

AVALON MINERALS LTD SEPTEMBER 2013 QUARTERLY REPORT

ASX: AVI

HIGHLIGHTS

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

- **Viscaria Feasibility Study Planning and Preparation:**
 - Planning and preparation of the required drill program for the upgrading of the resource classification to measured and indicated;
 - Drill program and technical planning for the geotechnical and metallurgical studies;
- To progress the granting of the third Mining Exploitation Concession, an additional submission was made to the Kiruna Kommun (council);
- Work has begun on the proposal for the mining concession for the Discovery Zone required by the Bergstatten (Swedish Mines Department);
- Mining preparatory work for compliance with JORC 2012.

Corporate

- After a renegotiation of the Heads of Agreement with Hannans Rewards Limited, the first payment for the acquisition of the Discovery Zone has now been made;
- Two placements were made during the quarter that raised approximately A\$688,000 (before costs);
- A 1 for 1 underwritten rights issue was opened but was not able to be fully completed;
- Following an application by a shareholder to the Takeovers Panel, the Panel ultimately found a number of deficiencies with the rights issue and that there were 'Unacceptable Circumstances'. Certain shareholders were also found to be 'associated';
- The powers and role of the Managing Director, Mr Jeremy Read, were temporarily suspended. His employment contract as Managing Director was subsequently terminated after period end;
- Ferrier Hodgson have been appointed as the interim managers.

REGISTERED OFFICE

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Viscaria Project Location



Viscaria Feasibility Study Preparation

Since the completion of the Scoping Study in early July, Avalon Minerals Limited ('Company' or 'Avalon') has been focussing on the planning and preparation work for the planned recommencement of the feasibility study. It is expected that the availability and timing of the required funding will be established in the next quarter, following which the recommencement of the feasibility study can be scheduled.

Since the transfer of the Discovery Zone Exploration Concession into Avalon's name, the Company has been intensively reviewing the Discovery Zone asset. This includes a full field review of the geological data at Discovery Zone and updating the geological model. Although this work is currently ongoing, Avalon has identified areas of improved resource definition and efficiencies. As part of the feasibility study, Avalon will be updating the resource at the Discovery Zone. This information is also being used to facilitate the planning of the resource definition drill program to upgrade the resources to indicated and measured.

Investigations are also being carried out at A Zone and B Zone to gain a more in depth understanding of the geological controls of mineralisation. This work is being conducted to facilitate the drill planning at the Viscaria Project. The main objective is to upgrade the current resources to measured and indicated classification as required for the Feasibility Study.

Work is also being carried out on the planning for intensive geotechnical and metallurgical test work to be conducted for the feasibility study. This work will mainly focus on the Discovery Zone and on the oxide material at D Zone. A large portion of this work has already been completed in the feasibility study that was put on hold in October 2010. Additional work will mainly be in the form of drilling and follow up analysis of the drill core.

APPROVALS

a) Viscaria MEC

The Mining Exploitation Concession (MEC) for the Viscaria Project was submitted to the Bergsstaten (Swedish Mines Department) in April 2010 and was significantly amended in early 2011 following submissions from the city of Kiruna. The Bergsstaten approved the MEC for Viscaria in two licences; Viscaria K3 and Viscaria K4. The two MEC's granted cover the D zone and the southern area of the A Zone and B Zone mining areas.

A third MEC application (Viscaria K7) remains under consideration by Bergsstaten pending an amendment to the Kiruna town planning act to allow for the grant of a mining lease which includes the power generation windmills and a power line affected by the northern parts of A Zone and B Zone. Avalon has commenced the process to have the amendment to the Kiruna town planning act ratified by the Kiruna Kommun, hence allowing the MEC K7 to be granted. Additional information regarding the current and proposed land use for the MEC area was lodged with the Kiruna Kommun.

The granting of the MEC is a precursor to consideration by the regulator of the Environmental Impact Assessment and permits access to the historical underground mining openings to check present day geotechnical conditions and groundwater levels.

b) Discovery MEC

Work is progressing on the submission of additional information in support of the Mining Exploitation Concession (MEC) application at the Discovery Zone. The original submission was made prior to Avalon's acquisition of the Discovery Zone. A request from the regulator for more information is now being dealt with by the Company. Avalon is currently compiling that information and has contracted Golder Sweden, based out of Luleå, to assist with the application and complete a final peer review prior to submission.

CORPORATE (in chronological order)

- A Formal Demand dated 3 July 2013 was issued to Avalon by Hannans Reward Limited (“Hannans”). The Demand related to the Heads of Agreement that was announced on 6 May 2013.
- On 2 August 2013, Mr Ler Leong Keh was appointed as an alternate Director for Dato Siew Mun Chuang.
- On 9 August 2013 a 1 for 1 non-renounceable pro-rata rights issue to raise approximately A\$5.62 million at an offer price of \$0.01 was announced. The offer was fully underwritten by Avalon’s largest shareholder, Tan Sri Abu Sahid Mohamed. At the same time it was also announced that the Company was seeking to place additional shares to raise up to approximately A\$700,000.
- On 19 August 2013, the Company confirmed that, via a placement to professional and cornerstone investors, approximately \$344,000 was raised.
- On 5 September 2013, the Company confirmed that, via a placement to professional and cornerstone investors, approximately \$344,000 was raised.
- On 6 September 2013, the Australian Government Takeovers Panel announced that it had received an application in relation to the affairs of Avalon Minerals Limited specifically relating to the rights issue that was announced in August 2013.
- The Takeovers Panel issued Interim Orders on 11 September 2013, with further variations to those orders being issued on 11 September 2013 and 27 September 2013. Collectively, these Orders allowed Avalon to complete the Rights issue to three named parties (with conditions), with the balance of the Rights issue being ‘frozen’.
- On 26 September 2013, Avalon announced a Management Update advising that Mr Jeremy Read’s powers and role as Managing Director were temporarily suspended pending a review and that an interim manager had been appointed by the Board, namely Mr Will Colwell of Ferrier Hodgson
- On 1 October 2013, Avalon announced a Management Update clarification that the Board (by a majority) had engaged Ferrier Hodgson to assist the Board on a short term basis to provide interim management & advisory services to the Company.

Subsequent to period end, the following significant events have occurred:

- Agreement on a variation to the Heads of Agreement with Hannans was reached. The variation provided for a revised payment schedule that was dependent upon certain events occurring, including the Company having access to funds from the Rights issue and Hannans withdrawing the Formal Demand. All the required events occurred in early October and on 8 October 2013, the Company announced that it had transferred A\$1 million to Hannans. The balance of A\$3M under the Heads of Agreement will be paid to Hannans when the Discovery Zone Exploitation Concession is granted.
- On 8 October 2013, the Takeovers Panel made a declaration of ‘Unacceptable Circumstances’ in relation to the application received. The Takeover Panel found (among other things) that the Rights Issue was deficient in a number of areas and that certain shareholders are ‘associated’.
- The Takeovers Panel released its Final Orders on 14 October 2013. The Orders which were very detailed, included the requirement that the Company must reopen the Rights Issue (with changes) and that the parties that were found to be ‘associated’ had certain conditions placed on the shares that they held in the Company.
- On 14 October 2013, the Company announced that it had terminated the employment contract of the former Managing Director, Mr Jeremy Read. A clarification notice on 16 October 2013 also stated that the Company

had asked Mr Read to resign as a non-executive director, failing which it would convene a shareholders meeting to determine Mr Read's position as a director.

- The Company announced on 17 October 2013 that it had received a notice under section 249D of the Corporations Act (Cth). The notice requested that the Company convene a shareholders meeting to consider resolutions relating to the removal of current directors and appointing new directors. The Company believes the notice is defective.
- On 21 October 2013, the Company announced that Ms Linda Cochrane, the Chief Financial Officer, had resigned.
- In relation to the Rights Issue, the Company announced on 23 October 2013 that CPS Capital Group Pty Limited had agreed to terms for the partial (A\$2.1M) underwriting of the Rights Issue.
- The Company announced on 24 October 2013 that it had received more than one approach from unrelated third parties with a view to a merger.
- Phoenix Copper Limited announced on 25 October 2013 that it had been appointed as a sub-underwriter (up to \$2.1M) to CPS Capital Group Pty Limited.
- On 28 October 2013, the Company announced the reopening of the non-renounceable 1:1 Rights Issue (partially underwritten).

Cash Resources

As at 30 September 2013, the Consolidated Entity had cash reserves of \$2.5M.

Shareholder Information

At 30 September 2013, the Company had 615,064,263 fully paid ordinary shares on issue and approximately 984 shareholders.

On 1 October 2013, the Company issued a further 212,303,648 shares pursuant to interim orders made by the Takeovers Panel on 27 September 2013.

ABOUT AVALON

Avalon is an ASX listed mineral exploration company with high quality assets in Sweden, one of the leading metal producing countries in the European Union. Avalon's flagship asset is the Viscaria Copper-Iron Project located 1,200km north of Stockholm. The Viscaria Project is surrounded by established infrastructure, lying immediately adjacent to LKAB's Kirunavaara Iron Ore operation and in close proximity to high-capacity rail and ports.

ABOUT SWEDEN

Sweden has a 1,000 year mining history, is the largest producer of iron ore in the European Union and is a leading producer of base metals (copper, zinc, lead) and precious metals (gold and silver). There are excellent discovery opportunities, with much of the country underexplored by modern standards.

Furthermore, Sweden possesses a world-class geological database and favourable minerals legislation, is politically and economically stable and has mining know-how, highly trained personnel and excellent infrastructure. Sweden has recently been ranked by the Fraser Institute as the second best country (behind Finland) for developing mineral projects.



DIRECTORY

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Stock Exchange Listing

Australian Stock Exchange

ASX Code: AVI

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Shareholder Enquiries:

Share registry matters should be directed to:

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Issued capital:

Ordinary shares: 615,064,263 (AVI)

Directors:

Crispin Henderson – Chairman
Dato Philip Siew – Deputy Chairman
Jeremy Read – Non-Executive Director
Edward Siew – Non-Executive Director
Paul Niardone – Non-Executive Director
Gary Goh – Non-Executive Director
Mr Ler Leong Keh (alternate director for Dato Philip Siew)

Company Secretary:

Roslynn Shand: ros.shand@avalonminerals.com.au

For further information please visit www.avalonminerals.com.au or contact:

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Appendix 5B

Mining exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10

Name of entity

Avalon Minerals Limited

ABN

68 123 184 412

Quarter ended ("current quarter")

30 September 2013

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (3 months) \$A'000
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for (a) exploration & evaluation	(346)	(346)
(b) development	-	-
(c) production	-	-
(d) administration	(751)	(751)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	8	8
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other (provide details if material)	-	-
Net Operating Cash Flows	(1,089)	(1,089)
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	(1)	(1)
1.9 Proceeds from sale of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material)	-	-
Net investing cash flows	(1)	(1)
1.13 Total operating and investing cash flows (carried forward)	(1,090)	(1,090)
1.13 Total operating and investing cash flows (brought forward)	(1,090)	(1,090)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

Cash flows related to financing activities			
1.14	Proceeds from issues of shares, options, etc.	2,585*	2,585*
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Capital raising costs	(114)	(114)
Net financing cash flows		2,471	2,471
Net increase (decrease) in cash held		1,381	1,381
1.20	Cash at beginning of quarter/year to date	1,176	1,176
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	2,557	2,557

* Share proceeds for the quarter included the partial receipt of funds from the take overs panels interim orders (\$1,845,428). These shares were not issued until early October 2013.

Payments to directors of the entity and associates of the directors
Payments to related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	111
1.24	Aggregate amount of loans to the parties included in item 1.10	-
1.25	Explanation necessary for an understanding of the transactions	
	Director's remuneration.	111

Non-cash financing and investing activities

- 2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

Nil

- 2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

Nil

+ See chapter 19 for defined terms.

Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	-	-
3.2 Credit standby arrangements	-	-

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	(1,631)
4.2 Development	-
4.3 Production	-
4.4 Administration	(2,495)
Total	(4,126)

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	2,557	1,176
5.2 Deposits at call	-	-
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	2,557	1,176

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1 Interests in mining tenements relinquished, reduced or lapsed	Viscaria nr 111 Viscaraia nr110 Viscaraia nr 109		100% 100 % 100%	0% 0% 0%
6.2 Interests in mining tenements acquired or increased	Nil			

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1	Preference securities <i>(description)</i>			
7.2	Changes during quarter			
7.3	+Ordinary securities	615,064,263	615,064,263	
7.4	Changes during quarter (a) Increases Placement Performance Rights Issued (c) Decreases through returns of capital, buy-backs	53,047,256	1.3 cents	
7.5	+Convertible debt securities <i>(description)</i>			
7.6	Changes during quarter			
7.7	Options <i>(description and conversion factor)</i>	1,000,000 500,000 6,000,000 7,800,000 12,200,000	Nil Nil Nil Nil Nil	<i>Exercise price</i> 40 cents 30 cents 5 cents 5 cents 5 cents
	Performance Rights	9,750,000 15,550,000	Nil Nil	<i>Expiry date</i> 31/01/2014 1/07/2014 30/09/2015 30/09/2015 30/09/2015 5/06/2019 5/06/2019
7.8	Issued during quarter Options Performance Rights			
7.9	Exercised during quarter Performance Rights			
7.10	Expired during quarter	300,000	Nil	40 cents 27/04/2015
7.11	Debentures <i>(totals only)</i>			
7.12	Unsecured notes <i>(totals only)</i>			

+ See chapter 19 for defined terms.

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 5).
- 2 This statement does give a true and fair view of the matters disclosed.



Sign here:
(Company Secretary)

Date: 31 October 2013

Print name: Roslynn Shand

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities.** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Financial Reporting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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+ See chapter 19 for defined terms.