

Deninu Kue First Nation
P.O. Box 279
Fort Resolution, NT
X0E0M0



Fax Memo

To: Bill Mercer President – Avalon Rare Metals Inc.

From: Chief Louis Balsillie – DKFN

Fx: (416) 364-5162

cc:

- The Honorable Bernard Valcourt, Minister AANDC Fax - 613-996-9736 / 506-739-4607 / 506-789-6049
- The Honorable Bob McLeod, Premier NWT Fax - 867-873-0385
- The Honorable Tom Beaulieu Minister of HSS, Responsible for Seniors and responsible for persons with disabilities Fax – 867-873-0274
- Richard Edjericon, Chairperson MVRB (Mackenzie Valley Impact Review Board) Fax –867- 766-7074
- Don Balsillie, Chief Negotiator, Akaticho Tribal Council
- CBC North Fax – 867- 920-5465.

Date: August 16, 2013

Re: Letter Dated August 19, 2013

ATTENTION:

**Bill Mercer President, - Avalon Rare Metals
Inc**



Deninu K'ue First Nation

P.O. Box 279

Fort Resolution, NT X0E 0M0

Ph: 867-394-4335/4336 Fax: 867-394-5122

Email: admin_dkfn@northwestel.net

Bill Mercer
Vice President, Sustainability
Avalon Rare Metals Inc.
130 Adelaide St. W, Suite 1901
Toronto, ON, M5H 3P5

August 19th, 2013

Dear Mr. Mercer,

I thank you for your email dated August 15th, 2013 (6: 25 PM). As you are no doubt aware, our letter to Don Bubar, CEO and president of Avalon, was posted on the MVRB site on August 15th, 2013. My Council and myself are available to meet with you on Monday, August 26th or Tuesday the 27th at 7PM. We realize that you have a tight schedule but fully expect that you will accommodate us in our meeting requirements. We need the time prior to meeting with you to consider our options.

As a consequence of Avalon's conveniently timed deletion of the Pine Point processing plant and associated operations and facilities from their proposed mining operation, DKFN and its membership have lost the employment and business opportunities which would have occurred close to home. You state in your email that you will be in Hay River on August the 21st. I expect that you are finalizing commitments made to the Mayor and Council in Hay River, and to the Katlodechee First Nation.

In 2010 Avalon had produced a map for the Taltson Hydroelectric Expansion hearing depicting the now-named barging route from Thor Lake to Hay River but titled "*Proximity to GSL provides transport options such as barging concentrate to Hay River/Pine Point*". (See Enclosure 1) When asked a number of times during our IBA negotiations about the proposed version of the route to Hay River Avalon denied that this was to be the route, and continued to reaffirm throughout our negotiations that there would be a Processing Plant at Pine Point. That was not the route proposed in the Avalon Development

Assessment report. The only one considered by the MVRB and other regulatory agencies was one associated with the Pine Point Processing plant. Hay River is a much busier port of entry for the concentrate (It is the main port of the Great Slave/Mackenzie River shipping industry) and would have entailed the provision in the DAR of more detailed information pertaining to the logistics associated with the shipping route for the containers of concentrate and the docking and off-loading arrangements.

In order to barge directly to Hay River you will be in the process of making arrangements either to use or to expand the dockyards of the Northern Transportation Company Limited (NCTL), at Hay River as well as to construct, purchase or lease buildings and infrastructure related to the barging and shipping of the now much changed composition, weight and volume of the concentrate. This will of course tie into your earlier plans to ship concentrate (albeit lighter and more refined) by rail to the south.

The number of containers of concentrate to be shipped from Hay River south must have increased dramatically with a concomitant increase in the likelihood of a rail accident. In addition, your processing methodology at the mine site itself must be altered concomitant with changes in the final stages of processing the ore, with an associated change in the composition of the effluent discharge and tailings. It is after-all a domino effect.

We are therefore requesting that the MVRB require that all proposed changes be reviewed by the MVRB, AANDC, DFO and other regulatory bodies prior to final approvals and licensing of the Nechalaco Mine at Thor Lake. Should those changes receive approval we expect that Avalon will follow through on the new commitments outlined below.

We require the following commitments from Avalon prior to meeting with you:

1. That you will provide the funding (specifically) to DKFN to hire LGL to work in association with selected nuclear physicists to review all proposed processing plans and in addition to provide ALL relevant information upon request to the consultants. Your consulting firm would have performed their review based upon the core samples and other materials provided to them by Avalon. Indeed, there is a disclaimer to that effect at the bottom of each of the core-sample analysis charts that they produced. Avalon had previously committed to fund this review, and then reneged.
2. That you fund the involvement of our consultants/advisors (Travel, preparation and meeting costs etc.) in dealing with this issue and any other issues associated with the Implementation of our IBA and related matters.

3. That you not hand-tie the DKFN Implementation Committee through refusing to fund the office set out in our Accommodation Agreement/IBA and associated Implementation Committee costs. I remind you, this Implementation Committee was NOT intended to function as a token Committee. We require sufficient funds to operate in an effective manner.
4. That you operate in a transparent manner in the future. You knew of Avalon's change in plans on July 24th the day that you met with the DKFN Implementation Committee. However you failed to inform the Committee of this change in plans, a change which has taken much-needed jobs from DKFN members and millions of dollars from the NWT and Canada. The potential revenue from the construction and operation of the processing plant at Pine Point weighted the approval of your operation in Avalon's favour, both DKFN's in approving the IBA and the regulatory agencies, hence your failure to reveal these changes prior to the release of the MVRB ER Report.

In addition to addressing the above noted issues regarding the changes to your development plans we require the following:

1. A guarantee of a fixed, minimum number of jobs at Avalon's Hay River operation. Should DKFN not have the trained members available to fill these positions our Development Corporation will hire outside workers until such time as sufficient trained DKFN members are available. This would also apply to office jobs.
2. Lodging for the DKFN workers in Hay River
3. Travel costs from Fort Resolution to Hay River.

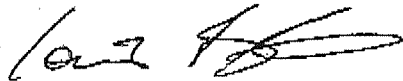
None of the above is intended to reduce in any way the DKFN's participation in the mining operation at Thor Lake. It is simply a replacement for the removal of the anticipated construction and operation positions at Pine Point. However, given Avalon's obfuscation on the Pine Point operation, DKFN now requires that you guarantee the number of jobs as well as the associated costs.

I expect a letter of response from yourself or your associates in the very near future prior to our agreeing to meet on the dates set out above or another date. We require confirmation, in writing, of Avalon's approval of both our funding requests for the Implementation Committee and the costs associated with our consultants/advisors and Band Council members and the guarantee of a fixed number of jobs.

We WILL NOT attend a rushed meeting called solely for the purpose of placating us through the offer of token funds or economic opportunities and jobs already provided for in our Accommodation Agreement.

I anticipate hearing from you in the very near future. Given the circumstances, **I request that neither your staff nor yourself contact my council members, my staff, the Implementation Committee members or myself personally. At the present time all contact is to be by letter (emailed and mailed) until such time as we meet formally in regards to the above.**

Sincerely,



Chief Louis Balsillie

- Cc The Honorable Bernard Valcourt, Minister AANDC
- Cc The Honourable Bob McLeod, Premiere NWT
- Cc The Hon. Tom Beaulieu Minister of Health and Social Services
& Minister Responsible for Seniors
& Minister Responsible for Persons with
Disabilities
- Cc Richard Edjericon, Chairperson MVRB [MacKenzie Valley Environmental
Impact Review Board]
- Cc Don Balsillie, Chief Negotiator, Akaitcho Tribal Council
- Cc CBC North

Enclosure 1.

Map of barging route provided by Avalon Rare Metals Inc. in their Submission to the Taltson Hydroelectric Expansion Hearings in Dettah, NWT, 14 January 2010

