THIS FIRST SUPPLEMENTAL WARRANT INDENTURE dated as of the 1st day of September, 2010

B E T W E E N:

AVALON RARE METALS INC.,
a corporation amalgamated under the laws of the Province of British Columbia

(hereinafter called the "**Company**")

A N D

COMPUTERSHARE TRUST COMPANY OF CANADA,
a trust company existing under the laws of Canada

(hereinafter called the "**Warrant Agent**")

WHEREAS the Company and the Warrant Agent executed a Common Share Purchase Warrant Indenture (the "**Indenture**") dated as of September 17, 2009 providing for the issue of 3,597,500 common share purchase warrants of the Company (the "**Warrants**"), each Warrant entitling the holder thereof (each a "**Warrantholder**" and collectively the "**Warrantholders**") to purchase one common share of the Company (each a "**Share**" and collectively the "**Shares**") at an exercise price of $3.00 per Common Share (the "**Exercise Price**"), subject to adjustment in accordance with the provisions of the Indenture;

AND WHEREAS section 7.1(f) of the Indenture provides for the creation of indentures supplemental to the Indenture for the purpose of amending any of the provisions of the Indenture, provided that no such amendment shall be operative or effective if, in the opinion of the Warrant Agent, relying on the opinion of counsel, such amendment impairs any of the rights of the Warrantholders as a group;

NOW THEREFORE THIS FIRST SUPPLEMENTAL INDENTURE WITNESSES that in consideration of the premises and of other good and valuable consideration, the parties hereto covenant, agree and declare as follows:

1. This First Supplemental Indenture (as hereinafter defined) is supplemental to the Indenture and the Indenture shall henceforth be read in conjunction with this First Supplemental Indenture and all the provisions of the Indenture, except only insofar as the same may be inconsistent with the express provisions hereof, shall apply and have the same effect as if all the provisions of the Indenture and of this First Supplemental

Indenture were contained in one instrument and the expressions used herein shall have the same meaning as is ascribed to the corresponding expressions in the Indenture.

2. The Company shall promptly give notice of its execution of this First Supplemental Indenture to the Warrantholders, substantially in the form of Schedule “A” attached hereto, announcing the Company’s intention to enter into this First Supplemental Indenture.

3. Recital B of the Indenture is hereby amended to read as follows:

> Each whole Warrant entitles the holder thereof to acquire, subject to adjustment in certain events, one Share at a price of $3.00 at any time prior to 5:00 p.m. (Toronto time) on September 17, 2011, except during the period commencing on September 1, 2010 and expiring at 5:00 p.m. (Toronto time) on September 30, 2010, at which time each whole Warrant shall entitle the holder thereof (other than by insiders of the Company) to acquire one Share at a price of $2.51, all upon the terms and conditions herein set forth;

4. The definition of “Exercise Price” under Section 1.1 of the Indenture is hereby amended as follows:

> “**Exercise Price**” means $3.00 for each Share, other than during the period commencing September 1, 2010 and expiring at 5:00 p.m. (Toronto time) on September 30, 2010 during which time Exercise Price shall mean $2.51 per Share (other than for insiders of the Company), subject to adjustment in accordance with the provisions of this Indenture;

5. Section 1.1 of the Indenture is hereby amended to add the following definition:

> “**First Supplemental Warrant Indenture**” means the first supplemental warrant indenture dated as of September 1, 2010;

6. Subsection 2.20(2) of the Indenture is hereby deleted as such legends are no longer required under applicable Securities Laws.

7. Schedule “A” – Form of Warrant Certificate of the Indenture is hereby amended to add the following exercise form after the exercise form appended to Schedule “A” – Form of Warrant Certificate, to be used for Warrants exercised during the period commencing September 1, 2010 and expiring at 5:00 p.m. (Toronto time) on September 30, 2010 (other than for insiders of the Company):

EXERCISE FORM

For Warrants exercised during the period commencing September 1, 2010 and expiring at 5:00 p.m. (Toronto time) on September 30, 2010 (other than for insiders of the Company)

TO: Avalon Rare Metals Inc.

c/o Computershare Trust Company of Canada
3rd Floor, 510 Burrard Street
Vancouver, BC V6C 3B9

c/o Computershare Trust Company of Canada
100 University Avenue, 9th Floor
Toronto, Ontario M5J 2Y1

The undersigned holder of the within Warrants hereby irrevocably subscribes for ____________ Common Shares of Avalon Rare Metals Inc. on the terms and conditions set forth in the attached Warrant Certificate and the Indenture and First Supplemental Warrant Indenture.

Any capitalized term in this Warrant Certificate that is not otherwise defined herein, shall have the meaning ascribed thereto in the Indenture and First Supplemental Warrant Indenture.

The undersigned represents, warrants and certifies as follows (one (only) of the following must be checked):

☐ A. The undersigned holder at the time of exercise of the Warrant is not in the United States, is not a U.S. Person and is not exercising the Warrant on behalf of a U.S. Person or a person in the United States, and did not execute or deliver the exercise form for such securities in the United States;

☐ B. The undersigned holder (i) purchased the Special Warrants directly from the Company pursuant to a written subscription agreement for the purchase of Special Warrants; (ii) is exercising the Warrant solely for its own account and not on behalf of any other person; (iii) and was an Accredited Investor each on the date the Special Warrant was purchased from the Company and on the date of exercise of the Special Warrants and the Warrants; or

☐ C. The undersigned holder is delivering a written opinion of counsel of recognized standing in form and substance reasonably satisfactory to the Company or other evidence reasonably satisfactory to the Company to the effect that an exemption from the registration requirements of the U.S. Securities Act and applicable state securities laws is available for the issuance of the Subject Securities.

Notes: (1) Certificates will not be registered or delivered to an address in the United States unless Box B or C above is checked.

(2) If Box C above is checked, holders are encouraged to consult with the Company and the Warrant Agent in advance to determine that the legal opinion tendered in connection with the exercise will be satisfactory in form and substance to the Company and the Warrant Agent.

The undersigned holder understands that unless Box A above is checked, the certificate representing the Common Shares issued upon exercise of this Warrant will bear a legend restricting transfer without registration under the U.S. Securities Act and applicable state securities laws unless an exemption from registration is available.

The undersigned hereby directs that the said Common Shares be issued as follows:

NAME(S) IN FULL	ADDRESS(ES)	NUMBER OF COMMON SHARES

(Please print.)

If Warrants are exercised during the period commencing September 1, 2010 and expiring at 5:00 p.m. (Toronto time) on September 30, 2010, the undersigned represents, warrants and certifies that it is an “Insider” of the Company:

Yes ☐ No ☐

“Insider” means (a) a director or officer of the Company; (b) a director or officer of a person or company that is itself an Insider or subsidiary of the Company; or (c) any person or company that has: (i) beneficial ownership of, or control over, directly or indirectly, securities of the Company carrying more than 10% of the voting rights attached to all outstanding voting securities of the Company, or (ii) a combination of beneficial ownership of, and control or direction over, directly or indirectly, securities of the Company carrying more than 10% of the voting rights attached to all outstanding voting securities of the Company.

DATED this _____ day of September, 2010.

Signature Guaranteed*	Name of Warrantholder
Name of Authorized Representative	Signature of Warrantholder or Authorized Representative
Title or Capacity of Authorized Representative	Daytime Phone Number of Warrantholder or Authorized Representative

☐ Please check this box if the securities are to be picked up at the office where the Warrant Certificate is surrendered, failing which the securities will be mailed to the address shown on the register.

Instructions:

The signature of the Holder must be the signature of the registered holder appearing on the face of this Warrant Certificate.

If this Exercise Form is signed by a trustee, executor, administrator, curator, guardian, attorney, officer of a corporation or any person acting in a fiduciary or representative capacity, the warrant certificate must be accompanied by evidence of authority to sign satisfactory to the Warrant Agent and the Company, acting reasonably.

*If the Common Shares are to be issued to a person other than to the registered Holder, then the signature on this Exercise Form must be guaranteed by a Schedule 1 Canadian chartered bank, a Canadian trust company, medallion guaranteed by a recognized medallion signature guarantee program or in any other manner satisfactory to the Warrant Agent. The guarantor must affix a stamp bearing the actual words “Signature Guaranteed”. Signature guarantees are not accepted from Treasury Branches or credit unions unless they are members of the Stamp Medallion Program. In the United States, signature guarantees must be done by members of the “Medallion Signature Guarantee Program” only.

If securities are to be issued to a person other than the registered Holder, the Transfer Form must be completed and the Holder must pay or cause to be paid to the Company or the Warrant Agent all applicable transfer or similar taxes, if any, and the Company shall not be required to issue or deliver certificates evidencing the Common Shares and Warrants unless and until such Holder shall have paid to the Company or the Warrant Agent the amount of such tax or shall have established to the satisfaction of the Company that such tax has been paid or that no tax is due.

8. The Indenture shall be and continue to be in full force and effect, unamended, except as provided herein, and the Company hereby confirms the Indenture in all other respects.

9. This First Supplemental Indenture shall be governed by and construed in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein and shall be binding upon the parties hereto and their respective successors and assigns.

Remainder of page intentionally left blank.

IN WITNESS WHEREOF the parties hereto have executed this First Supplemental Indenture.

AVALON RARE METALS INC.

Per: (signed) "*Donald Bubar*"
Authorized Signing Officer

COMPUTERSHARE TRUST COMPANY OF CANADA

Per: (signed) *"Alice Kollen"*
Authorized Signing Officer

Per: (signed) *"Gabriel Ducharme*"
Authorized Signing Officer

SCHEDULE "A"

FORM OF NOTICE OF FIRST SUPPLEMENTAL INDENTURE

TO: HOLDERS OF WARRANTS OF AVALON RARE METALS INC.

Subject to receipt of all requisite approvals, on September 1, 2010, Avalon Rare Metals Inc. (the "**Company**") will enter into a supplemental warrant indenture (the "**First Supplemental Indenture**") to the common share purchase warrant indenture entered into between the Company and Computershare Trust Company of Canada as of September 17, 2009 (the "**Indenture**") providing for the issuance of 3,597,500 common share purchase warrants (the "**Warrants**") to permit holders of outstanding Warrants (other than insiders of the Company) (the "**Warrantholders**") who choose to exercise their Warrants during the period (the "**Reduced Exercise Price Period**") commencing September 1, 2010 and expiring 5:00 p.m. (Toronto time) on September 30, 2010 (the "**Reduced Exercise Price Expiry Time**") to acquire one common share (a "**Share**") of the Company at an exercise price of $2.51 per Share (the "**Reduced Exercise Price**"), in lieu of the current exercise price of $3.00 per Share (the "**Current Exercise Price**"). For greater certainty, at all times other than during the Reduced Exercise Price Period the Warrants shall be exercisable at the Current Exercise Price.

The Warrants have been issued under and will continue to be governed by the terms of the Indenture, as amended by the First Supplemental Indenture (collectively referred to hereinafter as the "**Indenture**").

Registered holders of Warrants (other than insiders of the Company) are encouraged to exercise their Warrants in accordance with the procedures set forth in the Indenture as soon as possible during the Reduced Exercise Price Period and, in any event, prior to the Reduced Exercise Price Expiry Time in order to take advantage of their right to acquire Shares at the Reduced Exercise Price upon exercise of their Warrants.

Registered holders of Warrants (other than insiders of the Company) must use the amended exercise form that is appended to this notice as Appendix "I" for Warrants exercised during the Reduced Exercise Price Period, on which they must indicate whether or not they are an insider of the Company.

APPENDIX "I" TO FORM OF NOTICE TO WARRANTHOLDERS

EXERCISE FORM

For Warrants exercised during the period commencing September 1, 2010 and expiring at 5:00 p.m. (Toronto time) on September 30, 2010 (other than for insiders of the Company)

TO: Avalon Rare Metals Inc.

c/o Computershare Trust Company of Canada
3rd Floor, 510 Burrard Street
Vancouver, BC V6C 3B9

c/o Computershare Trust Company of Canada
100 University Avenue, 9th Floor
Toronto, Ontario M5J 2Y1

The undersigned holder of the within Warrants hereby irrevocably subscribes for ____________ Common Shares of Avalon Rare Metals Inc. on the terms and conditions set forth in the attached Warrant Certificate and the Indenture and First Supplemental Warrant Indenture.

Any capitalized term in this Warrant Certificate that is not otherwise defined herein, shall have the meaning ascribed thereto in the Indenture and First Supplemental Warrant Indenture.

The undersigned represents, warrants and certifies as follows (one (only) of the following must be checked):

☐ A. The undersigned holder at the time of exercise of the Warrant is not in the United States, is not a U.S. Person and is not exercising the Warrant on behalf of a U.S. Person or a person in the United States, and did not execute or deliver the exercise form for such securities in the United States;

☐ B. The undersigned holder (i) purchased the Special Warrants directly from the Company pursuant to a written subscription agreement for the purchase of Special Warrants; (ii) is exercising the Warrant solely for its own account and not on behalf of any other person; (iii) and was an Accredited Investor each on the date the Special Warrant was purchased from the Company and on the date of exercise of the Special Warrants and the Warrants; or

☐ C. The undersigned holder is delivering a written opinion of counsel of recognized standing in form and substance reasonably satisfactory to the Company or other evidence reasonably satisfactory to the Company to the effect that an exemption from the registration requirements of the U.S. Securities Act and applicable state securities laws is available for the issuance of the Subject Securities.

Notes: (1) Certificates will not be registered or delivered to an address in the United States unless Box B or C above is checked.

(2) If Box C above is checked, holders are encouraged to consult with the Company and the Warrant Agent in advance to determine that the legal opinion tendered in connection with the exercise will be satisfactory in form and substance to the Company and the Warrant Agent.

The undersigned holder understands that unless Box A above is checked, the certificate representing the Common Shares issued upon exercise of this Warrant will bear a legend restricting transfer without registration under the U.S. Securities Act and applicable state securities laws unless an exemption from registration is available.

The undersigned hereby directs that the said Common Shares be issued as follows:

NAME(S) IN FULL	ADDRESS(ES)	NUMBER OF COMMON SHARES

(Please print.)

If Warrants are exercised during the period commencing September 1, 2010 and expiring at 5:00 p.m. (Toronto time) on September 30, 2010, the undersigned represents, warrants and certifies that it is an "Insider" of the Company:

Yes ☐ No ☐

"Insider" means (a) a director or officer of the Company; (b) a director or officer of a person or company that is itself an Insider or subsidiary of the Company; or (c) any person or company that has: (i) beneficial ownership of, or control over, directly or indirectly, securities of the Company carrying more than 10% of the voting rights attached to all outstanding voting securities of the Company, or (ii) a combination of beneficial ownership of, and control or direction over, directly or indirectly, securities of the Company carrying more than 10% of the voting rights attached to all outstanding voting securities of the Company.

DATED this _____ day of September, 2010.

Signature Guaranteed*	Name of Warrantholder
Name of Authorized Representative	Signature of Warrantholder or Authorized Representative
Title or Capacity of Authorized Representative	Daytime Phone Number of Warrantholder or Authorized Representative

☐ Please check this box if the securities are to be picked up at the office where the Warrant Certificate is surrendered, failing which the securities will be mailed to the address shown on the register.

Instructions:

The signature of the Holder must be the signature of the registered holder appearing on the face of this Warrant Certificate.

If this Exercise Form is signed by a trustee, executor, administrator, curator, guardian, attorney, officer of a corporation or any person acting in a fiduciary or representative capacity, the warrant certificate must be accompanied by evidence of authority to sign satisfactory to the Warrant Agent and the Company, acting reasonably.

*If the Common Shares are to be issued to a person other than to the registered Holder, then the signature on this Exercise Form must be guaranteed by a Schedule 1 Canadian chartered bank, a Canadian trust company, medallion guaranteed by a recognized medallion signature guarantee program or in any other manner satisfactory to the Warrant Agent. The guarantor must affix a stamp bearing the actual words "Signature Guaranteed". Signature guarantees are not accepted from Treasury Branches or credit unions unless they are members of the Stamp Medallion Program. In the United States, signature guarantees must be done by members of the "Medallion Signature Guarantee Program" only.

If securities are to be issued to a person other than the registered Holder, the Transfer Form must be completed and the Holder must pay or cause to be paid to the Company or the Warrant Agent all applicable transfer or similar taxes, if any, and the Company shall not be required to issue or deliver certificates evidencing the Common Shares and Warrants unless and until such Holder shall have paid to the Company or the Warrant Agent the amount of such tax or shall have established to the satisfaction of the Company that such tax has been paid or that no tax is due.