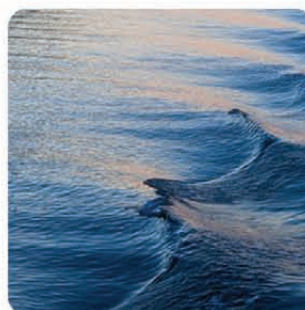


JOURNEY TO A SUSTAINABLE FUTURE

CORPORATE SUSTAINABILITY REPORT 2011



A DEDICATION

The following message of gratitude was published in the *Yellowknifer* newspaper following the tragic accident of September 22, 2011.

This report is dedicated to the brave citizens of Yellowknife.

Avalon shares their gratitude with Yellowknife



On behalf of Avalon Rare Metals' staff, management and visitors who were on the plane, we would like to thank the community of Yellowknife for the tremendous response we received at the scene of the Arctic Sunwest plane crash on September 22. There were many heroic people that day, including one of the passengers themselves, David Swisher, who helped get passengers safely out of the aircraft. Other local citizens rushed to the scene to assist with the rescue of the injured passengers and reduce the risk of fire.

To everyone, we would like to extend our sincere thanks for their brave actions, especially to the following: Al Short, Matthew Grogono, Brian McShane, Greg Lang, Sergio Rodriguez-Sanchez, Miko Pyszak, Sherri Pellerin, Mike Murphy, Heidi Hoefer, Rod Brown, Andrew Sweet, Naomi Horsman, Chris Hrkac, Andrew Otterstrom, Andy Young, Jugjit More-Curran, Wes Hilton, and Ryan Petrie. We also want to acknowledge the many other people and businesses that provided fire extinguishers, blankets and other items that were needed in the moment. We apologize if we missed anyone.

We would like to thank the Emergency Response teams who attended to the injured, especially Dr. Pontin who was doing triage on site with the ambulance crews, Dr. Affleck, Medical Director, and his dedicated team of doctors and nurses, and the staff at the Stanton Yellowknife Hospital.

Finally, we want to again extend our condolences to the families and friends of the pilots Trevor Jonasson and Nicole Stacey who tragically lost their lives in the accident.

Sincerely,

Brian Chandler
Chief Operating Officer





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ABOUT AVALON

Avalon Rare Metals Inc. ("Avalon" or the "Company") is a Canadian mineral resource development company. The Company's primary focus is on rare metals and minerals. The Company is headquartered in Toronto, Ontario, with a Project/Operations office in Delta, BC (just south of Vancouver).

Avalon's flagship development project is its 100% owned Nechalacho Rare Earth Element Deposit (the "Nechalacho Deposit"), located at Thor Lake in the Northwest Territories, Canada ("Thor Lake Project"). Nechalacho is an advanced project now in the Feasibility Study ("FS") stage of development. Nechalacho is one of the highest quality undeveloped rare earth elements ("REE") deposits in the world because of its unique, exceptional enrichment in the scarce heavy rare earth elements ("HREE"). HREE play an important role in many new advanced technologies, including green energy. Nechalacho is one of the few potential sources of these critical elements outside China.

Avalon presently owns interests in six other rare metals and minerals projects in Canada and the USA. Three are also at advanced stages of development: Separation Rapids (lithium) in Ontario, Warren Township (calcium feldspar) in Ontario, and East Kemptville (tin-copper-zinc-indium-gallium-germanium) in Nova Scotia. Two other Canadian properties, Lilypad Lakes and Miramichi Tin, are early stage projects at the resource delineation stage.

Avalon has principally operated in Canada in mining exploration and development. In 2011, the Company established two wholly-

owned subsidiaries: Nolava Minerals Inc. ("Nolava"), a Delaware corporation, and Avalon Rare Metals Processing Inc., a Mississippi corporation. Only Nolava has carried on any significant operations in the U.S. since incorporation with the acquisition of 690 mining claims at Spor Mountain in Juab County, Utah, USA.

In mid-2011, Avalon also launched a significant staffing initiative, to continue advancing the Nechalacho FS. In calendar year 2011 ("CY2011"), Avalon increased its total workforce from 63 to 76. The Company expects to grow to approximately 100 staff in 2012. Avalon's plans also call for its on-going transition to becoming a mining and mineral processing company, complemented by continuing exploration and development.

At Avalon, social responsibility, health and safety and environmental stewardship are cornerstones as the Company grows. In 2010, Avalon was awarded the Environmental and Social Responsibility Award by the Prospectors & Developers Association of Canada ("PDAC"). The Company has been recognized for and is proud of its 2011 university outreach initiative, discussed later in this report, but did not receive any external awards in 2011.

Avalon's shares trade on the Toronto Stock Exchange (TSX) and NYSE-Amex, both under the symbol 'AVL', and on the Frankfurt Stock Exchange (FRA) under the symbol 'OU5'.





ABOUT THE REPORT

Avalon recognizes the numerous advantages of being an early subscriber to sustainability. Being sustainable helps develop the value system and platform upon which to build the organization. It encourages the integration of sustainability into corporate governance and management practices which enables better decision making. It helps the organization to identify opportunities as well as risks and thus the ability to mitigate risks. Measuring and reporting on sustainability establishes where the Company is and helps the organization set goals, and thus drive performance. Sustainable companies find it easier to attract and keep quality people, investors, suppliers, partners and customers. All these combine to improve economic performance and returns to investors, as well as support employees and the communities in which we operate. This gives Avalon its social license to operate.

In January 2011, Avalon embarked on its corporate social responsibility (“CSR”) reporting with a CSR Roadmap (the “Roadmap”). The Roadmap introduced the Company’s strategy for managing the business in a sustainable manner and is referred to throughout this inaugural annual 2011 Corporate Sustainability Report (the “Report”).

This Report has been prepared within the framework of the Global Reporting Initiative (the “GRI”), Version G3.1. The GRI sets out the principles and performance indicators that organizations can use to measure and report their economic, environmental, and social performance. Launched in March 2011, Version G3.1 is the most comprehensive sustainability reporting guideline available today.

G3.1’s Performance Indicators are organized into the categories indicated in Figure 1.

The formal GRI Guidelines, including its Mining and Minerals Sector Supplement, provides performance indicators divided into six different categories as shown in Table 1.

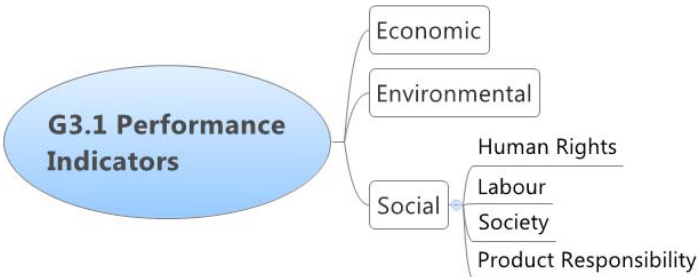


Figure 1. Breakdown of GRI Performance Indicators

Categories	Avalon Performance Indicators
Economics	3
Environment	14
Social - Human Rights	2
Social - Labour	5
Social - Society	3
Social - Product Responsibility	0
TOTAL	27
Level C Required Indicators	10

Table 1. Number of Performance Indicators

Avalon short-listed 27 indicators on which to report, using the following process:

- Examined the details of all 92 indicators, referring to the relevant GRI Indicator Protocols.
- Reviewed GRI reports of other organizations in the mining and minerals sector.
- Screened the various indicators against the interests expressed by stakeholders during the Jantzi-Sustainalytics Assessment, August 2010 (Jantzi Sustainalytics is a leading global provider of environmental, social and governance research and analysis.) These interests included Aboriginal and community engagement, emissions releases, waste management, contractor management, and wildlife protection.
- Evaluated the indicators for their ability to measure material impact on Avalon's business goals.

For the purposes of this Report, items that are considered to have a material impact include one or more of the following:

- A serious or fatal injury to an employee or contractor;
- An event or circumstance that results in a significant environmental impact or results in an environmental regulation being broken;
- An event or circumstance that has a significant impact to Avalon's relationship with its Aboriginal partners or other identified stakeholders;
- An event or circumstance that has a negative impact to Avalon's reputation and social license to operate
- Involves a significant expenditure for Avalon

A significant number of indicators were eliminated from consideration as not being applicable to a company in a pre-operations stage, or to a company with all its operations in Canada and the United States.

Avalon has self-assessed its 2011 Corporate Sustainability Report as exceeding the criteria for GRI G3.1 Application Level C,

as defined in the GRI Application Level Requirement. Please refer to <https://www.globalreporting.org/resource/library/Application-Level-Table.pdf> for detailed information on the Application Level Requirements. Avalon's GRI Content Index is provided on page 39.

This Report covers the activities and performance on both corporate and project levels over CY2011. Financial figures, however, are based on the audited financial statements of the Company's 2011 fiscal year, September 1, 2010 to August 31, 2011 ("FY2011"). The Company is currently reviewing the costs-benefits of aligning the financial and sustainability reports on the same reporting period.

As noted in *About Avalon*, the Company's flagship project in the Northwest Territories has and will continue to be the main focus. As such, most of the performance data gathered and plans going forward refer to Nechalacho.

Some data and commentary related to Avalon's Separation Rapids and Warren Township project have been included due to increased activity toward the latter part of 2011 in response to increased customer interest.

Some performance data and commentary on activities conducted by Avalon's U.S. subsidiary Nolava Minerals has also been included. Nolava has secured mineral claims and conducted prospecting and airborne geophysical surveys, costing in the order of \$700,000 in FY2011. The annual minimum investment is expected to be in the order of \$1 million, assuming the results of drilling in 2012 are positive.

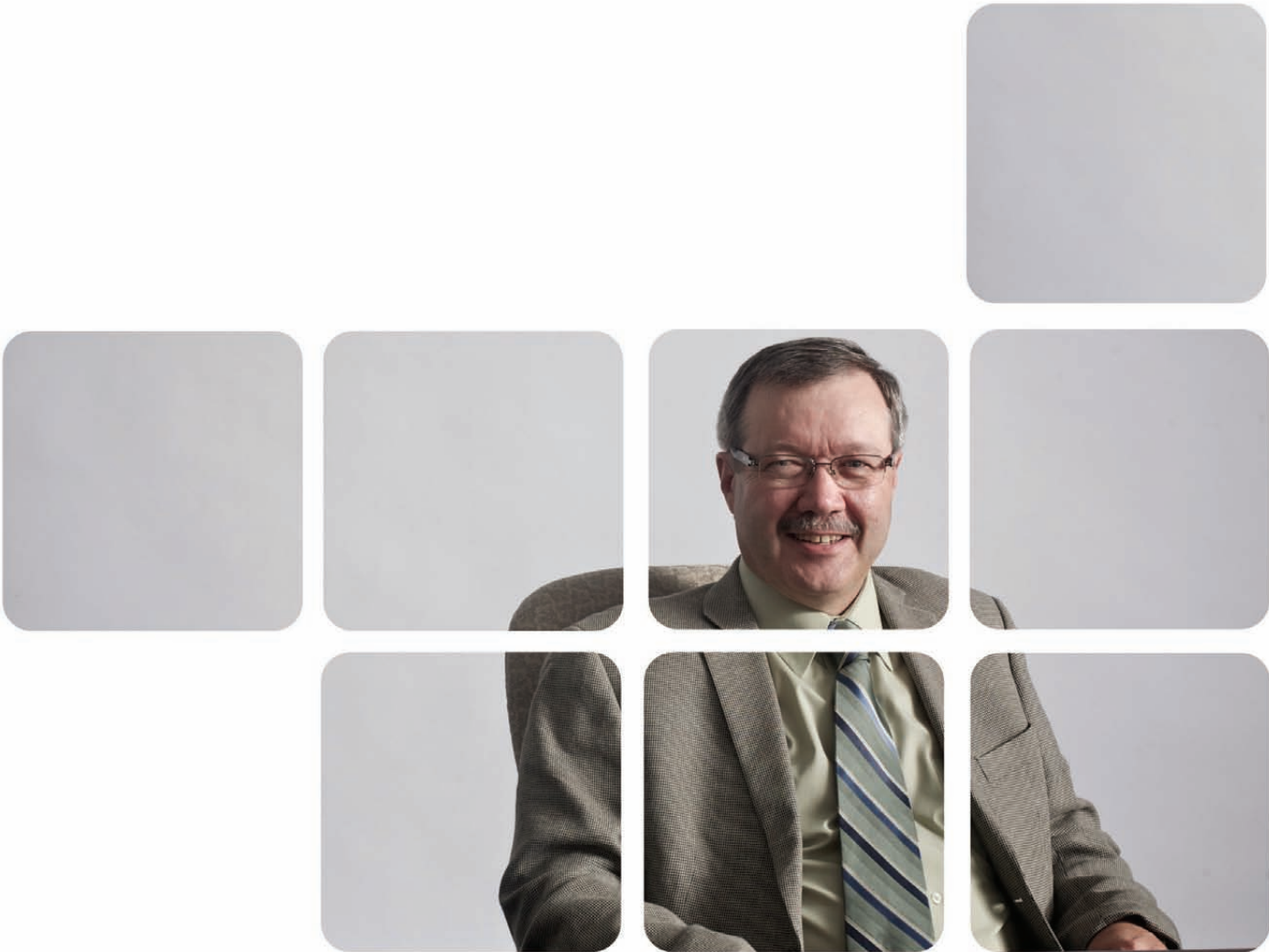
Inactive projects, such as East Kemptville, do not have any comments or plans as they are not germane to this Report. Similarly, the newly formed Avalon Rare Metals Processing Inc. subsidiary has not been reported on as it has not yet been activated.

SITE	Exploration Stage	Preliminary Economic Assessment	Pre-feasibility Study	Bankable Feasibility Study	Construction / Operations	Permitting	Material to the Report (Yes/No)
Thor Lake	✓	✓	✓	★		★	Yes
Separation Rapids	✓	✓	✓			★	Yes
Warren Township	✓	✓				★	Yes
East Kemptville	✓	★					No
Spor Mountain	★					★	Yes
Miramichi Tin	★						No
Lilypad Lakes	★						No

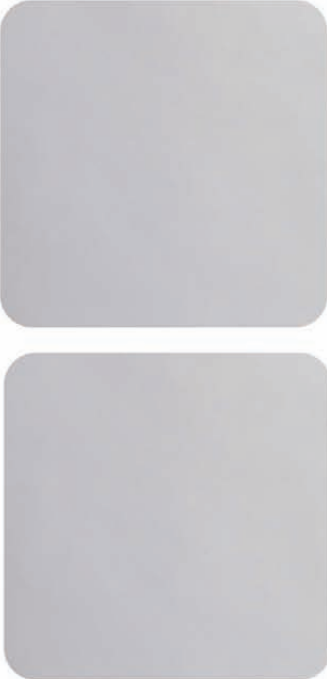
(✓ - completed; ★ - in progress)

For your convenience, a Glossary is provided on page 41 and an Acronym List is provided on page 42

Table 2. Activity Stage and Materiality of Avalon's Project Sites



PRESIDENT'S
MESSAGE



*The theme of this Report,
Journey to a Sustainable Future
 clearly captures the true essence
 of where we, as a company,
 are today and where we are heading.*

In January 2011, we affirmed our commitment to the principles of corporate social responsibility ("CSR") and health and safety in the workplace with the launch of our CSR Roadmap ("Roadmap"). This was a significant initiative, and fundamentally important to our stakeholders and our people. It also helped focus our attention on effective performance and risk management. Building on this initiative, I am pleased to present our 2011 Corporate Sustainability Report, produced in compliance with the international guidelines under the Global Reporting Initiative.

The theme of this Report, *Journey to a Sustainable Future*, clearly captures the true essence of where we, as a company, are today and where we are heading. As I noted in our Roadmap, "We believe that a strong commitment and a strategic approach to corporate (social) responsibility are essential for managing the challenges and opportunities of a rapidly changing global environment."

I also pledged, "The Company is prepared to commit the human resources and provide the policy framework, practices and procedures, and transparent reporting necessary to improve our sustainability performance and enhance our current reputation as a socially responsible small to mid-cap company." We clearly remain aware that as we progress and grow, stakeholder expectations for the sustainable management of material issues will continue to evolve and become more complex.

As reported last year, Avalon joined the Mining Association of Canada (the "MAC") in September 2010. The MAC requires a commitment to its Towards Sustainable Mining program which includes regular reporting requirements. We have integrated these measures into this Report, respecting that the Company is moving in the direction of, but not yet producing a mineral product.

As outlined in our Financial Statements and Management Discussion and Analysis for the year ending August 31, 2011, Avalon has made great strides in advancing the development of its Thor Lake Project in the Northwest Territories. Avalon is currently in the midst of pursuing the necessary permits, negotiating partnering agreements with local Aboriginal groups, and pursuing product sales and financial arrangements.

We are also taking the necessary steps to continue the journey forward through recruiting and training. Our direct employees have doubled in the past year. We have also initiated an outreach program among Canadian universities and institutes in an effort

to further engage science, engineering and business students to study the full range of activities that will help build the needed upstream and downstream rare metal supply chains.

I am delighted that in 2011, Brian Chandler has joined Avalon as our Chief Operating Officer and Mark Wiseman as our Vice President, Sustainability. They, along with the enthusiastic support and energy of our staff, contractors, Sustainability Committee and supporters will clearly keep the journey on track.

The nature of our industry however does have its darker days. In September, we sadly saw the loss of the two pilots and injuries to our personnel and site visitors in a plane accident in Yellowknife. We will always remember the heroic efforts of the community of Yellowknife. Tragic events such as this only reinforce that our journey must continue, always encouraging us to respect and value the people, communities and environment in which we work.

We are committed to building our Company on a solid foundation based on sustainability with challenging targets. I would like to thank everyone connected to Avalon - the individuals and teams that help us meet our commitments, our Board and Advisors that have counseled and encouraged us along the way, those who prepared this Annual Sustainability Report, and to all those who keep us true and transparent. Our Journey to a Sustainable Future will continue.



Donald S. Bubar
 President and Chief Executive Officer

March 26, 2012

CORPORATE GOVERNANCE

Sound governance protects the interests of investors, stakeholders and communities. It also ensures the Company is well managed. These governance systems guide staff and management on performance expectations and help them to make responsible and ethical decisions.

Governance Structure

Avalon's Board of Directors is currently composed of eight Directors, six of whom are independent and two are non-independent directors. The Chairman of the Board, Alan Ferry, is not an executive officer and is independent.

Independent Directors:

- Alan Ferry - *Chairman*
- Phil Fontaine - *2012 Chairman of the Sustainability Advisory Committee*
- Brian D. MacEachen - *Chairman of the Audit Committee*
- Peter McCarter - *Chairman of the Compensation, Governance and Nominating Committee*
- Richard Morland - *Chairman of the Technical Advisory Committee*
- Hari Panday

Non-Independent Directors:

- Donald S. Bubar - *President and CEO*
- David Connelly - *Past Chairman of the Sustainability Advisory Committee (non-independent due to prior consulting relationship to the Company)*

Shareholder and Employee Feedback to the Board

Shareholder proposals, resolutions and other methods allow shareholders to convey their opinions to the Board. Under the Canada Business Corporations Act, registered shareholders receive notice of the Annual

Meeting of Shareholders and are entitled to vote at the meeting. In CY2011, there were no shareholder proposals or resolutions presented. For more details, refer to the 2010 Management Proxy Circular available on SEDAR.

Investors also have the opportunity to provide comments by contacting the Director of Communications and Investor Relations. This can be done by regular mail, telephone, or email.

As a small company, employees get regular interaction with senior management and board members.

Committees of the Board

Avalon's Board of Directors has formally constituted two Committees of the Board: the Audit Committee and the Compensation, Governance and Nominating Committee.

Audit Committee Mandate

The Audit Committee's purpose is to assist the Board in fulfilling its oversight responsibilities to the Company. The Committee also provides a forum for discussions among the Company's independent auditors, management and the Board.

The members of the Audit Committee are Brian MacEachen (Chairman), Alan Ferry and Hari Panday, all of whom have extensive experience in financial management and reporting.

Compensation, Governance and Nominating Committee Mandate

The Compensation, Governance and Nominating Committee (the "CGN Committee") is responsible for making recommendations for the compensation of the executive officers of the Company. Among other things, the Committee

reviews the design and use of the Company's Stock Option Plan and any other executive officers benefits and/or plans. The full Board reviews such recommendations and approves the compensation of the executive officers.

The members of the CGN Committee are Peter McCarter (Chairman), Alan Ferry and Hari Panday, all of whom have extensive relevant experience in either management or Director's roles.

Management Advisory Committees

The Board has also established two Management Advisory Committees to provide input and advice primarily to management and also the Board, if requested. These committees provide expert advice on project design and development, community, environment, health and safety. The Terms of Reference for these two Committees were updated and formalized in 2011. The Committees primarily serve management but are chaired by Board members to ensure transparency on issues of concern or significant interest to the Board.

Sustainability Advisory Committee

At year end, the Community, Environment, Health and Safety Advisory Committee (also sometimes called the CSR Committee), saw the need to take on more advanced and broader activities. As such, it changed its name to the Sustainability Advisory Committee ("SAC"). The SAC is chaired by Director Phil Fontaine, LL.D, a former National Chief of the Assembly of First Nations. The Committee is composed of the following team of independent senior experts:

- Chief Glenn Nolan of the Missanabie Cree First Nation in Northern Ontario

- Denis Kemp, P.Eng.
- Jean Cinq-Mars, B.Sc., MPA

Technical Advisory Committee

The Technical Advisory Committee ("TAC") was formed in 2008 to help advance the Nechalacho Deposit as a responsible mining, milling and marketing project. The TAC tests the Company's designs and plans for efficiency and effectiveness, safety and environmental soundness, and making sure we keep a competitive edge in technology, with the aim of being an employer of choice in the industry.

The TAC is chaired by Director Richard Morland, P.Eng. Richard is a mining engineer with 30 years in the mining industry in Australia and Canada. Richard has held the positions of Vice President of Operations at the Ekati Diamond Mine and also President and Chief Operating Officer of BHP Billiton Diamonds Inc. Richard is advised by a team of independent senior experts:

- Denis Kemp, P.Eng.
- Ross MacFarlane, P.Eng.
- Paul Schmidt, P.Eng.
- Harry Burgess, P.Eng.

Avalon is committed to sustainable development, by seeking to maximize the recovery of the resources we mine, by taking opportunities to improve environmental, social and economic benefits, and by reducing any undesirable impacts that may result from our activities.

POLICY FRAMEWORK

It's believed that Avalon was the first exploration company to formally adopt the PDAC's *e3 Plus Principles for Responsible Exploration* as policy of the Company. While these principles still apply, Avalon recognizes that as it moves into construction and operations, additional challenges will need to be managed. To meet these challenges and sustainability commitments, detailed health, safety, environment and community management plans will be put in place in 2012. These plans will be in line with the requirements of the new Sustainability Policy (see *Safety and Environment Policy* for further details), the MAC *Towards Sustainable Mining ("TSM") Guiding Principles* and the GRI. These plans will evolve as Avalon grows and matures. We expect these plans to contribute to improving our overall sustainability performance.

Code of Business Conduct and Ethics

Avalon's Code of Business Conduct and Ethics (the "Code") reflects the Company's strong sense of corporate social responsibility and active involvement with co-workers, host communities, regulators and customers. It is the integration and application of all these components into the corporate culture and management systems that defines sustainability for Avalon.

Avalon requires high standards of transparent professional and ethical conduct from its employees and contractors. The Company's reputation for honesty and integrity with shareholders, business partners, and other stakeholders is one of the key elements to the Company's success.

Avalon's business practices will be compatible with the economic, social and environmental considerations of each location in which it operates. Although customs vary by location or in

different business environments, honesty and integrity will always shape our business activities. If a law conflicts with a policy in this Code, we comply with the law. If however a local custom or policy conflicts with this Code, we comply with the Code. In 2011 and in all previous years of activity, Avalon has not been levied any fines or convicted of non-compliance with laws and regulations. All Land Use Inspector reports for the Thor Lake project can be reviewed on the Avalon web site.

Disclosure Policy

The Code is supported by the Disclosure Policy. This policy ensures communications to all stakeholders comply with all applicable legal and regulatory requirements, including National Instrument 51-201 – Disclosure Standards. For more information, please see the Roadmap.

Whistleblower Protection Policy

The Whistleblower Protection Policy establishes procedures for the receipt, retention, and treatment of complaints received by Avalon regarding accounting, internal accounting controls, auditing matters or violations to its Code of Business Conduct and Ethics.

Avalon employees can submit, on a confidential and anonymous basis, concerns or complaints about the accuracy, fairness or appropriateness of any accounting policies, financial reports or violations of the Code of Business Conduct and Ethics.

Avalon is committed to complying with all applicable accounting standards, securities laws and regulations. The fair and accurate reporting of all material financial and non-financial information regarding the Company and the business affairs is of utmost importance.

Avalon is also committed to complying with applicable environmental, health, safety, and community laws, regulations and standards. In 2012, the Whistleblower Protection Policy will be clarified to address these as well as the financial components. A complementary Community Input and Complaints procedure, will be developed to provide another mechanism to allow management to directly address concerns or complaints with Avalon's Sustainability Policy, procedures, standards and commitments, as well as the applicable laws and regulations. It will include a process, in addition to those outlined in existing agreements, to identify and address potential impacts on local Aboriginal groups and communities in a timely and transparent manner. A telephone number and procedure for reporting will also be posted on the Company's website and publicly communicated to Aboriginal partners and other key identified community stakeholders.

Safety and Environmental Policy

Avalon's Safety and Environmental Policy has been very helpful in leading the Company through successful early exploration, environmental and social baseline reviews. The Policy's focus on environmental protection contributed to the completion and acceptance of the Developers Assessment Report ("DAR") by the Mackenzie Valley Environmental Impact Review Board ("MVEIRB") for the Thor Lake project. The DAR is similar to an Environmental Impact Assessment in other jurisdictions. At year end, the DAR was under the first phase of the review process led by MVEIRB.

For more information, please visit our website:

Policy Framework policies:

http://www.avalonraremetals.com/corporate/corporate_governance/

Corporate Governance policies:

<http://www.avalonraremetals.com/corporate/committees/>

For your convenience, a Glossary is provided on page 41 and an Acronym List is provided on page 42

In 2012, Avalon will expand the current Safety and Environmental Policy into a broader and more comprehensive Sustainability Policy and put into place the necessary supporting management systems. The Sustainability Policy will include the areas of health, safety, environment and community during construction and operational phases.



RARE EARTH ELEMENTS AND SUSTAINABILITY

The use of rare earth elements and rare metals make modern day consumer electronics, electric and hybrid vehicles, medical diagnostics, renewable energy and many other cutting edge technologies possible. These metals have become the key to clean, efficient and effective technologies (see Figure 2).

End use customers, the general public, policy makers, and major industrial companies are demanding that the processing of these materials be done in a sustainable way. They expect that companies proactively and transparently implement high standards of corporate governance and environmental and community stewardship, and also be transparent about it. In doing so, companies earn a social license to operate. Avalon recognized these expectations and responsibilities early in its growth and saw value for its shareholders in adopting principles of sustainability at an early stage. As the Company transitions towards being an operating company and future provider of raw and partially processed materials, it continues to build the management systems and internal culture necessary to support sustainability.





Energy Production	Energy Reduction	Energy Efficiency	Lifestyle Products
			
Petroleum Refining	UV Filters in Glass	Electric / Hybrid Vehicles	Color Screens
La	Ce	Nd Sm	Y Eu Tb
High-Powered Electric Motors	Reducing Fuel Consumption	Rechargeable Batteries	Hardware Components
Nd Dy Tb	Nd	La	Nd
Electric / Hybrid Vehicles	Lighter Vehicles	Energy-Efficient Lighting	Medical Services
La	Dy	Eu Tb Ce Y La	Ce Nd Gd
Wind Turbines	Smaller, Lighter Electric Motors		
Nd Dy Tb	Nd Dy Tb		

Figure 2. Rare Earth Element Applications

OUR STAKEHOLDERS

Through ongoing community engagement, Avalon has identified six significant communities of interest or stakeholder groups that share the highest level of interest in the Company's sustainability performance and have the most power to influence its success. These six stakeholder groups can impact permitting processes, the Company's reputation, and operating efficiency. These stakeholders include Aboriginal and local communities, non-governmental organizations ("NGOs"), Federal, Provincial, Aboriginal and Municipal governments (collectively referred to as "governments"), investors, employees, and contractors.

A broad assessment, including individual interviews, was conducted by Jantzi Sustainability ("Jantzi") in mid-2010. It concluded that the extent to which Avalon's sustainability behaviour constitutes an opportunity or risk is directly related to whether it meets and/or exceeds the expectations of these stakeholders. The expectations of four stakeholder groups were deemed by Jantzi to be the most important: Aboriginal and local communities, NGOs, governments and investors. Aboriginal and local communities were identified as the most interested in the environmental and social impacts of mining. They also play a significant role in the permitting process in the Northwest Territories. Several NGO's also expressed a range of concerns and can be influential in driving either support for or resistance to Nechalacho. Governments are powerful in impacting the

mining sector's profitability as they establish the operating rules and penalties for non-compliance. Investors, including insurers and lenders, are particularly important for junior exploration companies such as Avalon, as they largely determine access to capital. Investors are becoming more interested in the environmental and social performance of companies, especially those operating in sectors with contentious reputations, such as mining.

Stakeholders interviewed in Yellowknife in mid-2010 were familiar with Avalon and very familiar with the three large mining companies operating in the region. Through these discussions, it became clear that stakeholders will benchmark Avalon's performance against these three companies, which for the most part, are perceived to have good sustainability records.

Most of the stakeholders interviewed were familiar with Avalon and rated its sustainability performance as good. While some stakeholders could comment significantly on company performance and others not, the large majority of them stated that Avalon's sustainability performance was important.

Avalon is aware that as it progresses through permitting and production, the expectations for the sustainable management of issues important to the Company will become more complex. While Avalon may be reasonably well positioned now, the Company will not underestimate stakeholder

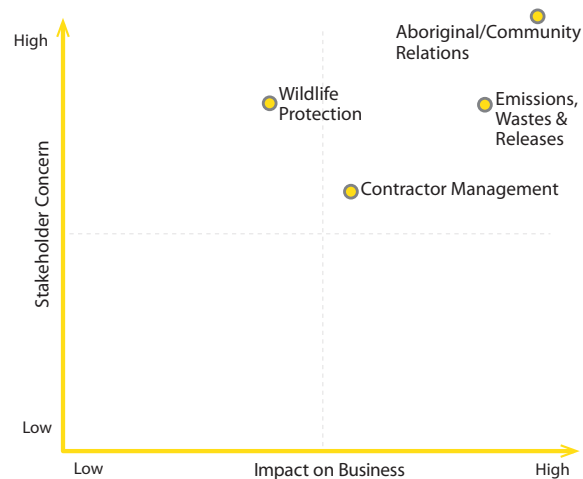


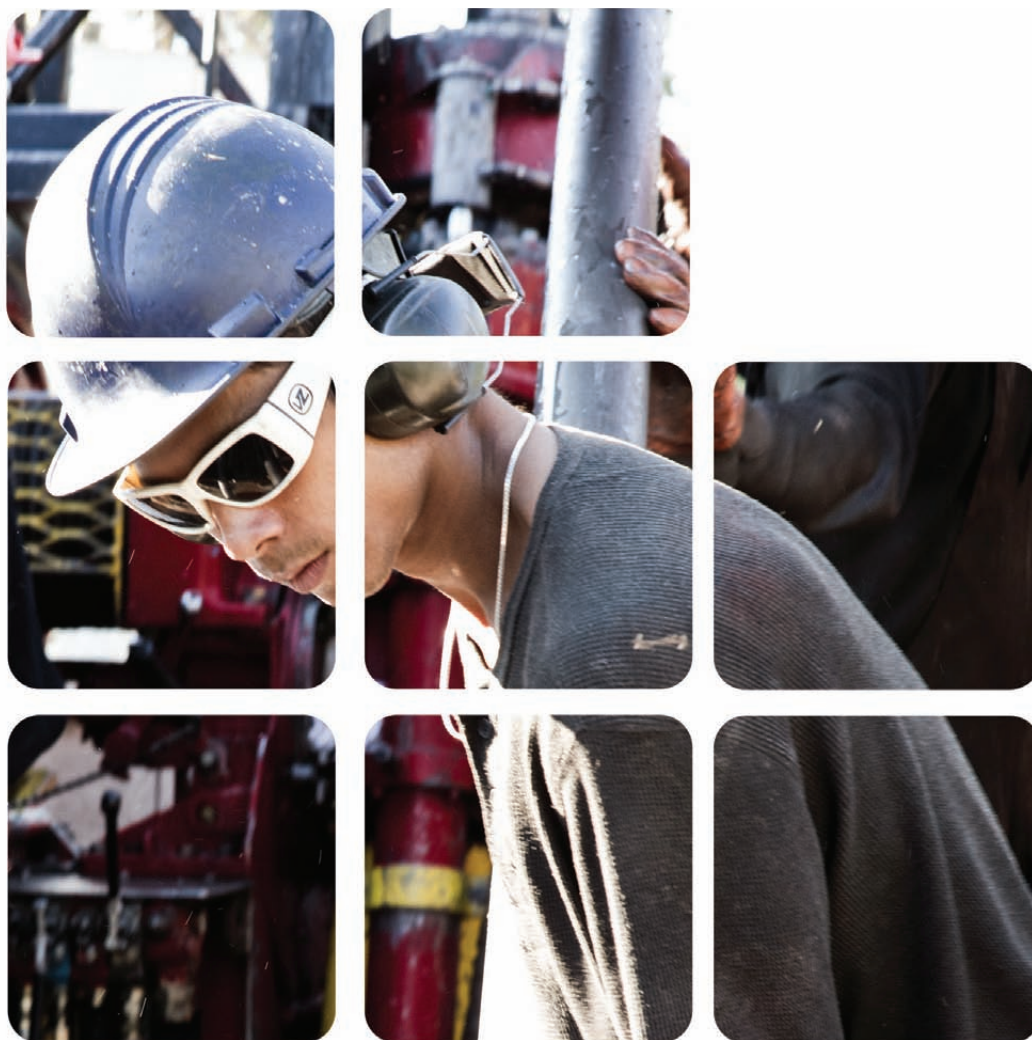
Figure 3. Stakeholder Concerns and their Impact on Business. Source: Jantzi Sustainability, Aug 16, 2010 Avalon Rare Metals Stakeholder & Competitor Intelligence Report

expectations, or the resources and commitment necessary, for keeping its current position as a sustainable company.

Avalon had intended to conduct a follow-up assessment, including a broader number of interviews, in the latter half of 2011. However, as noted elsewhere in this Report, Avalon established Memoranda of Understanding ("MOU") with each of the three First Nations closest to the Thor Lake Project. This launched negotiations of more definitive agreements, framing Avalon's working relationships with the surrounding Aboriginal groups. As such it was deemed that further CSR-related assessments and interviews could distract interviewees from the multiple discussions already underway. Once these negotiations are completed, Avalon is committed to conducting a follow-up assessment and benchmarking initiative, building on Jantzi's

independent work and findings.

Jantzi's industry and stakeholder research determined several key issues that exploration and mining companies are expected to manage sustainably. The resulting 'sustainability issues – materiality' matrix is shown in Figure 3. This matrix positions the level of concern stakeholders have regarding economic, environmental and social issues, and the degree to which that issue can impact the business. In the matrix, the issues of greater urgency appear toward the top right. These issues are addressed in this Report.



SUSTAINABILITY ISSUES AND PERFORMANCE

ECONOMIC

Economic Performance and Contributions

Avalon is committed to creating value while continuously improving its performance as a good corporate citizen. The Company's Code of Business Conduct and Ethics outlines guiding principles governing its sustainable economic performance. This includes full compliance with laws and regulations, seeking competitive advantage through ethical practices and superior performance, and honest, accurate recording and reporting of information.

As Avalon has not yet entered into production the only source of revenue during FY2011 was interest revenue. For FY2011, Avalon realized a net loss of \$9,421,386. More information is available in the 2011 Financial Statements on SEDAR.

Avalon contributes to the wealth and prosperity of its stakeholders through direct and indirect employment, and the creation of broader economic opportunities. Table 3 is a high level income statement summarizing the Company's monetary contribution to employees, consultants and various service providers.

	FY2011 (CAD)
Revenue	
Interest	\$ 605,142
Expenses	
Amortization	\$ 173,302
Consulting fees	\$ 166,245
Directors' fees	\$ 198,050
Insurance	\$ 203,941
Interest and financing costs	\$ 8,549
Office and general	\$ 95,344
Professional fees	\$ 494,417
Public and investor relations	\$ 876,036
Rent and utilities	\$ 252,842
Salaries and benefits	\$ 1,600,985
Shareholders' information	\$ 105,651
Stock-based compensation	\$ 5,074,444
Transfer and filing fees	\$ 496,168
Travel	\$ 332,762
	\$ 10,078,736
Loss before the Undernoted Items	-\$ 9,473,594
Foreign Exchange Gain	\$ 52,208
Net Loss for the Year	-\$ 9,421,386

Table 3. Economic Value Generated and Distributed in FY2011

Donations

Avalon established a formal donation policy and updated guidelines in early 2011. The policy and guidelines are designed to support various local social and cultural activities in regions where Avalon conducts its business. They are also designed to maintain good community relations in a fair, reasonable and transparent manner. Avalon's donation policy and guidelines are consistent with the Company's governance, ethics and CSR framework. One-time donation limits can be up to a maximum amount of \$1,000. Larger donations, that may have a higher positive impact, require the approval of the President and CEO.

Donations are only considered if they relate to education, health and safety, environment, skills training, culture and arts, and to Aboriginal partnership functions. Qualified applicants must assure that the events have a zero tolerance for alcohol and drugs, and that all applicable regulations are followed.

Donations are also only made if they are recognized and approved by key community decision makers. Recipients are required to provide a summary report on the event and how the sponsorship funds were utilized.

Avalon recognizes that its donation guidelines are subject to flexibility and/or change to provide optimal benefits.

Donations in 2011 were the highest to date. A summary of the donations from 2006 to 2011 can be seen in Figure 4. A breakdown of the 2011 donation can be seen in Table 4.

Details	Amount \$ CDN
St. John Ambulance For room rental and service of Avalon Special Event	250
Mine Training Society For Community Information Update Reception	252
Cliff Lake Capital Limited For Lake of Woods Railroad Museum	500
NWT SPCA For sponsoring dog apartment and cats condo	500
YWCA Yellowknife To GirlSpace for serving at Northern Study Tour Dinner	500
Cliff Lake Capital Limited For Chief Fisher's rebuilding fund	1,000
Ecole Sir John Franklin High School For 2011 Grad Celebration	1,000
Hay River Music, Arts and Culture Society To Hay River music festival - gold level donation	1,000
Polar Lake Recreational Committee For Polar Lake Fish Stocking Program	1,000
Yellowknife Choral Society For Brahm's German Requiem	1,000
United Way of Yellowknife	1,500
McGill University For field trip donation	2,000
Donations to Aboriginal Organizations	33,350
TOTAL DONATIONS FOR FY2011	43,852

Table 4. Breakdown of 2011 donations

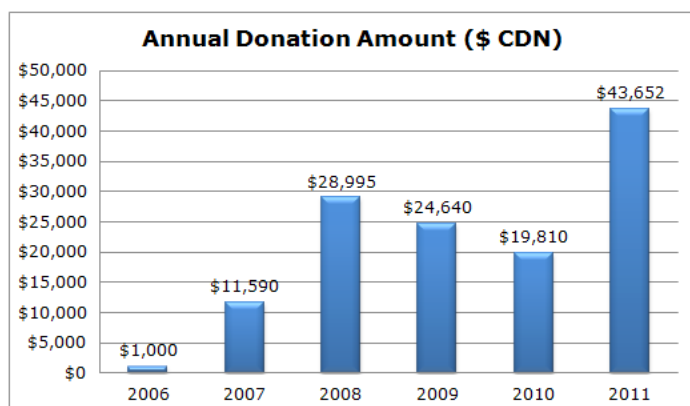


Figure 4. Fiscal year donation amounts



YMCA YK GirlSpace activities. Photographed by Kirsten Murphy.



An Avalon tradition is emerging in the form of an annual BBQ for local business, Aboriginal and political leaders in the Yellowknife area. Held at the Yellowknife home of Avalon Director, David Connelly, Avalon invites a Northern not-for-profit group to assist in hosting the evening. The not-for-profit group is also invited to mingle with the guests to talk about the vision and mission of their charity, while the guests enjoy a variety of traditional Northern and country foods.

The BBQ is opened with a prayer from a local Aboriginal group, which in 2011 was led by the Yellowknives Dene First Nation. Food is provided by Avalon and prepared by local chefs.

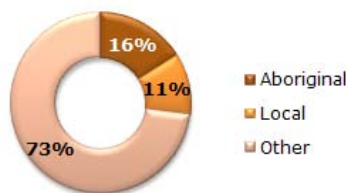
During this 2011 event, a hat was passed to raise funds for the Yellowknife YWCA GirlSpace program. Remarkably, over \$10,000 was raised. Past beneficiaries have included Breakfast for Learning and Taiga Girls Summer Camp.

Procurement and Local Hiring

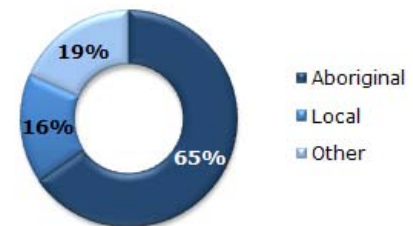
Avalon understands that by maximizing local hiring and purchasing it contributes to the sustainability of the communities in which it operates, and demonstrates the direct benefits the Company brings to local communities. In 2011, the Company had an informal policy which encouraged the procurement of materials, services and workers from local sources. It define local as being within the same province or territory as the operation. So for the Company's flagship project at Thor Lake, hiring and purchasing from sources within the Northwest Territories is considered local. In 2012, it is the Company's objective to adopt a formal policy which provides criteria and consideration for local purchasing and hiring.

Figure 5 shows a year-over-year expenditure breakdown of vendor groups at Thor Lake. Figure 6 illustrates the percentage of Aboriginal and local workers at Thor Lake for CY2011.

Expenditure Breakdown of Vendor Groups at Thor Lake, FY2010
(Total expenditure \$12,260,235)



Breakdown of Workers at Thor Lake, CY2011
(49 workers in total)



Expenditure Breakdown of Vendor Groups at Thor Lake, FY2011
(Total expenditure \$16,181,875)

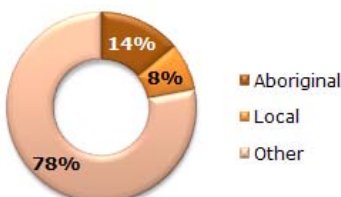


Figure 6. Percentage of Aboriginal and Local Workers at Thor Lake

Figure 5. Year-Over-Year Aboriginal and Local Purchasing Comparison



SUSTAINABILITY ISSUES AND PERFORMANCE

ENVIRONMENTAL

Avalon recognizes that the protection of the environment is key for its continued success. As responsible stewards of our assets, Avalon is committed to allocating sufficient resources to meet or exceed all applicable environmental laws, regulations and standards at all phases of its operations. Operations will range from exploration through to decommissioning and rehabilitation activities. Where environmental laws, regulations or standards are not in place, Avalon will use cost effective best management practices.

Avalon's six point approach to environmental management includes:

- Continuously reviewing technologies, and benchmarking performance to further improve performance.
- Evaluating, planning, constructing and operating facilities in a manner that reduces adverse environmental effects.
- Preservation of biodiversity and functioning ecosystems; Educating employees and contractors in their environmental responsibilities.
- Continuously improving the efficient use of raw materials, energy and natural resources to reduce greenhouse gas emissions, wastes and their toxicity.
- Fostering good community relations through regular and transparent engagement with employees, Aboriginal partners, local communities, governments and NGO's regarding environmental performance.

Avalon continued its environmental baseline studies on the Nechalacho Deposit in 2011. The Company successfully submitted its DAR to the MVEIRB in May 2011, just three months after receiving the terms of reference. The DAR was formally deemed in conformity with

the terms of reference in November 2011, and then immediately proceeded to the Information Requests stage. The DAR, equivalent to an Environmental and Social Impact Assessment in other jurisdictions, analysed the potential impact that the project could have on communities, air, water, groundwater and fish and wildlife biodiversity and concluded that no significant negative impacts are anticipated. The DAR has been reviewed by Aboriginal governments and organizations and other stakeholders and Information Requests have been submitted. The Company is now in the process of responding.

Avalon was not assessed fines or convictions at any projects for any environmental issues in 2011 or at any time in its history.

For your convenience, a Glossary is provided on page 41 and an Acronym List is provided on page 42

Thorium and Uranium Management

All rare earth ore bodies contain varying amounts of thorium (“Th”) and uranium (“U”) that are usually associated with the rare earth minerals. Therefore, in mining and processing the ore, one has to monitor for U and Th to ensure that undesirable levels of radiation exposure do not arise. Avalon is committed to managing any exposure to U and Th in a manner that ensures a safe environment for our employees, customers, and the public in the communities in which we operate, as well as to protect the natural environment.

Avalon is also committed to meeting or exceeding the requirements of all applicable legislation associated with these materials. Avalon has thousands of assays from its extensive drilling program that demonstrates its rare earth ore body has one of the lowest average concentrations of Th and U amongst rare earth deposits currently being evaluated (see Figure 7). This is based on Avalon’s published National Instrument 43-101 compliant resource estimates (2011). SENES Consultants Limited (“SENES”), one of the leading independent experts in energy, nuclear and environmental sciences, noted in their report that at these low

concentration levels, applying standard risk mitigation techniques such as ventilation, will ensure exposures to radiation from mining activities are below thresholds of concern.

Thorium, uranium and radiation are words that prompt strong emotion in many individuals, and rightly so given the potential risks that these words represent. It is commonly known that we are all exposed daily to radiation in many forms and levels from a variety of sources, e.g. natural background concentrations in the material around us like granite countertops to the exposures from the sun, and dental and medical x-rays. Given that the ore body will contain amounts of these naturally occurring radioactive materials (“NORM”), Avalon fully accepts the responsibility to thoroughly investigate the potential impacts of these two elements at all stages of its operation, from mining through its intermediates and to its final products and in its wastes. While the concentrations of U and Th are far below the concentrations experienced in uranium mining and processing operations, Avalon will benefit from the understanding and

knowledge gained through decades of safe operations in these facilities.

Laboratory test work has identified Th and U concentrations at the different stages of Avalon’s processing plans. Potential worker exposures were also estimated by SENES. The estimate included assumptions of direct exposures, and those associated with inhalation and ingestion of ore dust. The calculated dose was estimated at 1.4 mSv/year from all these sources. To put this in perspective, the average Canadian receives 1.8 mSv/year from natural background radiation. It is well below the Health Canada dose limit of 20 mSv/year for workers who work in areas with NORM.

However, this is in excess of the 1 mSv/year Pathways Assessment limit (a process for identifying total exposures from all sources) for incidentally exposed workers and the 0.3 mSv/year for the “unrestricted” category for radiological protection requirements. As the estimated exposure is above the 1 mSv/year incidentally exposed classification, it is good practice (though not required until doses exceed 5 mSv/year) to implement a radiation protection program for workers. As a precaution, Avalon has committed to implement this protection program.

A Pathways Assessment for the impact of the Thor Lake tailings was also completed by SENES, using conservative assumptions. The incremental dose to site workers or other passersby was estimated to be “well below the unrestricted dose constraint of 0.3 mSv/year”. The assessment also concluded that the dose to aquatic biota to be “well below the accepted benchmark dose” and no adverse effects on aquatic biota are anticipated from the release of radionuclides to the water. Similarly, no adverse effect on terrestrial biota is expected from the release of radionuclides to air and water.

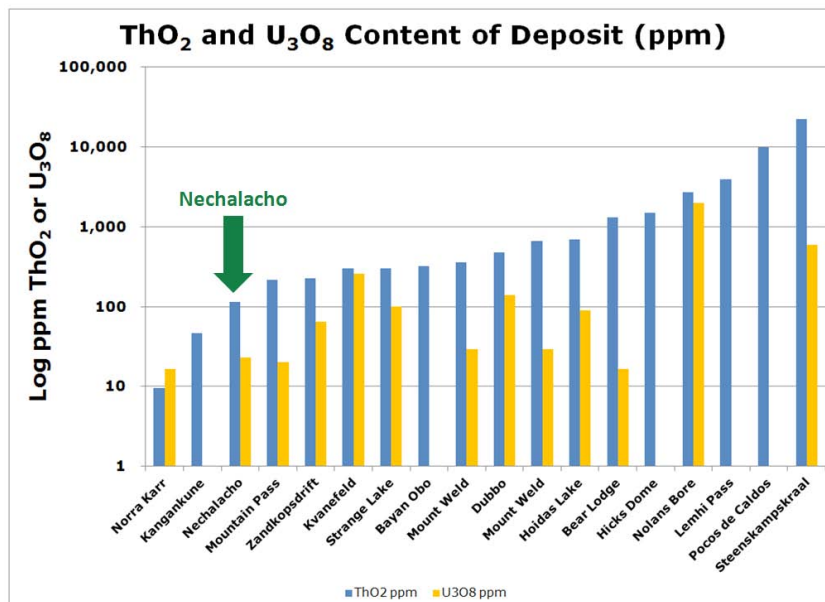


Figure 7. Data is based on public company information and technical reports. Uranium data not available if not shown on graph.

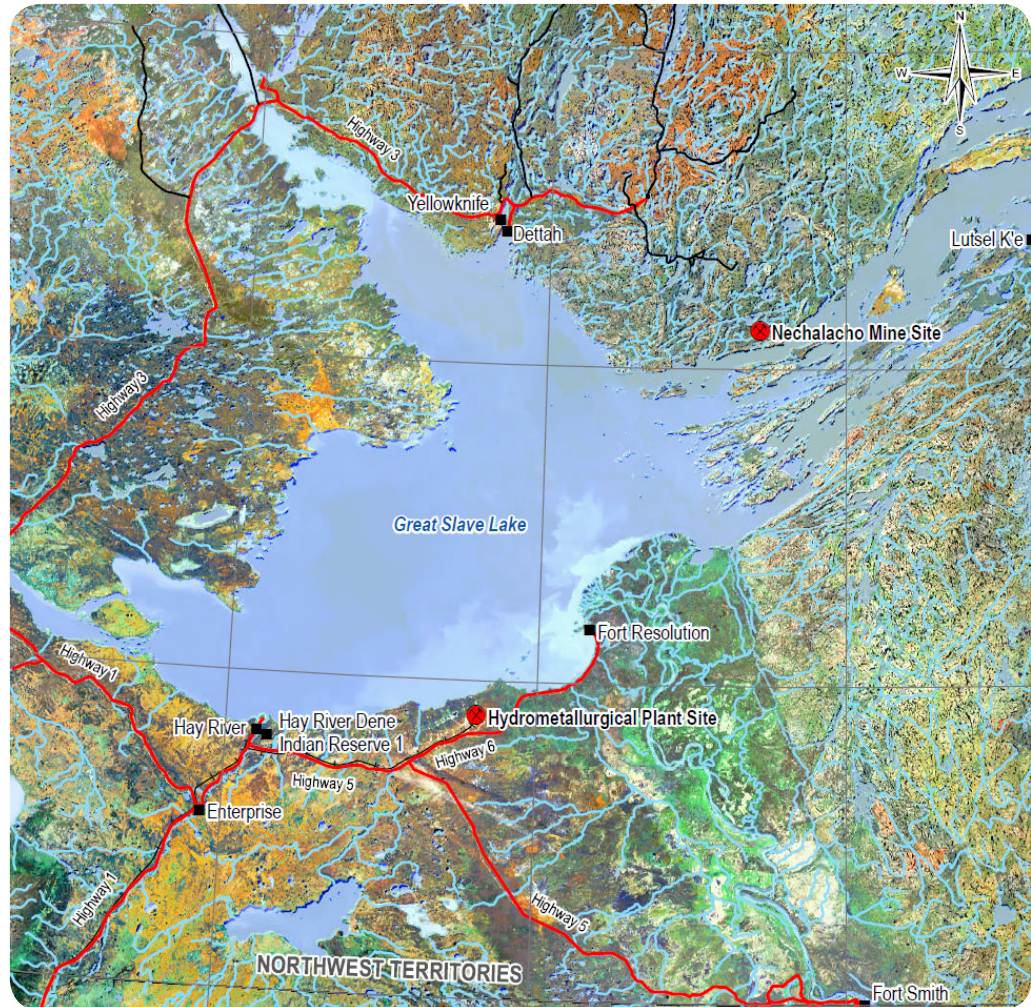
Further processing of the mineral concentrate at Pine Point will result in a rare earth precipitant product and an additional tailings product. Processing will ensure that uranium and thorium concentrations will be sufficiently low as to not be regulated under the Canadian Nuclear Safety Commission and not subject to Canada's Export and Import Permits Act, and also not regulated under either the US Nuclear Regulatory Commission or the Canadian or US transportation regulations. While fine tuning of the process is ongoing to enable determination of the final tailings concentration, at Pine Point, there is no surface water discharge. The tailings will be managed to meet regulatory requirements and to protect the environment and personnel.

Radon, a product of uranium and thorium decay with a half-life of 3.8 days and 56 seconds respectively, has also been expressed as a concern. A half-life of 3.8 days means that half of it decays every 3.8 days of its formation. Radon is a gas and is also recognized as a health risk for workers if inhaled. Its concentration is controlled through ventilation, and levels will be monitored at all locations of potential concern such as underground. The concentrations of radon from the tailings are anticipated to be so low that monitoring for radon will not be required under present regulations.

Further information can be obtained from SENES reports publicly available in Appendix 4 of the DAR (available online at www.reviewboard.ca). Avalon will continue to assess the potential for undesirable radiation exposures and determine how to mitigate these as we continue to refine the Thor Lake and Pine Point Project designs. As mentioned above, as a precaution, Avalon will develop radiation protection programs for its operations that will further reduce the potential risks to its employees. This will

include training, monitoring of facilities and workers, good hygiene practices and the implementation of risk reduction equipment and procedures such as good ventilation and dust control. Avalon commits to meeting or exceeding the regulatory requirements. Monitoring results will be transparently reported to employees, contractors and the public in its continuous public disclosure, and in its annual Sustainability Report.

Figure 8 on the following page provides an overview of the REE lifecycle.



Regional map of Great Slave Lake, Northwest Territories, Canada

Beryllium

Situated on the Thor Lake property is a potential beryllium ore body called the North T Deposit. It was historically considered for mining by a previous owner of the property and is located over one kilometre to the north of the Nechalacho Deposit. Some forms of beryllium can cause health problems, especially when inhaled. Consequently, Avalon's plans do not include the development of the North T Deposit. The Nechalacho Deposit, that is the focus of Avalon's mining plans, contains only trace amounts (approximately 12 ppm) of beryllium and is not considered a threat to worker health or the environment.

For your convenience, a Glossary is provided on page 41 and an Acronym List is provided on page 42

Figure 8. Rare Earth Elements Lifecycle



Environmental Impacts of Transporting Goods, Materials and People

The Company transports goods and people by plane, road, barge, and rail to the Thor Lake Project. The transportation infrastructure required at the Nechalacho Mine and Flotation Plant Sites includes an airstrip, haul road, and seasonal dock facility. A seasonal dock facility, haul road and rail head is required at the Hydrometallurgical Plant Site to be located at Pine Point.

Transportation may affect the environment through noise, dust, emissions, habitat disturbance, avoidance of infrastructure, and vehicle/wildlife collisions. Avalon will use best efforts to control these impacts. All project-related transportation activities will give the right-of-way to any wildlife. Speed limits will be implemented on all roads. Dust suppressants will be used when necessary. The use of high occupancy vehicles, such as buses, will reduce emissions, minimize the risk of vehicle-wildlife collisions, and minimize disturbances to people and wildlife.

Risks associated with transporting reagents will be controlled by utilizing rail transport and by locating facilities close to the site of reagent production where appropriate. All transport regulations will be honoured. Emergency response teams will be trained and equipped to implement emergency response plans in the unlikely event of an accident.

Barging has been a common and successful practice on Great Slave Lake for cargo, including petroleum products, since the 1930s. Barge traffic will only be done with experienced barge operators. Concentrate will be shipped in closed containers to minimize the risk of spillage. Studies have been completed that identify options for recovery in the event of a mishandled container. Ice roads will be used during construction, but are not planned to be used during operations.



Fuel Haul Arrives at Thor Lake

Energy

Energy Consumption and Greenhouse Gas Emissions at Thor Lake

Energy is a critical issue for all mining companies due to their significant demand to operate heavy equipment and to transport people and large volumes of material and supplies.

Energy production contributes to greenhouse gas emissions (carbon dioxide). It also represents a significant economic component of the construction and operating costs. This is heightened by Nechalacho's semi-remote location and longer transportation routes to ship supplies and equipment not always available in the North.

In 2011, only overall energy consumption was measured as the first phase of the program. The next phase will be to assess fuel consumption at the various usage points by measuring the fuel used for various locations and operations. In addition, electrical consumption will be monitored once power monitoring equipment can be installed in early 2012 as part of the renewable energy system that was installed in the exploration camp 2011.

The efficient use of energy is one of the key considerations in the design and operations of the facilities. The first step in responsible energy management is to understand where energy is used. It is important to identify the greatest improvements in energy use and efficiency that can be obtained. Heating all facilities, including underground mine ventilation air, during the winter is also energy intensive. Avalon is exploring options of using renewable energy sources in its energy mix, having collected wind and solar data since 2009. Avalon also collected temperature data in drill holes 1,000 meters below ground in an unsuccessful effort to evaluate the potential of using geothermal heat.

Energy consumption for the Thor Lake exploration program has been monitored since 2011. Monitoring capabilities will be further improved in 2012. A summary of the overall energy consumption is shown in Table 5. It is noted the values in the table below represent the annual consumption and do not represent the quantity of fuel stored on site at any one time.

Fuel Type	Volume Fuel Consumed (L)	Energy Value of Fuel Consumed (GJ)	CO ₂ (kg)	N ₂ O (kg)	N ₂ O (kg, CDE)
Diesel	287,800	111,345	785,694	29	8,922
Gasoline	16,405	569	38,716	4	1,322
Aviation Fuel	9614	347	22,400	2	685
Propane	10,950	280	16,425	1	367
Total	327,769	12,330	863,235	36	11,296

Table 5. 2011 Direct energy consumption and carbon dioxide production calculated using conversion factors from the Greenhouse Gas Protocol (CDE - Carbon Dioxide Equivalent). Fuel consumption estimated by referring to purchase records.

Energy is consumed at the Thor Lake Project in the following operations:

- Diesel generators providing electrical power to the camp
- Various forms of energy use in the kitchen
- Heating in accommodation and work areas using electricity, propane or diesel
- Heating water for showers, washing, and laundry facilities
- Drilling
- Mobile equipment (ATVs, UTVs, snow machines, boat motors, trucks, loader, bulldozers)
- Stationary equipment (incinerator, water pumps)
- Tools (welders, power tools, chain saws)

The largest consumers of fuel are the electrical generators, mobile equipment, tent heaters and drills. The kitchen is the largest electrical power consumer.

Energy Efficiency Initiatives

Early energy efficiency opportunities have been identified and successfully implemented, even without the detailed energy use breakdown. At the Thor Lake Project, Avalon has installed a renewable energy system in 2011 and is installing more-efficient diesel heaters. This will both reduce carbon footprint and diesel cost.

The objectives of the renewable energy electrical system were to:

- Reduce diesel consumption by charging batteries with "excess" power available from the generator, thus enabling the generator to be periodically shut down while the camp runs on battery power.
- Better understand using renewable energy in a camp setting that would be applicable in the operational phase at Thor Lake and in future exploration camps elsewhere.
- Provide emergency power when the diesel generators are not operational.

The system consists of:

- 48 volt Surette battery bank (eight 6V batteries)
- Two Sharp 170 watt solar panels
- 9 kW Outback inverter system tied in with batteries, generator, solar panels
- 27 kW Kubota diesel generator integrated with auto start and stop into the inverter controller

It has been demonstrated that during the summer, the camp generator can be turned off for periods of up to four hours, thus saving fuel. However, when electrical loads are high (e.g. during

periods of high camp occupancy, low temperatures, and heavy kitchen activity in the morning and afternoon), the generators must run. In periods of low camp occupancy during freeze up and break up, when the camp is occupied by only two people, the renewable energy system enables significant fuel savings.

Avalon is also taking action to reduce fuel consumption of the heaters utilized at the Thor Lake Project, with the phased replacement of the existing “Coleman” diesel heaters with high efficiency diesel heaters. Coleman heaters consume about four litres per hour when running at full output. The new high efficiency heaters consume about 0.4 litres per hour and have electronic controls enabling finer adjustment of heat output, thus reducing waste heat. This is a clear business case where increased fuel efficiency reduces cost and also demonstrates sustainability by conservation of natural resources and reduction of greenhouse gas emissions.

Avalon is also exploring the use of LED lighting where suitable due to their very low power consumption.



Solar Panels at Thor Lake Camp Site

Water Use and Discharge

The efficient use and protection of water is a high priority for Avalon as well as its Aboriginal partners, employees and many other stakeholders. This priority is supported by extensive legislation related to water use, standards, treatment and reporting that Avalon is committed to meet or improve upon. The Company's performance with regard to water quality standards will be reported regularly in sustainability reports. As evidence of this commitment, extensive existing baseline data from the DAR for the Thor Lake Project can be found on the Mackenzie Valley Review Board Public Registry at www.reviewboard.ca.

Thor Lake - Camp

In addition to effectively managing the water quality and quantities (e.g. with maximum extraction rates from identified extraction points), Avalon is committed to reducing water consumption, thus reducing both energy used in pumping and the volume of waste water requiring appropriate treatment. Examples of how this is achieved at the Thor Lake Project include the use of high efficiency front loading clothes washers and the use of composting and privy toilets.

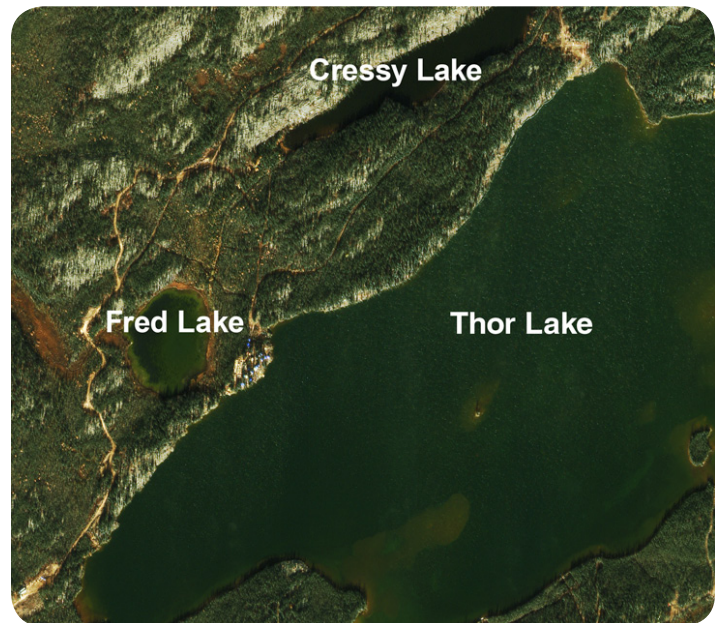
Water used for washing clothes, showering and kitchen activities at the Thor Lake camp is obtained from Thor Lake. Modest amounts of water specifically for drinking are obtained from Great Slave Lake. Recognizing the relatively small volumes of water used, the camp water consumption is not metered

at present. Based on the frequency of filling the water tank, it is estimated that the camp uses two to three cubic metres per day when fully occupied. As a result, the estimated water consumption per person is 70 to 100 litres per day, which is well below the quantity of water normally used in urban settings.

Allowing for camp manpower and operating periods it is estimated that the annual camp water utilization is between 650,000 and 900,000 litres, which is only between one and two litres per minute on an annualized basis.

All water that enters the kitchen is passed through an approved waste system which further treats it before it flows through a fen (dense marshy area) to Fred Lake. Fred Lake has been sampled for key indicators of water treatment efficiency (phosphorus and nitrogen) and the data shows no negative impact on water quality.

Five different types of non-flush toilets have or are being evaluated for methods of disposal of septic waste without using water. All of these toilets either produce no waste (incinerating toilet) or waste suitable for discharge in the natural environment on land (composting, privy, “Mining Toilet”), since the waste is broken down naturally without the use of chemicals. The toilets have components which use energy. This will be an important consideration for long-term decisions on the type of toilets to be used in future exploration activities.



Area satellite image of Thor Lake and Fred Lake

For your convenience, a Glossary is provided on page 41 and an Acronym List is provided on page 42

Thor Lake - Drilling

It is estimated that the two diamond drills active at Thor Lake utilize about 2,000 litres of water per day and 2,700 litres per day for the HQ and PQ rigs respectively. This results in overall annual utilization of about 16 million litres, which equates to approximately 30 litres per minute on an annualized basis. All the water used during drilling is returned to the environment by pumping into natural depressions, at least 100 metres from water bodies, as required by the Aboriginal Affairs and Northern Development Canada Land Use Inspector. Natural depressions minimize ground disturbance that would be caused by excavating artificial sumps. Due to the discontinuous nature of the permafrost, water does not pond in these sumps but seeps away naturally and no direct discharge of drill cuttings reaches water bodies.

The drill cuttings (fine grained rock powder from the drilling operation) have been proven to be harmless (or benign) in extended shake flask tests with daphnia (water flea) and trout. The pH is neutral or slightly alkaline, and there were no observed adverse effects when these species were placed in the drill water. These bioassays will be regularly used on effluents when the mine is in operation to confirm that these effluents remain non-toxic. Field observations have shown that ground vegetation grows rapidly through drill cuttings without adverse effect. Within one year of drilling being complete, there is no evidence of drill cuttings inhibiting vegetation growth. Water outflow from drill holes has never been encountered. The upper parts of all drill holes are cemented whether on land or lake bottom to prevent water flow.

In 2012, Avalon plans to establish quantitative methods of measuring water flow to the drills and camp. Once a more accurate picture of water use is available, the data will be utilized in an effort to target opportunities for water use reduction.

East Kemptville, Miramichi Tin, Separation Rapids and Warren Township are not active in the field and as such do not consume any water at present. No water is presently used at Spor Mountain.



Drill site in July 2009



Drill site in September 2010

Waste and Spills Management

In 2011, Avalon did not have mechanisms in place to measure the quantity of waste generated at the Thor Lake Project, due to their low environmental significance (materiality). Table 6 summarizes how we disposed of the various types of waste.

Avalon did not have any significant spills (as defined by the Northwest Territory Regulation) of chemicals or fuel at any projects in 2011. At the Thor Lake Project all spills are recorded, regardless of how small. These records are available for inspection by the Land Use Inspector if and when requested.

Waste Type	Disposal Method
Food	Incinerated at least twice per day as per Land Use Permit, using a diesel incinerator in part to reduce risk of attracting scavengers and bears.
Paper, cardboard and other burnable waste	Same as above.
Conventional household recycling items	Bagged and flown to Yellowknife for recycling. Recyclable bottles donated to Yellowknife charities.
Hazardous waste items (e.g. batteries, solvents, paint)	Packaged for transportation by air to Yellowknife and disposed of promptly through authorized facility. Batteries not stockpiled at site.
Waste from machinery (e.g. oils, grease)	Waste oil is put in barrels and shipped off site by barge. Aerosol cans are punctured and oil filters and solvents are packaged and removed to approved disposal.
Tires	Shipped to Yellowknife for appropriate disposal.
Major items (e.g. scrap camp trailers)	Barged or taken on ice road to permitted disposal sites.

Table 6. Types of Waste Generated at Thor Lake and Method of Disposal

Biodiversity

Land Area Managed by Avalon

Although none of Avalon's land claims, mineral leases and special licenses are on, or adjacent to, areas of high biodiversity value, the Company takes all reasonable efforts to minimize its environmental impacts, as shown in the preceding and following sections. Table 7 summarizes the mineral lease, mineral claim and special license areas related to the properties under management.

Project Site	Area (hectares)
Thor Lake Mineral Leases	4,249
Thor Lake Mineral Claims	1,869
Thor Lake Total	6,118
Separation Rapids Mineral Leases	421
Separation Rapids Mineral Claims	1,034
Separation Rapids Total	1,455
Warren Township Mineral Claims	7,283
East Kemptville Special Licence	358
East Kemptville Mineral Claims	5,092
Miramichi Tin Mineral Claims	4,339
Lilypad Lakes	1,264
Spor Mountain Mineral Claims	5,298

Table 7. Area Coverage of Mineral Claims, Mineral Leases and Special Licenses

At Risk Species in Areas Affected by Operations

The biological status of species in the Northwest Territories is assessed at the territorial level by the Species at Risk Committee and at the federal level by the Committee on the Status of Endangered Wildlife in Canada ("COSEWIC"). These committees use scientific, community and Aboriginal traditional knowledge to make recommendations to their respective governments about the status of species. After COSEWIC's assessment, the federal government may add a species to Schedule 1 (List of Wildlife Species at Risk) of the Species at Risk Act ("SARA").

The International Union for Conservation of Nature ("IUCN") is an international organization that has created the IUCN Red List, which rates the conservation status of species by compiling information from a network of conservation organizations. Table 8 lists the at risk animal species which could occur at the Thor Lake Project site and their status according to Northwest Territories and IUCN lists. COSEWIC and SARA references can be found in the DAR. A similar list of plant species is also in the DAR.

While these species are identified as being 'potentially' in the two Northwest Territories operations areas, the following have been detected only at very low frequencies near the two sites: Olive-Sided Flycatcher, Wolverine, Horned Grebe, Whooping Crane,

Species	NWT Status	IUCN	Habitat at Mine Site	Habitat at Pine Point
Wood Bison	At Risk	Near Threatened	✗	✓
Woodland Caribou	Sensitive	Least Concern	✗	✓
Wolverine	Sensitive	Least Concern	✓	✓
Whooping Crane	At Risk	Endangered	✗	✓
Common Nighthawk	At Risk	Least Concern	✓	✓
Olive-sided Flycatcher	At Risk	Near Threatened	✓	✓
Yellow Rail	May Be At Risk	Least Concern	✗	✓
Rusty Blackbird	May Be At Risk	Vulnerable	✓	✓
Short-eared Owl	Sensitive	Least Concern	✓	✓
Peregrine Falcon	Sensitive	Least Concern	✓	✓
Horned Grebe	Secure	Least Concern	✓	✓
Northern Leopard Frog	Sensitive	Least Concern	✗	✓

Table 8. List of At-Risk Species Which Could Occur at Thor Lake

Peregrine Falcon, Rusty Blackbird and Common Nighthawk. Given the mobility of these species and small project footprint of an underground operation, and the mitigation measures identified in the DAR, it is highly unlikely that there will be any impact to these species.

One of the major reasons for the Threatened status for the Olive-Sided Flycatcher is thought to be its loss of its southern wintering habitat due to the growth of coffee plantations. As a small, but nonetheless real initiative, Avalon is investigating if it can selectively purchase coffee beans from producers that operate sustainably without impacting the southern habitat of the Olive-Sided Flycatcher.

An ongoing objective of Avalon is to have no impact on SARA or IUCN list species. No impacts to these species have been identified. In the Roadmap, Avalon made a commitment to implement wildlife monitoring and protection programs in concert with Aboriginal governments and organizations, government agencies and other mining companies. In partial compliance with this commitment, extensive environmental baseline monitoring has been completed and provided to key stakeholders as part of the DAR. However, no formal joint wildlife protection programs have been initiated to date. Avalon will continue to investigate opportunities for joint programs in 2012.

While fully respecting traditional hunting rights, Avalon has established a policy of no hunting, trapping, or firearms at the mine site for worker safety (except for security firearms for protection from bears).

Biodiversity Protection

Fish, wildlife and vegetation are important parts of the environment which must be protected. While unusually high areas of biodiversity values have not been identified, significant effort is being made to minimize the impact on biodiversity near the Thor Lake Project. No impacts on biodiversity have been identified to date.

The pending Thor Lake Project construction and operations phases have the potential to impact wildlife through noise and light disturbance, habitat avoidance, habitat degradation or loss, or accidental death. The Project may also affect vegetation through site-clearing and dust from operations. Effluents or runoff from operations have the potential to impact surface water and groundwater which can also impact aquatic ecosystems. Indirect impacts could result from increased local fishing pressure or hunting associated with the future workforce.

Mitigating impacts starts with detailed baseline studies of the fish and wildlife and plant life. These studies have been completed in the area prior to construction, including not only understanding what species are present, but also assessing the health of the fish populations. Indices of the health of aquatic populations have been calculated,

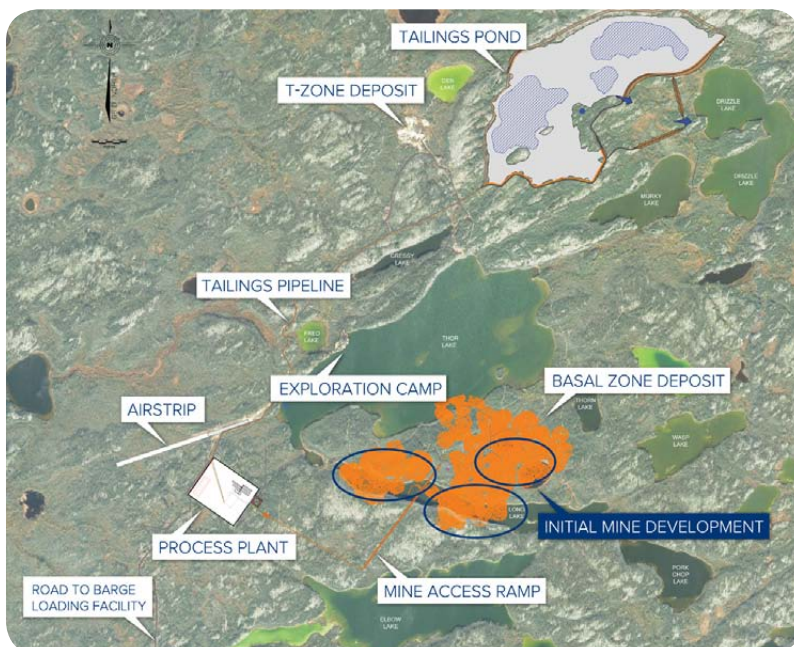
and any changes to this status can be detected by ongoing monitoring. This includes the small insects and other species called Benthos that dwell on the bottom of the local lakes. As these populations are not generally very mobile, they are a good long term indicator of the local health as they will respond to short term upsets or small chronic impacts that may not otherwise be detected by water quality monitoring. Detailed studies of the existing natural physical and chemical environment (sediments, air and water quality) have also been completed. Through these studies, we will continue to monitor these parameters throughout the mine life to detect changes that have the potential to impact on biodiversity and will allow the operations to rapidly correct any unlikely impacts that are detected. Monitored effluents will meet or improve upon the standards of the Northwest Territories and Canada to protect the local receiving waters and their associated biodiversity.

With the application of mitigation measures, the residual environmental effects of the Thor Lake Project are anticipated to be negligible. Indirect impacts due to site runoff will be eliminated by collecting them in a sump and directing them to treatment in the tailing management facility. To date,

waste products from historical (non-Avalon) mining activity were utilized in the construction of the airstrip, thus allowing the rehabilitation of this damage. The environmental effects of the project are generally limited to the immediate footprints and local area of the Nechalacho Mine, Flotation Plant, Hydrometallurgical Plant and associated infrastructure. Most effects are reversible once activities cease. A closure plan will be in place and budgeted prior to construction to ensure that this aspect has been included in the project economics. Neither the Nechalacho Mine Site nor the Pine Point Plant site are located in or near protected areas, though all areas in the North are of importance to us, our Aboriginal partners and other stakeholders.

There has been little exploration and development activity at the other properties under Avalon's control, and no impacts on biodiversity have been identified to date from Avalon activities.

To date, Avalon does not make any products which may impact on biodiversity and has not assessed the impact of its products upstream or downstream in the supply chain. These are not anticipated to be significant and, in fact, the rare earths are utilized in an expanding area of clean technologies.



Nechalacho, Thor Lake Site Plan

Amount of Land Disturbed or Rehabilitated

Table 9 summarizes, by project, the area of land owned or leased by Avalon that has been disturbed or re-vegetated. Full rehabilitation will require several years following the initial re-vegetation

Location	Area Owned or Leased (hectares)	Area Disturbed by Avalon (hectares)	Area Previously Disturbed (hectares)	Area Rehabilitated (hectares)
Thor Lake	6,118	16.6	11.2	0
Separation Rapids	1,455	0.3	0	0
Warren Township	728.5	0.3	0	0

Table 9. Amount of land disturbed and rehabilitated in hectares

Strategies for Managing Impacts on Biodiversity

Habitat protection is a key dimension in Avalon's biodiversity management strategy. Avalon will limit habitat loss and fragmentation by minimizing its footprint. This was a key consideration in the decision to use the more expensive underground mining technique at Nechalacho. A much larger disturbance would be created if the Company had chosen to pursue a less expensive open pit mining operation.

The design of the underground mine and crushing operations, clustering of the surface facilities, using existing roads, and placing the tailings delivery pipeline along the existing road will minimize direct habitat losses.

Building the hydrometallurgical plant and all associated infrastructure on existing brownfields/disturbed terrain at Pine Point eliminates the direct physical effects on habitat for this plant. The use of an old open pit for hydrometallurgical plant tailings will ultimately permit this historically impacted area to be rehabilitated to a natural habitat on closure.

Project employees and contractors will be taught wildlife-related

practices and strategies, including identifying wildlife covered under SARA and IUCN, to reduce impacts. Policy will be established that require the reporting of wildlife sightings to the Environment Department. An alert system will also be set up to warn equipment operators and personnel of wildlife sightings in the area. While respecting traditional Aboriginal hunting rights, a no hunting and trapping policy for all staff and contractors has been established at the site.

Avalon's operations will include targeted strategies to reduce its impact on wildlife. For example, Avalon will minimize clearing activities from mid-May to late-August to avoid disturbing nesting birds, eggs, pre-fledged birds, and predators. Best standards in waste management will be adopted to minimize the attraction of wildlife, especially predators like gulls, ravens, fox, and bears to our sites. Additional mitigation plans can be seen in the DAR.

Closure Planning

There are generally two distinct project phases at which closure planning is completed. During the exploration and development phase, there is normally little activity other than diamond drilling and related activities and a temporary camp at the site. This means there is modest equipment, infrastructure or impact at the site, and as such, the cost to close these sites is relatively low. Avalon has evaluated closure activities at the Separation Rapids and Thor Lake sites and provided financial provisions in the amount of \$76,580 and \$13,000 respectively. The relative size of the provisions reflects the fact that a significant bulk sample was taken at Separation Rapids in 2006. As required, these closure plans and financial provisions are periodically reviewed and updated to address significant changes at the sites.

For more advanced projects where future operations are in the design phase, specific details and costs for the final closure of the operations are estimated based on these designs. A closure plan for the final site closure for the Thor Lake Project has been prepared and these costs are to be included in the financial modelling for the project. Financial assurance for it will be in place prior to operations. This plan is reviewed, in consultation with local stakeholders and regulators, on a periodic basis during operations to maintain relevance and to update the financial assurance for any approved changes to the plan, thus ensuring the financial capability is available to rehabilitate the site whenever operations conclude.

For your convenience, a Glossary is provided on page 41 and an Acronym List is provided on page 42



SUSTAINABILITY ISSUES AND PERFORMANCE

SOCIAL

Aboriginal Rights

Operations Adjacent to or within Aboriginal Territories

Table 10 summarizes Avalon's project sites taking place on or adjacent to Aboriginal Territory. Details of each project site is provided below.

Thor Lake

Since resuming work on the project in 2005, Avalon has continuously engaged community leadership in the communities of Lutselk'e, Fort Resolution, Hay River and Yellowknife. Continuing engagement meetings in 2011 successfully led to Negotiation Agreements (MOUs) in which the principles were set out for a participation arrangement and an Accommodation Agreement with three participating First Nations. Also established were the basic principles under which the parties will work together to advance the Thor Lake Project in a co-operative, timely, and environmentally and socially responsible

manner. The negotiations of these formal agreements were advancing well at year end.

Avalon continues to employ Aboriginal peoples on its current work program and has already arranged two training programs to help maximize future employment opportunities for Aboriginal peoples.

In addition, representatives from Aboriginal communities are periodically brought to the site to view program activities, ask questions and comment on the Company's environmental performance.

Separation Rapids

Avalon has been proactive in establishing a dialogue with the First Nations of the area. In August 1999, Avalon signed a MOU with the Wabaseemoong Independent Nations of Whitedog (the "WIN"), Ontario to address community concerns regarding new

resource development in their traditional land use area, access to employment opportunities and other benefits. Whitedog is situated 35 km southwest of the Separation Rapids property and is the closest community to the project site. Avalon fully intends to develop the project in co-operation with the WIN and continues to keep the community leadership well-informed on new developments.

Warren Township

In March 2009, Avalon entered into a MOU with the Chapleau Cree First Nation ("CCFN") which laid out the parameters of a longer term partnering arrangement, with CCFN acting on behalf of a group of local First Nations. A permit application to begin development work at the site was filed with the Ontario Ministry of Natural Resources in December 2011 and the Ministry

has notified all impacted groups in the area, including the First Nations, about the permit application as part of its public consultation process.

Toward year end, Avalon was invited into discussions with Wabin Council, with the cooperation of CCFN, to clarify and address possible overlaps in territorial responsibility as may be related to the Project.

East Kemptville

The Acadia Indian Reserve near Yarmouth is the Aboriginal community nearest to the East Kemptville project. Acadia First Nation is composed of five reserves spread throughout the Southwestern shore of Nova Scotia and across three counties, none of which are adjacent to our project area. Avalon established communication with the Acadia First Nation to inform them about the Company's mineral exploration activities in the area.

Spor Mountain (USA)

There are no indigenous peoples' lands within the vicinity of the Spor Mountain project, Juab County, Utah. The closest Indian Reservation

(U.S. government terminology) is the Skull Valley Indian Reserve, located approximately 80 kilometres to the northeast of Spor Mountain and approximately 113 kilometres southwest of Salt Lake City. It belongs to the Skull Valley Band of Goshute Indians of Utah, a federally recognized tribe. The Skull Valley Band is not known to have any rights or interests in the Spor Mountain area.

Miramichi Tin

There are no Aboriginal communities contiguous to the Miramichi project site. The closest Aboriginal community is about 60 kilometres east of the project, the Metepenagiag Mi'kmaq Indian Reserve, which is directly downstream on the Miramichi River system. As the project is presently in the early exploration stage involving little or no ground disturbance, it will not have any impacts on the environmental conditions of the Miramichi River and is unlikely to impact other traditional land use activities. The Company plans to inform the Metepenagiag community about its field activities when they get underway in 2012.

Lilypad Lakes

The Lilypad Lakes project is located 150 kilometres northeast of Pickle Lake, Ontario. The Aboriginal community of Fort Hope (Eabametoong First Nation) is about 30 kilometres to the east. In the past, Avalon has hired people from the community for work on the property and informed the community leaders about its exploration activities. There are no protected areas adjacent to the Lilypad Lakes property. The Albany River, some 30 kilometres south, has been designated a Provincial River Park.

The property is presently only readily accessible by air. A camp was established on Lilypad Lakes for the field programs and was serviced by float-equipped aircraft from Pickle Lake. This camp was sold and removed from the site in 2003. In the winter, the property is accessible from Fort Hope by snowmobile and this community is accessible for a brief period in the winter by an ice road from Pickle Lake.

There was no work completed at Lilypad Lakes in 2011, and there are no current plans to re-activate the project.

For your convenience, a Glossary is provided on page 41 and an Acronym List is provided on page 42

	On or Adjacent to Aboriginal Territory	Covered by Formal MOU	Covered by Formal Agreement	Significant Disputes Under Existing Agreements
Thor Lake	Yes	Yes	No	N/A
Separation Rapids	Yes	Yes	No	N/A
Warren Township	Yes	Yes	No	N/A
East Kemptville	Yes	Communication Only	No	N/A
Spor Mountain	No	No	No	N/A
Miramichi Tin	No	No	No	N/A
Lilypad Lakes	No	Communication Only	No	N/A

Table 10. Project sites taking place on or adjacent to Aboriginal Territory

Aboriginal and Community Feedback

In the Canadian context, Aboriginal rights pre-date colonial control and flow from the continuous use of Aboriginal territories. Some of these communal inherent rights have been recognized by the Crown through historic treaties, modern land claims, Canadian courts, and government policies. Treaty Rights are protected under Section 35 of the Canadian Constitution and must be respected. Since all Aboriginal nations, communities, and people lived differently, their Aboriginal rights are accordingly different. However, Aboriginal rights usually include the right to self-determination and self-government, subsistence harvesting rights, and the right to practice cultural activities including language.

Avalon is committed to forming strong long term relationships and partnerships with local Aboriginal governments near its operating sites. As such, Avalon is committed to dealing effectively and transparently with issues or concerns that may arise, especially those related to Aboriginal rights. As part of this process, Avalon will record incidents involving Aboriginal rights of employees and local communities that may be affected by future operations. These incidents can include legal actions and registered complaints with Avalon or competent authorities through a formal process. It can also include instances of non-compliance with formal commitments and agreements as identified by Avalon through audits, monitoring or a formal management processes. This register will track and record the status of the incidents, actions and remediation taken and whether or not the incident is resolved. At present, Avalon maintains Aboriginal and Community Engagement logs for the Thor Lake Project, but a formal complaint management process is not in place at this time. Despite this, concerns were identified and addressed. In addition, extensive engagement was carried out during 2011 as part of the ongoing confidential negotiations related to Aboriginal Accommodation Agreements with the impacted local Aboriginal groups. Respecting this confidentiality,

the status and substance of these negotiations and related issues will not be discussed here.

Members of the public can access the MVEIRB Public Registry and search for Information Requests to read the concerns arising from our Aboriginal and Community stakeholders in the course of Avalon's environmental assessment process. In addition to the concerns identified in the Information Request process, Avalon received a letter in late October 2011 from the North Slave Métis Alliance (the "NSMA") reminding Avalon of the NSMA's interest in negotiating an Impact and Benefit Agreement with the Company. Don Bubar, President and CEO of Avalon, responded confirming that Avalon intends to negotiate such an agreement in good faith with them, and a meeting to discuss this has since been held.

Community engagement continues with the objective of developing partnerships with the local Aboriginal communities. During 2010 and 2011, Avalon entered into Negotiation Agreements with the Yellowknives Dene, Lutsel K'e Dene and Deninu Ku'e First Nations regarding the Nechalacho Deposit. The form of initial agreement, often referred to as a Memorandum of Understanding, frames the negotiations towards an impacts and benefits type agreement. Engagements are ongoing with the objective of finalizing agreements with the remaining identified Aboriginal stakeholders. The number of communications and engagements is summarized in Table 11.

In 2012, a more formal management mechanism and process for dealing with Aboriginal rights and other complaints will be developed and publicly communicated.

For your convenience, a Glossary is provided on page 41 and an Acronym List is provided on page 42

	Communications	Engagement	First Nations	Métis	Non-Aboriginal Government & Regulatory	NGO	Aboriginal Business
Total 2011	344	60	288	21	67	7	21
Total 2010	479	79	343	35	85	48	47
Total 2009	137	56	121	8	14	39	11

Table 11. Communications and Engagements with Aboriginal Communities and Stakeholders

People

At Avalon we value our employees and contractors and are committed to provide and maintain a work environment where individuals are treated with respect and an individual's dignity, ability and contribution are valued. We hire according to skills and experience, without discrimination based on age, disability, gender, nationality, race, religion and sexual orientation and we embrace the diversity.

Total Workforce

Avalon's development towards establishing itself as a major producer of rare earth and rare metal products was clearly illustrated during 2011, with an accelerated recruiting program at both the executive and staff levels. In 2011, Avalon saw the addition of Brian Chandler, P.Eng as the Company's Chief Operating Officer and Mark Wiseman as Vice President Sustainability, both of whom hold a strong commitment and positive performance record around health and safety, the environment and successful operations in communities around the world. Richard Pratt, General Counsel and Corporate Secretary, also joined Avalon during this period. This will ensure the planned staffing in 2012, associated with completing the Feasibility Study on the Nechalacho Deposit, will be built upon a strong sustainability platform.

The GRI has established two classifications of employment contracts: Permanent (which include full-time and part-time employees) and Fixed Term (which are supervised workers, consultants and contractors) as defined below:

- **Employees:** Full-time employees work a minimum of 37.5 hours per week necessary to accomplish their jobs, subject to each provincial employment legislation standard. Part-time employees work a maximum of 20 hours per week, subject to each provincial employment legislation standard.
- **Supervised Workers:** Individuals who perform regular work on-site for, or on behalf of, the reporting organization but are not recognized as employees under national law or practice.
- **Consultants:** Individuals who provide a specific expertise or knowledge for Avalon. They often work from independent offices or may work on-site. These consultants are legally recognized as self-employed under a service contract.
- **Contractors:** Individuals who provide specific expertise, knowledge or skills required, but are generally employed by a third party company or organization, and assigned to Avalon's work.

Avalon has retained a network of consultants and has benefited from their expertise and solid support. As the Company evolves from an exploration company towards an operating entity, the ratio of full-time employees to consultants will increase. Avalon has recognized and now adopted a project-focused approach to its current recruiting and staffing plan to best engage the necessary and changing required skill sets. Avalon expects to

meet its future resource needs through fixed term staffing, by clearly framing the scope of work and services required on a project management basis. Avalon operates out of two main offices and one project site. At the end of 2011, Avalon had a total workforce of 76 due in part to a 90% increase in our full-time employee numbers. Plans for 2012-2013 call for a large increase in full-time and fixed term staff.

Figure 9 shows the distribution across the four major workforce classifications. There are minimal seasonal variations at Avalon's offices, but some variation at the project locations.

Avalon's workforce by regional location is summarized in Table 12.

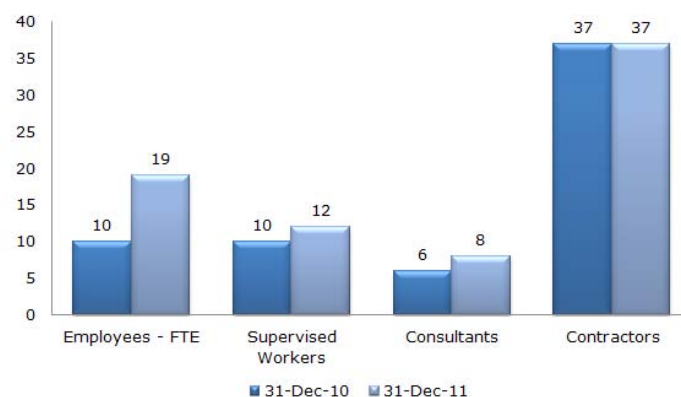


Figure 9. Year-Over-Year Change in Avalon's Workforce

	Number of Employees (FTE)	Number of Supervised Workers	Number of Consultants	Number of Contractors
Corporate Office <i>Toronto, ON</i>	12	0	6	0
Operations Office <i>Vancouver, BC</i>	7	0	2	0
Thor Lake Project <i>Thor Lake, NT</i>	0	12	0	37

Table 12. Avalon's Workforce by Regional Location

Employee Benefits

Introduced in 2009, all Avalon full-time employees receive a total benefits package in addition to their base annual compensation. Those benefits are summarized in Figure 10 and are effective following a waiting period. The same benefit package is offered to all employees, irrespective of organizational level. This benefits package is not extended to part-time employees, consultants or supervised workers. For full time employees, annual vacation time is offered at a minimum of three weeks to start, increasing to four weeks after six years service, and five weeks after 12 years service, unless otherwise agreed to under personal employment contracts. Avalon observes all statutory holidays at a minimum of 12 days per year, subject to local jurisdiction.

THE

Great-West Life

ASSURANCE COMPANY

Employee Group Benefits Overview of Coverage at Avalon	
Life Insurance	✓
Accidental Death & Dismemberment	✓
Dependant Life Insurance	✓
Short-Term Disability	✓
Long-Term Disability	✓
Healthcare	✓
Out of Country Coverage	✓
Vision Care	✓
Dental Care	✓

Figure 10. Avalon Employee Benefits

Avalon offers a long term incentive compensation plan in the form of stock options, granted as per Avalon’s Stock Option Plan, approved by shareholders on January 27, 2011. Eligible participants include Board Members, employees and other persons or companies engaged to provide ongoing management and some consulting or advisory services to the Company. For employees options are granted at the time of hiring, typically having a five year term, and vesting over a period of four years. Options are re-granted as they expire. The number of stock options granted is based on the employee’s position, level of responsibility and contribution to the business. A review of all compensation practices will be completed in 2012 to ensure comprehensiveness and equity.

Avalon’s senior management members are awarded cash bonus compensation, as awarded by the Board of Directors, on the recommendation of the CGN Committee. Cash bonuses are used to recognize outstanding individual efforts, performance, achievements, and/or accomplishments. In 2012, it is the CGN Committee’s intention to design and begin to implement an incentive bonus program for senior management based on a combination of individual and company performance objectives and/or milestones with an aggregate target

payout of 40% of the relevant executives’ base salary should all objectives be met or exceeded.

In 2011, Avalon initiated an awards program to recognize outstanding performance and excellence by any member of the Avalon workforce. The Health and Safety Award is given to a workforce member who is committed to, performed and demonstrated exceptional health and safety standards throughout the year. The Special Achievement Award is given to any member of the Avalon workforce who has shown great leadership and contributed above and beyond the recipient’s expectations within their role.

For 2011, the Health and Safety Award went to David Swisher, Vice President Operations, for his heroic efforts in saving the lives of others during the September Yellowknife plane crash. David was not only a survivor of the crash but was instrumental in getting other passengers to safety, putting their needs and injuries before his own. This year’s recipient for the Special Achievement Award went to Ian London, Energy, Markets and Cleantech Advisor for his efforts on establishing Avalon’s student outreach initiatives. Please refer to the following section *Our Journey Will Continue with the Next Generation* for a detailed description of the University Outreach programs Ian built from the ground up.

Occupational Health and Safety

Health and Safety are core values and paramount in Avalon's project development plans and exploration activities. The Board of Directors now starts each Board Meeting with a Safety Moment, followed by Health and Safety reporting first on the agenda. The Health and Safety statistics and initiatives are reported to the Board and Sustainability Committee, and are reviewed by the Management Team at regular intervals.

As leadership is a key component in Health and Safety, Avalon clearly demonstrates the need for health and safety policies and programs in the workplace:

- To demonstrate management's commitment to health and safety
- To show employees that safety performance and business performance are compatible
- To clearly state Avalon's safety objectives, strategies and processes
- To build buy-in through all levels of the organization
- To clearly outline employer and employee accountability and responsibility
- To comply with the regulations
- To set out safe work practices and procedures to prevent workplace injuries and illnesses

Health and Safety expectations are communicated from day one. It is an integral dimension of, and profiled in, position descriptions across the Company, and has become a basic consideration in both recruitment, candidate selection and employee performance reviews. Avalon clearly recognizes that there are obligations and general duties to respect within each regulatory jurisdiction. The workforce members also have Health, Safety and Environment rights and responsibilities. These obligations relate to employees and others who may work at or be visiting a work site, and include the requirements for providing employees with the necessary knowledge and skill, operating tools, equipment and protective devices to execute their work.

Health, Safety and Environment Committees

Regular occupational Health, Safety and Environment ("HSE") meetings and inspections have been held since the early years of exploration at the Thor Lake Project site. These are held by both employees and contractors to monitor and provide advice on HSE programs at the facility level with participation from both management and labor. Avalon introduced these regular HSE meetings at office locations during 2011. At this time, all workforce members are covered by HSE committees. The HSE meetings at Thor Lake are conducted on a daily and weekly basis. The corporate and operations offices conduct HSE meetings and inspections on a less frequent basis. Emergency fire drills are also

carried out a minimum of once per year at the offices and Thor Lake.

The importance of these meetings is regularly reinforced with a wide variety of findings such as detection and fencing off areas of thin ice, storage of burnable materials and the positioning and securing of electrical wiring in the camp, and other incidents of risk identification and accident avoidance. In the offices the most frequent risk avoidance activities include proper storage of materials, emergency evacuation drills and removal of tripping hazards.

While safety performance was communicated to employees, the frequency and comprehensiveness of these communications will be improved in 2012 through these committees. More importantly, there will be a shift from using only lagging or "after the fact" safety statistics towards the use of leading indicators such as inspections and safety actions implemented in an effort to prevent accidents.

Safety Program Definition

Federal, Provincial, and Territorial Occupational Health and Safety Regulations specify the minimum requirements to be contained in a health and safety program. Avalon has built upon this with its own ongoing health and safety risk assessments and will consult with the occupational HSE committee where applicable, to determine what hazards are present at the workplace. Once the hazards have been identified, controls will be put into place.

During 2012, HSE management plans will be expanded in preparation for the changes associated with future construction activities. These plans will cover in more detail items ranging from management commitment and leadership, planning, roles and responsibilities, training, contractor management, risk management, reporting and the detailed procedures to support the overall plan.



Ricky Drygeese cutting a small slice of core sample to be shipped to Vancouver for further examination.

Safety Performance

Safety statistics are an indicator of safety performance. Table 13 includes the lost time injury ("LTI") and accident severity rates for the Company in 2011. An LTI is an injury sufficiently serious that the employee is unable to return to work the day following the injury. The days lost per 200,000 hours is represented by the severity rate. Safety performance of every contractor and employee, at each site, is tracked and reported monthly.

Following several years of strong health and safety performance, in 2011, there were a total of eight LTIs, all associated with the Thor Lake Project. These were an employee slip and fall, one site maintenance injury, four drilling contractor injuries and two associated with the airline accident in Yellowknife on a return charter airline flight from Thor Lake. This performance was disappointing, given that during three of the last four years there were no LTIs, and there had been only one LTI during the four year period. This year's overall performance exceeded our target of Zero LTI's and Zero Harm (see Table 13). Further, the severity rate was also the highest on record for Avalon and above the PDAC average.

	Lost Time Injuries	Occupational Disease	Lost Days	Hours Worked	Lost Time Injury Rate*	Severity Rate†
Employees and Supervised Workers	2**	0	5	44,391	9	59
Contractors	6	0	116	62,354	19	372
PDAC Benchmark 2007 – 2010***					1-3	36-1,357

Table 13. Avalon Injuries and Lost Days

* Injury and Severity Rates based on number of injuries and lost days that would occur for every 200,000 hours worked; severity rates include light duty days

**Avalon injuries were associated with the charter airline accident

***Based on average of exploration companies that reported their statistics in those years

A number of initiatives were put in place or strengthened. Drilling was stopped for safety inspections, reviews and training. An external drilling safety expert was brought to the site and many of the recommendations from their safety review were implemented at year end. A safety workshop was held with the Avalon site personnel to review safety performance and provide risk, accident and incident analysis training. Daily toolbox and weekly inspections were reviewed and modifications made to improve their applicability and effectiveness. Due to the heavy lifting associated with drilling activities, an ergonomics training program was instituted with a physiotherapist from Yellowknife. A positive sign that the augmented safety program was showing some success was the increase in near miss

reporting at year end. Additional actions are ongoing, including an evaluation of the driller incentive program for 2012 in an effort to align it more with safety objectives and expectations. For 2012 we will maintain our target of Zero Harm.

To support the implementation of the new Sustainability Policy in 2012, HSE management plans will be augmented and strengthened. These will be supported by the development of a comprehensive training matrix and a wide variety of internal and external training programs. These plans and programs will be designed to support the transition from an exploration to an operating company.

Due to the ongoing investigation by the Transportation Safety Board of the Arctic Sunwest Airline accident, that tragically took

the lives of the two pilots, no additional information is available. The Company is pleased to announce that all three Avalon personnel in the accident have returned to work and the other injured passengers are at various stages of recovery.

While the accident did not occur at the Thor Lake airstrip, Avalon has initiated several actions to improve its air travel safety. This includes reducing the allowed passenger or freight on planes using the Thor Lake airstrip in its present configuration and the early extension of the runway once the required permits are in place.

Diversity in the Workforce and Governance Bodies

Avalon is proud of its ethnic diversity within its existing organization and firmly believes that it benefits the Company. However, Avalon does not believe it is ethical to implement a tracking and hiring policy based only on age, disability, gender, nationality, race, religion and sexual orientation. Having said that, in some locations in which we operate, such as Thor Lake, we recognize a corporate social responsibility to hire from local and Indigenous communities with existing or traditional ties to the land. For this reason, at the Thor Lake Project we actively seek to hire Aboriginal workers and monitor and report our performance in this area. From a succession planning perspective we track the age distribution of the workforce.

Refer to Table 14 for a breakdown of age diversity at Avalon. For the purpose of this performance indicator, the Governance group is comprised of the Board and Advisory Committees responsible for the strategic guidance of the organization.

	Under 30 Years Old	Between 30-50 Years Old	Over 50 Years Old
Full-Time Employees	16%	47%	37%
Contractors/Consultants	36%	46%	18%
Governance	0%	0%	100%

Table 14. Age Diversity within Avalon's Workforce and Governance Bodies

For your convenience, a Glossary is provided on page 41 and an Acronym List is provided on page 42



OUR JOURNEY WILL CONTINUE WITH
**THE NEXT
GENERATION**



UNIVERSITY STUDENT OUTREACH INITIATIVE

As Avalon has embarked upon its journey towards sustainability, we continually look to the future. Given the limited rare metals course material (particularly for rare earths) in North American universities, one of the opportunities for Avalon is enhancing the availability of trained and experienced employees to finance, design, build and operate rare metals facilities. Avalon's journey is also about encouraging innovation and the entrepreneurial spirit among students to create cutting edge technologies that leverage rare metals resources.

During 2011, Avalon embarked upon an ambitious program, under the banner of University Student Outreach Initiative. The primary objectives of this outreach initiative are:

- To build and enhance the talent pools needed to design, improve and operate facilities.
- To encourage and enable the needed science, engineering and business talent pools to strengthen Canada's emerging downstream processing and rare metals applications supply chains.
- To engage broad audiences of undergraduate science and engineering students, graduate level business students, and faculty around rare metals, particularly rare earths.

Avalon is achieving this by introducing rare earth-related subjects into course curricula, and identifying and mentoring an international network of research, development and operational capabilities. Company representatives have delivered lectures to undergraduate chemistry, metallurgy, mining and geology classes, led graduate business seminars, and sponsored student projects and case competitions. Avalon has also sponsored students to participate in industry conferences, provided relevant co-op terms and research initiatives, thus cultivating the next generation of engineers and business leaders. Some of Avalon's initiatives in 2011 included:

Waterloo Institute of Nanotechnology Grand Rare Earth Nanotechnology Challenge

In cooperation with Dr. Frank Gu, Avalon developed and championed an eight-week 'Grand Rare Earth-Nanotechnology Challenge'. The Challenge, open to 110 first-year engineering students in 31 teams, were invited to identify and present novel applications to either (a) utilize anticipated surplus production of some rare earth elements or (b) more efficiently utilize scarcer rare earth elements in order to satisfy the growing demand for CleanTech solutions. The Teams were not only expected to articulate their product concepts and broad business case, but were required to pitch their case to a business/technical review panel.

University of British Columbia, Mining Engineering Mine Ventilation Assignment and Lecture

Avalon's Mine Engineer, Stanley Chan EIT, delivered a lecture on mine ventilation and occupational health and safety design criteria, following which the class was assigned the exercise of determining the total head loss and fan power requirements for Avalon's Nechalacho proposed mine. Students were also introduced to the rare earth elements and their use in a variety of cleantech and more traditional applications.

McGill University

Avalon has had a long association with McGill University Earth and Planetary Sciences Department, with support of Professor A.E. Williams-Jones' research on the geology of rare metal deposits. This work, in conjunction with funding from Natural Sciences and Engineering Research Council has supported one BSc, one PhD and two MSc students on the Thor Lake Project and produced very useful information regarding the genesis and mineralogy of the Nechalacho Deposit. The Company is also in the process of initiating a research project in the Materials Science department on rare earth processing.

In addition to the work at McGill, a PhD student, studying under Professor Iain Samson of the University of Windsor, is completing his work on the Thor Lake property. This is being done to aid in the understanding of the geology in the areas.

A metallurgical study involving a PhD student is progressing under Professor Brian Hart of the Earth Sciences department at Western University to investigate the flotation of oxide minerals.

Canadian MBA Leadership Conference Breakout Discussion on Natural Resources

Hosted at the Ivey School of Business in London, Ontario, Avalon's Energy and Cleantech Advisor, Ian London, lead a seminar focused on natural resources. The key theme being "What can the next generation of Canadian business leaders do to better leverage the nation's abundant natural resources?" Using Canada's emerging rare earths production capability and the complex backdrop of international trade, technology, supply chain and economic development related to the natural resources sector, the delegates discussed strategies around entrepreneurship, public policy development, industry-government-academic partnerships, research, development and building the necessary human resource capacity within Canada.



MBA Students and Avalon Representatives, Ian London and Mandeep Rayat, at the Canadian MBA Leadership Conference



Bill Mercer and Ian London of Avalon with University of Toronto Chemical Engineering Students

University of Toronto, Chemical Engineering Rare Earth Hydrometallurgy Plant Design

Over the course of 12 weeks, teams of fourth year Chemical Engineering students, designed variations of Avalon's hydrometallurgy process for the recovery of rare earths as their graduating year Plant Design Project. Avalon provided the overall project objectives, preliminary design considerations and oversight.

Avalon also delivered a two-hour lecture in Applied Inorganic Chemistry students. Entitled "What are the Rare Earths and How Chemistry Brings them to Life", the students were introduced to the theoretical chemistry, physics and material science of the rare earth elements and rare earth chemical processing.

PERFORMANCE SUMMARY

Status Legend

Target achieved

Target substantially achieved (at least 75%)

Target not achieved

2011 CSR Roadmap Targets and Objectives

Comments

Allocate board level responsibility for community/aboriginal relations; establish independent CEH&S Advisory Committee	See Governance section
Adopt and document project and corporate policies, practices and procedures	Whistleblower, Code of Business Conduct and Ethics, and HSE policies in place. Formal training to replace informal training in 2012.
Adopt contractor management systems aligned with best practices	Formal management systems to replace informal systems in 2012.
Develop TSM performance management system	Minimal applicability for exploration phase, see right-most column for currently relevant TSM indicators
Utilize cross functional corporate responsibility teams to develop a structure for identifying and prioritizing social, economic and environmental risks and opportunities and for establishing solutions and ongoing reviews	Risk assessment completed in Q4
Zero fatalities	
Zero lost time accidents	Refer to Health & Safety section
Develop and implement emergency response capability at the Thor Lake site	
Develop Health and Safety targets and objectives	
Develop Environmental targets and objectives	
100% compliance with all applicable legal requirements	
Emergency response plans in place at Nechalacho Project	
Broaden scope of sustainability reporting, including Annual Sustainability Report and disclosing risks and opportunities posed by climate change	Climate change impacts evaluated as part of Developers Assessment Report.
Continue assessing and implement alternative renewable and co-generation production and energy storage schemes	
Implement wildlife monitoring and protection programs in concert with Aboriginal groups and stakeholders.	Initiated discussions to identify an appropriate project late in 2011
Adopt best in class community consultation policies, practices, including establishing formal grievance mechanisms	Community consultation ongoing. Formal grievance mechanism planned for 2012.
Continued engagement with Aboriginal communities through leadership and community members. Secure formal agreements with Aboriginal governments	Formal MOU's signed with three First Nations. Formal agreements under negotiations. Expand engagement plan.
Hire for sustainability, including extensive training, development and retention of employees and contractors with an appreciation of sustainability issues.	VP, Sustainability hired and sustainability responsibilities and experience criteria included in job descriptions
Fully transparent consultation on options considered for disposal of Thor Lake tailings	

TOWARDS SUSTAINABLE MINING (TSM)

SELF ASSESSMENT for 2011

TSM Performance Indicator	2011 Performance	2012 Target	Action Required
Aboriginal and Community Outreach			
Communities of Interest Identification (COI)	A	AA	Put formal documentation system into place for all stakeholders
COI Engagement and Dialogue	B	A	Formally document engagement and dialogue processes
COI Response Mechanism	A/B	A	Document processes and implement formal complaints management system
Reporting	A	AA	In addition to Sustainability Report, publish a regular newsletter
Biodiversity Conservation Management			
Corporate biodiversity conservation policy, accountability and communications	C	A/B	Prepare a formal biodiversity policy and plan for implementation
Facility-level biodiversity conservation planning and implementation	C/B	B	Develop a comprehensive biodiversity management plan
Biodiversity conservation reporting	C	B	In addition to Sustainability Report, publish a regular newsletter and implement a tracking log of rare species sightings at Thor Lake
Crisis Management Planning			
Preparedness	No	Yes	Emergency response and high level crisis plan in place. Develop and implement a full crisis management plan in 2012.
Review	Yes	Yes	Test crisis management plan (simulation)
Training	Yes	Yes	Test crisis management plan (simulation)
Energy Use and GHG Management			
Energy use management systems	C	C/B	Continued efforts to reduce energy use at Thor Lake. Include energy efficiency in the feasibility design.
Energy use reporting systems	B	B	Limited applicability at exploration stage
Energy intensity performance targets	C	C	Limited applicability at exploration stage
GHG emissions management systems	C	C	Continue implementation of more efficient diesel heaters and assessment of wind and geothermal energy alternatives. Include emissions management in feasibility design.
GHG reporting systems	B	B	Ensure systems engineered in feasibility design for Thor Lake
GHG intensity performance targets	C	C	Limited material benefit given no production facilities
Health and Safety			
Policy, commitment and accountability	A	A	Continue to develop SH management systems congruent with the growing organization.
Planning, implementation and operation	B	A	Formal documented HS management system implemented
Training, behaviour and culture	B	AAA	Commitment to safety and health is visibly embedded throughout the facility.
Monitoring and reporting	B	A	Formal, documented and fully functional safety and health monitoring and reporting program is in place
Performance	B	AA	Set performance targets for leading and lagging indicators
Tailings Management	N/A	N/A	Not applicable until tailings generated

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*Partially reported

GLOSSARY

Aboriginal People

In Canada, Aboriginal people include First Nation, Inuit and Métis people.

Concentrate Material

Consisting of the valuable minerals in a rock separated from minerals that have little or no value.

Corporate Social Responsibility (CSR)

The way companies integrate social, environmental, and economic concerns into their values and operations in a transparent and accountable manner. It is integral to long-term business growth and success, and it also plays an important role in promoting values and contributing to the sustainable development of communities.

Developers Assessment Report (DAR)

An assessment of the possible positive or negative impact that a proposed project may have on the environment, together consisting of the environmental, social and economic aspects. Similar to the Environmental Impact Assessment of other jurisdictions. Avalon's DAR, filed in May 2011, can be found on the Mackenzie Valley Review Board Public Review Registry at www.reviewboard.ca/registry.

Flotation

A process used to extract valuable minerals from ore by selectively separating hydrophobic minerals from hydrophilic minerals.

Heavy Rare Earth Elements (HREE)

Refers to the elements europium to lutetium plus yttrium by atomic weight.

Heavy Rare Earth Oxides

Refers to the elements europium to lutetium, plus yttrium, expressed as oxides.

Hydrology

The study of water and its movement on land and in the atmosphere, and the effects it has on the earth's surface.

Hydrometallurgy

A technology that involves the extraction of metals into an aqueous solution, which are then recovered using a variety of methods.

Light Rare Earth Elements (LREE)

Refers to the elements lanthanum to samarium by atomic weight.

Light Rare Earth Oxides

Refers to the elements lanthanum to samarium, expressed as oxides.

Métis

Aboriginal people who possess a mixed ancestry. This culture emerged from relations between Aboriginal women and European men.

Millisieverts (mSv)

The SI unit used to measure occupational or environmental radiation dose, also defined as 1/1000 sievert.

Mineralogy

The study of chemistry, crystal structure, and physical properties of minerals.

NI 43-101

A rule supervised by the Canadian Securities Administration that governs how issuers disclose scientific and technical information about their mineral projects to the public.

Rare Earth Elements (REE)

Refers to the elements lanthanum to lutetium, plus yttrium.

Species at Risk Act (SARA)

This can refer to a federal, territorial or provincial Species at Risk Act.

Sustainability (or Corporate Sustainability)

A business approach that creates long-term shareholder value by embracing opportunities and managing risks deriving from economic, environmental and social developments. Corporate sustainability leaders achieve long-term shareholder value by gearing their strategies and management to harness the market's potential for sustainability products and services while at the same time successfully reducing and avoiding sustainability costs and risks.

Sustainable Development

Development that meets the needs of the present without compromising the ability of future generations to meet their own needs. (Brundtland Report, 1987)

Tailings

Material that is left over after the process of separating the valuable minerals from the uneconomic fraction of an ore.

Total Rare Earth Oxides

Elements lanthanum to lutetium, plus yttrium, expressed as oxides.

Treaty

A formal, legally binding agreement between two or more states or nations.

ACRONYMS LIST

CCFN	Chapleau Cree First Nation
CEO	Chief Executive Officer
COSWEIC	Committee on the Status of Endangered Wildlife in Canada
CSR	Corporate Social Responsibility
CY2011	Calendar year 2011 (January 1, 2011 to December 31, 2011)
DAR	Developers Assessment Report
FS	Feasibility Study
FY2011	Fiscal year 2011 (September 1, 2010 to August 31, 2011)
GRI	Global Reporting Initiative
HREE	Heavy rare earth elements
HSE	Health, Safety and Environment
IUCN	International Union for Conservation of Nature
MAC	Mining Association of Canada
MOU	Memorandum of Understanding
MVEIRB	Mackenzie Valley Environmental Impact Review Board
NGO	Non-governmental organizations
NORM	Naturally occurring radioactive materials
NSMA	North Slave Métis Alliance
PDAC	Prospectors and Developers Association of Canada
REE	Rare earth elements
SAC	Sustainability Advisory Committee
SARA	Species at Risk Act
TAC	Technical Advisory Committee
TSM	Towards Sustainable Mining
WIN	Wabaseemoong Independent Nations of Whitedog

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

This Corporate Sustainability Report may contain “forward-looking statements” within the meaning of applicable United States and Canadian securities legislation. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as “plans”, “expects”, “budget”, “scheduled”, “estimates”, “forecasts”, “intends”, “anticipates” or “believes”, or variations or negatives of such words and phrases or state that certain actions, events or results “may”, “could”, “would”, “might” or “will be taken”, “occur” or “be achieved”. There can be no assurance that such forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Forward-looking statements are subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of Avalon to be materially different from those expressed or implied by such forward-looking statements. Forward-looking statements are based on assumptions management believes to be reasonable at the time such statements are made. Although Avalon has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking statements, there may be other factors that cause results not to be as anticipated, estimated or intended. Such forward-looking statements have been provided for the purpose of assisting investors in understanding the Company’s plans, and they may not be appropriate for other purposes. Accordingly, readers should not place undue reliance on forward-looking statements. Avalon does not undertake to update any forward-looking statements that are contained herein, except in accordance with applicable securities laws.

FEEDBACK

We welcome and value your feedback on this report and our sustainability initiatives. If you have any comments, questions or concerns, please do not hesitate to contact us:

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