



AVALON
MINERALS LTD

Avalon Minerals Ltd

Annual Report
30 June 2012

AVALON MINERALS LTD

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AVALON MINERALS LTD

Corporate Directory

Directors

Non-Executive Chairman

Tan Sri Abu Sahid Bin Mohamed

Deputy Chairman

Dato Siew Mun Chuang

Managing Director

Mr Jeremy Read

Non-Executive Director

Mr Paul Niardone

Non-Executive Director

Mr Siew Mun Wai

Non-Executive Director

Mr Seng Han Gary Goh

Company Secretary

Mrs Roslynn Shand

Share Registry

Computershare Investor Services Pty Ltd

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West End QLD 4101

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Investor Enquiries 1300 850 505

Auditor

KPMG

Riparian Plaza

Level 16, 71 Eagle Street

Brisbane QLD 4000

Solicitors

GRT Lawyers

Level 1

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Brisbane QLD 4000

Bankers

National Australia Bank

1238 Hay Street

West Perth WA 6005

Securities exchange listings

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

Ordinary fully paid shares (ASX code: AVI)

Principal place of business and registered office in Australia

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AVALON MINERALS LTD

Chairman's Review

19 September 2012

Dear Shareholder

It has been both a challenging and exciting year for Avalon, with the Company refocussing its efforts on the Viscaria Copper Project in Sweden.

During the second half of 2011, Avalon completed a Pre-Feasibility Study on the Viscaria Project, updated its Mineral Resources for the A, B and D Zone prospects and commenced a Bankable Feasibility Study, which was subsequently suspended subject to further funding.

In February 2012, Avalon's Board was restructured and a new management team appointed. The restructure brought significant local and international mining and corporate management skills to the Company, as well as enhancing the Board's corporate governance, supervisory and risk management expertise.

Successful fundraisings were completed this year, including a Rights Issue and a Placement. The Rights Issue was very successful, with around 88% of shareholders participating, while the well supported Placement attracted new institutional investors onto Avalon's share register.

The combined proceeds of the two capital raisings has enabled Avalon to undertake a four hole drill program, commence a regional exploration program including a Heli-EM survey, complete a Scoping Study to determine the economics of a combined open pit and underground mining operation at Viscaria and complete planning for a major resource extension drill program.

The four hole drill program completed this year at the Viscaria Copper Project was aimed at extending the high-grade shoots of copper mineralisation outside the existing boundaries of the A and D Zone Mineral Resources. This drill program was highly successful, intersecting high-grade copper and copper-iron mineralisation in all drill holes.

A Scoping Study was also initiated to determine the economics of a combined open pit and underground project at Viscaria, mining copper mineralisation from the A Zone Mineral Resource and copper-iron mineralisation from the D Zone Mineral Resource.

Planning is well advanced for a larger drill program which is expected to commence in November 2012. The objective of this drill program is to extend the known copper-iron mineralisation significantly at the Viscaria Copper Project. Drill testing of a number of regional exploration targets will also be conducted at this time.

The copper price has remained relatively stable, despite volatile equity market conditions in Australia and overseas. The copper price outlook remains positive and I am confident that the new management team and its focus on developing the Viscaria Copper Project and growing its resource base will benefit all Avalon shareholders.

I would like to express my thanks to fellow directors, management and staff for their efforts and commitment to progressing the Company and its flagship Viscaria Copper Project in Sweden.

I also take this opportunity to thank all shareholders for your continued support of Avalon and look forward to an exciting year ahead.

Yours sincerely



Tan Sri Abu Sahid Bin Mohamed
Chairman
Avalon Minerals Ltd

AVALON MINERALS LTD

Tenement Schedule and Resource Statement

SWEDEN			
Tenement Holder	Tenement Name	Status	Ownership
Avalon Minerals Viscaria AB	Viscaria No 1	Granted	100%
Avalon Minerals Viscaria AB	Viscaria No 2	Granted	100%
Avalon Minerals Viscaria AB	Viscaria No 3	Granted	100%
Avalon Minerals Viscaria AB	Viscaria No 101	Granted	100%
Avalon Minerals Viscaria AB	Viscaria No 102	Granted	100%
Avalon Minerals Viscaria AB	Viscaria No 103	Granted	100%
Avalon Minerals Viscaria AB	Viscaria No 104	Granted	100%
Avalon Minerals Viscaria AB	Viscaria No 105	Granted	100%
Avalon Minerals Viscaria AB	Viscaria No 106	Granted	100%
Avalon Minerals Viscaria AB	Viscaria No 107	Granted	100%
Avalon Minerals Viscaria AB	Viscaria No 108	Granted	100%
Avalon Minerals Viscaria AB	Viscaria No 109	Granted	100%
Avalon Minerals Viscaria AB	Viscaria No 110	Granted	100%
Avalon Minerals Viscaria AB	Viscaria No 111	Granted	100%
Avalon Minerals Viscaria AB	Viscaria No 112	Granted	100%
Avalon Minerals Viscaria AB	Vittangjarvi No 1	Granted	100%
Avalon Minerals Viscaria AB	Huornas No 1	Granted	100%
Avalon Minerals Viscaria AB	Viscaria K No 7	Application	100% (upon grant)
Avalon Minerals Viscaria AB	Viscaria K No 3	Granted	100%
Avalon Minerals Viscaria AB	Viscaria K No 4	Granted	100%
Avalon Minerals Adak AB	Adak No 1	Granted	100%
Avalon Minerals Adak AB	Adak No 2	Granted	100%
Avalon Minerals Adak AB	Brantrask No 101	Granted	100%
Avalon Minerals Adak AB	Domarselnaset No 1	Granted	100%

Resource Name	Classification	Tonnes (Mt)	Cu Grade %	Fe Grade %	Cu Metal (t) ('000t)	Fe Metal ('000t)
A Zone*	Measured	14.4	1.66	-	239	-
	Indicated	4.7	1.22	-	57	-
	Inferred	2.5	1.03	-	26	-
	Subtotal	21.6	1.49	-	322	-
B Zone *	Measured	0.1	1.33	-	2	-
	Indicated	4.1	0.72	-	30	-
	Inferred	15.4	0.77	-	118	-
	Subtotal	19.6	0.76	-	150	-
D Zone	Measured**	1.4	0.48	23.13	6.66	319
	Measured***	-	0.64	15.93	0.16	3.8
	Indicated**	6.1	0.60	24.82	36.74	1,515
	Indicated***	0.3	0.81	12.00	2.58	38.5
	Inferred**	4.5	0.49	23.52	21.99	1,050
	Inferred***	0.2	0.96	24.27	2.31	58.2
	Subtotal	12.5	0.55	24.10	70.44	2,984.5
Overall	Total	53.7	1.01	-	541.44	2,984.5

*2011 Mineral Resources for A-Zone and B-Zone are reported above a Cut off Grade of 0.4% Cu

** 2011 Mineral Resource for D-Zone above a Cut off Grade of Fe 15% Mass_Rec and 0.0% Cu

*** 2011 Mineral Resource for D-Zone below a Cut off Grade of 15% Fe Mass_Rec and above 0.4% Cu

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Tenement Schedule and Resource Statement

Competent Persons Statement

The information in this report that relates to Mineral Resources and exploration targets is based upon information reviewed by Mr Jeremy Read BSc (Hons) who is a Member of the Australasian Institute of Mining and Metallurgy. Mr Read is a full time employee of Avalon Minerals Ltd and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Mr Read consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

The Mineral Resource estimate for A, B and D Zones was compiled and prepared by Dr Bielin Shi (MAusIMM, MAIG) of CSA Global Pty. Ltd. who is a Competent Person as defined by the Australasian Code for the reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code) 2004 Edition and who consents to the inclusion in this report of the matters based on the information in the form and context in which it appears.

JORC – Exploration Targets

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

AVALON MINERALS LTD

Directors' Report

Your Directors present their report on Avalon Minerals Ltd ("Avalon" or "Company") and the entities it controlled ("Consolidated Entity" or "Group") for the financial year ended 30 June 2012.

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:

Tan Sri Abu Sahid Bin Mohamed (appointed as non-executive Chairman 9 February 2012)
 Mr J Read (appointed as Managing Director 10 February 2012)
 Dato Siew Mun Chuang (appointed as Deputy Chairman 10 February 2012)
 Mr P Niardone (appointed as non-executive Director 10 February 2012)
 Mr Siew Mun Wai (appointed as non-executive Director 10 February 2012)
 Mr Seng Han Gary Goh (appointed as non-executive Director 10 February 2012)
 Mr R Edmonson (appointed as non-executive Director 10 February 2012, resigned 21 February 2012)
 Mr D L McSweeney (resigned 6 February 2012)
 Mr A T Munckton (resigned as Managing Director 19 March 2012)
 Mr S Stone (resigned 11 January 2012)
 Mr A Al-Khadra (resigned 21 February 2012)
 Mr A Kamaruddin (resigned 9 February 2012) (alternate for Tan Sri Sahid Bin Mohamed)

Principal activities

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

Dividends

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

Review of operations

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

	2012 \$	2011 \$
Revenue and other income	83,804	164,138
Loss before income tax expense	(4,455,951)	(1,897,672)
Income tax expense	-	-
Loss attributable to members of Avalon Minerals Ltd	(4,455,951)	(1,897,672)
Earnings per share	2012	2011
	Cents	Cents
Basic and diluted earnings per share	(1.8)	(1.1)

Review of operations

Financial Performance

During the year ended 30 June 2012 the Group incurred a loss of \$4,455,951 (2011: \$1,897,672). The increased loss for this financial year is largely due to the following factors:

- Exploration written off (2012: \$1,071,129; 2011: \$24,751). Expenditure incurred on the Adak project in Sweden was written off in full during 2012. This resulted from the decision to cease exploration on this site. The project may be sold in the future, however no offers have been received to date;
- Higher employee benefits expenses (2012: \$2,197,342; 2011: \$1,151,764). This largely reflected the increased head count in 2012, redundancy costs associated with the change of management team and the higher share based payment expense due to options and performance rights issued.

AVALON MINERALS LTD

Directors' Report

Financial Position

During the year the Company had a net increase in contributed equity of \$4,650,552 as a result of:

- a share issue to professional and sophisticated investors of 1,862,221 ordinary fully paid shares at 18 cents each. \$215,200 was raised prior to 30 June 2011 with \$120,000 raised in July 2011;
- in September 2011, a share issue to professional and sophisticated investors of 19,891,111 ordinary fully paid shares at 9 cents each raising \$1,790,200;
- in October 2011, a share issue to professional and sophisticated investors of 1,570,000 ordinary fully paid shares at 9 cents each raising \$141,300;
- in March 2012, \$60,000 received for partly paid options issued. 6,000,000 options were issued to the Underwriter of a Rights Issue at 1 cent per option on issue, with a further 5 cents payable on the exercise of the option;
- In March 2012, 47,812,268 fully paid shares issued at 6 cents per share pursuant to a 1 for 5 non renounceable pro-rata rights issue, raising \$2,868,736; and
- payment of capital raising and share issue costs of \$329,684.

At the end of the financial period, the Group had cash balances of \$694,310 (2011: \$2,660,034) and net assets of \$22,064,675 (2011: \$21,990,581).

Total liabilities amounted to \$1,015,200 (2011: \$1,321,301) and were limited to trade and other payables and provisions.

Subsequent to the end of the financial year, the Company completed a share placement of 39,979,195 shares at 9 cents per share to professional and sophisticated investors raising \$3,499,642 after costs.

Sweden Projects – Overview

Highlights

Viscaria Copper-Iron Ore Project, Sweden (Avalon - 100%)

On 29 November 2011, Avalon advised the ASX of updated Mineral Resources for the A, B and D Zone prospects as follows:

- A Zone Mineral Resource comprises 21.6Mt at 1.5% Cu, above a 0.4% copper grade cut-off and is classified as Inferred, Indicated and Measured according to the guidelines of the JORC Code (2004);
- B Zone Mineral Resource comprises 19.6Mt at 0.8% Cu, above a 0.4% copper grade cut-off and is classified as Inferred, Indicated and Measured according to the guidelines of the JORC Code (2004);
- D Zone Mineral Resource comprises 12.5Mt at 0.6% Cu and 24% Fe, above a 15% mass recovery and is classified as Inferred, Indicated and Measured according to the guidelines of the JORC Code (2004).

The Mineral Resource inventory (Zones A, B and D) for the Viscaria Project currently totals 53.7Mt @ 1.0% Cu and is classified as having 22.6Mt @ 0.7%Cu Inferred, 15.2Mt @ 0.8%Cu Indicated and 16.0 Mt @1.6%Cu Measured, according to the guidelines of the JORC Code (2004).

Between April and July 2012, a four hole drill program was undertaken, drilling 2 holes at the A Zone Prospect and 2 holes at the D Zone Prospect, with the aim of extending high-grade shoots of copper mineralisation outside of the existing boundaries of the A and D Zone Mineral Resources.

The four hole drill program was extremely successful intersecting high-grade copper and copper-iron mineralisation in all drill holes completed as follows:

- Drill hole VDD0125 (A Zone) intersected 7.7m @ 1.9% Cu from 450.4m (down hole width)
- Drill hole VDD0127 (A Zone) intersected 6.5m @ 3.4% Cu from 767.5m (down hole width)
- Drill hole VDD0128 (D Zone Prospect) intersected 5.1m @ 2.1% Cu and 42.0% Fe from 189.9m (down hole width)
- Drill hole VDD0129 (D Zone Prospect) intersected 9.0m @ 1.8% Cu and 23.0% Fe from 300.0m (down hole width)

All drill holes were drilled outside of the currently defined Mineral Resource envelopes at the A and D Zone prospects and the thick intervals of mineralisation intersected indicates that it is probable the current Mineral Resource for A and D Zone can be expanded. The success of all the drill holes from the initial drill program for 2012 has shown that high grade shoots of copper mineralisation, within broad zones of copper, extend to significant depth and Avalon has been able to successfully target these high grade shoots of copper.

In June 2012, a Scoping Study was initiated to determine the economics of a combined open pit and underground project at Viscaria, mining copper mineralisation from the A Zone Mineral Resource and copper-iron mineralisation from the D Zone Mineral Resource. The Scoping Study will concentrate on assessing the mine life and Net Present Value ('NPV') of the proposed combined open pit / underground mining operation and quantifying potential increases to the project's NPV through expanding the existing Mineral Resources.

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Directors' Report

Planning commenced for a large drill program whose objective is to significantly extend the known copper-iron mineralisation at the D Zone prospect and the known copper mineralisation at the A Zone prospect. Drill testing of a number of regional exploration targets will also occur during this drill program. The drill program will be conducted during the northern hemisphere winter, commencing in November 2012.

Corporate

- In February 2012, the Board of Avalon Minerals Limited was restructured and a new management team appointed;
- In March 2012, a Rights Issue was successfully completed raising \$2.87M, at 6 cents per share, with 88% of shareholders participating;
- In March 2012, the registered office was relocated from Perth to Brisbane.
- In July 2012, a Placement was completed raising a further \$3.6M at 9 cents per share;

VISCARIA COPPER IRON PROJECT

Mineral Resources

The Mineral Resource inventory (Zones A, B and D) for the Viscaria Project currently totals 53.7Mt @ 1.0% Cu and is classified as having 22.6Mt @ 0.7%Cu Inferred, 15.2Mt @ 0.8%Cu Indicated and 16.0 Mt @1.6%Cu Measured, according to the guidelines of the JORC Code (2004). Within each of the A, B and D Zone Mineral Resources, zones of higher grade and thicker copper mineralisation occur. At a 0.8% Cu cut-off A Zone contains 9.5Mt @ 2.7% Cu and D Zone contains 3.2Mt @ 1.2% Cu. Avalon has commenced an internal study to try and ascertain what are the controlling features of the higher grade copper such that drilling can be more effectively targeted on defining additional tonnes of high grade copper mineralisation.

A Zone

The A Zone Mineral Resource consists of VMS style copper sulphide mineralisation which was underground mined during the period 1985-1997. A total of 12.5Mt @ 2.3% Cu was mined at A Zone.

Category	2011 A Zone Mineral Resource by CSA			2010 A Zone Avalon Mineral Resource by CSA			Comparison		
	Tonnes	Grade (Cu%)	Copper Metal (T)	Tonnes	Grade (Cu%)	Copper Metal (T)	Tonnes	Grade (Cu%)	Copper Metal (T)
Measured	14,439,000	1.66	239,000	6,700,000	2.47	165,000	116%	-33%	45%
Indicated	4,690,000	1.22	57,000	4,100,000	1.76	72,000	14%	-31%	-21%
Meas + Ind	19,129,000	1.55	296,000	10,800,000	2.20	237,000	77%	-30%	24%
Inferred	2,480,000	1.03	26,000	6500000	1.24	81,000	-62%	-17%	-68%
Total	21,609,000	1.49	322,000	17,300,000	1.84	318,000	25%	-19%	1%

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Directors' Report

B Zone

B Zone consists of a series of disseminated copper mineralisation lodes within an overall zone of sulphide alteration. The mineralisation is generally lower in Cu grade than A Zone and has minor underground mining history at the northern end of the deposit.

Category	2011 B Zone Mineral Resource by CSA			2010 B Zone Mineral Resource by CSA			Comparison		
	Tonnes	Grade (Cu%)	Copper Metal (T)	Tonnes	Grade (Cu%)	Copper Metal (T)	Tonnes	Grade (Cu%)	Copper Metal (T)
Measured	123,000	1.33	2000						
Indicated	4,117,000	0.72	30,000						
Meas + Ind	4,240,000	0.74	32,000						
Inferred	15,410,000	0.77	118,000	25,388,000	0.76	192,900	-39%	2%	-38%
Total	19,650,000	0.76	150,000	25,388,000	0.76	192,900	-23%	0%	-23%

D Zone

D Zone consists of a series of copper and iron rich lodes of mineralisation within a wider zone of carbonate and magnetite alteration. The deposit is approximately 1100 metres long, 20-30 metres wide and drilled up to 200 metres below surface. The D Zone Mineral Resource is currently open at depth and along strike.

2011 D Zone Mineral Resource Grade Tonnage Reported below a Cut off Grades of 15% Mass_Rec and 0.0% Cu								
Deposit	Category	Tonnes	Cu (%)	Fe (%)	Mass_Rec (%)	Fe_Conc (%)	SiO2_Conc (%)	Copper Metal (T)
D Zone	Measured	1,379,000	0.48	23.13	34.28	69.92	1.10	6,660
	Indicated	6,103,000	0.60	24.82	35.43	69.55	0.97	36,740
	Meas + Ind	7,482,000	0.58	24.51	35.22	69.62	0.99	43,400
	Inferred	4,460,000	0.49	23.52	36.34	69.98	0.95	21,990
	Total	11,942,000	0.55	24.10	35.56	69.77	0.98	65,320
2011 Mineral Resources Grade Tonnage Reported below a Cut off Grades of 15% Mass_Rec and above a Cut off of 0.4% Cu								
Deposit	Category	Tonnes	Cu (%)	Fe (5)	Mass_Rec (%)	Fe_Conc (%)	SiO2_Conc (%)	Copper Metal (T)
D Zone	Measured	24,000	0.64	15.93	9.26	48.79	3.06	160
	Indicated	321,000	0.81	12.00	11.02	44.04	2.15	2,580
	Meas + Ind	345,000	0.79	12.27	10.90	44.38	2.21	2,740
	Inferred	240,000	0.96	24.27	4.04	12.45	0.78	2,310
	Total	585,000	0.86	17.12	8.13	32.43	1.66	5,040

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Directors' Report

Initial 2012 Drill Program – A and D Zones

Immediately following its appointment, in February 2012, the new Avalon management team undertook a review of the Viscaria Copper Project (Figure One) and the surrounding regional exploration tenements. Avalon holds 720km² of ground prospective for copper, copper-gold and copper-iron mineralisation. The Viscaria Project contains the A, B and D Zone Mineral Resources (Figure Two), which currently total 53.7Mt @ 1.0% Cu. Avalon's activities to date and into the future, will be concentrated on the A and D Zone Mineral Resources. The current Mineral Resource for A Zone comprises 21.6Mt at 1.5% Cu, reported above a 0.4% copper grade cut-off and is classified as having 2.5Mt @ 1.0%Cu Inferred, 4.7Mt @ 1.2% Cu Indicated and 14.4Mt @ 1.7% Cu Measured according to the guidelines of the JORC Code (2004). The current Mineral Resource for D Zone comprises 12.5Mt at 0.6% Cu and 24% Fe. The Mineral Resource is reported above a 15% mass recovery for magnetite and a 0.0% Cu grade cut-off and is classified as having 4.46Mt @ 0.49% Cu, 23.52% Fe Inferred, 6.1Mt @ 0.6% Cu, 24.82% Fe Indicated and 1.379Mt @ 0.48% Cu, 23.13% Fe Measured, according to the guidelines of the JORC Code (2004).

Following the review of the Viscaria Project it was decided that rather than recommencing the Viscaria Bankable Feasibility Study, which was suspended in August 2011, drilling would be undertaken with the goal of significantly increasing the A and D Zone Mineral Resources. If this goal can be achieved, then the Viscaria BFS will be recommenced in the middle of 2013, with the Mineral Resource base for the Viscaria Project significantly expanded. Avalon's management decided to take a two-stage approach to expanding the Mineral Resources on the project by completing a small initial drill program in 2012 to test ideas relating to the extension of high-grade copper mineralisation, followed by a larger drill program to be commenced in November 2012. Knowledge gained from the initial drill program will be applied to the design of the larger drill program with the objective of greater success rates in targeting high-grade copper mineralisation.

The initial drill program comprised four holes, two drilled at the A Zone prospect and two drilled at the D Zone prospect. Drill hole VDD0125, drilled at the A Zone prospect, intersected a succession of basaltic units and tuffaceous, volcanic sediments. There are several occurrences of shear zone hosted, mineralised veins primarily within tuffaceous, volcanic sediments between 450.4m and 469m. The mineralisation is characterised by chalcopyrite (copper sulphide) and pyrrhotite (iron sulphide). VDD0125 returned an intersection of 18.6m @ 1% Cu from 450.4m (down hole intersection), including 7.7m @ 1.9% Cu from 450.4m. Drill hole VDD0127, drilled 1.2km south of hole VDD0125, intersected copper mineralisation over 42 metres down-hole, near the contact between basalts and tuffaceous sediments. The best copper mineralised interval, in VDD0127, comprised 6.5m @ 3.4% Cu from 767.5m (down-hole).

Drill hole VDD0128, drilled at the D Zone Prospect, intersected copper-iron mineralisation over a broad 68.5m (down hole depth) interval from a depth of 177.0m, hosted in an interlayered sequence of tuffaceous, volcanic sediments and dolerites. The chalcopyrite is characterised by disseminations, stringers and veins and is associated with skarn-like alteration. The magnetite (iron oxide mineralization) is characterised by fine to coarse-grained disseminations that increase in abundance to massive magnetite in some zones. A high grade copper-mineralised interval extended 5.1m down hole from 189.9m and returned an intersection of 5.1m @ 2.1% Cu and 42% Fe. A second high grade copper interval extended 6.4m down hole from 216.0m and returned an intersection of 6.4m @ 1.8% Cu and 34.5% Fe. To follow up on the copper-iron intersection recorded in drill hole VDD0128, drill hole VDD0129 was drilled on the same section, 50m down-dip from drill hole VDD0128. Drill hole VDD0129 intersected copper-iron mineralization over a broad 88.3m (down hole width) interval from a depth of 229.7m. This mineralisation has two dominant copper enriched zones. The first copper zone extended 16.3m down hole from 229.7m and returned an intersection of 0.5% Cu and 24.4% Fe. The second copper zone extended 17.0m down hole from 300.0m and returned an intersection of 1.3% Cu and 23.3% Fe.

The drilling at D Zone indicated that the copper-iron mineralization increases in thickness at depth and within the broad zone (68-88m thickness) of copper-iron mineralisation two high-grade zones of copper mineralisation occur. Both these features suggest that D Zone will have the potential to be mined using both open pit and underground methods, which ultimately should increase the amount of D Zone with the potential to be economically extracted.

All four holes, VDD0125, VDD0127, VDD0128 and VDD0129 (VDD0126 was abandoned due to drilling issues) completed as part of the initial drill program for 2012, intersected significant intervals of copper mineralisation, which has increased Avalon's confidence to follow the higher grade intervals of copper mineralisation at depth at both the A and D Zones. The success of the initial 2012 drill program indicates that Avalon's exploration team has a good understanding of the controls on the higher-grade copper mineralisation at Viscaria and hence the initial drill program was viewed as being successful. Developing the understanding of the control on the high-grade copper mineralisation is an important step prior to undertaking the larger drill program later in 2012, with the aim of significantly increasing the Mineral Resources on the Viscaria Project.

AVALON MINERALS LTD

Directors' Report

Figure One – Project Location



Viscaria Project Scoping Study

The previous management team of Avalon completed a Pre-feasibility Study of the Viscaria Project and then commenced a Bankable Feasibility Study ('BFS'). This study was suspended in August 2011, due to funding issues. Upon taking over management of Avalon, the new Avalon management team made the decision to not immediately recommence the Viscaria BFS as this BFS was focussed largely on the copper-iron Mineral Resources at the D Zone prospect. Management determined that more shareholder value could be created over the medium term, by undertaking a drill program to extend the existing Mineral Resources at the A and D Zone prospects and conducting a Scoping Study into a combined open pit / underground mining operation at Viscaria. The Viscaria BFS previously did not consider the potential of increasing copper production by mining underground the high-grade copper mineralisation at A Zone.

Avalon contracted Xstract Mining Consultants to undertake the Scoping Study and results will be finalised in late September 2012. The outcomes from the Scoping Study will be important in determining the design of the major Mineral Resource extension drill program to be commenced late in 2012.

Regional Exploration

Surrounding the Mineral Resources at the A, B and D Zone prospects, Avalon has 720km² of exploration tenements covering geology prospective for the discovery of copper, copper-gold, copper-iron and iron deposits. During the past several years Avalon has completed desktop studies and conducted some geological reconnaissance of this package of regional exploration tenements. This work has led to the identification of a number of prospects prospective for copper and copper-gold mineralisation. Prioritisation of the regional prospects has been based upon historical drilling, surface geochemical surveys and aeromagnetic data. Historical drilling has previously intersected copper mineralisation related to several aeromagnetic and geochemical anomalies and in geology analogous to the rocks hosting the A, B and D Zone Mineral Resources. For example, at the Tjarro prospect historical drilling intersected 8m @ 1.7% Cu within a zone of 15m @ 1.3% Cu (down hole width).

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Directors' Report

Regional Exploration (continued)

In order to assist with the prioritisation of the regional exploration targets and also to generate new targets, a Heli-EM survey was flown over the regional exploration tenements. A total of 1,175 line/km of Heli-EM data was collected. The interpretation of the Heli-EM data will be integrated with the existing geological and geophysical data sets. Regional exploration targets will then be prioritised for drilling. As a number of the regional targets are already known to contain copper mineralisation the initial focus of drilling at prospects, such as Tjarro, will be on determining the extent and coherence of the copper mineralisation.

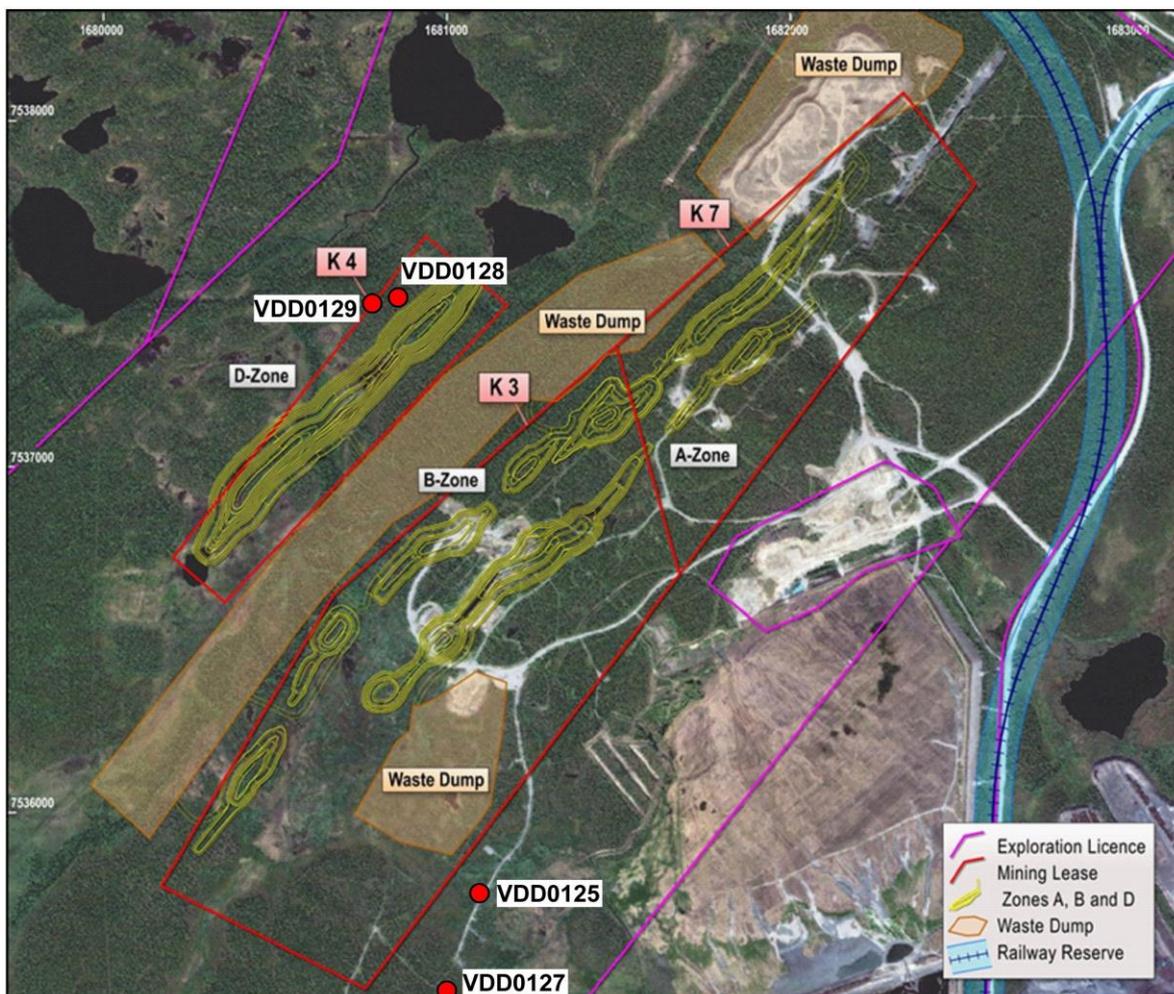
It is expected that two to four of the higher priority regional exploration targets will be drill tested early in 2013.

Planning for Viscaria Resource Extension Drill Program

As a part of the Viscaria Scoping Study, initiated towards to end of the 2012 financial year, Xstract Mining Consultants will estimate the increase to the Net Present Value ('NPV') of the Viscaria project due to increases in the Mineral Resources at the A and D Zone prospects. This quantification of potential NPV increases to the A and D Zone Mineral Resources will provide clear goals for the major drill program to be undertaken at the A and D Zone prospects, commencing in November 2012.

Currently, Avalon is estimating that 20,000 – 25,000m of drilling will be conducted at the A and D Zone prospects with the goal of significantly increasing both Mineral Resources. This drill program will take place during the northern hemisphere winter and is expected to be completed by May-June 2013.

Figure Two – Location of Drill Holes VDD0125, VDD0127, VDD0128 and VDD0129



AVALON MINERALS LTD

Directors' Report

Viscaria Bankable Feasibility Study (BFS)

The BFS of the Viscaria Copper Iron Project commenced in October 2010 and was suspended in mid-August 2011. Resource estimates, initial mine design and optimisation work and project approval activities continued during the last quarter of 2011 to provide an interim update to the BFS which was announced in December 2011. Work in the Viscaria BFS is not scheduled to recommence until the middle of 2013, after the resource extensions drill program has been completed at the A and D Zone Mineral Prospects.

Mining Study

During December 2011 to March 2012 Mineral Resource wireframe models were provided to CSA Global engineers to commence preliminary work on optimisation of open pit designs. Updated geotechnical parameters and cost estimates were also provided to the engineers to allow the preliminary work to proceed and provide guidance on the future direction of the BFS.

The optimisation and mine design of each open pit development incorporated the following assumptions:

- Copper price of US\$ 6614 / t, US \$3.00 / lb
- Iron Ore price of US\$ 95.1 / t, US \$1.38 / dmtu
- Net Smelter Return of 89.7% after TC/RC and payability charges
- Processing cost varies between US\$13 and \$18 per tonne dependent upon material type
- Mining Cost based on PFS contractor estimates
- Geotechnical design parameters based on recommendations of the geotechnical consultants
- CSA November 2011 Resource Models
- 2011 Estimate of ore loss, dilution and metallurgical recovery based on test work summaries

Results of the optimisation are summarised in Table One below.

Table One – Results of the Open Pit Optimisation

Zone	Tonnes	Grade		Recovery		Product		
		Cu%	Fe%	Cu%	Fe%	Iron Concentrate (t)	Fe%	Copper Metal (t)
A	2,783,000	1.13		88.5				27,834
B	1,318,000	0.76		90.0				9,013
D	7,559,000	0.61	22.6	91.4	92.8	2,383,000	69.5	42,167
Subtotal	11,660,000	0.75		90.3		2,383,000	69.5	79,014

The optimisation outputs are backed by mine design and sensitivity analysis on each pit design and utilise cost estimates based on the Viscaria Pre Feasibility Study and updated cost and technical data based on 2011 investigations and estimates.

The optimisation outputs use Measured, Indicated and Inferred blocks with appropriate estimates for ore loss and dilution at each deposit. As such they constitute a reasonable estimate of the production scenarios to be expected from the project. However, further technical work is required to bring all elements of the estimate of production to a Bankable Feasibility Study Standard. In particular, further work on the metallurgical recovery, geotechnical estimate and mining and processing cost estimate is warranted.

The results indicate that at either a 3.0 mtpa or 1.5 mtpa throughput rate as contemplated in the 2010 Pre Feasibility Study, that the A Zone, B Zone and D Zone combination provides a mine life of approximately 3.8 or 7.5 years respectively.

This mine life was considered insufficient to commence operations based solely on the current Mineral Resources at the Viscaria project that can be mined by open pit methods. Consequently, the Company commenced the Viscaria Scoping Study to determine if the mine life can be increased by augmenting open pit Mineral Resources with Mineral Resources mined from underground. The Mineral Resource extension drill program is also being undertaken. The value of a combined open pit / underground mining operation will then be estimated at a Scoping Study level. It is hoped by combining open pit and underground mining the projected mine life will be able to be extended beyond 10 years, which is considered the minimum requirement for an operation of this type.

AVALON MINERALS LTD

Directors' Report

Approvals

i. MEC

The Mining Exploitation Concession (MEC) for the Viscaria project was submitted to the Bergsstaten (Mines Department) in April 2010 and was significantly amended in early 2011 following submissions from the city of Kiruna. The Bergsstaten advised it approved the MEC for Viscaria in two licences; Viscaria K3 and Viscaria K4. The two MEC's granted cover the D zone and the southern area of the A Zone and B Zone mining areas (Figure Two).

A third MEC application (Viscaria K7) remains under consideration by Bergsstaten pending an amendment to the Kiruna town planning act to allow for the grant of a mining lease which includes the power generation windmills and a power line affected by the northern parts of A Zone and B Zone.

The granting of the MEC is a precursor to consideration by the regulator of the Environmental Impact Assessment and permits access to the historical underground mining openings to check present day geotechnical conditions and groundwater levels.

ii. Environment Impact Assessment

The Environment Impact Assessment (EIA) was submitted to the Environmental Court of Sweden (ECS) in April 2011. Following the suspension of the Viscaria BFS the company sought suspension of consideration of the EIA by the ECS for up to 12 months to reduce expenditure.

ADAK COPPER-ZINC PROJECT

The Adak Copper Project contains five historical mines – Adak, Lindskold, Brannmyran, Karlsson (the Adak Dome Mines) and Rudtjebacken – covering an area of 26.71km², located in the world-class Skelleftea VMS mining district of Northern Sweden.

Throughout 2011 and 2012, Avalon sought to either sell or joint venture the Adak Project without success. Consequently, the Adak Copper Project will be relinquished. Carried forward expenditure relating to the Adak project has been expensed in full during the 2012 financial year.

Matters subsequent to the end of the financial period

Share Placement

In July 2012 the Company made a placement to sophisticated and professional investors of 39,979,195 shares at 9 cents per share raising \$3,598,128 before costs.

Options and Performance Rights Plan for Employees

At the Shareholder's meeting on 5 June 2012, the establishment of a performance rights plan for Directors and employees was approved by shareholders. The issue of options and performance rights to Mr J Read (Managing Director) and Mr P Niardone (Independent Director) were deemed as granted prior to year end. For further details of the issues to Directors, refer to note 17.

Subsequent to the end of the year, the issue of options and performance rights to employees was approved (Board approval 27 July 2012). For further details of the issues to employees, refer to note 23.

Significant changes in the state of affairs

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

Likely developments and expected results

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

Environmental regulation

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

AVALON MINERALS LTD

Directors' Report

Directors

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

Tan Sri Abu Sahid Bin Mohamed *Non-Executive Chairman (appointed as Chairman 9 February 2012)*

Experience and expertise

Tan Sri Abu Sahid Bin Mohamed was appointed as a Director on 12 January 2009 and appointed as Chairman of the Company on 9 February 2012. He is the Group Executive Chairman of the successful Malaysian conglomerate, the Maju Group of Companies and has over 30 years of experience in the Malaysian construction and steel industries. His business interests have diversified into Property Development and Management, Engineering, Services, as well as Highway Concessions.

Other directorships of listed companies in the past three years

Current

Perwaja Holdings Bhd – since June 2008

Ipmuda Bhd – since April 1997

Kinsteel Bhd – since February 2007

Dato Siew Mun Chuang *Deputy Chairman (appointed as Deputy Chairman 10 February 2012)*

(Member of the Audit Committee)

Experience and expertise

Dato Siew Mun Chuang (Phillip) is the Executive Chairman of Beau Heritage Sdn Bhd, a market leader in the food and beverage industry; a Director of Ipmuda Bhd, a leading steel products manufacturer; Perwaja Holdings Bhd a leading steel producer; and Kinsteel Bhd a leading steel products manufacturer, all based in Malaysia and listed on the Malaysian Stock Exchange. Phillip had several years of audit experience with PriceWaterhouse early in his career, before venturing into business. He was the former Managing Director and controlling shareholder of TT Resources Bhd, formerly listed on the Malaysian Stock Exchange.

Other directorships of listed companies in the past three years

Current

Beau Heritage Sdn Bhd – since 2000

Ipmuda Bhd – since 1997

Perwaja Holdings Bhd – since 2008

Kinsteel Bhd – since 2009

Former

TT Resources Bhd – to 2000

Mr Jeremy Read *Managing Director (appointed as Managing Director 10 February 2012)*

Experience and expertise

Jeremy Read has 25 years domestic and international minerals exploration and project development experience having worked in a wide variety of technical and management roles and on projects throughout Australia, Africa and India. He has extensive exploration experience for copper, nickel and lead-zinc sulphides. He was the founding Managing Director of two successful ASX listed companies, Discovery Metals and Meridian Minerals.

Other directorships of listed companies in the past three years

Current

Discovery Metals – since 2003

Harmattan Gold Ltd – since 2011 (non-listed)

Former

Meridian Minerals – to December 2011

AVALON MINERALS LTD

Directors' Report

Mr Paul Niardone *Non-Executive Director (appointed as a non-executive Director 10 February 2012)*

(Chairman of the Remuneration Committee)

(Member of the Audit Committee)

Experience and expertise

Mr Paul Niardone was the Executive Director and founder of Professional Public Relations (WA), the largest PR and communications firm in Western Australia. He was the founding Chairman of Bellevue Resources Limited and has experience in marketing and strategic planning in both the Government and private sectors. He is a member of the Australian Marketing Institute, the Institute of Management Consultants and the Institute of Company Directors.

Other directorships of listed companies in the past three years

Former

Professional Public Relations (WA) – to May 2011

Meridian Minerals Limited – to December 2011

Mr Siew Mun Wai *Non-Executive Director (appointed as non-executive Director 10 February 2012)*

(Chairman of the Audit Committee and member of the Remuneration Committee)

Experience and expertise

Mr Siew Mun Wai (Edward) is a Fellow of the Institute of Chartered Accountants in England & Wales and also a Chartered member of the Malaysian Institute of Accountants. He had held C-level and board positions in FMCG Beauty & Cosmetics, Pharmaceuticals and Specialty Chemicals multinationals with over 3 decades of overseas working experience spanning 10 countries. Edward was most recently a Board member and CFO/COO of L'Oreal Australia and New Zealand.

Other directorships of listed companies in the past three years

Former

L'Oreal Australia – to May 2012

L'Oreal New Zealand – to May 2012

Mr Seng Han Gary Goh *Non-Executive Director (appointed as non-executive Director 10 February 2012)*

(Member of the Remuneration Committee)

Experience and expertise

Seng Han Gary Goh is a mining engineer with over 17 years of mining experience and is currently working as the Underground Manager at Chalice Gold Mine for Alacer Gold. Mr Goh has worked in management roles for Rio Tinto, BHP Billiton, Barrick Gold and Western Metals.

Mr David McSweeney *Executive Chairman (resigned as Executive Chairman on 6 February 2012).*

Mr Andrew T Munckton *Managing Director (resigned on 19 March 2012)*

Mr Stephen Stone *Non-Executive Director (resigned on 11 January 2012)*

Mr Amro Al-Khadra *Non-Executive Director (resigned on 21 February 2012)*

Mr Ahmad Hisham Bin Kamaruddin *Alternate Non-executive Director (resigned on 9 February 2012)*

Mr Rohan Edmonson *Non-Executive Director (appointed 10 February 2012; resigned on 21 February 2012)*

Company Secretaries

Ms Roslynn Shand *(appointed 16 February 2012)*

Ms Shand has 15+ years' experience in Company Secretary roles in Australia within the mineral, resource, agricultural, financial and bio-tech industries. In previous roles, Ms Shand was Company Secretary for Discovery Metals and Meridian Minerals. Ms Shand has a combined degree in Arts/Law from the University of Queensland and is a fellow of Chartered Secretaries Australia. Ms Shand was appointed as Company Secretary on 16 February 2012.

Mr Brett Dickson *(appointed as Company Secretary on 8 December 2011 and resigned on 16 February 2012).*

Mr Paul A Bridson *(resigned as Company Secretary on 8 December 2011)*

AVALON MINERALS LTD

Directors' Report

Directors' interests in shares and options

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

	Ordinary Shares		Options over Ordinary Shares		Performance Rights	
	Direct	Indirect	Direct	Indirect	Direct	Indirect
Tan Sri AS Bin Mohamed	49,726,012	-	300,000	-	-	-
Mr Siew Mun Chuang	27,760,833	-	-	-	-	-
Mr J Read	500,000	-	5,000,000	-	10,000,000	-
Mr P Niardone	-	-	2,800,000	-	5,600,000	-
Siew Mun Wai	-	-	-	-	-	-
Seng Han Gary Goh	-	-	-	-	-	-

Meetings of Directors

There were 13 meetings of the Company's board of Directors held during the year ended 30 June 2012. The number of meetings attended by each Director were:

	Remuneration & Nomination Committee *		Full meetings of Directors		Audit Committee #	
	Entitled to attend	Attended	Entitled to attend	Attended	Entitled to attend	Attended
Tan Sri AS Bin Mohamed	-	-	13	3	-	-
Mr J Read	-	-	5	5	-	-
Dato Siew Mun Chuang #	-	-	5	4	1	1
Mr P Niardone # *	-	-	5	5	1	1
Mr Siew Mun Wai # *	-	-	5	5	1	1
(alternate for Mr A Al-Khadra until February 2012) ^	-	-	-	3 ^	-	-
Mr Seng Han Gary Goh *	-	-	5	3	-	-
Mr R Edmonson	-	-	2	-	-	-
Mr DL McSweeney	-	-	7	7	-	-
Mr AT Munckton	-	-	10	10	-	-
Mr S Stone	-	-	6	5	1	1
Mr A Al-Khadra	-	-	7	2	1	1
Mr AH Kamaruddin (alternate for Tan Sri AS Bin Mohamed until February 2012) ^	-	-	-	4 ^	1	1

The Audit Committee (formed in May 2011) membership was altered due to Board changes in early 2012, and met for the first time in February 2012.

* A Remuneration and Nomination Committee was newly formed in February 2012, however has not met at the date of this report.

Further details of the operation of all Committees are contained in the Corporate Governance Statement.

Key management personnel

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

For the purposes of this report, the term "executive" encompasses the chief executive, senior executives, general managers, Chief Financial Officer and Company Secretaries of the Group.

AVALON MINERALS LTD

Directors' Report

Remuneration report (Audited)

Key management personnel at the date of this report are:

Directors of the Company

Tan Sri Abu Sahid Bin Mohamed – Non-Executive Chairman
Dato Siew Mun Chuang – Deputy Chairman (appointed 10 February 2012)
Mr Jeremy Read - Managing Director (appointed 10 February 2012)
Mr Paul Niardone – Non-executive Director (appointed 10 February 2012)
Mr Siew Mun Wai – Non-executive Director (appointed 10 February 2012)
Mr Seng Han Gary Goh – Non-executive Director (appointed 10 February 2012)

Other key management personnel

Mr Ian Wallace – Business Manager (appointed 13 February 2012)
Dr Quinton Hills – Exploration Manager (appointed 12 March 2012)
Ms Linda Cochrane – Chief Financial Officer (appointed 20 February 2012)
Ms Roslynn Shand – Company Secretary (appointed 13 February 2012)

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

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

A Principles used to determine the nature and amount of remuneration

The Consolidated Entity's executive reward framework is designed to reward performance 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.

AVALON MINERALS LTD

Directors' Report

Remuneration report (Audited) (continued)

The framework currently consists of fixed remuneration and variable remuneration.

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

As part of the terms and conditions of employment, the Company prohibits executives from entering into arrangements to protect the value of unvested long term incentive awards. This includes entering into contracts to hedge their exposure to options or shares granted as part of their remuneration package. Entering into such arrangements has been prohibited by law since 1 July 2011.

The overall level of executive reward takes into account the performance of the Consolidated Entity. The Consolidated Entity is involved in mineral exploration and did not derive a profit and therefore growth in earnings is not considered relevant. Shareholder wealth is dependent upon exploration success and has fluctuated accordingly. During the current period, executive remuneration is considered appropriate when compared to 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 Chairman's fees are determined independently to the fees of non-executive Directors based on comparative roles in the external market. The Chairman is not present at any discussions relating to the determination of his own remuneration.

Directors' fees

The current base remuneration was reviewed by the Board on 12 March 2012. 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. Non-Executive Directors are also eligible to participate in the Directors and employee option and performance rights plans after shareholder approval.

Retirement allowances for Directors

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

Executive pay

The executive pay and reward framework has two components:

- Fixed remuneration (base salary, superannuation & other non-monetary benefits)
- Variable remuneration (long-term incentives through participation in the employee and Director option plan, performance rights plan and short-term incentives through cash bonuses)

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

Fixed Remuneration

- *Base salary*

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

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

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

- *Non-monetary benefits*

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

- *Post-employment benefits*

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

AVALON MINERALS LTD

Directors' Report

Remuneration report (Audited) (continued)

- *Long-term benefits*
Long-term benefits include long service leave entitlements.

Variable Remuneration

- *Employee Share Option Plan and Director Option Plan / Performance Rights Plan*
At the discretion of the Board, employees can be invited to participate in the employee option plan and performance rights plan. Options and performance rights issued to Directors are subject to shareholder approval. The issue of options and performance rights is designed to reward key employees for performance and align their performance with the Company growth and strategic objectives. The performance conditions attached to the performance rights issues are:

Performance Conditions:

1. Tranche one = the closing price of the shares being 12c or more for 10 consecutive ASX trading days
2. Tranche two = the total combined JORC compliant mineral resources on the Viscaria project reaching 10Mt at 2.5% Cu or more
3. Tranche three = the closing price of the shares being 30c or more for 10 consecutive ASX trading days

Each tranche of Shares will not be able to be released from the Share Plan until the performance based Vesting Conditions for that tranche have been achieved. There was no performance or service conditions attached to the options issued during the current financial year.

- *Cash bonuses*
The Board may exercise its discretion to award cash bonuses to executives based upon individual performance. No cash bonuses were issued during the year ended 30 June 2012 (2011: nil).

AVALON MINERALS LTD

Directors' Report

Remuneration report (Audited) (continued)

B Details of remuneration

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

2012	Short-term benefits			Post-Employment benefits	Long-term benefits	Share-based payments		Total \$	Performance related %
	Cash salary and fees \$	Cash bonus \$	Non-monetary benefits \$	Superannuation \$	Long service leave \$	Remuneration received as Options and Rights %	Options and Rights \$		
Directors of Avalon Minerals Ltd:									
Mr J Read ⁽¹⁾	135,513	-	2,266	12,196	-	72.7 %	400,211	550,186	72.7%
Tan Sri Abu Sahid Bin Mohamed ⁽²⁾	-	-	-	-	-	-	(6,212)	(6,212)	-
Dato Siew Mun Chuang ⁽³⁾	13,551	-	-	1,219	-	-	-	14,770	-
Mr P Niardone ⁽⁴⁾	13,551	-	-	1,220	-	93.8%	224,536	239,307	93.8%
Mr Siew Mun Wai ⁽⁵⁾	17,500	-	-	1,575	-	-	-	19,075	-
Mr Seng Han Gary Goh ⁽⁶⁾	13,551	-	-	1,219	-	-	-	14,770	-
Mr R Edmonson ⁽⁷⁾	-	-	-	-	-	-	-	-	-
Mr DL McSweeney ⁽⁸⁾	144,267	-	-	7,662	-	-	(12,825)	139,104	-
Mr AT Munckton ⁽⁹⁾	372,600	-	-	33,534	-	-	(44,907)	361,227	-
Mr S Stone ⁽¹⁰⁾	21,209	-	-	-	-	-	(12,825)	8,384	-
Mr A Al-Khadra ⁽¹¹⁾	20,000	-	-	-	-	-	(12,825)	7,175	-
Mr AH Kamaruddin ⁽¹²⁾	20,000	-	-	-	-	-	-	20,000	-
Other key management personnel:									
Dr Q Hills ⁽¹³⁾	67,692	-	1,983	6,092	-	- *	- *	75,767	-
Mr I Wallace ⁽¹⁴⁾	92,000	-	2,266	8,280	-	- *	- *	102,546	-
Ms R Shand ⁽¹⁵⁾	34,760	-	2,266	3,128	-	- *	- *	40,154	-
Ms L Cochrane ⁽¹⁶⁾	33,028	-	2,266	2,972	-	- *	- *	38,266	-
Mr NP Bryce	180,000	-	-	16,200	-	-	-	196,200	-
Mr PA Bridson ⁽¹⁷⁾	87,604	-	-	7,498	-	-	-	95,102	-
Ms LV Lindskog ⁽¹⁸⁾	84,898	-	-	7,641	-	-	-	92,539	-
Total	1,351,724	-	11,047	110,436	-		535,153	2,008,360	

*Options and Performance Rights were issued to Key Management Personnel subsequent to the end of the financial year, refer Note 23.

AVALON MINERALS LTD

Directors' Report

Remuneration report (Audited) (continued)

- (1) Mr Read was appointed as Managing Director on 10 February 2012
- (2) Tan Sri Abu Sahid Bin Mohamed was appointed as Director on 12 January 2009 and appointed as Non-Executive Chairman on 9 February 2012. No Directors fees are paid to Tan Sri Abu Sahid Bin Mohamed for services performed for the company
- (3) Dato Siew Mun Chuang was appointed Deputy Chairman on 10 February 2012
- (4) Mr Niardone was appointed as a Non-Executive Director on 10 February 2012
- (5) Mr Sew Mun Wai was appointed as a Non-Executive Director on 10 February 2012
- (6) Mr Seng Han Gary Goh was appointed as a Non-Executive Director on 10 February 2012
- (7) Mr Edmondson was appointed as a Non-Executive Director on 10 February 2012 and resigned on 21 February 2012
- (8) Mr McSweeney resigned as Executive Chairman on 6 February 2012
- (9) Mr Munckton resigned as Managing Director on 19 March 2012
- (10) Mr Stone resigned as a Non-Executive Director on 11 January 2012
- (11) Mr Al-Khadra resigned as a Non-Executive Director on 21 February 2012
- (12) Mr Kamaruddin resigned as a Non-Executive Director on 9 February 2012
- (13) Dr Q Hills was appointed as Exploration Manager on 12 March 2012
- (14) Mr I Wallace was appointed as Business Manager on 13 February 2012
- (15) Ms R Shand was appointed as Company Secretary on 16 February 2012. Ms Shand works part time
- (16) Ms L Cochrane was appointed as Chief Financial Officer on 16 February 2012. Ms Cochrane works part time
- (17) Mr P Bridson resigned as Company Secretary and Consulting CFO on 8 December 2011
- (18) Ms LV Lindskog resigned as Exploration Manager on 7 December 2011

AVALON MINERALS LTD

Directors' Report

Remuneration report (Audited) (continued)

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

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

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

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

(4) Mr Steinepreis resigned on 1 March 2011.

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

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

(7) Mr Kelly resigned on 18 November 2010.

(8) Mr Brock resigned on 13 May 2011.

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

AVALON MINERALS LTD

Directors' Report

Remuneration report (Audited) (continued)

C *Executive Contractual Arrangements*

Remuneration for the Managing Director and Key Management Personnel are formalised in service agreements.

Mr Jeremy Read, Managing Director

Base salary, exclusive of superannuation and other benefits, is \$350,000, to be reviewed annually. Four weeks annual leave is provided.

The Executive Services Agreement stipulates Mr Read may provide three (3) months written notice of termination. The Company may terminate employment by providing three (3) months written notice and the payment of six (6) months salary.

Other Key Management

Contracts for other Key Management Personnel can be terminated by the employee with one (1) months notice period. The Company may terminate employment by providing three (3) months written notice and the payment of six (6) months salary.

D *Share-based compensation*

Options and performance rights granted as compensation to Directors during the year are as shown in the following tables.

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

Share Options / Performance Rights granted to Directors and Key Management Personnel

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 Key Management Personnel of the Consolidated Entity as part of their remuneration were as follows:

Options awarded and vested during the year

Director	Options Granted	Grant Date	Fair value per option at grant date \$	Issue Price	Exercise price per option \$	Expiry date	Vested	
							No.	%
Mr J Read	5,000,000	5 June 2012	0.06	0.01	0.05	30 September 2015	5,000,000	100
Mr P Niardone	2,800,000	5 June 2012	0.06	0.01	0.05	30 September 2015	2,800,000	100

All options vested to the Director upon issue as there were no performance or service conditions attached to these options. No performance conditions were attached to the options as they were provided as an incentive for the Directors to join the Company. Options may be exercised on or before 30 September 2015.

The amounts disclosed for emoluments relating to options issued to Directors and other key management personnel are assessed at fair values at the date of grant and allocated equally over the period from grant date to vesting date. Fair values at grant date were valued independently using the Binomial option pricing model.

AVALON MINERALS LTD

Directors' Report

Remuneration report (Audited) (continued)

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

Name	A Value of options granted during the year \$	B Value of options exercised during the year \$	C Value of options lapsed during the year \$
Mr DL McSweeney	-	-	-
Mr AT Munckton	-	-	-
Tan Sri AS Mohamed	-	-	-
Mr S Stone	-	-	-
Mr A Al-Khadra	-	-	-
Mr PA Bridson	-	-	-
Mr J Read	311,750	-	-
Mr P Niardone	174,580	-	-
Total	486,330	-	-

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

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

C = The value of options lapsed during the year represents intrinsic value and is determined at the date of lapse. 5,600,000 options lapsed during the year, however the exercise price was higher than the share price on the day the options lapsed.

Options awarded subsequent to the end of the financial year to Key Management Personnel

Name	Options Issued	Grant Date	Expiry Date	Issue Price \$	Exercise Price \$
Mr Ian Wallace (Business Manager)	2,600,000	27 July 2012	30 September 2015	0.01	0.05
Dr Quinton Hills (Exploration Manager)	2,600,000	27 July 2012	30 September 2015	0.01	0.05
Ms Linda Cochrane (Chief Financial Officer)	900,000	27 July 2012	30 September 2015	0.01	0.05
Ms Ros Shand (Company Secretary)	900,000	27 July 2012	30 September 2015	0.01	0.05

There are no performance conditions attached to these options. Options may be exercised on or before 30 September 2015.

Performance Rights awarded and vested during the year:

A new performance rights plan was established during the financial year. For further details refer to Note 21 (ii).

Performance rights awarded during the year:

Director	Performance Rights Granted during the year	Grant Date	Fair value per Performance grant at grant date \$	Exercise price \$	Expiry date	Number Vested during year	Vested %
Mr J Read	10,000,000	5 June 2012	1,131,749	-	5 June 2019	-	-
Mr P Niardone	5,600,000	5 June 2012	633,781	-	5 June 2019	-	-

These rights were independently valued. The valuer used the Binomial method of valuation. The performance rights have been granted subject to the completion and achievement of various milestones, and based on three separate tranches. The first and second tranches were valued at 12 cents per right. The third tranche was valued at 10 cents per right.

AVALON MINERALS LTD

Directors' Report

Remuneration report (Audited) (continued)

The Performance Rights for each Director by tranche is as follows:

Director	Tranche 1 No	Tranche 2 No	Tranche 3 No	Total No
Mr J Read	2,500,000	3,750,000	3,750,000	10,000,000
Mr P Niardone	1,400,000	2,100,000	2,100,000	5,600,000
Total	3,900,000	5,850,000	5,850,000	15,600,000

Performance Conditions:

- Tranche 1 The closing price of the share being 12 cents or more for 10 consecutive ASX trading days
 Tranche 2 The total combined JORC compliant mineral resources on the Viscaria project 10Mt at 2.5% Cu or more
 Tranche 3 The closing price of the shares being 30 cents or more for 10 consecutive ASX trading days

The performance rights vest upon achievement of the performance conditions which may occur any time between grant date and their expiry date of 5 June 2019.

Performance rights issued subsequent to year end:

Staff Member	Performance Rights Tranche 1 Shares	Performance Rights Tranche 2 Shares	Performance Rights Tranche 3 Shares	Performance Rights Total
<i>Key Management Personnel</i>				
Mr Ian Wallace (Business Manager)	1,300,000	1,950,000	1,950,000	5,200,000
Dr Quinton Hills (Exploration Manager)	1,300,000	1,950,000	1,950,000	5,200,000
Ms Linda Cochrane (Chief Financial Officer)	450,000	675,000	675,000	1,800,000
Ms Ros Shand (Company Secretary)	450,000	675,000	675,000	1,800,000
<i>Other Employees</i>	2,600,000	3,900,000	3,900,000	10,400,000
Total	6,100,000	9,150,000	9,150,000	24,400,000

Performance Conditions:

- Tranche 1 The closing price of the share being 12 cents or more for 10 consecutive ASX trading days
 Tranche 2 The total combined JORC compliant mineral resources on the Viscaria project 10Mt at 2.5% Cu or more
 Tranche 3 The closing price of the shares being 30 cents or more for 10 consecutive ASX trading days

The performance rights vest upon achievement of the performance conditions which may occur any time between grant date and their expiry date of 5 June 2019.

Shares Issued as a result of the Exercise of Options

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

E Additional information

	2012	2011	2010	2009	2008
<i>Impact on shareholder wealth</i>					
Loss per share (cents)	(1.8)	(1.1)	(1.1)	(5.0)	(3.4)
Share price (cents)	7	17	17	13	38

The performance rights plan links Directors and employees remuneration to the share price of the Company as the performance conditions include ASX trading price hurdles.

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

End of Remuneration Report

AVALON MINERALS LTD

Directors' Report

Share options

Unissued Shares

As at the date of this report, as detailed below, there were 28,300,000 unissued ordinary shares under option.

Shares under option

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

Date options vested	Expiry date	Issue price of shares	Number under option
1 February 2012	31 January 2014	40 cents	1,000,000
1 July 2011	1 July 2014	30 cents	500,000
1 February 2011	31 January 2013	30 cents	500,000
27 April 2013	27 April 2015	30 cents	300,000
20 March 2012	30 September 2015	6 cents	6,000,000
5 June 2012	30 September 2015	6 cents	7,800,000
27 July 2012	30 September 2015	6 cents	<u>12,200,000</u>
			<u>28,300,000</u>

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*.

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 30.

Non-Audit Services

During the year KPMG, the Group's auditor, has performed certain other services in addition to their statutory duties.

The Board has considered the non-auditor services provided during the year by the auditor and is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* for the following reason:

- The non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Group, acting as an advocate for the Group or jointly sharing risks and rewards.

AVALON MINERALS LTD

Directors' Report

Audit and Non-Audit Services

Details of the amounts paid to the auditor of the Group, KPMG, and its related practices for audit and non-audit services provided during the year are set out below. In addition, amounts paid to other auditors for the statutory audit have been disclosed:

	2012	2011
	\$	\$
Audit services:		
Auditors of the Group – KPMG:		
Audit and review of financial reports	58,545	-
Other auditors – non-KPMG firms:		
Audit and review of financial reports	-	50,698
Other assurance services		
Technical accounting advice	1,955	-
Other services		
Taxation compliance services	26,825	-
	<u>87,325</u>	<u>50,689</u>

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



Jeremy Read
Managing Director

Brisbane, Queensland
19 September 2012



Lead Auditor's Independence Declaration under Section 307C of the *Corporations Act 2001*

To: the directors of Avalon Minerals Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2012 there have been:

- no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

Jason Adams
Partner

Brisbane
19 September 2012

AVALON MINERALS LTD

Corporate governance statement

Statement

In recognising the need for the highest standards of corporate behavior and accountability, the Directors of Avalon Minerals Limited (“Company”) have adhered to the principles of corporate governance and this statement outlines the main corporate governance practices in place throughout the financial year. The ASX Corporate Governance Council released revised Corporate Governance Principles and Recommendations on 2 August 2007. Having regard to the size of the Company and the nature of its enterprise, it is considered that the Company complies as far as possible with the spirit and intentions of the ASX Corporate Governance Council’s Corporate Governance Principles and Recommendations.

The current Directors of the Company at the date of this report are:

Tan Sri Abu Sahid Bin Mohamed	Non-Executive Chairman	
Dato Siew Mun Chuang	Deputy Chairman	
Mr Jeremy Read	Managing Director	
Mr Paul Niardone	Non-Executive Director	Independent
Mr Siew Mun Wai	Non-Executive Director	Independent
Mr Seng Han Gary Goh	Non-Executive Director	Independent

For information on each Director, refer to the Directors Report.

The following policies or obligations have been established by the Board:

- Continuous disclosure
- Code of conduct
- Share trading
- Audit & Financial Risk
- Board Charter
- Risk Management

Independent Directors

When determining whether or not a Non-Executive Director is independent, the Director must not fail any of the following materiality thresholds:

- more than 5% of Company shares are held by the Director and any entity or individual directly or indirectly associated with the Director;
- no sales are made to, or purchases made from, any entity or individual directly or indirectly associated with the Director; and
- none of the Directors’ income or the income of an individual or entity directly or indirectly associated with the Director, is derived from a contract with any member of the consolidated entity other than income as derived as a Director of the entity.

At the date of this report, the board consists of one Executive Director, two Non-Executive Directors and three independent, Non-Executive Directors. They are considered independent because their shareholding currently does not exceed 5% of the total shares on issue. The board is considered to be appropriate for the size of the Company and the nature of its activities. It is a cost effective structure for managing the Company and there is no justification for appointing additional independent directors.

Board Composition

When the need for a new director is identified, selection is based on the skills and experience of prospective directors, having regard to the present and future needs of the Company. Any director so appointed must then stand for election at the next meeting of shareholders of the Company.

Director and Executive Education

All new Directors are educated about the nature of the business, current issues, the corporate strategy, the culture and values of the Group, and the expectations of the Group concerning performance of Directors. In addition, Directors are also educated regarding meeting arrangements and Director interaction with each other, senior executives and stakeholders. Directors have the opportunity to visit Group facilities and meet with management to gain a better understanding of operations. Directors are given access to continuing education opportunities to update and enhance their skills and knowledge upon joining the Group. Directors will be educated on the Group’s

AVALON MINERALS LTD

Corporate governance statement

structure, strategy, operations, financial position and risk management policies. It also familiarises the individual with respective rights, duties, responsibilities and roles of the individual and the Board.

Term of Appointment as a Director

The constitution of the Company provides that a director, other than the Managing Director, may not retain office for more than three calendar years or beyond the third annual general meeting following his or her election, whichever is longer, without submitting for re-election. One third of the directors must retire each year and are eligible for re-election. The directors who retire by rotation at each Annual General Meeting are those with the longest length of time in office since their appointment or last election.

Risk Management and internal compliance and controls

Audit and Financial Risk Committee

The board has established an Audit and Financial Risk Committee.

The Committee members are:

Mr Siew Mun Wai (Chairman)

Dato Siew Mun Chuang

Mr Paul Niardone

The Committee's responsibilities include:

- providing the Board with advice and recommendations regarding the ongoing development of financial risk oversight and management policies (covering oversight, risk profile, risk management, compliance and control) that set out the roles and respective accountabilities of the Board, the Audit Committee and management;
- receiving and reviewing management's recommendations and providing the Board with advice and recommendations regarding the establishment of a financial risk management system and financial risk profile;
- regularly reviewing the Company's financial risk profile (provided by management) having regard to key financial risk, legal and regulatory risk and disclosure reporting;
- reviewing internal control and audit functions and their effectiveness;
- reviewing financial statements provided by management for accuracy, adequacy and clarity to ensure they give a true and fair view of the Company's financial position and adhere to accounting standards and policies and legislative requirements;
- with respect to the external auditor, approving and recommending policies and procedures for appointing or removing an external auditor and terms of engagement;
- regularly reviewing and assessing the compliance of the external auditor with policies and procedures, the effectiveness, and independence of the external auditor; and
- monitoring the relationship between management and the auditor.

The Audit and Financial Risk Committee has met twice during the financial year and it is the intention of the Committee to meet quarterly going forward. The Managing Director and the Chief Financial Officer are invited to attend the Committee meetings.

Where appropriate, the Board and the Audit and Financial Risk Committee engage independent experts or professional advisors to assist with the identification and/or management of any key risk areas identified.

To ensure that risks, and also opportunities, are identified on a timely basis and that activities are aligned with the risks and opportunities identified, the Board has also adopted a Risk Management Policy to:

- ensure the Company's risk management policies and procedures are adequate;
- monitor compliance with the Company's risk management policies and procedures;
- keep itself apprised of the latest developments, policies, trends in relation to financial matters, rules, regulations, to the extent that they may affect the Company or the markets in which the Company operates;
- review the Company's internal financial control mechanisms and risk management policies;
- compile a risk profile of the material risks facing the Company;
- review major non-financial regulatory matters covering areas of exposure including the environment, safety and health, asset protection (including insurance), discrimination and harassment, conflict of interest and ethical standards.

AVALON MINERALS LTD

Corporate governance statement

Each year the Managing Director and the Chief Financial Officer are required to provide a statement to the Board in writing in respect to the integrity of the financial statements, that they are founded on a sound system of risk management and internal compliance and control systems are operating efficiently and effectively in all material respects.

Remuneration/Nomination and Performance

As at the date of this report, the Board has also established a Remuneration and Nomination Committee. The Committee members are:

Mr Paul Niardone (Chairman)

Mr Siew Mun Wai

Mr Seng Han Gary Goh

The Committee deals with matters of remuneration and nomination. The nomination of new Directors and the setting, or review, of remuneration levels of Directors and senior executives, is performed by the Committee and recommendations made to the Board as a whole for approval by resolution (with abstentions from relevant directors where there is a conflict of interest). Where the Committee or the Board considers that particular expertise or information is required, which is not available from within the Board, appropriate external advice may be taken prior to a final decision.

The Committee also deals with the remuneration of Directors and key executives of the Company. The Company's policy is to remunerate non-executive Directors at market rates for time, commitment and responsibilities. The Board determines payments to the non-executive Directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought where required. The maximum aggregate amount of fees that can be paid to non-executive Directors is subject to approval by shareholders.

Code of Conduct

The board has adopted a Code of Conduct to guide Directors, officers, employees and contractors in carrying out their duties and responsibilities. This Code of Conduct set out the principles and standards which the Board, management, employees and contractors of the Company are encouraged to strive towards when dealing with each other, shareholders and the community as a whole.

Conflict of interest

The Directors must keep the Company informed on an ongoing basis, of any interest that could potentially conflict with those of the Company. Where the Board believes a significant conflict exists, the director concerned does not receive the relevant Board papers and is not present at the meeting whilst the item is considered.

Independent Professional Advice

Each Director has the right of access to all relevant Company information and to the Company's executives. Directors have the right, in connection to their duties and responsibilities as directors, to seek independent professional advice at the Company's expense. Prior approval of the Chairman is required, which will not be unreasonably withheld, before any expense is incurred on behalf of the Company.

Share Trading Policy

Directors and employees are not permitted to trade shares whilst in the possession of price sensitive information. Directors and employees are prohibited from trading in securities whilst in possession of any inside information in accordance with the Corporations Act 2001.

Communication to market and shareholders

The Board Charter, Code of Conduct and Share Trading Policy all recognise legal and other obligations and support the legitimate interests of all stakeholders. Directors aim to ensure that the shareholders, on behalf of whom they act are informed of all information necessary to assess the performance of the Directors and the Company. Information is communicated to shareholders and the market through:

- the Annual Report, which is available to all shareholders;
- other periodic reports, such as Quarterly Reports, which are lodged with ASX and available for shareholder scrutiny;
- other announcements made in accordance with ASX Listing Rules;
- special purpose information memoranda issued to shareholders as appropriate;
- the Annual General Meeting and other meetings called to obtain approval for Board action as appropriate; and
- the Company's website.

The continuous disclosure policy adopted by the Board ensures procedures are in place so that the market is properly informed of matters which may have a material impact on the price at which securities are traded.

Diversity Policy

The Company does not at present have a Diversity Policy in place due to the size and stage of development of the Company. The Board will seek to develop a Diversity Policy over the coming year, which can then be used as a guide in identifying new Directors, senior executives and employees. Currently the Company has 1 female chief financial officer, 1 female Company secretary and 1 part time female staff member.

AVALON MINERALS LTD

Corporate governance statement

External Auditors

The external auditor is KPMG. The external auditor attends the Annual General Meeting and part of the agenda is the tabling of the financial statements and inviting shareholders to ask the Directors or the auditor any questions with regard to the financial statements and the audit report.

Other Information

The Corporate Governance Policies of the Company will be continually reviewed in accordance with the standards required of the Company by the Directors, the ASX, ASIC and other stakeholders to ensure that appropriate governance standards are maintained.

Further information relating to the Company's corporate governance practices and policies has been made publically available on the Company's web site at www.avalonminerals.com.au.

AVALON MINERALS LTD

Financial Report – 30 June 2012

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AVALON MINERALS LTD
Statement of Comprehensive Income
For the year ended 30 June 2012

	Note	Consolidated	
		2012 \$	2011 \$
Revenue from continuing operations	5	75,574	158,443
Other income	5	8,230	5,695
Employee benefits expense	6	(2,197,342)	(1,151,764)
Office occupancy costs		(236,407)	(202,284)
Corporate and administration expenses		(891,865)	(588,212)
Depreciation expense		(90,558)	(94,328)
Loss on sale of fixed assets		(52,447)	-
Exploration expenditure written off	11	(1,071,129)	(24,751)
Interest paid		(7)	(471)
Loss from continuing operations before income tax		(4,455,951)	(1,897,672)
Income tax expense	7	-	-
Net loss for the period		(4,455,951)	(1,897,672)
Other comprehensive loss			
Foreign currency translation		(1,015,912)	(586,713)
Total comprehensive loss for the period		(5,471,863)	(2,484,385)
Net loss for the period is attributable to:			
Members of Avalon Minerals Ltd		(4,455,951)	(1,897,672)
		<u>(4,455,951)</u>	<u>(1,897,672)</u>
Total comprehensive loss for the period attributable to:			
Members of Avalon Minerals Ltd		(5,471,863)	(2,484,385)
		<u>(5,471,863)</u>	<u>(2,484,385)</u>
Earnings per share for loss from continuing operations attributable to the ordinary equity holders of the Company:			
Basic earnings per share	26	Cents (1.8)	Cents (1.1)
Diluted earnings per share	26	(1.8)	(1.1)

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

AVALON MINERALS LTD

Statement of Financial Position

As at 30 June 2012

	Note	Consolidated	
		2012 \$	2011 \$
Current assets			
Cash and cash equivalents	8	694,310	2,660,034
Trade and other receivables	9	470,408	254,148
Total current assets		1,164,718	2,914,182
Non-current assets			
Plant and equipment	10	256,072	270,996
Exploration and evaluation	11	21,659,085	20,126,704
Total non-current assets		21,915,157	20,397,700
Total assets		23,079,875	23,311,882
Current liabilities			
Trade and other payables	12	957,036	1,202,120
Provisions	13	58,164	102,129
Total current liabilities		1,015,200	1,304,249
Non-current liabilities			
Provisions	13	-	17,052
Total non-current liabilities		-	17,052
Total liabilities		1,015,200	1,321,301
Net assets		22,064,675	21,990,581
Equity			
Contributed equity	14	36,105,165	31,454,613
Reserves	15	(848,247)	(727,740)
Accumulated losses	16	(13,192,243)	(8,736,292)
Total equity		22,064,675	21,990,581

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

AVALON MINERALS LTD
Statement of Changes in Equity
For the year ended 30 June 2012

2012 Consolidated	Contributed Equity \$	Share Based Payments Reserve \$	Foreign Currency Translation Reserve \$	Accumulated Losses \$	Total \$
At the beginning of the financial year	31,454,613	470,080	(1,197,820)	(8,736,292)	21,990,581
Loss for the year	-	-	-	(4,455,951)	(4,455,951)
Other comprehensive income	-	-	(1,015,912)	-	(1,015,912)
Total comprehensive income loss for the year	-	-	(1,015,912)	(4,455,951)	(5,471,863)
Shares issued	4,980,236	-	-	-	4,980,236
Share issue costs	(329,684)	-	-	-	(329,684)
Share based payment expense	-	895,405	-	-	895,405
Total Equity at the end of the financial year	36,105,165	1,365,485	(2,213,732)	(13,192,243)	22,064,675

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

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

AVALON MINERALS LTD
Statement of Cash Flows
For the year ended 30 June 2012

	Note	Consolidated	
		2012 \$	2011 \$
Cash flows from to/from operating activities			
Payments to suppliers and employees		(2,896,604)	(1,656,077)
Sundry income	5	8,230	5,695
Interest paid		-	(471)
Interest received	5	75,574	158,443
Net cash outflow from operating activities	25	(2,812,800)	(1,492,410)
Cash flows to/from investing activities			
Proceeds from sale of plant and equipment		-	1,350
Payments for plant and equipment		(128,081)	(242,283)
Exploration and evaluation expenditure		(3,531,076)	(12,186,027)
Net cash used in investing activities		(3,659,157)	(12,426,960)
Cash flows to/from financing activities			
Proceeds from issue of securities		4,980,236	14,838,189
Costs of share issues		(329,684)	(599,314)
Net cash provided by financing activities		4,650,552	14,238,875
Net increase/(decrease) in cash		(1,821,405)	319,505
Effect of exchange rate fluctuations on cash held		(144,319)	(586,713)
Cash and cash equivalents at the beginning of the financial year		2,660,034	2,927,242
Cash at the end of the financial year	8	694,310	2,660,034

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

AVALON MINERALS LTD

Notes to the Financial Statements

For the year ended 30 June 2012

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 2012, unless otherwise stated.

Corporate information

The consolidated financial report of Avalon Minerals Ltd for the year ended 30 June 2012 was authorised for issue in accordance with a resolution of the Directors on 19 September 2012.

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

65 Park Road
Milton QLD 4064

The Group is a for-profit entity. A description of the nature of the Consolidated Entity's operations and its principal activities is included in the Directors' report.

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

(a) Basis of preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board.

The presentation currency is Australian dollars.

Going concern

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

The consolidated entity incurred an operating loss after income tax of \$4,455,951 (2011: \$1,897,672) and incurred net cash outflows of \$1,821,405 (2011: inflow \$319,505). At reporting date, the consolidated entity had cash of \$694,310 (2011: \$2,660,034) and trade creditors of \$957,036 (2011: \$1,202,120). The consolidated entity also has operating lease commitments of \$460,288 and exploration tenement commitments of \$94,210. \$284,080 is payable within the next twelve months, \$270,418 is payable between 12 months and 5 years.

Since 30 June 2012, the following capital raising activities have occurred:

- In July 2012 Avalon placed 39,979,195 fully paid shares issued at 9 cents per share to professional and sophisticated investors, raising \$3,598,128 before costs.

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

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

The financial report does not contain any adjustments relating to the recoverability and classification of recorded assets or to the amounts or classification of recorded assets or liabilities that might be necessary should the Group not be able to continue as a going concern. For further details on capital management refer to Note 14(g) liquidity risk.

AVALON MINERALS LTD

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

Note 1. Summary of Significant Accounting Policies (continued)

(b) Statement of compliance

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

Changes in accounting policy and disclosure

The accounting policies adopted are consistent with those of the previous financial year.

(c) Basis of consolidation

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 2012 and the results of all the subsidiaries for the financial period then ended.

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

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

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

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

(d) Operating segments

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

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

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

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

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

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

AVALON MINERALS LTD

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

Note 1. Summary of Significant Accounting Policies (continued)

(e) Revenue recognition

Interest income

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

(f) Income tax

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

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

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

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

(g) Leases

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

(h) Business combinations

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

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

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

AVALON MINERALS LTD

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

Note 1. Summary of Significant Accounting Policies (continued)

Business combinations (continued)

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

(i) Impairment of assets

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

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

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

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

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

(j) Cash and cash equivalents

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

(k) Trade receivables

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

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

AVALON MINERALS LTD

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

Note 1. Summary of Significant Accounting Policies (continued)

(l) Investments and other financial assets

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

Loans and receivables

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

(m) Plant and equipment

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Consolidated Entity and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Statement of Comprehensive Income during the financial period in which they are incurred.

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

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

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

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

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

(n) Trade and other payables

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

(o) Provisions

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

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

AVALON MINERALS LTD

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

Note 1. Summary of Significant Accounting Policies (continued)

(p) Employee benefits

(i) Wages, salaries and annual leave

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

(ii) Retirement benefit obligations

The Consolidated Entity contributes to various superannuation funds for its employees.

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

(iii) Share-based payments

Share-based compensation benefits are provided to employees via the Director/employee share option plan and the performance rights plan.

The fair value of options and performance rights granted under these plans 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 Directors or employees become unconditionally entitled to the options or performance rights. The fair value at grant date is independently valued using a Binomial pricing model.

The cumulative expense recognised between grant date and vesting date is adjusted to reflect the Directors' best estimate of the number of options or performance grants that will ultimately vest because of internal conditions of the options or performance grants, such as the employee having to remain with the Company until vesting date, or such that employees are required to meet internal targets. No expense is recognised for options/performance rights that do not ultimately vest because internal conditions are not met. An expense is still recognised for options/performance rights that do not ultimately vest because a market condition was not met.

(q) Contributed equity

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

(r) Earnings per share

(i) Basic earnings per share

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

(ii) Diluted earnings per share

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

(s) Exploration and evaluation expenditure

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

AVALON MINERALS LTD

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

Note 1. Summary of Significant Accounting Policies (continued)

Exploration and evaluation expenditure (continued)

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

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

- such costs are expected to be recouped through successful development and exploitation of the area of interest or, alternatively, by its sale; or
- exploration and evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing.

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

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

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

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

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

(t) Goods and services tax (GST)

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

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

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

(u) Foreign currency transactions and balances

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

AVALON MINERALS LTD

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

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 translated at the exchange rates prevailing at the date of the transaction.

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

(v) **New and amended accounting standards and interpretations issued not yet adopted**

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Consolidated Entity for the reporting period ending 30 June 2012. The expected impact of the new and amended standards and interpretations on the Consolidated Entity has not yet been determined. These are outlined as follows:

Reference	Title	Summary	Application date for standard	Application for Group
AASB 2012-3	Offsetting Financial Assets and Financial Liabilities	The amendments to AASB 132 clarify when an entity has a legally enforceable right to set-off financial assets and financial liabilities permitting entities to present balances net on the balance sheet.	1 January 2014	1 July 2014
AASB 2011-4	Remove Individual Key Management Personnel Disclosure Requirements	Removes the requirements to include individual key management personnel disclosures in the notes to the financial statements. Companies will still need to provide these disclosures in the Remuneration Report under s.300A of the <i>Corporations Act 2001</i> .	1 July 2013	1 July 2013
AASB 9	<i>Financial Instruments</i> (December 2010) (includes financial assets and financial liability requirements) AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) <i>AASB 9 Financial Instruments</i> (December 2009) (Financial asset requirements only)	In AASB 9 (December 2010), the AASB added requirements for the classification and measurement of financial liabilities that are generally consistent with the equivalent requirements in AASB 139 except in respect of the fair value option; and certain derivatives linked to unquoted equity instruments. The AASB also added the requirements in AASB 139 in relation to the derecognition of financial assets and financial liabilities to AASB 9.	1 January 2013	1 July 2013

AVALON MINERALS LTD

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

Note 1. Summary of Significant Accounting Policies (continued)

Reference	Title	Summary	Application date for standard	Application for Group
AASB 10	Consolidated Financial Statements	AASB 10 introduces a new approach to determining which investees should be consolidated. An investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.	1 January 2013	1 July 2013
AASB 11	Joint Arrangements	If the parties have rights to and obligations for underlying assets and liabilities, the joint arrangement is considered a joint operation and partial consolidation is applied. Otherwise the joint arrangement is considered a joint venture and the Company must use the equity method to account for their interest.	1 January 2013	1 July 2013
AASB 119	Employee Benefits AASB 2011-10 arising from AASB 119	AASB 119 is amended focusing on but not limited to the accounting for defined benefit plans. In addition it changes the definition of short-term and other long-term employee benefits and some disclosure requirements.	1 January 2013	1 July 2013
AASB 2011-9	Presentation of Items of Other Comprehensive income	Makes a number of changes to the presentation of other comprehensive income including presenting separately those items that would be reclassified to profit or loss in the future and those that would never be reclassified to profit or loss and the impact of tax on those items.	1 July 2012	1 July 2012

AVALON MINERALS LTD

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

Note 2. Financial instruments and financial risk management

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

The Group'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 Group.

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

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

(i) Credit risk

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

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

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

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

No impairment is required for the year ended 30 June 2012.

(ii) Liquidity risk

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

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

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

	Consolidated	
	2012	2011
	\$	\$
Liquid financial assets		
Three months or less	1,084,233	2,814,919
Greater than three months	80,485	99,263
	<u>1,164,718</u>	<u>2,914,182</u>
Financial liabilities		
Three months or less	957,036	1,202,120
Greater than three months	-	-
	<u>957,036</u>	<u>1,202,120</u>

Debtors older than 90 days are not impaired.

The Group funds its activities through capital raising in order to limit its liquidity risk. In July 2012 \$3.6 million was raised via a placement to sophisticated and professional investors.

AVALON MINERALS LTD

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

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

Fair values

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

(iii) Interest rate risk

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

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

	Consolidated	
	2012	2011
	\$	\$
Financial assets		
Cash and cash equivalents	694,310	2,660,034

The following sensitivity analysis is based on the interest rate risk exposure in existence at the reporting date. The 1% sensitivity (2011: 1%) is based on reasonably possible changes over a financial year, using the observed range of actual historical rates for the preceding five year period.

At 30 June 2012, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax loss would have been affected as follows:

	Consolidated Higher/(Lower)	
	2012	2011
	\$	\$
Judgments of reasonably possible movements:		
<i>Post tax loss</i>		
+1.0% (100 basis points)	6,943	27,936
-1.0% (100 basis points)	(6,943)	(27,936)

The average interest rate for the year ended 30 June 2012 was 4.33% (2011: 4.23%).

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

(iv) Foreign currency risk

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

The Group does not hold any financial assets or liabilities at 30 June 2012 which create a material exposure to changes in foreign exchange rates.

AVALON MINERALS LTD

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

Note 3. Accounting estimates and judgements

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

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

Estimates

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they were granted. The fair value is determined using a Binomial option pricing model.

Judgements

Exploration and evaluation expenditure

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

Note 4. Segment reporting

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

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

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

Accounting policies and inter-segment transactions

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

AVALON MINERALS LTD

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

Note 4. Segment reporting (continued)

Geographical areas

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

	Consolidated	
	2012	2011
	\$	\$
Australia	81,986	163,570
Sweden	1,818	568
Total Revenue	83,804	164,138

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

Australia	159,638	218,055
Sweden	21,755,519	20,179,645
Total Non-current assets	22,915,157	20,397,700

Non-current assets include tangible and intangible assets.

Note 5. Revenue and other income

	Consolidated	
	2012	2011
	\$	\$
Interest revenue	75,574	158,443
Sundry income	8,230	5,695
	83,804	164,138

Note 6. Expenses

Loss before income tax includes the following:

Employee benefits expense*		
Salaries	1,008,833	616,635
Directors' fees	100,263	120,000
Superannuation	124,783	55,389
Share based payments	895,405	235,609
Leave entitlements	(41,389)	54,808
Other	109,447	69,323
	2,197,342	1,151,764

*Excluding employee benefit costs capitalised to exploration and evaluation expenditure

Rental expense relating to operating leases	173,211	146,608
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AVALON MINERALS LTD

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

Note 7. Income tax

(a) Current income tax

Current income tax benefit relating to origination and reversal of temporary differences

- -

Deferred tax assets not brought to account as realisation is not considered probable

- -

Income tax expense reported in the Statement of Comprehensive Income

- -

Consolidated

2012 2011
\$ \$

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

Accounting loss before income tax (4,455,951) (1,897,672)

At the Group's statutory income tax rate of 30% (1,336,785) (569,302)

Expenditure not allowable for income tax purposes 256,354 80,857

Deductible share issue costs (12,076) (11,447)

Prior year adjustment to Deferred Tax Assets (11,656) 368,001

Adjustment for lower corporate tax rate in Sweden 39,632 -

Deferred tax asset not brought to account as realisation is not considered probable 1,064,531 131,891

Income tax expense - -

	Statement of Financial Position 2012 \$	Statement of Financial Position 2011 \$	Statement of Comprehensive Income 2012 \$	Statement of Comprehensive Income 2011 \$
--	--	--	---	---

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

Deferred tax liabilities

Prepayments 462 1,353 (462) (1,353)

Deferred tax liabilities offset by deferred tax assets (462) (1,353) - -

Net deferred tax liabilities - -

Deferred tax assets

Employee provisions 17,449 29,866 (41,389) 16,442

Other accruals and provisions 15,262 15,646 (2,819) (2,906)

Share issue costs charged to equity - - - -

Unused income tax losses 2,497,561 1,421,312 1,109,532 119,708

Total deferred tax assets 2,530,272 1,466,824 1,064,862 131,891

Total unrecognised deferred tax assets (2,529,810) (1,465,471) (1,064,862) (131,891)

462 1,353 - -

Deferred tax assets offset by deferred tax liabilities (462) (1,353) - -

Net deferred tax assets - - - -

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

AVALON MINERALS LTD

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

Note 8. Current assets – Cash and cash equivalents

	Consolidated	
	2012	2011
	\$	\$
Cash on hand and at bank	694,310	2,660,034

Cash at bank earns interest at floating rates based on daily bank deposit rates. The cash at bank is bearing floating interest rates between 0.00% and 4.75% (2011: 0.01% and 4.75%). The carrying amounts of cash and cash equivalents represent fair value. During the year the Group also held term deposits bearing interest rates of 3.5% and 4.75%.

Restricted cash balances totaling \$78,945 (2011 \$58,372) representing term deposits securing various performance guarantees have been disclosed under trade and other receivables (refer Note 9).

Note 9. Current assets – Trade and other receivables

	Consolidated	
	2012	2011
	\$	\$
Other debtors	389,923	154,885
Deposits	78,945	58,372
Prepayments	1,540	40,891
	470,408	254,148

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

Note 10. Non-current assets – Plant and equipment

	Consolidated	
	2012	2011
	\$	\$
Plant and equipment		
Plant and equipment at cost	584,634	530,128
Less accumulated depreciation	(328,562)	(259,132)
	256,072	270,996

Plant and Equipment movements

Movement in the carrying amounts of property, plant and equipment between the beginning and end of the financial year is set out below.

	2012	2011
	\$	\$
Balance at 1 July	270,996	144,409
Additions - plant and equipment	130,241	225,750
Effect of movements in exchange rates	(2,160)	(879)
Depreciation expense	(90,558)	(94,328)
Disposals – at cost	(94,513)	(11,433)
Disposals – accumulated depreciation	42,066	7,477
Balance at 30 June	256,072	270,996

AVALON MINERALS LTD

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

Note 11. Non-Current assets – Exploration and evaluation

	Consolidated	
	2012	2011
	\$	\$
Exploration and evaluation		
Exploration and evaluation – at cost less amounts written off	21,659,085	20,126,704
Movements reconciliation		
Opening Balance	20,126,704	7,846,158
Purchases of mineral tenement applications	-	137,623
Exploration and evaluation expenditure	3,475,103	12,273,909
Effect of movements in exchange rates	(871,593)	(106,235)
Expenditure written off	(1,071,129) *	(24,751)
Closing Balance	21,659,085	20,126,704

The recovery of the Consolidated entity's interest in exploration expenditure is dependent upon:

- the continuance of the Company's rights to tenure of the areas of interest;
- the results of future exploration; and
- the recoupment of costs through successful development and exploitation of the areas of interest, or alternatively, by their sale.

* Expenditure incurred on the Adak tenements was written off in full in 2012 as exploration of this site has ceased.

Note 12. Current Liabilities – Trade and other payables

	Consolidated	
	2012	2011
	\$	\$
Trade payables	619,321	960,639
Sundry payables and accrued expenses	337,715	241,481
	957,036	1,202,120

Note 13. Provisions

	Consolidated	
	2012	2011
	\$	\$
Current		
Employee leave liabilities	58,164	102,129
	58,164	102,129
Non-current		
Employee leave liabilities	-	17,052
	-	17,052

AVALON MINERALS LTD

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

Note 14. Contributed equity

		Number of shares	2012 \$	
(a) Share capital				
Ordinary shares – fully paid		290,873,602	36,105,165	
(b) Movements in ordinary share capital				
Date	Details	Number of shares	Issue price \$	\$
	Balance at 30 June 2010	132,276,952		17,300,788
27 September 2010	Shares issued to sophisticated investors	20,000,000	0.16	3,200,000
12 January 2011	Placement to sophisticated investors	22,841,542	0.18	4,111,478
14 February 2011	Shares issued pursuant to 1 for 5 non-renounceable entitlement offer	28,844,900	0.18	5,192,082
23 February 2011	Shares issued pursuant to underwritten portion of 1 for 5 entitlement offer	5,274,608	0.18	949,429
30 June 2011	Shares issued to professional and sophisticated investors* Funds received but shares not yet allotted*	6,500,000	0.18	1,170,000
	Less: Transaction costs arising on placement of shares			215,200
				(684,364)
	Balance at 30 June 2011	215,738,002		31,454,613
7 July 2011	Shares issued to professional and sophisticated investors	1,862,221	0.18	120,000*
	Less: transaction costs on issue of shares			(576)
1 September 2011	Shares issued to professional and sophisticated investors	19,891,111	0.09	1,790,200
	Less: transaction costs on issue of shares			(87,418)
18 October 2011	Shares issued to professional and sophisticated investors	1,570,000	0.09	141,300
20 March 2012	Partly paid options issued to Underwriter of Rights Issue			60,000
30 March 2012	Shares issues pursuant to 1 for 5 non-renounceable pro-rata rights issue	47,812,268	0.06	2,868,736
	Less: transaction costs on issue of shares			(241,690)
30 March 2012	Shares issued to Underwriter	4,000,000	-	-
	Balance at 30 June 2012	290,873,602		36,105,165

* \$215,200 was received prior to 30 June 2011

Subsequent to the end of the financial year the Company completed a share placement of 39,979,195 shares at 9 cents per share to professional and sophisticated investors raising \$3,499,642 after costs. Refer Note 23.

(c) Ordinary shares

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

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

(d) Employee and Director Option Plan / Performance Rights Plan

Information relating to the employee and Director's share option plan and performance right's plan, including details of instruments issued, exercised and lapsed during the financial year are set out in Note 21.

AVALON MINERALS LTD

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

Note 14. Contributed equity (continued)

(e) Options

At the end of the financial period there were 31,700,000 performance rights/options over ordinary shares on issue as shown below:

- 500,000 options exercisable at 30 cents and expiring 31 January 2013;
- 1,000,000 options exercisable at 40 cents and expiring 31 January 2014;
- 500,000 options exercisable at 30 cents and expiring 1 July 2014;
- 300,000 options exercisable at 30 cents and expiring 27 April 2015;
- 13,800,000 options with an issue price of 1c, exercise price 5c and an expiry date of 30 September 2015;
- 15,600,000 performance rights (see Note 21), expiring 5 June 2019.

(f) Movements in Options / Performance Rights

Date	Details	Number of options/ Performance Rights
	Balance at 1 July 2010	1,900,000
22 September 2010	Allotment of options	1,000,000
4 October 2010	Expiry of options	(300,000)
3 May 2011	Allotment of options	5,400,000
	Balance at 30 June 2011	8,000,000
21 July 2011	Expiry of options	(100,000)
8 December 2011	Expiry of options	(500,000)
11 January 2012	Expiry of options	(600,000)
6 February 2012	Expiry of options	(600,000)
21 February 2012	Expiry of options	(600,000)
19 March 2012	Expiry of options	(3,000,000)
20 March 2012	Allotment of options	6,000,000
27 April 2012	Expiry of Options	(300,000)
5 June 2012	Allotment of Options	7,800,000
5 June 2012	Performance Rights Issued	15,600,000
	Balance at 30 June 2012	31,700,000

(g) Capital management

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

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

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

AVALON MINERALS LTD

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

Note 14. Contributed equity (continued)

	Consolidated	
	2012	2011
	\$	\$
Total Borrowings	-	-
Less: cash and cash equivalents	694,310	2,660,034
Total equity	22,220,599	21,990,581
Total capital	22,914,909	24,650,615
Gearing ratio	0%	0%

Note 15. Reserves

	Consolidated	
	2012	2011
	\$	\$
Share based payments reserve	1,365,485	470,080
Foreign currency translation reserve	(2,213,732)	(1,197,820)
Total reserves	(848,247)	(727,740)
Movements in reserves		
<i>Share-based payments reserve</i>		
Balance at 1 July	470,080	234,471
Share based payment expense	895,405	235,609
Transfer to contributed equity upon exercise	-	-
Balance at 30 June	1,365,485	470,080
<i>Foreign currency translation reserve</i>		
Balance at 1 July	(1,197,820)	(611,107)
Foreign exchange loss on translation of foreign subsidiaries	(1,015,912)	(586,713)
Balance at 30 June	(2,213,732)	(1,197,820)

Nature and purpose of reserves

Share-based payments reserve

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

Foreign currency translation reserve

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

AVALON MINERALS LTD

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

Note 16. Accumulated losses

	Consolidated	
	2012	2011
	\$	\$
Balance at 1 July	(8,736,292)	(6,838,620)
Net loss attributable to members of Avalon Minerals Ltd	(4,455,951)	(1,897,672)
Balance at 30 June	(13,192,243)	(8,736,292)

Note 17. Key management personnel disclosures

(a) Directors

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

Chairman

Mr D L McSweeney (resigned as Executive Chairman on 6 February 2012)

Tan Sri Abu Sahid Bin Mohamed (appointed as Non-Executive Chairman on 9 February 2012)

Managing Director and CEO

Mr A T Munckton (resigned as Managing Director on 19 March 2012)

Mr J Read (appointed as Managing Director on 10 February 2012)

Non-Executive Directors

Mr S Stone (resigned 11 January 2012)

Mr A Al-Khadra (resigned 21 February 2012)

Mr P Niardone (appointed 10 February 2012)

Mr R Edmonson (appointed 10 February 2012, resigned 21 February 2012)

Mr Siew Mun Wai (appointed 10 February 2012)

Mr Seng Han Gary Goh (appointed 10 February 2012)

Dato Siew Mun Chuang (appointed 10 February 2012)

(b) Other key management personnel

Name	Position
Mr Paul Bridson	Chief Financial Officer and Company Secretary (resigned 8 December 2011)
Ms Linda Cochrane	Chief Financial Officer (appointed 20 February 2012)
Ms Ros Shand	Company Secretary (Appointed 13 February 2012)
Mr Nick Bryce	Principal Geologist (resigned 20 July 2012)
Dr Quinton Hills	Exploration Manager (appointed 12 March 2012)
Mr Ian Wallace	Commercial Manager (appointed 13 February 2012)

Key management personnel compensation

	Consolidated	
	2012	2011
	\$	\$
Short term employee benefits	1,362,771	1,884,042
Long term employee benefits	-	9,861
Post-employment benefits	110,436	90,908
Share based payments	535,153	235,609
	2,008,360	2,220,420

AVALON MINERALS LTD

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

Note 17. Key management personnel disclosures (continued)

(c) 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 can be found in the Remuneration Report on pages 19 to 27 and Note 21.

Option holdings

The movement during the period in the number of options held by key management personnel is as follows:

2012	Balance at the beginning of the period	Granted as remuneration	Exercised during the period	Options Lapsed	Balance at the end of the period	Vested and exercisable at the end of the period
	Number	Number	Number	Number	Number	Number
Director						
Mr DL McSweeney	600,000	-	-	(600,000)	-	-
Mr AT Munckton	4,500,000	-	-	(3,000,000)	1,500,000	1,500,000
Tan Sri AS Mohamed	600,000	-	-	(300,000)	300,000	-
Mr S Stone	600,000	-	-	(600,000)	-	-
Mr A Al-Khadra	600,000	-	-	(600,000)	-	-
Mr AH Karmaruddin	-	-	-	-	-	-
Mr GC Steinepreis	-	-	-	-	-	-
Mr J Read	-	5,000,000	-	-	5,000,000	-
Mr P Niardone	-	2,800,000	-	-	2,800,000	-
Mr Siew Mun Wai	-	-	-	-	-	-
Mr Seng Han Gary Goh	-	-	-	-	-	-
Dato Siew Mun Chuang	-	-	-	-	-	-
Other key management personnel						
Mr PA Bridson	1,000,000	-	-	(500,000)	500,000	500,000
Total	7,900,000	7,800,000	-	(5,600,000)	10,100,000	2,000,000

Subsequent to the end of the financial year options were issued to Key Management Personnel, refer Note 23.

2011	Balance at the beginning of the period	Granted as remuneration	Exercised during the period	Options Lapsed	Balance at the end of the period	Vested and exercisable at the end of the period
	Number	Number	Number	Number	Number	Number
Director						
Mr DL McSweeney	-	600,000	-	-	600,000	-
Mr AT Munckton	1,500,000	3,000,000	-	-	4,500,000	500,000
Tan Sri AS Mohamed	-	600,000	-	-	600,000	-
Mr S Stone	-	600,000	-	-	600,000	-
Mr A Al-Khadra	-	600,000	-	-	600,000	-
Mr AH Kamaruddin	-	-	-	-	-	-
Mr GC Steinepreis	-	-	-	-	-	-
Other key management personnel						
Mr PA Bridson	-	1,000,000	-	-	1,000,000	-
Total	1,500,000	6,400,000	-	-	7,900,000	500,000

AVALON MINERALS LTD

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

Note 17. Key management personnel disclosures (continued)

Performance Rights provided as remuneration

Details of performance rights issued, together with terms and conditions, can be found in the Remuneration Report on pages 19 to 27 and Note 21.

Performance Rights

2012	Balance at the beginning of the period	Performance Rights granted as remuneration	Balance at the end of the period	Vested and exercisable at the end of the period	Unvested at the end of the period
	Number	Number	Number	Number	Number
Director					
Mr J Read	-	10,000,000	10,000,000	-	10,000,000
Mr P Niardone	-	5,600,000	5,600,000	-	5,600,000
Total	-	15,600,000	15,600,000	-	15,600,000

There were no performance rights issued during the prior financial year.

Subsequent to the end of the Financial Year, performance rights were issued to Key Management Personnel, refer Note 23.

Share holdings

The numbers of shares in the Company held during the financial year by each Director and the key management personnel of the Consolidated Entity, including their personally related entities, are set out below.

2012	Balance at the beginning of the period	Received during the period on the exercise of options	Other changes during the period*	Balance at the end of the period
Name	Number	Number	Number	Number
Director				
Mr DL McSweeney	14,526,282	-	(3,727,620)	10,798,662
Mr AT Munckton	978,000	-	59,600	1,037,600
Tan Sri AS Bin Mohamed	41,438,344	-	8,287,668	49,726,012
Mr S Stone	1,385,942	-	665,186	2,051,128
Mr A Al-Khadra	-	-	-	-
Mr AH Kamaruddin	200,000	-	40,000	240,000
Mr GC Steinepreis	-	-	-	-
Mr J Read	-	-	500,000	500,000
Mr P Niardone	-	-	-	-
Mr Siew Mun Wai	-	-	-	-
Mr Seng Han Gary Goh	-	-	-	-
Dato Siew Mun Chuang	-	-	27,760,833	27,760,833
Other key management personnel				
Mr PA Bridson	90,000	-	(90,000)	-
Dr Q Hills	-	-	200,000	200,000
Mr I Wallace	-	-	100,000	100,000
Ms L Cochrane	-	-	-	-
Ms R Shand	-	-	-	-
Total	58,618,568	-	33,795,667	92,414,235

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

AVALON MINERALS LTD

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

Note 17. Key management personnel disclosures (continued)

2011	Balance at the beginning of the period	Received during the period on the exercise of options	Other changes during the period*	Balance at the end of the period
Director	Number	Number	Number	Number
Mr DL McSweeney	13,750,727	-	775,555	14,526,282
Mr AT Munckton	515,000	-	463,000	978,000
Tan Sri AS Bin Mohamed	21,814,922	-	19,623,422	41,438,344
Mr S Stone	1,385,942	-	-	1,385,942
Mr A Al-Khadra	-	-	-	-
Mr AH Kamaruddin	-	-	-	200,000
Mr GC Steinepreis	2,257,155	-	(2,257,155)	-
Other key management personnel				
Mr DJ Kelly	250,000	-	(250,000)	-
Mr PA Bridson	-	-	90,000	90,000
Total	39,973,746	-	18,444,822	58,618,568

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

(d) Loans to key management personnel

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

(e) Other transactions with key management personnel

During the financial year the Company paid fees of \$19,585 to MSP Engineering Pty Ltd, a company of which Mr McSweeney was the Chairman and a shareholder. Amounts were billed based upon normal market rates for engineering services and were due and payable under normal payment terms. Mr McSweeney resigned from Avalon Minerals on 6 February 2012. During the previous financial year the Company paid fees of \$900,951 to MSP Engineering Pty Ltd.

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

There were no further transactions or balances outstanding at 30 June 2012 with key management personnel.

Note 18. Remuneration of auditors

	Consolidated	
	2012	2011
	\$	\$
During the period the following fees were paid or payable for services provided by the auditor of the Company and its related practices:		
Audit and Review Services		
<i>KPMG</i>		
Audit and review of consolidated financial statements	47,642	-
Audit of Swedish subsidiaries financial statements	10,903	-
<i>Other auditors</i>		
Audit and review of financial statements	-	50,689
Other Services		
<i>KPMG</i>		
Accounting advice	1,955	-
Taxation matters	26,825	-

AVALON MINERALS LTD

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

Note 19. Contingent liabilities

One invoice is currently in dispute with a supplier of the Company. The total balance being pursued but not provided for in the accounts at 30 June 2012 is \$58,500. The Company has not provided for this balance as Management have concluded that the claim for the additional \$58,500 is not valid.

Note 20. Capital and other commitments

(i) Capital Commitments

	Consolidated	
	2012	2011
	\$	\$
Commitments on Tenements are as follows:		
Expenditure Commitments:		
Tenements		
- not later than 12 months	94,210	38,877
- between 12 months and 5 years	-	251,615
- greater than 5 years	-	-
	<u>94,210</u>	<u>290,492</u>

Exploration expenditure commitments include the tenement fee renewals for the next twelve months due to management's intention to renew these tenements.

(ii) Lease commitments

	2012	2011
	\$	\$
Operating Lease Payable:		
- not later than 12 months	189,870	150,173
- between 12 months and 5 years	270,418	143,942
- greater than 5 years	-	-
	<u>460,288</u>	<u>294,115</u>

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

Note 21. Share-based payments

(a) New Issue of Options to Directors/Employees and establishment of New Performance Right Plan for Directors/Employees

At the Shareholder's meeting on 5 June 2012 the issue of Options to two Directors (Mr J Read and Mr P Niardone) and the provision to issue options to the new management team and employees was ratified by Shareholders. A new performance rights plan for Directors and employees was also ratified by Shareholders. While the issue of options and performance rights to Directors was finalised at the time of the Shareholder meeting, allocation to Key Management Personnel and employees was determined subsequent to year end. Refer Note 23 Events Subsequent to Balance Date. All options and performance rights are equity settled.

(i) Options

The primary purpose of the issue of the options on 5 June 2012 was to provide cost effective remuneration and incentive for Mr Read and Mr Niardone to join the Board in their respective roles as Managing Director and Non-Executive Director. 5,000,000 options were issued to Mr Read and 2,800,000 options were issued to Mr Niardone. The issue price per option is 1 cent, with an outstanding balance of 5 cents per option required to be paid to exercise the options prior to the expiry date of 30 September 2015. There are no performance or service conditions attached to these options and as a result the options have been expensed in the current financial year.

AVALON MINERALS LTD

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

Note 21. Share-based payments (continued)

Set out below is a summary of the movement in options for the current financial year.

Grant Date	Expiry Date	Issue Price	Exercise Price	Balance at beginning of the period	Issued during the period	Exercised during the period	Forfeited/expired during the period	Balance at the end of the period
		\$	\$	Number	Number	Number	Number	Number
2012								
13 January 2009	31 July 2011	-	0.20	100,000	-	-	(100,000)	-
27 February 2010	31 January 2013	-	0.30	500,000	-	-	-	500,000
27 February 2010	31 January 2014	-	0.40	1,000,000	-	-	-	1,000,000
22 September 2010	1 July 2014	-	0.30	500,000	-	-	-	500,000
22 September 2010	1 July 2015	-	0.40	500,000	-	-	(500,000)	-
3 May 2011	27 April 2014	-	0.30	2,700,000	-	-	(2,700,000)	-
3 May 2011	27 April 2015	-	0.30	2,700,000	-	-	(2,400,000)	300,000
23 May 2012	30 September 2015	0.01	0.05	-	6,000,000	-	-	6,000,000
5 June 2012	30 September 2015	0.01	0.05	-	7,800,000	-	-	7,800,000
Total		-		8,000,000	13,800,000	-	(5,700,000)	16,100,000

Grant Date	Expiry Date	Issue Price	Exercise Price	Balance at beginning of the period	Issued during the period	Exercised during the period	Forfeited/expired during the period	Balance at the end of the period
		\$	\$	Number	Number	Number	Number	Number
2011								
26 August 2008	31 July 2011	-	0.30	300,000	-	-	(300,000)	-
13 January 2009	31 July 2011	-	0.20	100,000	-	-	-	100,000
27 February 2010	31 January 2013	-	0.30	500,000	-	-	-	500,000
27 February 2010	31 January 2014	-	0.40	1,000,000	-	-	-	1,000,000
22 September 2010	1 July 2004	-	0.30	-	500,000	-	-	500,000
22 September 2010	1 July 2015	-	0.40	-	500,000	-	-	500,000
3 May 2011	27 April 2014	-	0.30	-	2,700,000	-	-	2,700,000
3 May 2011	27 April 2015	-	0.30	-	2,700,000	-	-	2,700,000
Total		-		1,900,000	6,400,000	-	(300,000)	8,000,000

Fair Value of Options Granted 2012

The fair value of options issued during 2012 were independently valued using the Binomial method of valuation.

Grant Date	23 May 2012	5 June 2012
Issue Price	\$0.01	\$0.01
Exercise Price	\$0.05	\$0.05
Share price at Grant Date	\$0.09	\$0.08
Share volatility	106.83%	106.83%
Risk Free rate of return	3.66%	3.66%
Number of options issued	6,000,000	7,800,000
Value per option	\$0.06	\$0.06
Total Value	\$360,000	\$486,330

Subsequent to the end of the financial year further options were issued to Key Management Personnel and employees. Refer to Note 23 for options issued subsequent to the end of the financial year.

Amortisation expense for options

The amortised expense in the statement of comprehensive income for the year ended 30 June 2012 was \$756,988 (30 June 2011: \$235,609).

(ii) Performance Rights

A new performance rights plan for Directors and employees was approved by Shareholders on 5 June 2012.

The performance rights plan is an equity linked incentive plan established to more closely align rewards for performance of key employees with the achievement of the Company's growth and strategic objectives for 2012 financial year and beyond.

AVALON MINERALS LTD

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

Note 21. Share-based payments (continued)

Summary of Key Terms of Performance Rights Plan (Rights Plan)

Eligibility Criteria

- a) The rights plan is available to full and part time employees of the Company, Directors of the Company and “associates” (as defined for Australian income tax purposes) of any of those persons (Eligible Participants). Participation in the rights plan is by invitation only.

Structure and Administration of the Rights Plan

- b) The rights plan provides for performance rights to be acquired by:
 - i. Eligible Participants who have accepted an invitation to acquire performance rights under the rights plan;
 - ii. The key terms and conditions of the rights plan are set out in the rights plan and provided to Eligible Participants;
 - iii. Subject to ASX listing rules, the Board may from time to time amend or add to all as any of the provisions of the rights plan or the terms and conditions of any performance rights granted, including vesting conditions.
- c) The total number of performance rights is 40 million (subject to the Board amending the rights plan rules).
- d) Acquisition of Performance Rights
All performance rights are offered to Eligible Participants for no consideration.
- e) Performance Rights Exercise Price
Within 10 business days after a performance right has vested (ie the vesting conditions linked to the performance rights have been satisfied) the Company will award the Eligible Participant the number of shares applicable to those performance rights free of charge.
- f) Shares
 - i. Each performance right will entitle the eligible participant to receive one fully paid ordinary share in the Company, if the vesting conditions are satisfied;
 - ii. The Company will apply to ASX for allocated shares to be listed.
- g) Lapse
An unvested performance right will lapse upon the earliest to occur of (amongst other circumstances):
 - i. The Eligible Participant transferring or granting a security of interest over a performance right;
 - ii. The Eligible Participant ceasing to be an eligible employee (other than for ill health or death, the Board determines within 3 months of the relevant event, that the performance right will still vest);
 - iii. The Eligible Participant acting fraudulently or dishonestly or in breach of the eligible participant’s obligations to any group member;
 - iv. A resolution being passed or order being made to wind up the Company;
 - v. The vesting conditions in respect of a performance right not being met within any applicable period; and
 - vi. The 7th year of the grant date.
- h) Assignability
 - i. Performance rights are not transferable except with the prior written consent of the Board, which may be withheld in its absolute discretion;
 - ii. Performance rights are transferable to the extent necessary to allow exercise by personal representatives pursuant to the plan in the event of the death of the holder.
- i) Restrictions
 - i. For the first 3 months after the date shares are issued to participants (Trading Lock Period), 25% of those shares issued on that date (Locked Shares), will be subject to a Trading Lock;
 - ii. During the Trading Lock Period, the Locked Shares may not be transferred and the Eligible Participant must not grant any security interest in or over (or to otherwise dispose or deal with) the Locked Shares or any interest held in the Locked Shares.

AVALON MINERALS LTD

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

Note 21. Share-based payments (continued)

j) Vesting

Vesting conditions will be determined by the Board at the time an invitation inviting Eligible Participants to participate in the rights plan is made. Generally, performance rights will not vest until the relevant vesting conditions linked to those performance rights have been satisfied. However:

- i. In the case of ill health or death the vesting conditions may be waived by the Board in its absolute discretion;
- ii. If a 'Change of Control' (ie takeover bid (as defined under the Corporations Act) is made to acquire at least 50% of the Shares, a person obtains voting power in the Company of more than 33% and the takeover bid is or has become unconditional or a Court has sanctioned a compromise or arrangement under Part 5.1 of the Corporations Act (other than the purpose of, or in connection with, a scheme for the reconstruction of the Company or its amalgamation with any other entity or entities)) occurs, and there is no contravention of the applicable laws (for example the ASX Listing Rules and the Corporations Act), subject to the terms and conditions of the grant of a performance right, all those performance rights will immediately vest to shares.

2012 Performance Rights

The performance rights issued are:

Tranche	Directors	Management and Employees *	Total
One	3,900,000	-	3,900,000
Two	5,850,000	-	5,850,000
Three	5,850,000	-	5,850,000
	15,600,000	-	15,600,000

* Performance rights to management and employees were issued subsequent to year end, refer note 23.

The following table summarises the key assumptions adopted for valuation of the Performance Rights:

	Tranche 1	Tranche 2	Tranche 3	Total
Issue Date	3,900,000	5,850,000	5,850,000	15,600,000
Expected life (in months)	5 June 2012	5 June 2012	5 June 2012	
Expected life (in days)	12 months	6 months	48 months	
Share volatility	365	182.5	1460	
Risk free rate	90.0%	90.0%	90.0%	
Valuation at grant date \$	2.61%	2.61%	2.61%	
Gross value per tranche	0.12	0.12	0.10	
	\$468,000	\$702,000	\$595,530	\$1,765,530

Performance Conditions:

1. Tranche one = the closing price of the shares being 12c or more for 10 consecutive ASX trading days
2. Tranche two = the total combined JORC compliant mineral resources on the Viscaria project reaching 10Mt at 2.5% Cu or more
3. Tranche three = the closing price of the shares being 30c or more for 10 consecutive ASX trading days

Each tranche of Shares will not be able to be released from the Share Plan until the performance based Vesting Conditions for that tranche have been achieved.

(iii) Amortisation expense for Directors Performance Rights

The amortised expense in the statement of comprehensive income for the year ended 30 June 2012 was \$138,417 (30 June 2011: \$0).

AVALON MINERALS LTD

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

Note 22 Related party transactions

Controlling entities

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

Ownership interests in related parties

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

Note 23. Events occurring after reporting date

Issue of Options and Performance Rights

On 27 July 2012, the Board approved the issue of 12,200,000 options to Key Management Personnel and other employees. The issue price was 1 cent per share and the exercise price is 5 cents per share. The options expire on 30 September 2015. Options issued under these terms were:

Staff Member	Options Issued
<i>Key Management Personnel</i>	
Mr Ian Wallace (Business Manager)	2,600,000
Dr Quinton Hills (Exploration Manager)	2,600,000
Ms Linda Cochrane (CFO)	900,000
Ms Ros Shand (Company Secretary)	900,000
<i>Other Employees</i>	5,200,000
Total	12,200,000

On 27 July 2012, performance rights were also issued to Key Management Personnel and employees. The terms of the performance rights Plan are disclosed in Note 21. The performance rights issued to Key Management Personnel and other employees are as follows:

Staff Member	Performance Rights Tranche 1 Shares	Performance Rights Tranche 2 Shares	Performance Rights Tranche 3 Shares	Performance Rights Total
<i>Key Management Personnel</i>				
Mr Ian Wallace (Business Manager)	1,300,000	1,950,000	1,950,000	5,200,000
Dr Quinton Hills (Exploration Manager)	1,300,000	1,950,000	1,950,000	5,200,000
Ms Linda Cochrane (Chief Financial Officer)	450,000	675,000	675,000	1,800,000
Ms Ros Shand (Company Secretary)	450,000	675,000	675,000	1,800,000
<i>Other Employees</i>	2,600,000	3,900,000	3,900,000	10,400,000
Total	6,100,000	9,150,000	9,150,000	24,400,000

Performance Conditions:

1. Tranche one = the closing price of the shares being 12c or more for 10 consecutive ASX trading days
2. Tranche two = the total combined JORC compliant mineral resources on the Viscaria project reaching 10Mt at 2.5% Cu or more
3. Tranche three = the closing price of the shares being 30c or more for 10 consecutive ASX trading days

Each tranche of Shares will not be able to be released from the Share Plan until the performance based Vesting Conditions for that tranche have been achieved.

Capital Raising

In July 2012, the Company placed 39,979,195 fully paid shares issued at 9 cents per share to professional and sophisticated investors, raising \$3,598,128 before costs.

AVALON MINERALS LTD

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

Note 24. Related parties

Subsidiaries

2012

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

2011

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

Note 25. Cash Flow Information

Reconciliation of net loss after tax to net cash outflow from operating activities

	Consolidated	
	2012	2011
	\$	\$
Operating loss after income tax	(4,455,951)	(1,897,672)
Non-cash flows in loss		
Depreciation	90,558	94,328
Exploration expenditure written off	1,071,129	24,751
Share based payments – performance rights/options	895,405	235,609
Loss on sale of plant and equipment	52,447	2,606
Changes in assets and liabilities		
(Increase)/decrease in trade & other receivables	(216,260)	103,496
Increase/(decrease) in trade & other payables	(189,111)	(72,580)
(Increase)/decrease in provisions	(61,017)	17,052
Cash flow from operations	(2,812,800)	(1,492,410)

AVALON MINERALS LTD

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

Note 26. Earnings per share

	Consolidated	
	2012	2011
	cents	cents
Basic and diluted earnings per share	(1.8)	(1.1)
Weighted average number of shares used as the denominator	Number	Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	246,382,783	176,827,514
Effect of dilution:		
Share options/Performance Rights	1,707,741	7,019
Weighted average number of ordinary shares used as the denominator adjusted for the effect of dilution	248,090,524	176,834,533
Further potential ordinary shares (options) not considered to be dilutive	2,300,000	7,992,981
Losses used in calculating basic and diluted losses per share	\$	\$
Net loss	(4,455,951)	(1,897,672)

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

Note 27. Dividends

No dividend was paid or declared by the Company in the period since the end of the previous financial year, and up to the date of this report. The Directors do not recommend that any amount be paid by way of dividend for the financial period ended 30 June 2012 (2011: nil).

The balance of the Company's franking account is nil (2011: nil).

AVALON MINERALS LTD

Notes to the Financial Statements (continued)

For the year ended 30 June 2012

Note 28. Parent Entity Information

Information relating to Avalon Minerals Ltd:

	2012	2011
	\$	\$
Current assets	798,415	2,541,882
Total assets	992,954	2,759,938
Current liabilities	310,469	522,311
Total liabilities	310,469	539,363
Net Assets	<u>682,485</u>	<u>2,220,575</u>
Issued capital	36,105,165	31,454,613
Accumulated losses	(36,788,164)	(29,704,118)
Share-based payments reserve	1,365,484	470,080
Total shareholders' equity	<u>682,485</u>	<u>2,220,575</u>
Loss of the parent entity	(7,046,302)	(14,572,327)
Total comprehensive income of the parent entity	908,939	1,131,951

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

The Parent Entity has restricted cash balances totaling \$71,039 (2011: \$50,192) representing term deposits securing performance guarantees over rental of the Company's office premises.

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

AVALON MINERALS LTD

Directors' Declaration

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

In the opinion of the Directors:

- (a) the financial statements and notes of the Consolidated Entity are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Consolidated Entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*;
- (b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 1(b)
- (c) subject to the achievement of matters described in note 1(a), there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- (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 year ending 30 June 2012.

On behalf of the Board



Jeremy Read
Managing Director

Brisbane Queensland
19 September 2012



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

Report on the financial report

We have audited the accompanying financial report of Avalon Minerals Ltd (the company), which comprises the consolidated statement of financial position as at 30 June 2012, and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 28 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 1(b), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. 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 the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view 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 control. 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 performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.



Auditor's opinion

In our opinion:

- (a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Group's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1(b).

Inherent uncertainty regarding continuation as a going concern

Without modifying our opinion expressed above, attention is drawn to Note 1(a) in the financial report. As a result of matters described in note 1(a), the company is reliant upon raising additional funds to enable it to continue with its operations, including its ongoing exploration programs. These conditions indicate the existence of a material uncertainty which may cast significant doubt regarding the ability of the company to continue as a going concern and therefore, whether it will be able to realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

Report on the remuneration report

We have audited the remuneration report included in pages 19 to 27 of the directors' report for the year ended 30 June 2012. 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 auditing standards.

Auditor's opinion

In our opinion, the remuneration report of Avalon Minerals Ltd for the year ended 30 June 2012, complies with Section 300A of the *Corporations Act 2001*.

KPMG

Jason Adams
Partner

Brisbane
19 September 2012

AVALON MINERALS LTD

ASX Additional Information

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

SHAREHOLDINGS

Substantial shareholders

The following substantial shareholders within the Company as at 17 September 2012.

Holders (above 5%)	Ordinary shares	
Tan Sri Abu Sahid Bin Mohamed	49,726,012	15.03%
Siew Mun Chuang	27,760,833	8.40%
Galena Fund	19,924,858	6.02%

Class of shares and voting rights

At 17 September 2012, there were 978 holders of the ordinary shares of the Company. The voting rights attached to the ordinary shares, set out in clause 12.7 of the Company's Constitution, are:

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

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

At 17 September 2012, there were options and performance rights over unissued ordinary shares. There are no voting rights attached to the unissued ordinary shares. Voting rights will be attached to the unissued ordinary shares when the options have been exercised or the performance rights have vested.

On-market buy-back

There is no current on-market buy-back.

Distribution of Share & Option Holders (as at 17 September 2012)

Category	Number of holders	
	Ordinary shares	Unlisted Options
1 – 1,000	53	-
1,001 – 5,000	77	-
5,001 – 10,000	76	-
10,001 – 100,000	468	-
100,001 and over	298	6
	<u>972</u>	<u>6</u>

AVALON MINERALS LTD

ASX Additional Information (continued)

There were 154 holders holding less than a marketable parcel.

Unquoted Securities

The options and performance rights on issue were issued as part of an employee share option plan, Director option plan and performance rights incentive scheme and are unquoted.

Restricted Securities

There were no restricted securities as at 17 September 2012:

Twenty Largest Security holders as at 17 September 2012

Holder name	Ordinary Shares	
	Number	%
Mr Abu Sahid Bin Mohamed	49,726,012	15.03
Citicorp Nominees Pty Limited	28,531,088	8.62
HSBC Custody Nominees (Australia) Ltd – GSCO ECA	19,924,858	6.02
Mr Lim Heng Suan	17,626,521	5.33
JP Morgan Nominees Australia Ltd <Cash Income A/C>	15,739,311	4.76
Brookman Resources Pty Ltd <David McSweeney S/F A/C>	9,799,939	2.96
Spectral Investments Pty Ltd <Lithgow Family A/C>	6,792,702	2.05
Pershing Australia Nominees Pty Ltd <Indian Ocean A/C>	6,255,817	1.89
Flue Holdings Pty Ltd	4,128,662	1.25
Osiris Capital Investments Pty Ltd	3,800,000	1.15
Slade Technologies Pty Ltd <Embrey Facility S/F A/C>	3,500,000	1.06
Mr David Donald Boyer <DB Family A/C>	3,426,000	1.04
Mr Robert Wittenoom	3,389,592	1.02
HSBC Custody Nominees (Australia) Ltd	3,013,185	0.91
Mr Daniel Paul Wise <Ark Investments A/C>	2,900,000	0.88
Merrill Lynch (Australia) Nominees Pty Ltd	2,872,223	0.87
NEFCO Nominees Pty Ltd	2,739,312	0.83
Mr Brian Charles Officer and Mrs Sandra Jeanette Officer <Dolphin Super Fund A/C>	2,601,900	0.79
Mrs Fionnuala Edmondson	2,544,000	0.77
Mr Darren Condon	2,460,000	0.74
Total	191,225,402	57.8

Other information

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