Avalon Minerals Ltd

Annual Report
30 June 2009

Avalon Minerals Ltd ACN 123 184 412

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Corporate Directory

Directors
David McSweeney
Chairman and Managing Director

Gary Steinepreis
Non-executive
Stephen Stone
Non-executive
Tan Sri Abu Mohamed
Non-executive
Ahmad Kamaruddin
Alternate

Secretary
Desmond Kelly

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

Solicitors
Steinepreis Paganin
Level 4 Read Buildings
16 Milligan Street
Perth WA 6000

Bankers
National Australia Bank
1238 Hay Street
West Perth WA 6005

Stock exchange listings
Avalon Minerals Ltd shares are
listed on the Australian Securities Exchange,
The home branch is Perth
Ordinary fully paid shares (ASX code AVI)

Principal place of business and registered office in Australia
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Chairman's Review

On behalf of the Board of Directors of Avalon Minerals Ltd (Avalon) I am pleased to report on the Company's progress during the 2009 financial year.

Whilst the unprecedented financial turmoil experienced during the year resulted in a roller coaster ride for commodities and for the mining sector it did not diminish Avalon's goals of developing its advanced Viscaria copper assets. At the time of writing this report the copper price had strengthened from lows of nearly $1.30 US/lb to $2.80 US/lb with a number of leading analysts concluding that copper prices could increase to over $3.00/lb in 2010.

Your board of directors took appropriate action during the worst of the crisis to reduce company overheads and took action to raise additional working capital by way of a strategic placement to Tan Sri Abu Sahid Mohamed and by way of a 1 for 3 rights issue. Subsequent to the end of the year, the Company also completed a private placement to raise an additional $1.3 million, taking the total capital raised during the year to $3.6m. An additional $300,000 was raised by the exercise of 1.5 million options at 20 cents per share.

The working capital was raised to support the Company's drilling and feasibility studies at the Viscaria Copper Project in Northern Sweden. These activities are based on sound fundamentals surrounding the Company's analysis of the operating and capital costs to re open the Viscaria copper mine and the Company's view that copper prices are likely to exceed US $2.50/lb for the foreseeable future.

During the year Avalon conducted an extensive review of the historical mining activities at Viscaria and exploration opportunities. The result of these reviews has led the Company to formulate an aggressive exploration drilling campaign at Viscaria to test the open positions along strike north and south from the surface and at depth. The Viscaria ore body is regarded as a VMS deposit. VMS deposits are generally regarded as occurring in clusters and also as having high grade feeder systems.
I am very pleased to say that Avalon has confirmed the extension of the A Zone at Viscaria by a further 500 metres to the North as a result of the drilling conducted in June/July 2009. At the time of the writing of this report Avalon had commenced a 6,200 metre drilling program to test 4 targets at Viscaria including the down plunge extensions of the A Zone South whilst also testing several shallower targets within and along strike of the A Zone.

The Viscaria Copper Project benefits from being nearby a major regional mining centre with a population of 20,000 persons in close proximity to the Kiruna Iron ore mine owned by LKAB. As such, Avalon benefits from the considerable amount of existing infrastructure in the area.

Avalon has commenced preparation for the grant of a mining concession for the Viscaria licences to lodge with the Mines Inspector of Sweden in late 2009.

The Company's share price and market capitalisation is poised for growth with the progress of exploration and feasibility studies over the next 12 months. The 2010 financial year promises to be the most active year for Avalon since the company was listed in 2007.

During the year it was my pleasure to welcome Tan Sri Abu Sahid Mohammed to the Board of directors of Avalon Minerals Ltd as a director. Tan Sri Abu is the Chairman of Perwaja Steel of Malaysia and is the Company's largest shareholder.

I wish to take this opportunity to thank all of the Avalon shareholders for their support during the financial year. Further I would like to thank my fellow directors and the employees and contractors who provided services to the Company during the year.

David McSweeney
Chairman
Avalon Minerals Ltd

Tenement Schedule

SWEDEN			
Tenement Holder	**Number**	**Name**	**Interest**
Avalon Minerals Viscaria AB	No 101	Viscaria	Granted 100%
Avalon Minerals Viscaria AB	No 102	Viscaria	Granted 100%
Avalon Minerals Viscaria AB	No 103	Viscaria	Granted 100%
Avalon Minerals Viscaria AB	No 104	Viscaria	Granted 100%
Avalon Minerals Viscaria AB	No 105	Viscaria	Granted 100%
Avalon Minerals Viscaria AB	No 106	Viscaria	Granted 100%
Avalon Minerals Viscaria AB	No 1	Viscaria	Granted 100%
Avalon Minerals Viscaria AB	No 2	Viscaria	Granted 100%
Avalon Minerals Viscaria AB	No 3	Viscaria	Granted 100%
Avalon Minerals Viscaria AB	No 107	Viscaria	Granted 100%
Avalon Minerals Viscaria AB	No 108	Viscaria	Granted 100%
Avalon Minerals Adak AB	No 1	Adak	Granted 100%
Avalon Minerals Adak AB	No 1	Domarsenaset	Granted 100%
Avalon Minerals Adak AB	No 101	Branntrask	Granted 100%
Avalon Minerals Adak AB	No 2	Adak	Granted 100%

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 2009.

Directors

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

D L McSweeney
G C Steinepreis
S Stone

Tan Sri Abu Mohamed was appointed a director on 12 January 2009 and continues as at the date of this report.

Mr A Kamaruddin was appointed an alternative director for Tan Sri Mohamed on 12 January 2009 and continues as at the date of this report.

Principal activities

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

Dividends

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

Review of operations

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

	2009	2008
	$	$
Revenue	**131,346**	190,249
Loss before income tax expense	**(3,475,440)**	(1,733,958)
Income tax expense	**-**	-
Loss attributable to members of Avalon Minerals Ltd	**(3,475,440)**	(1,733,958)

Financial Position

During the period the Company had a net increase in contributed equity of $2,609,814 (from $7,125,612 to $9,735,426) as a result of:

- The issue of 1,500,000 ordinary fully paid shares at 20 cents each pursuant to an exercise of options to raise $300,000;
- a placement of 13,000,000 ordinary fully paid shares at 10 cents each to raise $1,300,000;
- a placement of 520,000 ordinary fully paid shares at 10 cents each as consideration for a brokerage fee;
- the issue of 21,873,333 ordinary fully paid shares at 5 cents each pursuant to a fully underwritten rights issue to raise $1,093,667; and
- payment of capital raising and share issue costs of $135,853.

At the end of the financial period the group had net cash balances of $1,919,002 and net assets of $4,087,119.

Directors' Report (continued)

Review of operations (continued)

Total liabilities amounted to $437,676 and were limited to trade and other creditors.

Exploration

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

The Viscaria Copper Project is the Company's main focus and forms the basis for Avalon's copper development plans.

Avalon is committed to the following strategy designed to re-establish by 2012 new copper mining operations producing 10,000tpa at Viscaria:

1. Establishing open-cut resources at the Viscaria 'D' Zone and A Zone South deposits and additional underground resources at 'A' Zone South that should be sufficient to support a 10 year mine life;
2. Establishing new zones and extensions to high-grade copper mineralisation down-plunge of the 'A' Zone South;
3. Simultaneously completing Feasibility Studies into a stand-alone and/or toll treatment combined open-cut and underground mining operation at Viscaria; and
4. Applying for a Mining Concession at Viscaria by December 2009 including commencing the Environmental Impact Assessment (EIA) process.

During 2009 Avalon undertook a review of the exploration potential of the Viscaria Copper Project. The aim of the review was to identify new zones containing 2 to 3 million tonnes of 3 % copper mineralisation outside of the known resources to support the Company's conceptual, base case start-up concept operation of 300,000 tpa @ 3 % Cu. The Company has reviewed all historical drilling information and related data which has resulted in a drill program designed to test two prospective zones with potential to achieve the Company's objectives - Bahpagobba and the 'A' Zone South extension target.

Bahpagobba EM Target

An initial program of 3,500m of Reverse Circulation ("RC") and diamond drilling began in May 2009 and comprises a combination of exploration and resource drilling in and around Viscaria. The program has initially targeted the Bahpagobba EM anomaly, approximately 500 metres north of the 'A' Zone North underground mine where geophysical consultants, Southern Geoscience, had interpreted the potential for 3 conductors.

A number of historical drill holes in the Bahpagobba area have reported copper mineralisation in the projected northern extension of the 'A' Zone North. They include an intersection of 9m at 4% Cu (D 2216) from 76m further supporting the basis and support for drill testing the 3 Bahpagobba EM conductor anomolies.

The Company has appointed Kiruna based drillers, Styrud Arctic AB, to carry out the initial RC drilling program and SMOY of Finland have been appointed to carry out down-hole EM surveys of these holes. At the time of writing this report, the Company had completed 6 RC holes to a maximum depth of 250 metres to test the first and second conductors.

The down-hole EM survey detected the presence of at least one off-hole conductor 50 metres north of the first conductor. The first conductor was further tested with the completion of the 6th hole.

Samples from the first 6 holes have been collected and sent to the laboratory for assaying.

Further drilling of the Bahpagobba targets await the outcome of a review by the Company's geophysicists, Southern Geoscience, of all assays and down-hole EM surveys.

Review of operations (continued)

The current drilling program has demonstrated the benefits of the location of the Viscaria Copper Project in close proximity to the town of Kiruna with all drillers, offsiders and the majority of suppliers being cost-effectively sourced locally.

The 'A' Zone South and 'D' Zone Open Cut Infill Drilling Programs
As part of the Company's development plans and Feasibility Studies, Avalon has identified the potential to delineate for open-cut resources in both the 'D' Zone and the 'A' Zone South from historical drilling carried out by previous project operator, Outokumpu.

Initial open pit modelling of both the 'A' Zone South and the 'D' Zone resources demonstrates that potential exists for the delineation of a resource of approximately 1.5 million tonnes at 1.5% Cu that would be amenable to open-cut mining operations.

The open-cut material in both the 'D' Zone and the 'A' Zone south provides the Company with an excellent opportunity to stage the re-opening of the Viscaria copper mine as an open-cut mine for at least the first 2 to 3 years of production. This would provide Avalon with a quicker and cheaper path to production along with cashflow ahead of the de-watering and refurbishment of the main decline to access new and remnant lodes within the 'A' Zone.

As part of the Company's staged approach to the Viscaria feasibility plans, an initial infill drilling program at the 'D' Zone is planned to commence in the September Quarter.

The 'A' Zone South Drilling Program
Historical production from the 'A' Zone South accounted for approximately 8 million tonnes of copper ore produced by the previous operators, LKAB and Outokumpu, between 1982 and 1997. Copper grades within the 'A' Zone South are commonly greater than 3% Cu, with widths greater than 8 metres over considerable strike lengths.

Avalon plans to drill one mother hole (Visc A001 - 950m) and four daughter holes for a total of 1,890m. The initial drilling (mother hole) will take place 100m south of the nearest underground workings and is aiming to intercept the mineralised zone between 850m and 900m downhole. The additional drilling (daughter holes) will be drilled 50m from this point north and south and up and down-dip.

The aim of the 'A' Zone south drilling programme is to establish the continuation of the 'A' Zone South resource down-plunge to the south, to support the base case development scenario outlined above.

The Company is conducting studies with various mining consultants in Australia and Sweden into the cost of de-watering and refurbishing the decline. In addition the Company is preparing a submission for an application for a mining concession.

Other Exploration Targets at Viscaria
In addition to the three (3) targets set out above, Avalon has identified a number of other brownfields exploration targets at Viscaria including:

'B' Zone - (24.1mt @ 0.8% Cu)
The 'B' Zone, although lower in grade than the other zones at Viscaria, is just 200 metres east of the 'A' Zone. A decline was extended from the 'A' Zone North to the 'B' Zone by the previous operators. Within the overall 'B' Zone Resource there are large zones of >1% and 1.5% Cu which may become economic once mining resumes in the 'A' Zone.

Review of operations (continued)

'A' Zone

In addition to the down-plunge potential in the 'A' Zone South, the Company has identified a number of other highly prospective zones for extensions of existing copper resources and for new resources below and along strike from the existing 'A' Zone South resource model.

Regional

Avalon controls over 200km² of tenements at Viscaria and has identified a number of highly prospective EM conductor highs in this land package that warrant further exploration following the priority exploration targets currently being evaluated.

Corporate

Avalon Minerals Ltd completed a Non-Renounceable Entitlement Issue during the June quarter. At the close, entitlements totaling 18,708,791 were received of the total of 21,873,333 on offer under the Prospectus dated 6 May 2009. This represented a take up of 85.5% by the shareholders. The balance of the shares on offer, being 3,164,542, were placed with the underwriters to raise on completion of the Issue total of $1,093,667**.**

Earnings per share	**2009 Cents**	2008 Cents
Basic and diluted earnings per share	**(5.1)**	(3.4)

The earnings per share calculations for the years ended 30 June 2009 and 2008 have been adjusted for the 1 for 3 Rights issue announced to the market on 6 May 2009 in accordance with AASB 133 Earnings Per Share. The effect of this is to dilute the number of shares on issue by a factor of 1.143.

Significant changes in the state of affairs

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

Matters subsequent to the end of the financial period

On 11 September 2009 the Company announced that it had successfully undertaken a placement of 13,000,000 shares at 10 cents per share to raise $1,300,000. The shares have been placed with sophisticated investors and clients of Indian Ocean Capital Ltd.

No other matter or circumstance has arisen since 30 June 2009 that has significantly affected, or may significantly affect:

(a) the Consolidated Entity's operations in future financial years, or

(b) the results of those operations in future financial years, or

(c) the Consolidated Entity's state of affairs in future financial years.

Likely developments and expected results of operations

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

Environmental regulation

The Consolidated Entity is subject to the environmental laws and regulations imposed under the 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.

Information on directors

DAVID MCSWEENEY *Chairman – Executive*

Experience and expertise

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

Other directorships of ASX listed companies in the past three years

<u>Current</u>

Bauxite Resources Limited – since 20 November 2007

<u>Former</u>

Gindalbie Metals – 1998 to December 2006
Dynasty Metals – 8 January 2007 to 6 September 2007

ABU SAHID BIN MOHAMED *Non-executive Director*

Experience and expertise

Tan Sri Abu Sahid Mohamed is the Group Executive Chairman of successful Malaysian conglomerate the Maju Group of Companies and has over 30 years of experience in the Malaysian construction and steel industries. He is also the Executive Chairman of Perwaja Holdings Berhad, Malaysia's leading steel producer, and Ipmuda Berhad, a building materials specialist. Both companies are listed on the Malaysian Stock Exchange. Tan Sri Abu Sahid has acquired an enviable reputation in the Malaysian corporate scene while remaining true to his philosophy of Service, Quality and Reliability.

Other directorships of ASX listed companies in the past three years

<u>None</u>

GARY STEINEPREIS *Non-executive Director*

Experience and expertise

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

Other directorships of ASX listed companies in the past three years

<u>Current</u>

Norseman Gold plc – since 3 December 2007
RMG Limited – since 31 January 2006
WAG Limited – since 2 November 2006
Laguna Resources NL – since 11 October 2007
Monto Minerals Ltd – since 26 June 2009
Agri Energy Limited (subject to a deed of company arrangement)

Information on directors (continued)

<u>Former</u>
Monitor Holdings Ltd – 16 April 2004 to 18 January 2007
KarmelSonix Limited – 18 August 2003 to 21 November 2006
GB Energy Limited – 13 March 2006 to 29 August 2007
Toodyay Resources Ltd – 22 December 2005 to 23 October 2007
Gawler Resources Ltd – 17 May 2006 to 27 November 2007
Black Fire Energy Limited – 29 November 2006 to 8 September 2009
Signature Brands Ltd – 1 June 2006 to 27 November 2008
Croesus Mining NL – 12 July 2007 to 31 August 2009

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

Other directorships of ASX listed companies in the past three years
<u>Current</u>
Azumah Resources Limited – since 8 November 2006

AHMAD HISHAM BIN KAMARUDDIN *Alternate Non-executive Director*
Experience and expertise
Ahmad Hisham Kamaruddin obtained his Bachelor of Laws (LL.B) Hons. from University of Malaya in 1979. He has worked as a Legal Officer, then as a Company Secretary before chambering at Messrs. Abdul Aziz & Ong. In May 1982, he was called to the Malaysian Bar and continued serving Messrs. Abdul Aziz & Ong. In October 1983, he founded Messrs. Hisham & Associates and remains the senior partner of the legal firm. Overall, he has been in private practice for 28 years specialising in corporate legal matters. He is also a Director of ERM Malaysia Sdn. Bhd., a local subsidiary of ERM Plc, UK. The company undertakes Environmental and Ecological Studies. Since January 2007, he has been appointed as a Tribunal President for the Malaysia Consumer Court by the Minister of Domestic Trade and Consumer Affairs. He is also a council member of the Malaysia Heritage Council appointed by the Minister of Culture, Arts and Heritage.

Other directorships of ASX listed companies in the past three years
<u>None</u>

Company secretary
DESMOND KELLY BComm, CPA, MAICD *Company Secretary*
Des Kelly has over 30 years financial and corporate management experience focused mainly in the resources sector. He was Dominion Mining's Group Chief Accountant in that company's key growth phase in the mid-eighties and, between 1994 and 1998 held the roles of Finance Director and Managing Director of Horizon Mining NL before establishing his own corporate management consulting business. Mr Kelly now contributes corporate and administration management expertise to several listed groups including Universal Resources, Nylex Limited and CI Resources Ltd.

Directors' interests in shares and options

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

	Ordinary Shares		Options over Ordinary Shares	
	Direct	Indirect	Direct	Indirect
D McSweeney	6,013,333	6,773,109	3,300,000	-
G Steinepreis	1,000,000	1,257,155	200,000	-
S Stone	959,999	130,705	200,000	-
A Mohamed	19,088,057	-	-	-
A Kamaruddin	-	-	-	-

Meetings of directors

The number of meetings of the Company's board of directors held during the year ended 30 June 2009 and the number of meetings attended by each director were:

	Full meetings of Directors	
	Entitled to attend	**Attended**
D McSweeney	7	7
G Steinepreis	7	7
S Stone	7	7
A Mohamed	3	-
A Kamaruddin	3	3

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

Retirement, election and continuation in office of directors

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

Tan Sri Abu Mohamed was appointed a director on 12 January 2009. Confirmation of his appointment will be put to the Annual General Meeting.

Remuneration report (Audited)

Key management personnel

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

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

Remuneration report (audited) (continued)

Key management personnel at the date of this report are:

Directors of the company

D McSweeney – Chairman and Managing Director

G Steinepreis – Non-executive director

S Stone – Non-executive director

A Mohamed – Non-executive director (appointed 12 January 2009)

A Kamaruddin – Alternate director (appointed 12 January 2009)

Other key management personnel

D Kelly – Company Secretary

G Hewlett – Exploration Manager (resigned 12 December 2008)

Nigel Baker – Project Manager Sweden

P Batten – Consultant Manager (from 3 February to 8 June 2009)

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

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

A Principles used to determine the nature and amount of remuneration

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

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

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

Alignment to shareholders' interests:

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

Alignment to program participants' interests:

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

Remuneration report (audited) (continued)

The framework currently consists of fixed salaries.

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

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

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

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

Directors' fees
The current base remuneration was last reviewed with effect from 16 January 2007. Directors' remuneration is inclusive of committee fees. During this financial year directors have taken voluntary reductions in fees and salaries in response to the Global Financial Crisis.

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

Retirement allowances for directors
Directors and employees are permitted to nominate a superannuation fund of their choice to receive superannuation contributions.

Executive pay
The executive pay and reward framework has three components:
- Fixed remuneration (base salary, superannuation & other non-monetary benefits)
- Variable Remuneration (long-term incentives through participation in the Employee Share Option Scheme)

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

Fixed Remuneration
- *Base salary*
  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.

Remuneration report (audited) (continued)

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 and reasonable entertainment.

- *Retirement benefits*
  Directors and employees are permitted to nominate a superannuation fund of their choice to receive superannuation contributions.

Variable Remuneration

- *Employee Share Option Scheme*
  All staff (including executive directors) are eligible to participate in the scheme.

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

The exercise price of options is determined by the directors which is not less than 80% of market price on the date upon which the directors first resolved to grant the options. Amounts receivable on the exercise of options are recognised as share capital.

Options issued under the Scheme are considered as incentive options and have no vesting or performance conditions.

Set out below are summaries of options granted under the Scheme during the year ended 30 June 2009.

Grant date	Expiry date	Exercise price	Issued during the period	Exercised during the period	Lapsed during the period	Balance at end of the period
		$	Number	Number	Number	Number
2009						
26 August 2008	31 January 2011	0.30	300,000	-	-	300,000
13 January 2009	31 July 2011	0.20	100,000	-	-	100,000
			400,000	-	-	400,000

Directors' Report (continued)

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.

2009	**Short-term benefits**		**Post-employment benefits**	**Share-based payments**		
Name	**Cash salary and fees $**	**Non-monetary benefits $**	**Superannuation $**	**Remuneration received as options %**	**Options $**	**Total $**
Directors of Avalon Minerals Ltd:						
D McSweeney	227,501	12,809	20,475	-	-	260,785
G Steinepreis	35,000	1,782	-	-	-	36,782
S Stone	35,000	1,782	-	-	-	36,782
A Mohamed	-	-	-	-	-	-
A Kamaruddin	16,431	965	-	-	-	17,396
Other key management personnel:						
D J Kelly	41,600	1,782	-	-	-	43,382
G Hewlett	111,670	-	10,050	-	-	121,720
N Baker	140,925	-	-	14.87%	24,630	165,555
P Batten	42,000	-	-	-	-	42,000
Total	**650,127**	**19,120**	**30,525**	**3.4%**	**24,630**	**724,402**

All directors and key management personnel took voluntary salary reductions during the year in response to the impact of the Global Financial Crisis. It is envisaged that fees and salaries will return to previous levels at a later date.

2008	**Short-term benefits**		**Post-employment benefits**	**Share-based payments**		
Name	**Cash salary and fees $**	**Non-monetary benefits $**	**Superannuation $**	**Remuneration received as options %**	**Options $**	**Total $**
Directors of Avalon Minerals Ltd:						
D McSweeney	300,000	3,174	29,250	-	-	332,424
G Steinepreis	35,000	3,174	-	-	-	38,174
S Stone	36,459	3,174	-	-	-	39,633
Other key management personnel:						
D J Kelly	40,200	3,174	-	42.63%	32,239	75,613
G Hewlett	133,333	-	12,000	32.62%	70,375	215,708
Total	**544,992**	**12,696**	**41,250**	**14.63%**	**102,614**	**701,552**

Directors' Report (continued)

Remuneration report (audited) (continued)

Other transactions with directors
There were no other transactions with directors.

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

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

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

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

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

D McSweeney, *Executive Chairman*
Term of agreement – For a period of 3 years with a notice period 3 months and the payment of 9 months salary. Base salary, exclusive of superannuation and other benefits, is $300,000, to be reviewed annually. Provision of four weeks annual leave. During the current period D Mc Sweeney took a voluntary salary reduction of $72,499 exclusive of superannuation and other benefits.

D Kelly, *Company Secretary*
Term of agreement – twelve months, notice period of two months. Annual consulting fees of $52,800 renegotiable at the end of the contract period. During the current period D Kelly took a voluntary fee reduction of $11,200 exclusive of superannuation and other benefits.

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

Options carry no dividend or voting rights.

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

Directors' Report (continued)

Remuneration report (audited) (continued)

Option holdings of directors and other key management personnel:

2009 Name	Balance at the beginning of the year	Granted during the period as remuneration	Exercised during the period	Other changes during the period*	Balance at the end of the period	Vested and exercisable at the end of the period
Directors of Avalon Minerals Ltd:						
D McSweeney	10,000,000	-	(1,500,000)	(5,200,000)	3,300,000	3,300,000
G Steinepreis	500,000	-	-	(300,000)	200,000	200,000
S Stone	500,000	-	-	(300,000)	200,000	200,000
A Mohamed	-	-	-	-	-	-
A Kamaruddin	-	-	-	-	-	-
Other key management personnel						
D J Kelly	500,000	-	-	-	500,000	500,000
G Hewlett	1,000,000	-	-	-	1,000,000	1,000,000
N Baker	-	300,000	-	-	300,000	300,000

** Other changes during the year represents options that have lapsed.*

There were 1,500,000 ordinary shares issued during the year ended 30 June 2009 as a result of the exercise of options.

2008 Name	Balance at the beginning of the year	Granted during the period as remuneration	Exercised during the period	Other changes during the period*	Balance at the end of the period	Vested and exercisable at the end of the period
Directors of Avalon Minerals Ltd						
D McSweeney	10,000,000	-	-	-	10,000,000	10,000,000
G Steinepreis	500,000	-	-	-	500,000	500,000
S Stone	500,000	-	-	-	500,000	500,000
Other key management personnel:						
D J Kelly	-	500,000	-	-	500,000	500,000
G Hewlett	-	1,000,000	-	-	1,000,000	1,000,000

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

Further details relating to options are set out below.

2009

Name	A Remuneration consisting of options	B Value at grant date $	C Value at exercise date $	D Value at lapse date $	E Total of columns B-D $
N Baker	14.87%	24,630	-	-	24,630
Total	**14.87%**	**24,630**	**-**	**-**	**24,630**

Remuneration report (audited) (continued)

2008

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

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

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

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

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

	Number of Options Granted During the period 2009	Number of Options Vested During the period 2009
Directors of Avalon Minerals Ltd		
D McSweeney	-	-
A Mohamed	-	-
G Steinepreis	-	-
S Stone	-	-
A Kamaruddin	-	-
Other key management personnel		
D J Kelly	-	-
G Hewlett	-	-
N Baker	300,000	300,000
P Batten	-	-

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

Directors' Report (continued)

Remuneration report (audited) (continued)

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

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

2009

	Granted No.	Grant Date	Fair value per option at grant date $	Exercise price per option $	Expiry date	First exercise date	Last exercise date	Vested No.	Vested %
Other key management personnel:									
N Baker	300,000	26 August 2008	0.0821	0.30	31 July 2011	31 July 2009	31 July 2011	300,000	100%

	2007	2008	2009
*Group performance for the past three years**			
Loss for the period	**(367,207)**	**(1,733,958)**	**(3,475,441)**
Impact on shareholder wealth			
Loss per share (cents)	**(1.32)**	**(3.4)**	**(5.1)**
Share price (cents)	**25**	**38**	**13**

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

- End of Remuneration Report -

Share options

Un-issued Shares
As at the date of this report, as detailed below, there were 6,300,000 un-issued ordinary shares under option.

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

Date options granted	Expiry date	Issue price of shares	Number under option
7 February 2007	10 February 2010	20 cents	3,900,000
10 October 2007	31 January 2010	20 cents	800,000
10 October 2007	31 January 2010	40 cents	1,075,000
9 January 2008	31 January 2010	25 cents	125,000
26 August 2008	31 January 2011	30 cents	300,000
13 January 2009	31 July 2011	20 cents	100,000

Share options (continued)

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

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

Shares Issued as a result of the Exercise of Options
There were 1,500,000 ordinary shares issued as a result of the exercise of options in the year ended 30 June 2009.

Insurance of officers

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

Proceedings on behalf of the Company

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

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

Non-audit services

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

Auditors' Independence Declaration

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 22.

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

Stephen Stone
Director
Perth, Western Australia

29 September 2009

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Auditor's Independence Declaration to the Directors of Avalon Minerals Limited and Controlled Entities

In relation to our audit of the consolidated financial report of Avalon Minerals Limited for the year ended 30 June 2009, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

RJ Curtin
Partner
Perth
29 September 2009

Corporate Governance Disclosures

Statement

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

Disclosure of Corporate Governance Practices

Summary Statement

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

1 Indicates where the Company has followed the Principles & Recommendations.
2 Indicates where the Company has provided "if not, why not" disclosure.
3 Indicates an information based recommendation. Information based recommendations are not adopted or reported against using "if not, why not" disclosure – information required is either provided or it is not.

Corporate governance disclosures (continued)

Website Disclosures

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

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

Disclosure – Principles & Recommendations

The Company reports below on how it has followed (or otherwise departed from) each of the Principles & Recommendations during the 2008/2009 financial year ("**Reporting Period**").

Principle 1 – Lay solid foundations for management and oversight

Recommendation 1.1:

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

Disclosure:

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

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

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

Recommendation 1.2:

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

Disclosure:

The Managing Director is responsible for evaluating the senior executives.

The Managing Director undertakes the evaluation by way of informal meetings and discussions with each senior executive.

Recommendation 1.3:

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

Disclosure:

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

Principle 2 – Structure the board to add value

Recommendation 2.1:

A majority of the Board should be independent directors.

Notification of Departure:

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

Explanation for Departure:

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

The independent directors of the Board during the Reporting Period were Stephen Stone and Gary Steinepreis. The non-independent directors of the Board during the Reporting Period were David McSweeney and Tan Sri Abu Mohamed.

Recommendation 2.2 and Recommendation 2.3

The Chair should be an independent director and the roles of Chair and Managing Director should not be exercised by the same individual.

Notification of Departure:

During the Reporting Period the Chair and Managing Director was David McSweeney.

Explanation for Departure:

The board considers that the executive role carried out by the Chairman (David McSweeney) is in the best interests of the Company for the following reasons:

(a) as the founder of the Company, Mr McSweeney's leadership, both from a long-term strategic and short-term day-to-day operational perspective is critical to the successful development of the Company;

(b) given that the Group is in an exploration and evaluation phase, the board considers that the need for a separate Managing Director is not yet critical; and

(c) as a result of (a), the carrying out of both roles by Mr McSweeney is in line with expectations of current investors and key to the attraction of future investors.

The board intends to reconsider the duality of Mr McSweeney's role and the merits of appointing a new Managing Director as the Company moves closer to production.

Recommendation 2.4:

The Board should establish a Nomination Committee.

Notification of Departure:

The Company has not established a separate Nomination Committee.

Explanation for Departure:

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

Recommendation 2.5:

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

Disclosure:

The Chair is responsible for evaluation of the Board and, when deemed appropriate, Board committees and individual directors. The full Board with the exception of Mr McSweeney is responsible for evaluating the Managing Director.

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

Evaluation is undertaken by interview with the Board.

Recommendation 2.6:

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

Disclosure:

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

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

Identification of Independent Directors

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

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

Company's Materiality Thresholds

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

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

Statement concerning availability of Independent Professional Advice

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

Nomination Matters

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

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

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

Performance Evaluation

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

Selection and (Re)Appointment of Directors

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

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

Principle 3 – Promote ethical and responsible decision-making

Recommendation 3.1:

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

Disclosure:

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

Recommendation 3.2:

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

Disclosure:

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

Recommendation 3.3:

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

Disclosure:

Please refer to the section above marked Website Disclosures.

Principle 4 – Safeguard integrity in financial reporting

Recommendation 4.1:

The Board should establish an Audit Committee.

Disclosure:

The Company has established an Audit Committee.

Recommendation 4.2:

The Audit Committee should be structured so that it:

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

Notification of Departure:

The Audit Committee is not structured in accordance with the process disclosed at Recommendation 4.2.

Explanation for Departure:

The full board carries out the functions of the audit committee. Of the three directors, two are considered independent. The Board considers that it is not necessary to form an audit committee at this stage given the size of the Company.

Corporate governance disclosures (continued)

Recommendation 4.3:

The Audit Committee should have a formal charter.

Disclosure:

The Company has not adopted an Audit Committee Charter.

Explanation for Departure:

The full board carries out the functions of the audit committee. Of the three directors, two are considered independent. The Board considers that it is not necessary to form an audit committee at this stage given the size of the Company.

Recommendation 4.4:

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

Disclosure:

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

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

Principle 5 – Make timely and balanced disclosure

Recommendation 5.1:

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

Disclosure:

The Company has established written policies designed to ensure compliance with ASX Listing Rule disclosure and accountability at a senior executive level for that compliance.

Recommendation 5.2:

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

Disclosure:

Please refer to the section above marked Website Disclosures.

Principle 6 – Respect the rights of shareholders

Recommendation 6.1:

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

Disclosure:

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

Recommendation 6.2:

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

Disclosure:

Please refer to the section above marked Website Disclosures.

Principle 7 – Recognise and manage risk

Recommendation 7.1:

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

Disclosure:

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

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

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

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

Corporate governance disclosures (continued)

The Board resolved to review, formalise and document the management of its material business risks and expects to implement this system in the second quarter of the 2009/2010 financial year. This system is expected to include the preparation of a risk register by management to identify the Company's material business risks and risk management strategies for these risks. In addition, the process of management of material business risks will be allocated to members of senior management. The risk register will be reviewed quarterly and updated, as required.

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

Recommendation 7.2:

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

Disclosure:

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

Recommendation 7.3:

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

Disclosure:

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

Recommendation 7.4:

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

Disclosure:

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

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

Principle 8 – Remunerate fairly and responsibly

Recommendation 8.1:

The Board should establish a Remuneration Committee.

Disclosure:

The Company has established a Remuneration Committee.

Recommendation 8.2:

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

Disclosure:

Non-executive directors are remunerated at a fixed fee for time, commitment and responsibilities. Remuneration for non-executive directors is not linked to the performance of the Company.

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

Recommendation 8.3:

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

Disclosure:

There was no separate remuneration committee.

Explanation for departure:

The full board carried out the functions of the Remuneration Committee. All matters of remuneration were determined by the board in accordance with the Corporations Act 2001 requirements, especially in respect of related party transactions. That is, no director participated in any deliberation regarding his own remuneration or related issues

Avalon Minerals Ltd

Financial Report – 30 June 2009

Contents

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

Avalon Minerals Ltd
Unit 2, 2 Richardson Street
West Perth WA 6005

A description of the nature of the Consolidated Entity's operations and its principal activities is included in the directors' report, which is not part of this financial report.

The financial report was authorised for issue by the directors on 29 September 2009. The Consolidated Entity has the power to amend and reissue the financial report.

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

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

Income Statement

For the year ended 30 June 2009

		Consolidated		Parent entity	
	Note	**2009**	2008	**2009**	2008
		$	$	**$**	$
Revenue from continuing operations	5	**44,670**	140,249	**43,257**	140,249
Other income	5	**86,676**	50,000	**71,504**	50,000
Employee benefits expense	6	**(308,291)**	(487,190)	**(308,291)**	(483,669)
Office occupancy costs		**(143,909)**	(119,221)	**(143,486)**	(118,911)
Corporate and administration expenses		**(394,275)**	(345,392)	**(345,246)**	(334,303)
Depreciation	6	**(57,403)**	(37,158)	**(56,333)**	(37,070)
Exploration expenditure written off	13	**(2,639,903)**	(929,987)	**(28,952)**	(703,014)
Provision for impairment	11	**-**	-	**(980,000)**	(1,250,000)
Provision for non-recovery of intercompany loan	11	**-**	-	**(2,616,757)**	(531,677)
Loan written off		**(59,112)**	-	**(59,112)**	-
Interest paid		**(6)**	-	**(6)**	-
Net foreign exchange loss	6	**-**	(806)	**(266,090)**	-
Other expenses from ordinary activities		**(3,887)**	(4,453)	**(3,780)**	(4,450)
Loss before income tax		**(3,475,440)**	(1,733,958)	**(4,693,292)**	(3,272,845)
Income tax expense	7	**-**	-	**-**	-
Loss attributable to members of Avalon Minerals Ltd		**(3,475,440)**	(1,733,958)	**(4,693,292)**	(3,272,845)

Loss per share attributable to the ordinary equity holders of the Company

		Cents	Cents
Basic earnings per share*	27	**(5.1)**	(3.4)
Diluted earnings per share*	27	**(5.1)**	(3.4)

* Earnings per share has been restated to account for the May 2009 Entitlement Issue to shareholders in accordance with AASB 133.

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

Balance Sheet

As at 30 June 2009

	Note	Consolidated		Parent entity	
		2009	2008	**2009**	2008
		$	$	**$**	$
Current assets					
Cash and cash equivalents	8	**1,919,002**	1,458,455	**1,720,406**	1,365,710
Trade and other receivables	9	**63,694**	86,715	**42,877**	65,155
Non-current assets held for sale	10	**-**	111,162	**-**	-
Total current assets		**1,982,696**	1,656,332	**1,763,283**	1,430,865
Non-current assets					
Other non-current assets	11	**-**	25,354	**34,902**	2,524,441
Plant and equipment	12	**122,410**	173,060	**118,632**	167,868
Exploration and evaluation	13	**2,419,689**	3,888,096	**-**	40,498
Total non-current assets		**2,542,099**	4,086,510	**153,534**	2,732,807
Total assets		**4,524,795**	5,742,842	**1,916,817**	4,163,672
Current liabilities					
Trade and other payables	14	**437,676**	541,432	**309,230**	501,149
Total current liabilities		**437,676**	541,432	**309,230**	501,149
Total liabilities		**437,676**	541,432	**309,230**	501,149
Net assets		**4,087,119**	5,201,410	**1,607,587**	3,662,523
Equity					
Contributed equity	15	**9,735,426**	7,125,612	**9,735,426**	7,125,612
Reserves	16	**(71,702)**	176,963	**205,505**	176,963
Accumulated losses	17	**(5,576,605)**	(2,101,165)	**(8,333,344)**	(3,640,052)
Total equity		**4,087,119**	5,201,410	**1,607,587**	3,662,523

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

Statement of Changes in Equity

For the year ended 30 June 2009

2009 Consolidated	Contributed Equity $	Reserves $	Accumulated Losses $	Total $
At the beginning of the financial year	**7,125,612**	**176,963**	**(2,101,165)**	**5,201,410**
Foreign currency translation	-	(277,207)	-	(277,207)
Total income and expense for the year recognised directly in equity	**-**	**(277,207)**	**-**	**(277,207)**
Loss for the year	-	-	(3,475,440)	(3,475,440)
Total income and expense for the year	**-**	**(277,207)**	**(3,475,440)**	**(3,752,647)**
Contributions of equity	2,745,667	-	-	2,745,667
Share issue costs	(135,853)	-	-	(135,853)
Share based payments	-	28,542	-	28,542
Total Equity at the end of the financial year	**9,735,426**	**(71,702)**	**(5,576,605)**	**4,087,119**

2009 Parent entity	Contributed Equity $	Reserves $	Accumulated Losses $	Total $
At the beginning of the financial year	**7,125,612**	**176,963**	**(3,640,052)**	**3,662,523**
Total income and expense for the year recognised directly in equity	**-**	**-**	**-**	**-**
Loss for the year	-	-	(4,693,292)	(4,693,292)
Total income and expense for the year	**-**	**-**	**(4,693,292)**	**(4,693,292)**
Contributions of equity	2,745,667	-	-	2,745,667
Share issue costs	(135,853)	-	-	(135,853)
Share based payments	-	28,542	-	28,542
Total Equity at the end of the financial year	**9,735,426**	**205,505**	**(8,333,344)**	**1,607,587**

Statement of Changes In Equity (continued)
For the year ended 30 June 2009

2008 Consolidated	Contributed Equity $	Reserves $	Accumulated Losses $	Total $
At the beginning of the financial year	**5,273,763**	**49,840**	**(367,207)**	**4,956,396**
Total income and expense for the year recognised directly in equity	**-**	**-**	**-**	**-**
Loss for the year	-	-	(1,733,958)	(1,733,958)
Total income and expense for the year	**-**	**-**	**(1,733,958)**	**(1,733,958)**
Contributions of equity	1,903,000	-	-	1,903,000
Share issue costs	(51,151)	-	-	(51,151)
Share based payments	-	127,123	-	127,123
Total Equity at the end of the financial year	**7,125,612**	**176,963**	**(2,101,165)**	**5,201,410**

2008 Parent entity	Contributed Equity $	Reserves $	Accumulated Losses $	Total $
At the beginning of the financial year	**5,273,763**	**49,840**	**(367,207)**	**4,956,396**
Total income and expense for the year recognised directly in equity	**-**	**-**	**-**	**-**
Loss for the year	-	-	(3,272,845)	(3,272,845)
Total income and expense for the year	**-**	**-**	**(3,272,845)**	**(3,272,845)**
Contributions of equity	1,903,000	-	-	1,903,000
Share issue costs	(51,151)	-	-	(51,151)
Share based payments	-	127,123	-	127,123
Total Equity at the end of the financial year	**7,125,612**	**176,963**	**(3,640,052)**	**3,662,523**

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

Cash Flow Statement

For the year ended 30 June 2009

	Note	Consolidated 2009 $	Consolidated 2008 $	Parent entity 2009 $	Parent entity 2008 $
Cash flows from operating activities					
Payments to suppliers and employees (inclusive of goods and services tax)		**(854,786)**	(634,824)	**(882,430)**	(553,135)
Security deposits		**-**	(11,520)	**-**	(11,520)
Rental income	5	**21,504**	-	**21,504**	-
Sundry income	5	**50,000**	50,000	**50,000**	50,000
Interest paid		**(6)**	-	**(6)**	-
Interest received	5	**44,670**	140,249	**43,257**	140,249
Net cash outflow from operating activities	26	**(738,618)**	(456,095)	**(767,675)**	(374,406)
Cash flows from investing activities					
Payments for plant and equipment		**(7,097)**	(138,118)	**(7,097)**	(132,838)
Payments for investments in controlled entities		**-**	(100,000)	**-**	(134,902)
Loans to related parties		**(33,758)**	(25,354)	**(33,758)**	(25,354)
Loans to controlled entities		**-**	-	**(1,398,662)**	(2,015,862)
Payments to acquire exploration properties		**-**	(451,128)	**-**	-
Exploration and evaluation expenditure		**(1,317,794)**	(1,487,007)	**-**	(67,075)
Net cash outflow from investing activities		**(1,358,649)**	(2,201,607)	**(1,439,517)**	(2,376,031)
Cash flows from financing activities					
Proceeds from issues of securities	15(b)	**2,693,667**	1,023,000	**2,693,667**	1,023,000
Costs of share issues	15(b)	**(135,853)**	(51,151)	**(131,779)**	(51,151)
Net cash inflow from financing activities		**2,557,814**	971,849	**2,561,888**	971,849
Net increase/(decrease) in cash and cash equivalents held		**460,547**	(1,685,853)	**354,696**	(1,778,588)
Cash and cash equivalents at the beginning of the financial year		**1,458,455**	3,144,308	**1,365,710**	3,144,298
Cash and cash equivalents at the end of the financial year	8	**1,919,002**	1,458,455	**1,720,406**	1,365,710

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

Notes to the Financial Statements

For the year ended 30 June 2009

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 2009, unless otherwise stated.

(a) Basis of preparation

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

Going concern

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

The company and the consolidated entity incurred operating losses after income tax of $4,693,292 (2008: loss of $3,272,845) and$3,475,441 (2008: loss of $1,733,959) respectively for the year ended 30 June 2009 and incurred net cash inflows of $354,696 and $460,547 respectively. At balance date the company and consolidated entity had cash of $1,720,406 and $1,919,002 respectively and trade creditors of $309,230 and $437,676 respectively.

The directors have reviewed the business outlook and the prospects in relation to the existing funds available. Given that the Group doers not have expenditure commitments in relation to maintaining tenure of its mineral tenements, the directors are satisfied that the use of the going concern basis is appropriate.

The presentation currency is Australian dollars.

(b) Statement of compliance

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

Standards adopted during the year

The Group has adopted all new and revised accounting standards and interpretations applicable for the financial year beginning 1 July 2008. Adoption of these standards did not have any effect on the financial position or performance of the group.

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Company for the reporting period ending 30 June 2009. The expected impact of the new and amended standards and interpretations on the Group has not yet been determined. These are outlined as follows:

Notes to the Financial Statements (continued)
For the year ended 30 June 2009

Note 1. Summary of Significant Accounting Policies (continued)

Reference	Title	Summary	Application date of standard	Application date for Group
AASB Int. 15	Agreements for the Construction of Real Estate	This Interpretation requires that when the real estate developer is providing construction services to the buyer's specifications, revenue can be recorded only as construction progresses. Otherwise, revenue should be recognised on completion of the relevant real estate unit.	1 January 2009	1 July 2009
AASB Int. 16	Hedges of a Net Investment in a Foreign Operation	This Interpretation requires that the hedged risk in a hedge of a net investment in a foreign operation is the foreign currency risk arising between the functional currency of the net investment and the functional currency of any parent entity. This also applies to foreign operations in the form of joint ventures, associates or branches.	1 October 2008	1 July 2009
AASB Int. 17 and AASB 2008-13	Distributions of Non-cash Assets to Owners and consequential amendments to Australian Accounting Standards AASB 5 and AASB 110	The Interpretation outlines how an entity should measure distributions of assets, other than cash, as a dividend to its owners acting in their capacity as owners. This applies to transactions commonly referred to as spin-offs, split offs or demergers and in-specie distributions.	1 July 2009	1 July 2009
AASB Int. 18	Transfers of Assets from Customers	This Interpretation provides guidance on the transfer of assets such as items of property, plant and equipment or transfers of cash received from customers. The Interpretation provides guidance on when and how an entity should recognise such assets and discusses the timing of revenue recognition for such arrangements and requires that once the asset meets the condition to be recognised at fair value, it is accounted for as an 'exchange transaction'. Once an exchange transaction occurs the entity is considered to have delivered a service in exchange for receiving the asset. Entities must identify each identifiable service within the agreement and recognise revenue as each service is delivered.	Applies prospectively to transfer of assets from customers received on or after 1 July 2009	1 July 2009
AASB 8 and AASB 2007-3	Operating Segments and consequential amendments to other Australian Accounting Standards	New Standard replacing AASB 114 *Segment Reporting*, which adopts a management reporting approach to segment reporting.	1 January 2009	1 July 2009
AASB 1039 (revised)	Concise Reporting	AASB 1039 was revised in August 2008 to achieve consistency with AASB 8 *Operating Segments*. The revisions include changes to terminology and descriptions to ensure consistency with the revised AASB 101 *Presentation of Financial Statements*.	1 January 2009	1 July 2009

Notes to the Financial Statements (continued)
For the year ended 30 June 2009

Note 1. Summary of Significant Accounting Policies (continued)

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 123 (Revised) and AASB 2007-6	Borrowing Costs and consequential amendments to other Australian Accounting Standards	The amendments to AASB 123 require that all borrowing costs associated with a qualifying asset be capitalised.	1 January 2009	1 July 2009
AASB 101 (Revised), AASB 2007-8 and AASB 2007-10	Presentation of Financial Statements and consequential amendments to other Australian Accounting Standards	Introduces a statement of comprehensive income. Other revisions include impacts on the presentation of items in the statement of changes in equity, new presentation requirements for restatements or reclassifications of items in the financial statements, changes in the presentation requirements for dividends and changes to the titles of the financial statements.	1 January 2009	1 July 2009
AASB 2008-1	Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations	The amendments clarify the definition of "vesting conditions", introducing the term "non-vesting conditions" for conditions other than vesting conditions as specifically defined and prescribe the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied.	1 January 2009	1 July 2009
AASB 2008-2	Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations arising on Liquidation	The amendments provide a limited exception to the definition of a liability so as to allow an entity that issues puttable financial instruments with certain specified features, to classify those instruments as equity rather than financial liabilities.	1 January 2009	1 July 2009
AASB 3 (Revised)	Business Combinations	The revised Standard introduces a number of changes to the accounting for business combinations, the most significant of which includes the requirement to have to expense transaction costs and a choice (for each business combination entered into) to measure a non-controlling interest (formerly a minority interest) in the acquiree either at its fair value or at its proportionate interest in the acquiree's net assets. This choice will effectively result in recognising goodwill relating to 100% of the business (applying the fair value option) or recognising goodwill relating to the percentage interest acquired. The changes apply prospectively.	1 July 2009	1 July 2009
AASB 127 (Revised)	Consolidated and Separate Financial Statements	There are a number of changes arising from the revision to AASB 127 relating to changes in ownership interest in a subsidiary without loss of control, allocation of losses of a subsidiary and accounting for the loss of control of a subsidiary. Specifically in relation to a change in the ownership interest of a subsidiary (that does not result in loss of control) – such a transaction will be accounted for as an equity transaction.	1 July 2009	1 July 2009

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

Note 1. Summary of Significant Accounting Policies (continued)

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 2008-3	Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127	Amending Standard issued as a consequence of revisions to AASB 3 and AASB 127. Refer above.	1 July 2009	1 July 2009
AASB 2009-2	Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments [AASB 4, AASB 7, AASB 1023 & AASB 1038]	The main amendment to AASB 7 requires fair value measurements to be disclosed by the source of inputs, using the following three-level hierarchy: ► quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1); ► inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and ► inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3). These amendments arise from the issuance of *Improving Disclosures about Financial Instruments (Amendments to IFRS 7)* by the IASB in March 2009. The amendments to AASB 4, AASB 1023 and AASB 1038 comprise editorial changes resulting from the amendments to AASB 7.	Annual reporting periods beginning on or after 1 January 2009 that end on or after 30 April 2009.	1 July 2009
AASB 2008-5	Amendments to Australian Accounting Standards arising from the Annual Improvements Project	The improvements project is an annual project that provides a mechanism for making non-urgent, but necessary, amendments to IFRSs. The IASB has separated the amendments into two parts: Part 1 deals with changes the IASB identified resulting in accounting changes; Part II deals with either terminology or editorial amendments that the IASB believes will have minimal impact. This was the first omnibus of amendments issued by the IASB arising from the Annual Improvements Project and it is expected that going forward, such improvements will be issued annually to remove inconsistencies and clarify wording in the standards. The AASB issued these amendments in two separate amending standards; one dealing with the accounting changes effective from 1 January 2009 and the other dealing with amendments to AASB 5, which will be applicable from 1 July 2009 [refer below AASB 2008-6].	1 January 2009	1 July 2009

Notes to the Financial Statements (continued)
For the year ended 30 June 2009

Note 1. Summary of Significant Accounting Policies (continued)

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 2008-6	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project	This was the second omnibus of amendments issued by the IASB arising from the Annual Improvements Project. Refer to AASB 2008-5 above for more details.	1 July 2009	1 July 2009
AASB 2008-7	Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	The main amendments of relevance to Australian entities are those made to AASB 127 deleting the "cost method" and requiring all dividends from a subsidiary, jointly controlled entity or associate to be recognised in profit or loss in an entity's separate financial statements (i.e., parent company accounts). The distinction between pre- and post-acquisition profits is no longer required. However, the payment of such dividends requires the entity to consider whether there is an indicator of impairment. AASB 127 has also been amended to effectively allow the cost of an investment in a subsidiary, in limited reorganisations, to be based on the previous carrying amount of the subsidiary (that is, share of equity) rather than its fair value.	1 January 2009	1 July 2009
AASB 2008-8	Amendments to Australian Accounting Standards – Eligible Hedged Items	The amendment to AASB 139 clarifies how the principles underlying hedge accounting should be applied when (i) a one-sided risk in a hedged item is being hedged and (ii) inflation in a financial hedged item existed or was likely to exist.	1 July 2009	1 July 2009
AASB 2008-9	Amendments to AASB 1049 for consistency with AASB 101	Reflects the revised requirements of AASB 101 and AASB 2007-8 with clarification to apply the requirements in a government context.	1 January 2009	1 July 2009
AASB 2008-11	Amendments to Australian Accounting Standard – Business Combinations Among Not-for-Profit Entities [AASB 3]	The amendment requires not-for-profit entities to apply the revised AASB 3 except where there is common control.	1 July 2009	1 July 2009
AASB 2009-	Amendments to Australian Accounting Standards [AASB 5, 7, 107, 112, 136 & 139 and Interpretation 17]	These comprise editorial amendments and are expected to have no major impact on the requirements of the amended pronouncements.	1 July 2009	1 July 2009

Notes to the Financial Statements (continued)
For the year ended 30 June 2009

Note 1. Summary of Significant Accounting Policies (continued)

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 2009-4	Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 2 and AASB 138 and AASB Interpretations 9 & 16]	The amendments to some Standards result in accounting changes for presentation, recognition or measurement purposes, while some amendments that relate to terminology and editorial changes are expected to have no or minimal effect on accounting. The main amendment of relevance to Australian entities is that made to IFRIC 16 which allows qualifying hedge instruments to be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements in AASB 139 that relate to a net investment hedge are satisfied. More hedging relationships will be eligible for hedge accounting as a result of the amendment. These amendments arise from the issuance of the IASB's *Improvements to IFRSs*. The amendments pertaining to IFRS 5, 8, IAS 1,7, 17, 36 and 39 have been issued in Australia as AASB 2009-5 (refer below).	1 July 2009	1 July 2009
AASB 2009-5	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139]	The amendments to some Standards result in accounting changes for presentation, recognition or measurement purposes, while some amendments that relate to terminology and editorial changes are expected to have no or minimal effect on accounting. The main amendment of relevance to Australian entities is that made to AASB 117 by removing the specific guidance on classifying land as a lease so that only the general guidance remains. Assessing land leases based on the general criteria may result in more land leases being classified as finance leases and if so, the type of asset which is to be recorded (intangible v property, plant and equipment) needs to be determined. These amendments arise from the issuance of the IASB's *Improvements to IFRSs*. The AASB has issued the amendments to IFRS 2, IAS 38, IFRIC 9 as AASB 2009-4 (refer above).	1 January 2010	1 July 2010

Notes to the Financial Statements (continued)
For the year ended 30 June 2009

Note 1. Summary of Significant Accounting Policies (continued)

Reference	Title	Summary	Application date of standard	Application date for Group
Amendments to International Financial Reporting Standards	Amendments to IFRS 2	The amendments clarify the accounting for group cash-settled share-based payment transactions, in particular: ► the scope of AASB 2; and ► the interaction between IFRS 2 and other standards. An entity that receives goods or services in a share-based payment arrangement must account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash. A "group" has the same meaning as in IAS 27 *Consolidated and Separate Financial Statements*, that is, it includes only a parent and its subsidiaries. The amendments also incorporate guidance previously included in IFRIC 8 *Scope of IFRS 2* and IFRIC 11 *IFRS 2—Group and Treasury Share Transactions*. As a result, IFRIC 8 and IFRIC 11 have been withdrawn.	1 January 2010	1 July 2010

(c) Basis of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Avalon Minerals Ltd ("Company" or "parent entity") as at 30 June 2009 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.

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

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

Note 1. Summary of Significant Accounting Policies (continued)

(d) Segment reporting

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

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

(e) Revenue recognition

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

(f) Income tax

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

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

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

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

(g) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease (refer to note 21).

Note 1. Summary of Significant Accounting Policies (continued)

(h) Business combinations

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

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

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

(i) Impairment of assets

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

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

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).

Note 1. Summary of Significant Accounting Policies (continued)

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(j) Cash and cash equivalents

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

(k) Trade receivables

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

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

(l) Investments and other financial assets

Financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are classified in the following categories: financial assets at fair value through profit or loss, loans and receivables, held to maturity investments or available for sale investments, as appropriate. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date.

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

Notes to the Financial Statements (continued)
For the year ended 30 June 2009

Note 1. Summary of Significant Accounting Policies (continued)

(m) Investment in controlled entities

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

(n) Plant and equipment

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

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

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

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

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

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

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the income statement.

(o) Trade and other payables

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

(p) Provisions

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

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

Note 1. Summary of Significant Accounting Policies (continued)

(q) Employee benefits

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

(ii) Retirement benefit obligations
The Consolidated Entity contributes to various defined contribution funds for its employees.

Contributions to the defined contribution funds are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(iv) Share-based payments
Share-based compensation benefits are provided to employees via the Employee Share Option Scheme.

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

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

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

(r) Contributed equity

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

(s) Earnings per share

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

Note 1. Summary of Significant Accounting Policies (continued)

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

(t) Exploration and evaluation expenditure

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

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

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

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

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

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

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

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

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

Notes to the Financial Statements (continued)
For the year ended 30 June 2009

Note 1. Summary of Significant Accounting Policies (continued)

(u) Goods and services tax (GST)

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

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

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

(v) Foreign currency transactions and balances

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

(ii) Transactions and balances
Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period end exchange rate.

(iii) Group companies
The results and the financial position of all the Group entities (none of which has a currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at period-end exchange rates prevailing at the reporting date;
- Income and expenses are translated at average exchange rates for the period; and
- Retained profits are exchanged at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on the translation of foreign operations are transferred directly to the Group's foreign currency translation reserve in the balance sheet. These differences are recognised in the income statement in the period in which the operation is disposed.

Note 2. Financial instruments and financial risk management

The Company's activities expose it to a variety of financial risks; market risk (including interest rate risk), credit risk and liquidity risk.

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

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

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

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

(ii) Credit risk
The Company's maximum exposures to credit risk at the reporting date in relation to each class of recognised financial asset is the carrying amount of those assets as indicated in the balance sheet.

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

The Company trades only with recognised, credit worthy third parties. As the Company holds all cash with one institution, the credit risk is concentrated in one area. Risk is considered minimal as the institution is Australian and AAA rated.

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

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

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

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

The remaining contractual maturities of the Group's and parent entity's financial liabilities are:

	Consolidated		Parent entity	
	2009	2008	**2009**	2008
	$	$	**$**	$
Three months or less	**437,677**	541,432	**309,230**	501,149
Greater than three months	**-**	-	**-**	-
	437,677	541,432	**309,230**	501,149

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

(iv) Fair values

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

(v) Interest rate risk

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

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

	Consolidated		Parent entity	
	2009	2008	**2009**	2008
	$	$	**$**	$
Financial assets				
Cash and cash equivalents	**1,919,002**	1,458,455	**1,720,406**	1,365,710

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

At 30 June 2009, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit would have been affected as follows:

The average interest rate for the year ended 30 June 2009 was 2.65% (2008: 6.09%)

	Consolidated Higher/(Lower)		Parent entity Higher/(Lower)	
	2009	2008	**2009**	2008
	$	$	**$**	$
Judgments of reasonably possible movements:				
Post tax profit				
+1.0% (100 basis points)	**16,969**	22,219	**15,379**	19,631
-1.0% (100 basis points)	**(16,969)**	(22,219)	**(15,379)**	(19,631)

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

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

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

(vi)Foreign exchange risk
The Group and parent are exposed to fluctuations in the Australian dollar against the Swedish Kroner. This risk is managed by holding minimal cash funds outside Australia, however potential exchange rate effects will impact intercompany loan balances and may have a material effect on the equity or the income statement.

Note 3. Accounting estimates and judgments

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

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

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 pricing model.

Judgments

Exploration and evaluation expenditure

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

Notes to the Financial Statements (continued)
For the year ended 30 June 2009

Note 4. Segment reporting

	Australia $	Sweden $	Eliminations $	Consolidated $
Primary reporting – geographical segments				
Year ended 30 June 2009				
Revenue				
Sundry	71,504	-		71,504
Foreign exchange gains	-	15,172	-	15,172
Total segment revenue	**71,504**	**15,172**	**-**	**86,676**
Interest income				44,670
Total consolidated income				**131,346**
Result				
Segment result	(5,737,524)	(33,619)	2,295,702	(3,475,441)
Profit before income tax	(5,737,524)	(33,619)	2,295,702	(3,475,441)
Income tax expense	-	-	-	-
Profit after income tax	**(5,737,524)**	**(33,619)**	**2,295,702**	**(3,475,441)**
Assets				
Segment assets	1,916,928	2,642,769	(34,902)	4,524,795
Total assets	**1,916,928**	**2,642,769**	**(34,902)**	**4,524,795**
Liabilities				
Segment liabilities	309,231	2,664,001	(2,535,555)	437,677
Total liabilities	**309,231**	**2,664,001**	**(2,535,555)**	**437,677**
Capital expenditure				
Plant & equipment	7,097	-	-	7,097
Total capital expenditure	**7,097**	**-**	**-**	**7,097**

Notes to the Financial Statements (continued)
For the year ended 30 June 2009

Note 4. Segment reporting (continued)

	Australia $	Sweden $	Eliminations $	Consolidated $
Depreciation				
Plant & equipment	56,333	1,070	-	57,403
Total depreciation	**56,333**	**1,070**	**-**	**57,403**
Exploration expenditure				
Exploration and evaluation expenditure	42,940	1,017,395	-	1,060,335
Exploration expenditure written off	(2,639,904)	-	-	(2,639,904)
Total exploration expenditure	**(2,596,964)**	**981,591**	**-**	**(1,615,372)**
Share-based payments				
Options issued	28,542	-	-	28,542
Total depreciation	**28,542**	**-**	**-**	**28,542**
Cash flow information				
Net cash outflow from operating activities	679,159	59,459	-	738,618
Net cash outflow from investing activities	1,439,517	1,276,939	(1,398,662)	1,317,794
Net cash inflow from financing activities	2,557,814	-	-	2,557,814
Year ended 30 June 2008				
Revenue				
Sundry	50,000	-	-	50,000
Total segment revenue	**50,000**	**-**	**-**	**50,000**
Interest income				140,249
Total consolidated income				**190,249**
Result				
Segment result	(3,504,230)	(25,484)	1,795,756	(1,733,958)
Profit before income tax	(3,504,230)	(25,484)	1,795,756	(1,733,958)
Income tax expense	-	-	-	-
Profit after income tax	**(3,504,230)**	**(25,484)**	**1,795,756**	**(1,733,958)**
Assets				
Segment assets	4,576,208	1,509,991	(343,357)	5,742,842
Total assets	**4,576,208**	**1,509,991**	**(343,357)**	**5,742,842**
Liabilities				
Segment liabilities	1,400,517	1,486,487	(2,345,572)	541,432
Total liabilities	**1,400,517**	**1,486,487**	**(2,345,572)**	**541,432**
Capital expenditure				
Plant & equipment	132,837	5,280	-	138,117
Total capital expenditure	**132,837**	**5,280**	**-**	**138,117**

Notes to the Financial Statements (continued)
For the year ended 30 June 2009

Note 4. Segment reporting (continued)

	Australia $	Sweden $	Eliminations $	Consolidated $
Depreciation				
Plant & equipment	37,070	88	-	37,158
Total depreciation	**37,070**	**88**	**-**	**37,158**
Exploration expenditure				
Acquisitions of exploration properties	-	451,128	905,741	1,356,869
Exploration and evaluation expenditure	706,233	939,476	-	1,645,709
Exploration expenditure written off	(929,987)	-	-	(929,987)
Total exploration expenditure	**(223,754)**	**1,390,604**	**905,741**	**2,072,591**
Share-based payments				
Options issued	127,123	-	-	127,123
Total depreciation	**127,123**	**-**	**-**	**127,123**
Cash flow information				
Net cash outflow from operating activities	374,406	81,689	-	456,095
Net cash outflow from investing activities	2,376,031	(174,424)	-	2,201,607
Net cash inflow from financing activities	971,849	-	971,849	971,849

Secondary reporting – business segments

The Consolidated Entity operates predominantly in mining and exploration sector.

	Consolidated		Parent entity	
	2009 $	2008 $	**2009 $**	2008 $
Note 5. Revenue				
Other revenue				
Interest income	**44,670**	140,249	**43,257**	140,249
Sundry income	**50,000**	50,000	**50,000**	50,000
Rental income	**21,504**	-	**21,504**	-
Foreign exchange gain	**15,676**	-	**-**	
	131,346	190,249	**114,761**	190,249

Note 6. Expenses

Loss before income tax includes the following:

Employee benefits expense (i)				
Salaries	**150,335**	189,154	**150,335**	189,154
Directors' fees	**86,431**	66,230	**86,431**	62,709
Superannuation	**33,403**	44,774	**33,403**	44,774
Share based payments	**28,542**	127,123	**28,542**	127,123
Other	**9,580**	59,909	**9,580**	59,909
	308,291	487,190	**308,291**	483,669

(i) Less costs capitalised

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

	Consolidated		Parent entity	
	2009	2008	**2009**	2008
	$	$	**$**	$
Note 6. Expenses (continued)				
Rental expense relating to operating leases	**81,963**	61,892	**81,963**	61,892
Depreciation	**57,403**	37,158	**56,333**	37,070
Foreign exchange loss	**-**	806	**266,090**	-

	Balance sheet 2009	Balance sheet 2008	**Income Statement 2009**	Income statement 2008
	$	$	**$**	$
Note 7. Income tax				
(a) Current income tax				
Current income tax benefit relating to origination and reversal of temporary differences	**-**	-	-	-
Deferred tax assets not brought to account as realisation is not considered probable	**-**	-	-	-
Income tax expenses reported in the income statement	**-**	-	-	-
(b) Reconciliation between income tax expense and the product of accounting loss before income tax multiplied by the group's applicable income tax rate as follows:				
Accounting loss before income tax	**(3,475,440)**	(1,733,958)	**(4,693,292)**	(3,272,845)
At the group's statutory income tax rate of 30%	**(1,042,632)**	(520,188)	**(1,407,988)**	(981,853)
Expenditure not allowable for income tax purposes	**772,504**	-	**35,406**	-
Deductible share issue costs	**-**	38,137	**-**	38,137
Loan written off	**17,733**	-	**17,733**	-
Provision for impairment	**-**	-	**294,000**	375,000
Provision for inter-company non-recovery	**-**	-	**785,027**	159,503
Under/over provision of prior year	**(116,709)**	14,419	**(28,506)**	91,081
Deferred tax asset not brought to account as realisation is not considered probable	**369,104**	467,632	**304,328**	318,132
Income tax expense	**-**	-	**-**	-

Notes to the Financial Statements (continued)
For the year ended 30 June 2009

Note 7. Income tax (continued)

	Balance sheet 2009 $	Balance sheet 2008 $	**Income Statement 2009 $**	Income statement 2008 $
(c) Deferred assets and liabilities at 30 June relates to the following:				
Consolidated				
Deferred tax liabilities				
Exploration expenditure	**-**	(33,379)	**33,379**	544,621
Total deferred tax liabilities	**-**	(33,379)	**33,379**	544,621
Deferred tax assets				
Employee provisions	**5,890**	10,984	**(5,094)**	7,975
Share issue costs charged to equity	**-**	-	**-**	(57,679)
Income tax losses	**998,155**	657,336	**340,819**	(27,285)
Total deferred tax assets	**1,004,045**	668,320	**369,104**	(76,989)
Deferred tax assets not brought to account as realisation is not considered probable	**(1,004,045)**	(634,941)	**(369,104)**	(467,632)
Net deferred tax recognised	**-**	-	**-**	-
Company				
Deferred tax liabilities				
Exploration expenditure	**-**	-	**-**	(203,000)
Total deferred tax liabilities	**-**	-	**-**	(203,000)

Notes to the Financial Statements (continued)
For the year ended 30 June 2009

Note 7. Income tax (continued)

	Balance sheet 2009 $	Balance sheet 2008 $	**Income Statement 2009 $**	Income statement 2008 $
Deferred tax assets				
Employee provisions	**5,890**	10,984	**(5,094)**	7,975
Share issue costs charged to equity	**-**	-	**-**	(57,679)
Income tax losses	**783,880**	474,458	**309,421**	164,837
Total deferred tax assets	**789,770**	485,442	**304,328**	115,133
Deferred tax assets not brought to account as realisation is not considered probable	**(789,770)**	(485,442)	**(304,328)**	(87,867)
Net deferred tax recognised	**-**	-	**-**	-

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

Note 8. Current assets – Cash and cash equivalents

	Consolidated		**Parent entity**	
	2009 $	2008 $	**2009 $**	2008 $
Cash on hand and at bank	**1,919,002**	1,458,455	**1,720,406**	1,365,710

Cash at bank earns interest at floating rates based on daily bank deposit rates. The cash at bank is bearing floating interest rates between 0.05% and 3% (2008: 2.90% and 7.1%) The carrying amounts of cash and cash equivalents represents fair value.

Note 9. Current assets – Trade and other receivables

Other receivables	**30,285**	52,958	**21,782**	43,906
Deposits	**11,520**	11,780	**11,520**	11,780
Prepayments	**21,889**	21,977	**9,575**	9,469
	63,694	86,715	**42,877**	65,155

Other debtors consists of Goods and Services Tax receivable from the Australian Taxation Office. All receivables, including deposits are non-interest bearing and are carried at fair value. No allowance has been made for impairment as it is highly probable that all receivables will be recovered.

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

	Consolidated		Parent entity	
	2009	2008	**2009**	2008
	$	$	**$**	$
Note 10. Current assets – Non-current assets held for sale				
Exploration properties	**-**	111,162	**-**	-

Non-current assets held for sale represents the carrying value of several mineral tenements that were considered for sale in the previous year. As the sale did not eventuate the balance was transferred back to Exploration and Evaluation. The amount was then written off.

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

(a) Other financial assets

	Consolidated 2009 $	Consolidated 2008 $	Parent entity 2009 $	Parent entity 2008 $
Loans to controlled entities	**-**	-	**3,148,434**	2,015,862
Less: Provision for non-recovery of intercompany loan	**-**	-	**(3,148,434)**	(531,677)
Loans to other entities	**-**	25,354	**-**	25,354
	-	25,354	**-**	1,509,539

(b) Investments in controlled entities

	Consolidated 2009 $	Consolidated 2008 $	Parent entity 2009 $	Parent entity 2008 $
Investments in controlled entities (see note 26)	**-**	-	**2,264,902**	2,264,902
Less: Provision for impairment	**-**	-	**(2,230,000)**	(1,250,000)
	-	-	**34,902**	1,014,902
Total other non-current assets	**-**	25,354	**34,902**	2,524,441

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

Loans to other entities refers to a loan made to Haliburn Resources Limited, a company of which Mr McSweeney is a director. The loan was interest free and was to be repaid on listing of the company on the Australian Securities Exchange. However, as this has failed to happen the loan has been written off.

Refer to Note 13 for impairment discussion.

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

	Consolidated		Parent entity	
	2009	2008	**2009**	2008
	$	$	**$**	$

Note 12. Non-current assets – Plant and equipment

Plant and equipment				
Plant & equipment at cost	**223,929**	217,295	**219,112**	212,015
Less accumulated depreciation	**(101,519)**	(44,235)	**(100,480)**	(44,147)
	122,410	173,060	**118,632**	167,868

Reconciliation

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

Plant and equipment				
Balance at 1 July	**173,060**	72,101	**167,868**	72,101
Increase in plant and equipment	**6,753**	138,117	**7,097**	132,837
Depreciation expense	**(57,403)**	(37,158)	**(56,333)**	(37,070)
Balance at 30 June	**122,410**	173,060	**118,632**	167,868

Note 13. Non-current assets – Exploration and evaluation

Exploration and evaluation				
Exploration and evaluation – at cost less amounts written off	**2,419,689**	3,888,096	**-**	40,498
Reconciliation				
Balance at1 July	**3,888,096**	1,926,667	**40,498**	676,677
Purchases of mineral tenements	**-**	1,356,869	**-**	-
Increase in exploration and evaluation	**1,060,335**	1,645,709	**-**	66,835
Expenditure written off	**(2,639,904)**	(929,987)	**(40,498)**	(703,014)
Expenditure transferred from Non-current assets held for sale	**111,162**	-	**-**	-
Expenditure transferred to Non-current assets held for sale	**-**	(111,162)	**-**	-
Balance at 30 June	**2,419,689**	3,888,096	**-**	40,498

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

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

	Consolidated		Parent entity	
	2009	2008	**2009**	2008
	$	$	**$**	$

Note 14. Current liabilities – Trade and other payables

Trade payables	**314,369**	403,076	**276,776**	362,793
Other payables	**95,666**	101,743	**12,820**	101,743
Employee leave liabilities	**27,641**	36,613	**19,634**	36,613
Balance at 30 June	**437,676**	541,432	**309,230**	501,149

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

Note 15. Contributed equity

(a) Share capital	Number of shares	$
Ordinary shares – fully paid	**87,493,333**	**9,735,426**

(b) Movements in ordinary share capital

Date	Details	Number of shares	Issue price $	$
	Balance at 1 July 2008	**40,000,000**		**5,273,763**
2 August 2007	Shares issued pursuant to an agreement to purchase 100% of the issued capital of Resource Properties Pty Ltd	4,000,000	0.22	880,000
14 April 2008	Shares issued to a sophisticated investor	6,600,000	0.155	1,023,000
	Less: Transaction costs arising on placement of shares			(51,151)
	Balance at 30 June 2008	**50,600,000**		**7,125,612**
15 August 2008	Shares issued pursuant to an exercise of options	1,500,000	0.20	300,000
17 January 2009	Shares issued to a sophisticated investor	13,000,000	0.10	1,300,000
6 February 2009	Shares issued to a sophisticated investor *	520,000	0.10	52,000
18 June 2009	Shares issued pursuant to a non-renounceable rights issue	21,873,333	0.05	1,093,667
	Less: Transaction costs arising on placement of shares			(135,853)
	Balance at 30 June 2009	**87,493,333**		**9,735,426**

** Non-cash transactions:*

On 6 February 2009 the Company settled a fee amount by way of the issue of 520,000 ordinary shares issued at a deemed price of 10 cents each

Notes to the Financial Statements (continued)
For the year ended 30 June 2009

Note 15. Contributed equity (continued)

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

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

(d) Employee share option scheme
Information relating to the Employee Share Option Scheme, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year are set out in Note 22.

(e) Options

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

- 800,000 options exercisable at 20 cents and expiring 31 January 2010;
- 125,000 options exercisable at 25 cents and expiring 31 January 2010;
- 1,075,000 options exercisable at 40 cents and expiring 31 January 2010;
- 3,900,000 options exercisable at 20 cents and expiring 10 February 2010;
- 300,000 options exercisable at 30 cents and expiring 31 July 2011; and
- 100,000 options exercisable at 20 cents and expiring 31 July 2011.

(f) Movements in options

Date	Details	Number of options
	Balance at 1 July 2007	**11,000,000**
10 October 2007	Allotment of options	250,000
12 October 2007	Allotment of options	1,000,000
15 October 2007	Allotment of options	500,000
9 January 2008	Allotment of options	250,000
	Balance at 30 June 2008	**13,000,000**
15 August 2008	Exercise of options	(1,500,000)
26 August 2008	Allotment of options	300,000
2 February 2009	Allotment of options	100,000
10 February 2009	Expiry of options	(5,600,000)
	Balance at 30 June 2009	**6,300,000**

(g) Capital management

When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain an optimal structure to reduce the cost of capital. Avalon Minerals Limited 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.

Notes to the Financial Statements (continued)
For the year ended 30 June 2009

Note 15. Contributed equity (continued)

The material liquidity risk for the Group is the ability to raise equity in the future. The Group's cash flow forecasts show that current funds are sufficient to fund the operations past September 2010. 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 past September 2010. 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.

Fair values

The aggregate net fair value of the Group's financial assets and liabilities approximates their carrying value in the financial statements. Cash assets are carried at amounts approximating fair value because of their short term nature to maturity. Receivables and payables are carried at amounts approximating fair value.

	Consolidated Entity		**Company**	
	2009	2008	**2009**	2008
	$	$	**$**	$
Total borrowings	**-**	-	**-**	-
Less: cash and cash equivalents	**1,919,002**	1,458,455	**1,720,406**	1,365,710
Net debt	**-**	-	**-**	-
Total equity	**4,087,118**	5,201,410	**1,607,587**	3,662,523
Total capital	**6,006,120**	6,659,865	**3,327,993**	5,028,233
Gearing ratio	**0%**	0%	**0%**	0%

	Consolidated		**Parent entity**	
	2009	2008	**2009**	2008
	$	$	**$**	$
Note 16. Reserves				
Share-based payments reserve	**205,505**	176,963	**205,505**	176,963
Movements in reserves				
Share-based payments reserve				
Balance at 1 July	**176,963**	49,840	**176,963**	49,840
Option expense	**28,542**	127,123	**28,542**	127,123
Balance at 30 June	**205,505**	176,963	**205,505**	176,963

Notes to the Financial Statements (continued)
For the year ended 30 June 2009

	Consolidated		Parent entity	
	2009 $	2008 $	**2009 $**	2008 $

Note 16. Reserves (continued)

Foreign currency translation reserve	**(277,207)**	-	**-**	-
Movements in reserves				
Foreign currency translation reserve				
Balance at 1 July	**-**	-	**-**	-
Foreign exchange on translation of foreign subsidiaries	**(277,207)**	-	**-**	-
Balance at 30 June	**(277,207)**	-	**-**	-
Total reserves	**(71,702)**	176,963	**205,505**	176,963

Nature and purpose of reserves

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

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

Note 17. Accumulated losses

Balance at July 1	**(2,101,165)**	(367,207)	**(3,640,052)**	(367,207)
Net loss attributable to members of Avalon Minerals	**(3,475,440)**	(1,733,958)	**(4,693,292)**	(3,272,845)
Balance at 30 June	**(5,576,605)**	(2,101,165)	**(8,333,344)**	(3,640,052)

Notes to the Financial Statements (continued)
For the year ended 30 June 2009

Note 18. Key management personnel disclosures

(a) Directors

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

Chairman - executive
D McSweeney

Non-executive directors
G Steinepreis
S Stone
A Mohamed

Alternate director
A Kamaruddin

(b) Other key management personnel

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

Name	Position
D J Kelly	Company Secretary/Chief Financial Officer
G Hewlett	Exploration Manager (resigned 12 December 2008)
N Baker	Project Manager – Sweden
P Batten	Consultant Manager

(c) Key management personnel compensation

	Consolidated		Parent entity	
	2009	2008	**2009**	2008
	$	$	**$**	$
Short term employee benefits	**669,247**	544,992	**669,247**	544,992
Post employment benefits	**30,525**	41,250	**30,525**	41,250
Share based payments	**24,630**	102,614	**24,630**	102,614
Other	**-**	12,696	**-**	12,696
	724,402	701,552	**724,402**	701,552

(d) Equity instrument disclosures relating to key management personnel

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

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in the Remuneration Report on pages 17 to 19.

Notes to the Financial Statements (continued)
For the year ended 30 June 2009

Note 18. Key management personnel disclosures (continued)

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

2009 Name	Balance at the beginning of the year	Granted during the period as remuneration	Exercised during the period	Other changes during the period*	Balance at the end of the period	Vested and exercisable at the end of the period
Directors of Avalon Minerals Ltd						
D McSweeney	10,000,000	-	(1,500,000)	(5,200,000)	3,300,000	3,300,000
G Steinepreis	500,000	-	-	(300,000)	200,000	200,000
S Stone	500,000	-	-	(300,000)	200,000	200,000
A Mohamed	-	-	-	-	-	-
A Kamaruddin	-	-	-	-	-	-
Other key management personnel						
D J Kelly	500,000	-	-	-	500,000	500,000
G Hewlett	1,000,000	-	-	-	1,000,000	1,000,000
N Baker	-	300,000	-	-	300,000	300,000

* Other changes during the year represents options that have lapsed.

2008 Name	Balance at the beginning of the year	Granted during the period as remuneration	Exercised during the period	Other changes during the period	Balance at the end of the period	Vested and exercisable at the end of the period
Directors of Avalon Minerals Ltd						
D McSweeney	10,000,000	-	-	-	10,000,000	10,000,000
G Steinepreis	500,000	-	-	-	500,000	500,000
S Stone	500,000	-	-	-	500,000	500,000
Other key management personnel						
D J Kelly	-	500,000	-	-	500,000	500,000
G Hewlett	-	1,000,000	-	-	1,000,000	1,000,000

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

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

2009 Name	Balance at the beginning of the year	Received during the period on the exercise of options	Other changes during the period*	Balance at the end of the period
Directors of Avalon Minerals Ltd				
D McSweeney	6,849,706	1,500,000	4,436,736	12,786,442
G Steinepreis	750,000	-	1,507,155	2,257,155
S Stone	750,000	-	340,704	1,090,704
A Mohamed	-	-	19,088,057	19,088,057
A Kamaruddin	-	-	-	-
Other key management personnel				
D Kelly	-	-	-	-
G Hewlett	-	-	-	-

Notes to the Financial Statements (continued)
For the year ended 30 June 2009

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

* Other changes represent on-market share purchases, rights issue entitlements and shares issued under an underwriting agreement.

(e) Loans to key management personnel

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

(f) Other transactions with key management personnel

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

	Consolidated		Parent entity	
	2009 $	2008 $	**2009 $**	2008 $

Note 19. Remuneration of auditors

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

Assurance services				
Audit services				
Ernst & Young:				
Audit and review of financial report	**43,680**	29,960	**43,680**	29,960

Note 20. Contingent liabilities

As at 30 June 2009 the Company had no contingent liabilities. (2008: nil)

Note 21. Commitments for expenditure

(i) Capital commitments

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

Within one year	**30,576**	61,857	**-**	**-**
Later than one year but not later than 5 years	**-**	400,000	**-**	**-**
Later than 5 years	**-**	-	**-**	**-**
	30,576	461,857	**-**	**-**

	Consolidated		Parent entity	
	2009	2008	**2009**	2008
	$	$	**$**	$

Note 21. Commitments for expenditure (continued)

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

(ii) Lease commitments
Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable, representing non-cancellable operating leases:

	Consolidated 2009 $	Consolidated 2008 $	Parent entity 2009 $	Parent entity 2008 $
Within one year	**74,880**	73,120	**74,880**	73,120
Later than one year but not later than 5 years	**6,240**	81,120	**6,240**	81,120
Later than 5 years	**-**	-	**-**	-
	81,120	154,240	**81,120**	154,240

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

Note 22. Share-based payments

a) Employee Share Option Scheme
All staff (including executive directors) are eligible to participate in the scheme.

Shares and options are issued on the following terms:

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

The exercise price of options is determined by the directors which is not less than 80% of market price on the date upon which the directors first resolved to grant the options. Amounts receivable on the exercise of options are recognised as share capital.

Notes to the Financial Statements (continued)
For the year ended 30 June 2009

Note 22. Share-based payments (continued)

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

Grant date	Expiry date	Exercise price	Issued during the period	Exercised during the period	Lapsed during the period	Balance at end of the period
		$	Number	Number	Number	Number
2009						
7 February 2007	31 January 2010	0.20	5,400,000	(1,500,000)	-	3,900,000
7 February 2007	31 January 2009	0.40	5,600,000	-	(5,600,000)	-
10 October 2007	31 January 2010	0.20	100,000	-	-	100,000
		0.40	150,000	-	-	150,000
12 October 2007	31 January 2010	0.20	500,000	-	-	500,000
		0.40	500,000	-	-	500,000
15 October 2007	31 January 2010	0.20	200,000	-	-	200,000
		0.40	300,000	-	-	300,000
9 January 2008	31 January 2010	0.25	125,000	-	-	125,000
		0.40	125,000	-	-	125,000
26 August 2008	31 January 2011	0.30	300,000	-	-	300,000
13 January 2009	31 July 2011	0.20	100,000	-	-	100,000
			13,400,000	(1,500,000)	(5,600,000)	6,300,000

There were 1,500,000 shares issued during the year ended 30 June 2009 as a result of the exercise of options.

Grant date	Expiry date	Exercise price	Issued during the period	Exercised during the period	Lapsed during the period	Balance at end of the period
		$	Number	Number	Number	Number
2008						
7 February 2007	31 January 2010	0.20	5,400,000	-	-	5,400,000
7 February 2007	31 January 2009	0.40	5,600,000	-	-	5,600,000
10 October 2007	31 January 2010	0.20	100,000	-	-	100,000
		0.40	150,000	-	-	150,000
12 October 2007	31 January 2010	0.20	500,000	-	-	500,000
		0.40	500,000	-	-	500,000
15 October 2007	31 January 2010	0.20	200,000	-	-	200,000
		0.40	300,000	-	-	300,000
9 January 2008	31 January 2010	0.25	125,000	-	-	125,000
		0.40	125,000	-	-	125,000
			13,000,000	-	-	13,000,000

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

Note 22. Share-based payments (continued)

Fair value of options granted

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

2009

The model inputs for options granted during the year ended 30 June 2009 included:

Grant date	**26 August 2008**	**13 January 2009**
Expiry date	31 January 2011	31 July 2011
Quantity	300,000	100,000
Exercise price	30 cents	20 cents
Consideration	Nil	Nil
Share price at grant date	21 cents	8 cents
Expected price volatility of the Company's shares	86%	70%
Expected dividend yield	Nil	Nil
Risk-free interest rate	6.02%	4.5%
Fair Value per Option	**$0.0821**	**$0.0170**

2008

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

Grant date	**10 & 12 October 2007**	**10 & 12 October 2007**
Expiry date	31 January 2010	31 January 2010
Quantity	600,000	650,000
Exercise price	20 cents	40 cents
Consideration	Nil	Nil
Share price at grant date	25 cents	25 cents
Expected price volatility of the Company's shares	70%	70%
Expected dividend yield	Nil	Nil
Risk-free interest rate	6.45%	6.45%
Fair Value per Option	**$ 0.1006**	**$ 0.0419**

Grant date	**15 October 2007**	**15 October 2007**
Expiry date	31 January 2010	31 January 2010
Quantity	200,000	300,000
Exercise price	20 cents	40 cents
Consideration	Nil	Nil
Share price at grant date	25 cents	25 cents
Expected price volatility of the Company's shares	70%	70%
Expected dividend yield	Nil	Nil
Risk-free interest rate	6.45%	6.45%
Fair Value per Option	**$ 0.1005**	**$ 0.0418**

Grant date	**09 January 2008**	**09 January 2008**
Expiry date	31 January 2010	31 January 2010
Quantity	125,000	125,000
Exercise price	25 cents	40 cents
Consideration	Nil	Nil
Share price at grant date	21 cents	21 cents
Expected price volatility of the Company's shares	70%	70%
Expected dividend yield	Nil	Nil
Risk-free interest rate	6.47%	6.54%
Fair Value per Option	**$ 0.0504**	**$ 0.0366**

Note 22. Share-based payments (continued)

See pages 17 – 19 of the Directors Report for details of share options issued to directors during the period.

Volatility
The most appropriate expected volatility value to use in determining the value of an option is the historical volatility of the underlying share over a period equal to the expected life of the options ending on the grant date of the options. However, Avalon Minerals Ltd has had insufficient trading history to determine the historical volatility over this period. As such volatility has been determined with reference to broadly comparable companies listed on the Australian Securities Exchange.

c) Expenses arising from share-based payment transactions
Total expenses arising from share-based payment transactions recognised during the period was $28,542.

Note 23. Related party transactions

Directors and other key management personnel
During the financial year the Company advanced funds totalling $36,667 to Haliburn Resources Limited. Mr D McSweeney was the Chairman of Haliburn Resources Limited. The funds were repayable on completion of listing on the Australian Securities Exchange. However, this has not occurred and the loan has been written off in its entirety. Subsequently $2,909 was recouped.

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

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

Ownership interests in related parties
Interests held in subsidiaries are set out in the following Notes:
Related parties – Note 25

Note 24. Events occurring after reporting date

On 11 September 2009 the Company announced that it had successfully undertaken a placement of 13,000,000 shares at 10 cents per share to raise $1,300,000. The shares have been placed with sophisticated investors and clients of Indian Ocean Capital Ltd.

No other matters or circumstances have arisen since 30 June 2009 that has significantly affected, or may significantly affect:

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

Note 25. Related parties

Subsidiaries

2009

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

Notes to the Financial Statements (continued)
For the year ended 30 June 2009

Avalon Minerals Viscaria AB	Sweden	Ordinary	100%

Note 25. Related parties (continued)

2008

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

Note 26. Reconciliation of profit(loss) from ordinary activities after income tax to net cash outflow from operating activities

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

	Consolidated		Parent entity	
	2009 $	2008 $	**2009 $**	2008 $
Operating loss after income tax	**(3,475,440)**	(1,733,958)	**(4,693,292)**	(3,272,845)
Depreciation	**57,403**	37,158	**56,333**	37,070
Exploration expenditure written off	**2,639,904**	929,987	**40,498**	703,014
Non-cash employee benefits expense – share based payments	**28,542**	127,123	**28,542**	127,123
Non cash expense payment	**52,000**	-	**52,000**	-
Unrealised foreign exchange	**(15,676)**	-	**266,090**	-
Provision for impairment	**-**	-	**980,000**	1,250,000
Provision for non-recovery of intercompany loan	**-**	-	**2,616,757**	531,677
Loan written off	**59,112**	-	**59,112**	-
Other	**(3,729)**	-	**(4,074)**	-
Changes in operating assets and liabilities				
Decrease/(Increase) in other receivables	**23,021**	(26,319)	**22,278**	(8,900)
(Decrease)/Increase in trade creditors	**(103,755)**	209,914	**(191,919)**	258,455
Net cash outflow from operating activities	**(738,618)**	(456,095)	**(767,675)**	(374,406)

Non-cash expense payment:

On 6 February 2009 the Company settled a fee amount by way of the issue of 520,000 ordinary shares issued at a deemed price of 10 cents each.

Notes to the Financial Statements (continued)
For the year ended 30 June 2009

Note 27. Earnings per share

	Consolidated 2009 cents	Consolidated 2008 Cents
Basic and diluted earnings per share	**(5.10)**	(3.40)
Weighted average number of shares used as the denominator	**Number**	**Number**
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share.	**59,133,571**	45,059,726
Further potential ordinary shares (options) not considered to be dilutive.	**6,300,000**	13,000,000
Losses used in calculating basic and diluted losses per share	**$**	**$**
Net loss	**(3,475,440)**	(1,733,958)

The earnings per share calculations for the years ended 30 June 2009 and 2008 have been adjusted for the 1 for 3 Rights issue announced to the market on 6 May 2009 in accordance with AASB 133 Earnings Per Share. The effect of this is to dilute the number of shares on issue by a factor of 1.143.

On 11 September 2009 the Company undertook a placement of 13,000,000 shares at 10 cents per share to raise $1,300,000.

Note 28. 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 2009.

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

Directors' Declaration

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

(a) The financial statements and notes and additional disclosures included in the Directors' Report designated as audited, of the Company and of the Consolidated Entity are in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Company's and the Consolidated Entity's financial position as at 30 June 2009 and of its performance for the period ended on that date; and

(ii) complying with Accounting Standards and the *Corporations Regulations 2001; and*

(b) there are reasonable grounds to believe that the Consolidated Entity will be able to pay its debts as and when they become due subject to disclosures in Note 1(a).

This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the *Corporations Act 2001* for the financial period ended 30 June 2009.

On behalf of the Board

Stephen Stone
Director

Perth
29 September 2009

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Independent audit report to members of Avalon Minerals Limited

Report on the Financial Report

We have audited the accompanying financial report of Avalon Minerals Limited, which comprises the balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Auditor's Responsibility

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

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

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

Independence

In conducting our audit we have met the independence requirements of the Corporations Act 2001. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

Auditor's Opinion

In our opinion:

1. the financial report of Avalon Minerals Limited is in accordance with the Corporations Act 2001, including:
   - i giving a true and fair view of the financial position of Avalon Minerals Limited and the consolidated entity at 30 June 2009 and of their performance for the year ended on that date; and
   - ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 10 to 18 of the directors' report for the year ended 30 June 2009. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Avalon Minerals Limited for the year ended 30 June 2009, complies with section 300A of the Corporations Act 2001.

Ernst & Young

Ernst & Young

RJ Curtin
Partner
Perth
29 September 2009

ASX Additional Information

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

SHAREHOLDINGS

Substantial shareholders

The following substantial shareholders have lodged notices with the company as at 30 September 2009.

Holders	Ordinary shares
Abu Sahid Bin Mohamed	19,088,057
David McSweeney	12,796,442
Gregory Wayne Down & Deborah June Down	4,432,910

Class of shares and voting rights

At 30 September 2009, there were 459 holders of the ordinary shares of the company. The voting rights attaching 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 30 September 2009, there were options over 6,300,000 un-issued ordinary shares. There are no voting rights attached to the un-issued ordinary shares. Voting rights will be attached to the un-issued ordinary shares when the options have been exercised.

On-market buy-back

There is no current on-market buy-back.

Distribution of Share & Option Holders (as at 30 September 2009)

Category	Number of holders	
	Ordinary shares	Unlisted Options
1 – 1,000	4	-
1,001 – 5,000	40	-
5,001 – 10,000	52	-
10,001 – 100,000	274	-
100,001 and over	89	8
	459	8

There were 34 holders holding less than a marketable parcel of ordinary shares.

ASX Additional Information (continued)
For the year ended 30 June 2009

Unquoted Securities

The Options on issue were issued as part of an Employee Incentive Scheme and are unquoted.

Restricted Securities

There were no restricted securities as at 30 September 2009:

Twenty Largest Security holders (as at 30 September 2009)

Holder name	Ordinary Shares	
	Number	%
Abu Sahid Bin Mohamed	19,088,057	19.03
David McSweeney	6,000,000	5.98
David Donald Boyer	5,000,000	4.99
Siew Mun Chuang	5,000,000	4.99
Brookman Resources Pty Ltd	4,435,514	4.42
Gregory Wayne Down & Deborah June Down	4,000,000	3.99
Craig Ian Burton	1,666,666	1.66
ANZ Nominees Limited	1,658,133	1.65
Base Asia Pacific Limited	1,500,000	1.50
Ord Superannuation Pty Ltd	1,399,999	1.4
Kimbriki Nominees Pty Ltd	1,333,333	1.33
Derek Steinepreis	1,330,000	1.33
Daniel Paul Wise	1,025,000	1.02
Solequest Pty Ltd	1,010,542	1.01
Neil Alexander Lithgow & Catherine Anne Carroll	1,000,000	1.00
Gary Steinepreis	1,000,000	1.00
Robert Wittenoom	1,000,000	1.00
Bill Brooks Pty Ltd	993,333	0.99
Peter Daniel Adams	950,000	0.95
Almaretta Pty Ltd	866,666	0.86
Total	**60,257,243**	**60.08**

Other information

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