



Avalon Rare Metals: A Hybrid company for a Hybrid Car

T-AVL

Recent Share Price: 55 cents (March 12 2009)

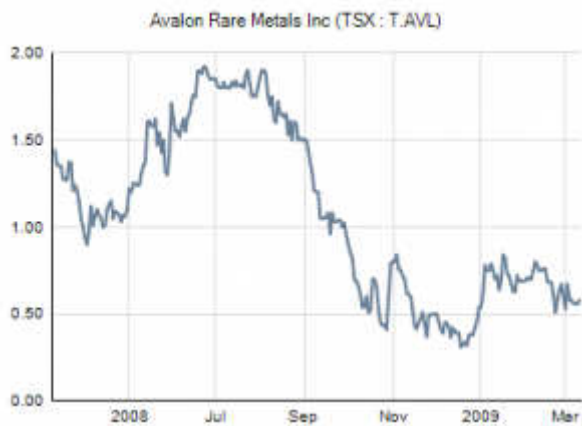
Shares outstanding: 67,649,748

Fully Diluted: 77,100,498

Working Capital: 9.5 million dollars

Insider ownership: 6%

Institutional: 15%



Avalon is what I consider a hybrid company, being a resource exploration/development company as well as a green company. Most people automatically disassociate the two, but in this case Avalon is making the two synonymous.

One of Avalon's largest disadvantages has finally become an advantage. Valuating rare earth companies has been somewhat difficult in the past due to the exotic nature of the metal group. It has generally been difficult to track the price of the metals as it is not traded on any major exchange. Investors tend to shy away from what





they cannot readily track, i.e. the price of copper or gold.

The tide has changed for Avalon and all other companies that have been exploring for rare earths. The newly-minted President Obama has been quite forward with his extensive plans to greatly expand the usage of greener alternatives to power the United States. One goal is to spend 150 billion dollars in infrastructure to bring the plug-in electric vehicle to the forefront of transportation. Rare metals will be in great demand in order to realize this plan. The dynamics of the rare metal market are quite intriguing.

Rare Earth Metals have always been seen as a somewhat of an obscure investment choice, and for a very good reason. You can't really get an accurate quote on the price, and if you could, you would need to get a quote on all 17 metals to get the true "rare earth" picture. Understandably investing in this has been like having a set of ninjas as your security. You know they are there, but you are never sure how many there are and what they are up to, but you can always be sure that they'll be there when you need them.

That story is changing, it is still true that they are not actively traded, but that is going to be a matter of time in my opinion. There is a much better understanding as to what they are used for, and that they may not be around quite as much as one would need.

The fact is that rare earth elements are quite common in the earth's crust with Cerium being the 25th most abundant element in the earth's crust at 68 parts per million. Despite their high relative abundance, rare earth minerals are more difficult to mine and extract than equivalent sources of transition metals (due in part to their very similar chemical properties), making the rare earth elements relatively expensive. The reason why you call rare earths "rare" isn't so much because the REE's are actually rare, but because it is rare to find an economic deposit where you can separate all the REE's apart instead of the general separation between light and heavy REE's. That is the reason why these things are so expensive, because even if you find rare earths, it has to pass the metallurgical side of things. That being said it is worth exploring rare earth showings because the economics of one of these deposits can be wildly rewarding.

Rare Earth Elements (REE) have become a lot more main stream. There is about 50 pounds of REE's in every hybrid vehicle on the road. That doesn't sound like much but last year there were well over 250,000 hybrids put on the roads and that number is growing. This means that there was a demand of 7,500,000 pounds of REE's just for that application. That only represents 6.5% of consumption. That picture is set to change dramatically. In the next 5 years the projection is that there will be over 3 million hybrids and electric cars roaming our streets. That is a 12 fold increase from the current number. That will hurl car demand of rare earths from just 6.5 percent to around 45% and total demand will have grown from about 118,000 tons to around 200,000 tons annually. There are companies exploring for REE's now which are really going to benefit from production. As





it stands, China is the main producer of REE's and is said to be cutting back which will produce a supply crunch. We have already seen REE's multiply in price, but this is just the beginning. As more stringent emissions standards get implemented the demand for this will go up.

Avalon Rare metals has several projects with Thor Lake being the key one. Thor Lake is located in the Mackenzie Mining District in the Northwest Territories about 5 kilometers north of Hearne Channel of the Great Slave Lake and about 100 kilometers southeast of Yellowknife.

The Thor Lake property is made up of 5 contiguous mining leases equaling 10,449 acres. These mining leases have 21 year lives which are renewable every 21 years. There is 5.5% Net Smelter Royalty(NSR) payable on the property.

There are 5 zones of rare metals which are North and South T zones, S zone, R zone and Lake Zone. The lake zone is of particular interest due to its size and enrichment in REE, more notably, the more valuable heavy rare earth elements (RHEE) such as europium, terbium and dysprosium. Most of the area of interest goes from surface to 200 meters of depth. An updated resource calculation has been issued on February 3rd 2009 and it is as follows:

This resource is very encouraging and I believe that after comparing it to the previous resource calculation it demonstrates the economic potential of this project. Some of the hurdles this company could face are infrastructure related, due to the fact that the project is located in the far north. As rare metals see higher demand, the gross metal value will go up. That being said, should this company make it to production this could be a 12-15 dollar stock. That being said, in the short term (6 months) the company should see some life as investors start to see the company as a green company. The company will need either a partner or a lot of money to advance the project. In the short term, if the markets don't completely collapse, we could see this company's share price come to life...potentially doubling from here to about 1.20 per share.

As there is more news flow I will be updating Avalon, as well as discussing their other projects.

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