

**Avalon Minerals Ltd**

**ABN 68 123 184 412**

**Half-year Financial Report**

**31 December 2007**

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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 2007.

#### Directors

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

D L McSweeney  
G C Steinepreis  
S Stone

#### Review of operations

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

	<b>Results</b>
	<b>31 December 2007</b>
	<b>\$</b>
Other revenue	<u>131,638</u>
Net loss before income tax expense	<b>(282,885)</b>
Income tax expense	<u>-</u>
Loss attributable to members of Avalon Minerals Ltd	<u><b>(282,885)</b></u>

#### *Financial Position*

At the end of the half-year the consolidated entity had net cash balances of \$2,053,773 and net assets of \$5,553,510.

Total liabilities amounted to \$173,764 and were limited to trade and other creditors and employee entitlements.

#### *Exploration*

##### ***Lennard Shelf Project Zinc-Lead Project – Rox Resources Earning 60%***

Avalon's 2,594km<sup>2</sup> Lennard Shelf Project - located in the acclaimed Lennard Shelf zinc province in the East Kimberley region of Western Australia - encompass a number of advanced zinc exploration targets, including the Oscar Range, Barramundi and Lawford Projects.

During the first quarter Avalon signed a major Joint Venture with Rox Resources Ltd. Under the terms of the Joint Venture, Rox has the right to earn up to a 60% interest in the Lennard Shelf Project by completing a minimum expenditure of \$500,000 within the first 12 months, followed by the payment of \$300,000 in Rox shares and further exploration expenditure totalling \$2 million over 4 years. Rox is now acting as the manager of the Joint Venture.

Company representatives met with the Gooniyandi native title group in Fitzroy Crossing to progress heritage clearances for the planned NITON exploration program.

## Directors' report

### Review of operations (continued)

#### ***Resource Properties Pty Ltd (RPPL) ELA's – Uranium***

Avalon strengthened its position in Australian uranium exploration through the acquisition of a substantial exploration portfolio covering 1,900km<sup>2</sup> in Western Australia's Kimberley and Yilgarn regions through the 100% acquisition of privately held company RPPL.

The RPPL acquisition – comprising 13 Exploration Licence Applications (ELA's) covering some highly prospective uranium acreage – significantly enhances Avalon's existing uranium exploration portfolio. The portfolio comprises 11 ELA's in proven uranium districts in the Yilgarn region, considered prospective for calcrete-hosted uranium mineralisation, and two uranium prospects in the Kimberley region which are considered prospective for roll-front styled uranium deposits.

#### ***Altona Project – Uranium – Avalon 100%***

At the Altona project, it has been identified that it incorporates a deltaic environment with the drainage sourced in the same granitic terrain as Yeelirrie; uranium mineralisation occurs in close proximity to the project area at Bolitho Bore.

The Yeelirrie palaeochannel calcrete-hosted uranium deposit is located in another branch of the Raeside palaeochannel, 35km north of Altona. The Bolitho Bore calcrete-hosted uranium deposit is located in the main palaeochannel, 5km southwest of the Altona tenement.

#### ***Austin Downs Project – Avalon 100%***

Austin Downs project has highlights:

- radiometric images indicate significant uranium anomalies associated with drainage on E20/652 and E20/653. Uranium is weaker on E20/665 but this does not discount the possibility of calcrete-hosted uranium under thin cover sediments.
- assays of up to 261ppm U<sub>3</sub>O<sub>8</sub> in opaline silica and calcrete on the northern part of E20/665 represent a target to follow up on that tenement.
- three rock chip samples from earlier exploration of opaline silica adjacent to the drainage channel returned values of 129-261ppm U<sub>3</sub>O<sub>8</sub>. A calcrete sample from the drainage contained 84ppm U<sub>3</sub>O<sub>8</sub>.

The Lakeside uranium deposit is located 20km southwest of Avalon's Austin Downs tenements. Acclaim Uranium NL reported a JORC-compliant resource of 270 tonnes of U<sub>3</sub>O<sub>8</sub> at 0.4 kg/tonne, using a 200ppm cut-off in 1998. The nearby Austin Downs deposit contains a pre-JORC resource of 312 tonnes of uranium at 0.5 kg/tonne. These deposits are currently owned by Energy Metals Limited.

#### ***Wandinong Project – Uranium – Avalon 100%***

The calcrete-hosted Wandinong uranium deposit is associated with a strong radiometric anomaly adjacent to E58/348.

Reconnaissance aircore drilling will be required to explore for uranium-enriched calcrete beneath shallow cover on the eastern Wandinong Project area. First pass aircore drilling should also be sufficient to test radiometric anomalies on the northern margin of Lake Austin and the north-flowing tributary.

A total of 4,000 metres of aircore drilling is planned.

## Directors' report

### Review of operations (continued)

#### ***Marloo – Base Metals and Uranium – Avalon 100%***

The Marloo Project, covering seven exploration licences over an area of some 900km<sup>2</sup>, forms part of Avalon's three Paterson Projects in Western Australia's mineral-rich Pilbara region. The project area is located 30km south of the 180 million tonne Nifty Copper Mine and 40km west of Rio Tinto's unconformity-styled Kintyre uranium deposit (25,000 tonnes) @ 0.4% U<sub>3</sub>O<sub>8</sub>.

Exploration will focus on the potential for the discovery of unconformity-styled uranium mineralisation at the Epicurus prospect and base metals associated with three recently identified EM conductors.

During the half-year, Heritage Agreements were signed with the Western Desert Lands Aboriginal Corporation, enabling the Native Title objections to be withdrawn and the tenements to be granted. These Heritage Agreements are currently being finalised.

#### ***Empress Springs – Gold, Uranium and Base Metals – Avalon 70%***

Avalon has entered into a Joint Venture agreement with ASX-listed nickel producer, Independence Group NL, to earn a 70% interest in the Empress Springs gold, base metals and uranium project in North Queensland.

The project, located 40km south of Croydon, comprises two granted exploration licences covering a total area of 833km<sup>2</sup>. The region is a well-known gold producing region with historical production of 750,000oz at Croydon and the more recent discovery by Gold Aura Ltd of polymetallic mineralisation at Wallabadah located 30 km north of Croydon.

During the half-year, the company appointed SRK Consulting Pty Ltd to complete a 3D inversion of the magnetic data acquired over the Empress Springs project as part of a target generation exercise.

#### ***Project Generation***

Avalon continued to assess additional mineral project opportunities both in Australia and internationally.

#### **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 directors.



David McSweeney  
Managing Director  
Perth, Western Australia

14 March 2008

### **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 2007, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.



Ernst & Young



V W Tidy  
Partner  
Perth  
14 March 2008

AVALON MINERALS LTD

**Consolidated Income Statement**  
For the half-year ended 31 December 2007

	Note	31 December 2007 \$	Date of incorporation 20 December 2006 to 30 June 2007 \$
<b>Revenue from continuing operations</b>	7	<b>131,638</b>	33,535
Employee benefits expense	8	(181,317)	(213,622)
Depreciation expense		(15,143)	(7,076)
Professional fees		(39,293)	(40,000)
Office costs		(56,504)	(16,403)
Administration costs		(18,164)	(10,209)
Public relations costs		(47,653)	(8,205)
Conference costs		(17,660)	(8,955)
Travel costs		(23,835)	(5,226)
Exploration expenditure written off		-	(14,147)
Share issue costs on incorporation		-	(69,095)
Interest paid		(2)	-
Other expenses from ordinary activities		(14,952)	(7,804)
<b>Loss from continuing activities before income tax</b>		<b>(282,885)</b>	<b>(367,207)</b>
Income tax expense		-	-
<b>Loss attributable to members of Avalon Minerals Ltd</b>		<b>(282,885)</b>	<b>(367,207)</b>
<b>Earnings per share for loss attributable to the ordinary equity Holders of the company:</b>		<b>Cents</b>	<b>Cents</b>
Basic and diluted earnings per share		<b>(0.65)</b>	<b>(1.32)</b>

*The above consolidated Income Statements should be read in conjunction with the Notes to the Financial Statements*

AVALON MINERALS LTD

**Consolidated Balance Sheet**  
As at 31 December 2007

	<b>31 December 2007</b>	30 June 2007
	\$	\$
<b>Current assets</b>		
Cash and cash equivalents	2,053,773	3,144,308
Trade and other receivables	45,203	56,255
Total current assets	<u>2,098,976</u>	<u>3,200,563</u>
<b>Non-current assets</b>		
Plant and equipment	130,790	66,512
Exploration and evaluation expenditure	3,497,508	1,926,667
Total non-current assets	<u>3,628,298</u>	<u>1,998,768</u>
<b>Total assets</b>	<u>5,727,274</u>	<u>5,199,331</u>
<b>Current liabilities</b>		
Trade and other payables	173,764	242,935
Total current liabilities	<u>173,764</u>	<u>242,935</u>
<b>Total liabilities</b>	<u>173,764</u>	<u>242,935</u>
<b>Net assets</b>	<u>5,553,510</u>	<u>4,956,396</u>
<b>Equity</b>		
Contributed equity	6,153,762	5,273,763
Reserves	49,840	49,840
Accumulated losses	(650,092)	(367,207)
<b>Total equity</b>	<u>5,553,510</u>	<u>4,956,396</u>

*The above consolidated Balance Sheets should be read in conjunction with the Notes to the Financial Statements*

AVALON MINERALS LTD

**Consolidated Statement of Changes in Equity**  
**For the half - year ended 31 December 2007**

	<b>31 December 2007</b>	Date of incorporation 20 December 2006 to 30 June 2007
	\$	\$
<b>Total equity at the beginning of the financial period</b>	<b>4,956,396</b>	-
Net income recognised directly in equity	-	-
Loss for the financial period	<b>(282,885)</b>	(367,207)
<b>Total recognised income and expense for the period</b>	<b>(282,885)</b>	(367,207)
Contributions of equity – net of transactions costs	<b>879,999</b>	5,273,763
Directors' options	-	49,840
<b>Total equity at the end of the half – year ended 31 December 2007</b>	<b>5,553,510</b>	4,956,396

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

AVALON MINERALS LTD

**Consolidated Cash Flow Statement**  
**For the half – year ended 31 December 2007**

	<b>31 December 2007</b>	Date of incorporation 20 December 2006 to 30 June 2007
	\$	\$
<b>Cash flows from operating activities</b>		
Payments to suppliers and employees	(374,274)	(296,929)
Other – security deposits	(11,520)	-
Other – sundry income	50,000	-
Interest received	81,638	33,535
<b>Net cash (outflows) from operating activities</b>	<b>(254,156)</b>	<b>(263,394)</b>
<b>Cash flows from investing activities</b>		
Payments for plant & equipment	(73,832)	(79,177)
Payments for investments	(100,000)	(250,000)
Exploration and evaluation expenditure	(662,547)	(136,894)
<b>Net cash (outflows) from investing activities</b>	<b>(836,379)</b>	<b>(466,071)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issues of securities	-	4,045,000
Costs of share issues	-	(171,237)
<b>Net cash inflows from financing activities</b>	<b>-</b>	<b>3,873,763</b>
<b>Net decrease in cash and cash equivalents held</b>	<b>(1,090,535)</b>	<b>3,144,308</b>
Cash and cash equivalents at the beginning of the half-year	<b>3,144,308</b>	-
<b>Cash and cash equivalents at the end of the half-year</b>	<b>2,053,773</b>	<b>3,144,308</b>

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

## Notes to the Financial Statements

### Note 1. Basis of preparation

This general purpose condensed financial report for the half-year reporting period ended 31 December 2007 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The half-year financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2007 and any public announcements made by Avalon Minerals Ltd during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies adopted are consistent with those of the previous financial year.

The financial report is presented in Australian dollars and has been prepared on the historical cost basis.

#### *Comparatives*

The Company was incorporated on 20 December 2006 and accordingly no comparative information is presented for the previous corresponding period in regards to the income statement, summary of changes in equity and cash flow statement.

#### *Changes in accounting policy*

Since 1 July 2007 the Group has adopted the following Standards and Interpretations, mandatory for annual periods beginning on or after 1 July 2007. Adoption of these Standards and Interpretations did not have any effect on the financial position or performance of the group.

- AASB 101 (revised October 2006) *Presentation of Financial Statements*
- AASB 7 *Financial Instruments: Disclosures*
- AASB 2005 – 10 *Amendments to Australian Accounting Standards (AASB 132, 101, 114, 117, 133, 139, 1, 4, 1023 and 1038)*
- AASB 2007 – 1 *Amendments to Australian Accounting Standards arising from Interpretation 11 (AASB 2)*
- AASB 2007 – 4 *Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments*
- AASB 2007 – 7 *Amendments to Australian Accounting Standards (AASB 1, AASB 2, AASB 4, AASB 5, AASB 107 and AASB 128)*
- Interpretation 10 *Interim Financial Reporting and Impairment*
- Interpretation 11 *AASB 2 – Group and Treasury Share Transactions*

### Note 2. Segment information

(a) Business segments

The consolidated entity operates predominantly in one industry. Its principal activities are those of prospecting and mineral exploration.

## AVALON MINERALS LTD

### Notes to the Financial Statements

#### Note 2. Segment information (continued)

- (b) Geographical segments

The consolidated entity operates only in Australia.

#### Note 3. Contingencies

As at 31 December 2007 the Company has no contingent liabilities.

#### Note 4. Dividends

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

#### Note 5. Acquisition of Subsidiary

On 25 July 2007 the Company acquired 100% of the issued shares in Resource Properties Pty Ltd and issued 4,000,000 shares at a value of 22 cents per share, which did not constitute a business acquisition, based on fair value of the net assets acquired.

The total cost of acquisition was \$980,000 and this comprised an issue of equity instruments and payment of cash.

The acquisition had the following effect on the Group's assets and liabilities after acquiring 100% of shares on Issue.

	<b>Recognised value on acquisition</b>
	\$
Loans acquired	(79,710)
Exploration and evaluation	1,059,710
	<hr/>
	980,000
	<hr/>

	<b>Recognised value on acquisition</b>
	\$
<b>Cost of the acquisition</b>	
Consideration paid in shares	880,000
Consideration paid in cash	100,000
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Total cost of the acquisition	980,000
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#### Note 6. Events occurring after balance sheet date

On 4 March 2008 the Company announced that it had agreed to purchase two advanced copper projects in northern Sweden for a total payment of USD420,000 plus 1% NSR.

Notes to the Financial Statements

<b>31 December 2007</b>	20 December 2006 to 30 June 2007
\$	\$

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**Note 7. Revenue**

**Revenue**

*Other revenue*

Interest received	<b>81,638</b>	33,535
Sundry income	<b>50,000</b>	-
	<b>131,638</b>	33,535

**Note 8. Expenses**

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

Employee benefits expense

Salaries & superannuation	<b>141,099</b>	136,250
Directors' fees	<b>27,709</b>	17,500
Share based payments	-	49,840
Other	<b>12,509</b>	10,032
	<b>181,317</b>	213,622

**AVALON MINERALS LTD**

**Directors' Declaration**

In accordance with a resolution of directors of Avalon Minerals Limited, I state that

In the opinion of 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 financial position as at 31 December 2007 and of the performance for the half-year ended on that date of the consolidated entity; and
  - (ii) complying with Accounting Standards AASB 134 *Interim Financial Reporting* and, the *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.

On behalf of the Board



**David McSweeney**  
Managing Director

Perth  
14 March 2008

To the members of Avalon Minerals Ltd

## Report on the Condensed Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Avalon Minerals Limited, which comprises the condensed balance sheet as at 31 December 2007, and the condensed income statement, condensed statement of changes in equity and condensed cash flow statement 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 the half-year 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 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 an Interim 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 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 2007 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 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.

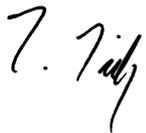
*Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Avalon Minerals Limited 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 2007 and of its performance for the half-year ended on that date; and
- (ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



Ernst & Young



V W Tidy  
Partner  
Perth  
14 March 2008