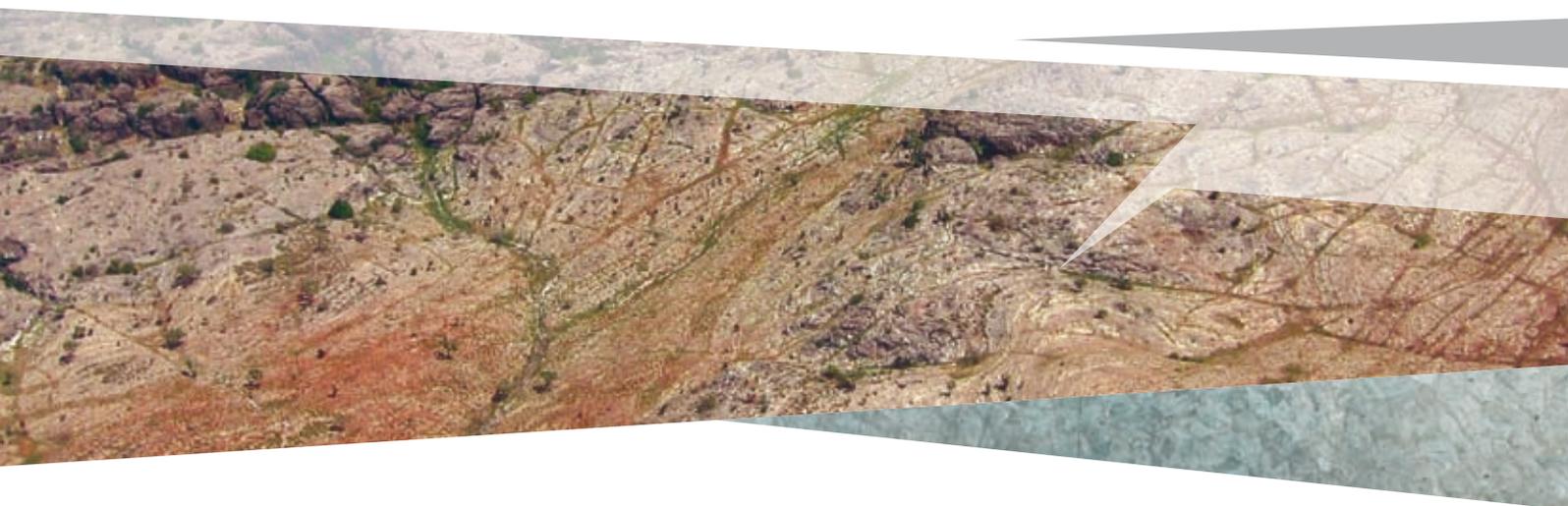


# Annual Report 2007



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**"Targeting A New Generation Of Base Metal, Gold  
And Uranium Deposits"**

# Corporate Directory

## Directors

David McSweeney  
*Chairman and Managing Director*

Gary Steinepreis  
*Non-executive Director*

Steven Stone  
*Non-executive Director*

## Secretary

Desmond Kelly

## Share register

Computershare Investor Services Pty Ltd  
Level 2 Reserve Bank Building  
45 St Georges Terrace  
Perth WA 6000

Telephone: +61 8 9323 2000

Facsimile: +61 8 9323 2033

## Auditor

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

## Solicitors

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

## Bankers

National Australia Bank  
1238 Hay Street  
West Perth WA 6000

## Stock exchange listings

Avalon Minerals Ltd shares are  
Listed on the Australian Securities Exchange  
The home branch is Perth  
Ordinary fully paid shares (ASX code AVI)

## Principal place of business and registered office in Australia

Avalon Minerals Ltd  
ABN: 68 123 184 412  
Unit 2  
2 Richardson Street, West Perth WA 6005  
PO Box 165, West Perth WA 6872  
Telephone: +61 8 9322 2752  
Facsimile: +61 8 9322 2827  
Email: [info@avalonminerals.com.au](mailto:info@avalonminerals.com.au)  
Website: [www.avalonminerals.com.au](http://www.avalonminerals.com.au)



# Chairman's Review



Dear Shareholders

I am pleased to present our first Annual Report and to welcome you as a shareholder of Avalon Minerals Ltd as we embark on the first stages of our vision to build a significant new Australian mining company.

Avalon successfully listed on the Australian Stock Exchange on 22 March 2007 and, at the time of listing, had a total of 40 million ordinary fully paid shares on issue. The IPO raised \$3,500,000 through the issue of 17,500,000 shares at 20 cents each.

Avalon's corporate objective is to build a mid-tier Australian mining group by discovering and developing new mineral deposits and through the acquisition and development of advanced mineral deposits.

The majority of our exploration properties are held through two wholly-owned subsidiaries – Xmin Ltd and Resource Properties Pty Ltd – and we continually review options to add shareholder value through corporate transactions involving these entities.

Since listing, Avalon's exploration team has been busy evaluating our project areas and has undertaken site visits and reconnaissance sampling at the Company's Lennard Shelf and Paterson Projects in Western Australia. This work confirmed the suitability of the Niton sampling process in the Lennard Shelf and led to the establishment of a Joint Venture with ASX-listed exploration company Rox Resources Ltd, under which Rox can earn up to a 60% interest in the project by funding ongoing exploration.

The Company has moved quickly to expand its project portfolio and, during the year, acquired a 100% interest in Resource Properties Pty Ltd – a privately owned company holding 13 uranium prospects in Western Australia. Subsequent to the end of the year, the Company entered into a Joint Venture with Independence Group Ltd to farm into the highly prospective 800km<sup>2</sup> Empress Springs Project in North Queensland, further diversifying and strengthening our project portfolio.

Avalon's corporate objective is to build a mid-tier Australian mining group by discovering and developing new mineral deposits

To date, the company has been successful in establishing a strong portfolio of exploration properties in Australia and, looking ahead, our immediate objectives are:

- the commencement of field-based exploration activities at the Lennard Shelf Zinc Project under the Joint Venture with Rox Resources Ltd;
- commencing the exploration and development of the portfolio of 13 Uranium Exploration Licences we hold in Western Australia;
- commencing the exploration and development of the Empress Springs Project in North Queensland and;
- the acquisition and exploration of further mineral resource opportunities – in Australia and overseas.

The Avalon board and management have extensive experience in exploration for gold, iron ore and base metals, as well as in the administration and development of gold mining and publicly listed resource companies. We believe that the quality of the exploration interests Avalon has acquired and the focused exploration program we plan to undertake over the next two years has the potential to deliver significant value to shareholders.

Thank you for joining us in building Avalon into a significant new Australian mining company.

Yours Sincerely



**David McSweeney**  
EXECUTIVE CHAIRMAN



# Overview

Avalon's vision is to build an independent diversified Australian mining company through acquisition and exploration of proven mineral provinces

Avalon Minerals Ltd was established in late 2006 to search for, acquire and develop mineral deposits. Following an oversubscribed A\$3.5 million IPO, the Company completed a successful listing on the Australian Stock Exchange on 22 March 2007.

All of Avalon's initial projects were 100% owned and were obtained by Xmin Ltd, and through the purchase of three Exploration Licences in the Oscar Range areas of the Lennard Shelf from Baracus Pty Ltd. Xmin Ltd is now a wholly-owned subsidiary of Avalon Minerals Ltd.

Avalon's corporate objective is to build a resource mining group based on cash flows from producing operations. The strategies for achieving this objective is by the discovery of new mineral resources on the Company's regional exploration landholdings and by the acquisition of advanced resource projects with the potential for early cash flow.

The Company has continued to build on its business model by expanding its uranium portfolio during the year to include thirteen new projects in Western Australia's Yilgarn and Kimberley regions, one new uranium/base metals/gold project in North Queensland and by establishing a joint venture with Rox Resources to progress its Lennard Shelf Zinc Project in Western Australia's East Kimberley region.

- Experienced management & skilled geological consultants
- High-quality project portfolio
- Western Australian uranium projects in three regions
- JV with Independence Group NL for a 70% share in Empress Springs Project (Nth QLD)
- JV with Rox Resources Ltd to explore and develop Lennard Shelf zinc/lead prospects (WA)

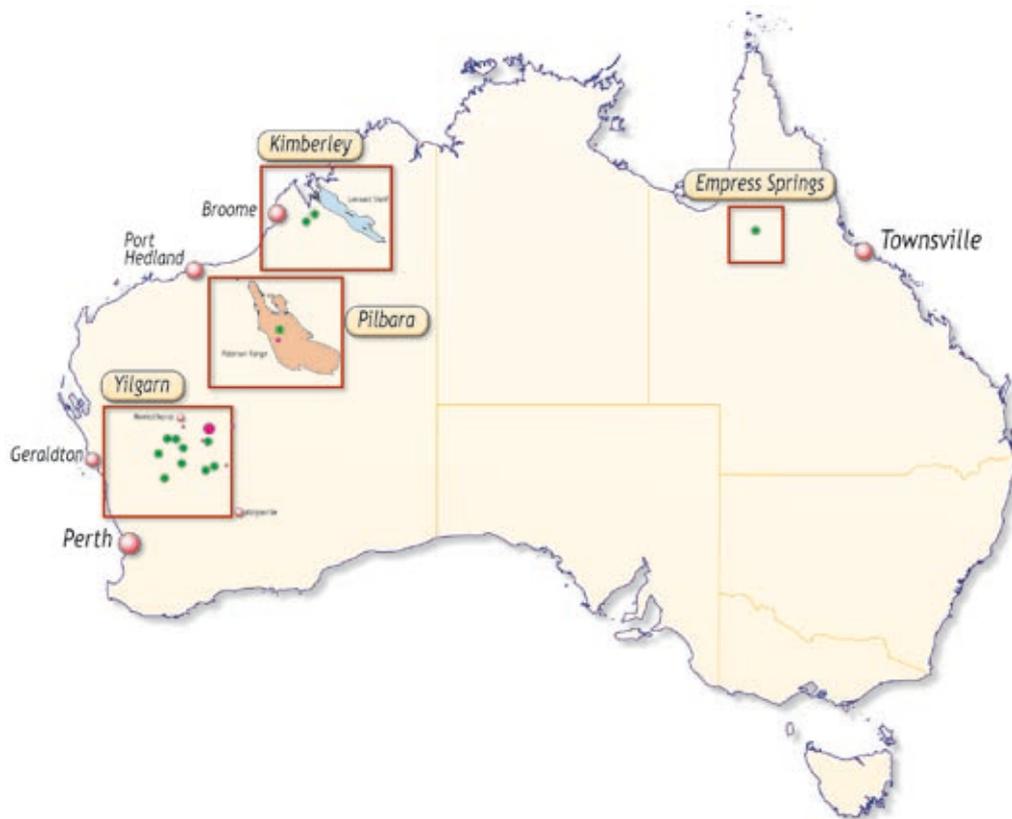


Figure 1 – Australian Project Map



# Project Summaries

## Western Australia

### Zinc

#### Lennard Shelf Joint Venture

Avalon's Lennard Shelf Project comprises a 2,594km<sup>2</sup> land holding in the acclaimed Lennard Shelf zinc-lead province in the East Kimberley region of Western Australia and includes several defined zinc targets at the Oscar Range, Barramundi and Lawford Projects. The tenements are located adjacent to and along strike from Teck-Cominco / Xstrata's Lennard Shelf deposits, including the 23 million tonne Pillara Deposit.

The project area has been the subject of several exploration efforts by earlier explorers, however much of this previous exploration and drilling was widespread and incomplete.

In September 2007, Avalon entered into a Joint Venture agreement with Perth-based exploration company, Rox Resources Limited (ASX: RXL), for Rox to earn up to a 60% interest in the Project.

Under the terms of the agreement, Rox will manage the Joint Venture and will initially have a 12-month option during which it will be required to spend \$500,000 on exploration. Rox can then earn a 60% interest in the project by issuing \$300,000 worth of Rox shares to Avalon and spending a further \$1.5 million on exploration over three years.

Other standard Joint Venture terms such as dilution, tenement maintenance, pre-emptive rights and environmental responsibility apply to the option agreement.

Following the granting of six new key exploration licences within the Lennard Shelf portfolio under the Native Title Act, the Avalon/Rox Joint Venture is aiming to expedite exploration activities in the region in the second half of 2007 and into 2008.

The Lennard Shelf is regarded as world-class zinc province with historical and current reserves totalling 40 million tonnes of zinc. Avalon's Lennard Shelf Project is located adjacent to the

Avalon's consultant geologists and management have identified up to 12 target areas amenable to soil sampling with the use of Avalon's hand-held XRF Niton exploration tool

7 million tonne Pillara zinc mine operated by Teck-Cominco and Xstrata in an area which has access to good infrastructure and loading facilities at the Port of Derby.

A full review of historic exploration data carried out by Avalon, together with two site visits by Avalon's consultant geologists and management, has identified up to 12 target areas amenable to soil sampling with the use of Avalon's hand-held XRF Niton exploration tool. The Niton program - consisting of approximately 9,000 individual assays - will commence upon granting of heritage clearances. The results from the 9,000 Niton generated assays will assist in the identification of drill targets for testing in the 2008 Kimberley field season.

During the year, a further six Exploration Licences were granted and heritage agreements signed with the Kimberley Land Council (KLC) on behalf of the traditional owners.

#### Oscar Range

The Oscar Range tenements cover an area of 940km<sup>2</sup> along the southwest margin of the Lennard Shelf, where a number of zinc gossans have been discovered. Several low-grade zinc intersections have been reported from follow-up drilling.

The project encompasses approximately 60km strike length of the Lennard Shelf reef complex, including 20km of the reef front and Oscar Fault. Three target areas have been identified based on past exploration, regional geology and structures that may have acted as conduits for migrating ore fluids. Gossan sampling has returned values of 1.7% Zn and 1.6% Pb from the Buromin prospect, and 0.6% Zn and 0.4% Pb from the Boab prospect.

#### Lawford

The Lawford Project covers an area of 940km<sup>2</sup> and incorporates large areas of the Lennard Shelf reef complex. Gossan sampling on a small 2.3km<sup>2</sup> excised mining lease at Ross Hill has returned results of up to 27% Zn and 10% Pb. Previous drilling by earlier explorers at the Window prospect has returned 14m at 0.24% Zn and 4m at 0.5% Pb. Three significant Zn-Pb deposits, Cadjebut, Pinnacles and Kapok are located within a few kilometres of the southwest corner of the project.

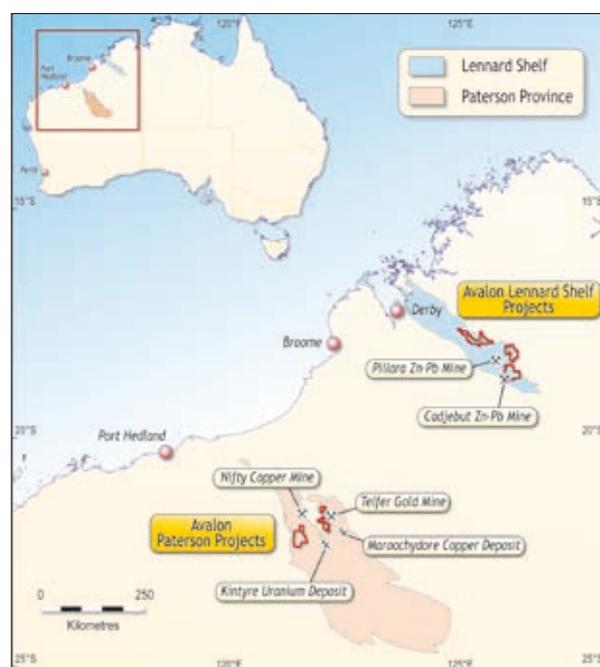


Figure 2 & 3 – Lennard Shelf Projects

## Barramundi

Exploration on the 710km<sup>2</sup> Barramundi project area has been very limited. Gossan sampling by previous explorers just outside the tenements at Findlay Hill and Horse Spring Range have returned results of up to 34% Zn and 8.7% Pb. Three target areas have been identified based on host rocks, structural elements and past exploration.

## Uranium

Since listing on the ASX, Avalon has significantly expanded its uranium portfolio – which already included the Marloo Uranium Project, located 40 km East of the Kintyre uranium deposit in the Pilbara region of Western Australia – through the 100% acquisition of privately owned company, Resource Properties Pty Ltd (RPPL), which holds 13 Exploration Licence Applications (ELA's) in Western Australia (total area 1,900km<sup>2</sup>).

In addition to the new Western Australian uranium properties, Avalon has also entered into the Empress Springs Joint Venture in North Queensland, where the Company intends to commence uranium and base metals exploration in 2008.

Avalon has commenced planning to secure the grant of the priority uranium Exploration Licences and a detailed two-year work program across its Australian portfolio, commencing at Marloo this year. Exploration work will continue across the Western Australian and Queensland projects throughout 2007 and 2008.

Avalon has now positioned itself to actively participate in the growing uranium sector through exploration and discovery within its high-quality tenement portfolio – which now comprises some 2,800km<sup>2</sup> of overall landholdings.

The Company intends to utilise its wholly-owned subsidiary, RPPL, as the vehicle for developing its uranium projects both in Australia and overseas.

## Marloo - Uranium and Base Metals

The Marloo Project forms part of Avalon's 1,400km<sup>2</sup> Paterson Project in Western Australia's mineral-rich Pilbara region. This Project is located in the Paterson Province, which also hosts the Telfer Gold Mine, the Nifty Copper Mine and the unconformity-styled Kintyre uranium deposit.

The Company has identified an unconformity-styled uranium target at Epicurus within the Marloo Project. The Epicurus unconformity is the flagship of the Company's uranium portfolio and Avalon will conduct a drill program in 2008 to test targets generated by the review of both historic data and new geophysical surveys. Signing of the Heritage Agreement with the Martu Group has paved the way for the grant of the four (4) Exploration licences which make up the 900km<sup>2</sup> Marloo project.

The Marloo project is also prospective for SEDEX-styled zinc and lead mineralisation and strata bound copper mineralisation.

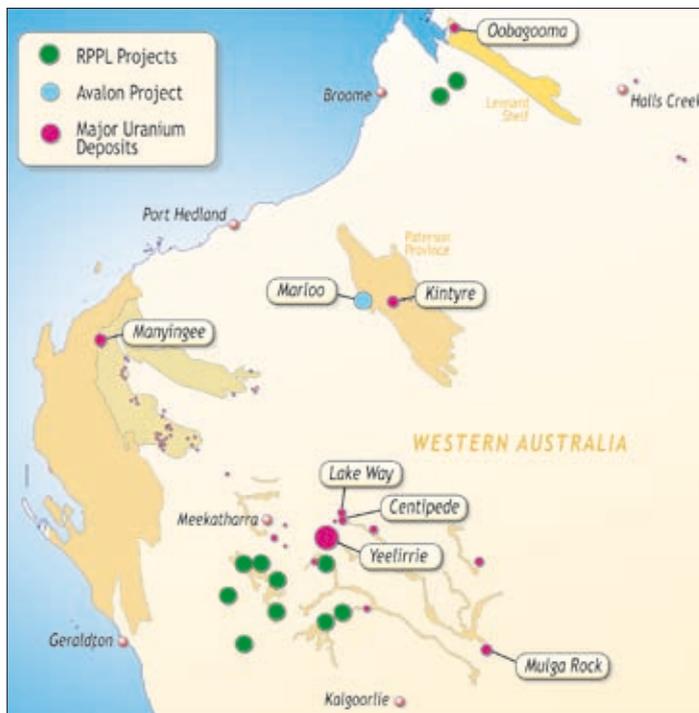


Figure 4 – Western Australian Uranium Projects

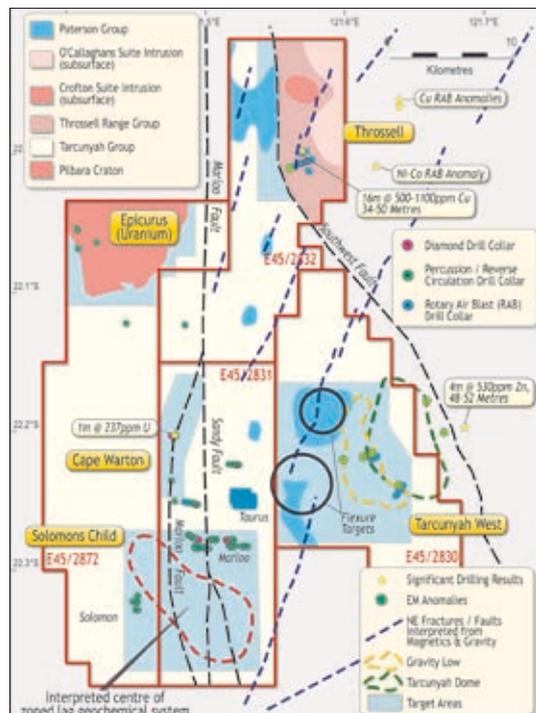


Figure 5 – Marloo Project

### Resource Properties ELA's – Uranium

Avalon has strengthened its position in Australian uranium exploration through the acquisition of 100% of the issued capital in private company, Resource Properties Pty Ltd (RPPL). The acquisition of RPPL provided Avalon with a substantial exploration portfolio – covering some 1,900km<sup>2</sup> in Western Australia's Kimberley and Yilgarn regions.

The RPPL acquisition, comprising 13 Exploration Licence Applications (ELA's) and including some highly prospective uranium acreage, significantly enhances Avalon's existing uranium exploration portfolio.

The RPPL uranium portfolio comprises two (2) Exploration Licences in the Kimberley region – both with potential for roll-front uranium targets – and eleven (11) Exploration Licences in the Yilgarn which are considered prospective for near-surface, calcrete-hosted uranium mineralisation in paleochannels.

The targets were selected from a review of airborne radiometric data, geological mapping and historical exploration reports.

### Kimberley Projects (2 ELA's)

The two Kimberley projects were first identified by Afmeco Pty Ltd (a 100%-owned subsidiary of French uranium giant Cogema) in 1978. Afmeco's regional exploration identified roll-front styled mineralisation at Meda, 45km east of Derby and Frome Rocks, 90km south of Derby.

Exploration work carried out by Afmeco is also credited with the discovery of the 10,000 tonne Oobagooma uranium deposit (owned by Paladin Resources Limited), located 75km north of Derby.

### Meda - 550km<sup>2</sup> (E04/1714)

Afmeco identified three anomalous zones associated with outcropping sandstone channel sands, with a peak uranium assay reading of 200ppm. Future exploration at Meda will include airborne radiometric and remote sensing data, combined with reconnaissance drilling within the 50km of strike in the Eskine Sandstone/ Blina Shale contact in the tenement area. Access to the Meda project is via the Gibb River road, east of Derby.

### Frome Rocks - 156km<sup>2</sup> (E 04/1652)

At the Frome Rocks area and adjacent to the Fenton fault, Afmeco identified the existence of mineralised redox fronts within the Wallall Sandstone. Reconnaissance drilling of a 16km<sup>2</sup> grid, located 3km to the south-east of the tenement, was successful in identifying one major and two minor channelling zones, with uranium values of up to 270ppm returned in association with redox fronts.



Figure 6 – Resource Properties Kimberley Projects

### Yilgarn Projects (11 ELA's)

The remaining prospects within the acquired portfolio are all located within main paleochannels, or tributaries of paleochannels, in the Yilgarn region of Western Australia (Fig. 7).

#### Altona - 78km<sup>2</sup> (E36/636)

The Altona Project is located downstream from the Bolitho Bore Deposit, owned by Prime Minerals Ltd, where around 1 million tonnes of mineralisation grading 170ppmU has been identified. The project adjoins the Puncture Well prospect at Altona to the south (owned by Aura Energy). The world-class Yeelirrie uranium deposit lies approximately 50km north. A 5km long tributary of the Raeside channel is interpreted to pass through the prospect.

#### Lake Barlee - 228km<sup>2</sup> (E57/691 & E29/665)

The Lake Barlee Project includes 16km of prospective Raeside paleodrainage where a detailed radiometric survey is planned to test for blind uranium mineralisation below surficial cover.

#### Austin and Moore Paleochannel (E59/1320)

Five projects (8 Exploration Licences) lie within the Austin and Moore paleochannels. The Austin paleochannel hosts a number of advanced uranium projects including the Lakeside/ Austin Downs, Wondinong, Anketell and Windi uranium deposits.

#### Wondinong – 339km<sup>2</sup> (E58/347-8)

The Wondinong Project covers approximately 25km of the Austin Paleodrainage and lies immediately adjacent to Aura Energy Ltd's Wondinong uranium deposit, where drilling results including 2m @ 541ppmU, 1.5m @ 687ppmU and 0.5m @ 926ppmU have been reported.

The uranium channel airborne radiometric image of the area is shown below, highlighting the line of the main channel as well as the calcrete-hosted deposit owned by Aura Energy immediately upstream and east of Avalon's eastern project boundary.

#### Austin Downs - 228km<sup>2</sup> (E2000665, E2000652-3)

The Austin Downs project contains three Exploration Licence Applications and lies within two significant tributaries that drain into the main Austin paleodrainage from the north. Avalon's licences are considered prospective for both calcrete-hosted and playa-hosted uranium mineralisation with radiometric anomalies identified on all three tenements, some of which are associated with potentially attractive uranium trap sites at channel junctions.

#### Yardiacco - 84km<sup>2</sup> (E59/1318)

The Yardiacco tenement application lies at the southern end of the Austin paleochannel, 100km north of Paynes Find, and has a number of uranium channel airborne radiometric anomalies.



Figure 7 – Resource Properties Yilgarn Uranium Projects

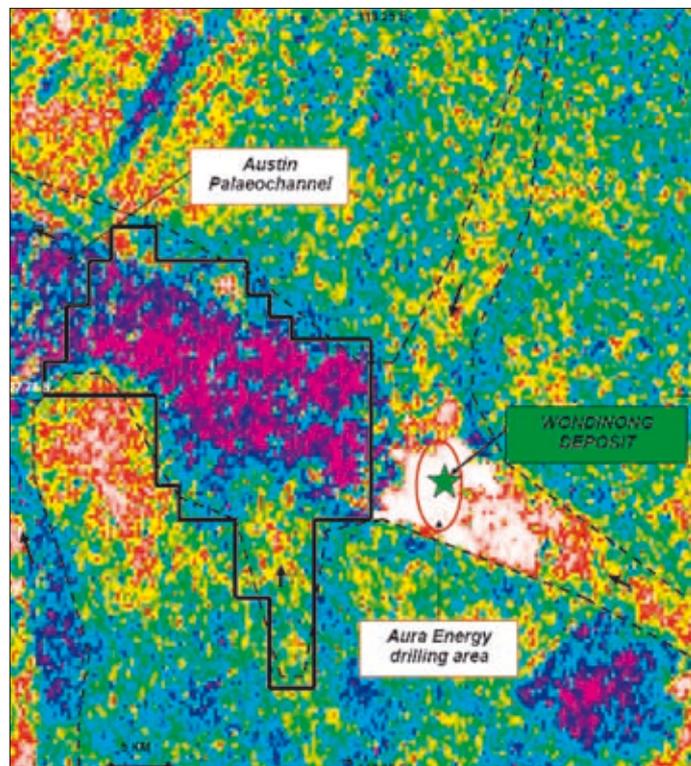


Figure 8 – Radiometric Image of Wondinong Deposit

**Cowantha - 195km<sup>2</sup> (E59/1321)**

The Cowantha Project is situated 50km west of Mt Magnet and covers a 40km long section of the upper reaches of the Moore paleochannel. Significantly, a strong 8km long radiometric anomaly coincides with 5km of exposed valley calcrete.

**Queensland**

**Gold / Polymetallic**

**Empress Springs JV**

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

The project, located 40km south of Croydon, comprises two granted exploration licences covering a total area of 833km<sup>2</sup>. The region is a well-known gold producing region with historical production of 750,000oz at Croydon and the more recent discovery by Gold Aura Ltd of polymetallic mineralisation at Wallabadah, located 30 km north of Croydon.

Interpretive work completed in identifying the target zones at Empress Springs has laid the foundation for a drilling program in 2008.

The Empress Springs Project also has the potential for roll-front or drainage channel hosted redox-style uranium mineralization. The regional granites are fluorine-tin enriched and also have potential to generate uranium mineralizing fluids.

Under the terms of the Joint Venture with Independence Group, Avalon must spend \$125,000 in the first 12 months and a total of \$750,000 over 4 years to earn its 70% interest in the project.

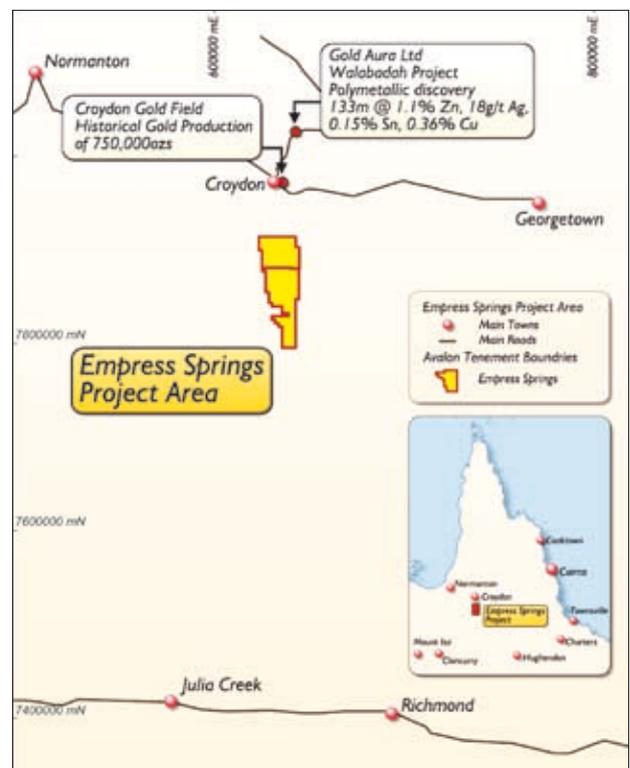
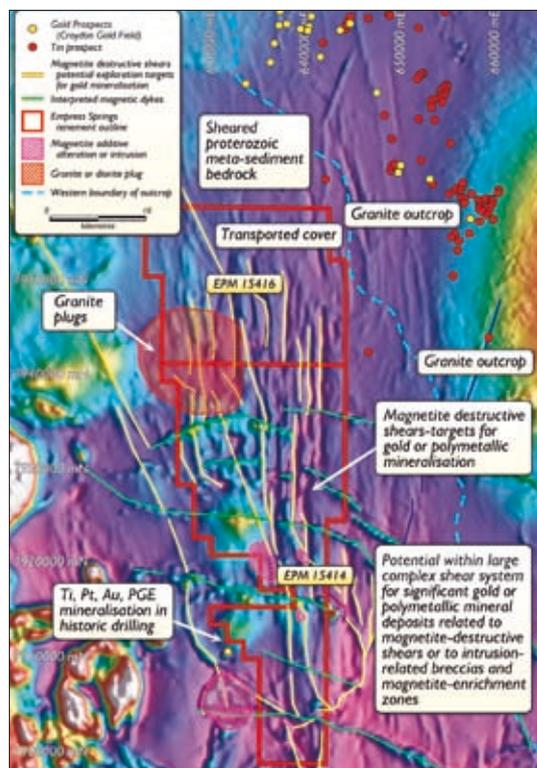


Figure 9 & 10 – Empress Springs



# 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 period from incorporation until 30 June 2007.

## Directors

The following persons were directors of Avalon Minerals Ltd from incorporation on 20 December 2006 and up to the date of this report, unless otherwise stated:

D L McSweeney

G C Steinepreis

Mr D C Steinepreis was a director from incorporation until his resignation on 15 January 2007.

Mr S Stone was appointed a director on 15 January 2007 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:

	Revenues 2007 \$	Results 2007 \$
Revenue	33,535	-
Loss before income tax expense		(367,207)
Income tax expense		-
Loss attributable to members of Avalon Minerals Ltd		(367,207)

## Financial Position

During the period the Company had a net increase in contributed equity of \$5,273,763 (from \$Nil to \$5,273,763) as a result of:

- a placement of 9,500,000 ordinary fully paid shares at 1 cent each to raise \$95,000;
- a placement of 6,000,000 ordinary fully paid shares at 7.5 cents each to raise \$450,000;
- a placement of 7,000,000 ordinary fully paid shares at a deemed value of 20 cents each, being \$1,400,000, as consideration for the purchase of mineral tenements;

- the issue of 17,500,000 fully paid ordinary shares at 20 cents each as an initial public offering, being \$3,500,000;
- payment of capital raising and share issue costs of \$171,237.

At the end of the financial period the group had net cash balances of \$3,144,308 and net assets of \$4,956,396.

Total liabilities amounted to \$242,935 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 strategies for achieving this objective is by the discovery of new mineral resources on the Company’s regional exploration landholdings and by the acquisition of advanced resource projects with the potential for early cash flow.

During the financial period the Company acquired the Lennard Shelf Projects via the purchase of 100% of the existing capital of Xmin Ltd, a holding of 2,594 square kilometres in the acclaimed zinc province in the East Kimberley region of Western Australia. The tenements which are located adjacent to and along strike from Teck Cominco/Xstrata’s Lennard Shelf deposits are a key focus of Avalon’s exploration and growth strategy. The granting of the tenements has enabled the Company to expedite its exploration activities in the Lennard Shelf region in the second half of 2007 and into 2008.

The Paterson Projects, also acquired via Xmin Ltd and located in the Paterson Range area of Western Australia’s East Pilbara region, represent Avalon’s second exploration focus. The Company has 1,409 square kilometres of tenements under application in the Paterson Range region, all prospective for a range of mineral types and exploration models.

Avalon has positioned itself to actively participate in the growing uranium sector through the acquisition of the Marloo Uranium Project and by the acquisition of 100% of the private company Resource Properties Pty Ltd which holds 13 Exploration Licence Applications in Western Australia.

## Corporate

Avalon Minerals Ltd was incorporated on 20 December 2006.

On 20 December 2006 the Company issued 9,500,000 ordinary shares as founders stock to raise a total of \$95,000.

On 8 February 2007 the Company issued 2,000,000 ordinary shares to vendors as consideration for the purchase of mineral tenements.

On 8 February 2007 the Company issued 6,000,000 ordinary shares as seed capital to raise a total of \$450,000.

On 16 March 2007 the Company issued 5,000,000 ordinary shares to vendors as consideration for the purchase of 100% of the issued capital of Xmin Ltd.

On 9 February 2007 the Company issued a Prospectus for an Initial Public Offering to raise up to \$3,500,000. The offering closed over-subscribed. On 16 March 2007 17,500,000 ordinary shares were issued pursuant to the Prospectus.

On 22 March 2007 the Company listed on the Australian Securities Exchange.

<b>Earnings per share</b>	<b>2007 Cents</b>
Basic and diluted earnings per share	(1.32)

### Significant changes in the state of affairs

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

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

On 26 July 2007 the Company reached agreement to acquire 100% of the issued capital of Resource Properties Pty Ltd, consideration being 4,000,000 ordinary fully paid shares in the Company and \$100,000 cash. Resource Properties Pty Ltd is the holder of 13 exploration licences comprising 1,900 square kilometres.

On 27 July 2007, the Company entered into a Joint Venture agreement with Independence Group NL to earn a 70% interest in the Empress Springs gold, base metals and uranium project in North Queensland.

On 7 September 2007, the Company entered into a joint venture agreement with Rox Resources Ltd to explore for zinc and lead deposits in the Lennard Shelf province in Western Australia.

No other matter or circumstance has arisen since 30 June 2007 that has significantly affected, or may significantly affect:

- the Consolidated Entity's operations in future financial years, or
- the results of those operations in future financial years, or
- the Consolidated Entity's state of affairs in future financial years.

### Likely developments and expected results of operations

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

### Environmental regulation

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

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

### Information on directors

#### DAVID MCSWEENEY Chairman – Executive

##### Experience and expertise

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

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

###### Former

Gindalbie Metals – 1998 to December 2006

Dynasty Metals – since 8 January 2007

#### 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. He is also a director of ASX listed companies Toodyay Resources Ltd, Gawler Resources Ltd, RMG Limited, WAG Limited and Signature Brands Ltd.

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

###### Current

Toodyay Resources Ltd – since 22 December 2005

RMG Limited – since 31 January 2006

Gawler Resources Ltd – since 17 May 2006

Signature Brands Ltd – since 1 June 2006

WAG Limited – since 2 November 2006

Black Fire Energy Limited – since 29 November 2006

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

### Former

Energy Ventures Limited – 1 October 2003 to 30 September 2004

OBJ Limited – 13 February 2004 to 17 November 2004

Peninsular Minerals Limited – 29 September 2003 to 8 December 2004

Mobi Limited – 24 December 2003 to 15 December 2004

Green Rock Energy Limited – 22 October 2003 to 10 May 2005

Black Range Minerals Limited – 8 January 2004 to 27 June 2005

Deep Yellow Limited – 20 August 2004 to 10 October 2005

Western Metals Limited – 3 October 2005 to 26 June 2006

Monitor Holdings Ltd – 16 April 2004 to 18 January 2007

KarmelSonix Limited – 18 August 2003 to 21 November 2006

### STEPHEN STONE

#### Non-executive Director

#### Experience and expertise

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

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

##### Current

Azumah Resources Limited – since 8 November 2006

##### Former

Apex Minerals NL – 31 October 2001 to 3 July 2006

### Company secretary

#### DESMOND KELLY BComm, CPA, MAICD

#### Company Secretary

Des Kelly has over 30 years financial and corporate management experience focused mainly in the resources sector. He was Dominion Mining's Group Chief Accountant in that company's key growth phase in the mid-eighties and, between 1994 and 1998 held the roles of Finance Director and Managing Director of Horizon Mining NL before establishing his own corporate management consulting business. Mr Kelly now contributes corporate and administration management expertise to several listed groups including Universal Resources, Midwest Corporation, Nylex Limited, Terrain Minerals Ltd 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	5,000,000	1,287,206	10,000,000	-
G Steinepreis	750,000	800,000	500,000	-
S Stone	720,000	30,000	500,000	-

### Meetings of directors

The number of meetings of the Company's board of directors held during the period ended 30 June 2007 and the number of meetings attended by each director were:

	Full meetings of Directors	
	Held	Attended
D McSweeney	7	7
G Steinepreis	7	7
S Stone	6	5
D Steinepreis	1	1

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

### Retirement, election and continuation in office of directors

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

Mr D C Steinepreis was a director from incorporation until his resignation on 15 January 2007.

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

Mr S Stone was appointed as a director on 15 January 2007. In accordance with the Constitution Mr Stone will retire as a director at the first Annual General Meeting and, being eligible, will offer himself for re-election.

### Remuneration report

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

The information provided under headings A to D includes remuneration disclosures that are required under Accounting Standard AASB 124 *Related Party Disclosures*. These disclosures have been transferred from the financial report and have been audited. The disclosures in section E are additional disclosures required by the *Corporations Act 2001* which have not been audited.

#### A Principles used to determine the nature and amount of remuneration (audited)

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 complementary to the reward strategy of the organisation.

Alignment to shareholders' interests:

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

Alignment to program participants' interests:

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

The framework currently consists of fixed salaries.

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

#### Non-executive directors

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed annually by the Board. The Board also has agreed

to the advice of independent remuneration consultants to ensure non-executive directors' fees and payments are appropriate and in line with the market. The Chairman's fees are determined independently to the fees of non-executive directors based on comparative roles in the external market. The Chairman is not present at any discussions relating to determination of his own remuneration.

#### Directors' fees

The current base remuneration was last reviewed with effect from 16 January 2007. Directors' remuneration is inclusive of committee fees.

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

#### Retirement allowances for directors

There is no provision for retirement allowances for non-executive directors.

#### Executive pay

The executive pay and reward framework has three components:

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

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

- **Base pay**  
Structured as a total employment cost package which may be delivered as a combination of cash and prescribed non-financial benefits at the executives' discretion.  
Executives are offered a competitive base pay that comprises the fixed component of pay and rewards. Base pay for senior executives is reviewed annually to ensure the executive's pay is competitive with the market.  
There are no guaranteed base pay increases included in any senior executives' contracts.
- **Benefits**  
Executives may receive benefits including memberships, car allowances and reasonable entertainment.
- **Retirement benefits**  
Directors and employees are permitted to nominate a superannuation fund of their choice to receive superannuation contributions.
- **Employee Share Option Scheme**  
Information on the Employee Share Option Scheme is set out on page 40.

## B Details of remuneration (audited)

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

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

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

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

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

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

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

### Other transactions with directors

During the financial period the Company paid fees of \$55,000 (inclusive of GST) to Ascent Capital Holdings Pty Ltd for services provided in relation to the Initial Public Offering. Both Mr D Steinepreis and Mr G Steinepreis are directors of Ascent Capital Holdings Pty Ltd.

## C Service Agreements (audited)

Remuneration and other terms of employment for the Executive Chairman 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 Company Secretary provides for the provision of consulting fees and participation, when eligible, in the Employee Share Option Scheme.

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

### D McSweeney, Executive Chairman

- Term of agreement – For a period of 3 years with a notice period 3 months and the payment of 9 months salary.
- Base salary, exclusive of superannuation and other benefits, for the year ended 30 June 2007 of \$300,000, to be reviewed annually. Provision of four weeks annual leave.

### D Kelly, Company Secretary

- Term of agreement – twelve months, notice period of two months.
- Annual consulting fees of \$36,000 for the 12 months from 2 April 2007, renegotiable at the end of the contract period.

#### D Share-based compensation (audited)

Options were granted pursuant to shareholder approval received at a general meeting held on 7 February 2007.

Options were granted for no consideration.

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

Grant date	Expiry date	Exercise price	Value per option at grant date	Date exercisable
7 February 2007	31 January 2010	20 cents	\$0.0087	At any time during the option period
7 February 2007	31 January 2009	40 cents	\$0.00053	At any time during the option period

Options carry no dividend or voting rights.

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

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

Further details relating to options are set out below.

Name	A Remuneration consisting of options \$	B Value at grant date \$	C Value at exercise date \$	D Value at lapse date \$	E Total of columns B-D
D McSweeney	25.22%	46,050	-	-	46,050
G Steinepreis	17.37%	1,895	-	-	1,895
S Stone	17.37%	1,895	-	-	1,895
<b>Total</b>		<b>49,840</b>	-	-	<b>49,840</b>

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

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

C = The value at exercise date of options that were granted as part of remuneration and were exercised during the year.

D = The value at lapse date of options that were granted as part of remuneration and that lapsed during the year.

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

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

## E Additional information (unaudited)

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.

### Loans to directors and executives

There are no loans to directors or executives.

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

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

	Date of grant	Options granted
<i>Directors</i>		
D McSweeney, Executive chairman	7 February 2007	10,000,000
G Steinepreis, Non-executive director	7 February 2007	500,000
S Stone, Non-executive director	7 February 2007	500,000

### Other key management personnel of Avalon Minerals Ltd

D Kelly, Company Secretary	-	-
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### Shares under option

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

Date options granted	Expiry date	Issue price of shares	Number under option
7 February 2007	31 January 2010	20 Cents	5,400,000
7 February 2007	31 January 2009	40 cents	5,600,000
			<hr/> 11,000,000

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

## Share options

### Un-issued Shares

As at the date of this report, there were 11,000,000 un-issued ordinary shares under option. (11,000,000 at reporting date). Refer to the remuneration report for further details of the options outstanding.

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

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

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

## Insurance of officers

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

## Proceedings on behalf of the Company

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

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

## Non-audit services

The following non-audit services were provided by the Company's auditor, Ernst & Young. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence of auditors imposed by the Corporations Act. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Ernst & Young received or are due to received the following amounts for the provision of non-audit services.

Independent Accountants Report	\$15,450
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## 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 20.

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

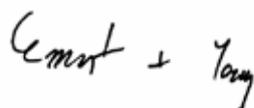


**D McSweeney**  
EXECUTIVE CHAIRMAN  
Perth, Western Australia

25 September 2007

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

In relation to our audit of the financial report of Avalon Minerals Ltd for the period from incorporation to 30 June 2007, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.



Ernst & Young



V W Tidy  
Partner  
Perth  
25 September 2007

## Corporate Governance Disclosures

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

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



# Financial Report

30 June 2007

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

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

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

The financial report was authorised for issue by the directors on XX September 2007. 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](http://www.avalonminerals.com.au)

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

**AVALON MINERALS LTD**

**Income Statement**

For the financial period from the date of incorporation on 20 December 2006 to 30 June 2007

	Notes	Consolidated 2007 \$	Parent entity 2007 \$
<b>Revenue</b>	5	<b>33,535</b>	<b>33,535</b>
Employee benefits expense	6	(213,622)	(213,622)
Professional fees		(40,000)	(40,000)
Office costs		(16,403)	(16,403)
Administration costs		(10,209)	(10,209)
Conference costs		(8,955)	(8,955)
Depreciation costs		(7,076)	(7,076)
Public relations costs		(8,205)	(8,205)
Travel costs		(5,226)	(5,226)
Exploration expenditure written off		(14,147)	(14,147)
Share issue costs on incorporation		(69,095)	(69,095)
Other expenses from ordinary activities		(7,804)	(7,804)
<b>Loss before income tax</b>		<b>(367,207)</b>	<b>(367,207)</b>
Income tax expense	7	-	-
<b>Loss attributable to members of Avalon Minerals Ltd</b>		<b>(367,207)</b>	<b>(367,207)</b>
<b>Earnings per share for loss attributable to the ordinary equity Holders of the Company:</b>			
Basic and diluted earnings per share	26	Cents (1.32)	

*The above Income Statement should be read in conjunction with the Notes to the Financial Statements*

**AVALON MINERALS LTD**

**Balance Sheet**

**As at 30 June 2007**

	Notes	Consolidated 2007 \$	Parent entity 2007 \$
<b>Current assets</b>			
Cash and cash equivalents	8	3,144,308	3,144,298
Trade and other receivables	9	56,255	56,255
Total current assets		<u>3,200,563</u>	<u>3,200,553</u>
<b>Non-current assets</b>			
Other financial assets	10	-	1,250,000
Plant and equipment	11	72,101	72,101
Exploration and evaluation	12	1,926,667	676,677
Total non-current assets		<u>1,998,768</u>	<u>1,998,778</u>
<b>Total assets</b>		<u>5,199,331</u>	<u>5,199,331</u>
<b>Current liabilities</b>			
Trade and other payables	13	242,935	242,935
Total current liabilities		<u>242,935</u>	<u>242,935</u>
<b>Total liabilities</b>		<u>242,935</u>	<u>242,935</u>
<b>Net assets</b>		<u>4,956,396</u>	<u>4,956,396</u>
<b>Equity</b>			
Contributed equity	14	5,273,763	5,273,763
Reserves	15	49,840	49,840
Accumulated losses	16	(367,207)	(367,207)
<b>Total equity</b>		<u>4,956,396</u>	<u>4,956,396</u>

*The above Balance Sheet should be read in conjunction with the Notes to the Financial Statements*

**AVALON MINERALS LTD**

**Statement of Changes in Equity**

For the financial period from the date of incorporation on 20 December 2006 to 30 June 2007

	Notes	Consolidated 2007 \$	Parent entity 2007 \$
Loss for the period	16	<u>(367,207)</u>	<u>(367,207)</u>
<b>Total recognised income and expense for the period</b>		<u>(367,207)</u>	<u>(367,207)</u>
Transactions with equity holders in their capacity as equity holders:			
Contributions of equity		5,445,000	5,445,000
Share issue costs		(171,237)	(171,237)
Directors' options		<u>49,840</u>	<u>49,840</u>
<b>Total equity at the end of the financial period</b>		<u>4,956,396</u>	<u>4,956,396</u>

*The above Statement of Changes in Equity should be read in conjunction with the Notes to the Financial Statements*

**AVALON MINERALS LTD**

**Cash Flow Statement**

**For the period ended 30 June 2007**

	Notes	<b>Consolidated 2007 \$</b>	<b>Parent entity 2007 \$</b>
<b>Cash flows from operating activities</b>			
Payments to suppliers and employees (inclusive of goods and services tax)		(296,929)	(296,929)
Interest received		33,535	33,535
<b>Net cash outflows from operating activities</b>		<b>(263,394)</b>	<b>(263,394)</b>
<b>Cash flows from investing activities</b>			
Payments for plant & equipment		(79,177)	(79,177)
Payments for investments		(250,000)	(250,000)
Exploration and evaluation expenditure		(136,894)	(136,894)
<b>Net cash outflows from investing activities</b>		<b>(466,071)</b>	<b>(466,071)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issues of securities	14(b)	4,045,000	4,045,000
Costs of share issues	14(b)	(171,237)	(171,237)
<b>Net cash inflows from financing activities</b>		<b>3,873,763</b>	<b>3,873,763</b>
<b>Net increase in cash and cash equivalents held</b>		<b>3,144,308</b>	<b>3,144,298</b>
<b>Cash at the end of the financial period</b>	26	<b>3,144,308</b>	<b>3,144,298</b>

*The above Cash Flow Statement should be read in conjunction with the Notes to the Financial Statements*

**AVALON MINERALS LTD**

**Notes to the financial statements  
30 June 2007**

**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 from the date of incorporation on 20 December 2006 until 30 June 2007, 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* and Australian Accounting Standards. The financial report has also been prepared on a historical cost basis.

The presentation currency is Australian dollars.

**(b) Statement of compliance**

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). The financial report complies with International Financial Reporting Standards (IFRS).

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 2007. These are outlined as follows:

Reference	Title	Summary	Application date of standard*	Impact on the Company financial report	Application date for Company*
AASB 2005-10	Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 & AASB 1038]	Amendments arise from the release in August 2005 of AASB 7 <i>Financial Instruments: Disclosures</i> .	1 January 2007	AASB 7 is a disclosure standard so will have no direct impact on the amounts included in the Company's financial statements. However the amendments will result in changes to the financial instrument disclosures included in the Company's financial report.	1 July 2007
AASB 2007-1	Amendments to Australian Accounting Standards arising from AASB Interpretation 11 [AASB 2]	Amending standard issued as a consequence of AASB Interpretation 11 <i>Group and Treasury Transactions</i>	1 March 2007	This is consistent with the Company's existing accounting policies for share-based payments so will have no impact.	1 July 2007
AASB 2007-2	Amendments to Australian Accounting Standards arising from AASB Interpretation 12 [AASB 1, AASB 117, AASB 118, AASB 120, AASB 121, AASB 127, AASB 131 & AASB 139]	Amending standard issued as a consequence of AASB Interpretation 12 <i>Service Concession Arrangements</i> .	1 January 2008	As the Company currently has no service concession arrangements or public-private-partnerships (PPP), it is expected that this Interpretation will have no impact on its financial report.	1 July 2008

**AVALON MINERALS LTD**

**Notes to the financial statements  
30 June 2007**

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

Reference	Title	Summary	Application date of standard*	Impact on Company financial report	Application date for Company*
AASB 2007-3	Amendments to Australian Accounting Standards arising from AASB 8 [AASB 5, AASB, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136, AASB 1023 & AASB 1038]	Amending standard issued as a consequence of AASB 8 <i>Operating Segments</i> .	1 January 2009	AASB 8 is a disclosure standard so will have no direct impact on the amounts included in the Company's financial statements. However the new standard may have an impact on the segment disclosures included in the Company's financial report.	1 July 2009
AASB 2007-4	Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments	The standard is a result of the AASB decision that, in principle, all accounting policy options currently existing in IFRS should be included in the Australian equivalents to IFRS and the additional Australian disclosures should be eliminated, other than those considered particularly relevant in the Australian reporting environment.	1 July 2007	As the Company does not anticipate changing any of its accounting policy choices as a result of the issue of AASB 2007-4 this standard will have no impact on the amounts included in the Company's financial statements.  Changes to disclosure requirements will have no direct impact on the amounts included in the Company's financial statements. However the new standard may have an impact on the disclosures included in the Company's financial report.	1 July 2007
AASB 2007-6	Amendments to Australian Accounting Standards arising from AASB 123 [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 and 12]	Amending standard issued as a consequence of AASB 123 (revised) <i>Borrowing Costs</i> .	1 January 2009	As the Company does not currently construct or produce any qualifying assets which are financed by borrowings the revised standard will have no impact.	1 July 2009
AASB 2007-7	Amendments to Australian Accounting Standards [AASB 1, AASB 2, AASB 4, AASB 5, AASB 107 & AASB 128]	Amending standard issued as a consequence of AASB 2007-4.	1 July 2007	Refer to AASB 2007-4 above.	1 July 2007
AASB 7	<i>Financial Instruments: Disclosures</i> .	New standard replacing disclosure requirements of AASB 132.	1 January 2007	Refer to AASB 2005-10 above.	1 July 2007
AASB 8	<i>Operating Segments</i>	This new standard will replace AASB 114 <i>Segment Reporting</i> and adopts a management approach to segment reporting.	1 January 2009	Refer to AASB 2007-3 above.	1 July 2009

**AVALON MINERALS LTD**

**Notes to the financial statements  
30 June 2007**

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

Reference	Title	Summary	Application date of standard*	Impact on the Company's financial report	Application date for Company*
AASB 101 (revised October 2006)	Presentation of Financial Statements	Many of the disclosures from previous GAAP and all of the guidance from previous GAAP are not carried forward in the October 2006 version of AASB 101. The revised standard includes some text from IAS 1 that is not in the existing AASB 101 and has fewer additional Australian disclosure requirements than the existing AASB 101.	1 January 2007	AASB 101 is a disclosure standard so will have no direct impact on the amounts included in the Company's financial statements. However, the revised standard may result in changes to the disclosures included in the Company's financial report.	1 July 2007
AASB 123 (revised June 2007)	Borrowing Costs	AASB 123 previously permitted entities to choose between expensing all borrowing costs and capitalising those that were attributable to the acquisition, construction or production of a qualifying asset. The revised version of AASB 23 requires borrowing costs to be capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset.	1 January 2009	Refer to AASB 2007-6 above.	1 July 2009
AASB Interpretation 10	<i>Interim Financial Reporting and Impairment</i>	Addresses an inconsistency between AASB 134 <i>Interim Financial Reporting</i> and the impairment requirements relating to goodwill in AASB 136 <i>Impairment of Assets</i> and equity instruments classified as available for sale in AASB 139 <i>Financial Instruments: Recognition and Measurement</i>	1 November 2006	The prohibitions on reversing impairment losses in AASB 136 and AASB 139 to take precedence over the more general statement in AASB 134 is not expected to have any impact on the Company's financial report.	1 July 2007
AASB Interpretation 11	<i>Group and Treasury Share Transactions</i>	Specifies that a share-based payment transaction in which an entity receives services as consideration for its own equity instruments shall be accounted for as equity-settled.	1 March 2007	Refer to AASB 2007-1 above.	1 July 2007
AASB Interpretation 12	<i>Service Concession Arrangements</i>	Clarifies how operators recognise the infrastructure as a financial asset and/or an intangible asset – not as property, plant and equipment.	1 January 2008	Refer to AASB 2007-2 above.	1 July 2008
AASB Interpretation 129 (revised June 2007)	Service Concession Arrangements: Disclosures	The revised interpretation was issued as a result of the issue of Interpretation 12 and requires specific disclosures about service concession arrangements entered into by an entity, whether as a concession provider or a concession operator.	1 January 2008	Refer to AASB 2007-2 above.	1 July 2008
IFRIC Interpretation 13	Customer Loyalty Programmes	Deals with the accounting for customer loyalty programmes, which are used by companies to provide incentives to their customers to buy their products or use their services.	1 July 2008	The Company does not have any customer loyalty programmes and as such this is not expected to have any impact on the Company's financial report.	1 July 2008
IFRIC Interpretation 14	IAS 19 – The Asset Ceiling: Availability of Economic Benefits and Minimum Funding Requirements	Aims to clarify how to determine in normal circumstances the limit on the asset that an employer's balance sheet may contain in respect of its defined benefit pension plan.	1 January 2008	The Company does have a defined benefit pension plan and as such this interpretation may have an impact on the Company's financial report.	1 July 2008

**Notes to the financial statements**  
**30 June 2007**

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

**(c) 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.

**(d) Revenue recognition**

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

*Interest income*

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

**(e) 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.

**Notes to the financial statements**  
**30 June 2007**

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

**(f) 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).

**(g) Acquisition of assets**

The purchase method of accounting is used to account for all acquisitions of assets (including business combinations) regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. 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.

**(h) 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).

**Notes to the financial statements**  
**30 June 2007**

**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.

**(i) 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.

**(j) 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.

Collectibility 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.

**(k) 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**  
**30 June 2007**

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

**(l) Investment in controlled entities**

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

**(m) Plant and equipment**

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

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

**(n) Trade and other payables**

Trade payable 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.

**(o) Provisions**

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

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

**Notes to the financial statements**  
**30 June 2007**

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

**(p) Employee benefits**

*(i) Wages, salaries and annual leave*

Liabilities for wages and salaries, including non-monetary benefits and annual leave 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.

The market value of shares issued to employees for no cash consideration under the employee share scheme is recognised as an employee benefits expense with a corresponding increase in equity when the employees become entitled to the shares.

**(q) Contributed equity**

Ordinary shares are classified as equity.

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

**(r) Earnings per share**

*(i) Basic earnings per share*

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

**Notes to the financial statements**  
**30 June 2007**

**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.

**(s) Exploration and evaluation expenditure**

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

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

Exploration and evaluation expenditure for each area of interest is carried forward as an asset provided that 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.

Expenditure is not carried forward in respect of any area of interest/mineral resource unless the Consolidated Entity's rights of tenure to that area of interest are current.

**Notes to the financial statements**  
**30 June 2007**

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

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

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

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

**(u) 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 2007 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.

Minority interests in the results and equity of subsidiaries are shown separately in the consolidated income statement and balance sheet respectively.

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

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

**Notes to the financial statements**  
**30 June 2007**

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

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 directly 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.

The Company trades only with recognised, credit worthy third parties. The Company has no significant concentrations of credit risk.

*(iii) Liquidity Risk*

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

*(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 following table sets out the carrying amount, by maturity, of the financial instruments exposed to interest rate risk.

**Notes to the financial statements**  
**30 June 2007**

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

<b>Financial Instruments</b>	<b>Floating interest rate</b>	<b>Fixed interest rate maturing in: 1 year or less</b>	<b>Non-interest bearing</b>	<b>Total</b>	<b>Weighted average effective interest rate</b>
<b>Consolidated Entity and Parent</b>	<b>2007</b>	<b>2007</b>	<b>2007</b>	<b>2007</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>%</b>
<i>(i) Financial assets</i>					
Cash assets	3,144,308	-	-	3,144,308	2.6
Trade and other receivables	-	-	56,255	56,255	-
<b>Total financial assets</b>	<b>3,144,308</b>	<b>-</b>	<b>56,255</b>	<b>3,200,563</b>	
<i>(ii) Financial liabilities</i>					
Trade and other payables	-	-	242,935	242,935	
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>242,935</b>	<b>242,935</b>	

**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.

*Critical accounting estimates and assumptions*

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

*Exploration and evaluation expenditure*

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

**Note 4. Segment information**

- (a) **Business segments**  
The Consolidated Entity operates predominantly in one industry. Its principal activities are those of prospecting and mineral exploration.
- (b) **Geographical segments**  
The Consolidated Entity operates only in Australia.

AVALON MINERALS LTD

Notes to the financial statements  
30 June 2007

	Consolidated 2007 \$	Parent entity 2007 \$
<b>Note 5. Revenue</b>		
<b>Revenue</b>		
<i>Other revenue</i>		
Interest received	33,535	33,535
<b>Note 6. Expenses</b>		
<b>Loss before income tax includes the following:</b>		
Employee benefits expense		
Salaries	125,000	125,000
Directors' fees	17,500	17,500
Superannuation	11,250	11,250
Share based payments	49,840	49,840
Other	10,032	10,032
	<u>213,622</u>	<u>213,622</u>
Rental expense relating to operating leases	6,415	6,415
<b>Note 7. Income tax</b>		
<b>(a) Current income tax</b>	-	-
Current income tax benefit relating to origination and reversal of temporary differences	-	-
Deferred tax assets not brought to account as realization is not considered probable	-	-
Income tax expense reported in the income statement	<u>-</u>	<u>-</u>
<b>(a) 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:</b>		
Accounting loss before income tax	(367,207)	(367,207)
At the group's statutory income tax rate of 30%	(110,162)	(110,162)
Expenditure not allowable for income tax purposes	14,952	14,952
Deductible share issue costs	(14,420)	(14,420)
Deferred tax assets not brought to account as realization is not considered probable	<u>109,630</u>	<u>109,630</u>
Income tax expense reported in the income statement	<u>-</u>	<u>-</u>

AVALON MINERALS LTD

Notes to the financial statements  
30 June 2007

	Balance Sheet 2007 \$	Income Statement 2007 \$
<b>Note 7. Income tax (continued)</b>		
<b>(c) Deferred assets and liabilities at 30 June relates to the following:</b>		
<b>Consolidated</b>		
<i>Deferred tax liabilities</i>		
Exploration expenditure	(578,000)	(578,000)
Total deferred tax liabilities	(578,000)	(578,000)
<i>Deferred tax assets</i>		
Employee provisions	3,009	3,009
Share issue costs charged to equity	57,679	-
Income tax losses	684,621	684,621
Total deferred tax assets	745,309	687,630
Deferred tax assets not brought to account as realisation is not considered probable	(167,309)	(109,630)
Net deferred tax recognised	-	-
<b>Company</b>		
<i>Deferred tax liabilities</i>		
Exploration expenditure	(203,000)	(203,000)
Total deferred tax liabilities	(203,000)	(203,000)
<i>Deferred tax assets</i>		
Employee provisions	3,009	3,009
Share issue costs charged to equity	57,679	-
Income tax losses	309,621	309,621
Total deferred tax assets	370,309	312,630
Deferred tax assets not brought to account as realisation is not considered probable	(167,309)	(109,630)
Net deferred tax recognised	-	-

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

**AVALON MINERALS LTD**

**Notes to the financial statements  
30 June 2007**

	<b>Consolidated 2007 \$</b>	<b>Parent entity 2007 \$</b>
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**Note 8. Current assets – Cash and cash equivalents**

Cash on hand and at bank	<u>3,144,308</u>	<u>3,144,298</u>
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Cash at bank earns interest at floating rates based on daily bank deposit rates. The cash at bank is bearing floating interest rates between 2.65% and 2.90% The carrying amounts of cash and cash equivalents represents fair value.

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

Other receivables	32,181	32,181
Deposits	10,235	10,235
Prepayments	13,839	13,839
	<u>56,255</u>	<u>56,255</u>

**Note 10. Non-current assets – Other financial assets**

Investment in controlled entity (see note 24)	-	1,250,000
	<u>-</u>	<u>1,250,000</u>

**Note 11. Non-current assets – Plant and equipment**

**Plant & equipment**

Plant & equipment – at cost	79,177	79,177
Less: Accumulated depreciation	(7,076)	(7,076)
	<u>72,101</u>	<u>72,101</u>

**Reconciliation**

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

**Plant & equipment**

Additions	79,177	79,177
Depreciation expense	(7,076)	(7,076)
Closing net book amount	<u>72,101</u>	<u>72,101</u>

**AVALON MINERALS LTD**

**Notes to the financial statements  
30 June 2007**

	<b>Consolidated 2007 \$</b>	<b>Parent entity 2007 \$</b>
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**Note 12. Non-current assets – Exploration and evaluation**

**Exploration and evaluation**

Exploration and evaluation – at cost less amounts written off

<b>1,926,667</b>	<b>676,677</b>
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**Reconciliation**

Purchases of mineral tenements

<b>1,650,000</b>	<b>400,000</b>
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Expenditure during the financial period

<b>276,667</b>	<b>276,677</b>
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At the end of the financial period

<b>1,926,667</b>	<b>676,677</b>
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The ultimate recoupment of exploration and evaluation costs carried forward is dependent upon the successful development and/or commercial exploitation, or alternatively sale, of the respective areas of interest.

**Note 13. Current liabilities – Trade and other payables**

Trade payables

<b>140,439</b>	<b>140,439</b>
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Other payables

<b>92,465</b>	<b>92,465</b>
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Employee entitlements

<b>10,031</b>	<b>10,031</b>
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<b>242,935</b>	<b>242,935</b>
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Trade creditors and other payables are non-interest bearing and generally payable on 30 day terms.

**Note 14. Contributed equity**

**(a) Share capital**

Ordinary shares – fully paid

	<b>Number of shares</b>	<b>\$</b>
	<b>40,000,000</b>	<b>5,273,763</b>

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

<b>Date</b>	<b>Details</b>	<b>Number of shares</b>	<b>Issue price \$</b>	<b>\$</b>
20 December 2006	Placement of shares	9,500,000	0.01	95,000
8 February 2007	Shares issued pursuant to tenement purchase agreements	2,000,000	0.20	400,000
8 February 2007	Placement of shares	6,000,000	0.075	450,000
16 March 2007	Shares issued pursuant to an agreement to purchase 100% of the issued capital of Xmin Ltd	5,000,000	0.20	1,000,000
16 March 2007	Issue of shares pursuant to a prospectus	17,500,000	0.20	3,500,000
	Less: Transaction costs arising on placement of shares			(171,237)
		<u>40,000,000</u>		<u>5,273,763</u>

**AVALON MINERALS LTD**

**Notes to the financial statements  
30 June 2007**

**Note 14. 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 over ordinary shares on issue are as shown below:

- 5,400,000 options exercisable at 20 cents and expiring 31 January 2010; and
- 5,600,000 options exercisable at 40 cents and expiring 31 January 2009.

**(f) Movements in options**

Date	Details	Notes	Number of options	
7 February 2007	Allotment of options			11,000,000
				<u>11,000,000</u>
			<b>Consolidated 2007 \$</b>	<b>Parent entity 2007 \$</b>

**Note 15. Reserves**

Share-based payments reserve	<u>49,840</u>	<u>49,840</u>
------------------------------	---------------	---------------

**Movements in reserves**

<i>Share-based payments reserve</i>		
Option expense	<u>49,840</u>	<u>49,840</u>
Balance at the end of the financial period	<u>49,840</u>	<u>49,840</u>

***Nature and purpose of reserves***

*Share-based payments reserve*

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

**Note 16. Accumulated losses**

Net loss attributable to members of Avalon Minerals Ltd	<u>(367,207)</u>	<u>(367,207)</u>
Accumulated losses at the end of the financial period	<u>(367,207)</u>	<u>(367,207)</u>

**AVALON MINERALS LTD**

**Notes to the financial statements  
30 June 2007**

**Note 17. Key management personnel disclosures**

**(a) Directors**

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

*Chairman - executive*

D McSweeney (from 20 December 2006 to 30 June 2007)

*Non-executive directors*

D Steinpreis (from incorporation to 15 January 2007)

G Steinepreis (from 20 December 2006 to 30 June 2007)

S Stone (from 15 January 2007 to 30 June 2007)

**(b) Other key management personnel**

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

<b>Name</b>	<b>Position</b>
D J Kelly	Company Secretary/Chief Financial Officer (appointed 2 April 2007)

**(c) Key management personnel compensation**

	<b>Consolidated 2007 \$</b>	<b>Parent entity 2007 \$</b>
Short term employee benefits	162,591	162,591
Post employment benefits	11,250	11,250
Share-based payments	49,840	49,840
	<b>223,681</b>	<b>223,681</b>

The Consolidated Entity has taken advantage of the relief provided by ASIC Class Order 06/50 and has transferred the detailed remuneration disclosures to the Directors' Report. The relevant information can be found on pages 13 to 15.

**(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 15 to 19.

*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.

<b>2007 Name</b>	<b>Granted during the period as remuneration</b>	<b>Exercised during the period</b>	<b>Other changes during the period</b>	<b>Balance at the end of the period</b>	<b>Vested and exercisable at the end of the period</b>
<b><i>Directors of Avalon Minerals Ltd</i></b>					
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
<b><i>Other key management personnel</i></b>					
D J Kelly	-	-	-	-	-

**AVALON MINERALS LTD**

**Notes to the financial statements  
30 June 2007**

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

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.

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

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

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

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

During the financial period the Company paid fees of \$55,000 (inclusive of GST) to Ascent Capital Holdings Pty Ltd for services provided in relation to the Initial Public Offering. Both Mr D Steinepreis and Mr G Steinepreis are directors of Ascent Capital Holdings Pty Ltd. This transaction was on normal commercial terms.

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

**Note 18. Remuneration of auditors**

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

**Assurance services**

*Audit services*

Ernst & Young:

Audit and review of financial report  
Independent Accountant's Report

<b>25,000</b>	<b>25,000</b>
<b>15,450</b>	<b>15,450</b>
<b>40,450</b>	<b>40,450</b>

**Note 19. Contingent liabilities**

As at 30 June 2007 the Company has no contingent liabilities.

**Notes to the financial statements**  
**30 June 2007**

	Consolidated 2007 \$	Parent entity 2007 \$
<b>Note 20. Commitments for expenditure</b>		
<b>Capital commitments</b>		
Commitments for minimum expenditure on mining tenements contracted for at the reporting date but not recognised as liabilities, payable:		
Within one year	164,651	164,651
Later than one year but not later than 5 years	455,277	455,277
Later than 5 years	-	-
	<b>619,928</b>	<b>619,928</b>

Exploration expenditure commitments are required to keep licences in good standing. The Consolidated Entity is committed to this expenditure on the current authorities. 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.

**Lease commitments**

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

Within one year	46,640	46,640
Later than one year but not later than 5 years	106,000	106,000
Later than 5 years	-	-
	<b>152,640</b>	<b>152,640</b>

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

**Note 21. Share-based payments**

**a) 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.

**AVALON MINERALS LTD**

**Notes to the financial statements  
30 June 2007**

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

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

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

Grant date	Expiry date	Exercise price	Issued during the period	Exercised during the period	Lapsed during the period	Balance at end of the period
		\$	Number	Number	Number	Number
<b>2007</b>						
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
			11,000,000	-	-	11,000,000

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

*Fair value of options granted – 20 cent options*

The assessed fair value at grant date of options granted during the year ended 30 June 2007 was \$0.0087 per option. The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

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

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

*Fair value of options granted – 40 cent options*

The assessed fair value at grant date of options granted during the year ended 30 June 2007 was \$0.00053 per option. The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

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

Grant date	7 February 2007
Expiry date	31 January 2009
Quantity	5,600,000
Exercise price	\$0.40
Consideration	Nil
Share price at grant date	7.5 cents
Expected price volatility of the Company's shares	50%
Expected dividend yield	Nil
Risk-free interest rate	5.75%

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

## AVALON MINERALS LTD

### Notes to the financial statements 30 June 2007

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

##### b) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period was \$49,840.

#### Note 22. Related party transactions

##### Directors and other key management personnel

Disclosures relating to directors and other key management personnel are set out in note 17.

##### Controlling entities

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

##### Ownership interests in related parties

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

Subsidiaries – Note 25

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

On 26 July 2007 the Company reached agreement to acquire 100% of the issued capital of Resource Properties Pty Ltd, consideration being 4,000,000 ordinary fully paid shares in the Company and \$100,000 cash. Resource Properties Pty Ltd is the holder of 13 exploration licences comprising 1,900 square kilometres.

On 27 July 2007 the Company entered into a Joint Venture agreement with Independence Group NL to earn a 70% interest in the Empress Springs gold, base metals and uranium project in North Queensland.

On 7 September 2007, the Company entered into a joint venture agreement with Rox Resources Ltd to explore for zinc and lead deposits in the Lennard Shelf province in Western Australia.

No other matter or circumstance has arisen since 30 June 2007 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 24. Acquisition of Subsidiary

On 16 March 2007 the Company acquired 100% shares in Xmin Ltd and issued 5,000,000 shares at a value of 20 cents per share, based on quoted price of the Company at the date of issue.

The total cost of acquisition was \$1,250,000 and this comprised an issue of equity instruments, payment of cash and costs directly attributable to the acquisition.

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

	<b>Recognised value on acquisition</b>
Cash	\$ 10
Exploration and evaluation	1,249,990
	<hr/> 1,250,000 <hr/>

**AVALON MINERALS LTD**

**Notes to the financial statements  
30 June 2007**

**Note 24. Acquisition of Subsidiary (continued)**

	<b>Recognised value on acquisition</b>
	\$
<b>Cost of the acquisition</b>	
Consideration paid in shares	1,000,000
Consideration paid in cash	250,000
Total cost of the acquisition	<u><u>1,250,000</u></u>

**Note 25. Subsidiaries**

<b>Name of entity</b>	<b>Country of incorporation</b>	<b>Class of shares</b>	<b>Equity holding 2007</b>	
			<b>Consolidated 2007</b>	<b>Parent entity 2007</b>
			\$	\$
Xmin Ltd	Australia	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:

Cash at bank and on hand	<u>3,144,308</u>	<u>3,144,298</u>
Operating profit (loss) after income tax	(367,207)	(367,207)
Depreciation	7,076	7,076
Exploration expenditure written off	14,147	14,147
Non-cash employee benefits expense – share based payments	49,840	49,840
Change in operating assets and liabilities		
(Increase) in other receivables	(56,255)	(56,255)
Increase in trade creditors and provisions	89,005	89,005
Net cash (outflow) from operating activities	<u>(263,394)</u>	<u>(263,394)</u>

**AVALON MINERALS LTD**

**Notes to the financial statements  
30 June 2007**

**Note 27. Earnings per share**

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

**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 2007.

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

## AVALON MINERALS LTD

### 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 2007 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 and payable.

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 2007.

On behalf of the Board



**D McSweeney**  
Executive Chairman

Perth  
25 September 2007

## Independent auditor's report to the members of Avalon Minerals Limited

We have audited the accompanying financial report of Avalon Minerals Limited, which comprises the balance sheet as at 30 June 2007, 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 period's end or from time to time during the financial period.

The company has disclosed information as required by paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard 124 *Related Party Disclosures* ("remuneration disclosures"), under the heading "Remuneration Report" on pages 15 to 18 of the directors' report, as permitted by Corporations Regulation 2M.6.04.

### *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. The directors are also responsible for the remuneration disclosures contained in the directors' report.

### *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 and that the remuneration disclosures comply with Accounting Standard AASB 124 Related Party Disclosures.

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.

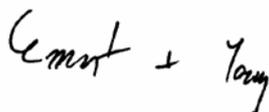
### *Independence*

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.

*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 at 30 June 2007 and of its performance for the period of incorporation to 30 June 2007; 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 disclosed in Note 2.
3. the remuneration disclosures that are contained on pages 15 to 18 of the directors' report comply with Accounting Standard AASB 124 *Related Party Disclosures*.



Ernst & Young



V W Tidy  
Partner  
Perth  
25 September 2007

# 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 26 September 2007.

Holders	Ordinary shares
David McSweeney	6,030,000
Gregory Wayne Down	5,050,000
David Donald Bower	4,000,000

### Class of shares and voting rights

At 26 September 2007, there were 428 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 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 26 September 2007, there were options over 11,000,000 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 26 September 2007)

Category	Number of holders	
	Ordinary shares	Unlisted Options
1 – 1,000	1	-
1,001 – 5,000	36	-
5,001 – 10,000	102	-
10,001 – 100,000	237	-
100,001 and over	52	3
	428	3

There were 8 holders holding less than a marketable parcel of ordinary shares.

### Unquoted Securities

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

### Restricted Securities

There were the following restricted securities as at 26 September 2007.

Ordinary Shares	Options	Exercise Price	Expiry Date	Restricted Until
8,561,250				20 March 2009
	5,400,000	20 cents	10 February 2010	20 March 2009
	5,600,000	40 cents	10 February 2010	20 March 2009
807,500				20 December 2007
3,406,250				8 February 2008
2,000,000				8 February 2008
5,000,000				16 March 2008
4,000,000				1 August 2008

Twenty Largest Security holders (as at 26September 2007)

Holder name	Ordinary Shares	
	Number	%
Gregory Wayne Down	5,000,000	11.36
David McSweeney	5,000,000	11.36
David Donald Boyer	4,000,000	9.09
Baracus Pty Ltd	2,000,000	4.55
Sinom (Hong Kong) Limited	1,500,000	3.41
Derek Steinepreis	1,330,000	3.02
Craig Ian Burton	1,250,000	2.84
Brookman Resources Pty Ltd	1,170,996	2.66
David Christian Steinepreis	1,056,250	2.40
Gary Steinepreis	750,000	1.70
Colorado Conversions Pty Ltd	730,000	1.66
Citicorp Nominees Pty Limited	675,000	1.53
Leisurewest Consulting Pty Ltd	550,000	1.25
Pegmont Mines Limited	500,000	1.14
Stephen Stone	500,000	1.14
Thunder Luck International Ltd	500,000	1.14
Sidan Enterprises Pty Ltd	441,667	1.00
Dgali Investments Pty Ltd	400,000	0.91
Clodene Pty Ltd	300,000	0.68
Wersman Nominees Pty Ltd	300,000	0.68
<b>Total</b>	<b>27,953,913</b>	<b>63.52</b>

Other information

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

# Tenement Schedule

## QUEENSLAND

Tenement Holder	Number	Name	Interest
Independence Group NL	EPM 15416	Yappar River North	Granted 70%
Independence Group NL	EPM 15416	Yappar River South	Application 70%

## WESTERN AUSTRALIA

Baracus Pty Ltd	E04/1423	Oscar Range	Granted 100%
Baracus Pty Ltd	E04/1506	Oscar Range	Granted 100%
Baracus Pty Ltd	E04/1508	Oscar Range	Granted 100%
XMin Ltd	E80/3627	Lennard Shelf	Granted 100%
XMin Ltd	E80/3628	Lennard Shelf	Granted 100%
XMin Ltd	E80/3629	Lennard Shelf	Granted 100%
XMin Ltd	E80/3630	Lennard Shelf	Granted 100%
XMin Ltd	E80/3631	Lennard Shelf	Granted 100%
XMin Ltd	E80/3632	Lennard Shelf	Granted 100%
XMin Ltd	E80/3633	Lennard Shelf	Granted 100%
XMin Ltd	E80/3634	Lennard Shelf	Granted 100%
XMin Ltd	E80/3635	Lennard Shelf	Granted 100%
XMin Ltd	E45/2827	Paterson	Application 100%
XMin Ltd	E45/2828	Paterson	Application 100%
XMin Ltd	E45/2829	Paterson	Application 100%
XMin Ltd	E45/2830	Marloo	Application 100%
XMin Ltd	E45/2831	Marloo	Application 100%
XMin Ltd	E45/2832	Marloo	Application 100%
XMin Ltd	E45/2872	Marloo	Application 100%
Resource Properties Pty Ltd	E36/636	Altona	Application 100%
Resource Properties Pty Ltd	E20/652	Austin Downs	Application 100%
Resource Properties Pty Ltd	E59/1320	Bimbijy	Application 100%
Resource Properties Pty Ltd	E20/653	Bocadeera	Application 100%
Resource Properties Pty Ltd	E20/665	Choallie Creek	Application 100%
Resource Properties Pty Ltd	E59/1321	Cowantha	Application 100%
Resource Properties Pty Ltd	E04/1714	Meda	Application 100%
Resource Properties Pty Ltd	E57/691	McLeod	Application 100%
Resource Properties Pty Ltd	E04/1652	Frome Rock	Application 100%
Resource Properties Pty Ltd	E29/665	Lake Barlee	Application 100%
Resource Properties Pty Ltd	E58/347	Wondinong	Application 100%
Resource Properties Pty Ltd	E58/348	Wyganoo	Application 100%
Resource Properties Pty Ltd	E59/1318	Yardiacco	Application 100%
Baracus Pty Ltd	E04/1421	Oscar Range	Application 100%
Baracus Pty Ltd	E04/1422	Oscar Range	Application 100%
Avalon Minerals Ltd	E63/1183	Esperance	Application 100%
Avalon Minerals Ltd	E63/1184	Esperance	Application 100%
Avalon Minerals Ltd	E63/1185	Esperance	Application 100%



