

[Name of Shareholder]

[Address]

[Address]

8 May 2009

Dear Shareholder

RIGHTS ISSUE INFORMATION FOR SHAREHOLDERS

As you may be aware, the Company will shortly be offering to you an opportunity to acquire more shares in the Company pursuant to an underwritten pro-rata non-renounceable rights issue to shareholders of up to approximately 21,873,333 shares on the basis of 1 new share for every 3 shares held on the record date at an issue price of \$0.05 per new share to raise up to approximately \$1,093,667 ("**Rights Issue**").

This offer will be made pursuant to a Prospectus and if you wish to participate in the Rights Issue, you will need to complete the Entitlement and Acceptance Form that will accompany the Prospectus.

A copy of the Prospectus has been lodged with ASX ("Australian Securities Exchange") and is available on the ASX website and will be available on the Company's website www.avalonminerals.com.au.

Pursuant to the Listing Rules of the ASX Limited ("**Listing Rules**"), the Company is required to provide to you certain information before proceeding with the Rights Issue. This letter contains all the information required by Appendix 3B of the Listing Rules.

1. Up to a maximum of 21,873,333 fully paid ordinary shares will be issued pursuant to the Rights Issue if no existing options are exercised. If all existing options are exercised and those option holders exercise their rights, a further 2,100,000 may be issued.
2. The shares to be issued will rank equally in all respects from the date of allotment with the existing quoted ordinary shares.
3. The issue price of the shares will be 5 cents each.
4. The Company will apply for quotation of the shares issued pursuant to the Rights Issue on the official list of the ASX.
5. The funds raised by the Rights Issue will be used towards the Viscaria drilling program, working capital and to meet the costs of the Rights Issue.
6. The securities will be entered into uncertificated holdings or dispatch of certificates on 12 June 2009.
7. The total number and class of all securities quoted on ASX (including the maximum number of shares to be issued in the Rights Issue (assuming no existing options are exercised)) is as follows:

Number	Class
87,493,333	Ordinary shares

8. The total number and class of all securities not quoted on the ASX is as follows (assuming no existing options are exercised):

Number of Options	Exercise price/ Expiry Date
3,900,000	20 cents options expiring 10 February 2010
800,000	20 cents options expiring 31 Jan 2010
125,000	25 cents options expiring 31 Jan 2010
1,075,000	40 cents options expiry 31 Jan 2010
300,000	30 cents options expiry 31 July 2011
100,000	20 cents options expiring 31 July 2011

9. The Company currently has no dividend policy. However, pursuant to the Constitution of the Company, the Directors may from time to time declare a dividend to be paid to the members entitled to the dividend. No dividend may be paid except out of profits.
10. No shareholder approval for the Rights Issue is required.
11. The Rights Issue is ***non-renounceable***.
12. The new shares in the Rights Issue will be offered on basis of 1 new share for every 3 shares held on 5.00pm Perth time (Western Standard Time) on 15 May 2009.
13. The offer under the Rights Issue relates to fully paid ordinary shares in the Company.
14. The "***ex date***" is 11 May 2009.
15. The ***record date*** to determine entitlements is 15 May 2009.
16. Holdings on different registers (or subregisters) will not be aggregated for calculating entitlements.
17. The Company will not be sending an offer under the Rights Issue to any security holders outside of Australia and New Zealand.

In compliance with Listing Rule 7.7.1 of the ASX Listing Rules, the Company has decided that it is unreasonable to make the offer to security holders outside of Australia and New Zealand having regard to each of the following:

- the number of security holders outside of Australia and New Zealand;
- the number and value of the securities to be offered to security holders outside of Australia and New Zealand; and
- the cost of complying with the legal requirements and requirements of regulatory authorities in the overseas jurisdictions.

The Company will send to each of the security holders outside of Australia and New Zealand details

of the offer and advise them that the Company will not be making the offer to them.

In compliance with section 615 of the Corporations Act, the Company has appointed, and ASIC has approved, Indian Ocean Capital Pty Ltd ("**Nominee**") as nominee for foreign holders of the Company's securities in those countries outside of Australia and New Zealand.

The Nominee will subscribe for and the Company will issue to the Nominee the New Shares that would otherwise have been issued to those foreign holders if the offer had been made available to them and they had accepted.

The Nominee must sell the New Shares and cause to be distributed to each of those foreign holders their proportion of the proceeds of the sale, net of expenses. Any such sale will be at such prices and otherwise in such a manner as the Nominee in its absolute discretion, determines.

18. The closing date for receipt of acceptances is 5.00pm Perth time (Western Daylight Time) 4 June 2009.
19. The Rights Issue is fully underwritten.
20. The broker to the Rights Issue is Indian Ocean Capital Pty Ltd.
21. Brokers will receive no handling fee for acceptances lodged by them on behalf of security holders.
22. The Prospectus for the Rights Issue and the accompanying Entitlement and Acceptance Form will be sent to you on 21 May 2009.
23. The Company sent a notice to option holders to notify them of their right to participate in the Rights Issue upon exercise of their options on 6 May 2009.
24. The latest date for despatch of certificates or entry of the securities into your security holdings is 12 June 2009.

The above information was provided to the ASX on 6 May 2009.

If you have any queries regarding your entitlement or participation in the upcoming Rights Issue, please do not hesitate to contact the Company's Share Registry on +61 8 9323 2000 or the Company Secretary on +61 8 9322 2752.

Yours faithfully



David McSweeney
Chairman