

6 May 2013

ASX ANNOUNCEMENT



AVALON SIGNS HOA WITH HANNANS TO ACQUIRE DISCOVERY ZONE COPPER-IRON DEPOSIT FOR A\$4M

Highlights

- Following continued negotiations Avalon and Hannans have signed a Heads of Agreement for Avalon to acquire the Discovery Zone copper-iron prospect in Sweden for A\$4M;
- Discovery Zone copper-iron prospect comprises the Rakkurijarvi Exploration Permit and the Discovery Zone Exploitation Concession Application;
- Discovery Zone has a current JORC Inferred Mineral Resource of 10.9Mt @ 0.31% Cu, 38.7% Fe and 0.08g/t Au, reported above a 20% Fe cut-off;
- Exploration potential and convenient location within trucking distance to Avalon's main Viscaria Copper Project;
- Scoping Study indicates the Discovery Zone has the potential to add up to US\$140M in NPV to the Viscaria Copper Project, by extending the proposed mine life to 9.5 years and increasing the overall project NPV to in excess of \$300M (at US\$3.25/lb Cu);
- The first A\$2M payment will be made upon Avalon becoming the registered holder of the Rakkurijarvi Exploration Permit and the Discovery Zone Exploitation Concession Application, with the second A\$2M payment to be made upon the grant of the Discovery Zone Exploitation Concession.

Australian resources company Avalon Minerals Limited ('Avalon' or 'Company') (ASX: AVI) is pleased to announce that it has signed a Heads of Agreement (HOA) with ASX listed company, Hannans Reward Limited (Hannans), for Avalon to acquire the Rakkurijarvi Exploration Permit and the Discovery Zone Exploitation Concession, which cover the Discovery Zone and Tributary 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 the Kiruna district of Sweden (Discovery Prospect) for A\$4M. Within the Rakkurijarvi Exploration Permit, Avalon will have rights to minerals at the Discovery and Tributary Prospects, referred to as the 'Avalon Area' and Hannans will retain rights and title to any minerals outside of the 'Avalon Area'.

Following signing of the HOA, Avalon and Hannans are to complete a Sale and Purchase Agreement by 31 May, 2013.

ASX: AVI

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The Company's Managing Director Mr Jeremy Read said, "Both Avalon and Hannans have worked hard over the past few months to agree on terms for Avalon to purchase the Discovery Zone copper-iron deposit, while protecting Hannans' interests elsewhere within the tenements covering the Discovery Zone."

"I am pleased to be able to announce that Avalon and Hannans have reached agreement and the purchase of the Discovery Zone by Avalon will now proceed, which is a very positive outcome for Avalon and will greatly strengthen the overall economics of the Viscaria Copper Project," he added.

"The copper-iron mineralisation at the Discovery Zone is very similar in nature to the copper-iron mineralisation at Avalon's existing D Zone Mineral Resource. A Scoping Study completed late in 2012, suggested that by trucking Discovery Zone ore 10km to Viscaria and processing the ore through the planned Viscaria processing plant, it may add up to A\$140M in value to Viscaria, bringing the total project NPV to in excess of US\$300M and extending the life of the overall project to 9.5 years," said Mr Read.

Under the HOA, Avalon will be required to make the following payments to Hannans:

- A\$2M when written notification from the Mining Inspectorate of Sweden is received, noting that the Mining Inspectorate of Sweden has formally registered Avalon as the holder of the Rakkurijarvi Exploration Permit and the Discovery Zone Exploitation Concession application; and
- A\$2M when the Mining Inspectorate of Sweden has formally granted the Discovery Zone Exploitation Concession to Avalon.

If the Discovery Exploitation Concession is not granted, or not granted within two years or such later date as agreed between the parties, Hannans will refund to Avalon the initial A\$2M payment. Avalon will be granted a first ranking charge over Hannans' assets, such that in the event the Discovery Exploitation Concession is not granted or not granted within the above mentioned two years, Avalon will retain sufficient security to protect its interests.

The HOA also allows Avalon to take over responsibility for an existing Joint Venture Net Smelter Royalty of 1.5% for the Discovery Zone Prospect.

Discovery Zone Prospect

The Discovery Zone Prospect is located approximately 6km southwest of Kiruna and approximately 10km from Avalon's Viscaria Project (**Figure 1**). It is a copper-gold-iron discovery originally made by Anglo American Exploration BV & Rio Tinto in 1999. The Discovery Zone Prospect has a current JORC Inferred Mineral Resource of 10.9Mt @ 0.31% Cu, 38.7% Fe and 0.08g/t Au, reported above a 20% Fe cut-off. The orebody is currently open at depth.

Initial investigations suggest the Discovery Zone Prospect is similar in mineralogy to Avalon's D Zone at the Viscaria Copper Project. Consequently, Avalon believes that it will be possible to process the Discovery Zone mineralisation through the same processing plant, which is being planned to process the ore from Avalon's existing D Zone Mineral Resource.

A high level Scoping Study review of the potential economics of using mineralisation from the Discovery Zone Prospect as additional feed for the planned Viscaria Processing plant, has suggested that the value addition to an expanded Viscaria Project could potentially be as much as A\$140M. This value addition could be created, provided that the following parameters were achieved from the Discovery Zone:

- 70% of the current Discovery Zone Mineral Resource was able to be mined using open pit methods;
- mine Life of 3 years;
- annual production from Discovery Zone will be 2.6Mtpa;
- strip ratio of an open pit at Discovery Zone will be similar to the planned strip ratio for the D Zone Mineral Resource (3.4);
- recoveries of Cu and Fe for Discovery Zone will be similar to those achieved on the metallurgical test work completed for D Zone, being 76% of Fe and 90% of Cu;
- Cu price US\$3.25/lb and Fe pellet price US\$150/t.

The potential value addition to the overall Viscaria Project, through the acquisition of the Discovery Zone, is an order of magnitude estimate using publicly available information. During the review of the data following the completion of this transaction, Avalon's consultants will refine their economic assessment of the Discovery Zone and if the parameters detailed above for Discovery Zone significantly change, then the value addition to the Viscaria Project could be materially affected.

The Discovery Zone Prospect's proximity to Avalon's Viscaria Project makes it an ideal acquisition and fits with the expansion strategy for the Company. The Discovery Zone Prospect will enhance the Company's asset portfolio and potentially will significantly improve the economics of the Viscaria Copper Project.

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 where it has delineated a global resource of 49.2 million tonnes of copper mineralisation, containing 544,000 tonnes of copper and 18.9 million tonnes of iron mineralisation containing 6.2 million tonnes of recoverable iron.

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.

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

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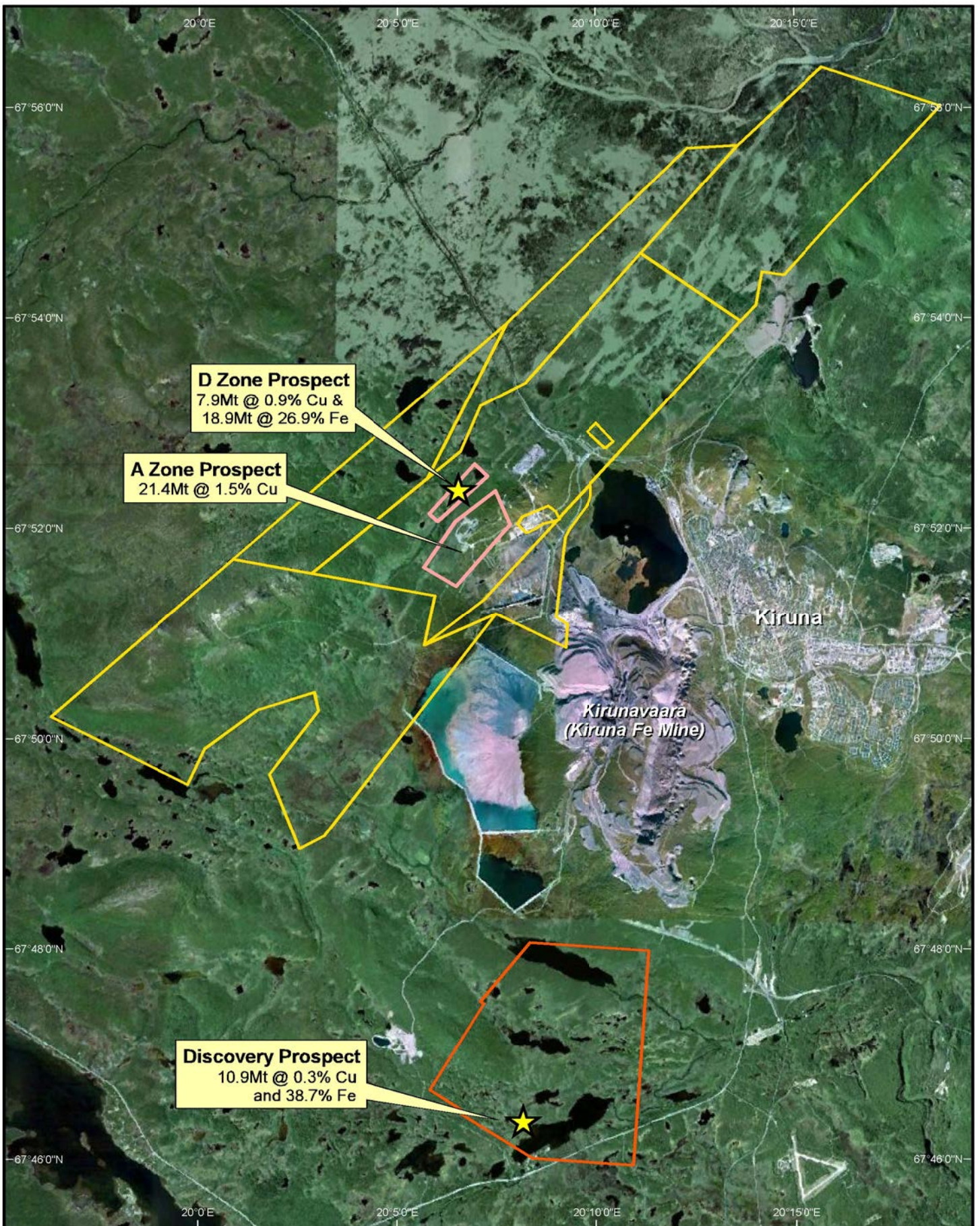
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Competent Persons Statement

The information in this report that relates to Mineral Resources and exploration targets is based upon information reviewed by Mr Jeremy Read BSc (Hons) who is a Member of the Australasian Institute of Mining and Metallurgy. Mr Read is a full time employee of Avalon Minerals Ltd and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Mr Read consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

The Mineral Resource estimate for the D Zone Prospect was compiled and prepared by Matthew Readford (MAusIMM) of Xstract Mining Consultants who is a Competent Person as defined by the Australasian Code for the reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code) 2004 Edition and who consents to the inclusion in this report of the matters based on the information in the form and context in which it appears.

The mineral resource estimate for the Discovery and Tributary Zones is effective from 13 January 2012 and has been prepared by Mr Thomas Lindholm, MSc of GeoVista AB, Luleå, Sweden acting as an independent "Competent Person". Mr Lindholm is a Fellow of the Australasian Institute of Mining and Metallurgy (Member 230476). Mineral resources of the Rakkuri iron deposits have been prepared and categorised for reporting purposes by Mr Lindholm, following the guidelines of the JORC Code. Mr Lindholm is qualified to be a Competent Person as defined by the JORC Code on the basis of training and experience in the exploration, mining and estimation of mineral resources of gold, base metal and iron deposits.



★ Copper-Magnetite resource



Transverse Mercator Projection

Viscaria Project

- Exploration Tenure
- Exploitation Concession

Discovery Prospect

- Exploration Tenure



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**VISCARIA PROJECT, SWEDEN
LOCATION OF DISCOVERY PROSPECT**

FIGURE 1