

e-mail: debbie.lewis@canaccord.com

e-mail: david.pescod@canaccord.com

August 9, 2010



**AN INTERVIEW WITH DON BUBAR
PRESIDENT AND CEO WITH
AVALON RARE METALS
(As of July 27, 2010)**

David Pescod: For those trying to follow rare earths, it is quite an educational process so why don't we catch up with *Don Bubar* who has arguably one of the most interesting/exciting projects on the face of the Earth. So

Don, could you give us an introduction, economics 101 with rare earths? What they are used for and how big you think the markets could be?

Don Bubar: The rare earth elements are a relatively obscure group of commodities that most people haven't heard much about since their high school chemistry class but they use every day of their lives in their automobiles, their hand-helds, their laptops and a growing number of new modern electronics technologies. They are viewed as the key enablers of a lot of new technology, especially clean technology in the areas of energy efficiency and reducing our reliance on fossil fuels. So these technologies are becoming the big new demand driver for the rare earth elements.

There are fifteen rare earth elements in the group, all with exotic names ending in "um", like lanthanum, europium and dysprosium. But there are a select few of these that have key properties that are important in these applications. They are neodymium, terbium and dysprosium that are used to make high-strength permanent magnets, that are in turn the key to making electric motors smaller, lighter and more efficient in terms of energy consumption.

So now the hybrid car, for example, relies on these rare earth magnets to make all the micro-motors, traction motors, generators etc, in those cars a relatively small size. Without the use of rare earth magnets the Toyota Prius would be the size of a dump truck instead of a compact car.



CANACCORD WEALTH MANAGEMENT IS A DIVISION OF CANACCORD GENUITY CORP., MEMBER — CANADIAN INVESTOR PROTECTION FUND
MEMBER OF ALL CANADIAN STOCK EXCHANGES AND THE INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA
OFFICES IN MAJOR CENTRES ACROSS CANADA

CANACCORD Wealth Management

This newsletter is solely the work of the author for the private information of clients. Although the author is a registered Investment Advisor at Canaccord Genuity Corp., this is not an official publication of Canaccord Genuity Corp. and the author is not a Canaccord Genuity Corp. analyst. The views (including any recommendations) expressed in this newsletter are those of the author alone, and are not necessarily those of Canaccord Genuity Corp.

The information contained in this newsletter is drawn from sources believed to be reliable, but the accuracy and completeness of the information is not guaranteed, nor in providing it do the author or Canaccord Genuity Corp. assume any liability. This information is given as of the date appearing on this newsletter, and neither the author nor Canaccord Genuity Corp. assume any obligation to update the information or advise on further developments relating to information provided herein. This newsletter is intended for distribution in those jurisdictions where both the author and Canaccord Genuity Corp. are registered to do business in securities. Any distribution or dissemination of this newsletter in any other jurisdictions is prohibited. The holdings of the author, Canaccord Genuity Corp., its affiliated companies and holdings of their respective directors, officers and employees and companies with which they are associated may, from time to time, include the securities mentioned in this newsletter.

David Pescod T: 780.408.1750

Debbie Lewis T: 780.408.1748

Fax: 780.408.1501

Page 2

Now these magnets are finding their way into plenty of other technologies such as the next generation of large scale wind turbines. Energy efficient lighting is another way that rare earths are used, but in a different form: as phosphors for fluorescent lights and to make the colors in LED lighting, the way of the future in energy efficient lighting.

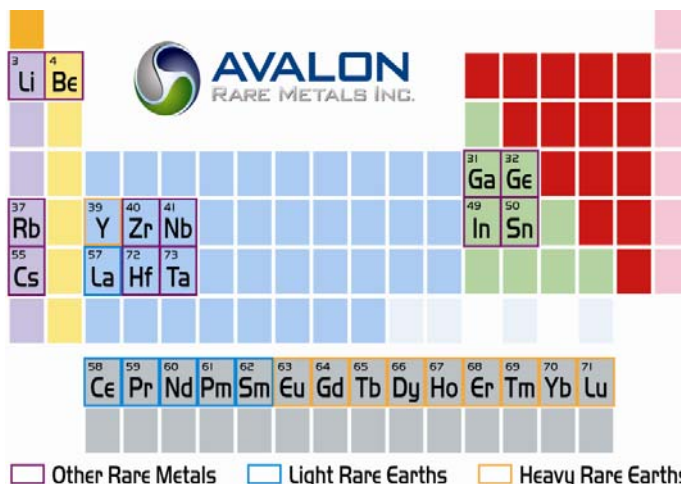
Those are a few examples of how they are used, and obviously with the whole world wanting to make more efficient use of fossil fuels due to the growing concerns about CO2 emissions and global warming, there is going to be an increasing demand for these elements going forward with the corresponding growth in demand for clean technology.

DP: They sound like the metals for the next century but the big concern seems to be two-fold. China seems to control most of the known elements and secondly it's not really known how big the markets are for these different metals.

DB: You're right, China controls the supply side. That's an artifact from the early days when demand was small; China emerged as a low-cost producer because of one world class deposit, called Bayan Obo, which is actually an iron ore deposit, where they can produce rare earths as a byproduct of iron ore mining. That provided the cost advantage to displace Molycorp Minerals which was the main historical producer in the United States, with its mine in California, Mountain Pass. They have grown production since then in China with the growth in overall demand for rare earths from new technologies.

What's happening now is the internal demand for rare earths in China is starting to outstrip the supply available in China. For a long time China produced amounts well in excess of its domestic requirements which were available for export but the rapid industrialization of China is creating great new internal demand, as it is for virtually all commodities. Now we're in a situation where China feels the need to keep most of its production for internal requirements, creating the prospect for shortages outside of China amongst consumers around the world. That is what is creating much of the new interest in development of deposits outside of China, such as Avalon's Nechalacho deposit in the Northwest Territories.

To answer your second question, the demand going forward has been forecast by a number of independent groups out there that track commodity trends and there are a number of models predicting future growth in demand. It's looking like, for the rare earths as a group, at least 10% year over year demand growth going forward.



To receive the Late Edition and be on our daily circulation simply e-mail Debbie at Debbie.lewis@canaccord.com and give your address, phone number and e-mail and we'll have you on the list tonight.

David Pescod T: 780.408.1750

Debbie Lewis T: 780.408.1748

Fax: 780.408.1501

Page 3

So we are looking at least a doubling of the global demand over the next 4-5 years, and obviously new supply sources need to be brought onstream to meet that growing demand as China basically produces enough for itself. So that is the opportunity that companies like Avalon are presenting to investors, that is; supplying that new need for sources outside of China.

DP: Your project in the Northwest Territories is of some scale, just how big is it and what stage is it at for exploration and development?

DB: We've just completed a pre-feasibility study on it, so it is now an advanced stage project, moving into the development stage where we are proceeding pilot plant work to confirm our process flow sheet, along with permitting, geotechnical studies, all the other inputs needed to complete a bankable feasibility study, which we hope to complete over the next two years.

It is clearly a huge deposit based on the drilling we've done so far but the resources we have disclosed to date are based only on the drilling done up to the end of last year. We have done a lot more drilling since then. We can now call Nechalacho, based on the inferred resources, the second largest known deposit in the world and we haven't found the end of the resource either. It's still open in all directions for expansion but more notable is its very high quality in terms of grade and enrichment in the scarcer and more valuable heavy rare earths. This is the real key to the value proposition with our deposit compared to many others.

There are 15 of the rare earth elements but they do not occur in equal proportions. The light rare earths, the first 5 in the series, tend to be the majority in most deposits and the heavy rare earths tend to be there in trace amounts. But these heavy rare earths are now vital to some of the new magnet applications we were just describing. Most deposits are unable to supply them in the quantities needed going forward, so they tend to attract higher prices and make for a more valuable resource when the deposit contains a higher proportion of them. This is exactly what we have at Nechalacho, whereas most deposits may have 1%-2% heavy rare earths, this one has greater than 20%. It makes for a huge difference in the value of the ore in the ground and the opportunity for a viable project.

DP: Looking down the road, why would a speculator be interested in Avalon at this time?

DB: Primarily for exposure to the rare earth elements as an important new commodity group. If you think that the demand is going to grow and supplies are going to be constrained, it is not hard to conclude that rare earth prices will go up making the opportunity even more attractive and the value of our resource even greater. That would seem to be indicating the potential for further price appreciation in our stock as rare earth prices move higher and also as the market becomes generally more aware of how important these elements are and how limited the supplies are. There are very few public companies in the world that offer investors exposure to advanced rare earth elements projects. We are one of the few offering the heavy rare earths as well, so if you like all these factors, Avalon is definitely one of the best ways for investors to get exposure to the rare earth elements.

DP: Thank you for the background on Avalon which really is attracting a lot of interest, particularly to followers of John Kaiser and the like, but Don we like to end these interviews with our favorite question, if you could only buy one stock other than your own what would it be?

DB: I guess if you're talking about rare earth elements, the other companies that have advanced projects out there that look like they have a good shot of achieving production, long-term value creation and cash flow, my picks would be Lynas Corporation, listed in Australia, and a new IPO being done now, a company called Molycorp Minerals, planning to restart production from their Mountain Pass deposit in the U.S. Molycorp is probably the one I would look at right now.

DP: Thank you for your time Don!

DEB'S DITTY:
Wisdom comes with age.
But sometimes age comes alone.