Avalon Minerals Ltd

Financial Report
From date of incorporation on
20 December 2006 to 30 June 2007

Contents

Contents	Page
Corporate directory	3
Directors' report	4
Auditor’s independence declaration	15
Corporate Governance Disclosures	16
Financial report	17
Directors' declaration	46
Independent audit report to the members	47

Corporate directory

Directors
David McSweeney
Chairman and Managing Director

Gary Steinepreis
Non-executive
Stephen Stone
Non-executive
Secretary
Desmond Kelly

Share register
Computershare Investor Services Pty Ltd
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45 St Georges Terrace
Perth WA 6000
Telephone +61 8 9323 2000
Facsimile +61 8 9323 2033

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

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

Bankers
National Australia Bank
1238 Hay Street
West Perth WA 6000

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

Principal place of business and registered office in Australia
Unit 2
2 Richardson Street, West Perth WA 6005
PO Box 1170 West Perth 6872

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Facsimile +61 8 9322 2827

Email info@avalonminerals.com.au

Website www.avalonminerals.com.au

Directors' report

Your directors present their report on Avalon Minerals Ltd ("Avalon" or "Company") and the entities it controlled ("Consolidated Entity" or "Group") for the period from incorporation until 30 June 2007.

Directors

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

D L McSweeney
G C Steinepreis

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

Mr S Stone was appointed a director on 15 January 2007 and continues as at the date of this report.

Principal activities

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

Dividends

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

Review of operations

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

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

Financial Position

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

- a placement of 9,500,000 ordinary fully paid shares at 1 cent each to raise $95,000;
- a placement of 6,000,000 ordinary fully paid shares at 7.5 cents each to raise $450,000;
- a placement of 7,000,000 ordinary fully paid shares at a deemed value of 20 cents each, being $1,400,000, as consideration for the purchase of mineral tenements;
- the issue of 17,500,000 fully paid ordinary shares at 20 cents each as an initial public offering, being $3,500,000;
- payment of capital raising and share issue costs of $171,237.

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

Total liabilities amounted to $242,935 and were limited to trade and other creditors.

Directors' report

Review of operations (continued)

Exploration

Avalon's corporate objective is to build a resource mining group based on cash flows from producing operations. The primary strategy for achieving this objective is the acquisition and exploration of strategic regional exploration landholdings in proven mineral provinces. A secondary objective is to acquire advanced resource projects with the potential for early cash flow.

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

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

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

Corporate
Avalon Minerals Ltd was incorporated on 20 December 2006.

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

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

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

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

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

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

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

Significant changes in the state of affairs

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

Matters subsequent to the end of the financial period

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

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

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

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

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

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

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

Likely developments and expected results of operations

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

Environmental regulation

The Consolidated Entity is subject to the environmental laws and regulations imposed under the Mining Act 1978 (Western Australia) and the Mineral Resources Act 1989 (Queensland) depending on the activities being undertaken. The group is currently engaged in exploration activities which are governed by conditions or recommendations imposed through the granting of a licence or permit to explore. Compliance with these laws and regulations is regarded as a minimum standard for the Consolidated Entity to achieve. There were no known breaches of any environmental laws or regulations during the year.

Information on directors

DAVID MCSWEENEY *Chairman – Executive*

Experience and expertise

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

Other directorships of ASX listed companies in the past three years

Former

Gindalbie Metals – 1998 to December 2006

Dynasty Metals – since 8 January 2007

GARY STEINEPREIS *Non-executive Director*

Experience and expertise

Mr Steinepreis holds a Bachelor of Commerce degree from the University of Western Australia and is a Chartered Accountant. He provides corporate management and accounting advice to a number of companies involved in the resource, technology and leisure industries. He is also a director of ASX listed companies Toodyay Resources Ltd, Gawler Resources Ltd, RMG Limited, WAG Limited and Signature Brands Ltd.

Information on directors (continued)

Other directorships of ASX listed companies in the past three years
<u>*Current*</u>
Toodyay Resources Ltd – since 22 December 2005
RMG Limited – since 31 January 2006
Gawler Resources Ltd – since 17 May 2006
Signature Brands Ltd – since 1 June 2006
WAG Limited – since 2 November 2006
Black Fire Energy Limited – since 29 November 2006
Croesus Mining NL (subject to deed of company arrangement) – since 10 July 2007

<u>*Former*</u>
Energy Ventures Limited – 1 October 2003 to 30 September 2004
OBJ Limited – 13 February 2004 to 17 November 2004
Peninsular Minerals Limited – 29 September 2003 to 8 December 2004
Mobi Limited – 24 December 2003 to 15 December 2004
Green Rock Energy Limited – 22 October 2003 to 10 May 2005
Black Range Minerals Limited – 8 January 2004 to 27 June 2005
Deep Yellow Limited – 20 August 2004 to 10 October 2005
Western Metals Limited – 3 October 2005 to 26 June 2006
Monitor Holdings Ltd – 16 April 2004 to 18 January 2007
KarmelSonix Limited – 18 August 2003 to 21 November 2006

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

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

<u>*Former*</u>
Apex Minerals NL – 31 October 2001 to 3 July 2006

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

Directors' report

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

	Ordinary Shares		Options over Ordinary Shares	
	Direct	Indirect	Direct	Indirect
D McSweeney	5,000,000	1,287,206	10,000,000	-
G Steinepreis	750,000	800,000	500,000	-
S Stone	720,000	30,000	500,000	-

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

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

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

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

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

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

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

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

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

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

Remuneration report (continued)

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

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

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

Alignment to shareholders' interests:

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

Alignment to program participants' interests:

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

The framework currently consists of fixed salaries.

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

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

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

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

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

Remuneration report (continued)

Executive pay
The executive pay and reward framework has three components:
- base pay and benefits
- long-term incentives through participation in the Employee Share Option Scheme and
- other remuneration such as superannuation.

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

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

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

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

- *Benefits*
  Executives may receive benefits including memberships, car allowances and reasonable entertainment.

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

- *Employee Share Option Scheme*
  Information on the Employee Share Option Scheme is set out on page 40.

B Details of remuneration (audited)

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

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

Remuneration report (continued)

*	Mr D McSweeney was appointed a director on 20 December 2006. Executive Chairman's salary was paid from 1 February 2007.
**	Mr G Steinepreis was appointed a director on 20 December 2006. Non-executive directors' fee was paid from 1 April 2007.
***	Mr S Stone was appointed a director on 15 January 2007. Non-executive directors' fee was paid from 1 April 2007.
****	Mr D Steinepreis was appointed a director on 20 December 2006 and resigned on 15 January 2007. No directors fees were paid to Mr Steinepreis.
*****	Mr D Kelly was appointed Company Secretary on 2 April 2007.

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

C Service Agreements (audited)
Remuneration and other terms of employment for the Executive Chairman and the Company Secretary are formalised in service agreements.

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

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

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

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

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

D Share-based compensation (audited)
Options were granted pursuant to shareholder approval received at a general meeting held on 7 February 2007.

Options were granted for no consideration.

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

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

Remuneration report (continued)

Options carry no dividend or voting rights.

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

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

Further details relating to options are set out below.

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

A = The percentage of the value of remuneration consisting of options, based on the value at grant date set out in column B.
B = The value at grant date calculated in accordance with AASB 2 *Share-based Payments* of options granted during the year as part of remuneration.
C = The value at exercise date of options that were granted as part of remuneration and were exercised during the year.
D = The value at lapse date of options that were granted as part of remuneration and that lapsed during the year.

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

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

Directors' report

Remuneration report (continued)

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

Loans to directors and executives
There are no loans to directors or executives.

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

	Date of grant	Options granted
Directors		
D McSweeney, *Executive chairman*	7 February 2007	10,000,000
G Steinepreis, *Non-executive director*	7 February 2007	500,000
S Stone, *Non-executive director*	7 February 2007	500,000
Other key management personnel of Avalon Minerals Ltd		
D Kelly, *Company Secretary*	-	-

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

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

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

Share options

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

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

Shares Issued as a result of the Exercise of Options
There were no shares issued as a result of the exercise of options in the financial period

Insurance of officers

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

Proceedings on behalf of the Company

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

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

Non-audit services

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

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

Independent Accountants Report $15,450

Auditors' Independence Declaration

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 15.

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

D McSweeney
Executive Chairman
Perth, Western Australia

25 September 2007

ERNST & YOUNG

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Perth WA 6000
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Tel 61 8 9429 2222
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Auditor's Independence Declaration to the Directors of Avalon Minerals Ltd

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

Ernst + Young

Ernst & Young

V. Tidy

V W Tidy
Partner
Perth
25 September 2007

VT;LB;Avalon;008

CORPORATE GOVERNANCE DISCLOSURES

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

Principle Ref.	Recommendation Ref.	Notification of Departure	Explanation for Departure
2	2.2; 2.3	The Chairman is the Managing Director of the Company	The board considers that the executive role carried out by the Chairman (David McSweeney) is in the best interests of the Company for the following reasons: (a) as the founder of the Company, Mr McSweeney's leadership, both from a long-term strategic and short-term day-to-day operational perspective is critical to the successful development of the Company; (b) given that the Group is in an exploration and evaluation phase, the board considers that the need for a separate Managing Director is not yet critical; and (c) as a result of (a), the carrying out of both roles by Mr McSweeney is in line with expectations of current investors and key to the attraction of future investors. The board intends to reconsider the duality of Mr McSweeney's role and the merits of appointing a new Managing Director as the Company moves closer to production.
2	2.4	There was no Nomination Committee	In the board's view there are no efficiencies to be gained by establishing a separate Nomination Committee. The full board carries out the functions of the Nomination Committee.
4	4.3	There was no audit committee	The full board carries out the functions of the audit committee. Of the three directors, two are considered independent. The Board considers that it is not necessary to form an audit committee at this stage given the size of the Company.
9	9.2	There was no separate Remuneration Committee	The full board carried out the functions of the Remuneration Committee. All matters of remuneration were determined by the board in accordance with the Corporations Act 2001 requirements, especially in respect of related party transactions. That is, no director participated in any deliberation regarding his own remuneration or related issues.

Avalon Minerals Ltd

Financial report – 30 June 2007

Contents

	Page
Financial report	
Income Statement	18
Balance Sheet	19
Statement of Changes in Equity	20
Cash Flow Statement	21
Notes to the Financial Statements	22
Directors' Declaration	46
Independent audit report to the members	47

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

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

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

The financial report was authorised for issue by the directors on 25 September 2007. The Consolidated Entity has the power to amend and reissue the financial report.

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

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

Income Statement

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

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

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

Balance Sheet
As at 30 June 2007

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

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

Statement of Changes in Equity

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

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

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

Cash Flow Statement

For the period ended 30 June 2007

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

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

Notes to the financial statements
30 June 2007

Note 1. Summary of Significant Accounting Policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied from the date of incorporation on 20 December 2006 until 30 June 2007, unless otherwise stated.

(a) Basis of preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001* and Australian Accounting Standards. The financial report has also been prepared on a historical cost basis.

The presentation currency is Australian dollars.

(b) Statement of compliance

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

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Company for the reporting period ending 30 June 2007. These are outlined as follows:

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

Notes to the financial statements
30 June 2007

Note 1. Summary of Significant Accounting Policies (continued)

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

Notes to the financial statements
30 June 2007

Note 1. Summary of Significant Accounting Policies (continued)

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

Note 1. Summary of Significant Accounting Policies (continued)

(c) Segment reporting

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

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

(d) Revenue recognition

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

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

(e) Income tax

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

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

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

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

Note 1. Summary of Significant Accounting Policies (continued)

(f) Leases

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

(g) Acquisition of assets

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

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

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

(h) Impairment of assets

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

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

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

Note 1. Summary of Significant Accounting Policies (continued)

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

(i) Cash and cash equivalents

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

(j) Trade receivables

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

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

(k) Investments and other financial assets

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

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

Note 1. Summary of Significant Accounting Policies (continued)

(l) Investment in controlled entities

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

(m) Plant and equipment

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

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

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

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

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

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

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

(n) Trade and other payables

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

(o) Provisions

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

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

Note 1. Summary of Significant Accounting Policies (continued)

(p) Employee benefits

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

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

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

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

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

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

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

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

(q) Contributed equity

Ordinary shares are classified as equity.

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

(r) Earnings per share

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

Note 1. Summary of Significant Accounting Policies (continued)

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

(s) Exploration and evaluation expenditure

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

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

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

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

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

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

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

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

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

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

Notes to the financial statements
30 June 2007

Note 1. Summary of Significant Accounting Policies (continued)

(t) Goods and services tax (GST)

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

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

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

(u) Basis of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Avalon Minerals Ltd ("Company" or "parent entity") as at 30 June 2007 and the results of all the subsidiaries for the financial period then ended.

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

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

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

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

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

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

Note 2. Financial instruments and financial risk management

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

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

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

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

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

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

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

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

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

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

(v) Interest Rate Risk
The following table sets out the carrying amount, by maturity, of the financial instruments exposed to interest rate risk.

Notes to the financial statements
30 June 2007

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

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

Note 3. Accounting estimates and judgments

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

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

Exploration and evaluation expenditure

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

Note 4. Segment information

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

(b) Geographical segments
The Consolidated Entity operates only in Australia.

Notes to the financial statements
30 June 2007

	Consolidated 2007 $	Parent entity 2007 $

Note 5. Revenue

	Consolidated 2007 $	Parent entity 2007 $
Revenue		
Other revenue		
Interest received	**33,535**	**33,535**

Note 6. Expenses

Loss before income tax includes the following:

	Consolidated 2007 $	Parent entity 2007 $
Employee benefits expense		
Salaries	**125,000**	**125,000**
Directors' fees	**17,500**	**17,500**
Superannuation	**11,250**	**11,250**
Share based payments	**49,840**	**49,840**
Other	**10,032**	**10,032**
	213,622	**213,622**
Rental expense relating to operating leases	**6,415**	**6,415**

Note 7. Income tax

	Consolidated 2007 $	Parent entity 2007 $
(a) Current income tax	-	**-**
Current income tax benefit relating to origination and reversal of temporary differences	**-**	**-**
Deferred tax assets not brought to account as realization is not considered probable	**-**	**-**
Income tax expense reported in the income statement	**-**	**-**

(a) Reconciliation between income tax expense and the product of accounting loss before income tax multiplied by the group's applicable income tax rate as follows:

	Consolidated 2007 $	Parent entity 2007 $
Accounting loss before income tax	**(367,207)**	**(367,207)**
At the group's statutory income tax rate of 30%	**(110,162)**	**(110,162)**
Expenditure not allowable for income tax purposes	**14,952**	**14,952**
Deductible share issue costs	**(14,420)**	**(14,420)**
Deferred tax assets not brought to account as realization is not considered probable	**109,630**	**109,630**
Income tax expense reported in the income statement	**-**	**-**

Note 7. Income tax (continued)

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

	Balance Sheet 2007 $	Income Statement 2007 $
Consolidated		
Deferred tax liabilities		
Exploration expenditure	(578,000)	(578,000)
Total deferred tax liabilities	(578,000)	(578,000)
Deferred tax assets		
Employee provisions	3,009	3,009
Share issue costs charged to equity	57,679	-
Income tax losses	684,621	684,621
Total deferred tax assets	745,309	687,630
Deferred tax assets not brought to account as realisation is not considered probable	(167,309)	(109,630)
Net deferred tax recognised	-	-
Company		
Deferred tax liabilities		
Exploration expenditure	(203,000)	(203,000)
Total deferred tax liabilities	(203,000)	(203,000)
Deferred tax assets		
Employee provisions	3,009	3,009
Share issue costs charged to equity	57,679	-
Income tax losses	309,621	309,621
Total deferred tax assets	370,309	312,630
Deferred tax assets not brought to account as realisation is not considered probable	(167,309)	(109,630)
Net deferred tax recognised	-	-

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

Notes to the financial statements
30 June 2007

	Consolidated 2007 $	Parent entity 2007 $
Note 8. Current assets – Cash and cash equivalents		
Cash on hand and at bank	**3,144,308**	**3,144,298**

Cash at bank earns interest at floating rates based on daily bank deposit rates. The cash at bank is bearing floating interest rates between 2.65% and 2.90% The carrying amounts of cash and cash equivalents represents fair value.

Note 9. Current assets – Trade and other receivables

Other receivables	**32,181**	**32,181**
Deposits	**10,235**	**10,235**
Prepayments	**13,839**	**13,839**
	56,255	**56,255**

Note 10. Non-current assets – Other financial assets

Investment in controlled entity (see note 24)	**-**	**1,250,000**
	-	**1,250,000**

Note 11. Non-current assets – Plant and equipment

Plant & equipment		
Plant & equipment – at cost	**79,177**	**79,177**
Less: Accumulated depreciation	**(7,076)**	**(7,076)**
	72,101	**72,101**

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

Plant & equipment		
Additions	**79,177**	**79,177**
Depreciation expense	**(7,076)**	**(7,076)**
Closing net book amount	**72,101**	**72,101**

Notes to the financial statements
30 June 2007

	Consolidated 2007 $	Parent entity 2007 $

Note 12. Non-current assets – Exploration and evaluation

	Consolidated 2007 $	Parent entity 2007 $
Exploration and evaluation		
Exploration and evaluation – at cost less amounts written off	**1,926,667**	**676,677**
Reconciliation		
Purchases of mineral tenements	**1,650,000**	**400,000**
Expenditure during the financial period	**276,667**	**276,677**
At the end of the financial period	**1,926,667**	**676,677**

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

Note 13. Current liabilities – Trade and other payables

	Consolidated 2007 $	Parent entity 2007 $
Trade payables	**140,439**	**140,439**
Other payables	**92,465**	**92,465**
Employee entitlements	**10,031**	**10,031**
	242,935	**242,935**

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

Note 14. Contributed equity

	Number of shares	$
(a) Share capital		
Ordinary shares – fully paid	**40,000,000**	**5,273,763**

(b) Movements in ordinary share capital

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

Note 14. Contributed equity (continued)

(c) Ordinary shares

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

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

(d) Employee share option scheme

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

(e) Options

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

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

(f) Movements in options

Date	Details	Notes	Number of options
7 February 2007	Allotment of options		11,000,000
			11,000,000

	Consolidated 2007 $	Parent entity 2007 $
Note 15. Reserves		
Share-based payments reserve	**49,840**	**49,840**
Movements in reserves		
Share-based payments reserve		
Option expense	**49,840**	**49,840**
Balance at the end of the financial period	**49,840**	**49,840**

Nature and purpose of reserves

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

Note 16. Accumulated losses

	Consolidated 2007 $	Parent entity 2007 $
Net loss attributable to members of Avalon Minerals Ltd	**(367,207)**	**(367,207)**
Accumulated losses at the end of the financial period	**(367,207)**	**(367,207)**

Note 17. Key management personnel disclosures

(a) Directors

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

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

Non-executive directors
D Steinpreis (from incorporation to 15 January 2007)
G Steinepreis (from 20 December 2006 to 30 June 2007)
S Stone (from 15 January 2007 to 30 June 2007)

(b) Other key management personnel

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

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

(c) Key management personnel compensation

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

The Consolidated Entity has taken advantage of the relief provided by ASIC Class Order 06/50 and has transferred the detailed remuneration disclosures to the Directors' Report. The relevant information can be found on pages 8 to 13.

(d) Equity instrument disclosures relating to key management personnel

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

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in the Remuneration Report on pages 8 to 13.

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

2007 Name	Granted during the period as remuneration	Exercised during the period	Other changes during the period	Balance at the end of the period	Vested and exercisable at the end of the period
Directors of Avalon Minerals Ltd					
D McSweeney	10,000,000	-	-	10,000,000	10,000,000
G Steinepreis	500,000	-	-	500,000	500,000
S Stone	500,000	-	-	500,000	500,000
Other key management personnel					
D J Kelly	-	-	-	-	-

Notes to the financial statements
30 June 2007

Note 17. Key management personnel disclosures (continued)

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

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

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

(e) Loans to key management personnel

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

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

	Consolidated 2007 $	**Parent entity 2007 $**
Note 18. Remuneration of auditors		
During the period the following fees were paid or payable for services provided by the auditor of the Company and its related practices.		
Assurance services		
Audit services		
Ernst & Young:		
Audit and review of financial report	**25,000**	**25,000**
Independent Accountant's Report	**15,450**	**15,450**
	40,450	**40,450**

Note 19. Contingent liabilities

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

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

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

	Consolidated 2007 $	Parent entity 2007 $
Lease commitments		
Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable, representing non-cancellable operating leases:		
Within one year	**46,640**	**46,640**
Later than one year but not later than 5 years	**106,000**	**106,000**
Later than 5 years	**-**	**-**
	152,640	**152,640**

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

Note 21. Share-based payments

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

Shares and options are issued on the following terms:

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

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

Notes to the financial statements
30 June 2007

Note 21. Share-based payments (continued)

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

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

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

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

Fair value of options granted – 20 cent options

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

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

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

Fair value of options granted – 40 cent options

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

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

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

See pages 11 – 12 of the Directors Report for details of share options issued to directors during the period.

Note 21. Share-based payments (continued)

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

Note 22. Related party transactions

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

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

Ownership interests in related parties
Interests held in the following classes of related parties are set out in the following Notes:
Subsidiaries – Note 25

Note 23. Events occurring after reporting date

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

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

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

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

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

Note 24. Acquisition of Subsidiary

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

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

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

	Recognised value on acquisition $
Cash	10
Exploration and evaluation	1,249,990
	1,250,000

Notes to the financial statements
30 June 2007

Note 24. Acquisition of Subsidiary (continued)

	Recognised value on acquisition $
Cost of the acquisition	
Consideration paid in shares	1,000,000
Consideration paid in cash	250,000
Total cost of the acquisition	**1,250,000**

Note 25. Subsidiaries

Name of entity	Country of incorporation	Class of shares	Equity holding 2007
Xmin Ltd	Australia	Ordinary	100%

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

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

	Consolidated 2007 $	Parent entity 2007 $
Cash at bank and on hand	**3,144,308**	**3,144,298**
Operating profit (loss) after income tax	**(367,207)**	**(367,207)**
Depreciation	**7,076**	**7,076**
Exploration expenditure written off	**14,147**	**14,147**
Non-cash employee benefits expense – share based payments	**49,840**	**49,840**
Change in operating assets and liabilities		
(Increase) in other receivables	**(56,255)**	**(56,255)**
Increase in trade creditors and provisions	**89,005**	**89,005**
Net cash (outflow) from operating activities	**(263,394)**	**(263,394)**

Note 27. Earnings per share

	2007 $
Basic and diluted earnings per share	**(1.32)**

	2007 Number
Weighted average number of shares used as the denominator	
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share.	**27,901,554**

There were a further 10,125,000 potential ordinary shares (options) not considered to be dilutive.

	2007 $
Losses used in calculating basic and diluted losses per share	
Net loss	**(367,207)**

Note 28. Dividends

No dividend was paid or declared by the Company in the period since the end of the previous financial year, and up to the date of this report. The Directors do not recommend that any amount be paid by way of dividend for the financial period ended 30 June 2007.

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

Directors' declaration

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

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

(i) giving a true and fair view of the Company's and the Consolidated Entity's financial position as at 30 June 2007 and of its performance for the period ended on that date; and

(ii) complying with Accounting Standards and the *Corporations Regulations 200; and*

(b) there are reasonable grounds to believe that the Consolidated Entity will be able to pay its debts as and when they become due and payable.

This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the *Corporations Act 2001* for the financial period ended 30 June 2007.

On behalf of the Board

D McSweeney
Executive Chairman

Perth
25 September 2007

ERNST & YOUNG

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

We have audited the accompanying financial report of Avalon Minerals Limited, which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the period's end or from time to time during the financial period.

The company has disclosed information as required by paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard 124 *Related Party Disclosures* ("remuneration disclosures"), under the heading "Remuneration Report" on pages 9 to 12 of the directors' report, as permitted by Corporations Regulation 2M.6.04.

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

Auditor's Responsibility
Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement and that the remuneration disclosures comply with Accounting Standard AASB 124 Related Party Disclosures.

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

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

Independence
In conducting our audit we have met the independence requirements of the Corporations Act 2001. We have given to the directors of the company a written Auditor's Independence Declaration.

Auditor's Opinion

In our opinion:

1. the financial report of Avalon Minerals Limited is in accordance with the Corporations Act 2001, including:
   (i) giving a true and fair view of the financial position of Avalon Minerals Limited at 30 June 2007 and of its performance for the period of incorporation to 30 June 2007; and
   (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

2. the financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

3. the remuneration disclosures that are contained on pages 9 to 12 of the directors' report comply with Accounting Standard AASB 124 *Related Party Disclosures.*

Ernst & Young

V W Tidy
Partner
Perth
25 September 2007