May 28, 2014

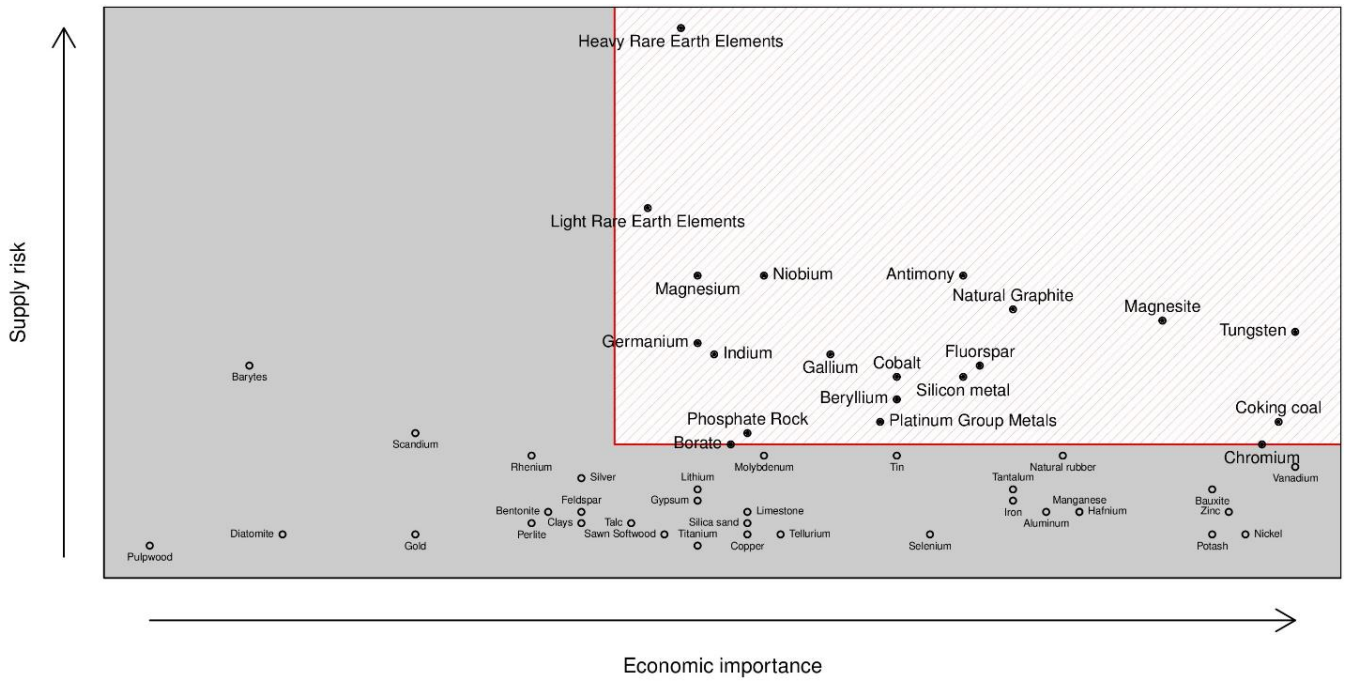
INDUSTRY BULLETIN: Rare earths, particularly heavy rare earths, profiled in recent *Report on Critical Raw Materials for the EU*

In our ongoing efforts to provide you with broader communications and industry information, Avalon Rare Metals is pleased to issue this Industry Bulletin, which provides commentary on the just released *Report on Critical Raw Materials for the EU: Report of the Ad Hoc Working Group on Defining Critical Raw Materials* (the "Report"), in which some 20 raw materials are deemed fundamental to Europe's economy, essential for maintaining and improving quality of life, but where supply is somehow limited. As noted in the Report, "Securing reliable and undistorted access of certain raw materials is of growing concern within the EU and across the globe. As a consequence of these circumstances, the Raw Materials Initiative was instigated to manage responses to raw materials issues at an EU level." Among the identified critical raw materials, heavy rare earths (as well as the lights) rated highest relative to high economic importance to the EU combined with a high risk associated with their supply.

The first criticality analysis for raw materials was published in 2010 by the Ad-Hoc Working Group on Defining Critical Raw Materials. 14 critical raw materials were identified from a candidate list of 41 non-energy, non-food materials. The current Report has used the same methodology, indicators and thresholds as the original 2010 (54 raw materials instead of 41) criticality assessment at EU level, but with updated data and a wider range of materials.

This year's Report provided greater detail for the rare earth elements by splitting them into 'heavy' and 'light' categories. The overall results of the 2013 criticality assessment are shown below. The critical raw materials are highlighted in the top right zone of the graph.

AVALON RARE METALS INC.
#1901 – 130 Adelaide St. W., Toronto, ON M5H 3P5
Tel: (416) 364-4938 • Fax: (416) 364-5162
ir@avalonraremetals.com • www.avalonraremetals.com



Graph sourced from the Report on Critical Raw Materials for the EU *(May 2014, page 24)*

Analysis of the global primary supply of the 54 candidate materials identifies around 90% of global supply having originated from outside EU sources. China is the major supplier when these materials are considered; however, many other countries are important suppliers of specific materials. EU primary supply across all candidate materials is estimated at around 9%. In the case of the critical raw materials, supply from the EU sources is even more limited.

List of Critical Raw Materials

The risks associated with concentration of production of rare earths are in many cases compounded by a lack of substitutes' substitutability and low recycling rates.

Raw Materials	**Main Producers** (2010, 2011, 2012)	**Main Sources of Imports into the EU** (mainly 2012)	**Substitutability Index***	**End-of-Life Recycling Input Rate****
Heavy Rare Earth Elements	China 99 % Australia 1 %	China 41 % (all REEs) Russia 35 % (all REEs) USA 17 % (all REEs)	0.77	0%
Light Rare Earth Elements	China 87 % USA 7 % Australia 3 %		0.67	0%

(*) The 'Substitutability index' is a measure of the difficulty in substituting the material, scored and weighted across all applications. Values are between 0 and 1, with 1 being the least substitutable.
(**) The 'End-of-life recycling input rate' measures the proportion of metal and metal products that are produced from end-of-life scrap and other metal-bearing low grade residues in end-of-life scrap worldwide.

Data extracted from table in the European Commission's Raw Materials review of Report (May 2014)

The conclusion that can be drawn from this analysis is that a rare earth supply chain outside China is still required, as China's monopoly still presents a significant supply risk for consumers in the EU.

To read the press release sent out by the European Commission reviewing the *Report on Critical Raw Materials for the EU*, visit http://europa.eu/rapid/press-release_MEMO-14-377_en.htm?locale=en.

If you have any comments or questions on this article or the rare earths generally, please do not hesitate to contact Avalon directly at ir@avalonraremetals.com. Follow us on Twitter at http://twitter.com/avalonraremetal, join our FaceBook page at http://www.facebook.com/pages/Avalon-Rare-Metals-Inc/224623996080?ref=ts or subscribe to our YouTube video feeds at http://www.youtube.com/user/AvalonRareMetals. To read more about rare metals' applications in material sciences, visit www.raremetalsmatter.com.

ABOUT AVALON RARE METALS INC.

Avalon Rare Metals Inc. (TSX & NYSE MKT: AVL) is a mineral development company focused on rare metal deposits in Canada. Its 100%-owned Nechalacho Deposit, Thor Lake, NWT is exceptional in its large size and enrichment in the scarce 'heavy' rare earth elements, key to enabling advances in clean technology and other growing high-tech applications. With a positive feasibility study and environmental assessment completed, the Nechalacho Project remains the most advanced potential large new source of heavy rare earths in the world outside of China, currently the source of most of the world's supply. Avalon is adequately funded, has no debt and its work programs are progressing. Social responsibility and environmental stewardship are company cornerstones.