

AVALON SIGNS BINDING HOA WITH HANNANS TO ACQUIRE SWEDISH COPPER-IRON PROSPECT FOR A\$4M

Highlights

- Avalon signs binding Heads of Agreement with Hannans to acquire the Discovery Zone copper-iron prospect in Sweden for A\$4M;
- Discovery Zone has a current JORC Inferred Mineral Resource of 10.9Mt @ 0.31% Cu, 38.7% Fe and 0.08g/t Au, reported above a 20% Fe cut-off;
- Exploration potential and convenient location within trucking distance to Avalon's main Viscaria Copper Project;
- Scoping Study indicates the Discovery Zone has the potential to add up to US\$100M in NPV to the Viscaria Copper Project, by extending the proposed mine life to 9.5 years and bringing the overall project potential NPV to \$300M (at US\$3.25/lb Cu);
- Acquisition is aligned with Avalon's expansion strategy and will enhance the Company's asset portfolio;
- Avalon to commence a 40-day due diligence period concluding on 23 November 2012.

Australian resources company Avalon Minerals Limited ('Avalon' or 'Company') (ASX: AVI) is pleased to announce that it has signed a legally binding Heads of Agreement (HOA) with ASX listed company, Hannans Reward Limited (Hannans).

Under the HOA, Avalon has agreed to buy Hannans' Discovery Zone and Tributary Zone prospects (which are currently 100% owned by Hannans subsidiary, Kiruna Iron AB), as well as the exploration area surrounding the Discovery Zone located in the Kiruna district of Sweden (Discovery Prospect) for A\$4 million.

The acquisition is conditional upon the completion of legal and technical due diligence by Avalon on the Discovery Zone Prospect, to the satisfaction of Avalon by 23 November 2012 (Condition Precedent). If the Condition Precedent is not satisfied, the HOA will terminate and the acquisition will not proceed.

The Company's Managing Director Mr Jeremy Read said, "The acquisition of the Discovery Zone Prospect provides an exciting opportunity to expand the Company's exploration portfolio and complements Avalon's strategy to deliver significant long term growth opportunities to its shareholders."

"The location of the Discovery Zone Prospect, approximately 10km from the Viscaria Copper Project, offers the potential to add up to \$100M in value to Viscaria, bringing the total project NPV to potentially US\$300M, by trucking mineralisation from Discovery over to the planned processing plant at Viscaria, extending the life of the overall Project to 9.5 years and allowing an increase in the mining rate," he added.

"The copper-iron mineralisation at the Discovery Zone is very similar in nature to the copper-iron mineralisation at Avalon's existing D Zone Mineral Resource. Therefore, we believe that the Discovery Zone mineralisation will be processed through the processing plant planned for Viscaria and this is the main reason that this acquisition is such a value adding opportunity for Avalon," said Mr Read.

Under the HOA, Avalon will be required to make the following payments to Hannans:

- a non-refundable cash deposit of A\$100,000 when the Condition Precedent is satisfied (**First Payment**);
- a non-refundable cash payment of A\$300,000 when a formal sale and purchase agreement for the acquisition is executed by Avalon and Hannans. This formal agreement is required to be signed within 30 days of the First Payment unless otherwise agreed by the parties and will be consistent with the terms set out in the HOA and will contain customary terms and conditions for a transaction of this nature;
- A\$1,600,000 when written notification from the Mining Inspectorate of Sweden is received, noting that the Mining Inspectorate of Sweden formally approves the complete transfer or assignment of the Discovery Zone Prospect to Avalon on conditions (if any) acceptable to Avalon; and
- A\$2,000,000 when Avalon receives full, unencumbered title to the Discovery Prospect. Up to A\$1,000,000 of this final payment may, at Avalon's sole and absolute discretion, be paid by Avalon issuing Hannans or its nominee up to A\$1,000,000 worth of Avalon shares.

The HOA also allows Avalon to take over responsibility for an existing Net Smelter Royalty of 1.5% for the Discovery Zone Prospect.

Discovery Zone Prospect

The Discovery Zone Prospect is located approximately 6km southwest of Kiruna and approximately 10km from Avalon's Viscaria Project (**Figure 1**). It is a copper-gold-iron discovery originally made by Anglo American Exploration BV & Rio Tinto in 1999. The Discovery Zone Prospect has a current JORC Inferred Mineral Resource of 10.9Mt @ 0.31% Cu, 38.7% Fe and 0.08g/t Au, reported above a 20% Fe cut-off. The orebody is currently open at depth.

Initial investigations suggest the Discovery Zone Prospect is similar in mineralogy to Avalon's D Zone at the Viscaria Copper Project (Figures 2 and 3). Consequently, Avalon believes that it will be possible to process the Discovery Zone mineralisation through the same processing plant, which is being planned to process the ore from Avalon's existing D Zone Mineral Resource.

A high level Scoping Study review of the potential economics of using mineralisation from the Discovery Zone Prospect, as additional feed for the planned Viscaria Processing plant, has suggested that the value addition to an expanded Viscaria Project could potentially be as much as \$100M. This value addition could be created provided that the following parameters were achieved from the Discovery Zone:

- 70% of the current Discovery Zone Mineral Resource was able to be mined using open pit methods
- Mine Life of 3 years
- Annual production from Discovery Zone will be 2.6Mtpa
- Strip ratio of an open pit at Discovery Zone will be similar to the planned strip ratio for the D Zone Mineral Resource (3.4)
- Recoveries of Cu and Fe for Discovery Zone will be similar to those achieved on the metallurgical test work completed for D Zone, being 76% of Fe and 90% of Cu
- Cu price US\$3.25/lb and Fe pellet price US\$150/t

The potential value addition to the overall Viscaria Project, through the acquisition of the Discovery Zone, is an order of magnitude estimate using the publically available information. During the due diligence process for Discovery Zone, Avalon's consultants will refine their economic assessment of the Discovery Zone and if the parameters detailed above for Discovery Zone significantly change, then the value addition to the Viscaria Project could be materially affected.

The Discovery Zone Prospect's proximity to Avalon's Viscaria Project makes it an ideal acquisition and fits with the expansion strategy for the Company. The Discovery Zone Prospect will enhance the Company's asset portfolio and potentially will significantly improve the economics of the Viscaria Copper Project. In the Company's Scoping Study, (ASX announcement on 11 October 2012), it was presented that the NPV of the 'Base Case' mining scenario, using only the already defined Mineral Resources on the Viscaria Project was US\$61M. If the various development cases (A, B and C) detailed in the Company's Scoping Study could be achieved, the NPV of the Viscaria Project could be increased to US\$198M. Then if the Discovery Zone Prospect potential value addition of US\$100M is also considered, the overall Viscaria Project NPV could reach US\$300M. It must be noted that the development cases (A, B and C) includes material that are Exploration Targets and are 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.

Avalon will now commence a 40-day due diligence period, which will conclude on 23 November 2012. The due diligence process on the Discovery Zone must be completed to Avalon's absolute satisfaction. Avalon's due diligence process will focus on the good standing of the tenement containing the Discovery Zone, confirming the Mineral Resource and further investigating the economics of an open pit operation, trucking Discovery Zone ore to Viscaria and processing the ore through the planned Viscaria processing plant.

A further announcement on the Discovery Zone transaction will be made immediately following the completion of the due diligence period.

ABOUT AVALON

Avalon is an ASX listed mineral exploration company with high quality assets in Sweden, one of the leading metal producing countries in the European Union.

Avalon's flagship asset is the Viscaria copper-magnetite project located 1,200km north of Stockholm where the Company has delineated a global resource of 66.2 million tonnes of mineralisation, containing 51,000 tonnes of copper and 2.4 million tonnes of iron.

The Viscaria Project is surrounded by established infrastructure, lying immediately adjacent to LKAB's Kirunavaara Iron Ore operation and in close proximity to high-capacity rail and ports.

ABOUT SWEDEN

Sweden has a 1,000 year mining history, is the largest producer of iron ore in the European Union and is a leading producer of base metals (copper, zinc, lead) and precious metals (gold and silver).

There are excellent discovery opportunities with much of the country underexplored by modern standards. Furthermore, Sweden possesses a world-class geological database and favourable minerals legislation, is politically and economically stable and has mining know-how, highly trained personnel and excellent infrastructure.

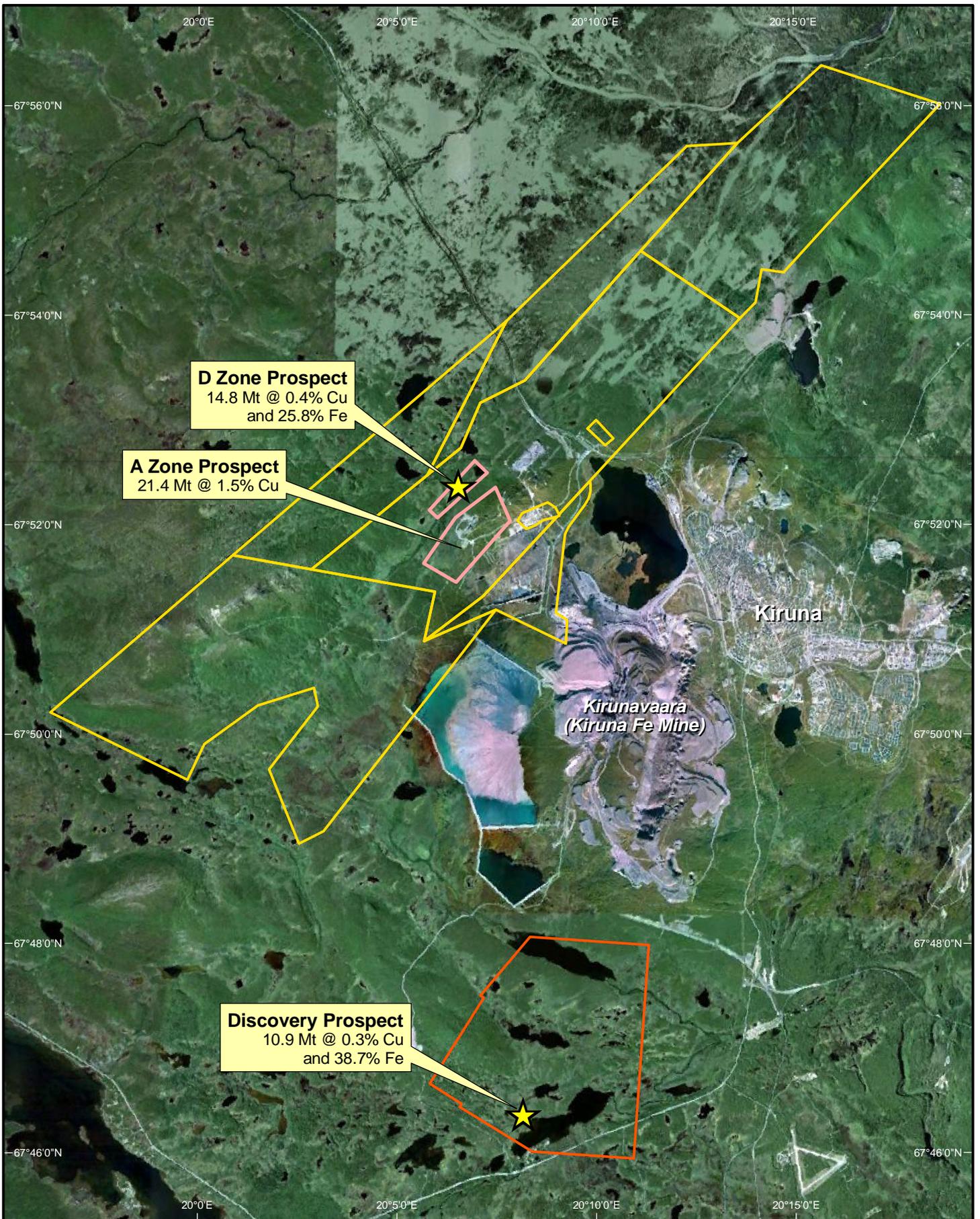
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The information in this report that relates to Mineral Resources and exploration targets is based upon information reviewed by Mr Jeremy Read BSc (Hons) who is a Member of the Australasian Institute of Mining and Metallurgy. Mr Read is a full time 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 Mujdrlica (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 the Discovery and Tributary Zones is effective from 13 January 2012 and has been prepared by Mr Thomas Lindholm, MSc of GeoVista AB, Luleå, Sweden acting as an independent “Competent Person”. Mr Lindholm is a Fellow of the Australasian Institute of Mining and Metallurgy (Member 230476). Mineral resources of the Rakkuri iron deposits have been prepared and categorised for reporting purposes by Mr Lindholm, following the guidelines of the JORC Code. Mr Lindholm is qualified to be a Competent Person as defined by the JORC Code on the basis of training and experience in the exploration, mining and estimation of mineral resources of gold, base metal and iron deposits.



★ Copper-Magnetite resource



Transverse Mercator Projection

Viscaria Project

□ Exploration Tenure

□ Exploitation Concession

Discovery Prospect

□ Exploration Tenure



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**VISCARIA PROJECT, SWEDEN
LOCATION OF DISCOVERY PROSPECT**

FIGURE 1

Figure 2

Core sample from drill hole RAK04006 of the Discovery Prospect, showing massive, brecciated magnetite (iron mineralisation) with chalcopyrite infill (copper mineralisation).



Figure 3

Core sample from drill hole VDD0128 of the D Zone prospect at Avalon's Viscaria Project, showing massive magnetite (iron mineralisation) with chalcopyrite (copper mineralisation). This sample of core is from the interval 216m to 224m which contained 1.5% Cu and 33% Fe over the 8 metres

