



#16 Yellowknife Airport
Yellowknife, NWT
X1A 3T2

Your file - Votre référence

March 25th, 2011

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 March 17th, 2011 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 Chris Pederson and Randy O'Keefe throughout the inspection, and all findings were discussed.

The saddle tank on the Drill #1 was leaking from a fitting on the underside of the tank. This concern has been raised in the past and fuel handling at this particular tank is unacceptable. Inspectors require a more permanent solution to be implemented on site in order to maintain compliance with Condition #47 of the permit. Inspectors have already been informed by Avalon staff that a suitable alternative will be implemented.

The only other concern identified was with the accumulation of rod grease from the drilling process on the water surface of the mud tank at Drill #2. Inspectors notified the Permittee and the drill crew of this concern and absorbent pads were used to mop up excess rod grease immediately. This practice must continue throughout the drill program to ensure that rod grease is not being pumped with the cuttings to the land based disposal locations. Your copy of the Environmental Inspection Report is enclosed and should be self explanatory.

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

Yours truly,

Nahum Lee
Resource Management Officer II
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 – March 17 th , 2011
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	Permit Expiry Date	Last Previous Inspection
Land Use Permit No.	MV2007C0039	July 4 th , 2011
Quarrying Permit No.		October 7 th , 2010
Contractor:	Foraco	Subcontractor:

Location(s) Inspected:	Camp and diamond drill program.
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Current Stage of Operation:	Drill Rig #1 (track mounted) and Rig #2 (skid mounted) 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		
A	Location and Area	A	A		
B	Time	A	A		
C	Type and Size of Equipment	A	A		
D	Methods and Techniques	A	A		
E	Type, Location, Capacity and Operation of All Facilities	A	A		
F	Control or Prevention of Ponding of Water, Flooding, Erosion, Slides and Subsidence of Land	A	A		
G	Use, Storage, Handling and Ultimate Disposal of Any Chemical or Toxic Material	A	A		
H	Wildlife and Fisheries Habitat	A	A		
I	Storage, Handling and Disposal of Refuse or Sewage	A	A		
J	Protection of Historical, Archeological and Burial Sites	A	A		
K	Objects and Places of Recreational, Scenic or Ecological Value	A	A		
L	Security Deposit	A	A		
M	Fuel Storage	U	A		#47 Fuel Containment
N	Methods and Techniques for Debris and Brush Disposal	A	A		
O	Restoration of the Lands	A	A		
P	Display of Permits and Permit Numbers	A	A		
Q	Matters Not Inconsistent With the Regulations	A	A		
R	Sections 8 to 16 M.V.L.U.R.	A	A		

ENVIRONMENTAL INSPECTION REPORT Pg. 2
(Continued)

Date: March 17 th , 2011	Permit #: MV2007C0039
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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. Chris Pederson and Randy O'Keefe accompanied the Inspectors throughout the inspection.

Drill Program

Two drills were active on Long Lake at the time of inspection. Drill #1 is a track mounted buggy drill and Drill #2 is a skid mounted drill.

Cuttings disposal at both of the drills was satisfactory. Cuttings were being collected at the collar and redirected to land based disposal locations well away from any water body. Once drillers are finished at any particular hole they conduct the initial cleanup, removing timbers and other debris from the drill site. Avalon staff members then wait for the hole to freeze up and use a dozer and loader to scrape any remaining cuttings that may be frozen in the ice. The ice and snow from the final cleanup is also being deposited on land away from both Long and Thor Lakes. Several of the completed drill sites were inspected and no concerns were identified.

Fuel handling at the drills was satisfactory with the exception of the saddle tank on Drill #1. This tank appeared to be leaking from a fitting under the tank. There was a secondary containment berm under the tank but some diesel contamination was present out side the containment structure. Drillers were made aware of the problem immediately and responded to Inspectors concerns. The driller tightened the problem fitting, mopped up any hydrocarbons on the surface of the water within the secondary containment unit, and began chipping and scraping contaminated snow and ice for collection and proper disposal.

This concern has been raised in the past and fuel handling at this particular tank is unacceptable. Inspectors require a permanent solution to be implemented on site in order to maintain compliance with Condition #47 of the permit, which states:

“The Permittee shall not allow petroleum products to spread to surrounding lands or into water bodies”.

The Permittee has informed Inspectors that the drill contractor will be sending in a double walled tidy tank to replace the problem tank and that this tank will only be used during transport of the drill from target to target. All fueling during drilling will occur within secondary containment from drums contained within a metal sloop or from a double walled tank. This appears to be a suitable alternative and should significantly reduce the potential for spills to occur from this saddle tank.

The only other concern with the drilling was the presence of rod grease on the water in the mud tub at Drill #2. It became apparent upon inspection that rod grease from the drilling process was collecting on the surface of the recycled water in the red tub at the drill. Inspectors notified the Permittee and the drill crew of this concern and absorbent pads were used to mop up excess rod grease immediately. This practice must continue throughout the drill program to ensure that rod grease is not being pumped with the cuttings to the land based disposal locations.

Aside from these two instances, no other concerns were identified with fuel handling at the drill sites. All other fuel for the drills, pumps, and ancillary equipment was stored within secondary containment. Absorbent pads were placed beneath pumps and coil stoves to collect any hydrocarbons that may leak or drip during operations.

Camp

The camp was inspected and no major concerns were identified. Garbage is being burned regularly, the grey water sump has been expanded and covered, and all of the fuel active fuel drums have wrapped fittings and secondary containment.

The incinerator was not operational at the time of inspection but it was evident that garbage is being burned regularly as there was no accumulation of waste on site. Ash from the incinerator is being stored in 45 gallon drums and shipped off site for proper disposal.

The grey water sump has been modified. The original sump now flows to a secondary sump through PVC piping to allow for ample time to percolate through the surrounding soils. Both the primary and secondary sumps are covered with plywood.

Each tent at the camp uses fuel from a 45 gallon drum on a stand. The fittings for each drum have been wrapped in absorbent pads to capture potential leaks or drips. Also, the fittings are placed over secondary containment in the event of a spill from one of these drums. No concerns were identified with any of the active drums on site. Absorbent pads have also been placed under the generator to capture potential leaks or drips during operation.

When small spills occur during the drilling operation, any hydrocarbon impacted snow and ice is collected and brought back to the camp location where it is processed. The ice and snow is melted in an empty drum and any hydrocarbons are mopped

**ENVIRONMENTAL INSPECTION REPORT Pg. 3
(Continued)**

Explanatory Remarks

off of the surface using absorbent pads. The remaining water is then discharged overland. Inspectors are pleased to see this practice being employed on site. During future operations on site, the Permittee may wish to explore alternative methods that can be employed to achieve the same goal. Please keep Inspectors apprised if any changes to the existing system are made.

A heated shed has been built adjacent to the camp to store water pumps and water lines and prevent them from freezing. The shed is heated using an oil stove and the fuel is stored within secondary containment. No concerns were noted at this location.

During the inspection, several pieces of parked equipment were inspected. Each vehicle had been parked over a drip tray to capture potential leaks. The Inspector was pleased to see this practice.

Empty drums were being staged adjacent the airstrip for removal from site and proper disposal. Avalon is preparing for this seasons fuel delivery. Fuel will be transported to site using the ice based airstrip on Thor Lake.

Completed off Site
Representative's Signature

Nahum Lee
Inspector



Inspector's Signature



MV2007C0039 - Avalon Rare Metals Inc. - Mineral Exploration - Thor Lake, NT.
Aerial view of Avolon's camp at Thor Lake.



MV2007C0039 - Avalon Rare Metals Inc. - Mineral Exploration - Thor Lake, NT.
Aerial view of the old Highwood site. Site is primarily being used for core storage presently.



MV2007C0039 - Avalon Rare Metals Inc. - Mineral Exploration - Thor Lake, NT.
Grey water sump has been expanded and covered.



MV2007C0039 - Avalon Rare Metals Inc. - Mineral Exploration - Thor Lake, NT.
Hydrocarbon impacted snow and ice from minor spills is being collected, thawed and treated on site.



MV2007C0039 - Avalon Rare Metals Inc. - Mineral Exploration - Thor Lake, NT.
Generator at the camp has been lined with absorbents to capture potential leaks or drips.



MV2007C0039 - Avalon Rare Metals Inc. - Mineral Exploration - Thor Lake, NT.
Pump shack has been constructed to house water pumps and hoses. Fuel for the shack is within secondary containment.



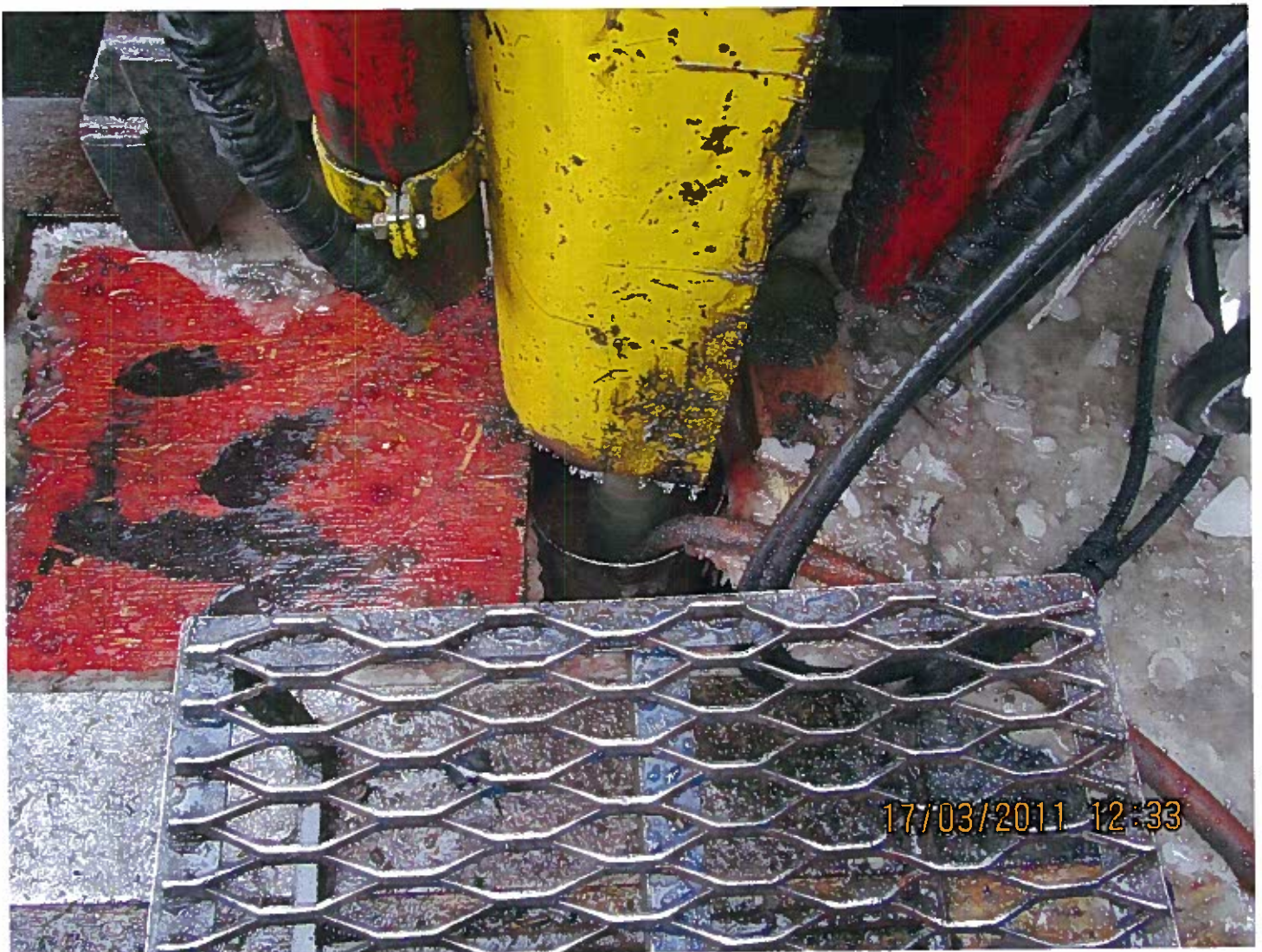
MV2007C0039 - Avalon Rare Metals Inc. - Mineral Exploration - Thor Lake, NT.
Empty drums are being staged for removal from site adjacent to the airstrip.



MV2007C0039 - Avalon Rare Metals Inc. - Mineral Exploration - Thor Lake, NT.
Drip trays have been placed under equipment on site.



MV2007C0039 - Avalon Rare Metals Inc. - Mineral Exploration - Thor Lake, NT.
Aerial view of the two active drills on Long Lake.



MV2007C0039 - Avalon Rare Metals Inc. - Mineral Exploration - Thor Lake, NT.
Cuttings at both active drills were being contained and redirected to land based locations.



MV2007C0039 - Avalon Rare Metals Inc. - Mineral Exploration - Thor Lake, NT.
Fuel at the pump shack is contained and absorbents were present under the pump.



MV2007C0039 - Avalon Rare Metals Inc. - Mineral Exploration - Thor Lake, NT.
Rod grease was present on the water surface of this mud tank. Grease was mopped up for disposal.



MV2007C0039 - Avalon Rare Metals Inc. - Mineral Exploration - Thor Lake, NT.
Completed drill site on Long Lake. Pile of snow with some residual cuttings that will be transported to a land based disposal location.



MV2007C0039 - Avalon Rare Metals Inc. - Mineral Exploration - Thor Lake, NT.
Land based disposal location for snow and ice containing cuttings.



MV2007C0039 - Avalon Rare Metals Inc. - Mineral Exploration - Thor Lake, NT.
Diesel contamination under the saddle tank on the buggy drill. Secondary containment was present but some impacted ice was identified.



MV2007C0039 - Avalon Rare Metals Inc. - Mineral Exploration - Thor Lake, NT.
Combustible waste is being burned at the drillers lay down. Ash must be removed for proper disposal.