



AVALON

MINERALS LTD

ABN 68 123 184 412

**Half-Year Financial Report
31 December 2014**

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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
Paul Niardone - Non-Executive Director

Company Secretary

Roslynn Shand

Securities Exchange Listing

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

Share Registry

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117 Victoria Street
West End Qld 4101
Telephone: +61 7 3237 2100
Facsimile: +61 7 9473 2555
Website: www.computershare.com.au
Investor Enquiries: 1300 850 505

Registered Office and principal place of business

Australia

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Web site: www.avalonminerals.com.au

Email: info@avalonminerals.com.au

Auditor

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

Bank

National Australia Bank
1238 Hay Street
West Perth WA 6005

Solicitors

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

Sweden

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972 34 Luleå
Sweden
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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 2014.

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 Paul Niardone	(Non-Executive Director appointed 10 February 2012)
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, investigation 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 31 December	2014 \$	2013 \$
Revenue and other income	1,408,064	20,699
Profit/(Loss) before income tax expense	482,454	(3,351,283)
Income tax expense	-	-
Profit/(loss) attributable to members of Avalon Minerals Limited	482,454	(3,351,283)
Earnings per share	2014 Cents	2013 cents
Basic and diluted earnings per share	0.05	(0.39)

Financial Position

At the end of the half-year the consolidated entity had a cash balance of \$1,769,656 (June 2014: \$684,747) and net assets of \$39,729,740 (June 2014: \$37,457,859).

Total liabilities amounted to \$527,054 (June 2014: \$420,110) and were limited to trade and other creditors and employee entitlements.

Share Placements

Various share placements and a 1 for 10 share conversion were conducted during the six months ended 31 December 2014:

1. During August 2014, the company placed 233,750,000 fully paid shares for a consideration of \$1,870,000 (0.8 cents per share)
2. During November 2014, the company did a 1 for 10 share conversion, converting 1,437,354,886 fully paid shares to 143,735,608
3. During November 2014, the Chairman and Managing Director obtained shareholder approval to subscribe for and were issued a total of 1,000,000 fully paid shares for a consideration of \$80,000 (0.8 cents per share, pre-consolidation). The two subscriptions from Directors were approved at the Annual General Meeting held on 3 November 2014

AVALON MINERALS

Directors' Report



Project

Avalon continued to progress the Viscaria Copper Project in Sweden. Drilling was completed in the D Zone copper oxide domain, and in A Zone where footwall mineralisation was targeted.

The results of the D Zone oxide drilling confirmed that the mineralisation is open to the south, and that further drilling is justified to define its extent. Samples from the oxide drilling will be used for further metallurgical test work once additional holes have been drilled.

The results from drilling at A Zone were very encouraging and identified both footwall and hanging wall mineralisation to the main mineralised body. Further drilling will be undertaken in the first half of 2015 to further define these zones in preparation for a new estimation of resources.

Exploration Targeting

Exploration targets within the belt of rocks that host the Viscaria deposit have been advanced, with focus on those in close proximity to the proposed Viscaria mine development. Follow-up work is being undertaken on several targets with a view to drill testing in 2015.

The Nihka, West Nukutus and L-tjarn targets are being prepared for drilling. Nihka comprises a series of magnetic anomalies located approximately 2km south of A Zone. Modelling suggest similarities to the D Zone magnetic anomaly and drilling is being planned to determine if the target has associated copper anomalism. The West Nukutus target is a magnetic anomaly immediately west of an historic single exploration drill hole which intersected anomalous copper and gold. The L-tjarn target is a moderate electro-magnetic anomaly east of A Zone which requires drill testing.

Other exploration targets at a more regional scale are also being advanced.

Discovery Zone

Following submittal of the amended application for the Exploitation Concession at Discovery Zone, Avalon has focussed on stakeholder engagement activities and social impact assessments. Minor technical studies have included reviews of historical drill core, resampling of one hole that contained minor visible chalcopyrite and had not been previously sampled and assessment of potential geotechnical issues.

Development Studies at Viscaria

Further development studies are underway and are assessing lower CAPEX, higher grade copper development options for Viscaria. These development scenarios will be advanced during 2015. Preliminary results are very encouraging and are a key driver in identifying drill targets at Viscaria A Zone and D Zone for the 2015 drill program.

Mining Exploitation Concessions (MEC)

The Viscaria K7 Exploitation Concession Application was granted by the Bergsstaten (Mining Inspectorate of Sweden) on 27 November 2014. The grant follows the amendment to the Kiruna town planning act in December 2013 to allow for the grant of an Exploitation Concessions over an area which includes power generation windmills and a power line which crosses the northern parts of A Zone and B Zone copper deposits.

The granting of the Exploitation Concession is a precursor to consideration by the regulator of the Environmental Impact Assessment and development permits required prior to the commencement of mining.

The Bergsstaten has previously approved two Exploitation Concessions for Viscaria, Viscaria K3 and Viscaria K4, which cover the D Zone and the southern part of the A Zone and B Zone mining areas. With the addition of Viscaria K7, approved Exploitation Concessions are now in place over all of the main mineralised zones at Viscaria.

Environment Impact Assessment

Avalon is also undertaking various studies in relation to environmental baseline data across the Viscaria Copper Project. These include a site-wide hydrological survey and water management plan, and planning for additional flora and fauna studies. The results of this work will be utilised in the Viscaria Project Environmental and Social Impact Assessment (ESIA) submission which is required ahead of further project approvals.

Matters Subsequent to the end of the Financial Period

On 2 March 2015, the company announced it had arranged a placement to raise up to AUD\$2 million. The placement will be made to existing shareholders and new, professional investors in Australia and Europe. The funds will be used to progress the Company's Viscaria Copper Project in Northern Sweden and for working capital.

No other matter or circumstance has arisen since 31 December 2014 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' Report



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 6.

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

A handwritten signature in black ink, appearing to read "G. Ascough", is positioned above the printed name of the Chairman.

Graham Ascough
Chairman
Avalon Minerals Ltd

11 March 2015

DECLARATION OF INDEPENDENCE BY A J 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 2014, 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 2015

AVALON MINERALS
Consolidated Statement of Profit or Loss
and Other Comprehensive Income
For the half-year ended 31 December 2014



	Note	Half-year ended 2014 \$	Half-year ended 2013 \$
Revenue from continuing operations	3	13,219	19,857
Other income	3	1,394,846	842
Employee benefits expense	4	(241,604)	(1,431,631)
Corporate and administration expenses	4	(665,255)	(1,904,545)
Depreciation expense		(18,752)	(35,806)
Profit/(loss) before income tax		482,454	(3,351,283)
Income tax expense		-	-
Net profit/(loss) for the period		482,454	(3,351,283)
Other comprehensive income / (loss)			
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences gain/(loss) – foreign operations		(18,551)	2,718,424
Total comprehensive income / (loss) for the period attributable to:			
Members of Avalon Minerals Limited		463,903	(632,859)
Earnings per share for loss attributable to the ordinary equity holders of the Company:			
		Cents	Cents
Basic earnings per share		0.05	(0.39)
Diluted earnings per share		0.05	(0.39)

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 2014



	Note	At 31 December 2014 \$	At 30 June 2014 \$
Current assets			
Cash and cash equivalents		1,769,656	684,747
Trade and other receivables		96,618	47,807
Total current assets		1,866,274	732,554
Non-current assets			
Property, plant and equipment		244,837	291,858
Exploration and evaluation assets	5	38,145,683	36,853,557
Total non-current assets		38,390,520	37,145,415
Total assets		40,256,794	37,877,969
Current liabilities			
Trade and other payables		461,340	336,399
Provisions		65,714	83,711
Total current liabilities		527,054	420,110
Total liabilities		527,054	420,110
Net assets		39,729,740	37,457,859
Equity			
Contributed equity	7	59,431,686	57,591,829
Reserves	8	3,404,440	3,454,870
Accumulated losses		(23,106,386)	(23,588,840)
Total equity		39,729,740	37,457,859

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 2014



2014	Contributed Equity \$	Share Based Payments Reserve \$	Foreign Currency Translation Reserve \$	Accumulated Losses \$	Total \$
At the beginning of the financial year	57,591,829	3,329,231	125,639	(23,588,840)	37,457,859
Profit/(Loss) for the year	-	-	-	482,454	482,454
Other comprehensive income	-	-	(18,551)	-	(18,551)
Total comprehensive income/(loss) for the year	-	-	(18,551)	482,454	463,903
Shares issued	1,950,000	-	-	-	1,950,000
Share issue costs	(110,143)	-	-	-	(110,143)
Transfer between reserves	-	-	-	-	-
Share based payment transactions	-	(31,879)	-	-	(31,879)
Total Equity at the end of the financial year	59,431,685	3,297,352	107,088	(23,106,386)	39,729,740

2013	Contributed Equity \$	Share Based Payments Reserve \$	Foreign Currency Translation Reserve \$	Accumulated Losses \$	Total \$
At 1 July 2013	50,710,149	3,750,343	1,544,000	(19,384,239)	36,620,253
Profit/(Loss) for the year	-	-	-	(3,351,283)	(3,351,283)
Other comprehensive income	-	-	2,718,424	-	2,718,424
Total comprehensive income / (loss) for the period	-	-	2,718,424	(3,351,283)	(632,859)
Shares issued	6,575,021	-	-	-	6,575,021
Share issue costs	(70,879)	-	-	-	(70,879)
Share based payment transactions	-	332,589	-	-	332,589
Total Equity at 31 December 2013	57,214,291	4,082,932	4,262,424	(22,735,522)	42,824,125

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 2014



	Note	Half-year ended 2014 \$	Half-year ended 2013 \$
Cash flows from to/from operating activities			
Payments to suppliers and employees		(880,605)	(2,872,237)
Other income	3	28,195	842
Interest received	3	13,219	19,857
Net cash (used in)/ from operating activities		(839,191)	(2,851,538)
Cash flows to/from investing activities			
Receipt of R&D Tax incentive	3	1,366,651	-
Payments for plant and equipment		-	(795)
Payments for exploration and evaluation expenditure		(1,281,976)	(2,188,246)
Net cash (used in)/provided by investing activities		84,675	(2,189,041)
Cash flows to/from financing activities			
Proceeds from issue of securities		1,950,000	6,575,021
Costs of share issues		(110,143)	(70,879)
Net cash provided by financing activities		1,839,857	6,504,142
Net increase/(decrease) in cash		1,085,341	1,463,563
Effect of exchange rate fluctuations on cash held		(432)	21,479
Cash and cash equivalents at the beginning of the half year		684,747	1,185,966
Cash at the end of the financial year		1,769,656	2,671,008

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 2014



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 2014 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 2014 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.

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

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.

c) 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.

d) Going Concern

The consolidated entity made a net profit of \$482,454 for the half year ended 31 December 2014 (2013: loss of \$3,351,283). As at 31 December 2014 the consolidated entity has net cash reserves of \$1,769,656 (June 2014: \$684,747) and a net current asset surplus of \$1,339,220 (June 2014: \$312,444).

The consolidated entity also has a second payment of \$3 million (refer note 10) in relation to the acquisition of Rakkurijarvi Exploration Permit and the Discovery Zone Exploitation Concession. This amount is due for payment following the grant of the Discovery Zone Exploitation Concession. The \$3 million is a contingent liability rather than a liability as at 31 December 2014.

The ability of the consolidated entity 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 consolidated entity's tenements; and

These conditions give rise to material uncertainty over the consolidated entity'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 consolidated entity has funded its activities through issuance of equity securities and it is expected that the consolidated entity will be able to fund its future activities through further issuances of equity securities; and
- The directors believe there is sufficient cash available for the consolidated entity to continue operating until it can raise sufficient further capital to fund its ongoing activities.

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Notes to the Financial Statements

For the half-year ended 31 December 2014



AVALON MINERALS LTD

Notes to the Consolidated Financial Statements (Continued)

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

d) Going Concern (continued)

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.

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 Comprehensive Income.

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

Note 3 Revenue and Other Income

	Consolidated	
	Half-year ended 31-Dec-14 \$	Half-year ended 31-Dec-13 \$
Revenue from continuing operations		
Interest income	13,219	19,857
	<hr/> 13,219	<hr/> 19,857
Other Income		
R&D Tax Incentive	1,366,651	-
Other Income	28,195	-
	<hr/> 1,394,846	<hr/> -

AVALON MINERALS
Notes to the Financial Statements
For the half-year ended 31 December 2014



AVALON MINERALS LTD

Notes to the Consolidated Financial Statements (Continued)

Note 4 Expenses

	Consolidated	
	Half-year ended 31-Dec-14 \$	Half-year ended 31-Dec-13 \$
(a) Employee benefits expense		
Wages and salaries	(273,348)	(1,163,568)
Less transfer to exploration and evaluation	126,690	267,096
Superannuation expense	(17,014)	(37,025)
Non-executive director's fees	(104,918)	(116,642)
Staff training and recruitment	-	(2,133)
Share based payment expense	31,879	(332,589)
Other employee benefits expenses	(4,893)	(46,770)
	<u>(241,604)</u>	<u>(1,431,631)</u>
(b) Corporate and office expenses		
Legal fees	(16,326)	(1,139,049)
Consulting fees	(246,989)	(414,729)
Other corporate expenses	(69,136)	(278,235)
Office expenses	(332,804)	(72,532)
	<u>(665,255)</u>	<u>(1,904,545)</u>

Note 5 Exploration and evaluation assets

	Consolidated	
	At 31-Dec-2014 \$	At 30-Jun-14 \$
Exploration expenditure capitalised	<u>38,145,683</u>	<u>36,853,557</u>

	Consolidated	
	At 31-Dec-2014 \$	At 30-Jun-14 \$
Movement Reconciliation		
Balance as at 1 July	36,853,557	37,494,950
Tenement acquisition		(1,000,000)
Exploration and evaluation	1,277,687	1,810,747
Effect of movements in exchange rates	14,439	(1,452,140)
	<u>38,145,683</u>	<u>36,853,557</u>

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.

Note 6 Trade and other payables

	Consolidated	
	At 31-Dec-14 \$	At 30-Jun-14 \$
Trade payables	461,340	69,307
Sundry payables and accrued expenses	65,714	267,092
	<u>527,054</u>	<u>336,399</u>

AVALON MINERALS

Notes to the Financial Statements

For the half-year ended 31 December 2014



AVALON MINERALS LTD

Notes to the Consolidated Financial Statements (Continued)

Note 7 Equity securities issued

	At 31-Dec-14	At 30-Jun-14
	\$	\$
Fully paid ordinary shares	59,431,685	57,591,829

Ordinary Shares

	Half-year ended 31-Dec-14	Half-year ended 31-Dec-13	Half-year ended 31-Dec-14	Half-year ended 31-Dec-13
	\$	\$	Number of shares	Number of shares
At 1 July	57,591,829	50,710,149	1,203,604,886	562,017,007
Share placement ¹	1,870,000		233,750,000	
Share Conversion ²			(1,293,619,278)	
Share Placement ³	80,000		1,000,000	
Share issue costs	(110,144)			
Share placement ⁴		344,807		26,523,616
Share placement ⁵		344,807		26,523,612
Rights Issue ⁶		5,885,407		588,540,623
Share issue costs		(70,879)		
At balance sheet date	59,431,685	57,214,291	144,735,608	1,203,604,886

1. During August 2014, the company placed 233,750,000 fully paid shares for a consideration of \$1,870,000 (0.8 cents per share)
2. During November 2014, the company did a 1 for 10 share conversion, converting 1,437,354,886 fully paid shares to 143,735,608
3. During November 2014, the Chairman and Managing Director obtained shareholder approval to subscribe for and were issued a total of 1,000,000 fully paid shares for a consideration of \$80,000 (0.8 cents per share, pre-consolidation). The two subscriptions from Directors were approved at the Annual General Meeting held on 3 November 2014
4. During July 2013, the Company placed 26,523,616 fully paid shares for a consideration of \$344,807 (1.3 cents per share)
5. During August 2013, the Company placed 26,523,640 fully paid shares for a consideration of \$344,807 (1.3 cents per share)
6. On 9 August 2013, the Company announced a 1 for 1 pro-rata non-renounceable right issue to raise approximately \$5.89 million. Following an application to the Takeovers Panel, the Panel made a declaration of unacceptable circumstances. The rights issue was subsequently reopened on 28 October 2013 and closed on 11 November 2013. The rights issue raised \$5,885,407 for the Group

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.

Performance Rights

During the period, performance rights for certain performance rights holders lapsed following the cessation of employment contracts.

AVALON MINERALS

Notes to the Financial Statements

For the half-year ended 31 December 2014



AVALON MINERALS LTD

Notes to the Consolidated Financial Statements (Continued)

Note 8 Reserves

	At 31-Dec-14	At 30-Jun-14
	\$	\$
Share based payment reserve	3,297,352	3,329,231
FX reserve	107,088	125,639
	3,404,440	3,454,870

Note 9 Capital Commitments

Operating Lease Payable

	At 31-Dec-14	At 30-Jun-14
	\$	\$
Not later than 12 months	242,527	197,279
Between 12 month and 5 years	516,464	197,122
	758,992	394,401

Note 10 Contingencies

Project

On 5 May 2013, the Group entered into a binding heads of agreement with Hannans Reward Limited to acquire the Rakkurjarvi Exploration Permit and the Discovery Zone Exploitation Concession, which cover the Discovery Zone and Tribulation Zone prospects (which are currently 100% owned by Hannans subsidiary, Kiruna Iron AB) as well as the exploration area surrounding the Discovery Zone located in Kiruna district at Sweden (Discovery projects) for \$4 million. On 30 September 2013, the company agreed to vary the payment terms ("Variation") to the following:

- a) An initial payment of \$1 million to Hannans, which has occurred
- b) Within 5 Business Days of the Discovery Exploitation Concession being granted, Avalon will make a payment of \$3 million to Hannans.

With the Variation, \$1 million was paid on 3 October 2013 and the second payment of \$3 million will be due for payment following the grant of the Discovery Zone Exploitation Concession. The directors do not expect this process to be completed prior to the second half of the 2015 calendar year.

The second payment is conditional upon approval by the Swedish Mines Inspectorate of the Exploitation Concession and therefore is disclosed as a contingent liability and has not been recognised as a liability in the statement of financial position at 31 December 2014.

Note 11 Dividends

There were no dividends declared or paid during the half-year (2013: Nil).

Note 12 Events occurring after balance sheet date

On 2 March 2015, the company announced it had arranged a placement to raise up to AUD\$2 million. The placement will be made to existing shareholders and new, professional investors in Australia and Europe. The funds will be used to progress the Company's Viscaria Copper Project in Northern Sweden and for working capital.

No other matter or circumstance has arisen since 31 December 2014 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 accordance with a resolution of the Directors of Avalon Minerals Limited I state that:

In the opinion of the Directors:

- (a) the financial statements and 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 2014 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(d), 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 'G. Ascough', is written over a light blue horizontal line.

Mr Graham Ascough
Chairman

Brisbane, Queensland

11 March 2015

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 2014, 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 2014 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 2014 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, successful exploration and subsequent exploitation of the consolidated entity's tenements, and/or sale of non-core assets. 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 2015