

Avalon Minerals Ltd

Financial Report 30 June 2008

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AVALON MINERALS LTD

Corporate directory

Directors

David McSweeney
Chairman and Managing Director

Gary Steinepreis
Non-executive
Stephen Stone
Non-executive

Secretary

Desmond Kelly

Share register

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Perth WA 6000
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Facsimile +61 8 9323 2033

Auditor

Ernst & Young
The Ernst & Young Building
11 Mounts Bay Road
Perth WA 6000

Solicitors

Steinepreis Paganin
Level 4 Next Building
16 Milligan Street
Perth WA 6000

Bankers

National Australia Bank
1238 Hay Street
West Perth WA 6000

Stock 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

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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 2008.

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:

D L McSweeney
G C Steinepreis
S Stone

Principal activities

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

Dividends

No dividends were paid to members during the financial period and the directors do not recommend the payment of a dividend.

Review of operations

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

	2008	2007
	\$	\$
Revenue	<u>190,249</u>	33,535
Loss before income tax expense	(1,733,958)	(367,207)
Income tax expense	<u>-</u>	-
Loss attributable to members of Avalon Minerals Ltd	<u>(1,733,958)</u>	(367,207)

Financial Position

During the period the Company had a net increase in contributed equity of \$1,851,849 (from \$5,273,763 to \$7,125,612) as a result of:

- The issue of 4,000,000 ordinary fully paid shares at 22 cents each to acquire Resource Properties Pty Ltd;
- a placement of 6,600,000 ordinary fully paid shares at 15.5 cents each to raise \$1,023,000; and
- payment of capital raising and share issue costs of \$51,151.

At the end of the financial period the group had net cash balances of \$1,458,455 and net assets of \$5,201,410.

Total liabilities amounted to \$541,432 and were limited to trade and other creditors.

Directors' report

Review of operations (continued)

Exploration

Avalon's corporate objective is to build a resource mining group based on cash flows from producing operations.

Lennard Shelf Project Zinc-Lead Project – Rox Resources Earning 60%

Avalon's 2,594km² Lennard Shelf Project - located in the acclaimed Lennard Shelf zinc province in the East Kimberley region of Western Australia - encompass a number of advanced zinc exploration targets, including the Oscar Range, Barramundi and Lawford Projects.

During the first quarter Avalon signed a major Joint Venture with Rox Resources Ltd. Under the terms of the Joint Venture, Rox had the right to earn up to a 60% interest in the Lennard Shelf Project by the payment of \$50,000 upon signing and by completing a minimum expenditure of \$500,000 within the first 12 months, followed by the payment of \$300,000 in Rox shares and further exploration expenditure totalling \$2 million over 4 years. Rox has agreed to pay Avalon \$50,000 to withdraw from the JV. The Lennard Shelf tenements have subsequently been relinquished.

Resource Properties Pty Ltd (RPPL) ELA's – Uranium

Avalon strengthened its position in Australian uranium exploration through the acquisition of a substantial exploration portfolio covering 1,900km² in Western Australia's Kimberley and Yilgarn regions through the 100% acquisition of privately held company RPPL.

Newly established Haliburn Resources Limited has entered into an agreement with Avalon's wholly owned subsidiary Resource Properties Pty Ltd to acquire a 100% interest in the tenements for a consideration of 5,000,000 ordinary shares in the Haliburn Resources Limited IPO. The agreement is subject to the listing of Haliburn on the Australian Securities Exchange.

Empress Springs – Gold, Uranium and Base Metals – Avalon 70%

In 2007, Avalon entered into a Joint Venture agreement with ASX-listed nickel producer, Independence Group NL, to earn a 70% interest in the Empress Springs gold, base metals and uranium project in North Queensland.

The project, located 40km south of Croydon, comprises one granted EPM (15416) and one application EPM (15414) which together cover a total area of 833km².

The project is situated within a well-known gold producing region with historical production of 750,000oz at Croydon and nearby the recent discovery by Gold Aura Ltd of polymetallic mineralisation at Wallabadah, located 30 km north of Croydon.

During the year, Avalon conducted a field program of MMI soil and geobotanical sampling over some of the targets - previously identified by Mining Consultants SRK within EPM 15416 - to assist in defining priority drill targets. The samples were delivered to laboratories in Perth and two large coincident polymetallic geochemical anomalies - T1 & T2 (2150m and 5250m in length) - were confirmed by both geochemical methods.

Further MMI and geobotanical sampling is planned to both infill and extend coverage within EPM15416 and on to EPM15414. Bedrock geochemical drilling and geophysical mapping is also proposed, and will assist with better definition of drill targets.

Funding is to be received by Avalon to the value of \$64,250 from the Queensland Government under their Collaborative Drilling Initiative for a program of bedrock drilling to test beneath transported cover target zones of combined soil, geo-botanical and favourable structure.

Directors' report

Review of operations (continued)

Sweden

During the March Quarter 2008, Avalon took a significant step forward in its project acquisition strategy after reaching agreement to acquire the **Viscaria** and **Adak** copper projects in northern Sweden. Both projects have been the subject of earlier mining operations and are part of large mineralised systems with strong potential for additional copper and zinc deposits within the landholdings.

The acquisition of the two advanced copper projects is a landmark achievement for the Company and will enable Avalon to progress towards near-term production and early exploration success.

The projects were acquired from Phelps Dodge – a subsidiary of the world's largest publicly traded copper company, Freeport-McMoRan Exploration Corporation – for US\$420,000 cash plus an aggregate 1% Net Smelter Royalty (NSR) on production. This represents an attractive entry to a significant brownfields exploration & development opportunity in the Scandinavian region.

Avalon has moved quickly to apply for additional ground surrounding both the Adak and Viscaria mines including an application for the historical Viscaria tailings dam containing 13mt of copper, zinc and iron rich sands not recovered from the original Outokumpu concentration plant.

Exploration is advanced and the Company plans to commence a pre-feasibility study in the second half of 2008.

Project Generation

Avalon continued to assess additional mineral project opportunities both in Australia and internationally.

Corporate

On 2 August 2007 the Company issued 4,000,000 ordinary shares to a vendor as consideration for the purchase of 100% of the issued capital of Resource Properties Pty Ltd.

On 14 April 2008 the Company issued 6,600,000 ordinary shares to a sophisticated investor in order to raise \$1,023,000.

Earnings per share	2008 Cents	2007 Cents
Basic and diluted earnings per share	(3.85)	(1.32)

Significant changes in the state of affairs

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

Matters subsequent to the end of the financial period

On 4 August 2008 the Company reached agreement with newly established company Caliburn Resources Limited ("Caliburn") whereby Caliburn will acquire a 100% right to all tenements held by the Company's wholly owned subsidiary Resources Properties Pty Ltd. The consideration for the sale is 5,000,000 ordinary shares in Caliburn. Caliburn plans to list on the Australian Securities Exchange.

On 22 August 2008 Rox Resources Limited withdrew from the Lennard Shelf Joint Venture. These tenements have now been relinquished.

Directors' report

Matters subsequent to the end of the financial period (continued)

On 25 September 2008 the Company announced a 1 for 4 pro rata non-renounceable entitlement issue at an issue price of 15 cents per share to raise up to \$1,953,750. Under the terms of the issue the Company proposes to issue up to 13,025,000 shares. The funds will be used to advance the development of the Viscaria Copper Mine in Sweden.

No other matter or circumstance has arisen since 30 June 2008 that has significantly affected, or may significantly affect:

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

Likely developments and expected results of operations

Other than likely developments contained in the "Review of operations", further information on likely developments in the operations of the Consolidated Entity and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the Consolidated Entity.

Environmental regulation

The Consolidated Entity is subject to the environmental laws and regulations imposed under the Mining Act 1978 (Western Australia), the Mineral Resources Act 1989 (Queensland) and the Environmental Code 1998 (Sweden) depending on the activities being undertaken. 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.

Information on directors

DAVID MCSWEENEY *Chairman – Executive*

Experience and expertise

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

Other directorships of ASX listed companies in the past three years

Current

Bauxite Resources Limited – since 20 November 2007

Former

Gindalbie Metals – 1998 to December 2006

Dynasty Metals – 8 January 2007 to 6 September 2007

Directors' report

Information on directors (continued)

GARY STEINEPREIS *Non-executive Director*

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.

Other directorships of ASX listed companies in the past three years

Current

RMG Limited – since 31 January 2006

Signature Brands Ltd – since 1 June 2006

WAG Limited – since 22 December 2005

Black Fire Energy Limited – since 29 November 2006

Southern Pacific Petroleum – since 11 October 2007

Croesus Mining NL (subject to deed of company arrangement) – since 10 July 2007

Former

Deep Yellow Limited – 20 August 2004 to 10 October 2005

Western Metals Limited – 3 October 2005 to 26 June 2006

Monitor Holdings Ltd – 16 April 2004 to 18 January 2007

KarmelSonix Limited – 18 August 2003 to 21 November 2006

GB Energy Limited – 13 March 2006 to 29 August 2007

Toodyay Resources Ltd – 22 December 2005 to 23 October 2007

Gawler Resources Ltd – 17 May 2006 to 27 November 2007

STEPHEN STONE *Non-executive Director*

Experience and expertise

Mr Stone graduated with honours in Mining Geology from the University of Cardiff, Wales, and has over 25 years operating, management and corporate experience in the international mining and exploration industry including 18 years as chief executive of publicly listed exploration companies. He is a member of the Australasian Institute of Mining and Metallurgy and a Fellow of the Australian Institute of Company Directors.

Other directorships of ASX listed companies in the past three years

Current

Azumah Resources Limited – since 8 November 2006

Former

Apex Minerals NL – 31 October 2001 to 3 July 2006

Company secretary

DESMOND KELLY *BComm, CPA, MAICD Company Secretary*

Des 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 groups including Universal Resources, Nylex Limited and CI Resources 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
D McSweeney	4,510,000	3,839,706	8,500,000	1,500,000
G Steinepreis	750,000	800,000	500,000	-
S Stone	720,000	30,000	500,000	-

Meetings of directors

The number of meetings of the Company's board of directors held during the year ended 30 June 2008 and the number of meetings attended by each director were:

	Full meetings of Directors	
	Held	Attended
D McSweeney	7	7
G Steinepreis	7	7
S Stone	7	7

Held – denoted the number of meetings held during the time the director held office.

Retirement, election and continuation in office of directors

Mr G Steinepreis was appointed as a director on 20 December 2006. In accordance with the Constitution Mr Steinepreis will retire as a director at the Annual General Meeting and, being eligible, will offer himself for re-election.

Remuneration report (Audited)

Key management personnel

Key management personnel at the date of this report are:

Directors of the company

D McSweeney – Chairman and Managing Director

G Steinepreis – Non-executive director

S Stone – Non-executive director

Other key management personnel

D Kelly – Company Secretary

G Hewlett – Exploration Manager

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

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

Directors' report

Remuneration report (continued)

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.

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 salaries.

Director and executive remuneration is currently not linked to either long term or short term performance conditions. The board feels that the expiry date and exercise price of the options currently on issue to the directors and executives is sufficient to align the goals of the directors and executives with those of the shareholders to maximize shareholder wealth, and as seen, has not set any performance conditions for the directors or the executives of the Company. The Board will continue to monitor this policy to ensure that it is appropriate for the Company in future years.

There is no policy for limiting executives exposure to options/shares received as a result of share-based payments.

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 same period, average executive remuneration has been maintained in accordance 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 determination of his own remuneration.

Directors' report

Remuneration report (continued)

Directors' fees

The current base remuneration was last reviewed with effect from 16 January 2007. 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 and employees are permitted to nominate a superannuation fund of their choice to receive superannuation contributions.

Executive pay

The executive pay and reward framework has three components:

- base pay and benefits
- long-term incentives through participation in the Employee Share Option Scheme and
- other remuneration such as superannuation.

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

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

Executives are offered a competitive base pay that comprises the fixed component of pay and rewards. 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.

- *Benefits*
Executives may receive benefits including memberships, car allowances and reasonable entertainment.
- *Retirement benefits*
Directors and employees are permitted to nominate a superannuation fund of their choice to receive superannuation contributions.
- *Employee Share Option Scheme*
Information on the Employee Share Option Scheme is set out on page 50.

Directors' report

Remuneration report (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.

2008	Short-term benefits		Post-employment benefits	Share-based payments		Total \$
	Cash salary and fees \$	Non-monetary benefits \$	Superannuation \$	Remuneration received as options %	Options \$	
Name						
<i>Directors of Avalon Minerals Ltd</i>						
D McSweeney	300,000	3,174	29,250	-	-	332,424
G Steinepreis	35,000	3,174	-	-	-	38,174
S Stone	36,459	3,174	-	-	-	39,633
<i>Other key management personnel</i>						
D J Kelly	40,200	3,174	-	42.63%	32,239	75,613
G Hewlett	133,333	-	12,000	32.62%	70,375	215,708
Total	544,992	12,696	41,250		102,614	701,552

2007	Short-term benefits		Post-employment benefits	Share-based payments		Total \$
	Cash salary and fees \$	Non-monetary benefits \$	Superannuation \$	Remuneration received as options %	Options \$	
Name						
<i>Directors of Avalon Minerals Ltd</i>						
D McSweeney*	135,031	265	11,250	23.91%	46,050	192,596
G Steinepreis**	8,750	265	-	17.37%	1,895	10,910
S Stone***	8,750	265	-	17.37%	1,895	10,910
D Steinepreis****	-	-	-	-	-	-
<i>Other key management personnel</i>						
D J Kelly	9,000	265	-	-	-	9,265
Total	161,531	1,060	11,250		49,840	223,681

* Mr D McSweeney was appointed a director on 20 December 2006. Executive Chairman's salary was paid from 1 February 2007.

** Mr G Steinepreis was appointed a director on 20 December 2006. Non-executive directors' fee was paid from 1 April 2007.

*** Mr S Stone was appointed a director on 15 January 2007. Non-executive directors' fee was paid from 1 April 2007.

**** Mr D Steinepreis was appointed a director on 20 December 2006 and resigned on 15 January 2007. No directors fees were paid to Mr Steinepreis.

***** Mr D Kelly was appointed Company Secretary on 2 April 2007.

Other transactions with directors

There were no other transactions with directors.

Directors' report

Remuneration report (continued)

C Service Agreements

Remuneration and other terms of employment for the Executive Chairman, Exploration Manager and the Company Secretary are formalised in service agreements.

The agreement for the Executive Chairman provides for the provision of other benefits including car allowances and participation, when eligible, in the Employee Share Option Scheme.

The agreement for the Exploration Manager provides for the provision of other benefits including car allowances and participation, when eligible, in the Employee Share Option Scheme.

The agreement for the Company Secretary provides for the provision of consulting fees and participation, when eligible, in the Employee Share Option Scheme.

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

D McSweeney, Executive Chairman

Term of agreement – For a period of 3 years with a notice period 3 months and the payment of 9 months salary. Base salary, exclusive of superannuation and other benefits, for the year ended 30 June 2008 of \$300,000, to be reviewed annually. Provision of four weeks annual leave.

D Kelly, Company Secretary

Term of agreement – twelve months, notice period of two months. Annual consulting fees of \$52,800 for the 12 months from 2 April 2008, renegotiable at the end of the contract period.

G Hewlett, Exploration Manager

Term of agreement – not specified, notice period of one month. Salary of \$200,000 to be reviewed annually.

D Share-based compensation

Options were granted pursuant to the Employee Share Option Scheme.

Options were granted for no consideration.

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

Grant date	Expiry date	Exercise price	Number	Value per option at grant date	Date exercisable
10 October 2007	31 January 2010	20 cents	100,000	\$0.1006	At any time during the option period
10 October 2007	31 January 2010	40 cents	150,000	\$0.0419	At any time during the option period
12 October 2007	31 January 2010	20 cents	500,000	\$0.1006	At any time during the option period
12 October 2007	31 January 2010	40 cents	500,000	\$0.0419	At any time during the option period
15 October 2007	31 January 2010	20 cents	200,000	\$0.1005	At any time during the option period
15 October 2007	31 January 2010	40 cents	300,000	\$0.0418	At any time during the option period
9 January 2008	31 January 2010	25 cents	125,000	\$0.0504	At any time during the option period
9 January 2008	31 January 2010	40 cents	125,000	\$0.0366	From 9 January 2009

Directors' report

Remuneration report (continued)

Options carry no dividend or voting rights.

When exercisable, each option is convertible into one ordinary share.

The amounts disclosed for emoluments relating to options issued to directors and other key management personnel are the 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 independently 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.

Further details relating to options are set out below.

Name	A Remuneration consisting of options	B Value at grant date \$	C Value at exercise date \$	D Value at lapse date \$	E Total of columns B-D \$
D Kelly	42.63%	32,239	-	-	32,239
G Hewlett	32.62%	70,375	-	-	70,375
Total		102,614	-	-	102,614

A = The percentage of the value of remuneration consisting of options is based on the value at grant date as set out in column B.

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

C = The value at exercise date represents intrinsic value and determined at the date of exercise.

D = The value at lapse date of options represents intrinsic value and determined at the date of lapse.

	Number of Options Granted During the period 2008	Number of Options Vested During the period 2008
<i>Directors of Avalon Minerals Ltd</i>		
D McSweeney	-	-
G Steinepreis	-	-
S Stone	-	-
<i>Other key management personnel</i>		
D J Kelly	500,000	500,000
G Hewlett	1,000,000	1,000,000

Directors' report

Remuneration report (continued)

	Number of Options Granted During the period	Number of Options Vested During the period
	2007	2007
<i>Directors of Avalon Minerals Ltd</i>		
D McSweeney	10,000,000	10,000,000
G Steinepreis	500,000	500,000
S Stone	500,000	500,000
<i>Other key management personnel</i>		
D J Kelly	-	-

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

E Additional information

Given Avalon Minerals Ltd is involved in mineral exploration and performance is measured by exploration success, the remuneration of the persons referred to above is not dependent on the satisfaction of a performance condition or company performance.

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:

	Date of grant	Options granted
<i>Other key management personnel of Avalon Minerals Ltd</i>		
D Kelly, <i>Company Secretary</i>	10 October 2007	500,000
G Hewlett, <i>Exploration Manager</i>	10 October 2007	1,000,000

- End of Remuneration Report -

Share options

Un-issued Shares

As at the date of this report, as detailed below, there were 13,000,000 un-issued 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:

Date options granted	Expiry date	Issue price of shares	Number under option
7 February 2007	31 January 2010	20 Cents	5,400,000
7 February 2007	31 January 2010	40 cents	5,600,000
10 October 2007	31 January 2010	20 Cents	800,000
10 October 2007	31 January 2010	40 cents	950,000
9 January 2008	31 January 2010	25 cents	125,000
9 January 2008	31 January 2010	40 cents	125,000

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

Directors' report

Share options (continued)

Option holders do not have any right, by virtue of the options, to participate in any share issue of the Company or any related body corporate.

Shares Issued as a result of the Exercise of Options

There were no shares issued as a result of the exercise of options in the financial period

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 17.

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



D McSweeney
Executive Chairman
Perth, Western Australia

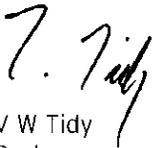
30 September 2008

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

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



Ernst & Young



V W Tidy
Partner
Perth

30 September 2008

CORPORATE GOVERNANCE DISCLOSURES

From listing on the Australian Stock Exchange on 23 March 2007 the Company has complied with the ASX Principles and Recommendations other than in relation to the matters specified below.

Principle Ref.	Recommendation Ref.	Notification of Departure	Explanation for Departure
2	2.2; 2.3	The Chairman is the Managing Director of the Company	<p>The board considers that the executive role carried out by the Chairman (David McSweeney) is in the best interests of the Company for the following reasons:</p> <ul style="list-style-type: none"> (a) as the founder of the Company, Mr McSweeney's leadership, both from a long-term strategic and short-term day-to-day operational perspective is critical to the successful development of the Company; (b) given that the Group is in an exploration and evaluation phase, the board considers that the need for a separate Managing Director is not yet critical; and (c) as a result of (a), the carrying out of both roles by Mr McSweeney is in line with expectations of current investors and key to the attraction of future investors. <p>The board intends to reconsider the duality of Mr McSweeney's role and the merits of appointing a new Managing Director as the Company moves closer to production.</p>
2	2.4	There was no Nomination Committee	In the board's view there are no efficiencies to be gained by establishing a separate Nomination Committee. The full board carries out the functions of the Nomination Committee.
4	4.3	There was no audit committee	The full board carries out the functions of the audit committee. Of the three directors, two are considered independent. The Board considers that it is not necessary to form an audit committee at this stage given the size of the Company.
9	9.2	There was no separate Remuneration Committee	The full board carried out the functions of the Remuneration Committee. All matters of remuneration were determined by the board in accordance with the Corporations Act 2001 requirements, especially in respect of related party transactions. That is, no director participated in any deliberation regarding his own remuneration or related issues.

Avalon Minerals Ltd

Financial report – 30 June 2008

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Avalon Minerals Ltd is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Avalon Minerals Ltd
Unit 2, 2 Richardson 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, which is not part of this financial report.

The financial report was authorised for issue by the directors on 30 September 2008. The Consolidated Entity has the power to amend and reissue the financial 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 press releases, financial reports and other information are available on our website: www.avalonminerals.com.au

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

AVALON MINERALS LTD

Income Statement

For the year ended 30 June 2008

	Note	Consolidated		Parent entity	
		2008	2007	2008	2007
		\$	\$	\$	\$
Revenue from continuing operations	5	190,249	33,535	190,249	33,535
Employee benefits expense	6	(487,190)	(213,622)	(483,669)	(213,622)
Office occupancy costs		(119,221)	(16,403)	(118,911)	(16,403)
Corporate and administration expenses		(345,392)	(72,595)	(334,303)	(72,595)
Depreciation	6	(37,158)	(7,076)	(37,070)	(7,076)
Exploration expenditure	13	(929,987)	(14,147)	(703,014)	(14,147)
Provision for impairment	11	-	-	(1,250,000)	-
Provision for non-recovery of intercompany loan	11	-	-	(531,677)	-
Share issue costs on incorporation		-	(69,095)	-	(69,095)
Foreign exchange loss	6	(806)	-	-	-
Other expenses from ordinary activities		(4,453)	(7,804)	(4,450)	(7,804)
Loss before income tax		(1,733,958)	(367,207)	(3,272,845)	(367,207)
Income tax expense	7	-	-	-	-
Loss attributable to members of Avalon Minerals Ltd		(1,733,958)	(367,207)	(3,272,845)	(367,207)

Earnings per share for loss attributable to the ordinary equity holders of the Company

		Cents	Cents
Basic earnings per share	28	(3.85)	(1.32)
Diluted earnings per share	28	(3.85)	(1.32)

The above Income Statements should be read in conjunction with the accompanying notes.

AVALON MINERALS LTD

Balance Sheet
As at 30 June 2008

	Note	Consolidated		Parent entity	
		2008	2007	2008	2007
		\$	\$	\$	\$
Current assets					
Cash and cash equivalents	8	1,458,455	3,144,308	1,365,710	3,144,298
Trade and other receivables	9	86,715	56,255	65,155	56,255
Non-current assets held for sale	10	111,162	-	-	-
Total current assets		1,656,332	3,200,563	1,430,865	3,200,553
Non-current assets					
Other non-current assets	11	25,354	-	2,524,441	1,250,000
Plant and equipment	12	173,060	72,101	167,868	72,101
Exploration and evaluation	13	3,888,096	1,926,667	40,498	676,677
Total non-current assets		4,086,510	1,998,768	2,732,807	1,998,778
Total assets		5,742,842	5,199,331	4,163,672	5,199,331
Current liabilities					
Trade and other payables	14	541,432	242,935	501,149	242,935
Total current liabilities		541,432	242,935	501,149	242,935
Total liabilities		541,432	242,935	501,149	242,935
Net assets		5,201,410	4,956,396	3,662,523	4,956,396
Equity					
Contributed equity	15	7,125,612	5,273,763	7,125,612	5,273,763
Reserves	16	176,963	49,840	176,963	49,840
Accumulated losses	17	(2,101,165)	(367,207)	(3,640,052)	(367,207)
Total equity		5,201,410	4,956,396	3,662,523	4,956,396

The above Balance Sheet should be read in conjunction with the accompanying notes.

AVALON MINERALS LTD

Statement of Changes in Equity
For the year ended 30 June 2008

	Note	Consolidated		Parent entity	
		2008	2007	2008	2007
		\$	\$	\$	\$
Total equity at the beginning of the financial year		4,956,396	-	4,956,396	-
Loss for the year		(1,733,958)	(367,207)	(3,272,845)	(367,207)
Total recognised income and expense for the year		(1,733,958)	(367,207)	(3,272,845)	(367,207)
Equity transactions					
Share based-payments		127,123	49,840	127,123	49,840
Contributions of equity		1,903,000	5,273,763	1,903,000	5,273,763
Share issue costs		(51,151)	-	(51,151)	-
Total equity at the end of the financial year		5,201,410	4,956,396	3,662,523	4,956,396

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

Cash Flow Statement

For the year ended 30 June 2008

	Note	Consolidated		Parent entity	
		2008	2007	2008	2007
		\$	\$	\$	\$
Cash flows from operating activities					
Payments to suppliers and employees (inclusive of goods and services tax)		(634,824)	(296,929)	(553,135)	(296,929)
Security deposits		(11,520)	-	(11,520)	-
Sundry income		50,000	-	50,000	-
Interest received		140,249	33,535	140,249	33,535
Net cash outflow from operating activities	27	(456,095)	(263,394)	(374,406)	(263,394)
Cash flows from investing activities					
Payments for plant and equipment		(138,118)	(79,177)	(132,838)	(79,177)
Payments for investments in controlled entities		(100,000)	-	(134,902)	-
Loans to other entities		(25,354)	-	(25,354)	-
Loans to controlled entities		-	-	(2,015,862)	-
Payments to acquire exploration properties		(451,128)	(250,000)	-	(250,000)
Exploration and evaluation expenditure		(1,487,007)	(136,884)	(67,075)	(136,894)
Net cash outflow from investing activities		(2,201,607)	(466,061)	(2,376,031)	(466,071)
Cash flows from financing activities					
Proceeds from issues of securities	15(b)	1,023,000	4,045,000	1,023,000	4,045,000
Costs of share issues	15(b)	(51,151)	(171,237)	(51,151)	(171,237)
Net cash (outflow)/inflow from financing activities		971,849	3,873,763	971,849	3,873,763
Net increase/(decrease) in cash and cash equivalents held		(1,685,853)	3,144,308	(1,778,588)	3,144,298
Cash and cash equivalents at the beginning of the financial year		3,144,308	-	3,144,298	-
Cash and cash equivalents at the end of the financial year	8	1,458,455	3,144,308	1,365,710	3,144,298

The above Cash Flow Statements should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

For the year ended 30 June 2008

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 2008, unless otherwise stated.

(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.

Going concern

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

The company and the consolidated entity incurred operating losses after income tax of (\$3,272,845) (2007: (\$367,207)) and (\$1,733,959) (2007: (\$367,207)) respectively for the year ended 30 June 2008 and incurred net cash outflows of \$1,778,588 and \$1,685,853 respectively. At balance date the company and consolidated entity had cash of \$1,365,710 and \$1,458,455 respectively and trade creditors of \$501,149 and \$541,432 respectively.

The directors announced a (1) for (4) Pro Rata Non- Renounceable Entitlement Issue ("issue") on 25 September 2008 at an issue price of 15 cents per share, to raise up to \$1,953,750. The directors are confident this will be successful. However should it be unsuccessful the directors will need to seek alternative sources of funding or amend the current business plan.

Should the company and consolidated entity not achieve the matters set out above there is significant uncertainty whether the company and consolidated entity will continue as going concerns and therefore whether they will realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial report.

No adjustments have been made relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the company and the consolidated entity and company not continue as a going concern.

The presentation currency is Australian dollars.

(b) Statement of compliance

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards (IFRS).

Standards adopted during the year

The Group has adopted AASB 7 *Financial Instrument Disclosures* and AASB 2008 – 4 *Amendments to Australian Accounting Standard – key management personnel disclosures by disclosing entities*. Adoption of these standards affected only disclosures and did not have any effect on the financial position or performance.

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Company for the reporting period ending 30 June 2008. These are outlined as follows:

Notes to the Financial Statements

For the year ended 30 June 2008

Note 1. Summary of Significant Accounting Policies (continued)

Reference	Title	Summary	Application date of standard*	Impact on Company financial report	Application date for Company*
AASB 8	<i>Operating Segments</i>	This new standard will replace AASB 114 <i>Segment Reporting</i> and adopts a management approach to segment reporting.	1 January 2009	Refer to AASB 2007-3 below.	1 July 2009
AASB 123 (revised June 2007)	Borrowing costs	AASB 123 previously permitted entities to choose between expensing all borrowing costs and capitalising those that were attributable to the acquisition, construction or production of a qualifying asset. The revised version of AASB 23 requires borrowing costs to be capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset.	1 January 2009	Refer to AASB 2007-6 below.	1 July 2009
AASB 2007-3	Amendments to Australian Accounting Standards arising from AASB 8 [AASB 5, AASB, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136, AASB 1023 & AASB 1038]	Amending standard issued as a consequence of AASB 8 <i>Operating Segments</i> .	1 January 2009	AASB 8 is a disclosure standard so will have no direct impact on the amounts included in the Company's financial statements. However the new standard may have an impact on the segment disclosures included in the Company's financial report.	1 July 2009
AASB 2007-6	Amendments to Australian Accounting Standards arising from AASB 123 [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 and 12]	Amending standard issued as a consequence of AASB 123 (revised) <i>Borrowing Costs</i> .	1 January 2009	As the Company does not currently construct or produce any qualifying assets which are financed by borrowings the revised standard will have no impact.	1 July 2009
AASB 101 (revised) and AASB 2007-3	Presentation of Financial Statements and consequential amendments to other Australian Accounting Standards	Introduces a statement of comprehensive income. Other revisions include impacts on the presentation of items in the statement of changes in equity, new presentation requirements for restatements of reclassifications of items in the financial statements, changes in the presentation requirements for dividends and changes to the titles of the financial statements.	1 January 2009	These amendments are only expected to impact the presentation of the Group's financial report and will not have a direct impact on the measurement and recognition of the amounts disclosed in the financial report. The Group has not determines at this stage whether to present a single statement of comprehensive income or two separate statements.	1 July 2009

Notes to the Financial Statements

For the year ended 30 June 2008

Note 1. Summary of Significant Accounting Policies (continued)

Reference	Title	Summary	Application date of standard*	Impact on Company financial report	Application date for Company*
AASB 2008-1	Amendments to Australian Accounting Standard – Share Based Payments: Vesting Conditions and Cancellations	The amendments clarify the definition of ‘vesting conditions’ introducing the term ‘non-vesting conditions’ for conditions other than vesting conditions as specifically defined and prescribe the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied.	1 January 2009	The Group has share-based payment arrangements that may be affected by these amendments. However the group has not yet determined the extent of the impact, if any.	1 July 2009
AASB 3 (revised)	Business Combinations	The revised standard introduces a number of significant changes to the accounting for business combinations.	1 July 2009	The Group has business combinations that may be affected by these amendments. However the group has not yet determined the extent of the impact, if any.	1 July 2009
AASB 127 (revised)	Consolidated and Separate Financial Statements	Under the revised standard, a change in the ownership interest of a subsidiary (that does not result in a loss of control) will be accounted for as an equity transaction.	1 July 2009	If the Group changes its ownership interest in existing subsidiaries in the future, the change will be accounted for as an equity transaction. This will have no impact on goodwill, nor will it give a rise to a gain or loss in the Group’s income statement.	1 July 2009
AASB 2008-3	Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127	Amending standard issued as a consequence of revisions to AASB 3 and AASB 127.	1 July 2009	No change to the accounting policy, therefore no impact.	1 July 2009

Notes to the Financial Statements

For the year ended 30 June 2008

Note 1. Summary of Significant Accounting Policies (continued)

Reference	Title	Summary	Application date of standard*	Impact on Company financial report	Application date for Company*
Amendments to International Financial Reporting Standards	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	<p>The main amendments of relevance to Australian entities are those made in IAS 27 deleting the cost method' and requiring all dividends from a subsidiary, jointly controlled entity or associate to be recognized in profit or loss in an entity's separate financial statements (i.e., the parent company accounts). The distinction between pre and post acquisition profits is no longer required. However the payment of such dividends requires the entity to consider whether there is an indicator of impairment.</p> <p>AASB 127 has also been amended to effectively allow the cost of an investment in a subsidiary, in limited reorganizations, to be based on the previous carrying amount of the subsidiary (that is, share equity) rather than its fair value.</p>	1 January 2009	No change to the accounting policy, therefore no impact.	1 July 2009
Amendments to International Financial Reporting Standards	Improvements to International Financial Reporting Standards	<p>The improvements project is an annual project that provides a mechanism for making non-urgent, but necessary amendments to IFRSs. The IASB has separated the amendments into two parts: Part I deals with changes to IASB identified resulting in accounting changes; Part II deals with either terminology or editorial amendments that the IASB believes will have minimal impact.</p>	1 January 2009 except for amendments to IFRS 5, which are effective from 1 July 2009	The Group has not yet determined the extent of the impact of the amendments, if any	1 July 2009

(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 2008 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.

Notes to the Financial Statements

For the year ended 30 June 2008

Note 1. Summary of Significant Accounting Policies (continued)

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

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group.

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) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

The group operates in one business segment, being mineral exploration, and currently operates in Australia and Sweden.

(e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid. Revenue is recognised when the Group's right to payment is established.

Interest income

Revenue is 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.

Notes to the Financial Statements

For the year ended 30 June 2008

Note 1. Summary of Significant Accounting Policies (continued)

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 income statement on a straight-line basis over the period of the lease (refer to note 21).

(h) Acquisition of assets

The purchase method of accounting is used to account for all acquisitions of assets (including business combinations) regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is their published market price as at the date of exchange. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Consolidated Entity's identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

(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.

Notes to the Financial Statements

For the year ended 30 June 2008

Note 1. Summary of Significant Accounting Policies (continued)

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. 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 balance sheet.

(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 income statement.

(l) Investments and other financial assets

Financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* 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.

Notes to the Financial Statements

For the year ended 30 June 2008

Note 1. Summary of Significant Accounting Policies (continued)

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 balance sheet date which are classified as non-current assets. Loans and receivables are included in receivables in the balance sheet.

(m) Investment in controlled entities

Investments in controlled entities are held at the lower of cost and recoverable amount.

(n) 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 income statement 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 balance sheet 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 income statement.

(o) 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 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.

Notes to the Financial Statements

For the year ended 30 June 2008

Note 1. Summary of Significant Accounting Policies (continued)

(p) 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.

(q) Employee benefits

(i) Wages, salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected 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. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(iv) Share-based payments

Share-based compensation benefits are provided to employees via the Employee Share Option Scheme.

The fair value of options granted under the Employee Share Option Scheme 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.

(r) 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.

Notes to the Financial Statements

For the year ended 30 June 2008

Note 1. Summary of Significant Accounting Policies (continued)

(s) 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 half-year, adjusted for bonus elements in ordinary shares issued during the half-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.

(t) 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.

Notes to the Financial Statements

For the year ended 30 June 2008

Note 1. Summary of Significant Accounting Policies (continued)

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

(u) 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 balance sheet.

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 flow.

(v) 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.

(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.

Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the income statement, except when deferred in equity as a qualifying cash flow or net investment hedge.

Notes to the Financial Statements

For the year ended 30 June 2008

Note 1. Summary of Significant Accounting Policies (continued)

(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 exchanged 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 balance sheet. These differences are recognised in the income statement 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; market risk (including interest rate risk), credit risk and liquidity 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) Market risk

Price risk - The Company is not exposed to equity securities price risk as it holds no investments in securities classified on the balance sheet either as available-for-sale or at fair value through profit or loss. The Company is not exposed to commodity price risk.

(ii) 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 balance sheet.

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. The Company has no significant concentrations of credit risk.

Notes to the Financial Statements

For the year ended 30 June 2008

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

The Group's primary banker is National Australia Bank Limited, at balance date all operating accounts are with this bank, other than 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 combining 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.

(iii) 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 and parent entity's financial liabilities are:

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Three months or less	33,744	52,822	18,280	52,822
Greater than three months	582,353	719,746	134,360	719,746
	616,097	772,568	152,640	772,568

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

(iv) Fair values

All assets and liabilities recognised on the balance sheet, 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.

(v) Interest rate risk

The Group's exposure to interest rates related primarily to the Group's cash and cash equivalents.

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

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Financial assets				
Cash and cash equivalents	1,458,455	3,144,308	1,365,710	3,144,298

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

Notes to the Financial Statements

For the year ended 30 June 2008

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

At 30 June 2008, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit would have been affected as follows:

The average interest rate for the year ended 30 June 2008 was 6.09% (2007: 2.13%)

	Consolidated Higher/(Lower)		Parent entity Higher/(Lower)	
	2008	2007	2008	2007
	\$	\$	\$	\$
Judgments of reasonably possible movements:				
<i>Post tax profit</i>				
+1.0% (100 basis points)	22,219	15,673	19,631	15,673
-1.0% (100 basis points)	(22,219)	(15,673)	(19,631)	(15,673)

The movements in profit are due to higher/lower interest income from cash balances. The movement in 2008 are more sensitive than in 2007 due to the cash balances being for a whole year rather than a part year as in 2007.

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

(vi) Foreign exchange risk

The Group and parent are exposed to fluctuations in the Australian dollar against the Swedish Kroner. The risk is managed by reference to potential adverse effects in the market. For the Group and parent, directors believe the potential exchange rate effects would not have a material effect to the income statement or equity.

Note 3. Accounting estimates and judgments

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:

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(t). 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.

Notes to the Financial Statements

For the year ended 30 June 2008

Note 3. Accounting estimates and judgments (continued)

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 Binomial pricing model.

Commitments – operating leases

Leases in which the Company does not retain substantially all the risks and benefits of ownership of the leased asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the rental income.

The Group measures the commitments for expenditure in relation to operating leases by reference to the current market rate.

Note 4. Segment reporting

	Australia \$	Sweden \$	Eliminations \$	Consolidated \$
<i>Primary reporting – geographical segments</i>				
Year ended 30 June 2008				
Revenue				
Sundry	50,000	-	-	50,000
Total segment revenue	50,000	-	-	50,000
Interest income				140,249
Total consolidated income				190,249
Result				
Segment result	(3,504,230)	(25,484)	1,795,756	(1,733,958)
Profit before income tax	(3,504,230)	(25,484)	1,795,756	(1,733,958)
Income tax expense	-	-	-	-
Profit after income tax	(3,504,230)	(25,484)	1,795,756	(1,733,958)
Assets				
Segment assets	4,576,208	1,509,991	(343,357)	5,742,842
Total assets	4,576,208	1,509,991	(343,357)	5,742,842
Liabilities				
Segment liabilities	1,400,517	1,486,487	(2,345,572)	541,432
Total liabilities	1,400,517	1,486,487	(2,345,572)	541,432
Capital expenditure				
Plant & equipment	132,837	5,280	-	138,117
Total capital expenditure	132,837	5,280	-	138,117

Notes to the Financial Statements

For the year ended 30 June 2008

Note 4. Segment reporting (continued)

	Australia \$	Sweden \$	Eliminations \$	Consolidated \$
Depreciation				
Plant & equipment	37,070	88	-	37,158
Total depreciation	37,070	88	-	37,158
Exploration expenditure				
Acquisitions of exploration properties	-	451,128	905,741	1,356,869
Exploration and evaluation expenditure	706,233	939,476	-	1,645,709
Exploration expenditure written off	(929,987)	-	-	(929,987)
Total exploration expenditure	(223,754)	1,390,604	905,741	2,072,591
Share-based payments				
Options issued	127,123	-	-	127,123
Total depreciation	127,123	-	-	127,123

Year ended 30 June 2007

During the 2007 financial year the Consolidated Entity operated only in Australia.

Secondary reporting – business segments

The Consolidated Entity operates predominantly in mining and exploration sector.

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$	\$	\$	\$

Note 5. Revenue

Other revenue

Interest	140,249	33,535	140,249	33,535
Sundry	50,000	-	50,000	-
	190,249	33,535	190,249	33,535

Note 6. Expenses

Loss before income tax includes the following:

Employee benefits expense				
Salaries	189,154	125,000	189,154	125,000
Directors' fees	66,230	17,500	62,709	17,500
Superannuation	44,774	11,250	44,774	11,250
Share based payments	127,123	49,840	127,123	49,840
Other	59,909	10,032	59,909	10,032
	487,190	213,622	483,669	213,622
Rental expense relating to operating leases	61,892	6,415	61,892	6,415
Depreciation	37,158	7,076	37,070	7,076

Notes to the Financial Statements

For the year ended 30 June 2008

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Note 6. Expenses (continued)				
Foreign exchange loss	806	-	-	-
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 expenses reported in the income statement	-	-	-	-
(b) Reconciliation between income tax expense and the product of accounting loss before income tax multiplied by the group's applicable income tax rate as follows:				
Accounting loss before income tax	(1,733,958)	(367,207)	(3,272,845)	(367,207)
At the group's statutory income tax rate of 30%	(520,188)	(110,162)	(981,853)	(110,162)
Expenditure not allowable for income tax purposes	38,137	14,952	38,137	14,952
Deductible share issue costs	-	(14,420)	-	(14,420)
Provision for impairment	-	-	375,000	-
Provision for inter-company non-recovery	-	-	159,503	-
Under/over provision of prior year	14,419	-	91,081	-
Deferred tax asset not brought to account as realisation is not considered probable	467,632	109,630	318,132	109,630
Income tax expense	-	-	-	-

Notes to the Financial Statements
For the year ended 30 June 2008

Note 7. Income tax (continued)

	Balance sheet 2008 \$	Balance sheet 2007 \$	Income Statement 2008 \$	Income statement 2007 \$
(c) Deferred assets and liabilities at 30 June relates to the following:				
Consolidated				
<i>Deferred tax liabilities</i>				
Exploration expenditure	(33,379)	(578,000)	544,621	(578,000)
Total deferred tax liabilities	(33,379)	(578,000)	544,621	(578,000)
<i>Deferred tax assets</i>				
Employee provisions	10,984	3,009	7,975	3,009
Share issue costs charged to equity	-	57,679	(57,679)	-
Income tax losses	657,336	684,621	(27,285)	684,621
Total deferred tax assets	668,320	745,309	(76,989)	687,630
Deferred tax assets not brought to account as realisation is not considered probable	(634,941)	(167,309)	(467,632)	(109,630)
Net deferred tax recognised	-	-	-	-
	Balance sheet 2008 \$	Balance sheet 2007 \$	Income Statement 2008 \$	Income statement 2007 \$

Company

Deferred tax liabilities

Exploration expenditure	-	(203,000)	203,000	(203,000)
Total deferred tax liabilities	-	(203,000)	203,000	(203,000)

Notes to the Financial Statements
For the year ended 30 June 2008

Note 7. Income tax (continued)

	Balance sheet 2008 \$	Balance sheet 2007 \$	Income Statement 2008 \$	Income statement 2007 \$
<i>Deferred tax assets</i>				
Employee provisions	10,984	3,009	7,975	3,009
Share issue costs charged to equity	-	57,679	(57,679)	-
Income tax losses	474,458	309,621	164,837	309,621
Total deferred tax assets	485,442	370,309	115,133	312,630
Deferred tax assets not brought to account as realisation is not considered probable	(485,442)	(167,309)	318,133	(109,630)
Net deferred tax recognised	-	-	-	-

The Company and 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 in which to be offset.

	Consolidated		Parent entity	
	2008 \$	2007 \$	2008 \$	2007 \$

Note 8. Current assets – Cash and cash equivalents

Cash on hand and at bank	1,458,455	3,144,308	1,365,710	3,144,298
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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 2.90% and 7.1% The carrying amounts of cash and cash equivalents represents fair value.

Note 9. Current assets – Trade and other receivables

Other receivables	52,958	32,181	43,906	32,181
Deposits	11,780	10,235	11,780	10,235
Prepayments	21,977	13,839	9,469	13,839
	86,715	56,255	65,155	56,255

Note 10. Current assets – Non-current assets held for sale

Exploration properties	111,162	-	-	-
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Notes to the Financial Statements
For the year ended 30 June 2008

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$	\$	\$	\$

Note 11. Non-current assets – Other non-current assets

(a) Other financial assets

Loans to controlled entities	-	-	2,015,862	-
Less: Provision for non-recovery of intercompany loan	-	-	(531,677)	-
Loans to other entities	25,354	-	25,354	-
	25,354	-	1,509,539	-

(b) Investments in controlled entities

Investments in controlled entities (see note 26)	-	-	2,264,902	1,250,000
Less: Provision for impairment	-	-	(1,250,000)	-
	-	-	1,014,902	1,250,000
Total other non-current assets	25,354	-	2,524,441	1,250,000

Loans to controlled entities are unsecured, interest free and repayable on demand.

Loans to other entities refers to a loan made to Haliburn Resources Limited, a company of which Mr McSweeney is a director. The loan is interest free and is to be repaid on listing of the company on the Australian Securities Exchange.

Refer to Note 13 for impairment discussion.

Note 12. Non-current assets – Plant and equipment

Plant and equipment

Plant & equipment at cost	217,295	79,177	212,015	79,177
Less accumulated depreciation	(44,235)	(7,076)	(44,147)	(7,076)
	173,060	72,101	167,868	72,101

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	72,101	-	72,101	-
Additions	138,117	79,177	132,837	79,177
Depreciation expense	(37,158)	(7,076)	(37,070)	(7,076)
Balance at 30 June	173,060	72,101	167,868	72,101

Notes to the Financial Statements
For the year ended 30 June 2008

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Note 13. Non-current assets – Exploration and evaluation				
Exploration and evaluation				
Exploration and evaluation – at cost less amounts written off	3,888,096	1,926,667	40,498	676,677
Reconciliation				
Balance at 1 July	1,926,667	-	676,677	-
Purchases of mineral tenements	1,356,869	1,650,000	-	400,000
Expenditure during the year	1,645,709	276,667	66,835	276,677
Expenditure written off	(929,987)	-	(703,014)	-
Expenditure transferred to Non-current assets held for sale	(111,162)	-	-	-
Balance at 30 June	3,888,096	1,926,667	40,498	676,677

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.

During the year the carrying balances of exploration properties were impaired and the expenditure expensed due to the disposal or relinquishment of exploration tenements. Where the balances were carried in subsidiary companies, a provision for impairment was brought to account against the initial investments and intercompany loans as it was considered unlikely that either the investment cost or the loans would be recovered. (See Note 11)

Note 14. Current liabilities – Trade and other payables

Trade payables	403,076	140,439	362,793	140,439
Other payables	101,743	92,465	101,743	92,465
Employee leave liabilities	36,613	10,031	36,613	10,031
Balance at 30 June	541,432	242,935	501,149	242,935

Trade creditors and other payables are non-interest bearing and generally payable on 30 day terms.

Note 15. Contributed equity

	Number of shares	\$
(a) Share capital		
Ordinary shares – fully paid	50,600,000	7,125,612

Notes to the Financial Statements

For the year ended 30 June 2008

Note 15. Contributed equity (continued)

(b) Movements in ordinary share capital

Date	Details	Number of shares	Issue price \$	\$
20 December 2006	Placement of shares	9,500,000	0.01	95,000
8 February 2007	Shares issued pursuant to tenement purchase agreements	2,000,000	0.20	400,000
8 February 2007	Placement of shares	6,000,000	0.075	450,000
16 March 2007	Shares issued pursuant to an agreement to purchase 100% of the issued capital of Xmin Ltd	5,000,000	0.20	1,000,000
16 March 2007	Issue of shares pursuant to a prospectus Less: Transaction costs arising on placement of shares	17,500,000	0.20	3,500,000 (171,237)
	Balance at 30 June 2007	40,000,000		5,273,763
2 August 2007	Shares issued pursuant to an agreement to purchase 100% of the issued capital of Resource Properties Pty Ltd	4,000,000	0.22	880,000
14 April 2008	Shares issued to a sophisticated investor Less: Transaction costs arising on placement of shares	6,600,000	0.155	1,023,000 (51,151)
	Balance at 30 June 2008	50,600,000		7,125,612

(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 authorized capital and par value shares. Accordingly the Company does not have authorized capital nor par value in respect of its issued capital.

(d) Employee share option scheme

Information relating to the Employee Share Option Scheme, 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 22.

(e) Options

At the end of the financial period options over ordinary shares on issue are as shown below:

- 5,400,000 options exercisable at 20 cents and expiring 31 January 2010;
- 5,600,000 options exercisable at 40 cents and expiring 31 January 2010;
- 800,000 options exercisable at 20 cents and expiring 31 January 2010;
- 125,000 options exercisable at 25 cents and expiring 31 January 2010; and
- 1,075,000 options exercisable at 40 cents and expiring 31 January 2010;

Notes to the Financial Statements

For the year ended 30 June 2008

Note 15. Contributed equity (continued)

(f) Movements in options

Date	Details	Notes	Number of options
7 February 2007	Allotment of options		11,000,000
	Balance at 30 June 2007		11,000,000
10 October 2007	Allotment of options		250,000
12 October 2007	Allotment of options		1,000,000
15 October 2007	Allotment of options		500,000
9 January 2008	Allotment of options		250,000
	Balance at 30 June 2008		13,000,000

(g) Capital management

When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders.

The Group funds its activities through capital raising, and does not have any debt facilities.

The Group is not subject to any externally imposed capital requirements.

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$	\$	\$	\$

Note 16. Reserves

Share-based payments reserve	176,963	49,840	176,963	49,840
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Movements in reserves

Share-based payments reserve

Balance at 1 July	49,840	-	49,840	-
Option expense	127,123	49,840	127,123	49,840
Balance at 30 June	176,963	49,840	176,963	49,840

Nature and purpose of reserves

Share-based payments reserve

The share-based payments reserve is used to recognise the fair value of options issued and not exercised.

Note 17. Accumulated losses

Balance at July 1	(367,207)	-	(367,207)	-
Net loss attributable to members of Avalon Minerals	(1,733,958)	(367,207)	(3,272,845)	(367,207)
Balance at 30 June	(2,101,165)	(367,207)	(3,640,052)	(367,207)

Notes to the Financial Statements

For the year ended 30 June 2008

Note 18. Key management personnel disclosures

(a) Directors

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

Chairman - executive

D McSweeney

Non-executive directors

G Steinepreis

S Stone

(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:

Name	Position
D J Kelly	Company Secretary/Chief Financial Officer
G Hewlett	Exploration Manager

(c) Key management personnel compensation

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Short term employee benefits	544,992	162,591	544,992	162,591
Post employment benefits	41,250	11,250	41,250	11,250
Share based payments	102,614	49,840	102,614	49,840
Other	12,696	-	12,696	-
	701,552	223,681	701,552	223,681

(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 11 to 15

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.

2008	Balance at the beginning of the year	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						
Directors of Avalon Minerals Ltd						
D McSweeney	10,000,000	-	-	-	10,000,000	10,000,000
G Steinepreis	500,000	-	-	-	500,000	500,000
S Stone	500,000	-	-	-	500,000	500,000
Other key management personnel						
D J Kelly	-	500,000	-	-	500,000	500,000
G Hewlett	-	1,000,000	-	-	1,000,000	1,000,000

Notes to the Financial Statements

For the year ended 30 June 2008

Note 18. Key management personnel disclosures (continued)

2007	Balance at the beginning of the year	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						
<i>Directors of Avalon Minerals Ltd</i>						
D McSweeney	-	10,000,000	-	-	10,000,000	10,000,000
G Steinepreis	-	500,000	-	-	500,000	500,000
S Stone	-	500,000	-	-	500,000	500,000
<i>Other key management personnel</i>						
D J Kelly	-	-	-	-	-	-

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 parties, are set out below. There were no shares granted during the reporting period as compensation.

2008	Balance at the beginning of the year	Received during the period on the exercise of options	Other changes during the period*	Balance at the end of the period
Name				
<i>Directors of Avalon Minerals Ltd</i>				
D McSweeney	6,237,210	-	612,496	6,849,706
G Steinepreis	750,000	-	-	750,000
S Stone	750,000	-	-	720,000
<i>Other key management personnel</i>				
D Kelly	-	-	-	-
G Hewlett	-	-	-	-

* Other changes represent on-market share purchases.

2007	Balance at the beginning of the year	Received during the period on the exercise of options	Other changes during the period	Balance at the end of the period
Name				
<i>Directors of Avalon Minerals Ltd</i>				
D McSweeney	-	-	6,237,210	6,237,210
G Steinepreis	-	-	750,000	750,000
S Stone	-	-	720,000	720,000
<i>Other key management personnel</i>				
D Kelly	-	-	-	-

(e) Loans to key management personnel

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

(f) Other transactions with key management personnel

There were no other transactions with directors or key management personnel.

Notes to the Financial Statements

For the year ended 30 June 2008

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$	\$	\$	\$

Note 19. Remuneration of auditors

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
Independent Accountant's Report

	29,960	25,000	29,960	25,000
	-	15,450	-	15,450
	29,960	40,450	29,960	40,450

Note 20. Contingent liabilities

As at 30 June 2008 the Company has no contingent liabilities. (2007: nil)

Note 21. Commitments for expenditure

(i) Capital commitments

Commitments for minimum expenditure on mining tenements contracted for at the reporting date but not recognised as liabilities, payable:

Within one year	61,857	164,651	-	164,651
Later than one year but not later than 5 years	400,000	455,277	-	455,277
Later than 5 years	-	-	-	-
	461,857	619,928	-	619,928

Exploration expenditure commitments are required to keep licences 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 tenements leases, the Consolidated Entity will be required to outlay amounts to meet minimum expenditure requirements to the Department of Mineral and Petroleum Resources. 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 leases contracted for at the reporting date but not recognised as liabilities, payable, representing non-cancellable operating leases:

Within one year	73,120	46,640	73,120	46,640
Later than one year but not later than 5 years	81,120	106,000	81,120	106,000
Later than 5 years	-	-	-	-
	154,240	152,640	154,240	152,640

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

Notes to the Financial Statements

For the year ended 30 June 2008

Note 22. Share-based payments

a) Employee Share Option Scheme

All staff (including executive directors) are eligible to participate in the scheme.

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 scheme 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.

The exercise price of options is determined by the directors which is not less than 80% of market price 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.

Set out below are summaries of options granted under the Scheme during the year..

Grant date	Expiry date	Exercise price	Issued during the period	Exercised during the period	Lapsed during the period	Balance at end of the period
		\$	Number	Number	Number	Number
2008						
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
			<u>2,000,000</u>	-	-	<u>2,000,000</u>

There were no options issued under the scheme during the 2007 financial year, however directors were issued options as part of remuneration pursuant to shareholder approval received at a general meeting held on 7 February 2007.

Set out below are summaries of options granted pursuant to shareholder approval.

Grant date	Expiry date	Exercise price	Issued during the period	Exercised during the period	Lapsed during the period	Balance at end of the period
		\$	Number	Number	Number	Number
2007						
7 February 2007	31 January 2010	0.20	5,400,000	-	-	5,400,000
7 February 2007	31 January 2009	0.40	5,600,000	-	-	5,600,000
			<u>11,000,000</u>	-	-	<u>11,000,000</u>

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

Notes to the Financial Statements

For the year ended 30 June 2008

Note 22. Share-based payments (continued)

2008

Fair value of options granted – 20 cent options issued 10 & 12 October 2007

The assessed fair value at grant date of options granted during the year ended 30 June 2008 was 10.06 cents per option. 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 impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The model inputs for options granted during the period ended 30 June 2008 included:

Grant date	10 & 12 October 2007
Expiry date	31 January 2010
Quantity	600,000
Exercise price	\$0.20
Consideration	Nil
Share price at grant date	25 cents
Expected price volatility of the Company's shares	70%
Expected dividend yield	Nil
Risk-free interest rate	6.45%

Fair value of options granted – 40 cent options issued 10 & 12 October 2007

The assessed fair value at grant date of options granted during the year ended 30 June 2008 was 4.19 cents per option. 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 impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The model inputs for options granted during the period ended 30 June 2008 included:

Grant date	10 & 12 October 2007
Expiry date	31 January 2010
Quantity	650,000
Exercise price	\$0.40
Consideration	Nil
Share price at grant date	25 cents
Expected price volatility of the Company's shares	70%
Expected dividend yield	Nil
Risk-free interest rate	6.45%

Fair value of options granted – 20 cent options issued 15 October 2007

The assessed fair value at grant date of options granted during the year ended 30 June 2008 was 10.05 cents per option. 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 impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

Notes to the Financial Statements

For the year ended 30 June 2008

Note 22. Share-based payments (continued)

The model inputs for options granted during the period ended 30 June 2008 included:

Grant date	15 October 2007
Expiry date	31 January 2010
Quantity	200,000
Exercise price	\$0.20
Consideration	Nil
Share price at grant date	25 cents
Expected price volatility of the Company's shares	70%
Expected dividend yield	Nil
Risk-free interest rate	6.45%

Fair value of options granted – 40 cent options issued 15 October 2007

The assessed fair value at grant date of options granted during the year ended 30 June 2008 was 4.18 cents per option. 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 impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The model inputs for options granted during the period ended 30 June 2008 included:

Grant date	15 October 2007
Expiry date	31 January 2010
Quantity	300,000
Exercise price	\$0.40
Consideration	Nil
Share price at grant date	25 cents
Expected price volatility of the Company's shares	70%
Expected dividend yield	Nil
Risk-free interest rate	6.45%

Fair value of options granted – 25 cent options issued 9 January 2008

The assessed fair value at grant date of options granted during the year ended 30 June 2008 was 5.04 cents per option. 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 impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The model inputs for options granted during the period ended 30 June 2008 included:

Grant date	9 January 2008
Expiry date	31 January 2010
Quantity	125,000
Exercise price	\$0.25
Consideration	Nil
Share price at grant date	21 cents
Expected price volatility of the Company's shares	70%
Expected dividend yield	Nil
Risk-free interest rate	6.47%

Notes to the Financial Statements

For the year ended 30 June 2008

Note 22. Share-based payments (continued)

Fair value of options granted – 40 cent options issued 9 January 2008

The assessed fair value at grant date of options granted during the year ended 30 June 2008 was 3.66 cents per option. 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 impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The model inputs for options granted during the period ended 30 June 2008 included:

Grant date	9 January 2008
Expiry date	31 January 2010
Quantity	125,000
Exercise price	\$0.40
Consideration	Nil
Share price at grant date	21 cents
Expected price volatility of the Company's shares	70%
Expected dividend yield	Nil
Risk-free interest rate	6.54%

See pages 11 – 15 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. However, Avalon Minerals Ltd has had insufficient trading history to determine the historical volatility over this period. As such volatility has been determined with reference to broadly comparable companies listed on the Australian Securities Exchange.

2007

There were no options issued under the Scheme during 2007, however options were issued to directors pursuant to shareholder approval at a general meeting held 7 February 2007.

Fair value of options granted – 20 cent options

The assessed fair value at grant date of options granted during the year ended 30 June 2007 was \$0.0087 per option. 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 impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The model inputs for options granted during the period ended 30 June 2007 included:

Grant date	7 February 2007
Expiry date	31 January 2010
Quantity	5,400,000
Exercise price	\$0.20
Consideration	Nil
Share price at grant date	7.5 cents
Expected price volatility of the Company's shares	50%
Expected dividend yield	Nil
Risk-free interest rate	5.75%

Notes to the Financial Statements

For the year ended 30 June 2008

Note 22. Share-based payments (continued)

Fair value of options granted – 40 cent options

The assessed fair value at grant date of options granted during the year ended 30 June 2007 was \$0.00053 per option. 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 impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The model inputs for options granted during the period ended 30 June 2007 included:

Grant date	7 February 2007
Expiry date	31 January 2010
Quantity	5,600,000
Exercise price	\$0.40
Consideration	Nil
Share price at grant date	7.5 cents
Expected price volatility of the Company's shares	50%
Expected dividend yield	Nil
Risk-free interest rate	5.75%

c) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period was \$127,123.

Note 23. Related party transactions

Directors and other key management personnel

During the financial year the Company advanced funds totalling \$25,354 to Haliburn Resources Limited. Mr D McSweeney is the Chairman of Haliburn Resources Limited. The funds are repayable on completion of listing on the Australian Securities Exchange.

During the financial year the Company paid fees of \$3,825 to McSweeney Partners, a company of which Mr McSweeney is a shareholder. The transactions were on normal commercial terms.

Controlling entities

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

Ownership interests in related parties

Interests held in the following classes of related parties are set out in the following Notes:

Related parties – Note 26

Notes to the Financial Statements

For the year ended 30 June 2008

Note 24. Events occurring after reporting date

On 4 August 2008 the Company reached agreement with newly established company Haliburn Resources Limited (“Haliburn”) whereby Haliburn will acquire a 100% right to all tenements held by the Company’s wholly owned subsidiary Resources Properties Pty Ltd. The consideration for the sale is 5,000,000 ordinary shares in Haliburn. Haliburn plans to list on the Australian Securities Exchange.

On 22 August 2008 Rox Resources Limited withdrew from the Lennard Shelf Joint Venture. These tenements have now been relinquished.

On 25 September 2008 the Company announced a 1 for 4 pro rata non-renounceable entitlement issue at an issue price of 15 cents per share to raise up to \$1,953,750. Under the terms of the issue the Company proposes to issue up to 13,025,000 shares. The funds will be used to advance the development of the Viscaria Copper Mine in Sweden.

No other matters or circumstances have arisen since 30 June 2008 that has significantly affected, or may significantly affect:

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

Note 25. Acquisitions of Subsidiaries

On 25 July 2007 the Company acquired 100% of the issued shares in Resource Properties Pty Ltd and issued 4,000,000 shares at a value of 22 cents per share, which did not constitute a business acquisition.

The total cost of acquisition was \$980,000 and this comprised an issue of equity instruments and payment of cash.

The acquisition had the following effect on the Group’s assets and liabilities after acquiring 100% of shares on Issue.

	Recognised value on acquisition
	\$
Loans acquired	(79,710)
Exploration and evaluation	1,059,710
	<hr/>
	980,000
	<hr/>
	Recognised value on acquisition
	\$
Cost of the acquisition	
Consideration paid in shares	880,000
Consideration paid in cash	100,000
	<hr/>
Total cost of the acquisition	980,000
	<hr/> <hr/>

Notes to the Financial Statements

For the year ended 30 June 2008

Note 25. Acquisitions of Subsidiaries (continued)

On 12 February 2008 the Company acquired 100% of the issued shares in the Swedish company Avalon Minerals Adak AB.

The total cost of acquisition was \$17,451 comprised of a payment of cash.

The acquisition had the following effect on the Group's assets and liabilities after acquiring 100% of shares on Issue.

	Recognised value on acquisition
	\$
Cash assets	17,451
	<hr/>
	Recognised value on acquisition
	\$
Cost of the acquisition	
Consideration paid in cash	17,451
Total cost of the acquisition	17,451
	<hr/> <hr/>

On 12 February 2008 the Company acquired 100% of the issued shares in the Swedish company Avalon Minerals Viscaria AB.

The total cost of acquisition was \$17,451 comprised of a payment of cash.

The acquisition had the following effect on the Group's assets and liabilities after acquiring 100% of shares on Issue.

	Recognised value on acquisition
	\$
Cash assets	17,451
	<hr/>
	Recognised value on acquisition
	\$
Cost of the acquisition	
Consideration paid in cash	17,451
Total cost of the acquisition	17,451
	<hr/> <hr/>

Notes to the Financial Statements

For the year ended 30 June 2008

Note 26. Related party

Subsidiaries

2008

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

2007

Name of entity	Country of incorporation	Class of shares	Equity holding
Xmin Ltd	Australia	Ordinary	100%

		Consolidated		Parent entity	
		2008	2007	2008	2007
		\$	\$	\$	\$
<hr/>					

Note 27. Reconciliation of profit(loss) from ordinary activities after income tax to net cash outflow from operating activities

Cash at the end of the financial period is reconciled as follows:

Operating loss after income tax	(1,733,958)	(367,207)	(3,272,845)	(367,207)
Depreciation	37,158	7,076	37,070	7,076
Exploration expenditure written off	929,987	14,147	703,014	14,147
Non-cash employee benefits expense – share based payments	127,123	49,840	127,123	49,840
Provision for impairment	-	-	1,250,000	-
Provision for non-recovery of intercompany loan	-	-	531,677	-
Changes in operating assets and liabilities				
(Increase) in other receivables	(26,319)	(56,255)	(8,900)	(56,255)
Increase in trade creditors and provisions	209,914	89,005	258,455	89,005
Net cash outflow from operating activities	(456,095)	(263,394)	(374,406)	(263,394)

Non-cash transactions

On 25 July 2007 the Company purchased 100% of the issued capital of Resource Properties Pty Ltd. Consideration for the purchase was 4,000,000 ordinary shares issued at a deemed price of 22 cents.

Notes to the Financial Statements

For the year ended 30 June 2008

Note 28. Earnings per share

	Consolidated 2008 \$
Basic and diluted earnings per share	(3.85)
	2008 Number
Weighted average number of shares used as the denominator	
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share.	<u>45,059,726</u>
There were a further 13,000,000 potential ordinary shares (options) not considered to be dilutive.	2008 \$
Losses used in calculating basic and diluted losses per share	
Net loss	<u>(1,733,958)</u>
	Consolidated 2007 \$
Basic and diluted earnings per share	(1.32)
	2007 Number
Weighted average number of shares used as the denominator	
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share.	<u>27,901,554</u>
There were a further 10,125,000 potential ordinary shares (options) not considered to be dilutive.	2007 \$
Losses used in calculating basic and diluted losses per share	
Net loss	<u>(367,207)</u>

Note 29. 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 2008.

The balance of the Company's franking account is Nil.

Directors' declaration

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

- (a) The financial statements and notes and additional disclosures included in the Directors' Report designated as audited, of the Company and of the Consolidated Entity are in accordance with the *Corporations Act 2001*, including:
- (i) giving a true and fair view of the Company's and the Consolidated Entity's financial position as at 30 June 2008 and of its performance for the period ended on that date; and
 - (ii) complying with Accounting Standards and the *Corporations Regulations 2001*; and
- (b) there are reasonable grounds to believe that the Consolidated Entity will be able to pay its debts as and when they become due subject to disclosures in Note 1(a).

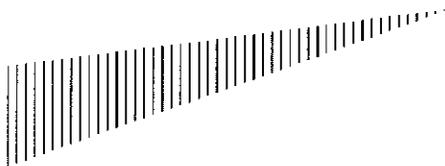
This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the *Corporations Act 2001* for the financial period ended 30 June 2008.

On behalf of the Board



D McSweeney
Executive Chairman

Perth
30 September 2008



Independent auditor's report to the members of Avalon Resources Ltd

Report on the Financial Report

We have audited the accompanying financial report of Avalon Minerals Ltd which comprises the balance sheet as at 30 June 2008 and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Auditor's Responsibility

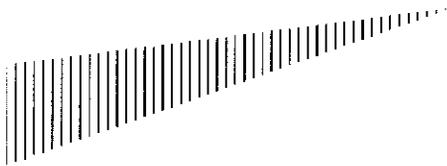
Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

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

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

Independence

In conducting our audit we have met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.



Auditor's Opinion

In our opinion:

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

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 9 to 15 of the directors' report for the year ended 30 June 2008. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

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

Inherent Uncertainty Regarding Continuation as a Going Concern

Without qualifying our opinion, we draw attention to Note 1 (a) of the financial report. As a result of these matters, 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 fall due and realise their assets and extinguish their liabilities in the normal course of business 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

Ernst & Young

V. W. Tidy

V W Tidy
Partner
Perth

30 September 2008