

**Avalon Minerals Ltd**

**ABN 68 123 184 412**

**Half-year Financial Report**

**31 December 2009**

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## AVALON MINERALS LTD

### 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 2009.

#### Directors

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

Mr D L McSweeney  
Tan Sri Abu Mohamed  
Mr G C Steinepreis  
Mr S Stone  
Mr A Kamaruddin (as alternate for Tan Sri Abu Mohamed)

#### Review of operations

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

	<b>Results</b>
	<b>31 December 2009</b>
	\$
Other revenue	<u>26,884</u>
Net loss before income tax expense	<b>(628,885)</b>
Income tax expense	<u>-</u>
Loss attributable to members of Avalon Minerals Ltd	<u><b>(628,885)</b></u>

#### Financial Position

At the end of the half-year the consolidated entity had a cash balance of \$3,617,507 and net assets of \$7,569,606.

Total liabilities amounted to \$535,826 and were limited to trade and other creditors and employee entitlements.

#### Corporate

The Company completed two placements during the half-year. In September 2009, 13,000,000 fully paid shares were issued to raise \$1,300,000. In December 2009, 15,074,000 fully paid shares were issued to raise \$3,165,540.

#### Exploration

##### **Viscaria Copper Project**

The Viscaria Copper Project in northern Sweden is the Company's primary focus and forms the basis for Avalon's plans to become a mid-tier copper producer. The Viscaria copper deposits are regarded as being of Volcanogenic Massive Sulphide (VMS) origin. Examples of VMS deposits in Western Australia include the Golden Grove and Jaguar deposits and the more recent discoveries in the Doolgunna region, located near Meekatharra.

After completion of the digitising of historical data and modelling during 2008 and early 2009, Avalon commenced diamond and RC drilling in July 2009 to test the strike and depth extensions of the Viscaria 'A' orebody and by December 2009 had completed over 7,000 metres of drilling.

Avalon has commenced pre-feasibility studies into stand alone and toll treatment options for the development of the potential open cut mine at Viscaria. Capital and operating cost estimates are being prepared along with infrastructure and processing studies.

## Directors' report

### Review of operations (continued)

In addition to the current feasibility programs at Viscaria, Avalon plans to conduct additional exploration to test high priority regional targets.

Avalon aims to commence production at Viscaria by 2013 from existing open cut resources in the 'D' and 'A' zones.

### *Adak Copper Project*

The Adak copper project contains four historical mines – Adak, Lindsfold, Brannmyran and Rudtjebacken – covering an area of 26.71km<sup>2</sup>, located in the world-class Skelleftea VMS mining district of Northern Sweden.

Avalon's attraction to Adak is due to the exploration potential surrounding the existing mines and at depth, and its strategic location within trucking distance of existing concentration facilities.

### **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 5.

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

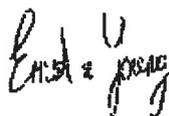


David McSweeney  
Chairman  
Perth, Western Australia

15 March 2010

## **Auditor's Independence Declaration to the Directors of Avalon Minerals Ltd**

In relation to our review of the financial report of Avalon Minerals Ltd for the half-year ended 31 December 2009, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.



Ernst & Young



RJ Curtin  
Partner  
Perth  
15 March 2010

AVALON MINERALS LTD

**Consolidated Statement of Comprehensive Income**  
For the half-year ended 31 December 2009

	Note	Half-year December 2009 \$	Half-year December 2008 \$
<b>Continuing operations</b>			
Revenue	5	26,884	26,243
Other income		-	50,000
Employee benefits expense	6	(177,674)	(161,544)
Office occupancy costs		(74,638)	(65,723)
Corporate and administration expenses		(357,957)	(169,448)
Depreciation expense	6	(30,192)	(26,209)
Exploration expenditure written off	6	(14,007)	(2,638,054)
Loan written off	6	-	(62,021)
Interest paid		(4)	(6)
Other expenses from ordinary activities		(1,297)	(1,377)
<b>Loss from continuing activities before income tax</b>		<b>(628,885)</b>	<b>(3,048,139)</b>
Income tax expense		-	-
<b>Net loss for the period</b>		<b>(628,885)</b>	<b>(3,048,139)</b>
<b>Other comprehensive income</b>			
Foreign currency translation		(112,441)	94,031
<b>Total comprehensive income for the period</b>		<b>(741,326)</b>	<b>(2,954,108)</b>
<b>Net loss for the period is attributable to:</b>			
Members of Avalon Minerals Limited		(741,326)	(2,954,108)
		<b>(741,326)</b>	<b>(2,954,108)</b>
<b>Total comprehensive income for the period attributable to:</b>			
Members of Avalon Minerals Limited		(741,326)	(2,954,108)
		<b>(741,326)</b>	<b>(2,954,108)</b>
<b>Earnings per share for loss from continuing operations attributable to the ordinary equity holders of the company:</b>			
Basic and diluted earnings per share		<b>Cents (0.70)</b>	<b>Cents (5.89)</b>

*The above Consolidated Statement of Comprehensive Income should be read in conjunction with the Notes to the Financial Statements*

**AVALON MINERALS LTD**

**Consolidated Statement of Financial Position**  
As at 31 December 2009

	Note	31 December 2009 \$	30 June 2009 \$
<b>Current assets</b>			
Cash and cash equivalents		3,617,507	1,919,002
Trade and other receivables		287,500	63,694
Total current assets		<u>3,905,007</u>	<u>1,982,696</u>
<b>Non-current assets</b>			
Plant and equipment		104,719	122,410
Exploration and evaluation expenditure		4,095,706	2,419,689
Total non-current assets		<u>4,200,425</u>	<u>2,542,099</u>
<b>Total assets</b>		<u>8,105,432</u>	<u>4,524,795</u>
<b>Current liabilities</b>			
Trade and other payables		521,695	437,676
Total current liabilities		<u>521,695</u>	<u>437,676</u>
<b>Non-current liabilities</b>			
Provisions		14,131	-
Total non-current liabilities		<u>14,131</u>	<u>-</u>
<b>Total liabilities</b>		<u>535,826</u>	<u>437,676</u>
<b>Net assets</b>		<u>7,569,606</u>	<u>4,087,119</u>
<b>Equity</b>			
Contributed equity	7	13,959,240	9,735,426
Reserves		(184,144)	(71,702)
Accumulated losses		(6,205,490)	(5,576,605)
<b>Total equity</b>		<u>7,569,606</u>	<u>4,087,119</u>

*The above Consolidated Statement of Financial Position should be read in conjunction with the Notes to the Financial Statements*

AVALON MINERALS LTD

**Consolidated Statement of Changes in Equity**

For the half - year ended 31 December 2009

	Issued capital \$	Accumulated losses \$	Share-based payments reserve \$	Foreign currency translation reserve \$	Total \$
<b>2009</b>					
<b>At the beginning of the half-year</b>	<b>9,735,426</b>	<b>(5,576,605)</b>	<b>205,505</b>	<b>(277,207)</b>	<b>4,087,119</b>
Loss for the financial period	-	(628,885)	-	-	(628,885)
Other comprehensive income	-	-	-	(112,442)	(112,442)
<b>Total comprehensive income for the half-year</b>	<b>-</b>	<b>(628,885)</b>	<b>-</b>	<b>(112,442)</b>	<b>(741,327)</b>
Contributions of equity, net of costs	4,223,814	-	-	-	4,223,814
<b>At the end of the half-year</b>	<b>13,959,240</b>	<b>(6,205,490)</b>	<b>205,505</b>	<b>(389,649)</b>	<b>7,569,606</b>
	Issued capital \$	Accumulated losses \$	Share-based payments reserve \$	Foreign currency translation reserve \$	Total \$
<b>2008</b>					
<b>At the beginning of the half-year</b>	<b>7,125,612</b>	<b>(2,101,165)</b>	<b>176,963</b>	<b>-</b>	<b>5,201,410</b>
Loss for the financial period	-	(3,048,139)	-	-	(3,048,139)
Other comprehensive income	-	-	-	94,031	94,031
<b>Total comprehensive income for the half-year</b>	<b>-</b>	<b>(3,048,139)</b>	<b>-</b>	<b>94,031</b>	<b>(2,954,108)</b>
Contributions of equity	300,000	-	-	-	300,000
Share based payments	-	-	2,136	-	2,136
<b>At the end of the half-year</b>	<b>7,425,612</b>	<b>(5,149,304)</b>	<b>179,099</b>	<b>94,031</b>	<b>2,549,438</b>

*The above Consolidated Statement of Changes in Equity should be read in conjunction with the Notes to the Financial Statements*

AVALON MINERALS LTD

**Consolidated Cash Flow Statement**  
For the half – year ended 31 December 2009

	Half-year December 2009 \$	Half-year December 2008 \$
<b>Cash flows from operating activities</b>		
Payments to suppliers and employees	(1,066,674)	(428,140)
Other – sundry income	-	50,000
Interest paid	(4)	(6)
Interest received	26,884	26,243
<b>Net cash outflows from operating activities</b>	<u>(1,039,794)</u>	<u>(351,903)</u>
<b>Cash flows from investing activities</b>		
Payments for plant & equipment	(21,085)	(905)
Loans to other entities	-	(36,667)
Exploration and evaluation expenditure	(1,656,724)	(1,045,728)
<b>Net cash outflows from investing activities</b>	<u>(1,677,809)</u>	<u>(1,083,310)</u>
<b>Cash flows from financing activities</b>		
Proceeds from issues of securities	4,465,540	300,000
Costs of share issues	(49,432)	-
<b>Net cash inflows from financing activities</b>	<u>4,416,108</u>	<u>300,000</u>
<b>Net decrease in cash and cash equivalents held</b>	<b>1,698,505</b>	<b>(1,135,203)</b>
Cash and cash equivalents at the beginning of the half-year	<u>1,919,002</u>	<u>1,458,455</u>
<b>Cash and cash equivalents at the end of the half-year</b>	<u>3,617,507</u>	<u>323,252</u>

*The above consolidated Cash Flow Statement should be read in conjunction with the Notes to the Financial Statements*

**Notes to the 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 2009 has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The half-year financial report does not include all 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 2009 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 half-year financial report has been prepared using the same accounting policies and methods of computation as used in the annual financial statements for the year ended 30 June 2009.

(b) New and amending Accounting Standards and Interpretations

From 1 July 2009 the Group has adopted all Accounting Standards and Interpretations, mandatory for annual periods beginning on or after 1 July 2009, including

AASB 8 and AASB 2007-3	Operating Segments and consequential amendments to other Australian Accounting Standards
AASB 101 (Revised), AASB 2007-8 and AASB 2007-10	Presentation of Financial Statements and consequential amendments to other Australian Accounting Standards
AASB 2008-1	Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations
AASB 3 (Revised)	Business Combinations
AASB 127 (Revised)	Consolidated and Separate Financial Statements
AASB 2008-3	Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127
AASB 2008-5	Amendments to Australian Accounting Standards arising from the Annual Improvements Project
AASB 2008-6	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project
AASB 2008-7	Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
AASB 2009-2	Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments [AASB 4, AASB 7, AASB 1023 & AASB 1038]

**Notes to the Financial Statements**

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

AASB 123 (Revised) and AASB 2007-6	The amendments to AASB 123 require that all borrowing costs associated with a qualifying asset be capitalised.
AASB 2009-4	Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 2 and AASB 138 and AASB Interpretations 9 & 16]
AASB 2009-7	Amendments to Australian Accounting Standards [AASB 5, 7, 107, 112, 136 & 139 and Interpretation 17]

Adoption of these standards and interpretations did not have any effect on the financial position or performance of the Group.

The Group has not elected to early adopt any new standards or amendments.

**Note 2. Contingencies**

As at 31 December 2009 the Company has no contingent liabilities.

**Note 3. Dividends**

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

**Note 4. Events occurring after balance sheet date**

On 9 February 2010 the Company issued 200,000 fully paid shares at 20 cents each, pursuant to the exercise of options, raising a total of \$40,000.

On 15 February 2010 the Company issued 7,348,387 fully paid shares at 21 cents each, pursuant to a 1 for 7 non-renounceable entitlement issue, raising a total of \$1,585,161.

On 8 March 2010 the Company issued 728,142 fully paid shares at 21 cents each as a Placement of Shortfall shares from the non-renounceable 1 for 7 entitlement issue, raising a further \$ 152,909. In addition, on that date, the Company issued 1,500,000 Employee Incentive Options under the Avalon Minerals Ltd Incentive Scheme. 500,000 options are exercisable at 30 cents and expire 31 January 2013 and vest 12 months from 31 January 2010, 1,000,000 options are exercisable at 40 cents and expire 31 January 2014 and vest 24 months from 31 January 2010.

Notes to the Financial Statements

**Note 4. Events occurring after balance sheet date (continued)**

Other than shown above, no matters or circumstances have arisen since the end of the half-year which have significantly affected, or may affect the operations of the entity, the results of those operations, or the state of affairs of the entity in financial years subsequent to the half-year ended 31 December 2009.

	<b>Half-year December 2009</b>	Half-year December 2008
	\$	\$

**Note 5. Revenue**

**Revenue**

Interest income	<u>26,884</u>	<u>26,243</u>
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**Note 6. Expenses**

**Loss before income tax includes the following:**

Employee benefits expense	<u>177,674</u>	121,351
Depreciation	<u>30,192</u>	26,209
Exploration expenditure written off (i)	<u>19,386</u>	2,638,054
Loan written off (ii)	<u>-</u>	62,021

- (i) Exploration expenditure written off relates to tenements held by the Company's wholly owned subsidiaries Xmin Pty Ltd and Resource Properties Pty Ltd. All tenements held by these companies have now been relinquished.
- (ii) The loan written off relates to funds lent to Haliburn Limited in order to fund the Company until listing on ASX. However, Haliburn failed to raise sufficient capital and the loan has been written off as there is little likelihood of recovering these funds.

**Note 7. Equity securities issued**

On 30 September 2009 the Company issued 13,000,000 fully paid shares at 10 cents each pursuant to a placement to sophisticated investors.

On 16 December 2009 the Company issued 15,074,000 fully paid shares at 21 cents each pursuant to a placement to sophisticated investors.

**Notes to the Financial Statements**

**Note 8. Segment reporting**

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

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

The principal activities of the Australia segment consisted of exploration and evaluation of the Group's Australian exploration assets. At the half-year ended 31 December 2008, the Australian exploration assets were written off. The principle activities of the Sweden segment consisted of exploration and evaluation of the Group's Swedish exploration assets.

*Accounting policies and inter-segment transactions*

The accounting policies used by the Group in reporting segments internally are the same as those used in preparing annual and half-year reports, except as detailed below:

Corporate charges

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

Segment information provided for the half-year ended 31 December 2009 is as follows:

**Half-year ended 31 December 2009**

	<b>Australia</b>	<b>Sweden</b>	<b>Total</b>
	\$	\$	\$
Total Segment Revenue	-	-	-
Segment results	-	(14,007)	(14,007)

**Half-year ended 31 December 2008**

	<b>Australia</b>	<b>Sweden</b>	<b>Total</b>
	\$	\$	\$
Total Segment Revenue	-	-	-
Segment results	(2,609,556)	(28,922)	(2,638,054)

Notes to the Financial Statements

Note 8. Segment reporting (continued)

**Total Segment Assets**

	<b>Australia</b>	<b>Sweden</b>	<b>Total</b>
	\$	\$	\$
<b>31 December 2009</b>			
Segment assets	-	4,095,706	4,095,706
Cash and cash equivalents			3,617,507
Trade and other receivables			287,500
Plant & Equipment			104,719
Total assets per the statement of financial position			<u>8,105,432</u>
<b>30 June 2009</b>			
Segment assets	-	2,419,689	2,419,689
Cash and cash equivalents			1,919,002
Trade and other receivables			63,694
Plant & Equipment			122,410
Total assets per the statement of financial position			<u>4,524,795</u>

Reconciliation of segment revenue to revenue presented on the Consolidated Statement of Comprehensive Income as follows:

	<b>Consolidated</b>	
	<b>2009</b>	<b>2008</b>
	\$	\$
Segment revenue	-	-
Unallocated interest revenue	26,884	26,243
Unallocated other income	-	50,000
<b>Revenue from continuing operations</b>	<u><b>26,884</b></u>	<u><b>76,243</b></u>

Reconciliation of segment result to loss before income tax is as follows:

	<b>Consolidated</b>	
	<b>2009</b>	<b>2008</b>
	\$	\$
Segment result	(14,007)	(2,638,054)
Unallocated interest revenue	26,884	26,243
Unallocated other income	-	50,000
Unallocated interest expense	(4)	(6)
Corporate and administration expenses	(641,758)	(424,301)
Loan written off	-	(62,021)
<b>Loss before income tax from continuing operations</b>	<u><b>(628,884)</b></u>	<u><b>(3,048,140)</b></u>

**Directors' Declaration**

In the opinion of the directors:

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

(i) giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2009 and of its performance for the half year then ended; and

(ii) complying with Accounting Standard AASB 134 "Interim Financial Reporting" and Corporations Regulations 2001; 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.

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



David McSweeney  
Chairman

15 March 2010

To the members of Avalon Minerals Ltd

## Report on the half-year Financial Report

We have reviewed the accompanying half-year financial report of Avalon Minerals Ltd, which comprises the statement of financial position as at 31 December 2009, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half year ended on that date, other selected explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at 31 December 2009 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 and fair presentation of the half-year 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 half-year 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.

### ***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 Interim and Other Financial Reports 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 financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2009 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Avalon Minerals Ltd and the entities it controlled during the half-year, 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.

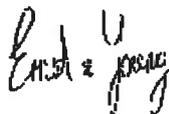
### ***Independence***

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

### **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:

- i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2009 and of its performance for the half-year ended on that date; and
- ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



Ernst & Young



RJ Curtin  
Partner  
Perth  
15 March 2010