



#16 Yellowknife Airport
Yellowknife, NWT
X1A 3T2

June 25th, 2010

Your file Votre référence

Our file Notre référence

Avalon Rare Metals Inc.
Suite 1901 – 130 Adelaide Street West
TORONTO, ON M5H 3P5

Attention: Mr. Don Bubar

**Re: Land Use Permit MV2010G0001
Airstrip Construction
Thor Lake, NT**

Dear Mr. Bubar,

An inspection of the airstrip construction activities was conducted on June 22nd, 2010 by Resource Management Officer Clint Ambrose. The inspection was carried out to ensure that conditions annexed to the above noted Land Use Permit are being adhered to during this operation. The Inspectors were accompanied by Mr Randy O'Keefe and Mr. Hedley Rideout throughout the inspection, and all findings were discussed.

Condition #3 (Identify Agent) of the land use permit was not adhered to prior to the commencement of the operation, and failure to provide this notification must not occur in future operations. If it does, the Inspector will have no re-course but to suspend the operation in accordance with section 86(2) of the *Mackenzie Valley Resource Management Act*. Another concern that arose during the inspection was the contravention of section 10 of the *Territorial Quarrying Regulations*.

Although there has been a contravention of applicable Federal legislation and the land use permit, the Inspector is confident that this was an unintentional oversight by the Permittee, and with the Permittee's commitment to improve communication with the Inspector, concerns of this nature should not occur during the present or future operations. Your copy of the Environmental Inspection Report is enclosed and should be self explanatory.

If you have any questions or concerns, please contact Mr. Nahum Lee at (867) 669-2757 or the undersigned at (867) 669-2794.

Yours truly,

Clint Ambrose
Resource Management Officer III
South Mackenzie District
Indian and Northern Affairs Canada

cc: MVLWB
Bill Mercer – via e-mail
Chris Pederson - via e-mail
David Swisher – via e-mail



ENVIRONMENTAL INSPECTION REPORT

Permittee:	Avalon Rare Metals Inc.	Inspection Date – June 22 nd , 2010
------------	-------------------------	--

		Permit Expiry Date	Last Previous Inspection
Land Use Permit No.	MV2010G0001	July 4 th , 2011	Initial
Quarry Permit No.			
Contractor:	Deton Cho Logistics	Subcontractor:	RTL Robinson Enterprises

Location(s) Inspected:	Airstrip Construction.
------------------------	------------------------

Current Stage of Operation:	Airstrip brushing commenced on May 21 st , 2010, followed by the use of equipment on June 14 th , 2010.
-----------------------------	---

Program Modifications Approved:	
---------------------------------	--

Condition of Operation "A" - Acceptable "U" - Unacceptable "N/A" - Not Applicable

	Operating Condition	Aspect Inspected			Condition
		MV10G001			
A	Location and Area	A			
B	Time	U			#3 Identify Agent
C	Type and Size of Equipment	A			
D	Methods and Techniques	A			
E	Type, Location, Capacity and Operation of All Facilities	A			
F	Control or Prevention of Ponding of Water, Flooding, Erosion, Slides and Subsidence of Land	A			
G	Use, Storage, Handling and Ultimate Disposal of Any Chemical or Toxic Material	A			
H	Wildlife and Fisheries Habitat	A			
I	Storage, Handling and Disposal of Refuse or Sewage	A			
J	Protection of Historical, Archeological and Burial Sites	A			
K	Objects and Places of Recreational, Scenic or Ecological Value	N/A			
L	Security Deposit	A			
M	Fuel Storage	A			
N	Methods and Techniques for Debris and Brush Disposal	A*			#28 Brush Disposal
O	Restoration of the Lands	A			
P	Display of Permits and Permit Numbers	A			
Q	Matters Not Inconsistent With the Regulations	A			
R	Sections 8 to 16 M.V.L.U.R.	A			

ENVIRONMENTAL INSPECTION REPORT Pg. 2
(Continued)

Date: June 22 nd , 2010	Permit #: MV2010G0001
------------------------------------	-----------------------

Explanatory Remarks

An inspection of the airstrip construction activities was conducted by Resource Management Officer Clint Ambrose. The inspection was carried out to ensure operating conditions annexed to the above noted land use permit are being adhered to during the operation. The Inspector was accompanied by Mr. Randy O'Keefe and Mr. Hedley Rideout (Field Supervisors) throughout the inspection.

The brushing of the airstrip commenced on May 21st, 2010, and discussions were held with Mr. Randy O'Keefe to ensure trees/brush would be disposed of as per the permit conditions. Mr. O'Keefe was well aware of the requirements of conditions #28 to #30, and adherence was maintained throughout this activity. Most of the brush was piled and burnt, and salvageable trees have been de-limbed and stockpiled for the corduroying of access trails.

Equipment operating at the time of the inspection was a dozer and two rock trucks at the East end of the airstrip, and an excavator at the T-zone. The establishment of a drainage ditch on the North side of the airstrip was discussed with the Field Supervisors, and this activity will entail cutting this area and filling the airstrip right-of-way. The Inspector has no concerns with this activity as it is within the scope of the permit, protects the integrity of the airstrip and re-establishes drainage.

Waste rock to bring the airstrip up to grade is being hauled along the all-weather road from the T-Zone and it was noted that some trees have been displaced along the road that require disposal as per condition #28 of the permit, and pullouts require re-contouring. Prior to the removal of the waste rock at the T-Zone, it was surveyed and marked (for the equipment operators) by professional geologists to ensure that only rock that is highly unlikely to generate acidity would be taken. By removing these rock piles and re-contouring, this will assist in the restoration of the previous operators' land use area.

The Permittee is also committed to undertaking further restoration of the T-Zone while equipment is present on site and this includes the de-commissioning of the settling ponds, collection of steel piping, and removal of any other miscellaneous items that no longer serve a purpose on site.

Prior to the commencement of the operation on June 14th, 2010 the Permittee failed to comply with condition #3 of the land use permit by not providing the Inspector 48 hours notification. Failure to provide this notification must not occur in future operations as the Inspector will have no re-course but to suspend the operation in accordance with section 86(2) of the *Mackenzie Valley Resource Management Act*.

By not receiving this notification, the Inspector is in the opinion that the proposed on site activities were not discussed and therefore a contravention of the *Territorial Quarrying Regulations* (TQR) could not be averted. This contravention was the Permittee taking greater than 50 cubic yards of sand and gravel from a borrow site adjacent to the all-weather road without a quarry permit or payment of any fees or dues as per section 10 of the TQR.

During a meeting in Yellowknife on June 16th, 2010 with Avalon personnel, Mr. David Swisher, Mr. Bill Mercer and Mr. Chris Pederson, the requirement of a quarry permit was discussed, and the Inspector appreciates the Permittee's cooperation by immediately suspending the quarrying operation, and obtaining material from only authorized locations in the land use area (T-Zone). The Inspector was also informed that no further quarrying will be undertaken in the land use area without proper authorizations.

Since the material was obtained from an existing borrow site, the reclamation will be relatively straightforward and the Permittee is required to slope the all-weather road to re-establish drainage and prevent the ponding of water in the shallow hole that was created. The Inspector was informed that this will occur when the Excavator moves from the T-Zone to the airstrip.

Although there has been a contravention of applicable Federal legislation and the land use permit, the Inspector is confident that this was an unintentional oversight by the Permittee, and with the Permittee's commitment to improve communication with the Inspector, concerns of this nature should not occur during the present or future operations.

Completed off Site
Representative's Signature

Clint Ambrose
Inspector


Inspector's Signature



MV2010G0001 - Avalon Rare Metals Inc. - Thor Lake
Aerial view of the T-zone of the land use area.



MV2010G0001 - Avalon Rare Metals Inc. - Thor Lake
Waste materials at the T-Zone will be collected for off site disposal while personnel are actively working in the area.



MV2010G0001 - Avalon Rare Metals Inc. - Thor Lake
Aerial view of the Thor Lake Tent Camp.



MV2010G0001 - Avalon Rare Metals Inc. - Thor Lake
Further cleanup will be conducted at the previous location of the trailer camp.



MV2010G0001 - Avalon Rare Metals Inc. - Thor Lake
Looking southwest at the airstrip being constructed West of Thor Lake.



MV2010G0001 - Avalon Rare Metals Inc. - Thor Lake
Looking East along the airstrip right-of-way. Thor lake in the background.



MV2010G0001 - Avalon Rare Metals Inc. - Thor Lake
Trees that will be utilized for corduroying, fuel cache and Foraco tracked drill.



MV2010G0001 - Avalon Rare Metals Inc. - Thor Lake
Rock truck and dozer working at the East end of the airstrip.



MV2010G0001 - Avalon Rare Metals Inc. - Thor Lake
Push out along the all weather road that must be pulled back and re-contoured.



MV2010G0001 - Avalon Rare Metals Inc. - Thor Lake
Vairous areas along the road system that have leaners present that must be disposed of as per the permit operating conditions.



MV2010G0001 - Avalon Rare Metals Inc. - Thor Lake
Piled rock at the T-zone from the decline development that will be used during airstrip construction.



MV2010G0001 - Avalon Rare Metals Inc. - Thor Lake
Sedimentation pond at the T-zone that will be restored while equipment is actively working in the area.