



September 27, 2012

Ms. Jane Groenewegen
MLA, Hay River South

Mr. Robert Bouchard
MLA, Hay River North

C/O Government of the Northwest Territories
P.O. Box 1320,
Yellowknife, NT X1A 2L9

Dear Ms. Groenewegen and Mr. Bouchard;

Re: Delays in Avalon Rare Metals Inc. Thor Lake Project EA Process

Thank you for your letter of September 13, 2012 to Mr. Richard Edjericon, Chairperson of the Mackenzie Valley Review Board raising concern about the Board's decision to proceed with a second round of information requests and to set the timing of the public hearings for the month of February 2013. Your letter has been referred to me for response.

We received a similar letter to yours, dated September 13th from Mr. Bubar, President of Avalon Rare Metals Inc. Attached is our reply to Mr. Bubar explaining the Board's rationale for issuing a second round of information requests and setting a February date for the public hearing.

The Board's information requests were issued on September 21st and describe important information still required to address the impacts of the proposed project on water quality. This is especially important as effect on water quality is the key line of inquiry by the Board in this environmental assessment.

We note that both your letter and the earlier letter from Mr. Bubar suggest that, if the public hearing could occur in December rather than February, then permits could be issued in sufficient time for construction to commence in the summer of 2013. We believe that it would assist any further consideration of timelines related to this development if we set out our understanding of the process to follow the Review Board's hearings.

Following completion of the public hearing and assuming project impacts have been adequately addressed by the developer; it will take approximately 10 weeks to finalize the Report of Environmental Assessment. Following that the Minister of Aboriginal Affairs and Northern Development (AANDC) and other responsible federal and territorial ministers will need to approve the Review Board's report and recommendation on the project.



The most expedient process would occur if there were no mitigation measures required by the Review Board for the project to go ahead. In that case it would be possible for the proposed development to proceed to licensing and permitting as early as 10 days following issuance of the Board's report. It is not possible at this time however to say whether the Review Board may recommend measures or not.

The Review Board is collaborating with the Mackenzie Valley Land and Water Board (MVLWB) in the assessment of this development. It is hoped that any extra time spent addressing concerns related to water quality in the environmental assessment process will reduce the time required to satisfy water licensing requirements.

This project requires a Type "A" Water License. This is a detailed technical process and a public hearing is mandatory before such a license can be issued. These proceedings typically last 6 months or more. Normally, construction does not begin until a water license is in hand. Given these requirements it appears that Avalon's estimated construction schedule is optimistic.

The Board appreciates that it is in everyone's interest for the environmental assessment to proceed in a timely manner. I want to assure you that the Board has committed to a schedule that will bring closure to the EA process early in the new year (i.e. early May). This schedule however relies on receiving the outstanding information from the developer in a timely manner as well.

Sincerely,

Vern Christensen
Executive Director

Attachment:



September 26, 2012

Mr. Donald S. Bubar,
President and CEO; Avalon Rare Metals Inc.
Suite 1901 - 130 Adelaide Street West
Toronto, ON; M5H 3P5

Dear Mr. Bubar;

**Re: Concerns over delays in the environmental assessment process for
the proposed Nechalacho Rare Earth Element Project at Thor Lake**

Thank you for your letter of September 13, 2012 to Mr. Richard Edjericon, Chairperson of the Mackenzie Valley Review Board raising concern about the Board's decision to proceed with a second round of information requests and to set the timing of the public hearings for the month of February 2013.

Your letter has been referred to me for response. It is not possible for the Chairperson to engage in direct communication with a senior official of a developer on matters of substance once an environmental assessment (EA) proceeding is before the Board. I trust that you will understand that direct discussion of the concerns set out in your letter to the Chairperson could lead to fairness issues in the Thor Lake Project proceedings. We have explained these matters to Mr. Swisher in the past. If further explanation would be of assistance, I would be glad to contact him again.

The Board conducts its proceedings in this way in order to minimize legal risk to the EA process and so that its process meets the requirements of fairness. We do so as well to avoid the delays that could be occasioned by legal challenges regarding due process and bias.

The Board deemed the second round of IRs to be necessary because important technical questions remained unanswered following the technical session held in August. It was not clear that the project as proposed would be able to treat the process water sufficiently to achieve appropriate site specific water quality objectives (SSWQOs). In fact, the modeling results suggested that the proposed SSWQOs would not be met for at least two rare earth elements as far downstream as Thor Lake. Further, the information available to the Board does not include toxicity data on which to base a rationale for six of the proposed SSWQOs.

Another important technical concern was whether or not the water quality modeling properly accounted for the additional loading of contaminants attributable to ground water infiltration into the underground workings of the mine. These and other questions to which the Board seeks answers are detailed in the information requests issued to Avalon on September 21st.

The Board considers it necessary to have answers to these significant questions in reasonable time before final technical submissions are submitted by the parties and the developer on November 29th. The Board also wants to ensure that all parties as well as the Board have sufficient time to prepare for the public hearing.



Water quality is the key line of inquiry for the Review Board in the terms of reference for the Developer's Assessment Report and important information gaps still remain. If this information is not available before the public hearing, it may not be possible to adequately address impacts that the proposed project may have on water quality in particular.

In fairness to the parties, adequate time will be required to review the technical submissions due on November 29th. Given the difficulty scheduling a major hearing over the holiday season and other scheduled commitments of the Board; the earliest open period for the Avalon public hearing is in February. However the Board has strived to create process certainty early in setting these dates and has committed to meeting them.

If the necessary information is provided in a timely manner by Avalon, the EA process should be completed early in the new year.

Sincerely,

Vern Christensen
Executive Director



September 13, 2012

Mackenzie Valley Environmental Impact Review Board
200 Scotia Centre
Box 938, 5102 - 50th Ave.
Yellowknife, NT X1A 2N7

Attention: Mr. Richard Edjericon, Chairperson

Subject: Concerns over delays in the regulatory process for the Nechalacho Rare Earth Element Project, Thor Lake, NWT.

Dear Mr. Edjericon,

This is to express our profound concern about the Review Board's recent decision to proceed with a second round of information requests and delay the timing for public hearings until February 2013 (or later), as the resulting delay to our overall project schedule could potentially frustrate the development opportunity completely.

We question the need for second round information requests (IR) considering that no significant concerns were raised and all questions asked were fully addressed during the four days of technical sessions held in Yellowknife August 14-17, 2012. In fact, Avalon immediately completed all fourteen (14) homework items requested by the various regulatory bodies in attendance and the remaining six (6) undertakings were answered and submitted to the Review Board on August 23rd, 2012. Further, if the need for second round IR's was predetermined, then why wait for over two weeks to announce this?

Our technical consultants believe any additional IRs (if any) can be addressed quickly so we do not see any reason why the Public Hearings cannot be held before year-end, as originally contemplated. This timing is very important to us given that six months are likely required after the Public Hearings to complete the remainder of the regulatory process, prior to receiving our land use permits. You can see that the schedule is already tight as our development schedule calls for construction to begin in June, 2013, so that we do not miss a summer work season and meet our ultimate target of production start-up by late 2016.

Also, some certainty over the time required to complete the regulatory process is necessary for us to begin securing project financing.



Avalon respectfully requests the Review Board reconsider its decision to delay the Public Hearings and work collaboratively with us to find a solution that will allow the Public Hearings to take place before the end of 2012.

I remind you that Avalon has adopted a policy of full transparency with our local community partners, which has allowed us to reach agreement already with one community to facilitate their participation in the project. We have successfully demonstrated to them our commitment to meeting the highest standards of environmental and social responsibility.

Further unnecessary delays in the environmental assessment process will jeopardize the opportunity as we are in a competitive business where being an early mover is critical to success. Loss of the opportunity to become a leader in rare earth elements production would be to the great detriment of our aboriginal partners, the people of the Northwest Territories and Canada generally.

Respectfully submitted,
Avalon Rare Metals Inc.

A handwritten signature in black ink, appearing to read "DSB", with a long, sweeping horizontal stroke extending to the right.

Donald S. Bubar
President & CEO

Cc: David Swisher
Paul Mercredi