



AVALON
MINERALS LTD

Avalon Minerals Ltd

ABN 68 123 184 412

Half-Year Financial Report

31 December 2012

Avalon Minerals Ltd

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DIRECTORS' REPORT

Your directors present their half-year report on the consolidated entity ("Group") consisting of Avalon Minerals Ltd ("Avalon" or "Company") and the entities it controlled at the end of, or during, the half-year ended 31 December 2012.

Directors

The following persons were directors of Avalon Minerals Ltd during the half-year and up to the date of this report:

Tan Sri Abu Sahid Bin Mohamed
Mr Jeremy Read
Mr Paul Niardone
Dato Siew Mun Chuang
Mr Siew Mun Wai
Mr Seng Han Gary Goh

Review of Operations

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

| | Half-year ended 31 December 2012 \$ | Half-year ended 31 December 2011 \$ |
|---|--|--|
| Revenue from continuing operations | 104,543 | 50,231 |
| Net loss before income tax expense | (4,193,273) | (1,196,777) |
| Income tax expense | - | - |
| Net loss attributable to members of Avalon Minerals Ltd | (4,193,273) | (1,196,777) |

Financial Position

At the end of the half-year the consolidated entity had a cash balance of \$6,947,344 (2011: \$694,310) and net assets of \$33,047,798 (2011: \$22,064,675).

Total liabilities amounted to \$1,422,864 (2011: \$1,015,200) and were limited to trade and other creditors and employee entitlements.

Corporate

Share Placements

Two share placements were conducted during the six months ended 31 December 2012. During July 2012, the Company placed 39,979,195 fully paid shares issued at 9 cents per share to professional and sophisticated investors. The second raising was completed in November 2012 with 119,285,714 shares issued to professional and sophisticated investors at 7 cents per share.

Issue of Options and Performance Rights

On 27 July 2012, the Board approved the issue of:

- 12,200,000 options to Key Management Personnel and other employees. The issue price was 1 cent per option and the exercise price is 5 cents per option. The options expire on 30 September 2015.
- 24,400,000 performance rights to Key Management Personnel and other employees. The Performance rights were issued in three tranches as follows:
 - Tranche 1: 6,100,000 Performance Rights which vest when the closing price of the shares are 12c or more for 10 consecutive ASX trading days;
 - Tranche 2: 8,850,000 Performance Rights which vest when the total combined JORC compliant mineral resources on the Viscaria project reaches 10MT at 2.5% Cu or more;
 - Tranche 3: 9,450,000 Performance Rights which vest when the closing price of the shares are 30c or more for 10 consecutive ASX trading days.

The conditions associated with the Tranche 2 Performance Rights were achieved on 29 October 2012 and as a result, 14,700,000 shares were issued to 2 Directors, Key Management Personnel and other employees on 7 November 2012. 5,850,000 shares were issued to 2 Directors (relating to Performance Rights granted in June 2012) and 8,850,000 shares were issued to Key Management Personnel and other employees.

Exploration and Evaluation

Viscaria Copper-Iron Project

The Viscaria Copper-Iron Project (Viscaria Project) in Northern Sweden is the Company's primary focus and forms the basis of Avalon's plans to create value for shareholders by expanding the Mineral Resources on the project and completing a bankable feasibility study (BFS) to demonstrate the viability of the project.

The Viscaria Project contains both copper and copper-iron mineralisation and Mineral Resources at the A and D zone prospects respectively. Pre-feasibility studies and metallurgical test work have previously shown production of a medium grade (24-26% Cu) copper concentrate is possible from the A Zone mineralisation and production of a high grade (69.5%) iron concentrate is possible from the D Zone mineralisation. Products such as these are ideal for European base metal and iron ore concentrate customers, as well as potential customers in China.

During the six months ended 31 December 2012, Avalon's focus on the Viscaria Project was to update the economics of the project through the completion of a Scoping Study, identifying a number of ways the value of the Mineral Resources on the project could be enhanced by extending the Mineral Resources at both the A and D Zone prospects. The Scoping Study identified a clear pathway for increasing the Net Present Value ('NPV') of the overall Viscaria Project, to in excess of \$300M. Having completed the Scoping Study, Avalon commenced a large drill program at Viscaria in order to deliver the Mineral Resource extensions at the A and D Zone Prospects, which had been identified as probable in the Scoping Study.

In addition to the work completed at the A and D Zone prospects, Avalon reinvigorated its regional exploration program by flying a helicopter electromagnetic ('Heli-EM') survey with the objective of discovering new deposits of copper mineralisation.

Viscaria Project Scoping Study

In October 2012, Avalon released the results from the Scoping Study of the Viscaria Project. The key results from the Scoping Study were as follows:

- Confirmed the technical and economic viability for a copper-magnetite mining operation at the Viscaria Project in Sweden and identified a pathway to deliver significant growth to the value of the Viscaria Project;

- A Base Case open pit mining scenario has a NPV of US\$61M (using US\$3.25/lb Cu) and will produce 9,400t of Cu and 382,000t of Fe per annum at a C1 cash cost (net of Fe credits) of US\$0.65/lb, mining the Mineral Resources as currently defined at the A and D Zone prospects in two open pits;
- Three value creating scenarios, Development Cases A, B and C, which by converting exploration targets to Mineral Resources have potential NPV's of US\$111M, US\$170M and US\$198M with predicted C1 cash costs of US\$0.47/lb, US\$1.03/lb and US\$1.03/lb respectively;
- At current copper prices, Development Cases A, B and C have NPV's of US\$186M, US\$272M and US\$312M respectively, with Development Case C envisaging annual Cu production of 25,500t and Fe production of 519,000t.

The Scoping Study assessed a Base Case open pit mining scenario which uses the Mineral Resources as currently defined on the Viscaria Project, as well as three Development Cases (A, B and C) to convert existing exploration targets into Mineral Resources through an extensional drill program. The economic assessments used price assumptions of US\$3.25/lb copper and US\$150/t magnetite.

With a Base Case NPV of US\$61M, the Scoping Study demonstrated the viability of a copper-magnetite mining operation at Viscaria, but importantly defined a clear pathway for Avalon to create significant value at the Viscaria Project by extending the currently defined Mineral Resources at the A and D Zone Prospects.

The three Development Cases (Table 1) assessed in the Scoping Study showed that by extending the existing Mineral Resources, the Viscaria Copper-Iron Project has the potential to produce 25,500t of Cu and 519,000t of Fe on an annual basis, over a 6 to 7 year mine life and potentially generate a project NPV in excess of \$300M.

Base Case open pit mining scenario

The Base Case open pit mining scenario assessed the viability and potential value of the currently defined Mineral Resources on the Viscaria Copper Project. The current Mineral Resources on the Viscaria Project are defined in Table 2.

The existing Mineral Resources, were subjected to open pit optimisations using the parameters outlined in Table 3. Using these parameters, several open pit shells were generated along the near-surface trends of the A Zone, B Zone and D Zone mineral resources (Figure 1). The open pit optimisations determined that only the D Zone Pit and the A Zone Pit-A significantly contributed to the project NPV and therefore, only these two open pits were included in the Base Case open pit mining scenario. Figure 2 and Table 4 show the production profile developed for the Base Case scenario.

Table 1: Comparison of the Base and Development Cases

| Scenario | Base Case | Devt Case A | Devt Case B | Devt Case C |
|---|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| Resource Base | 11.0 Mt @ 0.50% Cu 22.2% Fe | 15.5 Mt @ 0.46% Cu 23.1% Fe | 18.5 Mt @ 0.80% Cu 19.4% Fe | 20.2 Mt @ 0.86% Cu 20.0% Fe |
| Optimum Mining Rate | 2.1 Mtpa | 3.0 Mtpa | 3.3 Mtpa | 3.1 Mtpa |
| Mine Life | 5.5 years | 5.3 years | 5.6 years | 6.5 years |
| Pre-Production Capex | USD 144 M | USD 179 M | USD 201 M | USD 212 M |
| Life-of-Mine Capex | USD 155 M | USD 194 M | USD 315 M | USD 350 M |
| C1 Cash Cost (net of Fe Credits) | US\$0.65/lb | US\$0.47/lb | US\$1.03/lb | US\$1.03/lb |
| NPV_{10% REAL} | USD 61 M | USD 111 M | USD 170 M | USD 198 M |
| NPV at Prices + 10% | USD 114 M | USD 186 M | USD 272 M | USD 312 M |
| NPV at Prices - 10% | USD 8 M | USD 37 M | USD 68 M | USD 84 M |

Table 2: Currently Defined Mineral Resources on the Viscaria Project

| Resource Name | Classification | Tonnes (t) | Cu Grade (%) | Cu Metal (t) |
|-----------------------|-----------------|-------------------|--------------|----------------|
| A Zone* | Measured | 14,439,000 | 1.66 | 239,000 |
| | Indicated | 4,690,000 | 1.22 | 57,000 |
| | Inferred | 2,480,000 | 1.03 | 26,000 |
| | Subtotal | 21,609,000 | 1.49 | 322,000 |
| B Zone* | Measured | 123,000 | 1.33 | 2,000 |
| | Indicated | 4,118,000 | 0.72 | 30,000 |
| | Inferred | 15,410,000 | 0.77 | 118,000 |
| | Subtotal | 19,651,000 | 0.76 | 150,000 |
| D Zone Cu Resource | Indicated** | 3,500,000 | 0.94 | 32,900 |
| | Inferred** | 1,870,000 | 0.80 | 14,960 |
| | Subtotal | 5,370,000 | 0.89 | 47,860 |
| Overall Cu | Total | 46,630,000 | 1.01 | 519,860 |

| Resource Name | Classification | Tonnes (t) | Fe Grade (%) | Fe Mass Recovery (%) | Fe Metal (t) |
|-----------------------|----------------|-------------------|--------------|----------------------|------------------|
| D Zone Fe Resource | Indicated*** | 9,470,000 | 25.90 | 31.3 | 2,964,110 |
| | Inferred*** | 5,320,000 | 25.60 | 30.8 | 1,638,560 |
| Overall Fe | Total | 14,790,000 | 25.80 | 31.1 | 4,602,670 |

* 2011 Mineral Resources for A Zone and B Zone are reported above a cut-off grade of 0.4% Cu.

** 2012 Copper Mineral Resource for D Zone above a cut-off grade of 0.4% Cu.

*** 2012 Iron Mineral Resource for D Zone above a cut-off grade of 15% Fe Mass Recovery.

Table 3: Pit optimisation parameters

| Parameter | Unit | Value | Comments |
|-------------------------|----------------|----------|-------------------------------------|
| Overall pit slope angle | Degrees | 55 | |
| Copper Price | USD/t | USD7,165 | USD3.25/lb Cu |
| Magnetite Price | USD/t | USD122 | Assumed price at end of slurry pipe |
| Mining Cost (ore) | USD/t | USD4.55 | |
| Mining Cost (waste) | USD/t | USD4.55 | |
| Mining Recovery | % | 95% | |
| Mining Dilution | % | 5% | |
| Metallurgical Recovery | % Cu | 90% | |
| | % Fe | 76% | |
| Concentrate Grade | % Cu | 25% | |
| | % Fe | 69% | |
| Processing Costs | USD/t ore | USD12.04 | |
| Admin Costs | USD/t ore | USD3.08 | |
| Payable Copper | % Cu contained | 98% | |
| Payable Magnetite | % Fe contained | 98% | |

Figure 1: Site overview showing pit optimisation shells

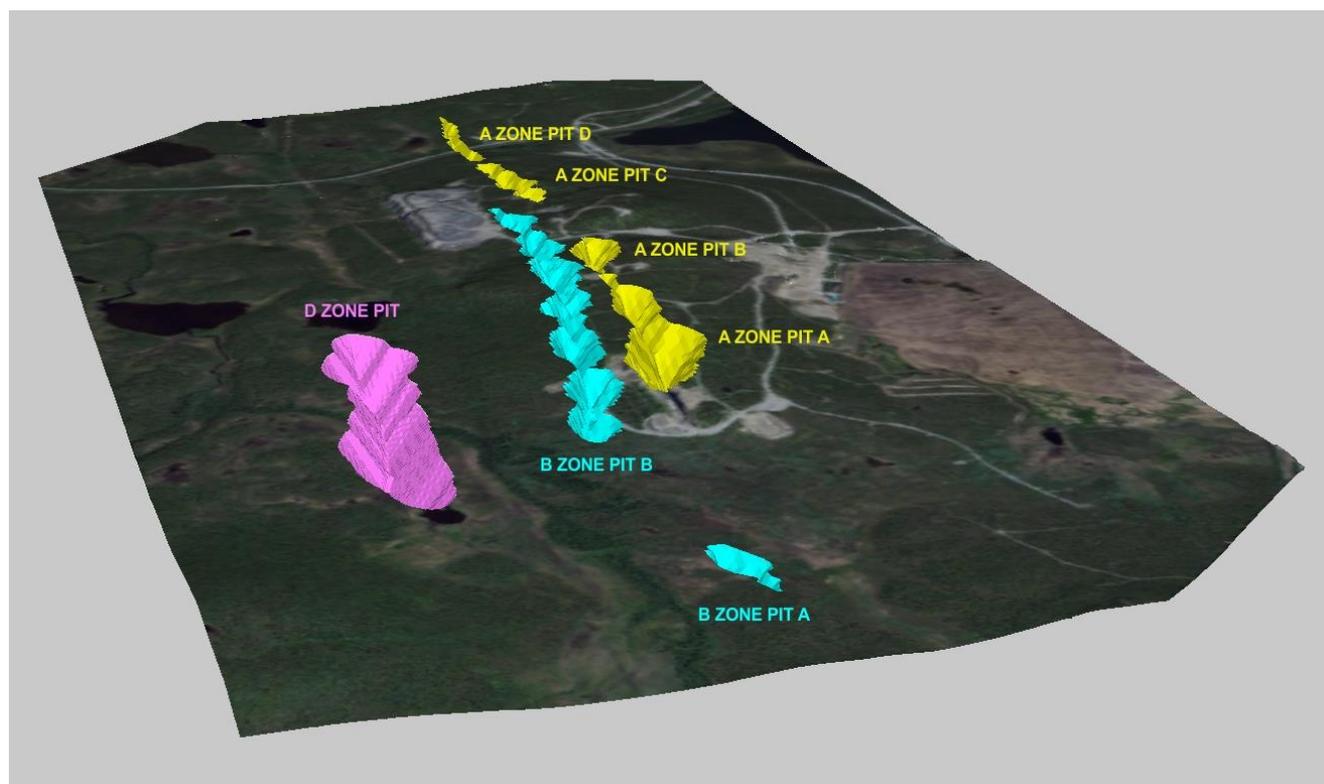


Figure 2: Base Case production profile

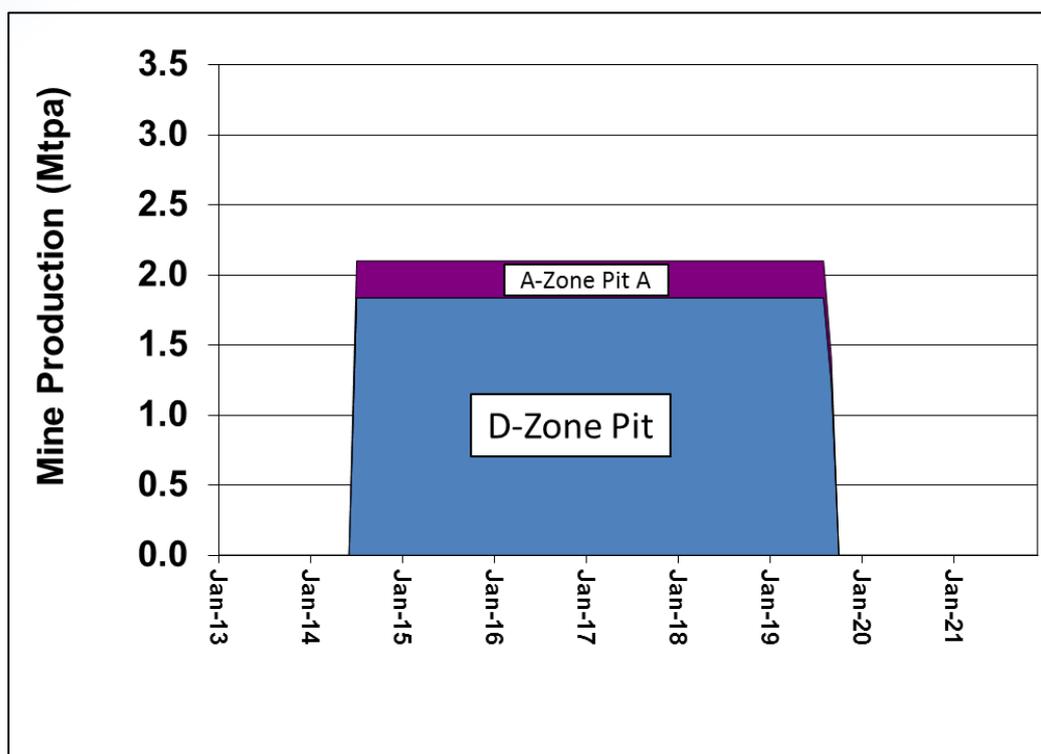


Table 4: Base Case production summary

| Year | Tonnes Mined (kt) | % Cu | % Fe | Copper Conc Produced (kDMT) | Contained Copper (kt) | Magnetite Conc Produced (kDMT) | Contained Iron (kt) |
|--------------|-------------------|------------|-------------|-----------------------------|-----------------------|--------------------------------|---------------------|
| 2013 | | | | | | | |
| 2014 | 1,050 | 0.50 | 22.2 | 18.9 | 4.7 | 274 | 190 |
| 2015 | 2,100 | 0.50 | 22.2 | 37.7 | 9.4 | 549 | 382 |
| 2016 | 2,100 | 0.50 | 22.2 | 37.7 | 9.4 | 549 | 382 |
| 2017 | 2,100 | 0.50 | 22.2 | 37.7 | 9.4 | 549 | 382 |
| 2018 | 2,100 | 0.50 | 22.2 | 37.7 | 9.4 | 549 | 382 |
| 2019 | 1,518 | 0.50 | 22.2 | 27.3 | 6.8 | 396 | 275 |
| 2020 | | | | | | | |
| Total | 10,968 | 0.5 | 22.2 | 197 | 49 | 2,865 | 1,991 |

A summary of the economic assessment of the Base Case open pit mining scenario is displayed in Table 5.

Table 5: Summary of the economic assessment of the Base Case mining scenario

| Base Case | D Zone Open Pit and A Zone Open Pit-A | |
|----------------------------------|---------------------------------------|----------------------------------|
| Resource Base | 11.0 Mt @ 0.50% Cu 22.2% Fe | |
| Optimum Mining Rate | 2.1 Mtpa | |
| Mine Life | 5.5 years | |
| Pre-Production Capex | USD 144 M | Includes \$18.3M pre-strip |
| Life-of-Mine Capex | USD 155 M | Excludes closure costs |
| C1 Cash Cost (net of Fe Credits) | US\$0.65/lb | |
| NPV _{10% REAL} | USD 61 M | USD3.25/lb Cu USD150/t Magnetite |
| NPV + | USD 114 M | Prices + 10% |
| NPV - | USD 8 M | Prices – 10% |

Development Case A open pit mining scenario

The first value creation scenario assessed during the Scoping Study was Development Case A, which included the Base Case open pits, as well as an exploration target of extending the D Zone Mineral Resource 300m along strike and 35m in depth. It must be noted that this exploration target is conceptual in nature as there has been insufficient exploration to define a Mineral Resource and that it is uncertain if further exploration will result in the determination of a Mineral Resource.

This exploration target was interpreted to be relatively low exploration risk because the D Zone mineralisation is open along strike and is getting higher grade and thicker at depth (see announcement to ASX on 29 August 2012).

Figure 3 and Table 6 show the production profile developed for this scenario.

Figure 3: Development Case A production profile

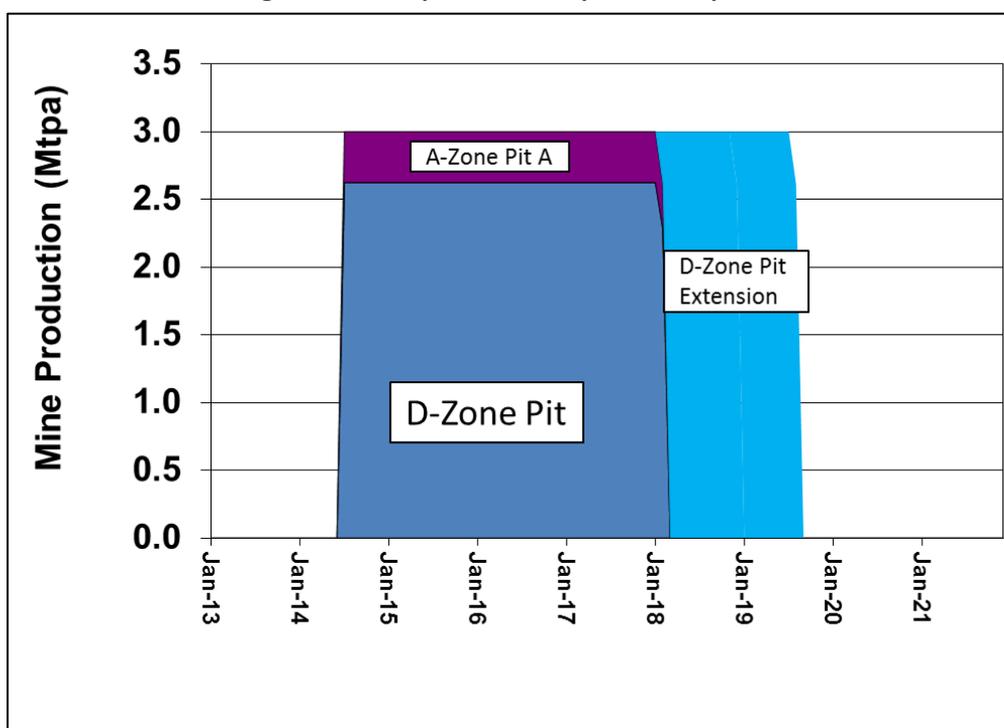


Table 6: Development Case A production summary

| Year | Tonnes Mined (kt) | % Cu | % Fe | Copper Conc Produced (kDMT) | Contained Copper (kt) | Magnetite Conc Produced (kDMT) | Contained Iron (kt) |
|--------------|-------------------|------------|-------------|-----------------------------|-----------------------|--------------------------------|---------------------|
| 2013 | | | | | | | |
| 2014 | 1,500 | 0.50 | 22.2 | 26.9 | 6.7 | 392 | 272 |
| 2015 | 3,000 | 0.50 | 22.2 | 53.9 | 13.5 | 784 | 585 |
| 2016 | 3,000 | 0.50 | 22.2 | 53.9 | 13.5 | 784 | 585 |
| 2017 | 3,000 | 0.50 | 22.2 | 53.9 | 13.5 | 784 | 585 |
| 2018 | 3,000 | 0.40 | 24.9 | 43.0 | 10.8 | 896 | 623 |
| 2019 | 1,968 | 0.38 | 25.4 | 26.9 | 6.7 | 602 | 418 |
| 2020 | | | | | | | |
| Total | 15,468 | 0.5 | 23.1 | 259 | 65 | 4,241 | 2,947 |

A summary of the economic assessment of the Development Case A open pit mining scenario is displayed in Table 7. Extending the D Zone open pit 35m at depth and 300m along strike will increase the project NPV by US\$50M to \$US111M.

Table 7: Summary of the economic assessment of the Development Case A mining scenario

| Development Case A | Base Case + Exploration Target extend D Zone 300m along strike and 35m deeper at similar grades | |
|----------------------------------|--|----------------------------------|
| Resource Base | 15.5 Mt @ 0.46% Cu 23.1% Fe | |
| Optimum Mining Rate | 3.0 Mtpa | |
| Mine Life | 5.3 years | |
| Pre-Production Capex | USD 179 M | Includes \$26.1M pre-strip |
| Life-of-Mine Capex | USD 194 M | Excludes closure costs |
| C1 Cash Cost (net of Fe Credits) | US\$0.47/lb | |
| NPV _{10% REAL} | USD 111 M | USD3.25/lb Cu USD150/t Magnetite |
| NPV + | USD 186 M | Prices + 10% |
| NPV - | USD 37 M | Prices – 10% |

Development Case B open pit/underground mining scenario

The second value creation scenario assessed in the Scoping Study was Development Case B, which included the previously described Development Case A with the addition of an exploration target of 3.0Mt @ 2.5% Cu from the A Zone Prospect area that could be mined by underground methods. It must be noted that this exploration target is conceptual in nature as there has been insufficient exploration to define a Mineral Resource and that it is uncertain if further exploration will result in the determination of a Mineral Resource.

This exploration target was interpreted to have moderate exploration risk as its size and grade are relatively high. However, historically when the A Zone mineralisation was being mined, the average grade of copper mined was 2.5% Cu and Avalon’s initial assessment of the A Zone Prospect indicated that there was sufficient scope for a resource of this size to be delineated.

Figure 4 and Table 8 show the production profile developed for this scenario.

Figure 4: Development Case B production profile

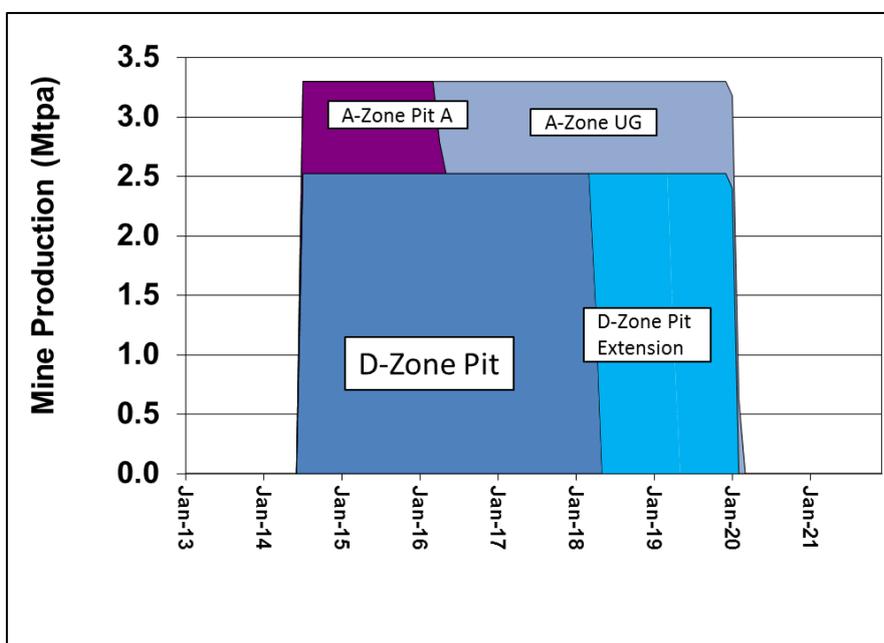


Table 8: Development Case B production summary

| Year | Tonnes Mined (kt) | % Cu | % Fe | Copper Conc Produced (kDMT) | Contained Copper (kt) | Magnetite Conc Produced (kDMT) | Contained Iron (kt) |
|--------------|-------------------|------------|-------------|-----------------------------|-----------------------|--------------------------------|---------------------|
| 2013 | | | | | | | |
| 2014 | 1,650 | 0.60 | 19.4 | 35.9 | 9.0 | 366 | 254 |
| 2015 | 3,300 | 0.60 | 19.4 | 71.8 | 17.9 | 732 | 509 |
| 2016 | 3,300 | 0.81 | 19.4 | 95.9 | 24.0 | 732 | 509 |
| 2017 | 3,300 | 0.88 | 19.4 | 104.6 | 26.2 | 732 | 509 |
| 2018 | 3,300 | 0.88 | 19.4 | 104.7 | 26.2 | 732 | 509 |
| 2019 | 3,300 | 0.88 | 19.4 | 104.7 | 26.2 | 731 | 508 |
| 2020 | | | | | | | |
| Total | 18,468 | 0.8 | 19.4 | 529 | 132 | 4,091 | 2,843 |

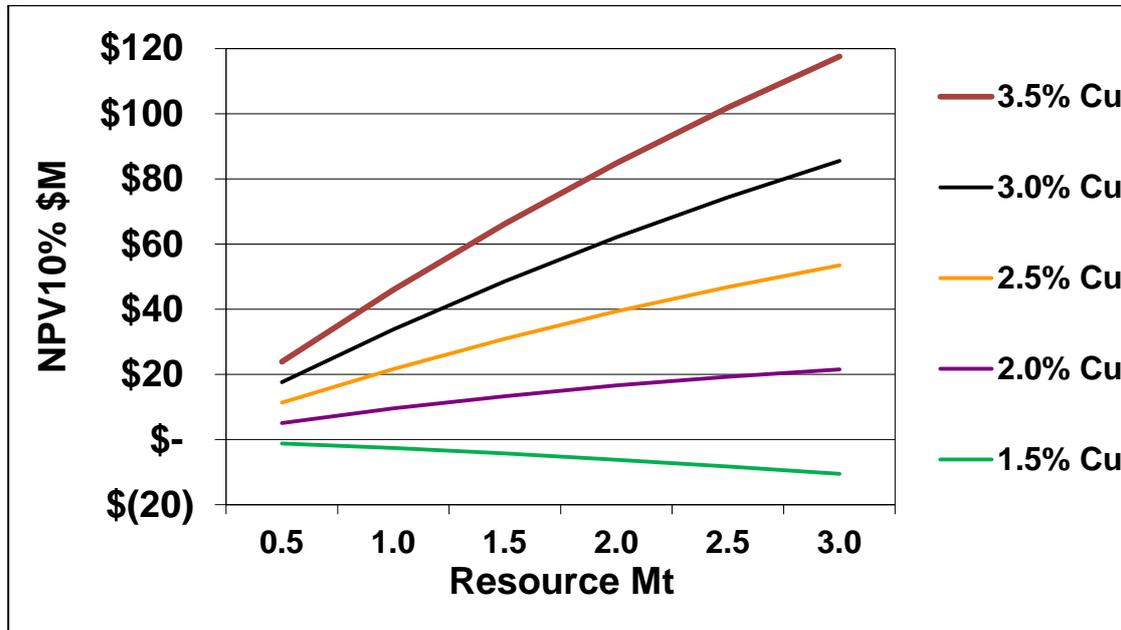
A summary of the economic assessment of the Development Case B open pit/underground mining scenario is displayed in Table 9. Defining 3Mt @ 2.5% Cu at A Zone, which could be mined by underground mining methods could potentially add a further US\$51M to the overall project NPV.

Figure 5 displays the impact of various tonnages and grades for the A Zone underground exploration target on the overall project NPV. This figure indicates that from an underground operation at A Zone, a minimum of 2.0Mt @ 2% Cu will be required to positively impact the overall Viscaria Project NPV.

Table 9: Summary of the economic assessment of the Development Case B mining scenario

| Development Case B | Devt Case A + Exploration target of 3.0 Mt @ 2.5% Cu from A Zone Underground | |
|----------------------------------|---|----------------------------------|
| Resource Base | 18.5 Mt @ 0.80% Cu 19.4% Fe | |
| Optimum Mining Rate | 3.3 Mtpa | |
| Mine Life | 5.6 years | |
| Pre-Production Capex | USD 201 M | Includes \$33.7 M pre-strip |
| Life-of-Mine Capex | USD 315 M | Excludes closure costs |
| C1 Cash Cost (net of Fe Credits) | US\$1.03/lb | |
| NPV _{10% REAL} | USD 170 M | USD3.25/lb Cu USD150/t Magnetite |
| NPV + | USD 272 M | Prices + 10% |
| NPV - | USD 68 M | Prices – 10% |

Figure 5: Impact of the additional material at various grades and tonnages from the A Zone UG



Development Case C open pit/underground mining scenario

The third value creation scenario assessed in the Scoping Study was Development Case C, which included Development Case B with the addition of an exploration target of 1.75Mt @ 1.6% Cu from the D Zone Prospect area that could be mined by underground methods. It must be noted that this exploration target is conceptual in nature as there has been insufficient exploration to define a Mineral Resource and that it is uncertain if further exploration will result in the determination of a Mineral Resource. Similar to Development Case A, this exploration target is interpreted to be relatively low exploration risk because the D Zone mineralisation is getting higher grade and thicker at depth. Figure 6 and Table 10 show the production profile developed for this scenario.

Figure 6: Development Case C production profile

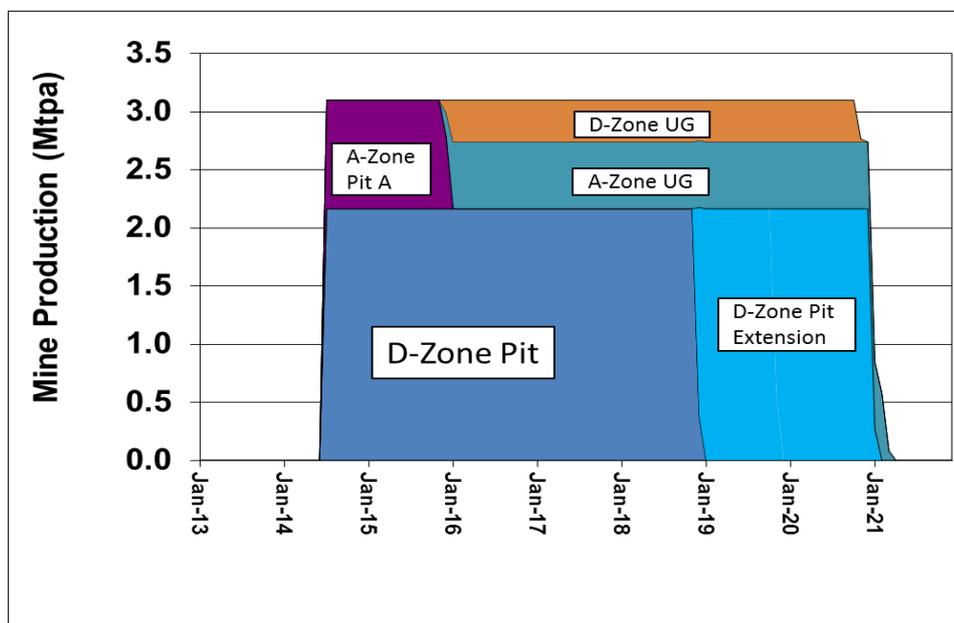


Table 10: Development Case C production summary

| Year | Tonnes Mined (kt) | % Cu | % Fe | Copper Conc Produced (kDMT) | Contained Copper (kt) | Magnetite Conc Produced (kDMT) | Contained Iron (kt) |
|--------------|-------------------|------------|-------------|-----------------------------|-----------------------|--------------------------------|---------------------|
| 2013 | | | | | | | |
| 2014 | 1550 | 0.67 | 17.7 | 37.2 | 9.3 | 308 | 214 |
| 2015 | 3100 | 0.67 | 17.8 | 75.2 | 18.8 | 619 | 430 |
| 2016 | 3100 | 0.92 | 20.8 | 102.2 | 25.5 | 746 | 519 |
| 2017 | 3100 | 0.92 | 20.8 | 102.2 | 25.5 | 746 | 519 |
| 2018 | 3100 | 0.91 | 20.8 | 102.1 | 25.5 | 746 | 519 |
| 2019 | 3100 | 0.92 | 20.8 | 102.2 | 25.5 | 746 | 519 |
| 2020 | 3042 | 0.90 | 20.7 | 98.8 | 24.7 | 728 | 518 |
| 2021 | 126 | 2.12 | 4.6 | 9.6 | 2.4 | 5 | 3 |
| Total | 20,218 | 0.9 | 20.0 | 629 | 157 | 4,643 | 3,227 |

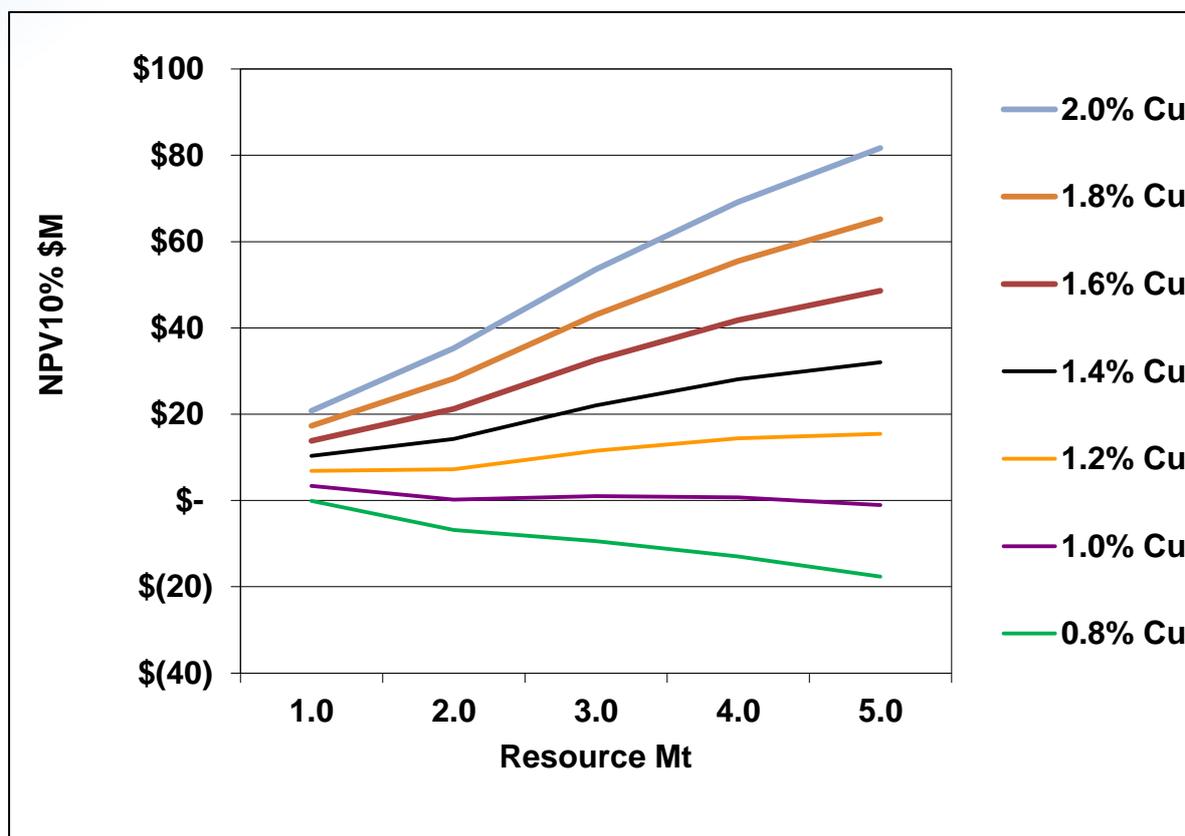
A summary of the economic assessment of the Development Case C open pit/underground mining scenario is displayed in Table 11. Defining 1.75Mt @ 1.6% Cu, which could be mined at D Zone using underground mining methods, will add a further US\$28M to the overall Viscaria Copper-Iron Project NPV.

Figure 7 displays the impact of various tonnages and grades for the D Zone Underground exploration target on the overall project NPV. This figure indicates that from the D Zone underground a minimum of 1.75Mt @ 1.6% Cu is needed to positively impact the overall Viscaria Project NPV.

Table 11: Summary of the economic assessment of the Development Case C mining scenario

| Development Case C | Devt Case B + Exploration Target of 1.75 Mt @ 1.6% Cu from D Zone Underground | |
|----------------------------------|--|----------------------------------|
| Resource Base | 20.2 Mt @ 0.86% Cu 20.0% Fe | |
| Optimum Mining Rate | 3.1 Mtpa | |
| Mine Life | 5.6 years | |
| Pre-Production Capex | USD 212 M | Includes \$34.6 M pre-strip |
| Life-of-Mine Capex | USD 350 M | Excludes closure costs |
| C1 Cash Cost (net of Fe Credits) | US\$1.03/lb | |
| NPV _{10% REAL} | USD 198 M | USD3.25/lb Cu USD150/t Magnetite |
| NPV + | USD 312 M | Prices + 10% |
| NPV - | USD 84 M | Prices – 10% |

Figure 7: Impact of the additional material at various grades and tonnages from the D Zone UG



Cost and Revenue Assumptions

The capital costs used in each of the mining scenarios modelled in the Scoping Study are summarised in Table 12, the operating costs assumptions in Table 13 and the revenue assumptions in Table 14. The C1 copper cash operating costs, net of iron credits, for the Base Case and Development Case A open pit mining scenarios are predicted to be in the lower quartile of copper producers, while the Development Case B and Development Case C open pit/underground mining scenarios have C1 copper cash operating costs that are intermediate in comparison.

Table 12: Capital Cost assumptions

| Item | Base Case USD M | Dev Case A USDM | Dev Case B USDM | Dev Case C USDM | Comments |
|--|--------------------|-----------------------|-----------------------|-----------------------|--|
| Process Plant | 111.7 | 138.3 | 146.5 | 141.1 | Scalable on production capacity |
| Pit D site establishment | 2.5 | 2.5 | 2.5 | 2.5 | Includes provision of site services and access roads |
| Pit A site establishment | 1.7 | 1.7 | 1.7 | 1.7 | |
| Underground Mine Establishment, De-watering & Rehabilitation | - | - | 56.0 | 56.0 | |
| New Underground Development | - | - | 45.0 | 82.5 | |
| Studies and Test work | 5.0 | 5.0 | 5.0 | 5.0 | |
| Pre-Strip | 18.3 | 26.1 | 33.7 | 34.6 | |
| Tailings Storage Facility | 5.0 | 5.0 | 5.0 | 5.0 | |
| Replacement Capital | 11.0 | 15.5 | 19.7 | 22.1 | |
| Closure Costs | - | - | - | - | Not Included |
| Total | 155 | 194 | 315 | 350 | |

Table 13: Operating Cost assumptions

| Parameter | Unit | Value | Comments |
|---------------------------|--------------|----------|--|
| Mining Cost (ore) | USD/t | USD4.55 | |
| Mining Cost (waste) | USD/t | USD4.55 | |
| Processing Costs | USD/t ore | USD12.04 | Variable – assumes 40% fixed costs and 12.04/t @ 1.5Mtpa |
| Admin Costs | USD/t ore | USD3.08 | |
| Copper Conc. Transport | USD/DMT conc | 15.75 | Assumes local smelter |
| Magnetite Conc. Transport | USD/DMT conc | 1.50 | Assumes slurry pipe to LKAB |

Table 14: Revenue assumptions

| Parameter | Unit | Value | Comments |
|-------------------------------|----------------|----------|------------------------------|
| Overall pit slope angle | Degrees | 55 | |
| Copper Price | USD/t | USD7,165 | \$3.25/lb Cu |
| Magnetite Price | USD/t | USD150 | For 69% Fe magnetite pellets |
| Mining Recovery | % | 95% | |
| Mining Dilution | % | 5% | |
| Metallurgical Recovery | % Cu | 90% | |
| | % Fe | 76% | |
| Concentrate Grade | % Cu | 25% | |
| | % Fe | 69% | |
| Payable Copper | % Cu contained | 98% | |
| Payable Magnetite | % Fe contained | 98% | |
| Copper Conc. Treatment charge | c/lb Cu | 45 | |
| Copper Conc. Refining charge | c/lb Cu | 4.5 | |
| | USD/dmt | 28 | |
| | % | 0.75 | |

Mineral Resource Extension Drill Program

The Viscaria Copper-Iron Project Scoping Study showed that the conversion of the exploration targets assessed in Development Case A, B and C to Mineral Resources, has the potential to increase the NPV of the Viscaria Project significantly from USD\$61M to USD\$198M, at a copper price of US\$3.25/lb. Consequently, in November 2012, Avalon commenced a 25,000 to 30,000m drill program at the A and D Zone prospects to deliver the increases to the Mineral Resources needed to achieve a project NPV in excess of US\$200M. It is anticipated that the drill program will be completed in April or May 2013. Three drill rigs have been deployed on the program. At the end of the reporting period, two drill rigs were at D Zone and one drill rig was active at the A Zone prospect.

In March 2013, Avalon expects to release an interim Mineral Resource upgrade for the D Zone Prospect, which will include all new drill holes completed at the D Zone prospect up until the middle of February 2013. This Mineral resource upgrade for the D Zone Prospect will give a clear indication if Avalon is on track to deliver the Mineral Resource upgrade as contemplated by Development Cases A and C in the Scoping Study.

Following the conclusion of the Mineral Resource extension drill program, at the A and D Zone Prospects, new Mineral Resources will be estimated for A and D Zones, incorporating the results from the new drill holes plus the historical drilling data. It is anticipated that these results will be available to be released to the ASX in June 2013. The new Mineral Resources for A and D Zones will then be used to re-estimate the amount of mineralisation able to be economically mined at the A and D Zones prospects, using both open pit and underground mining methods. The economic valuations completed in the Scoping Study will be updated with the new Mineral Resources and the overall project NPV re-estimated to determine if the increases to the Mineral Resources have increased the project NPV to in excess of the target US\$200M value. The updated economic valuation of the Viscaria Copper-Iron Project is expected to be released to the ASX in July 2013.

Viscaria Regional Exploration Program

During the past several years, Avalon has compiled historical geological, geophysical and geochemical data in order to generate new prospects to be explored for the occurrence of copper mineralisation. The greenstone belts which host the copper and copper-iron Mineral Resources at the A and D Zone Prospects respectively, continue throughout the 700km² of regional exploration tenements which Avalon holds in northern Sweden. Through the compilation of all the historical exploration data, Avalon defined a number of prospects worthy of further investigation.

In order to assist in the prioritisation of the regional exploration prospects, Avalon flew a Heli-EM survey in July 2012. The survey was completed in three separate survey blocks partially covering the regional exploration tenements.

Heli-EM data was flown over the A and D Zone prospects which showed that the high grade copper mineralisation at the A Zone prospect is associated with a strong conductor, due to the occurrence of the highly conductive mineral pyrrhotite with the copper mineralisation. Consequently, strong conductors in the vicinity of anomalous copper geochemistry are very prospective targets.

The background electromagnetic (EM) response in the north-western Heli-EM survey block was generally very resistive and free from EM responses associated with non-prospective graphitic geological units. Within this survey block, two significant zones of conductivity are evident at the Tjavelk and Lulip Borri prospects. The conductor at the Tjavelk prospect strikes east-west and is approximately 2000 metres in strike length, while the conductor at the Lulip Borri prospect strikes north-south and is also about 2000 metres in strike length. The EM conductor at the Tjavelk prospect is the stronger conductor.

Interpretation of the EM data from the Tjavelk prospect suggested that the EM conductor dips to the north and plunges to the west and that it is coincident with the source of a strong magnetic anomaly. The source of the magnetic anomaly appears to be near surface and has been drill tested with three historical drill holes returning 38-39% Fe. However, the EM conductor occurs below 100 metres depth and appears not to have been tested by three further drill holes drilled to the east of the drill holes which tested the near surface source of the magnetic anomaly. Therefore, it appears that the EM conductor has not yet been drill tested.

Surface rock chip samples taken in the vicinity of the Tjavelk prospect returned 12.4% Cu, 6.8% Cu, 6.3% Cu, 5.6% Cu and 1.2% Cu and gold values of 3.1g/t Au, 3.7g/t Au, 1.8g/t Au, 1.3g/t Au and <0.01% Au. The coincidence of the magnetic and EM anomalies in an area of highly anomalous copper and gold geochemistry is extremely encouraging.

A second prospective EM conductor was located at the Tjarro prospect. The conductor strikes north-south over a strike length in excess of 1500m. The conductor is coincident with a strong magnetic anomaly, but a review of historical exploration data showed the source of the EM conductor has not been drilled tested at Tjarro.

Drill testing of the combined magnetic/EM targets at the Tjavelk and Tjarro prospects is expected to be completed in March-April 2013.

Matters Subsequent to the end of the Financial Period

On 25 February 2013, the Company called a General Meeting of the Shareholders of Avalon Minerals Ltd to be held on Wednesday 27 March 2013. Two resolutions are proposed for approval:

1. Ratification of the previous issue of 49,285,714 Shares to professional and sophisticated investors.
This will enable the Company, after Board approval to issue further securities up to the 15% threshold over the twelve month period following approval of this Resolution;
2. Approval to issue up to 70,000,000 new Shares.

Approval of the above resolutions will enable the Company to raise additional equity to fund the ongoing operations of the Group.

Auditors' Independence Declaration

A copy of the Auditors' Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 20.

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

A handwritten signature in black ink, appearing to read "J Read", is written in a cursive style.

Jeremy Read
Managing Director
Avalon Minerals Ltd

11 March 2013



Lead Auditor's Independence Declaration under Section 307C of the *Corporations Act 2001*

To: the directors of Avalon Minerals Ltd

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2012 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.

A handwritten signature in black ink that reads 'KPMG'.

KPMG

A handwritten signature in black ink that reads 'Jason Adams'.

Jason Adams
Partner

Brisbane
11 March 2013

AVALON MINERALS LTD
Consolidated Statement of Comprehensive Income
For the half-year ended 31 December 2012

| Consolidated | | | |
|--|-------------|---|---|
| | Note | Half-year ended 31-Dec-2012 \$ | Half-year ended 31-Dec-2011 \$ |
| Revenue from continuing operations | | | |
| Finance income | 6 | 58,064 | 48,001 |
| Other income | | 46,479 | 2,230 |
| Employee benefits expenses | 7(a) | (3,614,151) | (789,614) |
| Corporate and office expenses | 7(b) | (623,280) | (396,265) |
| Depreciation expense | | (60,385) | (51,280) |
| Exploration expenditure written off | 7(c) | - | (9,849) |
| Loss from continuing operations before income tax | | (4,193,273) | (1,196,777) |
| Income tax expense | | - | - |
| Net loss for the period | | (4,193,273) | (1,196,777) |
| Other comprehensive gain/(loss) | | | |
| Items that may be reclassified subsequently to profit or loss: Foreign currency translation of differences – foreign operations | | 1,184,194 | (751,911) |
| Total comprehensive loss for the period | | (3,009,079) | (1,948,688) |
| Net loss for the period is attributable to: | | | |
| Members of Avalon Minerals Ltd | | (4,193,273) | (1,196,777) |
| | | (4,193,273) | (1,196,777) |
| Total comprehensive loss for the period attributable to: | | (3,009,079) | (1,948,688) |
| Members of Avalon Minerals Ltd | | (3,009,079) | (1,948,688) |
| Earnings per share (cents per share): | | | |
| Basic earnings per share | 4 | (1.27) | (0.52) |
| Diluted earnings per share | 4 | (1.27) | (0.52) |

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

AVALON MINERALS LTD
Consolidated Statement of Financial Position
As at 31 December 2012

| | | Consolidated | |
|----------------------------------|------|-----------------------|-----------------------|
| | Note | At 31-Dec-12 \$ | At 30-Jun-12 \$ |
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | | 6,947,344 | 694,310 |
| Trade and other receivables | | 415,142 | 470,408 |
| Total Current Assets | | 7,362,486 | 1,164,718 |
| Non-Current Assets | | | |
| Plant and equipment | | 393,502 | 256,072 |
| Exploration and evaluation | | 26,714,674 | 21,659,085 |
| Total Non-Current Assets | | 27,108,176 | 21,915,157 |
| TOTAL ASSETS | | 34,470,662 | 23,079,875 |
| LIABILITIES | | | |
| Current Liabilities | | | |
| Trade and other payables | | 1,384,010 | 957,036 |
| Provisions | | 38,854 | 58,164 |
| Total Current Liabilities | | 1,422,864 | 1,015,200 |
| TOTAL LIABILITIES | | 1,422,864 | 1,015,200 |
| NET ASSETS | | 33,047,798 | 22,064,675 |
| EQUITY | | | |
| Contributed equity | 8 | 48,769,483 | 36,105,165 |
| Reserves | | 1,663,831 | (848,247) |
| Accumulated losses | | (17,385,516) | (13,192,243) |
| TOTAL EQUITY | | 33,047,798 | 22,064,675 |

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

AVALON MINERALS LTD
Consolidated Statement of Cash Flows
for the half-year ended 31 December 2012

| | Consolidated | |
|---|--|--|
| | Half-year ended 31-Dec-2012 | Half-year ended 31-Dec-2011 |
| | \$ | \$ |
| Cash flows from operating activities | | |
| Payments to suppliers and employees (inclusive of goods and services tax) | (919,861) | (821,342) |
| Interest income | 23,552 | 48,001 |
| Other income | 46,479 | 2,230 |
| Net cash outflow used in operating activities | (849,830) | (771,111) |
| Cash flows from investing activities | | |
| Purchase of plant and equipment | (199,654) | (63,709) |
| Exploration and evaluation expenditure | (3,890,014) | (2,237,630) |
| Net cash outflow used in investing activities | (4,089,668) | (2,301,339) |
| Cash flows from financing activities | | |
| Proceeds from issues of shares | 11,859,128 | 2,051,500 |
| Costs associated with issue of shares | (681,310) | (173,045) |
| Net cash inflow from financing activities | 11,177,818 | 1,878,455 |
| Net increase/ (decrease) in cash and cash equivalents held | 6,238,320 | (1,193,995) |
| Cash and cash equivalents at the beginning of the half-year | 694,310 | 2,660,034 |
| Effect of exchange rate fluctuations on cash held | 14,714 | (37,939) |
| Cash and cash equivalents at the end of the period | 6,947,344 | 1,428,100 |

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

AVALON MINERALS LTD
Consolidated Statement of Changes in Equity
for the half-year ended 31 December 2012

| | Issued Capital \$ | Share-Based Payments Reserve \$ | Foreign Currency Translation Reserve \$ | Accumulated Losses \$ | Total \$ |
|---|-------------------------|--|---|-----------------------------|--------------------|
| For the half-year ended 31 December 2012 | | | | | |
| As at 1 July 2012 | 36,105,165 | 1,365,485 | (2,213,732) | (13,192,243) | 22,064,675 |
| Loss for the financial period | - | - | - | (4,193,273) | (4,193,273) |
| Other comprehensive income | - | - | 1,184,194 | - | 1,184,194 |
| Total comprehensive loss for the period | - | - | 1,184,194 | (4,193,273) | (3,009,079) |
| Equity Transactions | | | | | |
| Shares and Options issued | 11,859,128 | - | - | - | 11,859,128 |
| Share issue costs | (681,310) | - | - | - | (681,310) |
| Share based payments | - | 2,814,384 | - | - | 2,814,384 |
| Shares issued from Performance Rights | 1,486,500 | (1,486,500) | - | - | - |
| As at 31 December 2012 | 48,769,483 | 2,693,369 | (1,029,538) | (17,385,516) | 33,047,798 |

| | Issued Capital \$ | Share-Based Payments Reserve \$ | Foreign Currency Translation Reserve \$ | Accumulated Losses \$ | Total \$ |
|---|-------------------------|--|---|-----------------------------|--------------------|
| For the half-year ended 31 December 2011 | | | | | |
| As at 1 July 2011 | 31,454,613 | 470,080 | (1,197,820) | (8,736,292) | 21,990,581 |
| Loss for the financial period | - | - | - | (1,196,777) | (1,196,777) |
| Other comprehensive income | - | - | (751,911) | - | (751,911) |
| Total comprehensive loss for the period | - | - | (751,911) | (1,196,777) | (1,948,688) |
| Equity Transactions | | | | | |
| Shares issued | 2,051,500 | - | - | - | 2,051,500 |
| Share issue costs | (87,995) | - | - | - | (87,995) |
| Share based payments | - | 340,816 | - | - | 340,816 |
| As at 31 December 2011 | 33,418,118 | 810,896 | (1,949,731) | (9,933,069) | 22,346,214 |

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

AVALON MINERALS LTD

Notes to the Consolidated Financial Statements

Note 1 Basis of preparation and changes in accounting policies

a) Basis of preparation

This general purpose condensed financial report for the half-year reporting period ended 31 December 2012 has been prepared in accordance with AASB 134 Interim Financial Reporting, IAS 34 Interim Financial Reporting and the Corporations Act 2001.

The half-year financial report does not include all of the notes of the type normally included in an annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2012 and any public announcements made by Avalon Minerals Limited during the half-year reporting period in accordance with the continuous disclosure requirements of the *ASX Listing Rules*. The annual report and any public announcements issued can be located on the company's website www.avalonminerals.com.au.

The accounting policies and methods of computation are the same as those adopted in the most recent annual financial report.

b) New and amended Accounting Standards and Interpretations

From 1 July 2012 the Group applied amendments to AASB 134 *Interim Financial Reporting* outlined in AASB 2011-9 *Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income*. The change only relates to disclosures and has had no impact on consolidated earnings per share or net income.

c) Going Concern

The financial report has been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business.

For the half year ended 31 December 2012, the Group has incurred a consolidated loss of \$4,193,273 and experienced net operating cash outflows of \$849,830 and net investing cash outflows of \$4,089,668. The Group received \$11,177,818 in funds from financing activities during the six months ended 31 December 2012.

As at 31 December 2012 the Group has \$6,947,344 in cash and cash equivalents and current assets of \$7,362,486. Current liabilities at 31 December 2012 were \$1,422,864.

The Company commenced a major drill program in November 2012 which is anticipated to be completed by April – May 2013. Cash held at 31 December 2012 will not be sufficient to complete the drill program and further funding will be required to complete the program and to fund the ongoing work on the Viscaria project. On 25 February 2013 the Company lodged a General Meeting Notice for Wednesday 27 March 2013. The two resolutions proposed for shareholder approval include:

1. Ratification of the previous issue at 49,285,714 Shares to professional and sophisticated investors.
This will enable the Company to give the Board flexibility to issue further securities up to the 15% threshold over the twelve month period;
2. Approval to issue up to 70,000,000 New Shares.

Approval of the above resolutions will allow the Company to seek to raise additional equity for the ongoing funding of the Viscaria project and the running of Avalon Minerals Ltd.

AVALON MINERALS LTD
Notes to the Consolidated Financial Statements (Continued)

Note 1 Basis of preparation and changes in accounting policies (continued)

The Directors have reviewed the Group's and Company's overall position and reasonably expect that the Company will be able to raise the additional funds in equity or debt to meet future costs associated with the development of its projects for at least the next 12 months. The Directors are therefore of the opinion that the use of the going concern basis is appropriate in the circumstances.

Should the Group not achieve the matters set out above, there is uncertainty whether the Group will continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

The financial report does not contain any adjustments relating to the recoverability and classification of recorded assets or to the amounts or classification of recorded assets or liabilities that might be necessary should the Group not be able to continue as a going concern.

Note 2 Contingencies

As at 31 December 2012 the Company has no contingent liabilities.

Note 3 Dividends

There were no dividends declared or paid during the half-year.

Note 4 Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the period attributable to members of the Company, by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing net profit attributable to ordinary equity holders of the Company, by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all dilutive potential ordinary shares.

AVALON MINERALS LTD
Notes to the Consolidated Financial Statements (Continued)

Note 4 Earnings per share (continued)

Basic and diluted earnings per share calculations are as follows:

| | Consolidated | |
|--|--|--|
| | Half-year ended 31 Dec 2012 | Half-year ended 31 Dec 2011 |
| | cents | cents |
| Basic and diluted earnings per share | (1.27) | (0.52) |
| Weighted average number of shares used as the denominator | Number | Number |
| Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share | 329,097,529 | 231,241,359 |
| Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share | 329,097,529 | 231,241,359 |
| Losses used in calculating basic and diluted losses per share | \$ | \$ |
| Net loss | (4,193,273) | (1,196,777) |

Options and rights on issue have not been included in the calculation of diluted earnings per share as they are antidilutive for the periods presented.

Note 5 Events occurring after balance sheet date

On 25 February 2013, the Company called a General Meeting of the Shareholders of Avalon Minerals Ltd to be held on Wednesday 27 March 2013. Two resolutions are proposed for approval:

1. Ratification of the previous issue of 49,285,714 Shares to professional and sophisticated investors. This will enable the Company, after Board approval to issue further securities up to the 15% threshold over the twelve month period following approval of this Resolution;
2. Approval to issue up to 70,000,000 new Shares.

This will enable the Company to place additional equity to fund the ongoing operations of the Group.

AVALON MINERALS LTD
Notes to the Consolidated Financial Statements (Continued)

Note 6 Finance Income

| | Consolidated | |
|-----------------|--|--|
| | Half-year ended 31-Dec-2012 | Half-year ended 31-Dec-2011 |
| | \$ | \$ |
| Revenue | | |
| Interest income | 58,064 | 48,001 |

Note 7 Expenses

| | Consolidated | |
|---|--|--|
| | Half-year ended 31-Dec-2012 | Half-year ended 31-Dec-2011 |
| | \$ | \$ |
| (a) Employee benefits expense | | |
| Wages and salaries | (731,584) | (707,015) |
| Less transfer to exploration and evaluation | 154,986 | 423,178 |
| Superannuation expense | (34,045) | (60,545) |
| Non-executive director's fees | (93,047) | (60,000) |
| Staff training and recruitment | (19,881) | (6,913) |
| Share based payment expense | (2,814,384) | (340,816) |
| Other employee benefits expenses | (76,196) | (37,503) |
| | <u>(3,614,151)</u> | <u>(789,614)</u> |

| | Consolidated | |
|--|--|--|
| | Half-year ended 31-Dec-2012 | Half-year ended 31-Dec-2011 |
| | \$ | \$ |
| (b) Corporate and office expenses | | |
| Corporate administration expenses | (368,666) | (222,124) |
| Office expenses | (106,407) | (105,264) |
| Travel costs | (148,207) | (68,877) |
| | <u>(623,280)</u> | <u>(396,265)</u> |
| (c) Exploration expenditure written off | | |
| Exploration expense | <u>-</u> | <u>(9,849)</u> |

AVALON MINERALS LTD

Notes to the Consolidated Financial Statements (Continued)

Note 8 Equity securities issued

Between 11 July and 1 August 2012, the Company placed 39,979,195 fully paid shares issued at 9 cents per share to professional and sophisticated investors, raising \$3,481,905 after costs. On 7 November 2012, 119,285,714 shares were issued to professional and sophisticated investors raising \$7,504,913 after costs. \$191,000 was received during the six months ended 31 December 2012 for the issue of options.

On 27 July 2012, the Board approved the issue of:

- 12,200,000 options to Key Management Personnel and other employees. The issue price was 1 cent per share and the exercise price is 5 cents per share. The options expire on 30 September 2015.
- 24,400,000 performance rights to Key Management Personnel and other employees. The Performance rights were issued in three tranches as follows:
 - Tranche 1: 6,100,000 Performance Rights which vest when the closing price of the shares are 12c or more for 10 consecutive ASX trading days;
 - Tranche 2: 8,850,000 Performance Rights which vest when the total combined JORC compliant mineral resources on the Viscaria project reaches 10MT at 2.5% Cu or more;
 - Tranche 3: 9,450,000 Performance Rights which vest when the closing price of the shares are 30c or more for 10 consecutive ASX trading days.

The conditions associated with the Tranche 2 Performance Rights were achieved on 29 October 2012 and as a result 14,700,000 shares were issued to Director's, Key Management Personnel and other employees on 7 November 2012. 5,850,000 shares were issued to Directors (relating to Performance Rights granted in June 2012) and 8,850,000 shares were issued to Key Management Personnel and other employees.

Note 9 Segment reporting

The Group currently operates in one business segment and one geographical segment, namely copper and iron ore exploration in Sweden. The revenues and results of this segment are those of the Group as a whole and are set out in the *Consolidated Statement of Comprehensive Income*.

The Group continues to review and assess other resource projects both within Australia and overseas as opportunities arise.

Note 10 Capital Commitments

On 24 August 2012, the Company's wholly owned subsidiary Avalon Viscaria AB entered into a drilling contract with a minimum expenditure commitment of \$3.0 million. At 31 December 2012, the remaining commitment was \$1.6 million.

AVALON MINERALS LTD
Directors' Declaration

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

In the opinion of the directors:

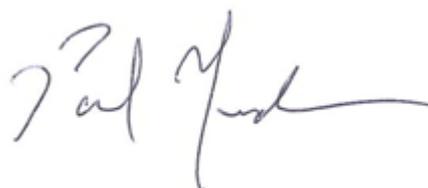
- (a) The financial statements and the notes of the Consolidated Entity are in accordance with the *Corporations Act 2012*, including:
- i. Giving a true and fair view of the consolidated Entity's financial position as at 31 December 2012 and of its performance for the half year then ended; and
 - ii. Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2011*; and
- (b) There are reasonable grounds to believe that the Consolidated Entity will be able to pay its debts as and when they become due and payable.
- (c) Subject to the achievement of matters described in Note 1(c), there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

On behalf of the board



Jeremy Read
Managing Director
Brisbane, Queensland



Paul Niardone
Non-Executive Director
Perth, Western Australia

11 March 2013



Independent auditor's review report to the members of Avalon Minerals Ltd

We have reviewed the accompanying half-year financial report of Avalon Minerals Ltd, which comprises the consolidated statement of financial position as at 31 December 2012, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes 1 to 10 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2012 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Avalon Minerals Ltd, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Avalon Minerals Ltd is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 31 December 2012 and of its performance for the half-year ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



Inherent uncertainty regarding continuation as a going concern

Without modifying our conclusion, attention is drawn to note 1(c) in the half-year financial report. As a result of matters described in note 1(c), the Group is reliant upon raising additional funds to enable it to continue with its operations, including its ongoing exploration programs. These conditions indicate the existence of a material uncertainty which may cast significant doubt regarding the ability of the Group to continue as a going concern and therefore, whether it will be able to realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the half-year financial report.

A handwritten signature in black ink that reads 'KPMG' in a cursive, stylized font.

KPMG

A handwritten signature in black ink that reads 'J Adams' in a cursive, stylized font.

Jason Adams
Partner

Brisbane
11 March 2013

Competent Persons Statement

The information in this report that relates to Mineral Resources and exploration targets is based upon information reviewed by Mr Jeremy Read BSc (Hons) who is a Member of the Australasian Institute of Mining and Metallurgy. Mr Read is a full time employee of Avalon Minerals Ltd and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the “Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves”. Mr Read consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

The Mineral Resource estimate for the D Zone prospect was compiled and prepared by Stefan Mujdrica (MAusIMM) of Xstract Mining Consultants who is a Competent Person as defined by the Australasian Code for the reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code) 2004 Edition and who consents to the inclusion in this report of the matters based on the information in the form and context in which it appears.

The Mineral Resource estimate for A and B Zones was compiled and prepared by Dr Bielin Shi (MAusIMM, MAIG) of CSA Global Pty. Ltd. who is a Competent Person as defined by the Australasian Code for the reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code) 2004 Edition and who consents to the inclusion in this report of the matters based on the information in the form and context in which it appears.

The Scoping Study results were compiled and prepared by Tim Horsley (MAusIMM) of Xstract Mining Consultants who is a Competent Person as defined by the Australasian Code for the reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code) 2004 Edition and who consents to the inclusion in this report of the matters based on the information in the form and context in which it appears.

The Base Case includes material from Inferred Mineral Resources and therefore, exploration drilling and re-estimation may result in changes to the economically minable portion of the Mineral Resources.

Development Cases A, B and C includes material that has not yet been discovered or defined and is considered an exploration target.

JORC – Exploration Targets

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