



# AVONLEA MINERALS LIMITED

ABN 81 125 176 703

**Annual Financial Report**  
For the period ended 30 June 2008

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## **CORPORATE INFORMATION**

### **ABN 81 125 176 703**

#### **Directors**

Roger Steinepreis (Chairman)

David Riekie

Andrew Gastevich

David Holden

#### **Company Secretary**

Andrew Gastevich

#### **Registered office**

Level 2, 46 Ord Street

West Perth, Western Australia 6005 Australia

#### **Principal place of business**

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West Perth, Western Australia 6005 Australia

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Facsimile: +61 8 9476 9099

Email: [admin@avonleaminerals.com.au](mailto:admin@avonleaminerals.com.au)

Website: [www.avonleaminerals.com.au](http://www.avonleaminerals.com.au)

#### **Share Register**

Security Transfer Registrars Pty Ltd

770 Canning Highway

Applecross, Western Australia, 6153 Australia

#### **Solicitors**

Steinepreis Paganin

Level 4, 16 Milligan Street

Perth, Western Australia 6000

#### **Auditors**

HLB Mann Judd

Level 2, 15 Rheola Street

West Perth WA 6005

#### **ASX Codes**

AVZ

## DIRECTORS' REPORT

Your directors submit the annual financial report of the entity for the financial period ended 30 June 2008. In order to comply with the provisions of the Corporations Act, the directors report as follows:

### Directors

The names of directors who held office during or since the end of the year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

### Names, qualifications, experience

#### **Roger Steinepreis B.Juris, LLB – Non Executive Chairman**

Roger Steinepreis graduated from the University of Western Australia where he completed his law degree. He was admitted as a barrister and solicitor of the Supreme Court of Western Australia in 1987 and has been practicing as a lawyer for over 20 years.

Roger is the legal advisor to a number of public companies on a wide range of corporate related matters. His areas of practice focus on Company restructures, initial public offerings and takeovers.

Mr Steinepreis was appointed to the Board 1 May 2007.

During the past three years, Mr Steinepreis has also served as a Director of Comtel Corporation Limited\* (formerly Commoditel Limited) , Adavale Resources Limited\* (formerly Pocketmail Group Limited), Imugene Limited\* and Burrup Holdings Limited\*.

*\* denotes current directorships*

#### **Mr David Riekie – B.Ec, Dip Acc, CA, MAICD - Managing Director**

Mr Riekie has been an Executive Director with Grange Consulting Group, a boutique corporate advisory company over the past 13 years. During this time has held a variety of non executive board position with both resource and industrial companies. He has a significant level of experience in capital raising initiatives (public and private), and has assisted in the development of effective business strategies for restructure and growth in these industries, both in Australia and overseas.

David is a Chartered Accountant, a Member of the Institute of Company Directors and holds Bachelor of Economics and a Diploma of Accounting. He is currently a non executive director of Top End Uranium Ltd, Matilda Minerals Limited and Uranio Ltd. Other Directorships he has held over the past three years are Commoditel Ltd, New World Alloys Ltd, Otto Energy Ltd, Sub-Sahara Resources NL and Unilife Medical Solutions Ltd.

#### **David Holden BSc(Geology), MBA- Non Executive Director**

David Holden is a consulting geologist and a Member of the Australasian Institute of Mining & Metallurgy. He obtained a Bachelor of Science (Geology) in 1984 and a Master of Business Administration in 1998. He has 20 years experience as an Exploration Geologist in Australia and New Zealand.

David was intimately involved in the discovery of the +2million ounce Nimary Gold Mine, and was the founder of Ravensgate, a geological consulting Company which specialises in resource estimation and project valuation/audit.

Mr Holden was appointed to the Board 1 May 2007

During the past three years, Mr Holden has also served as a Director of Atomic Resources Ltd\*.

*\* denotes current directorships*

#### **Andrew Gastevich B.Bus, Post Grad Dip(Acc), ACA, FTIA – Non Executive Director and Company Secretary**

Andrew Gastevich is a Chartered Accountant with over 20 years experience. He worked with Ernst & Young Chartered Accounts for 8 years before forming his own Chartered Accounting practice and operating that also for a period of 8 years. Andrew also worked at Australia's largest privately owned Iron Ore Mining Company before becoming the Chief Financial Officer/Chief Operating Officer for a national Company involved in the provision of professional services to both business and government. He is also a Director of two public companies in the Mining industry.

Mr Gastevich was appointed to the Board 1 May 2007.

Mr Gastevich has no other public Company directorships and has not held any public Company directorships in the last 3 years.

**DIRECTORS' REPORT (continued)****Directors' interests in the shares and options of the Company and related bodies corporate**

As at the date of this report, the interests of the directors in the shares and options of Avonlea Minerals Limited were:

	Number of options (i)	Number of fully paid ordinary shares
Roger Steinepreis	3,000,000	3,500,000
David Holden	750,000	850,000
Andrew Gastevich	750,000	950,000
David Riekie	-	-

(i) Exercisable at 20 cents on or before 31 May 2012.

**Share Options**

Details of unissued ordinary shares under options are as follows:

	Number of options	Exercise price	Expiry date
Avonlea Minerals Limited	7,000,000	20 cents	31 May 2012

Details of ordinary shares issued during the financial period as a result of the exercise of an option are:

	Number of shares	Amount paid per share	Amount unpaid on shares
		Cents	\$
Exercise of 20 cent options expiring 31 May 2012	-	-	-

**Dividends**

No dividends have been paid or declared since the start of the financial period and the directors do not recommend the payment of a dividend in respect of the financial period.

**Principal Activities**

The principal activities of the entity during the period were the exploration for minerals in Australia.

There have been no significant changes in the nature of those activities during the period.

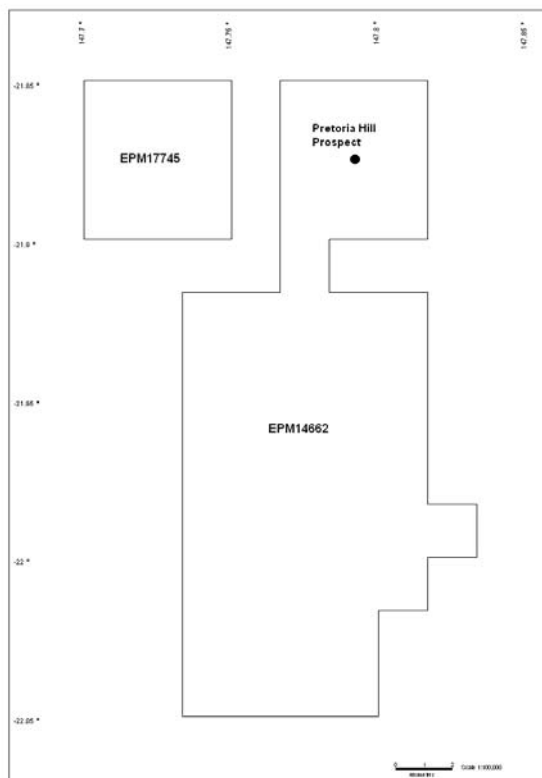
## DIRECTORS' REPORT (continued)

### Review of operations

The Company was admitted to the ASX official list and quotation of its securities commenced on 14 September 2007 having acquired the Wentworth Project in Central Queensland. In December 2007 the Company acquired the Diemals Project in Western Australia. A review of the two projects follows.

### WENTWORTH

The Wentworth Project consists of two Exploration Permit Minerals ("EPM"), EPM 14662 and EPM 14745, located in the Drummond Basin of Central Queensland, approximately 300 kilometres southwest of McKay. The closest regional centre is Moranbah, 40 kilometres to the south east. During the year, a review of previous exploration allowed a rationalisation of the Wentworth Project licences which resulted in the relinquishment of low priority areas.



**Wentworth Project - Tenements**

The Wentworth project is considered prospective for Mt Wright or Kidston style breccia systems associated with felsic volcanics. The tenement covers a portion of the eastern Drummond Basin. The major stratigraphic units proximal to the tenement comprise basement Neoproterozoic to Lower Cambrian Anakie Inlier metamorphic rocks to the west, which are unconformably overlain by/faulted against the Silver Hills Volcanics and the Mt Rankin Formation of the Middle Devonian to Early Carboniferous Drummond Basin Sequence. Just east of the tenement, sedimentary units of the Permian Bowen Basin unconformably overlie the Drummond Basin Sequence and have in turn been unconformably overlain by Tertiary flood basalts and Quaternary sediments.

The Company has initially focused on the Pretoria Hill Prospect, where drilling by previous explorers has returned encouraging results.

Historical results from several holes include **17 metres @ 0.71% zinc, 70m @ 0.4 g/t Au, 11m @ 0.75 g/t Au and 1.2m @ 174g/t silver and 1.5% zinc.**

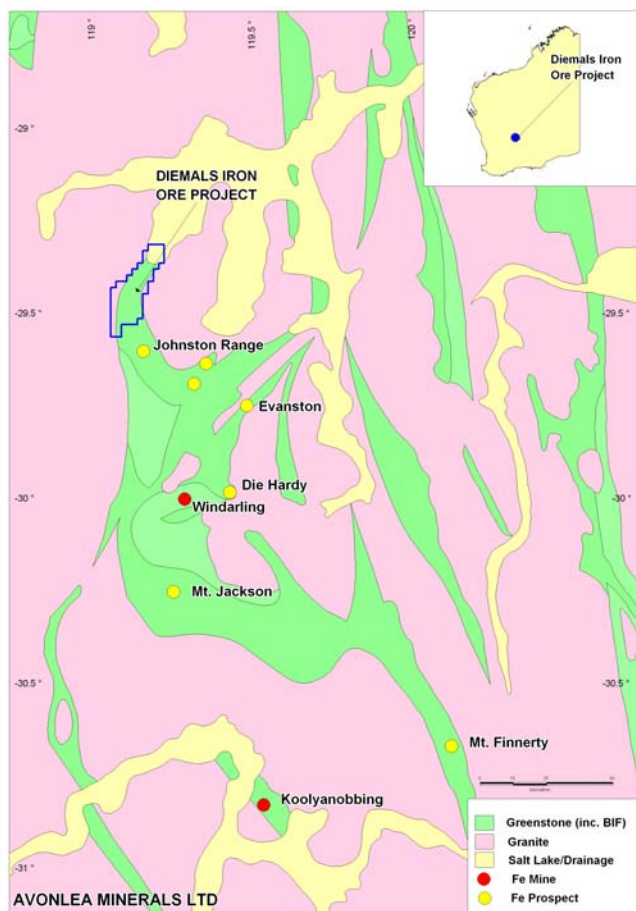
In June 2008, the Company commissioned a 3,100 line kilometre aeromagnetic and radiometric survey at the Wentworth Project. The survey was completed with the aim of better defining controls to mineralisation at known areas as well as potentially identifying new targets. Final results are expected in September 2008.

### DIEMALS

The Diemals Iron Ore project is located 240 kilometres north of Southern Cross in a well known iron ore producing region in Western Australia. Portman Mining Ltd's Koolyanobbing Iron Ore Project is located in this region with 26.9 million

**DIRECTORS' REPORT (continued)**

tonnes of ore processed over the previous five years and total mineral resources of 146.5 million tonnes of ore at 61.94% Fe.



**Diemals Project – Location Map**

The Diemals Iron Ore Project covers approximately 200 square kilometres of ground and the Company has an 85% interest in the rights to Iron Ore (with 15% free carry to Bankable Feasibility Study). An interpreted 20 kilometres strike of Banded Iron Formation (BIF) exists within the tenement, which has received little, if any exploration for Iron Ore. LandSat TM data shows the target BIF sequence outcropping in the southern portion of the tenement.

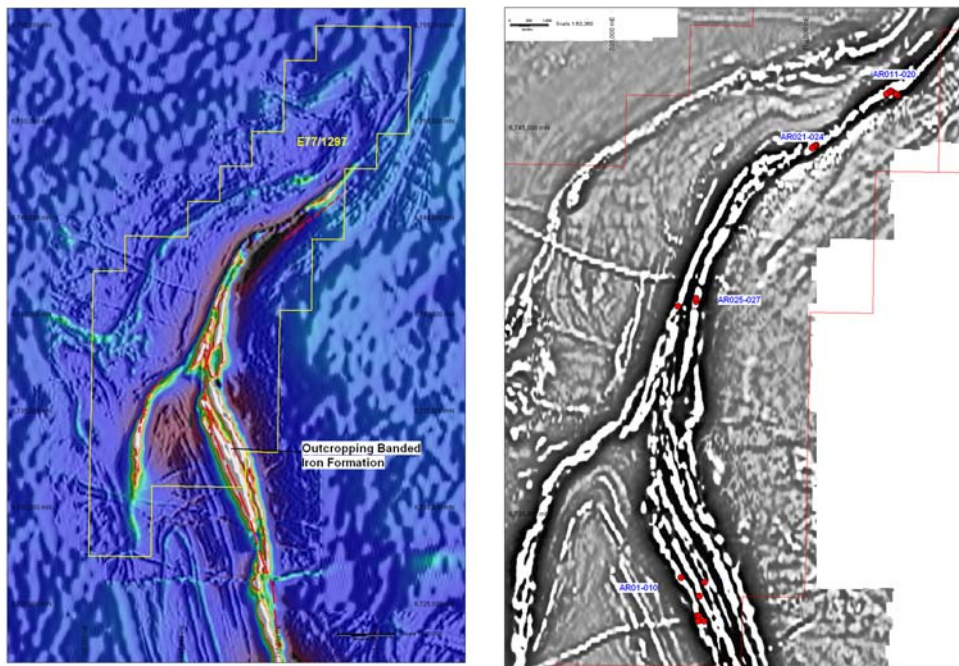
Shortly after acquisition of the project a total of 27 reconnaissance rock samples were collected from 4 areas over some 18 kilometres of strike. These samples were collected from sub-cropping to out-cropping BIF, with results presented below.

Sample	Fe %	SiO2 %	Al2O3 %	P %	LOI %
AR01	59.91	3.18	0.67	0.060	9.83
AR02	59.64	4.42	1.36	0.182	7.89
AR03	59.19	2.12	1.71	0.041	10.79
AR010	58.77	3.59	2.11	0.147	9.33
AR09	58.60	6.97	1.64	0.142	6.46
AR012	55.55	7.70	2.51	0.089	9.09
AR013	55.12	10.69	2.31	0.069	7.22
AR011	53.69	14.15	1.34	0.125	5.99
AR07	51.35	20.70	1.41	0.031	3.79
AR06	50.77	18.19	2.47	0.021	6.28
AR014	50.71	20.50	2.18	0.054	3.80

AR04	47.67	14.74	5.19	0.026	10.92
AR027	45.07	30.61	0.70	0.110	3.62
AR016	42.48	35.19	0.81	0.124	2.37
AR018	41.23	35.43	1.02	0.065	3.71
AR019	41.00	38.55	0.43	0.047	1.89
AR017	40.56	39.25	0.39	0.061	1.58
AR021	39.77	40.05	0.33	0.082	2.00
AR08	39.12	38.75	0.32	0.069	4.51
AR022	37.81	41.70	0.84	0.077	2.59
AR020	37.49	44.42	0.48	0.023	0.82
AR024	37.26	44.63	0.20	0.041	1.30
AR015	36.72	41.87	2.24	0.047	2.05
AR05	35.77	45.30	0.25	0.068	2.98
AR023	35.42	44.82	0.70	0.054	1.97
AR025	34.73	47.54	0.22	0.031	0.30
AR026	34.69	48.19	0.24	0.063	-0.41

**Diemals Project – Assay Results**

The Company considers the BIF sequence to be the northern extension to the BIF sequence that occurs within ground held by Transit Holdings Ltd. No systematic mapping or sampling for Iron Ore along the entire interpreted strike length has been completed.



**Diemals Project – Magnetic Images showing BIF and sampling locations**

A number of companies are actively exploring for iron ore in the Diemals region. These include:

- Portman Ltd, who in addition to exploring are operating the Windarling Iron Ore Mine 60 kilometres south of the Diemals Project, (one of three operating Portman mines in the region and the closest to the Diemals Project);
- Transit Holdings Ltd (ASX:TRH) are exploring for Iron Ore immediately south of the Diemals Project where rock chip samples over 60% Fe have been collected from the “Bolger” Prospect from BIF; and
- Polaris Metals NL (ASX:POL) are exploring for Iron Ore near the Diemals Project.

## **DIRECTORS' REPORT (continued)**

A number of individual BIF units exist at Diemals. These are interbedded with Iron-rich sediments, and Fe-cherts. Widths of individual BIF units vary from 2 to 25 metres, however the entire package of BIF, Fe-chert and Iron-rich sediments (here named the "BIF sequence") can range from 60-150 metres+. The BIF generally forms low to moderately steep strike ridges which can be up to 1 kilometre long. Float from the ridges can be widespread and persist downslope for 100's of metres.

A regional aerial photographic study was completed in early 2008. The aim of the sampling was to identify potential iron mineralisation related to Archaean BIF within the Project. It was reasoned that such accumulations could be related to two sources;

1. Weathered magnetite BIF (i.e.: supergene iron), occurring as surficial zones.
2. Hematite- facies BIF.

Nine priority areas were visited and surface sampled. Assay results for the 9 rock chip surface and float samples suggest the outcrops originally interpreted to the BIF are predominately ferruginous cherts, with Fe values averaging around 30%. The sampling was based upon the regional mapping interpretation which had defined target areas that were not associated with magnetic signatures, and were thus interpreted to be potential zones of hematite accumulations.

Further exploration focusing on the magnetic stratigraphy considered to be magnetic BIF is now a priority and will commence over coming months.

### **Operating results for the year**

Net loss attributable to equity holders for the period ended 30 June 2008	\$182,940
Basic loss per share (cents)	0.92

### **Significant changes in the state of affairs**

There have been no significant changes in the state of affairs of the Company to the date of this report, not otherwise disclosed in this report.

### **Significant events after balance date**

There has not been any matter or circumstance that has arisen after balance date that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial periods.

### **Likely developments and expected results**

Disclosure of information regarding likely developments in the operations of the Company in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the Company. Therefore, this information has not been presented in this report.

### **Environmental legislation**

The Company is not subject to any significant environmental legislation.

### **Indemnification and insurance of Directors and Officers**

The Company has agreed to indemnify the following current directors of the Company, Mr R Steinepreis, Mr D Holden, Mr A Gastevich, Mr D Riekie against all liabilities to another person (other than the Company or related body corporate) that may arise from their position as directors of the Company, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

**DIRECTORS' REPORT (continued)****Indemnification and insurance of Directors and Officers (continued)**

The Company has also agreed to indemnify the current directors for all liabilities to another person (other than the Company or related body corporate) that may arise from their position, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

The total amount of premiums paid was \$12,765.

**Remuneration report**

This report outlines the remuneration arrangements in place for directors and executives of Avonlea Minerals Limited (the "Company").

*Remuneration philosophy*

The performance of the Company depends upon the quality of the directors and executives. The philosophy of the Company in determining remuneration levels is to:

- set competitive remuneration packages to attract and retain high calibre employees;
- link executive rewards to shareholder value creation; and
- establish appropriate, demanding performance hurdles for variable executive remuneration.

*Remuneration structure*

In accordance with best practice Corporate Governance, the structure of non executive director and executive remuneration is separate and distinct.

*Non executive director remuneration*

The Board seeks to set aggregate remuneration at a level that provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders.

The ASX Listing Rules specify that the aggregate remuneration of non executive directors shall be determined from time to time by a general meeting.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually. The Board considers advice from external shareholders as well as the fees paid to non executive directors of comparable companies when undertaking the annual review process.

Each director receives a fee for being a director of the Company.

The remuneration of non executive directors for the period ended 30 June 2008 is detailed in note 17 of this report.

**Remuneration of directors****Table 1: Directors' remuneration for the period ended 30 June 2008**

	Primary benefits		Post employment		Equity	Total	%
	Salary & Fees	Non Monetary Benefits	Super-annuation	Prescribed benefits	Options		Performance related
R Steinepreis	20,000	-	-	-	-	20,000	-
D Holden	20,000	-	-	-	-	20,000	-
A Gastevich	120,000	-	10,800	-	-	130,800	-
Total	160,000	-	10,800	-	-	170,800	-

**DIRECTORS' REPORT (continued)**

**Directors' Meetings**

The number of meetings of directors held during the period and the number of meetings attended by each director was as follows:

	<b>Directors' Meetings</b>
<b>Number of meetings held:</b>	8
<b>Number of meetings attended:</b>	
R Steinepreis	8
D Holden	8
A Gastevich	8

**Auditor Independence and Non-Audit Services**

Section 307C of the Corporations Act 2001 requires our auditors, HLB Mann Judd, to provide the directors of the Company with an Independence Declaration in relation to the audit of the financial report. This Independence Declaration is set out on page 17 and forms part of this directors' report for the period ended 30 June 2008.

**Non-Audit Services**

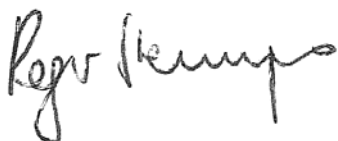
The following non-audit services were provided by our auditors, HLB Mann Judd. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act.

The directors are of the opinion that the services do not compromise the auditor's independence as all non-audit services have been reviewed to ensure that they do not impact the integrity and objectivity of the auditor and none of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES110 Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards Board.

HLB Mann Judd received or are due to receive the following amounts for the provision of non-audit services:

Preparation of Independent Accountant's report in IPO prospectus	\$ 7,500
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Signed in accordance with a resolution of the directors.



Roger Steinepreis  
Chairman

Perth, 17 September 2008

## **CORPORATE GOVERNANCE STATEMENT**

This statement outlines the main corporate governance practices in place throughout the period, which comply with the ASX Corporate Governance Council recommendations, unless otherwise stated.

### *Board of Directors*

#### Role of the board

The Board's primary role is the protection and enhancement of long-term shareholder value.

To fulfil this role, the Board is responsible for the overall corporate governance of the entity including formulating its strategic direction, approving and monitoring capital expenditure, setting remuneration, appointing, removing and creating succession policies for directors and senior executives, establishing and monitoring the achievement of management's goals and ensuring the integrity of internal control and management information systems. It is also responsible for approving and monitoring financial and other reporting.

#### Board Processes

The Board has established a framework for the management of the entity including a system of internal control, a business risk management process and appropriate ethical standards.

The full Board schedules meetings, including strategy meetings and any extraordinary meetings, as necessary to address any specific significant matters that may arise. The agenda for meetings is prepared in conjunction with the Chairman and Company Secretary. Standing items include the management report, financial reports, strategic matters, governance and compliance. Submissions are circulated in advance.

The Company is not currently considered to be of a size, nor is its affairs of such complexity to justify the establishment of separate board committees, including a Nomination Committee, Remuneration Committee or an Audit Committee. Accordingly, all matters that may be considered by such committees are dealt with by the full Board. Details of the Board's procedures in respect to each of these areas are further outlined within the Corporate Governance Statement below - see Nomination Committee, Remuneration Committee and Audit committee respectively.

#### Director Education

The Company has a formal process to educate new directors about the nature of the business, current issues, the corporate strategy and the expectations of the entity concerning performance of directors. Directors also have the opportunity to visit entity facilities and meet with management to gain a better understanding of business operations. Directors are given access to continuing education opportunities to update and enhance their skills and knowledge.

#### Independent Professional Advice and Access to Company Information

Each Director has the right of access to all relevant Company information and to the Company's executives and, subject to prior consultation with the chairman, may seek independent professional advice from a suitably qualified adviser at the entity's expense. The director must consult with an advisor suitably qualified in the relevant field, and obtain the chairman's approval of the fee payable for the advice before proceeding with the consultation. A copy of the advice received by the director is made available to all other members of the board.

#### Composition of the Board

The names of the Directors of the Company in office at the date of this report are set out in the Directors' Report on page 4 and 5.

The composition of the Board is determined using the following principles:

- A minimum of three directors, with a broad range of expertise both nationally and internationally
- Directors having extensive knowledge of the Company's industries, and those which do not, have extensive expertise in significant aspects of auditing and financial reporting, or risk management and financing of public companies
- The roles of Chairman and Managing Director are not to be exercised by the same individual; and
- One third of the Directors must retire from office each year (except for the Managing Director). A retiring Director is eligible for re-election.

## **CORPORATE GOVERNANCE STATEMENT (continued)**

### *Board of directors (continued)*

Board members have experience in the management of public companies. The board currently does not have a majority of independent directors as recommended by the ASX Corporate Governance Council. The directors consider that, given the current size and stage of development of the Company, the current number of independent directors in the Company is appropriate for the effective execution of the board's responsibilities. The directors periodically monitor the need to appoint additional independent directors.

### *Nomination Committee*

The board considers that a formally constituted Nomination Committee is not appropriate as the board, as part of its usual role, oversees the appointment and induction process for directors, and the selection, appointment and succession planning process of the Company's executive officers. The board considers the appropriate skill mix, personal qualities, expertise and diversity of each position. When a vacancy exists or there is a need for particular skills, the board determines the selection criteria based on the skills deemed necessary. The board identifies potential candidates and may take advice from an external consultant. The board then appoints the most suitable candidate. Board candidates must stand for election at the next general meeting of shareholders.

The chairman of the board continually reviews the effectiveness of the board, individual directors, and senior executives. The other directors have an opportunity to contribute to the review process. The reviews generate recommendations to the board, which votes on them. Directors displaying unsatisfactory performance are required to retire.

### *Remuneration Committee*

It is the company's objective to provide maximum stakeholder benefit from the retention of a high quality Board and executive team by remunerating directors and key executives fairly and appropriately with reference to relevant employment market conditions. To assist in achieving this objective, the Remuneration Committee links the nature and amount of executive directors' and officers' emoluments to the company's financial and operational performance.

The expected outcomes of the remuneration structure are:

- retention and motivation of key executives;
- attraction of high quality management to the company; and
- performance incentives that allow executives to share the success of Avonlea Minerals Limited.

For a full discussion of the company's remuneration philosophy and framework and the remuneration received by directors and executives in the current period please refer to the remuneration report, which is contained within the Directors' Report.

There is no scheme to provide retirement benefits, other than statutory superannuation, to non-executive directors.

The Board is responsible for determining and reviewing compensation arrangements for the directors themselves and the chief executive officer and executive team. The Board has established a Remuneration Committee, comprising two non-executive directors. Members of the Remuneration Committee throughout the year were:

Roger Steinepreis  
David Holden

### *Audit committee*

The Board has established an Audit Committee, which operates under a charter approved by the Board. It is the Board's responsibility to ensure that an effective internal control framework exists within the entity. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information as well as non financial considerations such as the benchmarking of operational key performance indicators. The Board has delegated responsibility for establishing and maintaining a framework of internal control and ethical standards to the Audit Committee.

The Committee also provides the Board with additional assurance regarding the reliability of financial information for inclusion in the financial reports.

*The members of the Audit Committee during the year were:*

Andrew Gastevich  
Roger Steinepreis  
David Holden

### *Qualifications of audit committee members*

Andrew Gastevich - B.Bus, Post Grad Dip(Acc), ACA, FTIA  
Roger Steinepreis - B.Juris. LLB  
David Holden - BSc(Geology), MBA

## **CORPORATE GOVERNANCE STATEMENT (continued)**

### *Risk Management*

#### Overview of the Risk Management System

The Board adopts practices designed to identify significant areas of business risk and to effectively manage those risks in accordance with the Company's risk profile. This includes assessing, monitoring and managing operational, financial reporting, and compliance risks for the consolidated entity. The Company is not of a size nor is its affairs of such complexity to justify the establishment of a formal system for reporting risk management and associated compliance and controls. Instead, a director, in accordance with Company policy, approves all expenditure, is intimately acquainted with all operations and reports all relevant issues to the other directors at the directors' meetings. The Company secretary has declared to the board, that the aforementioned system is working efficiently and effectively. The operational and other compliance risk management have also been assessed and found to be operating efficiently and effectively. All risk assessments covered the entire part of the financial year that the Company operated and the period up to the signing of the annual financial report for all material operations in the Company.

#### Risk Profile

The Company is not currently considered to be of a size, nor is its affairs of such complexity to justify the establishment of a separate Risk Management Committee. Instead, the board, as part of its usual role and through direct involvement in the management of the Company's operations ensures risks are identified, assessed and appropriately managed. Where necessary, the board draws on the expertise of appropriate external consultants to assist in dealing with or mitigating risk.

Major risks arise from such matters as actions by competitors, government policy changes, difficulties in sourcing raw materials, the robustness of the technologies being used or proposed to be used, environment, occupational health and safety, financial reporting and the purchase, development and use of information systems.

#### Risk Management, Compliance and Control

The board acknowledges that it is responsible for the overall internal control framework, but recognises that no cost effective internal control system will preclude all errors and irregularities.

Practices have been established to ensure:

- Capital expenditure and revenue commitments above a certain size obtain prior board approval;
- Financial exposures are controlled, including the potential use of derivatives;
- Occupational health & safety standards and management systems are monitored and reviewed to achieve high standards of performance and compliance with regulations;
- Business transactions are properly authorised and executed;
- Financial reporting accuracy and compliance with the financial reporting regulatory framework (see below); and
- Environmental regulation compliance (see below).

#### Financial Reporting

The Company secretary has declared, to the board that the Company's financial reports are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board.

Following the reporting period, monthly actual results are reported against budgets approved by the directors and revised forecasts for the year are prepared regularly.

#### Environmental Regulation

The Company's operations are subject to significant environmental regulation in relation to its operational activities. The Company is committed to achieving a high standard of environmental performance. The board is responsible for the regular monitoring of environmental exposures and compliance with environmental regulations.

The board believes that the Company has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they apply to the Company.

## **CORPORATE GOVERNANCE STATEMENT (continued)**

### Internal Audit

The Company does not have a formally established internal audit function. The board ensures compliance with the internal controls and risk management procedures previously mentioned.

### Ethical Standards

All directors, managers and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Company.

### Conflict of Interest

Directors must keep the board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. The board has developed procedures to assist directors to disclose potential conflicts of interest.

Where the board believes that a significant conflict exists for a director on a board matter, the director concerned is not present at the meeting whilst the item is considered.

### Code of conduct

The Company has established a Code of Conduct (Code) which aims to develop a consistent understanding of, and approach to, the desired standards of conduct and behaviour of the directors, officers, employees and contractors (collectively, the Employees) in carrying out their roles for the Company. Through this Code, the Company seeks to encourage and develop a culture of professionalism, honesty and responsibility in order to maintain and enhance our reputation as a valued employer, business operator and "corporate citizen". The Code is designed to broadly outline the ways in which the Company wishes to conduct its business. The Code does not cover every possible situation that Employees may face, but is intended to provide Employees with a guide to taking a commonsense approach to any given situation, within an overall framework.

### Trading in the Company's securities by directors and employees

The Company has established a Security Trading Policy that is provided to all Directors and employees on commencement.

The constitution permits directors to acquire shares in the Company. Company policy prohibits directors from dealing in shares whilst in possession of price sensitive information. Directors must notify the Company secretary once they have bought or sold shares in the Company or exercised options over ordinary shares. In accordance with the provisions of the Corporations Act 2001 and the Listing Rules of the Australian Securities Exchange, the Company on behalf of the directors must advise the Australian Securities Exchange of any transactions conducted by them in shares and / or options in the Company.

### Communication with Shareholders

The board has formally documented the Company's continuous disclosure procedures and established a Compliance policy. The board, as part of its usual role, provides shareholders with information using comprehensive continuous disclosure processes which includes identifying matters that may have a material effect on the price of the Company's securities, notifying them to the ASX and issuing media releases.

In summary, the continuous disclosure processes operate as follows:

- The chairman and the Company secretary are responsible for all communications with the ASX. Matters that may have an effect on the price of the Company's securities are advised to the ASX on the day they are discovered. Senior executives monitor all areas of the Company's internal and external environment;
- The full annual financial report is made available to all shareholders, and includes relevant information about the operations of the Company during the year, changes in the state of affairs and details of future developments;
- The half-yearly report contains summarised financial information and a review of the operations of the Company during the period. The half-year reviewed financial report is lodged with the Australian Securities and Investments Commission and the ASX, and sent to any shareholder who requests it;
- Proposed major changes in the Company which may impact on share ownership rights are submitted to a vote of shareholders;
- All announcements made to the market, and related information (including information provided to analysts and the media), are released to the ASX; and

**CORPORATE GOVERNANCE STATEMENT (continued)**

- The external auditor attends the Annual General Meeting to answer any questions concerning the audit and the content of the Auditor's Report.

The board encourages full participation of shareholders at the Annual General Meeting, to ensure a high level of accountability and identification with the Company's strategy and goals. Important issues are presented to the shareholders as single resolutions.

The shareholders are requested to vote on the appointment and aggregate remuneration of directors, the granting of options and shares to directors and changes to the constitution. Copies of the constitution are available to any shareholder on request.



Accountants | Business and Financial Advisers

## **Auditor's Independence Declaration**

As lead auditor for the audit of the financial report of Avonlea Minerals Limited for the period ended 30 June 2008, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Avonlea Minerals Limited.

A handwritten signature in blue ink, appearing to read 'W M Clark'.

**Perth, Western Australia**  
**17 September 2008**

**W M CLARK**  
**Partner, HLB Mann Judd**

**HLB Mann Judd (WA Partnership) ABN 22 193 232 714**

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Liability limited by a scheme approved under Professional Standards Legislation

HLB Mann Judd (WA Partnership) is a member of  International and the HLB Mann Judd National Association of independent accounting firms

**INCOME STATEMENT  
FOR THE PERIOD ENDED 30 JUNE 2008**

	Notes	2008 \$
Revenue	2	143,960
Accounting expense		(6,614)
Audit fees		(15,000)
Consultants		(17,665)
Depreciation expense		(506)
Directors' fees		(20,000)
Employee benefits expense		(142,542)
Insurance		(10,936)
Legal fees		(49,134)
Listing fees		(5,265)
Office expense		(26,647)
Other expenses		(18,622)
Share registry expense		(2,817)
Travel and accommodation		(11,152)
<b>Loss before income tax expense</b>	2	<b>(182,940)</b>
Income tax expense	3	-
<b>Loss after tax</b>		<b>(182,940)</b>
Basic loss per share (cents per share)	5	<b>0.92 cents</b>

The accompanying notes form part of these financial statements

**BALANCE SHEET  
AS AT 30 JUNE 2008**

	Notes	2008 \$
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	6	2,360,314
Trade and other receivables	7	19,110
<b>Total Current Assets</b>		<u>2,379,424</u>
<b>Non-Current Assets</b>		
Property, plant and equipment	8	1,599
Deferred exploration expenditure	9	1,086,957
<b>Total Non-Current Assets</b>		<u>1,088,556</u>
<b>Total Assets</b>		<u>3,467,980</u>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Trade and other payables	11	93,427
<b>Total Current Liabilities</b>		<u>93,427</u>
<b>Total Liabilities</b>		<u>93,427</u>
<b>Net Assets</b>		<u>3,374,553</u>
<b>Equity</b>		
Issued capital	12	3,557,493
Accumulated losses	12	(182,940)
<b>Total Equity</b>		<u>3,374,553</u>

The accompanying notes form part of these financial statements

**CASH FLOW STATEMENT  
FOR THE PERIOD ENDED 30 JUNE 2008**

	Note	2008 \$
		<u>Inflows/ (Outflows)</u>
<b>Cash flows from operating activities</b>		
Payments to suppliers and employees		(253,482)
Interest received		143,960
Net cash used in operating activities	6	<u>(109,522)</u>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment		(2,105)
Payments for deferred exploration expenditure		(95,552)
Net cash used in investing activities		<u>(97,657)</u>
<b>Cash flows from financing activities</b>		
Proceeds from issue of shares		2,707,000
Payments for share issue costs		(139,507)
Net cash provided by financing activities		<u>2,567,493</u>
Net increase in cash and cash equivalents		2,360,314
Cash and cash equivalents at beginning of period		<u>-</u>
<b>Cash and cash equivalents at 30 June 2008</b>	6	<u><u>2,360,314</u></u>

The accompanying notes form part of these financial statements

**STATEMENT OF CHANGES IN EQUITY  
FOR THE PERIOD ENDED 30 JUNE 2008**

	Ordinary Shares	Accumulated losses	Total
	\$	\$	\$
Shares issued during the year	3,697,000	-	3,697,000
Transaction costs	(139,507)	-	(139,507)
Loss attributable to members of the parent entity	-	(182,940)	(182,940)
<b>Balance at 30 June 2008</b>	<b>3,557,493</b>	<b>(182,940)</b>	<b>3,374,553</b>

The accompanying notes form part of these financial statements

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2008**

### **NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

#### **(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, Accounting Standards and Interpretations, and complies with other requirements of the law. The financial report has also been prepared on a historical cost basis.

The financial report is presented in Australian dollars.

The Company is an Australian Securities Exchange Limited listed public Company, incorporated in Australia and operating in Australia. The Company was incorporated on 1 May 2007 and therefore this report is for the period from incorporation to 30 June 2008 (14 month period). No comparative balances appear because the Company has only been in operation since 1 May 2007.

#### **(b) Adoption of new and revised standards**

In the period ended 30 June 2008, the Company has adopted all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2007. Details of the impact of the adoption of these new accounting standards are set out in the individual accounting policy notes set out below. The Company has also adopted the following Standards as listed below which only impacted on the Company's financial statements with respect to disclosure:

- AASB 101 'Presentation of Financial Instruments' (revised October 2006)
- AASB 7 'Financial Instruments: Disclosures'

The Company has also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the year ended 30 June 2008. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change necessary to Company accounting policies.

#### **(c) Statement of Compliance**

The financial report was authorised for issue on 17 September 2008.

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

#### **(d) Critical accounting judgments, and key sources of estimation uncertainty**

The application of accounting policies requires the use of judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

##### *Key estimate - Impairment*

The Company assesses impairment at each reporting date by evaluating conditions specific to the Company that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. No impairment loss was recorded in the current financial year.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2008

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (e) Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

##### *Interest income*

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

#### (f) Cash and cash equivalents

Cash comprises cash at bank and short term deposits. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above.

#### (g) Trade and other receivables

Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An allowance for doubtful debts is made when there is objective evidence that the Company will not be able to collect the debts. Bad debts are written off when identified.

#### (h) Derecognition of financial assets and financial liabilities

##### *(i) Financial assets*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration received that the Company could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Company's continuing involvement is the amount of the transferred asset that the Company may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Company's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

##### *(ii) Financial liabilities*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2008

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (i) Impairment of financial assets

The Company assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

##### (i) *Financial assets carried at amortised cost*

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of an allowance account.

The amount of the loss is recognised in profit or loss.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

##### (ii) *Financial assets carried at cost*

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value (because its fair value cannot be reliably measured), or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset.

#### (j) Income tax

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or

## NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2008

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (j) Income tax (continued)

- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

#### (k) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

#### (l) Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation.

Land and buildings are measured at fair value less accumulated depreciation on buildings and less any impairment losses recognised after the date of the revaluation.

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets as follows:

Office Equipment – over 5 to 8 years

Computer Equipment – over 2.5 years

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2008

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (l) Property, plant and equipment (continued)

##### (i) Impairment

The carrying values of plant and equipment are reviewed for impairment at each reporting date, with recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use. 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.

For an asset that does not generate largely independent cash inflows, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its fair value.

An impairment exists when the carrying value of an asset or cash-generating units exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

For plant and equipment, impairment losses are recognised in the income statement in the cost of sales line item.

##### (ii) Derecognition and disposal

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

#### (m) Financial assets

Financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transactions costs. The *Company* determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the *Company* commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the marketplace.

##### (i) Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in profit or loss.

##### (ii) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the *Company* has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2008

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (m) Financial assets (continued)

##### *(iii) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

##### *(iv) Available-for-sale investments*

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as any of the three preceding categories. After initial recognition available-for sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments with no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models.

#### (n) Intangible assets

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is charged against profits in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is thus accounted for on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

#### (o) Impairment of assets

The Company 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 Company 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.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2008

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 revalued amount (in which case the impairment loss is treated as a revaluation decrease).

#### (o) Impairment of assets (continued)

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at 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.

#### (p) Trade and other payables

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Company prior to the end of the financial year that are unpaid and arise when the Company becomes obliged to make future payments in respect of the purchase of these goods and services.

#### (q) Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate assets but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability.

When discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

#### (r) Employee leave benefits

##### *(i) Wages, salaries, annual leave and sick leave*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

##### *(ii) Long service leave*

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and period of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2008

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (s) Share-based payment transactions

##### *Equity settled transactions:*

The Company provides benefits to employees (including senior executives) of the Company in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an internal valuation using a Black-Scholes option pricing model, further details of which are given in Note 10.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Avonlea Minerals Limited (market conditions) if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting period).

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the Company's best estimate of the number of equity instruments that will ultimately vest. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share (see Note 5).

#### (t) Issued capital

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.

#### (u) Earnings per share

Basic earnings per share is calculated as net result attributable to members of the Company, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net result attributable to members of the Company, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares; divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2008**

### **NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **(v) Exploration and evaluation**

Exploration and evaluation expenditures in relation to each separate area of interest are recognised as an exploration and evaluation asset in the year in which they are incurred where the following conditions are satisfied:

- (i) the rights to tenure of the area of interest are current; and
- (ii) at least one of the following conditions is also met:
  - (a) the exploration and evaluation expenditures are expected to be recouped through successful development and exploration of the area of interest, or alternatively, by its sale; or
  - (b) exploration and evaluation activities in the area of interest have not at the reporting date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are initially measured at cost and include acquisition of rights to explore, studies, exploratory drilling, trenching and sampling and associated activities and an allocation of depreciation and amortised of assets used in exploration and evaluation activities. General and administrative costs are only included in the measurement of exploration and evaluation costs where they are related directly to operational activities in a particular area of interest.

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. The recoverable amount of the exploration and evaluation asset (for the cash generating unit(s) to which it has been allocated being no larger than the relevant area of interest) is estimated to determine the extent of the impairment loss (if any). Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in previous years.

Where a decision has been made to proceed with development in respect of a particular area of interest, the relevant exploration and evaluation asset is tested for impairment and the balance is then reclassified to development.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 JUNE 2008**

	<b>2008</b>
	<b>\$</b>
<b>NOTE 2: REVENUES AND EXPENSES</b>	
<b>(a) Revenue</b>	
Interest	143,960
	<u>143,960</u>
<b>(b) Expenses</b>	
Depreciation of non-current assets	506
Contribution to employee superannuation plans	10,800
<b>NOTE 3: INCOME TAX</b>	
<b>Income tax recognised in the income statement</b>	
The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:	
Accounting loss before tax	(182,940)
	<u>54,882</u>
Income tax benefit calculated at 30%	54,882
Non-deductible expenses:	
Tax losses and timing differences not brought to account	(54,882)
	<u>-</u>
Income tax expense reported in the income statement	<u>-</u>

**NOTE 4: SEGMENT REPORTING**

**Segment Information**

The Company operates in one geographical segment, for primary reporting, being Australia, and in one business segment for secondary reporting, being mineral exploration.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 JUNE 2008**

**NOTE 5: EARNINGS PER SHARE**

	<b>2008</b>
	<u>Cents per share</u>
<i>Basic loss per share:</i>	0.92
The loss and weighted average number of ordinary shares used in the calculation of basic earnings per share is as follow:	
	\$
Loss for the period	<u>(182,940)</u>
	<u>Number</u>
Weighted average number of ordinary shares for the purposes of basic loss per share	<u>19,975,143</u>

*Diluted Loss per share*

There is no dilution of shares due to options as the potential ordinary shares are not dilutive and are therefore not included in the calculation of diluted loss per share.

**NOTE 6: CASH AND CASH EQUIVALENTS**

	<b>2008</b>
	<u>\$</u>
Cash at bank	48,395
Short term deposits	<u>2,311,919</u>
	<u><u>2,360,314</u></u>

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short term deposits are made for varying periods of between 30 days and three months, depending on the immediate cash requirements of the Company, and earn interest at the respective short term deposit rates.

**(i) Reconciliation to Cash Flow Statement:**

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and at bank.

Cash and cash equivalents as shown in the cash flow statement are reconciled to the related items in the balance sheet as follows:

Cash and cash equivalents	<u>2,360,314</u>
	<u><u>2,360,314</u></u>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2008

### NOTE 6: CASH AND CASH EQUIVALENTS (continued)

#### (ii) Reconciliation of loss for the period to net cash flows from operating activities:

Loss for the period	(182,940)
Depreciation expense	506
Exploration expenditure write off	10,000
Increase in operating assets:	
Trade and other receivables	(19,110)
Increase in operating liabilities:	
Trade and other payables	82,022
	<hr/>
Net cash from operating activities	(109,522)
	<hr/>

#### (iii) Non Cash financial and investing activities

During the financial period 4,950,000 ordinary shares in the Company were issued at 20c for the acquisition of exploration projects.

### NOTE 7: CURRENT TRADE AND OTHER RECEIVABLES

	<b>2008</b>
	<b>\$</b>
	<hr/>
Prepayments	2,397
Deposit - Tenements	5,000
GST Refund	11,713
	<hr/>
	<u>19,110</u>

Trade receivables are non-interest bearing and are generally on 30-90 day terms. An allowance for doubtful debts is made when there is objective evidence that a trade receivable is impaired. The amount of the allowance/impairment loss has been measured as the difference between the carrying amount of the trade receivables and the estimated future cash flows expected to be received from the relevant debtors.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2008

### NOTE 8 : PROPERTY, PLANT AND EQUIPMENT

	Office Equipment \$	Computer Equipment \$	Total \$
<b>Period ended 30 June 2008</b>			
Opening written down value	-	-	-
Additions	289	1,816	2,105
Disposals	-	-	-
Depreciation charge for the period	(69)	(437)	(506)
Closing written down value	220	1,379	1,599
<b>At 30 June 2008</b>			
Cost or fair value	289	1,816	2,105
Accumulated depreciation and impairment	(69)	(437)	(506)
Net carrying amount	220	1,379	1,599

The useful life of the assets was estimated as follows for 2008:

Office equipment	5 to 8 years
Computer equipment	2.5 years

### NOTE 9: DEFERRED EXPLORATION EXPENDITURE

	<b>2008</b> \$
Costs carried forward in respect of:	
<b>Exploration and evaluation phase – at cost</b>	
Balance at beginning of period	-
Purchase of exploration projects	990,000
Expenditure incurred	106,957
	1,096,957
Expenditure written off	10,000
Total exploration expenditure	1,086,957

The recoupment of costs carried forward in relation to areas of interest in the exploration and evaluation phases are dependent on the successful development and commercial exploitation or sale of the respective areas.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2008

### NOTE 10: TRADE AND OTHER PAYABLES (CURRENT)

	<b>2008</b>
	<b>\$</b>
Trade payables(i)	62,330
Employee entitlements	11,742
Accruals	10,055
Other payables	9,300
	<u>93,427</u>

(i) Trade payables are non-interest bearing and are normally settled on 30-day terms

### NOTE 11: ISSUED CAPITAL AND RESERVES

	<b>2008</b>
	<b>\$</b>
Ordinary shares issued and fully paid	<u>3,557,493</u>

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

	<b>Number</b>	<b>\$</b>
<i>Movement in ordinary shares on issue</i>		
Issue of promoter and seed capital shares	9,000,000	207,000
Issue of shares as consideration for exploration projects	4,950,000	990,000
Issue of shares pursuant to the IPO Prospectus	12,500,000	2,500,000
Share issue costs		(139,507)
		<u>3,557,493</u>
At 30 June 2008	<u>26,450,000</u>	<u>3,557,493</u>

#### *Share Options on Issue*

As at 30 June 2008, the Company has 7,000,000 options on issue. Each option entitles the holder to subscribe for one share at an issue price of 20 cents on or before 31 May 2012.

#### *Accumulated losses*

Movements in accumulated losses were as follows:

	<b>2008</b>
	<b>\$</b>
Opening balance	-
Net loss for the period	(182,940)
Balance at 30 June 2008	<u>(182,940)</u>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2008

### NOTE 12: FINANCIAL INSTRUMENTS

Set out below is a comparison by category of carrying amounts and fair values of all of the Company's financial instruments recognised in the financial statements.

The Directors consider that the carrying amounts of financial assets and liabilities recording in the financial statements approximates their fair value.

	Carrying Amount 2008 \$	Fair Value 2008 \$
<i>Financial assets</i>		
Cash and cash equivalents	2,360,314	2,360,314
Trade and other receivables	19,110	19,110
	2,379,424	2,379,424
<i>Financial liabilities</i>		
Trade and other payables	93,427	93,427
	93,427	93,427

### **Maturity of financial instruments**

Period ended 30 June 2008	<i>Within 1 year \$</i>	<i>Total \$</i>	<i>Weighted average effective interest rate</i>
<i>Financial assets</i>			
<i>Floating rate</i>			
Cash and cash equivalents	2,360,314	2,360,314	7.155%
<i>Financial liabilities</i>			
<i>Non interest bearing</i>			
Trade and other payables	93,427	93,427	-

## NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2008

### NOTE 13: FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's principal financial instruments comprise of cash and short-term deposits.

The main purpose of these financial instruments is to raise finance for the Company's operations. The Company has various other financial assets and liabilities such as receivables and trade payables, which arise directly from its operations. It is, and has been throughout the period under review, the Company's policy that no trading in financial instruments shall be undertaken. The main risks arising from the Company's financial instruments are interest rate risk and credit risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

#### **Liquidity risk**

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities to ensure continuity of tenure to exploration assets and to be able to conduct the Company's business in an orderly and professional manner. Cash deposits are only held with one of the Australian "Big 4" banks.

#### **Interest rate risk**

All cash balances attract a floating rate of interest. Excess funds that are not required in the short term are placed on deposit for a period of no more than 6 months. The Company's exposure to interest rate risk and the effective interest rate by maturity periods is set out below. As the Company has no borrowings its exposure to interest rate movements is limited to the amount of interest income it can potentially earn on surplus cash deposits.

#### **Capital risk**

The Company has no debt facilities outside of normal creditor trading terms and thus the board does not deem necessary a formal Capital Risk Management charter.

#### **Credit risk**

Credit risk relates to the risk that counterparties will default on their contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of only dealing with credit worthy counterparties and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the risk of financial loss from any defaults.

The exposure of the Company to credit risk in relation to each class of recognised financial asset is the carrying amount as indicated in the balance sheet.

### NOTE 14: EXPENDITURE COMMITMENTS

In order to maintain current rights to tenure of exploration tenements, the Company is required to perform minimum Mines Department expenditure requirements and pay rent specified by Australia State Governments. In addition the Company has planned exploration work on other tenements and mining licences.

	<b>2008</b>
	<b>\$</b>
Exploration expenditure committed:	
Not longer than 1 year	720,000
1-5 years	-
Longer than 5 years	-
Total	<u>720,000</u>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2008

### NOTE 15: EVENTS AFTER THE BALANCE SHEET DATE

On 21 August 2008 David Riekie was appointed Managing Director of the Company. As a part of his appointment, an Option package of 12,500,000 options at various strike prices was granted. On the same date, Andrew Gastevich retired as an Executive Director and was appointed a Non Executive Director. In addition, an issue of 7.5 million shares at 10 cents to sophisticated investors was also proposed.

There has not arisen any other events in the interval between the balance date and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company in future periods.

### NOTE 16: AUDITORS' REMUNERATION

The auditors of Avonlea Minerals Limited are HLB Mann Judd.

	<b>2008</b>
	<b>\$</b>
<i>Amounts received or due and receivable by HLB Mann Judd for:</i>	
- An audit or review of the financial report of the entity	15,000
Other services in relation to the entity.	
- Independent Accountant's report for inclusion in IPO prospectus	7,500
	<u>22,500</u>

### NOTE 17: DIRECTORS AND EXECUTIVE DISCLOSURES

#### (a) Details of Key Management Personnel

##### (i) Directors

Roger Steinepreis	Chairman (non executive)
David Riekie	Managing Director (executive)
Andrew Gastevich	Director (non executive)
David Holden	Director (non executive)

##### (ii) Executives

None

David Riekie was appointed Managing Director on 21 August 2008. On the same day Andrew Gastevich resigned as an Executive Director and was appointed a Non Executive Director.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2008

### NOTE 17: DIRECTORS AND EXECUTIVE DISCLOSURES (continued)

#### (b) Compensation of Key Management Personnel

##### (i) Compensation Policy

The performance of the Company depends upon the quality of its directors and executives. To prosper, the Company must attract, motivate and retain highly skilled directors and executives.

To this end, the Company embodies the following principles in its compensation framework:

- Provide competitive rewards to attract high calibre executives;
- Link executive rewards to shareholder value;
- Significant portion of executive compensation 'at risk', dependent upon meeting pre-determined performance benchmarks; and

Establish appropriate, demanding performance hurdles in relation to variable executive compensation.

##### (A) Remuneration Reviews

The Board of Directors of the Company are responsible for determining and reviewing compensation arrangements for the directors, the Managing Director and all other key management personnel.

The Board of Directors assesses the appropriateness of the nature and amount of compensation of key management personnel on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team.

##### (B) Compensation Structure

In accordance with best practice corporate governance, the structure of non executive director and executive compensation is separate and distinct.

##### (C) Non executive Director Compensation

###### *Objective*

The Board seeks to set aggregate compensation at a level that provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders.

###### *Structure*

The Constitution and the ASX Listing Rules specify that the aggregate compensation of non executive directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed.

The amount of aggregate compensation sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually. The Board considers advice from external consultants as well as the fees paid to non executive directors of comparable companies when undertaking the annual review process.

The compensation of non executive directors for the period ending 30 June 2008 is detailed below.

##### (D) Executive Compensation

###### *Objective*

The entity aims to reward executives with a level and mix of compensation commensurate with their position and responsibilities within the entity so as to:

- reward executives for Company, business unit and individual performance against targets set to appropriate benchmarks;
- align the interests of executives with those of shareholders;
- link rewards with the strategic goals and performance of the Company; and
- ensure total compensation is competitive by market standards.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2008

### NOTE 17: DIRECTORS AND EXECUTIVE DISCLOSURES (continued)

#### (b) Compensation of Key Management Personnel (continued)

##### (ii) Compensation of Key Management Personnel for the period ended 30 June 2008

	Salary & Fees	Cash Bonus	Short-term Non Monetary Benefits	Other	Post Employment Super	Retirement Benefits	Long Term Incentive Plans	Share Based Payment Options	Total	Total Performance Related
30 June 2008	\$	\$	\$	\$	\$	\$	\$	\$	\$	%
<b>Directors</b>										
Roger Steinepreis	20,000	-	-	-	-	-	-	-	20,000	-
David Holden	20,000	-	-	-	-	-	-	-	20,000	-
Andrew Gastevich	120,000	-	-	-	10,800	-	-	-	130,800	-
<b>Total</b>	<b>160,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,800</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>170,800</b>	<b>-</b>

##### (iii) Compensation by category: Key Management Personnel

	<b>2008</b>
	<b>\$</b>
Short-Term	160,000
Post Employment	10,800
Other Long-Term	-
Termination Benefits	-
Share-based Payments	-
	<u>170,800</u>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2008

### NOTE 17: DIRECTORS AND EXECUTIVE DISCLOSURES (continued)

#### (c) Compensation options: Granted and vested during the year

No Compensation Options were issued during the period.

#### (d) Shares issued on Exercise of Compensation Options

No options were exercised during the period.

#### (e) Option holdings of Key Management Personnel

30 June 2008	Balance at beginning of period	Granted as remuneration		Net change Other	Balance at end of period 30/06/08	Vested as at 30 June 2008		
		Options exercised				Total	Exercisable	Not exercisable
<b>Directors</b>								
Roger Steinepreis	-	-	-	3,000,000	3,000,000	3,000,000	3,000,000	-
David Holden	-	-	-	750,000	750,000	750,000	750,000	-
Andrew Gastevich	-	-	-	750,000	750,000	750,000	750,000	-
<b>Total</b>	-	-	-	4,500,000	4,500,000	4,500,000	4,500,000	-

#### (f) Shareholdings of Key Management Personnel

Shares held in Avonlea Minerals Limited (number of ordinary shares)

30 June 2008	Balance at beginning of period		Granted as remuneration	On exercise of options	Net change other	Balance 30 June 2008
	Ord	Ord				
<b>Directors</b>						
Roger Steinepreis	-	-	-	-	3,500,000	3,500,000
David Holden	-	-	-	-	850,000	850,000
Andrew Gastevich	-	-	-	-	950,000	950,000
	-	-	-	-	5,300,000	5,300,000

All equity transactions with key management personnel have been entered into under terms and conditions no more favourable than those the Company would have adopted if dealing at arm's length.

#### (g) Loans to Key Management Personnel

No loans have been provided to key personnel during the period.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 JUNE 2008**

**NOTE 17: DIRECTORS AND EXECUTIVE DISCLOSURES (continued)**

**(h) Other transactions and balances with Key Management Personnel**

No other transactions with key management personnel have occurred during the period.

**NOTE 18: RELATED PARTY DISCLOSURE**

Transactions of Directors and Director-related entities

The terms and conditions of transactions with Directors and their Director-related entities were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-Director related entities on an arms length basis.

The aggregate amount recognised during the year to Directors and their Director-related entities were as follows:

Steinepreis Paganin Lawyers & Consultants

During the financial period, the Company was provided with services by Steinepreis Paganin Lawyers & Consultants, of which Roger Steinepreis has a partnership interest, totalling \$61,394; \$38,122 remains outstanding at 30 June 2008.

The subsidiary of Avonlea Minerals Limited is listed in the following table:

<i>Name</i>	<i>Country of Incorporation</i>	<i>% Equity Interest 2008</i>	<i>Investment (\$) 2008</i>
Avonlea Minerals (Indonesia) Limited	Indonesia	100%	-


Avonlea Minerals Limited is the ultimate Australian parent entity and ultimate parent of the Group

The subsidiary has not traded during the period and has no assets or liabilities at 30 June 2008. As a result consolidated financial statements have not been prepared on the basis of materiality.

### DIRECTORS' DECLARATION

1. In the opinion of the directors:
  - a. the financial statements and notes of the Company are in accordance with the Corporations Act 2001 including:
    - i. giving a true and fair view of the Company's financial position as at 30 June 2008 and of the performance for the period then ended; and
    - ii. complying with Accounting Standards and Corporations Regulations 2001; and
  - b. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. 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 period ended 30 June 2008.

This declaration is signed in accordance with a resolution of the Board of Directors.



---

Roger Steinepreis  
Director

Dated 17th September 2008



Accountants | Business and Financial Advisers

## INDEPENDENT AUDITOR'S REPORT

### To the members of Avonlea Minerals Limited

We have audited the accompanying financial report of Avonlea Minerals Limited, which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration as set out on pages 18 to 43.

#### *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 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(c), the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

#### *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 the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control 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 control. 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.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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 complied with the independence requirements of the Corporations Act 2001.

*Auditor's Opinion*

In our opinion:

- (a) the financial report of Avonlea Minerals Limited is in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the company's financial position as at 30 June 2008 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; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1(c).



**HLB MANN JUDD**  
**Chartered Accountants**



**Perth, Western Australia**  
**17 September 2008**

**W M CLARK**  
**Partner**

## SHAREHOLDER INFORMATION

### DISTRIBUTION OF EQUITY SECURITIES

The distribution of members and their holdings of fully paid ordinary shares as at 17 September 2008 were as follows:

Shares held	No. of Shareholders	Percentage
1 – 1,000	0	0.00
1,001 – 5,000	4	0.05
5,001 – 10,000	97	3.65
10,001 – 100,000	164	23.81
100,001 and over	36	72.50
<b>Total</b>	<b>301</b>	<b>100.00</b>

	Min Parcel size	Holders	Units
Less than marketable parcel	4,347	3	7,318

### TWENTY LARGEST SHARE SECURITY HOLDERS

The names of the 20 largest holders of fully paid ordinary shares (BCN) as at 17 September 2008 are listed below:

Name	Number of Shares	Percentage
Blueknight Pty Ltd	3,500,000	13.23
Straits Exploration Australia Pty Ltd	1,500,000	5.67
Duketon Consolidated Ltd	1,350,000	5.10
Talltree Holdings Pty Ltd	1,250,000	4.73
Narelle Elizabeth Gastevich	950,000	3.59
Mr Paul Geoffrey Lloyd & Mrs Sharon Marie Lloyd	950,000	3.59
Shackleton Capital Pty Ltd	850,000	3.21
Sharon Gaye Schreck	750,000	2.84
Ocean Partners Pty Ltd	600,000	2.27
Montrose Investments WA Pty Ltd	600,000	2.27
Chifley Investors Group Pty Ltd	600,000	2.27
Paul Geoffrey Lloyd	500,000	1.89
SCE Super Pty Ltd	500,000	1.89
Eikofin BVBA	500,000	1.89
Pointdale Pty Ltd	413,750	1.56
Moutier Pty Ltd	413,750	1.56
South Boulder Mines Ltd	400,000	1.51
Sutherland Family Company Pty Ltd	300,000	1.13
Brent Michael Stewart & Michelle Stewart	250,000	0.95
Colin MacKellar	250,000	0.95
<b>Total</b>	<b>16,427,500</b>	<b>62.10%</b>

The names of the holders of options (unquoted and exercisable at 20 cents on or before 31 May 2012, as at 17 September 2008 are listed below:

<b>Name</b>	<b>Number of Options</b>	<b>Percentage</b>
Blueknight Corporation Pty Ltd	3,000,000	42.87
Talltree Holdings Pty Ltd	1,000,000	14.29
Narelle Elizabeth Gastevich	750,000	10.71
Shackleton Capital Pty Ltd	750,000	10.71
Mr Paul Geoffrey Lloyd & Mrs Sharon Marie Lloyd	750,000	10.71
Sharon Gaye Schreck	750,000	10.71
<b>Total</b>	<b>7,000,000</b>	<b>100%</b>

### **RESTRICTED SECURITIES**

The Company has on issue the following restricted securities;

<b>Class</b>	<b>Number</b>	<b>Date cease to be restricted securities</b>
Ordinary fully paid shares	1,500,000	22 August 2008
Ordinary fully paid shares	2,850,000	7 September 2008
Ordinary fully paid shares	7,900,000	14 September 2009
Options exercisable at 20 cents on or before 31 May 2012	7,000,000	14 September 2009

### **SUBSTANTIAL SHAREHOLDERS**

The Company's Register of Substantial Shareholders, prepared in accordance with section 715 of the Corporations Act 2001, recorded the following information as at 17 September 2008:

<b>Name</b>	<b>Number of Shares</b>	<b>Class of share</b>
Blueknight Corporation Pty Ltd	3,500,000	ORD

## TENEMENT SCHEDULE

Project	Tenement	Registered Holder	Expiry Date	Size	Commitment	Comments/Notes
<b>Wentworth</b>	EPM14662	Avonlea Minerals Ltd	11/01/2011	29 km <sup>2</sup>	80,000	BCN 100% <sup>1</sup>
	EPM14745	Avonlea Minerals Ltd	22/11/2009	156 km <sup>2</sup>	80,000	BCN 100% <sup>1</sup>
<b>Diemals</b>	E77/1297	Duketon Consolidated Ltd	09/10/2011	200 km <sup>2</sup>	N/A	AVZ 85% <sup>2</sup>

Notes - N/A = Not Applicable

1- Avonlea purchased 100% of the tenements from Straits Gold Ltd for 1,500,000 ordinary shares at 20c, escrowed for 12 months.

2 – Avonlea purchased 85% of the Iron Ore rights of E77/1297 from Duketon Consolidated Pty Ltd for 3,450,000 ordinary shares at 20c, escrowed for 9 months. Duketon are free carried until the completion of a bankable feasibility study.