



Avalon Minerals Ltd

ABN 68 123 184 412

**Half-year Financial Report
31 December 2010**

Avalon Minerals Ltd

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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 2010.

Directors

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

Mr D L McSweeney

Mr A T Munckton - Appointed as Managing Director on 18 August 2010 (previously General Manager)

Tan Sri Abu Sahid Bin Mohamed

Mr S Stone

Mr A Al Khadra - Appointed on 1 March 2011

Mr G C Steinepreis - Resigned on 1 March 2011

Mr A Kamaruddin - Alternate for Tan Sri Abu Sahid Bin Mohamed

Review of operations

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

	Results
	31 December 2010
	\$
Revenue from continuing operations	55,888
Net loss before income tax expense	(807,818)
Income tax expense	-
Net loss attributable to members of Avalon Minerals Ltd	(807,818)

Financial Position

At the end of the half-year the consolidated entity had a cash balance of \$1,742,426 and net assets of \$12,000,832.

Total liabilities amounted to \$1,791,893 and were limited to trade and other creditors and employee entitlements.

Corporate

During the half-year the Company completed a share placement of 20,000,000 fully paid ordinary shares at 16 cents per share to raise \$3,200,000.

Subsequent to half-year end the Company completed a share placement of 22,841,542 fully paid ordinary shares at 18 cents per share raising \$4,111,478. The Company also completed a one-for-five non-renounceable Entitlements Issue in which it issued 34,119,508 fully paid ordinary shares at 18 cents per share to raise a gross amount of \$6,141,511. Expenses associated with the Entitlements Issue were \$343,426 including a \$315,213 underwriting fee.

Exploration

Viscaria Copper-Iron Project

The Viscaria Copper-Iron Project in northern Sweden is the company's primary focus and forms the basis for Avalon's plans to become a mid-tier copper and iron ore producer.

Directors' report

Review of operations (continued)

The Viscaria deposits consist of both Volcanogenic Massive Sulphides (VMS) and Iron Oxide–Copper–Gold (IOCG) styles of mineralisation. The project feasibility studies show production of medium grade (25%) copper concentrates and high grade (69.5%) iron ore concentrates ideal for the European base metals and iron ore markets.

After completion of the Pre-Feasibility Study (PFS) in 2010, Avalon commenced RC and diamond drilling of the D Zone resource to upgrade it to Measured and Indicated Resource status. By December 2010 approximately 2,000 metres of a 10,000 metre program had been completed.

In parallel with the drilling program a work schedule of engineering, design, test-work and cost estimation is being completed over 2011 to estimate the capital and operating cost of the project development and operations to $\pm 10\%$. The Definitive Feasibility Study (DFS) of the project is due for completion in the September quarter, 2011.

In addition to the current feasibility study work, Avalon is conducting exploration programs over its existing tenement holdings in the district searching for additional iron ore and base metal mineralisation. The exploration tenure is divided into five project areas, three of which are predominantly copper and two of which are predominantly iron ore.

Avalon aims to commence production from Viscaria in 2013 from open cut resources from the A, B and D Zones.

Adak Copper-Zinc Project

The Adak Copper-Zinc Project lies 300km south of Viscaria in the Skelleftan VMS district in northern Sweden. The Project contains four historical mines – Adak, Lindskold, Brannmyran and Rudtjebacken which cover an area of 26.7km².

Avalon has completed the historical data validation of the project and has developed exploration programs over the tenure to assess the nearer surface mineralisation. The programs are proposed to commence in the third quarter of 2011 in line with the availability of drill rigs following Viscaria programs.

Adak is attractive as an exploration project due to the potential surrounding the existing mines and its strategic location within transport distance of existing treatment 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 the directors.

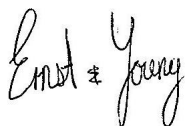


David McSweeney
Chairman
Perth, Western Australia


14 March 2011

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 2010, 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.

A handwritten signature in cursive script that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in cursive script, appearing to be 'R J Curtin'.

R J Curtin
Partner
Perth
14 March 2011

AVALON MINERALS LTD

Consolidated Statement of Comprehensive Income

for the half-year ended 31 December 2010

		Consolidated	
	Note	Half-year ended 31-Dec-2010 \$	Half-year ended 31-Dec-2009 \$
Revenue from continuing operations	6	55,888	26,884
Other income		5,695	-
Employee benefits expense	7 (a)	(478,217)	(177,674)
Corporate and office expenses	7 (b)	(350,420)	(432,595)
Depreciation expense		(40,764)	(30,192)
Exploration expenditure written off	7 (c)	-	(14,007)
Other expenses		-	(1,301)
Loss from continuing operations before income tax		(807,818)	(628,885)
Income tax expense		-	-
Net loss for the period		(807,818)	(628,885)
Other comprehensive loss			
Foreign currency translation		(312,029)	(112,441)
Total comprehensive loss for the period		(1,119,847)	(741,326)
Net loss for the period is attributable to:			
Members of Avalon Minerals Limited		(807,818)	(628,885)
		(807,818)	(628,885)
Total comprehensive loss for the period attributable to:			
Members of Avalon Minerals Limited		(1,119,847)	(741,326)
		(1,119,847)	(741,326)
Earnings per share (cents per share):			
Basic earnings per share	4	(0.55)	(0.67)
Diluted earnings per shares	4	(0.55)	(0.67)

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 2010

	Note	Consolidated	
		At 31-Dec-10 \$	At 30-Jun-10 \$
ASSETS			
Current assets			
Cash and cash equivalents		1,742,426	2,927,242
Trade and other receivables		414,841	227,335
Total Current Assets		2,157,267	3,154,577
Non-Current Assets			
Plant and equipment		251,037	144,409
Exploration and evaluation		11,384,421	7,846,158
Total Non-Current Assets		11,635,458	7,990,567
TOTAL ASSETS		13,792,725	11,145,144
LIABILITIES			
Current Liabilities			
Trade and other payables		1,783,767	1,053,981
Total Current Liabilities		1,783,767	1,053,981
Non-Current Liabilities			
Provisions		8,126	5,631
Total Non-Current Liabilities		8,126	5,631
TOTAL LIABILITIES		1,791,893	1,059,612
NET ASSETS		12,000,832	10,085,532
EQUITY			
Contributed equity	8	20,276,065	17,300,788
Reserves		(628,795)	(376,636)
Accumulated losses		(7,646,438)	(6,838,620)
TOTAL EQUITY		12,000,832	10,085,532

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 2010

	Consolidated	
	Half-year ended 31-Dec-10 \$	Half-year ended 31-Dec-09 \$
Cash flows from operating activities		
Payments to suppliers and employees (inclusive of goods and services tax)	(713,992)	(1,066,674)
Interest paid	-	(4)
Interest income	55,888	26,884
Other income	5,695	-
Net cash outflow used in operating activities	(652,409)	(1,039,794)
Cash flows from investing activities		
Purchase of plant and equipment	(148,984)	(21,085)
Exploration and evaluation expenditure	(3,374,092)	(1,656,724)
Net cash outflow used in investing activities	(3,523,076)	(1,677,809)
Cash flows from financing activities		
Proceeds from issues of shares	3,200,000	4,465,540
Costs associated with issue of shares	(209,331)	(49,432)
Net cash inflow from financing activities	2,990,669	4,416,108
Net increase/(decrease) in cash and cash equivalents held	(1,184,816)	1,698,505
Cash and cash equivalents at the beginning of the half-year	2,927,242	1,919,002
Cash and cash equivalents at the end of the period	1,742,426	3,617,507

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 2010

	Issued Capital \$	Share-Based Payments Reserve \$	Foreign Currency Translation Reserve \$	Accumulated Losses \$	Total \$
For the half-year ended 31 December 2010					
As at 1 July 2010	17,300,788	234,471	(611,107)	(6,838,620)	10,085,532
Loss for the financial period	-	-	-	(807,818)	(807,818)
Other comprehensive income	-	-	(312,029)	-	(312,029)
Total comprehensive loss for the period	-	-	(312,029)	(807,818)	(1,119,847)
Equity Transactions					
Shares issued	3,200,000	-	-	-	3,200,000
Share issue costs	(224,723)	-	-	-	(224,723)
Share based payments	-	59,870	-	-	59,870
As at 31 December 2010	20,276,065	294,341	(923,136)	(7,646,438)	12,000,832
For the half-year ended 31 December 2009					
As at 1 July 2009	9,735,426	205,505	(277,207)	(5,576,605)	4,087,119
Loss for the financial period	-	-	-	(628,885)	(628,885)
Other comprehensive income	-	-	(112,441)	-	(112,441)
Total comprehensive loss for the period	-	-	(112,441)	(628,885)	(741,326)
Equity Transactions					
Shares issued	4,465,540	-	-	-	4,465,540
Share issue costs	(241,726)	-	-	-	(241,726)
Share based payments	-	-	-	-	-
As at 31 December 2009	13,959,240	205,505	(389,648)	(6,205,490)	7,569,607

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

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 2010 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 2010 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*.

Apart from the changes in accounting policy noted below, 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

Since 1 July 2010, the Group has adopted all the Standards and Interpretations mandatory for annual periods beginning on or after 1 July 2010. 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 that are not mandatorily effective.

Note 2. Contingencies

As at 31 December 2010 the Company has no contingent liabilities.

Note 3. Dividends

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

Notes to the Consolidated Financial Statements

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.

Basic and diluted earnings per share calculations are as follows:

	Consolidated	
	Half-year ended 31-Dec-2010	Half-year ended 31-Dec-2009
	\$	\$
Net loss for the period attributable to members of Avalon Minerals Limited	(807,818)	(628,885)
	Shares	Shares
Weighted average number of ordinary shares for basic earnings per share	142,603,039	95,374,768
	Adjustment Factor	Adjustment Factor
Adjustment factors		
Entitlements Issue announced on 10 January 2011	1.037	1.037
Entitlements Issue announced on 3 December 2009	-	1.011
	Cents	Cents
- basic for loss for the period attributable to ordinary equity holders of Avalon Minerals Limited	(0.55)	(0.67)
- diluted for loss for the period attributable to ordinary equity holders of Avalon Minerals Limited	(0.55)	(0.67)

Current period and prior period earnings per share have been restated with an adjustment factor of 1.037 as a result of the equity issue announced in January 2011, which included a fully underwritten one for five non-renounceable Entitlements Issue at 18 cents per share to existing shareholders.

Prior period earnings per share have also been restated with an adjustment factor of 1.011 as a result of the equity issue announced on 3 December 2009, which included a one for seven non-renounceable Entitlements Issue at 21 cents per share to existing shareholders.

Notes to the Consolidated Financial Statements

Note 5. Events occurring after balance sheet date

On 10 January 2011 the Company issued 22,841,542 fully paid ordinary shares at 18 cents per share pursuant to a placement to a new cornerstone investor, raising a total of \$4,111,478.

On 21 and 22 February 2011 the Company issued 34,119,508 fully paid ordinary shares at 18 cents per share pursuant to a 1 for 5 non-renounceable Entitlements Issue to existing eligible shareholders, raising a total of \$6,141,511 before expenses.

Other than those 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 2010.

Note 6. Revenue

	Consolidated	
	Half-year ended 31-Dec-2010	Half-year ended 31-Dec-2009
	\$	\$
Revenue		
Interest income	55,888	26,884

Note 7. Expenses

	Consolidated	
	Half-year ended 31-Dec-2010	Half-year ended 31-Dec-2009
	\$	\$
(a) Employee benefits expense		
Wages and salaries	(608,049)	(196,380)
Less transfer to exploration and evaluation	419,922	112,150
Superannuation expense	(54,708)	(17,201)
Non-executive director's fees	(60,000)	(52,500)
Staff training and recruitment	(63,290)	(8,925)
Share based payment expense	(59,870)	-
Other employee benefits expenses	(52,222)	(14,818)
	<u>(478,217)</u>	<u>(177,674)</u>

Notes to the Consolidated Financial Statements

Note 7. Expenses (continued)

	Consolidated	
	Half-year ended 31-Dec-2010	Half-year ended 31-Dec-2009
	\$	\$
(b) Corporate and office expenses		
Corporate administration expenses	(247,791)	(357,957)
Office expenses	(102,629)	(74,638)
	(350,420)	(432,595)
(c) Exploration expenditure written off		
Exploration expense ⁽ⁱ⁾	-	(14,007)

⁽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.

Note 8. Equity securities issued

On 22 September 2010 the Company issued 20,000,000 fully paid ordinary shares at 16 cents per share pursuant to a placement to sophisticated investors, raising a total of \$3,200,000 before expenses.

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.

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 2001*, including:
 - (i) giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2010 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.

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

On behalf of the board



David McSweeney
Chairman
Perth, Western Australia

14 March 2011

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 2010, 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 2010 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 2010 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.

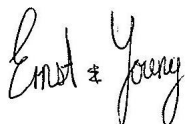
Independence

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.

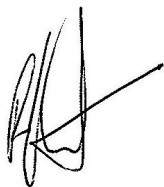
Conclusion

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 2010 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*.

A stylized, handwritten signature of the Ernst & Young firm.

Ernst & Young

A handwritten signature of R J Curtin.

R J Curtin
Partner
Perth
14 March 2011