

QUARTERLY REPORT

Three Months Ending 31 December 2009

Highlights

Corporate

- The Company entered into three agreements during the quarter (or early in the new year):
 - an option for the Company to acquire 100% interest in a gold project in the Eastern Goldfields of Western Australia
 - a Heads of Agreement to explore the Company's Khartoum tenement in north Queensland for base metals and gold
 - appointment of a corporate consultant

- Auzex entered into a binding terms sheet for an option to acquire the Bullabulling Gold Project from Jervois Mining Limited. Bullabulling is attractive to Auzex because it allows the Company to apply its modelling and exploration targeting techniques to a brownfields project that has a large landholding (exceeding 60km²) with 100% ownership, an established gold resource and mining history with excellent potential to increase the scope and scale of the project significantly in a proven geological environment, and granted mining tenure with access to power and water to assist with early development.

- A Heads of Agreement has been executed between Auzex and Hillgrove Resources Ltd to explore the Khartoum EPM 14797 tenement in north Queensland for copper, lead, zinc, nickel and gold mineralisation. At the date of execution of a Joint Venture Agreement, Hillgrove is to pay \$50,000 in cash, and issue Auzex ordinary shares in Hillgrove to the value of \$50,000 based on the share price immediately prior to signing of the Agreement.

- Hong Kong based Laxmi Asset Management (LAM) were appointed as the Company's corporate consultant for a one year period. Laxmi had previously taken a placement of 1.15 million shares in the Company.
- Auzex continued discussions and negotiations with a number of interested parties on a range of opportunities regarding Auzex and its assets.

Exploration

- Drilling commenced at the Klondyke gold prospect in northern New South Wales in November. Narrow gold mineralisation was intersected in the first hole assayed, with 2m at 2.6g/t Au intersected from greisen alteration similar to mineralisation intersected at Seven Hills.

Corporate

Auzex continued discussions and negotiations with a number of interested parties on a range of opportunities regarding Auzex and its assets. The Company entered into three significant agreements during the quarter (or immediately subsequent to the end of the quarter) that will allow exploration to continue at Khartoum, provide short term funds while alternative funding discussions continue and give Auzex the option to acquire a new gold project in a world class location.

Auzex entered into a binding terms sheet for an option to acquire the Bullabulling Gold Project, located approximately 60km southwest of Kalgoorlie in the eastern goldfields of Western Australia, from Jervois Mining Limited. The Project assets include gold resources estimated in 2002 at the time Jervois acquired the Project of 431,000 ounces, mining infrastructure, substantial geological exploration databases and granted Mining Leases.

Resource Category	Tonnes	Grade g/t Au	Contained Gold oz
Measured	4,865,000	1.51	237,000
Indicated	4,159,000	1.35	180,800
Inferred	284,000	1.52	13,900
Total	9,308,000	1.44	431,600

Note: Resource tonnes and contained gold figures have been rounded

Bullabulling is attractive to Auzex because it allows the Company to apply its modelling and exploration targeting techniques to a brownfields project that has a large landholding (exceeding 60km²) with 100% ownership, an established gold resource with excellent potential to increase the

scope and scale of the project significantly in a proven geological environment, and granted mining tenure with access to power and water to assist with early development. The key terms of the option are:

- An exclusive option period of three months, exercisable by Auzex at any time
- An option fee of \$20,000 per month with no payment in the first month
- Replacement of the security bonds for the mining tenements (approximately \$1.25 million)
- Payment of \$800,000 consideration for existing buildings, plant and machinery. Auzex may elect to pay the acquisition consideration by issuing shares to Jervois Mining Limited at Auzex's volume weighted traded share price over the five days prior to that issue.
- Royalty payment of \$30 per ounce up to 400,000oz gold produced and, if any greater amount is produced, reducing to \$20 per ounce thereafter.

Funding for the acquisition requires approximately \$2m to cover the costs of tenements, associated plant and equipment and replacement of the environmental bond. The Company is well advanced in providing funding options and is confident of an early conclusion on attractive terms.

A Heads of Agreement has been executed between Auzex Resources Ltd (“Auzex”) and Hillgrove Resources Ltd (“Hillgrove”) to enable Hillgrove to explore Auzex’ Khartoum EPM 14797 tenement in north Queensland for copper, lead, zinc, nickel and gold mineralisation. Auzex has established the presence of a potential world-class tin project within this tenement, which remains unaffected by the terms of this Agreement. The principle terms of the Agreement are as follows:

- At the date of execution of a Joint Venture Agreement, Hillgrove to pay \$50,000 in cash, and issue to Auzex ordinary shares in Hillgrove to the value of \$50,000 based on the share price immediately prior to signing of the Agreement.
- Hillgrove to spend a minimum \$500,000 within two years to earn 80% of all copper, lead, zinc, nickel deposits discovered, and 50% of gold-silver deposits discovered within EPM 14797.
- Hillgrove may withdraw at any time prior to meeting minimum expenditure requirement with no retained equity.
- Auzex may retain 20% of any copper, lead, zinc and nickel discovery subject to pro rata exploration expenditure contributions once Hillgrove equity is earned, as well as receiving a 2% net smelter return royalty from any future mine production associated with the Hillgrove interest.

Hong Kong based Laxmi Asset Management (LAM) were appointed as the Company's corporate consultant for a one year period. LAM is a highly experienced and successful group that provides strategic and corporate consulting services primarily in the global resource sector. LAM also acquired shares in Auzex and is currently pursuing a number of interested parties for significant investment into Auzex's projects and/or at the corporate level. The Company received funds totalling AUD 230,000 for the placement of 1,150,000 fully paid ordinary shares at a price of AUD 0.20 per share.

Exploration: Klondyke Gold Prospect (Auzex 100%)

The Klondyke gold prospect (EL6408) is located approximately 50km northeast of Glen Innes in northern New South Wales. Exploration to date has identified two Intrusion Related Gold Deposit (IRGD) targets in the region. The first is at the historic Klondyke Reef mine where high grade, narrow vein (up to 5m) gold mineralisation can be followed up to 900m along strike and has been worked to a depth of 210m. The second target is for low grade disseminated gold mineralisation associated with an ellipsoidal northwest trending dome-shaped felsic zoned pluton. This target, which is not exposed at surface, is approximately 9km x 2km in size. Previous drilling by Auzex at Seven Hills, 10km to the west of Klondyke, intersected a number of discrete zones of gold mineralisation in greisen, including 13m at 8.55 g/t Au, 8m at 2.80 g/t Au, 11m @ 2.05g/t Au and 5m at 3.54 g/t Au.

The planned drill program started at the Klondyke Gold Prospect in early December, with 4 holes completed on 3 sections for a total of 354m before the drill rig broke down shifting to the second target area. Drilling was designed to test the geological model predicting the presence of the roof zone of prospective fractionated Stanthorpe Granite at the junction or below the Klondyke reef system (particularly the western and central portions of the southernmost English Syndicate Reef). Narrow sulphide rich greisen veins similar to those mined in the historic workings were intersected in all holes. The veins are 1-2m wide and dip 80 to 85° south and are a similar style of mineralisation to that found at Seven Hills. The results from the first hole, KDRC09-01 returned 2m at 2.8 g/t Au from 57-59m (with 1m at 4.1 g/t Au from the main greisen) over an 8m zone of low grade gold around the greisen vein. The roof zone of the target granite, where the gold bearing greisen veins are expected to increase in width, was not intersected in any of the 4 holes, which means the first target remains untested. Repairs have been completed on the drill rig and drilling is expected to recommence at the end of January.

Lyell gold project (Auzex 58%)

Initial drilling at the highly prospective Lyell gold project (EP40 732) in New Zealand is being planned for the coming field season. Discussions with the Department of Conservation (DoC)

regarding approval for a six hole program are progressing. This program will test the coincident gold-arsenic soil geochemical anomaly, which extends over a distance of 3000m with a width of 200m. Historic production from the Alpine United mine, which is located in the southern portion of the anomalous soil geochemistry, was 96,500oz gold.

For further information please check our website (www.auzex.com) or contact Eugene Ilescu (Managing Director) or John Lawton (Executive Chairman) on +617 3303 0198.

Competent Person Statement

The information in this report that relates to Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by John Lawton who is a full-time employee of the Company and Member of The Australasian Institute of Mining and Metallurgy. He 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 "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". John Lawton consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.