



AVALON
RARE METALS INC.
MATERIALS FOR CLEAN TECHNOLOGY

CORPORATE SOCIAL RESPONSIBILITY ROADMAP

January 2011



Avalon's Commitment to Corporate Social Responsibility (CSR)

Vision

To be the leading integrated supplier of technology metals and minerals for a more sustainable world

Mission

Maximize shareholder value by being the first to market with a new supply of heavy rare earths, by providing superior customer service and by being a leader in socially responsible mineral production.

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President's Message

At Avalon, we are committed to being a responsible corporate citizen. As an emerging leader in providing rare metal products to the Clean Technology (or 'CleanTech') sector, we believe that a strong commitment and a strategic approach to corporate responsibility are essential for managing the challenges and opportunities of a rapidly changing global environment.

We are proud to introduce our Corporate Social Responsibility ('CSR') Roadmap, and to share our strategy for managing our business in a sustainable manner. The purpose of this document is to discuss how we are formalizing our approach to sustainable management, to advance Avalon's economic viability, environmental stewardship and social accountability.

This CSR Roadmap does not constitute a corporate responsibility report (a full report will be published in 2012), nor does it describe the full range of current and proposed activities and the challenges we face. Rather, this roadmap provides an overview of where we are, and where we are going, with our corporate responsibility initiatives. We continue to develop assessment tools and processes that integrate social, eco-

nomie, health and safety and environmental risks and opportunities into our overall business strategy, as we evolve from junior exploration and development company to a soon-to-be producer.

The objective of this report is to provide an overview of our commitment and approach to sustainability and our goals for the future.

Because this is our first report, we include discussions of our most important social and environmental impacts and issues of particular interest to our partners and stakeholders, we will undertake a more formal materiality assessment for next year's report.

We have not yet collected detailed data and performance metrics on some of the more common indicators such as greenhouse gas emissions and energy use, or on the sustainability performance of our suppliers and contractors. As a result, this report offers primarily a qualitative explanation of our sustainability management systems and plans.

One of the primary sustainability challenges has been to 'expect the unexpected' and develop plans that ensure our ability to quickly react to and rectify unanticipated issues. But as the Company grows, so will our knowledge and ability.

Avalon is well aware that as it progresses through permitting to production, stakeholder expectations for the sustainable management of material issues will continue to evolve and inevitably become more complex.



Don Bubar, President & CEO

The Company is prepared to commit the human resources and provide the policy framework, practices and procedures, and transparent reporting necessary to improve its sustainability performance and enhance our current reputation as a socially responsible small to mid-capitalization company.

We look forward to sharing our progress with you as we develop a solid foundation upon which Avalon, its shareholders, partners, employees, customers and the communities within which it operates can take pride.

About Avalon

Avalon Rare Metals is a Canadian mineral resource development company with a primary focus on the rare metals and minerals. The Company is headquartered in Toronto, Ontario, with a Project/Operations office in Delta, B.C. (just south of Vancouver) Canada.

Avalon's main asset is its 100% owned Nechalacho Rare Earth Element ('REE') Deposit, an advanced stage development project located in the Northwest Territories, Canada. Avalon believes that Nechalacho is one of the highest quality undeveloped REE deposits in the world, unique in its exceptional enrichment in the heavy rare earths. It is one of the few potential sources of these critical elements outside of China that are key to enabling advances in green energy technology and other growing high-tech applications

Avalon also owns four other rare metals and minerals projects in Canada, of which three are at advanced stages of development. These are: Separation Rapids (lithium) in Ontario, Warren Township in Ontario (calcium feldspar project) and East Kemptonville, Nova Scotia, a tin-copper-zinc-indium-gallium-germanium. Social responsibility and environmental stewardship are corporate cornerstones.

Avalon's shares trade on the Toronto Stock Exchange (TSX) and NYSE-Amex under the symbol 'AVL'.

Corporate Governance and Policy Framework

Avalon is committed to sustainable development, fully embracing our share in that joint responsibility with all legitimate interested parties. We contribute to sustainable development by seeking to maximize the resources we mine, by pursuing opportunities to enhance environmental, social and economic benefits, and by reducing adverse effects that may result from our undertakings.

The way we work reflects our strong sense of corporate social responsibility to, and active involvement with, co-workers, host communities, regulators and customers.

Policy Framework

Adoption of PDAC's e3 Plus Principles:

Avalon has adopted the PDAC's e3 Plus Principles for Responsible Exploration and stated that it will endeavour to implement these in its activities. It was the first exploration company to do so. Adopting the Principles has also involved utilization of the manuals that accompany the Principles, including the Field Environmental Manual and the Health and Safety Manual.



A Framework for Responsible Exploration

Code of Business Conduct and Ethics

Avalon requires high standards of professional and ethical conduct from its employees and contractors. Our reputation with our shareholders, business partners, prospective investors and other stakeholders for honesty and integrity is key to the success of our business.

We intend that the Company business practices will be compatible with the economic, social and environmental priorities and parameters of each location in which we operate. Although customs vary by location, and standards of ethics may vary in different business environments, honesty and integrity

must always characterize our business activity. If a law conflicts with a policy in this Code, we comply with the law; however, if a local custom or policy conflicts with this Code, we comply with the Code.

Whistleblower Disclosure Policy

This policy establishes procedures for (a) the receipt, retention, and treatment of complaints received by Avalon regarding accounting, internal accounting controls, auditing matters or violations to the Company's Code of Ethics and Business Conduct; and (b) the submission by employees of the Company, on a confidential and anonymous basis, of concerns or complaints about the accuracy, fairness or appropriateness of any of the Company's accounting policies or financial reports or violations to the Company's Code of Business Conduct and Ethics.

The Company is firmly committed to compliance with all applicable accounting standards and securities laws and regulations. In particular, of paramount importance to the Company is the fair and accurate reporting of all material financial and non-financial facts regarding it and its business affairs.

Disclosure Policy

The disclosure policy is intended to ensure that communications to current and potential shareholders, regulators, analysts, the media and other market participants about Avalon are made in accordance with all applicable legal and regulatory requirements including National Instrument 51-201 - Disclosure Standards to ensure that the Company:

- Has established a framework within which Avalon will provide timely and accurate information to the investing public so as to enable the investing public to make informed investment decisions with respect to Avalon securities;
- Complies with its continuous and timely disclosure obligations;
- Protects and prevents the improper

use or disclosure of material information

- Educates Avalon's personnel on the appropriate disclosure of material information and confidential information

Safety and Environmental Policy

Avalon is confident that with the application of best management practices generally including sound engineering environmental planning, and compliance with all anticipated permits, licenses, approvals, existing federal and territorial environmental regulations and guidelines, that environmental issues associated with the development and operation of the Thor Lake Project can and will be effectively addressed and managed. Avalon's goals for closure and reclamation will be consistent with Federal Guidelines for closure and reclamation planning for mines as well as requirements of the anticipated Land Use Permit.

As part of our on-going work, Avalon is actively engaged in a broad range of detailed environmental baseline studies, related to meteorology, hydrology (surface water), hydrogeology (ground water), water quality, soils/terrain/permafrost, vegetation - ecosystem, mapping & rare plants, fish and aquatic resources and wildlife and wildlife habitat.

Advisory Committees

Avalon's Board of Directors has established two advisory committees composed of independent experts to provide input and advice to executive management and the Board on technical issues related to project development and issues and actions related to community, environment, health and safety.

Community Environment Health & Safety (CEH&S) Advisory Committee

The CEH&S Committee will be chaired by a director considered by the Board to be independent of management, and is being advised by a team of independent senior experts from within and external to the sector:

- Chief Glenn Nolan, Missanabie Cree

First Nation, Director and First Vice President of the Prospectors & Developers Association of Canada ('PDAC'), Vice President, Aboriginal Affairs Noront Resources Ltd.

- Denis Kemp, B.Sc., P.Eng. Member Institution of Materials, Minerals and Mining, Member Canadian Institute of Mining American Institute of Mining Engineers.
- Jean Cinq-Mars, B.Sc., MPA, National Forest Strategy Coalition of Canada -(International Committee Chair), Canadian Coalition on Integrated Landscape Management (Chair). Mr. Cinq-Mars most important roles are now with the OECD and World Bank.

Technical Advisory Committee

Avalon's Management also established the Technical Advisory Committee in 2008, to advance the Nechalacho deposit into a responsible mining, milling and marketing project which is safe and environmentally sound, while ensuring a competitive edge in technology to become an employer of choice and industry leader. Chaired by Avalon's Vice President Operations, the current committee members are:

- Denis Kemp, B.Sc., P.Eng.
- Paul Schmidt, P.Eng, Feasibility Studies and Implementations
- Harry Burgess, P.Eng., Senior Mining Engineer and Vice President with Micon International Limited

Stakeholder Engagement

Consultation & Engagement

Engaging with our stakeholders, employees, communities, customers, governments, and others is important to Avalon. It helps us move our operations forward in an economically viable, socially responsible and environmentally sustainable manner. We engage stakeholders in a number of ways. When engaging the communities and interest groups, we discuss issues and concerns to craft solutions that meet the mutual needs of all parties.

Nechalacho Project

Community engagement continues to be carried out with the objective of developing partnerships with the local Aboriginal communities. During 2010, the Company entered into a Negotiation Agreement with the Yellowknives Dene First Nation regarding the Nechalacho Deposit. This form of initial agreement, often referred to as a Memorandum of Understanding ('MOU') is done in order to frame the negotiations towards an impacts and benefits type agreement. Consultations are ongoing with the objective of finalizing similar agreements

with the remaining participating First Nations.

Avalon, in close relationship with the participating Aboriginal communities completed Traditional Knowledge surveys of key community elders for use in Avalon's environmental assessment process.



Chief Ed Sangris and Chief Ted Tsetta of Yellowknives Dene First Nation help Avalon's President & CEO Don Bubar share in the naming of the Nechalacho Rare Earth Deposit at Thor Lake, NWT (Sept 2009)

Number of Communications with Communities and other Stakeholders

	2005	2006	2007	2008	2009	2010	Total
First Nations	2	4	40	28	118	393	585
Metis	0	0	2	2	8	34	46
Government	*	*	*	*	19*	69	88
NGO	*	*	*	*	26*	56	82
Grand Total	2	4	42	30	171	552	801

*Data has not or only partially been collated

	2005	2006	2007	2008	2009	2010	Total
Communications	0*	0*	29*	10*	118*	473	630
Engagement meetings & visits	2	4	13	20	53	79	171
Total	2	4	42	30	171	552	801

Note: Communications includes phone calls, emails, letters and face to face meetings.

Separation Rapids Project

The project enjoys the benefits of minimal environmental issues as the ore is environmentally benign, containing no toxic, radioactive, or acid-generating minerals. Avalon completed environmental baseline studies in the project area in 1999, ensuring that local environmental sensitivities were identified at an early stage. This study was updated in 2006-7.

Avalon, in August 1999, signed an MOU with the Wabaseemoong Independent Nations of Whitedog, Ontario to address community concerns regarding new resource development in their traditional land use area, access to employment opportunities and other benefits. Whitedog is situated just 35 km southwest of the Separation Rapids property and is the closest community to the project site. Avalon fully intends to develop the project in co-operation with Wabaseemoong and continues to keep the community leadership well-informed on new developments.

Warren Township Project

Avalon continues its work toward securing a production permit for the Warren Township project under the *Aggregate Resources Act* of Ontario. This work has included environmental baseline studies and community consultation work in the Foleyet area and with First Nations in the Chapleau area. The anorthosite is an environmentally-benign material and the processing does not generate any environmentally-hazardous waste products.

In March 2009, Avalon entered into an MOU with the Chapleau Cree First Nation which lays out the parameters of a longer term partnering arrangement, with CCFN acting for a group of local First Nations.

Pre-production Donation Guidelines

Avalon's donation practices operate within established basic guidelines, which are consistent with the Companies governance, ethics and corporate social responsibilities. The Company desires to support various local social activities and cultural events and maintain good community relations in a fair, reasonable and transparent manner. The guidelines pertain directly to those areas in which Avalon is conducting its business. Qualifying donations fall within the following guidelines:

- Community & social enhancements related to Education, Health & Safety, Environment, Skills Training, and Culture & Arts
- No competition, duplication or overlapping with other contributing mining and exploration companies sponsorships
- One-time donation limits up to a maximum amount of \$1,000. Larger amount donations that may have a higher positive impact on aboriginal communities require the approval of President & CEO
- Donations related to aboriginal partnership functions for events, confer-

ences, etc.

- Donations are recognized and approved by key community decision makers

Avalon also requires all parties receiving qualified donations to meet the following criteria:

- Assurances that the event have a zero tolerance policy for drugs, alcohol & violence
- Assurances that all applicable laws including health, safety and environmental regulations will be followed;
- Sponsor recognition agreement which details recognition such as (name, logo on programs/uniforms, materials, banner, advertisements & acknowledgements) and,
- Providing a summary report on the event and how the sponsorship funds were utilized.

Avalon recognizes that the donation policy is a set of guidelines, which are subject to flexibility and/or change to provide the most beneficial impacts Avalon can incorporate during its development and operations. The following table provides a brief summary of the donations Avalon has made during 2010, and as they compare to 2009.

	2006	2007	2008	2009	2010
Total	\$1,000	\$11,590	\$28,995	\$24,640	\$19,810

New Business Development

Avalon seeks to create employment and business opportunities for Aboriginal communities in proximity to the projects. For the Thor Lake project, this has involved direct employment at site, training in skills development, contracts with part or wholly owned Aboriginal businesses, encouraging contractors to partner with Aboriginal businesses and also direct assistance for development of Aboriginal owned and run business. For example, the company suggested to the Deninu Kue First Nation that construction of core boxes be considered as an example of a business that the community could undertake. The First Nation took the initiative themselves, and with a

contract from Avalon for boxes, and with some financial assistance from government, they commenced manufacturing core boxes. Avalon's geologists discovered that the boxes manufactured by DKFN were of excellent quality and have extended the contract from 2010 to 2011.



Environmental Responsibility

Avalon continuously seeks to reduce the environmental footprint of our operations and related activities by:

- Improving energy efficiency and reducing natural resource consumption
- Reducing, reusing, and recycling materials to minimize waste
- Endeavouring to protect and restore natural biodiversity
- Identifying and undertaking specific programs to reduce the greenhouse gas emissions of our business
- Ensuring that hydrocarbon management is best-in-class and adequate controls are in place to prevent or minimize all forms of spills
- Generating sustainable Health Safety and Environment ('HSE') performance through long-term, mutually beneficial relationships with our communities and other stakeholders
- Being transparent with communities, monitoring boards, and regulators about incidents that occur within the workplace as soon as practicably possible
- As individuals, personally committing to apply the principles to continuously improve the way we work every single day.



Northern Hawk Owl



Nechalacho Camp on the shores of Thor Lake



Water Sampling

Environmental Baseline Testing

Avalon completed its third year of environmental baseline studies at the Nechalacho deposit. The primary focus of these studies was to determine environmental impacts related to the proposed Project that will enable an appropriate mitigation management plan to be developed prior construction and operations. Baseline and follow-up information was gathered by independent environmental consultants in the areas of wildlife, vegetation, hydrology, hydrogeology, aquatics and fisheries. The 2010 data was combined with 2009 and 2008 baseline data and reconciled against known historic data. Results of the three year baseline compilation is completed with no significant concerns identified and will be utilized during Avalon's environmental assessment process.

Avalon's hydrometallurgical plant is proposed near the brownfields site of

the historic Pine Point Mine operated by Cominco from 1965-1988. Utilizing local aboriginal knowledge and conducting field surveys, Avalon strategically placed the proposed hydrometallurgical facilities with known denuded and previously disturbed areas to mitigate additional impacts to the environment. The Company conducted environmental baseline studies and reconciled against numerous environmental reports conducted by previous operators and the government of the Northwest Territories. The completed environmental baseline reports will be utilized for Avalon's current environmental assessment process.



Wolf Print



Northern Pike



Vegetation

Environmental Responsibility Con't

Renewable Energy & Rare Earth Mining /Processing

Whether seen in the context of cost minimization or simply minimizing the use of fossil fuels to benefit the environment, applying renewable energy solutions to power and to protect our operations presents a real opportunity.

Avalon started weather and wind data collection studies in late 2009. It has also initiated studies as to the feasibility of implementing wind, solar, geothermal and co-generation energy schemes at the Nechalacho site. These power generation options will complement preliminary investigations into energy efficiencies that can be built into the construction and operating infrastructure.

Avalon has placed orders to acquire and install a small solar/wind/battery system to service the camp in early 2011.

Furthermore, working in conjunction with the Environment and Natural Resources division of the Government of

Effective Water Management

Avalon is utilizing best practices and traditional knowledge to develop a water management plan for the Thor Lake Project. The planned mine and mill will be constructed to capture all run-off and underground water for reintroduction into the milling circuit. Fresh water will be utilized from Thor Lake however, Avalon intends to recycle over 50% of the water in the process facility while the remaining 50% reports to the tailings management facility thus significantly reducing the amount of makeup water. As the tailings will be an inert product, fresh water will be allowed to decant over 30-60 days, tested then discharged naturally through a series of small lakes eventually making its way back to Thor Lake. This natural closed loop system mitigates all impacts to downstream environments that would

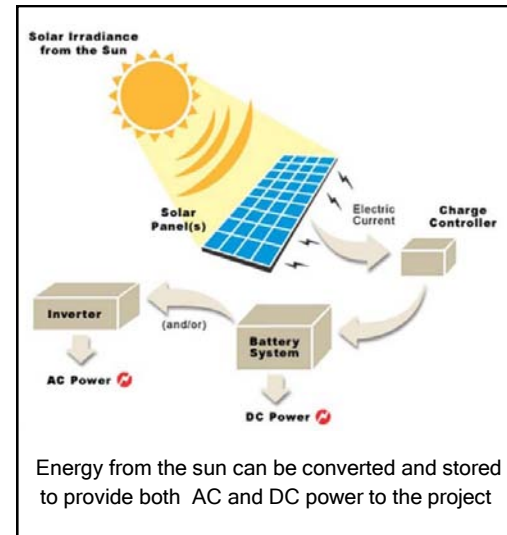
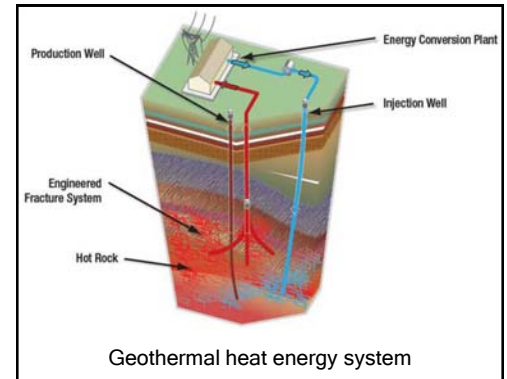
the Northwest Territories, Avalon engaged Borealis Geopower to undertake a preliminary investigation for the utilization of geothermal energy at its proposed hydrometallurgical plant.

Geothermal (or earth heat) energy is a clean, renewable source of both power and heat. It is proven technology that provides base load (24 hours a day, 365 days a year) power, has low to no emissions and has one of the smallest environmental footprints per unit output of any power supply option. A geothermal resource requires three key variables; necessary heat resources, a permeable rock environment to transfer heat, and a medium (usually water) to bring the heat resource to the surface. Preliminary investigations show that the proposed hydrometallurgical plant site meets all requirements for a cost effective geothermal power plant versus the use of diesel generated power. Further investigations will be ensuing in 2011 for potential inclusion into Avalon's future operational plans.

otherwise report to the Great Slave Lake.

Water for the Hydrometallurgical Plant site will be sourced from one of the nearby open pits that remain from the historic Pine Point mining activities. The pits' water supply originates primarily from the unlimited non-potable groundwater resource that is characteristic of that area. All water discharged from the hydrometallurgical plant will report to an abandoned open pit where it will be allowed to decant before being reintroduced into the local aquifer thus eliminating any discharge to downstream environments

Avalon will strive to increase its utilization of recycled water, however the detail solutions can only be determined as we approach the start of operations.



Social Responsibilities

While we operate in both local and global communities, we have long recognized the importance of volunteering and financial support. Our donations and sponsorship policy guides our philanthropic efforts, focusing our core sponsorships on youth and education, science & technology.

We contribute to the communities in which we operate by providing a range of employment opportunities. We also provide training and professional development, while partnering with schools, universities and training organizations to promote skills training and the advancement of science & engineering in rare earth sciences.

Direct & Indirect Employment

Avalon is committed to diversity and equal opportunity. As at December 2010:

Workers at Thor Lake Project, 2010 Proportion of Employees	
First Nations	60%
Northerner	24%
Other Canadian	16%

Health & Safety

Avalon is committed to protecting the health and safety of our workforce and our visitors. We believe that all incidents, injuries, and occupational illnesses are preventable. We are equally committed to environmental protection. As such, Avalon is committed to:

- Identifying, eliminating, or otherwise controlling Health, Safety, and Environmental ('HSE') risks to our people, communities, and the environment in which we operate
- Developing and delivering measurable HSE objectives and targets
- Providing our employees with the

resources to achieve our goal of zero incidents, injuries, and illnesses

- Complying with all applicable legal and other requirements, including international and external commitments
- Ensuring that site disaster management procedures are regularly updated and emergency response teams are in place and well trained
- Driving the implementation of identified safety initiatives that continually improve workplace health and safety
- Commencing a review of every incident or injury within 48 hours of its occurrence and ensure that the appropriate actions are identified and implemented
- Fostering an employee involvement culture within the workplace; a measure of success of this will be the extent to which employees take ownership of workplace safety
- Ensuring that HSE expectations are

clearly communicated to all contract principals and that their management systems are randomly audited

Active field projects in 2010 were East Kemptville and Thor Lake. Seven incidents were reported for 2010, with all relating to contractors at the Thor Lake project but none involved lost time. Of the seven incidents, three were relating to improper drill equipment and tool use, three to improper lifting of heavy objects and one due to excessive speed on a snowmobile.

Avalon is very pleased with the record of zero lost time incidents in three out of the past four years, however, the total number of incidents is not satisfactory as the objective is zero. As a measure to address some of these issues, it is planned to conduct an on-site course on safe lifting and general worksite ergonomics as well as working with contractors to seek other ways to reduce incidents.

Health & Safety Incidents for 2010

	Hours	Lost Time Incidents	Other Incidents	Total
Avalon	31260	0	0	0
Contractors	34080	0	7	7
Total	65340	0	7	7

Notes:

- 'Lost time incidents' refers to incidents where the worker was off work due to work related injury or other cause.
- 'Other incidents' refers to incidents where a worker suffered a work related injury, but only requiring on site medical aid and the worker returned immediately to work, or cases where the injured worker was on modified work for a period of time.



Social Responsibilities (con't)

	Hours	LTI*	Severity
Avalon	31260	0	0
Contractors	34080	0	0
Total	65340	0	0

Notes:

- Table includes Thor Lake and East Kemptville projects
- 'LTI' refers to Lost Time Incidence, expressed as number of lost time incidents per 200,000 hours worked
- 'Severity' refers to number of lost days per 200,000 hours worked
- 'Avalon' refers to employees and contract workers including those contracted through management companies.
- 'Contractors' refers to workers employed directly with contractors performing a service at the site
- 'Hours' is an estimate of hours worked calculated from recorded days worked

Lost Time Incident Frequency	2007	2008	2009	2010
Thor Lake	0.0	0.0	15.3	0.0
Warren Township	0.0	0.0	0.0	0.0
East Kemptville	0.0	0.0	0.0	0.0
Total	0.0	0.0	15.3	0.0
Total hours	17,588	37,056	30,000	65,340
Severity	0	0	113	0

Note:

- Lost Time Incident Frequency and Severity are both expressed as per 200,000 hours worked

Driller Helper and First Aid/First Responder Training

Avalon has championed a number of skills development initiatives for local Aboriginal people, to facilitate additional employment opportunities on the project during the exploration stage as well as ensuring Avalon itself has a talent pool of local people available for the future.

The most ambitious of these training programs was for driller helpers, which involved bringing together an alliance of organisations including drilling companies, helicopter charter companies, Aurora College, the Mine Training Society, and government agencies such as the NWT Ministry of Education. To date, twelve Aboriginal people have been trained to Ontario Common Core Driller Helper standards, the only formal qualification for drilling employees in Canada. As well as the necessary technical skills, the Common Core program includes safe work practice using such tools as chainsaws, but also machines such as snowmobiles and ATVs. Many of the graduates have secured full time employment as driller helpers, and three have worked at Thor Lake.

Avalon also arranges for First Aid First Responder training

for Aboriginal employees with the objective of increasing the individual skills and making the workplace safer.



The WHERE Challenge

The WHERE Challenge, a popular competition launched in 2007 as part of the International Year of Planet Earth, invites individual children or school classes, grade 7 -9, to explain the sources of earth resources that go into the construction of everyday objects. Students use whatever media they wish (e.g. video, posters) and compete for substantial cash prizes both locally and nationally. In addition to Avalon's financial support toward the sponsorship of the competition, Avalon's senior Thor Lake Project geologist, Chris Pedersen, acted as a judge for children in the Northwest Territories, reviewing the entries while linked via the internet in his tent at the project site. Among the winners in 2009 were children from the Princess Alexandra School in Hay River. The WHERE Challenge is being held again in 2011.

Avalon geologists have visited schools in communities near the Thor Lake project to talk to the children about earth science and careers in geology.



2010 Highlights



2010 PDAC Environmental & Social Responsibility Award

PDAC Award:



Avalon was the proud recipient of the Prospectors and Developers Association of Canada, the PDAC's 2010 Environmental & Social Responsibility Award in recognition of the Company's community engagement efforts during the exploration of its Nechalacho rare earth elements deposit, Thor Lake, NWT:

- Being the first junior exploration company to formally adopt PDAC's e3 Plus principles and guidelines as policy
- Formed a Community, Environment, Health and Safety Advisory Committee (CEH&S) to provide input and advice to executive management on issues and actions related to community, environment, health and safety.
- Full disclosure and transparency by publishing all INAC Land Use inspection reports on its website
- Avalon's executives are actively engaged in PDAC's Aboriginal Affairs Committee, CSR Committee, e3 Plus subcommittee and the Health and Safety Committee.

Jantzi Sustainalytics Assessment:



In May 2010, Avalon engaged Jantzi-Sustainalytics to assess Avalon's sustainability performance against a number of benchmarks including stakeholders' expectations,

competitors' performance, industry average performance levels, and socially responsible investor expectations.

The Jantzi-Sustainalytics independent analysis, conducted over a three-month period, included in-person and telephone interviews with a diverse range of stakeholders; a review of Avalon's corporate policies, operating and administrative procedures, public disclosures, and a comprehensive questionnaire to management and advisors. Avalon's core stakeholders fall within seven groups: aboriginal/local communities, investors, non-governmental organizations ('NGOs'), government, contractors and advisors, and staff. The assessment also included the comparison of

Score	Overall	Governance	Social	Environmental
Avalon	69.2	71.1	74.0	61.1
Average	59.0	63.9	64.8	47.8
Highest	74.5	72.1	79.5	68.6

Avalon's management systems and performance against four peer companies, three of which were already known to Jantzi-Sustainalytics, and one other for which the firm conducted an independent assessment based on published information.

The ranking system is based on a score of 0 to 100. As can be seen from the table, Avalon's performance ranks above average among other similar companies with which it was compared.

For an exploration and development company, Avalon demonstrates strengths in a number of important sustainability areas, particularly in aboriginal relations. Avalon has also demonstrated that it embraces the opportunity to further strengthen its sustainability performance as it progresses towards the permitting and production phases by further enhancing its management systems, transparency and public disclosure, including being transparent about the limitations posed by its size and the

scope of its projects.

Towards Sustainable Mining ('TSM'):



In late 2010, Avalon applied for membership to the Mining Association of Canada ('MAC'). While Avalon has not received its formal acceptance to the respected group, it has been advised that its sponsorship and acceptance is essentially secured.

It is an integral requirement that, as part of its membership, Avalon has committed itself to fully implementing MAC's TSM, Toward Sustainable Mining performance management system. TSM is about improving performance, incorporating external verification of results and involves multi-stakeholder communities.

TSM is designed to improve the industry's performance by aligning its actions with the priorities and values of Canadians. TSM provides a way of finding common ground with communities of interest in order to build a better industry today and in the future. TSM was developed to help mining companies evaluate the quality, comprehensiveness and robustness of their management systems under four performance elements, with appropriate indicators, scoring and external verifications systems.

TSM Performance Indicators relate to tailings management, energy use and greenhouse gas (GHG) emissions management, External outreach, Crisis Management Planning, Biodiversity Conservation management and Safety & Health.

2010 Highlights (con't)

Supply Chain Management is strategic to any organization. It impacts costs, quality, overall performance and other key business variables. At Avalon, we recognize the influence we can exert. We appreciate that our supply chain, upstream and downstream, can influence variables such as environmental and social performance. We are improving our systems of health, safety, environment, and labour standards across the supply chain and with joint ventures.

Rare Metal Blog/Rare Metal Apps

Avalon is sponsoring a new and relevant RareMetalApps (or RMAApps for short) website, in association with RareMetalBlog, to be on-line by the end of January 2011. This website will focus on technology-related rare metal applications, touching upon energy, medical, materials, lighting, electronics and the growing number of other applications, and will encourage and serve as a platform for discussing new rare metal applications and processes, as well as disruptive technologies that might displace some of the demand. This new RMAApps initiative is designed to encourage the further sharing of scientific and engineering

advances related to rare metals, among industrial users, investors, policy makers, entrepreneurs and academia. The RareMetalApps initiative is also intended to encourage future scientists, engineers, technologists and other talented individuals to serve our rapidly growing industry.



The RareMetalBlog itself was launched in 2009 by Avalon in collaboration with Pro-Edge Consultants for the primary purpose of supporting Avalon's investor relations program with a source of technical information on new supply-demand trends in the rare metal sector; however it quickly outgrew that objective. With Avalon's support and that of other contributors, the RMB embraced a broader industry perspective, focusing on news, media and information updates for investors and specialists in the rare metals industry. Today, the RMB has 15

contributing editors, a diverse readership, and averages over 60,000+ unique visitors monthly.

CSR Roadmap

Significant time and effort was spent in 2010 to examine the Company's goals and objectives, long-term business strategy and future challenges and opportunities. While Avalon's Board of Directors, Management and staff always embraced the principles and practices of sustainability, we clearly recognized and respected that we needed to more formally measure, target and transparently report our plans and performance. Transparency is essential in providing stakeholders with a clear understanding of Avalon's intent, direction and objectives. The preparation and presentation of this report demonstrates this commitment to sustainability and corporate responsibility leading our growth.

This CSR Roadmap in itself is a precursor to Avalon presenting a fuller CSR/ Sustainability Annual Report in early 2012

Community Business Development

Seeking to encourage sustainable community business development, Avalon continues to work with its contractors to encourage partnerships with First Nations.

As a result, Foraco, a major international drilling contractor completed a partnership with the Deton Cho Corporation, the business arm of the Yellowknives Dene First Nation. One of the drills operating at the Thor Lake site is contracted from this Foraco - First Nation joint venture.

Stantec Engineering, which has been conducting significant portions of the environmental work at the Thor Lake site, has also created a joint venture with the Deton Cho Corporation.



'Your Talk on Drugs on NWT Radio



Many northern communities struggle with the social effects of substance abuse. Avalon has unfortunately witnessed the effects of this on the families of its own employees in the north. So, when the Yellowknives Dene First Nation approached Avalon with the idea of a radio program targeting the message to youth that 'substance abuse can be very destructive to one's life', the Company jumped at the chance to sponsor the program. The result is a six-month series, run by members of the Yellowknives Dene community, on Aboriginal community radio stations across the NWT.

2011 Objectives

As Avalon progresses through the permitting and mine development stages at Nechalacho, over the next twelve to twenty-four months, the Company will implement many of the Jantzi-Sustainalytics recommendations for Environment, Social & Governance ('ESG') performance improvements, including:

- Broadening the scope of sustainability reporting, including issuing an Annual Sustainability Report and disclosing the risks and opportunities posed by climate change. (Note: This is the first of those reports)
- Adopting and fully documenting specific project and corporate policies, practices and procedures, building upon the Company's early adoption of PDAC e3 Plus Principles and Guidelines, including providing mechanisms such as a third-party operated whistleblower hotline and providing training to employees and contractor staff on ethical issues.
- Adopting best-in-class community consultation policies and practices, including establishing formal grievance mechanisms for external stakeholders.
- Continuing to consult further with aboriginal groups, through the leadership, community members and especially the community Elders. Secure formal agreements with aboriginal groups.
- Allocating board level responsibility for community/aboriginal relations, including having the Company's established independent CEH&S Advisory Committee report to the Board (The Committee was originally chaired by executive management).
- Adopting contractor management systems more closely aligned with best practices.
- Continue assessing and implement alternative renewable and co-generation production and energy storage schemes (e.g. wind, geother-

mal, solar, battery) that best meet the overall environmental and economic parameters of the Nechalacho project.

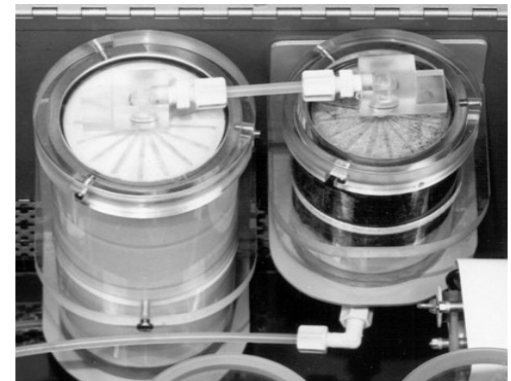
- In concert with aboriginal peoples, government agencies and other mining companies operating in the Northwest Territories, implementing wildlife monitoring and protection programs.
- Fully and transparently reporting on the options considered for the tailings disposal at the Nechalacho project, including their potential impact on groundwater and wildlife, and the reasons for the decisions taken. Ensure that best practices for the maintenance of tailings facilities are implemented.
- Hiring for sustainability, including extensive training, development and the retention of employees and contractors with an appreciation of sustainability issues at all levels and functions.
- One of the steps toward strengthening our sustainability is to develop a structure for delivering results. To this end, Avalon has and will continue to utilize cross-functional corporate responsibility teams mandated to develop a structure for identifying, analyzing and prioritizing social, economic and environmental risks and opportunities and for establishing solutions and ongoing reviews.



CIGS solar cells (Ga, In)



Wind power (Nd, Dy, Tb, Pr)



Dialysis Machine (Zr)



Light Emitting Diodes ('LED') (Ga, Tb, Eu, Y, Ce)



Permanent Magnet MRI (Nd, Pr)

Our Ongoing Commitment

Our customers, the communities in which we work, our employees, contractors and other stakeholders, as well as our customers are increasingly demanding high sustainability performance from their suppliers. Accordingly we regard our strong ESG performance as a competitive advantage. Similarly, we will be looking to partner with suppliers who can contribute to our sustainability objectives as we look forward to meeting the challenge of achieving 'best-in-class' ESG performance

Rare earths are fundamentally important to producing clean energy alternatives such as wind turbines and electric car batteries. As such, end users are sensitive their suppliers enhancing their values and brand. It can be argued that the actual mining process damages the environment, although there is growing public awareness that mineral extraction is key to all the solutions for the production of clean energy. Avalon is committed to effectively and efficiently mitigating the effects on the environment of mineral extraction.

By its very nature, mining is an extractive industry with environmental impacts, but mining of rare earths does not create any significant additional impacts. In fact, the tailings from rare earths processing tend to be cleaner due to the absence of associated sulphide minerals that can result in water acidification. Some rare earth deposits contain significant uranium and thorium, which must be managed carefully to avoid unsafe exposure to radiation. The publicity around rare earth mining damaging the environment arises mainly from some very poor historical environmental practice in China, due to a lack of environmental standards and regulations on mining practice, as we operate under in Canada. .

Avalon takes great pride in its commitment to corporate social responsibility (environment, social and governance sustainability). It has been recognized for its leadership in this area by the

PDAC and by respected independent assessment by Jantzi Sustainability. The Company's specific initiatives tell the story:

- Avalon was the first junior company (exploration & development) to adopt and embrace the PDAC's E3 plus
- Very early and active consultation and engagement with local communities
- Continuing environmental baseline testing around wildlife, water, air
- Continuing studies toward implementing renewable energy solutions to service the plant, be it wind, solar, geothermal in to nearer term to reduce diesel demand
- Approx 40% of the site staff are indigenous peoples; Increased technical training Local partnering programs
- Underground mining so as to reduce land footprint
- Environmentally sensitive Site Selection: While the basics mining and milling will be performed at site, the more chemically demanding hydrometallurgical processing is planned for Hay River Area, at a brown-field site. The planned Separation Facility will be sited close to experienced reagent supply chains, environmentally and economically rational transportation routes and power supply
- Avalon executives will continue to assume higher profile roles in the industry championing Aboriginal Affairs, Environment and Health & Safety, speaking to university, college and high school students outlining our activities and increase sponsoring general science engineering education and education platforms.
- Avalon Management will report quarterly to its Board of Directors on specific continuous improvement plans, targets, and performance relative to the intent and commitments articulated in this roadmap.



LCD Screen (Y, Eu, Tb)



Consumer Electronics (Nd, Y, Eu, Tb, Li)



Hard Drive (Nd)



Hybrid Vehicles (Pr, Nd, Tb, Dy, La, Ce, Nb)

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