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**Financial Statements**

**Avalon Ventures Ltd.**

**For the Three Months Ended November 30, 2007**

**Unaudited - See Notice to Reader**

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**NOTICE TO READER**

The accompanying unaudited interim financial statements have been prepared by the Company's management and the Company's independent auditors have not performed a review of these financial statements.

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# Avalon Ventures Ltd.

Balance Sheets

As at November 30, 2007 and August 31, 2007

Unaudited - See Notice to Reader

	November 30, 2007	August 31, 2007
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 16,332,078	\$ 1,562,102
Receivables	196,875	174,651
Prepaid expenses	50,126	63,817
	<u>16,579,079</u>	<u>1,800,570</u>
<b>Investments Available for Sale</b>	3,044	3,044
<b>Resource Properties</b> (note 2)	7,967,896	7,255,442
<b>Property, Plant and Equipment</b>	<u>72,263</u>	<u>71,663</u>
	<u>\$ 24,622,282</u>	<u>\$ 9,130,719</u>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable	<u>\$ 463,052</u>	<u>\$ 626,635</u>
<b>Shareholders' Equity</b>		
<b>Share Capital</b> (note 3)	41,658,869	26,910,660
<b>Contributed Surplus</b> (note 4)	38,376	38,376
<b>Deficit</b>	(17,528,916)	(18,435,853)
<b>Accumulated Other Comprehensive Loss</b>	<u>(9,099)</u>	<u>(9,099)</u>
	<u>24,159,230</u>	<u>8,504,084</u>
	<u>\$ 24,622,282</u>	<u>\$ 9,130,719</u>

Approved on behalf of the Board

\_\_\_\_\_, Director  
"Donald S. Bubar"

\_\_\_\_\_, Director  
"Brian MacEachen"

# Avalon Ventures Ltd.

Statements of Operations and Deficit

For the Three Months Ended November 30, 2007 and 2006

Unaudited - See Notice to Reader

	2007	2006
<b>Revenue</b>		
Interest income	\$ 22,399	\$ 18,731
<b>Expenses</b>		
Amortization	5,249	2,885
Consulting fees	1,763	7,200
Directors' fees	9,000	2,500
Insurance	9,788	10,463
Interest and financing costs	7,738	534
Office and general	5,858	3,449
Professional fees	28,000	14,433
Public and investor relations	85,521	58,869
Rent and utilities	25,959	4,738
Salaries and benefits	108,600	66,261
Shareholders' information	-	4,433
Stock-based compensation	142,685	217,910
Transfer and filing fees	4,578	2,661
Travel	54,223	12,773
	<u>488,962</u>	<u>409,109</u>
<b>Loss before Income Taxes</b>	(466,563)	(390,378)
<b>Future Income Tax Recoveries</b> (note 5)	<u>1,373,500</u>	-
<b>Net Income (Loss) for the Period</b>	906,937	(390,378)
<b>Deficit - Beginning of Period</b>	<u>(18,435,853)</u>	<u>(17,532,834)</u>
<b>Deficit - End of Period</b>	<u>\$ (17,528,916)</u>	<u>\$ (17,923,212)</u>
<b>Income (Loss) per Share, basic and fully diluted</b>	<u>\$ 0.02</u>	<u>\$ (0.01)</u>
<b>Weighted Average Number of Common Shares Outstanding, basic and fully diluted</b>	<u>53,528,703</u>	<u>48,359,048</u>

# Avalon Ventures Ltd.

Statements of Comprehensive Income (Loss)

For the Three Months Ended November 30, 2007 and 2006

Unaudited - See Notice to Reader

	2007	2006
<b>Net Income (Loss) for the Period</b>	\$ 906,937	\$ (390,378)
<b>Other Comprehensive Income</b>	<u>-</u>	<u>-</u>
<b>Comprehensive Income (Loss) for the Period</b>	<u>\$ 906,937</u>	<u>\$ (390,378)</u>

# Avalon Ventures Ltd.

## Cash Flow Statements

For the Three Months Ended November 30, 2007 and 2006

Unaudited - See Notice to Reader

	2007	2006
<b>Cash Flows from Operating Activities</b>		
Cash paid to suppliers and employees	\$ (177,800)	\$ (174,207)
Interest received	22,399	18,731
	<u>(155,401)</u>	<u>(155,476)</u>
<b>Cash Flows from Financing Activities</b>		
Share capital - private placement	15,527,155	-
Share capital - exercise of warrants	355,869	343,145
Share capital - exercise of options	96,000	114,000
	<u>15,979,024</u>	<u>457,145</u>
<b>Cash Flows from Investing Activities</b>		
Resource property expenditures	(1,047,798)	(297,639)
Purchase of property, plant and equipment	(5,849)	-
	<u>(1,053,647)</u>	<u>(297,639)</u>
<b>Change in cash and cash equivalents</b>	14,769,976	4,030
<b>Cash and cash equivalents - beginning of period</b>	<u>1,562,102</u>	<u>2,023,139</u>
<b>Cash and cash equivalents - end of period</b>	<u>\$ 16,332,078</u>	<u>\$ 2,027,169</u>
<b>Non-Cash Financing and Investing Activities</b>		
Agents' Compensation Options issued for commissions on private placement	<u>\$ 425,720</u>	<u>\$ -</u>

# Avalon Ventures Ltd.

Notes to the Financial Statements

For the Three Months Ended November 30, 2007

Unaudited - See Notice to Reader

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## 1. Accounting Policies

These interim financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles. These financial statements are based on accounting principles and practices consistent with those used in the preparation of the Company's annual financial statements except for the changes made to adopt to the new accounting standards as described in the following paragraph. Certain information and note disclosure normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. These interim financial statements should be read together with the audited financial statements and the accompanying notes included in the Company's 2007 annual report.

### a) New Accounting Policy

On September 1, 2007 the Company adopted the new recommendations of the CICA's Handbook Section 1506, "Accounting Changes". Under these new recommendations, voluntary changes in accounting policy are permitted only when they result in the financials statements providing reliable and more relevant information, require changes in accounting policy to be applied retrospectively unless doing so is impracticable, require prior period errors to be corrected retrospectively and require enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements. These recommendations also require the disclosure of new primary sources of generally accepted accounting principles that have been issued but are not yet effective.

The impact that the adoption of this section will have on the Company's financial statements will depend on the nature of future accounting changes, and the required additional disclosure on Recent Accounting Pronouncements is disclosed in Note 7.

### b) Comparative Figures

The carrying value of the Company's stock options was previously included as a component of contributed surplus, and has now been reclassified and included as a component of share capital.

## Avalon Ventures Ltd.

Notes to the Financial Statements  
For the Three Months Ended November 30, 2007  
Unaudited - See Notice to Reader

### 2. Resource Properties

	November 30, 2007										
	Separation	Warren	Thor Lake	U6 Savant	Red Hill	East					
	Rapids	Township	Rare	Gold	Copper-	Kemptville					
Acquisition costs	\$ 1,154	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,154
Diamond drilling	-	-	516,124	-	-	-	-	-	-	-	516,124
Environmental studies/permitting	-	-	18,751	-	-	-	-	-	-	-	18,751
Feasibility/engineering studies	2,057	-	-	-	-	-	-	-	-	-	2,057
Geochemical	-	-	-	-	-	7,972	-	-	-	-	7,972
Geology	3,351	-	57,344	-	2,700	22,475	-	-	-	-	85,870
Geophysical	-	-	6,218	-	-	-	-	-	-	-	6,218
Metallurgical/market studies	17,165	54,791	-	-	-	-	-	-	-	-	71,956
Other	-	-	1,850	-	-	502	-	-	-	-	2,352
Current expenditures	23,727	54,791	600,287	-	2,700	30,949	-	-	-	-	712,454
Balance - August 31, 2007	3,469,614	1,078,644	1,809,415	220,774	586,430	90,244	321	7,255,442			
Balance - November 30, 2007	\$ 3,493,341	\$ 1,133,435	\$ 2,409,702	\$ 220,774	\$ 589,130	\$ 121,193	\$ 321	\$ 7,967,896			

# Avalon Ventures Ltd.

Notes to the Financial Statements

For the Three Months Ended November 30, 2007

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## 3. Share Capital

### a) Issued and Outstanding:

	<u>Number</u>	<u>Amount</u>
<b>Common Shares</b>		
Balance - August 31, 2007	52,128,123	\$ 25,645,316
Issued pursuant to: private placement	10,360,000	15,248,752
exercise of warrants	556,125	501,385
exercise of options	200,000	194,695
Commission and advisory fees paid	-	(1,013,076)
Commission - agents' compensation options issued (note 3(a)(i))	-	(384,597)
Issuance costs paid	-	(211,525)
Tax effect on issuance of flow-through shares	-	(1,373,500)
	<u>63,244,248</u>	<u>\$ 38,607,450</u>
<b>Warrants</b>		
Balance - August 31, 2007	1,489,125	\$ 338,342
Issued pursuant to private placement	3,805,000	1,634,248
Exercised	(556,125)	(145,516)
Cancelled/Expired	-	-
Commission and advisory fees paid	-	(108,574)
Commission - agents' compensation options issued (note 3(a)(i))	-	(41,123)
Issuance costs paid	-	(22,670)
	<u>4,738,000</u>	<u>1,654,707</u>
<b>Stock Options</b>		
Balance - August 31, 2007	3,900,000	\$ 927,002
Granted to employees, directors and officers	225,000	-
Granted to consultants	-	-
Exercised	(200,000)	(98,695)
Cancelled/Expired	-	-
Option values recognized relating to previous options grants	-	142,685
	<u>3,925,000</u>	<u>\$ 970,992</u>
<b>Agents' Compensation Options</b>		
Balance - August 31, 2007	-	\$ -
Granted to agents (note 3(a)(i))	725,000	425,720
	<u>725,000</u>	<u>\$ 425,720</u>
		<u>\$ 41,658,869</u>

# Avalon Ventures Ltd.

Notes to the Financial Statements

For the Three Months Ended November 30, 2007

Unaudited - See Notice to Reader

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## 3. Share Capital (continued)

During the three months ended November 30, 2007, the Company:

- i) completed a private placement (the "Offering") and issued 7,610,000 units (the "Units") at a price of \$1.55 per Unit and 2,750,000 flow-through common shares at a price of \$1.85 per share (of which 75,000 flow-through common shares were issued to directors and officers of the Company) for gross proceeds of \$16,883,000. Each Unit consists of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share at an exercise price of \$2.00 per share until May 22, 2009.

The estimated fair market value of the warrants totaled \$1,634,248 and this amount has been allocated to the warrant component of the Units.

In consideration for the services of the agents of the Offering, the Company paid commissions and advisory fees of \$1,121,650 in cash and granted compensation options to the agents to acquire up to 725,000 Units (the "Agents' Compensation Options") at a price of \$1.55 per Unit, exercisable until November 22, 2009. Any warrants issued pursuant to the exercise of the Agent's Compensation Options will expire on May 22, 2009. No warrants will be issued upon any exercise of the Agent's Compensation Options after May 22, 2009.

The estimated fair value of the Agents' Compensation Options totaled \$425,720.

The Company also paid other cash issuance costs of \$234,195 in connection with the Offering.

The total transaction costs of \$1,781,565 (including cash commissions and advisory fees, the estimated fair value of the Agents' Compensation Options and other cash issuance costs) has been allocated to the common shares and the warrants on a pro rata basis based the fair values of the common shares and the warrants.

- ii) issued 556,125 non-flow-through common shares pursuant to the exercise of an equivalent number of common share purchase warrants for cash proceeds of \$355,869. The estimated fair value at issuance of these warrants was \$145,516, and this amount has been added to the recorded value of the issued shares.
- iii) issued 200,000 non-flow-through common shares pursuant to the exercise of an equivalent number of stock options for cash proceeds of \$96,000. The estimated fair value at issuance of these options was \$98,695, and this amount has been added to the recorded value of the issued shares.

### b) Common and Preferred Shares

The Company is presently authorized to issue an unlimited number of common shares without par value. The Company is also authorized to issue up to 25,000,000 preferred shares without par value, of which none have been issued.

# Avalon Ventures Ltd.

Notes to the Financial Statements

For the Three Months Ended November 30, 2007

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## 3. Share Capital (continued)

### c) Warrants

As at November 30, 2007 the following warrants were issued and outstanding:

- i) 662,500 non-flow-through warrants entitling the holders to purchase one common share at \$1.35 per share, expiring December 28, 2007;
- ii) 270,500 non-flow-through warrants entitling the holders to purchase one common share at \$0.55 per share, expiring January 21, 2008; and
- iii) 3,805,000 non-flow-through warrants entitling the holders to purchase one common share at \$2.00 per share, expiring May 22, 2009.

During the three months ended November 30, 2007, share purchase warrants were issued, exercised and expired/cancelled as follows:

	<b>Number of Warrants</b>	<b>Weighted Average Exercise Price</b>
Balance - August 31, 2007	1,489,125	\$ 0.94
Issued	3,805,000	2.00
Exercised	(556,125)	0.64
Expired/Cancelled	-	-
	<hr/>	<hr/>
Balance - November 30, 2007	<u>4,738,000</u>	<u>\$ 1.83</u>

### d) Stock Option Plan

The shareholders have approved a Stock Option Plan (the "Plan") that provides for the issue of up to 6,000,000 common shares of the Company to eligible employees, directors and service providers of the Company.

The Plan authorizes the granting of options to purchase common shares of the Company at an option price equal to or greater than the average price of the shares for the ten trading days prior to the grant. The options generally vest over a period of one to four years, and have a maximum term of 5 years.

# Avalon Ventures Ltd.

Notes to the Financial Statements  
For the Three Months Ended November 30, 2007  
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## 3. Share Capital (continued)

During the three months ended November 30, 2007, stock options were granted, exercised and expired/cancelled as follows:

	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>
Balance - August 31, 2007	3,900,000	\$ 0.91
Granted	225,000	1.82
Exercised	(200,000)	0.48
Expired/Cancelled	-	-
	<hr/>	<hr/>
Outstanding - November 30, 2007	<u>3,925,000</u>	<u>\$ 0.99</u>
	<hr/>	<hr/>
Vested - November 30, 2007	<u>2,112,500</u>	<u>\$ 0.56</u>

During the three months ended November 30, 2007, the Company granted 175,000 stock options to the newly appointed director of Company and 50,000 stock options to an existing director of the Company. Each option entitles the holder to purchase one common share of the Company at a price of \$1.82 per share until November 27, 2012. The estimated fair value of these options was \$254,948 and this amount will be amortized and expensed as stock-based compensation over the vesting terms.

During the three months ended November 30, 2007, the Company recorded stock-based compensation expense of \$142,685 related to stock options with graded vesting schedules earned during the quarter.

The fair value of stock options to employees and directors was estimated at the grant date and the options to service providers were estimated at the service completion date based on the Black-Scholes pricing model, using the following weighted average assumptions:

Expected dividend yield	Nil
Risk-free interest rate	3.84%
Expected life	3.5 years
Expected volatility	75%

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate and, therefore, the existing models do not necessarily provide a reliable measure of the fair value of the Company's stock options.

# Avalon Ventures Ltd.

Notes to the Financial Statements  
For the Three Months Ended November 30, 2007  
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## 3. Share Capital (continued)

As at November 30, 2007, the following options were vested and outstanding:

Option Price	Number of Options		Weighted Average Remaining Contractual Life
	Unvested	Vested	
\$ 1.82	225,000	-	5.0 years
\$ 1.80	250,000	-	4.7 years
\$ 1.61	712,500	62,500	3.6 years
\$ 1.30	25,000	75,000	1.2 years
\$ 1.20	250,000	-	4.1 years
\$ 1.08	-	150,000	3.5 years
\$ 0.98	350,000	50,000	4.1 years
\$ 0.80	-	400,000	3.1 years
\$ 0.69	-	200,000	3.3 years
\$ 0.48	-	225,000	3.0 years
\$ 0.25	-	502,500	1.2 years
\$ 0.20	-	447,500	0.4 years
	<u>1,812,500</u>	<u>2,112,500</u>	

## e) Agents' Compensation Options

As at November 30, 2007, the Company had 725,000 Agents' Compensation Options issued and outstanding. Each Agent's Compensation Option entitles the agent holder to purchase one Unit at a price of \$1.55 per Unit, exercisable until November 22, 2009. Each Unit will consist of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share at an exercise price of \$2.00 per share until May 22, 2009. No warrants will be issued upon any exercise of the Agents' Compensation Options after May 22, 2009.

## 4. Contributed Surplus

Contributed surplus consists of expired warrants and options. The changes in contributed surplus during the three months ended November 30, 2007 are summarized as follows:

Balance - August 31, 2007	\$ 38,376
Expired warrants	-
Options cancelled/expired	<u>-</u>
Balance - November 30, 2007	<u>\$ 38,376</u>

# Avalon Ventures Ltd.

Notes to the Financial Statements

For the Three Months Ended November 30, 2007

Unaudited - See Notice to Reader

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## 5. Future Income Tax Recoveries

During the three months ended November 30, 2007, the Company issued 2,750,000 flow-through common shares for gross proceeds of \$5,087,500. Pursuant to the share subscription agreements, the Company is required to incur Canadian exploration expenses (“CEE”) equal to the gross proceeds amount and renounce the related CEE to the investors with the effective date of no later than December 31, 2007. The renunciation will reduce the Company’s future income tax assets by \$1,373,500. The Company accordingly reduced the share capital by the tax effect of \$1,373,500 at issuance. However, as the Company has not recognized its future income tax assets, the \$1,373,500 is recorded as a future income tax recovery on the statement of operations.

## 6. Related Party Transactions

During the three months ended November 30, 2007, the Company:

- a) incurred consulting fees of \$7,000 with an officer and director, which were deferred as resource property costs. As at November 30, 2007, accounts payable included \$7,616 payable to this officer and director;
- b) incurred accounting fees of \$15,000 with an accounting firm in which an officer is the principal. As at November 30, 2007, accounts payable included \$31,656 payable to this accounting firm;
- c) incurred consulting fees of \$30,800 with a company owned by an officer of the Company, which were deferred as resource property costs. As at November 30, 2007, accounts payable included \$12,985 payable to this company; and
- d) issued 75,000 flow-through common shares to directors and officers pursuant to a private placement as described in note 3(a).

## 7. Recent Accounting Pronouncements

Recent accounting pronouncements issued and not yet effective:

### Capital Disclosures

CICA Handbook Section 1535, Capital Disclosures, requires disclosure of an entity’s objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital and whether the entity has complied with any capital requirements and, if it has not complied, the consequences of such non-compliance. This standard is effective for the Company for the interim and annual financial statements beginning on September 1, 2008. The Company has not yet determined the impact that the adoption of this change will have on the disclosure in its financial statements.

# Avalon Ventures Ltd.

Notes to the Financial Statements

For the Three Months Ended November 30, 2007

Unaudited - See Notice to Reader

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## 7. Recent Accounting Pronouncements (continued)

### Financial Instruments Disclosures

CICA Handbook Section 3862, Financial Instruments - Disclosures, increases the disclosures currently required that will enable the users to evaluate the significance of financial instruments for an entity's financial position and performance, including disclosures about fair value. In addition, disclosure is required of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about liquidity risk and market risk. The quantitative disclosures must also include a sensitivity analysis for each type of market risk to which an entity is exposed, showing how net income and other comprehensive income would have been affected by reasonably possible changes in the relevant risk variable. This standard is effective for the Company for the interim and annual financial statements beginning on September 1, 2008. The Company has not yet determined the impact that the adoption of this change will have on the disclosure in its financial statements.

### Financial Instruments Presentation

CICA Handbook Section 3863, Financial Instruments - Presentation, replaces the existing requirements on presentation of financial instruments which have been carried forward unchanged to this new section. This standard is effective for the Company for the interim and annual financial statements beginning on September 1, 2008. The Company does not expect the adoption of this standard to have a material impact on presentation in its financial statements.

### International Financial Reporting Standards

The CICA plans to converge Canadian Generally Accepted Accounting Principles with International Financial Reporting Standards (IFRS) over a transition period expected to end in 2011. The impact of the transition to IFRS on the Company's financial statements is not yet determinable.

## 8. Subsequent Events

Subsequent to the three months ended November 30, 2007:

- a) the Company issued 858,000 non-flow-through common shares pursuant to the exercise of an equivalent number of common share purchase warrants for cash proceeds of \$961,900;
- b) the Company issued 100,000 non-flow-through common shares pursuant to the exercise of an equivalent number of stock options for cash proceeds of \$80,000; and
- c) 75,000 (50,000 with an exercise price of \$1.35 and 25,000 with an exercise price of \$0.55) of the Company's common share purchase warrants expired unexercised.