



**AVALON**

MINERALS LTD

ABN 68 123 184 412

**Half-Year Financial Report  
31 December 2015**

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## CORPORATE DIRECTORY

### Directors

Graham Ascough – Non-Executive Chairman  
Malcolm Norris – CEO/Managing Director  
Crispin Henderson – Non-Executive Director  
Don Hyma - Non-Executive Director

### Company Secretary

Gavin Leicht

### Securities Exchange Listing

Avalon Minerals Limited shares are listed on the Australian Securities Exchange  
Ordinary fully paid shares (ASX Code: AVI)

### Share Registry

Computershare Investor Services Pty Ltd  
117 Victoria Street  
West End Qld 4101  
Telephone: +61 7 3237 2100  
Facsimile: +61 7 9473 2555  
Website: [www.computershare.com.au](http://www.computershare.com.au)  
Investor Enquiries: 1300 850 505

### Registered Office and principal place of business

#### Australia

9 Gardner Close  
Milton Qld 4064  
Telephone: 07 3368 9888  
Facsimile: 07 3368 9899

**Web site:** [www.avalonminerals.com.au](http://www.avalonminerals.com.au)

**Email:** [info@avalonminerals.com.au](mailto:info@avalonminerals.com.au)

### Auditor

BDO Audit Pty Ltd  
Level 10/12 Creek Street  
Brisbane Qld 4000

### Bank

National Australia Bank  
Level 23, 100 Creek Street  
Brisbane QLD 4000

### Solicitors

O'Loughlins  
Level 2, 99 Frome Street  
Adelaide SA 5000

### Sweden

Fasadvägen 43,  
981 41 Kiruna  
Sweden  
Telephone: +46 920 52 00 00

# AVALON MINERALS

## Directors' Report



Your Directors present their report on Avalon Minerals Limited ("Avalon" or "Company") and the entities it controlled ("Consolidated Entity" or "Group") for the financial half year ended 31 December 2015.

### Directors

The following persons were Directors of Avalon at any time during the financial year and up to the date of this report, unless otherwise stated:

|                      |   |
|----------------------|---|
| Mr Graham Ascough    | (Non-Executive Chairman appointed 29 November 2013)   |
| Mr Malcolm Norris    | (CEO/Managing Director appointed 1 April 2014)  |
| Mr Crispin Henderson | (Non-Executive Chairman appointed 25 March 2013 to 29 November 2013, Non-Executive Director thereafter) |
| Mr Don Hyma          | (Non-Executive Director appointed 19 March 2014)  |

### Principal activities

During the period the principal activities of the Group consisted of mineral exploration and evaluation.

### Dividends

No dividends were paid or recommended to members during the financial period.

### Review of operations

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

|   | Half-year ended       |                     |
|---|-----------------------|---------------------|
|   | 2015<br>\$            | 2014 Restated<br>\$ |
| Revenue and other income                                | 13,950                | 41,413              |
| Loss before income tax                                  | (2,314,207)           | (745,533)           |
| Income tax expense                                      | -                     | -                   |
| Loss attributable to members of Avalon Minerals Limited | (2,314,207)           | (745,533)           |
| <b>Loss per share</b>                                   | <b>2015<br/>cents</b> | 2014<br>cents       |
| Basic loss per share                                    | (0.9)                 | (0.5)               |

# AVALON MINERALS

## Directors' Report



### **Financial Performance**

During the half-year ended 31 December 2015 the Group incurred a loss of \$2,314,207 (2014: loss of \$745,533 after restatement following capitalisation of Research and Development tax incentive). The loss for this period is largely due to:

- The Heads of Agreement for the acquisition of the Discovery Zone tenements not being extended. This resulted in the initial \$1million payment under this agreement being refundable from Hannans. The Group has recognised an impairment for the amount owing from Hannans Reward Limited ("Hannans") including invoices for share of costs due to be refunded by Hannans and has written off its remaining capitalised costs in relation to Discovery Zone. This resulted in a total impairment expense of \$1,423,569; and
- Corporate costs incurred to fund the progression of the Scoping Study on the Viscaria Copper Project.

### **Financial Position**

The Company's non-current assets increased from \$36,950,955 at 30 June 2015 to \$40,156,075 at 31 December 2015, due to capitalised exploration drilling and scoping study expenses, offset by the write off of capitalised expenditure on the Discovery Zone tenements.

During the half-year, the Company had a net increase in contributed equity of \$2,467,099 as a result of:

- A placement of 14,851,852 fully paid shares for a consideration of \$401,000 (2.7 cents per share) in October 2015.
- A 1 for 2 Rights Issue where 66,334,654 new fully paid shares were issued for a total consideration of \$1,791,036 (2.7 cents per share) in November 2015.
- A placement of 11,184,138 fully paid shares for a consideration of \$301,972 (2.7 cents per share) from December 2015. This placement represented the entitlement for 1 shareholder under the Rights Issue that was taken up after the closing of the Rights Issue.

At the end of the financial period, the Group had cash balances of \$1,657,753 (June 2015 \$3,208,654) and net assets of \$41,467,532 (June 2015: \$39,838,129). Total liabilities amounted to \$629,317 (June 2015: \$730,162) and included trade, other payables and provisions.

### **Project**

Avalon continued to progress the Viscaria Copper Project in Sweden. Drilling undertaken during the period in D Zone proved very successful with consistent high grade results, strengthening the interpretations of geometry and demonstrating significant vertical extent to the D Zone high grade shoots.

#### Development Studies at Viscaria

The findings of the Viscaria Copper Project Scoping Study were presented in an ASX announcement dated 14 December 2015.

The Scoping Study considered a Base Case development proposition involving standard industry technology partnered with infrastructure opportunities and local equipment manufacturer support not seen by any competitor. The Scoping Study has determined that the VCP demonstrates robust project fundamentals with low technical risk. It contemplates the concurrent development of three open pit mining operations at A Zone, B Zone and D Zone and an underground operation at D Zone all located within one kilometre of a central ore processing facility. The Base Case considers a 1.2 million tonne per year milling rate producing on average 12,000 tonnes per year of copper in concentrate.

All three deposits remain open at depth. The exploration upside is considered to be very strong as has been demonstrated in recent drilling results.

# AVALON MINERALS

## Directors' Report



Additional drilling is planned at proposed D Zone underground areas, and proposed A and B Zone open pit development areas to deliver additional resources and to increase the production rate to 2.0 million tonnes per annum or over 20,000 tonnes of copper per annum. A resource update will occur at the completion of this drilling, together with an update to the Scoping Study. A definitive feasibility study is aimed for completion by H2 2017 with a decision to mine at the end of CY2017.

Additional A Zone underground mining (deeper than ~200m below surface) has not been included in the Scoping Study and represents significant upside to the contemplated Viscaria Copper Project development. Additional drilling is required to enlarge the A Zone underground resource. It is anticipated that the A and B Zone resources will be re-estimated during 2016. The re-estimation will consider all historical drilling, any new drilling, and historical mining areas allowing for pillars and skins that would not be mineable in an underground mining scenario.

### Environmental and Social Impact Assessment (ESIA) and Permitting

The Viscaria Copper Project ESIA process has commenced. These activities will deliver the necessary documents for application for a Permit to Mine from the Swedish Land and Environmental Court. The process is focussed on the immediate Viscaria Copper Project area and supports planning for mine development within the granted Exploitation Concessions K3, K4, and K7.

The environmental permitting is the primary focus of activities at this stage to further de-risk the project and support ongoing scoping and feasibility studies.

### Discovery Zone

As announced on 9 October 2015, the Heads of Agreement for the acquisition of the Discovery Zone copper-iron deposit has not been extended. Since the exploitation concession application had not been granted by 8 October 2015 (being two years from the initial payment), the initial A\$1 million payment made by Avalon is refundable by Hannans Reward Ltd. (Hannans), and a Refund Notice has been issued. Hannans have a 90 day period to make the refund payment.

### **Matters Subsequent to the end of the Financial Period**

On 8 January 2016, the 90 day period for Hannans to make the refund payment expired with no payment being received. Avalon is currently pursuing various options for recovery of this debt and other invoices issued to Hannans for their share of costs associated with the Discovery Zone Exploitation Concession application. Hannans published financial position indicates that they do not possess sufficient funds to make the payment of the debts owed, and, given the level of uncertainty over whether Avalon will recover these debts, a provision for impairment has been recorded as at 31 December 2015. The Company will continue pursuing various options to recover these debts.

On 29 February 2016, the Company announced it had arranged a placement to raise approximately AUD\$0.8 million at \$0.016 per share. The placement was made to existing major shareholders. The funds will be used to progress the Company's Viscaria Copper Project in Northern Sweden and for working capital.

Since late 2015 the company has implemented a significant cost reduction programme involving the suspension of further drilling, redundancies, salary reduction, overhead reduction and the suspension of Director's fees to allow it to manage its business through the current challenging times in the junior resources sector.

Subsequent to 31 December 2015, in relation to the Research and Development ("R&D") claims received by the Company for the years ended 30 June 2013 and 30 June 2014, being \$2,765,114 (net of fees), the Company received a 'Certificate for Finding' under Section 27J of the *Industry Research and Development Act 1986* ("the Act") from Innovation Australia. The notification advised that after a review by Innovation Australia they had found that Avalon's R&D activities were deemed to not be core or supporting activities under the Act. This would require repayment of the R&D claims received of \$2,765,114 (net of fees). The decision of Innovation Australia is reviewable under Division 5

# AVALON MINERALS

## Directors' Report



of the Act upon request to do so within 28 days of receiving the notice. The Company is in the process of requesting this review, and is still of the opinion that the activities undertaken are valid R&D activities as per the Act.

The Company has continued to progress work on the R&D activities, with detailed experimentation work commencing in December 2015 investigating the novel concept of an acid chloride-sulphate leaching system to process both copper sulphide concentrates and oxide ore from the Viscaria Copper Project into high grade cathode copper. Acid sulphate leaching systems have not been commercialised for leaching chalcopyrite-bearing copper sulphide concentrates because chalcopyrite is difficult to leach. Addition of chloride ions to the acid copper sulphate system appears to hold promise for leaching of chalcopyrite concentrates. If a leaching system for chalcopyrite flotation concentrates is developed, it is highly likely that it can be combined with oxide from the Viscaria site as oxide ores can be leached in less aggressive conditions. This would enable both oxide and sulphide mineralisation to be processed, rather than just the high grade copper concentrate.

No other matter or circumstance has arisen since 31 December 2015 that has significantly affected, or may significantly affect the Group's position, the results of those operations, or the Group's state of affairs in future financial periods.

### **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 7.

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

A handwritten signature in black ink, appearing to read 'Malcolm Norris', is positioned above the printed name and title.

**Malcolm Norris**  
**Managing Director**  
**Avalon Minerals Ltd**

**11 March 2016**

## DECLARATION OF INDEPENDENCE BY ANTHONY WHYTE TO THE DIRECTORS OF AVALON MINERALS LIMITED

As lead auditor for the review of Avalon Minerals Limited for the half-year ended 31 December 2015, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Avalon Minerals Limited and the entities it controlled during the period.



**A J Whyte**  
Director

**BDO Audit Pty Ltd**

Brisbane, 11 March 2016

# AVALON MINERALS

## Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the half-year ended 31 December 2015



|  | Note | Half-year ended    |                     |
|--|------|--------------------|---------------------|
|  |      | 2015<br>\$         | 2014 Restated<br>\$ |
| Revenue from continuing operations   | 3    | 11,056             | 13,219              |
| Other income   | 3    | 2,893              | 28,194              |
| Employee Benefits Expense  | 4    | (388,021)          | (310,690)           |
| Corporate and administration expenses  |      | (508,372)          | (457,257)           |
| Depreciation expense   |      | (6,018)            | (18,752)            |
| Loss on sale of fixed assets   |      | -                  | -                   |
| Impairment Expense   |      | (1,423,569)        | -                   |
| Interest paid  |      | (2,177)            | (247)               |
| <b>Loss from continuing operations before income tax</b>   |      | <b>(2,314,207)</b> | <b>(745,533)</b>    |
| Income tax expense   |      | -                  | -                   |
| <b>Net loss for the period</b>   |      | <b>(2,314,207)</b> | <b>(745,533)</b>    |
| <b>Other comprehensive income / (loss)</b>   |      |                    |                     |
| Items that may be reclassified subsequently to profit or loss:   |      |                    |                     |
| Foreign currency translation differences – foreign operations  |      | 1,476,511          | (18,551)            |
| <b>Total comprehensive loss for the period</b>   |      | <b>(837,696)</b>   | <b>(764,084)</b>    |
| <b>Net loss for the period is attributable to:</b>   |      |                    |                     |
| Members of Avalon Minerals Ltd   |      | (2,314,207)        | (745,533)           |
|  |      | <b>(2,314,207)</b> | <b>(745,533)</b>    |
| <b>Total comprehensive loss for the period attributable to:</b>  |      |                    |                     |
| Members of Avalon Minerals Ltd   |      | <b>(837,696)</b>   | <b>(764,084)</b>    |
| <b>Loss per share from continuing operations attributable to the ordinary equity holders of the Company:</b> |      |                    |                     |
|  |      | <b>Cents</b>       | <b>Cents</b>        |
| Basic loss per share   |      | <b>(0.9)</b>       | (0.5)               |
| Diluted loss per share   |      | <b>(0.9)</b>       | (0.5)               |

Refer to Note 1c) for further information on restatement of comparatives.

The Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

# AVALON MINERALS

## Consolidated Statement of Financial Position

As at 31 December 2015



|                                  | Note | 31-Dec-15<br>\$   | 30-Jun-15<br>\$   |
|----------------------------------|------|-------------------|-------------------|
| <b>Current assets</b>            |      |                   |                   |
| Cash and cash equivalents        |      | 1,657,753         | 3,208,654         |
| Trade and other receivables      | 5    | 283,021           | 408,682           |
| <b>Total current assets</b>      |      | <b>1,940,774</b>  | <b>3,617,336</b>  |
| <b>Non-current assets</b>        |      |                   |                   |
| Plant and equipment              |      | 176,459           | 177,610           |
| Exploration and evaluation       | 6    | 39,979,616        | 36,773,345        |
| <b>Total non-current assets</b>  |      | <b>40,156,075</b> | <b>36,950,955</b> |
| <b>Total assets</b>              |      | <b>42,096,849</b> | <b>40,568,291</b> |
| <b>Current liabilities</b>       |      |                   |                   |
| Trade and other payables         | 7    | 512,556           | 611,253           |
| Provisions                       |      | 116,761           | 118,909           |
| <b>Total current liabilities</b> |      | <b>629,317</b>    | <b>730,162</b>    |
| <b>Total liabilities</b>         |      | <b>629,317</b>    | <b>730,162</b>    |
| <b>Net assets</b>                |      | <b>41,467,532</b> | <b>39,838,129</b> |
| <b>Equity</b>                    |      |                   |                   |
| Contributed equity               | 8    | 64,361,365        | 61,894,266        |
| Reserves                         | 9    | 4,959,825         | 3,483,314         |
| Accumulated losses               |      | (27,853,658)      | (25,539,451)      |
| <b>Total equity</b>              |      | <b>41,467,532</b> | <b>39,838,129</b> |

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

# AVALON MINERALS

## Consolidated Statement of Changes in Equity

For the half-year ended 31 December 2015



| 2015  | Contributed Equity | Share Based Payments Reserve | Foreign Currency Translation Reserve | Accumulated Losses  | Total             |
|---|--------------------|------------------------------|--------------------------------------|---------------------|-------------------|
|   | \$                 | \$                           | \$                                   | \$                  | \$                |
| <b>At the beginning of the financial year</b>         | <b>61,894,266</b>  | <b>3,404,360</b>             | <b>78,954</b>                        | <b>(25,539,451)</b> | <b>39,838,129</b> |
| Profit/(loss) for the year                            |                    |                              |                                      | (2,314,207)         | (2,314,207)       |
| Other comprehensive Income                            |                    |                              | 1,476,511                            |                     | 1,476,511         |
| <b>Total comprehensive income/(loss) for the year</b> | <b>-</b>           | <b>-</b>                     | <b>1,476,511</b>                     | <b>(2,314,207)</b>  | <b>(837,696)</b>  |
| Shares issued   | 2,494,007          |                              |                                      |                     | 2,494,007         |
| Share issue costs                                     | (26,908)           |                              |                                      |                     | (26,908)          |
| Share based payment transactions                      |                    | -                            |                                      |                     | -                 |
| <b>Total Equity at 31 December 2015</b>               | <b>64,361,365</b>  | <b>3,404,360</b>             | <b>1,555,465</b>                     | <b>(27,853,658)</b> | <b>41,467,532</b> |

| 2014 Restated   | Contributed Equity | Share Based Payments Reserve | Foreign Currency Translation Reserve | Accumulated Losses  | Total             |
|---|--------------------|------------------------------|--------------------------------------|---------------------|-------------------|
|   | \$                 | \$                           | \$                                   | \$                  | \$                |
| <b>At the beginning of the financial year</b>         | <b>57,591,829</b>  | <b>3,329,231</b>             | <b>125,639</b>                       | <b>(23,588,840)</b> | <b>37,457,859</b> |
| Profit/(loss) for the year                            |                    |                              |                                      | (745,533)           | (745,533)         |
| Other comprehensive Income                            |                    |                              | (18,551)                             |                     | (18,551)          |
| <b>Total comprehensive income/(loss) for the year</b> | <b>-</b>           | <b>-</b>                     | <b>(18,551)</b>                      | <b>(745,533)</b>    | <b>(764,084)</b>  |
| Shares issued   | 1,950,000          |                              |                                      |                     | 1,950,000         |
| Share issue costs                                     | (110,143)          |                              |                                      |                     | (110,143)         |
| Share based payment transactions                      |                    | (31,879)                     |                                      |                     | (31,879)          |
| <b>Total Equity at 31 December 2014</b>               | <b>59,431,686</b>  | <b>3,297,352</b>             | <b>107,088</b>                       | <b>(24,334,373)</b> | <b>38,501,753</b> |

Refer to Note 1 c) for detailed information on restatement of comparatives.

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

# AVALON MINERALS

## Consolidated Statement of Cash Flows

For the half-year ended 31 December 2015



|  | Note | Half-year ended  |                  |
|--|------|------------------|------------------|
|  |      | 2015<br>\$       | 2014<br>\$       |
| <b>Cash flows from to/from operating activities</b>              |      |                  |                  |
| Payments to suppliers and employees                              |      | (983,185)        | (880,605)        |
| Sundry income  | 3    | 2,893            | 28,195           |
| Interest paid  |      | (2,177)          | -                |
| Interest received  | 3    | 11,056           | 13,219           |
| Net cash outflow from operating activities                       |      | (971,413)        | (839,191)        |
| <b>Cash flows to/from investing activities</b>                   |      |                  |                  |
| Payments for plant and equipment                                 |      | (25,900)         | -                |
| Exploration and evaluation expenditure                           | 6    | (3,029,636)      | (1,281,976)      |
| Research and development rebate                                  |      | -                | 1,366,651        |
| Net cash used in investing activities                            |      | (3,055,536)      | 84,675           |
| <b>Cash flows to/from financing activities</b>                   |      |                  |                  |
| Proceeds from issue of securities                                |      | 2,494,008        | 1,950,000        |
| Costs of share issues  |      | (26,908)         | (110,143)        |
| Net cash provided by financing activities                        | 8    | 2,467,100        | 1,839,857        |
| Net increase/(decrease) in cash                                  |      | (1,559,849)      | 1,085,341        |
| Effect of exchange rate fluctuations on cash held                |      | 8,948            | (432)            |
| Cash and cash equivalents at the beginning of the financial year |      | 3,208,654        | 684,747          |
| <b>Cash at the end of the financial period</b>                   |      | <b>1,657,753</b> | <b>1,769,656</b> |

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

# AVALON MINERALS

## Notes to the Financial Statements

### For the half-year ended 31 December 2015



#### 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 2015 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 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 2015 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](http://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) Going Concern

The consolidated entity made a net loss of \$2,314,207 for the half year ended 31 December 2015. As at 31 December 2015 the consolidated entity has net cash reserves of \$1,657,753 and a net current asset surplus of \$1,311,457.

The Group has a receivable of \$1 million, in relation to the acquisition of Rakkurijarvi Exploration Permit and the Discovery Zone Exploitation Concession. Due to uncertainty surrounding this receivable a provision for doubtful debts has been recorded. The Company will continue pursuing various options to recover this debt.

Subsequent to 31 December 2015, Innovation Australia found that the Company's R&D activities for the years ended 30 June 2013 and 30 June 2014 were deemed to not be core or supporting activities under the Industry Research and Development Act 1986 ("the Act"). The decision of Innovation Australia is reviewable under Division 5 of the Act upon request to do so within 28 days of receiving the notice. The Company is in the process of requesting this review, and is still of the opinion that the activities undertaken are valid R&D activities as per the Act. This subsequent event does result in a contingent liability for the repayment of R&D claims received of \$2,765,114 (net of fees)

The ability of the Group to continue as a going concern is principally dependent upon one or more of the following:

- the ability of the company to raise additional capital in the future;
- the successful exploration and subsequent exploitation of the Group's tenements; and
- A successful appeal to the Innovation Australia decision in relation to the Company's 2012/13 and 2013/14 R&D claims.

These conditions give rise to material uncertainty over the Group's ability to continue as a going concern.

The directors believe that the going concern basis of preparation is appropriate due to the following reasons:

- To date the Group has funded its activities through issuance of equity securities and it is expected that the Group will be able to fund its future activities through further issuances of equity securities;
- The directors believe there is sufficient cash available for the Group to continue operating until it can raise sufficient further capital to fund its ongoing activities;

# AVALON MINERALS

## Notes to the Financial Statements

### For the half-year ended 31 December 2015



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

- Subsequent to balance date the Company has arranged a placement to raise approximately \$800,000; and
- Management as well as third party advisors believe that the Company's R&D activities are valid and an appeal against the Innovation Australia decision in relation to the Company's 2012/13 and 2013/14 R&D claims will be successful.

Should the consolidated entity be unable to continue as a going concern, it may be required to realise its assets and extinguish its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements.

This financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts or classification of liabilities and appropriate disclosures that may be necessary should the consolidated entity be unable to continue as a going concern.

#### c) Comparatives

Comparative information for the half-year ended 31 December 2014 has been restated to reflect the capitalisation of R&D tax incentives (net of fees) that had been received in the period and previously reported as revenue, as well as some expense categorisation amendments. As the R&D tax incentives relates to items that have been capitalised (exploration assets), the income has been restated to offset the carrying amount of the asset.

Due to this restatement the previously reported profit for the half-year ended 31 December 2014 has been restated from \$482,454 to a loss of \$745,533, with capitalised exploration being restated from \$38,145,683 to \$36,917,697.

#### d) New and amended Accounting Standards and Interpretations

New and revised standards have been issued by the AASB and are effective for the half-year; however there are no material changes to the policies that affect the recognition and measurement of the results or financial position of the consolidated entity.

#### e) Fair Values

The fair values of consolidated entity's financial assets and liabilities approximate their carrying value. No financial assets or liabilities are readily traded on organised markets in standardised form.

#### Note 2 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 Profit or Loss and Other Comprehensive Income.

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

# AVALON MINERALS

## Notes to the Financial Statements

### For the half-year ended 31 December 2015



#### Note 3 Revenue and Other Income

|                  | Half-year ended |           |
|------------------|-----------------|-----------|
|                  | 31-Dec-15       | 31-Dec-14 |
|                  | \$              | \$        |
| Interest Revenue | 11,056          | 13,219    |
| Sundry Income    | 2,893           | 28,194    |

#### Note 4 Expenses

##### Profit/(Loss) before income tax includes the following:

|   | Half-year ended |                |
|---|-----------------|----------------|
|   | 31-Dec-15       | 31-Dec-14      |
|   | \$              | \$             |
| <b>Employee benefits expense*</b>           |                 |                |
| Salaries & wages                            | 209,271         | 233,802        |
| Directors' fees                             | 82,500          | 104,918        |
| Defined contribution superannuation expense | 22,498          | 17,013         |
| Share based payments                        | -               | (31,879)       |
| Movement in leave provisions                | (3,883)         | (18,007)       |
| Termination payments                        | 53,219          | -              |
| Other                                       | 24,416          | 4,842          |
|   | <b>388,021</b>  | <b>310,690</b> |

\* Excludes employee costs capitalised to exploration and evaluation expenditure

|   |           |        |
|---|-----------|--------|
| Rental expense related to operating lease | 72,130    | 68,665 |
| Impairment Expense                        | 1,423,569 | -      |

Impairment expense comprises capitalised expenditure on Discovery Zone tenements written off as well as doubtful debts provided for in relation to Hannans Reward Limited.

# AVALON MINERALS

## Notes to the Financial Statements

### For the half-year ended 31 December 2015



#### Note 5 Receivables

|                              | 31-Dec-15<br>\$ | 30-Jun-15<br>\$ |
|------------------------------|-----------------|-----------------|
| Other debtors                | 1,319,007       | 286,951         |
| Provision for Doubtful Debts | (1,084,692)     | -               |
| Deposits                     | 47,987          | 47,987          |
| Prepayments                  | 719             | 73,744          |
|                              | <b>283,021</b>  | <b>408,682</b>  |

As announced on 9 October 2015, the Heads of Agreement for the acquisition of the Discovery Zone copper-iron deposit has not been extended. Since the exploitation concession application had not been granted by 8 October 2015 (being two years from the initial payment), the initial A\$1 million payment made by Avalon is refundable by Hannans, and a Refund Notice has been issued. This amount was initially capitalised to exploration and evaluation assets before becoming refundable.

As at 31 December 2015 this refund has not been received.

Avalon is currently pursuing various options for recovery of this debt. Hannans published financial position indicates that they do not possess sufficient funds to make the payment of the refund, and, given the level of uncertainty over whether Avalon will recover this debt, provisions totalling \$1,084,692, for impairment of the \$1 million as well as further invoices to Hannans for their share of costs incurred under the Heads of Agreement, have been recorded as at 31 December 2015.

The Company is pursuing various options for recovery of the outstanding amounts.

#### Note 6 Exploration and evaluation assets

|  | 31-Dec-15<br>\$    | 30-Jun-15<br>\$ |
|--|--------------------|-----------------|
| At Cost - less amounts written off     | <b>39,979,616</b>  | 36,773,345      |
| Balance at 1 July                      | <b>36,773,345</b>  | 36,853,557      |
| Exploration and evaluation expenditure | <b>3,057,562</b>   | 2,879,747       |
| Relinquished tenement                  | <b>(1,324,096)</b> | (177,631)       |
| Research and development rebate        | -                  | (2,765,114)     |
| Effect of movement in foreign exchange | <b>1,472,805</b>   | (17,214)        |
| Balance at 30 June                     | <b>39,979,616</b>  | 36,773,345      |

Recoverability of the carrying amount of exploration assets is dependent on the successful development and commercial exploitation of areas of interest, and the sale of minerals or the sale of the respective areas of interest.

The accumulated costs incurred on Discovery Zone have either been transferred to other debtors as they are refundable from Hannans, or have been written off.

# AVALON MINERALS

## Notes to the Financial Statements

### For the half-year ended 31 December 2015



#### Note 7 Trade and other payables

|                                      | 31-Dec-15<br>\$ | 30-Jun-15<br>\$ |
|--------------------------------------|-----------------|-----------------|
| Trade payables                       | 427,436         | 394,787         |
| Sundry payables and accrued expenses | 85,120          | 216,466         |
|                                      | <b>512,556</b>  | <b>611,253</b>  |

#### Note 8 Equity securities issued

|                              | Number of<br>shares | 2015<br>\$        |
|------------------------------|---------------------|-------------------|
| Ordinary shares - fully paid | <b>332,690,122</b>  | <b>64,361,365</b> |

|                                   | Number of<br>shares  | Issue<br>price<br>\$ | \$                |
|-----------------------------------|----------------------|----------------------|-------------------|
| <b>Balance as at 1 July 2014</b>  | <b>1,203,604,886</b> |                      | <b>57,591,829</b> |
| Aug-14 Share placement            | 233,750,000          | 0.008                | 1,870,000         |
| Nov-14 10 for 1 Consolidation     | (1,437,354,886)      | -                    | -                 |
| Nov-14 10 for 1 Consolidation     | 143,735,608          | -                    | -                 |
| Nov-14 Share placement            | 1,000,000            | 0.080                | 80,000            |
| Mar-15 Share placement            | 33,583,870           | 0.025                | 839,597           |
| May-15 Share placement            | 50,000,000           | 0.025                | 1,250,000         |
| Jun-15 Share placement            | 12,000,000           | 0.035                | 420,000           |
| Share issue costs                 |                      |                      | (157,160)         |
| <b>Balance as at 30 June 2015</b> | <b>240,319,478</b>   |                      | <b>61,894,266</b> |

|                                       | Number of<br>shares | Issue<br>price<br>\$ | \$                |
|---------------------------------------|---------------------|----------------------|-------------------|
| <b>Balance as at 1 July 2015</b>      | <b>240,319,478</b>  |                      | <b>61,894,266</b> |
| Oct-15 Share placement                | 14,851,852          | 0.027                | 401,000           |
| Nov-15 1 for 2 Rights Issue           | 66,334,654          | 0.027                | 1,791,036         |
| Dec-15 Share placement                | 11,184,138          | 0.027                | 301,972           |
| Share issue costs                     |                     |                      | (26,908)          |
| <b>Balance as at 31 December 2015</b> | <b>332,690,122</b>  |                      | <b>64,361,365</b> |

Ordinary shares participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held. At shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands. Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

# AVALON MINERALS

## Notes to the Financial Statements

### For the half-year ended 31 December 2015



#### Note 8 Equity securities issued (continued)

##### Options and Performance Rights

During the period, options and performance rights for certain holders lapsed following the expiry date of options and the cessation of employment for performance rights.

Following approval of the Company's Employee Performance Rights Plan by shareholders at the AGM in November 2015, a total of 8,053,000 performance rights have been issued to employees, with 1,994,000 of these being issued to the Managing Director. The performance rights have a three year term and are split into three separate tranches, Tranche 1 vesting upon the closing price of the Company's share price being \$0.08 or more for 10 consecutive ASX trading days; Tranche 2 vesting dependent on the Company's Total Shareholder Return performance against the ASX Small Resources Index; and Tranche 3 vesting upon the closing price of the Company's share price being \$0.12 or more for 10 consecutive ASX trading days.

#### Note 9 Reserves

|  | 31-Dec-15<br>\$  | 30-Jun-15<br>\$ |
|--|------------------|-----------------|
| Share based payments reserve                   | 3,404,360        | 3,404,360       |
| Foreign currency translation reserve           | 1,555,465        | 78,954          |
| Total reserves                                 | <b>4,959,825</b> | 3,483,314       |
| Movements in reserves were as follows:         |                  |                 |
| <b>Share based payments reserve</b>            |                  |                 |
| Opening balance                                | 3,404,360        | 3,329,231       |
| Share based payments - employees               | -                | 69,576          |
| Share based payments - service providers       | -                | 5,553           |
| Closing balance                                | <b>3,404,360</b> | 3,404,360       |
| <b>Foreign currency translation reserve</b>    |                  |                 |
| Opening balance                                | 78,954           | 125,639         |
| Foreign exchange gains/(losses) on translation | 1,476,511        | (46,685)        |
| Closing balance                                | <b>1,555,465</b> | 78,954          |

#### Note 10 Capital Commitments

|                                 | 31-Dec-15<br>\$ | 30-Jun-15<br>\$ |
|---------------------------------|-----------------|-----------------|
| Operating lease payable         |                 |                 |
| - not later than 12 months      | 174,012         | 162,280         |
| - between 12 months and 5 years | 276,709         | 119,014         |
| - greater than 5 years          | -               | -               |
|                                 | <b>450,721</b>  | 281,294         |

# AVALON MINERALS

## Notes to the Financial Statements

### For the half-year ended 31 December 2015



#### Note 11 Dividends

There were no dividends declared or paid during the half-year (2014: Nil).

#### Note 12 Events occurring after balance sheet date

On 8 January 2016, the 90 day period for Hannans to make the refund payment expired with no payment being received. Avalon is currently pursuing various options for recovery of this debt and other invoices issued to Hannans for their share of costs associated with the Discovery Zone Exploitation Concession application.

On 29 February 2016, the Company announced it had arranged a placement to raise approximately AUD\$0.8 million at \$0.016 per share. The placement was made to existing major shareholders. The funds will be used to progress the Company's VCP in Northern Sweden and for working capital.

Since late 2015 the company has implemented a significant cost reduction programme involving the suspension of further drilling, redundancies, salary reduction, overhead reduction and the suspension of Director's fees to allow it to manage its business through the current challenging times in the junior resources sector.

Subsequent to 31 December 2015, in relation to the R&D claims received by the Company for the years ended 30 June 2013 and 30 June 2014, being \$2,765,114 (net of fees), the Company received a 'Certificate for Finding' under Section 27J of the *Industry Research and Development Act 1986* ("the Act") from Innovation Australia. The notification advised that after a review by Innovation Australia they had found that Avalon's R&D activities were deemed to not be core or supporting activities under the Act. This would require repayment of the R&D claims received of \$2,765,114 (net of fees). The decision of Innovation Australia is reviewable under Division 5 of the Act upon request to do so within 28 days of receiving the notice. The Company is in the process of requesting this review, and is still of the opinion that the activities undertaken are valid R&D activities as per the Act.

No other matter or circumstance has arisen since 31 December 2015 that has significantly affected, or may significantly affect the Group's position, the results of those operations, or the Group's state of affairs in future financial periods.

# AVALON MINERALS

## Directors' Declaration



In the opinion of the Directors:

- (a) the financial statements and notes of the Consolidated Entity as set out on pages 8 to 18 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 2015 and of its performance for the half year ended on that date; and
  - (ii) complying with Accounting Standard 134 Interim Financial Reporting and the Corporations Regulations 2001;
- (b) subject to the achievement of matters described in note 1(b), there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

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

On behalf of the Board

A handwritten signature in black ink, appearing to read "Malcolm Norris", is written over a horizontal line.

Mr Malcolm Norris  
Managing Director

Brisbane, Queensland

11 March 2016

## INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Avalon Minerals Limited

### Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Avalon Minerals Limited, which comprises the consolidated statement of financial position as at 31 December 2015, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration of the consolidated entity 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 consolidated entity's financial position as at 31 December 2015 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 Limited, 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 confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Avalon Minerals Limited, would be in the same terms if given to the directors as at the time of this auditor's review 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 Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*

## Emphasis of matter

Without modifying our conclusion, we draw attention to Note 1 in the half-year financial report, which indicates that the ability of the consolidated entity to continue as a going concern is dependent upon the future successful raising of necessary funding through equity, a successful appeal to the Innovation Australia decision in relation to the consolidated entity's 2012/13 and 2013/14 Research and Development claims, and/or successful exploration and subsequent exploitation of the consolidated entity's tenements. These conditions, along with other matters as set out in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

**BDO Audit Pty Ltd**

BDO



**A J Whyte**

Director

Brisbane, 11 March 2016