



MD&A Disclosure on Community, Environment, Health & Safety

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MD&A excerpt from the six months ended February 28, 2011

During the Quarter, Avalon continued its community engagement work in Lutsel K'e, Fort Resolution (Deninu Kue First Nation and Fort Resolution Metis Council), Yellowknife (YKDFN and North Slave Metis Association) and Hay River (Katlodeeche First Nation and Hay River Metis Council). Continuing community engagement is focused on development of partnerships and facilitating employment and business opportunities for First Nations members.

During the Quarter, Avalon entered into a negotiation agreement with the YKDFN Yellowknives Dene First Nation ("Yellowknives"), and subsequent to the end of the quarter signed a similar agreement with the Deninu Kue First Nation ("DKFN"). Avalon is presently working toward concluding such an agreement with the Lutsel K'e Dene First Nation ("LKDFN"). This type of initial agreement (often referred to as a memorandum of understanding ("MOU")), is done in order to frame the negotiations toward an impacts and benefits-type agreement. Avalon has commenced negotiations on an Accommodation Agreement, with the YKDFN and DKFN, with the objective of concluding these agreements in 2011.

Avalon seeks to create business opportunities for First Nations through its on-going field programs. One recent example was awarding a contract to Deninu Kue Development Corp ("DKDC") to produce core boxes for the project after DKDC was able to establish a manufacturing facility at Fort Resolution with the support of the GNWT. Avalon has since provided assistance to DKDC in marketing its services to other companies active in the NWT.

Avalon has placed a high priority on its performance with respect to health and safety at Thor Lake. During the three months ended February 28, 2011 and subsequent to the end of the quarter, there were a total of two lost time accidents at the Project. One involved frostbite in a finger due to improper gloves and the second involved injuring a finger due to improper tool use. Both incidents involved driller helpers employed by the contract drilling company and both required attention from a doctor in Yellowknife and two weeks off work.

There have been a number of Land Use inspections during the quarter by the Indian and Northern Affairs Land Use inspector, with no significant issues to report. Subsequent to the end of the quarter, a land use inspection in March reported two issues with the drill operations. One related to a defective pipe in a fuel tank and the second to rod grease in the sludge tank. Both these issues have been immediately rectified to the satisfaction of the Land Use Inspector. All land use inspection reports have been filed on Avalon's website in the CSR/Sustainability section.

On February 15, 2011, Avalon received the final Terms of Reference ("TOR") for the environmental impact assessment from the Mackenzie Valley Environmental Impact Review Board ("MVEIRB"). Since then Avalon, along with EBA Engineering Consultants Ltd, have been working on the Developers Assessment Report ("DAR"), commonly known as an Environmental Impact Statement, utilizing the TOR as its foundation. Avalon anticipates the completion of the DAR by the end of April, 2011. Upon submittal of the DAR to MVEIRB, a work schedule will be developed by MVEIRB outlining the expected timeline for completion of the Environmental Assessment process.



MD&A excerpt from the three months ended November 30, 2010

During the Quarter, Avalon continued its community engagement work in Lutselk'e, Fort Resolution (Deninu Kue First Nation and Fort Resolution Metis Council), Yellowknife (YKDFN and North Slave Metis Association) and Hay River (Katlodeeche First Nation and Hay River Metis Council). Continuing community engagement is focused on development of partnerships and facilitating employment and business opportunities for First Nations members.

Subsequent to the Quarter, Avalon entered into a negotiation agreement with the Yellowknives Dene First Nation ("Yellowknives"), and is discussing entering into the same form of agreement with other local First Nations. This type of initial agreement (often referred to as a memorandum of understanding ("MOU")), is done in order to frame the negotiations toward an impacts and benefits-type agreement.

The negotiation agreement outlines broad principles for co-operation and provides the basis for the negotiation of an accommodation agreement. The accommodation agreement (like an impacts and benefits agreement), if agreed to, will be structured to mitigate any adverse impacts of project development, define the benefits to the parties and provide greater certainty with respect to the development of the Project.

After several years of regular consultation, Avalon and the Yellowknives have established a co-operative and respectful relationship for responsible mineral development in the Yellowknives' traditional territory, known as the Chief Drygeese territory. Avalon and the Yellowknives intend to continue and broaden this relationship through these negotiations. Accommodation agreements typically cover a number of topics, such as environmental protection, business and employment opportunities, in respect of the Project. Avalon and the Yellowknives have agreed to commence negotiations on the accommodation agreement as soon as possible, with the objective of concluding this agreement in 2011.

Avalon seeks to create business opportunities for First Nations through its on-going field programs. The major air charter and expediting suppliers are partially Aboriginal-owned through joint ventures. Recently, the drilling company, Foraco, has completed a joint venture agreement with Deton Cho Corporation ("Deton Cho"), the business arm of the Yellowknives Dene, such that the second drill at site is operated under a joint venture between Foraco and Deton Cho. Deton Cho was also contracted to construct the new airstrip.. Avalon's current environmental baseline work is being completed by Stantec (Jacques Whitford) which recently finalized a business joint venture with Deton Cho and EBA Engineering, also responsible for certain aspects of the environmental permitting process.

At least 40% of individuals employed at site are Aboriginal. Two to three driller helper trainees from the 2009 training course for Aboriginal people have been employed at the site at any one time, and one of the graduates has now obtained full-time employment status with Foraco.

Avalon has placed a high priority on its performance with respect to health and safety at Thor Lake. During the three months ended November 30, 2010, there have been no lost time accidents at the Project.

There have been a number of Land Use inspections during the period by the Indian and Northern Affairs Land Use inspector, with no significant issues to report. All land use inspection reports have been filed on Avalon's website in the CSR/Sustainability section.

On April 23, 2010, Avalon filed a detailed Project Description Report ("PDR") with the Mackenzie Valley Land and Water Board ("MVLWB") as the first step in its application for a Type A Land Use Permit and Type A Water License. On June 11, 2010, Avalon was advised by the Mackenzie Valley Environmental Impact Review Board ("MVEIRB") that, as expected, the permit application would be referred for environmental impact assessment which is underway. As of October 26, 2010, scoping sessions have been completed in the communities of Yellowknife, Dettah, Lutsel K'e, Fort Resolution and Hay River. On November 26, 2010, MVEIRB submitted its Draft Terms of Reference ("ToR") with the comment period



extended through January 7, 2011. Avalon is now awaiting MVEIRB's Final Terms of Reference ("ToR") which will serve as the basis for the Developers Assessment Report ("DAR") required for the assessment process.



MD&A excerpt from the year ended August 31, 2010

During the three months ended August 31, 2010 and subsequent to the end of the quarter, Avalon continued its community consultation program in Lutselk'e, Fort Resolution (Deninu Kue First Nation and Fort Resolution Metis Council), Yellowknife (YKDFN and North Slave Metis Association) and Hay River (Katlodeeche First Nation and Hay River Metis Council). Continuing community consultation is focused on development of partnerships and facilitating employment and business opportunities for First Nations members.

A draft MOU has been prepared and delivered to local Aboriginal groups for consideration. The MOU outlines the proposed contents for a participation arrangement and an impact and benefit agreement with First Nations and the basic principles under which the parties will work together to advance the project in a co-operative, timely, yet environmentally and socially responsible way. Initial meetings to discuss the draft MOU were held during the nine months ended August 31, 2010 in Yellowknife, Lutsel K'e and Fort Resolution and follow-up discussions are on going.

Avalon seeks to create business opportunities for First Nations through its on-going field programs. The major air charter and expediting suppliers are partially Aboriginal-owned through joint ventures. Recently, the drilling company, Foraco, has completed a joint venture agreement with Deton Cho Corporation ("Deton Cho"), the business arm of the Yellowknives Dene, such that the second drill at site is operated under a joint venture between Foraco and Deton Cho. Deton Cho was also contracted to construct the now-completed airstrip at Thor Lake which will allow activities to continue through freeze up and spring thaw. Avalon's current environmental baseline work is being completed by Stantec (Jacques Whitford) which recently finalized a business joint venture with Deton Cho and EBA Engineering, also responsible for certain aspects of the environmental permitting process.

At least 40% of individuals employed at site are Aboriginal. Two to three driller helper trainees from the 2009 training course for Aboriginal people have been employed at the site at any one time, and one of the graduates has now obtained full-time employment status with Foraco.

Avalon has placed a high priority on its performance with respect to health and safety at Thor Lake. During the nine months ended August 31, 2010, there has been one lost time accident at the project which occurred in March 2010 when a worker employed by a contractor strained his back lifting heavy items.

There have been a number of Land Use inspections during the period by the Indian and Northern Affairs Land Use inspector, with no significant issues to report. All land use inspection reports have been filed on Avalon's website in the CSR/Sustainability section.

On April 23, 2010, Avalon filed a detailed Project Description Report ("PDR") with the Mackenzie Valley Land and Water Board ("MVLWB") as the first step in its application for a Type A Land Use Permit and Type A Water License. On May 4, 2010, the MVLWB notified Avalon that the application had been accepted and that the MVLWB would be proceeding with a pre-screening process, anticipated to take 30 days, at which time the application may be referred to the Mackenzie Valley Environmental Impact Review Board ("MVEIRB"). On June 11, 2010, Avalon was advised by MVEIRB that, as expected, the permit application would be referred for environmental impact assessment and work required to complete this assessment has already been initiated. As of October 26, 2010, scoping sessions have been completed in the communities of Yellowknife, Dettah, Lutsel K'e, Fort Resolution and Hay River. Avalon is now awaiting MVEIRB's Terms of Reference ("ToR") which will serve as the basis for the developers assessment report required for the assessment process.



MD&A excerpt from the nine months ended May 31, 2010

During the three months ended May 31, 2010 and subsequent to the end of the quarter, Avalon continued its community consultation program in Lutselk'e, Fort Resolution (Deninu Kue First Nation and Fort Resolution Metis Council), Yellowknife (YKDFN and North Slave Metis Association) and Hay River (Katlodeeche First Nation and Hay River Metis Council). Continuing community consultation is focused on development of partnerships and facilitating employment and business opportunities for First Nations members.

A draft MOU has been prepared and delivered to local Aboriginal groups for consideration. The MOU outlines the proposed contents for a participation arrangement and an impact and benefit agreement with First Nations and the basic principles under which the parties will work together to advance the project in a co-operative, timely, yet environmentally and socially responsible way. Initial meetings to discuss the draft MOU with YKDFN were held during the nine months ended May 31, 2010 in Yellowknife and follow-up discussions are on going.

Avalon seeks to create business opportunities for First Nations through its on-going field programs. The major air charter and expediting suppliers are partially Aboriginal-owned through joint ventures. Recently, the drilling company, Foraco, has completed a joint venture agreement with Deton Cho Corporation ("Deton Cho"), the business arm of the Yellowknives Dene, such that the second drill at site is operated under a joint venture between Foraco and Deton Cho. Deton Cho was also contracted to construct the now-completed airstrip at Thor Lake which will allow activities to continue through freeze up and spring thaw. Avalon's current environmental baseline work is being completed by Stantec (Jacques Whitford) which recently finalized a business joint venture with Deton Cho.

At least 40% of individuals employed at site are Aboriginal. Two to three driller helper trainees from the 2009 training course for Aboriginal people have been employed at the site at any one time, and one of the graduates has now obtained full-time employment status with Foraco.

Avalon has placed a high priority on its performance with respect to health and safety at Thor Lake. During the nine months ended May 31, 2010, there has been one lost time accident at the project which occurred in March 2010 when a worker employed by a contractor strained his back lifting heavy items.

There have been a number of Land Use inspections during the period by the Indian and Northern Affairs Land Use inspector, with no significant issues to report. All land use inspection reports have been filed on Avalon's website in the CSR/Sustainability section.

On April 23, 2010, Avalon filed a detailed Project Description Report ("PDR") with the Mackenzie Valley Land and Water Board ("MVLWB") as the first step in its application for a Type A Land Use Permit and Type A Water License. On May 4, 2010, the MVLWB notified Avalon that the application had been accepted and that the MVLWB would be proceeding with a pre-screening process, anticipated to take 30 days, at which time the application may be referred to the Mackenzie Valley Environmental Impact Review Board ("MVEIRB"). Subsequent to the end of the quarter, on June 11, 2010, Avalon was advised by MVEIRB that, as expected, the permit application would be referred for environmental impact assessment and work required to complete this assessment has already been initiated. Scoping sessions are expected to begin in Yellowknife, Lutsel K'e, Fort Resolution and Hay River starting in August 2010.

MD&A excerpt from the six months ended February 28, 2010

During the three months ended February 28, 2010 and subsequent to the end of the quarter, Avalon continued its community consultation program in Lutselk'e, Fort Resolution (Deninu Kue First Nation and Fort Resolution Metis Council), Yellowknife (YKDFN and North Slave Metis Association) and Hay River (Katlodeeche First Nation and Hay River Metis Council). Continuing community consultation is focused on development of partnerships and facilitating employment and business opportunities for First



Nations members. In early April, 2010, an 11 person delegation from the Lutsel k'e Dene First Nation visited the ThorLake project site for one day by snowmobile from the community for a tour of the operations.

A draft Memorandum of Understanding ("MOU") has been prepared and delivered to local aboriginal groups for consideration. The MOU outlines the proposed contents for a participation arrangement and an Impact Benefit Agreement with First Nations and the basic principles under which the parties will work together to advance the project in a co-operative, timely, yet environmentally and socially responsible way. Initial meetings to discuss the draft MOU with YKDFN were held during the six months ended February 28, 2010 in Yellowknife and follow-up discussions are on going.

A land-use permit for construction of an airstrip was received during the quarter and mobilization of heavy equipment required for this work by ice road from Yellowknife was carried out subsequent to the end of the quarter. This work has been contracted to Deton Cho Logistics, a business owned by the YKDFN.

Avalon seeks to create business opportunities for First Nations through its on-going field programs. The major air charter and expediting suppliers are partially Aboriginal owned through joint ventures. Recently, the drilling company, Foraco, has completed a joint venture agreement with Deton Cho Corporation ("Deton Cho"), the business arm of the Yellowknives Dene, such that the second drill at site is operated under a joint venture between Foraco and Deton Cho.

At least 40% of individuals employed at site are Aboriginal. Two to three driller helper trainees from the 2009 training course for Aboriginal people, have been employed at the site at any one time. It is planned to have these individuals certified under Ontario Common Core prior to the cessation of drilling for spring breakup.

Avalon has placed a high priority on its performance with respect to health and safety at ThorLake. During the six months ended February 28, 2010, there have been no lost time accidents at the project. In March 2010, there was one lost time incident where a worker employed by a contractor strained his back lifting heavy items.



MD&A excerpt from the three months ended November 30, 2009

During the three months ended November 30, 2009 and subsequent to the end of the quarter, Avalon continued its community consultation program in Lutselk'e, Fort Resolution (Deninu Kue First Nation), and Yellowknife (Yellowknife Dene First Nation and North Slave Metis Association). This discussion primarily related to Avalon's application for a two-year extension to its land use permit, scheduled to expire in July. No opposition to the proposed permit extension was voiced and the permit extension was received during the quarter ended May 31, 2009. Continuing community consultation is focused on development of partnerships and facilitating employment and business opportunities for First Nations members.

A draft Memorandum of Understanding ("MOU") was prepared and delivered to local aboriginal groups for consideration. The MOU outlines the proposed contents for a participation arrangement and an Impact Benefit Agreement with First Nations and the basic principles under which the parties will work together to advance the project in a co-operative, timely, yet environmentally and socially responsible way. Initial meetings to discuss the draft MOU with YKDFN were held during the quarter in Yellowknife and further follow-up discussions are anticipated in 2010.

Avalon has placed a high priority on its performance with respect to community, environment, health and safety at Thor Lake. During the year ended August 31, 2009, there were two lost time accidents but during the three months ended November 30 there were no lost time accidents on the project. Since drilling work concluded in late October the site has been occupied with a minimal staff involved mainly with equipment maintenance and preparations for the winter drilling program. All land use inspection reports have been filed on Avalon's website in the Sustainability section.