



AVALON
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September 20, 2013

Mr. Matt Spence
Director General
Northern Projects Management Office
5019 – 52nd Street
Yellowknife,
NT X1A 1T5

Re: Comments on EIR Report for EIR1011-001 Avalon Nechalacho Rare Earth Element Project from Yellowknives Dene First Nation (“YKDFN”)

Dear Mr. Spence,

I want to take this opportunity to comment on the above-referenced letter and address a few specific concerns expressed in the letter directly related to Avalon’s development plans, use of traditional knowledge and commitment to protecting the environment.

Firstly, YKDFN asserts that economic project benefits are “shifting south” leading YKDFN to question Avalon’s commitment to creating benefits in the North and minimizing environmental impacts.

We assume this assertion refers to our news release of August 1, 2013 which disclosed that project optimization work could lead to the use of an alternative hydrometallurgical process, and that this may be uneconomic to implement in the North due to a lack of requisite infrastructure. We reiterate that it is premature to draw any firm conclusions as we are continuing to do testwork and have not made any final decisions. We have reminded the public that the mine and concentrator at Nechalacho still represent the main opportunity for lasting economic benefits in the North but we remain committed to creating value-added business in the North over the long term as opportunities arise and economics allow.

In the meantime, our focus is on getting the project started and growing it over time. While the Feasibility Study produced a positive result, raising development capital for a complex project like Nechalacho remains a significant challenge. Moving the project ahead into construction, even with all regulatory approvals in place, is by no means a certainty, a fact that the general public sometimes forgets. Accordingly, Avalon now spends a considerable amount of time in its community engagement efforts explaining the risks and opportunities so that all parties can make informed decisions on how to maximize the benefits, minimize environmental impacts and ensure the operation becomes a reality.

On traditional knowledge, interviews were conducted with Elders and land users at the beginning of the environmental assessment to obtain input into aspects of the project site design. The permission for the study was granted verbally by Chief and Council and the draft study proposal was reviewed and subsequently approved by YKDFN technical staff.

We appreciate that the thinking on how to incorporate traditional knowledge into project development plans may have evolved since that time. However, Avalon did follow the recognized process for using traditional knowledge at that stage of the project. We will continue to collaborate and seek traditional knowledge input, especially in the design of environmental management plans and project monitoring.

At the public hearings, Avalon was disappointed to learn of the YKDFN Council motion opposing the project. We believe the opposition is mainly related to the slow progress of negotiations toward signing an Accommodation (IBA-type) Agreement. In 2012, it was agreed between Chief Sangris and myself that changes to the negotiating teams were needed to get the process moving again. Changes were made, negotiations have resumed and it is our understanding that both sides are committed to ultimately reaching agreement.

We have been engaging with the YKDFN since 2006, signed a Negotiation agreement in 2010 and continue to have frequent contact with the leadership as well as the YKDFN's business arm Det'on Cho Corporation. Our community relations team has compiled a comprehensive record of engagement that we can provide should you require any further supporting information.

Yours very truly,
AVALON RARE METALS INC.



Donald S. Bubar
President and CEO

CC: MVEIRB