Avanco

RESOURCES LIMITED

ABN 85 126 379 646

Annual Report

30 June 2010

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CORPORATE DIRECTORY

Directors

Mr Matthew Wood (Chairman)
Mr Anthony Polglase (Executive Director)
Mr Scott Funston (Executive Director)

Company Secretary

Mr Scott Funston

Registered Office

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33 Richardson Street
West Perth WA 6005

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Facsimile:	+61 8 9200 4469
Website:	www.avancoresources.com

Share Registry

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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, AVBO and AVBOB

Directors' Report

The Directors present their report for Avanco Resources Limited ("Avanco" or "the Company") and its subsidiaries for the year ended 30 June 2010 ("the Group").

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

Non-executive Director, Chairman

Mr Wood has over 17 years experience in the resource sector with both major and junior resource companies and has extensive experience in the technical and economic evaluation of resource projects throughout the world. Mr. Wood's expertise is in project identification, negotiation, acquisition and corporate development. 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 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), Bellamel Mining Limited (appointed 16 May 2007, resigned 31 December 2008) and Black Range Minerals Limited (appointed 27 June 2005, resigned 15 May 2009). Mr. Wood is currently a director of Signature Metals Limited (appointed 19 February 2007), Copper Range Limited (appointed 29 May 2009), Voyager Resources Limited (appointed 12 June 2009), Hunnu Coal Limited (appointed 19 August 2009) and Laguna Resources NL (appointed 6 August 2009).

Mr Anthony Polglase

Executive Director

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

Mr. Polglase 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.

Mr Scott Funston

Executive Director

Mr Funston is a qualified Chartered Accountant and Company Secretary with more than 10 years experience in the mining industry and the accounting profession. His expertise is financial management, regulatory compliance and corporate advice. Mr Funston possesses a strong knowledge of the Australian Securities Exchange requirements and currently assists a number 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 is a Director and the Company Secretary of the company.

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 1.5 cents each
M. Wood	31,735,001	7,503,000
A. Polglase	5,000,001	80,000
S. Funston	2,186,439	371,288

RESULTS OF OPERATIONS

The Group's net loss after taxation attributable to the members of Avanco Resources for the year to 30 June 2010 was $802,788 (2009: $2,323,027).

DIVIDENDS

No dividend was paid or declared by the Group in the year 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 Group currently holds base metal projects in Brazil.

EMPLOYEES

The Group has three employees at 30 June 2010 (2009: one).

REVIEW OF OPERATIONS

- The Company's subsidiary AVB Mineracao Ltda has entered into a binding agreement with Brazilian major Vale S.A. (Vale), to provide them an option to acquire the Trindade North Property subsequent to the current reporting period.
- Diamond core drilling at Rio Verde continues with significant intersections of high grade copper mineralisation being logged.
- A total of 18 drill holes for 1,008m have been completed to date with assay results pending.
- Environmental authorities have issued an Operating License for development of the Rio Verde high grade copper project.
- Rio Verde regulatory process now focussed on receipt of the Trial Mining License.
- The Company has signed confidentiality agreements with a number of groups looking at potentially joint funding exploration programmes in the Carajas.
- The Company is progressing development and permitting of the Rio Verde High Grade Copper Project and anticipates the project being moved to a "decision to mine" status before the end 2010.

RIO VERDE HIGH GRADE COPPER PROJECT

The JORC compliant Antas South Deposit lies within the boundaries of the Company's 100% owned Rio Verde Copper Project. The current 2,000m diamond core drill programme has already completed 18 holes for 1,008m with first assay results expected soon.

The infill drilling programme has been designed to improve confidence in the current resource by up-grading indicated and inferred resources to the measured and indicated categories. Drilling will also test extensions to the high grade zone along strike.

During the current drill programme significant widths of high grade copper mineralisation have been logged in a number of drill holes. Core logging has identified high concentrations of malachite and chalcocite in the highly mineralised intersections. The Company anticipates completion of the 2,000m programme during the September quarter with a revised resource estimate calculated shortly thereafter.

Regulatory approval of the Operating Licence for the development of the Rio Verde High Grade Copper Project has been awarded to AVB Mineracao Ltda, a wholly owned Avanco subsidiary company.

The license has been issued by SEMA, the Secretary of State for the Environment in Para State, Brazil. It constitutes a decision that the Rio Verde Project, including the proposed Antas South high grade copper mine, processing plant and associated infrastructures are environmentally feasible. The approval represents a significant outcome and clears the way for the Company to proceed toward issuance of the Trial Mining Licence after which trial mining can commence.

Antas South is one of six known copper occurrences within the boundaries of Rio Verde Project and the area is highly prospective for new discoveries. Rio Verde is located in a premier location for mine development being close to water, sealed roads and power supplies. The project is located approximately 30 kilometres from the regional mining centre of Parauapebas, with a population in excess of 180,000 and growing.

The economic viability of mining the Antas South Deposit high grade copper zone deposit continues to be evaluated in the progression of the mining study. Key outcomes of the study were reported recently and included:-

Copper Production	~5,000tpa copper metal
Capex	US$12.4M (pre-production US$2M)
Total Revenue	US$120M (@ US$2.5<US$3.0Lb copper price)
Cash Flow @NPV=0	US$57M *
Mining & Processing Opex	US$51/t ore
FOB at Smelter Cost	86c/Lb Cu**
Total Cash Cost	US$1.7/Lb Cu***

* *Before interest and taxes*

** *Excludes smelter deductions and royalties but includes freight*

*** *Includes all smelter deductions and royalties, excludes precious metals credits*

Representative samples from the current drill program are being collected for definitive metallurgical test work. Laboratory testing will define the flotation plant process design criteria and optimise the metallurgical performance. The Company anticipates the Rio Verde Copper Project being moved to a "decision to mine" status and receipt of the Trial Mining License, before end 2010.

TOURO NICKEL PROJECT

Drilling at the Touro Nickel Project was completed for four diamond core drill holes for 1,152 metres. Persistent bad weather and widespread flooding in the region finally forced the Company to suspend operations. Drilling intersected a number of zones of magnetic banded pyroxenite with fine disseminated sulphides. Selected assay work was undertaken with better results from drill holes TSD-3 and TSD-05 over selected 2 metre intersects returned values of up to 0.38% nickel, 0.05% copper, 17ppb palladium, 30ppb platinum and 108ppb gold. Whilst the assays to date are low grade the results confirm that the Touro Sill hosts nickel, copper and PGM mineralisation and strongly justifies further exploration to locate higher concentrations of nickel sulphides. It is now believed that potentially economic grade mineralisation is more likely to be discovered within the footwall contact zone of the differentiated ultramafic sill. Drilling and mapping has been interpreted to show that the sill footwall contact zone is located north of the recently drilled areas. This contact trend is thought to be the most prospective location for discovering higher concentrations of magmatic nickel sulphides.

Avanco is also closely evaluating other grass roots nickel sulphide opportunities within the Carajas region and has since elected not to proceed with the acquisition of the Guapore Nickel Project which was examined earlier in the year.

TRINDADE NORTH IRON ORE PROJECT

The Company's subsidiary AVB Mineracao Ltda has entered into a binding agreement with Brazilian major Vale S.A. (Vale), to provide them an option to acquire the Trindade North Property.

Trindade North is believed to be highly prospective for iron ore and is situated proximal to Vale's giant N4-N5 iron ore mine in the Carajas, Brazil. The final agreement has been signed subsequent to year end and will be executed as a partnership with Vale being granted exclusive exploration rights for up to 3 years.On satisfying conditions precedent, Vale will have earned the right to exercise an option to acquire sole ownership of the property.

Key provisions of the agreement:

1. For a two year option term, Vale will pay Avanco a non-refundable fee of US$350,000 on signing and receipt of regulatory permissions to drill.
2. Vale should drill at least 2,500m at Trindade North within the first year.
3. After one year Vale must pay Avanco US$600,000 for the second year. To retain and extend the option for a third year, Vale must make a further payment of US$1,000,000 to Avanco.
4. Based on drilling results Vale will pay Avanco a royalty for any in-situ JORC compliant iron ore resources in the measured and indicated categories.
5. On Avanco receiving funds from Vale inclusive of 1, 3 and 4 (above) estimated at US$10,000,000 or more, Vale will have satisfied conditions precedent and will have earned the right to complete the acquisition for sole ownership of Trindade North. The total sum of all qualifying payments to Avanco is capped at a maximum value of US$40,000,000.
6. In the event economic mineralisation other than iron ore is discovered, both parties will renegotiate terms with Vale retaining preferential rights to first refusal.
7. Avanco can elect a representative to participate in the exploration programme.

Known reserves of Carajas iron ore have been reported as 7.2Bt at an average grade of ~65% Fe. Reserves in the region include the Northern Range (2.9Bt) and the world's largest unexploited high grade deposit Serra Sul (4.2Bt) within the Southern Range. The Carajas region is dominated by Brazilian major Vale, the largest global iron ore producer.

Avanco's project portfolio includes the Trindade North and Trindade South Properties which are located close to the Northern and Southern iron ore ranges respectively. Avanco holds the rights to 100% of both properties through its wholly owned Brazilian subsidiary, AVB Mineracao Ltda.

Trindade North is believed to be highly prospective for the discovery of economic iron ore. It comprises a single contiguous exploration license of ~4,966ha and is largely land locked by Vale tenure. Studies of regional airborne magnetics show two potential Banded Iron Formation (BIF) targets with a combined strike of ~7km located towards the northern boundary. Field reconnaissance has discovered elevated terrains with oxide facies, BIF outcrops and subcrops enriched in magnetite-hematite. The mineralisation has the appearance of typical Carajas style high grade iron ore with two rock chip samples returning results of 50.2%Fe and 54.2%Fe.

The prospectivity of Trindade North is much enhanced by its proximity to Vale's N4-N5 open cut which is the world's largest high grade iron ore mine. Excellent infrastructure is a feature of the area with a rail system running through the property connecting Trindade North with the Atlantic sea port of Sao Luis, some 900km's away. The railway is owned by Vale and will favour low cost mining and carriage of any future iron ore production from Trindade North.

The Company has moved quickly to close the agreement with Vale and progress in obtaining the exploration permissions is already well advanced. Communication from Vale detailing the exploration programme is expected soon. Under the terms of the transaction Vale have committed to undertake at least 2,500m of drilling within the first year. The Company intends to exercise its right to appoint an Avanco representative to oversee the activities.

SERRA VERDE PROJECT

The Serra Verde Projects hosts an historic open cut to the north of the property as well as two additional high quality copper targets, Alagoano and Pedro. The now abandoned open cut has been evaluated and as previously reported, returned, high grade copper and gold channel sampling results including:

- **4.5m at 16.50% copper and 4.1g/t gold**
- **4.3m at 8.92% copper and 48.4g/t gold**
- **9.6m at 3.44% copper and 3.29/t gold**
- **9.0m at 5.81% copper and 4.48/t gold**
- **2.0m at 7.77% copper**
- **2.0m at 7.02% copper**

Mineralisation associated with the Serra Verde open pit is strongly structurally controlled. The Company believes these structural controls have been poorly understood by past explorers on the project and that considerable potential remains to discover additional high grade copper mineralisation.

Avanco is now evaluating the potential of mining remnant high grade copper from the Serra Verde open pit with the aim of providing additional ore feed for the proposed Rio Verde copper concentrator plant. Serra Verde is located only a few kilometres north of Rio Verde.

At the Alagoano copper target two artisanal shafts exist within a 1,500m west north west trending copper soil anomaly with early artisans reportedly extracting high grade chalcocite and massive chalcopyrite. A composite rock chip sample collected over the area by the Company has returned up to 22.57% copper. Past wide spaced drilling at the Alagoana copper target failed to interest high grades, however Avanco's recent experience at Rio Verde demonstrates that tight drill patterns are essential for exploring these structurally controlled extremely high grade copper systems.

An extensive copper soil anomaly exists at the Pedro copper target. This north west to south east trending anomaly extends over 2,500m and connects with the Serra Verde open cut. The Pedro copper target has never been drill tested.

The potential for the discovery of a large iron oxide copper gold (IOCG) type deposits at Serra Verde should also not be discounted. IOCG type mineralisation is the target of exploration and drilling currently being reported by a Canadian JV group on the neighbouring Rio Novo Property which is situated on Serra Verde's northern boundary.

The Company is now planning an initial drilling programme to test targets beneath and along strike from the open cut and across the numerous copper anomalies on the project.

<u>CORPORATE</u>

The Company is progressing the development of the Rio Verde High Grade Copper Project and anticipates a revised JORC resource and the project being moved to a "decision to mine" status before the end of 2010.

Avanco is also examining a number of options to realise greater value from its Carajas portfolio and has signed confidentiality agreements with a number of groups who are looking at potential exploration joint ventures.

The Company is in a positive cash position which will enable it to focus on the near term copper developments at Rio Verde whilst grass roots nickel sulphide and iron ore exploration is advanced.

Negotiations to acquire additional Carajas copper properties are at an advanced stage with details expected to be available in the coming months.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

On 8 March 2010, the Company announced a pro-rata non renounceable entitlement issue of ordinary shares at $0.025 to shareholders on the basis of three shares for every two shares held which included one free attaching option for every five shares allotted. The offer was completed on 20 April 2010, raising $1,198,806. A further $3,916,201 was raised from the allocation of the shortfall.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

There were no known significant events from the end of the financial year to the date of this report.

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.

ENVIRONMENTAL REGULATIONS AND PERFORMANCE

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

SHARE OPTIONS

As at the date of this report, there were 239,771,975 unissued ordinary shares under options (239,771,975 at the reporting date). The details of the options at the date of this report are as follows:

Number	Exercise Price $	Expiry Date
1,500,000	0.20	30 April 2013
545,000	0.35	12 May 2013
237,726,975	0.015	30 April 2012
239,771,975		

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

81,594,046 options with an exercise price of 1.5 cents expiring on 30 April 2012 were issued during the year. 74,418,189 options, with an exercise price of 20 cents, expired on 30 June 2010. 313,268 options with an exercise price of 1.5 cents, expiring on 30 April 2012 were exercised during the financial year. No options have expired or were exercised 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 Group. 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. Scott Funston	3	3

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 to the extent possible, 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 47 of this report.

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

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 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	Executive Director
Mr. Scott Funston	Executive Director, Company Secretary

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 Group does not link the nature and amount of the emoluments of such officers to the Group's financial or operational performance. The expected outcome of this remuneration structure is to retain and motivate Directors.

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 Group 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 Group 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.

The table below shows the performance of the Group as measured by loss per share since incorporation in July 2007:

As at 30 June	2010	2009	2008
Loss per share (cents)	(0.24)	(1.45)	(1.10)

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:

	Short term			Options	Post employment		
2010 Director	Base Salary $	Directors Fees $	Consulting Fees $	Share based Payments $	Superannuation $	Total $	Option Related %
Mr. Matthew Wood	-	-	120,000	-	-	120,000	-
Mr. Anthony Polglase	-	-	140,000	-	-	140,000	-
Mr. Scott Funston	-	-	92,500	-	-	92,500	-
	-	-	352,500	-	-	352,500	

	Short term			Options	Post employment		
2009	Base Salary	Directors Fees	Consulting Fees	Share Based Payments	Superannuation	Total	Option Related
Director	$	$	$	$	$	$	%
Mr. Matthew Wood	-	-	65,000	-	-	65,000	-
Mr. Anthony Polglase	-	-	130,550	-	-	130,550	-
Mr. Colin Jones*	-	-	30,000	142,350	-	172,350	82.6%
Mr. Wayne Phillips*	-	-	30,000	142,350	-	172,350	82.6%
Mr. Scott Funston	-	-	56,500	-	-	56,500	-
	-	-	312,050	284,700	-	596,750	

* Mr. Jones and Mr. Phillips resigned on 17 March 2009. The share based payments were valued at a share price of $0.44, which were substantially higher than the share price at 30 June 2009 of $0.014.

There were no other executive officers of the Group during the financial years ended 30 June 2010 and 30 June 2009. No remuneration is performance related. There were no options issued to KMPs as part of remuneration during the year ended 30 June 2010. The share options issued in prior years were not subject to a performance hurdle as these options were issued as a form of retention bonus and incentive package for the purpose of identifying, evaluating and proposing to the Group any new projects.

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 remuneration options were exercised for the year ended 30 June 2010 or for the year ended 30 June 2009.

Executive Directors

The Executive Directors, Mr. Anthony Polglase and Mr. Scott Funston are paid an annual consulting fee on a monthly basis. Their services may be terminated by either party at any time.

Non Executive Director

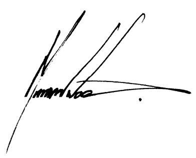
The Non Executive Chairman, Mr. Matthew Wood is paid an annual consulting fee on a monthly basis. His services may be terminated by either party at any time.

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 Group has entered a service agreement for certain administrative services and office space for a term of two years with Garrison Capital Pty Ltd, a company of which Mr. Wood is a Director. The Group is required to give three months written notice to terminate the agreement.

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



Matthew Wood
Chairman
17 September 2010

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, there are no 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	3 years 3 months
Anthony Polglase	3 years 3 months
Scott Funston	1 year 6 months

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. The company does not link the nature and amount of executive and directors' emoluments to the company's financial and operational performance.

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.

Assurance

The CEO and CFO (or equivalent) periodically provide formal statements to the Board that in all material aspects:

- the company's financial statements present a true and fair view of the company's financial condition and operational results; and

- the risk management and internal compliance and control systems are sound, appropriate and operating efficiently and effectively.

This assurance forms part of the process by which the Board determines the effectiveness of its risk management and internal control systems in relation to financial reporting risks.

Corporate Governance Compliance

During the financial year Avanco Resources has complied with each of the 8 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 Group 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.
4.1 and 4.2	The Group 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	The Group 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.
8.2	Non-executive directors receive options as a part of remuneration.	To attract and retain an independent Non-executive director with sufficient skills and experience to the Company, incentive options were required as part of the remuneration package.

Statement of Comprehensive Income *for the year ended 30 June 2010*

	Notes	Consolidated 2010 $	2009 $
Revenue			
Interest income		48,732	30,695
Revenue		**48,732**	**30,695**
Public company costs		(66,485)	(47,447)
Consulting fees		(338,776)	(473,018)
Legal fees		(34,389)	(37,485)
Share based payments		(56,283)	(460,925)
Rent and outgoings		(120,000)	(179,020)
Travel expenses		(63,019)	(118,558)
Impairment of exploration expenditure	10	(26,952)	(712,605)
Other expenses	4	(145,616)	(324,664)
Loss from continuing operations before income tax		**(802,788)**	**(2,323,027)**
Income tax expense	5	-	-
Loss from continuing operations after income tax		**(802,788)**	**(2,323,027)**
Net loss for the year		**(802,788)**	**(2,323,027)**
Other Comprehensive Income/(loss)			
Foreign currency translation		80,017	(70,975)
Other comprehensive income/(loss) for the year		**80,017**	**(2,394,002)**
Total comprehensive income/(loss) for the year		**(722,771)**	**(2,394,002)**
Loss per share attributable to owners of Avanco Resources Limited			
Basic loss per share (cents per share)	20	(0.24)	(1.45)
Diluted loss per share (cents per share)	20	(0.24)	(1.45)

Statement of Financial Position *as at 30 June 2010*

	Notes	Consolidated 2010 $	2009 $
CURRENT ASSETS			
Cash and cash equivalents	6	4,519,184	1,710,324
Trade and other receivables	7	73,326	21,505
TOTAL CURRENT ASSETS		**4,592,510**	**1,731,829**
NON-CURRENT ASSETS			
Plant and equipment	9	95,341	111,466
Deferred exploration and evaluation expenditure	10	4,753,389	3,233,229
TOTAL NON-CURRENT ASSETS		**4,848,730**	**3,344,695**
TOTAL ASSETS		**9,441,240**	**5,076,524**
CURRENT LIABILITIES			
Trade and other payables	11	184,778	196,587
TOTAL CURRENT LIABILITIES		**184,778**	**196,587**
TOTAL LIABILITIES		**184,778**	**196,587**
NET ASSETS		**9,256,462**	**4,879,937**
EQUITY			
Issued capital	12	11,309,380	6,933,420
Reserves	13	2,095,607	1,292,254
Accumulated losses	14	(4,148,525)	(3,345,737)
TOTAL EQUITY		**9,256,462**	**4,879,937**

Statement of Cash Flows *for the year ended 30 June 2010*

	Notes	Consolidated 2010 $	Consolidated 2009 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments to suppliers and employees		(837,234)	(866,852)
Interest received		48,732	30,695
NET CASH USED IN OPERATING ACTIVITIES	6	(788,502)	(836,157)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(1,206)	(39,353)
Expenditure on exploration		(1,175,345)	(1,883,837)
NET CASH USED IN INVESTING ACTIVITIES		(1,176,551)	(1,923,190)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		5,119,706	3,051,090
Share issue costs		(345,793)	(268,943)
NET CASH FROM FINANCING ACTIVITIES		4,773,913	2,782,147
Net increase in cash held		2,808,860	22,800
Cash and cash equivalents at beginning of period		1,710,324	1,687,524
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR	6	**4,519,184**	**1,710,324**

Statement of Changes in Equity *for the year ended 30 June 2010*

Consolidated	Issued capital $	Accumulated losses $	Foreign Currency Translation Reserve $	Option reserves $	Share based payment reserves $	Total $
At 1 July 2009	6,933,420	(3,345,737)	(41,711)	549,200	784,765	4,879,937
Loss for the year	-	(802,788)	-	-	-	(802,788)
Other comprehensive income	-	-	80,017	-	-	80,017
Total comprehensive loss	**-**	**(802,788)**	**80,017**	**-**	**-**	**(722,771)**
Transactions with owners in their capacity as owners						
Issue of ordinary shares	5,119,706	-	-	-	-	5,119,706
Share based payments	269,100	-	-	-	723,336	992,436
Transaction costs on share issue	(1,012,846)	-	-	-		(1,012,846)
At 30 June 2010	**11,309,380**	**(4,148,525)**	**38,306**	**549,200**	**1,508,101**	**9,256,462**
At 1 July 2008	4,226,601	(1,022,710)	29,264	550,000	72,947	3,856,102
Loss for the year	-	(2,323,027)	-	-	-	(2,323,027)
Other comprehensive loss	-	-	(70,975)	-	-	(70,975)
Total comprehensive loss	-	(2,323,027)	(70,975)	-	-	(2,394,002)
Transactions with owners in their capacity as owners						
Issue of ordinary shares	3,209,855	-	-	-	-	3,209,855
Issue of options	16,800	-	-	(800)	-	16,000
Share based payments	-	-	-	-	711,818	711,818
Transaction costs on share issue	(519,836)	-	-	-	-	(519,836)
At 30 June 2009	**6,933,420**	**(3,345,737)**	**(41,711)**	**549,200**	**784,765**	**4,879,937**

1. Corporate Information

The financial report of Avanco Resources Limited ("Avanco Resources" or "the Company") and its controlled entities ("the Group") for the year ended 30 June 2010 was authorised for issue in accordance with a resolution of the directors on 17 September 2010.

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 Group are described in the Directors' Report.

2. Summary of Significant Accounting Policies

(a) Basis of Preparation

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

(b) Compliance statement

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.

(c) New accounting standards and interpretations issued but yet effective

The following applicable accounting standards and interpretations have been issued or amended but are not yet effective. These standards have not been adopted by the Group for the year ended 30 June 2010, and no change to the Group's accounting policy is required:

Reference	Title	Summary	Impact on Group's financial report	Application date for Group
AASB 9 and 2009-11	Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12]	The revised Standard introduces a number of changes to the accounting for financial assets, the most significant of which includes: ▪ two categories for financial assets being amortised cost or fair value ▪ removal of the requirement to separate embedded derivatives in financial assets ▪ strict requirements to determine which financial assets can be classified as amortised cost or fair value, Financial assets can only be classified as amortised cost if (a) the contractual cash flows from the instrument represent principal and interest and (b) the entity's purpose for holding the instrument is to collect the contractual cash flows ▪ an option for investments in equity instruments which are not held for trading to recognise fair value changes through other comprehensive income with no impairment testing and no recycling through profit or loss on derecognition	The Group has not yet determined the impact on the Group's financial statements.	1 July 2013

Reference	Title	Summary	Impact on Group's financial report	Application date for Group
		▪ reclassifications between amortised cost and fair value no longer permitted unless the entity's business model for holding the asset changes ▪ changes to the accounting and additional disclosures for equity instruments classified as fair value through other comprehensive income		
AASB 2009-12, AASB 2009-5	Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052]	This amendment makes numerous editorial changes to a range of Australian Accounting Standards and Interpretations. The amendment to AASB 124 clarifies and simplifies the definition of a related party as well as providing some relief for government-related entities (as defined in the amended standard) to disclose details of all transactions with other government-related entities (as well as with the government itself)	The Group has not yet determined the impact on the Group's financial statements.	1 July 2011
AASB 2010-3	Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 3, AASB 7, AASB 121, AASB 128, AASB 131, AASB 132 & AASB 139]	Limits the scope of the measurement choices of non-controlling interest at proportionate share of net assets in the event of liquidation. Other components of NCI are measured at fair value. Requires an entity (in a business combination) to account for the replacement of the acquiree's share-based payment transactions (whether obliged or voluntarily), i.e., split between consideration and post combination expenses. Clarifies that contingent consideration from a business combination that occurred before the effective date of AASB 3 Revised is not restated. Eliminates the requirement to restate financial statements for a reporting period when significant influence or joint control is lost and the reporting entity accounts for the remaining investment under AASB 139. This includes the effect on accumulated foreign exchange differences on such investments.	The Group has not yet determined the impact on the Group's financial statements.	1 July 2010

Reference	Title	Summary	Impact on Group's financial report	Application date for Group
AAS 2010-4	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101, AASB 134 and Interpretation 13]	Emphasises the interaction between quantitative and qualitative AASB 7 disclosures and the nature and extent of risks associated with financial instruments. Clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. Provides guidance to illustrate how to apply disclosure principles in AASB 134 for significant events and transactions Clarify that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account.	The Group has not yet determined the impact on the Group's financial statements.	1 July 2011

The group has not elected to early adopt any new Standards or Interpretations.

(d) Changes in accounting policies and disclosures

The Group has adopted all of the new and amended Australian Accounting Standards and AASB Interpretations that became effective during the year. When the adoption of the Standard or Interpretation is deemed to have an impact on the financial statements or performance of the Group, its impact is described below:

AASB 8 Operating Segments

AASB 8 replaced AASB 114 Segment Reporting upon its effective date on 1 July 2009. The Group concluded that it operates in one operating segment.

AASB 101 Presentation of Financial Statements (revised 2007)

The group has applied the revised AASB 101 Presentation of Financial Statements which became effective on 1 July 2009. The revised standard requires the separate presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the statement of comprehensive income. As a consequence, the group had to change the presentation of its financial statements. Comparative information has been re-presented so that it is also in conformity with the revised standard.

AASB 127 Consolidated and Separate Financial Statements (revised)

AASB 127 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. This is different to the Group's previous accounting policy where transactions with minority interests were treated as transactions with parties external to the group.

The changes were implemented prospectively from 1 July 2009.

AASB 2009-2 Amendments to Australian Accounting Standards – Improving disclosures about financial instruments

Adoption of the new Accounting Standards and Interpretations had no impact on the financial position or performance of the Group.

AASB 2008-7 Amendments to Australian Accounting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate

The amendments delete the reference to the "cost method" making the distinction between pre and post acquisition profits no longer relevant. All dividends received are now recognised in profit or loss rather than having to be split between a reduction in the investment and profit and loss. However the receipt of such dividends requires an entity to consider whether there is an indicator of impairment of the investment in that subsidiary.

The amendments further clarify cases or reorganisations where a new parent is inserted above an existing parent of the group. It states that the cost of the subsidiary is the previous carrying amount of its share of equity items in the subsidiary rather than its fair value. The adoption of these amendments did not have any impact on the financial position or the performance of the Group.

(e) 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 acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values.

The difference between the above items and the fair value of the consideration (including the fair value of any pre-existing investment in the acquiree) is goodwill or a discount on acquisition.

A change in the ownership interest of a subsidiary that does not result in a loss of control, is accounted for as an equity transaction.

(f) 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 currency of Avanco Resources Limited is Australian dollars. The functional currency of the overseas subsidiaries 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 Statement of Comprehensive Income.

(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 statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation 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 are taken to foreign currency translation reserve.

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 statement of comprehensive income, as part of the gain or loss on sale where applicable.

(g) Plant and Equipment

Each class of 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 Group and the cost of the item can be measured reliably. Repairs and maintenance expenditure is charged to the statement of comprehensive income 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 Group commencing from the time the asset is held ready for use.

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

Class of Fixed Asset	*Depreciation Rate*
Plant and equipment	25 %
Furniture, Fixtures and Fittings	15 %
Computer and software	25 %
Motor Vehicles	20 %

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date.

Derecognition

Additions of 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 statement of comprehensive income.

(h) 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 Group 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 Group 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 the statement of comprehensive income.

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.

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.

(i) 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.

(j) 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.

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

(k) Cash and Cash Equivalents

Cash and cash equivalent in the statement of financial position 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 statement of financial position. For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as described above and bank overdrafts.

(l) Provisions

Provisions are recognised when the Group 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 Group 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 statement of comprehensive income 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.

(n) 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 Group.

(m) 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 charged or credited in the statement of comprehensive income except where it relates to items that may be charged or 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 date and the anticipation that the Group 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 statement of comprehensive income.

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

(n) Issued capital

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 are deducted from equity.

(o) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group 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

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors of Avanco Resources Limited.

(p) 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);
- 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.

(q) 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 statement of financial position 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 statement of financial position.

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.

(r) 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 23.

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 statement of comprehensive income 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 cost of equity-settled transactions with non-employees is measured by reference to the fair value of goods and services received unless this cannot be measured reliably, in which case the cost is measured by reference to the fair value of the equity instruments granted.

The dilutive effect, if any, of outstanding options is reflected in the computation of loss per share (see note 20).

(s) 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 Group 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 Group 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 Group 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 23.

3. Segment Information

For management purposes, the Group is organised into one main operating segment, which involves mining exploration for phosphate, iron ore and copper. All of the Group's activities are interrelated, and discrete financial information is reported to the Board (Chief Operating Decision Makers) as a single segment.

Accordingly, all significant operating decisions are based upon analysis of the Group as one segment. The financial results from this segment are equivalent to the financial statements of the Group as a whole. Total revenue earned by the Group is generated in Australia and all of the Group's non-current assets reside in Brazil.

	Consolidated	
	2010	2009
	$	$

4. Other Expenses

	2010 $	2009 $
Accounting and audit fees	68,251	82,786
Bank fees	3,800	4,285
Computer and website expenses	3,008	4,359
Courier	973	1,198
General office expenses	7,361	44,393
Insurance	13,990	14,049
Printing and stationary	11,493	7,036
Repairs and maintenance	4,536	16,450
Subscriptions	-	3,309
Communications	5,089	14,149
Marketing expenses	-	2,245
Loss on sale of plant and equipment	-	24,008
Conferences and seminars	5,428	12,955
Depreciation	18,803	55,042
Other	2,884	38,400
Total other expenses	145,616	324,664

5. Income Tax

(a) Income tax expense

Major component of tax expense for the year:

	2010 $	2009 $
Current tax	-	-
Deferred tax	-	-
	-	**-**

	Consolidated 2010 $	2009 $
(b) Numerical reconciliation between aggregate tax expense recognised in the statement of comprehensive income and tax expense calculated per the statutory income tax rate.		
A reconciliation between tax expense and the product of accounting loss before income tax multiplied by the Group's applicable tax rate is as follows:		
Loss from continuing operations before income tax expense	(802,788)	(2,323,027)
Tax at the group rate of 30%	(240,836)	(696,908)
Expense of remuneration options	16,885	138,278
Other non deductible expenses	-	563
Income tax benefit not brought to account	223,951	558,067
Income tax expense	-	-
(c) Deferred tax		
The following deferred tax balances have not been brought to account:		
Liabilities		
Capitalised exploration and evaluation expenditure	1,426,017	969,969
Offset by deferred tax assets	(1,426,017)	(969,969)
Deferred tax liability recognised	-	-
Assets		
Losses available to offset against future taxable income	2,562,814	1,838,381
Share issue costs deductible over five years	164,568	114,299
Accrued expenses	5,250	6,300
Deferred tax assets offset against deferred tax liabilities	(1,426,017)	(969,969)
Deferred tax assets not brought to account as realisation is not regarded as probable	(1,306,615)	(989,011)
Deferred tax asset recognised	-	-
(d) Unused tax losses		
Unused tax losses	4,355,383	3,296,703
Potential tax benefit not recognised at 30%	1,306,615	989,011

The benefit for tax losses will only be obtained if:

(i) the Group 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 Group 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 Group in realising the benefit from the deductions for the losses.

	Consolidated 2010 $	2009 $
6. Cash and Cash Equivalents		
Reconciliation of Cash		
Cash comprises of:		
Cash at bank	**4,519,184**	**1,710,324**
Reconciliation of operating loss after tax to net the cash flows from operations		
Loss from ordinary activities after tax	(802,788)	(2,323,027)
Non cash items		
Share based payment	56,283	460,925
Depreciation and impairment charges	18,803	55,042
Exploration expenditure written off	26,952	712,605
Creditors settled for issued capital	-	174,765
Loss on sale of property, plant and equipment	-	24,008
Change in assets and liabilities		
Decrease / (increase) in trade and other receivables	(44,140)	23,866
Increase in trade and other payables	(43,612)	35,659
Net cash outflow from operating activities	**(788,502)**	**(836,157)**

Non-cash financing activities are as follows:

- Share-based payments (to employees and underwriters) as discussed in note 23;

7. Trade and Other Receivables – Current

	2010	2009
GST receivable	25,313	15,587
Other	48,013	5,918
	73,326	**21,505**

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

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2 (e).

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

	Consolidated 2010 $	Consolidated 2009 $
9. Plant and Equipment		
Plant and Equipment		
Cost	3,358	3,297
Accumulated depreciation and impairment	(823)	(478)
Net carrying amount	2,535	2,819
Computer Equipment and Software		
Cost	41,417	40,902
Accumulated depreciation and impairment	(13,377)	(7,155)
Net carrying amount	28,040	33,747
Furniture, Fixtures and Fittings		
Cost	50,214	48,118
Accumulated depreciation and impairment	(46,748)	(41,087)
Net carrying amount	3,466	7,031
Motor Vehicles		
Cost	78,256	76,833
Accumulated depreciation and impairment	(16,956)	(8,964)
Net carrying amount	61,300	67,869
Total Plant and Equipment	**95,341**	**111,466**

	Consolidated 2010 $	Consolidated 2009 $
Plant and Equipment		
At beginning of the period	2,819	5,750
Additions	-	4,508
Disposals	-	(7,039)
Net exchange differences on translation	61	(15)
Depreciation charge for the year	(345)	(385)
	2,535	2,819
Computer Equipment and Software		
At beginning of the period	33,747	27,586
Additions	-	11,910
Disposals	-	-
Net exchange differences on translation	515	742
Depreciation charge for the year	(6,222)	(5,981)
Impairment charge for the year	-	(510)
	28,040	33,747
Furniture, Fixtures and Fittings		
At beginning of the period	7,031	42,950
Additions	1,206	34,934
Disposals	-	(32,419)
Net exchange differences on translation	890	1,671
Depreciation charge for the year	(5,661)	(4,780)
Impairment charge for the year	-	(35,325)
	3,466	7,031
Motor Vehicles		
At beginning of the period	67,869	76,583
Additions	-	-
Net exchange differences on translation	1,422	(653)
Depreciation charge for the year	(7,991)	(8,061)
	61,300	67,869
Total Plant & equipment	**95,341**	**111,466**

	Consolidated 2010 $	2009 $
10. Deferred Exploration and Evaluation Expenditure		
At beginning of the period	3,233,229	2,352,454
Exploration expenditure during the year	1,469,984	1,524,111
Impairment loss	(26,952)	(712,605)
Net exchange differences on translation	77,128	69,269
Total exploration and evaluation	**4,753,389**	**3,233,229**

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. The impairment loss during the financial year relates to the withdrawal from various projects held in Brazil that the Group has made a decision not to continue exploration and wrote down the carrying value to nil.

11. Trade and Other Payables

Trade payables	161,352	175,587
Accruals	23,426	21,000
	184,778	**196,587**

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.

12. Issued Capital

(a) Issued capital

Ordinary shares fully paid	**11,309,380**	**6,933,420**

	2010		2009	
	Number of shares	**$**	**Number of shares**	**$**
(b) Movements in shares on issue				
At beginning of the period	298,072,756	6,933,420	55,000,003	4,226,601
Issue to exploration consultant	8,666,666	269,100	-	-
Placement at $0.025	204,600,282	5,115,007	-	-
Placement at $0.05	-	-	19,498,186	974,909
Placement at $0.01	-	-	223,494,567	2,234,946
Exercise of options	313,268	4,699	80,000	16,800
less fundraising costs	-	(1,012,846)	-	(519,836)
At 30 June	511,652,972	11,309,380	298,072,756	6,933,420

(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 $9,256,462 at 30 June 2010 (2009: $4,879,937). 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 and not subject to any externally imposed capital requirements. Refer to note 21 for further information on the Group's financial risk management policies.

(e) Share options

At 30 June 2010, there were 239,771,975 unissued ordinary shares under options (2009: 232,909,386 options). The details of the options are as follows:

Number	Exercise Price $	Expiry Date
1,500,000	0.20	30 April 2013
545,000	0.35	12 May 2013
237,726,975	0.015	30 April 2012
239,771,975		

81,594,046 options with an exercise price of 1.5 cents expiring on 30 April 2012 were issued during the year. 74,418,189 options, with an exercise price of 20 cents, expired on 30 June 2010. 313,268 options with an exercise price of 1.5 cents, expiring on 30 April 2012 were exercised during the financial year. No options have expired or were exercised since the end of the financial year.

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 23.

	Consolidated 2010 $	2009 $
13. Reserves		
Share based payment reserve	1,508,101	784,765
Option reserves	549,200	549,200
Foreign currency translation reserve	38,306	(41,711)
	2,095,607	**1,292,254**
Movements in Reserves		
Share based payment reserve		
At beginning of the period	784,765	72,947
Share based payment expense	723,336	711,818
At 30 June	**1,508,101**	**784,765**

The share based payment reserve is used to record the value of equity benefits provided to directors and executives as part of their remuneration and non-employees for their services. Refer to note 23 for further details of the options issued during the financial year.

	Consolidated 2010 $	2009 $
Option reserves		
At beginning of the period	549,200	550,000
Options issued	-	-
Options exercised	-	(800)
Balance at end of year	549,200	549,200

The option reserves are used to record the premium paid on the issue of listed options on 30 April 2008, which expired on 30 June 2010, less any of those options exercised.

Foreign currency translation reserve		
At beginning of the period	(41,711)	29,264
Foreign currency translation	80,017	(70,975)
At 30 June	38,306	(41,711)

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(f). The reserve is recognised in profit and loss when the net investment is disposed of.

14. Accumulated losses

Movements in accumulated losses were as follows:

At beginning of the period	(3,345,737)	(1,022,710)
Loss	(802,788)	(2,323,027)
At 30 June	**(4,148,525)**	**(3,345,737)**

15. Expenditure Commitments

(a) Rental and services agreement

The Group entered a service agreement for certain administrative services and office space for a term of two years starting in 2009. The Group is required to give three months written notice to terminate the agreement.

Within one year	60,000	120,000
After one year but not longer than 5 years	-	60,000
	60,000	**180,000**

(b) 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 2010.

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

Within one year	156,111	124,254
After one year but not longer than 5 years	-	-
Greater than 5 years	-	-
	156,111	124,254

	Consolidated 2010 $	2009 $
16. 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	29,460	29,335
	29,460	29,335

17. Key Management Personnel Disclosures

(a) Details of Key Personnel

M. Wood	Chairman
A. Polglase	Executive Director
S. Funston	Executive Director

(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:

	2010 $	2009 $
Short term employee benefits	352,500	312,050
Post employment benefits	-	-
Share based payments	-	284,700
Total remuneration	352,500	596,750

(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.

2010	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	19,895,001	-	-	11,840,000	31,735,001
Mr. A. Polglase	4,600,001	-	-	400,000	5,000,001
Mr. S. Funston	1,580,001	-	-	606,438	2,186,439

* Other changes relate to the shares acquired under pro-rata non-renounceable entitlement issue during the year.

2009	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	-	-	15,270,000	19,895,001
Mr. A. Polglase	4,600,001	-	-	-	4,600,001
Mr. S. Funston	900,001	-	-	680,000	1,580,001
Mr. C. Jones*	150,000	-	-	(150,000)	-
Mr. W. Phillips*	150,000	-	-	(150,000)	-

* Mr. Colin Jones and Mr. Wayne Phillips resigned 17 March 2009

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:

						Vested options	
2010	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	Exercisable	Non-exercisable
Mr. M. Wood	14,850,001	-	-	(7,347,001)	7,503,000	7,503,000	-
Mr. A. Polglase	4,690,001	-	-	(4,610,001)	80,000	80,000	-
Mr. S. Funston	1,240,000	-	-	(868,712)	371,288	371,288	-

* Other changes relate to options acquired under pro-rata non-renounceable entitlement issue net offset by options expired on 30 June 2010.

						Vested options	
2009	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	Exercisable	Non-exercisable
Mr. M. Wood	4,715,001	-	-	10,135,000	14,850,001	14,850,001	-
Mr. A. Polglase	4,690,001	-	-	-	4,690,001	4,690,001	-
Mr. S. Funston	990,001	-	-	250,000	1,240,001	1,240,001	-
Mr. C. Jones*	740,000	-	-	(740,000)	-	-	-
Mr. W. Phillips*	740,000	-	-	(740,000)	-	-	-

*Mr. Colin Jones and Mr. Wayne Phillips resigned 17 March 2009

There were no other alterations to the terms and conditions of options granted as remuneration since their grant date. There were no forfeitures during the years ended 30 June 2010 and 30 June 2009.

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 23.

Other transactions with Key Management Personnel

Garrison Capital Pty Ltd, a company of which Mr. Wood is a director, provided the Group with a fully serviced office including administration and information technology support totalling $120,000 (2009: $60,000) and reimbursement of payments for courier, accounting and other minor expenses, at cost $9,511 (2009: $8). $14,130 (2009: $10,008) was outstanding at year end.

Mineral Quest Pty Ltd, a company of which Mr. Wood is a director, was paid consulting fees of $120,000 (2009: $10,000) and reimbursement of payments for secretarial expenses, at cost for $8,755 (2009: $2,069) during the year. This amount is included in Note 17(b) “Remuneration of key management personnel”. $11,880 (2009: 12,069) was outstanding at year end.

In 2009, MQ Management Services Limited, a company of which Mr Wood is a director, was paid consulting fees of $55,000. No payment was made during the financial year. This amount is included in Note 17(b) “Remuneration of key management personnel”.

Resourceful International Consulting Pty Ltd, a company of which Mr. Funston is a Director was paid consulting fees of $92,500 (2009: $56,500). This amount is included in Note 17(b) “Remuneration of key management personnel”. $11,000 (2009: $7,500) was outstanding at year end.

Kernow Mining Consultants Pty Ltd, a company of which Mr. Polglase is a Director was paid consulting fees of $140,000 (2009: Nil). This amount is included in Note 17(b) “Remuneration of key management personnel”. $16,500 (2009: Nil) was outstanding at year end.

These transactions have been entered into on normal commercial terms.

18. Events Subsequent to Balance Date

On 12 August 2010, the Group signed the definitive option agreement with Brazilian major Vale S.A. (Vale), to provide them an option to acquire the Trindade North Property. Key provisions of the agreement include:

1. For a two year option term, Vale will pay Avanco a non-refundable fee of US$350,000 on signing and receipt of regulatory permissions to drill.
2. Vale should drill at least 2,500m at Trindade North within the first year.
3. After one year Vale must pay Avanco US$600,000 for the second year. To retain and extend the option for a third year, Vale must make a further payment of US$1,000,000 to Avanco.
4. Based on drilling results Vale will pay Avanco a royalty for any in-situ JORC compliant iron ore resources in the measured and indicated categories.
5. On Avanco receiving funds from Vale inclusive of 1, 3 and 4 (above) estimated at US$10,000,000 or more, Vale will have satisfied conditions precedent and will have earned the right to complete the acquisition for sole ownership of Trindade North. The total sum of all qualifying payments to Avanco is capped at a maximum value of US$40,000,000.
6. In the event economic mineralisation other than iron ore is discovered, both parties will renegotiate terms with Vale retaining preferential rights to first refusal.
7. Avanco can elect a representative to participate in the exploration programme.

There has been no other event that has arisen since the balance date that has affected or may significantly affect the operation of Group.

19. Related Party Disclosures

For Director related party transactions please refer to Note 17 "Key Management Personnel Disclosures". The ultimate parent entity is Avanco Resources Limited. Refer to note 8 for list of all subsidiaries within the group. There were no other related party transactions during the year.

	Consolidated	
	2010	2009
	$	$
20. Loss per Share		
Loss used in calculating basic and dilutive EPS	(802,788)	(2,323,027)
	Number of Shares	
Weighted average number of ordinary shares used in calculating basic earnings / (loss) per share (*):	333,732,613	160,205,342
Effect of dilution:		
Share options	-	-
Adjusted weighted average number of ordinary shares used in calculating diluted loss per share:	333,732,613	160,205,342

There is no impact from 239,771,975 options outstanding at 30 June 2010 (2009: 232,909,386 options) 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.

21. 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 Group 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 Group 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 future 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 2010 and 30 June 2009 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	
	2010	2009
	$	$
Cash and cash equivalents	4,519,184	1,710,324

Interest rate sensitivity

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

Consolidated

Judgements of reasonably possible movements	Effect on Post Tax Earnings Increase/(Decrease)		Effect on Equity including accumulated losses Increase/(Decrease)	
	2010	**2009**	**2010**	**2098**
	$	**$**	**$**	**$**
Increase 100 basis points	45,192	17,103	45,192	17,103
Decrease 100 basis points	(45,192)	(17,103)	(45,192)	(17,103)

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. The change in basis points is derived from a review of historical movements and management's judgement of future trends. The analysis was performed on the same basis in 2009.

(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 statement of financial position. The Group holds financial instruments with credit worthy third parties.

At 30 June 2010, the Group held cash at bank. These were held with financial institution with a rating from Standard & Poors of AA or above (long term). The Group has no past due or impaired debtors as at 30 June 2010.

22. Contingent Liabilities

There are no known contingent liabilities.

23. Share Based Payment Plan

(a) Recognised share based payment transactions

Share based payment transactions recognised either as operation expenses in the statement of comprehensive income or as capital raising expenses in the equity during the year were as follows:

	Consolidated 2010 $	2009 $
Operating expenses		
Employee share based payment	56,283	460,925
Capital raising expenses		
Share based payments to supplier	667,053	250,893
Exploration Expenditure		
Share based payments to supplier	269,100	-

(b) Employee 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.

The table below summaries 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	1,500,000
12 May 2008	12 May 2013	$0.35	545,000	-	-	-	545,000	545,000
			2,045,000	-	-	-	2,045,000	2,045,000
Weighted remaining contractual life (years)			4.84	-	-	-	3.84	3.84
Weighted average exercise price			$0.24	-	-	-	$0.24	$0.24

The weighted average fair value of options granted during the year was nil (2009: Nil).

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%.

No options were granted under the ESOP for the year ended 30 June 2010 and 30 June 2009.

(c) Share-based payment to suppliers:

(i) *Capital raising expenses*

The table below summaries options granted to suppliers during the financial year:

2010

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
7 May 2010	30 April 2012	$0.015	-	40,673,944	-	-	40,673,944	40,673,944
Weighted remaining contractual life (years)			-	-	-	-	2	2
Weighted average exercise price			-	-	-	-	$0.015	$0.015

The model inputs, not included in the table above, for options granted included:

(a) options are granted for no consideration and vest immediately;

(b) Expected life of options had a range is two years;

(c) share price at grant date had a range of $0.025;

(d) expected volatility of 100%;

(e) expected dividend yield of Nil; and

(f) a risk free interest rate of 4.67%.

2009

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
6 April 2009	30 April 2012	$0.015	-	44,698,913	-	-	44,698,913	44,698,913
Weighted remaining contractual life (years)			-	-	-	-	2.8	2.8
Weighted average exercise price			-	-	-	-	$0.015	$0.015

The options were issued to an underwriter of the group for their underwriting services. The weighted average fair value of options granted during the year was $0.0164 (2009: $0.00561). The fair value of the options at the date of receiving the services was used to record the transactions as the fair value of the underlying assets could not measured reliably.

The model inputs, not included in the table above, for options granted included:

(a) options are granted for no consideration and vest immediately;

(b) Expected life of options had a range is three years;

(c) share price at grant date had a range of $0.01;

(d) expected volatility of 100%;

(e) expected dividend yield of Nil; and

(f) a risk free interest rate of 3.6%.

(ii) Exploration expenditure

8,666,666 ordinary shares (2009: nil ordinary shares) were issued during the financial year for consultancy services. The fair value of the shares at the date of receiving the services was used to record the transactions as the fair value of the underlying assets could not measured reliably.

24. Dividends

No dividend was paid or declared by the Group 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 2010.

The balance of the franking account is Nil as at 30 June 2010 (2009: Nil).

25. Parent Entity Information

The following details information related to the parent entity, Avanco Resources Limited, at 30 June 2010. The information presented here has been prepared using consistent accounting policies as presented in Note 2.

	Parent	
	2010	2009
	$	$
Current assets	4,512,283	1,725,946
Non current assets	4,820,855	3,274,280
Total Assets	**9,333,138**	**5,000,226**
Current liabilities	76,677	120,289
Non current liabilities	-	-
Total Liabilities	**76,677**	**120,289**
Net Assets	9,256,461	**4,879,937**
Issued capital	11,309,380	6,933,420
Share based payment reserve	1,508,101	784,765
Option reserves	549,200	549,200
Accumulated losses	(4,110,220)	(3,387,448)
Total Equity	**9,256,461**	**4,879,937**
Loss for the year	(722,772)	(2,394,002)
Other comprehensive income for the year	-	-
Total comprehensive loss for the year	**(722,772)**	**(2,394,002)**

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. Total commitments at 30 June 2010 under the contract are $60,000 (2009: $180,000).

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 Group are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the financial position of the Group as at 30 June 2010 and of their performance, for the year ended on that date; and

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

(b) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable;

(c) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2 (b);

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 year ending 30 June 2010.

On behalf of the Board

Matthew Wood
Director
17 September 2010

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

In relation to our audit of the financial report of Avanco Resources Limited and its controlled entities for the financial year ended 30 June 2010, 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

Ernst & Young

F Drummond
Partner
17 September 2010

FD:MJ:AVANCO:017

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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 statement of financial position as at 30 June 2010 and the statement of comprehensive income, statement of changes in equity and statement of cash flows 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(b), 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 consolidated entity's financial position at 30 June 2010 and of its 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 10 of the directors' report for the year ended 30 June 2010. 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 the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

F Drummond
Partner
Perth
17 September 2010

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 15 September 2010.

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	31,735,001	6.20

Distribution of Share Holders

	Ordinary Shares	
	Number of Holders	Number of Shares
1 - 1,000	49	6,028
1,001 - 5,000	12	39,115
5,001 - 10,000	55	541,134
10,001 - 100,000	449	23,856,547
100,001 - and over	604	487,210148
TOTAL	1,169	511,652,972

There were 138 holders of ordinary shares holding less than a marketable parcel.

Top Twenty Share Holders

Name	Number of Ordinary Shares held	%
Celtic Capital Pty Ltd <The Celtic Capital A/C>	18,117,600	3.54
Mr Matthew Gaden Western Wood and Mrs Belinda Lucy Wood <Wood Family A/C>	17,650,001	3.45
Citicorp Nominees Pty Limited	16,403,731	3.21
Mitchell Grass Holdings Pty Ltd <Wood Family A/C>	11,840,000	2.31
Appollo Nominees Inc	8,666,666	1.69
Celac Pty Ltd <The Andrew McCabe S/F A/C>	8,097,164	1.58
Ms Rosemarie Cremona	7,951,512	1.55
Bannaby Investments Pty Ltd <Bannaby Superfund A/C>	6,549,620	1.28
Stronsay Pty Ltd <Stronsay Super Fund A/C>	6,177,000	1.21
Bimdent Pty Ltd <Discretionary A/C>	6,000,000	1.17
Mr Michael Foster Black & Mrs Lynette Robin Black <PE SUR Supp Co STF S/F 2 A/C>	5,500,000	1.07
Ms Carol Elizabeth Parker	5,200,000	1.02
Mr Anthony Polglase	4,750,001	0.93
TM Consulting Pty Ltd <TM Consulting S/Fund A/C>	4,596,000	0.90
Bullseye Geoservices Pty Ltd <Haynes Family A/C>	4,300,000	0.84
ABN AMRO Clearing Sydney Nominees Pty Ltd <Custodian A/C>	4,275,000	0.84
AMH Custodian Pty Ltd	4,000,000	0.78
Mr John Anthony Della Bosca & Mrs Jonina Gudbjorg Della Bosca <JA & JG Della Bosca S/F A/C>	4,000,000	0.78
Nefco Nominees Pty Ltd	4,000,000	0.78
Mr Tim Flavel <The Flavel Investment A/C>	3,961,667	0.77
Total ordinary shares	152,035,962	29.70

ASX Additional Information

Restricted Securities

The are no restricted securities:

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 Expiry 30 April 2012

Name	Number of Options held	%
Nefco Nominees Pty Ltd	10,000,000	4.21
Mr Julian Peters	9,988,619	4.20
Bimdent Pty Ltd <Discretionary A/C>	9,500,000	4.00
Mr Mark Bevan Tilbrook	8,929,352	3.76
Mr Dragoslav Jevtic & Mrs Nicole Jevtic	8,350,000	3.51
Mr David Wayne Austin & Mrs Christina Yit Ling Austin <Austin Super Fund A/C	8,100,000	3.41
Celtic Capital Pty Ltd <The Celtic Capital A/C>	5,645,279	2.38
Mr Gary John Harding	5,100,000	2.15
Mr Nicholas Simon Draper & Mrs Melinda Jane Draper <Draper Super Fund A/C	5,000,000	2.10
Select Yachts Pty Ltd	5,000,000	2.10
Mr Matthew Gaden Western Wood and Mrs Belinda Lucy Wood <Wood Family A/C>	5,000,000	2.10
Taycol Nominees Pty Ltd <211 A/C>	4,634,953	1.95
Bannaby Investments Pty Ltd <Bannaby Superfund A/C>	3,894,010	1.64
Brijohn Nominees Pty Ltd <Nelsonio A/C>	3,500,000	1.47
Mr Mark Bevan Tilbrook	3,219,000	1.35
Cypress Securities Pty Ltd <Cypress Super Fund A/C>	3,000,000	1.26
Mr Andrew Bruce Edwards	3,000,000	1.26
Mr Daniel James Harris	2,800,000	1.18
Titchener Pty Ltd	2,750,000	1.16
Mitchell Grass Holdings Pty Ltd <Wood Family A/C>	2,368,000	1.00
Total options	109,779,213	46.19

Tenement Table

Project	Property Name	Tenure Title Owner	Area Ha	DNPM No of Area	Status of Tenure
Carajas Copper Project	Rio Verde	AVB	9,300	853.714/93	Granted to 2011*
	Serra Verde	AVB	7,358	850.892/06	Granted to 2012**
Trindade Nickel Project	Trindade South	AVB	890	850.111/02	Granted to 2011**
	Trindade South	AVB	8,215	850.281/99	Granted to 2011**
	Trindade South	AVB	690	850.407/99	Granted to 2011**
	Trindade North	AVB	4,966	850.283/99	Granted to 2011**
Bahia Cu-Pb-Zn Project	Cafarnaum	ARM	1,713	870.182/08	Granted to 2014**
	Cafarnaum	ARM	1,951	870.183/08	Granted to 2014**
	Cafarnaum	ARM	1,894	870.184/08	Granted to 2014**
	Cafarnaum	ARM	1,307	870.185/08	Granted to 2014**

AVB = AVB Mineracao ARM = Avanco Resources Mineracao * Renewable on approval of resources report.
** Renewable on approval of exploration report