

AVALON MINERALS LTD SEPTEMBER 2011 QUARTERLY REPORT

Avalon Minerals Ltd
ABN 68 123 184 412

Level 2
91 Havelock Street
WEST PERTH WA 6005

PO Box 165
WEST PERTH WA 6872

Telephone: +61 8 9322 2752
Facsimile: +61 8 9322 2827

Email:
andrew.munckton@avalonminerals.com.au

Web: www.avalonminerals.com.au

ASX Code: AVI
239 million ordinary shares
8 million unlisted options

Directors

David McSweeney
Executive Chairman
Andrew Munckton
Managing Director
Tan Sri Abu Sahid Bin Mohamed
Non-Executive Director
Stephen Stone
Non-Executive Director
Amro Al-Khadra
Non-Executive Director

Mineral Resources:

Measured: 6.7Mt @ 2.47% Cu for 165 Kt Cu
Indicated: 4.1Mt @ 1.76% Cu for 73 Kt Cu
Inferred: 42.9Mt @ 0.77% Cu for 329 Kt Cu
Total: 53.7Mt @ 1.06% Cu for 567 Kt Cu

Inferred: 9.0Mt @ 27% Fe for 2.4 Mt Fe

HIGHLIGHTS

Viscaria Copper Iron Ore Project, Sweden (Avalon - 100%)

- Assaying of all drilling from the 2011 program was completed. Ore grade intersections returned from D Zone, included:
 - 8m @ 1.1% Cu and 28% Fe from 234m
 - 14m @ 0.9% Cu and 33% Fe from 135m
- Results indicate higher grade copper and iron ore mineralisation extends up to 100m below the PFS pit design.
- DTR results continue to be outstanding for iron ore mineralisation. Ore grade intersections returned from D Zone, included:
 - 59m @ 34% Wt Rec, 70.1% Fe and 1.3% SiO₂
 - 57m @ 38% Wt Rec, 71.3% Fe and 0.7% SiO₂
- Updated Mineral Resource estimation of all three zones has been commenced by CSA Global.
- Metallurgical studies confirm saleable quality concentrates.
- EIA and Mining Lease applications are progressing satisfactorily.
- Concentrate sales discussions progressed

Corporate

- In early August the Underwriter of the share placement which was announced on 22 June 2011, withdrew from the underwriting
- On 23 August the Company announced a share placement to professional and sophisticated investors of 21.5m shares at 9 cents per share raising \$1.9m
- The cash position of the Company at the end of the quarter was \$2.27 million



VISCARIA COPPER IRON PROJECT

The 100%-owned Viscaria Copper-Iron Project in northern Sweden is the Company's primary focus and underpins Avalon's plans to become a mid-tier copper producer. The 2010 Viscaria Pre-Feasibility Studies laid the foundation for the 2011 drilling program and Bankable Feasibility Studies on the Project.

2011 Drilling Program

The 2011 drilling program was completed in April. Subsequently all assaying and quality assurance work has been completed from the program. The aims of the program were to:

- upgrade and expand the existing D Zone resource;
- confirm the continuity of mineralisation at depth in D Zone;
- confirm the continuity of near-surface copper mineralisation at B Zone.

D Zone

The D Zone ore body contains overlapping copper and magnetite iron ore mineralisation. Test work conducted to date indicates that the two metals can be effectively separated using conventional processing techniques.

Results returned during the Quarter to complete the drilling program included:

- 8m @ 1.1% Cu and 28% Fe from 234m;
- 14m @ 0.6% Cu and 34% Fe from 167m;
- 9m @ 1.3% Cu and 33% Fe from 179m;
- 14m @ 0.9% Cu and 33% Fe from 135m.

Drilling results are shown in Appendix 1 and assay results and locations of drill intersections are shown in Figure 1 below.

The results from this Quarter are consistent with Avalon's interpretation of a zone of higher grade copper mineralisation within the D Zone ore body, which sits within a broader zone of magnetite and lower grade copper mineralisation approximately 30 metres in width and 1,100 metres long.

These results conclude the assaying and QAQC program associated with the Phase 1 drilling. Further drilling programs are planned, however these are dependent upon the results of the interim update of the BFS, which is scheduled to be completed in the December Quarter and funding availability.

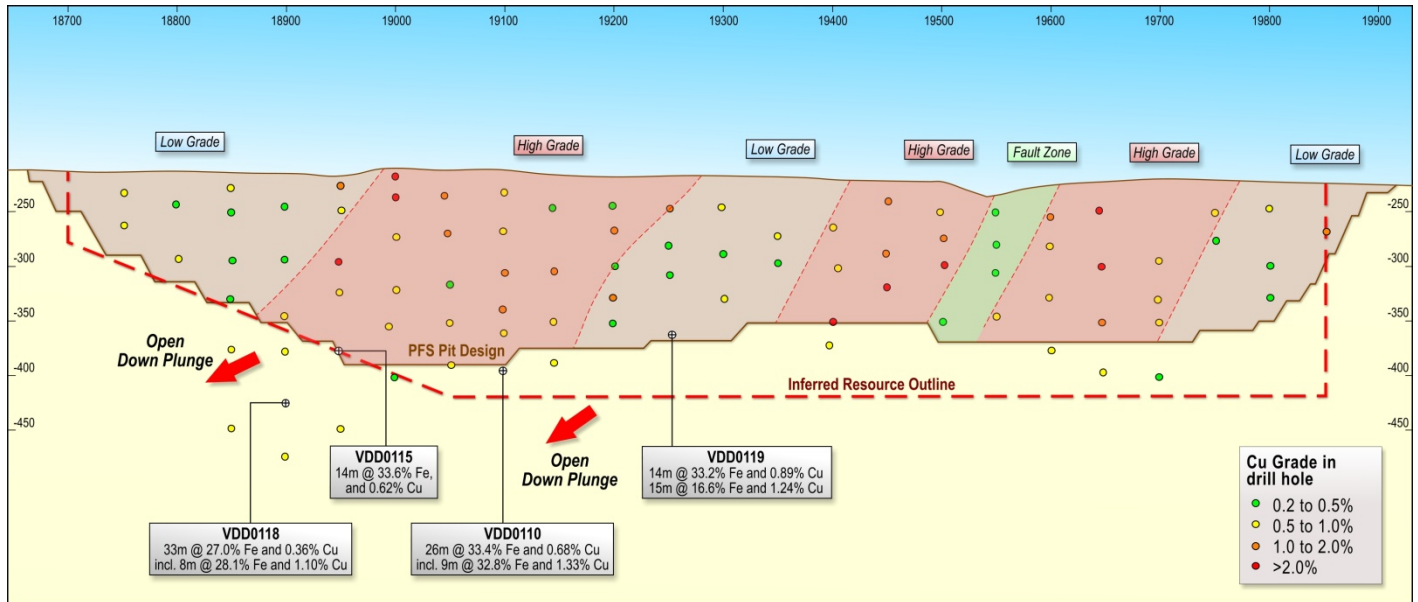


Figure 1 – Latest D Zone Copper and Iron Results

In addition to the copper intersections, Davis Tube Recovery (DTR) test work was conducted on samples from a number of holes to evaluate the quality of magnetite concentrate that can be produced by magnetic separation of the magnetite mineralisation within the D Zone Resource. Results received to date have confirmed excellent weight recovery and upgradeability, with best results including:

- 38m @ 44% Wt Rec, 70.0% Fe and 0.7% SiO₂ from 51m;
- 73m @ 32% Wt Rec, 69.3% Fe and 1.8% SiO₂ from 233m;
- 59m @ 34% Wt Rec, 70.1% Fe and 1.3% SiO₂ from 122m;
- 57m @ 38% Wt Rec, 71.3% Fe and 0.7% SiO₂ from 141m.

DTR results are summarised in Appendix 2.

The results continue to indicate that the magnetite mineralisation within the D Zone resource can be effectively upgraded to achieve a high-quality iron concentrate from both the shallow and deeper portions of the deposit.

The significance of these excellent concentrate specifications is that the Viscaria concentrate matches the quality specification stipulated by LKAB for provision of supply to its nearby Kirunavarra pellet making facility. This has positive implications for the potential to negotiate a future off-take agreement with LKAB for Viscaria magnetite concentrate.

Forward Program

Planning is complete for Phase 2 of the drilling program. However, the commencement of this program is dependent upon the outcomes of the interim update of the Bankable Feasibility Study (BFS) following the completion of the updated resource calculation, optimisation and pit design work, and availability of sufficient funds to complete the program.

Bankable Feasibility Study

The BFS of the Viscaria Copper-Iron Project commenced in October 2010. The BFS includes all mine design, approval and engineering elements of the Project. Following the non-performance of the underwriter to the placement in August the drilling and engineering elements of the BFS works were suspended whilst the Company progressed the resource models, optimisation, pit design and environmental approval components of the project. The details below provide the status of each component of the BFS works at the suspension date in mid August 2011.

Mining

The Mining Engineering Study includes the geological, geotechnical, optimisation and mine design of the three open pit mines associated with the Project. This work will result in the optimal pit design and mining schedule that satisfies the needs of the Project and the expected processing plant ore demand. Work is being completed by CSA Global.

During the Quarter, new wireframe models were provided to CSA Global that define the extent of the ore at both A Zone and B Zone. The D Zone wireframe is expected to be delivered in October. New resource models for each zone are expected to be delivered in the December Quarter.

The geotechnical consultants concluded their recommended design parameters for all three zones following a site visit and geotechnical assessment. The new design parameters are more conservative than those adopted in the PFS in 2010 reflecting the generally deeper pit design and knowledge of the rock strength gained since the PFS.

Updated mining costs have been provided to CSA following a review of the costs generally available in the Scandinavian mining industry. BFS mining costs are in line with cost estimates made at the time of the PFS.

Engineering

The Engineering Study for process plant and infrastructure is being completed by MSP Engineering Pty Ltd. Metallurgical test work is being completed by Ammtec under MSP's supervision. This work will provide a detailed flow sheet, plant design and capital and operating cost estimate for the processing facility and associated infrastructure.

At the time of suspension of the BFS, engineering was approximately 50% complete. During the Quarter, final metallurgical test work reports were received from Ammtec and further test work programs were planned and documented.

Approvals

a) Mining Exploitation Concession

The Mining Exploitation Concession (MEC) for the Viscaria Project was submitted to the Bergsstaten (Mines Department) in 2010.

Information was requested by the Kiruna County Administration Board regarding the potential land use conflicts with the Kiruna-Narvic railway line reserve (see *Figure 2*) in January 2011. Further information was also requested regarding the potential impact of mining upon the six power generation windmills which are located within and adjacent to the A and B Zone MEC in February 2011. The company was advised that an amendment to the town planning act would be required to allow for the grant of a mining lease which includes the area of the windmills and that until the amendment was official that any mining lease granted for Viscaria would not include the areas associated with the windmills.

The amended MEC application was submitted in April 2011 and is currently being considered by the Bergsstaten.

The company is advised that the granting of the MEC is imminent.

b) Environment Impact Assessment

The Project Environment Impact Assessment (EIA) is a technical description of the expected impact on the community, land and environment surrounding the Project. It is a comprehensive document which covers all consultation and baseline technical data on the existing land, air and water uses and community expectations of the Project. The EIA is submitted to the Environmental Court of Sweden (ECS), the government regulator, which triggers a formal project assessment process, and if approved, results in a licence to operate with conditions issued by the Government of Sweden.

During the Quarter, the Viscaria EIA was advertised. The ECS has distributed the document to affected parties and sought submissions and comments from them. Comments from 5 government departments were received during the Quarter after extensions to the statutory time for submission was granted to one party by the ECS. The Company through its advisors in Sweden (Hifab) have prepared responses to queries already raised and will be submitting its formal response to submissions in the December Quarter.

The EIA remains on schedule for final consideration by the ECS in the June quarter 2012.

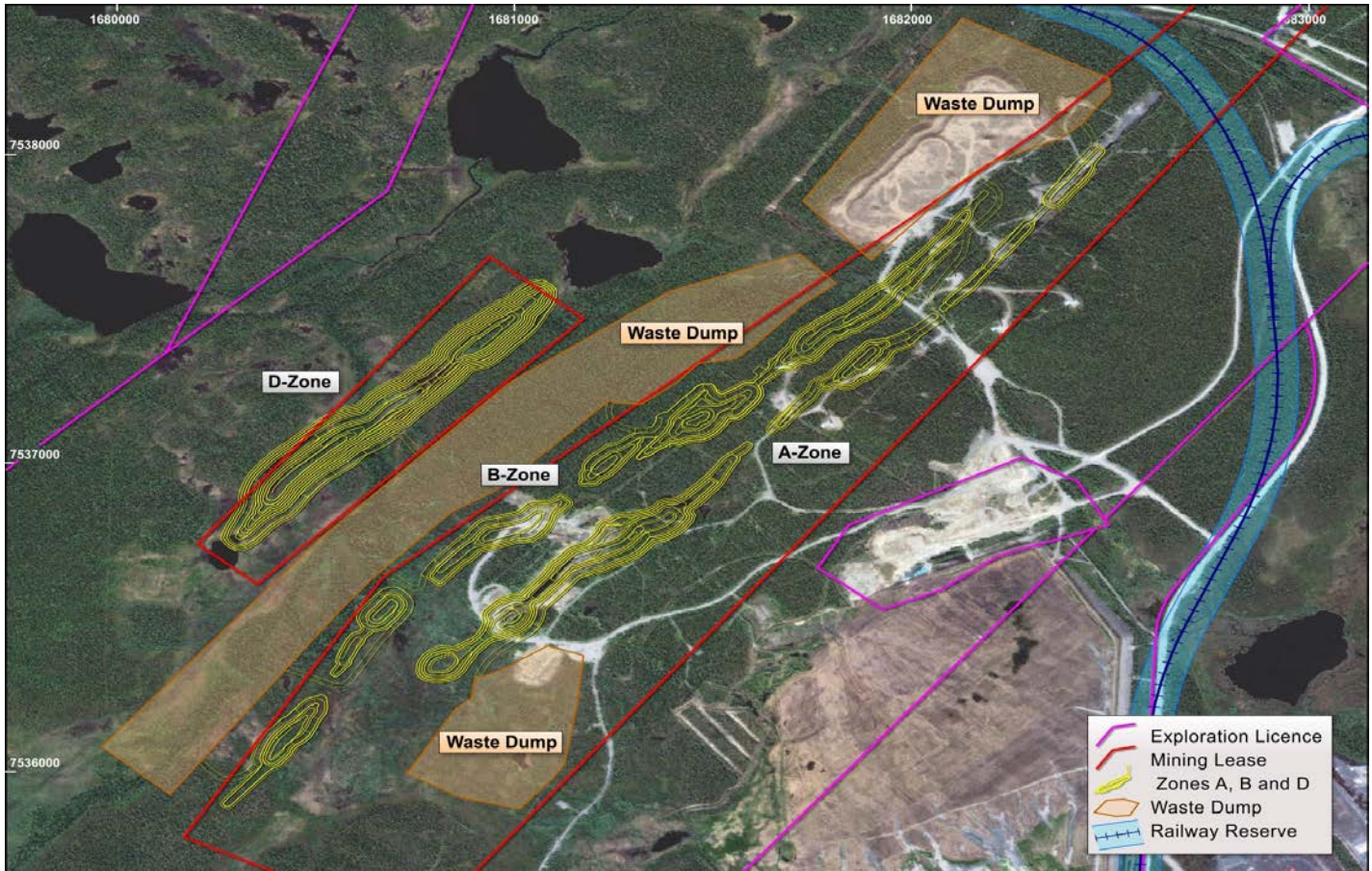


Figure 2: Granted Tenure and Applications on Air Photo showing preliminary pit designs for A Zone, B Zone and D Zone

Customers

Discussions continued during the Quarter with Boliden AB and LKAB for off-take agreements for copper and magnetite concentrates respectively. In the Quarter, tests on the bulk concentrate sample that was prepared at SGA in Germany in preparation for conducting pellet making tests on Viscaria magnetite concentrates, was placed on hold.

Costs and Progress

During the Quarter, cash outflow totalled \$2.33 million reflecting the conclusion of the assaying and QAQC program, payment of the final drilling invoice from the April drill program and ongoing BFS costs predominately associated with the approvals processes.

EXPLORATION

Regional Exploration

Whilst Exploration drilling work was suspended pending sufficient funding to complete the 2012 program, exploration planning and review of priority exploration targets continued during the Quarter.

Adak Copper-Zinc Project

The Adak Copper Project contains five historical mines – Adak, Lindskold, Brannmyran, Karlsson (the Adak Dome Mines) and Rudtjebacken – covering an area of 26.71km², located in the world-class Skelleftea VMS mining district of Northern Sweden.

The Adak project is currently for sale or Joint Venture.

CORPORATE

Capital Raising

On 8 August 2011 the Company announced that the Underwriter to the \$10.8 million capital raising that was announced on 22 June 2011 had withdrawn from the underwriting of the placement. Alternative underwriting arrangements were sought. Due to the deterioration in capital markets the successful negotiation of a replacement Underwriter was unable to be finalised.

The underwriting was subject to a formal agreement.

The Board appointed a committee of independent directors to consider the actions of the Underwriter with regard to the agreement and to provide recommendations to the Board.

The Company advised the Underwriter of its acceptance of the repudiation of the agreement by the Underwriter and has reserved the Company's rights under the agreement.

On 23 August 2011 the Company announced that it had been successful in placing 21,461,111 shares at 9 cents per share to professional and sophisticated investors raising \$1,931,500.

Cash Resources

As at 30 September 2011, the Consolidated Entity had cash reserves of \$2.27 million. On 6 October approval was received from shareholders to allot and issue 1,570,000 shares at 9 cents per share to Directors of the Company who had participated in the share placement announced on 23 August. Funds totaling \$141,300 were received and shares allotted on 13 October 2011.

Avalon has no corporate debt and minimal long term commitments.

Shareholder Information

At 30 September 2011, the Company had 237,491,335 fully paid ordinary shares on issue and approximately 865 shareholders. The top 20 Shareholders held approximately 65% of the Company. Subsequent to Quarter end, 1,570,000 shares were issued and allotted to directors who participated in the 23 August share placement taking the total shares on issue to 239,061,335.

Competent Person's Statement

The information in this report that relates to Mineral Resources and Exploration Results is based upon information reviewed by Mr Andrew Munckton BSc (Mining Geology) who is a Member of the Australasian Institute of Mining and Metallurgy.

Mr Munckton is a full time employee of Avalon Minerals Ltd and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Mr Munckton consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

JORC – Exploration Targets

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

- ENDS -

Released on behalf of:
Mr Andrew Munckton
Managing Director
Avalon Minerals Ltd
Mobile: +61 (0)4 3563 5598

Appendix 1: Drilling Intersections Viscaria D Zone

North	Hole ID	From (m)	To (m)	Interval (m)	Fe%	Cu%
18900	VDD0118	180	198	18	18.6	0.22
	and	209	242	33	27.0	0.36
	including	234	242	8	28.1	1.10
18950	VDD0115	156	164	8	19.6	0.15
	and	167	181	14	33.6	0.62
19100	VDD0110	162	188	26	33.4	0.68
		179	188	9	32.8	1.33
19250	VDD0119	135	149	14	33.2	0.89
	and	141	156	15	16.6	1.24

*NB: Assays are by XRF and ICP, * Denotes end of hole, NA = not available, NSI = No significant intersection*

Appendix 2: DTR Results Viscaria D Zone

North	Drill Hole	From (m)	To (m)	Interval (m)	Wt Rec %	Fe %	SiO ₂ %	Al ₂ O ₃ %	Cu %	P %	S %
18800	VDD0100	51	89	38	44.2	70.0	0.74	0.05	0.053	0.011	0.002
18850	VDD0098	107	130	23	27.7	69.7	0.86	0.12	0.007	0.002	0.005
	VDD0103	64	91	27	48.4	71.3	0.42	0.06	0.013	0.004	0.006
18900	VDD0112	233	306	73	32.0	69.3	1.85	0.13	0.014	0.006	0.035
18950	VDD0102	32	50	18	26.9	70.3	1.12	0.24	0.010	0.005	0.009
	VDD0115	122	181	59	33.7	70.1	1.26	0.20	0.009	0.005	0.020
19050	VDD0105	46	71	25	46.0	71.3	0.42	0.06	0.007	0.006	0.013
19100	VDD0100	150	197	47	39.5	71.0	0.92	0.08	0.010	0.005	0.024
19150	VDD0099	76	101	25	43.3	71.1	0.49	0.04	0.013	0.009	0.024
19250	VDD0104	71	93	22	40.1	70.1	0.96	0.11	0.032	0.019	0.003
19350	VDD0107	25	47	22	53.6	70.4	0.41	0.15	0.058	0.038	0.002
19425	VDD0108	44	53	9	52.6	70.3	0.76	0.09	0.054	0.038	0.011
19650	VDD0114	141	198	57	38.1	71.3	0.67	0.09	0.002	0.004	0.014
	Average			34	38.7	70.5	0.91	0.11	0.019	0.009	0.015

NB: DTR results are for Davis Tube Recovery using a75micron screen. Approximate fineness of sample is P₈₀ of 45microns. Assays are by XRF. Assay results are prior to Copper and Sulphur flotation.