

AVALON VENTURES LTD.

Management Discussion and Analysis of Financial Statements For the Six Months ended February 29, 2008

This Management Discussion and Analysis (“MDA”) of Avalon Ventures Ltd. (the “Company” or “Avalon”) provides analysis of the Company's financial results for the six months ended February 29, 2008. The following information should be read in conjunction with the accompanying unaudited financial statements and the related notes thereto.

This MDA includes certain statements that may be deemed “forward-looking statements”. All statements in this discussion, other than statements of historical fact, that address future production, reserve potential, exploration drilling, exploitation activities and events or developments that the Company expects, are forward-looking statements. Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from those in the forward-looking statements.

Factors that could cause actual results to differ materially from those in forward-looking statements include market prices, exploitation and exploration successes, continued availability of capital and financing and general economic, market or business conditions. Investors are cautioned that any such statements are not guarantees of future performance and that the actual results or developments may differ materially from those projected in the forward-looking statements. This report is prepared as of *April 8, 2008*.

Nature of Business and Overall Performance

Avalon Ventures Ltd. is a Canadian junior mineral exploration and development company now listed on the Toronto Stock Exchange following the acceptance of the Company's listing application during the three months ended February 29, 2008. The Company seeks to build shareholder value by becoming a diversified producer of rare metals and minerals and expanding the markets for its mineral products.

Avalon operates exclusively in Canada with a primary focus on rare metals and minerals including calcium feldspar, lithium, tantalum, cesium, beryllium, indium, gallium, yttrium and the rare earth elements (“**REEs**”). By definition, “rare earth elements” refers specifically to the lanthanide series of elements (atomic numbers 57 – 71), whereas the term “rare metals” is a more general “umbrella” term that includes the REEs as well as other rare metals including those named above.

The Company is in the process of exploring or developing six of its eight mineral resource properties. Four of the six active projects (Thor Lake, Separation Rapids, East Kemptville and Warren Township) are rare minerals or rare metals properties that are at an advanced stage with identified mineral resources that are potentially economic, provided that sales contracts with customers can be secured and project financing arranged. Two other projects (Red Hill and U6 Savant) are gold or base metal properties and are at an early stage where drilling is required to delineate resources.

A positive Preliminary Economic Assessment (“PEA”) on the REE development potential of Thor Lake project was completed in 2007 and this project has become the Company's top priority due to the large size of the resource and its exceptional REE enrichment. The project will be advanced to the pre-feasibility level of analysis in early 2009.

Markets for mineral commodities in general have continued to strengthen over the past three years in response to rising demand from Asia and tightening supplies. Some of the strongest demand growth has been for rare metals such as the REEs for applications created by new technological advances particularly in the automotive, electronics and alternative energy fields. This also applies to the Company's lithium mineral product from the Separation Rapids project and the Company's calcium feldspar product from Warren Township. The demand for these products is being driven in part by the need for reducing consumption of fossil fuels and lowering greenhouse gas emissions.

Increased media attention on the rare metals and their growing importance in modern society has created new investor interest in companies like Avalon Ventures Ltd, resulting in the Company's successful \$16.8 million equity financing being completed on November 22, 2007. The Company is now well funded and does not expect that the recent volatility in the capital markets will have a significant impact on its operations.

Selected Annual Information

Unless otherwise noted, all currency amounts are stated in Canadian dollars.

The following selected financial data for each of the three most recently completed fiscal years are derived from the audited annual financial statements of the Company, which were prepared in accordance with Canadian generally accepted accounting principles.

For the Years Ending August 31,	2007	2006	2005
	\$	\$	\$
Net revenues	92,446	87,588	414
Loss before discontinued operations and extraordinary items	903,019	1,287,581	472,733
Loss before discontinued operations and extraordinary items, per share basic and fully diluted	0.02	0.03	0.01
Net loss	903,019	1,287,581	472,733
Net loss, per share basic and fully diluted	0.02	0.03	0.01
Total assets	9,130,719	6,930,933	4,311,718
Total long term liabilities	-	-	-
Cash dividends	-	-	-

The Company has recorded losses in each of its three most recently completed fiscal years and expects to continue to record losses until such time as an economic resource is identified, developed and brought into profitable commercial operation on one or more of the Company's properties or otherwise disposed of at a profit. Since the Company has no revenue from operations, annual operating losses typically represent the sum of business expenses plus any write-offs of mineral properties abandoned during the period. The Company expects to increase its level of business activity in coming years and consequently investors should anticipate that the Company's annual operating losses will also increase until a new operation begins to generate cash flow.

Results of Operations

Exploration and Development Activities

Resource property expenditures for the three months ended February 29, 2008 totalled \$1,180,780, a 239% increase over the level of expenditures in the comparable period of the previous fiscal year (\$347,964). Most of these expenditures were incurred on the Thor Lake rare

metals project (90%) with the balance being largely incurred on the Warren Township, East Kemptville, and Separation Rapids projects. The expenditures on Thor Lake and East Kemptville were funded from the flow-through component of the proceeds of the private placement financing completed in November, 2007 while the expenditures on Warren Township and Separation Rapids were funded from working capital. No properties were abandoned during the quarter and no expenditures were written off.

Thor Lake

On the Thor Lake rare metals project, expenditures during the three months ended February 29, 2008 totalled \$1,061,141. Most of these expenditures were incurred on the Phase 2 detailed drilling program on the Lake Zone REE deposit which commenced in mid-January, 2008. As at the date of this report, 28 holes totalling 5,035 metres had already been completed, all drilled from the ice of Thor Lake. No assays have yet been received, but based on the visual observations in the drill core supported by qualitative analytical data generated in the field through the use of a portable XRF analyzer, it appears that the Heavy Rare Earth Element enriched mineralized zones encountered in the Phase 1 program, do extend in to the northern part of the Lake Zone deposit, as predicted by the Company's geological model.

Drill production rates are considerably improved over the Phase 1 program resulting in a reduced all-in cost per metre and it is now forecast that the full 10,000 metres planned for the Phase 2 program can be completed on or below budget by August, 2008. Persistent, unusually cold weather conditions mean the drilling on the ice can likely be extended to the end of April, some two weeks longer than originally envisioned. Drilling operations are carried out under the direct supervision of J.C. Pedersen, P.Geo., and Dr. D.L. Trueman, P.Geo., under the overall direction of the Company's Vice-President, Exploration, Dr. William Mercer, P.Geo.

Expenditures of \$25,470 were incurred for community consultation, environmental, permitting and regulatory compliance, while \$36,785 was incurred for geological consulting work done in support of the drilling program. A further \$93,774 was incurred for metallurgical and market studies. A major metallurgical study was initiated during the quarter at SGS Lakefield Research to design a process flowsheet for beneficiating the REE bearing minerals and to design a hydrometallurgical process for recovering the rare earth oxides from the mineral concentrate. This work will be carried out over the next 6-8 months.

A new interim resource estimate for the Lake Zone REE deposit will be produced this summer from the results of the Phase 1 and Phase 2 (winter) drilling programs and this will be updated later in the year once all the analytical data has been received, compiled and verified. This work, combined with the results of the metallurgical studies will provide all the data required for completion of a pre-feasibility study on the deposit in early 2009.

The Company has placed a high priority on its performance with respect to community, environment, health and safety at Thor Lake. This resulted in some 11,000 person hours of work, accident-free in 2007. So far in 2008, there have been no work-related lost-time accidents on the project and site inspections by government land use and WCB inspectors have produced positive reports with no major issues.

Warren Township

Expenditures of \$28,809 were incurred on the Warren Township anorthosite project during the three months ended February 29, 2008. These were related to routine project maintenance costs and on-going permitting efforts being carried out under the direction of Ian London, P.Eng., Vice President, Corporate Development.

Preliminary feedback from the U.S. glass manufacturer that ran a furnace trial last fall, using a 460 ton bulk sample of the Company's calcium feldspar product, has indicated that energy savings in the order of 10% were achieved without any detrimental impacts on the quality or production efficiencies of the glass, an encouraging, although inconclusive, initial result. The trial also demonstrated the Company's ability to produce and deliver a quality product with high levels of internal consistency despite reliance on untested third parties to carry out the work.

Discussions continue with the glass manufacturer that hosted the trial as to their longer-term supply plans, and with the glass industry in general as to batch solutions towards reducing energy consumption and the carbon footprints of their furnace operations. A meeting with management of the glass manufacturer to review the project results and next steps is planned for mid-April.

The Company continues its work toward securing a production permit for the Warren Township project under the *Aggregate Resources Act* of Ontario. This work, being carried out under the direction of Fudge & Associates of North Bay, Ontario, has also included community consultation work in the Foleyet area and with First Nations in the Chapleau area. Some issues over the size of the permit area have yet to be resolved with the Ontario Ministry of Natural Resources.

Separation Rapids

During the three months ended February 29, 2008, the Company incurred \$19,153 in expenditures on the Separation Rapids Lithium-Tantalum Project. These costs were mainly related to accelerated market development work for the Company's lithium minerals product for which there is continuing encouragement of emerging demand from the glass and ceramics industry in the U.S.

A research project to re-visit the petalite process flowsheet developed in 1998, with a view toward finding alternatives to hazardous chemical reagents such as hydrofluoric acid, is being initiated at SGS Lakefield Research with a budget of \$210,000 and is expected to be completed within 4 to 6 months. A further research project, to investigate the potential application of hydrometallurgical extraction technology to recover a lithium product suitable for the rapidly growing lithium ion battery market, is also being carried out at SGS Lakefield Research, but no firm completion date has been established.

The Company has formally engaged Amalgamet Canada to assist with lithium minerals market development work under an agreement for which \$75,000 is budgeted in 2008. Both the market development work and the metallurgical research are being carried out under the supervision of Ian London, P.Eng

East Kemptville

During the three months ended February 29, 2008, the Company incurred expenditures totalling \$66,396 on the East Kemptville tin-rare metals project in Yarmouth Co., Nova Scotia, mainly for compilation of historical mine data. This work is being carried out as the first component of a Preliminary Economic Assessment ("PEA") of the potential for re-developing the East Kemptville deposit as a combined producer of tin and rare metals. The compilation work is being conducted by Hudgetec Consulting Ltd. (Bruce Hudgins, P.Geo.) of Dartmouth, N.S. ("Hudgetec"), under the supervision of the Company's Vice-President, Exploration, Dr. William Mercer, P.Geo. The PEA is to be completed by Wardrop Engineering Ltd. This work is being funded from the flow-through component of the recent private placement.

The Company is required to have incurred cumulative expenditures of \$300,000 by August 1, 2008, or an additional \$113,000 over and above expenditures to date of \$187,589, to maintain the East Kemptville special licence in good standing for another year. The present study will provide a good basis for determining if the East Kemptville project warrants further investment towards its redevelopment as a combined tin-rare metals producer. Rising tin prices provide much additional encouragement in this regard. Tin prices now exceed US\$9.00/lb, as reported on the London Metal Exchange, with demand outstripping supply for new applications such as solders, where tin is replacing lead due to lead toxicity issues.

Compilation work has been initiated on the new claims staked to cover additional potential tin-rare metal targets located peripheral to the East Kemptville special licence. The compilation work has identified a number of interesting targets which will be followed up in 2008. One claim lacked sufficient assessment credits for renewal and, consequently, cash in lieu of work totaling \$8,300 was remitted to the government of Nova Scotia to keep this claim in good standing. This amount is refundable upon completion of a work program.

Red Hill & U6 Savant

Expenditures on the Red Hill project during the three months ended February 29, 2008 totalled \$5,281 for some geological consulting work related to report preparation.

A 43-101 compliant technical report compiling all the results of the Company's 2005 and 2006 drilling programs is in preparation. Approximately \$600,000 in additional expenditures will be required on the Red Hill property before December 31, 2008 in order for the Company to exercise its option to acquire a 100% interest in the property.

There was no work conducted on the U6 Savant gold project during the quarter. Approximately \$300,000 in additional expenditures will be required on the property before December 31, 2008 in order for the Company to exercise its option to acquire a 100% interest in the property.

Management continues to look for potential partners to advance both of these projects in order to continue to focus resources on the Company's priority rare metals projects.

Administration

Administrative expenses incurred during the three months ended February 29, 2008 totalled \$938,770, a 200% increase over the amount incurred during the comparable quarter in fiscal 2007. Stock-based compensation accounts for \$139,267 of this total, compared with \$42,275 in 2007. For the six month period, administrative expenses totalled \$1,427,732 compared with \$720,556 during the comparable period in 2007.

Administrative expenses, exclusive of stock-based compensation, totalled \$799,503 for the current quarter and \$269,172 for the comparable quarter in 2007 reflecting a 197% increase in non-stock-based administrative expenses. The main areas of increased administrative expenditures were public and investor relations, salaries and benefits, and transfer and filing fees. The \$96,992 increase non-cash stock-based compensation expense arose, primarily as a result of the decision during 2007 to have option grants to directors, officers and employees vest over four years rather than immediately. The fair value of these options is being expensed over the corresponding vesting period.

Interest and financing costs of \$21,475 related primarily to Part XII.6 interest payable on the unspent portion of flow-through funds after February 28, 2007. Increased cash balances in the Company's bank accounts resulted in increased interest income of \$141,359 for the three month period compared with \$24,147 for the comparable period in fiscal 2007. Transfer and filings fees

totalled \$193,277 compared to \$21,905 for the same quarter in fiscal 2007 with the increase arising primarily from the TSX listing fee.

Expenditures on public and investor relations activities for the three months ended February 29, 2008 totalled \$151,512, a 144% increase over the comparable period in fiscal 2007. This reflects the expansion of the Company's investor relations programs ("IR") as a part of an overall effort to increase the Company's profile in the marketplace and attract new investors.

The main areas of increased IR expenditures during the three months ended February 29, 2008 were in advertising with increased expenditures on print, internet and TV alternatives including production of a CEOclip interview that aired on BNN Television intermittently over a three week period in late February and early March. Further such TV and radio advertising initiatives are planned for the third quarter.

The Company participated in five investment conferences during the three months ended February 29, 2008 in Vancouver, Toronto, Phoenix(2) and Edmonton. Subsequent to the end of the quarter the Company participated at the PDAC convention in Toronto through a core shack display on the Thor Lake project. During the quarter, the Company continued its marketing efforts to international institutional investors through a series of meetings in Chicago, Minneapolis, and New York as well as a day in Boston in March, all co-ordinated by O & M Partners, the Company's U.S. IR consultants.

In addition to the services provided by O & M, the Company continues to retain Northern Geotech Services on an intermittent basis to provide periodic telephone updates to shareholders and assist with trade show presentations. One such telephone campaign was initiated subsequent to the end of the quarter.

Salaries and benefits increased to \$236,618 from \$63,402 in the same quarter in fiscal 2007 due to increased staff levels and increased compensation awarded to the Company's President and CEO effective January 1, 2008. Professional fees also increased by \$34,064 during the quarter due to the additional legal and accounting services required for the preparation of the Company's TSX listing application and the completion of the private placement. Increased travel and consulting expenditures during the quarter were partly related to due diligence costs associated with evaluating an acquisition opportunity where the Company ultimately declined to submit a proposal.

During the six months ended February 29, 2008, the Company committed to renounce Canadian exploration expenditures of \$5,087,500 to the investors in the flow-through private placement completed in November, 2007. This renunciation will result in a reduction of the Company's future income tax assets of \$1,373,500 and a corresponding reduction in share capital. However, as the Company has not recognized its future income tax assets, this amount is recorded as a future income tax recovery on the statement of operations.

Summary of Quarterly Results

The following selected financial data is derived from the unaudited interim financial statements of the Company, which were prepared in accordance with Canadian generally accepted accounting principles.

Fiscal Year For the Quarters Ended	2008		2007				2006	
	Feb. 29	Nov. 30	Aug. 31	May 31	Feb. 28	Nov. 30	Aug. 31	May 31
	\$	\$	\$	\$	\$	\$	\$	\$
Net revenues	141,359	22,399	21,066	28,502	24,147	18,731	20,989	23,512
Income (loss) before discontinued operations and extraordinary items	(787,411)	906,937	(445,335)	184,396	(251,702)	(390,378)	(403,069)	(450,834)
Income (loss) before discontinued operations and extraordinary items, per share, basic and fully diluted	(0.01)	0.02	(0.01)	-	-	(0.01)	(0.01)	(0.01)
Net income (loss)	(787,411)	906,937	(445,335)	184,396	(251,702)	(390,378)	(403,069)	(450,834)
Net income (loss), per share, basic and fully diluted	(0.01)	0.02	(0.01)	-	-	(0.01)	(0.01)	(0.01)

During the quarters ended November 30, 2008 and May 31, 2007, future income taxes recoveries, related to completed flow-through financings, were recorded in the amounts of \$1,373,500 and \$488,250, respectively. Other fluctuations on quarterly income (loss) are primarily attributable to stock-based compensation expenses recognized on stock options granted to directors, officers, employees and consultants of the Company and the write-downs of resource properties. The costs of resource properties are written down at the time the properties are abandoned or considered to be impaired in value.

Liquidity and Capital Resources

In management's view, given the nature of the Company's operations, which consist of the exploration and evaluation of mining properties, the most relevant financial information relates primarily to current liquidity, solvency, and planned property expenditures. The Company's financial success will be dependent on the economic viability of its resource properties and the extent to which it can discover new mineral deposits. Such development may take several years to complete and the amount of resulting income, if any, is difficult to determine. The sales value of any mineralization discovered by the Company is largely dependent on factors beyond the Company's control, including the market value of the metals and minerals to be produced. The Company does not expect to receive significant revenue from any of its properties until 2010 at the earliest.

On November 22, 2007 the Company completed a brokered private placement, resulting in net proceeds of \$15,527,155, as more fully described under 'Share Capital'.

As at February 29, 2008, the Company had working capital of \$15,319,168 (including investments of \$3,044) and cash and cash equivalents on hand of \$15,828,008.

The Company's current burn rate, excluding expenditures on work programs, is approximately \$160,000 per month. As at the date of this report, the Company's current planned expenditures on its 2008 work programs total approximately \$5,500,000. This consists of Thor Lake (\$5,000,000), Warren Township (\$50,000), Separation Rapids (\$250,000) and East Kemptville (\$200,000), although formal work program budgets have yet to be finalized.

The Company's present cash resources are sufficient to meet all of its current contractual obligations for at least the next eighteen months. The flow-through financing will be used to fund the planned work programs on the Thor Lake project. The Thor Lake, Warren Township, Separation Rapids and Lilypad Lakes properties are all 100% owned by the Company with minimal holding costs, the most significant being annual lease rental fees on Thor Lake of \$15,422.

Under the terms of the East Kemptville special licence, the Company has optional expenditure obligations totalling \$2.5 million over three years and it is currently in good standing. Approximately \$300,000 in total expenditures are required before August 31, 2008, to keep the special licence in good standing for another year, of which approximately \$188,000 has been spent. The Red Hill and U6 Savant properties are held under option from Teck Cominco Limited and both agreements are currently in good standing until December 31, 2008. Further expenditures totalling approximately \$900,000 on the two properties combined are required by December 31, 2008 to exercise the options to acquire 100% interests in each of the two properties. The Company has the funds available to do this work if it so desires, but it is management's intention to seek partners to continue advancing these projects in 2008.

The private placement completed in November, 2007 has given the Company the flexibility to look at opportunities for acquisition of new assets to build on the Company's existing rare metals portfolio. A joint venture with an industry partner or end-user remains an attractive alternative for financing the more advanced stages in the development of the Company's four advanced rare metals projects at Separation Rapids, Thor Lake, East Kemptville, and Warren Township projects, when capital requirements become relatively large.

Off Balance Sheet Arrangements

As at February 29, 2008, the Company had no material off balance sheet arrangements such as guaranteed contracts, contingent interests in assets transferred to an entity, derivative instrument obligations or any instruments that could trigger financing, market or credit risk to the Company.

Transactions with Related Parties

All transactions with related parties are in the normal course of business and are measured at the exchange amount. During the three months ended February 29, 2008, the Company:

- a) incurred consulting fees of \$9,750 with an officer and director, which were deferred as resource property costs;
- b) incurred accounting fees of \$36,000 with an accounting firm in which an officer is the principal. As at February 29, 2008, accounts payable included \$4,000 payable to this accounting firm;
- c) incurred consulting fees of \$61,250 with a company owned by an officer of the Company, which were deferred as resource property costs. As at February 29, 2008, accounts payable included \$21,700 payable to this company; and
- d) issued 75,000 flow-through common shares to directors and officers pursuant to a private placement as described under "Outstanding Share Data".

Proposed Transactions

With six active projects, the Company is not aggressively searching for new mineral property acquisition opportunities at the present time and there are no proposals for new projects under active consideration. However, management is always interested in evaluating potential transactions or business combinations that are of possible long term strategic value. The Company does not plan any equity offerings in the foreseeable future.

Changes in Accounting Policies Including Initial Adoption

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, requires changes in accounting policy to be applied retrospectively unless doing so is impracticable, requires prior period errors to be corrected retrospectively and requires 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 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 the notes to the interim financial statements

Financial Instruments and Other Risk Factors

The Company's financial instruments consist of cash and cash equivalents, receivables, investments available for sale, and accounts payable.

Management does not believe these financial instruments expose the Company to any significant interest, currency or credit risks arising from these financial instruments. The fair market values of cash and cash equivalents, receivables and accounts payable approximate their carrying values. Investments available for sale are carried at fair market value.

In conducting its business, the principal risks and uncertainties faced by the Company relate to exploration and development success as well as metal prices and market sentiment to a lesser extent.

Exploration for minerals and development of mining operations involve significant risks, many of which are outside the Company's control. In addition to the normal and usual risks of exploration and mining, the Company often works in remote locations that lack the benefit of infrastructure and easy access.

The prices of metals fluctuate widely and are affected by many factors outside of the Company's control. The relative prices of metals and future expectations for such prices have a significant impact on the market sentiment for investment in mining and mineral exploration companies. The Company relies on equity financing for its long term working capital requirements and to fund its exploration programs. The Company does not anticipate using existing funds to put any of its resources interests into production from its own financial resources. There is no assurance that other forms of financing will be available to the Company, or that it will be available on acceptable terms.

An additional risk factor that has developed over the past two years is access to adequate human resources to carry out work programs, particularly skilled professionals for which there is

currently an industry-wide shortage, which can cause delays completing work programs on schedule and in meeting program budgets.

Internal Control Over Financial Reporting

There has been no change in the Company's internal control over financial reporting during the quarter ended February 29, 2008.

Outstanding Share Data

During the six months ended February 29, 2008, 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 totalled \$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 "Agent's 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 Agent's Compensation Options totalled \$649,347.

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

The total transaction costs of \$2,005,192 (including cash commissions and advisory fees, the estimated fair value of the Agent's 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 market values of the common shares and the warrants.

- ii) issued 1,414,125 non-flow-through common shares pursuant to the exercise of an equivalent number of common share purchase warrants for cash proceeds of \$1,317,769. The estimated fair value at issuance of these options was \$322,543, and this amount has been added to the recorded value of the issued shares.
- iii) issued 300,000 non-flow-through common shares pursuant to the exercise of an equivalent number of stock options for cash proceeds of \$176,000. The estimated fair value at issuance of these options was \$188,836, and this amount has been added to the recorded value of the issued shares.
- iv) granted 175,000 stock options to a 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 share of the Company's common stock 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.

Subsequent to the end of the quarter:

- i) the Company issued 245,000 non-flow-through common shares pursuant to the exercise of an equivalent number of stock options for cash proceeds of \$49,000.

a) *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.

As at the date of this report, the Company had 64,447,248 common shares issued and outstanding.

b) *Warrants*

As at the date of this report, the Company had an aggregate of 3,805,000 warrants outstanding with a weighted average exercise price of \$2.00.

c) *Options*

As at the date of this report, the Company had an aggregate of 3,580,000 incentive stock options outstanding with a weighted average exercise price of \$0.99. As described above, the Company also had Agent's Compensation Options outstanding to purchase up to 725,000 Units at a price of \$1.55 per Unit, exercisable until November 22, 2009.

Other Information

Additional information on the Company is available on SEDAR at www.sedar.com and on the Company's website at www.avalonventures.com.