



AVALON
MINERALS LTD

ABN 68 123 184 412

**Half-Year Financial Report
31 December 2016**

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CORPORATE DIRECTORY

Directors

Graham Ascough – Non-Executive Chairman
Malcolm Norris – CEO/Managing Director
Crispin Henderson – Non-Executive Director
Don Hyma - Non-Executive Director

Company Secretary

Gavin Leicht

Securities Exchange Listing

Avalon Minerals Limited shares are listed on the Australian Securities Exchange
Ordinary fully paid shares (ASX Code: AVI)
Listed Options (ASX Code: AVIO)

Share Registry

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117 Victoria Street
West End Qld 4101
Telephone: +61 7 3237 2100
Facsimile: +61 7 9473 2555
Website: www.computershare.com.au
Investor Enquiries: 1300 850 505

Registered Office and principal place of business

Australia

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Telephone: 07 3368 9888
Facsimile: 07 3368 9899

Web site: www.avalonminerals.com.au

Email: info@avalonminerals.com.au

Auditor

BDO Audit Pty Ltd
Level 10/12 Creek Street
Brisbane Qld 4000

Bank

National Australia Bank
Level 23, 100 Creek Street
Brisbane QLD 4000

Solicitors

O'Loughlins
Level 2, 99 Frome Street
Adelaide SA 5000

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Fasadvägen 43,
981 41 Kiruna
Sweden
Telephone: +46 920 52 00 00

AVALON MINERALS

Directors' Report



Your Directors present their report on Avalon Minerals Limited ("Avalon" or "Company") and the entities it controlled ("Consolidated Entity" or "Group") for the half-year ended 31 December 2016.

Directors

The following persons were Directors of Avalon at any time during the half-year and up to the date of this report:

Mr Graham Ascough	Non-Executive Chairman
Mr Malcolm Norris	CEO/Managing Director
Mr Crispin Henderson	Non-Executive Director
Mr Don Hyma	Non-Executive Director

Principal activities

During the period the principal activities of the Group consisted of mineral exploration and evaluation.

Dividends

No dividends were paid or recommended to members during the financial period.

Review of operations

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

	Half-year ended	
	2016 \$	2015 \$
Revenue and other income	95,645	13,950
Profit/(loss) before income tax	(1,100,153)	(2,314,207)
Income tax expense	-	-
Profit/(loss) attributable to members of Avalon Minerals Limited	(1,100,153)	(2,314,207)
Earnings per share	2016 cents	2015 cents
Basic earnings per share	(0.2)	(0.9)

AVALON MINERALS

Directors' Report



Financial Performance

During the half-year ended 31 December 2016 the Group incurred a loss of \$1,100,153 (2015: loss of \$2,314,207). The loss for this period is largely due to corporate costs incurred to fund the progression of activities in Finland and Sweden.

Financial Position

The Company's non-current assets increased from \$39,830,230 at 30 June 2016 to \$39,861,275 at 31 December 2016, due to capitalised exploration drilling and scoping study expenses, offset by foreign currency revaluations.

During the half-year, the Company had a net increase in contributed equity of \$4,601,961 as a result of:

- A placement of 132,337,500 fully paid shares for a consideration of \$2,117,400 excluding fees (1.6 cents per share) in July and August 2016, each with an attaching option exercisable at 3 cents with an expiry in August 2019.
- 5,000,000 Shares issued under terms of an agreement to acquire lithium tenements in Sweden.
- 2,578,126 Shares issued to directors in lieu of cash directors fees totalling \$82,500 (3.2 cents per share).
- A placement of 125,500,000 fully paid shares for a consideration of \$2,510,000 excluding fees (2.0 cents per share) in December 2016.

At the end of the financial period, the Group had cash balances of \$2,671,927 (June 2016 \$631,059) and net assets of \$42,147,591 (June 2016: \$40,230,559). Total liabilities amounted to \$499,420 (June 2016: \$293,319) and included trade, other payables and provisions.

Projects

Gold Portfolio

Avalon entered into an earn-in agreement with Canadian company Nortec Minerals Corp. over several approved Exploration Claims and one Exploration Reservation application (which has subsequently been approved) in southern Finland. The Claims and Reservation are prospective for lithium and gold.

The Nortec earn-in agreement includes two defined gold opportunities, Satulinmäki and Riukka (Avalon earning 80% from Nortec Minerals), held within the claim areas. All historical drilling is shallow and has only tested to ~70m below surface. Historical assays from diamond drilling by the Finnish Geological Survey (GTK) included 22m @ 3.6 g/t Au from 50 metres (hole 391) at Satulinmäki.

At Satulinmäki Avalon completed seven diamond drill holes for 1,401.6m. Results included 147.0m at 0.8 g/t gold from 73m in SMDD007, including 23.5m at 3.3g/t from 143m, including 9.0m at 7.3 g/t from 147m.

The results from Avalon's drilling, together with the historical drilling results of the Finnish Geological Survey, clearly show a large gold system of broad mineralised zones and sub-parallel narrow veins. The system is open in all directions, and has a length of at least 400m, a vertical extent of at least 150m, and ranges up to approximately 50m thick. There is clear evidence of likely extensions to the northeast and southwest, and an historic working from the 1980's was found in the southeast corner which has seen only one historic drill hole as follow-up.

The deepest hole drilled by Avalon, SMDD003, explored to only 200m below surface and was still in anomalous gold levels at that depth.

Historical diamond drilling by the Geological Survey of Finland (GTK) was undertaken from 2001 to 2005. GTK drilled 60 holes for 4727m but did not explore below 70m. Detailed review of results has highlighted multiple intervals above 1 g/t, and other highly anomalous intervals in areas of very limited drilling. Additionally, not all intervals were sampled by GTK and Avalon has completed a sampling program to test these other structures.

Within the main system, gold mineralisation has been identified as narrow high grade zones within quartz veins and breccias, and as wide low grade intervals within veined and altered rock.

AVALON MINERALS

Directors' Report



The combination of thick lower grades and narrow higher grades at Satulinmäki represents significant opportunities for follow-up drilling and consideration of development options.

At Riukka, located 4km to the south-east, Avalon has completed 3 diamond drill holes.

The holes intersected quartz veins at depth below quartz vein hosted gold mineralised intervals drilled by the Finnish Geological Survey and containing up to 2m at 16.6 g/t gold. GTK drilled 41 diamond drill holes for 3,404 meters during the period 2001-2005 in the broader Riukka area.

Mineralisation was weak but was targeted on a narrow sub-vertical plunge. This interpretation has now been modified based on these results, and work at Satulinmäki, with further drilling at Riukka planned for 2017 to explore the historical high grade results to depth once the structural geology is clarified.

Based on Avalon's regional assessment of gold prospectivity in southern Finland several Exploration Reservations have been granted and applications have been lodged for two further Exploration Reservations covering known small gold occurrences. These areas are held 100% by Avalon and will be explored systematically.

Lithium Portfolio

The Nortec earn-in agreement area includes the Kietyönmäki lithium occurrence (Avalon's 80% subsidiary Scandian Metals Pty Ltd (Scandian) earning 80%), which was discovered by the Finnish Geological Survey (GTK) in the mid-1980's. Lithium mineralisation at Kietyönmäki is hosted in a spodumene-bearing pegmatite dyke swarm. The Kietyönmäki lithium pegmatite deposit was drilled by GTK during the period 1987 and 1988. Seventeen shallow diamond drill holes were completed to test down to 70m below surface across three traverses, including one traverse of very shallow holes to identify bedrock.

A total of six diamond drill holes for 1,171.9m have been drilled by Avalon at Kietyönmäki and have confirmed a high grade spodumene-bearing pegmatite dyke swarm.

Channel sampling has also been completed on 7 traverses – 3 over the main dyke, and 4 over smaller dykes and has returned up to 16.25m at 1.72% Li₂O.

The results suggest continuation of a thickened pegmatite dyke to the south-east and this trend is expected to be tested with future drilling. Further work is required to better understand the geology, however initial results are encouraging. Further work is being done on characterising the geochemical components of the dyke swarm to assist with future targeting of drill holes. Nb₂O₅ and Ta₂O₅ are both anomalous (in places highly anomalous) within logged pegmatite dykes and may help characterise other dykes for further exploration. There are several dykes with known lithium anomalism that have not been explored to date and these will be targeted in future drilling programs.

Avalon, through Scandian has been granted an Exploration Reservation covering 299 km², in the Kaustinen area within the Central Ostrobothnia district, home to several known lithium pegmatites some of which are at an advanced stage of Pre-Feasibility Study and held by private Finnish company Keliber Oy.

Scandian has also applied for smaller Exploration Permit applications directly adjacent to two defined lithium deposits.

One Exploration Reservation has been granted to Scandian over an area of 206 km² in the Seinäjoki district covering a documented lithium pegmatite occurrence, and at the southern end of the regional geological province that includes the Kaustinen district in the north. Reconnaissance exploration will be undertaken in this area.

In Sweden Avalon, through Scandian, has entered into a Heads of Agreement with private Australian interests to explore four approved Exploration Concessions in Västernorrlands, collectively referred to as the Ladum Project, with 5 million shares issued to the private Australian interests, in accordance with the agreement, following shareholder approval in August 2016.

The Ladum Project covers areas within a regional pegmatite district that has seen minor historical exploration primarily for tin. Most of this exploration was undertaken by Swedish company LKAB in the 1980's. The exploration work included geophysics, till-sampling, and general geological mapping and investigations. This work resulted in a number of tin, niobium, tantalum and lithium bearing pegmatites being defined.

AVALON MINERALS

Directors' Report



Data compilation and an initial field program on the Ladum Project have been completed. Results will be reviewed and further mapping and sampling is expected to be undertaken in the northern hemisphere spring (Q2, 2017).

Viscaria Copper Project

Avalon continues to progress the Viscaria Copper Project in Sweden, in particular, the Viscaria ESIA process. These activities will deliver the necessary documents for application for a Permit to Mine from the Swedish Land and Environmental Court. The process is focussed on the immediate Viscaria area and supports planning for mine development initially within the approved Exploitation Concessions K3 and K4.

The environmental permitting is the primary focus of activities at this stage to further de-risk the project and support ongoing scoping and feasibility studies.

During the half-year ended 31 December 2016, the approved, but under appeal, K7 Exploitation Concession at Viscaria has been returned to the Swedish Mines Inspectorate for further review as part of an industry wide review of appealed exploitation concessions in Sweden. Approved Exploitation Concessions K3 and K4 which cover the main areas of Viscaria copper mineralisation remain in force and are not affected by this development.

Additional drilling is planned on proposed D Zone underground areas, and proposed A and B Zone open pit areas. A resource update will occur at the completion of this drilling, together with an update to the Scoping Study.

Discovery Zone

As announced on 9 October 2015, the Heads of Agreement ('HoA') for the acquisition of the Discovery Zone copper-iron deposit has not been extended. Since the exploitation concession application had not been granted by 8 October 2015 (being two years from the initial payment), the initial A\$1 million payment made by Avalon was refundable by Hannans Ltd ('Hannans'), and a Refund Notice was issued. The 90 day period for Hannans to make the refund payment expired on 7 January 2016.

Avalon filed proceedings in the WA Supreme Court seeking to recover all sums due under the HoA. Hannans filed a defence and counterclaim for \$9 million. Hannans also applied for summary judgment.

The summary judgement hearing was held on 6 September 2016 and was dismissed by the WA Supreme Court with costs awarded to Avalon.

The Board and management of Avalon recognised that the legal proceedings would likely be a long and drawn out process, taking up management time and incurring substantial legal fees with no guarantee of success. If litigation was proceeded with, and Avalon's claim was successful, the HoA included a clause that could have allowed Hannans to repay the \$1m initial payment in assets of equivalent value, likely limited to the assets of Hannans then subsidiary Kiruna Iron AB. Avalon did not consider that the assets of Kiruna Iron AB held any value in Avalon's hands as they were not aligned with our strategy or existing portfolio of assets.

As a result, Avalon resolved its dispute (and the HoA) on 28 September 2016, where a Deed of Termination, Settlement and Release with Hannans was executed, settling all outstanding disputes and litigation between Avalon and Hannans without any admission of liability by either party.

Research and Development Claim

On 25 August 2016, the final decision was received from Innovation Australia regarding the internal review of its earlier decision that Avalon's Research and Development ("R&D") activities for the years ended 30 June 2013 and 30 June 2014, were deemed to not be core or supporting activities. The review found that the majority of the activities undertaken during the 2013 and 2014 years were eligible supporting activities. The supporting activities that have been deemed as non-eligible have been quantified and amended tax returns for the 2013 and 2014 years have been lodged resulting in R&D claims to be repaid to the ATO of \$265,028 excluding interest. The 2016 R&D claim has also been lodged which will more than offset the amount deemed to be non-eligible from prior years.

AVALON MINERALS

Directors' Report



Matters Subsequent to the end of the Financial Period

No other matter or circumstance has arisen since 31 December 2016 that has significantly affected, or may significantly affect the Group's position, the results of those operations, or the Group's state of affairs in future financial periods, except as already disclosed in the half-year financial statements.

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 8.

This report is made in accordance with a resolution of the Directors.

A handwritten signature in black ink, appearing to read "G. Ascough".

Graham Ascough
Chairman
Avalon Minerals Ltd

1 March 2017



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DECLARATION OF INDEPENDENCE BY A J WHYTE TO THE DIRECTORS OF AVALON MINERALS LTD

As lead auditor for the review of Avalon Minerals Ltd for the half-year ended 31 December 2016, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Avalon Minerals Ltd and the entities it controlled during the period.



A J Whyte
Director

BDO Audit Pty Ltd

Brisbane, 1 March 2017

AVALON MINERALS
**Consolidated Statement of Profit or Loss
 and Other Comprehensive Income**
 For the half-year ended 31 December 2016



	Note	Half-year ended	
		2016	2015
		\$	\$
Revenue from continuing operations	3	5,645	11,056
Other income	3	90,000	2,893
Employee Benefits Expense	4	(474,592)	(388,021)
Corporate and administration expenses		(713,568)	(508,372)
Depreciation expense		(5,807)	(6,018)
Impairment Expense		-	(1,423,569)
Interest paid		(1,831)	(2,177)
Profit/(Loss) from continuing operations before income tax		(1,100,153)	(2,314,207)
Income tax expense		-	-
Net profit/(loss) for the period		(1,100,153)	(2,314,207)
Other comprehensive income / (loss)			
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences – foreign operations		(1,775,254)	1,476,511
Total comprehensive profit/(loss) for the period		(2,875,407)	(837,696)
Net profit/(loss) for the period is attributable to:			
Members of Avalon Minerals Ltd		(1,100,153)	(2,314,207)
		(1,100,153)	(2,314,207)
Total comprehensive profit/(loss) for the period attributable to:			
Members of Avalon Minerals Ltd		(2,875,407)	(837,696)
Earnings per share for profit/(loss) from continuing operations attributable to the ordinary equity holders of the Company:			
Basic earnings per share		Cents	Cents
Diluted earnings per share		(0.2)	(0.9)
		(0.2)	(0.9)

The Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

AVALON MINERALS
Consolidated Statement of Financial Position
As at 31 December 2016



	Note	31-Dec-16	30-Jun-16
		\$	\$
Current assets			
Cash and cash equivalents		2,671,927	631,059
Trade and other receivables	5	113,809	62,589
Total current assets		2,785,736	693,648
Non-current assets			
Plant and equipment		114,972	144,586
Exploration and evaluation	6	39,746,303	39,685,644
Total non-current assets		39,861,275	39,830,230
Total assets		42,647,011	40,523,878
Current liabilities			
Trade and other payables	7	385,098	212,475
Provisions		114,322	80,844
Total current liabilities		499,420	293,319
Total liabilities		499,420	293,319
Net assets		42,147,591	40,230,559
Equity			
Contributed equity	8	69,760,595	65,158,634
Reserves	9	2,252,721	3,837,497
Accumulated losses		(29,865,725)	(28,765,572)
Total equity		42,147,591	40,230,559

The Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

AVALON MINERALS

Consolidated Statement of Changes in Equity

For the half-year ended 31 December 2016



2016	Contributed Equity	Share Based Payments Reserve	Foreign Currency Translation Reserve	Accumulated Losses	Total
	\$	\$	\$	\$	\$
At the beginning of the financial year	65,158,634	3,360,043	477,454	(28,765,572)	40,230,559
Profit/(loss) for the year				(1,100,153)	(1,100,153)
Other comprehensive Income				(1,775,254)	(1,775,254)
Total comprehensive income/(loss) for the year	-	-	(1,775,254)	(1,100,153)	(2,875,407)
Shares issued	4,929,900				4,929,900
Share issue costs	(327,939)				(327,939)
Share based payment transactions		190,478			190,478
Total Equity at 31 December 2016	69,760,595	3,550,521	(1,297,800)	(29,865,725)	42,147,591
2015	Contributed Equity	Share Based Payments Reserve	Foreign Currency Translation Reserve	Accumulated Losses	Total
	\$	\$	\$	\$	\$
At the beginning of the financial year	61,894,266	3,404,360	78,954	(25,539,451)	39,838,129
Profit/(loss) for the year				(2,314,207)	(2,314,207)
Other comprehensive Income				1,476,511	1,476,511
Total comprehensive income/(loss) for the year	-	-	1,476,511	(2,314,207)	(837,696)
Shares issued	2,494,007				2,494,007
Share issue costs	(26,908)				(26,908)
Share based payment transactions		-			-
Total Equity at 31 December 2015	64,361,365	3,404,360	1,555,465	(27,853,658)	41,467,532

The Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

AVALON MINERALS
Consolidated Statement of Cash Flows
For the half-year ended 31 December 2016



Note	Half-year ended	
	2016	2015
	\$	\$
Cash flows from to/from operating activities		
Payments to suppliers and employees	(754,878)	(983,185)
Sundry income	90,000	2,893
Interest paid	(1,831)	(2,177)
Interest received	5,645	11,056
Net cash outflow from operating activities	(661,064)	(971,413)
Cash flows to/from investing activities		
Payments for plant and equipment	-	(25,900)
Exploration and evaluation expenditure	(1,758,639)	(3,029,636)
Research and development rebate	125,631	-
Net cash used in investing activities	(1,633,008)	(3,055,536)
Cash flows to/from financing activities		
Proceeds from issue of securities	4,627,409	2,494,008
Costs of share issues	(327,939)	(26,908)
Net cash provided by financing activities	4,299,470	2,467,100
Net increase/(decrease) in cash	2,005,398	(1,559,849)
Effect of exchange rate fluctuations on cash held	35,470	8,948
Cash and cash equivalents at the beginning of the financial year	631,059	3,208,654
Cash at the end of the financial year	2,671,927	1,657,753

The Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

AVALON MINERALS

Notes to the Financial Statements

For the half-year ended 31 December 2016



Note 1 Basis of preparation and changes in accounting policies

a) Basis of preparation

This general purpose condensed financial report for the half-year reporting period ended 31 December 2016 has been prepared in accordance with AASB 134 Interim Financial Reporting and the Corporations Act 2001.

The half-year financial report does not include all of the notes of the type normally included in an annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2016 and any public announcements made by Avalon Minerals Limited during the half-year reporting period in accordance with the continuous disclosure requirements of the ASX Listing Rules. The annual report and any public announcements issued can be located on the company's website www.avalonminerals.com.au.

The accounting policies and methods of computation are the same as those adopted in the most recent annual financial report.

b) Going Concern

The consolidated entity made a net loss of \$1,100,153 for the half year ended 31 December 2016. As at 31 December 2016 the consolidated entity has net cash reserves of \$2,671,927 and a net current asset surplus of \$2,286,316.

The ability of the Group to continue as a going concern is principally dependent upon one or more of the following:

- the ability of the company to raise additional capital in the future; and
- the successful exploration and subsequent exploitation of the Group's tenements.

These conditions give rise to material uncertainty over the Group's ability to continue as a going concern.

The directors believe that the going concern basis of preparation is appropriate due to the following reasons:

- To date the Group has funded its activities through issuance of equity securities and it is expected that the Group will be able to fund its future activities through further issuances of equity securities; and
- The directors believe there is sufficient cash available for the Group to continue operating until it can raise sufficient further capital to fund its ongoing activities.

Should the consolidated entity be unable to continue as a going concern, it may be required to realise its assets and extinguish its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements.

This financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts or classification of liabilities and appropriate disclosures that may be necessary should the consolidated entity be unable to continue as a going concern.

c) New and amended Accounting Standards and Interpretations

New and revised standards have been issued by the AASB and are effective for the half-year; however there are no material changes to the policies that affect the recognition and measurement of the results or financial position of the consolidated entity.

d) Fair Values

The fair values of consolidated entity's financial assets and liabilities approximate their carrying value. No financial assets or liabilities are readily traded on organised markets in standardised form.

AVALON MINERALS

Notes to the Financial Statements

For the half-year ended 31 December 2016



Note 2 Segment reporting

The Group currently operates in one business segment and two geographical segment, namely copper, gold and lithium exploration in Sweden and Finland. The revenues and results of this segment are those of the Group as a whole and are set out in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

The Group continues to review and assess other resource projects both within Australia and overseas as opportunities arise.

Note 3 Revenue and Other Income

	Half-year ended	
	31-Dec-16	31-Dec-15
	\$	\$
Interest Revenue	5,645	11,056
Sundry Income	90,000	2,893

Note 4 Expenses

Profit/(Loss) before income tax includes the following:

	Half-year ended	
	31-Dec-16	31-Dec-15
	\$	\$
Employee benefits expense*		
Salaries & wages	267,911	209,271
Directors' fees	82,500	82,500
Defined contribution superannuation expense	30,756	22,498
Share based payments	35,478	-
Movement in leave provisions	33,517	(3,883)
Termination payments	-	53,219
Other	24,430	24,416
	474,592	388,021

* Excludes employee costs capitalised to exploration and evaluation expenditure

Rental expense related to operating lease	36,153	72,130
Impairment Expense	-	1,423,569

Impairment expense for prior period comprises capitalised expenditure on Discovery Zone tenements written off as well as doubtful debts provided for in relation to Hannans Reward Limited.

AVALON MINERALS

Notes to the Financial Statements

For the half-year ended 31 December 2016



Note 5 Receivables

	31-Dec-16 \$	30-Jun-16 \$
Other debtors	90,932	1,133,419
Provision for Doubtful Debts	-	(1,086,757)
Deposits	15,225	15,225
Prepayments	7,652	702
	113,809	62,589

As announced on 9 October 2015, the Heads of Agreement ('HoA') for the acquisition of the Discovery Zone copper-iron deposit has not been extended. Since the exploitation concession application had not been granted by 8 October 2015 (being two years from the initial payment), the initial A\$1 million payment made by Avalon was refundable by Hannans Ltd ('Hannans'), and a Refund Notice was issued. The 90 day period for Hannans to make the refund payment expired on 7 January 2016.

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As a result, Avalon resolved its dispute (and the HoA) on 28 September 2016, where a Deed of Termination, Settlement and Release with Hannans was executed, settling all outstanding disputes and litigation between Avalon and Hannans without any admission of liability by either party.

AVALON MINERALS

Notes to the Financial Statements

For the half-year ended 31 December 2016



Note 6 Exploration and evaluation assets

	31-Dec-16 \$	30-Jun-16 \$
At Cost - less amounts written off	39,746,303	39,685,644
Balance at 1 July	39,685,644	36,773,345
Exploration and evaluation expenditure	1,867,233	4,040,981
Relinquished tenement expenditure written off	-	(1,585,848)
Effect of movement in foreign exchange	(1,806,574)	457,166
Balance	39,746,303	39,685,644

Relinquished tenement expenditure written off for the prior year relates to costs incurred on Discovery Zone in addition to the accumulated costs incurred on other tenements that have been relinquished.

Recoverability of the carrying amount of exploration assets is dependent on the successful development and commercial exploitation of areas of interest, and the sale of minerals or the sale of the respective areas of interest.

Note 7 Trade and other payables

	31-Dec-16 \$	30-Jun-16 \$
Trade payables	351,316	115,443
Sundry payables and accrued expenses	33,782	97,032
	385,098	212,475

Note 8 Equity securities issued

	Number of \$	2016 \$
Ordinary shares - fully paid	648,517,561	69,760,595

AVALON MINERALS
Notes to the Financial Statements
For the half-year ended 31 December 2016



	Number of shares	Issue price \$	\$
Balance as at 1 July 2015	240,319,478	61,894,266	
Oct-15 Share placement	14,851,852	0.027	401,000
Nov-15 1 for 2 Rights Issue	66,334,654	0.027	1,791,036
Dec-15 Share placement	11,184,138	0.027	301,972
Mar-16 Share placement	45,663,438	0.016	730,615
May-16 Share placement	3,748,375	0.016	59,974
May-16 Shares issued to Nortec Minerals Corp under terms of agreement for acquisition of Finnish tenements	1,000,000	0.017	17,000
Share issue costs			(37,228)
Balance as at 30 June 2016	383,101,935	65,158,634	
Balance as at 1 July 2016	383,101,935	65,158,634	
Jul-16 Share placement	94,525,000	0.016	1,512,400
Aug-16 Share placement	37,812,500	0.016	605,000
Aug-16 Shares issued under terms of agreement for acquisition of Swedish lithium tenements	5,000,000	0.044	220,000
Nov-16 Share issued in lieu of cash directors fees	2,578,126	0.032	82,500
Dec-16 Share placement	125,500,000	0.020	2,510,000
Share issue costs			(327,939)
Balance as at 31 December 2016	648,517,561	69,760,595	

Ordinary shares participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held. At shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands. Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

AVALON MINERALS

Notes to the Financial Statements

For the half-year ended 31 December 2016



Note 8 Equity securities issued (continued)

Options and Performance Rights

During the period, options and performance rights for certain holders lapsed following the expiry date of options and the cessation of employment for performance rights.

During the half-year, a total of 8,520,000 performance rights have been issued to employees, with 2,089,000 of these being issued to the Managing Director. The performance rights have a three year term and are split into three separate tranches, Tranche 1 vesting upon the closing price of the Company's share price being \$0.045 or more for 10 consecutive ASX trading days; Tranche 2 vesting dependent on the Company's Total Shareholder Return performance against the ASX Small Resources Index; and Tranche 3 vesting upon the closing price of the Company's share price being \$0.07 or more for 10 consecutive ASX trading days.

As part of the placement of 132,337,500 shares in July and August 2016, one attaching option was issued for each ordinary share placed. The options have an exercise price of 3 cents and an expiry date of 31 August 2019. In addition to this, 10,000,000 options under the same terms and conditions were issued to Hartleys Limited, in lieu of cash corporate advisory fees, plus a further 5,000,000 options issued in December 2016 following the placement of 125,500,000 shares.

Note 9 Reserves

	31-Dec-16	30-Jun-16
	\$	\$
Share based payments reserve	3,550,521	3,360,043
Foreign currency translation reserve	(1,297,800)	477,454
Total reserves	2,252,721	3,837,497
Movements in reserves were as follows:		
Share based payments reserve		
Opening balance	3,360,043	3,404,360
Share based payments - employees	35,478	(44,317)
Share based payments - service providers	155,000	-
Closing balance	3,550,521	3,360,043
Foreign currency translation reserve		
Opening balance	477,454	78,954
Foreign exchange gains/(losses) on translation	(1,775,254)	398,500
Closing balance	(1,297,800)	477,454

Share based payments to service providers represents the 15,000,000 listed options issued to Hartleys Limited referred to in Note 8, in lieu of cash fees for corporate advisory services.

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Notes to the Financial Statements

For the half-year ended 31 December 2016



Note 10 Commitments

	31-Dec-16	30-Jun-16
	\$	\$
Commitments on Tenements		
Existing Tenements		
- not later than 12 months	95,000	25,000
- between 12 months and 5 years	10,000	95,000
New Tenements		
- not later than 12 months	1,120,000	385,000
- between 12 months and 5 years	-	2,230,000
	1,225,000	2,735,000
Operating lease payable		
	31-Dec-16	30-Jun-16
	\$	\$
- not later than 12 months	193,981	164,652
- between 12 months and 5 years	102,302	189,752
- greater than 5 years	-	-
	296,283	354,404

Existing Tenements

Exploration tenement fees are required to keep licenses in good standing. The Group is committed to this expenditure on the current tenements.

New Tenements

During the financial year ending 30 June 2016, the Company entered into agreements to secure interests over known lithium and gold properties in Finland and Sweden. Under the terms of the Heads of Agreement with Nortec Minerals Corp and their subsidiary Tammela Minerals Oy, Avalon must spend EUR500,000 over a two year period to earn a 51% interest in the tenements (Stage One). Following the Stage One earn-in, Avalon may elect to earn a further 29% by paying Nortec EUR200,000 in either cash or Avalon shares and by spending a further EUR1,000,000 within a further two years.

As at 31 December 2016, Avalon has incurred a total of EUR931,000 on the Tammela tenements and anticipates spending the remaining funds required to earn a total interest of 80% in the tenements within the next 12 months.

Note 11 Dividends

There were no dividends declared or paid during the half-year (2015: Nil).

AVALON MINERALS

Notes to the Financial Statements

For the half-year ended 31 December 2016



Note 12 Events occurring after reporting period

Subsequent to 31 December 2016, a formal Joint Venture Agreement with Nortec Minerals Corp has been signed and Notice issued regarding achieving the expenditure requirement for Stage One to earn 51% of the tenements.

New Finnish subsidiaries have been established to hold the tenements (one each for the Lithium and Gold tenements) with Avalon holding 51% (through 80% owned subsidiary Scandian Metals Pty Ltd for the lithium tenements) and Nortec holding 49% of the shares in the JV companies. In addition, Avalon has given Notice of its election to move to Stage Two to earn a further 29% interest by spending a further EUR1,000,000 within a further two years, and making payment to Nortec of EUR200,000 in cash.

No other matter or circumstance has arisen since 31 December 2016 that has significantly affected, or may significantly affect the Group's position, the results of those operations, or the Group's state of affairs in future financial periods.

AVALON MINERALS

Directors' Declaration



In the opinion of the Directors:

- (a) the financial statements and notes of the Consolidated Entity as set out on pages 9 to 20 are 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 2016 and of its performance for the half year ended on that date; and
 - (ii) complying with Accounting Standard 134 Interim Financial Reporting and the Corporations Regulations 2001;
- (b) subject to the achievement of matters described in note 1(b), there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is signed in accordance with a resolution of the Board of Directors.

On behalf of the Board

A handwritten signature in black ink, appearing to read "Graham Ascough".

Mr Graham Ascough
Chairman

Brisbane, Queensland

1 March 2017

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Avalon Minerals Ltd

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Avalon Minerals Ltd, which comprises the Consolidated Statement of Financial Position as at 31 December 2016, the Consolidated Statement of Profit or Loss and Other Comprehensive Income, the Consolidated Statement of Changes in Equity and the Consolidated Statement of Cash Flows for the half-year ended on that date, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year's 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 of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

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 a 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 half-year 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 2016 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 Ltd, 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 confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Avalon Minerals Ltd, would be in the same terms if given to the directors as at the time of this auditor's review 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 half-year financial report of Avalon Minerals Ltd 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 2016 and of its performance for the half-year ended on that date; and
- (ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

Emphasis of matter - Material uncertainty relating to going concern

We draw attention to Note 1(b) in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business. Our conclusion is not modified in respect of this matter.

BDO Audit Pty Ltd

BDO


A J Whyte
Director

Brisbane, 1 March 2017