

**Avalon Minerals Ltd**

**ABN 68 123 184 412**

**Half-year Financial Report**

**31 December 2008**

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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 2008.

#### 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:

Mr D L McSweeney  
Mr G C Steinepreis  
Mr S Stone

Tan Sri Abu Mohamed was appointed a director on 12 January 2009 and continues as at the date of this report.

Mr A Kamaruddin was appointed an alternative director for Tan Sri Mohamed on 12 January 2009 and continues as at the date of this report.

#### Review of operations

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

	<b>Results</b>
	<b>31 December 2008</b>
	<b>\$</b>
Other revenue	<u>26,243</u>
Net loss before income tax expense	<b>(3,048,139)</b>
Income tax expense	<u>-</u>
Loss attributable to members of Avalon Minerals Ltd	<u><b>(3,048,139)</b></u>

Contributing to the loss is an expense of \$2,638,054 relating to exploration expenditure written off in the current period, as disclosed in Note 6 to the financial statements.

#### *Financial Position*

At the end of the half-year the consolidated entity had a cash balance of \$323,252 and net assets of \$2,549,438.

Total liabilities amounted to \$307,133 and were limited to trade and other creditors and employee entitlements.

#### *Corporate*

At a General Meeting of shareholders held on 10 December 2008 Avalon received approval from its Shareholders to raise \$2 million via the placement of 20 million shares at 10 cents per share.

The funds raised will be utilised to progress drilling and Feasibility Studies at the Viscaria Copper Project, Northern Sweden – Avalon's primary focus moving forward, where last year the Company delineated a JORC-compliant Indicated Resource of 39.9Mt @ 1.3% Cu.

#### *Exploration*

##### ***Viscaria Copper Project***

The Viscaria Copper Project is the Company's main focus and forms the basis for Avalon's development and production aspirations. Since acquiring the project on 4 March 2008, Avalon has captured the extensive historical data and appointed a team of geological consultants lead by CSA Global Pty Ltd to model the remaining copper resources at Viscaria.

## Directors' report

### Review of operations (continued)

This work was successful in identifying over 39 million tonnes of Inferred copper resources (JORC) at Viscaria. In addition, Avalon has applied for the strike extensions of the Viscaria copper deposits and now has over 212km of exploration ground at Viscaria, covering over 30km of the prospective Viscaria unit.

Simultaneously, Avalon commenced a review of the economics of re-opening the Viscaria copper mine with this work identifying the benefits of a smaller-scale (300,000tpa) start-up operation targeting higher-grade zones of copper. The next phase of work planned at Viscaria will be to drill test the high-priority targets with the aim of defining high grade (>3%) copper zones.

### *Adak Copper Project*

The Adak copper project contains four historical mines – Adak, Lindsfold, Brannmyran and Rudtjebacken – covering an area of 26.71km<sup>2</sup>, located in the world-class Skelleftea VMS mining district of Northern Sweden.

The Adak mines were operated by the Government of Sweden between 1940 and 1977 when the last mine was closed by Swedish mining giant Boliden. The total material mined at Adak was approximately 8.3mt @ 2.02% Cu plus 4.75mt @ 0.87% Cu and 3.0% Zn.

Avalon's attraction to Adak is due to the exploration potential surrounding the existing mines and at depth, and its strategic location within trucking distance of existing concentration facilities.

With the Company's focus shifting to Viscaria, Avalon plans to attract a joint venture partner to farm into the Adak project to earn a majority interest.

### *Future direction*

The copper prices is currently \$1.60 US/lb as compared to over \$3.00/lb in 2008. However LME copper stockpiles have been decreasing in recent months. Forecasters vary on long term copper prices but most agree that copper prices will increase to approximately \$2.50/lb by 2011. A combination of lower supplies of copper scrap in recent months and the completion of the chinese new year has seen concentrate imports on the increase into China in the first few months of 2009. Outokumpu averaged US60c/lb operating costs during the life of the Viscaria mine. Since the mine closed in 1997 wages have increased by 30%. On this basis Avalon believes it could operate the Viscaria mine for approximatley \$1.00/lb.

Copper production around the world has fallen by about 10% due to the world financial crisis and proposed new sources of copper supply from new projects have also been cancelled providing for a strong platform for a rebound in the copper price once demand picks up again.

### **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 directors.

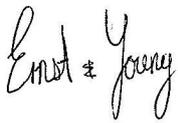


David McSweeney  
Managing Director  
Perth, Western Australia

16 March 2009

## Auditor's Independence Declaration to the Directors of Avalon Minerals Limited and Controlled Entities

In relation to our review of the consolidated financial report of Avalon Minerals Limited for the half-year ended 31 December 2008, 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



RJ Curtin  
Partner  
Perth  
16 March 2009

AVALON MINERALS LTD

**Consolidated Income Statement**  
For the half-year ended 31 December 2008

	Note	31 December 2008 \$	31 December 2007 \$
<b>Revenue from continuing operations</b>	5	<b>26,243</b>	81,638
Other income		<b>50,000</b>	50,000
Employee benefits expense	6	<b>(121,351)</b>	(181,317)
Office occupancy costs		<b>(59,765)</b>	(56,504)
Corporate and administration expenses		<b>(209,525)</b>	(128,945)
Depreciation expense	6	<b>(26,209)</b>	(15,143)
Exploration expenditure written off	6	<b>(2,638,054)</b>	-
Loan written off	6	<b>(62,021)</b>	-
Interest paid		<b>(6)</b>	(2)
Other expenses from ordinary activities		<b>(7,451)</b>	(32,612)
<b>Loss from continuing activities before income tax</b>		<b>(3,048,139)</b>	(282,885)
Income tax expense		-	-
<b>Loss attributable to members of Avalon Minerals Ltd</b>		<b>(3,048,139)</b>	(282,885)
<b>Earnings per share for loss attributable to the ordinary equity holders of the company:</b>			
		<b>Cents</b>	Cents
Basic and diluted earnings per share		<b>(5.89)</b>	(0.65)

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

AVALON MINERALS LTD

**Consolidated Balance Sheet**  
As at 31 December 2008

	Note	31 December 2008 \$	30 June 2008 \$
<b>Current assets</b>			
Cash and cash equivalents		323,252	1,458,455
Trade and other receivables		64,151	86,715
Non-current assets held for sale		-	111,162
<b>Total current assets</b>		<b>387,403</b>	<b>1,656,332</b>
<b>Non-current assets</b>			
Other financial assets		-	25,354
Plant and equipment		147,756	173,060
Exploration and evaluation expenditure		2,321,412	3,888,096
<b>Total non-current assets</b>		<b>2,469,168</b>	<b>4,086,510</b>
<b>Total assets</b>		<b>2,856,571</b>	<b>5,742,842</b>
<b>Current liabilities</b>			
Trade and other payables		294,776	525,378
<b>Total current liabilities</b>		<b>294,776</b>	<b>525,378</b>
<b>Non-current liabilities</b>			
Provisions		12,357	16,054
<b>Total non-current liabilities</b>		<b>12,357</b>	<b>16,054</b>
<b>Total liabilities</b>		<b>307,133</b>	<b>541,432</b>
<b>Net assets</b>		<b>2,549,438</b>	<b>5,201,410</b>
<b>Equity</b>			
Contributed equity	7	7,425,612	7,125,612
Reserves		273,130	176,963
Accumulated losses		(5,149,304)	(2,101,165)
<b>Total equity</b>		<b>2,549,438</b>	<b>5,201,410</b>

*The above consolidated Balance Sheet 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 2008

<b>2008</b>	<b>Issued capital</b> \$	<b>Accumulated losses</b> \$	<b>Share-based payments reserve</b> \$	<b>Foreign currency translation reserve</b> \$	<b>Total</b> \$
<b>At the beginning of the half-year</b>	<b>7,125,612</b>	<b>(2,101,165)</b>	<b>176,963</b>	<b>-</b>	<b>5,201,410</b>
Net income recognised directly in equity					
Loss for the financial period	-	(3,048,139)	-	-	(3,048,139)
<b>Total recognised income and expense for the period</b>	<b>-</b>	<b>(3,048,139)</b>	<b>-</b>	<b>-</b>	<b>(3,048,139)</b>
Contributions of equity	300,000	-	-	-	300,000
Share based payments	-	-	2,136	-	2,136
Foreign currency translation	-	-	-	94,031	94,031
<b>At the end of the half-year</b>	<b>7,425,612</b>	<b>5,149,304</b>	<b>179,099</b>	<b>94,031</b>	<b>2,549,438</b>

<b>2007</b>	<b>Issued capital</b> \$	<b>Accumulated losses</b> \$	<b>Share-based payments reserve</b> \$	<b>Total</b> \$
<b>At the beginning of the half-year</b>	<b>5,273,763</b>	<b>(367,207)</b>	<b>49,840</b>	<b>4,956,396</b>
Net income recognised directly in equity				
Loss for the financial period	-	(282,885)	-	(282,885)
<b>Total recognised income and expense for the period</b>	<b>-</b>	<b>(282,885)</b>	<b>-</b>	<b>(282,885)</b>
Contributions of equity	879,999	-	-	879,999
<b>At the end of the half-year</b>	<b>6,153,762</b>	<b>(650,092)</b>	<b>49,840</b>	<b>5,553,510</b>

*The above consolidated Statement 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 2008

	31 December 2008 \$	31 December 2007 \$
<b>Cash flows from operating activities</b>		
Payments to suppliers and employees	(428,140)	(374,272)
Other – security deposits	-	(11,520)
Other – sundry income	50,000	50,000
Interest paid	(6)	(2)
Interest received	26,243	81,638
<b>Net cash outflows from operating activities</b>	<b>(351,903)</b>	<b>(254,156)</b>
<b>Cash flows from investing activities</b>		
Payments for plant & equipment	(905)	(73,832)
Loans to other entities	(36,667)	-
Payments for investments	-	(100,000)
Exploration and evaluation expenditure	(1,045,728)	(662,547)
<b>Net cash outflows from investing activities</b>	<b>(1,083,310)</b>	<b>(836,379)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issues of securities	300,000	-
Costs of share issues	-	-
<b>Net cash inflows from financing activities</b>	<b>300,000</b>	<b>-</b>
<b>Net decrease in cash and cash equivalents held</b>	<b>(1,135,203)</b>	<b>(1,090,535)</b>
Cash and cash equivalents at the beginning of the half-year	1,458,455	3,144,308
<b>Cash and cash equivalents at the end of the half-year</b>	<b>323,252</b>	<b>2,053,773</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 financial report for the half-year reporting period ended 31 December 2008 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. Therefore it cannot be expected to provide as full understanding of the financial performance, financial position and the cashflows of the group as in the full financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2008 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*.

For the purpose of preparing the half-year report, the half-year has been treated as a discrete reporting period.

The financial report is presented in Australian dollars and has been prepared on the historical cost basis, using the same accounting policies as used in the annual financial report for the year ended 30 June 2008, except for adoption of amending standards mandatory for annual periods beginning on or after 1 July 2008, as described below.

*AASB 2008-10 Amendment to Australian Accounting Standards – Reclassification of Financial Assets (amendments to AASB 139 Financial Instruments: Recognition and Measurement and AASB 7 Financial Instruments Disclosures);*

*Interpretation 12 and AASB 2007-2 Service Concession Arrangements and consequential amendments to other Australian Accounting Standards;*

*Interpretation 129 Service Concession Arrangements: Disclosures;*

*Interpretation 4 (revised) Determining whether an arrangement contains a lease;*

*Interpretation 13 Customer Loyalty Programmes; and*

*Interpretation 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.*

#### *Going concern*

The consolidated entity incurred operating losses after income tax of (\$3,048,139) (2007: (\$282,885)) for the half-year ended 31 December 2008 and incurred net cash outflows of \$1,135,203. At balance date the consolidated entity had cash of \$323,252 and trade creditors of \$294,776.

The half-year report has been prepared on a going concern basis. In arriving at this position the Directors have had regard to a capital raising by way of issue of 13,000,000 fully paid shares made on 12 January 2009. The issue was pursuant to shareholder approval at the General Meeting held on 12 December 2008 and raised a total of \$1,300,000.

**Notes to the Financial Statements**

**Note 1. Basis of preparation (continued)**

The Directors consider that these funds will be sufficient to meet all minimum corporate costs and tenement expenditure commitments, however should the Company wish to complete its exploration activities as per its business plan, it will need to raise further funds or seek other alternatives to fund the development of the projects. Should the company not be able to achieve this, there is significant uncertainty whether it will be able to continue as a going concern and therefore whether it will be able to pay its debts as and when they fall due and realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial statements.

This report does not include any adjustments relating to the recoverability and classification of recorded asset amounts nor to the amounts and classification of liabilities that might be necessary should the Company not continue as a going concern.

**Note 2. Contingencies**

As at 31 December 2008 the Company has no contingent liabilities.

**Note 3. Dividends**

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

**Note 4. Events occurring after balance sheet date**

On 12 January 2009 the Company issued 13,000,000 fully paid shares at 10 cents each, pursuant to approval at the General Meeting held on 12 December 2008, raising a total of \$1,300,000.

On 2 February 2009 the Company issued 100,000 options over ordinary shares exercisable at 20 cents and expiring on 31 July 2011, pursuant to shareholder approval at a General Meeting held on 25 November 2008.

On 23 February 2009 the Company issued 520,000 fully paid shares at 10 cents each, pursuant to approval at a General Meeting held on 12 December 2008, raising a total of \$52,000.

	<b>31 December 2008</b>	31 December 2007
	\$	\$

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**Note 5. Revenue**

**Revenue**

Interest income	<b>26,243</b>	<b>81,638</b>
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Notes to the Financial Statements

	31 December 2008 \$	31 December 2007 \$
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**Note 6. Expenses**

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

Employee benefits expense	121,351	181,317
Depreciation	26,209	15,143
Exploration expenditure written off (i)	2,638,054	-
Loan written off (ii)	62,021	-

- (i) Exploration expenditure written off relates to tenements held by the Company's wholly owned subsidiaries Xmin Pty Ltd and Resource Properties Pty Ltd including non-current assets previously held for sale. All tenements held by these companies have now been relinquished, with the exception of the Marloo tenements. There is sufficient uncertainty as to whether the carrying balances of Marloo will be recoverable and thus this has also been written off.
- (ii) The loan written off relates to funds lent to Haliburn Limited in order to fund the Company until listing on ASX. However, Haliburn failed to raise sufficient capital and the loan has been written off as there is little likelihood of recovering these funds.

**Note 7. Equity securities issued**

On 4 July 2008 the Company issued 1,500,000 fully paid shares at 20 cents each pursuant to the exercise of options.

On 26 August 2008 the Company issued 300,000 options exercisable at 30 cents and expiring on 31 July 2011, under the Company's Employee Option Scheme.

**Note 8. Segment reporting**

	Australia \$	Sweden \$	Eliminations \$	Consolidated \$
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*Primary reporting – geographical segments*

**Half-year ended 31 December 2008**

<b>Revenue</b>				
Sundry income	50,000	-	-	50,000
<b>Total segment revenue</b>	<b>50,000</b>	<b>-</b>	<b>-</b>	<b>50,000</b>
Interest income				26,243
<b>Total consolidated income</b>				<b>76,243</b>

Notes to the Financial Statements

Note 8. Segment reporting (continued)

<b>Result</b>				
Segment result	(4,191,079)	(36,001)	1,178,941	(3,048,139)
Profit before income tax	(4,191,079)	(36,001)	1,178,941	(3,048,139)
Income tax expense	-	-	-	-
<b>Profit after income tax</b>	<b>(4,191,079)</b>	<b>(36,001)</b>	<b>1,178,941</b>	<b>(3,048,139)</b>
<b>Assets</b>				
Segment assets	492,323	2,399,149	(34,901)	2,856,571
<b>Total assets</b>	<b>492,323</b>	<b>2,399,149</b>	<b>(34,901)</b>	<b>2,856,571</b>
<b>Liabilities</b>				
Segment liabilities	1,205,577	2,317,615	(3,216,059)	307,133
<b>Total liabilities</b>	<b>1,205,577</b>	<b>2,317,615</b>	<b>(3,216,059)</b>	<b>307,133</b>
<b>Capital expenditure</b>				
Plant & equipment	905	-	-	905
<b>Total capital expenditure</b>	<b>905</b>	<b>-</b>	<b>-</b>	<b>905</b>
<b>Depreciation</b>				
Plant & equipment	25,747	462	-	26,209
<b>Total depreciation</b>	<b>25,747</b>	<b>462</b>	<b>-</b>	<b>26,209</b>
<b>Exploration expenditure</b>				
Exploration and evaluation expenditure	29,400	930,808	-	960,208
Exploration expenditure written off	(2,638,054)	-	-	(2,638,054)
<b>Total exploration expenditure</b>	<b>(2,608,654)</b>	<b>930,808</b>	<b>-</b>	<b>(1,677,846)</b>
<b>Share-based payments</b>				
Options issued	2,136	-	-	2,136
<b>Total share-based payments</b>	<b>2,136</b>	<b>-</b>	<b>-</b>	<b>2,136</b>

**Half-year ended 31 December 2007**

During the half-year ended 31 December 2007 financial year the Consolidated Entity operated only in Australia.

*Secondary reporting – business segments*

The Consolidated Entity operates predominantly in mining and exploration sector.

**Note 9. Related party transactions**

During the financial year the Company advanced funds totalling \$36,667 to Haliburn Resources Limited. Mr D McSweeney is the Chairman of Haliburn Resources Limited. The total loan was repayable on completion of listing on the Australian Securities Exchange by Haliburn Resources Limited. However, Haliburn failed to achieve this and the loan has been written off.

**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 2008 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  
16 March 2009

## To the members of Avalon Minerals Limited and Controlled Entities

### Report on the Condensed Half-Year Financial Report

We have reviewed the accompanying condensed half-year financial report of Avalon Minerals Limited, which comprises the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated 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 period end or from time to time during the period.

### Directors' Responsibility for the Condensed Half-Year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the condensed 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 condensed 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 condensed 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 entity's financial position as at 31 December 2008 and its performance for the period 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 period, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a condensed 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. The Auditor's Independence Declaration would have been expressed in the same terms if it had been given to the directors at the date this auditor's report was signed.

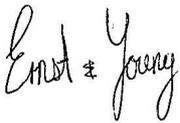
## Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the condensed half-year financial report of Avalon Minerals Limited and its controlled entities 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 2008 and of its performance for the period ended on that date; and
- ii) complying with Accounting Standard *AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

## ***Inherent Uncertainty Regarding Continuation as a Going Concern***

Without qualification to the review conclusion expressed above, attention is drawn to the following matter. As a result of the matters described in Note 2 Going Concern to the financial report, there is significant uncertainty whether the consolidated entity will be able to continue as a going concern and therefore whether it will be able to pay its debts as and when they become due and payable and realise its assets and extinguish its liabilities in the normal course of operations and at the amounts stated in the financial report. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.



Ernst & Young



RJ Curtin  
Partner  
Perth

16 March 2009