Avalon Minerals Ltd

Annual Report
30 June 2010

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Corporate Directory

Directors
David McSweeney
Executive Chairman

Andrew Munckton
Managing Director
Tan Sri Abu Sahid Bin Mohamed
Non-Executive Director
Gary Steinepreis
Non-Executive Director
Stephen Stone
Non-Executive Director
Ahmad Hisham Bin Kamaruddin
Alternate Non-Executive Director

Company Secretary
Desmond Kelly

Share register
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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 Read Buildings
16 Milligan Street
Perth WA 6000

Bankers
National Australia Bank
1238 Hay Street
West Perth WA 6005

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

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

The year in review was the most successful year for Avalon Minerals Ltd ("Avalon") since listing on the ASX in March 2007. During the year the Company significantly advanced its pre-feasibility studies at its 100% owned Viscaria Project in Northern Sweden adjacent to the giant Kiruna Iron Ore mine, whilst expanding its copper and iron resource base and its land holdings.

During the year the Company recognised the potential of the Viscaria region to not only host additional copper deposits but also to host significant iron ore deposits. The first of a number of high priority magnetite zones was tested with the success of the infill drilling program at the magnetite rich 'D' Zone as part of pre-feasibility studies of the Viscaria Copper Project.

Importantly, Avalon has demonstrated that the copper rich 'D' Zone magnetite can be mined to produce both a high quality copper concentrate and a high quality iron ore concentrate, providing Avalon with a potential second revenue stream from any new copper mining operations at Viscaria. This technical breakthrough was achieved by the new management team led by Andrew Munckton, who has recently been appointed as Avalon's Managing Director.

The Company has moved quickly to expand its Viscaria landholdings and now holds over 600kms^2 of exploration tenements in one of the world's great IOCG provinces. Several regional copper and iron ore targets and anomalies with potential for repetitions of both the Viscaria style copper mineralisation and the Kiruna style iron ore mineralisation have been identified for investigation in 2011.

Subsequent to the end of the year, Avalon announced that it had successfully advanced its Base Case start-up scenario at Viscaria from a 500,000tpa operation to a 1.5mtpa operation to produce 13,000tpa of copper and 400,000tpa of iron concentrate for 10 years from open cut resources within the 'A', 'B' and 'D' Zones at Viscaria. The results of these studies are due to be published in the September Quarter of 2010.

Subject to the completion of the Bankable Feasibility Study during 2011, environmental approvals from the Environmental Court of Sweden and project financing, the Company is aiming to be in a position to approve the commencement of development for the Viscaria Iron and Copper Project in the December quarter of 2011.

Over the next 12 months, the Company is intending to complete the infill drilling campaign and metallurgical test work of the 'A', 'B' and 'D' Zone iron and copper resources at Viscaria whilst simultaneously conducting exploration of several copper and iron targets for additional copper and iron ore mineralisation with the view to doubling the Base Case scenario to lift target copper production to close to 25,000tpa of copper metal and iron production to 1 million tonnes per annum.

The Company has entered a very exciting phase of its investment strategy which involves the development of a centrally located base metal and iron ore processing plant at Viscaria within a large regional landholding in one of the world's famous IOCG regions.

As Avalon completes it bankable feasibility studies during 2011 it will be preparing to make the transition from explorer to developer. It is pleasing to note that the outlook for copper prices during this transition period remains positive as world economies begin to recover from the lows of the GFC.

The simultaneous build-up of Avalon's management team in Sweden and Australia has continued and the Company now has in place a management team which has the expertise and track record to achieve the Company's goals. The appointment of Andrew Munckton as Managing Director of Avalon Minerals Ltd during the year was followed by the appointment of Paul Bridson as Chief Financial Officer.

I take this opportunity to thank my fellow directors and the staff and management for their continued efforts throughout the year and look forward to another strong and rewarding year for shareholders as Avalon continues its exploration and development plans in Sweden.

David McSweeney
Chairman
Avalon Minerals Ltd

AVALON MINERALS LTD

Tenement Schedule

SWEDEN			
Tenement Holder	**Number**	**Name**	**Interest**
Avalon Minerals Viscaria AB	No 101	Viscaria	Granted 100%
Avalon Minerals Viscaria AB	No 102	Viscaria	Granted 100%
Avalon Minerals Viscaria AB	No 103	Viscaria	Granted 100%
Avalon Minerals Viscaria AB	No 104	Viscaria	Granted 100%
Avalon Minerals Viscaria AB	No 105	Viscaria	Granted 100%
Avalon Minerals Viscaria AB	No 106	Viscaria	Granted 100%
Avalon Minerals Viscaria AB	No 1	Viscaria	Granted 100%
Avalon Minerals Viscaria AB	No 2	Viscaria	Granted 100%
Avalon Minerals Viscaria AB	No 3	Viscaria	Granted 100%
Avalon Minerals Viscaria AB	No 107	Viscaria	Granted 100%
Avalon Minerals Viscaria AB	No 108	Viscaria	Granted 100%
Avalon Minerals Viscaria AB	No 109	Viscaria	Application
Avalon Minerals Viscaria AB	No 110	Viscaria	Application
Avalon Minerals Viscaria AB	No 111	Viscaria	Application
Avalon Minerals Viscaria AB	No 1	Vittangijarvi	Application
Avalon Minerals Adak AB	No 1	Adak	Granted 100%
Avalon Minerals Adak AB	No 1	Domarselnaset	Granted 100%
Avalon Minerals Adak AB	No 101	Branntrask	Granted 100%
Avalon Minerals Adak AB	No 2	Adak	Granted 100%

Summary Resource Statement

JORC code reported Inferred Mineral Resources at Viscaria are:

- A Zone South – 8.2Mt @ 2.7% Cu;
- A Zone North – 5.6Mt @ 1.3% Cu;
- B Zone – 24.3Mt @ 0.8% Cu; and
- D Zone – 2.5Mt @ 1.6% Cu.

for a combined total of 40.6Mt @ 1.3% Cu and 520,000 tonnes of copper metal.

Competent Person's Statement
The information in this report that relates to Mineral Resources and Exploration Results is based upon information reviewed by Mr Andrew Munckton BSc (Mining Geology) who is a Member of the Australasian Institute of Mining and Metallurgy.

Mr Munckton is a full time employee of Avalon Minerals Ltd and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Mr Munckton consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

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

Directors' Report

Your directors present their report on Avalon Minerals Ltd ("Avalon" or "Company") and the entities it controlled ("Consolidated Entity" or "Group") for the financial year ended 30 June 2010.

Directors

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

D L McSweeney
A T Munckton (appointed as Managing Director on 18 August 2010)
Tan Sri Abu Sahid Bin Mohamed
G C Steinepreis
S Stone

Mr A Kamaruddin was appointed an alternate director for Tan Sri Mohamed on 12 January 2009 and continues in this role 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:

	2010	2009
	$	$
Revenue and other income	**103,287**	131,346
Loss before income tax expense	**(1,262,015)**	(3,475,440)
Income tax expense	**-**	-
Loss attributable to members of Avalon Minerals Ltd	**(1,262,015)**	(3,475,440)

Financial Position

During the year the Company had a net increase in contributed equity of $7,565,362 (from $9,735,426 to $17,300,788) as a result of:

- a placement of 13,000,000 ordinary fully paid shares at 10 cents each to raise $1,300,000;
- a placement of 15,074,000 ordinary fully paid shares at 21 cents each to raise $3,165,540;
- the issue of 16,509,619 ordinary fully paid shares at 21 cents each pursuant to a one for seven non-renounceable entitlements issue to raise $3,467,020;
- the issue of 200,000 ordinary fully paid shares at 20 cents each pursuant to an exercise of options to raise $40,000; and
- payment of capital raising and share issue costs of $409,093.

At the end of the financial period the group had net cash balances of $2,927,242 (2009: $1,919,002) and net assets of $10,085,532 (2009: $4,087,119).

Review of operations (continued)

Total liabilities amounted to $1,059,612 (2009: $437,676) and were limited to trade and other payables.

Exploration

The Viscaria Copper Iron Project is the Company's primary focus and formed the basis for Avalon's exploration and project development activities throughout 2009/10.

The strategy of the group is to build a mid-sized mining and exploration company through development of its current Viscaria and Adak assets and acquisition of complimentary exploration and development projects in the vicinity of the two main project areas.

Figure 1 - Project Location Map

Viscaria Project

Between July and December 2009, the exploration work at Viscaria was characterised by drilling programs designed to test immediate, along strike copper mineralisation within the 'A' Zone. Targets included the Bahpagobba anomaly, Missing Link Zone between 'A' North and 'A' South Resources and deeper, down-plunge copper mineralisation associated with 'A' South. Targets are all located within 3 kilometres of Viscaria.

Review of operations (continued)

These programs were successful in that they defined copper and zinc mineralisation in the expected positions and confirmed the continuity of the 'A' Zone over 3,000 metres of strike length in and around the historical 'A' North and 'A' South underground mines. However, the drilling also confirmed that the 'A' Zone mineralisation while consistent, was relatively thin away from the historical underground mines and as such the potential to support new underground mining developments based on the drilling results was limited.

The calendar year 2009 work and the subsequent 'A' Zone review then allowed a renewed focus on the open pit potential of Viscaria during 2010.

From January to June 2010 drilling programs for metallurgical and resource definition purposes were undertaken at 'D' Zone, 'A' Zone and 'B' Zone. These programs targeted open pit mining positions within the likely pit shells and continued beyond June 2010.

In conjunction, the recognition that 'D' Zone material contained substantial course grained magnetite, led to the re-appraisal of the Viscaria Project as a copper-iron project with high grade magnetite concentrate providing a secondary, but significant, additional product to the established copper potential.

The 'D' Zone drilling revealed a block of mineralisation approximately 1,100 metres long and 20 metres wide to a depth of 150 metres below surface. The 'D' Zone contains several copper rich lodes within a matrix of disseminated low grade copper and coarse grained magnetite.

Approximately 50 diamond drill holes were completed into 'D' Zone with a comprehensive program of metallurgical test work demonstrating that satisfactory quality copper concentrate, in line with the historical performance of Viscaria could be produced from a suite of samples. In addition, magnetic concentration test work showed that exceptional quality magnetite iron concentrate could be made from the copper flotation tailings with high yields and concentrate quality in line with the nearby Kirunavarra Operations of LKAB.

In summary, the work in 2010 demonstrated the validity and viability of producing two products from the 'D' Zone ores with concentrates of both copper and iron likely to be the ultimate products at Viscaria.

Metallurgical drilling was also undertaken at 'A' Zone and 'B' Zone to provide samples for flotation and magnetic separation work from the near surface parts of these two ore zones. Whilst this information is incomplete as at the date of this report we are confident of producing satisfactory quality copper concentrate and making small volumes of additional magnetite concentrate from these two ore zones.

Adak Project

At the Adak project in central Sweden the 2009/10 period has been spent methodically compiling the historical exploration and mining information which has been stored in the geological archives of the Swedish Geological Survey in Mala.

The Adak Operation ran as a copper and zinc underground production centre administered by the Swedish government between 1947 and 1975. It closed suddenly over 35 years ago.

Naturally, all of the information is in hard copy, paper and sepia drawings from a mine of this vintage and an enormous amount of data was accumulated over the 28 year operating life of the mine.

To date, Avalon has recreated all of the drilling, underground and open pit mining, surface geology and regional geological and geophysical information into electronic format to allow viewing of the project information as would be normal in a modern exploration and mining development.

Planning of the exploration program will occur over the remainder of 2010 now that this work is complete.

Review of operations (continued)

<u>Acquisition of Exploration Tenure</u>

In May 2010, following the recognition of the Viscaria 'D' Zone material as a potentially significant copper and iron concentrate producer, Avalon acquired a 423km² block of exploration tenements to the north of Viscaria. Refer Figure 2.

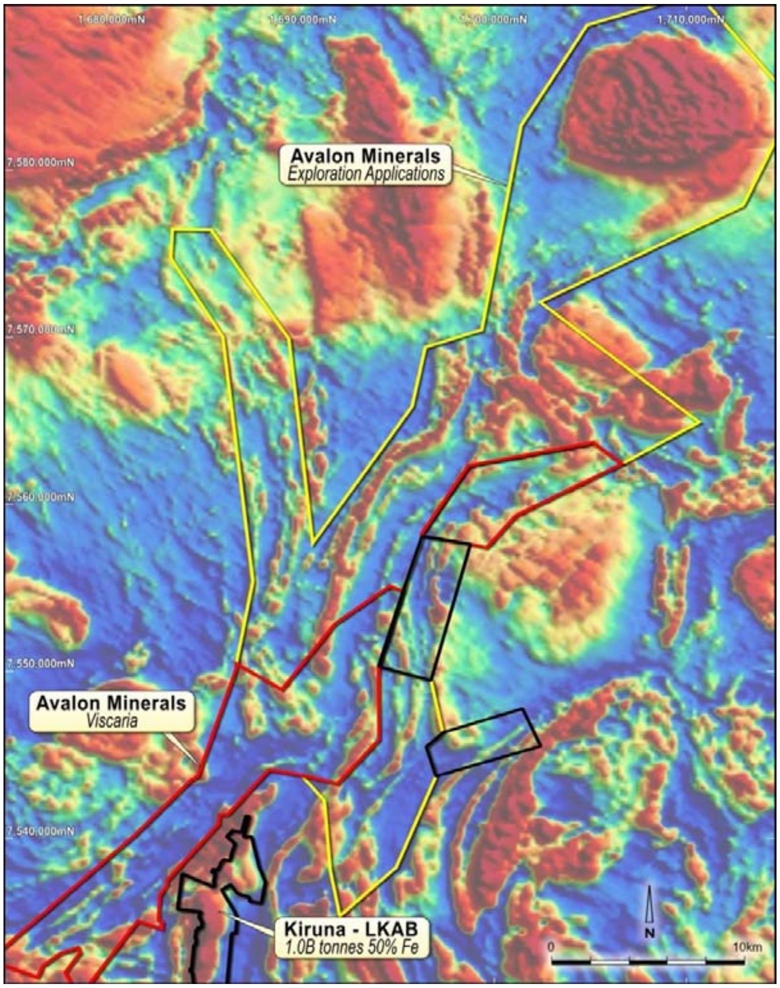

Figure 2 – Viscaria Tenement Map

This tenure contains the expected repetition of 'D' Zone to the north of Viscaria and other significant magnetite concentrate targets that have received little or no previous modern exploration.

The Company intends to undertake a staged program of exploration over the primary targets over the next 3 years to determine the general prospectivity of the area and commence detailed, drill-based exploration on the highest priority targets.

Review of operations (continued)

Pre-Feasibility Study - Viscaria

During 2009/10 the Viscaria Scoping Study was upgraded from 500,000tpa to 1.5mtpa in the Base Case development for Viscaria. The Upside Case was also upgraded from 750,000 tpa to 3.0mtpa at the same time. The upgrade followed the successful exploration drilling campaigns at 'A', 'B' and 'D' Zones during the year.

The Pre-Feasibility Study (PFS) of the Viscaria Copper-Iron Project is being assessed in the light of these upgrades at 1.5mtpa and 3.0mtpa. The capital and operating cost estimate and the proposed production levels of copper and iron ore will be established ± 25% by the PFS.

Marketing, pricing and financing packages will also form part of the PFS considerations.

The completion of the PFS is scheduled for September 2010 and is a necessary pre-requisite to commencement of the 2010/2011 Definitive Feasibility Study (DFS) of development at Viscaria which includes a substantial investment in drilling, engineering, design, marketing, product development, customer identification, environmental permitting, financing and project risk assessment. The outcomes from all this work will be collated and form the basis of the DFS and the decision to proceed to development of Viscaria.

In preparation for the completion of the PFS in 2010, work commenced on several fronts during the year, including:

- collection of baseline environmental data on surface and underground water quality, flora and fauna, soil quality and visual amenity associated with the project;
- consultation with nearby land holders and users, including LKAB, the Kiruna City Council, Sami reindeer herders and other interested parties;
- application to the Bergsstaten (Department of Mines) for the granting of the Mining Exploitation Concession over the Viscaria project area.

Whilst this work will progress during the PFS, it is not likely to be concluded until well into the DFS stage of the project and the consultation and environmental monitoring programs will continue throughout the construction and production phases of the project.

Corporate

During the financial year the Company raised $1,300,000 by way of a share placement of 13,000,000 shares at 10 cents each and $3,165,540 via a share placement of 15,074,000 shares at 21 cents each. The Company also issued 16,509,619 shares at 21 cents each to raise $3,467,020 via a one for seven non-renounceable entitlements issue.

Earnings per share	**2010 Cents**	2009 Cents
Basic and diluted earnings per share	**(1.1)**	(5.0)

Significant changes in the state of affairs

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

Matters subsequent to the end of the financial period

On 16 August 2010 the Company announced that it had successfully undertaken a placement of 20,000,000 shares at 16 cents per share to raise $3,200,000. The shares were placed with sophisticated investors and clients of Hartleys Limited after shareholder approval was obtained at a General Meeting on 22 September 2010.

No other matter or circumstance has arisen since 30 June 2010 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

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

Environmental regulation

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

Information on Directors

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

DAVID MCSWEENEY *Executive Chairman*

Experience and expertise

Mr McSweeney holds a Bachelor of Law degree and is a member of the Australian 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 has been Executive Chairman since December 2006.

Other directorships of ASX listed companies in the past three years

Current

Bauxite Resources Limited – since 20 November 2007

Aspire Mining Limited – since 12 February 2010

Former

Gindalbie Metals Ltd– July 1993 to December 2006

Dynasty Metals Ltd – 8 January 2007 to 6 September 2007

Information on Directors (continued)

ANDREW MUNCKTON *Managing Director*
Experience and expertise
Mr Munckton holds a Bachelor of Science (Geology) degree and is a member of the Australian Institute of Company Directors. He has over 25 years experience in the resources industry, holding a wide range of senior positions including at various stages as General Manager of the Paddington, Kundana and Kanowna Belle Gold Operations for Goldfields Ltd, Aurion Gold and Placer Dome. Mr Munckton was most recently General Manager of Operations with Gindalbie Metals Limited from 2004 to 2009, where he was responsible for leading the team that discovered, defined and commenced development of the Karara Iron Ore Project. Mr Munckton has been Managing Director since 18 August 2010.

No other directorships of ASX listed companies in the past three years

ABU SAHID BIN MOHAMED *Non-executive Director*
Experience and expertise
Tan Sri Abu Sahid Mohamed is the Group Executive Chairman of successful Malaysian conglomerate the Maju Group of Companies and has over 30 years of experience in the Malaysian construction and steel industries. He is also the Executive Chairman of Perwaja Holdings Berhad, Malaysia's leading steel producer, and Ipmuda Berhad, a building materials specialist. Both companies are listed on the Malaysian Stock Exchange. Tan Sri Mohamed has been a director since January 2009.

No other directorships of ASX listed companies in the past three years

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. Mr Steinepreis has been a director since December 2006.

Other directorships of ASX listed companies in the past three years
Current
Norseman Gold plc – since 3 December 2007
RMG Limited – since 31 January 2006
WAG Limited – since 2 November 2006
Monto Minerals Ltd – since 26 June 2009
Agri Energy Limited – since 22 June 2009

Former
Laguna Resources NL – 11 October 2007 to 15 October 2009
GB Energy Limited – 13 March 2006 to 29 August 2007
Toodyay Resources Ltd – 22 December 2005 to 23 October 2007
Gawler Resources Ltd – 17 May 2006 to 27 November 2007
Black Fire Energy Limited – 29 November 2006 to 8 September 2009
Signature Brands Ltd – 1 June 2006 to 27 November 2008
Sirius Resources NL – 12 July 2007 to 31 August 2009

Information on Directors (continued)

STEPHEN STONE *Non-executive Director*
Experience and expertise
Mr Stone graduated with honours in Mining Geology from the University of Cardiff, Wales. He has over 30 years operating, project evaluation and development, company administration, management and corporate development experience in the international mining and exploration industry including over 20 years as the chief executive of publicly listed resource companies. He is a member of the Australasian Institute of Mining and Metallurgy and a Fellow of the Australian Institute of Company Directors. Mr Stone has been a director since January 2007.

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

AHMAD HISHAM BIN KAMARUDDIN *Alternate Non-executive Director*
Experience and expertise
Ahmad Hisham Kamaruddin obtained his Bachelor of Laws (LL.B) Hons. from University of Malaya in 1979. He has worked as a Legal Officer, then as a Company Secretary before chambering at Messrs. Abdul Aziz & Ong. In May 1982, he was called to the Malaysian Bar and continued serving Messrs. Abdul Aziz & Ong. In October 1983, he founded Messrs. Hisham & Associates and remains the senior partner of the legal firm. Overall, he has been in private practice for 29 years specialising in corporate legal matters. He is also a Director of ERM Malaysia Sdn. Bhd., a local subsidiary of ERM Plc, UK. The company undertakes Environmental and Ecological Studies. He is also a council member of the Malaysia Heritage Council appointed by the Minister of Culture, Arts and Heritage. Mr Kamaruddin has been an alternate director since January 2009.

No other directorships of ASX listed companies in the past three years

Company Secretary
DESMOND KELLY
Mr Kelly holds a Bachelor of Commerce degree and is a Certified Practising Accountant and a member of the Australian Institute of Company Directors. Mr 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 and unlisted companies. Mr Kelly has been Company Secretary since April 2007.

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	4,227,618	9,643,109	-	-
A Munckton	-	815,000	-	1,500,000
A Mohamed	30,303,113	-	-	-
G Steinepreis	1,000,000	1,257,155	-	-
S Stone	-	1,385,942	-	-
A Kamaruddin	-	-	-	-

Meetings of directors

The number of meetings of the Company's board of directors held during the year ended 30 June 2010 and the number of meetings attended by each director were:

	Full meetings of Directors	
	Entitled to attend	**Attended**
D McSweeney	4	4
A Mohamed	4	-
G Steinepreis	4	4
S Stone	4	4
A Kamaruddin	4	4

The full Board undertakes the roles of the Audit Committee, Remuneration Committee and Nomination Committee. Further details of the operation of these Committees are contained in the Corporate Governance Statement.

Retirement, election and continuation in office of directors

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

The Constitution requires that a director is not required to seek re-election whilst he holds the position of Managing Director. Mr David McSweeney held the position of Managing Director until 18 August 2010 at which date the Company appointed Mr Andrew Munckton to this position. Mr McSweeney remains in the role of Executive Chairman of the Company. Pursuant to the Constitution Mr McSweeney will retire and seek re-election.

Remuneration report (Audited)

Key management personnel

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

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

Remuneration report (Audited) (continued)

Key management personnel at the date of this report are:

Directors of the company

D McSweeney – Executive Chairman

A Munckton - Managing Director (appointed General Manager & CEO 1 February 2010; appointed Managing Director 18 August 2010)

A Mohamed – Non-executive director

G Steinepreis – Non-executive director

S Stone – Non-executive director

A Kamaruddin – Alternate director

Other key management personnel

D Kelly – Company Secretary (and Chief Financial Officer until 30 June 2010)

P Bridson – Chief Financial Officer (appointed 1 July 2010)

G Brock – Project Manager Australia (appointed 17 November 2009)

L Lindskog – Exploration Manager (appointed 15 July 2009)

N Baker – Project Manager Sweden (resigned 31 May 2010)

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

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

A Principles used to determine the nature and amount of remuneration

The 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.

Remuneration report (Audited) (continued)

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.

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

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

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

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

Directors' fees
The current base remuneration was last reviewed with effect from 28 July 2010. Directors' remuneration is inclusive of committee fees. During the previous financial year directors took voluntary reductions in fees and salaries in response to the Global Financial Crisis.

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

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

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

Remuneration report (Audited) (continued)

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

Fixed Remuneration

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

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

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

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

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

Variable Remuneration

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

  Shares and options are issued on the following terms:

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

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

Options issued under the Scheme are considered as incentive options and are issued on vesting terms and performance conditions, if any, as determined by the directors.

Remuneration report (Audited) (continued)

B Details of remuneration

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

2010	Short-term benefits		Post-employment benefits	Share-based payments			
Name	Cash salary and fees $	Non-monetary benefits $	Superannuation $	Remuneration received as options %	Options $	Total $	Performance related %
Directors of Avalon Minerals Ltd:							
D McSweeney	215,376	10,866	19,039	-	-	245,281	-
A Mohamed	-	-	-	-	-	-	-
G Steinepreis	35,000	1,767	-	-	-	36,767	-
S Stone	35,000	1,767	-	-	-	36,767	-
A Kamaruddin	35,000	1,767	-	-	-	36,767	-
Other key management personnel:							
A Munckton (1)	104,165	1,600	9,375	19.00%	27,015	142,155	-
D Kelly	39,000	1,767	-	-	-	40,767	-
P Bridson (2)	-	-	-	-	-	-	-
N Baker (3)	146,275	-	-	2.56%	3,846	150,121	-
G Brock (4)	245,981	-	-	-	-	245,981	-
L Lindskog (5)	134,236	1,600	12,081	-	-	147,917	-
Total	**990,033**	**21,134**	**40,495**	**-**	**30,861**	**1,082,523**	

(1) Mr Munckton was appointed as General Manager and CEO on 1 February 2010 and was appointed Managing Director on 18 August 2010.
(2) Mr Bridson was appointed to the position of Chief Financial Officer on 1 July 2010.
(3) Mr Baker resigned on 31 May 2010.
(4) Mr Brock was appointed Project Manager Australia on 17 November 2009.
(5) Ms Lindskog was appointed as Exploration Manager on 15 July 2009.

Remuneration report (Audited) (continued)

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

2009	Short-term benefits		Post-employment benefits	Share-based payments			
Name	Cash salary and fees $	Non-monetary benefits $	Superannuation $	Remuneration received as options %	Options $	Total $	Performance related %
Directors of Avalon Minerals Ltd:							
D McSweeney	227,501	12,809	20,475	-	-	260,785	-
G Steinepreis	35,000	1,782	-	-	-	36,782	-
S Stone	35,000	1,782	-	-	-	36,782	-
A Mohamed	-	-	-	-	-	-	-
A Kamaruddin	16,431	965	-	-	-	17,396	-
Other key management personnel:							
D Kelly	41,600	1,782	-	-	-	43,382	-
G Hewlett (1)	111,670	-	10,050	-	-	121,720	-
N Baker	140,925	-	-	14.87%	24,630	165,555	-
P Batten (2)	42,000	-	-	-	-	42,000	-
Total	**650,127**	**19,120**	**30,525**	**-**	**24,630**	**724,402**	

(1) Mr Hewlett resigned on 12 December 2008.
(2) Mr Batten resigned on 8 June 2009.

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

C Executive Contractual Arrangements
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 is for a period of 3 years with a termination notice period of 3 months and the payment of 9 months salary. Base salary, exclusive of superannuation and other benefits, is $250,000, to be reviewed annually. Four weeks annual leave is provided.

D Kelly, *Company Secretary*
Term of agreement is for twelve months with a notice period of two months. Annual consulting fees of $52,800 are payable. The contract terminates on the same date as the Company's 2010 AGM.

Remuneration report (Audited) (continued)

All other key management personnel are employed under standard employment agreements except for G Brock (Project Manager Australia) who is employed under a consulting agreement. Termination provisions contained within these agreements are as follows:

Position	Term	Notice Period	Redundancy Terms
CEO	Unlimited	3 months	6 months
CFO	Unlimited	2 months	6 months
Project Manager Australia	Unlimited	Nil	Nil
Exploration Manager	Unlimited	1 month	Statutory entitlement
Project Manager Sweden	Unlimited	1 month	Statutory entitlement

D Share-based compensation

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

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

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:

Options awarded and vested during the year:

								Vested	
	Options Granted	**Grant Date**	**Fair value per option at grant date $**	**Exercise price per option $**	**Expiry date**	**Vesting date**	**Last exercise date**	**No.**	**%**
Other key management personnel:									
A Munckton	500,000	27/2/2010	0.0638	0.30	31/1/2013	1/2/2011	31/1/2013	-	0%
A Munckton	1,000,000	27/2/2010	0.0659	0.40	31/1/2014	1/2/2012	31/1/2014	-	0%

Under the terms of his employment contract Mr Bridson was granted 500,000 options at 30 cents, vesting on 1 July 2011, expiring on 1 July 2014 and 500,000 options at 40 cents, vesting on 1 July 2012, expiring on 1 July 2015. The issue of these options was approved by shareholders at a General Meeting on 22 September 2010. As at the date of this report the options had not been issued.

The amounts disclosed for emoluments relating to options issued to directors and other key management personnel are assessed at fair values at the date of grant and allocated equally over the period from grant date to vesting date. Fair values at grant date are 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.

Remuneration report (audited) (continued)

Further details relating to options are set out below.

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

Name	A Value of options granted during the year $	B Value of options exercised during the year $	C Value of options lapsed during the year $
A Munckton	97,784	-	-
S Stone	-	41,000	-
Total	**97,784**	**41,000**	**-**

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

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

C = The value of options lapsed during the year represents intrinsic value and is determined at the date of lapse.

Shares Issued as a result of the Exercise of Options

There were 200,000 ordinary shares issued at a price of 20 cents each, paid in full, as a result of the exercise of options in the year ended 30 June 2010.

E Additional information

	2007	2008	2009	**2010**
*Group performance for the past four years**				
Loss for the period	(367,207)	(1,733,958)	(3,475,440)	**(1,262,015)**
Impact on shareholder wealth				
Loss per share (cents)	(1.32)	(3.4)	(5.0)	**(1.1)**
Share price (cents)	25	38	13	**17**

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

- End of Remuneration Report -

Share options

Un-issued Shares

As at the date of this report, as detailed below, there were 1,900,000 un-issued ordinary shares under option.

Shares under option

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

Date options granted	Expiry date	Issue price of shares	Number under option
27 February 2010	31 January 2013	30 cents	500,000
27 February 2010	31 January 2014	40 cents	1,000,000
26 August 2008	31 July 2011	30 cents	300,000
13 January 2009	31 July 2011	20 cents	100,000

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

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.

Insurance of officers

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

Proceedings on behalf of the Company

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

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

Non-audit services

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

Auditors' Independence Declaration

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 23.

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

A Munckton
Director

Perth, Western Australia
29 September 2010

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

In relation to our audit of the consolidated financial report of Avalon Minerals Limited for the year ended 30 June 2010, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

RJ Curtin
Partner
Perth
29 September 2010

Corporate Governance Disclosures

Statement

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

Disclosure of Corporate Governance Practices

Summary Statement

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

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

Website Disclosures

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

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

Disclosure – Principles & Recommendations

Following is a summary on how the Company has followed (or otherwise departed from) each of the Principles & Recommendations during the 2009/2010 financial year ("**Reporting Period**").

Principle 1 – Lay solid foundations for management and oversight

Recommendation 1.1:

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

Disclosure:

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

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

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

Recommendation 1.2:

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

Disclosure:

The Managing Director is responsible for evaluating the senior executives.

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

Recommendation 1.3:

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

Disclosure:

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

Principle 2 – Structure the board to add value

Recommendation 2.1:

A majority of the Board should be independent directors.

Notification of Departure:

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

Explanation for Departure:

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

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

Recommendation 2.2 and Recommendation 2.3

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

Notification of Departure:

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

Explanation for Departure:

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

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

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

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

The board reconsidered the duality of Mr McSweeney's role and on 18 August 2010 appointed Mr Andrew Munckton as Managing Director. Mr McSweeney remains on the Board as Executive Chairman.

Recommendation 2.4:

The Board should establish a Nomination Committee.

Notification of Departure:

The Company has not established a separate Nomination Committee.

Explanation for Departure:

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

Recommendation 2.5:

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

Disclosure:

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

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

Evaluation is undertaken by interview with the Board.

Recommendation 2.6:

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

Disclosure:

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

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

Identification of Independent Directors

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

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

Company's Materiality Thresholds

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

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

Statement concerning availability of Independent Professional Advice

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

Nomination Matters

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

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

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

Performance Evaluation

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

Selection and (Re)Appointment of Directors

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

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

Principle 3 – Promote ethical and responsible decision-making

Recommendation 3.1:

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

Disclosure:

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

Recommendation 3.2:

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

Disclosure:

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

Recommendation 3.3:

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

Disclosure:

Please refer to the section above marked Website Disclosures.

Principle 4 – Safeguard integrity in financial reporting

Recommendation 4.1:

The Board should establish an Audit Committee.

Disclosure:

The Company has established an Audit Committee.

Recommendation 4.2:

The Audit Committee should be structured so that it:

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

Notification of Departure:

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

Explanation for Departure:

The full board carries out the functions of the Audit Committee. Of the four directors, two are considered independent. The Board considers that it is not necessary to form a separate Audit Committee at this stage given the size of the Company.

Corporate governance disclosures (continued)

Recommendation 4.3:

The Audit Committee should have a formal charter.

Disclosure:

The Company has not adopted an Audit Committee Charter.

Explanation for Departure:

The full board carries out the functions of the Audit Committee. Of the four directors, two are considered independent. The Board considers that it is not necessary to form a separate Audit Committee at this stage given the size of the Company.

Recommendation 4.4:

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

Disclosure:

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

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

Principle 5 – Make timely and balanced disclosure

Recommendation 5.1:

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

Disclosure:

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

Recommendation 5.2:

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

Disclosure:

Please refer to the section above marked Website Disclosures.

Corporate governance disclosures (continued)

Principle 6 – Respect the rights of shareholders

Recommendation 6.1:

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

Disclosure:

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

Recommendation 6.2:

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

Disclosure:

Please refer to the section above marked Website Disclosures.

Principle 7 – Recognise and manage risk

Recommendation 7.1:

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

Disclosure:

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

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

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

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

Corporate governance disclosures (continued)

The Board resolved to review, formalise and document the management of its material business risks and expects to implement this system in the 2010/2011 financial year. This system is expected to include the preparation of a risk register by management to identify the Company's material business risks and risk management strategies for these risks. In addition, the process of management of material business risks will be allocated to members of senior management. The risk register will be reviewed quarterly and updated, as required.

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

Recommendation 7.2:

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

Disclosure:

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

Recommendation 7.3:

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

Disclosure:

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

Recommendation 7.4:

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

Disclosure:

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

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

Corporate governance disclosures (continued)

Principle 8 – Remunerate fairly and responsibly

Recommendation 8.1:

The Board should establish a Remuneration Committee.

Disclosure:

The Company has established a Remuneration Committee.

Recommendation 8.2:

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

Disclosure:

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

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

Recommendation 8.3:

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

Disclosure:

There was no separate Remuneration Committee.

Explanation for departure:

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

AVALON MINERALS LTD

FINANCIAL REPORT – 30 June 2010

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

Avalon Minerals Ltd
Level 2, 91 Havelock Street
West Perth WA 6005

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

The financial report was authorised for issue by the directors on 29 September 2010. 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

Statement of Comprehensive Income

For the year ended 30 June 2010

	Note	Consolidated **2010** **$**	Consolidated 2009 $
Revenue from continuing operations	5	**101,550**	44,670
Other income	5	**1,737**	86,676
Employee benefits expense	6	**(461,336)**	(308,291)
Office occupancy costs		**(198,369)**	(143,909)
Corporate and administration expenses		**(583,877)**	(394,274)
Depreciation expense	6	**(73,216)**	(57,403)
Exploration expenditure written off	11	**(48,500)**	(2,639,904)
Loan written off		**-**	(59,112)
Interest paid		**(4)**	(6)
Other expenses from ordinary activities		**-**	(3,887)
Loss from continuing operations before income tax		**(1,262,015)**	(3,475,440)
Income tax expense	7	**-**	-
Net loss for the period		**(1,262,015)**	(3,475,440)
Other comprehensive loss			
Foreign currency translation		**(333,900)**	(277,207)
Total comprehensive loss for the period		**(1,595,915)**	(3,752,647)
Net loss for the period is attributable to:			
Members of Avalon Minerals Ltd		**(1,262,015)**	(3,475,440)
		(1,262,015)	(3,475,440)
Total comprehensive loss for the period attributable to:			
Members of Avalon Minerals Ltd		**(1,595,915)**	(3,752,647)
		(1,595,915)	(3,752,647)
Earnings per share for loss from continuing operations attributable to the ordinary equity holders of the Company:			
		Cents	Cents
Basic earnings per share*	25	**(1.1)**	(5.0)
Diluted earnings per share*	25	**(1.1)**	(5.0)

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

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

Statement of Financial Position

As at 30 June 2010

	Note	Consolidated 2010 $	2009 $
Current assets			
Cash and cash equivalents	8	**2,927,242**	1,919,002
Trade and other receivables	9	**227,335**	63,694
Total current assets		**3,154,577**	1,982,696
Non-current assets			
Plant and equipment	10	**144,409**	122,410
Exploration and evaluation	11	**7,846,158**	2,419,689
Total non-current assets		**7,990,567**	2,542,099
Total assets		**11,145,144**	4,524,795
Current liabilities			
Trade and other payables	12	**1,059,612**	437,676
Total current liabilities		**1,059,612**	437,676
Total liabilities		**1,059,612**	437,676
Net assets		**10,085,532**	4,087,119
Equity			
Contributed equity	13	**17,300,788**	9,735,426
Reserves	14	**(376,636)**	(71,702)
Accumulated losses	15	**(6,838,620)**	(5,576,605)
Total equity		**10,085,532**	4,087,119

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

Statement of Changes in Equity

For the year ended 30 June 2010

2010 Consolidated	Contributed Equity $	Share Based Payments Reserve $	Foreign Currency Translation Reserve $	Accumulated Losses $	Total $
At the beginning of the financial year	**9,735,426**	**205,505**	**(277,207)**	**(5,576,605)**	**4,087,119**
Loss for the year	-	-	-	(1,262,015)	(1,262,015)
Other comprehensive income	-	-	(333,900)	-	(333,900)
Total comprehensive loss for the year	**-**	**-**	**(333,900)**	**(1,262,015)**	**(1,595,915)**
Shares issued	7,974,455	-	-	-	7,974,455
Share issue costs	(409,093)	-	-	-	(409,093)
Share based payments	-	28,966	-	-	28,966
Total Equity at the end of the financial year	**17,300,788**	**234,471**	**(611,107)**	**(6,838,620)**	**10,085,532**

2009 Consolidated	Contributed Equity $	Share Based Payments Reserve $	Foreign Currency Translation Reserve $	Accumulated Losses $	Total $
At the beginning of the financial year	**7,125,612**	**176,963**	**-**	**(2,101,165)**	**5,201,410**
Loss for the year	-	-	-	(3,475,440)	(3,475,440)
Other comprehensive income	-	-	(277,207)	-	(277,207)
Total comprehensive loss for the year	**-**	**-**	**(277,207)**	**(3,475,440)**	**(3,752,647)**
Shares issued	2,745,667	-	-	-	2,745,667
Share issue costs	(135,853)	-	-	-	(135,853)
Share based payments	-	28,542	-	-	28,542
Total Equity at the end of the financial year	**9,735,426**	**205,505**	**(277,207)**	**(5,576,605)**	**4,087,119**

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

AVALON MINERALS LTD

Statement of Cash Flows

For the year ended 30 June 2010

	Note	Consolidated 2010 $	Consolidated 2009 $
Cash flows from operating activities			
Payments to suppliers and employees (inclusive of goods and services tax)		**(1,428,209)**	(854,786)
Security deposits		**(57,854)**	-
Rental income	5	**-**	21,504
Sundry income	5	**1,737**	50,000
Interest paid		**(4)**	(6)
Interest received	5	**101,550**	44,670
Net cash outflow from operating activities	24	**(1,382,780)**	(738,618)
Cash flows from investing activities			
Payments for plant and equipment		**(83,374)**	(7,097)
Loans to related parties		**-**	(33,758)
Exploration and evaluation expenditure		**(5,084,999)**	(1,317,794)
Net cash outflow from investing activities		**(5,168,373)**	(1,358,649)
Cash flows from financing activities			
Proceeds from issues of securities	13(b)	**7,972,560**	2,693,667
Costs of share issues	13(b)	**(413,167)**	(135,853)
Net cash inflow from financing activities		**7,559,393**	2,557,814
Net increase in cash and cash equivalents held		**1,008,240**	460,547
Cash and cash equivalents at the beginning of the financial year		**1,919,002**	1,458,455
Cash and cash equivalents at the end of the financial year	8	**2,927,242**	1,919,002

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

Notes to the Financial Statements

For the year ended 30 June 2010

Note 1. Summary of Significant Accounting Policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied for the financial year to 30 June 2010, unless otherwise stated.

(a) Basis of preparation

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

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

The presentation currency is Australian dollars.

(b) Statement of compliance

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

Changes in accounting policy and disclosure

The Consolidated Entity has adopted all new and revised accounting standards and interpretations applicable for the financial year beginning 1 July 2009. Adoption of these standards did not have any effect on the financial position or performance of the Consolidated Entity except as described below*:*

AASB 101 *Presentation of Financial Statements (revised 2007)*
The revised standard separates owner and non-owner changes in equity. The Statement of Changes in Equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity and included in the new Statement of Comprehensive Income. The Statement of Comprehensive Income presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Consolidated Entity has elected to present one statement.

AASB 8 *Operating Segments*
AASB 8 replaced AASB 114 *Segment Reporting* upon its effective date. The Consolidated Entity concluded that the operating segments determined in accordance with AASB 8 are the same as the business segments previously identified under AASB 114. AASB 8 disclosures are shown in Note 4, including the related revised comparative information.

New and amended accounting standards and interpretations issued but not yet effective

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Consolidated Entity for the reporting period ending 30 June 2010. The expected impact of the new and amended standards and interpretations on the Consolidated Entity has not yet been determined. These are outlined as follows:

Notes to the Financial Statements (continued)
For the year ended 30 June 2010

Note 1. Summary of Significant Accounting Policies (continued)

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 2009-5	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139]	The amendments to some Standards result in accounting changes for presentation, recognition or measurement purposes, while some amendments that relate to terminology and editorial changes are expected to have no or minimal effect on accounting except for the following: The amendment to AASB 101 stipulates that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification. The amendment to AASB 107 explicitly states that only expenditure that results in a recognised asset can be classified as a cash flow from investing activities. The main change to AASB 139 clarifies that a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract. The other changes clarify the scope exemption for business combination contracts and provide clarification in relation to accounting for cash flow hedges.	1 January 2010	1 July 2010
AASB 2009-8	Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions [AASB 2]	This Standard makes amendments to Australian Accounting Standard AASB 2 *Share-based Payment* and supersedes Interpretation 8 *Scope of AASB 2* and Interpretation 11 *AASB 2 – Group and Treasury Share Transactions*. The amendments clarify the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when the entity has no obligation to settle the share-based payment transaction. The amendments clarify the scope of AASB 2 by requiring an entity that receives goods or services in a share-based payment arrangement to account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash.	1 January 2010	1 July 2010

Note 1. Summary of Significant Accounting Policies (continued)

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 2009-10	Amendments to Australian Accounting Standards – Classification of Rights Issues [AASB 132]	The amendment provides relief to entities that issue rights in a currency other than their functional currency, from treating the rights as derivatives with fair value changes recorded in profit or loss. Such rights will now be classified as equity instruments when certain conditions are met.	1 February 2010	1 July 2010
AASB 2009-11	Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12]	The revised Standard introduces a number of changes to the accounting for financial assets, the most significant of which includes: ► two categories for financial assets being amortised cost or fair value ► removal of the requirement to separate embedded derivatives in financial assets ► strict requirements to determine which financial assets can be classified as amortised cost or fair value. Financial assets can only be classified as amortised cost if (a) the contractual cash flows from the instrument represent principal and interest and (b) the entity's purpose for holding the instrument is to collect the contractual cash flows ► an option for investments in equity instruments which are not held for trading to recognise fair value changes through other comprehensive income with no impairment testing and no recycling through profit or loss on derecognition ► reclassifications between amortised cost and fair value no longer permitted unless the entity's business model for holding the asset changes ► changes to the accounting and additional disclosures for equity instruments classified as fair value through other comprehensive income	1 January 2013	1 July 2013
AASB 2009-12	Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052]	This amendment makes numerous editorial changes to a range of Australian Accounting Standards and Interpretations. The amendment to AASB 124 clarifies and simplifies the definition of a related party.	1 January 2011	1 July 2011

Note 1. Summary of Significant Accounting Policies (continued)

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 9	Financial Instruments	AASB 9 includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement (AASB 139 Financial Instruments: Recognition and Measurement). These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes from AASB 139 are described below. (a) Financial assets are classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows. This replaces the numerous categories of financial assets in AASB 139, each of which had its own classification criteria. (b) AASB 9 allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument. Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.	1 January 2013	1 July 2013
Interpretation 19	Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments	This interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are "consideration paid" in accordance with paragraph 41 of IAS 39. As a result, the financial liability is derecognised and the equity instruments issued are treated as consideration paid to extinguish that financial liability. The interpretation states that equity instruments issued in a debt for equity swap should be measured at the fair value of the equity instruments issued, if this can be determined reliably. If the fair value of the equity instruments issued is not reliably determinable, the equity instruments should be measured by reference to the fair value of the financial liability extinguished as of the date of extinguishment.	1 July 2010	1 July 2010

Note 1. Summary of Significant Accounting Policies (continued)

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 2010-3	Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 3, AASB 7, AASB 121, AASB 128, AASB 131, AASB 132 & AASB 139]	Limits the scope of the measurement choices of non-controlling interest at proportionate share of net assets in the event of liquidation. Other components of NCI are measured at fair value. Requires an entity (in a business combination) to account for the replacement of the acquiree's share-based payment transactions (whether obliged or voluntarily), i.e., split between consideration and post combination expenses. Clarifies that contingent consideration from a business combination that occurred before the effective date of AASB 3 Revised is not restated. Eliminates the requirement to restate financial statements for a reporting period when significant influence or joint control is lost and the reporting entity accounts for the remaining investment under AASB 139. This includes the effect on accumulated foreign exchange differences on such investments.	1 July 2010	1 July 2010
AASB 2010-4	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101, AASB 134 and Interpretation 13]	Emphasises the interaction between quantitative and qualitative AASB 7 disclosures and the nature and extent of risks associated with financial instruments. Clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. Provides guidance to illustrate how to apply disclosure principles in AASB 134 for significant events and transactions	1 January 2011	1 July 2011

(c) Basis of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Avalon Minerals Ltd ("Company" or "parent entity") as at 30 June 2010 and the results of all the subsidiaries for the financial period then ended.

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

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

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

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

Note 1. Summary of Significant Accounting Policies (continued)

(d) Operating segments – refer Note 4

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

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

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

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

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

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

(e) Revenue recognition

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

(f) Income tax

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

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

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

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

Note 1. Summary of Significant Accounting Policies (continued)

(g) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Statement of Comprehensive Income on a straight-line basis over the period of the lease (refer to note 19).

(h) Business combinations

Subsequent to 1 July 2009

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

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

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

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

Prior to 1 July 2009

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for in separate steps. Any additional interest in the acquiree acquired did not affect previously recognised goodwill. The goodwill amounts calculated at each step acquisition were accumulated.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were adjusted against goodwill.

Note 1. Summary of Significant Accounting Policies (continued)

(i) Impairment of assets

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

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

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

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

(j) Cash and cash equivalents

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

(k) Trade receivables

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

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

Note 1. Summary of Significant Accounting Policies (continued)

(l) Investments and other financial assets

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

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

(m) Plant and equipment

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

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

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

- Exploration equipment	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 reporting date.

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

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

(n) Trade and other payables

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

Note 1. Summary of Significant Accounting Policies (continued)

(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.

(p) Employee benefits

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

(ii) Retirement benefit obligations
The Consolidated Entity contributes to various 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.

(iii) 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.

(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.

Note 1. Summary of Significant Accounting Policies (continued)

(r) Earnings per share

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

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

(s) Exploration and evaluation expenditure

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

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

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

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

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

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

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

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

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

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 Statement of Financial Position.

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

(u) Foreign currency transactions and balances

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

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

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

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

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

Note 2. Financial instruments and financial risk management

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

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

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

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

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

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

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

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

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

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

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

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

	Consolidated	
	2010	2009
	$	$
Three months or less	**1,059,612**	437,676
Greater than three months	**-**	-
	1,059,612	437,676

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

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

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

(v) Interest rate risk
The Group's exposure to interest rates related primarily to the Group's cash and cash equivalents.

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

	Consolidated	
	2010	2009
	$	$
Financial assets		
Cash and cash equivalents	**2,927,242**	1,919,002

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

At 30 June 2010, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit would have been affected as follows:

The average interest rate for the year ended 30 June 2010 was 4.19% (2009: 2.65%)

	Consolidated Higher/(Lower)	
	2010	2009
	$	$
Judgments of reasonably possible movements:		
Post tax profit		
+1.0% (100 basis points)	**13,106**	16,969
-1.0% (100 basis points)	**(13,106)**	(16,969)

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

(vi) Foreign exchange risk
The Consolidated Entity is exposed to fluctuations in the Australian dollar against the Swedish Kroner. This risk is managed by holding minimal cash funds outside Australia.

Note 3. Accounting estimates and judgments

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

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

Estimates

Share-based payment transactions

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

Judgments

Exploration and evaluation expenditure

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

Note 4. Segment reporting

The Group has determined its operating segments based upon reports reviewed by the Board (Chief Operating Decision Makers) for making strategic decisions. There are two reportable segments being Australia and Sweden.

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

The principal activity of the Australia segment consists of evaluation of Australian exploration asset opportunities. The previously held Australian exploration assets were written off in the prior year. The principal activity of the Sweden segment consists of exploration and evaluation of the Group's Swedish exploration assets.

Accounting policies and inter-segment transactions

The accounting policies used by the Group in reporting segments internally are the same as those used in preparing the annual report, except as detailed below:

Corporate charges

Corporate charges comprise non-segmental expenses such as head office expenses and interest. Corporate charges are not allocated to segments.

In addition, assets and liabilities, except for capitalised exploration and evaluation expenditure, are not allocated to segments.

Note 4. Segment reporting (continued)

Segment information provided for the year ended 30 June 2010 is as follows:

Segment Revenue	**Australia $**	**Sweden $**	**Total $**
30 June 2010			
Total segment revenue	-	-	-
Segment results	-	7,824	7,824
30 June 2009			
Total segment revenue	-	-	-
Segment results	(2,610,952)	(28,952)	(2,639,903)
Segment Assets			
30 June 2010			
Segment assets	-	7,846,158	7,846,158
Cash and cash equivalents			2,927,242
Trade and other receivables			227,335
Plant & Equipment			144,409
Total assets per the statement of financial position			11,145,144
30 June 2009			
Segment assets	-	2,419,689	2,419,689
Cash and cash equivalents			1,919,002
Trade and other receivables			63,694
Plant & Equipment			122,410
Total assets per the statement of financial position			4,524,795

Segment assets reconciliation to the Statement of Financial Position:

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

30 June 2010	135,758	7,854,809	7,990,567
30 June 2009	118,632	2,423,467	2,542,099

Segment Cash flow information:

30 June 2010			
Net cash flow from operating activities	-	-	-
Net cash flow from investing activities	-	4,722,132	4,722,132
Net cash flow from financing activities	-	-	-
30 June 2009			
Net cash flow from operating activities	-	-	-
Net cash flow from investing activities	42,938	1,067,563	1,110,501
Net cash flow from financing activities	-	-	-

Note 4. Segment reporting (continued)

	Consolidated 2010 $	2009 $
Segment revenue reconciliation to the Statement of Comprehensive Income:		
Segment revenue	**-**	-
Unallocated interest revenue	**101,550**	44,670
Unallocated other income	**1,737**	86,676
Revenue from continuing operations	**103,287**	131,346
Segment result reconciliation to the Statement of Comprehensive Income:		
Segment result	**7,824**	(2,639,903)
Unallocated interest revenue	**101,550**	44,670
Unallocated other income	**1,737**	86,676
Unallocated interest expense	**(4)**	(6)
Corporate and administration expenses	**(1,373,122)**	(907,765)
Loan written off	**-**	(59,112)
Loss from continuing operations before income tax	**(1,262,015)**	(3,475,440)

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

Australia	**102,410**	114,760
Sweden	**877**	16,586
Total Revenue	**103,287**	131,346

Note 5. Revenue and other income

Interest revenue	**101,550**	44,670
Sundry income	**1,707**	50,000
Rental income	**-**	21,504
Foreign exchange gain	**30**	15,676
	103,287	131,346

Note 6. Expenses

Loss before income tax includes the following:

Employee benefits expense*		
Salaries	**211,495**	150,335
Directors' fees	**105,000**	86,431
Superannuation	**50,351**	33,403
Share based payments	**30,861**	28,542
Other	**63,629**	9,580
	461,336	308,291

* Less costs capitalised to exploration and evaluation expenditure

Notes to the Financial Statements (continued)
For the year ended 30 June 2010

	Consolidated	
	2010	2009
	$	$
Note 6. Expenses (continued)		
Rental expense relating to operating leases	**90,134**	81,963
Depreciation	**73,216**	57,403

Note 7. Income tax

(a) Current income tax

Current income tax benefit relating to origination and reversal of temporary differences	-	-
Deferred tax assets not brought to account as realisation is not considered probable	-	-
Income tax expense reported in the Statement of Comprehensive Income	-	-

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

Accounting loss before income tax	**(1,262,015)**	(3,475,440)
At the group's statutory income tax rate of 30%	**(378,604)**	(1,042,632)
Expenditure not allowable for income tax purposes	**142,416**	772,504
Deductible share issue costs	**(46,040)**	-
Loan written off	**-**	17,733
Under/over provision of prior year	**599,422**	(116,709)
Deferred tax asset not brought to account as realisation is not considered probable	**(317,194)**	369,104
Income tax expense	**-**	-

Note 7. Income tax (continued)

	Statement of Financial Position 2010 $	Statement of Financial Position 2009 $	**Statement of Comprehensive Income 2010 $**	Statement of Comprehensive Income 2009 $
(c) Deferred assets and liabilities at 30 June relates to the following:				
Consolidated				
Deferred tax liabilities				
Exploration expenditure	**-**	**-**	**-**	33,379
Total deferred tax liabilities	**-**	**-**	**-**	33,379
Deferred tax assets				
Employee provisions	**13,424**	5,890	**7,524**	(5,094)
Other accruals and provisions	**18,552**	-	**18,552**	-
Share issue costs charged to equity	**139,048**	-	**-**	-
Income tax losses	**1,301,604**	998,155	**(343,270)**	340,819
Total deferred tax assets	**1,472,628**	1,004,045	**(317,194)**	369,104
Deferred tax assets not brought to account as realisation is not considered probable	**(1,472,628)**	(1,004,045)	**317,194**	(369,104)
Net deferred tax recognised	**-**	-	**-**	-

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 (continued)
For the year ended 30 June 2010

	Consolidated	
	2010	2009
	$	$
Note 8. Current assets – Cash and cash equivalents		
Cash on hand and at bank	**2,927,242**	1,919,002

Cash at bank earns interest at floating rates based on daily bank deposit rates. The cash at bank is bearing floating interest rates between 0.01% and 4.5% (2009: 0.05% and 3%) The carrying amounts of cash and cash equivalents represents fair value.

Note 9. Current assets – Trade and other receivables

	2010	2009
Other debtors	**116,009**	30,285
Deposits	**58,431**	11,520
Prepayments	**52,895**	21,889
	227,335	63,694

Other debtors consists of GST and VAT receivable from the Taxation authorities. All receivables, excluding deposits are non-interest bearing and all are carried at fair value. All receivables balances are current and no allowance has been made for impairment as it is highly probable that all receivables will be recovered.

Note 10. Non-current assets – Plant and equipment

	2010	2009
Plant and equipment		
Plant and equipment at cost	**319,171**	223,929
Less accumulated depreciation	**(174,762)**	(101,519)
	144,409	122,410

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

	2010	2009
Plant and equipment		
Balance at 1 July	**122,410**	173,060
Increase in plant and equipment	**95,215**	6,753
Depreciation expense	**(73,216)**	(57,403)
Balance at 30 June	**144,409**	122,410

Notes to the Financial Statements (continued)
For the year ended 30 June 2010

	Consolidated 2010 $	Consolidated 2009 $
Note 11. Non-current assets – Exploration and evaluation		
Exploration and evaluation		
Exploration and evaluation – at cost less amounts written off	**7,846,158**	2,419,689
Reconciliation		
Balance at1 July	**2,419,689**	3,888,096
Purchases of mineral tenement applications	**138,745**	-
Increase in exploration and evaluation	**5,336,224**	1,060,335
Expenditure written off	**(48,500)**	(2,639,904)
Expenditure transferred from Non-current assets held for sale	**-**	111,162
Balance at 30 June	**7,846,158**	2,419,689

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 12. Current liabilities – Trade and other payables

	2010 $	2009 $
Trade payables	**650,632**	314,369
Other payables	**318,338**	95,666
Employee leave liabilities	**90,642**	27,641
	1,059,612	437,676

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

Note 13. Contributed equity

(a) Share capital

	Number of shares	$
Ordinary shares – fully paid	**132,276,952**	**17,300,788**

(b) Movements in ordinary share capital

Date	Details	Number of shares	Issue price $	$
	Balance at 1 July 2008	**50,600,000**		**7,125,612**
15 August 2008	Shares issued pursuant to an exercise of options	1,500,000	0.20	300,000
17 January 2009	Shares issued to a sophisticated investor	13,000,000	0.10	1,300,000
6 February 2009	Shares issued to a sophisticated investor *	520,000	0.10	52,000
18 June 2009	Shares issued pursuant to a non-renounceable rights issue	21,873,333	0.05	1,093,667
	Less: Transaction costs arising on placement of shares			(135,853)
	Balance at 30 June 2009	**87,493,333**		**9,735,426**
30 September 2009	Shares issued to sophisticated investors	13,000,000	0.10	1,300,000
16 December 2009	Shares issued to sophisticated investors	15,074,000	0.21	3,165,540
16 February 2010	Shares issued pursuant to an exercise of options	200,000	0.20	40,000
	Transfer from share-based payments reserve			1,895
25 March 2010	Shares issued pursuant to a non-renounceable rights issue	16,509,619	0.21	3,467,020
	Less: Transaction costs arising on placement of shares			(409,093)
	Balance at 30 June 2010	**132,276,952**		**17,300,788**

** Non-cash transactions:*

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

(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 20.

Note 13. Contributed equity (continued)

(e) Options

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

- 300,000 options exercisable at 30 cents and expiring 31 July 2011;
- 100,000 options exercisable at 20 cents and expiring 31 July 2011;
- 500,000 options exercisable at 30 cents and expiring 31 January 2013; and
- 1,000,000 options exercisable at 40 cents and expiring 31 January 2014.

(f) Movements in options

Date	Details	Number of options
	Balance at 1 July 2008	**13,000,000**
15 August 2008	Exercise of options	(1,500,000)
26 August 2008	Allotment of options	300,000
2 February 2009	Allotment of options	100,000
10 February 2009	Expiry of options	(5,600,000)
	Balance at 30 June 2009	**6,300,000**
31 January 2010	Expiry of options	(2,000,000)
6 February 2010	Exercise of options	(200,000)
10 February 2010	Expiry of options	(3,700,000)
27 February 2010	Allotment of options	1,500,000
	Balance at 30 June 2010	**1,900,000**

(g) Capital management

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

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

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

	Consolidated	
	2010	2009
	$	$

Note 13. Contributed equity (continued)

Total borrowings	**-**	-
Less: cash and cash equivalents	**2,927,242**	1,919,002
Net debt	**-**	-
Total equity	**10,085,532**	4,087,119
Total capital	**13,012,774**	6,006,121
Gearing ratio	**0%**	0%

Note 14. Reserves

Share-based payments reserve	**234,471**	205,505

Movements in reserves

Share-based payments reserve		
Balance at 1 July	**205,505**	176,963
Option expense	**30,861**	28,542
Transfer to contributed equity upon exercise	**(1,895)**	-
Balance at 30 June	**234,471**	205,505

Foreign currency translation reserve	**(611,107)**	(277,207)

Movements in reserves

Foreign currency translation reserve		
Balance at 1 July	**(277,207)**	-
Foreign exchange loss on translation of foreign subsidiaries	**(333,900)**	(277,207)
Balance at 30 June	**(611,107)**	(277,207)
Total reserves	**(376,636)**	(71,702)

Nature and purpose of reserves

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

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

	Consolidated	
	2010	2009
	$	$

Note 15. Accumulated losses

Balance at 1 July	**(5,576,605)**	(2,101,165)
Net loss attributable to members of Avalon Minerals Ltd	**(1,262,015)**	(3,475,440)
Balance at 30 June	**(6,838,620)**	(5,576,605)

Note 16. Key management personnel disclosures

(a) Directors

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

Chairman - executive
D McSweeney

Non-executive directors
G Steinepreis
S Stone
A Mohamed

Alternate director
A Kamaruddin

(b) Other key management personnel

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

Name	Position
D Kelly	Company Secretary/Chief Financial Officer
A Munckton	General Manager and CEO (appointed 1 February 2010)
N Baker	Project Manager – Sweden (resigned 31 May 2010)
G Brock	Project Manager – Australia (appointed 17 November 2009)
L Lindskog	Exploration Manager (appointed 15 July 2009)

(c) Key management personnel compensation

	Consolidated	
	2010	2009
	$	$
Short term employee benefits	**1,011,167**	669,247
Post employment benefits	**40,495**	30,525
Share based payments	**30,861**	24,630
	1,082,523	724,402

Note 16. Key management personnel disclosures (continued)

(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 20 to 21.

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.

2010 **Name**	**Balance at the beginning of the year**	**Granted during the period as remuneration**	**Exercised during the period**	**Other changes during the period***	**Balance at the end of the period**	**Vested and exercisable at the end of the period**
Directors of Avalon Minerals Ltd						
D McSweeney	3,300,000	-	-	(3,300,000)	-	-
A Mohamed	-	-	-	-	-	-
G Steinepreis	200,000	-	-	(200,000)	-	-
S Stone	200,000	-	(200,000)	-	-	-
A Kamaruddin	-	-	-	-	-	-
Other key management personnel						
D J Kelly	500,000	-	-	(500,000)	-	-
A Munckton	-	1,500,000	-	-	1,500,000	-
N Baker	300,000	-	-	-	300,000	300,000
G Brock	-	-	-	-	-	-
L Lindskog	-	-	-	-	-	-

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

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

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

Note 16. Key management personnel disclosures (continued)

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.

2010 Name	Balance at the beginning of the year	Received during the period on the exercise of options	Other changes during the period*	Balance at the end of the period
Directors of Avalon Minerals Ltd				
D McSweeney	12,786,442	-	964,285	13,750,727
A Mohamed	19,088,057	-	2,726,865	21,814,922
G Steinepreis	2,257,155	-	-	2,257,155
S Stone	1,090,704	200,000	95,238	1,385,942
A Kamaruddin	-	-	-	-
Other key management personnel				
D Kelly	-	-	250,000	250,000
A Munckton	-	-	515,000	515,000
N Baker	-	-	-	-
G Brock	-	-	-	-
L Lindskog	-	-	-	-

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

* Other changes represent on-market share purchases and rights issue entitlements.

(e) Loans to key management personnel

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

(f) Other transactions with key management personnel

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

	Consolidated	
	2010	2009
	$	$

Note 17. 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.

	2010 $	2009 $
Assurance services		
Audit services		
Ernst & Young:		
Audit and review of financial report	**40,095**	43,680

Note 18. Contingent liabilities

Details of contingent liabilities are set out below.

The directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

The Consolidated Entity has performance guarantees in place with the Bergsstaten (Department of Mines) for 55,000 Kroner ($A 8,239) (2009: nil) representing security bonds over ground disturbance applications. These guarantees are secured by cash deposits.

The Company has a performance guarantee in place to secure payment of rent under the Company's lease of premises at its office premises at 91 Havelock Street, West Perth totalling $38,672 (2009: $11,520). This guarantee is secured by a term deposit.

Note 19. Capital and other commitments

(i) Capital commitments

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

	2010 $	2009 $
Within one year	**98,063**	30,576
Later than one year but not later than 5 years	**-**	-
Later than 5 years	**-**	-
	98,063	30,576

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

Note 19. Capital and other commitments (continued)

	Consolidated	
	2010	2009
	$	$
(ii) Lease commitments		
Commitments in relation to non-cancellable leases contracted for at the reporting date but not recognised as liabilities, due:		
Within one year	**140,625**	74,880
Later than one year but not later than 5 years	**302,695**	6,240
Later than 5 years	**-**	-
	443,320	81,120

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

Note 20. Share-based payments

a) Employee Share Option Scheme
All staff (including executive directors) are eligible to participate in the Employee Share Option 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 prices of options are determined by the directors and are not less than the prevailing market price of the underlying share 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.

Note 20. Share-based payments (continued)

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

Grant date	Expiry date	Exercise price	Balance at beginning of the period	Issued during the period	Exercised during the period	Lapsed during the period	Balance at end of the period
2010		**$**	**Number**	**Number**	**Number**	**Number**	**Number**
7 February 2007	31 January 2010	0.20	3,900,000	-	(200,000)	(3,700,000)	-
10 October 2007	31 January 2010	0.20	100,000	-	-	(100,000)	-
		0.40	150,000	-	-	(150,000)	-
12 October 2007	31 January 2010	0.20	500,000	-	-	(500,000)	-
		0.40	500,000	-	-	(500,000)	-
15 October 2007	31 January 2010	0.20	200,000	-	-	(200,000)	-
		0.40	300,000	-	-	(300,000)	-
9 January 2008	31 January 2010	0.25	125,000	-	-	(125,000)	-
		0.40	125,000	-	-	(125,000)	-
26 August 2008	31 July 2011	0.30	300,000	-	-	-	300,000
13 January 2009	31 July 2011	0.20	100,000	-	-	-	100,000
27 February2010	31 January 2013	0.30	-	500,000	-	-	500,000
27 February2010	31 January 2014	0.40	-	1,000,000	-	-	1,000,000
			6,300,000	1,500,000	(200,000)	(5,700,000)	1,900,000

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

Note 20. Share-based payments (continued)

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

2010
The model inputs for options granted during the year ended 30 June 2010 are:

Grant date	**27 February 2010**	**27 February 2010**
Expiry date	31 January 2013	31 January 2014
Quantity	500,000	1,000,000
Exercise price	30 cents	40 cents
Consideration	Nil	Nil
Share price at grant date	$0.18	$0.18
Expected price volatility of the Company's shares	70%	70%
Expected dividend yield	Nil	Nil
Risk-free interest rate	4.5%	4.5%
Fair Value per Option	**$0.064**	**$0.066**

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

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

See pages 20 to 21 of the Directors Report for details of share options issued to directors during the period.

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

c) Expenses arising from share-based payment transactions
Total expenses arising from share-based payment transactions recognised during the period was $30,861.

Note 21. Related party transactions

Directors and other key management personnel

During the financial year the Company paid fees of $48,379 to MSP Engineering Pty Ltd, a company of which Mr McSweeney is the Chairman and a shareholder. Amounts were billed based upon normal market rates for engineering services and were due and payable under normal payment terms.

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

Ownership interests in related parties
Interests held in subsidiaries are set out in Note 23 – Related parties.

Note 22. Events occurring after reporting date

On 16 August 2010 the Company announced that it had successfully undertaken a placement of 20,000,000 shares at 16 cents per share to raise $3,200,000. The shares were placed with sophisticated investors and clients of Hartleys Limited after shareholder approval was obtained at a General Meeting on 22 September 2010.

Other than that shown above, no other matters or circumstances have arisen since 30 June 2010 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 23. Related parties

Subsidiaries

2010

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

2009

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

	Consolidated	
	2010	2009
	$	$

Note 24. Reconciliation of net loss after tax to net cash outflow from operating activities

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

Operating loss after income tax	**(1,262,015)**	(3,475,440)
Depreciation	**73,216**	57,403
Exploration expenditure written off	**48,500**	2,639,904
Non-cash employee benefits expense – share based payments	**30,861**	28,542
Non cash expense payment	**-**	52,000
Unrealised foreign exchange gain	**(30)**	(15,676)
Loan written off	**-**	59,112
Other	**1,424**	(3,729)
Changes in operating assets and liabilities		
Decrease/(Increase) in other receivables	**(163,641)**	23,021
(Decrease) in trade creditors	**(111,095)**	(103,755)
Net cash outflow from operating activities	**(1,382,780)**	(738,618)

Non-cash expense payment:

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

Note 25. Earnings per share

	Consolidated	
	2010	2009
	cents	Cents
Basic and diluted earnings per share	**(1.1)**	(5.0)
Weighted average number of shares used as the denominator	**Number**	Number
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share	**110,485,222**	59,133,571
Further potential ordinary shares (options) not considered to be dilutive	**1,900,000**	6,300,000
Losses used in calculating basic and diluted losses per share	**$**	$
Net loss	**(1,262,015)**	(3,475,440)

The earnings per share calculation for the year ended 30 June 2010 has been adjusted for the 1 for 7 non-renounceable rights issue announced to the market on 3 December 2009 in accordance with AASB 133 Earnings Per Share. The effect of this is to dilute the number of shares on issue by a factor of 1.011.

Note 26. 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 2010.

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

Note 27. Parent Entity Information

Information relating to Avalon Minerals Ltd:

	2010 $	2009 $
Current assets	**2,631,076**	1,763,283
Total assets	**2,800,946**	1,916,817
Current liabilities	**397,478**	309,230
Total liabilities	**397,478**	309,230
Net Assets	**2,403,468**	1,607,587
Issued capital	**17,300,788**	9,735,426
Accumulated losses	**(15,131,791)**	(8,333,344)
Share-based payments reserve	**234,471**	205,505
Total shareholders' equity	**2,403,468**	1,607,587
Loss of the parent entity	**(6,798,446)**	(4,693,292)
Total comprehensive income of the parent entity	**493,861**	114,671

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

For details of contingent liabilities see Note 18.

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

Directors' Declaration

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

In the opinion of the directors:

(a) the financial statements and notes of the Consolidated Entity are in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Consolidated Entity's financial position as at 30 June 2010 and of its performance for the year ended on that date; and

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

(b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 1(b); and

(c) 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 year ending 30 June 2010.

On behalf of the Board

A Munckton
Director

Perth, Western Australia
29 September 2010

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

Report on the Financial Report

We have audited the accompanying financial report of Avalon Minerals Limited, which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Auditor's Responsibility

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

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

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

Independence

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

Auditor's Opinion

In our opinion:

1. The financial report of Avalon Minerals Limited is in accordance with the *Corporations Act 2001*, including:

    i giving a true and fair view of the financial position of Avalon Minerals Limited and the consolidated entity at 30 June 2010 and of their performance for the year ended on that date; and

    ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

2. The financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 14 to 21 of the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Avalon Minerals Limited for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

RJ Curtin
Partner
Perth
29 September 2010

ASX Additional Information

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

SHAREHOLDINGS

Substantial shareholders

The following substantial shareholders have lodged notices with the company as at 23 September 2010.

Holders	Ordinary shares
Abu Sahid Bin Mohamed	30,303,113
David McSweeney	13,870,727
HSBC Custody Nominees (Australia) Ltd	13,017,263

Class of shares and voting rights

At 23 September 2010, there were 598 holders of the ordinary shares of the company. The voting rights attaching to the ordinary shares, set out in clause 12.7 of the company's Constitution, are:

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

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

At 23 September 2010, there were options over 1,900,000 un-issued ordinary shares. There are no voting rights attached to the un-issued ordinary shares. Voting rights will be attached to the un-issued ordinary shares when the options have been exercised.

On-market buy-back

There is no current on-market buy-back.

Distribution of Share & Option Holders (as at 23 September 2010)

Category	Number of holders	
	Ordinary shares	Unlisted Options
1 – 1,000	8	-
1,001 – 5,000	46	-
5,001 – 10,000	58	-
10,001 – 100,000	337	1
100,001 and over	149	2
	598	3

There were 23 holders holding less than a marketable parcel of ordinary shares.

ASX Additional Information (continued)

Unquoted Securities

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

Restricted Securities

There were no restricted securities as at 23 September 2010:

Twenty Largest Security holders as at 23 September 2010

Holder name	Ordinary Shares	
	Number	%
Abu Sahid Bin Mohamed	30,303,113	19.90
HSBC Custody Nominees (Australia) Ltd	13,017,263	8.55
Brookman Resources Pty Ltd	9,406,840	6.18
Citicorp Nominees Pty Ltd	6,680,714	4.39
Merrill Lynch (Australia) Nominees Pty Ltd	4,419,700	2.90
David McSweeney	4,214,285	2.77
Robert Wittenoom	3,168,792	2.08
Daniel Paul Wise	3,101,190	2.04
Flue Holdings Pty Ltd	2,976,190	1.95
David Donald Boyer	2,950,000	1.94
Osiris Capital Investments Pty Ltd	2,608,010	1.71
Gregory Wayne Down & Deborah June Down	2,600,000	1.71
Spectral Investments Pty Ltd	2,291,713	1.50
ANZ Nominees Limited	1,736,810	1.14
Base Asia Pacific Limited	1,500,000	0.99
Phillip Securities Pte Ltd	1,495,080	0.98
Topsfield Pty Ltd	1,437,500	0.94
Solequest Pty Ltd	1,010,542	0.66
Peter Adams & Kay Adams	1,002,000	0.66
Peter Daniel Adams	1,000,000	0.66
Total	**96,919,742**	**63.65**

Other information

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