494	-	-	-	39,599	-	741,977	1,058,070
<b>Other senior executives</b>								
A P James ^	252,502	-	-	-	22,725	-	339,691	614,918
G A Dyker #2 ^	-	-	-	-	-	-	-	-
S Roesler *	91,235	-	-	-	8,211	-	-	99,446
<b>Total key management personnel compensation (Group)</b>	<b>764,814</b>	<b>16,000</b>	<b>-</b>	<b>-</b>	<b>82,235</b>	<b>-</b>	<b>1,118,463</b>	<b>1,981,512</b>

#1 Mr R G Reynolds provided consulting services in addition to the directorship held with the company

#2 Mr G A Dyker commenced employment with Avoca Resources Limited on 18 July 2007

^ Executives of consolidated and Parent company

\* Executive of the Company

## Directors' Report

### B Details of remuneration (continued)

The relative proportions of total remuneration that are linked to performance incentive and those that are fixed are as follows:

Name	Fixed remuneration		At risk - STI <sup>(1)</sup>		At risk - LTI <sup>(2)</sup>	
	2008	2007	2008	2007	2008	2007
<b>Executive directors of Avoca Resources Limited</b>						
R I Williams	40%	30%	13%	-	47%	70%
<b>Other key management personnel of the Group</b>						
A P James	74%	45%	9%	-	17%	55%
G A Dyker	72%	0%	11%	-	18%	-
S Roesler	68%	100%	8%	-	24%	-

(1) At risk - Short-term incentives includes cash bonus paid during financial year

(2) At risk - Long-term incentives includes share options amortised during financial year

### C Service agreements

Remuneration and other terms of employment for the Managing Director and the other key management personnel are formalised in service agreements. Each of these agreements provide for the provision of performance-related cash bonuses and participation, when eligible, in the Avoca Resources Limited Directors, Officers, Employees and other permitted persons Option Plan. Other major provisions of the agreements relating to remuneration are set out below:

All contracts with executives may be terminated early by either party with notice as set out in their service agreement, subject to termination payments as detailed below.

R I Williams, Managing Director

- Term of agreement - no fixed term commencing 4 November 2002.
- Termination notice - two months notice.
- Payment of a 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*.

A P James, Operations Manager

- Term of agreement - no fixed term commencing 6 March 2006.
- Termination notice - two months notice.

G A Dyker, Chief Financial Officer

- Term of agreement - no fixed term commencing 18 July 2007.
- Termination notice - two months notice.

S Roesler, Higginsville General Manager

- Term of agreement - no fixed term commencing 29 January 2007
- Termination notice - one month notice.

### D Share-based compensation

Options

Options over shares in Avoca Resources Limited are granted under the Avoca Resources Limited Directors, Officers, Employees and other permitted persons Option Plan which was approved by a special resolution at a general meeting of shareholders of the Company held on the 14 November 2007. The Option Plan is designed to provide long-term incentives for executives to deliver long-term shareholder returns. Under the Plan, participants are granted options which only vest if certain performance standards are met and the employees who have been continuously employed by the Group and are still employed by the Group at the end of the vesting period. The Plan allows the Company to issue free options to an eligible person. The options 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. Participation in the Plan is at the Board's discretion and no individual has a contractual right to participate in the Plan or to receive any guaranteed benefits.

## Directors' Report

### D Share-based compensation (continued)

The terms and conditions of each grant of options affecting remuneration in the previous, this or future reporting periods are as follows:

Grant Date	Date vested & exercisable	Expiry Date	Exercise price	Value per option at date of grant *
25-Jul-05	25-Jul-07	31-Jul-10	\$0.45	\$0.07
22-Jul-06	22-Jul-08	01-Mar-10	\$0.75	\$0.24
24-Jul-06	01-Aug-07	20-Jun-11	\$0.90	\$0.30
15-Nov-06	22-Nov-09	30-Nov-11	\$1.60	\$0.81
28-Dec-06	22-Dec-08	31-Dec-11	\$1.65	\$0.65
10-Sep-07	10-Sep-09	30-Jun-12	\$1.65	\$0.44
10-Sep-07	10-Sep-10	30-Jun-12	\$1.79	\$0.42
09-Jul-07	09-Jul-09	30-Jun-12	\$1.64	\$0.43
09-Jul-07	09-Jul-10	30-Jun-12	\$1.76	\$0.40
09-Jul-07	09-Jul-11	30-Jun-12	\$1.84	\$0.38

\* Value per option at date of grant is calculated using Black-Scholes Option Pricing model at grant date

Options granted under the Plan carry no dividend or voting rights.

The exercise price of options is set at a premium to the volume weighted average price at which the company's shares are traded on the Australian Securities Exchange during the week up to and including the date of grant and/or acceptance of an employment offer.

The Plan rules contain a restriction on removing the 'at risk' aspect of the instruments granted to executives. Plan participants may not enter into any transaction designed to remove the 'at risk' aspect of the instrument before it vests.

Details of options over ordinary shares in the company provided as remuneration to each director of Avoca Resources Limited and each of the key management personnel of the parent entity and the Group are set out below. When exercisable, each option is convertible into one ordinary share of Avoca Resources Limited. Further information on the options is set out in note 34 to the financial statements.

Name	Number of options granted during the year		Number of options vested during the year	
	2008	2007	2008	2007
<b>Directors of Avoca Resources Limited</b>				
R G Reynolds	-	-	-	-
S J Unwin	-	-	-	-
D F Quinlivan	-	-	-	-
J A Castro	-	-	-	-
R I Williams <sup>(1-3)</sup>	1,000,000	2,000,000	2,000,000	-
<b>Other key management personnel of the Group</b>				
A P James	-	1,000,000	1,500,000	-
G A Dyker <sup>(4-5)</sup>	450,000	-	-	-
S Roesler	-	400,000	-	-

The assessed fair value at grant date of options granted to the individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables above. Fair values at grant date are independently determined using a Black-Scholes Option Pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

## Directors' Report

### D Share-based compensation (continued)

The model inputs for options granted during the year ended 30 June 2008 are disclosed in the table below:

2008	1	2	3	4	5
Exercise price	\$1.64	\$1.76	\$1.84	\$1.65	\$1.79
Grant date	09-Jul-07	09-Jul-07	09-Jul-07	10-Sep-07	10-Sep-07
Expiry date	30-Jun-12	30-Jun-12	30-Jun-12	30-Jun-12	30-Jun-12
Share price at grant date	\$1.39	\$1.39	\$1.39	\$1.38	\$1.38
Expected price volatility	50.7%	50.7%	50.7%	50.7%	50.7%
Expected dividend yield	0%	0%	0%	0%	0%
Risk-free interest rate	6.1%	6.1%	6.1%	6.1%	6.1%

All options are granted for no consideration and vest based on the Plan's rules which allow periods of between 12 and 48 months. Vested options are exercisable for a period of 2 years after vesting.

#### Shares provided on exercise of remuneration options

Details of ordinary shares in the Company provided as a result of the exercise of remuneration options to each director of Avoca Resources Limited and other key management personnel of the Group are set out below:

	Date of grant	Date of exercise	No. of ordinary shares issued	Amount paid per share *
<b>Directors of Avoca Resources Limited</b>				
R G Reynolds	-	-	-	-
S J Unwin	25-Jul-05	12-Oct-07	300,000	\$0.45
D F Quinlivan	-	-	-	-
J A Castro	-	-	-	-
R I Williams	15-Jul-04	29-Aug-07	2,250,000	\$0.25
R I Williams	25-Jul-05	28-Sep-07	1,000,000	\$0.45
<b>Other key management personnel of the Group</b>				
A P James	27-Jul-06	02-Nov-07	500,000	\$0.90
G A Dyker	-	-	-	-
S Roesler	-	-	-	-

\* No amounts were unpaid on the shares issued on exercise of options.

For the year ended 30 June 2007 no options granted as remuneration were exercised by any directors or key management personnel.

### E Additional information

#### Company performance

The table below shows the performance of the Company as measured by the increase in its share price and growth in market capitalisation over the last five years:

Year	30-Jun-08	30-Jun-07	30-Jun-06	30-Jun-05	30-Jun-04
A\$ Per share	\$2.24	\$1.34	\$0.70	\$0.32	\$0.14
A\$'000 - Market capitalisation	497,123	281,372	104,188	37,453	11,990
A\$'000 - Loss	1,323	4,451	1,596	2,130	717

## Directors' Report

### E Additional information (continued)

Details of remuneration: cash bonuses and options

For each cash bonus and grant of options included in the tables on pages 41 to 42, the percentage of the available bonus or grant that was paid, or that vested, in the financial year, and the percentage that was forfeited because the person did not meet the service and performance criteria is set out below. No part of the bonuses is payable in future years. No options will vest if the conditions are not satisfied, hence the minimum value of the options yet to vest is nil. The maximum value of the options yet to vest has been determined as the amount of the grant date fair value of the options that is yet to be expensed.

Name	Cash bonus <sup>(1)</sup>		Options					
	Paid %	Forfeited %	Year granted	Vested %	Forfeited %	Financial years in which options may vest	Minimum total value of grant yet to vest \$	Maximum total value of grant yet to vest \$
<b>Directors of Avoca Resources Limited</b>								
R G Reynolds	-	-	2005	100%	-	-	-	-
S J Unwin	-	-	-	-	-	-	-	-
D F Quinlivan	-	-	2005	100%	-	-	-	-
J A Castro	-	-	-	-	-	-	-	-
R I Williams	100%	-	2006	100%	-	-	-	-
R I Williams			2007	-	-	30/06/2010	-	44,678
			2007	-	-	30/06/2011	-	55,440
			2007	-	-	30/06/2010	-	78,876
<b>Other key management personnel of the Group</b>								
A P James	100%	-	2006	100%	-	-	-	-
G A Dyker	100%	-	2007	-	-	30/06/2010	-	64,816
G A Dyker			2007	-	-	30/06/2011	-	60,951
S Roesler	100%	-	2006	-	-	30/06/2009	-	43,604

(1) Amount included in the cash bonus remuneration for the year represents the discretion amount allocated from a short term incentive pool, which recognised employee contribution towards a number of objectives including expenditure compliance to budget, on time completion of construction works and personal contribution made.

Share-based compensation: options

Further details relating to options are set out below:

Name	A	B	C	D
	Remuneration consisting of options %	Value at grant date \$	Value at exercise date \$	Value at lapse date \$
<b>Directors of Avoca Resources Limited</b>				
R G Reynolds	1.6%	-	-	-
S J Unwin	2.1%	-	570,000	-
D F Quinlivan	2.1%	-	-	-
J A Castro	0.0%	-	-	-
R I Williams	47.0%	1,411,683	4,567,500	-
<b>Other key management personnel of the Group</b>				
A P James	17.0%	-	780,000	-
G A Dyker	17.8%	195,504	-	-
S Roesler	24.2%	-	-	-

A The percentage of the value of remuneration consisting of options is based on the value of options expensed during the current year.

B The value at grant date calculated in accordance with AASB 2 Share-based Payment of options granted during the year as part of remuneration.

C The value of options exercised during the year is calculated at the market price of shares of the company as at close of trading on the date the options were exercised after deducting the price paid to exercise the options.

D The value at lapse date of options that were granted as part of remuneration and that lapsed during the year because a vesting condition was not satisfied. The value is determined at the time of lapsing, but assuming the condition was satisfied.

## Directors' Report

### Loans to directors and executives

There were no loans to directors and executives during the financial year.

### Shares under option

#### Unlisted Options

Unissued ordinary shares of Avoca Resources Limited under option at the date of this report are as follows:

Date options granted	Expiry date	Issue price of shares	Number under option
Various	30-Jun-09	\$0.25	200,000
Various	31-Jul-10	\$0.45	2,100,000
22-May-06	01-Mar-10	\$0.75	500,000
24-Jul-06	30-Jun-11	\$0.90	2,305,000
15-Nov-06	30-Nov-11	\$1.60	2,000,000
26-Oct-06	31-Oct-09	\$1.39	350,000
18-Dec-06	31-Dec-11	\$1.65	700,000
09-Jul-07	30-Jun-12	\$1.64	300,000
09-Jul-07	30-Jun-12	\$1.76	300,000
09-Jul-07	30-Jun-12	\$1.84	400,000
09-Jul-07	30-Jun-12	\$1.66	150,000
09-Jul-07	30-Jun-12	\$1.80	100,000
10-Sep-07	30-Jun-12	\$1.65	250,000
10-Sep-07	30-Jun-12	\$1.79	200,000
10-Sep-07	30-Jun-12	\$1.81	150,000
10-Sep-07	30-Jun-12	\$1.96	100,000
21-Dec-07	31-Dec-12	\$2.71	150,000
21-Dec-07	31-Dec-12	\$2.95	100,000
30-Apr-08	31-Mar-13	\$2.66	150,000
30-Apr-08	31-Mar-13	\$2.88	100,000
			<b>10,605,000</b>

No option holder has any right under the options to participate in any other share issue of the company or any other entity.

### Shares issued on the exercise of options

The following ordinary shares of Avoca Resources Limited were issued during the year ended 30 June 2008 on the exercise of options granted. Subsequent to the financial year a further 355,000 shares were issued on the exercise of employee options.

Date options granted	Issue price of shares	No of shares issued
Various	\$0.25	2,250,000
Various	\$0.45	2,000,000
24-July-06	\$0.90	1,445,000
25-July-07	\$1.79	2,000,000
		<b>7,695,000</b>

### Insurance of officers

During the financial year the Company paid an insurance premium of \$53,884 (2007: \$37,725) to insure certain officers of the Company. The officers of the Company covered by the insurance policy include the directors named in this report.

The Directors and Officers Liability insurance provides cover against legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers, the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Company. The insurance policy does not contain details of the premium paid in respect of individual officers of the Company. Disclosure of the nature of the liability cover and the amount of the premium is subject to a confidentiality clause under the insurance policy.

The Company has not provided any insurance for an auditor of the Company.

## Directors' Report

### Proceedings on behalf of the company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

### Non-audit services

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and the Group are important.

Details of the amounts paid or payable to the auditor PricewaterhouseCoopers for audit services provided during the year are set out below.

The Board of directors have considered the position, and in accordance with advice received from the audit committee, is satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor
- none of the services undermine the general principles relating to auditor independence as set out in *APES 110 Code of Ethics for Professional Accountants*.

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	Consolidated	
	2008 \$	2007 \$
<b>Audit services</b>		
PricewaterhouseCoopers Australian firm:		
Audit and review of financial reports	58,500	-
Non-PricewaterhouseCoopers audit firm:		
Audit and review of financial reports (Butler Settineri)	25,118	21,390
<b>Total remuneration for audit services</b>	<b>83,618</b>	<b>21,390</b>

### Auditor's Independence declaration

A copy of the Auditor's Independence Declaration as required under Section 307C of the *Corporations Act 2001* is set out on Page 48.

### Auditor

PricewaterhouseCoopers was appointed on 14 November 2007 and continues in office in accordance with section 327 of the *Corporation Act 2001*.

This report is made in accordance with a resolution of Directors.



**R I Williams**

Director

Dated at Perth this 30th September 2008.

PricewaterhouseCoopers  
ABN 52 780 433 757

QV1  
250 St Georges Terrace  
PERTH WA 6000  
GPO Box D198  
PERTH WA 6840  
DX 77 Perth  
Australia  
Telephone +61 8 9238 3000  
Facsimile +61 8 9238 3999  
[www.pwc.com/au](http://www.pwc.com/au)

## Auditor's Independence Declaration

As lead auditor for the audit of Avoca Resources Limited for the year ended 30 June 2008, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Avoca Resources Limited and the entities it controlled during the period.



Nick Henry  
Partner  
PricewaterhouseCoopers

Perth  
30 September 2008