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October 11th, 2011

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 MV2011C0006
Mineral Exploration
Thor Lake, NT**

Dear Mr. Bubar,

An inspection of the camp, fuel caches, access trails and drill program was conducted on October 6th, 2011 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. Chris Pederson throughout the inspection, and all findings were discussed.

Overall, this land use operation continues to be conducted in an environmentally responsible manner and the only concern noted is the need for better water management at the buggy drill to prevent environmental damage (ie: permafrost degradation, gouging from equipment, etc.) from occurring. 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
Aboriginal Affairs and Northern Development Canada

cc: MVLWB
Bill Mercer – via e-mail
Chris Pederson - via e-mail
David Swisher – via e-mail
Randy O'Keefe – via e-mail
Martin Heiligmann – via e-mail



ENVIRONMENTAL INSPECTION REPORT

Permittee:	Avalon Rare Metals Inc.	Inspection Date – October 6 th , 2011
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	Permit Expiry Date	Last Previous Inspection
Land Use Permit No.	MV2011C0006	July 4 th , 2016
Quarry Permit No.		July 19 th , 2011
Contractor:	Foraco	Subcontractor:

Location(s) Inspected:	Camp, fuel caches, drill program and access trails.
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Current Stage of Operation:	Two Foraco diamond drills were actively drilling at the time of the inspection.
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Program Modifications Approved:	
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Condition of Operation “A” - Acceptable “U” - Unacceptable “N/A” - Not Applicable

	Operating Condition	Aspect Inspected			Condition
		Drill Program	Camp and Fuel Caches	Access Trails	
A	Location and Area	A	A	A	
B	Time	A	A	A	
C	Type and Size of Equipment	A	A	A	
D	Methods and Techniques	A*	A	A	#13 Removal and Sealing of Drill Casings
E	Type, Location, Capacity and Operation of All Facilities	A	A	A	
F	Control or Prevention of Ponding of Water, Flooding, Erosion, Slides and Subsidence of Land	A	A	A	
G	Use, Storage, Handling and Ultimate Disposal of Any Chemical or Toxic Material	A	A	A	
H	Wildlife and Fisheries Habitat	A	A	A	
I	Storage, Handling and Disposal of Refuse or Sewage	A	A	A	
J	Protection of Historical, Archeological and Burial Sites	A	A	A	
K	Objects and Places of Recreational, Scenic or Ecological Value	N/A	N/A	N/A	
L	Security Deposit	A	A	A	
M	Fuel Storage	A	A*	A	#50 Fuel Containment
N	Methods and Techniques for Debris and Brush Disposal	A	A	A	
O	Restoration of the Lands	A	A	A	
P	Display of Permits and Permit Numbers	A	A	A	
Q	Matters Not Inconsistent With the Regulations	A	A	A	
R	Sections 8 to 16 M.V.L.U.R.	A	A	A	

ENVIRONMENTAL INSPECTION REPORT Pg. 2 (Continued)

Date: October 6th, 2011

Permit #: MV2011C0006

Explanatory Remarks

An inspection of the camp, fuel caches, drill program and access trails 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 this land use operation. The Inspector was accompanied by Mr. Randy O'Keefe and Mr. Chris Pederson throughout the inspection, and all findings were discussed.

Camp, fuel caches and associated land use areas

The camp continues to be well managed, and one significant change from the previous inspection is the installation of a new incinerator (Photo #1) for the disposal of combustible garbage. The incinerator installed is an Inciner8 which is equipped with a high temperature secondary burner. In consultation with the Distributor for this unit, the Inspector was informed that it can meet guidelines for the release of dioxins and furans.

Waste metals, incinerator ash, non-combustibles and empty fuel drums continue to be removed on an ongoing basis from the land use area, and at the time of the inspection, the majority of these waste items were already sent out on the barge for disposal. The Inspector is pleased to report that compliance with all operating conditions under the heading of 26(1)(i) Storage, handling, and disposal of refuse or sewage continues.

Hydrocarbon impacted soils were being land farmed on site in an instaberm (Photo #2), but with the slow remediation process, the Permittee has now decided to containerize impacted soils and ship them off site for proper disposal. The Inspector has no concerns with this change in impacted soils management, and if land farming is contemplated during future operations, the Permittee must notify the Inspector so that construction of a proper facility can be discussed.

Drummed fuel was recently delivered to the land use area, and fuel caches have been established in strategic locations; near the camp, along the all weather road, and in the area of drilling. As seen in Photo #3 and #4, drums have been positioned in a manner that allows for ease of inspection (walk ways). The Lessee is commended for this diligence, and in discussions with Mr. Randy O'Keefe, the Inspector was informed that routine inspections of the caches is being conducted by the Permittee.

With this diligence, the Permittee has identified (on occasion) faulty bungs or pin hole leaks in a timely manner which has reduced the potential for large volumes of hydrocarbons to escape to the receiving environment. At the fuel cache viewed in Photo #4, the stood up drum at the back of the photo had a leak and although an initial cleanup was immediately conducted, further soil removal to remain compliant with condition #50 must occur as hydrocarbon odors were present in the excavation.

Although these small spills, less than 100 litres and well away from the nearest watercourse, are not required to be reported to the Spill Line, the Inspector discussed the requirement for internal documentation. Mr. Randy O'Keefe confirmed that this practice continues and that a log is readily available for viewing if requested.

Drill Program and Access Trails

All of the completed drill sites from the summer program were inspected, and photo #7 depicts a typical completed site. Drill mud, rod grease, hydrocarbons, brush disposal, and debris cleanup was satisfactory at the majority of the sites. The only work remaining at one of the completed sites was the need to cut the casing flush with the ground surface to remain compliant with condition #13 of the land use permit (Photo #8).

Overall, the Inspector was pleased with the active drills as a casing t-box (photo #5) is being used to direct return water/cuttings away from the drill sites to keep the drill working in the "Dry", secondary containment and absorbent pads are present below all equipment, and cuttings are being directed into a natural depression well away from the nearest watercourse.

There were only two concerns noted with the active drills, water management at the buggy drill and the precarious setup of a fuel keg at the skid drill.

Although a casing t-box is being utilized for cuttings management, the Drill Contractor was reminded of the need for better water management from the mud tank (fresh water) inside the drill rig. The ground surface around this drill was quite wet and when the Inspector approached the drill, the mud tank was actively overtopping. It was confirmed that the fresh water supply has an inline 3 way valve with extra hose on it to re-direct water away from the drill setup, and it is crucial for diligent management of water to prevent environmental damage from occurring at each setup.

At the skid drill, a fuel keg for the drill water/cuttings pump has been set up on a piece of plywood on the corner of the rod sloop. This setup was quite precarious and could easily lead to the keg falling and ultimately causing a hydrocarbon spill. The Drillers were informed of the need to rectify this concern, and at the time of the inspection, the helper immediately began addressing it. This cooperation is appreciated by the undersigned Inspector.

With the onset of the wetter weather, the condition of the access trails could deteriorate quite rapidly and therefore the Permittee has committed to diligently monitoring them, restricting use of certain equipment, corduroying when necessary, and ceasing use of trails when the operating conditions of the permit cannot be adhered to. Once again, the Permittee continues to demonstrate environmental diligence in the land use area.

The Inspector was informed that no further movement of the drills will occur along the access trails as the drill program may cease around the 15th of October, and all remaining drill holes will be done from the current setups. Once the drill program is complete for the season, the Permittee must notify the Inspector.

Completed off Site
Representative's Signature

Clint Ambrose
Inspector


Inspector's Signature



Photo #1 - Avalon Rare Metals Inc. - Thor Lake
New incinerator at camp and it has a high temperature secondary burner.



Photo #2 - Avalon Rare Metals Inc. - Thor Lake
Hydrocarbon impacted soils were being land farmed in this instabern. They have since been containerized and shipped off site for disposal.



Photo #3 - Avalon Rare Metals Inc. - Thor Lake
One of the fuel caches on site. Inspector was pleased to see walkways and bungs at 3 and 9 o'clock.



Photo #4 - Avalon Rare Metals Inc. - Thor Lake
Another fuel cache in the area of drilling. The ground in front of the stood up drum to the left has impacted soils that require cleanup.



Photo #5 - Avalon Rare Metals Inc. - Thor Lake
Tub at the buggy drill for the collection of drill water and cuttings to assist with proper water management.



Photo #6 - Avalon Rare Metals Inc. - Thor Lake
Aerial view of the skid drill. No concerns were noted with water management or the corduroying of trails.



Photo #7 - Avalon Rare Metals Inc. - Thor Lake
Example of a completed drill site that had no concerns noted.



Photo #8 - Avalon Rare Metals Inc. - Thor Lake
Completed drill site and the stick with flagging at the back of the photo has casing present that must be cut flush with the ground surface.