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March 21, 2013

Mackenzie Valley Environmental Impact Review Board

RE: Closing Comments

Avalon would like to thank all the parties who dedicated staff and resources to reviewing and participating in the environmental assessment of the **Nechalacho Rare Earth Project** (the "Project"). Avalon also thanks MVEIRB for conducting a thorough review of the Project and for conducting fair and efficient public hearings.

Avalon wishes to use this final submission to the Board to clarify some of the broader themes that emerged from the public hearings. As such, this submission does not respond to every recommendation from each party.

Aboriginal Engagement

During the public hearing Avalon's engagement with Aboriginal governments and organizations was questioned. Avalon is proud of its history of early and frequent community engagement regarding our Project. Avalon began the engagement process before it initiated any exploration drilling at Thor Lake. As the Project advanced from early exploration to definition drilling and feasibility study work, the nature of our engagement evolved from information sharing to negotiation of formal participation agreements. Recently the main focus of our engagement with Aboriginal governments and organizations has been on negotiating formal accommodation agreements and relationship agreements to involve the communities as partners in the Project, to maximize employment and opportunities for the supply of products and services to the Project.

While the negotiation of agreements is a separate process from this environmental assessment, at a community level these two processes interact. When approached, Avalon provided technical capacity by funding an independent review of Avalon's environmental predictions for one Aboriginal party. This independent review was then shared with other Aboriginal parties. Avalon is at various stages of negotiations with Aboriginal parties and this was clearly reflected in the comments at the public hearings, with the parties at less advanced stages expressing understandable frustration at the pace of negotiations. One could observe that, to some extent, all parties could have been more proactive in engaging at a community level on environmental and other issues, independent of the agreement negotiations, and Avalon intends to improve its performance in this area.

Avalon is committed to ongoing engagement with Aboriginal partners and working to find the best ways to share and engage their memberships in the Project. To this end, Avalon welcomes invitations like those from YKDFN to establish engagement plans with Aboriginal partner communities.

Traditional Knowledge

Two parties presented comments about the traditional knowledge studies that were completed for incorporation into the DAR. The traditional knowledge studies were conducted by EBA and Avalon in partnership with communities. Avalon conducted those studies following best practices and appropriate processes with the communities at the time. The Deninu K'ue First Nation, Fort Resolution Métis Council, Lutsel K'e Dene First Nation, and Yellowknives Dene First Nation approved the study designs and the content of the final reports. The concerns raised at the public hearing were not identified at that time. The North Slave Métis Alliance chose to conduct its own traditional knowledge and land use study funded by Avalon.

All parties expect traditional knowledge to be honoured and used in the design and operation of the proposed Project. No single study can accomplish this. If the Project proceeds, Avalon will build upon the existing studies by valuing traditional knowledge in the following processes:

- The design and update of management plans (Closure, Aquatic Effects, Archaeological Sites Protection, Wildlife)
- The use by Aboriginal workers of their traditional knowledge at site and when monitoring
- Input from the broader community as a result of engagement activities
- Promotion of traditional knowledge in negotiated Agreements

Water Treatment

Avalon is pleased that the public hearing provided further clarity about water treatment at the Nechalacho mine site. Avalon will be treating all water reporting to the tailings management facility whether it originates from the flotation plant or from underground. This treatment will take place within the flotation plant. Water is removed from the process slurry, treated, and then the clean water is mixed back into the tailings solids prior to reporting to the tailings management facility.

Water Quality

Since the beginning of the environmental assessment process, water quality was identified as a Key Line of Inquiry by the Board and has received priority consideration throughout the MVEIRB process. Avalon recognizes the critical importance of maintaining the existing standard of water quality in lakes and streams at the Nechalacho Mine site.

Should the Project proceed, Avalon is fully committed to compliance with the terms and conditions of the future Mackenzie Valley Land and Water Board (MVLWB) water license and the federal Metal Mining Effluent Regulations (MMER). In addition Avalon is committed to conformance with the Site Specific Water Quality Objectives (SSWQOs) that are being developed for the Project.

Given that the current proposed SSWQOs will continue to be subject to refinement during the future MVLWB water license review and permitting process includes Avalon is

of the view that the narrative statements being presented by AANDC in the current process may serve to limit future adaptive management and mitigation options and should be subject to further refinement during the subsequent water licensing process.

Air Quality

Avalon predicts that maximum emission concentrations are predicted to be lower than the NWT Air Quality Standards for all contaminants. Avalon has made two significant commitments about air quality monitoring. Firstly, Avalon commits to developing an air quality monitoring and management plan in consultation with ENR and Environment Canada. Secondly, Avalon commits to consulting with Environment Canada and the GNWT to develop and implement an incineration management plan.

With respect to the subject of incinerator stack testing, it is difficult at best to get reliable measurements on small intermittent emitters of the type proposed by Avalon, which would be comparable to incinerators used in a large tourist facility. In an effort to provide comfort, Avalon suggests that other types of testing (e.g. temperature, particulate emissions) can be utilized to confirm the proper installation and operation of the incinerators to minimize the emission of dioxins and furans. Avalon reiterates its commitment to comprehensive sampling on all of the large air emitters on site.

Wildlife Monitoring

During the public hearing several parties referred to a Wildlife Effects Monitoring Program (WEMP). Avalon does not believe this term is being used consistently amongst the parties and that this has led to some confusion. The definition of a WEMP has rapidly evolved in the last number of months including changes to the expectations around scale, enforceability, and suitability for the Project. To date, Avalon has not committed to a WEMP because of the uncertainty about the content of such a program. Avalon will continue to work with the GNWT and Aboriginal parties to define their wildlife monitoring needs.

Avalon is committed to monitoring wildlife in a comprehensive way that provides appropriate data for the regulators and communities. As such, Avalon has made several commitments related to the monitoring of wildlife apart from discussions about a WEMP. Avalon will participate in cumulative effects programs developed by the GNWT and Aboriginal parties that are applicable to Avalon's operation and provide meaningful information for both communities and Avalon. Avalon has also provided the board with a draft Wildlife and Wildlife Habitat Protection Plan. The GNWT called the plan "conceptually sound" recognizing the need for further input from relevant parties. To be clear - Avalon will be conducting wildlife monitoring and is working with the parties about the form and nature of such monitoring. Of particular importance is the need for Aboriginal governments / organizations to have input into the structure of wildlife monitoring, taking into account commitments from negotiated agreements, evolving values, species distribution, and the changing regulatory climate.

Barging and Incident Response

Barging is a safe and reliable method of transportation with environmental advantages. Alternative modes of transportation were evaluated and deemed impractical because of safety, economic costs, and community concern. Avalon is highly aware of the current perception of risk about barging. To address this, Avalon will continue to share information and be transparent as part of its community engagement activities.

During the public hearings, the Board heard several questions about barging, and in particular the response to fuel spills. Many of these questions focused on contingencies for the unlikely event that a barge operator was not able to respond to a spill. The following summarizes the full spectrum of safeguards in place for barging and spill response.

Barging, and particularly the transportation of fuel in barges, is highly regulated. Using NTCL as an example, all of their barges are tested and inspected annually by Transport Canada, Lloyds Register and Imperial Oil. At four year intervals, NTCL's barges are dry-docked, hydro-tested and ultra-sonic thickness tested.

All barges must have a current Shipboard Oil Pollution Emergency Plan. An example of NTCL's plan is attached to this document for reference. This plan outlines the procedures in the case of spills, damage to the barge, and a number of other emergency scenarios. In the case of a fuel spill, the plan details the options for containment and recovery, including the use of booms, skimmers, sorbent pads. Specific emergency response equipment must be carried by each barge train in accordance with this plan. Every year, the vessel crew is required be trained and perform exercises to practice their emergency response to a fuel spill.

In the most unlikely event of a barging incident that could involve the loss of containers filled with concentrate into Great Slave Lake, Avalon is committed to recovering the containers and contents in a timely manner. As described in the DAR, Avalon has confirmed the capability of experienced Canadian salvage firms to successfully perform such recovery operations in the water depths found along the proposed concentrate shipping corridor in Great Slave Lake.

Public Comments

Avalon thanks the Elders and members of the public who spoke during the hearings. Speakers shared their views on the challenges and opportunities they see in the Project. Avalon would like to repeat a few of these comments that reflect the importance of the land, partnerships, and vision for the future.

"I'm all for mining and all that. What I'm asking is take all the precautions that you can take. Go that extra mile just to be on the safe side [...] This is our backyard, and we still use it to this day for hunting and trapping and teaching our grandkids and that."

Angus Charlo, speaking in Yellowknife February 19, 2013

"Avalon's been fair. They've been going to the communities and meeting with the communities. They came to our community when this Project first started. We supported it from day 1. We're still supporting it."

Chief Louis Balsillie, speaking in Fort Resolution February 22, 2013

"We also want a territory that has a strong economy, that gives us the resources we need to fund programs and services, look after our land, and provide for our residents. Mining is a critical part of achieving that vision."

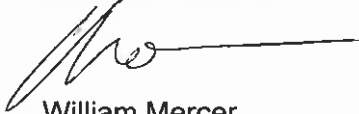
Honourable David Ramsay, speaking in Yellowknife February 18, 2013

"My kids will be educated. My kids will need jobs [...] and opportunities and motivation in the community today; not tomorrow, not ten (10) years from now when everybody gets along. They're going to need it tomorrow."

Rosy Bjornson, speaking in Fort Resolution February 22, 2013

In conclusion, Avalon would like to again reiterate its appreciation to the Board and all participants for the enormous effort in this comprehensive process over more than two and a half years. Avalon is committed to engagement and participation with the Aboriginal communities and other stakeholders in our mutual objective of protecting the environment, monitoring impacts closely, and providing benefits to all of our neighbours.

Sincerely,
AVALON RARE METALS INC.



William Mercer
Vice-President, Exploration