



**Avalon Minerals Ltd**

**Annual Report**

**30 June 2011**

# AVALON MINERALS LTD

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# AVALON MINERALS LTD

## Corporate Directory

### Directors

Mr David McSweeney

#### **Executive Chairman**

Mr Andrew Munckton

#### **Managing Director & CEO**

Tan Sri Abu Sahid Bin Mohamed

#### **Non-Executive Director**

Mr Stephen Stone

#### **Non-Executive Director**

Mr Amro Al-Khadra

#### **Non-Executive Director**

Mr Ahmad Hisham Bin Kamaruddin

#### **Alternate Non-Executive Director**

### Company Secretary

Mr Paul Bridson

### Share Registry

Computershare Investor Services Pty Ltd

Level 2, 45 St Georges Terrace

Perth WA 6000

Telephone +61 8 9323 2000

Facsimile +61 8 9323 2033

### Auditor

Ernst & Young

The Ernst & Young Building

11 Mounts Bay Road

Perth WA 6000

### Solicitors

Steinepreis Paganin

Level 4 Read Buildings

16 Milligan Street

Perth WA 6000

### Bankers

National Australia Bank

1238 Hay Street

West Perth WA 6005

### Securities exchange listings

Avalon Minerals Ltd shares are listed on the Australian Securities Exchange.

The home branch is Perth.

Ordinary fully paid shares (ASX code: AVI)

### Principal place of business and registered office in Australia

Level 2, 91 Havelock Street

West Perth WA 6005

PO Box 165

West Perth WA 6872

Telephone: +61 8 9322 2752

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Email: [info@avalonminerals.com.au](mailto:info@avalonminerals.com.au)

Website: [www.avalonminerals.com.au](http://www.avalonminerals.com.au)

# AVALON MINERALS LTD

## Chairman's Review

Dear Shareholder,

The highlights for Avalon during the year centred on the resource upgrade and completion of the Pre Feasibility Study (PFS) for the Company's wholly owned Viscaria Copper and Iron Project in Northern Sweden.

The Viscaria resource upgrade followed the completion of the 2010 drilling program. The resource upgrade included a maiden resource for the D Zone and an increase in resources in the A Zone. The resource upgrade provided the foundation for the Viscaria PFS which demonstrated the strong technical and financial viability of the Viscaria Project.

Avalon made several significant technical breakthroughs during the year regarding the extent and volume of potential open pit resources in the D Zone. The potential of the D Zone was not recognised by earlier explorers and developers and its discovery is a credit to Avalon's technical team.

This discovery at D Zone led to the completion of the Pre Feasibility Study in October 2010 and to the recognition that the Viscaria Project could be developed as a stand-alone project based upon open cut resources.

This achievement transformed the economic potential and scale of the Viscaria Project. It also opened up the potential for similar discoveries within Avalon's landholdings and at depth within the D Zone.

Following the completion of the PFS the Company moved quickly to commence the next stage of feasibility drilling and test work at Viscaria. An extensive exploration, infill and feasibility drilling program continued throughout the winter months in Sweden with 3 to 4 drilling rigs on-site continually for nearly 6 months.

This program was financed by a well supported, underwritten 1 for 5 rights issue to Avalon shareholders which closed in February 2011.

Results from the 2010-2011 drilling program were very encouraging and are expected to lead to a further increase in tonnage and grade of copper and iron mineralisation within the D Zone resource. During this drilling program the depth potential of the mineralisation of the D Zone was recognised and tested by a program of diamond drilling which produced excellent intersections of copper and iron mineralisation below the base of the proposed open cut at the D Zone.

The company is now focussing on updating the resource models for Viscaria and advancing its mining studies before commencing the next round of drilling. The results of the model update are expected to be released over the coming months and will be followed by an interim update on the feasibility economics in the December quarter.

Avalon's strategy of growing its resource base at Viscaria has continued to deliver an increase in resources during the year. With additional drilling at Viscaria over the forthcoming year I am confident that Avalon will not only add to the resources at Viscaria, but that it will make new discoveries within its extensive regional landholdings in the world class Kiruna province of Northern Sweden.

It is pleasing to note that the copper price and commodities in general have remained relatively stable despite the significant volatility in equity markets over the past few months. The outlook for copper prices remains very positive. Avalon also benefits from having a potential dual income stream from the sale of both iron ore and copper concentrates.

In summary, the Company's aggressive feasibility and drilling program in the first half of 2011 was a success. I am confident that Avalon shareholders will reap the rewards from the efforts of the exploration and development team over the past 12 months and that together with the ongoing resource and exploration drilling and feasibility studies that this will be translated into an improved valuation for Avalon over the forthcoming year.



David McSweeney  
Chairman  
Avalon Minerals Ltd

# AVALON MINERALS LTD

## Tenement Schedule

SWEDEN			
Tenement Holder	Tenement Name	Status	Ownership
Avalon Minerals Viscaria AB	Viscaria No 101	Granted	100%
Avalon Minerals Viscaria AB	Viscaria No 102	Granted	100%
Avalon Minerals Viscaria AB	Viscaria No 103	Granted	100%
Avalon Minerals Viscaria AB	Viscaria No 104	Granted	100%
Avalon Minerals Viscaria AB	Viscaria No 105	Granted	100%
Avalon Minerals Viscaria AB	Viscaria No 106	Granted	100%
Avalon Minerals Viscaria AB	Viscaria No 1	Granted	100%
Avalon Minerals Viscaria AB	Viscaria No 2	Granted	100%
Avalon Minerals Viscaria AB	Viscaria No 3	Granted	100%
Avalon Minerals Viscaria AB	Viscaria No 107	Granted	100%
Avalon Minerals Viscaria AB	Viscaria No 108	Granted	100%
Avalon Minerals Viscaria AB	Viscaria No 109	Granted	100%
Avalon Minerals Viscaria AB	Viscaria No 110	Granted	100%
Avalon Minerals Viscaria AB	Viscaria No 111	Granted	100%
Avalon Minerals Viscaria AB	Vittangijarvi No 1	Granted	100%
Avalon Minerals Viscaria AB	Huornas No 1	Granted	100%
Avalon Minerals Viscaria AB	Viscaria No 112	Application	100% (upon grant)
Avalon Minerals Adak AB	Adak No 1	Granted	100%
Avalon Minerals Adak AB	Domarselnaset No 1	Granted	100%
Avalon Minerals Adak AB	Branntrask No 101	Granted	100%
Avalon Minerals Adak AB	Adak No 2	Granted	100%

### Resource Statement

Zone	Classification	Tonnes (Mt)	Cu Grade %	Fe Grade %	Cu Metal ('000t)	Fe Metal ('000t)
A	Measured	6.7	2.47	-	165	-
A	Indicated	4.1	1.76	-	73	-
	<b>Subtotal</b>	<b>10.8</b>	<b>2.20</b>	-	<b>238</b>	-
A	Inferred	6.5	1.24	-	80	-
B	Inferred	27.4	0.73	-	200	-
D	Inferred	9.0	0.55	26.9	49	2,415
Tailings Dam	Inferred	12.5	0.27	-	34	-
	<b>Total</b>	<b>66.2</b>	<b>0.97</b>	<b>26.9</b>	<b>601</b>	<b>2,415</b>

### Competent Person's Statement

The information in this report that relates to Mineral Resources and Exploration Results is based upon information reviewed by Mr Andrew Munckton BSc (Mining Geology) who is a Member of the Australasian Institute of Mining and Metallurgy.

Mr Munckton is a full time employee of Avalon Minerals Ltd and 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". Mr Munckton consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

### JORC – Exploration Targets

It is common practice for a company to comment on and discuss its exploration in terms of target size and type. The information relating to exploration targets should not be misunderstood or misconstrued as an estimate of Mineral Resources or Ore Reserves. Hence the terms Resource(s) or Reserve(s) have not been used in this context. The potential quantity and grade is conceptual in nature, since there has been insufficient work completed to define them beyond exploration targets and that it is uncertain if further exploration will result in the determination of a Mineral Resource.

# AVALON MINERALS LTD

## Directors' Report

Your directors present their report on Avalon Minerals Ltd ("Avalon" or "Company") and the entities it controlled ("Consolidated Entity" or "Group") for the financial year ended 30 June 2011.

### Directors

The following persons were directors of Avalon Minerals Ltd during the whole of the financial year and up to the date of this report, unless otherwise stated:

Mr David L McSweeney (resigned as Managing Director on 18 August 2010)  
Mr Andrew T Munckton (appointed as Managing Director on 18 August 2010)  
Tan Sri Abu Sahid Bin Mohamed  
Mr Stephen Stone  
Mr Amro Al-Khadra (appointed as non-executive director on 1 March 2011)  
Mr A Hisham Kamaruddin (alternate director for Tan Sri Abu Sahid Bin Mohamed)  
Mr Gary C Steinepreis (resigned as non-executive director on 1 March 2011)

### Principal activities

During the period the principal activities of the group consisted of mineral exploration and evaluation.

### Dividends

No dividends were paid or recommended to members during the financial period.

### Review of operations

A summary of consolidated revenues and results is set out below:

	2011	2010
	\$	\$
Revenue and other income	<u>164,138</u>	103,287
Loss before income tax expense	(1,897,672)	(1,262,015)
Income tax expense	-	-
Loss attributable to members of Avalon Minerals Ltd	<u>(1,897,672)</u>	<u>(1,262,015)</u>
<b>Earnings per share</b>	<b>2011</b>	2010
	<b>Cents</b>	Cents
Basic and diluted earnings per share	<b>(1.1)</b>	(1.1)

# AVALON MINERALS LTD

## Directors' Report

### Review of operations (continued)

#### **Financial Position**

During the year the Company had a net increase in contributed equity of \$14,153,825 as a result of:

- a share issue to sophisticated investors of 20,000,000 ordinary fully paid shares at 16 cents each raising \$3,200,000;
- a placement to a sophisticated investor of 22,841,542 ordinary fully paid shares at 18 cents each raising \$4,111,478;
- the issue of 28,844,900 ordinary fully paid shares at 18 cents each pursuant to a one for five non-renounceable entitlements issue raising \$5,192,082;
- the issue of 5,274,608 ordinary fully paid shares at 18 cents each pursuant to the underwritten portion of the one for five entitlements issue raising \$949,429;
- a share issue to professional and sophisticated investors of 6,500,000 ordinary fully paid shares at 18 cents each raising \$1,170,000\*; and
- payment of capital raising and share issue costs of \$684,364.

- \* The Company announced on 22 June 2011 a Tranche 1 share placement of 8,362,222 shares at 18 cents to raise \$1,505,200. As at 30 June \$1,170,000 had been received and 6,500,000 shares allotted, \$215,200 had been received and shares not allotted pending cleared funds and \$120,000 was received in early July. The balance of 1,862,222 shares were issued and allotted in early July.

At the end of the financial period the group had cash balances of \$2,660,034 (2010: \$2,927,242) and net assets of \$21,990,581 (2010: \$10,085,532).

Total liabilities amounted to \$1,321,301 (2010: \$1,059,612) and were limited to trade and other payables and provisions.

#### **Sweden Projects - Overview**

Avalon has two project areas in Sweden - the Viscaria Project which is located approximately 1,200km north of the Swedish capital Stockholm, and the Adak Project located 400km south of Viscaria.

Both projects are part of large, well recognised mineralised systems, and were acquired in March 2008 from Phelps Dodge Exploration Sweden AB, a subsidiary of global mining giant Freeport-McMoRan Exploration Corporation.

The Viscaria Project is located adjacent to road, rail and electricity infrastructure and a short distance from the regional mining centre of Kiruna which has a population of 20,000. The Kiruna region is regarded as an Iron Oxide Copper Gold (IOCG) province. Viscaria lies within 4km of LKAB's giant Kirunavaara Iron Ore Mine (Europe's largest iron ore mine and the world's second largest underground mine) and 80km north of Boliden's Aitik Copper Mine (Europe's largest open cut mine). Both deposits are considered to be world class with past production and current reserves totalling over 2 billion tonnes and 1 billion tonnes respectively.

In May 2008 the Company announced its maiden resource at Viscaria which contained 220,000 tonnes of copper. The Inferred Resource consisted of 24.1mt grading 0.8% copper at B Zone and 2.5mt grading 1.6% copper at D Zone. No resource had been calculated at A Zone at the time.

Since 2008 the company has expanded the resource to over 600,000 tonnes of copper metal and 2,415,000 tonnes of iron metal with the discovery of the copper-iron mineralisation at D Zone and definition of the depth extensions at A Zone into the previously mined underground positions.

In May 2010 the Company expanded its regional land holding on the back of the discovery of the iron ore potential of the D Zone and applied for four new tenements to the north of the Viscaria Project covering the Kurravarra, Karkejaure and Vittangjarvi targets all of which are prospective for both copper and iron ore mineralisation.

In October 2010 Avalon completed a successful Pre-Feasibility Study (PFS) for the Viscaria Project which confirmed its technical and financial viability. This led to the commencement of the Bankable Feasibility Study (BFS) which continues as at the date of this report.

# AVALON MINERALS LTD

## Directors' Report

### Review of operations (continued)

The most recent round of drilling, which commenced in November 2010 has identified further extensions to A Zone to the south, B Zone in previously untested areas and D Zone both along strike to the north and south and at depth.

### Viscaria Project

The Viscaria Copper and Iron Project is the Company's primary focus and formed the basis for the majority of the exploration and project development activities throughout 2010/11.

Project Development drilling programs commenced in November 2010 once the ice had set over the lower lying areas of D Zone. During the period 7,718 metres of diamond core and 1,190 metres of RC drilling was completed at D Zone with the aim of expanding and upgrading the 9 million tonne Inferred Resource at that location.

Numerous excellent intersections of copper and magnetite iron ore were returned with the interpretation of a 20 to 25 metre wide zone over 1000 metres in strike length confirmed to a maximum depth of 200 vertical metres. The mineralisation remains open to the north, south and at depth.

Metallurgical testing of the zone showed copper recoveries of approximately 90% and concentrate grades of 25% copper could be achieved from standard flotation tests. On the iron ore side, extensive Davis Tube Recovery (DTR) tests showed average concentrate grades of 69.5% Fe and 1.5% SiO<sub>2</sub> could be achieved from fine grinding at approximately 35% mass recovery from D Zone ore.

These results indicate the D Zone is a very attractive ore body where the mineralisation produces good quality copper concentrate and excellent quality iron ore concentrate from standard processing techniques. Further drilling and test work is planned to complete the program over 2012.

The second area of work over 2010/11 was at B Zone where 106 metres of diamond core and 2,755 metres of RC drilling was completed during the period. B Zone is a series of 5-25 metre wide zones of stringer copper mineralisation spread over 2,500 metres of strike length. The program completed the initial infill drilling and confirmed the continuity and grade of the mineralisation on several sections. The mineralisation remains open to the south.

Metallurgical testing has shown that the B Zone ore produces a lower quality copper concentrate than D Zone with approximately 87% copper recovery and 21% copper grade in concentrate achieved. Further drilling is also required at B Zone to complete the project development work and provide additional material for further metallurgical testing to more fully assess the concentrate quality and recovery over the entire length and depth of the ore zone.

At A Zone a small program of 802 metres of RC drilling was completed to confirm the metallurgical performance of the near surface mineralisation and provide quality assurance samples.

At D Zone South drilling followed the geophysical trend for approximately 3 km to the south of the D Zone resource. Wide intersections of anomalous copper mineralisation was intersected however no ore grade mineralisation was encountered. Drilling totalled 2,707 metres of RC and 280 metres of diamond.

All three zones (A, B and D Zone) are currently undergoing resource estimation and upgrade to allow the Bankable Feasibility Study (BFS) of the project to progress. CSA Global resource geology consultants are undertaking this work in conjunction with the geological team from Avalon.

Engineering, Project Design and Cost Estimation work has progressed significantly during 2010/11 to the point where engineering is approximately 50% complete on the project.

The Phase I engineering work was completed in late June by MSP Engineering and further work is pending the completion of the second phase of drilling and the current resource estimation works. Once all resource estimates and Phase 1 engineering have been completed an interim assessment of the economics of the project will be completed.

# AVALON MINERALS LTD

## Directors' Report

### Review of operations (continued)

The Project has advanced significantly over the last 12 months. The drilling programs at D and B Zone were very successful at defining the new mineralisation style at D Zone and confirming the continuity at B Zone.

The Project also faced some challenges. The drilling progress was slower than had been hoped due in part to the low level of experience of the available drilling teams and the severe arctic conditions. This contributed to a significantly higher than expected cost to complete Phase 1 of the Project. The higher unit costs resulted in a more rapid drawdown of the Company's cash reserves than was forecast and the need to raise additional funds for completion of the Project.



Figure 1 - Project Location Map

### Exploration - Viscaria

In May 2010 Avalon acquired a substantial block of tenements to the north and east of Viscaria that are prospective for iron ore and copper mineralisation. The acquisition followed the recognition that the Viscaria D Zone material was capable of producing premium quality iron ore concentrate and that D Zone and other styles of magnetite mineralisation may be present over extensive areas to the north of Kiruna.

Over 2010/11 two additional blocks of tenure at Gordon Kitchener and Linkoluppall were applied for to complement the 2010 acquisition.

Geological and geophysical reviews have been completed that highlight the very large Karkejaure magnetite feature as a highly prospective Iron Oxide-Copper-Gold (IOCG) target. Further ground-based geophysics, sampling and limited drilling are planned for 2012 to give an initial assessment of the prospect.

In addition, more than a dozen Skarn Cu-Fe (similar to D Zone), smaller IOCG and hydrothermal magnetite targets (similar to Kiruna) have been highlighted by the review for follow up.

# AVALON MINERALS LTD

## Directors' Report

### **Review of operations (continued)**

Avalon is prioritising the targets on the basis of their standalone potential and their ability to add to the Viscaria outputs. Work will be undertaken in the winter period over these areas to minimise disturbance and maximize access.

The Kiruna district already contains two world class IOCG projects being the Kirunavaara Iron Ore Mine and the Aitik Copper Mine. We believe that very significant potential exists to discover similar sized projects within the region.

### **Exploration - Adak**

The Adak Project underwent a review during 2010/11. The data collection process of all the underground workings was completed from the extensive archive held at the Geological Survey of Sweden. The Adak Project is a secondary priority to the Viscaria Project and the Company is currently seeking joint venture opportunities with exploration companies for advancing this project.

### **Bankable Feasibility Study – Viscaria**

The Viscaria BFS is being undertaken to determine the economic results of building a 3.0 Mtpa processing plant to produce approximately 80,000 tpa of copper concentrate grading 25% Cu and 750,000 tpa of iron concentrate grading 69.5% Fe.

The project involves construction of the processing plant incorporating flotation and magnetite separation for the two products and disposal of the waste and tailings products to existing dump and dam facilities.

Mining is proposed to be undertaken by open pit mining methods in contrast to the previous underground mining operations which operated at Viscaria between 1982 and 1997.

Copper concentrates produced from the proposed processing facility would be railed and sold to the Boliden owned Roonskar smelter on the east coast of Sweden approximately 300km away (see Figure 1). Concentrates of copper were treated at the Roonskar smelter during the previous underground mining operations. Iron ore concentrates are proposed to be piped and sold to the pellet making operations of LKAB located approximately 4 km west of Viscaria. LKAB have been producing iron ore in the region for over 100 years and are Europe's largest iron ore producing company. They are currently expanding operations from approximately 28 Mtpa to 37Mtpa. Avalon has been working closely with LKAB to ensure compatibility of the Viscaria concentrates with LKAB's concentrates.

The Environmental Impact Assessment (EIA) documents were submitted to the regulator (Swedish Government Department) in late April 2011. The regulator seeks public input before considering the application and may grant a license to operate (LTO) usually with conditions. The company would expect the Viscaria LTO to be fully considered in the first half of 2012.

In parallel to the EIA process, Avalon has applied for its mining licenses (MEC) covering the proposed open pit operations. The mining concession is currently being considered by the Bergsstaten (Mines Department) and its grant is expected shortly.

Both the EIA and the MEC processes involve extensive consultation with affected stakeholders. Feedback to date from neighbouring operations, City of Kiruna, local residents and Sami reindeer herders has been universally positive and encouraging of Avalon's approach to the local area and work to date. The Company remains very encouraged by the positive and friendly reception it has received from all groups in Sweden.

# AVALON MINERALS LTD

## Directors' Report

### **Matters subsequent to the end of the financial period**

On 22 June 2011 the Company announced an underwritten share placement of up to 60,000,000 shares at 18 cents to raise up to \$10,800,000. Tranche 1 of the placement comprised the issue of 8,362,222 fully paid ordinary shares to professional and sophisticated investors raising \$1,505,200. As at 30 June \$1,170,000 had been received and 6,500,000 Tranche 1 shares allotted, \$215,200 had been received and shares not allotted pending cleared funds and \$120,000 was received in early July. The balance of 1,862,222 Tranche 1 shares were issued and allotted in early July.

On 8 August 2011 the Company announced that the underwriter to the capital raising that was announced on 22 June 2011 did not intend to proceed with the underwriting of the placement. Alternative underwriting arrangements were sought however due to the deterioration in capital markets the successful negotiation of a replacement underwriter was unable to be finalised. On 23 August 2011 the Company announced that it had been successful in placing 21,461,111 shares at 9 cents per share to professional and sophisticated investors raising \$1,931,500.

### **Significant changes in the state of affairs**

Other than those matters discussed above, no significant changes in the state of affairs of the Group occurred during the financial period.

### **Likely developments and expected results**

The Consolidated Entity will continue copper and iron ore exploration and development activities. The Consolidated Entity assesses commercial opportunities for corporate growth, including the acquisition of interests in projects, as they arise. Because of the unpredictable nature of these opportunities, developments could occur at short notice.

### **Environmental regulation**

The Consolidated Entity is subject to the environmental laws and regulations imposed under the Environmental Code 1998 (Sweden). The Group is currently engaged in exploration activities which are governed by conditions or recommendations imposed through the granting of a licence or permit to explore. Compliance with these laws and regulations is regarded as a minimum standard for the Consolidated Entity to achieve. There were no known breaches of any environmental laws or regulations during the year.

### **Directors**

The directors of the Company at any time during or since the end of the financial year were:

#### **MR DAVID L MCSWEENEY** *Executive Chairman (resigned as Managing Director on 18 August 2010)*

##### *Experience and expertise*

Mr McSweeney holds a Bachelor of Law degree and is a member of the Australian Institute of Company Directors. He has over 20 years experience in the resource sector including experience in exploration, project management, project finance, commercial and legal structuring and corporate development. A founder of Gindalbie Metals Limited, Mr McSweeney was the Managing Director from 1998 until December 2006 and oversaw the discovery and commissioning of two successful gold production centres. Mr McSweeney has been Executive Chairman of the Company since December 2006.

##### *Other directorships of listed companies in the past three years*

###### Current

Aspire Mining Limited – since 12 February 2010

###### Former

Bauxite Resources Limited – November 2007 to January 2011

Dynasty Metals Ltd – January 2007 to September 2007

# AVALON MINERALS LTD

## Directors' Report

### Directors (continued)

#### **MR ANDREW T MUNCKTON** *Managing Director (appointed Managing Director on 18 August 2010)*

##### *Experience and expertise*

Mr Munckton holds a Bachelor of Science (Geology) degree and is a member of the Australian Institute of Company Directors. He has over 25 years experience in the resources industry, having held a wide range of senior positions including at various stages as General Manager of the Paddington, Kundana and Kanowna Belle Gold Operations for Goldfields Ltd, Aurion Gold and Placer Dome. Mr Munckton was most recently General Manager of Operations with Gindalbie Metals Limited from 2004 to 2009, where he was responsible for leading the team that discovered, defined and commenced development of the Karara Iron Ore Project. Mr Munckton commenced with the Company as General Manager on 1 February 2010 and has been Managing Director of the Company since 18 August 2010.

*No other directorships of listed companies in the past three years*

#### **TAN SRI ABU SAHID BIN MOHAMED** *Non-Executive Director*

##### *Experience and expertise*

Tan Sri Abu Sahid Bin Mohamed is the Group Executive Chairman of successful Malaysian conglomerate the Maju Group of Companies and has over 30 years experience in the Malaysian construction and steel industries. He is also the Executive Chairman of Perwaja Holdings Berhad, Malaysia's leading steel producer, and Ipmuda Berhad, a building materials specialist, both listed on the Malaysian Stock Exchange. Tan Sri Mohamed has been a director of the Company since January 2009.

*Other directorships of listed companies in the past three years*

##### Current

Perwaja Holdings Berhad – since June 2008

Ipmuda Berhad – since April 1997

Kinsteel Bhd – since February 2007

#### **MR STEPHEN STONE** *Non-Executive Director*

##### *Experience and expertise*

Mr Stone graduated with honours in Mining Geology from the University of Cardiff, Wales. He has over 30 years operating, project evaluation and development, company administration, management and corporate development experience in the international mining and exploration industry including over 20 years as the chief executive of publicly listed resource companies. He is a member of the Australasian Institute of Mining and Metallurgy and a Fellow of the Australian Institute of Company Directors. Mr Stone has been a director of the Company since January 2007.

*Other directorships of listed companies in the past three years*

##### Current

Azumah Resources Limited – since 8 November 2006

#### **MR AMRO AL-KHADRA** *Non-Executive Director (appointed 1 March 2011)*

##### *Experience and expertise*

Mr Al-Khadra currently holds the position of Group Managing Director and Chief Executive Officer of the leading Malaysian-based construction and property development Group, Maju Holdings Sdn Bhd ("Maju") – a position he has held since October 2009. Mr Al-Khadra is also a director of Perwaja Holdings Berhad, Kinsteel Bhd and Ipmuda Berhad, and sits on the Boards of various other private limited companies in Malaysia. A graduate of Monmouth University in New Jersey, Mr Al-Khadra obtained his Bachelor of Science in Business Administration with a concentration in International Business Management in 1996, followed by the completion of key managerial programs from the International Institute for Management Development ("IMD") in Lausanne, Switzerland.

*Other directorships of listed companies in the past three years*

##### Current

Perwaja Holdings Berhad – since April 2010

Ipmuda Berhad – since January 2010

Kinsteel Bhd – since April 2010

# AVALON MINERALS LTD

## Directors' Report

### Directors (continued)

#### **MR AHMAD HISHAM BIN KAMARUDDIN** *Alternate Non-executive Director*

##### *Experience and expertise*

Mr Kamaruddin obtained his Bachelor of Laws (LL.B) Hons. from University of Malaya in 1979. He worked as a Legal Officer, then as a Company Secretary before chambering at Messrs. Abdul Aziz & Ong. In May 1982, he was called to the Malaysian Bar and continued serving Messrs. Abdul Aziz & Ong. In October 1983, he founded Messrs. Hisham & Associates and remains the senior partner of the legal firm. He has been in private practice for 29 years specialising in corporate legal matters. Mr Kamaruddin is also a Director of ERM Malaysia Sdn. Bhd., a local subsidiary of ERM Plc, UK. The company undertakes Environmental and Ecological Studies. He is also a council member of the Malaysia Heritage Council appointed by the Minister of Culture, Arts and Heritage. Mr Kamaruddin has been an alternate director of the Company since January 2009.

*No other directorships of listed companies in the past three years*

#### **MR GARY C STEINEPREIS** *Non-executive Director (resigned 1 March 2011)*

##### *Experience and expertise*

Mr Steinepreis holds a Bachelor of Commerce degree from the University of Western Australia and is a Chartered Accountant. He provides corporate management and accounting advice to a number of companies involved in the resource, technology and leisure industries. Mr Steinepreis was a director from December 2006 until 1 March 2011.

*Other directorships of listed companies in the past three years*

##### Current

Minerals Corporation Ltd – since 17 February 2011

New Horizon Minerals Ltd – since 4 June 2010

Monto Minerals Ltd – since 26 June 2009

Agri Energy Limited – since 22 June 2009

Norseman Gold plc – since 3 December 2007

WAG Limited – since 2 November 2006

##### Former

RMG Limited – 31 January 2006 to 30 April 2011

Laguna Resources NL – 11 October 2007 to 15 October 2009

Black Fire Energy Limited – 29 November 2006 to 8 September 2009

Sirius Resources NL – 12 July 2007 to 31 August 2009

Signature Metals Ltd – 1 June 2006 to 27 November 2008

### Company Secretaries

#### **MR PAUL A BRIDSON** (appointed 18 November 2010)

Mr Bridson holds a Bachelor of Commerce degree from the University of Western Australia. He is a Member of the Institute of Chartered Accountants, Chartered Secretaries Australia and Financial Services Institute of Australasia. Mr Bridson was most recently Financial Controller with Gindalbie Metals Limited from 2001 until June 2010, where he was responsible for the finance and accounting function of the group. He has over 17 years experience in the mining industry. Mr Bridson was appointed as the Company's Chief Financial Officer on 1 July 2010 and was subsequently appointed Company Secretary on 18 November 2010.

#### **MR DESMOND J KELLY** (resigned 18 November 2010)

Mr Kelly holds a Bachelor of Commerce degree and is a Certified Practising Accountant and a member of the Australian Institute of Company Directors. Mr Kelly has over 30 years financial and corporate management experience focused mainly in the resources sector. He was Dominion Mining's Group Chief Accountant in that company's key growth phase in the mid-eighties and, between 1994 and 1998 held the roles of Finance Director and Managing Director of Horizon Mining NL before establishing his own corporate management consulting business. Mr Kelly now contributes corporate and administration management expertise to several listed and unlisted companies. Mr Kelly was Company Secretary from April 2007 until 18 November 2010.

# AVALON MINERALS LTD

## Directors' Report

### Directors' interests in shares and options

As at the date of this report the interests of the Directors in the shares and options of the Company were:

	Ordinary Shares		Options over Ordinary Shares	
	Direct	Indirect	Direct	Indirect
Mr DL McSweeney	3,127,618	11,441,027	600,000	-
Mr AT Munckton	-	978,000	-	4,500,000
Tan Sri AS Mohamed	41,438,344	-	600,000	-
Mr S Stone	-	1,385,942	600,000	-
Mr A Al-Khadra	-	-	600,000	-
Mr AH Kamaruddin	200,000	-	-	-

### Meetings of directors

The number of meetings of the Company's board of directors held during the year ended 30 June 2011 and the number of meetings attended by each director were:

	Remuneration Committee		Full meetings of Directors	
	Entitled to attend	Attended	Entitled to attend	Attended
Mr DL McSweeney	1	1	7	7
Mr AT Munckton	0	0	5	5
Tan Sri AS Mohamed	0	0	7	1
Mr S Stone	1	1	7	4
Mr A Al-Khadra	0	0	1	1
Mr AH Kamaruddin	0	0	7	7
Mr GC Steinepreis	1	1	6	6

The full Board undertakes the role of the Nomination Committee. The Audit Committee was formed during the year however did not meet prior to reporting date. Further details of the operation of all Committees are contained in the Corporate Governance Statement.

### Remuneration report (Audited)

#### *Key management personnel*

This remuneration report outlines the director and executive remuneration arrangements of the Company and the Group in accordance with the requirements of the *Corporations Act 2001* and its Regulations. For the purposes of this report, key management personnel (KMP) of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any director (whether executive or otherwise) of the parent company, and includes the five executives in the Parent and the Group receiving the highest remuneration.

For the purposes of this report, the term "executive" encompasses the chief executive, senior executives, general managers and company secretaries of the Parent and the Group.

# AVALON MINERALS LTD

## Directors' Report

### Remuneration report (Audited) (continued)

*Key management personnel at the date of this report are:*

#### **Directors of the company**

Mr DL McSweeney – Executive Chairman (resigned as Managing Director 18 August 2010)

Mr AT Munchton - Managing Director (appointed Managing Director 18 August 2010)

Tan Sri AS Mohamed – Non-executive director

Mr S Stone – Non-executive director

Mr A Al-Khadra – Non-executive director (appointed 1 March 2011)

Mr AH Kamaruddin – Alternate director

Mr GC Steinepreis – Non-executive director (resigned 1 March 2011)

#### **Other key management personnel**

Mr PA Bridson – Chief Financial Officer (appointed 1 July 2010) and Company Secretary (appointed 18 November 2010)

Ms LV Lindskog – Exploration Manager

Mr NP Bryce – Principal Geologist Sweden (appointed 20 September 2010)

Mr DJ Kelly – Company Secretary (resigned 18 November 2010)

Mr JG Brock – Project Manager Australia (resigned 13 May 2011)

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

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

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

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

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

The Consolidated Entity has structured an executive remuneration framework that is market competitive and complimentary to the reward strategy of the organisation.

# AVALON MINERALS LTD

## Directors' Report

### Remuneration report (Audited) (continued)

Alignment to shareholders' interests:

- focuses on exploration success as the creation of shareholder value and returns
- attracts and retains high calibre executives.

Alignment to program participants' interests:

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

The framework currently consists of fixed remuneration and variable remuneration.

Director and executive remuneration consists of both long term and short term performance incentives. The Board feels that the expiry date, exercise price and, where applicable, vesting performance conditions of option issues to the directors and executives is appropriate to align the goals of the directors and executives with those of the shareholders to maximize shareholder wealth. The Board will continue to monitor this policy to ensure that it is appropriate for the Company in future years.

As part of the terms and conditions of employment, the Company prohibits executives from entering into arrangements to protect the value of unvested long term incentive awards. This includes entering into contracts to hedge their exposure to options or shares granted as part of their remuneration package. Adherence to this policy is monitored on an annual basis.

The overall level of executive reward takes into account the performance of the Consolidated Entity. The Consolidated Entity is involved in mineral exploration and did not derive a profit and therefore growth in earnings is not considered relevant. Shareholder wealth is dependent upon exploration success and has fluctuated accordingly. During the current period, average executive remuneration was consistent with industry standards.

#### **Non-executive directors**

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed annually by the Board. The Board also has agreed to the advice of independent remuneration consultants to ensure non-executive directors' fees and payments are appropriate and in line with the market. The Chairman's fees are determined independently to the fees of non-executive directors based on comparative roles in the external market. The Chairman is not present at any discussions relating to the determination of his own remuneration.

#### **Directors' fees**

The current base remuneration was last reviewed with effect from 28 July 2010. Directors' remuneration is inclusive of committee fees.

Non-executive directors' fees are determined within an aggregate directors' fee pool limit, which is periodically recommended for approval by shareholders. The total maximum currently stands at \$300,000.

#### **Retirement allowances for directors**

Directors are permitted to nominate a superannuation fund of their choice to receive superannuation contributions.

# AVALON MINERALS LTD

## Directors' Report

### Remuneration report (Audited) (continued)

#### Executive pay

The executive pay and reward framework has two components:

- Fixed remuneration (base salary, superannuation & other non-monetary benefits)
- Variable remuneration (long-term incentives through participation in the Employee Share Option Plan and Director Option Plan and short-term incentives through cash bonuses)

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

#### *Fixed Remuneration*

- *Base salary*

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

Executives are offered a competitive base pay that comprises the fixed component of pay and rewards. Base pay for senior executives is reviewed annually to ensure the executive's pay is competitive with the market.

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

- *Non-monetary benefits*

Executives may receive benefits including memberships, car allowances, car parking and reasonable entertainment.

- *Retirement benefits*

Executives are permitted to nominate a superannuation fund of their choice to receive superannuation contributions.

#### *Variable Remuneration*

- *Employee Share Option Plan and Director Option Plan*

All staff (including executive and non-executive directors) are eligible to participate in the relevant plan. Options are issued on the following terms:

- The entitlement from time to time of each eligible participant shall be determined by the directors in their absolute discretion based on the directors' assessment of length of service, remuneration level and the contribution the Eligible Participant will make to the long term performance of the Consolidated Entity, together with such other criteria as the directors consider appropriate in the circumstances.
- The maximum number of securities which may be issued pursuant to the plans shall not be greater than 5% of the issued shares of the Consolidated Entity, from time to time.
- Options are granted under the plans for no consideration.
- Options granted under the plans carry no dividend or voting rights.
- When exercisable, each option is convertible into one ordinary share.

The exercise prices of options are determined by the directors and are not less than the prevailing market price of the underlying share on the date upon which the directors first resolved to grant the options. Amounts receivable on the exercise of options are recognised as share capital.

Options issued under the Plans are considered as incentive options and are issued on vesting terms and performance conditions, if any, as determined by the directors.

- *Cash bonuses*

The Board may exercise its discretion to award cash bonuses to executives based upon individual performance. Mr Munckton was awarded a cash bonus during the reporting period in regard to satisfactory completion of the Viscaria Pre Feasibility Study.

# AVALON MINERALS LTD

## Directors' Report

### Remuneration report (Audited) (continued)

#### Company performance and its link to long-term incentives

The Tranche 1 Director Options will vest on or before 27 April 2012 subject to the satisfactory completion of the Viscaria BFS to the satisfaction of the Board, or the acquisition of a new project as the Company's second tier project, to the satisfaction of the Board. The Tranche 2 Director Options will vest on or before 27 April 2013 subject to commencement of development of the Viscaria Project, or the completion of the Pre Feasibility Study into the New Project acquired during the vesting period of the Tranche 1 options.

#### Performance measure to determine vesting

The Company determined the above performance measures for the Director Option Plan for the following reasons:

- The Viscaria Project is the Company's primary focus. Completion of the Viscaria BFS and a subsequent decision to proceed with the development of the Viscaria Project are significant project milestones that the Board believes will increase shareholder wealth in the medium term.
- Outside of the Viscaria Project the Company continues to assess other resource project opportunities as they arise. The Board believes that the acquisition of a new project and its subsequent successful exploration and evaluation is another significant milestone that will increase shareholder wealth in the medium term.

The Board believes that the performance measures in place are focused on broad Company growth goals and given the Company's current stage of development are the most appropriate measures to align Director goals with shareholder goals.

Additionally the Board believes that the performance conditions in place are easily measurable and assessable as to their satisfactory achievement, being the practical completion of each of the performance measurement milestones by the specified vesting dates.

# AVALON MINERALS LTD

## Directors' Report

### Remuneration report (Audited) (continued)

#### B Details of remuneration

Details of the remuneration of the directors and the key management personnel of Avalon Minerals Ltd are set out in the following tables.

2011	Short-term benefits			Post-Employment benefits	Long-term benefits	Share-based payments		Total \$	Performance related %
	Cash salary and fees \$	Cash bonus \$	Non-monetary benefits \$	Superannuation \$	Long service leave \$	Remuneration received as options %	Options \$		
Name									
<i>Directors of Avalon Minerals Ltd:</i>									
Mr DL McSweeney	225,772	-	11,950	20,320	9,861	4.57%	12,826	280,729	4.57%
Mr AT Munckton <sup>(1)</sup>	274,997	30,000	7,874	27,450	-	25.37%	115,677	455,998	31.95%
Tan Sri AS Mohamed	315,213*	-	2,328	-	-	3.89%	12,826	330,367	3.89%
Mr S Stone	40,000	-	2,328	-	-	23.26%	12,826	55,154	23.26%
Mr A Al-Khadra <sup>(2)</sup>	13,333	-	1,566	-	-	46.26%	12,826	27,725	46.26%
Mr AH Kamaruddin <sup>(3)</sup>	40,000	-	2,328	-	-	-	-	42,328	-
Mr GC Steinepreis <sup>(4)</sup>	26,667	-	762	-	-	-	-	27,429	-
<i>Other key management personnel:</i>									
Mr PA Bridson <sup>(5)</sup>	173,080	-	7,345	15,577	-	25.93%	68,628	264,630	-
Ms LV Lindskog	165,000	-	7,874	14,850	-	-	-	187,724	-
Mr NP Bryce <sup>(6)</sup>	141,231	-	2,070	12,711	-	-	-	156,012	-
Mr DJ Kelly <sup>(7)</sup>	18,677	-	430	-	-	-	-	19,107	-
Mr JG Brock <sup>(8)</sup>	370,137	-	3,080	-	-	-	-	373,217	-
<b>Total</b>	<b>1,804,107</b>	<b>30,000</b>	<b>49,935</b>	<b>90,908</b>	<b>9,861</b>		<b>235,609</b>	<b>2,220,420</b>	

(1) Mr Munckton was appointed Managing Director and Chief Executive Officer on 18 August 2010.

(2) Mr Al-Khadra was appointed Non-Executive Director on 1 March 2011.

(3) Mr Kamaruddin in his role of alternate director receives the director's fees otherwise payable to Tan Sri Mohamed.

(4) Mr Steinepreis resigned on 1 March 2011.

(5) Mr Bridson was appointed Chief Financial Officer on 1 July 2010 and Company Secretary on 18 November 2010.

(6) Mr Bryce was appointed Principal Geologist Sweden on 20 September 2010.

(7) Mr Kelly resigned on 18 November 2010.

(8) Mr Brock resigned on 13 May 2011.

\*Fees of \$315,213 paid to Tan Sri Abu Sahid Mohamed relating to the underwriting fee for underwriting of the February 2011 1 for 5 non-renounceable entitlement offer.

# AVALON MINERALS LTD

## Directors' Report

### Remuneration report (Audited) (continued)

2010	Short-term benefits		Post-employment benefits	Long-term benefits	Share-based payments		Total \$	Performance related %
Name	Cash salary and fees \$	Non-monetary benefits \$	Superannuation \$	Long service leave \$	Remuneration received as options %	Options \$		
<i>Directors of Avalon Minerals Ltd:</i>								
Mr DL McSweeney	215,376	10,866	19,039	5,631	-	-	250,912	-
Tan Sri AS Mohamed	-	-	-	-	-	-	-	-
Mr GC Steinepreis	35,000	1,767	-	-	-	-	36,767	-
Mr S Stone	35,000	1,767	-	-	-	-	36,767	-
Mr AH Kamaruddin <sup>(1)</sup>	35,000	1,767	-	-	-	-	36,767	-
<i>Other key management personnel:</i>								
Mr AT Munckton <sup>(2)</sup>	104,165	1,600	9,375	-	19.00%	27,015	142,155	-
Mr DJ Kelly	39,000	1,767	-	-	-	-	40,767	-
Mr PA Bridson <sup>(3)</sup>	-	-	-	-	-	-	-	-
Mr N Baker <sup>(4)</sup>	146,275	-	-	-	2.56%	3,846	150,121	-
Mr JG Brock <sup>(5)</sup>	245,981	-	-	-	-	-	245,981	-
Ms LV Lindskog <sup>(6)</sup>	134,236	1,600	12,081	-	-	-	147,917	-
<b>Total</b>	<b>990,033</b>	<b>21,134</b>	<b>40,495</b>	<b>5,631</b>	<b>-</b>	<b>30,861</b>	<b>1,088,154</b>	

(1) Mr Kamaruddin in his role of alternate director receives the director's fees otherwise payable to Tan Sri Mohamed.

(2) Mr Munckton was appointed General Manager on 1 February 2010.

(3) Mr Bridson was appointed Chief Financial Officer on 1 July 2010.

(4) Mr Baker resigned on 31 May 2010.

(5) Mr Brock was appointed Project Manager Australia on 17 November 2009.

(6) Ms Lindskog was appointed Exploration Manager on 15 July 2009.

#### *C Executive Contractual Arrangements*

Remuneration and other terms of employment for the Executive Chairman and the Managing Director are formalised in service agreements.

The agreements for the Executive Chairman and Managing Director provide for participation in the Employee Share Option Plan and Director Option Plan.

Other major provisions of the agreements relating to remuneration are set out below.

#### Mr DL McSweeney, Executive Chairman

Term of agreement is continuous with a termination notice period of 3 months and the payment of 9 months salary. Base salary, exclusive of superannuation and other benefits, is \$144,000, to be reviewed annually. Directors fees are \$100,000 per annum. Four weeks annual leave is provided pro-rata.

#### Mr AT Munckton, Managing Director

Term of agreement is continuous with a termination notice period of 2 months and the payment of 6 months salary. Base salary, exclusive of superannuation and other benefits, is \$300,000, to be reviewed annually. Four weeks annual leave is provided.

# AVALON MINERALS LTD

## Directors' Report

### Remuneration report (Audited) (continued)

All other key management personnel are employed under standard employment agreements except for Mr JG Brock (Project Manager Australia) who was employed under a consulting agreement. Termination provisions contained within these agreements are as follows:

Position	Term	Notice Period	Redundancy Terms
CFO & Company Secretary	Unlimited	2 months	6 months
Exploration Manager	Unlimited	1 month	Statutory entitlement
Project Manager Sweden	Unlimited	1 month	Statutory entitlement
Project Manager Australia	Unlimited	Nil	Nil

#### D Share-based compensation

Options granted as compensation to directors or key management personnel during the year are as shown in the following tables.

Options carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share.

#### Share options granted to directors and the most highly remunerated officers

Options over unissued ordinary shares of Avalon Minerals Ltd granted during or since the end of the financial period to any of the directors and the most highly remunerated officers of the Consolidated Entity as part of their remuneration were as follows:

Options awarded and vested during the year:

	Options Granted	Grant Date	Fair value per option at grant date \$	Exercise price per option \$	Vesting date	Expiry date	Vested	
							No.	%
Mr DL McSweeney	300,000	3/5/2011	0.1663	0.30	27/4/2012	27/4/2014	-	0%
Mr DL McSweeney	300,000	3/5/2011	0.1804	0.30	27/4/2013	27/4/2015	-	0%
Mr AT Munckton	-	-	-	-	-	-	500,000	100%
Mr AT Munckton	1,500,000	3/5/2011	0.1663	0.30	27/4/2012	27/4/2014	-	0%
Mr AT Munckton	1,500,000	3/5/2011	0.1804	0.30	27/4/2013	27/4/2015	-	0%
Tan Sri AS Mohamed	300,000	3/5/2011	0.1663	0.30	27/4/2012	27/4/2014	-	0%
Tan Sri AS Mohamed	300,000	3/5/2011	0.1804	0.30	27/4/2013	27/4/2015	-	0%
Mr S Stone	300,000	3/5/2011	0.1663	0.30	27/4/2012	27/4/2014	-	0%
Mr S Stone	300,000	3/5/2011	0.1804	0.30	27/4/2013	27/4/2015	-	0%
Mr A Al-Khadra	300,000	3/5/2011	0.1663	0.30	27/4/2012	27/4/2014	-	0%
Mr A Al-Khadra	300,000	3/5/2011	0.1804	0.30	27/4/2013	27/4/2015	-	0%
Mr PA Bridson	500,000	22/9/2010	0.0934	0.30	1/7/2011	1/7/2014	-	0%
Mr PA Bridson	500,000	22/9/2010	0.0966	0.40	1/7/2012	1/7/2015	-	0%

Refer to the variable remuneration section of the remuneration report for details of the link to Company performance and an explanation as to why these performance measures were chosen for the Tranche 1 (expiry date 24/4/2014) and Tranche 2 (expiry date 27/4/2015) director options. The options issued to Mr Bridson do not contain performance based conditions.

# AVALON MINERALS LTD

## Directors' Report

### Remuneration report (audited) (continued)

The amounts disclosed for emoluments relating to options issued to directors and other key management personnel are assessed at fair values at the date of grant and allocated equally over the period from grant date to vesting date. Fair values at grant date are determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

Value of options awarded, exercised and lapsed during the year:

Name	A Value of options granted during the year \$	B Value of options exercised during the year \$	C Value of options lapsed during the year \$
Mr DL McSweeney	104,010	-	-
Mr AT Munckton	520,050	-	-
Tan Sri AS Mohamed	104,010	-	-
Mr S Stone	104,010	-	-
Mr A Al-Khadra	104,010	-	-
Mr PA Bridson	95,000	-	-
<b>Total</b>	<b>1,031,090</b>	-	-

A = The value of options granted during the year is calculated in accordance with AASB 2 *Share-based Payments*.

B = The value of options exercised during the year represents intrinsic value and is determined at the date of exercise.

C = The value of options lapsed during the year represents intrinsic value and is determined at the date of lapse.

#### Shares Issued as a result of the Exercise of Options

There were no shares issued as a result of the exercise of options during the year.

#### *E Additional information*

	2011	2010	2009	2008	2007
<u>Group performance for the past five years*</u>					
Loss for the period	<b>(1,897,672)</b>	(1,262,015)	(3,475,440)	(1,733,958)	(367,207)
<u>Impact on shareholder wealth</u>					
Loss per share (cents)	<b>(1.1)</b>	(1.1)	(5.0)	(3.4)	(1.32)
Share price (cents)	<b>17</b>	17	13	38	25

\*The Company was incorporated on 20 December 2006 and listed on the Australian Stock Exchange on 22 March 2007.

**End of Remuneration Report**

# AVALON MINERALS LTD

## Directors' Report

### Share options

#### Un-issued Shares

As at the date of this report, as detailed below, there were 7,900,000 unissued ordinary shares under option.

#### Shares under option

Unissued ordinary shares of Avalon Minerals Ltd under option at the date of this report are as follows:

<b>Date options granted</b>	<b>Expiry date</b>	<b>Issue price of shares</b>	<b>Number under option</b>
27 February 2010	31 January 2013	30 cents	500,000
27 February 2010	31 January 2014	40 cents	1,000,000
22 September 2010	1 July 2014	30 cents	500,000
22 September 2010	1 July 2015	40 cents	500,000
3 May 2011	27 April 2014	30 cents	2,700,000
3 May 2011	27 April 2015	30 cents	<u>2,700,000</u>
			<u>7,900,000</u>

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

### Insurance of officers

During the period the Company paid a premium to insure the directors and officers of the Company. Under the terms of the policy the Company cannot publish amounts paid for premiums or the extent of the liabilities insured.

### Proceedings on behalf of the Company

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

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001*.

### Non-audit services

No non-audit services were provided by the Company's auditor, Ernst & Young.

### Auditors' Independence Declaration

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 24.

This report is made in accordance with a resolution of the directors.

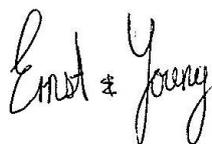


AT Munckton  
Director

Perth, Western Australia  
29 September 2011

## Auditor's Independence Declaration to the Directors of Avalon Minerals Ltd

In relation to our review of the financial report of Avalon Minerals Ltd for the year ended 30 June 2011, 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.

A handwritten signature in cursive script that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in cursive script, appearing to be 'R J Curtin'.

R J Curtin  
Partner  
Perth  
29 September 2011

# AVALON MINERALS LTD

## Corporate Governance Statement

### Statement

Avalon Minerals Limited ("the Company") has made it a priority to adopt systems of control and accountability as the basis for the administration of corporate governance. Some of these policies and procedures are summarised in this statement. Commensurate with the spirit of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations ("Principles & Recommendations"), the Company has followed each recommendation where the Board has considered the recommendation to be an appropriate benchmark for its corporate governance practices. Where the Company's corporate governance practices follow a recommendation, the Board has made appropriate statements reporting on the adoption of the recommendation. Where, after due consideration, the Company's corporate governance practices depart from a recommendation, the Board has offered full disclosure and reason for the adoption of its own practice, in compliance with the "if not, why not" regime.

### Disclosure of Corporate Governance Practices

#### Summary Statement

	ASX P & R <sup>1</sup>	If not, why not <sup>2</sup>		ASX P & R <sup>1</sup>	If not, why not <sup>2</sup>
Recommendation 1.1	✓		Recommendation 4.3	✓	
Recommendation 1.2	✓		Recommendation 4.4 <sup>3</sup>	n/a	n/a
Recommendation 1.3 <sup>3</sup>	n/a	n/a	Recommendation 5.1	✓	
Recommendation 2.1		✓	Recommendation 5.2 <sup>3</sup>	n/a	n/a
Recommendation 2.2		✓	Recommendation 6.1	✓	
Recommendation 2.3	✓		Recommendation 6.2 <sup>3</sup>	n/a	n/a
Recommendation 2.4		✓	Recommendation 7.1	✓	
Recommendation 2.5	✓		Recommendation 7.2	✓	
Recommendation 2.6 <sup>3</sup>	n/a	n/a	Recommendation 7.3	✓	
Recommendation 3.1	✓		Recommendation 7.4 <sup>3</sup>	n/a	n/a
Recommendation 3.2	✓		Recommendation 8.1	✓	
Recommendation 3.3 <sup>3</sup>	n/a	n/a	Recommendation 8.2	✓	
Recommendation 4.1	✓		Recommendation 8.3 <sup>3</sup>	n/a	n/a
Recommendation 4.2		✓			

1 Indicates where the Company has followed the Principles & Recommendations.

2 Indicates where the Company has provided "if not, why not" disclosure.

3 Indicates an information based recommendation. Information based recommendations are not adopted or reported against using "if not, why not" disclosure – information required is either provided or it is not.

**AVALON MINERALS LTD**  
**Corporate governance statement (continued)**

**Website Disclosures**

Further information about the Company's charters, policies and procedures may be found at the Company's website at [www.avalonminerals.com.au](http://www.avalonminerals.com.au), under the Corporate Governance section. A list of the charters, policies and procedures which are referred to in this Corporate Governance Statement, together with the Recommendations to which they relate, are set out below.

<b>Charters</b>	<b>Recommendation(s)</b>
Statement of Board and Management Functions (Board Charter)	1.3
Audit Committee	4.4
Nomination Committee	2.6
Remuneration Committee	8.3
<b>Policies and Procedures</b>	
Policy and Procedure for Selection and Appointment of New Directors	2.6
Process for Performance Evaluation of the Board, Board Committees, Individual Directors and Key Executives	1.2, 2.5
Policy on Securities Trading	3.2, 3.3
Code of Conduct for Directors and Key Executives (summary) and Corporate Code of Conduct	3.1, 3.3
Policy and Procedures for Compliance with Continuous Disclosure Requirements (summary)	5.1, 5.2
Policy and Procedure for Selection of External Auditor and Rotation of Audit Engagement Partners	4.4
Arrangements Regarding Communication with and Participation of Shareholders (summary)	6.1, 6.2
Risk Management Policy and Internal Compliance and Control System (summary)	7.1, 7.4

**Disclosure – Principles & Recommendations**

Following is a summary of how the Company has followed (or otherwise departed from) each of the Principles & Recommendations during the 2011 financial year ("**Reporting Period**").

**Principle 1 – Lay solid foundations for management and oversight**

**Recommendation 1.1:**

Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.

**Disclosure:**

The Company has established the functions reserved to the Board and has set out these functions in its Statement of Board and Management Functions. The Board is collectively responsible for promoting the success of the Company through its key functions of overseeing the management of the Company, providing overall corporate governance of the Company, monitoring the financial performance of the Company, engaging appropriate management commensurate with the Company's structure and objectives, involvement in the development of corporate strategy and performance objectives, supervising the Company's framework of control and accountability systems to enable risk to be assessed and managed and monitoring and ensuring compliance with all of the Company's legal obligations.

The Company has established the functions delegated to senior executives and has set out these functions in its Statement of Board and Management Functions. Senior executives are responsible for supporting the Managing Director and assisting the Managing Director in implementing the running of the general operations and financial business of the Company, in accordance with the delegated authority of the Board.

## **AVALON MINERALS LTD**

### **Corporate governance statement (continued)**

Senior executives are responsible for reporting all matters which fall within the Company's materiality thresholds at first instance to the Managing Director or, if the matter concerns the Managing Director, then directly to the Chair or the lead independent director, as appropriate.

#### **Recommendation 1.2:**

Companies should disclose the process for evaluating the performance of senior executives.

#### **Disclosure:**

The Managing Director is responsible for evaluating the senior executives.

The Managing Director undertakes the evaluation by way of an annual formal performance review and ongoing informal meetings and discussions with each senior executive.

#### **Recommendation 1.3:**

Companies should provide the information indicated in the *Guide to reporting on Principle 1*.

#### **Disclosure:**

During the Reporting Period a performance evaluation of the senior executives commenced in accordance with the process disclosed at Recommendation 1.2.

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### **Principle 2 – Structure the board to add value**

#### **Recommendation 2.1:**

A majority of the Board should be independent directors.

#### **Notification of Departure:**

The Board does not currently have a majority of independent directors.

#### **Explanation for Departure:**

The Board does not have a majority of directors who are independent. The Board believes that, given the current size and composition of the Company, its structure during the Reporting Period was best suited to the Company's operations.

The independent directors of the Board during the Reporting Period were Mr Stephen Stone and Mr Gary Steinepreis (resigned 1 March 2011). The non-independent directors of the Board during the Reporting Period were Mr David McSweeney, Mr Andrew Munckton, Tan Sri Abu Sahid Bin Mohamed and Mr Amro Al-Khadra.

#### **Recommendation 2.2**

The Chair should be an independent director.

#### **Notification of Departure:**

During the Reporting Period the Chair was not an independent director.

## **AVALON MINERALS LTD**

### **Corporate governance statement (continued)**

#### **Explanation for Departure:**

Mr David McSweeney as the founder of the Company, retains a substantial shareholding in the Company which affects his independent status. The Board considers that Mr McSweeney's leadership role as Chairman, from a long-term strategic perspective is critical to the successful development of the Company and is in line with expectations of current investors and key to the attraction of future investors.

#### **Recommendation 2.3**

The roles of Chair and Chief Executive Officer should not be exercised by the same individual.

#### **Disclosure:**

During the Reporting Period the roles of Chair and Chief Executive Officer were exercised by different individuals effective from 18 August 2010 when Mr Andrew Munckton was appointed Managing Director and CEO taking over the role from Mr David McSweeney. Mr McSweeney remains in the role of Executive Chairman.

#### **Recommendation 2.4:**

The Board should establish a Nomination Committee.

#### **Notification of Departure:**

The Company has not established a separate Nomination Committee.

#### **Explanation for Departure:**

In the Board's view there are no efficiencies to be gained by establishing a separate Nomination Committee. Accordingly, the Full Board carries out the functions of the Nomination Committee. Items that are usually required to be discussed by a Nomination Committee are marked as separate agenda items at Board meetings when required. When the Board convenes as the Nomination Committee it carries out those functions which are delegated in the Company's Nomination Committee Charter. The Board deals with any conflicts of interest that may occur when convening in the capacity of Nomination Committee by ensuring the director with conflicting interests is not party to the relevant discussions.

#### **Recommendation 2.5:**

Companies should disclose the process for evaluating the performance of the Board, its committees and individual directors.

#### **Disclosure:**

The Chair is responsible for evaluation of the Board and when deemed appropriate, Board committees and individual directors. The full Board with the exception of Mr McSweeney was responsible for evaluating the Chairman during the Reporting Period.

The Chair evaluates the performance of the Board and when deemed appropriate, Board committees and individual directors by way of round table discussions by the Board. This is an informal and undocumented process.

Evaluation is undertaken by interview with the Board.

#### **Recommendation 2.6:**

Companies should provide the information indicated in the *Guide to reporting on Principle 2*.

## **AVALON MINERALS LTD**

### **Corporate governance statement (continued)**

#### **Disclosure:**

#### **Skills, Experience, Expertise and term of office of each Director**

A profile of each director containing their skills, experience, expertise and term of office is set out in the Directors' Report.

#### **Identification of Independent Directors**

The independent directors of the Company during the Reporting Period were Mr Stephen Stone and Mr Gary Steinepreis (resigned 1 March 2011). These directors are independent as they are non-executive directors who are not members of management and who are free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the independent exercise of their judgment.

Independence is measured having regard to the relationships listed in Box 2.1 of the Principles & Recommendations and the Company's materiality thresholds. The materiality thresholds are set out below.

#### **Company's Materiality Thresholds**

The Board has agreed on the following guidelines for assessing the materiality of matters, as set out in the Company's Statement of Board and Management Functions:

- Statement of Financial Position items are material if they have a value of more than 10% of pro-forma net assets.
- Statement of Comprehensive Income items are material if they will have an impact on the current year operating result of 10% or more.
- Items are also material if they impact on the reputation of the Company, involve a breach of legislation, are outside the ordinary course of business, they could affect the Company's rights to its assets, if accumulated they would trigger the quantitative tests, involve a contingent liability that would have a probable effect of 10% or more on Statement of Financial Position or Statement of Comprehensive Income items, or they will have an effect on operations which is likely to result in an increase or decrease in net income or dividend distribution of more than 10%.
- Contracts will be considered material if they are outside the ordinary course of business, contain exceptionally onerous provisions in the opinion of the Board, impact on income or distribution in excess of the quantitative tests, there is a likelihood that either party will default and the default may trigger any of the quantitative tests, are essential to the activities of the Company and cannot be replaced or cannot be replaced without an increase in cost of such a quantum, triggering any of the quantitative tests, contain or trigger change of control provisions, they are between or for the benefit of related parties, or otherwise trigger the quantitative tests.

#### **Statement concerning availability of Independent Professional Advice**

The Board has determined that individual directors may in appropriate circumstances engage outside advisers at the Company's expense. The engagement of an outside adviser is subject to the prior approval of the Board, which approval will not be unreasonably withheld.

#### **Nomination Matters**

The full Board, in its capacity as the Nomination Committee, held one meeting during the Reporting Period. All Board members attended the Nomination Committee meeting.

To assist the Board to fulfill its function as the Nomination Committee, it has adopted a Nomination Committee Charter.

The explanation for departure set out under Recommendation 2.4 above explains how the functions of the Nomination Committee are performed.

## **AVALON MINERALS LTD**

### **Corporate governance statement (continued)**

#### **Performance Evaluation**

The performance evaluation of applicable Board members and Board committees did not occur during the Reporting Period.

#### **Selection and (Re)Appointment of Directors**

Directors are selected by reference to their background and experience which is relevant to the business needs of the Company. New directors are invited to join the Board by the Chair, who makes the invitations based on recommendations made by the Nomination Committee and approved by the Board.

The Board recognises that Board renewal is critical to performance and the impact of Board tenure on succession planning. At every Annual General Meeting of the Company one-third of the directors (other than alternate directors and the Managing Director) shall retire from office. No director (other than alternate directors and the Managing Director) may hold office for more than 3 years without retiring. A retiring Director is eligible for re-election. Re-appointment of directors is not automatic.

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#### **Principle 3 – Promote ethical and responsible decision-making**

##### **Recommendation 3.1:**

Companies should establish a Code of Conduct and disclose the code or a summary of the code as to the practices necessary to maintain confidence in the company's integrity, the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders and the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

##### **Disclosure:**

The Company has established a Code of Conduct as to the practices necessary to maintain confidence in the Company's integrity, practices necessary to take into account their legal obligations and the expectations of their stakeholders and responsibility and accountability of individuals for reporting and investigating reports of unethical practices. The Code of Conduct is published on the Company's website.

##### **Recommendation 3.2:**

Companies should establish a policy concerning trading in company securities by directors, senior executives and employees, and disclose the policy or a summary of that policy.

##### **Disclosure:**

The Company has established a policy concerning trading in the Company's securities by directors, senior executives and employees. The policy is published on the Company's website.

##### **Recommendation 3.3:**

Companies should provide the information indicated in the *Guide to reporting on Principle 3*.

##### **Disclosure:**

Please refer to the section above marked Website Disclosures.

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## AVALON MINERALS LTD

### Corporate governance statement (continued)

#### Principle 4 – Safeguard integrity in financial reporting

##### Recommendation 4.1:

The Board should establish an Audit Committee.

##### Disclosure:

The Company has established an Audit Committee.

##### Recommendation 4.2:

The Audit Committee should be structured so that it:

- consists only of non-executive directors
- consists of a majority of independent directors
- is chaired by an independent Chair, who is not Chair of the Board
- has at least three members.

##### Notification of Departure:

The Audit Committee does not currently consist of a majority of independent directors.

##### Explanation for Departure:

The Board currently contains only one independent director, Mr Stephen Stone. Mr Stone performs the role of Chairman of the Audit Committee.

##### Recommendation 4.3:

The Audit Committee should have a formal charter.

##### Disclosure:

The Company has adopted an Audit Committee Charter.

##### Recommendation 4.4:

Companies should provide the information indicated in the *Guide to reporting on Principle 4*.

##### Disclosure:

The members of the Audit Committee are Mr Stephen Stone, Mr Hisham Kamaruddin (in his capacity as alternate director for Tan Sri Abu Sahid Mohamed) and Mr Amro Al Khadra (appointed 1 March 2011). Details of each of the member's qualifications are set out in the Directors' Report. The Audit Committee was formed in May 2011 and did not meet during the Reporting Period.

The Company has established procedures for the selection, appointment and rotation of its external auditor. The Board is responsible for the initial appointment of the external auditor and the appointment of a new external auditor when any vacancy arises. Candidates for the position of external auditor must demonstrate complete independence from the Company through the engagement period. The Board may otherwise select an external auditor based on criteria relevant to the Company's business and circumstances. The performance of the external auditor is reviewed on an annual basis by the Board.

## **AVALON MINERALS LTD**

### **Corporate governance statement (continued)**

#### **Principle 5 – Make timely and balanced disclosure**

##### **Recommendation 5.1:**

Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.

##### **Disclosure:**

The Company has established written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and ensures accountability at a senior executive level for that compliance. The policy is disclosed on the Company's website.

##### **Recommendation 5.2:**

Companies should provide the information indicated in the *Guide to reporting on Principle 5*.

##### **Disclosure:**

Please refer to the section above marked Website Disclosures.

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#### **Principle 6 – Respect the rights of shareholders**

##### **Recommendation 6.1:**

Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.

##### **Disclosure:**

The Company has designed a communications policy for promoting effective communication with shareholders and encourages shareholder participation at general meetings.

##### **Recommendation 6.2:**

Companies should provide the information indicated in the *Guide to reporting on Principle 6*.

##### **Disclosure:**

Please refer to the section above marked Website Disclosures.

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#### **Principle 7 – Recognise and manage risk**

##### **Recommendation 7.1:**

Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.

## **AVALON MINERALS LTD**

### **Corporate governance statement (continued)**

#### **Disclosure:**

The Board has developed a framework for risk management and internal compliance and control systems which cover organisational, financial and operational aspects of the Company's affairs. Under the policy, the Board is responsible for approving the Company's policies on risk oversight and management and satisfying itself that management has developed and implemented a sound system of risk management and internal control.

Under the policy, the Board delegates day-to-day management of risk to the Managing Director. The Managing Director reports on risk management matters to the full Board as part of his monthly written report to the Board.

In addition, the following risk management measures have been adopted by the Board to manage the Company's material business risks:

- the Board has established authority limits for management which, if exceeded, will require prior Board approval;
- the Board has adopted a compliance procedure for the purpose of ensuring compliance with the Company's continuous disclosure obligations; and
- the Board has adopted a corporate governance manual which contains other policies to assist the Company to establish and maintain its governance practices.

The Board continues to review, formalise and document the management of its material business risks. This system is expected to include the preparation of a risk register by management to identify the Company's material business risks and risk management strategies for these risks. In addition, the process of management of material business risks will be allocated to members of senior management. The risk register will be reviewed quarterly and updated, as required.

The Company's systems and processes for managing material business risks include determining and reporting on a wide range of business risks, including operational risk, environmental risk, sustainability, climate change, compliance, people, strategic, ethical conduct, reputation/brand, technological, human capital, financial reporting and market-related risks.

#### **Recommendation 7.2:**

The Board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks.

#### **Disclosure:**

The Board has required management to design, implement and maintain risk management and internal control systems to manage the Company's material business risks. The Board also requires management to report to it confirming that those risks are being managed effectively. Further, the Board requires a report from management as to the effectiveness of the Company's management of its material business risks.

#### **Recommendation 7.3:**

The Board should disclose whether it has received assurance from the Chief Executive Officer and the Chief Financial Officer that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

#### **Disclosure:**

The Chief Executive Officer and the Chief Financial Officer have provided a declaration to the Board in accordance with section 295A of the Corporations Act and have assured the Board that such declaration is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial risk.

## AVALON MINERALS LTD

### Corporate governance statement (continued)

#### **Recommendation 7.4:**

Companies should provide the information indicated in the *Guide to reporting on Principle 7*.

#### **Disclosure:**

The Board has received the report from management under Recommendation 7.2.

The Board has received the assurance from the Chief Executive Officer and the Chief Financial Officer under Recommendation 7.3.

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### **Principle 8 – Remunerate fairly and responsibly**

#### **Recommendation 8.1:**

The Board should establish a Remuneration Committee.

#### **Disclosure:**

The Company has established a Remuneration Committee.

#### **Recommendation 8.2:**

Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.

#### **Disclosure:**

Non-executive directors are remunerated at a fixed fee for time, commitment and responsibilities. Fixed remuneration for non-executive directors is not linked to the performance of the Company. Non-executive directors were issued Director Options during the Reporting Period which are linked to performance based vesting conditions.

Pay and rewards for executive directors and senior executives consists of a base salary, superannuation and other non-cash benefits. Long term performance incentives may include options granted at the discretion of the Board and subject to obtaining the relevant approvals. Executives are offered a competitive level of base pay at market rates and are reviewed annually to ensure market competitiveness.

#### **Recommendation 8.3:**

Companies should provide the information indicated in the *Guide to reporting on Principle 8*.

#### **Disclosure:**

Details of each of the member's qualifications are set out in the Directors' Report.

Please refer to the section above marked Website Disclosures.

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# AVALON MINERALS LTD

## Financial Report – 30 June 2011

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# AVALON MINERALS LTD

## Statement of Comprehensive Income

For the year ended 30 June 2011

	Note	Consolidated	
		2011 \$	2010 \$
<b>Revenue from continuing operations</b>	5	<b>158,443</b>	101,550
Other income	5	<b>5,695</b>	1,737
Employee benefits expense	6	<b>(1,151,764)</b>	(461,336)
Office occupancy costs		<b>(202,284)</b>	(198,369)
Corporate and administration expenses		<b>(588,212)</b>	(583,877)
Depreciation expense		<b>(94,328)</b>	(73,216)
Exploration expenditure written off	11	<b>(24,751)</b>	(48,500)
Interest paid		<b>(471)</b>	(4)
<b>Loss from continuing operations before income tax</b>		<b>(1,897,672)</b>	(1,262,015)
Income tax expense	7	-	-
<b>Net loss for the period</b>		<b>(1,897,672)</b>	(1,262,015)
<b>Other comprehensive loss</b>			
Foreign currency translation		<b>(586,713)</b>	(333,900)
<b>Total comprehensive loss for the period</b>		<b>(2,484,385)</b>	(1,595,915)
<b>Net loss for the period is attributable to:</b>			
Members of Avalon Minerals Ltd		<b>(1,897,672)</b>	(1,262,015)
		<b>(1,897,672)</b>	(1,262,015)
<b>Total comprehensive loss for the period attributable to:</b>			
Members of Avalon Minerals Ltd		<b>(2,484,385)</b>	(1,595,915)
		<b>(2,484,385)</b>	(1,595,915)
<b>Earnings per share for loss from continuing operations attributable to the ordinary equity holders of the Company:</b>			
		Cents	Cents
Basic earnings per share*	26	<b>(1.1)</b>	(1.1)
Diluted earnings per share*	26	<b>(1.1)</b>	(1.1)

\* Earnings per share has been restated to account for the February 2011 and March 2010 Entitlement Issues to shareholders in accordance with AASB 133.

*The Statement of Comprehensive Income should be read in conjunction with the accompanying notes.*

# AVALON MINERALS LTD

## Statement of Financial Position

As at 30 June 2011

	Note	Consolidated	
		2011 \$	2010 \$
<b>Current assets</b>			
Cash and cash equivalents	8	2,660,034	2,927,242
Trade and other receivables	9	254,148	227,335
Total current assets		2,914,182	3,154,577
<b>Non-current assets</b>			
Plant and equipment	10	270,996	144,409
Exploration and evaluation	11	20,126,704	7,846,158
Total non-current assets		20,397,700	7,990,567
<b>Total assets</b>		<b>23,311,882</b>	<b>11,145,144</b>
<b>Current liabilities</b>			
Trade and other payables	12	1,202,120	963,339
Provisions	13	102,129	90,642
Total current liabilities		1,304,249	1,053,981
<b>Non-current liabilities</b>			
Provisions	13	17,052	5,631
Total non-current liabilities		17,052	5,631
<b>Total liabilities</b>		<b>1,321,301</b>	<b>1,059,612</b>
<b>Net assets</b>		<b>21,990,581</b>	<b>10,085,532</b>
<b>Equity</b>			
Contributed equity	14	31,454,613	17,300,788
Reserves	15	(727,740)	(376,636)
Accumulated losses	16	(8,736,292)	(6,838,620)
<b>Total equity</b>		<b>21,990,581</b>	<b>10,085,532</b>

*The Statement of Financial Position should be read in conjunction with the accompanying notes.*

# AVALON MINERALS LTD

## Statement of Changes in Equity

For the year ended 30 June 2011

<b>2011 Consolidated</b>	<b>Contributed Equity \$</b>	<b>Share Based Payments Reserve \$</b>	<b>Foreign Currency Translation Reserve \$</b>	<b>Accumulated Losses \$</b>	<b>Total \$</b>
<b>At the beginning of the financial year</b>	<b>17,300,788</b>	<b>234,471</b>	<b>(611,107)</b>	<b>(6,838,620)</b>	<b>10,085,532</b>
Loss for the year	-	-	-	(1,897,672)	(1,897,672)
Other comprehensive loss	-	-	(586,713)	-	(586,713)
<b>Total comprehensive loss for the year</b>	<b>-</b>	<b>-</b>	<b>(586,713)</b>	<b>(1,897,672)</b>	<b>(2,484,385)</b>
Shares issued	14,838,189	-	-	-	14,838,189
Share issue costs	(684,364)	-	-	-	(684,364)
Share based payments	-	235,609	-	-	235,609
<b>Total Equity at the end of the financial year</b>	<b>31,454,613</b>	<b>470,080</b>	<b>(1,197,820)</b>	<b>(8,736,292)</b>	<b>21,990,581</b>

<b>2010 Consolidated</b>	<b>Contributed Equity \$</b>	<b>Share Based Payments Reserve \$</b>	<b>Foreign Currency Translation Reserve \$</b>	<b>Accumulated Losses \$</b>	<b>Total \$</b>
<b>At the beginning of the financial year</b>	<b>9,735,426</b>	<b>205,505</b>	<b>(277,207)</b>	<b>(5,576,605)</b>	<b>4,087,119</b>
Loss for the year	-	-	-	(1,262,015)	(1,262,015)
Other comprehensive loss	-	-	(333,900)	-	(333,900)
<b>Total comprehensive loss for the year</b>	<b>-</b>	<b>-</b>	<b>(333,900)</b>	<b>(1,262,015)</b>	<b>(1,595,915)</b>
Shares issued	7,974,455	-	-	-	7,974,455
Share issue costs	(409,093)	-	-	-	(409,093)
Share based payments	-	28,966	-	-	28,966
<b>Total Equity at the end of the financial year</b>	<b>17,300,788</b>	<b>234,471</b>	<b>(611,107)</b>	<b>(6,838,620)</b>	<b>10,085,532</b>

*The Statement of Changes in Equity should be read in conjunction with the accompanying notes.*

# AVALON MINERALS LTD

## Statement of Cash Flows

For the year ended 30 June 2011

	Note	Consolidated	
		2011	2010
		\$	\$
<b>Cash flows from operating activities</b>			
Payments to suppliers and employees (inclusive of goods and services tax)		(1,656,077)	(1,428,209)
Security deposits		-	(57,854)
Sundry income	5	5,695	1,737
Interest paid		(471)	(4)
Interest received	5	158,443	101,550
<b>Net cash outflow from operating activities</b>	25	<b>(1,492,410)</b>	<b>(1,382,780)</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of plant and equipment		1,350	-
Payments for plant and equipment		(242,283)	(83,374)
Exploration and evaluation expenditure		(12,186,027)	(4,751,099)
<b>Net cash outflow from investing activities</b>		<b>(12,426,960)</b>	<b>(4,834,473)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issues of securities	14(b)	14,838,189	7,972,560
Costs of share issues	14(b)	(599,314)	(413,167)
<b>Net cash inflow from financing activities</b>		<b>14,238,875</b>	<b>7,559,393</b>
<b>Net increase in cash and cash equivalents held</b>		<b>319,505</b>	<b>1,342,140</b>
Net foreign exchange differences		(586,713)	(333,900)
Cash and cash equivalents at the beginning of the financial year		2,927,242	1,919,002
<b>Cash and cash equivalents at the end of the financial year</b>	8	<b>2,660,034</b>	<b>2,927,242</b>

*The Statement of Cash Flows should be read in conjunction with the accompanying notes.*

**AVALON MINERALS LTD**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2011**

**Note 1. Summary of Significant Accounting Policies**

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied for the financial year to 30 June 2011, unless otherwise stated.

**Corporate information**

The consolidated financial report of Avalon Minerals Ltd for the year ended 30 June 2011 was authorised for issue in accordance with a resolution of the directors on 29 September 2011. The Consolidated Entity has the power to amend and reissue the financial report.

Avalon Minerals Ltd is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange. Its registered office and principal place of business is:

Level 2, 91 Havelock Street  
West Perth WA 6005

A description of the nature of the Consolidated Entity's operations and its principal activities is included in the directors' report.

Through the use of the internet, we have ensured that our corporate reporting is timely, complete and available globally at minimum cost to the Consolidated Entity. All financial reports, company announcements and other information is available on our website: [www.avalonminerals.com.au](http://www.avalonminerals.com.au)

For queries in relation to our reporting please call +61 8 9322 2752 or e-mail [info@avalonminerals.com.au](mailto:info@avalonminerals.com.au)

**(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*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board.

The presentation currency is Australian dollars.

*Going concern*

The financial report has been prepared on the basis of the going concern and historical cost conventions.

The consolidated entity incurred an operating loss after income tax of \$1,897,672 (2010: \$1,262,015) and incurred net cash outflows of \$267,208 (2010: \$1,008,240 inflow). At reporting date the consolidated entity had cash of \$2,660,034 (2010: \$2,927,242) and trade creditors of \$1,202,120 (2010: \$963,339).

Since 30 June 2011, the following capital raising activities have occurred:

- In early July, Avalon finalised allotment of shares from Tranche 1 of the 22 June 2011 placement, receiving \$120,000.
- On 8 August Avalon announced that the underwriter to the 22 June 2011 placement did not intend to proceed with underwriting of Tranche 2 of the placement, and accordingly this placement did not proceed.
- On 23 August Avalon announced that it has been successful in placing 21,461,111 shares at 9 cents per share to professional and sophisticated investors raising \$1,931,500.

**AVALON MINERALS LTD**  
**Notes to the Financial Statements (continued)**  
**For the year ended 30 June 2011**

**Note 1. Summary of Significant Accounting Policies**

**(a) Basis of preparation (continued)**

The Directors recognise the need to raise additional funds via equity raisings for future project development. In addition, Avalon is considering other corporate transactions and opportunities as part of a broader strategic and funding review. As evidenced by the successful capital raising subsequent to year end, the Directors are confident in being able to raise funds as required to continue the Company's operations. On this basis, it is the opinion of the Board of Directors that the consolidated entity will be able to continue as a going concern and that therefore, the basis of preparation is appropriate.

Should the Group not achieve the matters set out above, there is uncertainty whether the Group will continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

The financial report does not contain any adjustments relating to the recoverability and classification of recorded assets or to the amounts or classification of recorded assets or liabilities that might be necessary should the Group not be able to continue as a going concern.

**(b) Statement of compliance**

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

*Changes in accounting policy and disclosure*

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Consolidated Entity has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 July 2010. The adoption of these standards and interpretations did not have any significant impact on the Consolidated Entity.

- AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project* (AASB 5, 8, 101, 107, 117, 118, 136 & 139) effective 1 January 2010
- AASB 2009-10 *Amendments to Australian Accounting Standards – Classification of Rights Issues* [AASB 132] effective 1 February 2010.

**AVALON MINERALS LTD**  
**Notes to the Financial Statements (continued)**  
**For the year ended 30 June 2011**

**Note 1. Summary of Significant Accounting Policies (continued)**

*New and amended accounting standards and interpretations issued but not yet effective*

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Consolidated Entity for the reporting period ending 30 June 2011. The expected impact of the new and amended standards and interpretations on the Consolidated Entity has not yet been determined. These are outlined as follows:

Reference	Title	Summary	Application date for standard	Application date for Group
AASB 9	Financial Instruments	<p>AASB 9 includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement (AASB 139 Financial Instruments: Recognition and Measurement).</p> <p>These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes from AASB 139 are described below.</p> <p>(a) Financial assets are classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows. This replaces the numerous categories of financial assets in AASB 139, each of which had its own classification criteria.</p> <p>(b) AASB 9 allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.</p> <p>(c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.</p>	1 January 2013	1 July 2013
AASB 2009-11	<p>Amendments to Australian Accounting Standards arising from AASB 9</p> <p>[AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 &amp; 1038 and Interpretations 10 &amp; 12]</p>	<p>These amendments arise from the issuance of AASB 9 <i>Financial Instruments</i> that sets out requirements for the classification and measurement of financial assets. The requirements in AASB 9 form part of the first phase of the International Accounting Standards Board's project to replace IAS 39 <i>Financial Instruments: Recognition and Measurement</i>. <u>This Standard shall be applied when AASB 9 is applied.</u></p>	1 January 2013	1 July 2013

**AVALON MINERALS LTD**  
**Notes to the Financial Statements (continued)**  
**For the year ended 30 June 2011**

**Note 1. Summary of Significant Accounting Policies (continued)**

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 124 (Revised)	Related Party Disclosures (December 2009)	<p>The revised AASB 124 simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition, including:</p> <ul style="list-style-type: none"> <li>(a) The definition now identifies a subsidiary and an associate with the same investor as related parties of each other</li> <li>(b) Entities significantly influenced by one person and entities significantly influenced by a close member of the family of that person are no longer related parties of each other</li> <li>(c) The definition now identifies that, whenever a person or entity has both joint control over a second entity and joint control or significant influence over a third party, the second and third entities are related to each other</li> </ul>	1 January 2011	1 July 2011
AASB 2009-12	Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052]	<p>This amendment makes numerous editorial changes to a range of Australian Accounting Standards and Interpretations.</p> <p>In particular, it amends AASB 8 <i>Operating Segments</i> to require an entity to exercise judgement in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. It also makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRS by the IASB.</p>	1 January 2011	1 July 2011
AASB 1054	Australian Additional Disclosures	<p>This standard is as a consequence of phase 1 of the joint Trans-Tasman Convergence project of the AASB and FRSB.</p> <p>This standard relocates all Australian specific disclosures from other standards to one place and revises disclosures in the following areas:</p> <ul style="list-style-type: none"> <li>(a) Compliance with Australian Accounting Standards</li> <li>(b) The statutory basis or reporting framework for financial statements</li> <li>(c) Whether the financial statements are general purpose or special purpose</li> <li>(d) Audit fees</li> <li>(e) Imputation credits</li> </ul>	1 July 2011	1 July 2011

**AVALON MINERALS LTD**  
**Notes to the Financial Statements (continued)**  
**For the year ended 30 June 2011**

**Note 1. Summary of Significant Accounting Policies (continued)**

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 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.	1 January 2011	1 July 2011
AASB 2010-5	Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042]	This Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRS by the IASB.  These amendments have no major impact on the requirements of the amended pronouncements.	1 January 2011	1 July 2011
AASB 10	Consolidated Financial Statements	AASB 10 establishes a new control model that applies to all entities. It replaces parts of AASB 127 <i>Consolidated and Separate Financial Statements</i> dealing with the accounting for consolidated financial statements and Interpretation 112 <i>Consolidation – Special Purpose Entities</i> .  The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control. This is likely to lead to more entities being consolidated into the group.	1 January 2013	1 July 2013
AASB 2010-6	Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets [AASB 1 & AASB 7]	The amendments increase the disclosure requirements for transactions involving transfers of financial assets. <i>Disclosures</i> require enhancements to the existing disclosures in IFRS 7 where an asset is transferred but is not derecognised and introduce new disclosures for assets that are derecognised but the entity continues to have a continuing exposure to the asset after the sale.	1 July 2011	1 July 2011

**AVALON MINERALS LTD**  
**Notes to the Financial Statements (continued)**  
**For the year ended 30 June 2011**

**Note 1. Summary of Significant Accounting Policies (continued)**

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 11	Joint Arrangements	AASB 11 replaces AASB 131 <i>Interests in Joint Ventures</i> and Interpretation 113 <i>Jointly-controlled Entities – Non-monetary Contributions by Ventures</i> . AASB 11 uses the principle of control in AASB 10 to define joint control, and therefore the determination of whether joint control exists may change. In addition AASB 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, accounting for a joint arrangement is dependent on the nature of the rights and obligations arising from the arrangement. Joint operations that give the venturers a right to the underlying assets and obligations themselves is accounted for by recognising the share of those assets and obligations. Joint ventures that give the venturers a right to the net assets is accounted for using the equity method. This may result in a change in the accounting for the joint arrangements held by the group.	1 January 2013	1 July 2013
AASB 12	Disclosure of Interests in Other Entities	AASB 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. New disclosures have been introduced about the judgements made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests.	1 January 2013	1 July 2013
AASB 2010-7	Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023, & 1038 and interpretations 2, 5, 10, 12, 19 & 127]	The requirements for classifying and measuring financial liabilities were added to AASB 9. The existing requirements for the classification of financial liabilities and the ability to use the fair value option have been retained. However, where the fair value option is used for financial liabilities the change in fair value is accounted for as follows: <ul style="list-style-type: none"> <li>• The change attributable to changes in credit risk are presented in other comprehensive income (OCI)</li> <li>• The remaining change is presented in profit or loss</li> </ul> If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.	1 January 2013	1 July 2013

**AVALON MINERALS LTD**  
**Notes to the Financial Statements (continued)**  
**For the year ended 30 June 2011**

**Note 1. Summary of Significant Accounting Policies (continued)**

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 13	Fair Value Measurement	<p>AASB 13 establishes a single source of guidance under Australian Accounting Standards for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value under Australian Accounting Standards when fair value is required or permitted by Australian Accounting Standards. Application of this definition may result in different fair values being determined for the relevant assets.</p> <p>AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined.</p>	1 January 2013	1 July 2013
AASB 2011-7	Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangement Standards	Consequential amendments to AASB 127 <i>Separate Financial Statements</i> and AASB 128 <i>Investments in Associates</i> as a result of the adoption of AASB 10 <i>Consolidated Financial Statements</i> , AASB 11 <i>Joint Arrangements</i> and AASB 12 <i>Disclosure of Interests in Other Entities</i> .	1 January 2013	1 July 2013
AASB 2011-8	Amendments to Australian Accounting Standards arising from the Fair Value Measurement Standard	Consequential amendments to existing Australian Accounting Standards as a result of the adoption of AASB 13 <i>Fair Value Measurement</i> .	1 January 2013	1 July 2013
AASB 2011-9	<p>Amendments to Australian Accounting Standards - <i>Presentation of Items of Other Comprehensive Income</i></p> <p>[AASB 1, 5, 7, 101, 112, 120, 121, 132, 133, 134, 1039 &amp; 1049]</p>	<p>The main change resulting from the amendments relates to the 'Statement of Profit or Loss and Other Comprehensive Income' and the requirement for entities to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not remove the option to present profit or loss and other comprehensive income in two statements.</p> <p>The amendments do not change the option to present items of OCI either before tax or net of tax. However, if the items are presented before tax then the tax related to each of the two groups of OCI items (those that might be reclassified to profit or loss and those that will not be reclassified) must be shown separately.</p>	1 July 2012	1 July 2012

**AVALON MINERALS LTD**  
**Notes to the Financial Statements (continued)**  
**For the year ended 30 June 2011**

**Note 1. Summary of Significant Accounting Policies (continued)**

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 119 (Revised)	Employee Benefits	<p>The distinction between short-term and other long-term employee benefits under the revised standard is now based on expected timing of settlement rather than employee entitlement.</p> <p>The revised standard also requires termination benefits (outside of a wider restructuring) to be recognised only when the offer becomes legally binding and cannot be withdrawn.</p>	1 January 2013	1 January 2013

**(c) Basis of consolidation**

*(i) Subsidiaries*

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Avalon Minerals Ltd ("Company" or "parent entity") as at 30 June 2011 and the results of all the subsidiaries for the financial period then ended.

Avalon Minerals Ltd and its subsidiaries together are referred to in this financial report as the Group or Consolidated Entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

**(d) Operating segments**

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes start up operations which are yet to earn revenues. Management will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the Board of directors.

**AVALON MINERALS LTD**  
**Notes to the Financial Statements (continued)**  
**For the year ended 30 June 2011**

**Note 1. Summary of Significant Accounting Policies (continued)**

**(d) Operating segments (continued)**

Operating segments have been identified based on the information provided to the chief operating decision makers, being the Board of directors.

The Consolidated Entity aggregates two or more operating segments when they have similar economic characteristics, and the segments are similar in each of the following respects:

- Nature of the products and production process;
- Type or class of customer for the products; and
- Methods used to distribute the products

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

Information about other business activities and operating segments that are below the quantitative criteria are combined and disclosed in a separate category for 'all other segments'.

**(e) Revenue recognition**

*Interest income*

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

**(f) Income tax**

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

**(g) Leases**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Statement of Comprehensive Income on a straight-line basis over the period of the lease (refer to note 20).

**AVALON MINERALS LTD**  
**Notes to the Financial Statements (continued)**  
**For the year ended 30 June 2011**

**Note 1. Summary of Significant Accounting Policies (continued)**

**(h) Business combinations**

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity issued by the acquirer, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured at fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with AASB 139 either in profit or loss or in other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured.

**(i) Impairment of assets**

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 or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs.

When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

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

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

**AVALON MINERALS LTD**  
**Notes to the Financial Statements (continued)**  
**For the year ended 30 June 2011**

**Note 1. Summary of Significant Accounting Policies (continued)**

**(i) Impairment of assets (continued)**

Such reversal is recognised in profit or loss unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

**(j) Cash and cash equivalents**

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the Statement of Financial Position.

**(k) Trade receivables**

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Trade receivables are due for settlement no more than 120 days from the date of recognition.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Consolidated Entity will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the Statement of Comprehensive Income.

**(l) Investments and other financial assets**

Financial assets are classified in the following categories: financial assets at fair value through profit or loss, loans and receivables, held to maturity investments or available for sale investments, as appropriate. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date.

*Loans and receivables*

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Consolidated Entity provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are included in receivables in the Statement of Financial Position.

**AVALON MINERALS LTD**  
**Notes to the Financial Statements (continued)**  
**For the year ended 30 June 2011**

**Note 1. Summary of Significant Accounting Policies (continued)**

**(m) Plant and equipment**

Plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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 Consolidated Entity and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Statement of Comprehensive Income during the financial period in which they are incurred.

Depreciation is calculated using the straight line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

- Exploration equipment	5 years
- Furniture, fittings and equipment	5 years
- Computer and electronic equipment	3 years

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the Statement of Comprehensive Income.

**(n) Trade and other payables**

Trade payables are carried at amortised cost. These amounts represent liabilities for goods and services provided to the Consolidated Entity prior to the end of the financial year which are unpaid and arise when the Consolidated Entity becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

**(o) Provisions**

Provisions for legal claims are recognised when: the Consolidated Entity has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

**AVALON MINERALS LTD**  
**Notes to the Financial Statements (continued)**  
**For the year ended 30 June 2011**

**Note 1. Summary of Significant Accounting Policies (continued)**

**(p) Employee benefits**

*(i) Wages, salaries and annual leave*

Liabilities for wages and salaries, including non-monetary benefits and annual leave due to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

*(ii) Retirement benefit obligations*

The Consolidated Entity contributes to various defined contribution funds for its employees.

Contributions to the defined contribution funds are recognised as an expense as they become payable.

*(iii) Share-based payments*

Share-based compensation benefits are provided to employees via the Employee Share Option Plan and the Director Option Plan.

The fair value of options granted under the Employee Share Option Plan and the Director Option Plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the vesting criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

Upon the exercise of options, the balance of the share-based payments reserve relating to those options is transferred to share capital.

**(q) Contributed equity**

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

**(r) Earnings per share**

*(i) Basic earnings per share*

Basic earnings per share is calculated by dividing the profit or loss attributable to equity holders of the Consolidated Entity, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the year, adjusted for bonus elements in ordinary shares issued during the year.

*(ii) Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

**AVALON MINERALS LTD**  
**Notes to the Financial Statements (continued)**  
**For the year ended 30 June 2011**

**Note 1. Summary of Significant Accounting Policies (continued)**

**(s) Exploration and evaluation expenditure**

Exploration and evaluation expenditure incurred by or on behalf of the Consolidated Entity 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 the rights to tenure of the area of interest are current and 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.

**(t) Goods and services tax (GST)**

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the Australian Taxation Office. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the Australian Taxation Office is included with other receivables or payables in the Statement of Financial Position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the Australian Taxation Office, are presented as operating cash flows.

**AVALON MINERALS LTD**  
**Notes to the Financial Statements (continued)**  
**For the year ended 30 June 2011**

**Note 1. Summary of Significant Accounting Policies (continued)**

**(u) Foreign currency transactions and balances**

*(i) Functional and presentation currency*

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency. The functional currency of the Consolidated Entity's foreign subsidiaries is the Swedish Kroner.

*(ii) Transactions and balances*

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period end exchange rate. Exchange differences arising on the translation of foreign currency transactions are recognised in profit or loss.

*(iii) Group companies*

The results and the financial position of all the Group entities (none of which has a 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 are translated at period-end exchange rates prevailing at the reporting date;
- Income and expenses are translated at average exchange rates for the period; and
- Retained profits are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on the translation of foreign operations are transferred directly to the Group's foreign currency translation reserve in the Statement of Financial Position. These differences are recognised in the Statement of Comprehensive Income in the period in which the operation is disposed.

**Note 2. Financial instruments and financial risk management**

The Company's activities expose it to a variety of financial risks including credit risk, liquidity risk, interest rate risk and foreign currency risk.

The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Company.

Risk management is carried out by the Board of directors under policies approved by the Board.

The Board identifies and evaluates financial risks and provides written principles for overall risk management.

*(i) Credit risk*

The Company's maximum exposures to credit risk at the reporting date in relation to each class of recognised financial asset is the carrying amount of those assets as indicated in the Statement of Financial Position.

**AVALON MINERALS LTD**  
**Notes to the Financial Statements (continued)**  
**For the year ended 30 June 2011**

**Note 2. Financial instruments and financial risk management (continued)**

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents and trade and other receivables.

The Company trades only with recognised, credit worthy third parties. As the Company holds the majority of the Group's cash balances with one institution, the credit risk is concentrated in one area. Risk is considered minimal as the institution is Australian and AA rated.

The Group's primary banker is National Australia Bank Limited. At balance date all operating accounts are with this bank, except for funds transferred to Sweden to meet the working capital needs of the subsidiary companies. The cash needs of the subsidiary operations are monitored by the parent company and funds are advanced to the Swedish operations on a needs basis. The Directors believe this is the most efficient method of balancing the monitoring and mitigation of potential credit risks arising out of holding cash assets in overseas jurisdictions, and the funding mechanisms required by the group.

*(ii) Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash to meet commitments as and when they fall due.

It is the Group's policy to review the Group's liquidity position including cash flow forecasts to determine the forecast liquidity position and maintain appropriate liquidity levels.

The remaining contractual maturities of the Group's liquid financial assets and financial liabilities are:

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
<b>Liquid financial assets</b>		
Three months or less	<b>2,814,919</b>	3,043,251
Greater than three months	<b>99,263</b>	111,326
	<b>2,914,182</b>	3,154,577
<b>Financial liabilities</b>		
Three months or less	<b>1,202,120</b>	963,339
Greater than three months	-	-
	<b>1,202,120</b>	963,339

The Group funds its activities through capital raising in order to limit its liquidity risk.

*Fair values*

All financial assets and liabilities recognised on the Statement of Financial Position, whether they are carried at cost or at fair value, are recognised at amounts that represent a reasonable approximation of fair value unless otherwise stated in the applicable notes.

*(iii) Interest rate risk*

The Group's exposure to interest rates primarily relates to its cash and cash equivalents.

At balance date, the Group had the following exposure to variable interest rate risk.

**AVALON MINERALS LTD**  
**Notes to the Financial Statements (continued)**  
**For the year ended 30 June 2011**

**Note 2. Financial instruments and financial risk management (continued)**

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
<hr/>		
<b>Financial assets</b>		
Cash and cash equivalents	<b>2,660,034</b>	2,927,242

The following sensitivity analysis is based on the interest rate risk exposure in existence at the reporting date. The 1% sensitivity (2010: 1%) is based on reasonably possible changes over a financial year, using the observed range of actual historical rates for the preceding five year period.

At 30 June 2011, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax loss would have been affected as follows:

The average interest rate for the year ended 30 June 2011 was 4.23% (2010: 4.19%).

	<b>Consolidated Higher/(Lower)</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
<hr/>		
Judgments of reasonably possible movements:		
<i>Post tax loss</i>		
+1.0% (100 basis points)	<b>27,936</b>	13,106
-1.0% (100 basis points)	<b>(27,936)</b>	(13,106)

The Group deals with financial institutions that have an AA rating or better.

*(iv) Foreign currency risk*

As a result of significant investment in Sweden, the Group's balance sheet can be affected significantly by movements in the Swedish Kroner/Australian Dollar exchange rates. The Group does not consider there to be a significant exposure to the Swedish Kroner as it represents the functional currency of a controlled entity.

**Note 3. Accounting estimates and judgements**

Estimates and judgments 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 Consolidated Entity and that are believed to be reasonable under the circumstances.

The Consolidated Entity makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

**Estimates**

**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 were granted. The fair value is determined using a Black-Scholes option pricing model.

**AVALON MINERALS LTD**  
**Notes to the Financial Statements (continued)**  
**For the year ended 30 June 2011**

**Note 3. Accounting estimates and judgements (continued)**

**Judgements**

*Exploration and evaluation expenditure*

The Consolidated Entity has carrying balances for exploration and evaluation. Each year the Group assesses whether these balances have suffered any impairment, in accordance with the accounting policy stated in Note 1(s). The recoverable amounts are based on the assumption that the assets will either become economic mining properties or will be sold to a third party.

**Note 4. Segment reporting**

The Group has determined its operating segment based upon reports reviewed by the Board (Chief Operating Decision Makers) for making strategic decisions. The Board has identified a single operating segment being exploration for and evaluation of copper and iron ore projects in Sweden.

The reportable segment is based on aggregated operating segments determined by the geographical similarity of the Group's areas of interest and the economic environments in which the Group operates.

The Group continues to review and assess other resource projects both within Australia and overseas as opportunities arise.

*Accounting policies and inter-segment transactions*

The accounting policies used by the Group in reporting segments internally are the same as those used in preparing the annual report.

**Geographical areas**

Revenue from external sources by geographical location is detailed below. The Consolidated Entity does not have external revenue from external sources that are attributable to any foreign country other than as shown.

	<b>Consolidated</b>	
	<b>2011</b>	2010
	\$	\$
Australia	<b>163,570</b>	102,410
Sweden	<b>568</b>	877
Total Revenue	<b>164,138</b>	103,287

The analysis of the location of non-current assets is as follows:

Australia	<b>218,055</b>	135,758
Sweden	<b>20,179,645</b>	7,854,809
Total Non-current assets	<b>20,397,700</b>	7,990,567

Non-current assets include tangible and intangible assets, but exclude financial instruments.

**AVALON MINERALS LTD**  
**Notes to the Financial Statements (continued)**  
**For the year ended 30 June 2011**

**Consolidated**

**2011**                      **2010**  
**\$**                              **\$**

**Note 5. Revenue and other income**

Interest revenue	<b>158,443</b>	101,550
Sundry income	<b>5,695</b>	1,707
Foreign exchange gain	-	30
	<b>164,138</b>	103,287

**Note 6. Expenses**

**Loss before income tax includes the following:**

Employee benefits expense*		
Salaries	616,635	211,495
Directors' fees	120,000	105,000
Superannuation	55,389	50,351
Share based payments	235,609	30,861
Leave entitlements	54,808	25,111
Other	69,323	38,518
	<b>1,151,764</b>	461,336

\*Less costs capitalised to exploration and evaluation expenditure

Rental expense relating to operating leases	<b>146,608</b>	90,134
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**Note 7. Income tax**

**(a) Current income tax**

Current income tax benefit relating to origination and reversal of temporary differences	-	-
Deferred tax assets not brought to account as realisation is not considered probable	-	-
Income tax expense reported in the Statement of Comprehensive Income	-	-

**AVALON MINERALS LTD**  
**Notes to the Financial Statements (continued)**  
**For the year ended 30 June 2011**

**Consolidated**

**2011**                      **2010**  
**\$**                              **\$**

**Note 7. Income tax (continued)**

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

Accounting loss before income tax	<b>(1,897,672)</b>	(1,262,015)
At the group's statutory income tax rate of 30%	<b>(569,302)</b>	(378,604)
Expenditure not allowable for income tax purposes	<b>80,857</b>	142,416
Deductible share issue costs	<b>(11,447)</b>	(46,040)
Prior year adjustment to Deferred Tax Assets	<b>368,001</b>	599,422
Deferred tax asset not brought to account as realisation is not considered probable	<b>131,891</b>	(317,194)
Income tax expense	-	-

<b>Statement of Financial Position</b>	<b>Statement of Financial Position</b>	<b>Statement of Comprehensive Income</b>	<b>Statement of Comprehensive Income</b>
<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>

**(c) Deferred tax assets and liabilities at 30 June relate to the following:**

*Deferred tax liabilities*

Prepayments	<b>1,353</b>	-	<b>(1,353)</b>	-
Deferred tax liabilities offset by deferred tax assets	<b>(1,353)</b>	-	-	-
Net deferred tax liabilities	-	-	-	-

*Deferred tax assets*

Employee provisions	<b>29,866</b>	13,424	<b>16,442</b>	7,524
Other accruals and provisions	<b>15,646</b>	18,552	<b>(2,906)</b>	18,552
Share issue costs charged to equity	-	139,048	-	-
Unused income tax losses	<b>1,421,312</b>	1,301,604	<b>119,708</b>	(343,270)
Total deferred tax assets	<b>1,466,824</b>	1,472,628	<b>131,891</b>	(317,194)

Total unrecognised deferred tax assets	<b>(1,465,471)</b>	(1,472,628)	<b>(131,891)</b>	317,194
Deferred tax assets offset by deferred tax liabilities	<b>(1,353)</b>	-	-	-
Net deferred tax assets	-	-	-	-

The Consolidated Entity has not recognised the deferred tax assets in the financial statements as it is not considered probable that sufficient taxable amounts will be available in future periods with which to be offset.

**AVALON MINERALS LTD**  
**Notes to the Financial Statements (continued)**  
**For the year ended 30 June 2011**

<b>Consolidated</b>	
<b>2011</b>	<b>2010</b>
<b>\$</b>	<b>\$</b>

**Note 8. Current assets – Cash and cash equivalents**

Cash on hand and at bank	<b>2,660,034</b>	2,927,242
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Cash at bank earns interest at floating rates based on daily bank deposit rates. The cash at bank is bearing floating interest rates between 0.01% and 4.75% (2010: 0.01% and 4.5%). The carrying amounts of cash and cash equivalents represent fair value. During the year the Group also held term deposits bearing interest rates of 5.5% and 5.6%.

Restricted cash balances totaling \$58,372 (2010: \$58,431) representing term deposits securing various performance guarantees have been disclosed under trade and other receivables (refer Note 9).

**Note 9. Current assets – Trade and other receivables**

Other debtors	154,885	116,009
Deposits	58,372	58,431
Prepayments	40,891	52,895
	<b>254,148</b>	227,335

Other debtors consist of GST and VAT receivables from the taxation authorities and other minor amounts. All receivables are carried at fair value. All receivables excluding deposits are non-interest bearing. All receivables balances are current and no allowance has been made for impairment as it is highly probable that all receivables will be recovered.

**Note 10. Non-current assets – Plant and equipment**

**Plant and equipment**

Plant and equipment at cost	530,128	319,171
Less accumulated depreciation	(259,132)	(174,762)
	<b>270,996</b>	144,409

**Reconciliation**

Reconciliation of the carrying amounts of plant and equipment at the beginning and end of each financial period is set out below.

**Plant and equipment**

Balance at 1 July	144,409	122,410
Additions - plant and equipment	224,871	95,215
Depreciation expense	(94,328)	(73,216)
Disposals – at cost	(11,433)	-
Disposals – accumulated depreciation	7,477	-
Balance at 30 June	<b>270,996</b>	144,409

**AVALON MINERALS LTD**  
**Notes to the Financial Statements (continued)**  
**For the year ended 30 June 2011**

**Consolidated**

**2011**                      **2010**  
**\$**                              **\$**

**Note 11. Non-current assets – Exploration and evaluation**

**Exploration and evaluation**

Exploration and evaluation – at cost less amounts  
written off

**20,126,704**                      7,846,158

**Reconciliation**

Balance at 1 July

**7,846,158**                      2,419,689

Purchases of mineral tenement applications

**137,623**                      138,745

Exploration and evaluation expenditure

**12,167,674**                      5,336,224

Expenditure written off

**(24,751)**                      (48,500)

Balance at 30 June

**20,126,704**                      7,846,158

The ultimate recoupment of exploration and evaluation costs carried forward is dependent upon the successful development and/or commercial exploitation, or alternatively sale, of the respective areas of interest.

**Note 12. Current liabilities – Trade and other payables**

Trade payables

**960,639**                      650,632

Other payables

**241,481**                      312,707

**1,202,120**                      963,339

Trade creditors and other payables are non-interest bearing and generally payable on 30 day terms. All trade creditors and other payables are carried at fair value.

**Note 13. Provisions**

**Current**

Employee leave liabilities

**102,129**                      90,642

**102,129**                      90,642

**Non-current**

Employee leave liabilities

**17,052**                      5,631

**17,052**                      5,631

**AVALON MINERALS LTD**  
**Notes to the Financial Statements (continued)**  
**For the year ended 30 June 2011**

**Note 14. Contributed equity**

(a) Share capital	Number of shares	\$
Ordinary shares – fully paid	<b>215,738,002</b>	<b>31,454,613</b>

**(b) Movements in ordinary share capital**

Date	Details	Number of shares	Issue price \$	\$
	<b>Balance at 1 July 2009</b>	<b>87,493,333</b>		<b>9,735,426</b>
30 September 2009	Shares issued to sophisticated investors	13,000,000	0.10	1,300,000
16 December 2009	Shares issued to sophisticated investors	15,074,000	0.21	3,165,540
16 February 2010	Shares issued pursuant to an exercise of options	200,000	0.20	40,000
	Transfer from share-based payments reserve	-	-	1,895
25 March 2010	Shares issued pursuant to a non-renounceable rights issue	16,509,619	0.21	3,467,020
	Less: Transaction costs arising on placement of shares			(409,093)
	<b>Balance at 30 June 2010</b>	<b>132,276,952</b>		<b>17,300,788</b>
27 September 2010	Shares issued to sophisticated investors	20,000,000	0.16	3,200,000
12 January 2011	Placement to sophisticated investor	22,841,542	0.18	4,111,478
14 February 2011	Shares issued pursuant to 1 for 5 non-renounceable entitlement offer	28,844,900	0.18	5,192,082
23 February 2011	Shares issued pursuant to underwritten portion of 1 for 5 entitlement offer	5,274,608	0.18	949,429
30 June 2011	Shares issued to professional and sophisticated investors*	6,500,000	0.18	1,170,000
	Funds received but shares not yet allotted*			215,200
	Less: Transaction costs arising on placement of shares			(684,364)
	<b>Balance at 30 June 2011</b>	<b>215,738,002</b>		<b>31,454,613</b>

\* As at 30 June \$1,170,000 had been received and 6,500,000 shares allotted, \$215,200 had been received and shares not allotted pending cleared funds and \$120,000 was received in early July. The balance of 1,862,222 shares were issued and allotted in early July.

Subsequent to year end the Company completed a share placement of 21,461,111 shares at 9 cents per share to professional and sophisticated investors raising \$1,931,500.

**(c) Ordinary shares**

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Effective 1 July 1998, the corporations legislation abolished the concepts of authorised capital and par value shares. Accordingly the Company does not have authorised capital nor par value in respect of its issued capital.

**(d) Employee Share Option Plan and Director Option Plan**

Information relating to the Employee Share Option Plan and Director Option Plan, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year are set out in Note 21.

**AVALON MINERALS LTD**  
**Notes to the Financial Statements (continued)**  
**For the year ended 30 June 2011**

**Note 14. Contributed equity (continued)**

**(e) Options**

At the end of the financial period there were 8,000,000 options over ordinary shares on issue as shown below:

- 100,000 options exercisable at 20 cents and expiring 31 July 2011;
- 500,000 options exercisable at 30 cents and expiring 31 January 2013;
- 1,000,000 options exercisable at 40 cents and expiring 31 January 2014;
- 2,700,000 options exercisable at 30 cents and expiring 27 April 2014;
- 500,000 options exercisable at 30 cents and expiring 1 July 2014;
- 2,700,000 options exercisable at 30 cents and expiring 27 April 2015; and
- 500,000 options exercisable at 40 cents and expiring 1 July 2015.

**(f) Movements in options**

Date	Details	Number of options
	<b>Balance at 1 July 2009</b>	<b>6,300,000</b>
31 January 2010	Expiry of options	(2,000,000)
6 February 2010	Exercise of options	(200,000)
10 February 2010	Expiry of options	(3,700,000)
27 February 2010	Allotment of options	1,500,000
	<b>Balance at 30 June 2010</b>	<b>1,900,000</b>
22 September 2010	Allotment of options	1,000,000
4 October 2010	Expiry of options	(300,000)
3 May 2011	Allotment of options	5,400,000
	<b>Balance at 30 June 2011</b>	<b>8,000,000</b>

**(g) Capital management**

When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain an optimal structure to reduce the cost of capital. Avalon Minerals Ltd is a junior exploration company and it is dependent from time to time on its ability to raise capital from the issue of new shares and its ability to realise value from its exploration and evaluation assets. The Board is responsible for capital management. This involves the use of cash flow forecasts to determine future capital management requirements. Capital management is undertaken to ensure a secure, cost-effective and flexible supply of funds is available to meet the Group's operating and capital expenditure requirements. The Company does not have any debt facilities and is not subject to any external capital requirements. Surplus funds are invested in a cash management account and are available as required.

The material liquidity risk for the Group is the ability to raise equity in the future. The Group has historically raised sufficient capital to fund its operations, however, it recognises that it is at risk of financial markets which dictate its ability to fund operations beyond exhaustion of the current cash funds. It is noted that the Group has the ability to reduce costs to preserve cash resources.

The only financial liabilities of the Group at balance date are trade and other payables. The amounts are unsecured and usually paid within 30 days of recognition.

**AVALON MINERALS LTD**  
**Notes to the Financial Statements (continued)**  
**For the year ended 30 June 2011**

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
<b>Note 14. Contributed equity (continued)</b>		
Total borrowings	-	-
Less: cash and cash equivalents	<b>2,660,034</b>	2,927,242
Net debt	-	-
Total equity	<b>21,990,581</b>	10,085,532
Total capital	<b>24,650,615</b>	13,012,774
Gearing ratio	<b>0%</b>	0%

**Note 15. Reserves**

Share-based payments reserve	<b>470,080</b>	234,471
Foreign currency translation reserve	<b>(1,197,820)</b>	(611,107)
<b>Total reserves</b>	<b>(727,740)</b>	(376,636)

**Movements in reserves**

*Share-based payments reserve*

Balance at 1 July	<b>234,471</b>	205,505
Option expense	<b>235,609</b>	30,861
Transfer to contributed equity upon exercise	-	(1,895)
Balance at 30 June	<b>470,080</b>	234,471

*Foreign currency translation reserve*

Balance at 1 July	<b>(611,107)</b>	(277,207)
Foreign exchange loss on translation of foreign subsidiaries	<b>(586,713)</b>	(333,900)
Balance at 30 June	<b>(1,197,820)</b>	(611,107)

***Nature and purpose of reserves***

*Share-based payments reserve*

The share based payments reserve is used to record the fair value of share based payments provided to employees, including key management personnel, and contractors as payment for services.

*Foreign currency translation reserve*

The foreign currency translation reserve is used to recognise foreign exchange gains or losses arising on the translation of the financial report of foreign subsidiary companies. The functional currency of Avalon Minerals Ltd is the Australian Dollar and that of its foreign subsidiaries is the Swedish Kroner.

**AVALON MINERALS LTD**  
**Notes to the Financial Statements (continued)**  
**For the year ended 30 June 2011**

<b>Consolidated</b>	
<b>2011</b>	<b>2010</b>
<b>\$</b>	<b>\$</b>

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**Note 16. Accumulated losses**

Balance at 1 July	<b>(6,838,620)</b>	(5,576,605)
Net loss attributable to members of Avalon Minerals Ltd	<b>(1,897,672)</b>	(1,262,015)
Balance at 30 June	<b>(8,736,292)</b>	(6,838,620)

**Note 17. Key management personnel disclosures**

**(a) Directors**

The following persons were directors of Avalon Minerals Ltd during the financial year:

*Executive Chairman*

Mr DL McSweeney (resigned as Managing Director 18 August 2010)

*Managing Director and CEO*

Mr AT Munckton (appointed Managing Director 18 August 2010)

*Non-Executive Directors*

Tan Sri AS Mohamed

Mr S Stone

Mr A Al-Khadra (appointed 1 March 2011)

Mr GC Steinepreis (resigned 1 March 2011)

*Alternate director*

Mr AH Kamaruddin

**(b) Other key management personnel**

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

<b>Name</b>	<b>Position</b>
Mr PA Bridson	Chief Financial Officer (appointed 1 July 2010) and Company Secretary (appointed 18 November 2010)
Ms LV Lindskog	Exploration Manager
Mr NP Bryce	Principal Geologist Sweden (appointed 20 September 2010)
Mr DJ Kelly	Company Secretary (resigned 18 November 2010)
Mr JG Brock	Project Manager Australia (resigned 13 May 2011)

**AVALON MINERALS LTD**  
**Notes to the Financial Statements (continued)**  
**For the year ended 30 June 2011**

**Note 17. Key management personnel disclosures (continued)**

**(c) Key management personnel compensation**

	Consolidated	
	2011	2010
	\$	\$
Short term employee benefits*	1,884,042	1,011,167
Long term employee benefits	9,861	5,631
Post employment benefits	90,908	40,495
Share based payments	235,609	30,861
	<b>2,220,420</b>	<b>1,088,154</b>

\*Includes fees of \$315,213 paid to Tan Sri Abu Sahid Mohamed relating to the underwriting fee for underwriting of the February 2011 1 for 5 non-renounceable entitlement offer.

**(d) Equity instrument disclosures relating to key management personnel**

*Options provided as remuneration and shares issued on exercise of such options*

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in the Remuneration Report on pages 21 to 22.

*Option holdings*

The numbers of options over ordinary shares in the Company held during the financial period by each director of Avalon Minerals Ltd and other key management personnel of the Company, including their personally-related parties, are set out below.

2011	Balance at the beginning of the period	Granted during the period as remuneration	Exercised during the period	Other changes during the period*	Balance at the end of the period	Vested and exercisable at the end of the period
Name						
<b>Directors of Avalon Minerals Ltd</b>						
Mr DL McSweeney	-	600,000	-	-	600,000	-
Mr AT Munckton	1,500,000	3,000,000	-	-	4,500,000	500,000
Tan Sri AS Mohamed	-	600,000	-	-	600,000	-
Mr S Stone	-	600,000	-	-	600,000	-
Mr A Al-Khadra	-	600,000	-	-	600,000	-
Mr AH Kamaruddin	-	-	-	-	-	-
Mr GC Steinepreis	-	-	-	-	-	-
<b>Other key management personnel</b>						
Mr PA Bridson	-	1,000,000	-	-	1,000,000	-
Ms LV Lindskog	-	-	-	-	-	-
Mr NP Bryce	-	-	-	-	-	-
Mr DJ Kelly	-	-	-	-	-	-
Mr JG Brock	-	-	-	-	-	-

**AVALON MINERALS LTD**  
**Notes to the Financial Statements (continued)**  
**For the year ended 30 June 2011**

**Note 17. Key management personnel disclosures (continued)**

2010	Balance at the beginning of the period	Granted during the period as remuneration	Exercised during the period	Other changes during the period*	Balance at the end of the period	Vested and exercisable at the end of the period
Name						
<b>Directors of Avalon Minerals Ltd</b>						
Mr DL McSweeney	3,300,000	-	-	(3,300,000)	-	-
Tan Sri AS Mohamed	-	-	-	-	-	-
Mr S Stone	200,000	-	(200,000)	-	-	-
Mr AH Kamaruddin	-	-	-	-	-	-
Mr GC Steinepreis	200,000	-	-	(200,000)	-	-
<b>Other key management personnel</b>						
Mr AT Munckton	-	1,500,000	-	-	1,500,000	-
Ms LV Lindskog	-	-	-	-	-	-
Mr DJ Kelly	500,000	-	-	(500,000)	-	-
Mr N Baker	300,000	-	-	-	300,000	300,000
Mr JG Brock	-	-	-	-	-	-

\* Other changes during the period represent options that have lapsed.

No options were vested and unexercisable at the end of the financial period.

*Share holdings*

The numbers of shares in the Company held during the financial year by each director and the key management personnel of the Consolidated Entity, including their personally related entities, are set out below. There were no shares granted during the reporting period as compensation.

2011	Balance at the beginning of the period	Received during the period on the exercise of options	Other changes during the period*	Balance at the end of the period
Name				
<b>Directors of Avalon Minerals Ltd</b>				
Mr DL McSweeney	13,750,727	-	775,555	14,526,282
Mr AT Munckton	515,000	-	463,000	978,000
Tan Sri AS Mohamed	21,814,922	-	19,623,422	41,438,344
Mr S Stone	1,385,942	-	-	1,385,942
Mr A Al-Khadra	-	-	-	-
Mr AH Kamaruddin	-	-	200,000	200,000
Mr GC Steinepreis	2,257,155	-	(2,257,155)	-
<b>Other key management personnel</b>				
Mr PA Bridson	-	-	90,000	90,000
Ms LV Lindskog	-	-	-	-
Mr NP Bryce	-	-	-	-
Mr DJ Kelly	250,000	-	(250,000)	-
Mr JG Brock	-	-	-	-

**AVALON MINERALS LTD**  
**Notes to the Financial Statements (continued)**  
**For the year ended 30 June 2011**

**Note 17. Key management personnel disclosures (continued)**

2010	Balance at the beginning of the period	Received during the period on the exercise of options	Other changes during the period*	Balance at the end of the period
<b>Name</b>				
<b>Directors of Avalon Minerals Ltd</b>				
Mr DL McSweeney	12,786,442	-	964,285	13,750,727
Tan Sri AS Mohamed	19,088,057	-	2,726,865	21,814,922
Mr S Stone	1,090,704	200,000	95,238	1,385,942
Mr AH Kamaruddin	-	-	-	-
Mr GC Steinepreis	2,257,155	-	-	2,257,155
<b>Other key management personnel</b>				
Mr AT Munckton	-	-	515,000	515,000
Ms LV Lindskog	-	-	-	-
Mr DJ Kelly	-	-	250,000	250,000
Mr N Baker	-	-	-	-
Mr JG Brock	-	-	-	-

\* Other changes represent on-market share purchases, off-market share transfers, rights issue entitlements and balances held upon termination.

**(e) Loans to key management personnel**

There were no loans made to directors or other key management personnel of Avalon Minerals Ltd.

**(f) Other transactions with key management personnel**

During the financial year the Company paid fees of \$900,951 to MSP Engineering Pty Ltd, a company of which Mr McSweeney is the Chairman and a shareholder. Amounts were billed based upon normal market rates for engineering services and were due and payable under normal payment terms.

During the financial year the Company paid an underwriting fee of \$315,213 to Tan Sri Abu Sahid Mohamed for the underwriting of the February 2011 1 for 5 non-renounceable entitlement offer.

**Note 18. Remuneration of auditors**

**Consolidated**

**2011**                      **2010**  
**\$**                              **\$**

During the period the following fees were paid or payable for services provided by the auditor of the Company and its related practices.

**Assurance services**

*Audit services*

Ernst & Young:

Audit and review of financial report

**50,689**                      **40,095**

**AVALON MINERALS LTD**  
**Notes to the Financial Statements (continued)**  
**For the year ended 30 June 2011**

**Note 19. Contingent liabilities**

Details of contingent liabilities are set out below.

The directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

The Consolidated Entity has performance guarantees in place with the Bergsstaten (Department of Mines) for 55,369 Kroner (AUD\$8,180) (2010: 55,000 Kroner (AUD\$8,239)) representing security bonds over ground disturbance applications. These guarantees are secured by cash deposits.

The Company has a performance guarantee in place to secure payment of rent under the agreement for the Company's lease of office premises at 91 Havelock Street, West Perth totalling \$38,672 (2010: \$38,672). The Company also had a performance guarantee in place over its prior office premises totalling \$11,520 (2010: \$11,520) which was returned to the Company in July 2011. Both guarantees are secured by a term deposit.

**Note 20. Capital and other commitments**

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
<b>(i) Capital commitments</b>		
Commitments for minimum expenditure on mining tenements contracted for at the reporting date but not recognised as liabilities, due:		
Within one year	<b>38,877</b>	98,063
Later than one year but not later than 5 years	<b>251,615</b>	-
Later than 5 years	-	-
	<b>290,492</b>	<b>98,063</b>

Exploration expenditure commitments are required to keep licenses in good standing. The Consolidated Entity is committed to this expenditure on the current tenements. In order to maintain current rights to tenure of its mineral tenement leases, the Consolidated Entity will be required to outlay amounts to meet minimum expenditure requirements to the Bergsstaten (Department of Mines). These obligations may be varied from time to time, or subject to approval, and are expected to be fulfilled in the normal course of operations of the Consolidated Entity.

**(ii) Lease commitments**

Commitments in relation to non-cancellable leases contracted for at the reporting date but not recognised as liabilities, due:

Within one year	<b>150,173</b>	140,625
Later than one year but not later than 5 years	<b>143,942</b>	302,695
Later than 5 years	-	-
	<b>294,115</b>	<b>443,320</b>

The Consolidated Entity is currently occupying its registered office and pays rent to the owner on normal commercial terms and conditions.

**AVALON MINERALS LTD**  
**Notes to the Financial Statements (continued)**  
**For the year ended 30 June 2011**

**Note 20. Capital and other commitments (continued)**

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
<b>(iii) Remuneration commitments</b>		
Commitments for the payment of salaries and other remuneration under long-term employment contracts at the reporting date but not recognised as liabilities, payable:		
Within one year	<b>564,000</b>	250,000
Later than one year but not later than 5 years	-	-
	<b>564,000</b>	250,000

Amounts disclosed as remuneration commitments include notice period and redundancy commitments arising from the service contracts and employment contracts of directors and executives referred to in the remuneration report of the directors' report that are not recognised as liabilities and are not included in the compensation of key management personnel.

**Note 21. Share-based payments**

**(a) Employee Share Option Plan and Director Option Plan**

All staff (including executive and non-executive directors) are eligible to participate in the relevant plan.

Shares and options are issued on the following terms:

- The entitlement from time to time of each eligible participant shall be determined by the directors in their absolute discretion based on the directors' assessment of length of service, remuneration level and the contribution the Eligible Participant will make to the long term performance of the Consolidated Entity, together with such other criteria as the directors consider appropriate in the circumstances.
- The maximum number of securities which may be issued pursuant to the Plan shall not be greater than 5% of the issued shares of the Consolidated Entity, from time to time.
- Options are granted under the plan for no consideration.
- Options granted under the plan carry no dividend or voting rights.
- When exercisable, each option is convertible into one ordinary share.
- When an eligible participant ceases employment prior to the vesting of their share options, the share options are forfeited.
- When an eligible participant ceases employment after the vesting of their share options the participant will be entitled to exercise their share options for a period of up to 90 days after the termination date, or a further date as determined by the Directors after the termination date, after which the participant's share options will lapse immediately.

The exercise prices of options are determined by the directors and are not less than the prevailing market price of the underlying share on the date upon which the directors first resolved to grant the options. Amounts receivable on the exercise of options are recognised as share capital.

*Company performance and its link to long-term incentives*

The Tranche 1 Director Options will vest on or before 27 April 2012 subject to the satisfactory completion of the Viscaria BFS to the satisfaction of the Board, or the acquisition of a new project as the Company's second tier project, to the satisfaction of the Board. The Tranche 2 Director Options will vest on or before 27 April 2013 subject to commencement of development of the Viscaria Project, or the completion of the Pre Feasibility Study into the New Project acquired during the vesting period of the Tranche 1 options.

**AVALON MINERALS LTD**  
**Notes to the Financial Statements (continued)**  
**For the year ended 30 June 2011**

**Note 21. Share-based payments (continued)**

*Performance measure to determine vesting*

The Company determined the above performance measures for the Director Option Plan for the following reasons:

- The Viscaria Project is the Company's primary focus. Completion of the Viscaria BFS and a subsequent decision to proceed with the development of the Viscaria Project are significant project milestones that the Board believes will increase shareholder wealth in the medium term.
- Outside of the Viscaria Project the Company continues to assess other resource project opportunities as they arise. The Board believes that the acquisition of a new project and its subsequent successful exploration and evaluation is another significant milestone that will increase shareholder wealth in the medium term.

The Board believes that the performance measures in place are focused on broad Company growth goals and given the Company's current stage of development are the most appropriate measures to align Director goals with shareholder goals.

Additionally the Board believes that the performance conditions in place are easily measurable and assessable as to their satisfactory achievement, being the practical completion of each of the performance measurement milestones by the specified vesting dates.

Set out below are summaries of options granted, exercised and lapsed under the Plans during the year.

Grant date	Expiry date	Exercise price	Balance at beginning of the period	Issued during the period	Exercised during the period	Expired during the period	Balance at end of the period
		\$	Number	Number	Number	Number	Number
26 August 2008	31 July 2011	0.30	300,000	-	-	(300,000)**	-
13 January 2009	31 July 2011	0.20	100,000	-	-	-	100,000
27 February 2010	31 January 2013	0.30	500,000	-	-	-	500,000
27 February 2010	31 January 2014	0.40	1,000,000	-	-	-	1,000,000
22 September 2010	1 July 2014	0.30	-	500,000	-	-	500,000
22 September 2010	1 July 2015	0.40	-	500,000	-	-	500,000
3 May 2011	27 April 2014	0.30	-	2,700,000	-	-	2,700,000
3 May 2011	27 April 2015	0.30	-	2,700,000	-	-	2,700,000
			1,900,000	6,400,000	-	(300,000)	8,000,000

\*\* Mr Baker resigned in May 2010. The options lapsed three months after termination and were cancelled.

**AVALON MINERALS LTD**  
**Notes to the Financial Statements (continued)**  
**For the year ended 30 June 2011**

**Note 21. Share-based payments (continued)**

Grant date	Expiry date	Exercise price	Balance at beginning of the period	Issued during the period	Exercised during the period	Lapsed during the period	Balance at end of the period
2010		\$	Number	Number	Number	Number	Number
7 February 2007	31 January 2010	0.20	3,900,000	-	(200,000)*	(3,700,000)	-
10 October 2007	31 January 2010	0.20	100,000	-	-	(100,000)	-
		0.40	150,000	-	-	(150,000)	-
12 October 2007	31 January 2010	0.20	500,000	-	-	(500,000)	-
		0.40	500,000	-	-	(500,000)	-
15 October 2007	31 January 2010	0.20	200,000	-	-	(200,000)	-
		0.40	300,000	-	-	(300,000)	-
9 January 2008	31 January 2010	0.25	125,000	-	-	(125,000)	-
		0.40	125,000	-	-	(125,000)	-
26 August 2008	31 July 2011	0.30	300,000	-	-	-	300,000**
13 January 2009	31 July 2011	0.20	100,000	-	-	-	100,000
27 February 2010	31 January 2013	0.30	-	500,000	-	-	500,000
27 February 2010	31 January 2014	0.40	-	1,000,000	-	-	1,000,000
			<u>6,300,000</u>	<u>1,500,000</u>	<u>(200,000)</u>	<u>(5,700,000)</u>	<u>1,900,000</u>

\*The weighted average share price at the date of exercise was \$0.20.

\*\* Mr Baker resigned in May 2010. The options lapsed three months after termination and were cancelled.

*Fair value of options granted*

The fair values at grant date were independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date, the expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

**2011**

The model inputs for options granted during the year ended 30 June 2011 are:

Grant date	22 September 2010	22 September 2010	3 May 2011	3 May 2011
Expiry date	1 July 2014	1 July 2015	27 April 2014	27 April 2015
Quantity	500,000	500,000	2,700,000	2,700,000
Exercise price	\$0.30	\$0.40	\$0.30	\$0.30
Consideration	Nil	Nil	Nil	Nil
Share price at grant date	\$0.18	\$0.18	\$0.28	\$0.28
Expected price volatility of the Company's shares	82%	82%	91%	86%
Expected dividend yield	Nil	Nil	Nil	Nil
Risk-free interest rate	6.25%	6.25%	6.25%	6.25%
<b>Fair Value per Option</b>	<b>\$0.093</b>	<b>\$0.097</b>	<b>\$0.166</b>	<b>\$0.180</b>

**AVALON MINERALS LTD**  
**Notes to the Financial Statements (continued)**  
**For the year ended 30 June 2011**

**Note 21. Share-based payments (continued)**

**2010**

The model inputs for options granted during the year ended 30 June 2010 are:

Grant date	27 February 2010	27 February 2010
Expiry date	31 January 2013	31 January 2014
Quantity	500,000	1,000,000
Exercise price	\$0.30	\$0.40
Consideration	Nil	Nil
Share price at grant date	\$0.18	\$0.18
Expected price volatility of the Company's shares	70%	70%
Expected dividend yield	Nil	Nil
Risk-free interest rate	4.5%	4.5%
<b>Fair Value per Option</b>	<b>\$0.064</b>	<b>\$0.066</b>

See pages 21 to 22 of the Directors Report for details of share options issued to directors during the period.

*Volatility*

The most appropriate expected volatility value to use in determining the value of an option is the historical volatility of the underlying share over a period equal to the expected life of the options ending on the grant date of the options.

**(b) Weighted average remaining contractual life**

The weighted average remaining contractual life for the share options outstanding as at 30 June 2011 is 3.15 years (2010: 2.65 years).

**(c) Weighted average fair value**

The weighted average fair value of options granted during the year was \$0.16 (2010: \$0.065)

**(d) Expenses arising from share-based payment transactions**

Total expense arising from share-based payment transactions recognised during the period was \$235,609 (2010: \$30,861).

**Note 22. Related party transactions**

**Directors and other key management personnel**

During the financial year the Company paid fees of \$900,951 to MSP Engineering Pty Ltd, a company of which Mr McSweeney is the Chairman and a shareholder. Amounts were billed based upon normal market rates for engineering services and were due and payable under normal payment terms.

During the financial year the Company paid an underwriting fee of \$315,213 to Tan Sri Abu Sahid Mohamed for underwriting of the February 2011 1 for 5 non-renounceable entitlement offer.

**Controlling entities**

The ultimate parent entity in the wholly-owned group is Avalon Minerals Ltd.

**Ownership interests in related parties**

Interests held in subsidiaries are set out in Note 24 – Related parties.

**AVALON MINERALS LTD**  
**Notes to the Financial Statements (continued)**  
**For the year ended 30 June 2011**

**Note 23. Events occurring after reporting date**

On 22 June 2011 the Company announced an underwritten share placement of up to 60,000,000 shares at 18 cents to raise up to \$10,800,000. Tranche 1 of the placement comprised the issue of 8,362,222 fully paid ordinary shares to professional and sophisticated investors raising \$1,505,200. As at 30 June \$1,170,000 had been received and 6,500,000 Tranche 1 shares allotted, \$215,200 had been received and shares not allotted pending cleared funds and \$120,000 was received in early July. The balance of 1,862,222 Tranche 1 shares were issued and allotted in early July.

On 8 August 2011 the Company announced that the underwriter to the capital raising that was announced on 22 June 2011 did not intend to proceed with the underwriting of the placement. Alternative underwriting arrangements were sought however due to the deterioration in capital markets the successful negotiation of a replacement underwriter was unable to be finalised. On 23 August 2011 the Company announced that it had been successful in placing 21,461,111 shares at 9 cents per share to professional and sophisticated investors raising \$1,931,500.

**Note 24. Related parties**

***Subsidiaries***

**2011**

<b>Name of entity</b>	<b>Country of incorporation</b>	<b>Class of shares</b>	<b>Equity holding</b>
Avalon Minerals Adak AB	Sweden	Ordinary	100%
Avalon Minerals Viscaria AB	Sweden	Ordinary	100%
Resource Properties Pty Ltd	Australia	Ordinary	100%
Xmin Pty Ltd	Australia	Ordinary	100%

**2010**

<b>Name of entity</b>	<b>Country of incorporation</b>	<b>Class of shares</b>	<b>Equity holding</b>
Avalon Minerals Adak AB	Sweden	Ordinary	100%
Avalon Minerals Viscaria AB	Sweden	Ordinary	100%
Resource Properties Pty Ltd	Australia	Ordinary	100%
Xmin Pty Ltd	Australia	Ordinary	100%

**AVALON MINERALS LTD**  
**Notes to the Financial Statements (continued)**  
**For the year ended 30 June 2011**

**Note 25. Reconciliation of net loss after tax to net cash outflow from operating activities**

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
Cash at the end of the financial period is reconciled as follows:		
Operating loss after income tax	<b>(1,897,672)</b>	(1,262,015)
Depreciation	<b>94,328</b>	73,216
Exploration expenditure written off	<b>24,751</b>	48,500
Non-cash employee benefits expense – share based payments	<b>235,609</b>	30,861
Unrealised foreign exchange gain	-	(30)
Loss on sale of plant and equipment	<b>2,606</b>	-
Other	-	1,424
Changes in operating assets and liabilities		
(Increase)/Decrease in other receivables	<b>103,496</b>	(163,641)
Increase/(Decrease) in trade creditors	<b>(72,580)</b>	(111,095)
Increase/(Decrease) in provisions	<b>17,052</b>	-
Net cash outflow from operating activities	<b>(1,492,410)</b>	(1,382,780)

**Note 26. Earnings per share**

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>cents</b>	<b>cents</b>
Basic and diluted earnings per share	<b>(1.1)</b>	(1.1)
<b>Weighted average number of shares used as the denominator</b>	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	<b>176,827,514</b>	110,485,222
Effect of dilution:		
Share options	<b>7,019</b>	-
Weighted average number of ordinary shares used as the denominator adjusted for the effect of dilution	<b>176,834,533</b>	-
Further potential ordinary shares (options) not considered to be dilutive	<b>7,992,981</b>	1,900,000
<b>Losses used in calculating basic and diluted losses per share</b>	<b>\$</b>	<b>\$</b>
Net loss	<b>(1,897,672)</b>	(1,262,015)

Potential ordinary shares (options) not considered to be dilutive represents that number of employee and director options on issue at reporting date with exercise prices in excess of the average market price per share for the period.

The earnings per share calculations for the years ended 30 June 2011 and 30 June 2010 have been adjusted for the 1 for 5 non-renounceable rights issue announced to the market on 10 January 2011 in accordance with AASB 133 Earnings Per Share. The effect of this is to dilute the number of shares on issue by a factor of 1.037.

The earnings per share calculation for the year ended 30 June 2010 has also been adjusted for the 1 for 7 non-renounceable rights issue announced to the market on 3 December 2009 in accordance with AASB 133 Earnings Per Share. The effect of this is to dilute the number of shares on issue by a factor of 1.011.

**AVALON MINERALS LTD**  
**Notes to the Financial Statements (continued)**  
**For the year ended 30 June 2011**

**Note 27. Dividends**

No dividend was paid or declared by the Company in the period since the end of the previous 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 period ended 30 June 2011 (2010: nil).

The balance of the Company's franking account is nil (2010: nil).

**Note 28. Parent Entity Information**

Information relating to Avalon Minerals Ltd:

	2011 \$	2010 \$
Current assets	2,541,882	2,631,076
Total assets	2,759,938	2,800,946
Current liabilities	522,311	391,847
Total liabilities	539,363	397,478
Net Assets	<u>2,220,575</u>	<u>2,403,468</u>
Issued capital	31,454,613	17,300,788
Accumulated losses	(29,704,118)	(15,131,791)
Share-based payments reserve	470,080	234,471
Total shareholders' equity	<u>2,220,575</u>	<u>2,403,468</u>
Loss of the parent entity	(14,572,327)	(6,798,446)
Total comprehensive income of the parent entity	1,131,951	493,861

There have been no guarantees entered into by the Parent Entity in relation to any debts of its subsidiaries.

The Parent Entity has restricted cash balances totaling \$50,192 (2010: \$50,192) representing term deposits securing performance guarantees over rental of the Company's office premises.

For details of contingent liabilities see Note 19.

The Parent Entity has no contractual commitments for the acquisition of property, plant or equipment.

# AVALON MINERALS LTD

## Directors' Declaration

In accordance with a resolution of the Directors of Avalon Minerals Ltd I state that:

In the opinion of the directors:

- (a) the financial statements and notes of the Consolidated Entity are in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the Consolidated Entity's financial position as at 30 June 2011 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*;
- (b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 1(b)
- (c) subject to the achievement of matters described in note 1(a), there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- (d) this declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ending 30 June 2011.

On behalf of the Board



**AT Munckton**  
Director

Perth, Western Australia  
29 September 2011

## Independent audit report to members of Avalon Minerals Ltd

### Report on the financial report

We have audited the accompanying financial report of Avalon Minerals Ltd, which comprises the consolidated statement of financial position as at 30 June 2011, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, 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 of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

#### *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. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's 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, the auditor considers 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 complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

## Opinion

In our opinion:

- a. the financial report of Avalon Minerals Ltd is in accordance with the *Corporations Act 2001*, including:
  - i giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
  - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

## Report on the Remuneration Report

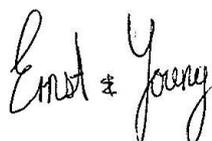
We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

## Opinion

In our opinion, the Remuneration Report of Avalon Minerals Ltd for the year ended 30 June 2011, complies with section 300A of the *Corporations Act 2001*.

## Inherent Uncertainty Regarding Continuation as a Going Concern

Without qualifying our audit opinion expressed above, attention is drawn to the following matter. As a result of the matters described in Note 1 to the financial report, there is significant uncertainty whether the company and the consolidated entity will be able to continue as going concerns and therefore whether they will be able to pay their debts as and when they become due and payable and realise their assets and extinguish their liabilities in the normal course of operations and at the amounts stated in the financial report. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the company and the consolidated entity not continue as going concerns.



Ernst & Young



R J Curtin  
Partner  
Perth

29 September 2011

## AVALON MINERALS LTD

### ASX Additional Information

Additional information required by the Australian Securities Exchange Limited Listing Rules and not disclosed elsewhere in this report.

#### SHAREHOLDINGS

##### Substantial shareholders

The following substantial shareholders have lodged notices with the Company as at 16 September 2011.

Holders	Ordinary shares
Tan Sri Abu Sahid Bin Mohamed	41,438,344
Peakville Investments Ltd	22,134,028
Galena Special Situations Master Fund Limited	17,620,715
David McSweeney	14,568,645
Bill Brooks Pty Ltd	12,279,111

##### Class of shares and voting rights

At 16 September 2011, there were 865 holders of the ordinary shares of the Company. The voting rights attached to the ordinary shares, set out in clause 12.7 of the Company's Constitution, are:

Subject to any special rights or restrictions for the time being attached to any class or classes of Shares, at meetings of Shareholders or classes of Shareholders:

- each Shareholder entitled to vote may vote in person or by proxy, attorney or Representative;
- on a show of hands, every person present who is a Shareholder or a proxy, attorney or Representative of a Shareholder has one vote; and
- on a poll every person present who is a Shareholder or a proxy, attorney, or Representative of a Shareholder shall, in respect of each fully paid Share held by him, or in respect of which he is appointed a proxy, attorney or Representative, have one vote for the Share, but in respect of partly paid Shares, shall have such number of votes being equivalent to the proportion which the amount paid (not credited) is of the total amounts paid and payable in respect of those shares, (excluding amounts credited).

At 16 September 2011, there were options over 7,900,000 un-issued ordinary shares. There are no voting rights attached to the un-issued ordinary shares. Voting rights will be attached to the un-issued ordinary shares when the options have been exercised.

##### On-market buy-back

There is no current on-market buy-back.

##### Distribution of Share & Option Holders (as at 16 September 2011)

Category	Number of holders	
	Ordinary shares	Unlisted Options
1 – 1,000	45	-
1,001 – 5,000	101	-
5,001 – 10,000	90	-
10,001 – 100,000	437	-
100,001 and over	192	6
	<u>865</u>	<u>6</u>

**AVALON MINERALS LTD**  
**ASX Additional Information (continued)**

There were 158 holders holding less than a marketable parcel of 5,748 ordinary shares.

**Unquoted Securities**

The Options on issue were issued as part of an Employee Share Option Plan and Director Option Plan and are unquoted.

**Restricted Securities**

There were no restricted securities as at 16 September 2011:

**Twenty Largest Security holders as at 16 September 2011**

Holder name	Ordinary Shares	
	Number	%
Tan Sri Abu Sahid Bin Mohamed	41,438,344	17.45
Citicorp Nominees Pty Ltd	23,479,966	9.89
HSBC Custody Nominees (Australia) Ltd – GSCO ECA	17,620,715	7.42
Bill Brooks Pty Ltd	12,279,111	5.17
Brookman Resources Pty Ltd	11,204,758	4.72
JP Morgan Nominees Australia Limited	8,905,412	3.75
Penson Australia Nominees Pty Ltd	5,197,449	2.19
Spectral Investments Pty Ltd	5,020,000	2.11
Robert Wittenoom	4,802,551	2.02
Daniel Paul Wise	3,405,000	1.43
Flue Holdings Pty Ltd	3,373,946	1.42
Osiris Capital Investments Pty Ltd	3,129,612	1.32
David Leslie McSweeney	3,127,618	1.32
David Donald Boyer	3,055,000	1.29
Intermarine Chartering Pte Ltd	2,200,000	0.93
Molate Pty Ltd	1,800,000	0.76
Topsfield Pty Ltd	1,725,000	0.73
Slade Technologies Pty Ltd	1,623,000	0.68
Gregory Wayne Down & Deborah June Down	1,554,702	0.65
Base Asia Pacific Limited	1,500,000	0.63
<b>Total</b>	<b>156,442,184</b>	<b>65.88</b>

**Other information**

Avalon Minerals Ltd, incorporated and domiciled in Australia, is a publicly listed company limited by shares.