



ABN 85 126 379 646

Financial Report

30 June 2008

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CORPORATE DIRECTORY

Directors

Mr Matthew Wood (Chairman)
Mr Anthony Polglase (Managing Director)
Mr Colin Jones (Non Executive Director)
Mr Wayne Phillips (Non Executive Director)

Company Secretary

Mr Scott Funston

Registered Office

Level 2
675 Murray Street
West Perth WA 6005

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Facsimile: +61 8 9226 2027
Website: www.avancoresources.com

Share Registry

Computershare Investor Services Pty Ltd
Level 2
45 St Georges Terrace
Perth WA 6000
Telephone: +61 8 9323 2000
Facsimile: +61 8 9323 2033

Auditors

Ernst & Young
11 Mounts Bay Road
Perth WA 6000 Australia

Stock Exchange

The Company's securities are quoted on the official list of the Australian Securities Exchange Limited, the home branch being Perth.
ASX Code: AVB and AVBO

Directors' Report

The Directors present their report for Avanco Resources Limited ("Avanco" or "the Company") and its subsidiaries for the year ended 30 June 2008. The company was incorporated on 4 July 2007, therefore there are no comparatives for 30 June 2007.

DIRECTORS

The names, qualifications and experience of the Company's Directors in office during the period and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Mr Matthew Wood

Chairman

Mr Wood has over 16 years experience in the resources sector with both major and junior mining companies and has extensive experience in the technical and economic evaluation of resource projects throughout the world. Mr Wood has an honours degree in geology from the University of New South Wales in Australia and a graduate certificate in mineral economics from the Western Australian School of Mines.

Mr Wood's expertise is in project identification, negotiation, acquisition and corporate development. In addition, he has led or been involved with successful discovery teams responsible for defining a number of gold and base metal deposits, including the Challenger gold deposit in South Australia and the Fortitude and Rosemont gold deposits in Western Australia.

Mr Wood has spent a considerable time in Brazil leading a number of exploration projects and is very familiar with the geology associated with the Brazilian gold and metalliferous regions.

Mr. Wood was a Director of Iberian Resources Limited (appointed 21 October 2003, resigned 15 August 2007), Overland Resources Limited (appointed 9 May 2005, resigned 30 June 2008) and Elk Petroleum Limited (appointed 19 January 2005, resigned 8 March 2007). Mr. Wood is currently a director of Black Range Minerals Limited (appointed 27 June 2005), Signature Metals Limited (appointed 19 February 2007) and Bellamel Mining Limited (appointed 16 May 2007).

Mr Anthony Polglase

Managing Director

With 30 years multi-disciplined mining experience across 10 different countries, Mr Polglase is qualified in mechanical and electrical engineering with an honours degree in Metallurgy from the Camborne School of Mines, UK.

Mr. Polglase has acquired detailed knowledge relating the development and operation of gold, copper, lead, zinc and tin projects and has either been responsible for or closely involved with the commissioning of more than seven mining projects. Previous employers include Iberian Resources, Ivernia Corp, Rio Tinto, TVX and Ashanti Goldfields.

Project management including critical evaluation, implementation and commissioning are Mr Polglase's strengths. Mr Polglase has a demonstrated ability of successfully bringing projects on line in the most challenging of environments including former Soviet Union countries.

Mr. Polglase is fluent in Portuguese and resides in Brazil.

Mr. Polglase and is a Non Executive Director of Overland Resources Limited (appointed 17 January 2008) and has not held any other Directorships over the past three years.

Directors' Report

Mr Colin Jones - appointed 10 September 2007

Non-Executive Director

Mr Jones started his mining career with British Coal in South Wales and following Coal Mine certification, completed a mining degree at Cardiff University in the UK. Several years of contract management followed with Thyssens, supervising development, including mechanised mine development and shaft sinking activities. His executive mine management experience culminated at Rio Tinto's world class Copper Mine in Portugal where he was the Project Manager and later became the Director of Production.

Mr Jones consulting expertise includes 15 years with Rio Tinto Technical Services where, as Principal Consultant, he consulted globally. Mr Jones was responsible for the underground development of the Fortaleza Nickel Mine in Brazil and was a core consultant for the underground development at the Palabora mine in South Africa.

An authority in the application of the block caving method for economic mining of low grade deposits, Mr Jones is currently a consultant for the multi-billion dollar Resolution copper mine project in the US and is also a consultant for the underground mine development at Argyle Diamonds in Western Australia.

Mr Jones is an independent consultant, has an MBA, speaks Portuguese and maintains a residence in Brazil.

Mr Jones has not held any other Directorships over the past three years.

Mr Wayne Philips – appointed 5 October 2007

Non-Executive Director

Having graduated from the University of Rhodesia with a degree in Chemical Engineering, Mr Phillips migrated to Brazil in 1977 and has since become a Brazilian national. He is a fluent speaker of Portuguese.

Mr Phillips specialises in providing innovative practical solutions to complex metallurgy, with particular expertise in flotation and hydrometallurgy including copper oxide leaching and SX-EW.

Mr Phillips spent several years working within major engineering companies including SNC Lavalin, Kvaerner and Minproc as client representative for a number of major mining projects.

Mr Phillips is the current Technical Director of Kinross South America and oversees Kinross's Technical Service's activities in Brazil and Chile. Responsibilities include exploration, project development and assistance to operations in compliance and environmental regulatory issues.

Mr Phillips is currently involved in the \$470 million expansion of the world class Rio Paracatu gold mine and process plant in Brazil after which capacity will be increased from 20 to 60 million tpa.

Mr. Phillips has not held any other Directorships over the past three years.

Mr Scott Funston

Director – resigned 10 September 2007

Mr Funston is a qualified Chartered Accountant and Company Secretary with experience in the mining industry and the accounting profession. His expertise is financial management, regulatory compliance and general corporate advice. Mr Funston possesses a strong knowledge of the Australian Securities Exchange requirements and currently assists a number

Directors' Report

of resources companies operating throughout Australia, South America, USA and Canada with financial accounting, stock exchange compliance and regulatory activities.

Mr. Funston has not held any other Directorships over the past three years.

COMPANY SECRETARY

Mr. Funston resigned as a Director of the company on 10 September 2007 and remained the Company Secretary.

INTERESTS IN THE SECURITIES OF THE COMPANY

As at the date of this report, the interests of the Directors in the securities of Avanco Resources Limited are:

Director	Ordinary Shares	Options over Ordinary Shares exercisable at 20 cents each
M. Wood	4,625,001	4,715,001
A. Polglase	4,600,001	4,690,001
C. Jones	150,000	740,000
W. Phillips	150,000	740,000

RESULTS OF OPERATIONS

The Group's net loss after taxation attributable to the members of Avanco Resources for the year to 30 June 2008 was \$1,022,710.

DIVIDENDS

No dividend was paid or declared by the Company in the year since the end of the period and up to the date of this report.

CORPORATE STRUCTURE

Avanco Resources Limited is a company limited by shares, which is incorporated and domiciled in Australia.

NATURE OF OPERATIONS AND PRINCIPAL ACTIVITIES

During the financial year, the principal activity was mineral exploration. The Company currently holds copper and gold projects in Brazil.

EMPLOYEES

The Company had no employees at 30 June 2008.

REVIEW OF OPERATIONS

Avanco Resources Limited listed on the ASX on 13 December 2007 following its fully subscribed Initial Public Offer.

The Company is very pleased to report that exploration activities over the last year have resulted in the discovery of the Antas South Copper Deposit in northern Brazil. The Antas South Deposit is now shaping up to not only to be very large, but has recently been proven to contain an exceptionally high grade copper mineralised zone. Exploration drilling at the Carajas Copper Project commenced in January 2008. To date, 73 diamond core holes for over 5,200m have been completed at the Antas South and Antas North Deposits. A further 65 RC/Air Core holes for 3,200m have been drilled at the Antas South Deposit.

Directors' Report

Recent drilling results returned from the Antas South Deposit at Avanco's 100% owned Rio Verde Property include:

ARVA-17	38m at 7.49% Cu from 0m including 14m at 18.99% Cu from 22m
ARVA-24	26m at 5.47% Cu from 18m including 6m at 21.02% Cu from 32m
ARVA-49	20m at 5.12% Cu from 13m including 4m at 21.53% Cu from 17m

The drilling intersects confirm that the Antas South Deposit and the greater Rio Verde property host very high grade copper oxide zones. The existence of high value copper at surface will significantly enhance the potential project economics of the Rio Verde Mine development by facilitating early mining of high grade, free-digging starter-pits with the benefit of little or no waste pre-strip. The drilling results indicate that the length of the high grade zone may extend to over 300m of strike length. Additional results for the Antas South Deposit include:

ARVA-02	34m at 0.70% Cu from 0m including 12m at 1.22% Cu from 4m
AVRA-08	26m at 1.02% Cu from 0m including 8.00m at 1.63% Cu from 2m including 4m at 1.48% Cu from 20m 12m at 1.11% Cu from 36m
ARVA-12	16m at 1.00% Cu from 36m including 8m at 1.45% Cu from 40m
ARVA-22	42m at 0.54% Cu from 0m Including 12m at 1.04% Cu from 22m
ARVA-27	20m at 1.24% Cu from 0m
ARVA-30	10m at 0.77% Cu from 4m 11m at 1.65% Cu from 40m including 2m at 7.05% Cu from 48m
ARVA-31	10m at 1.13% Cu from 0m
ARVA-32	40m at 0.65% Cu from 0m including 10m at 1.02% Cu from 20m
ARVA-45	62m at 0.84% Cu from 0m including 32m at 1.17% Cu from 20m
ARVA-46	14m at 1.17% Cu from 0m including 8m at 1.56% Cu from 4m

ANTAS SOUTH DEPOSIT HIGHLIGHTS

- Mineralisation now delineated over a strike length of two kilometres and is open to the southeast.
- A very high grade zone (**+5% copper**) recently discovered is interpreted to extend for over 300m of strike length.
- High grade +1.0% Cu mineralisation from surface to 50m (true) depth.

Directors' Report

- Drill results will be included in a maiden JORC resource estimate scheduled for fourth quarter 2008.
- Field reconnaissance has discovered copper showings at surface outside the main Antas South soil anomaly.
- Additional High grade copper oxide mineralisation has been discovered at Antas North Deposit. The full potential is yet to be investigated.

CARAJAS COPPER PROJECT

There are six known copper targets within the boundaries of the 9,300ha 100% owned Rio Verde property, including Antas North and Antas South. The Lazinho, Capivara, Paulinho and Clovis targets are yet to be drilled to test for potential to host oxide copper deposits. The greater area is believed to host as yet further undiscovered ore bodies.

Exploration drilling at the Carajas Copper Project commenced in January 2008. To date, 73 diamond core holes for over 5,200m have been completed at the Antas South and Antas North Deposits. A further 65 RC/Air Core holes for 3,200m have been drilled at the Antas South Deposit. The Company anticipates completion of a further 7,000m of additional RC/Air Core drilling prior to year end. This program will target the following:

- Antas South and Antas North grade control drilling
- Further definition +5% orebody
- Step out drilling west of Antas South Deposit
- Initial drilling at Lazinho and Capivara Targets

The Company is now targeting an initial JORC Resource for the Antas South Deposit in the fourth quarter of 2008.

Drilling at the nearby Antas North Deposit commenced in July 2008 and although an initial drill hole returned very good results with +1% copper, it was evident after another ten drill holes that ground conditions were not conducive for satisfactory sample recoveries using diamond drilling. Consequently drilling activities at Antas North were suspended. Avanco will re-drill Antas North using RC drilling.

The recent discoveries of exceptionally high grade copper intercepts at Antas South prove that the Rio Verde property is host to high value zones which the Company believes will be beneficial to early project economics. Avanco envisages the development of shallow, open pit and free digging copper oxide deposits which are amenable to traditional leach and copper cathode production. This strategy is now being fast tracked with near term development activities including:

- JORC compliant resources estimate fourth quarter
- Vat Leach SX-EW metallurgical testing
- Trial Mining License application
- Prefeasibility study for +10,000tpa copper cathode production

The Rio Verde Property is located in a premier location for the development of a mining project and is close to sealed roads and power supplies. The project is located approximately 30 kilometres from Parauapebas, the regional capital, with a population in excess of 180,000 and growing. The Company is of the view that a potential mining development would benefit greatly from this location.

NEW COPPER PROJECTS

Avanco's Carajas Copper Project includes the Serra Verde and Trindade properties, both of which Avanco holds the rights to an option for 100% of tenure. The **Serra Verde Property** (7,500ha granted) is located two kilometres north of Rio Verde Property. The Company has reviewed historical data and considers the property to be prospective for oxide copper with a number of "near surface" high grade copper zones presenting drill targets.

Directors' Report

The Company has further strengthened its position in the Carajas by acquiring four additional exploration licenses considered prospective for copper. These properties relate to two discrete areas, Trindade North and Trindade South, with a combined area of 14,700ha. The **Trindade North Property** is a single tenement and is located proximal to Vale's world class N4 and N5 iron ore mines. Wide spaced soil geochemistry completed by Avanco has indicated that Trindade North is

anomalous for copper and iron ore. The Company has planned further soil geochemistry and a ground magnetic survey. The **Trindade South Property** comprises three contiguous tenements. Wide spaced soil geochemistry completed by Avanco confirm anomalous copper and nickel. The Trindade South property is close to Vale's southern iron ore formation and the Company considers these tenements prospective for copper, nickel and iron ore.

The Company continues to seek to expand its influence in the Carajas Province. A number of new oxide copper opportunities are being evaluated with a number of projects in the final stages of negotiations.

AVANCO'S EXPANDING OPPORTUNITIES

Throughout 2007 and 2008 Avanco has examined a number of opportunities relating to other commodities and Brazilian mineral provinces. Avanco has now compiled a significant asset portfolio. Those projects with approved exploration licenses, or with "priority rights" are:

- Central Brazilian Gold Project
- Bahian Copper-Lead-Zinc Project
- Paiui Manganese Projects
- Xingu Iron Project

Central Brazilian Gold

The Rio Uru Project was subjected to limited exploration activities by Western Mining Corporation (WMC) in the 1980's. WMC delineated a well defined gold in soil anomalous trend extending over 8km with widths of 300m to 1,100m. The main areas of soils interest are the Pilar, Barro Alto and Mambuca anomalies. The Pilar anomaly is believed to be the best potential target and measures 950m long by 100m to 300m wide, based on a 32 ppb gold contour. Pilar has a high grade soil zone with gold values greater than 165 ppb. Mambuca is located on the southeast extreme of the soils anomaly and is defined by a 32 ppb gold contour 500m long by 300m wide and is completely open in the southeast direction.

Avanco's 18 tenements that surround the central Rio Uru Property cover an extensive area. References given on geological maps indicate potential in the area not only for gold but also for the discovery of copper, nickel and titanium. Avanco has yet to fully evaluate the potential of the Rio Uru Project and greater areas. The company is currently evaluating potential joint ventures over this project with a number of partners with the aim of accelerating gold and base metals exploration.

Bahian Copper-Lead-Zinc Project

This project comprises ten contiguous tenements anomalous for copper, lead and zinc. The site is located near the village of Cafarnaum in the interior of Bahia State. A reconnaissance site visit and report undertaken by an independent consultancy group confirmed the prospectively of the project area. Analysis of rock chip samples collected from the area returned high base metal values. The Company has recently moved to increase its tenure in the area.

Paiui Manganese Project

These exploration tenements are under application with "priority rights". The project area is located close to the town of Sebastiao Barros on the Paiui-Bahia State border. The region is known to host manganese occurrences and manganese showings have been identified on the property.

Directors' Report

Xingu Iron Ore Project

The Xingu Iron Project covers an area of approximately 100,000ha in the north of Brazil in Para State. The project is prospective for iron ore and is strategically located on the major Xingu River. This affords an easy water transport route for potential ore logistics. On completion of a satisfactory due diligence exercise, Avanco expects to enter into a final and

binding agreement to acquire 100% of Xingu Iron Project. The Company will provide more detailed information relating to the above projects over the coming months.

Avanco through its subsidiaries AVB Mineracao, Avanco Resources Mineracao and Estrela Mineracao has made further applications for prospective copper, iron ore and manganese exploration areas. The Company expects to be able to release further news on these projects in the coming months as tenure status is confirmed.

CORPORATE

The development of the Carajas Copper Project into a commercial and profitable mining operation is Avanco's major focus. Consequently, a new company "**Estrela Metals Limited**" has been formed to spin off Avanco's iron and manganese portfolio. This assures a focus on Carajas Copper whilst allowing the considerable value in the iron ore and manganese projects to be examined and realised independently.

The Company went into voluntary suspension on 16 July 2008 for the purpose of completing a funding arrangement to take the Company forward. This has been hampered by the considerable turmoil on international and domestic markets. Drilling operations have now been temporarily suspended and expenditures are being minimised to conserve remaining cash. The Company continues to assess a number of options with the aim of taking the Company out of suspension.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Following lodgement of a prospectus dated 7 November 2007 for the issue of 20,000,000 shares at \$0.20 the Company was admitted onto the Official List and quotation for its securities on the Australian Securities Exchange commenced on 13 December 2007.

On 21 April 2008 the Company announced a pro-rata non-renounceable entitlement issue of options at \$0.01 to shareholders. The options have an exercise price of \$0.20 and will expire on 30 June 2010. The offer was completed on 21 May 2008, raising \$550,003.

On 28 April 2008 the Company announced a significant copper oxide discovery at the Antas South Deposit. Antas South is one of six copper mineralised zones on the Rio Verde Property.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

A prospectus is expected to be lodged with the ASIC on 1 October 2008 for an offer by way of a placement for the issue of 17,500,000 shares at 10 cents with an attaching option exercisable at 20 cents to raise \$1,750,000 to be completed in two tranches. The second tranche will require shareholder approval. The Company is confident that the offer pursuant to this prospectus will be fully subscribed.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

The Directors have excluded from this report any further information on the likely developments in the operations of the Company and the expected results of those operations in future financial years, as the Directors believe that it would be speculative and prejudicial to the interests of the Company.

Directors' Report

ENVIRONMENTAL REGULATIONS AND PERFORMANCE

The Company carries out operations that are subject to environmental regulations under legislation in Brazil. The Company has formal procedures in place to ensure regulations are adhered to. The Company is not aware of any breaches in relation to environmental matters.

SHARE OPTIONS

As at the date of this report, there were 57,045,003 unissued ordinary shares under options (57,045,003 at the reporting date). The details of the options at reporting date are as follows:

Number	Exercise Price \$	Expiry Date
55,000,003	0.20	30 June 2010
1,500,000	0.20	30 April 2013
545,000	0.35	12 May 2013
57,045,003		

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

No options expired or were exercised during the financial year or since the end of the financial year.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The Company has made an agreement indemnifying all the Directors and officers of the Company against all losses or liabilities incurred by each Director or officer in their capacity as Directors or officers of the Company to the extent permitted by the Corporation Act 2001. The indemnification specifically excludes wilful acts of negligence. The Company paid insurance premiums in respect of Directors' and Officers' Liability Insurance contracts for current officers of the Company, including officers of the Company's controlled entities. The liabilities insured are damages and 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 consolidated entity. The total amount of insurance premiums paid has not been disclosed due to confidentiality reasons.

DIRECTORS' MEETINGS

During the financial year, in addition to regular Board discussions, the number of meetings of directors held during the year and the number of meetings attended by each director were as follows:

Director	Number of Meetings Eligible to Attend	Number of Meetings Attended
Mr. Matthew Wood	3	3
Mr. Anthony Polglase	3	3
Mr. Colin Jones	3	3
Mr. Wayne Phillips	3	3
Mr. Scott Funston *	1	1

* Mr. Scott Funston resigned 10 September 2007 and remained Company Secretary

REMUNERATION REPORT (AUDITED)

This report outlines the remuneration arrangements in place for directors and executives of Avanco Resources Limited in accordance with the requirements of the *Corporation Act 2001* and its Regulations. For the purpose of this report, Key

Directors' Report

Management Personnel (KMP) of the Company are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of the Group, and includes the executives in the Company receiving the highest remuneration.

Details of Key Management Personnel

Mr. Matthew Wood	Chairman
Mr. Anthony Polglase	Managing Director
Mr. Colin Jones	Non Executive Director (appointed 10 September 2007)
Mr. Wayne Philips	Non Executive Director (appointed 5 October 2007)
Mr. Scott Funston	Non Executive Director (resigned 10 September 2007)

Remuneration Policy

The Board is responsible for determining and reviewing compensation arrangements for the Directors. The Board assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team. The Company does not link the nature and amount of the emoluments of such officers to the Company's financial or operational performance. The expected outcome of this remuneration structure is:

- Retention and motivation of Directors
- Performance rewards to allow Directors to share the rewards of the success of the Company

As part of its Corporate Governance Policies and Procedures, the board has adopted a formal Remuneration Committee Charter. Due to the current size of the Company and number of directors, the board has elected not to create a separate Remuneration Committee but has instead decided to undertake the function of the Committee as a full Board under the guidance of the formal charter.

The rewards for Directors' have no set or pre-determined performance conditions or key performance indicators as part of their remuneration due to the current nature of the business operations. The Board determines appropriate levels of performance rewards as and when they consider rewards are warranted. The Company has no policy on executives and directors entering into contracts to hedge their exposure to options or shares granted as part of their remuneration package.

Details of the nature and amount of each element of the emolument of each Director and Executive of the Company for the financial year are as follows:

2008	Short term			Share Based Payments	Post employment	Total
	Base Salary	Directors Fees	Consulting Fees			
Director	\$	\$	\$	Options \$	Superannuation \$	\$
Mr. Matthew Wood	-	-	55,000	-	-	55,000
Mr. Anthony Polglase	-	-	220,000	-	-	220,000
Mr. Colin Jones	-	-	32,297	20,225	-	52,522
Mr. Wayne Phillips	-	-	30,000	20,225	-	50,225
Mr. Scott Funston *	-	-	-	-	-	-
	-	-	337,297	40,450	-	377,747

* Mr. Scott Funston resigned 10 September 2007 and remained Company Secretary

Directors' Report

There were no other executive officers of the Company during the financial year. None of the elements of the remuneration were performance related.

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

30 June 2008	Grant Date	Grant Number	Exercise date	Expiry date/last exercise date	Value per option at grant date	Exercise price	Vested	% of Remuneration	Value of options \$
C. Jones	30/04/08	250,000	30/04/09	30/04/13	\$0.3229	\$0.20	Nil	25%	80,725
	30/04/08	250,000	30/04/10	30/04/13	\$0.3274	\$0.20	Nil	13%	81,850
W. Phillips	30/04/08	250,000	30/04/09	30/04/13	\$0.3229	\$0.20	Nil	26%	80,725
	30/04/08	250,000	30/04/10	30/04/13	\$0.3274	\$0.20	Nil	14%	81,850

There were no alterations to the terms and conditions of options granted as remuneration since their grant date. There were no forfeitures during the period. No options were exercised for the year ended 30 June 2008.

Options were granted as an incentive package for the purpose of identifying, evaluating and proposing to the Company any new projects. On resignation, any unvested options will be forfeited.

Options granted as part of remuneration have been valued using the Black-Scholes option pricing model, which takes account of factors such as the option exercise price, the current level and volatility of the underlying share price and the time to maturity of the option. Options granted under the plan carry no dividend or voting rights. Options granted to Directors vest 50% after twelve months and 50% after two years from the date of issue.

Executive Directors

The Managing Director, Mr Anthony Polglase, is employed under a written contract, which commenced on 1 August 2007 for a period of two years unless extended by both parties. The agreement may be terminated by Mr. Polglase at any time by giving twelve months notice in writing, or such shorter period of notice as may be agreed. The company may terminate the agreement by the board giving twelve months written notice or by paying an amount equivalent to twelve months fees (based on the agreed fee) or without notice in case of serious misconduct, at which time Mr. Polglase would be entitled to that portion of the agreed fee for services arising up to the date of termination. No additional director's fees will be paid to Mr. Polglase in addition to the fees paid under the written contract.

Non-Executive Directors

The Directors, Mr Matthew Wood, Mr. Colin Jones and Mr. Wayne Phillips are paid an annual consulting fee on a monthly basis. Their services may be terminated by either party at any time.

The aggregate remuneration for Directors has been set at an amount not to exceed \$500,000 per annum. This amount may only be increased with the approval of Shareholders at a general meeting.

Service Agreements

The Company entered a service agreement for certain administrative services and office space for a term of two years with MQB Ventures, a company of which Mr. Wood is a Director. The Company is required to give three months written notice to terminate the agreement.

Directors' Report

PROCEEDINGS ON BEHALF OF COMPANY

No person has applied for leave of court to bring proceedings on behalf of the Company or 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 any part of those proceedings. The Company was not a party to any such proceedings during the year.

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of Avanco Resources Limited support and have adhered to the principles of sound corporate governance. The Board recognises the recommendations of the Australian Securities Exchange Corporate Governance Council, and considers that Avanco Resources is in compliance with those guidelines, which are of importance to the commercial operation of a junior listed resources company. During the financial year, shareholders continued to receive the benefit of an efficient and cost-effective corporate governance policy for the Company. The Company's Corporate Governance Statement and disclosures are contained elsewhere in the annual report.

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

Section 307C of the Corporations Act 2001 requires the Company's auditors to provide the Directors of Avanco Resources with an Independence Declaration in relation to the audit of the full-year financial report. A copy of that declaration is included at page 44 of this report.

There were no non audit services provided by the Company's auditor.

Signed on behalf of the board in accordance with a resolution of the Directors.



Matthew Wood
Chairman
30 September 2008

Competent Person Statement

The information in this report that relates to Mineral Resources and Exploration Results are based on information compiled by Mr Matthew Wood who is a Member of the Australian Institute of Mining and Metallurgy. Mr Wood is the Chairman of Avanco Resources Limited. Mr Wood has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Wood consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

CORPORATE GOVERNANCE STATEMENT

The Board of Directors of Avanco Resources Limited (“Avanco Resources” or “the Company”) is responsible for corporate governance of the Company. The Board guides and monitors the business and affairs of the Company on behalf of the shareholders by whom they are elected and to whom they are accountable.

Upon listing the Company established a set of corporate governance policies and procedures. These were based on the Australian Securities Exchange Corporate Governance Council’s (the Council’s) “Principles of Good Corporate Governance and Best Practice Recommendations” (the Recommendations). In accordance with the Council’s recommendations, the Corporate Governance Statement must now contain certain specific information and must disclose the extent to which the company has followed the guidelines during the period. Where a recommendation has not been followed, that fact must be disclosed, together with the reasons for the departure. For further information on corporate governance policies adopted by the Company, refer to our website: www.avancoresources.com.

Structure of the Board

The skills, experience and expertise relevant to the position of Director held by each Director in office at the date of the annual report is included in the Directors’ Report. Directors of the Company are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered and independent judgement.

The Board has accepted the following definition of an Independent Director:

“An Independent Director is a Director who is not a member of management, is a Non-executive Director and who:

- is not a substantial shareholder (under the meaning of Corporations Law) of the Company or an officer of, or otherwise associated, directly or indirectly, with a substantial shareholder of the Company;
- has not within the last three years been employed in an executive capacity by the Company or another Company member, or been a Director after ceasing to hold any such employment;
- is not a principal of a professional adviser to the Company or another Company member;
- is not a significant consultant, supplier or customer of the Company or another Company member, or an officer of or otherwise associated, directly or indirectly, with a significant consultant, supplier or customer;
- has no significant contractual relationship with the Company or another Company member other than as a Director of the Company;
- is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director’s ability to act in the best interests of the Company.”

In accordance with the definition of independence above, Wayne Phillips and Colin Jones are Independent Directors. Accordingly, a majority of the board is not considered independent.

There are procedures in place, as agreed by the board, to enable Directors to seek independent professional advice on issues arising in the course of their duties at the company’s expense. The term in office held by each Director in office at the date of this report is as follows:

Name	Term in office
Matthew Wood	15 months
Anthony Polglase	15 months
Colin Jones	12 months
Wayne Phillips	11 months

CORPORATE GOVERNANCE STATEMENT

Nomination Committee

The Board has formally adopted a Nomination Committee Charter but given the present size of the Company, has not formed a separate Committee. Instead the function will be undertaken by the full Board in accordance with the policies and procedures outlined in the Nomination Committee Charter. At such time when the Company is of sufficient size a separate Nomination Committee will be formed.

Audit and Risk Management Committee

The Board has formally adopted an Audit and Risk Management Committee Charter but given the present size of the Company, has not formed a separate Committee. Instead the function of the Committee will be undertaken by the full Board in accordance with the policies and procedures outlined in the Audit and Risk Management Committee Charter. At such time when the Company is of sufficient size a separate Audit and Risk Management Committee will be formed.

It is the Board's responsibility to ensure that an effective internal control framework exists within the entity. This includes both internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial and non financial-information. It is the Board's responsibility for the establishment and maintenance of a framework of internal control of the Company.

Performance

The Board of Avanco Resources conducts its performance review of itself on an ongoing basis throughout the year. The small size of the company and hands on management style requires an increased level of interaction between directors and executives throughout the year. Board members meet amongst themselves both formally and informally. The Board considers that the current approach that it has adopted with regard to the review of its performance provides the best guidance and value to the Company.

Remuneration

It is the company's objective to provide maximum stakeholder benefit from the retention of a high quality board by remunerating directors fairly and appropriately with reference to relevant employment market conditions. To assist in achieving the objective the Board links the nature and amount of executive and directors' emoluments to the company's financial and operational performance. The expected outcome of this remuneration structure is:

- Retention and motivation of Directors
- Performance rewards to allow Directors to share the rewards of the success of the Company

For details of remuneration of Directors and Executives please refer to the Directors' Report.

The Board is responsible for determining and reviewing compensation arrangements for executive directors. The Board has formally adopted a Remuneration Committee Charter however given the present size of the Company, has not formed a separate Committee. Instead the function will be undertaken by the full Board in accordance with the policies and procedures outlined in the Remuneration Committee Charter. At such time when the Company is of sufficient size a separate Remuneration Committee will be formed.

There is no scheme to provide retirement benefits, other than statutory superannuation, to Non-executive Directors.

CORPORATE GOVERNANCE STATEMENT

Corporate Governance Compliance

During the financial year Avanco Resources has complied with each of the 10 Corporate Governance Principles and the corresponding Best Practice Recommendations, other than in relation to the matters specified below:

Best Practice Recommendation	Notification of Departure	Explanation of Departure
2.1	The Company does not have a majority of independent directors.	The Directors consider that the current structure and composition of the Board is appropriate to the size and nature of operations of the Company.
2.2	The chairman is not an independent director	The Directors consider that the current structure and composition of the Board is appropriate to the size and nature of operations of the Company.
2.4	The Company does not have a Nomination Committee	The role of the Nomination Committee has been assumed by the full Board operating under the Nomination Committee Charter adopted by the Board.
4.2/4.3	The Company does not have an Audit and Risk Management Committee	The role of the Audit and Risk Management Committee has been assumed by the full Board operating under the Audit and Risk Management Committee Charter adopted by the Board.
8.1	A Board performance review was not conducted during the year	The Board of Avanco Resources conducts its performance review of itself on an ongoing basis throughout the year. The small size of the company and hands on management style requires an increased level of interaction between directors and executives throughout the year. Board members meet amongst themselves both formally and informally. The Board considers that the current approach that it has adopted with regard to the review of its performance provides the best guidance and value to the Company.
9.2	The Company does not have a Remuneration Committee	The role of the Remuneration Committee has been assumed by the full Board operating under the Remuneration Committee Charter adopted by the Board.

Avanco Resources Limited

Income Statement for the year ended 30 June 2008

	Notes	Consolidated 2008 04/07/2007 to 30/06/08 \$	Parent 2008 04/07/2007 to 30/06/08 \$
Revenue			
Interest revenue		112,087	112,087
Marketing expenses		(36,220)	(33,944)
Public company costs		(25,941)	(25,376)
Consulting fees		(404,289)	(226,142)
Legal fees		(7,464)	(7,236)
Staff costs		(75,043)	(72,947)
Serviced office and outgoings		(119,371)	(110,000)
Travel expenses		(197,954)	(177,619)
Other expenses	4	(268,515)	(452,269)
Loss before income tax		(1,022,710)	(993,446)
Income tax expense	5	-	-
Loss after tax		(1,022,710)	(993,446)
Loss per share			
Basic loss per share (cents per share)	21	(2.20)	
Diluted loss per share (cents per share)	21	(2.20)	

Avanco Resources Limited

Balance Sheet as at 30 June 2008

	Notes	Consolidated 2008 \$	Parent 2008 \$
CURRENT ASSETS			
Cash and cash equivalents	6	1,687,524	1,460,447
Trade and other receivables	7	<u>45,428</u>	<u>12,258</u>
TOTAL CURRENT ASSETS		<u>1,732,952</u>	<u>1,472,705</u>
NON-CURRENT ASSETS			
Investments in subsidiaries	8	-	116,178
Other receivables	9	-	2,349,325
Property, plant and equipment	10	152,869	16,315
Deferred exploration and evaluation expenditure	11	<u>2,352,454</u>	<u>-</u>
TOTAL NON-CURRENT ASSETS		<u>2,505,323</u>	<u>2,481,818</u>
TOTAL ASSETS		<u>4,238,275</u>	<u>3,954,523</u>
CURRENT LIABILITIES			
Trade and other payables	12	<u>382,173</u>	<u>98,421</u>
TOTAL CURRENT LIABILITIES		<u>382,173</u>	<u>98,421</u>
TOTAL LIABILITIES		<u>382,173</u>	<u>98,421</u>
NET ASSETS		<u>3,856,102</u>	<u>3,856,102</u>
EQUITY			
Issued capital	13	4,226,601	4,226,601
Reserves	14	652,211	622,947
Accumulated losses	15	<u>(1,022,710)</u>	<u>(993,446)</u>
TOTAL EQUITY		<u>3,856,102</u>	<u>3,856,102</u>

Avanco Resources Limited

Cash Flow Statement *for the period from 4 July 2007 to 30 June 2008*

	Notes	Consolidated 2008 04/07/2007 to 30/06/08 \$	Parent 2008 04/07/2007 to 30/06/08 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments to suppliers		(1,005,821)	(637,935)
Interest received		112,087	112,087
NET CASH USED IN OPERATING ACTIVITIES	6	(893,734)	(525,848)
CASH FLOWS FROM INVESTING ACTIVITIES			
Loans to subsidiaries		-	(2,657,449)
Purchase of property, plant and equipment		(154,353)	(16,679)
Investment in controlled entity		-	(116,178)
Expenditure on exploration		(2,041,486)	-
NET CASH USED IN INVESTING ACTIVITIES		(2,195,839)	(2,790,306)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		4,503,003	4,503,003
Proceeds from issue of options		550,000	550,000
Share issue costs		(276,402)	(276,402)
NET CASH FROM FINANCING ACTIVITIES		4,776,601	4,776,601
Net increase in cash held		1,687,028	1,460,447
Cash and cash equivalents at beginning of period		-	-
Net foreign exchange differences		496	-
CASH AT END OF THE FINANCIAL YEAR	6	1,687,524	1,460,447

Avanco Resources Limited

Statement of Changes in Equity for the period from 4 July 2007 to 30 June 2008

Consolidated	Issued Capital	Accumulated Losses	Other Reserves	Total
	\$	\$	\$	\$
At 4 July 2007	-	-	-	-
Foreign currency translation	-	-	29,264	29,264
Total income and expense recognised directly in equity	-	-	29,264	29,264
Loss for the period	-	(1,022,710)	-	(1,022,710)
Total income and expense for the period	-	(1,022,710)	29,264	(993,446)
Equity Transactions:				
Shareholder equity contribution	4,503,003	-	-	4,503,003
Shareholder options contribution	-	-	550,000	550,000
Share based payments	-	-	72,947	72,947
Transaction costs on share issue	(276,402)	-	-	(276,402)
At 30 June 2008	4,226,601	(1,022,710)	652,211	3,856,102

Parent	Issued Capital	Accumulated Losses	Other Reserves	Total
	\$	\$	\$	\$
At 4 July 2007	-	-	-	-
Total income and expense recognised directly in equity	-	-	-	-
Loss for the period	-	(993,446)	-	(993,446)
Total income and expense for the period	-	(993,446)	-	(993,446)
Equity Transactions:				
Shareholder equity contribution	4,503,003	-	-	4,503,003
Shareholder options contribution	-	-	550,000	550,000
Share based payments	-	-	72,947	72,947
Transaction costs on share issue	(276,402)	-	-	(276,402)
At 30 June 2008	4,226,601	(993,446)	622,947	3,865,102

Avanco Resources Limited

Notes to the financial statements for the period from 4 July 2007 to 30 June 2008

1. Corporate Information

The financial report of Avanco Resources Limited ("Avanco Resources" or "the Company") for the period ended 30 June 2008 was authorised for issue in accordance with a resolution of the directors on 30 September 2008. The company was incorporated on 4 July 2007, therefore there are no comparatives for 30 June 2007.

Avanco Resources Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange.

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

2. Summary of Significant Accounting Policies

Basis of Preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001* and Australian Accounting Standards. The financial report has also been prepared on a historical cost basis. The presentation currency is Australian dollars.

Going Concern

This report has been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and settlement of liabilities in the normal course of business.

The Company incurred a net loss after tax for the year ended 30 June 2008 of \$1,022,710 and experienced net cash outflows from operating activities of \$893,734. At 30 June 2008, the Company had net current assets of \$1,350,779. At the date of this report, the Company's cash balance is \$444,546. The directors believe there are sufficient funds to meet the company's working capital requirements as at the date of this report.

The Company went into voluntary suspension on 16 July 2008 for the purpose of completing a capital raising to continue the Company's exploration program in Brazil. Whilst there has been a lot of interest from the investment community both in Australia and overseas in the activities and exploration success of the Company, raising money in the current market has been extremely difficult. Discussions with various groups have been ongoing with the result that a prospectus is expected to be lodged with the ASIC on 1 October 2008 for an offer by way of a placement for the issue of 17,500,000 shares at 10 cents with an attaching option exercisable at 20 cents to raise \$1,750,000 to be completed in two tranches. The second tranche will require shareholder approval. The Company is confident that the offer pursuant to this prospectus will be fully subscribed.

On the basis outlined above, the Directors believe they can meet all liabilities as and when they fall due. The directors have reviewed the assets and liabilities of the Company and are of the opinion that the use of the going concern basis of accounting is appropriate as they believe the Company will be successful in securing additional funds through the equity issue as detailed above.

The financial report does not include any adjustments to assets and liabilities that may be necessary if the Company is unable to continue as a going concern.

(a) Compliance with IFRS

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

Avanco Resources Limited

Notes to the financial statements for the period from 4 July 2007 to 30 June 2008

(b) New accounting standards and interpretations

Applicable Australian Accounting Standards and interpretations have recently been issued or amended but are not yet effective and have not been adopted by the Group for the annual reporting period ended 30 June 2008. These are outlined in the table below:

AASB Amendment	Affected Standard (s)	Nature of change to accounting policy	Impact on Group Report	Application date for Group
AASB 8 and AASB 2007-3	Operating Segments and consequential amendments to other Australian Accounting Standards	New standard replacing AASB 114 <i>Segment Reporting</i> , which adopts a management reporting approach to segment reporting.	AASB 8 is a disclosure standard so will have no direct impact on the amounts included in the Group's financial statements. The amendments may have an impact on the Group's segment disclosures.	1 July 2009
AASB 101 (Revised) and AASB 2007-8	Presentation of Financial Statements and consequential amendments to other Australian Accounting Standards	Introduces a statement of comprehensive income. Other revisions include impacts on the presentation of items in the statement of changes in equity, new presentation requirements for restatements or reclassifications of items in the financial statements, changes in the presentation requirements for dividends and changes to the titles of the financial statements.	These amendments are only expected to affect the presentation of the Group's financial report and will not have a direct impact on the measurement and recognition of amounts disclosed in the financial report. The Group has not determined at this stage whether to present a single statement of comprehensive income or two separate statements.	1 July 2009
AASB 2008-1	Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations	The amendments clarify the definition of 'vesting conditions', introducing the term 'non-vesting conditions' for conditions other than vesting conditions as specifically defined and prescribe the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied.	The Group has share-based payment arrangements that may be affected by these amendments. However, the Group has not yet determined the extent of the impact, if any.	1 July 2009
AASB 127 (Revised)	Consolidated and Separate Financial Statements	Under the revised standard, a change in the ownership interest of a subsidiary (that does not result in loss of control) will be accounted for as an equity transaction.	If the Group changes its ownership interest in existing subsidiaries in the future, the change will be accounted for as an equity transaction. This will have no impact on goodwill, nor will it give rise to a gain or a loss in the Group's income statement.	1 July 2009
AASB 3 (Revised)	Business Combinations	The revised standard introduces a number of changes to the accounting for business combinations, the most significant of which allows entities a choice for each business combination entered into – to measure a non-controlling interest (formerly a minority interest) in the acquiree either at its fair value or at its proportionate interest in the acquiree's net assets. This choice will effectively result in recognising goodwill relating to 100% of the business (applying the fair value option) or recognising goodwill relating to the percentage interest acquired. The changes apply prospectively.	The Group may enter into some business combinations during the next financial year and may therefore consider early adopting the revised standard. The Group has not yet assessed the impact of early adoption, including which accounting policy to adopt.	1 July 2009

Avanco Resources Limited

Notes to the financial statements for the period from 4 July 2007 to 30 June 2008

AASB Amendment	Affected Standard (s)	Nature of change to accounting policy	Impact on Group Report	Application date for Group
AASB 2008-3	Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127	Amending standard issued as a consequence of revisions to AASB 3 and AASB 127.	Refer to AASB 3 (Revised) and AASB 127 (Revised) above.	1 July 2009
Amendments to International Financial Reporting Standards	Improvements to IFRSs	The improvements project is an annual project that provides a mechanism for making non-urgent, but necessary, amendments to IFRSs. The IASB has separated the amendments into two parts: Part 1 deals with changes the IASB identified resulting in accounting changes; Part II deals with either terminology or editorial amendments that the IASB believes will have minimal impact.	The Group has not yet determined the extent of the impact of the amendments, if any.	1 July 2009

Adoption of new accounting standard

The Group has adopted AASB 7 Financial Instruments: Disclosures and all consequential amendments which became applicable on 1 January 2007 and AASB 2008-4 Amendments to Australian Accounting Standard – Key Management Personnel Disclosures by Disclosing Entities which became applicable for period ending on 30 June 2008. The adoption of these standards have only affected the disclosure in the financial statements. There has been no affect on profit and loss or the financial position of the Group.

(c) Basis of Consolidation

The consolidated financial statements comprise the financial statements of Avanco Resources Limited and its subsidiaries as at 30 June each year ('the Company').

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

The financial statements of the subsidiaries are prepared for the same reporting period as the parent Company, using consistent accounting policies.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-company transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is obtained by the Company and cease to be consolidated from the date on which control is transferred out of the Company.

The acquisition of subsidiaries is accounted for using the purchase method of accounting. The purchase method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition.

(d) Foreign Currency Translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The functional and presentation

Avanco Resources Limited

Notes to the financial statements for the period from 4 July 2007 to 30 June 2008

currency of Avanco Resources Limited is Australian dollars. The functional currency of the overseas subsidiary is Brazilian Rias.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

(iii) Group entities

The results and financial position of all the Company entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are taken to shareholders' equity.

When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences are recognised in the income statement, as part of the gain or loss on sale where applicable.

(e) Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. Repairs and maintenance expenditure is charged to the income statement during the financial period in which it is incurred.

Depreciation

The depreciable amount of all fixed assets is depreciated on a straight line basis over their useful lives to the Company commencing from the time the asset is held ready for use.

Avanco Resources Limited

Notes to the financial statements for the period from 4 July 2007 to 30 June 2008

The depreciation rates used for each class of depreciable assets are:

<i>Class of Fixed Asset</i>	<i>Depreciation Rate</i>
Plant and equipment	25 %
Furniture, Fixtures and Fittings	15 %
Computer Equipment	25 %
Motor Vehicles	20 %

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Derecognition

Additions of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are recognised in the income statement.

(f) Impairment of non financial assets other than goodwill

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets of the Company and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

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

(g) Exploration expenditure

Exploration and evaluation expenditure incurred by or on behalf of the Group is accumulated separately for each area of interest. Such expenditure comprises net direct costs and an appropriate portion of related overhead expenditure, but does not include general overheads or administrative expenditure not having a specific nexus with a particular area of interest.

Each area of interest is limited to a size related to a known or probable mineral resource capable of supporting a mining operation.

Exploration and evaluation expenditure for each area of interest is carried forward as an asset provided that one of the following conditions is met:

- such costs are expected to be recouped through successful development and exploitation of the area of interest or, alternatively, by its sale; or
- exploration and evaluation 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, and active and significant operations in relation to the area are continuing.

Expenditure which fails to meet the conditions outlined above is written off, furthermore, the directors regularly review the carrying value of exploration and evaluation expenditure and make write downs if the values are not expected to be recoverable.

Identifiable exploration assets acquired are recognised as assets at their cost of acquisition, as determined by the requirements of AASB 6 Exploration for and evaluation of mineral resources. Exploration assets acquired are reassessed on a regular basis and these costs are carried forward provided that at least one of the conditions referred to in AASB 6 is met.

Exploration and evaluation expenditure incurred subsequent to acquisition in respect of an exploration asset acquired, is accounted for in accordance with the policy outlined above for exploration expenditure incurred by or on behalf of the entity.

Acquired exploration assets are not written down below acquisition cost until such time as the acquisition cost is not expected to be recovered.

When an area of interest is abandoned, any expenditure carried forward in respect of that area is written off.

Expenditure is not carried forward in respect of any area of interest/mineral resource unless the Group's rights of tenure to that area of interest are current.

(h) Trade and Other Receivables

Trade receivables, which generally have 30 – 90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

Intercompany loans are impaired to the extent that the impairment reflects the net deficiency of the subsidiaries.

An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

(i) Cash and Cash Equivalents

Cash and short term deposits in the balance sheet include cash on hand, deposits held at call with banks and other short term highly liquid investments with original maturities of three months or less. Bank overdrafts are shown as current liabilities in the balance sheet. For the purpose of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as described above.

(j) Provisions

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

Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money, and where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

(k) Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Capitalised exploration and evaluation expenditure

The future recoverability of capitalised exploration and evaluation expenditure is dependent on a number of factors, including whether the Company 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.

Share based payment transactions

The Company measures the cost of equity settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using the Black Scholes formula taking into account the terms and conditions upon which the instruments were granted, as discussed in note 24.

(l) Income Tax

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

No deferred income tax will be recognised from the initial recognition of goodwill or of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

No deferred income tax will be recognised in respect of temporary differences associated with investments in subsidiaries if the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary differences will not reverse in the near future.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

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 future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on tax rates (and tax laws) that have been enacted or substantially enacted at the balance sheet date and the anticipation that the Company will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law. The carrying amount of deferred tax assets is reviewed at each balance date and only recognised to the extent that sufficient future assessable income is expected to be obtained.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

(m) Contributed Equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new

shares or options, or for the acquisition of a business, are included in the cost of the acquisition as part of the purchase consideration.

(n) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue is capable of being reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest income

Revenue is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

(o) Segment Information

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

(p) Investments in controlled entities

All investments are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment. Subsequent to the initial measurement, investments in controlled entities are carried at cost less accumulated impairment losses.

(q) Earnings per share*Basic earnings per share*

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than dividends, by the weighted average number of ordinary shares, adjusted for any bonus elements.

Diluted earnings per share

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 elements.

(r) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

The net amount of GST recoverable from, or payable to, the Australian Tax Office is included as part of receivables or payables in the balance sheet.

Avanco Resources Limited

Notes to the financial statements for the period from 4 July 2007 to 30 June 2008

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which is receivable from or payable to the ATO, are disclosed as operating cash flows.

(s) Trade and other payables

Liabilities for trade creditors and other amounts are measured at amortised cost, which is the fair value of the consideration to be paid in the future for goods and services received that are unpaid, whether or not billed to the consolidated entity.

(t) Share based payment transactions

The group provides benefits to individuals acting as, and providing services similar to employees (including Directors) of the group in the form of share based payment transactions, whereby individuals render services in exchange for shares or rights over shares ('equity settled transactions').

There is currently an Employee Share Option Plan (ESOP) in place, which provides benefits to Directors and individuals providing services similar to those provided by an employee.

The cost of these equity settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by using the Black Scholes formula taking into account the terms and conditions upon which the instruments were granted, as discussed in note 24.

In valuing equity settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Avanco Resources Limited ('market conditions').

The cost of the equity settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the Directors of the group, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of the market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The income statement charge or credit for a period represents the movement in cumulative expense recognised at the beginning and end of the period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

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 the modification.

Where an equity settled award is cancelled, it is treated as if it had vested on the date of the 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 in the computation of loss per share (see note 21).

Avanco Resources Limited

Notes to the financial statements for the period from 4 July 2007 to 30 June 2008

3. Segment Information

The Group operates in one business segment being mineral exploration. The Group explores in Australia and Brazil. As the majority of revenue from these geographical operations is earned from bank deposits, not sales to external customers, they do not constitute reportable segments.

	Consolidated	Parent
	2008	2008
	\$	\$
4. Other Expenses		
Accounting and audit fees	119,239	80,643
Bank fees	9,998	2,280
Computer and website expenses	8,021	1,059
Courier	5,686	2,428
General office expenses	23,316	10,653
Insurance	17,018	8,628
Printing and stationary	6,836	5,696
Repairs and maintenance	14,514	-
Subscriptions	8,750	7,265
Communications	11,063	9,152
Write down on loan recovery	-	201,460
Foreign exchange losses	-	106,664
Other	44,074	16,341
Total administrative expenses	268,515	452,269

5. Income Tax

(a) Income tax expense

Major component of tax expense for the year:

Current tax	-	-
Deferred tax	-	-
	<u>-</u>	<u>-</u>

(b) Numerical reconciliation between aggregate tax expense recognised in the income statement and tax expense calculated per the statutory income tax rate

A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Company's applicable tax rate is as follows:

Loss from continuing operations before income tax expense	<u>(1,022,710)</u>	<u>(993,446)</u>
Tax at the group rate of 30%	(306,813)	(298,034)
Expense of remuneration options	21,884	21,884
Other non deductible expenses	2,705	2,561
Income tax benefit not brought to account	<u>282,224</u>	<u>273,589</u>
Income tax expense	<u>-</u>	<u>-</u>

Avanco Resources Limited

Notes to the financial statements for the period from 4 July 2007 to 30 June 2008

	Consolidated 2008 \$	Parent 2008 \$
(c) Deferred tax		
The following deferred tax balances have not been brought to account:		
<i>Liabilities</i>		
Capitalised exploration and evaluation expenditure	705,736	-
Offset by deferred tax assets	<u>(705,736)</u>	<u>-</u>
Deferred tax liability recognised	<u>-</u>	<u>-</u>
Losses available to offset against future taxable income	996,744	189,934
Share issue costs deductible over five years	66,336	66,336
Foreign exchange losses	-	32,148
Write down on loan recovery	-	60,438
Accrued expenses	7,800	7,800
Other	-	-
Deferred tax assets offset against deferred tax liabilities	(705,736)	-
Deferred tax assets not brought to account as realisation is not regarded as probable	<u>(365,144)</u>	<u>(356,656)</u>
Deferred tax asset recognised	<u>-</u>	<u>-</u>
(d) Unused tax losses		
Unused tax losses	<u>940,746</u>	<u>911,963</u>
Potential tax benefit not recognised at 30%	<u>282,224</u>	<u>273,589</u>

The benefit for tax losses will only be obtained if:

- (i) the Company derives future assessable income in Australia of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised, and
- (ii) the Company continues to comply with the conditions for deductibility imposed by tax legislation in Australia and
- (iii) no changes in tax legislation in Australia, adversely affect the Company in realising the benefit from the deductions for the losses.

(e) Tax consolidation

Avanco Resources Limited has not formed a tax consolidation Group and there is no tax sharing agreement.

Avanco Resources Limited

Notes to the financial statements for the period from 4 July 2007 to 30 June 2008

	Consolidated 2008 \$	Parent 2008 \$
6. Cash and Cash Equivalents		
Reconciliation of Cash		
Cash comprises of:		
Cash at bank	<u>1,687,524</u>	<u>1,460,447</u>
Reconciliation of operating loss after tax to net the cash flows from operations		
Loss from ordinary activities after tax	(1,022,710)	(993,446)
Non cash items		
Share based payment	72,947	72,947
Foreign exchange (gain) / loss	-	106,664
Depreciation	3,036	364
Impairment on loans receivable	-	201,460
Change in assets and liabilities		
Increase in trade and other receivables	(45,428)	(12,258)
Increase in trade and other payables	98,421	98,421
Net cash outflow from operating activities	<u>(893,734)</u>	<u>(525,848)</u>

7. Trade and Other Receivables – Current

GST receivable	12,258	12,258
Other	33,170	-
	<u>45,428</u>	<u>12,258</u>

Trade debtors, other debtors and goods and services tax are non-interest bearing and generally receivable on 30 day terms. They are neither past due nor impaired. The amount is fully collectible. Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair value.

8. Investments in subsidiaries

Investment in controlled entities	<u>-</u>	<u>116,178</u>
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The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2 (c).

Details of subsidiary companies are as follows:

Name of Entity	Country of Incorporation	Equity Holding
Avanco Holdings Pty Ltd	Australia	100%
AVB Mineracao Ltda	Brazil	100%
Avanco Brazil Mineracao Ltda	Brazil	100%

Effective 7 September 2007, the Group acquired 100% interest in Avanco Brazil Mineracao Ltda from Minera Apoquindo Chile Ltda for \$116,178. The acquisition was made such that AVB could get access to the exploration licences held by Avanco Brazil Mineracao Ltda over the Rio Verde and Serra Verde projects.

Management has considered the substance of the transaction and determined that it is an acquisition of assets, not a business combination under AASB 3 Business Combinations.

Avanco Resources Limited

Notes to the financial statements for the period from 4 July 2007 to 30 June 2008

	Consolidated 2008 \$	Parent 2008 \$
9. Other Receivables – Non Current		
Amount owing by controlled entities:		
Avanco Holdings Pty Ltd	-	565
AVB Mineracao Ltda	-	2,498,219
Avanco Brazil Mineracao Ltda	-	52,001
Less provision for non recovery	-	(201,460)
	<u>-</u>	<u>2,349,325</u>

Recovery of amounts due from controlled entities is dependent on successful development and commercial exploitation or sale of exploration, development and production interests held by the controlled entities. The Company has recognised an impairment of \$201,460 on the loan receivable from AVB Mineracao Ltda. The amounts owing by controlled entities are interest free and re-payable on demand.

10. Plant and Equipment

Plant and Equipment

At 4 July	-	-
Additions	5,589	3,589
Net exchange differences on translation	254	-
Depreciation charge for the year	(93)	-
	<u>5,750</u>	<u>3,589</u>

Computer Equipment and Software

At 4 July	-	-
Additions	28,131	13,090
Net exchange differences on translation	119	-
Depreciation charge for the year	(664)	(364)
	<u>27,586</u>	<u>12,726</u>

Furniture, Fixtures and Fittings

At 4 July	-	-
Additions	43,554	-
Net exchange differences on translation	377	-
Depreciation charge for the year	(981)	-
	<u>42,950</u>	<u>-</u>

Motor Vehicles

At 4 July	-	-
Additions	77,079	-
Net exchange differences on translation	802	-
Depreciation charge for the year	(1,298)	-
	<u>76,583</u>	<u>-</u>
Total Plant & equipment	<u>152,869</u>	<u>16,315</u>

Avanco Resources Limited

Notes to the financial statements for the period from 4 July 2007 to 30 June 2008

	Consolidated 2008 \$	Parent 2008 \$
11. Deferred Exploration and Evaluation Expenditure		
At 4 July	-	-
Exploration expenditure during the year	2,352,454	-
Net exchange differences on translation	-	-
Total exploration and evaluation	<u>2,352,454</u>	<u>-</u>

The ultimate recoupment of costs carried forward for exploration expenditure is dependent on the successful development and commercial exploitation or sale of the respective mining areas.

12. Trade and Other Payables

Trade payables	285,077	72,421
Accruals	97,096	26,000
	<u>382,173</u>	<u>98,421</u>

Trade creditors, other creditors and goods and services tax are non-interest bearing and generally payable on 30 day terms. Due to the short term nature of these payable, their carrying value is assumed to approximate their fair value.

13. Issued Capital

(a) Issued and paid up capital

Ordinary shares fully paid	<u>4,226,601</u>	<u>4,226,601</u>
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(b) Movements in shares on issue

	2008	
	Number of shares	\$
At 4 July	-	-
Formation shares at \$1	3	3
Promoter shares at \$0.0001	30,000,000	3,000
Exempt placement at \$0.10	5,000,000	500,000
Initial public offer at \$0.20	20,000,000	4,000,000
less fundraising costs	-	(276,402)
At 30 June	<u>55,000,003</u>	<u>4,226,601</u>

(c) Ordinary shares

The Company does not have authorised capital nor par value in respect of its issued capital. Ordinary shares have the right to receive dividends as declared and, in the event of a winding up of the Company, to participate in the proceeds from sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or proxy, at a meeting of the Company.

(d) Capital risk management

The Group's capital comprises share capital, reserves less accumulated losses amounting to \$3,856,102 at 30 June 2008. The Group manages its capital to ensure its ability to continue as a going concern and to optimise returns to its shareholders. The Group was ungeared at year end. Refer to note 22 for further information on the Group's financial risk management policies.

Avanco Resources Limited

Notes to the financial statements for the period from 4 July 2007 to 30 June 2008

(e) Share options

At 30 June 2008, there were 57,045,003 unissued ordinary shares under options.

The details of the options at reporting date are as follows:

Number	Exercise Price \$	Expiry Date
55,000,003	0.20	30 June 2010
1,500,000	0.20	30 April 2013
545,000	0.35	12 May 2013
57,045,003		

No option holder has any right under the options to participate in any other share issue of the company or any other entity. Information relating to the Avanco Resources Limited Employee Share Option Plan, including details of options issued under the plan, is set out in note 24.

	Consolidated 2008 \$	Parent 2008 \$
14. Reserves		
Employee equity benefits reserve	72,947	72,947
Option premium reserve	550,000	550,000
Foreign currency translation reserve	29,264	-
	652,211	622,947
Movements in Reserves		
<i>Equity benefits reserve</i>		
At 4 July	-	-
Share based payment expense	72,947	72,947
At 30 June	72,947	72,947

The equity benefits reserve is used to record the value of equity benefits provided to directors and executives as part of their remuneration. Refer to note 24 for further details of the option plan.

Option premium reserve

Balance 4 July	-	-
Options issued	550,000	550,000
Balance at end of year	550,000	550,000

The Options Premium reserve is used to record the premium paid on the issue of listed options on 30 May 2008, with an expiry date of 30 June 2010, less any of those options exercised.

Foreign currency translation reserve

At 4 July	-	-
Foreign currency translation	29,264	-
At 30 June	29,264	-

The Foreign Exchange differences arising on translation of the foreign controlled entities are taken to the foreign currency translation reserve, as described in note 2(d). The reserve is recognised in profit and loss when the net investment is disposed of.

Avanco Resources Limited

Notes to the financial statements for the period from 4 July 2007 to 30 June 2008

	Consolidated 2008 \$	Parent 2008 \$
15. Accumulated losses		
Movements in accumulated losses were as follows:		
At 4 July	-	-
Loss	(1,022,710)	(993,446)
At 30 June	(1,022,710)	(993,446)

16. Expenditure Commitments

(a) Rental and services agreement

The Company entered a service agreement for certain administrative services and office space for a term of two years. The Company is required to give three months written notice to terminate the agreement.

Within one year	120,000	120,000
After one year but not longer than 5 years	10,000	10,000
	130,000	130,000

(b) Remuneration commitments

Under the terms and conditions of the consulting services agreements entered into by the group with a Director, the group has a minimum commitment for the term of the consulting service agreement. The term of the agreement is 2 years.

Commitments contracted for at reporting date but not recognised as liabilities are as follows:

Within one year	220,000	220,000
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(c) Expenditure commitments

The group entered into contracts under terms and conditions that require payments to third parties that previously held the tenements. The contracts have pre-emptive rights that allow Avanco Resources Limited to relinquish the tenements after providing the required notice period, the longest notice periods being 60 days. The terms of the licenses vary according to exploration milestones being met. The agreements have additional royalty payments based on production rates. The royalty amounts have not been included as the timing and amounts remain uncertain as at 30 June 2008.

Commitments contracted for at reporting date but not recognised as liabilities are as follows:

	2008 \$
Within one year	650,026
After one year but not longer than 5 years	988,040
Greater than 5 years	-
	1,638,066

Avanco Resources Limited

Notes to the financial statements for the period from 4 July 2007 to 30 June 2008

	Consolidated 2008 \$	Parent 2008 \$
17. Auditors Remuneration		
The auditor of Avanco Resources Limited is Ernst & Young (Australia)		
Amounts received or due and receivable by Ernst & Young (Australia) for:		
- an audit or review of the financial report of the entity and any other entity in the Consolidated group	36,300	36,300
Other services in relation to the Group	-	-
	<u>36,300</u>	<u>36,300</u>
Amounts received or due and receivable by related practices of Ernst & Young (Australia) for:		
Audit or review of the financial report of the Company	25,000	25,000
Other services in relation to the Group	-	-
	<u>25,000</u>	<u>25,000</u>

18. Key Management Personnel Disclosures

(a) Details of Key Personnel

M. Wood	Chairman
A. Polglase	Managing Director
C. Jones	Non-Executive Director (appointed 10 September 2007)
W. Phillips	Non-Executive Director (appointed 5 October 2007)
S Funston	Non-Executive Director (resigned 10 September 2007)

(b) Remuneration of Key Management Personnel

Details of the nature and amount of each element of the emolument of each Director and Executive of the Group for the financial year are as follows:

The Board is ultimately responsible for determining and reviewing compensation arrangements for the Directors. The Board assesses the appropriateness of the nature and amount of emoluments of such officers on an annual basis by reference to industry and market conditions. In determining the nature and amount of officers' emoluments, the Board takes into consideration the Group's financial and operational performance. No employment and consulting agreements have been entered into with Key Management Personnel.

Short term employee benefits	337,297	337,297
Post employment benefits	-	-
Share based payments	40,450	40,450
	<u>377,747</u>	<u>377,747</u>

(c) Shareholdings of Key Management Personnel

Share holdings

The number of shares in the company held during the financial year held by each director of Avanco Resources Limited, including their personally related parties, is set out below. There were no shares granted during the reporting period as compensation.

Avanco Resources Limited

Notes to the financial statements for the period from 4 July 2007 to 30 June 2008

2008	Balance at the start of the year	Granted during the year as compensation	On exercise of share options	Other changes during the year	Balance at the end of the year
Mr. M. Wood	-	-	-	4,625,001	4,625,001
Mr. A. Polglase	-	-	-	4,600,001	4,600,001
Mr. C. Jones	-	-	-	150,000	150,000
Mr. W. Phillips	-	-	-	150,000	150,000
Mr. S. Funston	-	-	-	900,001	900,001

All equity transactions with key management personnel other than arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the Group would have adopted if dealing at arm's length.

(d) Option holdings of Key Management Personnel

The numbers of options over ordinary shares in the company held during the financial year by each director of Avanco Resources Limited and specified executive of the group, including their personally related parties, are set out below:

2008	Balance at the start of the year	Granted during the year as compensation	Exercised during the year	Other changes during the year	Balance at the end of the year
Mr. M. Wood	-	-	-	4,715,001	4,715,001
Mr. A. Polglase	-	-	-	4,690,001	4,690,001
Mr. C. Jones	-	500,000	-	240,000	740,000
Mr. W. Phillips	-	500,000	-	240,000	740,000
Mr. S. Funston	-	-	-	990,001	990,001

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

30 June 2008	Grant Date	Grant Number	Exercise date	Expiry date/last exercise date	Value per option at grant date	Exercise price	Vested	% of Remuneration	Value of options \$
C. Jones	30/04/08	250,000	30/04/09	30/04/13	\$0.3229	\$0.20	Nil	25%	80,725
	30/04/08	250,000	30/04/10	30/04/13	\$0.3274	\$0.20	Nil	13%	81,850
W. Phillips	30/04/08	250,000	30/04/09	30/04/13	\$0.3229	\$0.20	Nil	26%	80,725
	30/04/08	250,000	30/04/10	30/04/13	\$0.3274	\$0.20	Nil	14%	81,850

There were no alterations to the terms and conditions of options granted as remuneration since their grant date. There were no forfeitures and no options lapsed during the year ended 30 June 2008.

Options granted as part of remuneration have been valued using the Black-Scholes option pricing model, which takes account of factors such as the option exercise price, the current level and volatility of the underlying share price and the time to maturity of the option. Options granted under the plan carry no dividend or voting rights. For details on the valuation of options, including models and assumptions used, please refer to note 24.

Avanco Resources Limited

Notes to the financial statements for the period from 4 July 2007 to 30 June 2008

(e) Other transactions with Key Management Personnel

MQB Ventures Pty Ltd, a company of which Mr M. Wood is director, was paid fees during the year for the provision of a fully serviced office with administration and information technology support totalling \$110,000. MQB Ventures Pty Ltd employs geological and accounting staff which are on charged at cost to the Company for an amount totalling \$53,864. Reimbursements, at cost, for couriers and other minor expenses, totalled \$7,125. \$25,574 was outstanding at year end.

Mineral Quest Pty Ltd, a company of which Mr M. Wood is a director, was paid director fees of \$40,000 during the year. This amount is included in Note 18b "Remuneration of key management personnel". No amount was outstanding at year end.

MQ Management Services Limited, a company of which Mr M. Wood is a director, was paid director fees of \$15,000 during the year. This amount is included in Note 18b "Remuneration of key management personnel". \$15,000 was outstanding at year end.

These transactions have been entered into on normal commercial terms.

19. Events Subsequent to Balance Date

A prospectus is expected to be lodged with the ASIC on 1 October 2008 for an offer by way of a placement for the issue of 17,500,000 shares at 10 cents with an attaching option exercisable at 20 cents to raise \$1,750,000 to be completed in two tranches. The second tranche will require shareholder approval. The Company is confident that the offer pursuant to this prospectus will be fully subscribed.

20. Related Party Disclosures

For Director related party transactions please refer to Note 18 "Key Management Personnel Disclosures". There were no other related party transactions during the year.

21. Loss per Share

Loss used in calculating basic and dilutive EPS	<u>(1,022,710)</u>
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Consolidated
2008
\$

Weighted average number of ordinary shares used in calculating basic earnings / (loss) per share:	<u>46,464,080</u>
Effect of dilution:	
Share options	-
Adjusted weighted average number of ordinary shares used in calculating diluted loss per share:	<u>46,464,080</u>

Number of Shares

There is no impact from 57,045,003 options outstanding at 30 June 2008 on the earnings per share calculation because they are anti-dilutive. These options could potentially dilute basic EPS in the future.

There have been no transactions involving ordinary shares or potential ordinary shares that would significantly change the number of ordinary shares or potential ordinary shares outstanding between the reporting date and the date of completion of these financial statements.

22. Financial Risk Management

Exposure to interest rate, liquidity, commodity price risk, foreign currency risk and credit risk arises in the normal course of the Group's business. The Group does not hold or issue derivative financial instruments.

The Company uses different methods as discussed below to manage risks that arise from these financial instruments. The objective is to support the delivery of the financial targets while protecting future financial security.

(a) Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities.

The Group manages liquidity risk by maintaining sufficient cash facilities to meet the operating requirements of the business and investing excess funds in highly liquid short term investments. The responsibility for liquidity risk management rests with the Board of Directors.

Alternatives for sourcing our future capital needs include our cash position and the issue of equity instruments. These alternatives are evaluated to determine the optimal mix of capital resources for our capital needs. We expect that, absent a material adverse change in a combination of our sources of liquidity, present levels of liquidity along with the proposed capital raising will be adequate to meet our expected capital needs.

Maturity analysis for financial liabilities

Financial liabilities of the Group comprise trade and other payables. As at 30 June 2008 all financial liabilities are contractually matured within 60 days.

(b) Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair value of financial instruments.

The Group's exposure to market risk for changes to interest rate risk relates primarily to its earnings on cash and term deposits. The Group manages the risk by investing in short term deposits.

	Consolidated 2008	Parent 2008
	\$	\$
Cash and cash equivalents	1,687,524	1,460,447

Interest rate sensitivity

The following table demonstrates the sensitivity of the Group's income statement to a reasonably possible change in interest rates, with all other variables constant.

Consolidated

Change in Basis Points	Effect on Post Tax Loss (\$) Increase/(Decrease)	Effect on Equity including retained earnings (\$) Increase/(Decrease)
	2008	2008
	\$	\$
Increase 100 basis points	16,875	16,875
Decrease 100 basis points	(16,875)	(16,875)

Avanco Resources Limited

Notes to the financial statements for the period from 4 July 2007 to 30 June 2008

Parent Change in Basis Points	Effect on Post Tax Loss (\$)	Effect on Equity
	Increase/(Decrease)	including retained earnings (\$)
	2008	2008
	\$	\$
Increase 100 basic points	14,604	14,604
Decrease 100 basic points	(14,604)	(14,604)

A sensitivity of 100 basis points has been used as this is considered reasonable given the current level of both short term and long term Australian Dollar interest rates. This would represent two to four movements by the Reserve Bank of Australia.

(c) Credit Risk Exposures

Credit risk represents the risk that the counterparty to the financial instrument will fail to discharge an obligation and cause the Group to incur a financial loss. The Group's maximum credit exposure is the carrying amounts on the balance sheet. The Group holds financial instruments with credit worthy third parties.

At 30 June 2008, the Group held cash at bank. These were held with financial institution with a rating from Standard & Pooors of AA or above (long term). The Group has no past due or impaired debtors as at 30 June 2008.

(d) Foreign Currency Risk

Currency risk is the risk of fluctuation in the value of overseas investments which are denominated in foreign currencies.

The loans to the subsidiaries are denominated in the USD. The parent entity is therefore exposed to the movement of the USD to Australian dollar through its loan to the Brazilian subsidiary of \$2,349,325. The exposure is eliminated on consolidation. The Group does not enter into any financial arrangement to mitigate these exposures to the foreign currencies. The following sensitivity is based on the foreign currency risk exposure in existence at the balance sheet date:

	Effect on Post Tax Loss (\$)	Effect on Equity
	Increase/(Decrease)	including retained earnings (\$)
	2008	2008
	\$	\$
Parent		
AUD/USD +5%	117,623	117,623
AUD/ USD -5%	(117,623)	(117,623)
Consolidated		
AUD/ USD +5%	-	-
AUD/ USD -5%	-	-

The sensitivity is based on reasonably possible changes expected over the following financial year using general economic and financial forecasts.

23. Contingent Liabilities

There are no known contingent liabilities.

Avanco Resources Limited

Notes to the financial statements for the period from 4 July 2007 to 30 June 2008

24. Share Based Payment Plan

(a) Recognised share based payment expenses

Total expenses arising from share based payment transactions recognised during the period as part of share based payment expense were as follows:

	Consolidated 2008 \$	Parent 2008 \$
Employee equity benefit	72,947	72,947

(b) Type of share based payment plan

The Group has established an employee share option plan (ESOP). The objective of the ESOP is to assist in the recruitment, reward, retention and motivation of employees of Avanco Resources Limited. Under the ESOP, the Directors may invite individuals acting in a manner similar to employees to participate in the ESOP and receive options. An individual may receive the options or nominate a relative or associate to receive the options. The plan is open to executive officers, nominated consultants and employees of Avanco Resources Limited.

The fair value at grant date of options granted during the reporting period was determined using the 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 and the risk free interest rate for the term of the option.

(c) Summaries of options granted under ESOP

Grant Date	Expiry date	Exercise price	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Expired during the year Number	Balance at end of the year Number	Exercisable at end of the year Number
30 April 2008	30 April 2013	\$0.20	-	1,500,000	-	-	1,500,000	-
12 May 2008	12 May 2013	\$0.35	-	545,000	-	-	545,000	-
			-	2,045,000	-	-	2,045,000	-
Weighted average exercise price			-	\$0.24	-	-	\$0.24	NA

The weighted average fair value of options granted during the year was \$0.2864.

The model inputs, not included in the table above, for options granted during the year ended 30 June 2008 included:

- (a) options are granted for no consideration and vest over a period of two years;
- (b) Expected life of options had a range is two to five years;
- (c) share price at grant date had a range of \$0.35 to \$0.44;
- (d) expected volatility of 67%;
- (e) expected dividend yield of Nil; and
- (f) a risk free interest rate from 6.14% to 6.2%.

25. Dividends

No dividend was paid or declared by the Company in the period since the end of the financial year and up to the date of this report. The Directors do not recommend that any amount be paid by way of dividend for the financial year ended 30 June 2008.

The balance of the franking account is Nil as at 30 June 2008.

Directors Declaration

DIRECTORS' DECLARATION

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

1. In the opinion of the directors:

(a) the financial statements and notes of the Company and of the consolidated entity are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the financial position of the Company and of the Consolidated Entity as at 30 June 2008 and of their performance, for the year ended on that date; and

(ii) complying with Accounting Standards and the Corporations Regulations 2001; and

(b) subject to the achievement of the matters set out in note 2 "Going Concern" of the financial report, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with sections of 295A of the Corporations Act 2001 for the financial period ending 30 June 2008.

On behalf of the Board



Matthew Wood

Director

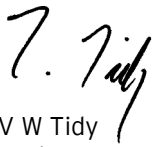
30 September 2008

Auditor's Independence Declaration to the Directors of Avanco Resources Limited

In relation to our audit of the financial report of Avanco Resources Limited for the financial year ended 30 June 2008, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.



Ernst & Young



V W Tidy
Partner
Perth
30 September 2008

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

Report on the Financial Report

We have audited the accompanying financial report of Avanco Resources Limited, which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities 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 the Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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

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

Independence

In conducting our audit we have met the independence requirements of the Corporations Act 2001. We have given to the directors of the company a written Auditor's Independence Declaration.

Auditor's Opinion

In our opinion:

1. the financial report of Avanco Resources Limited is in accordance with the *Corporations Act 2001*, including:
 - i giving a true and fair view of the financial position of Avanco Resources Limited and the consolidated entity at 30 June 2008 and of their performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 9 to 11 of the directors' report for the year ended 30 June 2008. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

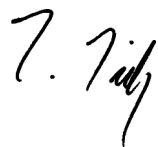
In our opinion the Remuneration Report of Avanco Resources Limited for year ended 30 June 2008 complies with section 300A of the *Corporations Act 2001*.

Inherent Uncertainty Regarding Continuation as a Going Concern

Without qualification to the audit opinion expressed above, attention is drawn to the following matter. As a result of the matters described in Note 2 to the financial report, there is significant uncertainty whether the company and consolidated entity will be able to continue as going concerns and therefore whether they will be able to pay their debts as and when they become due and payable and realise their assets and extinguish their liabilities in the normal course of operations and at the amounts stated in the financial report. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the company and the consolidated entity not continue as going concerns.



Ernst & Young



V W Tidy
Partner
Perth
30 September 2008

ASX Additional Information

Additional information required by the Australian Stock Exchange Ltd and not shown elsewhere in this report is as follows.
The information is current at 19 September 2008.

Substantial Share Holders

The names of shareholders who have notified the Company in accordance with Section 671B of the Corporations Act 2001 are:

Shareholder Name	No. of Ordinary Shares	Percentage %
Matthew Wood	4,625,001	8.41
Michael Haynes	4,607,500	8.38
Anthony Polglase	4,600,001	8.36

Distribution of Share Holders

	Ordinary Shares	
	Number of Holders	Number of Shares
1 - 1,000	2	1,800
1,001 - 5,000	20	69,893
5,001 - 10,000	117	1,152,900
10,001 - 100,000	270	11,181,822
100,001 - and over	63	42,593,588
TOTAL	472	55,000,003

There were 51 holders of ordinary shares holding less than a marketable parcel.

Top Twenty Share Holders

Name	Number of Ordinary Shares held	%
Mr Anthony Polglase	4,350,001	7.91
Bullseye Geoservices Pty Ltd <Haynes Family A/C>	4,350,000	7.91
Mr Matthew Gaden Western Wood and Mrs Belinda Lucy Wood <Wood Family A/C>	4,250,001	7.73
Merrill Lynch (Australia) Nominees Pty Limited <Berndale A/C>	2,700,000	4.91
Corridor Nominees Pty Ltd	2,480,000	4.51
Exchange Minerals Limited	2,000,000	3.64
Queensway Investments Pty Ltd	1,485,000	2.70
Mr Geoffrey William Evans	1,450,000	2.64
Ms Carol Elizabeth Parker	1,300,000	2.36
Mr Andrew David Wilson and Jillian Gae Wilson <Wilson Family A/C>	1,010,000	1.84
Ms Linda Carter	1,000,000	1.82
Mandevilla Pty Ltd	1,000,000	1.82
Mrs Victoria Alexis Suzanne Funston	900,001	1.64
Avante Holdings Pty Ltd	800,000	1.45
Bluebase Pty Ltd	800,000	1.45
Mr Tim Flavel <The Flavel Investment A/C>	765,000	1.39
Stronsay Pty Ltd <Stronsay Super Fund A/C>	750,000	1.36
Icerig Nominees Pty Ltd	717,983	1.31
Summerset Investments Pty Ltd	600,000	1.09
Freya Pty Ltd <Scullino Family A/C>	500,000	0.91
Total ordinary shares on issue	33,207,986	60.38

ASX Additional Information

Restricted Securities

The following securities are restricted securities:

	Ordinary Shares
Escrowed 24 months from listing date	29,367,500

Use of Proceeds

In accordance with listing rule 4.10.19, the Company confirms that it has used cash and assets in a form readily convertible to cash in a way consistent with its business objectives during the period from admission (7 December 2007) to the end of the financial year (30 June 2008).

On-Market Buy Back

There is no current on-market buy back.

Voting Rights

All ordinary shares carry one vote per share without restriction.

Top Twenty Option Holders

Name	Number of Ordinary Shares held	%
Mr Anthony Polglase	4,440,001	8.07
Bullseye Geoservices Pty Ltd <Haynes Family A/C>	4,350,000	7.91
Mr Matthew Gaden Western Wood and Mrs Belinda Lucy Wood <Wood Family A/C>	4,340,001	7.89
Merrill Lynch (Australia) Nominees Pty Limited <Berndale A/C>	2,700,000	4.91
Corridor Nominees Pty Ltd	2,480,000	4.51
Exchange Minerals Limited	2,000,000	3.64
Mr Geoffrey William Evans	1,450,000	2.64
Ms Carol Elizabeth Parker	1,300,000	2.36
Queensway Investments Pty Ltd	1,300,000	2.36
Stronsay Pty Ltd <Stronsay Super Fund A/C>	1,100,000	2.00
Mr Andrew David Wilson and Jillian Gae Wilson <Wilson Family A/C>	1,010,000	1.84
Ms Linda Carter	1,000,000	1.82
Mandevilla Pty Ltd	1,000,000	1.82
Mrs Victoria Alexis Suzanne Funston	990,001	1.80
Avante Holdings Pty Ltd	800,000	1.45
Bluebase Pty Ltd	800,000	1.45
Mr Tim Flavel <The Flavel Investment A/C>	765,000	1.39
Summerset Investments Pty Ltd	600,000	1.09
RBC Dexia Investor Services Australia Nominees Pty Limited	555,000	1.01
Freya Pty Ltd <Scullino Family A/C>	500,000	0.91
Total ordinary shares on issue	33,480,003	60.87