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Subject: Avalon Ventures Ltd. (AVL.T) evaluation
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Avalon Ventures Ltd. (AVL.T) is a junior rare metals explorer first incorporated in British Columbia in 1984 and listed on the Vancouver Exchange in September 1994 following a consolidation of Keith Resources. Avalon graduated from the TSX Venture Exchange (.V) to the Toronto Stock Exchange (.T) in February 2008.

My due diligence for the evaluation consisted of field visits to the company's flagship Thor Lake property in the Northwest Territories and Separation Rapids in northwest Ontario, numerous presentations, meetings, and discussions with CEO and founder Don Bubar, conversations with company geologists, directors, and insiders, research of the company's website, sedar filings, and other public information, and study of rare earth element supply and demand.

Thor Lake Analyst Tour, June 18, 2008

Share structure: 64.7 mm outstanding; 73.5 mm fully diluted; 4.0 mm (6.0%) insider held; original individual investors 20-30%; 9.6 mm institutional held (15.0%) including CPP, TD Asset Management, Front Street Capital, Excalibur Investments, MFC Global (John Hancock Group), Seamans Capital, Cantata Swiss, and Kellogg Group; 50-60% public stock float.

The stock has generally low liquidity, trading 200,000 to 500,000 shares/week. The 52 week chart shows the high above $2.00 one year ago, a general downtrend until early October, and flat until early November. A spike to near the yearly high occurred on news of major financing. The stock then drifted lower reflecting general market trends until early April, briefly dipping below $1.00. It was on a steady climb until mid-June when a moderate sell-off occurred. The stock was then flat for six weeks but has declined slowly since early August to the present range of $1.50-$1.60 due to low liquidity of the summer doldrums and a strong bear market.

52 week Chart: 2.16/.90; 30 day 1.95/1.40; today 1.55/1.50.

Warrants currently out of the money: 3.8 mm @ $2.00 with expiry of May 2009. If fully exercised, warrants would add $7.4 mm to working capital within the next nine months.

Options in the money: The company has 4.3 mm options at a weighted average of $1.12. Prices range from 25c to $1.82 with expiry dates from February 2009 to January 2013. In addition, there are 725,000 agent options at $1.55 until November 2009.

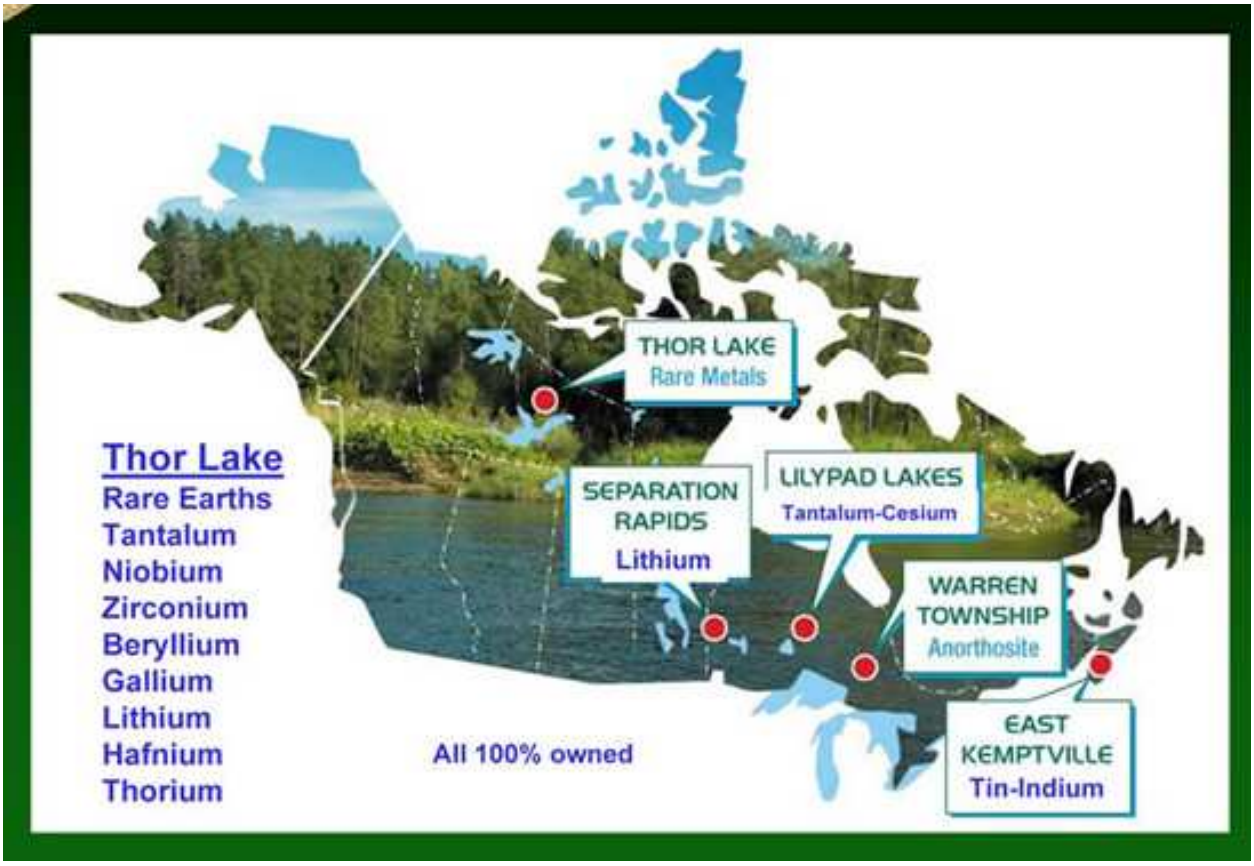
Market capital $100 mm; working capital $11.0 mm.

Projects: Avalon Ventures Ltd. is a Canadian junior mineral exploration and development company that seeks to build shareholder value by becoming a diversified producer of rare metals and minerals and expanding the markets for its products.

Avalon operates projects in Canada with a primary focus on rare metals and minerals including lithium, gallium, niobium, indium, cesium, tin, tantalum, and the rare earth elements (REE'**s**). Rare earth elements refer specifically to the lanthanide series of 15 elements plus yttrium whereas "rare metals" is a more general term that includes the REEs as well as other specialty metals. Rare metals have increasing demand for high technology and environmental applications. AVL's projects also include industrial minerals petalite (lithium feldspar) and anorthosite (calcium feldspar).

AVL.T's strategy is to develop and expand markets for its rare metals and industrial minerals, take properties to production and cash flow, and acquire additional rare metals assets. Initial commercial production could start as early as 2010 at one of its industrial minerals properties.

Avalon owns five rare metals projects in Canada, four which have historic or 43-101 qualified resources, and three which are in advanced exploration. It controls two early stage gold and base metal properties and holds two small royalty interests.



Avalon Ventures Ltd. Rare Metals Projects

Rare Metals Markets

Rare metals (or specialty metals) is a collective name applied to all metallic elements not classified as base or precious metals. They are characterized by limited production because of lack of large volume markets or lack of recoverable resources. Markets are growing rapidly as materials science innovations increasingly exploit unique properties of rare metals to create new consumer products, particularly in electronics. For example, the Apple iPhone contains indium in the touch-screen and solders, gallium and/or germanium in the chips, tantalum in the capacitors, neodymium in the voice coil, disk drive and earphone magnets, beryllium-copper in the connectors, rare earth phosphors in the screen, zirconium ceramics in the audio circuits and lithium ion rechargeable battery. New demand is accelerated by a societal "green revolution" requiring efficient use of energy and environmental protection. Examples include indium and gallium in LED lighting and solar panel thin films and rare earths in colored LED's. Rare metal demand is forecast to increase substantially in the coming decade.

The **rare earth elements** (REE's) are a subset of rare metals and comprise a group of 16 metallic elements that occur together in nature (the lanthanide series, atomic numbers 57-71, and including yttrium, atomic number 39). The overall market is small at 124,000 tonnes in 2007. However, rare earth elements are critical for an array of products and advanced technologies in the electronics, automotive, environmental, and petrochemical sectors. Yttrium and rare earths are used for new electronic applications such as flat panel televisions and computer disk drives. Neodymium and some heavy rare earth elements (HREE's) are used to make high intensity "super-magnets". Rising fuel prices are creating soaring demand for hybrid cars which contain an aggregate of 30 kg of rare earth elements, including the HREE's are an integral part of electric motors and generators and light rare earths are (LREE's) used rechargeable batteries and catalytic converters. Higher purity mixed and separated rare earth products are required to meet growing demand for particular elements. Strong demand is expected for cerium in automotive catalysts, lanthanum in nickel metal hydride batteries, and various REE's used in permanent magnets (neodymium, praseodymium, dysprosium, and terbium.)

Global supply experienced significant changes in the past two decades. China has become the dominant miner (with over 90% of total ore capacity), processor, and user of refined compounds (60%). Processors in the rest of the world have transferred mine production to China and primary production in the United States, a former net exporter, has ceased. However, recent Chinese government restrictions on rare earths including export quotas and taxes, environmental regulations, and a moratorium on new mining licenses will reduce mine product to other countries. Supply of some high demand elements, especially HREE's, cannot be met solely by China and will require exploitation of other sources. Current shortages exist in dysprosium, neodymium, europium, and terbium. Demand for rare earth metals is forecast by the Roskill Group to increase annually by over 10% to about 185,000 metric tons TREO's (Total Rare Earth Oxides) in 2012.

Recent bid prices for REE oxides are:

RARE EARTH ELEMENT PRICES

Source: Metal-Pages.com Aug. 5, 2008

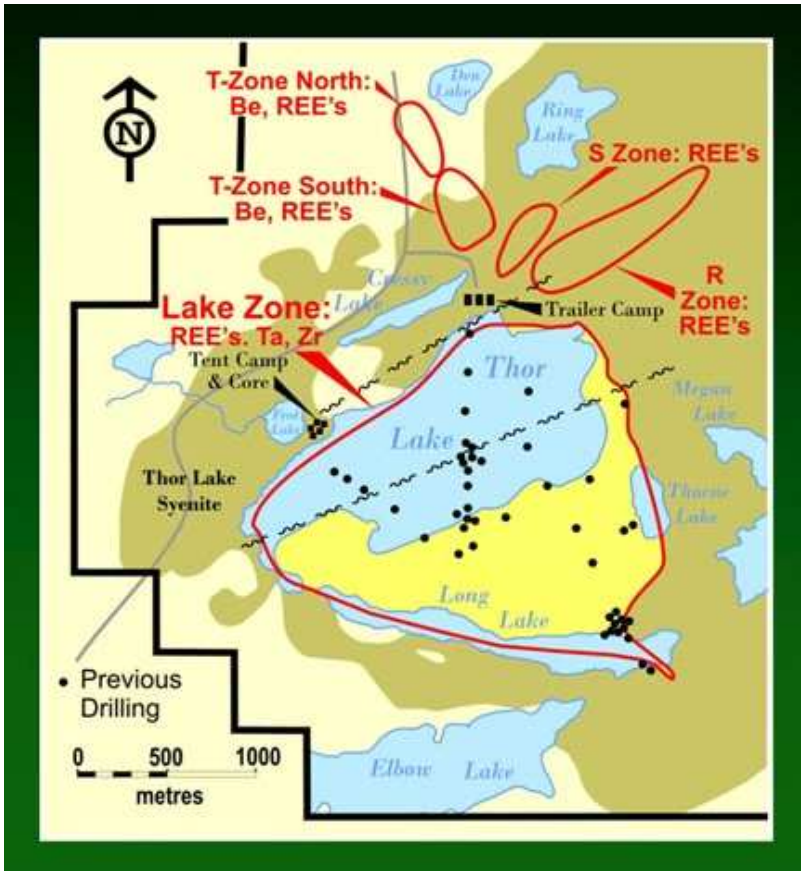
Prices are indicative, and basis FOB China

Metal Oxide	Principal Uses	Price US$/kg
Lanthanum Oxide 99% min	Re-chargeable Batteries	8.90 – 9.40
Cerium Oxide 99% min	Catalyts, glass, polishing	4.70 – 4.80
Praseodymium Oxide 99% min	Magnets, glass colourant	28.00 – 28.50
Neodymium Oxide 99% min	Magnets, lasers, glass	28.00 – 28.50
Samarium Oxide 99% min	Magnets, lighting, lasers	4.25 – 4.75
Europium Oxide 99% min	TV colour phosphors: red	470 - 490
Terbium Oxide 99% min	Phosphors: green, magnets	720 - 740
Dysprosium Oxide 99% min	Magnets, lasers	110 - 115
Gadolinium Oxide 99%min	Magnets, superconductors	10.00 - 10.50
Yttrium Oxide 99.999% min	Phosphors, ceramics, lasers	15.70 – 16.20

Flagship property:

Thor Lake, NWT: The rare metals project totaling 4250 ha is located in the Mackenzie Mining District, about 5 km north of the Hearne Channel of Great Slave Lake and approximately 100 km southeast of Yellowknife. The property is accessible by float plane during the summer and ski plane and ice road in the winter. Mining leases have a 21-year life and are renewable in 21-year increments. The property is 100% owned subject to two NSR's totaling 5.5% of which 2.5% is buyable at about $1 mm.

The Thor Lake rare metals deposit is hosted by the Proterozoic peralkaline Blachford Lake intrusive complex emplaced in Archean-age supracrustal rocks. The principal rock types are syenite, granite, gabbro, and pegmatites. Five zones of rare metal mineralization have been identified on the Thor Lake property: North T, South T, and Lake Zone deposits, and the S and R Zones. The North T and South T deposits contain beryllium, niobium, yttrium and REE and the Lake Zone hosts yttrium-REE, tantalum, niobium, and zirconium mineralization. Avalon Ventures' current focus is on REE potential of the Lake Zone deposit.



Thor Lake Rare Metals Zone

Rare metal mineralization was discovered in the Thor Lake area in 1976 by Highwood Resources Ltd while conducting uranium exploration. Over $12 million was invested in exploration and development on the property in the 1980's including geological mapping, sampling, geophysical surveys, and 200 drill holes totaling 13,000 meters. Underground development work, bulk sampling, metallurgy, and market studies were conduct on the North T deposit. Companies included Highwood, Placer Dome, Hecla, and Navigator Exploration.

In mid-2005, Avalon started re-evaluation of the economic potential of Thor Lake focusing primarily on rare earth elements. Assay results confirmed high levels of HREE's over broad intervals in the Lake Zone and extremely high levels in select grab samples from the R Zone.

In 2006- 2007, Wardrop Engineering completed historic resource audits for the Lake Zone REE and North T Zone deposits, a scoping study of potential development scenarios, and a preliminary economic assessment. A drill program to define indicated resources at the Lake Zone was recommended. 43-101 resource estimates are:

North T Zone: Indicated Resources

Subzone	Cutoff %	Tonnes	TREO + Y_2O_3%	BeO%	Nb_2O_5%
C,D,E	0.40 BeO	498,409	0.72	0.98	0.50
F	0.10 Ce_2O_3	43,877	6.50	0.16	0.01
Y	0.04 Y_2O_3	593,815	0.45	0.08	0.59
Total		1,136,101	0.71	0.48	0.53

TREO=Total Rare Earth Oxides, Y_2O_3 = yttrium oxide, BeO = beryllium oxide, Nb_2O_5 = niobium oxide

Lake Zone: Inferred Mineral Resources

Cutoff %	**Tonnes**	**TREO+Y_2O_3%**	**Ta_2O_5%**	**Nb_2O_5%**	**ZrO_2%**
0.10 Y_2O_3	14,005,000	1.23	0.025	0.33	1.73
0.05 Y_2O_3	83,224,000	0.99	0.025	0.31	1.96
0.01 Y_2O_3	375,410,000	0.41	0.014	0.22	1.19

ZrO_2 = zirconium oxide, Ta_2O_5 = tantalum oxide

Both deposits contain relatively high proportion of HREE's and this is key to their economic development potential. HREE's, because of their low abundances (1-3%) in typical REE deposits, are more valuable and in increasing demand for new magnet technology.

An independent market study prepared by BCC Research confirmed growing demand for REE's. The preliminary economic assessment concluded the Thor Lake REE project can achieve acceptable returns on investment and recommended advancing the project to pre-feasibility studies.

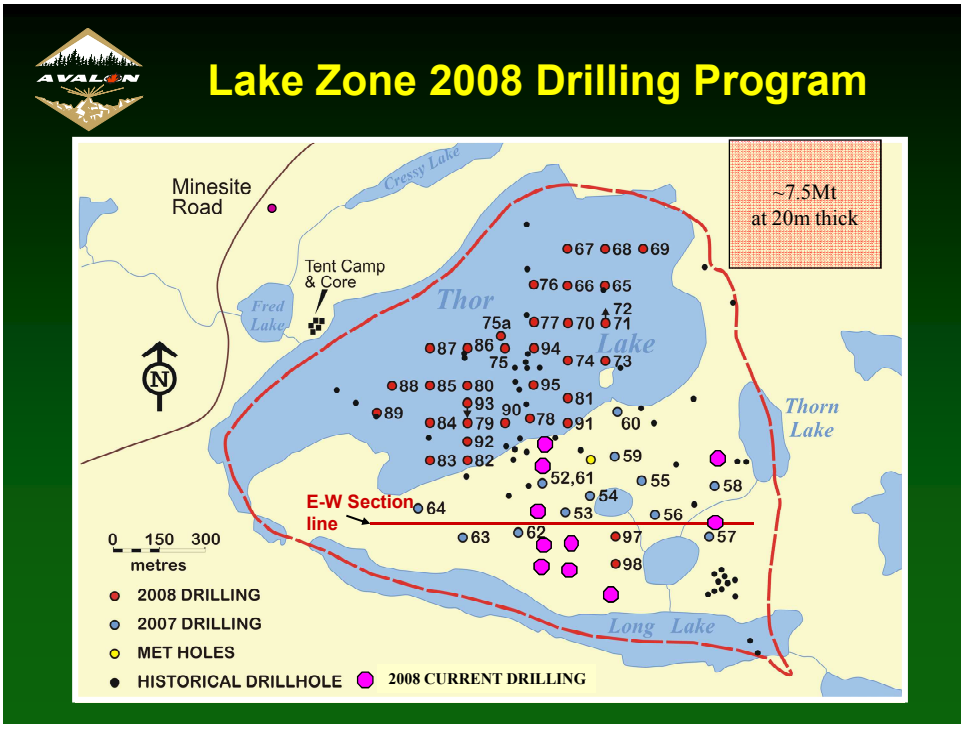
Discounted cash flow analysis of a base case scenario and two variants of increased production rates based on growing REE demand produced the following results:

Production Case tonnes per year Y+TREO	ROI	NPV @ 5%	Mine Life (Years)
North T + Lake Zone @ 500 tonnes / year	18.7%	$111,574,000	35
North T + Lake Zone @ 1,000 tonnes / year	21.8%	$159,180,000	18
North T + Lake Zone @ 2,000 tonnes / year	26.7%	$356,104,000	18

Y+TREO = Yttrium oxide plus total rare earth oxides. ROI = return on investment and NPV = net present value

The model assumed initial development of the North T Zone deposit with by-product recovery of beryllium and transition to the Lake Zone deposit in 4-5 years with tantalum and zirconium as by-products.

Since that study, Phase I and II drill programs delineating the Lake Zone deposit on 100-150 meter centers and defining its areal limits were conducted on land in the third quarter of 2007, on ice thru the winter, and resumed on land again in June 2008. Assays have been received on 47 holes totaling 8950 meters and have defined several intervals from four to 59 meters thick of relatively high grade REE mineralization within a broad mineralized envelope over 100 meters thick averaging about 1% TREO. Drilling continues.



Lake Zone Historic and 2007-2008 Drill Program

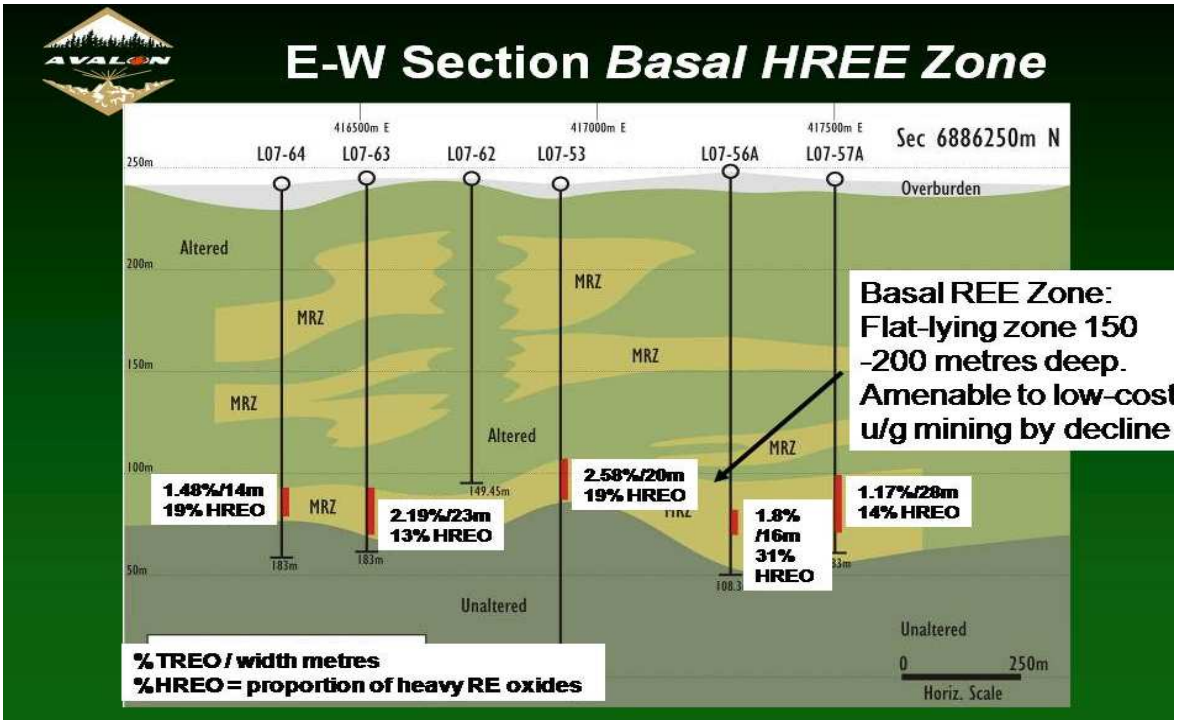
Drilling has confirmed high proportions of heavy rare earth elements europium through lutetium plus yttrium in the intercepts. HREO (heavy rare earth element oxides) range from about 8-17% of TREO over the entire mineralized envelope. Most known rare earth deposits are dominated by the LREE's and

typically contain 1-3% HREO in the TREO. The Lake zone with its high concentration of HREE's is apparently a unique deposit.

The drilling also has defined a "layer-cake" zonation within the deposit consisting of alternating layers of variable REE grades and mineralogy. A high grade, 10 to 59 m thick Basal Zone with HREO at 13% to 30% of TREO occurs within the mineralized sequence at depths of 150-200 meters. The Basal Zone is the priority target for resource definition and future development work on the project. Its thickness, relative shallow depth, and horizontal geometry may be amenable to low cost underground bulk mining with access via ramp decline.

Results from the winter program extended the Basal Zone to the south and west beyond the previously known deposit limits and it is thicker in these areas. Size potential continues to expand.

Avalon Venture's Geologists Dave Trueman and Chris Pedersen with Mickey Fulp



East-West Cross-Section of Basal Zone

The on-going Phase II summer program includes in-fill holes to define indicated resources, a number of step-out holes to test for extensions of high grade mineralization in the southern and eastern parts of the Basal Zone, and holes to map the limits of the deposit.

A block model resource estimate has been commissioned, will be done by Wardrop Engineering, and should be completed by mid September 2008. This study will produce resource grades and tonnages and enable preparation of an initial economic model for the indicated resources of the deposit.

Metallurgical studies on the Lake Zone REE mineralization are on-going at SGS Lakefield Research. In May, an 11 hole fan was drilled from a single pad in the central part of the deposit to provide 1600 kg of mineralized rock for metallurgical process work. Initial work includes QEMSCAN mineralogy and laboratory work to design a flow sheet to recover HREE-enriched mineral phases, most importantly fergusonite, an yttrium-niobium oxide mineral containing high HREE's plus neodymium. A bulk flotation rare metals concentrate will be produced and individual REE's will be recovered by hydrometallurgical methods. Results are expected before year-end. Combined with another resource estimate for the Lake Zone after Phase II drilling is completed, a pre-feasibility study on the deposit is expected at the end of Q1 2009.

In addition, Avalon is conducting environmental studies to supplement baseline data established by previous operators. The company retained Jacques Whitford Environmental Consultants to complete a review of historical environmental studies and conduct a new baseline environmental program. AVL has implemented a pro-active community consultation policy and hosted a number of site visits and community meetings with First Nations representatives. No significant concerns have been raised and the company continues to receive positive reports from government inspectors on its environmental practices.

Two other rare metal zones, the R Zone and the S Zone, warrant further exploration drilling.

Other resource properties:

Warren Township, Ontario: The 1800 ha property is a 100% owned advanced development project located 100 km west of Timmins, Ontario. The Shawmere Anorthosite Complex hosts a historic resource in excess of 800,000 tonnes of high purity anorthosite containing >90% calcium feldspar. Previous work demonstrated that a high quality calcium feldspar product for reinforced fiberglass and mineral fillers is feasible. The deposit is located near road and rail transportation and markets in southern Ontario and the northeastern U.S. Worldwide demand for reinforced fiberglass is forecast to grow 5% per annum for the next five years.

Early in 2006, Avalon received interest from a potential customer in the glass industry. A small test sample was evaluated by the customer and its chemical specifications were deemed acceptable. Approximately 1000 tonnes of calcium feldspar ore was mined, shipped, and processed at a toll mill near Calgary, Alberta from January to October 2007.

The program delivered a 460 ton product sample to the major glass manufacturer. A furnace trial evaluated its performance as raw material for fiberglass applications and potential quality, cost, and environmental benefits. Positive trial results were received in April, 2008. A final comprehensive test is required and AVL must submit a detailed project development plan. If these results are positive, a long term supply contract will be negotiated.

Avalon has applied for permits to operate a quarrying operation and a process plant adjacent to the rail line. Preliminary estimates indicate capital costs of less than $10 million with a production capability of 100,000 tonnes per year. Development is dependent on a contract with the customer and production is at least two years away.

Separation Rapids, Kenora district, Ontario: The 1440 ha property is located 70 km by road north of Kenora and 50 km south of the railway. It lies within native lands and AVL has a memorandum of understanding with the local First Nation. According to the company, environmental concerns are negligible with no hazardous materials in the ore.

The Big Whopper pegmatite is enriched in petalite (lithium feldspar) and tantalite (tantalum-niobium oxide). The deposit has been delineated for 1.5 km of strike, 10-80 m width, and 300 m depth, and is open at depth. It is hosted by amphibolite and flanked by narrow swarms of albite and petalite dikes. Shear deformation is intense and the pegmatite has been homogenized into a medium to coarse grained gneiss.

A historic indicated and inferred resource of 11.6 mm tonnes grading 1.34% Li2O, 0.007% Ta2O5, and 0.30% Rb2O has been delineated within a strike of 600 m and 250 m depth and is open in all directions. A Whittle pit cone contains a 43-101 probable reserve of 7.7 mm tonnes of 1.4% LiO2 and is amenable to open pit mining.

Avalon acquired the project in 1996 and has invested over $4 mm in exploration and evaluation. Included are a pre-feasibility study by Micon Engineering in 1999, drilling and metallurgical work focused on tantalum resources in 2001-2002, and a scoping study evaluating a low-cost lithium glass sand in 2002-2003. A small bulk sample showed an acceptable quality product could be developed for glass-ceramics manufacturers to lower energy costs. In 2005-2006, a potential new market for petalite as a high tech construction material resulted in mining of 300 tonnes. A 40 tonne crushed bulk sample was delivered to a customer in February 2007 but deliveries were discontinued while the customer has attempted to raise additional capital. At present, the company has not been successful in advancing the project for lithium-bearing glass-ceramics. However, increasing energy prices and climate change concerns are creating new

opportunities for lithium mineral producers in the glass industry and market development work is on-going.

In 2007, Avalon initiated hydrometallurgical research to recover a product for the growing lithium ion battery market. The work is being conducted by SGS Lakefield Research under the supervision of AVL's VP-Corporate Development, Ian London.

East Kemptville, Nova Scotia consists of two parcels of land totaling 930 ha, including the southwestern part of the past producing tin-copper-zinc mine of Rio Algom. Avalon acquired the claims for indium resources, a rare metal used for thin film coatings in flat screen televisions and computer monitors. Indium is enriched in greisen deposits at East Kemptville. Indium is a by-product of zinc smelting and current price is US$550/kg. With rising tin prices, the company is re-evaluating the deposit as a primary tin- zinc-copper, and by-product indium producer. A recent in-house study confirmed attractive economics for the East Kemptville deposit.

In 2008 Avalon will complete review of all historical data, re-log and assay drill core, and do mineralogical studies on both the indium-rich Baby Zone and the main East Kemptville tin deposit. A 43-101 inferred resource estimate will serve as the basis for a preliminary economic assessment. Surface rights are retained by BHP Billiton, successor to Rio Algom, and environmental remediation work continues. A surface use agreement is required to allow Avalon to evaluate the deposit on the ground.

Other properties and royalty interests:

The 100% owned **Lilypad Lakes** project consists of 3072 ha on a field of tantalum and cesium-rich pegmatites located 150 km northeast of Pickle Lake, Ontario. Historical work includes 10,000 m of drilling and metallurgical testing. AVL is waiting for a new road into the area. Improvement in the global demand for both tantalum and cesium is also required.

Avalon currently holds two inactive properties, **Red Hill**, a polymetallic volcanogenic massive sulfide in south-central B.C. and **U6 Savant**, a gold property in northwest Ontario.

The **Wolf Mountain** platinum-palladium project is located 90 km northeast of Thunder Bay, Ontario. Avalon owns a 0.4% NSR which can be purchased at any time for $1.0 mm.

Avalon also holds a 2% NSR on five claims of the **East Cedartree** gold property located 70 km southeast of Kenora, Ontario. Metalore Resources Ltd. can purchase 1% from the company for $1.0 mm.

People: Avalon Ventures has strong and experienced management, Board of Directors, and technical teams. I first met CEO Don Bubar in 1994 and have known VP-Exploration Bill Mercer since 1991.

Management includes company founder and CEO Don Bubar, P.Geo., former VP-Exploration for Aur Resources, and a consulting geologist with over 30 years experience in mineral exploration in Canada; Jim Andersen, CA, Vice-President, Finance and CFO who is principal of the accounting firm Andersen & Company; Ian M. London, P.Eng., Vice-President, Corporate Development with over 30 years of business experience including terms as CEO of Process Products Limited and Ontario Hydro International Inc.; Dr. William Mercer, P.Geo., Vice-President, Exploration, a consulting geologist with over 30 years worldwide experience and former Chief Geologist for Noranda-Falconbridge; Cindy Hu, CA, Controller, a chartered accountant with 10 years experience in public accounting and financial reporting for junior

companies; and Mary Quinn, Corporate Secretary with over 25 years experience in the legal sector and mining industry.

The Board of Directors is equally impressive and includes:

The aforementioned Bubar; Alan Ferry, CFA and non-executive Chairman, former Vice President, Dominick Securities Inc, over 25 years experience as a mining analyst and Chairman of Macusani Yellowcake Inc.; Dale Corman, P.Eng. with over 30 years experience in mineral exploration, development, and finance and currently CEO of Western Copper Corporation; Brian MacEachen, C.A. with over 15 years experience in mining, finance, and accounting and currently President and COO of Linear Metals Corp.; Joseph Monteith, Chemical Engineering Technologist, Chairman of Monteco Ltd. and Virtualink Canada; and Peter McCarter, M.B.A and lawyer with 29 years professional experience, former executive and director of Aur Resources

Technical team: Avalon has assembled a team of rare metals and industrial minerals experts. Chief Geologist Chris Pedersen is an experienced geologist specializing in rare metals-bearing pegmatites and intrusions. Vice President of Exploration Bill Mercer is a well-respected geologist thru out the mining industry. Consultants and advisors include P.Geos. David Trueman, Bruce Hudgins, Jean-Philippe Desrochers, Tony Mariano, and Don Hains, and P.Engs. Ian London, Les Heylmann, and Paul Schmidt. Dave Trueman is a world recognized authority on the geology and metallurgy of rare earth element deposits.

Analysis:

Positives: Management and technical teams of Avalon Ventures are top caliber and experienced in the geology and metallurgy of rare metals deposits.

Avalon's graduation from the Venture to the Toronto Stock Exchange in February raised the company profile and should allow increased access to rare metals markets and institutional equity and debt funding.

The Thor Lake project has potential to become a world class heavy rare earth element mine. Increasing demand for REE's, largely driven by 30 kg per hybrid car, coupled with diminishing supply from China, has resulted in much higher prices.

The Warren Township calcium feldspar deposit could generate cash flow in two to three years for a minimal capital expenditure. AVL owns two other relatively advanced rare metals projects which potentially could create value for the company

Avalon has a low market cap compared to its few peers in Canada and Australia but until an updated resource estimate is tabled, its market valuation per unit metal content cannot be quantified.

It has sufficient working capital for the next 18 months. Exercise of warrants that are currently just out of the money at $2.00 would extend that time frame substantially.

Negatives: The company has low liquidity considering that about 35mm shares are in public stock float.

Chinese sources currently supply 97% of the world's REE market and they control prices and supply conduits.

Infrastructure is lacking at Thor Lake, it is in a harsh boreal forest and lake climate, and it will be a relatively high cost operation. A 5.5% NSR, buyable to 3%, could impact economics of the deposit.

Thor Lake is a unique deposit, REE minerals are often difficult to process and recover, and economic recovery of HREE's and other rare metals is undetermined at this time.

Discussion:

Avalon Ventures Ltd. is a junior resource play focused on increasing demand for rare metals. Its flagship property, Thor Lake, is a unique intrusive complex preferentially enriched in heavy rare earth elements and contains very high dollar value ore potential. HREE's are in increasing demand for super magnets essential for production of hybrid cars. Demand for LREE's are also increasing. Other high unit value rare metals such as beryllium, tantalum, niobium, yttrium, and gallium are potential products from Thor Lake.

Risk factors include, in order of concern: metallurgical process recovery, Chinese monopolistic control of the REE market, lack of infrastructure and the harsh Arctic climate, and environmental and socio-economic concerns.

Attempts at recovering Lake Zone tantalum and niobium by previous operators were unsuccessful mainly because they did not recognize that fergusonite (rather than columbite-tantalite) was the principal tantalum-bearing mineral phase in the deposit. There have been no previous metallurgical tests to recover yttrium, the REE's, or gallium. Tantalum metallurgy was re-investigated by Navigator Exploration in 2001-2002 and Lakefield Research's work succeeded in producing a tantalum-REE bulk flotation concentrate that captured the fergusonite as well as other REE minerals. Avalon has commissioned Lakefield to complete this work. If metallurgy can be successfully cracked, Thor Lake will be a robustly economic deposit with potential production of a variety of high dollar value rare metals including HREE's, LREE's, yttrium, tantalum, niobium, and gallium. Until final test results are received, metallurgy is a possible fatal flaw.

China controls the world market for both light and heavy REE's, producing 97% of the world's estimated supply of 124,000 tonnes in 2007 (Source: USGS). The Chinese cut prices drastically in the early 1990's resulting in closure of the Mountain Pass mine, California, at the time the world's premier LREE deposit and establishing their present market monopoly. However, heavy REE's are in short supply with current Chinese resources undergoing declining production due to environmental issues. No new sources other than Thor Lake on the horizon.

Recently China has introduced export quotas, taxes, and other restrictions in an effort to protect supplies for their domestic users. Therefore, Japanese and United States auto companies are searching for an alternative supply for expected demand in hybrid cars. With its unique enrichment in HREE'S, Thor Lake could be the preferred opportunity. An off-take agreement with Japanese or American end-users is a key component for AVL's success. This could happen as soon as the pre-feasibility study is tabled with contingencies reflecting uncertainties at that time.

Environmental and socio-economic concerns are currently minimal although delays in permitting would affect the NPV of the deposit and any off-take agreement. The company has made concerted efforts to include native groups in the exploration and permitting processes and as employees on the project. Avalon has not experienced any vocal opposition to the project and has established good relations with the local business community and federal regulatory entities. It will need to ensure that First Nations benefit from the project in order to avoid opposition and potential permitting delays going

forward.

Thor Lake has a 5.5% net smelter return which is high for industry standards. However, it is buyable down to 3% for about $1 mm and management will attempt to buy out the remainder. The gross metal value per tonne at the Lake Zone deposit will not be known until a new resource estimate is produced in September. However, based on drill grades and current metals prices, it will be very high. Therefore, a 3% NSR should present no major concern.

Drilling is on-going and positive results continue to be delivered. Winter drilling produced the highest grades and thicknesses in holes on the western and southern peripheries of the previously known deposit. The Lake Zone is open in all areal dimensions and continues to grow larger as assay results are received.

Avalon Ventures Ltd. is a speculative risk buy at current price levels of $1.50 - 1.60. With on-going drill success and a forthcoming resource estimate allowing analysts to conduct peer comparisons and preliminary economic analyses, a conservative target price is $3.00 within the next 12 months.

If Avalon develops a successful recovery process for REE's and perhaps other elements, produces a positive pre-feasibility study of the Lake Zone, and secures an off-take agreement for its REE products within the next year, the share price could go much higher.

I view Avalon Ventures, Ltd. as a unique junior exploration company. It is a potential rare metals producer with a large deposit of heavy rare earth elements. Investors could continually take profits as the share price increases but maintain a core position for the long term upside potential of the company in the high demand rare metals sector.

Respectfully submitted,

Mickey Fulp
Mercenary Geologist

The **Mercenary Geologist Michael S. "Mickey" Fulp** is a Certified Professional Geologist with a B.Sc. Earth Sciences with honor from the University of Tulsa, and M.Sc. Geology from the University of New Mexico. Mickey has 30 years experience as an exploration geologist searching for economic deposits of base and precious metals, industrial minerals, uranium, coal, oil and gas, and water in North and South America, Europe, and Asia.

Mickey has worked for junior explorers, major mining companies, private companies, and investors as a consulting economic geologist for the past 22 years, specializing in geological mapping, property evaluation, and business development. In addition to Mickey's professional credentials and experience, he is high-altitude proficient, and is bilingual in English and Spanish. From 2003 to 2006, he made four outcrop ore discoveries in Peru, Nevada, Chile, and British Columbia.

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