

AVALON MINERALS LIMITED

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Avalon has acquired two “old headframe” copper projects with pre-prepared prospects and infrastructure. The projects are both in great locations, have potential for a relatively quick re-start and have exploration appeal besides. Avalon’s next six months, spent compiling data, infill drilling, estimating resources and completing a scoping study, should expose a suite of quality exploration and development targets. Avalon is also well placed to build on its presence in Sweden.

CAPITAL DETAILS

Share Price: \$A0.33
 ASX Code: AVI
 Shares issued: 51 million
 Options issued: 13 million var. exerc.
 FD Market capitalisation \$A21 million

SUBST. SHAREHOLDERS*

Blackmont Nominees 15%
 David McSweeney: 13%
 Gregory Down 10%
 Don Boyer 8%

DIRECTORS

David McSweeney: Exec Chairman
 Gary Steinepreis: Non Exec. Director
 Steven Stone: Non Exec. Director

KEY POINTS

- Avalon has secured two separate mature copper projects in Sweden for nominal cost.
- Viscaria and Adak both include successful, closed copper mines that are due for review in the light of advances in prices and exploration methods.
- Avalon is assessing the remnant A-zone resources, the extension potential, and unmined Zones B (24Mt @ 0.8% Cu) & D (2.5 Mt at 1.6% copper), with a view to Viscaria’s near term redevelopment.
- Viscaria is ideally located in relation to infrastructure and mining services.
- The overriding objective at Viscaria is the potential for repeats of Viscaria’s wide, consistent and high grade lodes. Avalon has the undrilled depths and a 14 km of mine sequence strike.
- The Adak project supported four productive mine areas from 1942 to 1977, but has since been ignored. Prospecting with up to date EM surveys is likely to raise good quality targets.
- Sweden’s minerals scene is open, prospective, and efficiently serviced.

Fig 1: Project location



COMPANY BACKGROUND

David McSweeney founded Gindalbie Metals Ltd and managed Gindalbie's development of the Karara Iron Ore project from inception to 2006. In March 2007 Avalon Minerals Ltd listed on the Australian Stock Exchange after raising \$0.5 million in seed capital and then \$3.5 million from public subscription. Avalon's activities were confined to mineral exploration in Australia until the acquisition of two Swedish brownfield copper projects, Viscaria and Adak, in February 2008.

Avalon financed the Viscaria and Adak acquisition internally (the consideration was \$US420,000 plus a 1% royalty), and raised a further \$1 million in late March 2008 to cover initial assessment costs and drilling plans.

VISCARIA

The Viscaria VMS copper deposit was discovered in the 1970s, within 4km of the established Kiruna iron ore mine in northern Sweden. About 298,000 tonnes of copper were produced from Viscaria between 1982 and 1997. Outokumpu mined 12.5 million tonnes of sulphide ore at an average grade of 2.3% copper from Viscaria's tabular lodes. Underground, open stope mining of the steeply dipping lodes extended from surface to a maximum vertical depth of 600 metres along three kilometres strike length. Mined widths averaged about five metres and in places extended to 30 metres.

Fig 2: Viscaria A & B Cross Sections

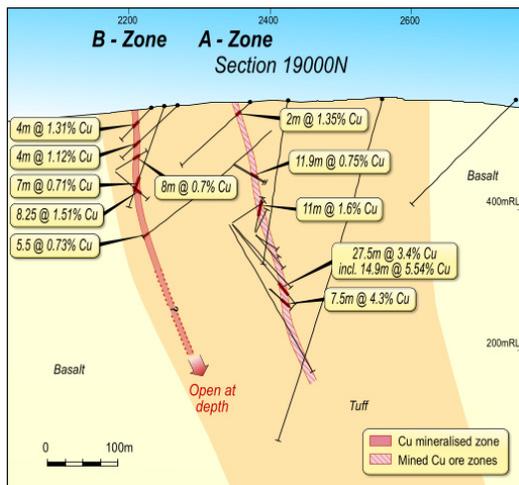
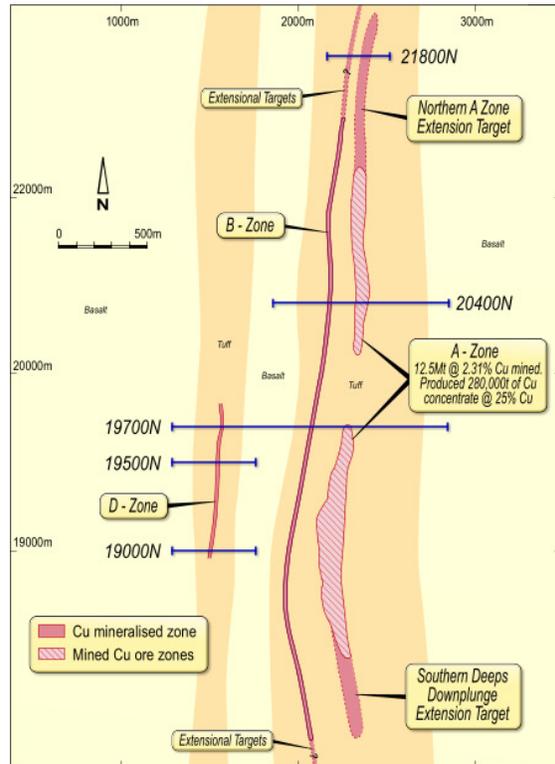


Fig 3: Viscaria Plan View



THE A-ZONE

Viscaria was a successful 16 year project. The lodes were wide and consistent and the copper grades above average. The concentrate product was clean and keenly sought by European smelters. The infrastructure established for the giant Kiruna iron ore mine kept Viscaria's freight, labour and power costs well below industry averages. Viscaria's only significant handicap was low precious metal credits.

Outokumpu closed the mine in an orderly withdrawal between 1996 and early 1997 as copper prices fell back below \$US2,000 per tonne. In 1995 the project produced about 60,000 tonnes of copper concentrate (containing 15,000 tonnes of copper) at a cost of about \$US400 per tonne of concentrate. At a copper metal price of \$US2,000/t (US91 c/lb) the net revenue for each tonne of concentrate was only about \$US340. (In May 2008 the estimated net revenue achievable for the same tonne of concentrate is \$US1,900 per tonne.)

The closure decision was driven as much by commercial considerations as ore reserve depletion. Funds for exploration and

development were withdrawn up to two years before the decline's closure.

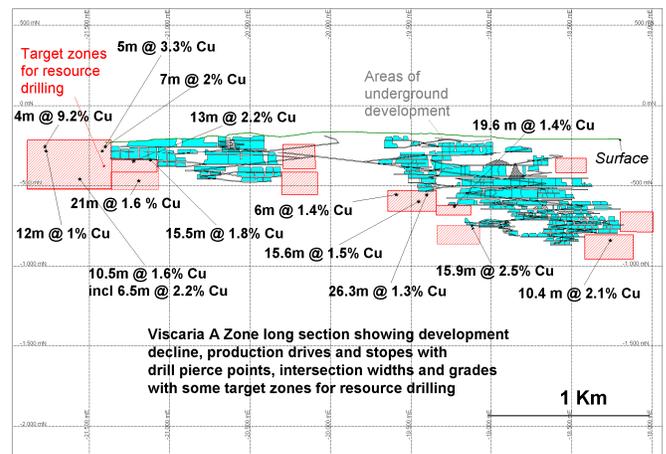
Outokumpu removed the surface facilities, rehabilitated the site and then sold Viscaria to Phelps Dodge in 2003, as part of its exit from mining. Following the 2007 takeover of Phelps Dodge by Freeport McMoran, receipt of instructions in Phelps Dodge's Swedish office to sell the Viscaria and Adak mines coincided with a visit from Avalon's Exploration Manager. Avalon and Phelps Dodge concluded the private sale in February 2008.

The transfer of data between Outokumpu and Avalon (Phelps Dodge only held regional exploration records) began in February 2008 and is still in progress in May 2008. Avalon is scanning the results from 3,300 diamond drill holes, plus face sampling, production, surveying and geological mapping records, into a digital database.

Most of the Viscaria data relates to production drilling and sampling of the A-zone. By the end of June 2008 Avalon expects to complete the transfer of both the drilling and void records into a database that will show Viscaria's remnant A-zone resource positions. Blocks considered sub-economic in the late 1990s could present highly commercial targets now that the copper price has more than quadrupled.

The A-zone records will also be scoured for potential resource extensions. Early perusal of the A-zone sections suggests drilling stopped before the lodes fully tapered out, leaving scope for undrilled lode positions to add to established resources.

Fig 4: Viscaria Long Section – A Zone



B-ZONE AND D-ZONE

Two unmined, weaker copper lodes, B-zone and D-zone, occur in the footwall of the A-zone. Sixty holes, drilled on 100 metre section spacing along the 3 kilometre strike length of the B-zone, indicate a remarkably consistent horizon carrying generally 2-10 metre widths of sub 2% copper mineralisation. In places the tenor of the B-zone improves. Outokumpu drove an exploratory crosscut 200 metres across to B-zone, targeting one such area.

In May 2008 Avalon's consultant estimated an inferred resource within the B-zone of 24 million tonnes at 0.8% copper, at a 0.3% lower cut off. The average bulked true width of B-zone at that cutoff is almost 10 metres, continuous over 3 kilometres of strike.

D-zone is 500 metres further out in the footwall, and has been traced over about 500 metres of strike. An inferred resource of 2.5 million tonnes at 1.6% copper was estimated in May 2008, using a 0.3% copper cut off. The average width of D-zone at a 0.3% copper cut off is 8 metres.

The commercial implications of the B and D-zones are not yet clear. Both have substantial copper contents at marginal grades. Avalon will first assess the opportunity to prove up open pit resources on zones B and D with a view to providing an operation's first one to two years of mill feed. B-zone's subsequent underground development will then probably depend upon plans for A-zone (from which access is

established), infill drilling results and the prevailing copper price outlook.

Table 1 Viscaria B and D -zone JORC compliant resources, May 2008.

	B-zone	D-zone
	Inferred	Inferred
Million tonnes	24.1	2.5
Copper grade %	0.8	1.6
Contained copper t	182000	40000

Source: Avalon Minerals Limited.

VISCARIA EXPLORATION

Avalon's ultimate goal at Viscaria is to find a repeat of the two A-zone lodes. VMS deposits typically occur in clusters and Avalon has 14 kilometres of Viscaria Formation strike length. The first priorities will be in the immediate mine environs, particularly down plunge and down dip of the southern A-zone lode. Avalon's approach to these targets; either drilling from surface or from underground following pumping and rehabilitation of the decline, will depend on the rest of the project plan. Either way, the improved range and definition of electromagnetic (EM) surveys since 1995 gives Avalon the chance to extend the search well beyond Outokumpu's exploration reach. Avalon is reprocessing the data from an aerial EM survey of the district conducted in 1995, and is planning its own ground based EM survey during 2008.

THE EARLY DEVELOPMENT APPROACH

Avalon will get an idea from Outokumpu's data of whether the A-zone remnants and open pits on B and D-zones will support the re-establishment of a mining and processing operation treating at least 500,000 tonnes of ore per year.

Capital costs of rehabilitating the decline and building a concentrator on site have not yet been scoped. The cause will be assisted by Viscaria's proximity to the infrastructure, labour, and technical expertise based at Kiruna. Rail connects the site with copper smelters to the south. Avalon is examining the viability of retreating the existing 12 million tonnes of on-site Viscaria tailings, leaving the dam available for subsequent use. Capital required for a 0.5-1.0 Mtpa start-up may be kept under \$US50 million, depending on the practicalities of pumping and disposal of the water from the decline. Viscaria's mine waters are neutral pH, and like the much larger water output from the

Kiruna mine, have been pumped into surface lakes in the past.

Production costs should also be well contained by access to local contractors and service providers. In 1996 the mine's site costs at an annual production rate of just under 1 million tonnes of ore, averaged \$US34 per tonne of ore. Avalon could expect equivalent 2009 costs of less than \$US50 per tonne of ore, given the Swedish Krona has since returned to 1996 levels against the US dollar.

In such a favourable setting, Viscaria could conceivably be quickly matured to production in order to capture high copper prices. Under the assumptions above the total cost of extracting copper from a 2 Mt ore inventory with an average grade of 1.9% copper, would be about \$US2.40 per pound of copper. Similarly, for a 4 Mt ore inventory the average total cost would be less than \$US2.00/lb of copper. Given the May 2008 copper price of \$US3.80/lb, Avalon has a clear incentive to examine its early production options at Viscaria.

Table 2. Indicative Viscaria returns for given mining inventories at current copper price.

Variable	Outcome 1	Outcome 2
Mining inventory	2.0Mt at 1.9% Cu	4.0Mt at 1.9% Cu
Initial capex	\$US50M	\$US50M
Annual throughput	0.5 Mtpa	0.5 Mtpa
Ann. copper production	9500 t in concs	9500 t in concs
Est. total unit cost	\$US2.40/lb	\$US2.00/lb
May 08 LME copper	\$US3.80/lb	\$US3.80/lb
Est annual NPAT	\$US19M	\$US25M

THE ADAK DOME

Adak is the westernmost cluster of VMS copper/zinc deposits in Sweden's Skellefte Mining District, about 250 kilometres south of Viscaria. State owned Boliden mined 12 million tonnes of ore from four underground mines around the rim of a 2-3 km diameter dome structure between 1942 and 1978. The average mined grade of the Adak mines was 1.5% copper with zinc, gold and silver credits. The largest of the deposits was mined over a 1km strike length, and 500 metres down dip.

After closure of the Adak mines in 1978 the project received little further attention under Sweden's state ownership regime. In 2003 Phelps Dodge acquired Adak on the strength of its deep potential, and then sold the project to Avalon in 2008, without having drilled a hole.

Most of the Adak deposits extended to surface and were found with surface prospecting

methods. Some were discovered with a combination of geological interpretation, 1950-1970 EM surveys and pattern drilling. Avalon has contracted the first EM survey of the project in over 40 years, due in July 2008. Meanwhile the transfer of Adak's comprehensive mining and exploration hard copy records to digital format will begin once the transfer of the Viscaria records is complete.

Fig 5: Adak Tenement



Avalon's immediate objective at Adak is to cross reference the old drilling with a pass of modern geophysics, to expose a series of new targets.

A secondary objective at Adak; the one that interested Phelps Dodge, is the potential for porphyry copper mineralisation in the core of the Adak Dome. The large, low grade Aitik mine, 100km south of Kiruna and Viscaria, is a regional precedent. A single hole drilled at Adak to test the dome's core intersected 150 metres of anomalous copper from 305 metres depth in a granitoid; effectively supporting the Adak porphyry copper concept.

Exploration throughout the Skellefte belt, in which over 25 base and precious metal mines have been developed since 1925, is still yielding commercial discoveries.

In 1998 an independent Swedish/Canadian company followed up airborne geophysical survey to find Storliden, 20 kilometres south-east of Adak, in a similar geological setting to Adak. Storliden's resource of 2 Mt at 10% zinc and 3.5% copper has been mined since 2001. New Boliden, the publicly owned successor to State owned Boliden, operates four mines in the Skellefte District.

Like Viscaria, Adak is in a mining district with access to well developed infrastructure, technical services, and a trained workforce. In 2007 12,000 tonnes of copper, 71,000 tonnes of zinc, 45,000 ozs of gold and 260 million ozs of silver were produced at New Boliden's 1.8 Mtpa central processing facility, 115 road kilometres from Adak.

OPERATING IN SWEDEN

In 1992 the Swedish government introduced a raft of reforms designed to encourage private sector mineral exploration. State funding of mineral exploration ceased, the state's right to a free 50% share of newly discovered ore deposits was relinquished, the corporate income tax rate was reduced to 28%, and the mining industry was exempted from further state taxes or royalties (landowner royalties may still apply). Foreign companies were invited to obtain either exploration permits or exploitation concessions on an equal basis with local firms, stipulating only the establishment of a local office.

Mines at Storliden and Svartliden have since been developed by foreign firms. Most of the major mineral companies have tenement holdings and active exploration programs in Sweden.

FINANCE

At the end of March 2008 Avalon had \$2 million in cash.

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