



#16 Yellowknife Airport
Yellowknife, NWT
X1A 3T2

October 8th, 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 MV2007C0039
 Mineral Exploration
 Thor Lake, NT**

Dear Mr. Bubar,

An inspection of the drill program, access trails and camp was conducted on October 7th, 2010 by Resource Management Officers Clint Ambrose and Nahum Lee. 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 throughout the inspection, and all findings were discussed.

Concerns noted during the previous inspection in regards to trail width have been satisfactorily addressed, and the only new concern noted was the need to contact the Inspector prior to the addition and use of equipment in the land use area.

With the onset of wetter weather and the softening of the ground surface, the Permittee must continue to suspend the movement of vehicles and equipment along specific trails to remain compliant with conditions #21 and #22 of the permit.

Overall, this land use operation is being conducted in an environmentally responsible manner and the Inspector anticipates this to continue throughout the remainder of the drill program. 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
 Rick Guile – via e-mail
 Randy O'Keefe – via e-mail



ENVIRONMENTAL INSPECTION REPORT

Permittee:	Avalon Rare Metals Inc.	Inspection Date – October 7 th , 2010
------------	-------------------------	--

	Permit Expiry Date	Last Previous Inspection
Land Use Permit No.	MV2007C0039	July 4 th , 2011
Quarrying Permit No.		August 18 th , 2010
Contractor:	Foraco	Subcontractor:

Location(s) Inspected:	Camp, access trails and diamond drill program.
------------------------	--

Current Stage of Operation:	Drill Rig #1 (track mounted) and Rig #2 (skid mounted) were actively drilling at the time of the inspection.
-----------------------------	--

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

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

	Operating Condition	Aspect Inspected			Condition
		Drill Program	Access Trails	Camp	
A	Location and Area	A	A	A	
B	Time	A*	A	A	Condition #6
C	Type and Size of Equipment	U	U	U	Condition #8
D	Methods and Techniques	A	A	A	Condition #10
E	Type, Location, Capacity and Operation of All Facilities	A	A	A	Condition #13
F	Control or Prevention of Ponding of Water, Flooding, Erosion, Slides and Subsidence of Land	A*	A*	A	Condition #20, #21, #22
G	Use, Storage, Handling and Ultimate Disposal of Any Chemical or Toxic Material	A	A	A	Condition #25
H	Wildlife and Fisheries Habitat	A	A	A	
I	Storage, Handling and Disposal of Refuse or Sewage	A	A	A	Condition #33, #34, #37
J	Protection of Historical, Archeological and Burial Sites	A	A	A	
K	Objects and Places of Recreational, Scenic or Ecological Value	A	A	A	
L	Security Deposit	A	A	A	
M	Fuel Storage	A	A	A	Condition #46, #47, #50
N	Methods and Techniques for Debris and Brush Disposal	A	A*	A	Condition #52
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	Condition #57
R	Sections 8 to 16 M.V.L.U.R.	A	A	A	

ENVIRONMENTAL INSPECTION REPORT Pg. 2

(Continued)

Date: October 7 th , 2010	Permit #: MV2007C0039
--------------------------------------	-----------------------

Explanatory Remarks

An inspection of the camp, access trails and diamond drill program was conducted by Resource Management Officers Clint Ambrose and Nahum Lee. The inspection was carried out to ensure operating conditions annexed to the above noted land use permit are being adhered to during the operation. Mr. Randy O'Keefe accompanied the Inspectors throughout the inspection.

Drill Program

Two Foraco drills were active at the time of the inspection and both appeared to be operating cleanly. The Inspector is pleased to report that adequate secondary containment has been implemented under all fuel containers, pumps and power packs of the drills. Secondary containment structures can be viewed in Photos #2, #4, #5 and #7.

One potential concern noted that the Permittee must stay on top of is the maintenance of the secondary containment structure below the water pump (Photo #7). A leak from the fuel filter was observed and the hydrocarbon absorbent mat was saturated and in need of replacement. There was also some water noted in this containment structure, and to prevent overtopping, water must be mopped of hydrocarbons and removed.

Cuttings and water management at the drills is of utmost importance due to ground conditions (permafrost) and the Inspector is pleased to report that at all completed and active drill sites, Foraco personnel appear to have managed this aspect of the drill program quite well. Returns are being collected in a sump (Photo #3 and #6) and pumped well away from the drill pad to allow for dispersal in the adjacent forest.

All of the completed drill sites from the summer program were inspected and the Inspector was impressed with the Permittee's diligence to ensure a thorough cleanup of all sites was conducted. No rod grease, fuel spills or drill muds were noted at any of the sites and Photos #9 and #10 are examples of a few sites where adherence to the operating conditions annexed to the permit have been maintained.

The skid mounted drill is on its final target of the summer program and no further drill moves are required until the program recommences this winter. The buggy drill will continue to operate and will be re-located to Cressy lake where a couple of targets are proposed.

Once both drills are shutdown for the season, the Permittee must notify the Inspector to remain compliant with condition #6.

Access Trails

During the previous inspection, trail width was noted as a concern and the Permittee was instructed by the Inspector to keep the trail width to a minimum to remain compliant with condition #10 of the permit. As viewed in Photo #9, the width of trails has been reduced to only what is required to safely move the drills and the Inspector appreciates the Permittee's cooperation.

Actively used trails were inspected and only two short sections of trail, which were identified to Mr. Randy O'Keefe, required corduroying to maintain compliance with condition #20, #21 and #22.

With the onset of Fall weather and wetter trail conditions, the Inspector once again cannot stress enough the importance of suspending the overland movement of equipment at the first sign of rutting or gouging.

Camp, Waste Disposal, Fuel Storage, and Equipment

The camp is relatively unchanged from the previous inspection with the exception of the grey water sump being expanded. Capacity of the sump was becoming an issue and to rectify this concern, two secondary sumps were constructed. Grey water appears to be well managed with the addition of these sumps and therefore no concerns were noted.

Kitchen waste and other combustible garbage is being burnt daily in the incinerator and non-combustible waste securely stored in a sealed box until it can be taken off site for proper disposal. The Inspector was also informed that hydrocarbon impacted soils, incinerator ash, metal waste, and empty fuel drums were all taken off site by barge this summer. This has greatly reduced the amount of waste stored in the land use area, and the Inspector is pleased that waste management continues to be actively conducted by the Permittee.

Two fuel caches south of Thor lake were inspected, and as seen in Photo #11 and #12 they have been established in a manner which will reduce the likelihood of a large fuel spill from occurring by maintaining walkways between the rows of drums, and positioning the bungs of the drums at 3 and 9 o'clock. Another good practice implemented by the Permittee at one of the inspected caches (photo #12) is slightly elevating the tops of the drums on logs.

Equipment authorized under this permit is unchanged from the previous inspection with the exception of a loader being added to the equipment list. Prior to it being brought to the land use area, the Permittee failed to comply with condition #8 of the permit which states; *"The Permittee shall not use any equipment except of the type, size and number that is listed in the accepted application unless otherwise authorized in writing by an Inspector."*

The use of the loader is hereby authorized under this permit, but the Permittee must ensure full adherence to condition #8 if the Permittee is contemplating bringing other equipment into the land use area. And for clarity, approval must be sought from the Inspector if the proposed equipment requires a land use permit (ie: vehicle weight exceeds 5t, exerts a pressure on the ground equal to or exceeding 35kPa, self-propelled power-driven machine for moving earth or clearing land, etc.) and not snowmobiles, quads, etc.

Completed off Site
Representative's Signature

Clint Ambrose
Inspector

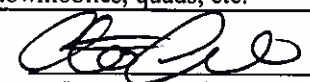

Inspector's Signature



Photo #1 - Aerial view of the skid mounted diamond drill and other permitted equipment being used during this operation.



Photo #2 - Adequate secondary containment has been implemented on active drums at the skid mounted drill.



Photo #3 - A sump has been excavated below the casing at the skid mounted drill to collect drill cuttings and water to allow for proper disposal away from the drill pad.

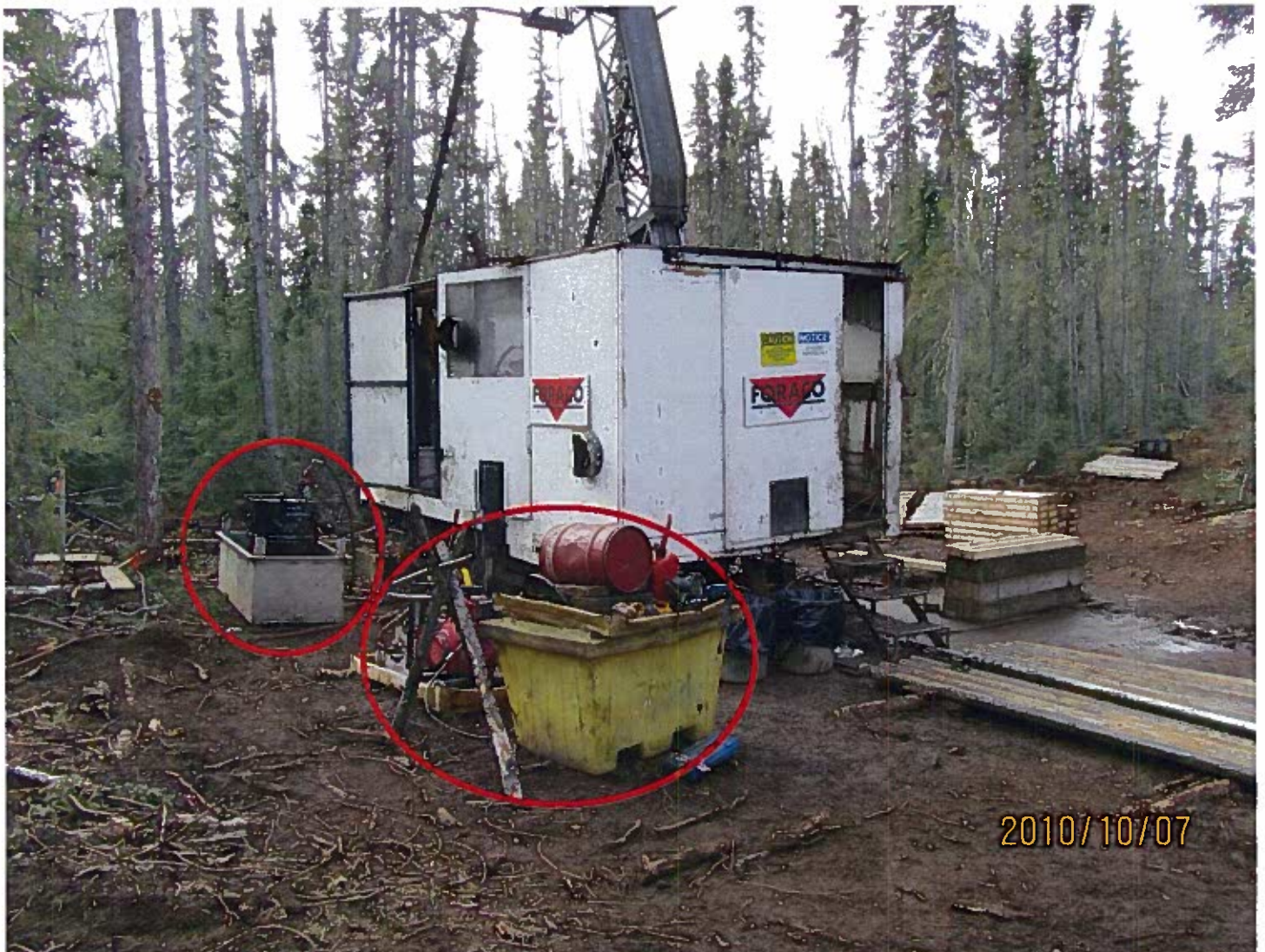


Photo #4 - Overview of the buggy drill setup. Adequate secondary containment has been implemented on all active fuel containers and the water pump at this drill site (circled).



Photo #5 - Leaks/weepers from the fuel tank on the buggy drill has been a concern during previous inspections and the Inspector is pleased to report there were no concerns with it during this inspection and adequate secondary containment has been implemented.



Photo #6 - Sump to collect drill water and cuttings has been excavated below the casing on the buggy drill. Proper disposal is occurring at this drill.



Photo #7 - Water pump and associated fuel by the shoreline of Long Lake. Secondary containment below the fuel drums and water pump was satisfactory, but the Permittee must ensure that they are maintained to prevent them from filling up with water and over topping.



Photo #8 - Buggy drill just pulled off this target and tree disposal appeared to be the only restoration work required at this site.



Photo #9 - Two completed drill sites (circled) and access trail are viewed in this photo. The Inspector was pleased with the reduction in clearing that occurred along this access trail, as trail width was a concern noted during the previous inspection.



Photo #10 - Completed drill site and the stake in the centre of the photo marks the hole collar. The majority of the completed drill sites were drilled and cleaned up with full adherence to the operating conditions annexed to the land use permit.



Photo #11 - Fuel cache on the south side of Thor Lake. The Inspector appreciates the Permittee's diligence with maintaining walkways between the drums for ease of inspection, and placing the bungs at 3 and 9 o'clock.



Photo #12 - Another well established fuel cache, and another good practice implemented by the Permittee. Drums have been slightly elevated by placing the top of the drums on logs.