

**NOTICE OF GENERAL MEETING**  
**SHARE REGISTRY CONTACT DETAILS**

Please find attached the following documentation as despatched today to all shareholders of Avalon Minerals Limited ('Avalon' or 'Company').

1. Shareholder letter;
2. Notice of General Meeting and Explanatory Statement; and
3. Proxy Form

An electronic copy of the Notice of Meeting material is available on the Company's website.

Avalon also advises that, with the relocation of its registered office, the Company's Share Registry has been moved to Computershare Investor Services in Brisbane.

Contact details for the Share Registry are as follows:

**Computershare Investor Services Pty Limited**

ABN 48 078 279 277  
117 Victoria Street  
West End Queensland 4101 Australia  
GPO Box 523  
Brisbane Queensland 4001 Australia  
Investor Enquiries 1300 850 505  
Telephone 61 7 3237 2100  
Facsimile 61 3 9473 2555

**For further information please visit [www.avalonminerals.com.au](http://www.avalonminerals.com.au) or contact:**

Mr Jeremy Read  
Managing Director  
Avalon Minerals Limited  
Office: 07 3368 9888  
Mob: 0409 484 322

3 May 2012

ABN 68 123 184 412  
65 Park Road, PO Box 1565  
Milton Qld 4064 Australia  
P +61 7 3368 9888 F +61 7 3368 9899  
info@avalonminerals.com.au  
www.avalonminerals.com.au

Dear Shareholder

**AVALON MINERALS LIMITED - GENERAL MEETING**

Please find enclosed documentation for the Company's General Meeting to be held on Tuesday, 5 June 2012.

The meeting will be held in the Sakura Room, Level 6, Christie Corporate Centre, 320 Adelaide Street, Brisbane, Qld at 2.30pm (Brisbane time).

There are 8 resolutions in all covering the ratification of prior security issues, the approval of a Performance Rights Plan and the issue of performance related securities to Directors and key management personnel.

Late in 2011, the Board determined that Avalon required a new management team in order to create value from the Viscaria Copper Project in Sweden and also to regain the confidence of Shareholders and investors. Consequently, Mr Read and Mr Niardone were approached by the Board to join Avalon as Managing Director and Non-Executive Director respectively. In order to secure the services of Mr Read and Mr Niardone, a competitive performance based salary package was required to be offered to both Mr Read and Mr Niardone.

The Board determined that having a large part of their remuneration at risk would more closely align the goals of Mr Read and Mr Niardone with those of the Company. By offering Mr Read and Mr Niardone packages which were not purely cash based, the Company will also retain more of its cash reserves. The Board thought that this was a high priority for a company in the mineral development phase with the goal of maximising its cash spend on exploring the Viscaria Copper Project.

The primary purpose of the issue of the Options is to provide cost effective remuneration and incentive for Mr Read and Mr Niardone for their agreement to join the Board in their respective roles as Managing Director and Non-Executive Director. Both Mr Read and Mr Niardone bring a wealth of experience to the Company and valuable fundraising and exploration contacts.

The Directors believe that the proposed issue of Options to Key Personnel are in the best interests of the Company on the basis that senior management will be increasingly committed to improving the performance of the Company for the benefit of Shareholders.

The issue of these Options to the Key Personnel and Messrs Read and Niardone is intended as a means of:

- attracting those persons to join the Company by providing them with a competitive remuneration package;
- providing incentives to those persons by aligning their interests more closely with that of the Company; and
- providing those persons with an opportunity to acquire equity in the Company at the same price as was offered to Shareholders under the Rights Issue.

All documents are available for inspection on the Company's website at [www.avalonminerals.com.au](http://www.avalonminerals.com.au), as well as on the ASX website.

For information regarding your shareholding, please contact Avalon's share registry, Computershare Investor Services Pty Limited on 1300 850 505 or fax: 61 3 9473 2555.

I thank you for your support of the Company and its new management team and look forward to progressing the development of our Viscaria Copper Project in Sweden.

Yours sincerely

**AVALON MINERALS LIMITED**

A handwritten signature in black ink, appearing to read 'Tan Sri Bin Sahid Mohamed', with a stylized, cursive script.

**Tan Sri Bin Sahid Mohamed**



**AVALON MINERALS LTD**  
**ABN 68 123 184 412**

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**NOTICE OF GENERAL MEETING**

**and**

**EXPLANATORY MEMORANDUM**

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**Date of Meeting:** Tuesday 5 June 2012

**Time of Meeting:** 2.30pm (Brisbane time)

**Venue of Meeting:** Sakura Room  
Level 6  
Christie Conference Centre  
320 Adelaide Street Brisbane  
(Corner of Wharf and Adelaide Street)  
Queensland

This Notice of Meeting and Explanatory Memorandum should be read in its entirety.

If Shareholders are in doubt as to how they should vote,  
they should seek advice from their professional adviser prior to voting.

# NOTICE OF GENERAL MEETING

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NOTICE IS HEREBY GIVEN that a General Meeting of the Shareholders of Avalon Minerals Ltd ACN 123 184 412 (**Company**) will be held on Tuesday, 5 June 2012, commencing at 2.30pm (Brisbane time) at the Sakura Room, Level 6, Christie Conference Centre, 320 Adelaide Street Brisbane (Corner of Wharf and Adelaide Street), Queensland.

Registration will commence just prior to the meeting.

The business of the meeting will be to consider the Resolutions set out below. Full details of the Resolutions are set out in the Explanatory Memorandum accompanying this Notice of Meeting.

Capitalised terms are defined in the Glossary to this Notice of Meeting and Explanatory Memorandum.

This Notice of Meeting should be read in its entirety together with the Explanatory Memorandum and proxy form.

## ORDINARY BUSINESS

### **RESOLUTION 1: Ratification of the previous issue of 4,000,000 Shares to the Various Parties**

To consider and if thought fit, pass the following Resolution as an ordinary resolution:

*“That, for the purposes of Listing Rule 7.4 and for all other purposes, Shareholders ratify the prior issue and allotment of 4,000,000 Shares to the Various Parties as set out in the Explanatory Memorandum.”*

**Voting exclusion:** The Company will disregard any votes cast on this Resolution 1 by:

- the Various Parties; and
- any associate of the Various Parties (or those persons).

However, the Company will not disregard any votes cast on this Resolution if:

- It is cast by a person excluded from voting as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- It is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

### **RESOLUTION 2: Ratification of the previous issue of 6,000,000 Options to Indian Ocean**

To consider and if thought fit, pass the following Resolution as an ordinary resolution:

*“That, for the purposes of Listing Rule 7.4 and for all other purposes, Shareholders ratify the prior issue of 6,000,000 Options to Indian Ocean as set out in the Explanatory Memorandum.”*

**Voting exclusion:** The Company will disregard any votes cast on this Resolution 2 by:

- Indian Ocean; and
- any associate of Indian Ocean (or those persons).

However, the Company will not disregard any votes cast on this Resolution if:

- It is cast by a person excluded from voting as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or

- It is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

**RESOLUTION 3: Approval to issue up to 12,200,000 Options to Key Personnel**

To consider and if thought fit, pass the following Resolution as an ordinary resolution:

*“That for the purposes of Listing Rule 7.1 and for all other purposes, Shareholders approve the issue of up to 12,200,000 Options to Key Personnel, on the terms and conditions set out in the Explanatory Memorandum.”*

**Voting exclusion:** The Company will disregard any votes cast on this Resolution 3 by:

- the Key Personnel;
- any associate of the Key Personnel (or those persons); and
- any person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if this Resolution is passed.

However, the Company will not disregard any votes cast on this Resolution if:

- It is cast by a person excluded from voting as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- It is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

**RESOLUTION 4: Approval to issue up to 5,000,000 Options to Managing Director, Mr Jeremy Read or his nominee**

To consider and if thought fit, pass the following Resolution as an ordinary resolution:

*“That for the purposes of Chapter 2E of the Corporations Act and Listing Rule 10.11 and for all other purposes, approval is given for the Company to issue up to 5,000,000 Options to Mr Jeremy Read or a nominee entity of Mr Read, on the terms and conditions set out in the Explanatory Memorandum”.*

**Voting exclusion:** The Company will disregard any votes cast on this Resolution 4 by:

- Mr Jeremy Read; and
- any associate of Mr Jeremy Read (or those persons).

However, the Company will not disregard any votes cast on this Resolution if:

- It is cast by a person excluded from voting as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- It is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

**RESOLUTION 5: Approval to issue up to 2,800,000 Options to Non-Executive Director, Mr Paul Niardone or his nominee**

To consider and if thought fit, pass the following Resolution as an ordinary resolution:

*“That for the purposes of Chapter 2E of the Corporations Act and Listing Rule 10.11 and for all other purposes, approval is given for the Company to issue up to 2,800,000 Options to Mr Paul Niardone or a nominee entity of Mr Niardone, on the terms and conditions set out in the Explanatory Memorandum”.*

**Voting exclusion:** The Company will disregard any votes cast on this Resolution 5 by:

- Mr Paul Niardone; and
- any associate of Mr Paul Niardone (or those persons).

However, the Company will not disregard any votes cast on this Resolution if:

- It is cast by a person excluded from voting as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- It is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

#### **RESOLUTION 6: Approval of Performance Rights Plan**

To consider and if thought fit, pass the following Resolution as an ordinary resolution:

*“That for the purposes of Listing Rule 7.2 Exception 9(b) and sections 200B and 200E of the Corporations Act and for all other purposes, Shareholders approve the:*

- a) grant of Performance Rights under the Avalon Minerals Ltd Performance Rights Plan (**Performance Rights Plan or Plan**), a summary of which is set out in the Explanatory Memorandum; and*
- b) giving of termination benefits under the Performance Rights Plan by the Company to a person or their associates in connection with that person ceasing to hold a managerial or executive office role in the Company or a related body corporate of the Company as set out in the Explanatory Memorandum.”*

**Voting exclusion:** In accordance with the ASX Listing Rules and the Corporations Act, the Company will disregard any votes cast on this Resolution 6 by:

- a Director, except a Director who is ineligible to participate in any employee incentive scheme of the Company;
- any Shareholders who are also managerial or executive officers of the Company and are proposed Eligible Participants in the Performance Rights Plan; and
- any of their associates.

However, the Company will not disregard any votes cast on this Resolution if:

- it is cast by a person excluded from voting as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

#### **RESOLUTION 7: Approval to grant 10,000,000 Performance Rights to Managing Director, Mr Jeremy Read or a nominee entity of Mr Read**

To consider and if thought fit, pass the following Resolution as an ordinary resolution:

*“That for the purposes of Chapter 2E of the Corporations Act and Listing Rule 10.14 and for all other purposes, approval is given for the Company to grant 10,000,000 Performance Rights under the Performance Rights Plan to Mr Jeremy Read or a nominee entity of Mr Read, on the terms and conditions set out in the Explanatory Memorandum”.*

**Note:** If approval is obtained under Listing Rule 10.14, approval is not required under Listing Rule 7.1.

**Voting exclusion:** The Company will disregard any votes cast on this Resolution 7 by:

- Mr Jeremy Read;
- any other Director, except a Director who is ineligible to participate in any employee incentive scheme of the Company; and
- any of their associates.

However, the Company will not disregard any votes cast on this Resolution if:

- It is cast by a person excluded from voting as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- It is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

**RESOLUTION 8: Approval to grant 5,600,000 Performance Rights to Non-Executive Director, Paul Niardone or a nominee entity of Mr Niardone**

To consider and if thought fit, pass the following Resolution as an ordinary resolution:

*“That for the purposes of Chapter 2E of the Corporations Act and Listing Rule 10.14 and for all other purposes, approval is given for the Company to grant 5,600,000 Performance Rights under the Performance Rights Plan to Mr Paul Niardone or a nominee entity of Mr Niardone, on the terms and conditions set out in the Explanatory Memorandum”.*

**Note:** If approval is obtained under Listing Rule 10.14, approval is not required under Listing Rule 7.1.

**Voting exclusion:** The Company will disregard any votes cast on this Resolution 8 by:

- Mr Paul Niardone;
- any other Director, except a Director who is ineligible to participate in any employee incentive scheme of the Company; and
- any of their associates.

However, the Company will not disregard any votes cast on this Resolution if:

- It is cast by a person excluded from voting as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- It is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

## **ATTENDANCE AND VOTING AT THE MEETING**

### **Voting entitlement**

In accordance with regulation 7.11.37 of the *Corporations Regulations 2001 (Cth)*, the Board has determined that the Shareholders who are on the Company’s share register at 3 June, 2012 (being not be more than 48 hours before the Meeting (Brisbane time)) on Tuesday, 5 June 2012 will be taken, for the purposes of the General Meeting, to be entitled to attend and vote at the Meeting.

If you are not the registered holder of a relevant share at that time, you will not be entitled to vote at the meeting.



### **Voting at the meeting**

Ordinary resolutions require the support of more than 50% of the votes cast. Special resolutions require the support of at least 75% of the votes cast. All the Resolutions at this Meeting are ordinary resolutions.

Every question arising at this General Meeting will be decided in the first instance by a show of hands. A poll may be demanded in accordance with the Company's constitution.

On a show of hands, every Shareholder who is present in person or by proxy, representative or attorney, will have one vote. Upon a poll, every person who is present in person or by proxy, representative or attorney will have one vote for each Share held by that person.

### **Proxies**

A Shareholder who is entitled to attend and vote at the Meeting may appoint a person, who need not be a Shareholder of the Company, as the Shareholder's proxy to attend and vote on behalf of the shareholder.

A Shareholder who is entitled to cast 2 or more votes may appoint 2 proxies and may specify the proportion or number of votes each proxy is appointed to exercise.

A proxy form accompanies this Notice of Meeting. Should you wish to appoint a proxy, please complete the proxy form and return it at least 48 hours before the Meeting, **being no later than 2.30pm (Brisbane time) on Sunday, 3 June 2012 to:**

- if by fax: Avalon Minerals Ltd on (07) 3368 9899;
- if by delivery: Avalon Minerals Ltd, Level 1, 65 Park Road, Milton Qld 4064 Australia; or
- if by mail: Avalon Minerals Ltd at PO Box 1565, Milton QLD 4064 Australia.

If the appointment is signed by an attorney, the power of attorney or a certified copy of it must be sent with the proxy form.

### **Undirected proxies – Directors and 'Key management personnel'**

Any undirected proxies held by the Directors (other than the Chairman) or other 'key management personnel' or any of their closely related parties will not be voted on Resolutions 3 to 8.

'Key management personnel' of the Company are the Directors of the Company and those other persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly.

If you choose to appoint a proxy, you are encouraged to direct your proxy how to vote on each Resolution by marking either **For**, **Against** or **Abstain** on the voting form for that item of business.

By order of the Board



Roslynn Shand  
Company Secretary  
26 April 2012

# EXPLANATORY MEMORANDUM

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## IMPORTANT NOTICE

This Explanatory Memorandum contains an explanation of, and information about, the Resolutions to be considered at the General Meeting. Shareholders should read this Explanatory Memorandum in full. This Explanatory Memorandum forms part of the accompanying Notice of Meeting and should be read with the Notice of Meeting.

This Explanatory Memorandum does not take into account the individual investment objectives, financial situation and needs of individual Shareholders or any other person. If you are in doubt about what to do in relation to the Resolutions, you should consult your financial or other professional adviser.

Capitalised words used in the Notice of Meeting and in this Explanatory Memorandum are defined in the Glossary section at the end of this Explanatory Memorandum. Unless otherwise stated, all references to sums of money, '\$' and 'dollars' are references to Australian currency.

This Explanatory Memorandum is dated 26 April 2012.

## SHAREHOLDER QUERIES

Shareholders with queries regarding anything in this Explanatory Memorandum should contact the Company Secretary, Roslynn Shand on (07) 3368 9888.

Shareholders with queries regarding their shareholding or voting entitlements should contact the Company's share registry as noted below:

Computershare Investor Services Pty Limited  
ABN 48 078 279 277  
117 Victoria Street  
West End QLD 4101  
GPO Box 523  
Brisbane QLD 4001  
Australia  
Investor Enquiries: 1300 850 505  
Telephone: 61 7 3237 2100  
Fax: 61 3 9473 2555

## RESPONSIBILITY OF INFORMATION

The information contained in this Explanatory Memorandum has been prepared by the Company and is the responsibility of the Company.

A copy of this Notice of Meeting and Explanatory Memorandum was lodged with the ASX pursuant to the Listing Rules and ASIC in accordance with section 218 of the Corporations Act. Neither ASX or ASIC nor any of their officers take any responsibility for the contents of this Notice of Meeting and Explanatory Memorandum.

## ORDINARY BUSINESS

### Resolution 1 – Ratification of previous issue of 4,000,000 Shares to the Various Parties

#### **Background**

This Resolution seeks ratification by Shareholders of the issue of 4,000,000 Shares to the Various Parties issued on 30 March 2012 for the purposes of ASX Listing Rule 7.4.

ASX Listing Rule 7.1 prohibits the Company (subject to certain exceptions such as pro-rata issues), from issuing or agreeing to issue equity securities representing more than 15% of its total issued ordinary shares, during a rolling 12 month period, without shareholder approval (**15% Threshold**).

ASX Listing Rule 7.4 allows an issue of equity securities, for which shareholder approval was not first obtained, to not be counted towards the 15% Threshold when shareholder approval for that issue is subsequently obtained.

That is, ASX Listing Rule 7.4 permits an issue of shares to be approved retrospectively. It provides that an issue of securities is deemed to have been made with shareholder approval if Listing Rule 7.1 is not breached at the time the securities were issued and shareholders subsequently approve (ratify) the issue.

By Shareholders approving this Resolution the Board is given the flexibility to issue more equity securities up to the 15% Threshold. Once the issue of the 4,000,000 Shares to the Various Parties is approved, these securities will not be counted as a new issue for the purposes of the 15% Threshold.

#### **ASX Listing Rule disclosure**

Details of the issue, as required by ASX Listing Rule 7.5 are as follows:

<b>Required disclosure</b>	
<i>Number of securities allotted</i>	4,000,000 Shares
<i>Issue price</i>	As set out in the Rights Issue Offer Document dated 2 March, Avalon agreed to issue 4,000,000 Shares to Indian Ocean or its nominee(s) under the Mandate Letter, as part of the payment structure for Indian Ocean agreeing to: <ul style="list-style-type: none"> <li>• act as the sole and exclusive lead manager to the Rights Issue; and</li> <li>• fully underwrite the Rights Issue in accordance with the Underwriting Agreement.</li> </ul> <p>The Shares were not issued for any money; therefore they had no issue price.</p>
<i>Terms of the securities</i>	The Shares were issued as fully paid ordinary shares ranking equally with existing Shares, for which the Company sought quotation on the official list of the ASX on 23 February 2012, being the same day the Company sought quotation of the new Shares offered under the Rights Issue.
<i>Name of allottee</i>	The Shares were issued to the following nominees of Indian Ocean on the following noted allocations: <ul style="list-style-type: none"> <li>• 1 million Shares to Perizia Investments Pty Ltd;</li> <li>• 1 million Shares to Ms Josephine Kathleen Patoir; and</li> <li>• 2 million Shares to Mrs Fionnuala Catherine Edmondson.</li> </ul>
<i>Use of funds</i>	Not applicable. <p>As noted above, this issue was part of the payment structure for Indian Ocean agreeing to act as the sole and exclusive lead manager to the Rights Issue under the Mandate Letter and to also fully underwrite the Rights Issue in accordance with the Underwriting Agreement.</p> <p>On this basis, no funds were raised under this issue.</p>

**Recommendation:** The Board unanimously recommends that Shareholders vote in favour of Resolution 1.

## Resolution 2 – Ratification of previous issue of 6,000,000 Options to Indian Ocean

### **Background**

This Resolution seeks ratification by Shareholders of the issue of 6,000,000 Options to Indian Ocean which were issued to Indian Ocean on 30 March 2012, for the purposes of ASX Listing Rule 7.4.

As noted under Resolution 1 of this Explanatory Memorandum, ASX Listing Rule 7.1 prohibits the Company (subject to certain exceptions such as pro-rata issues and bonus issues) from issuing or agreeing to issue equity securities in excess of the 15% Threshold, unless shareholder approval by way of ordinary resolution is obtained for those further issues.

The 15% Threshold applies to 'equity securities' which according to the ASX Listing Rule definition, includes an 'option over an issued or unissued security'. On this basis, the 6,000,000 Options to Indian Ocean count towards the 15% Threshold unless shareholder approval is subsequently obtained in accordance with ASX Listing Rule 7.4.

As noted under Resolution 1 of this Explanatory Memorandum, if Shareholders approve this Resolution the Board will be given the flexibility to issue more equity securities up to the 15% Threshold over the rolling 12 month period. That is, once the issue of the 6,000,000 Options to Indian Ocean is approved, these securities will not be counted as a new issue for the purposes of the 15% Threshold.

### **ASX Listing Rule disclosure**

Details of the issue, as required by ASX Listing Rule 7.5 are as follows:

<b>Required disclosure</b>	
<i>Number of securities allotted</i>	6,000,000 Options
<i>Issue price</i>	The issue price per Option is \$0.01, with an exercise price of \$0.05 per Option.
<i>Terms of the securities</i>	<p>The material terms of the Options are:</p> <ul style="list-style-type: none"><li>(a) The issue price per Option is AU\$0.01 (<b>Issue Price</b>).</li><li>(b) The exercise price per Option is AU\$0.05 (<b>Exercise Price</b>).</li><li>(c) No performance conditions need to be satisfied before the Option holder can exercise the Options, other than payment of the Exercise Price.</li><li>(d) The Options are exercisable at the discretion of the Option holder, at any time on or before 5pm (AEDT), 30 September 2015 (<b>Expiry Date</b>).</li><li>(e) If the Option holder fails to exercise any Options registered in its name before the Expiry Date, those unexercised Options lapse and all rights in respect of those Options cease.</li><li>(f) For each Option that is exercised, the Option holder will receive one fully paid ordinary share in the Company (<b>Share</b>).</li><li>(g) The Shares issued on the exercise of the Option will rank equally in all respects as from the date of issue of those Shares with all existing ordinary shares in the capital of the Company.</li><li>(h) If the Shares are listed on ASX at the time of exercise, the Company will make application to ASX for official quotation of the Shares issued on the exercise of the Options in accordance with the ASX Listing Rules.</li></ul>
<i>Name of allottee</i>	Indian Ocean Capital Pty Ltd ACN 051 227 877

<i>Use of funds</i>	<p>The issue price has raised \$60,000. These funds will be put towards the Company's general working capital requirements and current exploration activities.</p> <p>If all the Options are exercised by Indian Ocean, an additional sum of \$300,000 will be raised. This additional sum will also be put towards the Company's general working capital requirements and exploration activities at the relevant time.</p>
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**Recommendation:** The Board unanimously recommends that Shareholders vote in favour of Resolution 2.

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### **Resolution 3 – Approval to issue up to 12,200,000 Options to Key Personnel**

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#### **Background**

This Resolution seeks Shareholder approval for the issue of up to 12,200,000 Options to Key Personnel for the purposes of ASX Listing Rule 7.1.

As noted under Resolutions 1 and 2 of this Explanatory Memorandum, ASX Listing Rule 7.1 (subject to specific exceptions), prohibits the Company from issuing equity securities in excess of the 15% Threshold, unless Shareholder approval by way of ordinary resolution is obtained for those further issues.

It is on this basis, that the Company is seeking Shareholder approval to this Resolution. The Company does not need to obtain Shareholder approval before it can issue the Options and may issue the Options without Shareholder approval. However, if Resolution 3 is approved, the effect will be that provided the Options are issued to the Key Personnel no later than 3 months after the date of the Meeting, the Options will not count towards the 15% Threshold.

#### **ASX Listing Rule disclosure**

Details of the issue, as required by ASX Listing Rule 7.3 are as follows:

<b>Required disclosure</b>	
<i>The maximum number of securities to be issued</i>	12,200,000 Options
<i>The date by which Avalon will issue the securities</i>	The Options will be issued as soon as practicable after Shareholder approval is obtained and the issue price for the Options (as noted below) is received by the Company, but in any event for the purposes of relying on the Shareholder approval obtained for this Resolution, the Options will be issued no later than 3 months after this General Meeting (being 31 August 2012).
<i>Issue price</i>	The issue price per Option is \$0.01, with an exercise price of \$0.05 per Option.
<i>Allottee</i>	<p>The Options are going to be issued to the following persons, whom the Board has deemed Key Personnel:</p> <ul style="list-style-type: none"> <li>• Ian Wallace, Business Manager;</li> <li>• Quinton Hills, Exploration Manager;</li> <li>• Linda Cochrane, Chief Financial Officer;</li> <li>• Roslynn Shand, Company Secretary;</li> <li>• Emily Griffiths, Communications and IR Manager;</li> <li>• Stewart Kruger, In-house Accountant; and</li> <li>• other Key Management Personnel as may be nominated by the Board.</li> </ul> <p>The issue of these Options to the Key Personnel is intended as a means of:</p> <ul style="list-style-type: none"> <li>• attracting those persons to join the Company by providing them with a competitive remuneration package;</li> </ul>

	<ul style="list-style-type: none"> <li>• providing incentives to those persons by aligning their interests more closely with that of the Company; and</li> <li>• providing those persons with an opportunity to acquire equity in the Company at the same price as was offered to Shareholders under the Rights Issue.</li> </ul>
<i>Terms of the securities</i>	The Terms of the Options are the same as those attached to the Options issued to Indian Ocean as disclosed in Resolution 2 and set out on page 9 of this Explanatory Memorandum in the table under 'Terms of the securities'.
<i>Intended use of the funds raised</i>	<p>If the full 12,200,000 Options are issued, \$122,000 will be raised. These funds will be put towards the Company's general working capital requirements and exploration activities at the relevant time the funds are received.</p> <p>If all the Options are then subsequently exercised, an additional sum of \$610,000 will be raised. This additional sum will also be put towards the Company's general working capital requirements and exploration activities at the relevant time the funds are received.</p>
<i>Date of allotment</i>	As noted above, the Options will be issued as soon as practicable after Shareholder approval is obtained and the issue price for the Options is received by the Company, but in any event for the purposes of relying on the Shareholder approval obtained for this Resolution, the Options will be issued no later than 3 months after this General Meeting (being 31 August 2012). In any event the Options may be allotted progressively.

**Recommendation:** The Board unanimously recommends that Shareholders vote in favour of Resolution 3.

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**Resolution 4 – Approval to issue up to 5,000,000 Options to Managing Director, Mr Jeremy Read or his nominee**

**Resolution 5 – Approval to issue up to 2,800,000 Options to Non-Executive Director, Mr Paul Niardone or his nominee**

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***Background***

The Board is seeking Shareholder approval for Resolutions 4 and 5 referred to in the accompanying Notice of Meeting for the purposes of Chapter 2E of the Corporations Act and ASX Listing Rule 10.11.

Because both Mr Read and Mr Niardone are Directors of the Company and the Company is seeking to issue them both with the same form of equity (i.e. Options under Resolutions 4 and 5 respectively), the explanations on these two Resolutions has been grouped as set out below.

***Corporations Act***

Part 2E of the Corporations Act regulates related party transactions. Pursuant to section 228, both Mr Read and Mr Niardone are related parties of the Company given their directorships with Avalon.

Section 208 of the Corporations Act provides that, unless an exception applies, a public company must obtain the approval of its members in accordance with sections 217 to 227 of the Corporations Act before it gives a financial benefit to a related party. The benefit for which Shareholder approval is obtained, must be given within 15 months of that approval.

'Issuing securities or granting an option to the related party', such as the issue of the Options proposed under Resolutions 4 and 5, is an example of giving a financial benefit to a related party under the Corporations Act. It is on this basis that approval to Resolutions 4 and 5 is being sought.

***Listing Rules***

ASX Listing Rule 10.11 requires a listed company to obtain shareholder approval by ordinary resolution prior to the issue of equity securities to a related party. As noted under Resolution 2 of

this Explanatory Memorandum, the definition of 'equity securities' under the Listing Rules includes an 'option over an issued or unissued security'. Further, as noted above, both Mr Read and Mr Niardone are considered to be related parties of the Company by virtue of their roles on the Board of Avalon, hence why Shareholder approval under Listing Rule 10.11 is being sought.

In accordance with ASX Listing Rule 7.2, Exception 14 the general prohibition under Listing Rule 7.1 in relation to the 15% Threshold will not apply to the Options issued under Resolutions 4 and 5 provided Shareholder approval is obtained under Listing Rule 10.11. That is, Shareholder approval to the Options is not required under Listing Rule 7.1 when Shareholder approval under Listing Rule 10.11 is obtained, meaning that the Options issued under Resolutions 4 and 5 will not be counted in the 15% Threshold if Shareholders approve Resolutions 4 and 5.

**Corporations Act and ASX Listing Rule disclosure**

Details of the proposed issues under Resolutions 4 and 5 as required by the Corporations Act and further expanded upon in ASIC Regulatory Guide 76 (Related party transactions) and Listing Rule 10.13 are as follows:

<b>Required disclosure</b>		
<i>Proposed allottees</i>	Mr Jeremy Read or his nominee	Mr Paul Niardone or his nominee
<i>Nature of relationship with Avalon</i>	Mr Read is a related party of Avalon because of his role as the Company's Managing Director.	Mr Niardone is a related party of Avalon because of his role as a Non-Executive Director of the Company.
<i>Maximum number of securities to be issued</i>	5,000,000 Options	2,800,000 Options
<i>Issue date</i>	On the upfront payment of 1 cent per Option, but in any event for the purposes of relying on the Shareholder approval obtained for these Resolutions, the Options will be issued no later than 1 month after this General Meeting.	
<i>Issue price</i>	The issue price per Option is \$0.01, with an outstanding balance of \$0.05 per Option required to be paid to exercise the Options.	
<i>Terms of issue</i>	The Terms of the Options proposed to be issued under Resolutions 4 and 5 are the same as those attached to the Options issued to Indian Ocean and proposed to be issued to the Key Personnel as disclosed in Resolutions 2 and 3 respectively, as set out on page 9 of this Explanatory Memorandum in the table under 'Terms of the securities'.	
<i>Use of funds</i>	<p>If the full 5,000,000 Options are issued to Mr Read, an initial amount (based on \$0.01 per Option) of \$50,000 will be raised. This amount will be put towards the Company's general working capital requirements and exploration activities.</p> <p>If the full 5,000,000 Options are exercised an additional amount (based on \$0.05 per Option) of \$250,000 will be raised. This additional amount will also be put towards the Company's general working capital requirements and exploration activities at the relevant time.</p>	<p>If the full 2,800,000 Options are issued to Mr Niardone, an initial amount (based on \$0.01 per Option) of \$28,000 will be raised. This amount will be put towards the Company's general working capital requirements and exploration activities.</p> <p>If the full 2,800,000 Options are exercised an additional amount (based on \$0.05 per Option) of \$140,000 will be raised. This additional amount will also be put towards the Company's general working capital requirements and exploration activities at the relevant time.</p>

<p><i>Why the Options are being issued to the allottees</i></p>	<p>The primary purpose of the issue of the Options is to provide cost effective remuneration and incentive for Mr Read and Mr Niardone for their agreement to join the Board in their respective roles as Managing Director and Non-Executive Director.</p> <p>Both Mr Read and Mr Niardone bring a wealth of experience to the Company and valuable fundraising and exploration contacts.</p> <p>The Directors believe that the proposed issue of Options are in the best interests of the Company and promote the interests of the Company on the basis that senior management will be increasingly committed to improving the performance of the Company for the benefit of Shareholders.</p> <p>Similarly to the proposed issue of Options to the Key Personnel under Resolution 3, the issue of the Options to Mr Read and Mr Niardone (or their nominee entities), is intended as a means of:</p> <ul style="list-style-type: none"> <li>• attracting them to join the Company by providing them with a competitive remuneration package;</li> <li>• providing incentives to them by aligning their interests more closely with that of the Company; and</li> <li>• providing them with an opportunity to acquire equity in the Company at the same price as was offered to Shareholders under the Rights Issue.</li> </ul> <p>The Options were agreed to be issued to Mr Read and Mr Niardone (or their nominee entities), subject to obtaining the necessary Shareholder approval as part of their agreements to join the Company, in their respective roles and reflect what the Board considers to be appropriate in the circumstances.</p> <p><i>Further background</i></p> <p>Late in 2011 the Board determined that Avalon required a new management team in order to create value from the Viscaria Copper Project in Sweden and also to regain the confidence of Shareholders and investors. Consequently, Mr Read and Mr Niardone were approached by the Board to join Avalon as Managing Director and Non-Executive Director respectively. In order to secure the services of Mr Read and Mr Niardone, a competitive performance based salary package was required to be offered to both Mr Read and Mr Niardone.</p> <p>The Board determined that having a large part of their remuneration at risk would more closely align the goals of Mr Read and Mr Niardone with those of the Company. By offering Mr Read and Mr Niardone packages which were not purely cash based, the Company will also retain more of its cash reserves which the Board thought a high priority for a company in the mineral development phase with the goal of maximising its cash spend on exploring the Viscaria Copper Project.</p>
<p><i>Why the number of Options and value of the Options was chosen</i></p>	<p><i>Why the number of Options?</i></p> <p>The number of Options was chosen following commercial negotiations between Mr Read and Mr Niardone. The Company was looking to secure the services of Mr Read and Mr Niardone in order to develop a management team with market credibility and restore confidence in the Board of the Company.</p> <p>Mr Read and Mr Niardone recently demonstrated their technical and corporate skills through their involvement with (then) ASX listed exploration company Meridian Minerals Limited, which was purchased in December 2011 by its largest shareholder in a transaction valued at \$78 million.</p>



	<p>Mr Read has also demonstrated his expertise in developing copper projects through his tenure as the Managing Director of ASX and Botswana Stock Exchange (and until recently, the London Stock Exchange as well) listed mining exploration company Discovery Metals Limited (<b>DML</b>), where he secured the Boseto copper project for DML which has ultimately lead to DML becoming an ASX 200 company with a market cap in excess of \$700 million.</p> <p>For these reasons the Board of Avalon wished to secure the services of Mr Read and Mr Niardone, both of whom had been approached to join other companies following the takeover of their previous employer, Meridian Minerals Limited.</p> <p>The Board determined that by offering Mr Read and Mr Niardone competitive remuneration packages which include 5,000,000 and 2,800,000 Options respectively, this would secure the services of Mr Read and Mr Niardone for the Company.</p> <p><i>What is the value of the Options?</i></p> <p>The Independent Valuer has determined that the value of the Options to Mr Read and Mr Niardone equate (as at the date of the Valuation) to \$312,000 and \$174,720 respectively.</p> <p>Attaining all the vesting conditions will also mean an increase in the Company's share price from \$0.05 when Mr Read and Mr Niardone joined the Company to \$0.30 (Tranche 3 vesting condition, see page 21 below), representing a 700% increase (from the \$0.05 share price). If such a share price increase is attained the Board determined that the financial reward to Mr Read and Mr Niardone was appropriate and aligned their interests with that of all Shareholders.</p> <p>The Issue Price and Exercise Price for the Options were chosen to allow Mr Read and Mr Niardone (or their nominee entities) to acquire equity in the Company at the same price as was offered to Shareholders under the Rights Issue.</p>
<i>Directors' interest in the outcome</i>	<p>Other than the interests that Mr Read and Mr Niardone have in Resolutions 4 and 5 (as noted above), none of the other Directors have an interest in the outcome of Resolutions 4 and 5.</p> <p>Neither Mr Read nor Mr Niardone were involved in any Board discussions or decisions in relation to Resolutions 4 and 5.</p>
<i>Valuation of the financial benefit</i>	<p>The Company engaged Moore Stephens to undertake valuations of the Options proposed to be issued to Mr Read and Mr Niardone.</p> <p>Moore Stephens valued the Options using the Binominal Model, a valuation model specifically tailored for valuing employee and unlisted Options such as in this case.</p> <p>The Binominal Model uses the following variables to determine the value of an Option:</p> <ul style="list-style-type: none"> <li>a) the current share price of the underlying share;</li> <li>b) exercise price of the option;</li> <li>c) volatility of the share price;</li> <li>d) vesting conditions;</li> <li>e) time to maturity;</li> <li>f) risk free rate of interest; and</li> <li>g) expected dividend yield.</li> </ul> <p>The Valuation attributed a total value of \$486,720 to the Options proposed to be issued under Resolutions 3 and 4 (\$312,000 for Mr Read's Options and \$174,720 for Mr Niardone's Options).</p>

However it is important for Shareholders to note that this stated value of the Options may go up or down at any time despite the Valuation. This is because the value of the Options will depend on the valuation methodology used in any future valuation, together with the relevant assumptions made under this Valuation compared to any future valuations.

For the purposes of the Valuation of the Options using the Binominal Model, the following facts or assumptions were used:

- the closing share price on 12 April 2012 (the day before the Valuation was finalised) was \$0.09. The Independent Valuer considered this closing share price reflected the current market value of the Shares (as at the date of the Valuation);
- the 5, 30 and 60 day VWAPs of the Shares were calculated, however given the announcements over the relevant periods and the effect had on the Share price movements, the Independent Valuer considered that the closing price as noted above better reflected the value (than the VWAPs) and was therefore used for the Valuation;
- the Options are exercisable at \$0.05 per Share with a payment of \$0.01 upfront;
- the volatility of the Company's share price was calculated by Hoadley's volatility calculator for a 3 year period. Given the volatility of the Company's Share price over the past 12 months, Moore Stephens calculated both the minimum rate (86.29% (**Minimum Rate**)) and the maximum rate (191.28%) of volatility. For the purpose of the Valuation, the Minimum Rate was used because the Independent Valuer thought it better reflected the recent volatility of the Company's share price given the Company's Share price had stabilised over the 60 days prior to the Valuation;
- the Options vest within 30 days from the date of the Meeting (assuming Shareholder approval is obtained);
- the Options expire on 30 September 2015;
- the risk free rate is 3.66%, which is the 3 year Government Bond Rate used because it coincides with the expiry of the Options; and
- for the purposes of the Valuation, no future dividend payments were forecast, given the Company is a mineral exploration company with no history of paying dividends.

Based on the assumptions outlined above, the Independent Valuer calculated the value of the Options (using the Binominal Model) to be \$0.0624. The Independent Valuer also calculated the value of the Options using the Black Scholes model for comparative purposes. Taking the same facts and assumptions as those used in the Binominal Model into consideration, Moore Stephens calculated the underlying value of the Options (using the Black Scholes model) to be \$0.0623.

The Board believes, having taken appropriate expert advice on the matter, that the Valuation and use of the Binominal Model was appropriate in the circumstances. The Board has not used any other valuation model in proposing the terms or number of Options.

<p><i>Disclosure of total remuneration package</i></p>	<p>As noted above, the Options are proposed to be issued to Mr Read and Mr Niardone as a means of providing cost effective remuneration and incentives for Mr Read and Mr Niardone for their agreement to join the Board in their respective roles as Managing Director and Non-Executive Director. These Options are proposed to be a one-off issue of securities to Mr Read and Mr Niardone or their nominees for that purpose.</p> <p>The remuneration and emoluments from the Company to Mr Read and Mr Niardone for current financial year are:</p> <table border="1" data-bbox="435 479 1401 965"> <thead> <tr> <th>Related party</th> <th>Current financial year remuneration*</th> </tr> </thead> <tbody> <tr> <td>Mr Jeremy Read</td> <td>\$381,500 per annum, comprised of a salary of \$350,000 per annum and superannuation of 9%</td> </tr> <tr> <td></td> <td>5,000,000 Options per Resolution 4</td> </tr> <tr> <td></td> <td>10,000,000 Performance Rights per Resolution 7</td> </tr> <tr> <td>Mr Paul Niardone</td> <td>\$38,150 per annum, comprised of a salary of \$35,000 per annum and superannuation of 9%</td> </tr> <tr> <td></td> <td>2,800,000 Options per Resolution 5</td> </tr> <tr> <td></td> <td>5,600,000 Performance Rights per Resolution 8</td> </tr> </tbody> </table> <p><i>*Paid pursuant to service contracts with the Company.</i></p>	Related party	Current financial year remuneration*	Mr Jeremy Read	\$381,500 per annum, comprised of a salary of \$350,000 per annum and superannuation of 9%		5,000,000 Options per Resolution 4		10,000,000 Performance Rights per Resolution 7	Mr Paul Niardone	\$38,150 per annum, comprised of a salary of \$35,000 per annum and superannuation of 9%		2,800,000 Options per Resolution 5		5,600,000 Performance Rights per Resolution 8
Related party	Current financial year remuneration*														
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	2,800,000 Options per Resolution 5														
	5,600,000 Performance Rights per Resolution 8														
<p><i>Existing interest in the Company</i></p>	<p>The relevant current interests (i.e. before any of the Resolutions are approved) of each of Mr Read and Mr Niardone in the securities of the Company are set out below:</p> <table border="1" data-bbox="435 1135 1401 1249"> <thead> <tr> <th>Related party</th> <th>Shares</th> <th>Options</th> <th>Other</th> </tr> </thead> <tbody> <tr> <td>Mr Jeremy Read</td> <td>500,000</td> <td>Nil</td> <td>Nil</td> </tr> <tr> <td>Mr Paul Niardone</td> <td>Nil</td> <td>Nil</td> <td>Nil</td> </tr> </tbody> </table>	Related party	Shares	Options	Other	Mr Jeremy Read	500,000	Nil	Nil	Mr Paul Niardone	Nil	Nil	Nil		
Related party	Shares	Options	Other												
Mr Jeremy Read	500,000	Nil	Nil												
Mr Paul Niardone	Nil	Nil	Nil												
<p><i>Dilution effect the issue of the Options will have on existing Shareholders</i></p>	<p>If all the Options granted to each of Mr Read and Mr Niardone are exercised, a total of 7,800,000 Shares would be allotted and issued. This would increase the total number of Shares on issue from 290,873,602 to 298,673,602 (assuming no other Options or Shares are issued), with the effect that the shareholding of existing Shareholders would be diluted by 2.61%.</p> <p>The market price for Shares during the term of the Options would normally determine whether or not the Options are exercised. If the Options are exercised and the Shares are trading on ASX at a price which is higher than the Exercise Price of the Options, there may be a perceived cost to the Company.</p>														

## Additional information and Directors' recommendation

### **Resolution 4 - Approval to issue up to 5,000,000 Options to Managing Director, Mr Jeremy Read or his nominee**

Mr Read declines to make a recommendation to Shareholders in relation to Resolution 4 due to his material personal interest in the outcome of the Resolution. The other Directors, who do not have a material interest in the outcome of Resolution 4, recommend that Shareholders vote in favour of Resolution 4. The Board, other than Mr Read, are not aware of any other information which would reasonably be required by Shareholders to allow them to make a decision whether it is in the best interests of the Company to pass Resolution 4.

The Directors consider that this Explanatory Memorandum contains all material information known to the Company that could reasonably be required by members in deciding how to vote on this Resolution.

Copies of the Notice of Meeting and the Explanatory Statement were lodged with ASIC before being sent to members.

**Recommendation: The Board, with Mr Read abstaining, unanimously recommend that Shareholders vote in favour of Resolution 4.**

***Resolution 5 – Approval to issue up to 2,800,000 Options to Non-Executive Director, Mr Paul Niardone or his nominee***

Mr Niardone declines to make a recommendation to Shareholders in relation to Resolution 5 due to his material personal interest in the outcome of the Resolution. The other Directors, who do not have a material interest in the outcome of Resolution 5, recommend that Shareholders vote in favour of Resolution 5. The Board, other than Mr Niardone, are not aware of any other information which would reasonably be required by Shareholders to allow them to make a decision whether it is in the best interests of the Company to pass Resolution 5.

The Directors consider that this Explanatory Memorandum contains all material information known to the Company that could reasonably be required by members in deciding how to vote on this Resolution.

Copies of the Notice of Meeting and the Explanatory Statement were lodged with ASIC before being sent to members.

**Recommendation: The Board, with Mr Niardone abstaining, unanimously recommend that Shareholders vote in favour of Resolution 5.**

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**Resolution 6 – Approval of Performance Rights Plan**

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***Background to approval***

This Resolution seeks Shareholder approval for the issue of Performance Rights under the Performance Rights Plan for the purposes of ASX Listing Rule 7.1 and the giving of termination benefits under the Performance Rights Plan for the purposes of the Corporations Act.

As noted under the other Resolutions of this Explanatory Memorandum, ASX Listing Rule 7.1 (subject to specific exceptions) prohibits the Company from issuing equity securities in excess of the 15% Threshold, unless Shareholder approval (by way of ordinary resolution) is obtained for those further issues.

However in accordance with ASX Listing Rule 7.2 Exception 9(b), the general prohibition under Listing Rule 7.1 in relation to the 15% Threshold, will not apply to Performance Rights issued under the Performance Rights Plan, if within 3 years before the date of the relevant issues under the Plan, Shareholders have approved the issue of Performance Rights under the Plan as an exception to Listing Rule 7.1.

That is, once Shareholder approval for the issue of Performance Rights under the Performance Rights Plan is obtained pursuant to ASX Listing Rule 7.2 Exception 9(b), any issues under the Plan for the next 3 years will not be counted towards the 15% Threshold.

***Reason for the Plan***

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

The Performance Rights Plan will provide for the issue of Performance Rights which, upon a determination by the Board that the performance conditions have been met and subject to the terms of the Plan, result in the 'Eligible Participant' (defined below) being awarded with Shares.

The Board believes that the grant of Performance Rights under the Performance Rights Plan to Eligible Participants, will underpin the employment strategy of attracting and retaining high calibre staff capable of executing the Company's strategic plans, and will:

- a) assist in the retention of key management and operational staff;
- b) enhance the Company's ability to attract quality staff in the future;
- c) link the rewards of key staff with the achievement of strategic goals and the long term performance objectives of the Company; and
- d) provide incentives to Eligible Participants of the Performance Rights Plan to deliver superior performance that creates Shareholder value.

### **Summary of the Performance Rights Plan**

The following is a summary of the key terms and conditions of the Performance Rights Plan:

1. **Participation:** The Performance Rights Plan will be available to 'Eligible Participants' (defined below) of the Company and any subsidiaries subsequently incorporated or acquired by the Company to allow for future growth by the Company (collectively, the **Group** and each a **Group Member**).

Participation in the Plan is by invitation only. That is, only those Eligible Participants invited by the Board to apply will be able to participate.

'Eligible Participants' will be full and part-time employees of a Group Member, whom the Board determines are eligible to participate in the Plan.

It is the Board's intention that the initial Eligible Participants in the Performance Rights Plan will be the Managing Director Jeremy Read, the newly appointed Non-Executive Director Paul Niardone and the Key Personnel.

2. **Limit on the maximum number of Performance Rights issuable:** The total number of Performance Rights that may presently be granted under the Plan (subject to the Board amending the Plan rules) is 40 million.
3. **Exercise Price:** The Performance Rights granted under the Plan will be granted at no cost to the Eligible Participants.

Within 10 Business Days after a Performance Right under the Performance Rights Plan has vested (i.e. the vesting conditions linked to the Performance Rights have been satisfied), the Company will award the Eligible Participant the number of Shares applicable to those Performance Rights free of charge.

4. **Shares:** Each Performance Right will entitle the Eligible Participant to receive one fully paid ordinary share in the Company, if the vesting conditions relating to that Performance Right are satisfied (as noted below under points 9 and 10).

The Company will apply to the ASX within a reasonable time after the Shares are allotted (if those Shares are not already listed) for those Shares to be listed.

5. **Lapse:** Unless the Board determines otherwise in its absolute discretion, an unvested Performance Right will lapse upon the earliest to occur of (among other circumstances):
  - (a) the Eligible Participant transferring or granting a security interest over a Performance Right;

- (b) the Eligible Participant ceasing to be an Eligible Employee (other than for ill health or death, if the Board determines within 3 months of the relevant event, that the Performance Rights will still vest);
  - (c) the Eligible Participant acting fraudulently or dishonestly or in breach of the Eligible Participant's obligations to any Group Member;
  - (d) a resolution being passed or order being made to wind up the Company;
  - (e) the Vesting Conditions in respect of a Performance Right not being met within any applicable period; and
  - (f) the 7<sup>th</sup> year anniversary of the Grant Date.
6. **Assignability:** Performance Rights are not transferable, except with the prior written consent of the Board, which may be withheld in its absolute discretion.

Performance Rights are transferable to the extent necessary to allow exercise by personal representatives pursuant to the Plan in the event of the death of the holder.

7. **Restrictions:** For the first three months after the date Shares are issued to participants (**Trading Lock Period**), 25% of those Shares issued on that date (**Locked Shares**), will be subject to a Trading Lock.

During the Trading Lock Period, the Locked Shares may not be transferred and the participant must not grant (or purport to grant) any security interest in or over or otherwise dispose of or deal with (or purport to otherwise dispose or deal with) the Locked Shares or any interest held in the Locked Shares.

8. **Amendments:** Subject to the Listing Rules, the Board may from time to time amend or add to all or any of the provisions of the Plan, or the terms or conditions of any Performance Right granted under the Plan, including vesting conditions.
9. **Vesting:** Vesting conditions will be determined by the Board at the time an invitation inviting Eligible Participants to participate in the Performance Rights Plan is made. Generally, Performance Rights will not vest until the relevant vesting conditions linked to those Performance Rights have been satisfied. However:
- a. in the case of ill health or death the vesting conditions may be waived by the Board in its absolute discretion; or
  - a) if a 'Change of Control' (i.e. takeover bid (as defined under the Corporations Act) is made to acquire at least 50% of the Shares, a person obtains voting power in the Company of more than 33% and the takeover bid is or has become unconditional or a Court has sanctioned a compromise or arrangement under Part 5.1 of the Corporations Act (other than for the purpose of, or in connection with, a scheme for the reconstruction of the Company or its amalgamation with any other entity or entities)) occurs, and there is no contravention of the applicable laws (for example the ASX Listing Rules and the Corporations Act), subject to the terms and conditions of the grant of a Performance Right, all those Performance Rights will immediately vest to Shares.

10. **Vesting Conditions:** The Performance Rights currently proposed to be issued under the Plan will vest in the following tranches, on satisfaction of the following Vesting Conditions:

Tranche	Vesting Condition	Maximum aggregate number of Performance Rights to be issued under Tranche
Tranche 1	The closing price of the Shares being \$0.12 or more for 10 consecutive ASX trading days	10,000,000
Tranche 2	The total combined JORC Compliant Mineral Resources on the Viscaria Project reaching 10Mt at 2.5 Cu or more	15,000,000
Tranche 3	The closing price of the Shares being \$0.30 or more for a period of 10 consecutive ASX trading days	15,000,000

Within each Tranche, all of the Performance Rights will vest, or none will vest.

#### **ASX Listing Rule disclosures**

For the purposes of obtaining approval under ASX Listing Rule 7.2 Exception 9(b), the Company confirms that:

- as at the date of this Explanatory Memorandum, the Company had not made any issues of Performance Rights under the Performance Rights Plan;
- a summary of the terms of the Performance Rights Plan is set out above; and
- the Resolution includes a voting exclusion statement.

#### **Corporations Act**

The Corporations Act restricts the benefits which can be given to certain persons (those who hold a managerial or executive office, as defined in the Corporations Act) on leaving their employment with the Company. Under Section 200B of the Corporations Act, a company may only give a person a benefit in connection with their ceasing to hold a managerial or executive office in the company if it is approved by shareholders or an exemption applies.

Under the termination benefits laws, the term “benefit” has a wide operation, and will include benefits arising from the Board exercising its discretion under the rules of the Performance Rights Plan to vest unvested Performance Rights on cessation of employment due to ill health or death or if there is a change of control of the Company.

The Company is seeking Shareholder approval for the purposes of sections 200B and 200E of the Corporations Act to any “termination benefits” that the Company provides to participants under the Performance Rights Plan.

Specifically, Shareholder approval is being sought to give the Board the capacity to exercise certain discretions under the Performance Rights Plan, including the discretion to determine to vest some or all of the Performance Rights of a participant who would ordinarily trigger the new termination benefits laws when they leave employment with the Company.

Approval is being sought in respect of any current or future participant who holds:

- a managerial or executive office in the Company at the time of their leaving; and
- Performance Rights issued under the Performance Rights Plan at the time of their leaving.

The Company is seeking this approval to provide the Company with the flexibility to continue to remunerate employees fairly and responsibly in the future, and in a manner that appropriately drives long term performance for Shareholders.

If Shareholder approval is obtained and the Board exercises its discretion to vest some or all of an affected participant’s unvested Performance Rights, the value of the benefit (i.e. those unvested Rights) will be disregarded when calculating the permissible termination benefits payable to that person under the Corporations Act without further Shareholder approval.

**Corporations Act disclosures**

Section 200E requires the following information to be provided to Shareholders in approving a termination benefit.

<i>Explanation of the termination benefits</i>	<p>The Performance Rights Plan contains provisions setting out the treatment of unvested Rights including the vesting of those Rights subject to the discretion of the Board in the event of cessation of employment due to ill health or death or a change of control.</p> <p>As noted above, the exercise of these discretions by the Board will constitute a “benefit” for the purposes of the Corporations Act’s termination benefits provisions.</p>
Value of the termination benefits	<p>Various matters will or are likely to affect that value of the termination benefits that the Board may give under the Performance Rights Plan and so on this basis the value of the termination benefits cannot be determined in advance.</p> <p>The value of a particular benefit resulting from the exercise of the Board’s discretion under the Performance Rights Plan will depend on factors such as the Company’s share price at the time of vesting and the number of Performance Rights that the Board decides to vest.</p> <p>Some of the factors that may affect the value of the termination benefits are as follows:</p> <ul style="list-style-type: none"> <li>a) the participant’s total fixed remuneration at the time grants are made under the Performance Rights Plan and at the time they cease employment;</li> <li>b) the participant’s length of service and the portion of any relevant vesting conditions that have been satisfied at the time they cease employment; and</li> <li>c) the number of unvested Performance Rights that the participant holds at the time they cease employment.</li> </ul>

**Recommendation:** The Board unanimously recommends that Shareholders vote in favour of Resolution 6.

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**Resolution 7: Approval to grant 10,000,000 Performance Rights to Managing Director, Mr Jeremy Read or his nominee**

**Resolution 8: Approval to grant 5,600,000 Performance Rights to Non-Executive Director, Mr Paul Niardone or his nominee**

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**Background**

The Board is seeking Shareholder approval for Resolutions 7 and 8 referred to in the accompanying Notice of Meeting for the purposes of Chapter 2E of the Corporations Act and ASX Listing Rule 10.14.



Similarly to Resolutions 4 and 5, because both Mr Read and Mr Niardone are directors of the Company and the Company is seeking to issue them both with the same form of equity (i.e. Performance Rights under Resolutions 7 and 8 respectively), the explanations on these two Resolutions has been grouped as set out below.

If the Shareholders do not approve Resolution 7 and 8, the Company cannot grant Performance Rights to Mr Read or Mr Niardone (as applicable).

If the Board proposes to make a new award of Performance Rights to either Mr Read or Mr Niardone in any subsequent year, the Company will seek Shareholder approval to that further award.

### **Corporations Act**

Part 2E of the Corporations Act regulates related party transactions. Pursuant to section 228, both Mr Read and Mr Niardone are related parties of the Company given their directorships with Avalon.

As noted under Resolutions 4 and 5 of this Explanatory Memorandum, section 208 of the Corporations Act provides that unless an exception applies, a public company must obtain the approval of its members in accordance with section 217 to 227 of the Corporations Act before it gives a financial benefit to a related party. Further, that the benefit for which Shareholder approval is obtained, must be given within 15 months of that approval.

‘Issuing securities or granting an option to the related party’, such as the issue of the Performance Rights proposed under Resolutions 7 and 8, is an example of giving a financial benefit to a related party under the Corporations Act. It is on this basis that approval to Resolutions 7 and 8 is being sought.

### **Listing Rules**

Listing Rule 10.14 provides that the Company must not permit a Director or an associate of a Director of the Company to acquire securities under an employee incentive scheme without the Company obtaining the approval of its Shareholders. For the purposes of the Listing Rules, the proposed issue of Performance Rights to Mr Read and Mr Niardone under the Plan are caught by Listing Rule 10.14.

If Shareholder approval is given under Listing Rule 10.14, approval is not required under Listing Rule 7.1. That is, Shareholder approval to the Performance Rights is not required under Listing Rule 7.1 when Shareholder approval under Listing Rule 10.14 is obtained, meaning that the Performance Rights issued under Resolutions 7 and 8 will not be counted in the 15% Threshold.

### **Corporations Act and ASX Listing Rule disclosure**

Details of the proposed issues under Resolutions 7 and 8 as required by the Corporations Act and further expanded upon in ASIC Regulatory Guide 76 (Related party transactions) and Listing Rule 10.15 are as follows:

<b>Required disclosure</b>		
<i>Proposed allottees</i>	Mr Jeremy Read or his nominee	Mr Paul Niardone or his nominee
<i>Nature of relationship with Avalon</i>	Mr Read is a related party of Avalon because of his role as the Company’s Managing Director.	Mr Niardone is a related party of Avalon because of his role as a Non-Executive Director of the Company.
<i>Maximum number of securities to be issued</i>	10,000,000 Performance Rights	5,600,000 Performance Rights
<i>Issue price</i>	No consideration is payable by Mr Read or Mr Niardone at the time of issue of the Rights or at the time of vesting of those Rights into Shares.	

	<p>The closing price of the Shares the trading day before the date of this document was \$0.091. The value of the Shares issued to Mr Read and Mr Niardone once the Rights have vested will be the current market value of the Shares at the time those Rights vest and the Shares are issued.</p> <p>The market value of the Shares on the date that they are actually issued, or on the date that the vesting conditions are satisfied, may be higher or lower than the closing price noted above.</p>
<i>Other persons who have received securities under the Plan</i>	<p>The Performance Rights Plan is a new plan that the Board adopted on 23 April 2012.</p> <p>No person has or will receive any Performance Rights under the Performance Rights Plan before the Meeting.</p>
<i>Persons referred to in rule 10.14 entitled to participate in the Plan</i>	<p>Only 'Eligible Participants' (as that term is defined under Resolution 6 and in the Glossary section) are entitled to participate in the Performance Rights Plan.</p> <p>Both Mr Read and Mr Niardone have been determined by the Board (with each of them being excluded from those discussions and decisions) to be Eligible Participants for the purposes of the Performance Rights Plan.</p>
<i>Voting exclusion</i>	A voting exclusion statement has been included in the Notice of Meeting.
<i>Loans</i>	No loans will be used in relation to the acquisition of the Rights by Mr Read and Mr Niardone under the Plan.
<i>Issue date</i>	The Company will issue the Performance Rights to Mr Read and Mr Niardone as soon as practicable after Shareholder approval has been obtained and in any event no later than 12 months after the Meeting.
<i>Terms of issue</i>	A summary of the terms and conditions of the Performance Rights are set out on pages 19 to 21 of this Explanatory Memorandum.
<i>Why the Rights are being issued to Mr Read and Mr Niardone</i>	<p>The Board believes that the grant of Performance Rights to Mr Read and Mr Niardone will provide them with incentives to achieve the long term performance objectives of the Company by aligning the delivery of specific milestones and Shareholder return objectives with their potential to receive incentive based share ownership in the Company.</p> <p>The Performance Rights to be granted to Mr Read and Mr Niardone are subject to the terms and conditions of the Plan and are 'at risk' until the vesting conditions are met.</p> <p>The Directors believe that the proposed issue of Performance Rights is in the best interests of the Company and promotes the interests of the Company on the basis that senior management will be committed to improving the performance of the Company for the benefit of Shareholders.</p> <p>The Performance Rights were agreed to be issued to Mr Read and Mr Niardone (or their nominee entities), subject to obtaining the necessary Shareholder approval as part of their agreements to join the Company in their respective roles.</p> <p>A further explanation on why the Board considers the Performance Rights proposed to be issued to Mr Read and Mr Niardone appropriate is set out on pages 18 and 19 of this Explanatory Memorandum (under the explanation for Resolutions 4 and 5).</p> <p>The Company considers the Performance Rights to be an appropriate remuneration structure given the size of the Company.</p>

<p><i>Why the number of Rights and value of the Rights was chosen</i></p>	<p>As noted above, the Board considers the Performance Rights, including the number of Rights proposed to be issued to Mr Read and Mr Niardone, appropriate for the reasons set out on pages 13 and 14 of this Explanatory Memorandum (under the explanation for Resolutions 4 and 5).</p> <p>The value of the Performance Rights are intrinsically linked to the value of the Shares because once the Performance Rights have vested, the Company must issue to Mr Read and Mr Niardone (as applicable) or cause to be transferred to them, one Share for each Performance Right that has vested. On this basis the value of the Performance Rights, like Shares, can also rise and fall.</p>
<p><i>Directors' interest in the outcome</i></p>	<p>Other than the interests that Mr Read and Mr Niardone have in Resolutions 7 and 8 (as noted above), none of the other Directors have an interest in the outcome of Resolutions 7 and 8.</p> <p>Neither Mr Read nor Mr Niardone were involved in any Board discussions or decisions in relation to Resolutions 7 and 8.</p>
<p><i>Why none of the exceptions under the Corporations Act apply to the proposed issues</i></p>	<p>One of the exceptions to the requirement to obtain Shareholder approval under Chapter 2E of the Corporations Act, is if the financial benefit is reasonable remuneration.</p> <p>Whilst the Board does consider the offer of Performance Rights to Mr Read and Mr Niardone to be reasonable remuneration, the Board also considers it reasonable and appropriate in the circumstances to get Shareholder approval for the proposed issue of the Performance Rights to Mr Read and Mr Niardone.</p>
<p><i>Valuation of the financial benefit</i></p>	<p>As part of the Valuation, the Company also engaged Moore Stephens to undertake valuations of the Performance Rights.</p> <p>Moore Stephens concluded that the fair value of each Performance Right will not be quantifiable until the date each Performance Right is granted.</p> <p>Moore Stephens did however look at the 5, 30 and 60 days VWAPs of the Company's Shares and average market price to determine that the Performance Rights proposed to be issued to Mr Read and Mr Niardone have a total value of \$1,404,000 (\$900,000 for Mr Read's Performance Rights and \$504,000 for Mr Niardone's Performance Rights).</p> <p>Moore Stephens calculated the VWAP over the 5, 30 and 60 day period as \$0.094 per Share.</p> <p>The market price of the Company's Shares was based on the highest and lowest market sale prices as traded on the ASX during the three months immediately preceding the date of the Valuation. The respective dates of those sales were:</p> <ul style="list-style-type: none"> <li>a) highest: \$0.135 on 29 February 2012; and</li> <li>b) lowest: \$0.05 on 27 January 2012.</li> </ul> <p>Based on the ASX share price and given the volatility of the Shares traded during the three month period immediately prior to the Valuation, the value of the Performance Rights as at date of the Valuation (based on the average of the highest and lowest trades) was \$0.0925.</p> <p>The latest available closing sale price of the Company's shares on the ASX prior to completion of the Valuation was \$0.09 on 12 April 2012.</p>

On this basis, the Independent Valuer concluded that the value of the Performance Rights was in the range of \$0.09 and \$0.0925. For the purposes of the Valuation, \$0.09 was calculated as the fair value of each Performance Right.

As noted above, the Valuation attributed a total value of \$1,404,000 to the Performance Rights proposed to be issued to Mr Read and Mr Niardone. Similarly to the Valuation for the Options explained under Resolutions 4 and 5, the value attributed to the Performance Rights may go up or down after the date of Valuation because the value of the Performance Rights depends on the future price of the Shares of the Company together with the following facts or assumptions (which were used when making the Valuation):

- a) the closing price of \$0.09 at 12 April 2012 which the Independent Valuer adopted because the Independent Valuer considered it better reflected the current value of the Performance Rights. no future dividend payments were forecast given the Company is a mineral exploration company with no history of paying dividends;
- b) Performance Rights with market based vesting conditions can only be exercised following the satisfaction of those vesting conditions;
- c) the valuation of Performance Rights assumes that the exercise of a Performance Right does not affect the value of the underlying asset;
- d) under AASB 2 and option valuation theory, no discount is made to the fundamental value of unlisted rights over listed shares;
- e) the vesting conditions determine the number of Performance Rights to be issued; they do not have affect on the value of each Performance Right;
- f) in this case, given that the Performance rights are to be issued for no consideration, the value of the Performance Rights is reflected in the underlying Share price at the date of the Valuation. Variable inputs used in traditional option valuation models such as implied share price volatility, the risk free interest rate and life of the right have no impact on the value of the Performance Rights so long as the underlying asset does not pay a dividend;
- g) the exercise price is the price at which the underlying ordinary shares will be issued. No consideration is to be paid when exercising the Performance Rights.

The Board believes, having taken appropriate expert advice on the matter, that the method of valuation used in the Valuation for the Performance Rights was appropriate in the circumstances. The Board has not used any other valuation model in proposing the terms or number of the Performance Rights.

*Disclosure of total remuneration package*

The remuneration and emoluments from the Company to Mr Read and Mr Niardone for current financial year are:

Related party	Current financial year remuneration*
Mr Jeremy Read	\$381,500 per annum, comprised of a salary of \$350,000 per annum and all superannuation contribution amounts required to be paid under statute.  5,000,000 Options per Resolution 4  10,000,000 Performance Rights per Resolution 7

	<table border="1"> <thead> <tr> <th>Related party</th> <th>Current financial year remuneration*</th> </tr> </thead> <tbody> <tr> <td>Mr Paul Niardone</td> <td>           \$38,150 per annum, comprised of a salary of \$35,000 per annum and superannuation of 9%             2,800,000 Options per Resolution 5             5,600,000 Performance Rights per Resolution 8         </td> </tr> </tbody> </table> <p><i>*Paid pursuant to service contracts with the Company.</i></p>	Related party	Current financial year remuneration*	Mr Paul Niardone	\$38,150 per annum, comprised of a salary of \$35,000 per annum and superannuation of 9%  2,800,000 Options per Resolution 5  5,600,000 Performance Rights per Resolution 8																												
Related party	Current financial year remuneration*																																
Mr Paul Niardone	\$38,150 per annum, comprised of a salary of \$35,000 per annum and superannuation of 9%  2,800,000 Options per Resolution 5  5,600,000 Performance Rights per Resolution 8																																
<i>Existing interest in the Company</i>	<p>The relevant current interests (i.e. before any of the Resolutions are approved) of each of Mr Read and Mr Niardone in the securities of the Company are set out below:</p> <table border="1"> <thead> <tr> <th>Related party</th> <th>Shares</th> <th>Options</th> <th>Other</th> </tr> </thead> <tbody> <tr> <td>Mr Jeremy Read</td> <td>500,000</td> <td>Nil</td> <td>Nil</td> </tr> <tr> <td>Mr Paul Niardone</td> <td>Nil</td> <td>Nil</td> <td>Nil</td> </tr> </tbody> </table> <p>However, if Shareholders approve Resolutions 4, 5, 7 and 8 the relevant interests (i.e. immediately after the Resolutions are approved and the relevant securities are issued) of each of Mr Read and Mr Niardone in the securities of the Company will be as set out below:</p> <table border="1"> <thead> <tr> <th>Related party</th> <th>Shares</th> <th>Options</th> <th>Rights</th> <th>Total securities</th> </tr> </thead> <tbody> <tr> <td>Mr Jeremy Read</td> <td>500,000</td> <td>5,000,000</td> <td>10,000,000</td> <td>15,500,000</td> </tr> <tr> <td>Mr Paul Niardone</td> <td>Nil</td> <td>2,800,000</td> <td>5,600,000</td> <td>8,400,000</td> </tr> <tr> <td><i>Total</i></td> <td><i>Nil</i></td> <td><i>7,800,000</i></td> <td><i>15,600,000</i></td> <td><i>23,900,000</i></td> </tr> </tbody> </table>	Related party	Shares	Options	Other	Mr Jeremy Read	500,000	Nil	Nil	Mr Paul Niardone	Nil	Nil	Nil	Related party	Shares	Options	Rights	Total securities	Mr Jeremy Read	500,000	5,000,000	10,000,000	15,500,000	Mr Paul Niardone	Nil	2,800,000	5,600,000	8,400,000	<i>Total</i>	<i>Nil</i>	<i>7,800,000</i>	<i>15,600,000</i>	<i>23,900,000</i>
Related party	Shares	Options	Other																														
Mr Jeremy Read	500,000	Nil	Nil																														
Mr Paul Niardone	Nil	Nil	Nil																														
Related party	Shares	Options	Rights	Total securities																													
Mr Jeremy Read	500,000	5,000,000	10,000,000	15,500,000																													
Mr Paul Niardone	Nil	2,800,000	5,600,000	8,400,000																													
<i>Total</i>	<i>Nil</i>	<i>7,800,000</i>	<i>15,600,000</i>	<i>23,900,000</i>																													
<i>Dilution effect the issue of the Rights will have on existing Shareholders</i>	<p>If all the Options granted to each of Mr Read and Mr Niardone (under Resolutions 4 and 5) are exercised and all the Performance Rights issued to Mr Read and Mr Niardone vest, a total of 23,400,000 new Shares would be allotted and issued. This would increase the total number of Shares on issue from 290,873,602 to 314,273,602 (assuming no other Options or Shares are issued), with the effect that the shareholding of existing Shareholders would be diluted by 7.45%.</p> <p>If all the Options granted to each of Mr Read and Mr Niardone are not exercised but all the Performance Rights issued to Mr Read and Mr Niardone vest, a total of 15,600,000 new Shares would be allotted and issued. This would increase the total number of Shares on issue from 290,873,602 to 306,473,602 (assuming no other Options or Shares are issued), with the effect that the shareholding of existing Shareholders would be diluted by 5.09%.</p>																																

## Additional information and Directors' recommendation

### ***Resolution 7 - Approval to grant 10,000,000 Performance Rights to Managing Director, Mr Jeremy Read or his nominee***

Mr Read declines to make a recommendation to Shareholders in relation to Resolution 7 due to his material personal interest in the outcome of the Resolution. The other Directors, who do not have a material interest in the outcome of Resolution 7, recommend that Shareholders vote in favour of Resolution 7. The Board, other than Mr Read, are not aware of any other information which would reasonably be required by Shareholders to allow them to make a decision whether it is in the best interests of the Company to pass Resolution 7.

The Directors consider that this Explanatory Memorandum contains all material information known to the Company that could reasonably be required by members in deciding how to vote on this Resolution.

Copies of the Notice of Meeting and the Explanatory Statement were lodged with ASIC before being sent to members.

**Recommendation: The Board, with Mr Read abstaining, unanimously recommend that Shareholders vote in favour of Resolution 7.**

***Resolution 8 – Approval to grant 5,600,000 Performance Rights to Non-Executive Director, Mr Paul Niardone or his nominee***

Mr Niardone declines to make a recommendation to Shareholders in relation to Resolution 8 due to his material personal interest in the outcome of the Resolution. The other Directors, who do not have a material interest in the outcome of Resolution 8, recommend that Shareholders vote in favour of Resolution 8. The Board, other than Mr Niardone, are not aware of any other information which would reasonably be required by Shareholders to allow them to make a decision whether it is in the best interests of the Company to pass Resolution 8.

The Directors consider that this Explanatory Memorandum contains all material information known to the Company that could reasonably be required by members in deciding how to vote on this Resolution.

Copies of the Notice of Meeting and the Explanatory Statement were lodged with ASIC before being sent to members.

**Recommendation: The Board, with Mr Niardone abstaining, unanimously recommend that Shareholders vote in favour of Resolution 8.**

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## Glossary

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In this Explanatory Memorandum and the Notice of Meeting:

**15% Threshold** means the prohibition under Listing Rule 7.1, which prohibits the Company (subject to certain exceptions such as pro-rata issues), from issuing or agreeing to issue equity securities representing more than 15% of its total issued ordinary shares, during a rolling 12 month period, without shareholder approval;

**AASB 2** means Australian Accounting Standards Board (AASB) accounting standard 'Share-based payment';

**AEDT** means Australian Eastern Daylight Time;

**ASIC** means the Australian Securities and Investments Commission;

**ASX** means the Australian Securities Exchange or ASX Limited ACN 008 624 691;

**Board** means the board of Directors of the Company;

**Business Day** means a day on which trading takes place on the stock market of ASX;

**Chairman** means the chairman of the Board;

**Company** or **Avalon** means Avalon Minerals Ltd ACN 123 184 412;

**Constitution** means the constitution of the Company currently in force;

**Corporations Act** means the *Corporations Act 2001 (Cth)* 2001;

**Director** means a director of the Company as at the date of this Explanatory Memorandum;

**Eligible Participant** means a full or part-time employee, whom the Board determines are eligible to participate in the Plan;

**Explanatory Memorandum** means this explanatory memorandum that accompanies and forms part of the Notice of Meeting;

**General Meeting** or **Meeting** means the general meeting of the Company to be convened by the Notice of Meeting;

**Independent Valuer** or **Moore Stephens** means Moore Stephens (Queensland) Ltd;

**Indian Ocean** means Indian Ocean Capital Pty Ltd ACN 051 227 877;

**Key Personnel** or **Key Management Personnel** means the Directors of the Company and those other persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly;

**Listing Rules** means the Official Listing Rules of ASX;

**Mandate Letter** means the letter from the Underwriter dated 8 February 2012 and accepted by the Company on 10 February 2012;

**Notice of Meeting** means the notice of general meeting dated Tuesday, 5 June 2012 which this Explanatory Memorandum accompanies and in which the Resolutions are set out;

**Offer or Rights Issue** means the non-renounceable, pro-rata entitlement issue to eligible Shareholders on the basis of 1 new Share for every 5 existing Shares held by Shareholders on the record date;

**Options** means an option to acquire a Share;

**Performance Rights Plan or Plan** means the Avalon Minerals Ltd Performance Rights Plan;

**Resolutions** means the resolutions referred to in the Notice of Meeting;

**Rights or Performance Rights** means a right to be awarded a specified number of Shares upon satisfaction of vesting conditions determined by the Board in accordance with the Performance Rights Plan;

**Share** means a fully paid ordinary share in the Company;

**Shareholder** means a holder of Shares;

**Underwriting Agreement** means the underwriting agreement between the Company and the Underwriter dated 22 February 2012; and

**Valuation** means the independent valuation of the Options and Performance Rights proposed to be offered and issued (as applicable) to Mr Read and Mr Niardone under Resolutions 4 and 5 and 6 and 7 respectively, completed by Moore Stephens on 12 April 2012;

**Various Parties** means Perizia Investments Pty Ltd, Ms Josephine Kathleen Patoir and Mrs Fionnuala Catherine Edmondson;

**Viscaria Project** means the Viscaria Copper Iron Ore Project located in Sweden.

**VWAP** means volume weighted average price.



**AVALON MINERALS LTD**  
ACN 123 184 412  
**PROXY FORM**

**SHAREHOLDER/S NAME/S AND ADDRESS - PLEASE COMPLETE IN BLACK INK**

Name/s:

Address/es:

I/we appoint as my/our proxy the person named below at the General Meeting of Avalon Minerals Ltd ("Company") to be held on Tuesday 5 June, 2012 commencing at 2.30pm (Brisbane time) at the Sakura Room, Level 6, Christie Corporate Centre, 320 Adelaide Street Brisbane in the State of Queensland and at any adjournment thereof.

**APPOINTMENT OF PROXY:**

I/We being a member of Avalon Minerals Ltd and entitled to vote and attend hereby appoint

<input type="checkbox"/>	The Chairman of the meeting (mark with an 'X')	OR	
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If you are not appointing the Chairman of the meeting as your proxy please write here the full name of the individual or body corporate (excluding the registered security holder) you are appointing as your proxy.

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, as the proxy sees fit) at the General Meeting of Avalon Minerals Ltd to be held on Tuesday 5 June, 2012 commencing at 2.30pm (Brisbane time) at the Sakura Room, Level 6, Christie Corporate Centre, 320 Adelaide Street, Brisbane in the State of Queensland and at any adjournment of that meeting.

**VOTING DIRECTIONS TO YOUR PROXY - please mark to indicate your directions**

X
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No	RESOLUTION	FOR	AGAINST	ABSTAIN*
1	Ratification of the previous issue of 4,000,000 Shares to the Various Parties			
2	Ratification of the previous issue of 6,000,000 Options to Indian Ocean			
3	Approval to issue up to 12,200,000 Options to Key Personnel			
4	Approval to issue up to 5,000,000 Options to Managing Director, Mr Jeremy Read or his nominee			
5	Approval to issue up to 2,800,000 Options to Non-Executive Director, Mr Paul Niardone or his nominee			
6	Approval of Performance Rights Plan			
7	Approval to grant 10,000,000 Performance Rights to Managing Director, Mr Jeremy Read or a nominee entity of Mr Read			
8	Approval to grant 5,600,000 Performance Rights to Non-Executive Director, Paul Niardone or a nominee entity of Mr Niardone			

If you leave your proxy undirected with respect to any resolution and in favour of the Chairman (or if your appointed proxy fails to attend), then the Chairman will vote such proxies in favour of those Resolutions.

\*If you mark the Abstain box for a particular item, you are directing your proxy note to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

**Appointing a second Proxy:** We wish to appoint a second proxy

<input type="checkbox"/>	Mark with an "X" if you wish to appoint a second proxy	AND	%	OR		State the percentage of your voting rights or the number of securities for this Proxy
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**PLEASE SIGN HERE** This section *must* be signed in accordance with the instruction overleaf to enable your directions to be implemented.

Individual or Security holder 1

Individual/Sole Director and Sole Company Secretary

Security holder 2

Director

Security holder 3

Director/Company Secretary

**IMPORTANT - This Proxy Form (and any power of attorney under which it is signed) MUST be received no less than 48 hours before the proposed time for the meeting. Any Proxy Form received after that time will not be valid.**

## NOTES FOR COMPLETION OF PROXY FORM

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### 1. YOUR ADDRESS

This is the address that should appear on the Company's share register. Security holders sponsored by a broker (in which case your reference number will commence with an 'X') should advise their broker of any change of address. **Please note you cannot change ownership of your securities using this form.**

### 2. APPOINTMENT OF PROXY

If you wish to appoint the Chairman of the meeting as your proxy, mark the box. If the individual or body corporate you wish to appoint as your proxy is someone other than the Chairman of the meeting please write the full name of that individual or body corporate in the space provided. If you leave this section blank, or your named proxy does not attend the meeting, the Chairman of the meeting will be your proxy. A proxy need not be a security holder of the Company. Do not write the name of the issuer company or the registered security holder in the space.

### 3. VOTES ON ITEMS OF BUSINESS

You may direct your proxy how to vote by placing a mark in one of the three boxes opposite each item of business. All your securities will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of securities you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on a given item, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

### 4. APPOINTMENT OF A SECOND PROXY

You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the Company's share registry or you may copy this form.

To appoint a second proxy you must:

- (a) indicate that you wish to appoint a second proxy by marking the box.
- (b) on each of the first Proxy Form and the second Proxy Form state the percentage of your voting rights or number of securities applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded.
- (c) return both forms together in the same envelope.

### 5. SIGNING INSTRUCTIONS

You must sign this form as follows in the spaces provided:

Individual: where the holding is in one name, the security holder must sign.

Joint Holding: where the holding is in more than one name, all of the security holders must sign.

Power of Attorney: to sign under a Power of Attorney, you must have already lodged that Power of Attorney with the Avalon Share Registry. If you have not previously lodged the Power of Attorney for notation, please attach the original or a certified copy of the Power of Attorney to this Proxy Form when you return it.

Companies: This form must be signed by a Director jointly with either another Director or a Company Secretary. Where the company has a Sole Director who is also the Sole Company Secretary, this Proxy Form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Please indicate the office held by signing in the appropriate place.

If a representative of a corporate security holder or proxy is to attend the meeting, the appropriate "Certificate of Appointment of Corporate Representative" should be produced prior to admission. A form of the certificate may be obtained from the Company's share registry.

## RECEIPT OF PROXIES

This Proxy Form (and any Power of Attorney under which it is signed) must be received at the address or fax number given below no later than 2.30pm on 3 June 2012. Any Proxy Form received after that time will not be valid for the Annual General Meeting.

Documents may be lodged:

**IN PERSON:** By delivery to Avalon Minerals Limited, Level 1, 65 Park Road, Milton Qld 4064 Australia.

**BY MAIL:** By mailing your Proxy Form to Avalon Minerals Limited, PO Box 1565, Milton Qld 4064 Australia.

**BY FAX:** By faxing your Proxy Form to 07 3368 9899 (from within Australia) or +61 7 3368 9899 (from outside Australia).