

INDUSTRY BULLETIN: Avalon Participates in 6th International Rare Earths Conference (Hong Kong) and Critical & Rare Earth Summit III (Washington)

In this Industry Bulletin, we present some of the highlights from the 6th International Rare Earths conference held in Hong Kong November 9th-11th, and the Critical & Rare Earth Summit III held in Washington DC on October 25th-27th, 2010. At both conferences, rare earth elements ("REE") supply security was the 'front and centre' issue. The rare earth sector has attracted much attention in the last few months due to China's significantly reduced export quotas for the second half of 2010 and trade concerns prompted by broader geopolitical and economic policy issues.

6th International Rare Earth Conference - Hong Kong

This year's Roskill-hosted conference attracted some 150 delegates (almost twice that of 2009) from around the world. The delegate list included senior rare earth resource exploration & development executives, rare earth consumers, policy makers, investment analysts and academia. Avalon's President & CEO Don Bubar and Vice President Sales & Marketing Pierre Neatby attended the three days of seminars which provided many networking opportunities with rare earth consumers as well as industry analysts.

Dudley Kingsnorth, the Australian-based market analyst (in collaboration with Judith Chegidden, Managing Director of UK-based Roskill), in his presentation *Rare Earths: Facing the Uncertainty of Supply*, softened his earlier forecasts for REE demand for 2015, from 200,000 tonnes per annum ('tpa') to 185,000 tpa. Kingsnorth believes that uncertainty over supply will lead to slower (yet still strong growth) noting that the introduction of some major new applications is being tempered because of sensitivity around availability and price of REEs. Several participants commented that Kingsnorth's latest forecast is conservative by only considering known applications and not factoring in new demand from emerging applications in new technology.

Kingsnorth also noted that that neodymium, europium, dysprosium, and terbium would be in short supply in 2015, with a significant number of others believing that yttrium will also be in short supply. Many expressed the view that lanthanum and cerium prices would fall in medium term but possibly not to the low levels experienced in 2009.

Kingsnorth noted that although Lynas Corporation and Molycorp Inc., both primarily light rare earth producers, are targeting to be in production during the next two years, very few heavy rare earth projects are at the advanced stage and would come into production to alleviate the shortage of heavy rare earths. Kingsnorth did recognize Avalon's Nechalacho Rare Earth Project as one of the few advanced projects.

Representatives from Albemarle and BASF discussed the use of lanthanum in catalysts for gasoline refining, expressing concern about lanthanum supply stemming from competition for the material from NiMH battery manufacturers due to increased hybrid car production. Another speaker from China focused on the phosphor industry, which is in transition as traditional applications such as cathode

ray tubes and fluorescent lighting are being replaced by REE-enabled new applications in flat screen and LED lighting. Speakers also outlined a number of new applications (e.g. 'long persistent phosphors' and solar panels) that are under development, some of which will require the more obscure heavy rare earths such as ytterbium, erbium, holmium and thulium.

Chen Zhanheng of the Chinese Society of Rare Earths spoke on the status of the industry in China, reiterating the message that "*It's time to establish multiple supply of rare earth materials in the world so as to assure the healthy development of rare earth related industry.*" while explaining Chinese export policy initiatives and the country's efforts to improve environmental practice by consolidating the industry and higher prices that will inevitably result from achieving this goal.

Critical Materials & Rare Metals Summit III - Washington, DC

Approximately 100 delegates attended the Critical & Rare Metals Summit III, with broad international representation from all facets of the rare metal sector, including OEMs, prospective producers, supply chain managers, concerned government policy makers and agencies, NGOs, and investment analysts.

Avalon's Vice President Sales & Marketing, Pierre Neatby sat on the *OEM and Non-OEM Supply Chain Strategies* expert panel, during which he provided an overview and responded to questions. In particular he addressed questions regarding development timelines to bring new resources into production, Avalon's plans to establish a separation facility with capacity for feed from other sources, and the reality that market can only accommodate perhaps 4-6 large, integrated REE producers outside China, of which 2-4 would have to produce a significant proportion of heavy rare earths.

Steven Duclos, Ph.D., Chief Scientist at GE Global Research, in framing an active expert panel discussion on *Technology Options in Addressing Rare Metals Supply Challenges*, advised the audience that there are nearer term to longer term horizons to any solutions. While there has been much talk around engineering and R&D initiatives to seek material and system substitutions that will not require REE or designing for ease of recycling and re-use, success will only be in the longer term. In the nearer term, OEM's will need to increase their sourcing activities by volume material buys, hedging, and strategic inventory reserves. In the mid-term, OEM's do foresee introducing near-net shaping manufacturing processes (i.e. thus reducing manufacturing scrap), increasing the use of recycled materials, and focusing efforts to minimize use of at-risk process materials.

At both conferences, Avalon emphasized that with its Nechalacho Rare Earth Elements deposit at Thor Lake, NWT, being the most advanced North American REE deposit containing economically significant quantities of the heavy rare earths, it is in a unique position to play a key role in developing a North American solution to the emerging U.S. REE supply chain 'capability gap'.

If you have any comments or questions on this article or the rare earths generally, please do not hesitate to post them on www.raremetalblog.com or feel free to contact the company directly at ir@avalonraremetals.com

ABOUT AVALON RARE METALS INC.

[Avalon Rare Metals Inc.](#) ([TSX:AVL](#)) ([OTCQX:AVARF](#)) is a mineral exploration and development company focused on rare metals deposits in Canada. Its flagship project, the 100%-owned Nechalacho Deposit, Thor Lake, NWT, is emerging as one of the largest undeveloped rare earth elements resources in the world. Its exceptional enrichment in the more valuable 'heavy' rare earth elements, which are key to enabling advances in green energy technology and other growing high-tech applications, is one of the few potential sources of these critical elements outside of China, currently the source of 95% of world supply. Avalon is well funded, has no debt and its work programs are progressing steadily. Social responsibility and environmental stewardship are corporate cornerstones. Avalon's performance on community engagement in the north earned it the 2010 PDAC Environmental and Social Responsibility Award.