

A copy of this preliminary short form prospectus has been filed with the securities regulatory authority in the Northwest Territories and a copy of this amended and restated preliminary short form prospectus has been filed with the securities regulatory authorities in each of the provinces of Canada, other than Québec, but, in each case, has not yet become final for the purpose of the sale of securities. Information contained in this preliminary short form prospectus and this amended and restated preliminary short form prospectus, respectively, may not be complete and may have to be amended. The securities may not be sold until a receipt for the short form prospectus is obtained from the securities regulatory authorities.

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This short form prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. **Information has been incorporated by reference in this short form prospectus from documents filed with certain of the securities commissions or similar authorities in Canada.** Copies of the documents incorporated herein by reference may be obtained on request without charge from the Corporate Secretary of Avalon Rare Metals Inc. at 130 Adelaide Street West, Suite 1901, Toronto, Ontario, Canada M5H 3P5, telephone (416) 364-4938, and are also available electronically at www.sedar.com.

The securities offered by this short form prospectus have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the “**U.S. Securities Act**”), or any state securities laws and, subject to certain exceptions and in compliance with the registration requirements of the U.S. Securities Act and applicable state securities laws or pursuant to exemptions therefrom, may not be offered, sold or delivered, directly or indirectly, within the United States or to, or for the account or benefit of, “U.S. persons” (as defined in Regulation S under the U.S. Securities Act) (“**U.S. Persons**”). This short form prospectus does not constitute an offer to sell or a solicitation to buy any of the securities offered hereby within the United States or to U.S. Persons. See “Plan of Distribution”.

**PRELIMINARY SHORT FORM PROSPECTUS
AND
AMENDED AND RESTATED PRELIMINARY SHORT FORM PROSPECTUS
Amending and Restating the Preliminary Short Form Prospectus dated September 14, 2010**



New Issue

September 15, 2010

\$30,030,000

9,240,000 Units

This short form prospectus qualifies the distribution of 9,240,000 units (the “**Offered Units**”) of Avalon Rare Metals Inc. (the “**Corporation**” or “**Avalon**”) to be issued at a price (the “**Offering Price**”) of \$3.25 per Offered Unit, for aggregate gross proceeds of \$30,030,000 (the “**Offering**”). Each Offered Unit will be comprised of one common share (a “**Unit Share**”) in the capital of the Corporation and one-half of one common share purchase warrant (each whole common share purchase warrant, a “**Warrant**”). Each whole Warrant will entitle the holder thereof to acquire one common share (a “**Warrant Share**”) in the capital of the Corporation at an exercise price of \$3.60 for a period of 12 months (the “**Expiry Date**”) following the Closing Date (as defined herein).

The outstanding common shares (the “**Common Shares**”) in the capital of the Corporation are listed and posted for trading on the Toronto Stock Exchange (the “**TSX**”) under the symbol “AVL” and are listed and posted for trading on the OTCQX International (the “**OTCQX**”) under the symbol “AVARF”. On September 14, 2010, the last trading day of the Common Shares prior to the date of this short form prospectus, the closing price of the Common Shares on the TSX was \$3.58.

The Offered Units will be issued and sold pursuant to an underwriting agreement (the “**Underwriting Agreement**”) dated as of September 15, 2010 among the Corporation and CIBC World Markets Inc., as lead underwriter (the “**Lead Underwriter**”), and including Laurentian Bank Securities Inc., Stonecap Securities Inc. and Canaccord Genuity Corp. (collectively the “**Underwriters**”). The

Offering Price was determined based upon arm's length negotiations between the Corporation and the Lead Underwriter with reference to the prevailing market price of the Common Shares. The Underwriters, as principal, conditionally offer the Offered Units, subject to prior sale, if, as and when issued by the Corporation and accepted by the Underwriters in accordance with the conditions contained in the Underwriting Agreement referred to under "Plan of Distribution" and subject to approval of certain legal matters on behalf of the Corporation by Cassels Brock & Blackwell LLP and on behalf of the Underwriters by Heenan Blaikie LLP.

	Price to Public	Commission ⁽¹⁾	Net Proceeds to Corporation ⁽²⁾
Per Offered Unit	\$3.25	\$0.195	\$3.055
Total Offering	\$30,030,000	\$1,801,800	\$28,228,200

Notes:

- (1) The Underwriters will receive a cash commission (the "**Commission**") equal to 6% of the gross proceeds of the Offering and broker warrants (the "**Broker Warrants**") entitling the Underwriters to purchase that number of units (the "**Compensation Units**"), each consisting of one Common Share (a "**Compensation Share**") and one-half of one Warrant (each whole Warrant, a "**Compensation Warrant**"), equal to 3.0% of the total number of Offered Units sold under the Offering at the Offering Price per Compensation Unit for a period of 12 months from the Closing Date. Each Compensation Warrant shall be exercisable to acquire one additional Common Share (a "**Compensation Warrant Share**") at a price of \$3.60 per Compensation Warrant Share for a period of 12 months following the Closing Date. This short form prospectus qualifies the distribution of the Broker Warrants. See "Plan of Distribution" and "Description of Securities Distributed".
- (2) After deducting the Commission but before deducting expenses of the Offering estimated at \$300,000, which will be paid from the proceeds of the Offered Units sold pursuant to the Offering.

Underwriters' Position	Maximum Size or Number of Securities Held	Exercise Period	Exercise Price
Broker Warrants	277,200 Compensation Units	from and within 12 months following the Closing Date	\$3.25

Subject to applicable laws, the Underwriters may, in connection with the Offering, effect transactions intended to stabilize or maintain the market price of the Common Shares at levels other than those which might otherwise prevail in the open market. Such transactions, if commenced, may be discontinued at any time. See "Plan of Distribution".

Subscriptions for Offered Units will be received by the Underwriters subject to rejection or allotment in whole or in part by the Underwriters and the Underwriters reserve the right to close the subscription books at any time without notice. The closing of the Offering is expected to take place on September 30, 2010 or such other date as the Corporation and the Underwriters shall agree (the "**Closing Date**"), but in any event no later than 42 days after the receipt for the final short form prospectus filed in connection with the Offering.

Other than with respect to Offered Units offered, sold or issued to, or for the account or benefit of persons in the United States or "U.S. persons" ("**U.S. Persons**"), as such term is defined in Regulation S under the United States Securities Act of 1933, as amended (the "**U.S. Securities Act**"), where individual certificates will be issued representing the Unit Shares and Warrants comprising the Offered Units, one or more book entry-only certificates representing the Unit Shares and Warrants comprising the Offered Units will be issued in registered form to CDS Clearing and Depository Services Inc. ("**CDS**") or its nominee and deposited with CDS on the Closing Date, against payment of the aggregate purchase price for the Offered Units. Except as set forth herein, a purchaser of Offered Units will receive only a

customer confirmation from the registered dealer through which the Offered Units are purchased. See “Plan of Distribution”.

The Corporation has applied to list the Unit Shares, Warrants, Warrant Shares, Compensation Shares, Compensation Warrants, and Compensation Warrant Shares on the TSX. Listing will be subject to the Corporation fulfilling all of the listing requirements of the TSX.

An investment in the securities offered hereunder is highly speculative and involves significant risks that should be carefully considered by prospective investors before purchasing such securities. The risks outlined in this short form prospectus and in the documents incorporated by reference herein should be carefully reviewed and considered by prospective investors in connection with an investment in such securities. See “Risk Factors” and “Cautionary Note Regarding Forward-Looking Statements”. There is currently no market through which the Warrants comprising part of the Offered Units may be sold and purchasers may not be able to resell the Warrants that are purchased under this short form prospectus.

Potential investors are advised to consult their own legal counsel and other professional advisers in order to assess income tax, legal and other aspects of this investment.

In connection with the distribution of the Offered Units by the Underwriters, the Underwriters may sell the Offered Units at a price that is less than the Offered Price. See “Plan of Distribution”.

The Corporation’s head office is located at 130 Adelaide Street West, Suite 1901, Toronto, Ontario M5H 3P5 and its registered office is located at 1199 West Hasting Street, Suite 950, Vancouver, British Columbia V6E 3T5.

TABLE OF CONTENTS

<u>DESCRIPTION</u>	<u>PAGE NO.</u>
CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS.....	1
FINANCIAL INFORMATION	2
DOCUMENTS INCORPORATED BY REFERENCE.....	2
AVAILABLE INFORMATION	3
ELIGIBILITY FOR INVESTMENT	4
THE CORPORATION.....	4
CONSOLIDATED CAPITALIZATION.....	24
USE OF PROCEEDS	24
PLAN OF DISTRIBUTION.....	24
CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS.....	27
DESCRIPTION OF SECURITIES DISTRIBUTED.....	31
PRIOR SALES	33
TRADING PRICE AND VOLUME.....	34
RISK FACTORS.....	35
INTEREST OF EXPERTS	36
STATUTORY RIGHTS OF RESCISSION AND WITHDRAWAL	37
AUDITOR'S CONSENT.....	C-1
CERTIFICATE OF THE CORPORATION	C-2
CERTIFICATE OF THE UNDERWRITERS.....	C-3

Readers should rely only on information contained or incorporated by reference in this short form prospectus. The Corporation has not authorized anyone to provide the reader with different information. The Corporation is not making an offer to sell or a solicitation of an offer to buy these securities in any jurisdiction where the offer is not permitted. Readers should not assume that the information contained in this short form prospectus is accurate as of any date other than the date on the front of this short form prospectus.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This short form prospectus, including the documents incorporated by reference herein, contain “forward-looking statements” within the meaning of applicable Canadian securities legislation and United States federal securities laws. Forward-looking statements include, but are not limited to, statements with respect to the estimation of mineral resources and mineral reserves, rare earth elements prices, the estimation of gross metal values and the estimation of metallurgical recoveries. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as “plans”, “expects” or “does not expect”, “is expected”, “budget”, “scheduled”, “estimates”, “forecasts”, “intends”, “anticipates” or “does not anticipate”, or “believes”, or variations of such words and phrases or state that certain actions, events or results “may”, “could”, “would”, “might” or “will be taken”, “occur” or “be achieved”. Forward-looking statements are subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of Avalon to be materially different from those expressed or implied by such forward-looking statements. Specifically, this short form prospectus contains forward-looking statements regarding the results and projections contained in the pre-feasibility study of the Thor Lake Project (as defined herein), including the reserve and resource estimates, ore grade, the expected mine life, anticipated metallurgical production, metallurgical recovery, the commencement of construction, cash operating costs and other costs, the

projected internal rate of return, capital costs, sensitivity to metal prices and other sensitivities, the projected payback period, the availability of capital for development, the financial analysis, expected drilling activities and changes in project parameters as plans continue to be refined, as well as those factors discussed in the section entitled “Description of the Business – Risk Factors” in Avalon’s Annual Information Form available on SEDAR at www.sedar.com. Forward-looking statements are based on assumptions management believes to be reasonable, including but not limited to, continued exploration activities, no material adverse change in the market price of rare earth metals, that exploration plans will proceed in accordance with Avalon’s public statements and such plans will achieve their stated outcomes, and such other assumptions and factors as set out herein. Although Avalon has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking statements, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Such forward-looking statements have been provided for the purpose of assisting investors in understanding Avalon’s business and may not be appropriate for other purposes. Accordingly, readers should not place undue reliance on forward-looking statements. Avalon does not undertake to update any forward-looking statements that are contained or incorporated by reference herein, except in accordance with applicable securities laws.

FINANCIAL INFORMATION

The audited annual financial statements of Avalon as well as the unaudited interim financial statements of Avalon incorporated by reference in this short form prospectus are reported in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles.

All dollar amounts referenced herein, unless otherwise indicated, are expressed in Canadian dollars and United States dollars are referred to as “United States dollars” or “US\$”. On September 14, 2010, the noon exchange rate for Canadian dollars in terms of the United States dollar, as quoted by the Bank of Canada, was US\$1.00 = C\$1.0222.

DOCUMENTS INCORPORATED BY REFERENCE

Information has been incorporated by reference in this short form prospectus from documents filed with certain of the securities commissions or similar authorities in Canada (the “Canadian Securities Authorities”). Copies of the documents incorporated herein by reference may be obtained on request without charge from the Corporate Secretary of Avalon at 130 Adelaide Street West, Suite 1901, Toronto, Ontario M5H 3P5, telephone (416) 364-4938, and are also available electronically on SEDAR at www.sedar.com.

The following documents, filed by the Corporation with the Canadian Securities Authorities, are specifically incorporated by reference into, and form an integral part of, this short form prospectus:

- (a) the annual information form (the “**Annual Information Form**”) of Avalon dated November 24, 2009 for the financial year ended August 31, 2009, excluding the section entitled “Principal Properties and Assets – Thor Lake Rare Metals Property” on pages 8 through 18 of the Annual Information Form, which is superseded by the disclosure contained herein under the heading “Recent Developments – Thor Lake Project”;
- (b) the audited comparative financial statements of Avalon as at and for the financial years ended August 31, 2009 and 2008, together with the auditors’ report thereon and the notes thereto and management’s discussion and analysis relating thereto;

- (c) the unaudited interim consolidated financial statements of Avalon as at and for the nine months ended May 31, 2010, together with the notes thereto and the management's discussion and analysis relating thereto;
- (d) the management information circular of Avalon dated as at December 7, 2009 prepared in connection with the annual general meeting of shareholders of Avalon held on January 14, 2010;
- (e) the material change report of Avalon dated September 9, 2009 relating to the appointment of Mr. Phil Fontaine to the Corporation's Board of Directors;
- (f) the material change report of Avalon dated September 24, 2009 relating to the closing of the Corporation's private placement of special warrants and flow-through special warrants for gross proceeds of \$17,514,250;
- (g) the material change report of Avalon dated February 3, 2010 relating to an updated mineral resource estimate for the Nechalacho Rare Earth Elements Deposit on Avalon's Thor Lake project (the "**Thor Lake Project**");
- (h) the press releases of Avalon dated July 19, 2010 and September 8, 2010 relating to the results of the Corporation's 2010 winter drill program and updated mineral resource estimate for the Nechalacho Rare Earth Elements Deposit on Avalon's Thor Lake Project; and
- (i) the press release of Avalon dated August 17, 2010 relating to the reduction of the exercise price of the Corporation's common share purchase warrants for a period of 30 days commencing September 1, 2010.

Any document of the type referred to above (excluding confidential material change reports) filed by the Corporation with the Canadian Securities Authorities after the date of this short form prospectus and prior to the termination of the Offering shall be deemed to be incorporated by reference in this short form prospectus.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purposes of this short form prospectus, to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not constitute a part of this short form prospectus, except as so modified or superseded. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of such a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made.

AVAILABLE INFORMATION

The Corporation currently files reports and other information with the securities commissions and similar regulatory authorities in each of the provinces of Ontario, British Columbia, Alberta, Nova Scotia and in the Northwest Territories and will, following the receipt for the (final) short form prospectus, be

required to file reports and other information in all other provinces of Canada in which the Offered Units are sold, as applicable, in accordance with securities legislation. These reports and information are available to the public free of charge on SEDAR at www.sedar.com.

ELIGIBILITY FOR INVESTMENT

In the opinion of Cassels Brock & Blackwell LLP, counsel to the Corporation, and Heenan Blaikie LLP, counsel to the Underwriters, based on the current provisions of the *Income Tax Act* (Canada) (the “**Tax Act**”) and the regulations thereunder, the Unit Shares and Warrants, if issued on the date hereof, would be qualified investments under the Tax Act for trusts governed by registered retirement savings plans, registered retirement income fund, deferred profit sharing plans, registered education savings plans, registered disability savings plans and tax-free savings accounts (“**TFSA**s”) (each a “**Deferred Plan**”), provided the Unit Shares and Warrants are listed on a “designated stock exchange” as defined in the Tax Act (which includes the TSX).

The Unit Shares and Warrants will not be “prohibited investments” for a trust governed by a TFSA, provided the holder of the TFSA deals at arm’s length with the Corporation for purposes of the Tax Act and does not have a “significant interest” (within the meaning of the Tax Act) in the Corporation or in any person or partnership with which the Corporation does not deal at arm’s length for purposes of the Tax Act. Holders of trusts governed by a TFSA should consult their own tax advisors to ensure the Unit Shares and Warrants would not be a prohibited investment in their particular circumstances.

THE CORPORATION

The Corporation is a junior mineral exploration and development company with a primary focus on rare metals and minerals with high technology and environmentally beneficial applications. Avalon currently holds a portfolio of five such projects. Four of these five active projects (Thor Lake, Separation Rapids, East Kemptville and Warren Township) are at an advanced stage with identified mineral resources that are potentially economic, provided that sales contracts with customers can be secured and project financing arranged.

The Corporation’s focus has been on rare minerals and metals such as lithium, tantalum, cesium, indium, rare earth elements (“**REE**”) such as neodymium, terbium and dysprosium and rare minerals such as calcium feldspar which are all in growing demand for use in new technologies related to energy efficiency and a cleaner environment. The Corporation seeks to build shareholder value by becoming a diversified producer of rare metals and minerals and expanding the markets for its mineral products.

Further information regarding the business of the Corporation, its operations and its mineral properties can be found in the Annual Information Form and other documents incorporated by reference in this short form prospectus. See “Documents Incorporated by Reference”.

Recent Developments

Thor Lake Project

Subsequent to the date of the Annual Information Form, the Corporation filed an updated National Instrument 43-101 (“**NI 43-101**”) technical report, for a mineral resource update and a mineral reserve estimate on its Nechalacho deposit (the “**Nechalacho Deposit**”, formerly known as the Lake Zone deposit), Thor Lake, Northwest Territories, entitled “Technical Report On The Thor Lake Project, Northwest Territories, Canada” (the “**Technical Report**”) dated July 29, 2010 and prepared by Scott

Wilson Roscoe Postle Associates Inc. (“**Scott Wilson RPA**”), which is available for review on the Corporation’s SEDAR profile at www.sedar.com.

The following sections provide a summary of the Technical Report and various updates in connection with the ongoing work that is being conducted by the Corporation on the Thor Lake property, which updated information is based on information contained in the applicable press releases (the “**Press Releases**”) of the Corporation incorporated by reference herein. The following is a summary only and reference should be made to the full text of the Technical Report and the Press Releases for a full description. See “Documents Incorporated by Reference” and “Interest of Experts”.

The Thor Lake Project consists of:

- An undeveloped rare earths deposit
- An exploration camp, with facilities suitable for summer and winter diamond drill programs
- 12 million tonnes of Mineral Reserves of REEs, Zirconium, Niobium and Tantalum
- Potential development of an underground mining operation with an 18 year mine life at 730,000 tpa.
- Significant additional Mineral Resources extending laterally within and beyond the Mineral Reserves.

Property Description, Location, Permit Status and Environmental Issues

The Thor Lake property is located in Canada’s Northwest Territories, 100 km southeast of the capital city of Yellowknife and five kilometres north of the Hearne Channel on the East Arm of Great Slave Lake. The property is within the Mackenzie Mining District of the Northwest Territories and Thor Lake is shown on National Topographic System (NTS) map sheet 85I/02 at approximately 62°06’30’’N and 112°35’30’’W (6,886,500N, 417,000E – NAD83).

The Pine Point property is located 90 km east of Hay River in the Northwest Territories. It is located roughly 8 km south of the south shore of the Great Slave Lake and is accessible by Highway 5, which is an all season highway. It is a former Cominco mine and is the proposed location of the hydrometallurgical facilities of the Project.

Land Tenure

The Thor Lake property consists of five contiguous mineral leases (totalling 4,249 ha, or 10,449 acres) and three claims (totalling 1,869 ha, or 4,597 acres). The claims were staked in 2009 to cover favourable geology to the west of the mining leases.

The mining leases have a 21-year life and each lease is renewable in 21-year increments. Annual payments of \$2.47/ha (\$1.00 per acre) are required to keep the leases in good standing. Avalon owns 100% of all of the leases subject to various legal agreements described below.

Legal Agreements, Underlying Royalty Interests

Two underlying royalty agreements exist on the Thor Lake property: the Murphy Royalty Agreement and the Calabras/Lutoda Royalty Agreement. The Murphy Royalty Agreement is a 2.5% Net

Smelter Return (NSR) royalty that applies to the entire Thor Lake property and has a provision for Avalon to buy out the royalty at the commencement for production. The Calabras/Lutoda Royalty Agreement totals 3% NSR.

Permit Status and Environmental Issues

The property is situated in an area known as the Akaitcho Territory, an area which is subject to a comprehensive land claim negotiation involving four communities of the Dene Nation.

Under the Mackenzie Valley Land and Water Resources Act and Regulations, the Mackenzie Valley Land and Water Board (“**MVLWB**”) administers land use permits. Upon completion of a preliminary screening process, Projects deemed to potentially have significant adverse impacts are referred to the Mackenzie Valley Environmental Impact Review Board (“**MVEIRB**”) to initiate an environmental assessment process. The Mackenzie Valley Resource Management Act (“**MVRMA**”) allows local and particularly aboriginal input into land and water use permitting. The MVRMA establishes a three-part environmental assessment process:

- Preliminary screening (MVLWB)
- Environmental assessment (MVEIRB)
- Environmental impact review (MVERIB, if necessary)

Subsequent to the acquisition of the property, and continuation of community engagement meetings, Avalon applied to the MVLWB for an exploration permit, and a two year permit was granted as of July 2007. It was under this permit that the drilling programs in 2007 to April 2009 were conducted. Avalon applied for an extension of this permit in early 2009, and a two year extension was granted by the MVLWB making the permit valid to July 2011. In December 2009, Avalon applied for an addendum to the existing exploration permit to allow for a second drill unit to be added to the program and the construction of a short take off and landing (STOL) airstrip. The permit addendum and a separate airstrip land use permit were granted and issued in January 2010 and valid to July 2011.

On April 23, 2010, Avalon submitted a land use and water license permit application through the MVLWB, for the mining, flotation processing and hydrometallurgical processing in the Northwest Territories. Upon completion of the MVLWB preliminary screening process, the Thor Lake Project was referred to the MVEIRB on June 11, 2010, for environmental assessment. All permitting process updates can be found on the public registry at both www.mvlwb.com and www.reviewboard.ca.

Other environmental permits and/or approvals anticipated to be required for the Thor Lake Project include a navigable waters protection act (NWP) approval for the seasonal docking facilities; and a section 35(2) fisheries authorization or letters of advice from the department of fisheries and oceans (DFO) under the federal Fisheries Act.

Past exploration on the Thor Lake property included underground bulk sampling, drilling and trenching. Accordingly, past surface stockpiles from mining have been progressively reclaimed by Avalon at no obligation. Three old trailers have been sent to Yellowknife for disposal while the remaining three trailers have been repurposed for future use. There is little surface disturbance from historical exploration activities apart from miscellaneous buildings, a 60,000 gallon capacity fuel tank farm (empty), a tent camp and a core storage area left on the property. There are no other significant environmental liabilities left by past exploration activities. The diesel fuel remaining in the tank farm was consumed during the 2007-2008 exploration programs. Avalon intends to repurpose the miscellaneous buildings and tanks in its proposed operations plan. The Corporation has undertaken extensive general cleanup of material left from previous exploration utilizing First Nations labour. Access to the

underground workings has been barricaded and the mine workings allowed to flood. Warning fencing has been installed around the ramp entrance.

In the opinion of Scott Wilson RPA, environmental considerations are typical of underground mining and processing facilities and are being addressed in a manner that is reasonable and appropriate for the stage of the Thor Lake Project.

Accessibility, Climate, Local Resources, Existing Infrastructure and Physiography

The Thor Lake site is isolated and access will be limited to year-round aircraft, and summer barges. Winter ice roads on Great Slave Lake are also feasible, but are not included as an integral part of the Technical Report. A temporary barge dock and a materials storage area will be constructed on the shore of Great Slave Lake. A camp, offices, shops, yards, diesel tank farm, propane storage facility, and access roads to the Tailings Management Facility and the barge dock on Great Slave Lake will be developed.

The initial site power will be provided by a 4.7 MW capacity diesel generating station. This will be expanded to 8.4 MW as part of the planned increase in production rate. The diesel plant design is based upon having two spare units at any given time.

The Pine Point site is accessible by all-weather roads and highways. A temporary barge dock and yard at the shore of Great Slave Lake will be developed for the movement of concentrate and supplies. Offices, shops, yards, and access roads to the Tailings Management Facility and the temporary barge dock on Great Slave Lake will be developed. Power will be taken from the southern NWT power grid, with hydroelectricity taken from the Taltson Dam hydroelectric facility. The use of diesel generators to supplement the grid power is planned for times when hydroelectric power availability is limited at the expanded production rate.

Geology and Mineralization

The Thor Lake rare metals deposit is hosted by the peralkaline Blachford Lake intrusion, an Aphebian-age ring complex emplaced in Archean-age supracrustal rocks of the Yellowknife Supergroup. The principal rock types in the intrusion are syenites, granites and gabbros and associated pegmatitic phases hosting rare metal mineralization. The key rock units in the vicinity of the mineralization are the Grace Lake Granite, the Thor Lake Syenite and an unnamed nepheline-sodalite syenite. The Grace Lake Granite surrounds the Thor Lake Syenite with the two separated by the enigmatic "Rim Syenite". It forms a distinct semi-circular ridge, locally termed the rim syenite that can be traced for a distance of about eight kilometers and is thought to be a ring dyke. In outcrop, Thor Lake Syenite is seen to transition to Grace Lake granite with the appearance of quartz on the solidus in an otherwise felspathic rock. Thus the Grace Lake Granite and Thor Lake Syenite are believed to be closely related intrusives. The host of the Nechalacho mineralization, the nepheline-sodalite syenite, is within and below the Thor Lake Syenite, and exposed locally in the northwest part of the Thor Lake Syenite.

Five distinct zones or deposits of rare metal mineralization have been identified as being of potential economic interest: the Nechalacho deposit and smaller North T, South T, S and R Zones. The Nechalacho deposit is the largest, containing significant yttrium, tantalum, niobium, gallium and zirconium mineralization. Nechalacho is particularly notable for its enrichment in the more valuable heavy rare earth elements ("HREEs") such as europium, terbium and dysprosium, relative to light rare earth elements ("LREEs") such as lanthanum and cerium.

The nepheline-sodalite syenite that hosts the Nechalacho deposit has the following key distinctive features which contrast it to the Thor Lake Syenite and Grace Lake granite:

1. It has a distinct chemical composition showing undersaturation in quartz., with nepheline and sodalite variously as rock-forming minerals.
2. It has cumulate layering.
3. It contains agpaitic zircon-silicates including eudialyte.
4. It is the host to the Nechalacho zirconium-niobium-tantalum-rare earth mineralization.

This syenite is only exposed at surface in a window through the Thor Lake Syenite in the area encompassing Long Lake to Thor Lake. It is believed to dip underneath that Thor Lake Syenite in all directions. Also, the Nechalacho deposit mineralization, which occurs in the top, or apex, of the syenite, is also present in throughout this window through the Thor Lake Syenite. This unnamed syenite is referred to in this report as the "Ore (Nechalacho) Nepheline Sodalite Syenite".

The Nechalacho deposit is a tabular hydrothermal alteration zone extending typically from surface to depths of 200 to 250 metres, characterized by alternating sub-horizontal layers of relatively high and lower grade REE mineralization. HREE are present in the Nechalacho deposit in fergusonite ((Y,HREE)NbO₄) and zircon (ZrSiO₄), whereas the LREE are present in bastnaesite, synchysite, allanite and monazite. Niobium and tantalum are hosted in columbite as well as fergusonite.

There is a gradual increase in HREE from surface to depth with the lowermost sub-horizontal layer, which is also the most laterally continuous, being referred to as the Basal Zone. Thus typical proportions of HREO relative to TREO in Upper Zone can be 7 to 10% but in the Basal Zone averaging over 20% and reaching as high as 50% in individual samples. There is also a tendency for the Basal Zone, which undulates to some extent, to increase in HREO with depth.

The ore (Nechalacho) nepheline sodalite syenite consists of a layered series of increasingly peralkaline rocks with depth. A consistent downward progression is observed from hanging wall sodalite cumulates, through coarse grained to pegmatitic nepheline aegirine syenites which are locally enriched in zirconosilicates, to foyaitic syenite with a broad zone of altered eudialyte cumulates (referred to above as the Basal Zone). This upper sequence is strongly to intensely hydrothermally altered by various Na and Fe fluids. Pre-existing zircon-silicates are completely replaced by zircon, allanite, bastnaesite, fergusonite and other minerals. Below the Basal Zone cumulates, alteration decreases relatively quickly, with relict primary mineralogy and textures increasingly preserved. Aegirine and nepheline-bearing syenites and foyaitic syenites progress downward to sodalite foyaite and naujaite. Drilling has not extended beyond this sodalite lithology to date. Minerals related to agpaitic magmatism identified from this lower unaltered sequence include eudialyte, catapleite, analcime, and possibly mosandrite.

The part of the Nechalacho Deposit alteration system that is enriched in REE varies between 80 m (L08-65) and 190 m (L08-127) in vertical thickness, with the alteration usually starting from the surface. The whole alteration system is enriched to varying degrees in rare earth elements, Zr, Nb and Ta, relative to unaltered syenite, with average values over the whole approximately 200m thick alteration package of approximately 0.75% to 1.0% total rare earth oxides ("TREO").

Within this alteration envelope, there are sub-horizontal zones of increased alteration accompanied by increased REE enrichment alternating with less enriched REE zones. Within the more intensely altered zones, the effect is that the original textures and mineralogy of the host rock are no longer apparent.

These zones of increased alteration, which can vary in thickness from a few metres to tens of metres, can frequently contain TREO grades in the range of 2% and higher. The lowermost band, referred to as the Basal Zone, contains the highest proportion of heavy rare earth oxides (“HREO”). Overall, the HREO proportion of the TREO within the 80 m to 190 m thick alteration system is typically between 7% and 15%. However, within the Basal Zone, this proportion is typically greater than 20% and can locally exceed 30%.

History and Exploration

The Thor Lake area was first mapped by J.F. Henderson and A.W. Joliffe of the Geological Survey of Canada (“GSC”) in 1937 and 1938. According to National Mineral Inventory records of the Mineral Policy Sector, Department of Energy, Mines and Resources, the first staking activity at Thor Lake dates from July 1970 when Odin 1-4 claims were staked by K.D. Hannigan for uranium. Shortly after, the Odin claims were optioned to Giant Yellowknife Mines Ltd. and subsequently, in 1970 were acquired by Bluemount Minerals Ltd.

In 1971, the GSC commissioned an airborne radiometric survey over the Yellowknife region that outlined a radioactive anomaly over the Thor Lake area (GSC Open File Report 124). Simultaneously, A. Davidson of the GSC initiated mapping of the Blatchford Lake Intrusive Complex. It has subsequently become clear that this radiometric anomaly is largely due to elevated thorium levels in the T Zone.

Four more claims (Mailbox 1-4) were staked in the area in 1973. No description of any work carried out on the claims is available and both the Odin and Mailbox claims were allowed to lapse. No assessment work was filed.

In 1976, Highwood Resources Ltd., (“**Highwood**”) in the course of a regional uranium exploration program, discovered niobium and tantalum on the Thor Lake property. The property was staked as the Thor 1-45 claims and the NB claims were added in 1976 and 1977. From 1976 and 1979, exploration programs included geological mapping, sampling trenching on the Lake, Fluorite, R, S and T Zones. Twenty-two drill holes were also completed, seven of these on the Nechalacho Deposit. This work resulted in the discovery of significant concentrations of niobium, tantalum, yttrium and REEs. Hole 79-1 intersected 0.67% Nb₂O₅, and 0.034% Ta₂O₅ over 24.99 m. Results also indicated a general paucity of uranium mineralization and that the anomalous radioactivity was due to thorium. Following this and inconclusive lake bottom radiometric and radon gas soil surveys, Calabras, a private holding company, acquired a 30% interest in the property through financing further exploration by Highwood. This was done through Lutoda Holdings, a company incorporated in Canada and owned by Calabras.

Recognizing a large potential resource at Thor Lake, Placer Development Ltd. (“**Placer**”) optioned the property from Highwood in March 1980 to further investigate the tantalum and related mineralization. Placer conducted magnetometer, very low frequency (“**VLF**”) electro-magnetic (“**EM**”) and scintillometer surveys on the Nechalacho Deposit. Thirteen holes were initially drilled in 1980. This was followed by five more in 1981 focused around drill hole 80-05 (43 m grading 0.52% Nb₂O₅ and 0.034% Ta₂O₅). Preliminary metallurgical scoping work was also conducted, but, when the mineralization did not prove amenable to conventional metallurgical extractions of tantalum, Placer relinquished its option in April of 1982.

From 1983 to 1985, the majority of the work on the property was concentrated on the T Zone and included geochemical surveys, surface mapping, significant drilling, surface and underground bulk sampling, metallurgical testing and a detailed evaluation of the property by Unocal Canada. During this period, a gravity survey was conducted to delineate the extent of the Nechalacho Deposit. Five holes were also drilled in the Nechalacho Deposit to test for high grade tantalum-niobium mineralization and to

determine zoning and geological continuity. Two additional holes were completed at the northeast end of Long Lake to evaluate high yttrium and REE values obtained from nearby trenches.

In August of 1986, the property was joint-ventured with Hecla Mining Company of Canada Ltd. (“**Hecla**”). By completing a feasibility study and arranging financing to bring the property into production, Hecla could earn a 50% interest in the property. In 1988, earlier holes were re-assayed and 19 more holes were drilled into the Nechalacho Deposit, primarily in the southeast corner, to further test for yttrium and REE. However, in 1990, after completing this and considerable work on the T Zone, including some limited in-fill drilling, extensive metallurgical testing conducted at Lakefield and Hazen Research Ltd. in Denver and conducting a marketing study on beryllium, Hecla withdrew from the project. In 1990, control of Highwood passed to Conwest Exploration Company Ltd. and the Thor Lake Project remained dormant until 1996, at which time Conwest divested itself of its mineral holdings. Mountain Minerals Company Ltd. (“**Mountain**”), a private company controlled by Royal Oak Mines Ltd. (“**Royal Oak**”), acquired the 34% controlling interest of Highwood.

In 1997, Mountain merged with Highwood under the name Highwood, resulting in an extensive re-examination of Thor Lake that included a proposal to extract a 100,000 t bulk sample. Applications were submitted for permits that would allow for smallscale development of the T Zone deposit, as well as for processing over a four to five year period. In late 1999, the application was withdrawn. Royal Oak’s subsequent bankruptcy in 1999 resulted in the acquisition of the control block of Highwood shares by Dynatec Corporation (“**Dynatec**”). In 2000, Highwood initiated metallurgical, marketing and environmental reviews by Dynatec.

In 2001, Navigator Exploration Corp. (“**Navigator**”) entered into an option agreement with Highwood. Navigator’s efforts were focused on conducting additional metallurgical research at Lakefield in order to define a process for producing a marketable tantalum concentrate from the Nechalacho Deposit. These efforts produced a metallurgical grade Ta/Zr/Nb/Y/REE bulk concentrate. The option was dropped in 2004 however, in view of falling Ta prices and low Ta contents in the bulk concentrate.

Beta Minerals Inc. (“**Beta**”) acquired Highwood’s interest in the Thor Lake property in November, 2002 under a plan of arrangement with Dynatec. No work was conducted at Thor Lake by Beta and in May of 2005 Avalon purchased from Beta 100% interest and full title, subject to royalties, to the Thor Lake property.

In 2005, Avalon conducted extensive re-sampling of archived Nechalacho drill core to further assess the yttrium and heavy REE resources on the property. In 2006, Wardrop Engineering Ltd. (“**Wardrop**”) was retained to conduct a Preliminary Economic Assessment (“**PEA**”) of the Thor Lake deposits (Preliminary Economic Assessment on the Thor Lake Rare Metals Project, NT Wardrop Document No. 0551530201-REP-R0001-03). In 2007 Avalon commenced further drilling of the Nechalacho Deposit.

Drilling

Avalon has carried out the following drilling on the Nechalacho Deposit, summarized to September 8, 2010:

Calendar Year	Holes	Metres
2007	13	2,550
2008	72	14,290
2009	70	14,572

2010 (year to date, September 8)	77	20,155
Total to September 8, 2010	232	51,567

Resource estimates given in this document include drill results up to May 2010.

As reported in the Corporation's news release dated July 19, 2010, drilling in 2010 intersected Basal Zone mineralization beyond the boundaries of the resources reported below in the section on Mineral Resources Estimates. Drill hole L10-241 intersected 14 metres of 1.27% TREO with 21% HREO/TREO on Cressy Lake, about 570 metres north of the closest previous northern intercept of the Basal Zone and hole L10-249 intersected 53 metres of 1.34% TREO and 19% HREO/TREO, about 400 metres west of the most westerly hole from previous campaigns.

As of February, 2010, a second drill was added to the project, with the objective of accelerating the definition of Indicated Resources but also to increase rate of acquisition of drill core for use in metallurgical testing. Starting with the June 2010 program, the second rig was converted from HQ to larger PQ core, in order to increase sample weight for metallurgical sample purposes.

Sampling, Analysis and Security of Samples

A comprehensive core logging and sampling protocol was established in time for the July 2007 drilling program. This protocol has been strictly applied for all of the drilling programs since 2007. In addition, a comprehensive geotechnical logging protocol was introduced at the start of the summer 2009 drill program. Drilling operations were supervised by J.C. Pedersen, P.Geo. Bruce Hudgins, P.Geo, maintained the geological database and monitored the QA/QC protocol for the laboratory analyses. The Company's Vice-President, Exploration, William Mercer, Ph.D., P.Geo. (Ont), P. Geol (NWT), provided overall direction on the project.

Core sizes range from BTW diameter for the initial 2007 drill program to NQ2 in the winter/summer 2008 program and NQ2 or HQ in the 2009-2010.

Core is placed in standard wooden core boxes at the drill by the driller helper, with a wooden marker placed at the end of each core run marking the metreage from the surface. Throughout the BTW-NQ programs drill rods were imperial lengths of 10 feet, and core markers were written in feet on one side of the wooden block, and using a metric conversion chart, written in metres on the opposite side of the block. The HQ drilling initially used both imperial and metric rods, so markers were in both feet and metres to ensure proper measurement. Imperial rods were used exclusively in the latter part of the 2009 drill program.

After inspection by the geologist at the drill, the boxes are closed with wooden lids and taken to the core logging facility at the camp by snowmobile in the winter and by boat and ATV in the summer. At camp, the boxes are opened by the geologist on outdoor racks. In good weather, logging and other geotechnical measurements are done outside; in poor weather and in winter, core is processed in a heated core shack. Core is initially measured to determine recoveries, and marked incrementally every metre. This marking serves as a guide for magnetic susceptibility, RQD, and density measurements. Magnetic susceptibility is measured every metre with a hand-held 'KT- 10 magnetic susceptibility metre'. Density is measured every five metres by weighing a section of drill core in air and then weighing by submersing the sample in water and comparing the difference between dry and submersed weight. A typical core sample for density measurement averages 10 cm in length. Geotechnical logging, comprising rock quality determinations (RQD) are performed for each run.

Core is generally very clean when brought to camp, and requires no washing except for occasional sprays of water when mud is present. The geologist marks out major rock units and completes a written description for the entire core sequence. Frequent readings using a handheld Thermo-Scientific Niton® XLP-522K hand held analyzer act as a guide to areas of mineralization and general chemistry of a specific interval. The final task is to mark out with a china marker specific sample intervals for the length of the entire drill hole. On average, assay samples are two metres long except where, in the geologist's opinion, it is advisable to follow lithological boundaries. Consequently, individual samples can vary in length when encountering lithological changes, as efforts are made not to split across well defined lithological boundaries. A list is made of all sample intervals as a record and also a guide to the core splitting technicians. All geological, geophysical and geotechnical data is entered into a custom designed MS Access database, provided and maintained by Hudgtec Consulting. This database is backed up regularly to an external hard-drive in camp and remotely backed up to an ftp site maintained by Hudgtec Consulting. Hudgtec Consulting also uploads all geochemical and assay data to the same database. The geologists at site can access the drill database to review previous drill results.

Due to the strong hydrothermal alteration of all lithologies, identifying specific precursor lithologies has proven quite difficult, particularly in the early drill programs. Early lithological coding tended to incorporate hydrothermal alteration, commonly making it difficult to correlate units between drill holes. As more information became available from deeper drilling and specific textures and lithologies were compared to other unaltered, alkaline deposits elsewhere, such as Illimausaq in Greenland, a new lithological code was produced using, as a basis, the recognizable precursor lithologies. This has greatly advanced the understanding of the lithology, mineralogy, and to a lesser degree the petrogenesis of the deposit.

After all tests and core observations are completed, and prior to splitting, the core is photographed outdoors using a hand-held digital camera. Meterages and hole number are marked so as to be visible in all photos. Core is generally photographed in groups of six boxes. Starting in the 2009 summer drill program, drill core was also logged for geotechnical characteristics. This was initiated with the guidance of external geotechnical consultants (Knight- Piésold Consulting). Some of the holes were logged from top to bottom, while others were logged above, below, and within the Basal Zone, to determine rock quality characteristics of both the mineralized zones and country rocks. Efforts were made to select holes with varying orientations to provide comprehensive orientation characteristics of planar structural features. The geotechnical logging was done on core logging sheets and entered electronically in to a custom-designed Excel spreadsheet provided by Knight-Piésold Consulting. A total of 22 holes were logged in whole or in part. Holes which were partially logged included the Basal Zone and a minimum 10 metre interval above and below. When the core has been logged and photographed, it is stored in core racks outside the core splitting tent, from which they are then brought in to the core shack to be split and sampled. Core photos are stored on the camp computer in addition to an external hard drive.

The core splitter breaks the core into smaller lengths to fit into the mechanical core splitter, splits the core in half, and places one half in a plastic sample bag with the other half placed back into its sequence in the core box to serve as a permanent record. The sample interval is marked on a sample tag in a three-part sample book and a tag with the corresponding sample number is placed in the sample bag. The sample bag is also marked with the corresponding sample number using a felt marker. The bag is then either stapled or zip-tied closed, and placed in a rice bag with two other samples. Most rice bags contain 3 samples to keep weight to a manageable level. The rice bag is then marked on the outside with corresponding sample numbers contained within, and a second number identifying the rice bag itself. A sample shipment form is then completed, generally in increments of 50 rice bags, which constitutes a single shipment. The sample form is enclosed in an appropriately marked rice bag, with a duplicate paper copy kept in camp, and also kept on electronic file.

While the majority of the sample splitting has been with mechanical core splitter to produce a half core for a sample, some core has also been sawed and quartered when required for metallurgical testing or standard preparation. For metallurgical testing, core from the mineralized zones (predominantly the Basal Zone but also local samples from the Upper Zones) is sawed in half. One half is bagged for metallurgical testing following the same sampling procedure outlined above. The remaining half is then quartered with one quarter sent out for assaying and one quarter returned to the core box as a permanent record. Prior to 2009, metallurgical sampling was done on a limited basis, but for the 2009 program onwards, most Basal Zone intercepts were treated as noted here with only a quarter of HQ core for assay. Standards are inserted routinely, with a standard randomly chosen (designated “High”, “Medium” or “Low”) and inserted every 25th sample. Blanks, composed of split drill core of unaltered and un-veined diabase dyke intersected in drilling beneath Thor Lake, are inserted every 40th sample. Samples are shipped by air from Thor Lake to Yellowknife. The standard shipment is 50 rice bags, or a total of 150 samples per shipment. The rice bags are zip-tied for security, and are met and unloaded in Yellowknife by a representative of Discovery Mining Services (Discovery). Discovery takes the samples to their warehouse and inventories all samples and produces a manifest which is sent electronically to Thor Lake camp, and accompanies the shipment. The samples are then taken by Discovery to the core processing lab facilities of either Acme Labs or ALS. At this point, the laboratories take custody of the samples. Core is sent to the preparation laboratory with specification that all core should be crushed to 90% passing 10 mesh with a supplementary charge if necessary. In the first program in 2007, two 250 gram (g) pulps were prepared from each sample, one for the primary laboratory, and one to be shipped to Avalon and used for the check analysis. As noted, for samples from drill holes completed in 2007, every sample was duplicated and sent to a secondary laboratory for check analyses. Subsequent to this (2008-2009), approximately every tenth pulp was sent for duplicate analysis in the secondary laboratory. Standards are inserted in the duplicate sample stream by Avalon employees prior to shipping to the secondary laboratory.

All remaining drill core is stored on site at Thor Lake. Core is racked at the exploration camp, and additional storage facilities have been utilized at the former Highwood mine site buildings at the T-Zone. Historic core, particularly T-Zone core, is stored at the mine site, while Nechalacho deposit core is stored at the camp storage. Since December, 2009, Avalon has rented a storage location at Yellowknife airport, and laboratories are requested to return all pulps and rejects to Avalon. The material is stored in the location and a computer database held of the sample numbers and type.

Any assay results obtained prior to 2007 (holes 1 to 51) are referred to as the “older holes”. These did not have internal Quality Assurance/Quality Control (QA/QC) and were analyzed for a limited set of elements; however, six of the old holes were reassayed in 2008 for the complete suite of elements. Avalon has changed the laboratories used for analysis over time. For the first year of drilling by Avalon (2007) the primary laboratory was Activation Laboratories Ltd. (Actlabs) of Ancaster, Ontario, and the secondary laboratory was Acme Analytical Laboratories Ltd. (Acme) in Vancouver. Samples were shipped to the Actlabs facility in Ancaster, Ontario for preparation, and a duplicate pulp was submitted to Acme in Vancouver for complete check analysis. The Actlabs procedures used are Codes 4B, 4B2-STD, 4B2-RESEARCH, 4LITHO and 4LITHORESEARCH. Actlabs has developed a lithium metaborate/tetraborate fusion ICP Whole Rock package Code 4B and a trace element ICP-MS package Code 4B2. The two packages are combined for Code 4Litho. The quality of whole rock data in Code 4B meets or exceeds quality of data by fusion XRF Code 4C, the old standard in whole rock analysis. The fusion process ensures total metals particularly for elements like REE in resistate phases (this may not be the case for acid digestions, particularly for heavy rare earths and other elements contained in refractory minerals like zircon, sphene, monazite, chromite, gahnite and several other phases). If refractory minerals are not digested, a bias may occur for certain REE and high field strength elements with standard acid digestions. The trace element package using ICP-MS (Codes 4B2-STD or 4B2-RESEARCH) on the fusion solution provides research quality data whether using standard or research detection limits. Note

that Eu determinations are semi-quantitative in samples having extremely high Ba concentrations (greater than 1%). This package is intended primarily for un-mineralized samples. Mineralized samples can be analyzed but the results will, be semi-quantitative for the chalcophile elements (Ag, As, Bi, Co, Cu, Mo, Ni, Pb, Sb, Sn, W and Zn).

For the 2008 winter and summer programs, the preparation laboratory was Acme in Yellowknife and the primary analytical laboratory was Acme Laboratory in Vancouver. A split of every tenth sample reject was sent to ALS Laboratory in Vancouver for check analyses. All core was analyzed by Acme using two analytical packages: Group 4A and Group 4B. ALS analyzed the samples with the MS81 method. Acme's Group 4A is a whole rock characterization package comprising four separate analytical tests. Total abundances of the major oxides and several minor elements are reported using a 0.1 g sample analyzed by Inductively Coupled Plasma (ICP)-emission spectrometry following a lithium metaborate/tetraborate fusion and dilute nitric digestion. Loss on ignition (LOI) is by weight difference after ignition at 1,000°C. Acme's Group 4B is a Total Trace Elements by Inductively Coupled Plasma-Mass Spectrometry (ICP-MS). This package comprises two separate analyses. Rare earth and refractory elements are determined by ICP mass spectrometry (MS) following a lithium metaborate/tetraborate fusion and nitric acid digestion of a 0.1 g sample (same decomposition as Group 4A). In addition, a separate 0.5 g split is digested in Aqua Regia and analyzed by ICP-MS to report the precious and base metals. For 2008, secondary samples, comprising roughly every tenth reject sample supplied by Acme, was shipped to ALS Laboratories, where the samples are analyzed by the package MS81. This is a combination of lithium metaborate/ICP atomic emission spectrometry (ICP-AES) for whole rock values, lithium borate/ICP-MS for refractory mineral values and other elements, and aqua regia/ICP-MS for volatile elements.

Starting with the winter 2009 drilling campaign, all samples were prepared at ALS' preparation facility in Yellowknife, and a subsample shipped and analysed at ALS Chemex in Vancouver by lithium metaborate/tetraborate fusion and dilute nitric acid digestion, followed by whole rock and 45 element multi-element ICP analysis (ALS sample method ME-MS81). All samples contained within intercepts above the 1.6% cutoff criteria and any additional samples exceeding analytical limits or of geological significance are re-run using similar ALS method ME-MS81H for higher concentration levels. ME-MS81H is a similar method but with greater dilution in the analytical procedure. Every tenth sample has a duplicate pulp prepared which, with inserted standards and blanks, was sent to Acme Analytical in Vancouver for check analyses. Results were monitored for key elements, and in cases of QA/QC issues, re-analysis was requested. Values were reported by the laboratories in ppm and converted to rare earth and rare metal oxides by Avalon geologists.

The following information on data verification was supplied, in part, by Avalon and edited by Scott Wilson RPA. Bruce Hudgins P.Geol, of Hudgtec Consulting, has reviewed this protocol and performed data quality control checks prior to incorporation of the final assay values into the database.

In 2007, Avalon commissioned CDN Laboratory from British Columbia to generate three standards called AVL-H, AVL-M or AVL-L. These standards would be inserted into the assay stream. Avalon then commissioned Dr. Barry Smee to review the round robin and assess the quality of the data. During the 2009 work program, a total of 151 blanks and 242 standards were inserted into the initial ALS MS81 sample stream (n=5,689 drill core samples) for a frequency of approximately 1:38 (2.6%) for the blanks and 1:24 (4.2%) for the standards. Upon review of the initial MS81 analyses, 1,428 of the original drill core samples were requested for MS81H analyses. A total of 30 blanks and 80 standards were inserted into the ALS MS81H sample stream for a frequency of approximately 1:48 (2.1%) for the blanks and 1:18 (5.7%) for the standards. The final assay database consists of both MS81 and MS81H analyses. The results of the standard analyses were checked against the certified or provisional means and tolerances listed in the standard certificates as well as against the lab's (ALS) own precision tolerance

level of +/-10%. The three rare earth elements with the potential highest value (Nd, Tb and Dy) were routinely monitored along with the overall values for the total rare earths (TREE%) and heavy rare earths (HREE%). Precision results of the QA/QC program for the primary lab, as measured by %RSD (relative standard deviation / sample population mean), average between approximately 2-5% for Nd, Tb and Dy and overall show a weak negative bias for Nd, Tb and Dy in the Lake Zone. Results for the MS81h analyses, which were completed on most of the samples in the Basal Zone, are slightly more precise as measured by %RSD and on average are approximately 1-4% below their certified or provisional means for Nd, Tb, Dy and also for TREE. Average HREE grades from the MS81h analyses were approximately 6-7% below that of the certified or provisional mean from the sum of all the heavy rare earths.

As part of the QA/QC program, Avalon employed Acme Analytical Laboratories (Vancouver) Ltd. to analyze duplicate rejects to confirm the primary labs accuracy. From the 2009 program, 614 rejects ("check samples") were sent to Acme in Vancouver, B.C. Of the 614 combined pulps and standards sent to Acme, 12 were Avalon Standards and 8 were blanks. This resulted in 594 paired Acme and ALS MS81 analyses from the 5,689 drill core samples for a frequency of approximately 1 check sample per 10 drill core samples (10%). One hundred and fifty five (155) of the ACME check samples also had corresponding MS81h analyses. This figure included a total of 3 blanks and 4 standards. ALS analyses for MS81 and MS81h appear to be approximately 2-3% higher for TREE and 5-9% higher than ACME for HREE. Nd results from ALS appear to be 1-3% higher, Tb 10-18% higher and Dy approximately 4-8% higher than ACME. Wardrop Engineering (2009), in the previous NI 43-101 report, concluded that there was evidence that Acme's analyses for REE may be biased low by more than 5% (Thor Lake Resource Update, March 2009, NI 43-101 Report). Given the difference noted above between ALS and Acme analyses, it is concluded that the ALS analyses are acceptable for resource estimation purposes. However, the earlier resource estimations may be understating the grade of the deposit due to the slight low bias of the early analyses.

Mineral Resource and Mineral Reserve Estimates

Scott Wilson RPA Resource Estimate

A resource estimate was prepared by independent consultant Scott Wilson RPA as part of the Prefeasibility Study. New estimates on operating costs and revenues resulted in the determination of a lower economic cut-off grade which, along with the re-classification of some Inferred Resources as Indicated, resulted in a significant expansion of the total Indicated and Inferred Resources in the deposit. Additions to the Indicated Resources in the high-grade Basal Zone significantly benefited the mine development plan.

The NI 43-101 compliant resources as currently established by Scott Wilson RPA, from all the drilling completed up to the end of 2009, are summarised in the table below.

INDICATED	Tonnes (millions)	% TREO	% HREO	% ZrO₂	% Nb₂O₅	ppm Ga₂O₃	ppm Ta₂O₅
Upper Zone	6.89	1.45	0.17	1.86	0.286	175	194
Basal Zone	14.48	1.82	0.40	3.38	0.437	144	430
INFERRED	Tonnes (millions)	% TREO	% HREO	% ZrO₂	% Nb₂O₅	ppm Ga₂O₃	ppm Ta₂O₅
Upper Zone	99.06	1.29	0.12	2.44	0.364	172	210
Basal Zone	76.87	1.60	0.33	3.14	0.443	134	413
Total Inferred	175.93	1.43	0.21	2.74	0.399	155	298

Notes:

- (1) CIM definitions were followed for Mineral Resources.
- (2) Mineral Resources estimates are based on the following price assumptions: US\$21.94/kg TREO (based on the typical distribution of the individual REE in the Basal Zone), US\$3.76/kg zirconium oxide, US\$130/kg tantalum oxide and US\$45/kg niobium oxide.
- (3) An exchange rate of CND\$1.11/USD\$1.00 was used.
- (4) Mineral Resources are estimated using a Net Metal Return (NMR) cut-off value of CND\$260/tonnes.
- (5) A minimum mining width of five metres was used.
- (6) Resource densities in the block model are interpolated values averaging 2.87 t/m³. Density is estimated from 7,622 density measurements on drill core completed by Avalon.
- (7) Indicated Mineral Resources are inclusive of Mineral Reserves.
- (8) Totals may differ from sum or weighted sum of numbers due to rounding.
- (9) The resources are estimated based on assays of 155 drill holes drilled by Avalon through the end of 2009 plus re-assay by Avalon of core from 6 historic drill holes. Drill results from the winter 2010 program are not included.
- (10) The sampling protocols as applied by Avalon were reported in detail in the Corporation's press release dated May 12, 2010. See "Documents Incorporated by Reference".

As a result of the application of a lower cut-off grade, Indicated Mineral Resources for the Basal Zone reported by Scott Wilson RPA for the Technical Report were increased to 14.4 million tonnes of 1.82% TREO and including 0.40% HREO. The overall Inferred Mineral Resources for both Basal and Upper Zones also increased to 175.93 million tonnes of 1.43% TREO including 0.21% HREO.

Avalon Updated Resource Estimate

The June 2010 resource estimate completed by Scott Wilson RPA did not include the 2010 winter drill program which focused, in part, on testing a new area of interest in the Basal Zone referred to as West Long Lake, located at the westerly quarter of Long Lake, and the areas immediately to the north and south. Avalon's Senior Resource Geologist, Finley Bakker, P. Geo. completed an estimate of the resources defined in that area from the winter drilling in that area which was disclosed on September 8, 2010.

The winter drilling increased the Indicated Mineral Resources in the key Basal Zone part of the deposit by 40% with an additional 5.97 million tonnes grading 1.57% TREO with 25.5% HREO/TREO, using the same \$260 NMR (Net Metal Return) cut-off grade applied in the previous resource estimate

reported on June 14, 2010. Combined with the previously announced NI 43-101 compliant Indicated Resources defined in the area referred to as Tardiff Lakes, the total Indicated Mineral Resources in the Basal Zone now stands at 20.45 million tonnes grading 1.75% TREO with 23% HREO/TREO.

Further, the Basal Zone in the West Long Lake area contains a high grade sub-zone defined by applying a higher cut-off grade at \$600. This yields 1.87 million tonnes grading 2.19% TREO, with 28.8% HREO/TREO, 4.29% Zirconium Oxide, 0.50% Niobium Oxide and 0.06% Tantalum Oxide, representing 30% of the total Indicated Resources in the West Long Lake area. Further additions to this high grade sub-zone are anticipated from the 2010 summer drilling program on the land-accessible north extension of this zone.

The resources are summarized in the table below. Note that a portion of the existing Inferred Resources was converted to the Indicated category, meaning that the total increase in resources includes deduction for that overlap. The estimation parameters were essentially identical to those utilized by Scott Wilson RPA in June 2010.

INDICATED		Undiluted Grades							
ZONE		Tonnes (millions)	TREO %	HREO %	HREO/TREO %	ZrO ₂ %	Nb ₂ O ₅ %	Ta ₂ O ₅ ppm	Ga ₂ O ₃ ppm
Basal	Tardiff Lakes	14.48	1.82	0.40	22.1%	3.38	0.44	144	430
Basal	West Long Lake	5.97	1.57	0.40	25.5%	3.06	0.39	127	436
TOTAL BASAL		20.45	1.75	0.40	23.0%	3.29	0.42	139	432
Upper	Tardiff Lakes	6.89	1.45	0.17	11.7%	1.86	0.29	175	194
Upper	West Long Lake	3.09	1.40	0.15	10.6%	2.17	0.27	156	192
TOTAL UPPER		9.98	1.43	0.16	11.4%	1.95	0.28	169	193
COMBINED TOTAL		30.43	1.64	0.32	19.6%	2.85	0.38	149	353

INFERRED		Undiluted Grades							
ZONE		Tonnes (millions)	TREO %	HREO %	HREO/TREO %	ZrO ₂ %	Nb ₂ O ₅ %	Ta ₂ O ₅ ppm	Ga ₂ O ₃ ppm
Basal	Nechalacho	76.87	1.60	0.33	20.6%	3.14	0.44	134	413
Basal	overlap	(15.85)	1.60	0.33	20.6%	3.14	0.44	134	413
Basal	West Long Lake	23.16	1.33	0.25	18.5%	2.79	0.40	122	397
TOTAL BASAL		84.18	1.53	0.31	20.1%	3.04	0.43	131	409
Upper	Nechalacho	99.06	1.29	0.12	9.3%	2.44	0.36	172	210
Upper	overlap	(8.26)	1.29	0.12	9.3%	2.44	0.36	172	210
Upper	West Long Lake	7.58	1.31	0.12	9.1%	2.03	0.27	163	165
TOTAL UPPER		98.38	1.29	0.12	9.3%	2.41	0.36	171	207
COMBINED TOTAL		182.56	1.40	0.21	14.7%	2.70	0.39	153	300

Notes:

- (1) "Tardiff Lakes" refers to Indicated Resources estimated by Hudgtec Consulting Limited and Scott Wilson RPA released on June 14, 2010 and further detailed in the Technical Report.
- (2) "West Long Lake" refers to the updated resource estimate prepared by Avalon's Senior Resource Geologist Finley Bakker, P.Geol. and presented in the press release dated September 8, 2010.
- (3) "Overlap" refers to that portion of the West Long Lake area Inferred resources that overlap with the previous Nechalacho Inferred resource estimates and deducted from the totals. There was no overlap in the Indicated resource volumes.

- (4) “Nechalacho” in the Inferred resource table refers to the Inferred resources for each of the Upper and Basal Zones of the Nechalacho Deposit reported on June 14, 2010.

Mineral Reserve Estimate

A Mineral Reserve estimate for the Thor Lake Project has been prepared by Scott Wilson RPA. The Mineral Reserve is based upon underground mining of the deposit. The Mineral Reserves were all converted from Mineral Resources and no Inferred Mineral Resources were converted to Mineral Reserves. Where inferred mineral resources are included within the stope boundaries of the mine plan the material has been treated as dilution.

	Tonnes (millions)	%TRE O	% HREO	% ZrO₂	% Nb₂O₅	% Ta₂O₅
Probable Reserves						
Basal Zone	12.01	1.70	0.38	3.16	0.41	0.041
Total Probable Reserves	12.01	1.70	0.38	3.16	0.41	0.041

Notes:

- (1) CIM definitions were followed for Mineral Reserves.
- (2) Mineral Reserves are estimated using price forecasts for 2014 for rare earth oxides (US\$21.94/kg average), zirconium oxide (US\$3.76/kg), tantalum oxide (US\$130/kg) and niobium oxide (US\$45/kg), which are significantly above current prices.
- (3) HREO grade comprises Y₂O₃, Eu₂O₃, Gd₂O₃, Tb₂O₃, Dy₂O₃, Ho₂O₃, Er₂O₃, Tm₂O₃, Yb₂O₃, and Lu₂O₃. TREO grade comprises all HREO and La₂O₃, Ce₂O₃, Nd₂O₃, Pr₂O₃, and Sm₂O₃.
- (4) An exchange rate of C\$1.11/US\$1 was used.
- (5) Mineral Reserves are estimated using a Net Metal Return (NMR) cut-off value of C\$260/t.
- (6) A minimum mining width of five metres was used.
- (7) Totals may differ from weighted sum of numbers due to rounding.
- (8) Reserves include dilution.
- (9) Mineral resources which are not mineral reserves do not have demonstrated economic viability.

Mining Operations

Mining

Probable Mineral Reserves are estimated to be 12.0 million tonnes with grades of 1.71% TREO, including 0.38% HREO, 3.16% ZrO₂, 0.41% Nb₂O₅, and 0.041% Ta₂O₅. Mineral Reserves were estimated at a cut-off value based on a net metal value of C\$260 per tonne. Mineral Reserves are based on an underground mine design and stope schedule. Scott Wilson RPA notes that mineralization extends considerably beyond the designed underground mine.

The deposit is relatively flat-lying, and will be mined with a combination of long hole stoping and drift & fill stoping. The minimum thickness used in the development of the Mineral Reserve estimate was five metres.

The dilution is estimated to be 15%. This includes low grade, waste and inferred mineral resources within the planned stope outlines.

The stope schedule was developed on the basis of mining the highest grade stopes first. Further refinement of the stope schedule may lead to small increases in feed grades in the early years.

Mining of the secondary stopes is dependent upon the use of a suitable backfill, assumed to be paste fill with 4% cement added as a binder. Testwork to demonstrate that a suitable paste fill can be generated from the tailings has yet to be completed.

Processing – Concentrator

Mineral processing testwork indicates that the TREO, ZrO₂, Nb₂O₅ and Ta₂O₅ can be recovered in a flotation circuit after crushing and grinding to 80% minus 38 µ with recoveries of 80% of the TREO, 90% of the zirconium oxide, 69% of the niobium oxide and 63% of the tantalum oxide to a flotation concentrate. The processing circuit also includes magnetic and gravity separation stages. The design basis for the Technical Report was to take 18% of the feed to the concentrate.

The concentrate will be stored in covered containers at Thor Lake and shipped to the hydrometallurgical facility at Pine Point each summer using barges to cross Great Slave Lake.

Tailings from the flotation plant will be stored in a Tailings Management Facility located north-east of the mill site.

Processing – Hydrometallurgical Plant

Metallurgical process testwork for the extraction of the TREO, zirconium oxide, niobium oxide and tantalum oxide from the flotation concentrate was carried out and the recoveries of 96% of the TREO, 93% of the zirconium oxide, 82% of the niobium oxide and 60% of the tantalum oxide were demonstrated in the laboratory.

The hydrometallurgical plant will consist of a concentrate “cracking” process, using a combination of acid baking, caustic cracking, and leaching using sulphuric acid and sodium hydroxide as the primary reagents.

The hydrometallurgical process plant will consume a significant quantity of reagents, which are brought to site by rail to Hay River and then by truck to the plant. A stand-alone sulphuric acid plant is included to provide acid for the process.

The products from the hydrometallurgical plant will be a mixed rare earth oxides concentrate, and separate zirconium oxide, niobium oxide and tantalum oxide concentrates.

The products will be shipped in one tonne capacity plastic sacks on pallets (or steel drums for the tantalum oxide) and will be taken by truck to the rail head at Hay River and then by rail to Vancouver or to a central location in the USA.

Tailings from the hydrometallurgical process will be stored in a Tailings Management Facility to be constructed on top of the existing tailings facility near the plant site. It is envisioned that tailings from the Project will be kept separated from the historical tailings by a plastic liner.

Pine Point was selected as a reasonable location within the NWT for the hydrometallurgical facility, due to the existing disturbance at the brown-field site, reasonable logistics for concentrate and reagent transportation, and access to infrastructure. Both Avalon’s aboriginal partners and the

Government of the NWT have expressed a preference for keeping the hydrometallurgical plant in the north. In Scott Wilson RPA's opinion, however, the cost of transporting the required reagents outweighs the cost of transporting the concentrate further south, and the Project is incurring an economic disadvantage by assuming a northern location for the hydrometallurgical plant.

Capital Cost Estimate

A capital cost estimate has been compiled for all phases of the project. The capital estimate is \$899,733 and covers the life of the project and includes: initial capital costs; expansion capital costs; and, C\$39 million in recovery of capital invested in initial fills for reagents, fuel and cement and in spare parts.

Working capital costs related to the time between the shipment from the site and the receipt of payment for the products is not included in the capital estimate but is included in the project cash flow.

The capital costs do not include: costs to obtain permits, costs for feasibility study, GST/HST, corporate administration costs in Delta and Toronto, exploration activities, salvage value of assets, and severance cost for employees at the cessation of operations

Operating Cost Estimate

The operating cost estimate was compiled from work by Melis (flotation plant costs and hydrometallurgical plant capital cost), J.R. Goode and Associates (hydrometallurgical plant operating costs) and Scott Wilson RPA. The operating costs in the expansion year were estimated as an average of the costs in the preceding and following years. The LOM average operating cost per tonne is C\$266.92 including mining, processing at site and at the hydrometallurgical plant and freight of the product to a point of sale.

Operating costs, including the costs at Pine Point, when shown on a per tonne basis are per tonne of ore milled at Thor Lake.

The operating costs do not include: any provision for inflation, any provision for changes in exchange rates, GST/HST, preproduction period expenditures, corporate administration and head office costs in Delta and Toronto, site exploration costs or infill drilling or development for conversion of additional resources to mineral reserves.

Cash Flow Analysis

The cash flow analysis is based on the extraction of the Probable Mineral Reserves in a production plan which extends to the end of Year 20.

Pre-Tax

Considering the full project on a stand-alone basis, the undiscounted pre-tax cash flow totals C\$2,091 million over the mine life and simple payback occurs 6.84 years after the start of production. The IRR is 14.2% and the net present value (NPV) is as follows:

- C\$826 million at a 5% discount rate
- C\$428 million at an 8% discount rate
- C\$246 million at a 10% discount rate

After-tax

Considering the full project on a stand-alone basis, the undiscounted after-tax cash flow totals C\$1,506 million over the mine life and simple payback occurs 7.25 years after the start of production. The IRR is 11.8% and the net present value (NPV) is as follows:

- C\$540 million at a 5% discount rate
- C\$236 million at an 8% discount rate
- C\$97 million at a 10% discount rate

The cost per kilogram of product is US\$5.93, and the net revenue per kilogram of product is US\$11.91. The average annual production of saleable products is 26,000 tonnes, which rises to a maximum of 32,900 tonnes in Year 16.

Budget to complete a Feasibility Study

The Corporation provided a budget (see table below) for the completion of a Feasibility Study, environmental assessment and permitting, aboriginal engagement, metallurgical pilot tests and securing customer contracts. In the opinion of Scott Wilson RPA, this budget is reasonable and appropriate for advancing the Project.

PROJECT ADVANCEMENT BUDGET

Item	Cost (C\$ millions)
Exploration/Upgrade Drilling & Geology	19.5
Metallurgical Testwork	5.0
Technical Studies & Support	4.0
Environmental Work	2.0
Sales & Marketing	1.5
Administration	11.5
Total	43.5

Markets

For the purposes of the Technical Report, Avalon collected historical price information, supply/demand analysis, and forecasts for the future. The sources of price information include the websites of Metal-Pages™ and Asian Metal, reports by BCC Research (BCC) and Roskill, verbal communication with Kaz Machida, a metal trader in the Japanese market and private reports to Avalon by Industrial Minerals Company of Australia Pty Ltd (IMCOA), authored by Dudley Kingsnorth.

Rare Earth Supply

Rare earths are found in more than 200 minerals, of which about a third contain significant concentrations. Only a handful, however, have potential commercial interest. The most important source minerals are carbonates (bastnaesite) and the phosphates (monazite and xenotime). Apatite is also an important source of rare earths, while heavy rare earths are more commonly found in minerals in granitic and alkaline rocks and in ionic clays.

By far the most important of current sources are the Bayan Obo iron rare earth deposits near Baotou, Inner Mongolia, the bastnaesite deposits in Sichuan, China and the ionic clay deposits in southern China. China is the dominant source of all rare earth oxides, accounting for approximately 97% of world production in 2009. Light rare earths are primarily produced in northern China (Inner Mongolia) and south-western China (Sichuan). The heavy rare earths are primarily produced in southern China (Guangdong), from ionic clays. It is most probable that effective production capacity in 2008 was approximately 125,000 tonnes contained rare earth oxide (REO).

The Chinese government has instituted new regulations affecting licensing of rare earth production and is strongly encouraging and supporting the consolidation of the industry by major state-owned companies, as further described in the Technical Report. Overall, it is anticipated that supply of rare earths from China will be constrained over the forecast horizon of 2014 to 2015, with little to no increase in available supply from China. Accordingly, increases in supply will primarily have to be met from non-Chinese sources.

Rare Earth Demand

BCC Research and Industrial Minerals Company of Australia Pty Ltd. (IMCOA) forecast TREO demand in 2014 to be in the range of 175,000 tonnes to 180,000 tonnes, increasing to 197,000 tonnes in 2015. This is a significant increase from the 2008 level of approximately 125,000 tonnes. Demand fell in 2009 due to the global economic down-turn, however, BCC forecasts (BCC, 2009) increases of 8% to 9% per year for the period of 2009 to 2014.

By the end of the forecast period, the overall supply of rare earths is expected to exceed the demand of the individual elements due to co-production requirements, resulting in an excess of some rare earth oxides and a shortage of others, primarily some of the heavy rare earths. Supply projections include provision for new, non-Chinese suppliers from a number of advanced projects.. Based on anticipated REO product mix from these projects, it is likely that a supply shortfall in many of the more critical rare earths is likely to emerge by 2014, which is expected to lead to higher prices.

Rare Earth Element Pricing

BCC published a study on future pricing of rare earths in 2009. BCC is an information resource for rare earths, producing market research reports, newsletters and conferences. The forecast period of the study is through to 2014, coinciding with the planned start-up time for the Nechalacho deposit. BCC concluded in its report that the combination of demand growth, Chinese government policy, production cost pressures and inflation over the 2010 – 2014 period would likely result in a compound average growth rate (CAGR) of between 20% and 30% in prices for rare earths. This corresponds to an average annual price increase of 9.1%.

Scott Wilson RPA believes that a realistic pricing scenario through 2014 will conform to increases in demand for each of the rare earth oxides plus production cost inflation in China. On this basis, Scott Wilson RPA is of the opinion that a CAGR of 20% for average price is not unreasonable, with the exception of La and Ce, which are projected to be in substantial market surplus. The variation in price increase for the other oxides may be anticipated to be significant, with higher than average increase for oxides such as Nd, Dy and Tb offsetting lower than average price increases for oxides in relative excess supply.

For the Technical Report, the 2009 rare earth prices were uniformly escalated by 20% per year to 2014, with the exception of La and Ce, which were not escalated.

Marketing Conclusions

Scott Wilson RPA notes that the prices used in the pre-feasibility study are higher than current prices. The prices are based on independent, third-party forecasts for 2014, based on supply and demand projections from 2009 to 2014. Unlike forecasts for more common metals, which tend to decline to a long-term value below current prices, the forecasts for the rare metals produced by the Project end up higher than current prices. Since the Project schedules production commencing in 2014, Scott Wilson RPA is of the opinion that these long-term price forecasts are a reasonable basis for estimation of Mineral Reserves.

Exploration and Development

Ongoing Drilling

Drilling has continued on the property during the summer of 2010, with two rigs active contracted from Foraco Drilling Ltd. The drilling has three main purposes:

1. Continuing definition of Indicated Resources, in order to increase availability of high grade resources for the mine plan.
2. Acquisition of sample for metallurgical testwork, with one rig using large diameter PQ core especially for this purpose.
3. Hydrogeological and geomechanical testwork on drill holes in order to determine various parameters applicable to future mining conditions.

Rare Earth Separation Plant

Subsequent to the issuance of the Technical Report, on August 18, 2010, Avalon announced that it has engaged SNC-Lavalin Group Inc. to complete a scoping study for the construction of a rare earth separation plant in North America.

Recommendations and Conclusions from the Technical Report

Scott Wilson RPA has identified many conclusions to further enhance the Thor Lake Project for the bankable feasibility stage and add to the mineral resources on the property. Additional work by Avalon and third party consultants/contractors will be ongoing to develop a bankable feasibility level technical report upon which to obtain financing for eventual construction and start-up of operations. Additional opportunities identified by Scott Wilson RPA for the next phase of the Thor Lake Project include:

- Continue exploration drilling at the Nechalacho Deposit to define the new areas of mineralization.
- Review of the stoping sequence and stoping plans to determine whether further increases in the feed grades in the early years are obtainable.
- Incorporate additional indicated Resources into the mine plan as they become available.
- Investigate higher production rate scenarios.
- Optimization of mass pull (affecting concentrate handling costs) vs. recovery (affecting revenue) for the concentrator should be carried out at the Feasibility stage.
- Continue testwork to optimize the mineral cracking process, to fully define the process for the recovery of values from the flotation concentrate.

- Conduct a trade-off study for site location of the hydrometallurgical plant due to the Thor Lake Project incurring an economic disadvantage by assuming a northern location for the hydrometallurgical plant.
- Review availability of grid power for both site locations as the Thor Lake Project is advanced.

CONSOLIDATED CAPITALIZATION

Other than the securities issued in connection with the Offering, as described in this short form prospectus, there have been no material changes in the share and loan capital of the Corporation, on a consolidated basis, since the date of the Corporation's most recently filed unaudited financial statements for the nine-month period ended May 31, 2010. After giving effect to the Offering, an additional 9,240,000 Common Shares of the Corporation will be issued and outstanding.

USE OF PROCEEDS

The net proceeds to be received by the Corporation from the Offering, after deducting the Commission and the estimated expenses of the Offering of \$300,000, are estimated to be \$27,928,200.

The Corporation expects to use the net proceeds from the Offering as follows:

Thor Lake Project	
Exploration/Upgrade Drilling & Geology	\$13,800,000
Metallurgical Testwork	\$3,600,000
Technical Studies & Support	\$2,800,000
Environmental Work	\$1,500,000
Sales & Marketing	\$1,000,000
Administration	\$5,228,200
TOTAL	\$27,928,200

Although the Corporation expects to use the net proceeds from the Offering as set forth above, there may be circumstances where, for business reasons, a reallocation of the funds may be necessary. Any necessary relocation of funds shall be determined at the sole discretion of the Corporation. See "Risk Factors".

PLAN OF DISTRIBUTION

Pursuant to the Underwriting Agreement, the Corporation has agreed to sell, and the Underwriters have agreed to purchase, on the Closing Date, but in any event no later than 42 days after the date of the receipt for the final short form prospectus, 9,240,000 Offered Units at a price of \$3.25 per Offered Unit, payable in cash to the Corporation against delivery of the Offered Units. The obligations of the Underwriters pursuant to the Underwriting Agreement are several and not joint and may be terminated at their discretion upon the occurrence of certain stated events. The Underwriters are, however, obligated to take up and pay for all of the Offered Units if any of the Offered Units are purchased under the Underwriting Agreement. Pursuant to the Underwriting Agreement, the Underwriters have reserved the right to form a selling group of appropriately registered dealers and brokers, with compensation to be

negotiated between the Underwriters and such selling group participants, but at no additional cost to the Corporation.

The Offered Units consist of one Unit Share and one-half of one Warrant. Each whole Warrant will entitle the holder thereof to acquire one Warrant Share at a price of \$3.60 for a period of 12 months from the Closing Date.

The Warrants will be created and issued pursuant to the terms of a warrant indenture (the “**Warrant Indenture**”) between the Corporation and Equity Transfer & Trust Company, as warrant agent (the “**Warrant Agent**”) thereunder, to be entered into and dated as of the Closing Date. The Warrant Indenture will contain certain provisions designed to protect the holders of Warrants against dilution upon the occurrence of certain events. No fractional Warrants will be issued.

The Offering Price was determined based upon arm’s-length negotiations between the Corporation and the Lead Underwriter with reference to the prevailing market price of the Common Shares.

Pursuant to the Underwriting Agreement, the Underwriters will receive the Commission of 6% of the gross proceeds of the Offering (approximately \$0.195 per Offered Unit) for an aggregate Commission of approximately \$1,801,800. The Underwriters will also receive Broker Warrants entitling the Underwriters to purchase that number of Compensation Units, each consisting of one Compensation Share and one-half of one Compensation Warrant, equal to 3.0% of the total number of Offered Units sold under the Offering at the Offering Price per Compensation Unit for a period of 12 months from the Closing Date. Each Compensation Warrant shall be exercisable to acquire one Compensation Warrant Share at a price of \$3.60 per Compensation Warrant Share for a period of 12 months following the Closing Date. The Corporation has agreed to indemnify the Underwriters, and certain related parties, insofar as any expenses, losses, claims, actions, damages or liabilities arise out of or are based, directly or indirectly, upon the performance of the professional services rendered to the Corporation by the Underwriters pursuant to the Underwriting Agreement. The Corporation has also agreed to reimburse the Underwriters for certain expenses, including legal and certain out-of-pocket expenses incurred in connection with the Offering.

Certain of the Underwriters and their affiliates have performed investment banking, commercial banking and advisory services for the Corporation from time to time for which they have received customary fees and expenses. The Underwriters and their affiliates may, from time to time, engage in transactions with and perform services for the Corporation in the ordinary course of their business.

In connection with the Offering, the Underwriters may effect transactions that maintain the market price of the Common Shares at levels other than those that might otherwise prevail in the open market. Such transactions, if commenced, may be discontinued at any time.

Pursuant to rules and policy statements of certain securities regulators, the Underwriters may not, at any time during the period ending on the date the selling process for the Offered Units ends and all stabilization arrangements relating to the Offered Units are terminated, bid for or purchase of Common Shares. The foregoing restrictions are subject to certain exceptions, including (a) a bid for or purchase of Common Shares if the bid or purchase is made through the facilities of the TSX in accordance with the Universal Market Integrity Rules of Market Regulation Services Inc., (b) a bid or purchase on behalf of a client, other than certain prescribed clients, provided that the client’s order was not solicited by the Underwriters, or if the client’s order was solicited, the solicitation occurred before the period of distribution as prescribed by the rules, and (c) a bid or purchase to cover a short position entered into prior to the period of distribution as prescribed by the rules. The Underwriters may engage in market

stabilization or market balancing activities on the TSX where the bid for or purchase of the Common Shares is for the purpose of maintaining a fair and orderly market in the Common Shares, subject to price limitations applicable to such bids or purchases. Such transactions, if commenced, may be discontinued at any time.

Subscriptions for Offered Units will be received by the Underwriters subject to rejection or allotment in whole or in part by the Underwriters and the Underwriters reserve the right to close the subscription books at any time without notice. Other than with respect to Offered Units offered, sold or issued to, or for the account or benefit of, persons in the United States or U.S. Persons, where individual certificates will be issued representing the Unit Shares and Warrants comprising the Offered Units, one or more book entry-only certificates representing the Unit Shares and Warrants comprising the Offered Units will be issued in registered form to CDS or its nominee and deposited with CDS on the Closing Date, against payment of the aggregate purchase price for the Offered Units. Except as set forth herein, a purchaser of Offered Units will receive only a customer confirmation from the registered dealer through which the Offered Units are purchased.

The Underwriters may decrease the sale price of the Offered Units which they sell under this short form prospectus after they have made a reasonable effort to sell all such Offered Units at the Offering Price. The sale by the Underwriters of Offered Units at a price of less than the Offering Price will have the effect of reducing the compensation realized by the Underwriters by the amount that the aggregate price paid by the purchasers for Offered Units is less than the gross proceeds paid by the Underwriters for the Offered Units.

The Corporation has applied to list the Unit Shares, Warrants, Warrant Shares, Compensation Shares, Compensation Warrants, and Compensation Warrant Shares on the TSX. Listing will be subject to the Corporation fulfilling all of the listing requirements of the TSX.

The Offering is being made in all provinces of Canada, other than Québec, and in the Northwest Territories. In addition, the Underwriters may offer the Offered Units outside of Canada in compliance with local securities laws.

The Corporation has agreed in the Underwriting Agreement that for a period of 90 days after the Closing Date it shall not (and, for greater certainty, shall not publicly announce any intention to do any of the following) and shall use reasonable efforts to cause each director of the Corporation who is also a securityholder to undertake, under the terms of a lock-up agreement (the “**Lock-Up Agreement**”), to not, directly or indirectly, offer, sell, contract to sell, lend, swap, or enter into any other agreement to transfer the economic consequences of, or otherwise dispose of or deal with, or publicly announce any intention to offer, sell, contract to sell, lend, swap, or enter into any other agreement to transfer the economic consequences of, or otherwise dispose of or deal with, whether through the facilities of a stock exchange, by private placement or otherwise, any Common Shares or other securities of the Corporation (“**Securities**”), without the prior consent of the Lead Underwriter on behalf of the Underwriters, such consent not to be unreasonably withheld or delayed. For greater certainty, any locked-up director will be permitted to exercise stock options which have been granted pursuant to the Corporation’s stock option plan without the prior consent of the Lead Underwriter. Notwithstanding the foregoing, a director may: (i) transfer his Securities pursuant to a *bona fide* take-over bid made to all holders of Common Shares or similar acquisition transaction provided that in the event that the take-over or acquisition transaction is not completed, any securities shall remain subject to the restrictions contained in the Lock-up Agreement; (ii) transfer, sell or otherwise dispose of any or all of his Securities to (a) a spouse, parent, child or grandchild of the undersigned (a “**Relation**”), (b) corporations, partnerships, limited liability companies or other entities to the extent that such entities are wholly-owned by the director, (c) any trusts existing solely for the benefit of the director and/or a Relation, solely to the extent that in clauses (a), (b) and (c)

the recipient of the director's Securities execute an agreement stating that the transferee is receiving and holding such securities subject to the provisions of the Lock-Up Agreement and there shall be no further transfer of such securities except in accordance with the Lock-Up Agreement; (iii) acquire Securities issuable on exercise of common share purchase warrants of the Corporation outstanding on the date of the Lock-Up Agreement; and (iv) pledge the director's Securities to a bank or other financial institution for the purpose of giving collateral for a debt made in good faith, but solely to the extent that such bank or financial institution agrees in writing to be bound by the terms of the Lock-up Agreement and there shall be no further transfer of such securities except in accordance with the Lock-Up Agreement.

The Offered Units, the Unit Shares, the Warrants and the Warrant Shares have not been registered under the U.S. Securities Act or any state securities laws, and the Offered Units, the Unit Shares and the Warrants may not be offered, sold or delivered to, or for the account or benefit of, persons in the United States or U.S. Persons unless registered under the U.S. Securities Act and applicable state securities laws or an exemption therefrom is available. Each Underwriter has agreed that, except as permitted by the Underwriting Agreement, it will not offer or sell the Offered Units, the Unit Shares or the Warrants, as part of its distribution at any time, to, or for the account or benefit of, persons in the United States or U.S. Persons. The Underwriting Agreement permits the Underwriters, through their U.S. registered broker-dealer affiliates and certain other United States registered broker-dealers acting as placement agents, to offer such securities to institutional "accredited investors" that satisfy one or more of the criteria of Rule 501(a)(1),(2),(3) or (7) of Regulation D under the U.S. Securities Act, as substituted purchasers in a manner exempt from the registration requirements of the U.S. Securities Act and in compliance with applicable state securities laws. Terms used in this and the next paragraph have the meanings given to them in Regulation S under the U.S. Securities Act.

This short form prospectus does not constitute an offer to sell, or a solicitation of an offer to buy, any of the Offered Units, the Unit Shares or the Warrants to, or for the account or benefit of, persons in the United States or U.S. Persons. In addition, until 40 days after the commencement of the Offering, an offer or sale of the Offered Units, the Unit Shares or the Warrants in the United States by any dealer, whether or not participating in the Offering, may violate the registration requirements of the U.S. Securities Act. The Offered Units, the Unit Shares and the Warrants will be "restricted securities" within the meaning of Rule 144(a)(3) under the U.S. Securities Act and any certificates representing such securities will bear a legend to the effect that the securities represented thereby are not registered under the U.S. Securities Act and may only be offered, sold, pledged or otherwise transferred pursuant to certain exemptions from the registration requirements of the U.S. Securities Act and applicable state securities laws.

CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Cassels Brock & Blackwell LLP, counsel to the Corporation, and Heenan Blaikie LLP, counsel to the Underwriters, the following is, as of the date of this prospectus, a summary of the principal Canadian federal income tax considerations under the Tax Act generally applicable to a holder of Unit Shares and Warrants acquired under the Offering. This summary applies to a holder who, at all relevant times for purposes of the Tax Act, either (i) is or is deemed to be resident in Canada, deals at arm's length with and is not affiliated with the Corporation or a subsequent purchaser of the Unit Shares or Warrants and acquires and holds the Unit Shares and Warrants as capital property (a "**Resident Holder**"); or (ii) is not resident or deemed to be resident in Canada, deals at arm's length with and is not affiliated with the Corporation or a subsequent purchaser of the Unit Shares or Warrants, acquires and holds the Unit Shares and Warrants as capital property and does not use or hold the Unit Shares or Warrants in the course of carrying on, or otherwise in connection with, a business in Canada or as "designated insurance property", (a "**Non-Resident Holder**").

Generally, the Unit Shares and Warrants will be considered to be capital property to a holder thereof provided that the holder does not use the Unit Shares or Warrants in the course of carrying on a business of trading or dealing in securities and such holder has not acquired them in one or more transactions considered to be an adventure or concern in the nature of trade. Certain Resident Holders may, in certain circumstances, make an irrevocable election under subsection 39(4) of the Tax Act to have their Unit Shares, and every other “Canadian security” (as defined in the Tax Act) owned by such Resident Holder in the taxation year of the election and in all subsequent years deemed to be capital property. Subsection 39(4) does not apply to Warrants. Resident Holders should consult their own tax advisors for advice as to whether an election under subsection 39(4) is available and/or advisable in their particular circumstances.

This summary is not applicable to a holder of Unit Shares or Warrants: (i) that is a “financial institution” (as defined in the Tax Act for the purposes of the “mark-to-market” rules); (ii) an interest in which is a “tax shelter investment” for the purposes of the Tax Act; (iii) that is a non-resident insurer carrying on an insurance business in Canada and elsewhere; (iv) that is a “specified financial institution” (as defined in the Tax Act); or (v) that has elected to report its tax results in a currency other than Canadian currency. Such holders should consult their own tax advisors with respect to an investment in Unit Shares and Warrants.

This summary is based upon the current provisions of the Tax Act and the regulations thereunder (the “**Regulations**”) in force as of the date hereof, all specific proposals (the “**Proposed Amendments**”) to amend the Tax Act or the Regulations that have been publicly announced by, or on behalf of, the Minister of Finance (Canada) prior to the date hereof and counsel’s understanding of the current published administrative policies and assessing practices of the Canada Revenue Agency (the “**CRA**”). No assurance can be given that the Proposed Amendments will be enacted in their current proposed form, if at all. This summary does not otherwise take into account any changes in law, whether by legislative, governmental or jurisdiction, nor does it take into account or consider any provincial, territorial, for foreign income tax considerations.

This summary is of a general nature only, is not exhaustive of all possible Canadian federal income tax considerations and is not intended to be, nor should it be construed to be, legal or tax advice to any particular holder. **Holders should consult their own tax advisors with respect to their particular circumstances.**

Allocation of Purchase Price

The total purchase price of a Unit to a holder must be allocated on a reasonable basis between the Unit Share and the one-half of one Warrant to determine the cost of each to the holder for purposes of the Tax Act. The portion of the purchase price of each Unit allocated to the Unit Share and to the one-half of one Warrant, respectively, will become a holder’s cost thereof for the purposes of the Tax Act. These amounts must generally be averaged with the adjusted cost base of all other Common Shares and Warrants, respectively, held by a holder as capital property to determine the adjusted cost base of all such Common Shares and Warrants to the holder.

Although the Corporation and the Underwriters believe that an allocation of \$3.08 of the Offering Price to each Unit Share and \$0.17 of the Offering Price to each one-half of one Warrant is reasonable, such allocation will not be binding on the CRA or the holder.

Exercise of Warrants

No gain or loss will be realized by a holder upon the exercise of a Warrant to acquire a Warrant Share. When a Warrant is exercised, the holder's cost of the Warrant Share acquired thereby will be the aggregate of the holder's adjusted cost base of such Warrant and the exercise price paid for the Warrant Share. The holder's adjusted cost base of the Warrant Share so acquired will be determined by averaging such cost with the adjusted cost base to the holder of all Common Shares owned by the holder as capital property immediately prior to such acquisition.

Taxation of Resident Holders

Disposition and Expiry of Warrants

A disposition or deemed disposition by a Resident Holder of a Warrant (other than upon the exercise thereof) will generally give rise to a capital gain (or capital loss) equal to the amount by which the proceeds of disposition, net of any reasonable costs of disposition, are greater (or less) than such Resident Holder's adjusted cost base of the Warrant. In the event of the expiry of an unexercised Warrant, the Resident Holder will generally realize a capital loss equal to the Resident Holder's adjusted cost base of such Warrant. The tax treatment of capital gains and capital losses is discussed in greater detail below under the subheading "*Capital Gains and Capital Losses*".

Disposition of Common Shares

A disposition or deemed disposition of Common Shares (including Warrant Shares) by a Resident Holder will generally give rise to a capital gain (or capital loss) equal to the amount by which the proceeds of disposition, net of any reasonable costs of disposition, are greater (or less) than such Resident Holder's adjusted cost base of the Common Shares. The tax treatment of capital gains and capital losses is discussed in greater detail below under the subheading "*Capital Gains and Capital Losses*".

Capital Gains and Capital Losses

One-half of any capital gain (a "**taxable capital gain**") realized by a Resident Holder must be included in the income of the Resident Holder for the taxation year in which the disposition occurs. Subject to, and in accordance with, the provisions of the Tax Act, a Resident Holder may deduct one-half of a capital loss (an "**allowable capital loss**") realized by the Resident Holder against taxable capital gains realized in the taxation year of disposition. Allowable capital losses in excess of taxable capital gains for the taxation year of disposition may be applied to reduce net taxable capital gains realized in the three preceding taxation years or any subsequent taxation year, subject to the provisions of the Tax Act in that regard.

The amount of any capital loss realized on the disposition or deemed disposition of Common Shares by a Resident Holder that is a corporation may be reduced by the amount of dividends received or deemed to have been received by it on such shares or shares substituted for such shares to the extent and in the circumstances prescribed by the Tax Act. Similar rules may apply where a Resident Holder that is a corporation is a member of a partnership or beneficiary of a trust that owns such shares or that is itself a member of a partnership or a beneficiary of a trust that owns shares.

A Resident Holder that is throughout the relevant taxation year a "Canadian-controlled private corporation" (as defined in the Tax Act) may be liable to pay an additional refundable tax of $6\frac{2}{3}\%$ on its "aggregate investment income" for the year which will include an amount in respect of taxable capital gains.

Dividends

Dividends received or deemed to be received on the Common Shares (including Warrant Shares) will be included in computing the Resident Holder's income. In the case of a Resident Holder that is an individual, such dividends will be subject to the gross-up and dividend tax credit rules normally applicable in respect of taxable dividends received from "taxable Canadian corporations" (as defined in the Tax Act). An enhanced dividend tax credit will be available to Resident Holders who are individuals in respect of "eligible dividends" designated by the Corporation. There may be limitations on the ability of the Corporation to designate dividends as "eligible dividends". Dividends received by a Resident Holder that is a corporation on the Common Shares must be included in computing the corporation's income but generally will be deductible in computing the corporation's taxable income.

Private corporations (as defined in the Tax Act) and certain other corporations controlled by or for the benefit of an individual (other than a trust) or related group of individuals (other than trusts) generally will be liable to pay a 33¹/₃% refundable tax under Part IV of the Tax Act on dividends to the extent such dividends are deductible in computing taxable income.

Minimum Tax

In general terms, a holder that is an individual or a trust, other than certain specified trusts, that receives or is deemed to receive taxable dividends on the Common Shares or that realizes a capital gain on the disposition or deemed disposition of Common Shares or Warrants may be liable for alternative minimum tax.

Taxation of Non-Resident Holders

Dividends

Dividends paid or credited or deemed to be paid or credited to a Non-Resident Holder by the Corporation will be subject to Canadian non-resident withholding tax at a rate of 25%, unless reduced by the terms of an applicable tax treaty. Under the *Canada-United States Tax Convention (1980)*, as amended, (the "**Treaty**"), the rate of withholding tax on dividends paid or credited to a Non-Resident Holder who is resident in the U.S. for purposes of the Treaty and entitled to benefits under the Treaty (a "**U.S. Holder**") is generally limited to 15% of the gross amount of the dividend (or 5% in the case of a U.S. Holder that is a company beneficially owning at least 10% of the Corporation's voting shares).

Dispositions

A Non-Resident Holder generally will not be subject to tax under the Tax Act in respect of a capital gain realized on the disposition or deemed disposition of a Common Share (including a Warrant Share) or a Warrant, nor will capital losses arising therefrom be recognized under the Tax Act, unless the Common Share or Warrant constitutes "taxable Canadian property" to the Non-Resident Holder for purposes of the Tax Act, and the gain is not exempt from tax pursuant to the terms of an applicable tax treaty.

Provided the Unit Shares are listed on a designated stock exchange, which currently includes the TSX, at the time of disposition, the Unit Shares and Warrants generally will not constitute taxable Canadian property of a Non-Resident Holder, unless, at any time during the 60 month period immediately preceding the disposition, (i) the Non-Resident Holder, persons with whom the Non-Resident Holder did not deal at arm's length, or the Non-Resident Holder together with all such persons, owned 25% or more of the issued Common Shares or any other class of shares of the Corporation and, (ii) more than 50% of

the fair market value of the Common Shares was derived directly or indirectly from one or any combination of real or immovable property situated in Canada, Canadian resource properties (as defined in the Tax Act), timber resources properties (as defined in the Tax Act) or an option in respect of, or an interest in, or for a civil law a right in such properties.

If a Non-Resident Holder to whom Unit Shares or Warrants are taxable Canadian property is not exempt from tax under the Tax Act by virtue of a tax treaty, the consequences of dispositions described under “Taxation of Resident Holders” will generally apply.

Non-Resident Holders should consult their own tax advisors with respect to the foreign tax laws applicable to their investment.

DESCRIPTION OF SECURITIES DISTRIBUTED

This short form prospectus qualifies the distribution of the Unit Shares and the Warrants comprising the Offered Units, details of which are set forth below.

Common Shares

The authorized share capital of the Corporation consists of an unlimited number of Common Shares and 25,000,000 preferred shares. As of September 14, 2010, 81,182,670 Common Shares and no preferred shares were issued and outstanding.

Holders of Common Shares are entitled to receive notice of any meetings of shareholders of the Corporation, to attend and to cast one vote per Common Share at all such meetings. Holders of Common Shares do not have cumulative voting rights with respect to the election of directors and, accordingly, holders of a majority of the Common Shares entitled to vote in any election of directors may elect all directors standing for election. Holders of Common Shares are entitled to receive on a pro-rata basis such dividends, if any, as and when declared by the board of directors of the Corporation at its discretion from funds legally available therefor and upon the liquidation, dissolution or winding up of the Corporation are entitled to receive on a pro-rata basis the net assets of the Corporation after payment of debts and other liabilities, in each case subject to the rights, privileges, restrictions and conditions attaching to any other series or class of shares ranking senior in priority to or on a pro-rata basis with the holders of Common Shares with respect to dividends or liquidation. The Common Shares do not carry any pre-emptive, subscription, redemption or conversion rights, nor do they contain any sinking or purchase fund provisions.

Warrants

The Corporation will arrange for an instant deposit of the Warrants comprising the Offered Units (other than in respect of the Offered Units offered, sold or issued to, or for the account or benefit of, persons in the United States or U.S. Persons, where individual certificates will be issued representing the Warrants) under and be governed by the terms of the Warrant Indenture. The Corporation will appoint the principal transfer offices of the Warrant Agent in Toronto, Ontario as the location at which Warrants may be surrendered for exercise or transfer. The following summary of certain provisions of the Warrant Indenture does not purport to be complete and is qualified in its entirety by reference to the provisions of the Warrant Indenture.

The Offered Units will separate immediately upon closing of the Offering into Unit Shares and Warrants. Each Warrant will entitle the holder to purchase one Warrant Share at a price of \$3.60. The

exercise price and the number of Warrant Shares issuable upon exercise are both subject to adjustment in certain circumstances as more fully described below and in the Warrant Indenture. The Warrants will be exercisable at any time prior to 5:00 p.m. (Toronto time) on the date that is 12 months following the Closing Date, after which time the Warrants will expire and become null and void.

The Warrant Indenture will provide for adjustments in the exercise price and number of Warrant Shares issuable upon the exercise of the Warrants upon the occurrence of certain events, including the issuance of Common Shares or securities exchangeable or convertible into Common Shares as a stock dividend, the subdivision, redivision, reduction, combination or consolidation of the Common Shares, and the issuance of rights, options or warrants to substantially all of the holders of Common Shares that entitle them to subscribe for Common Shares.

The Warrant Indenture will also provide for adjustments in the class and/or number of Warrant Shares issuable upon the exercise of the Warrants and/or exercise price per security in the event of any of the following additional events: (i) reclassifications of the Common Shares; or (ii) consolidations, amalgamations, plans of arrangement or mergers of the Corporation with or into another entity (other than consolidations, amalgamations, plans of arrangement or mergers which do not result in any reclassification of the Common Shares or a change of the Common Shares into other shares).

No adjustment in the exercise price or the number of Warrant Shares issuable upon the exercise of the Warrants will be required to be made unless the cumulative effect of such adjustment or adjustments would change the exercise price by at least 1% or the number of Warrant Shares issuable upon exercise by at least one one-hundredth of a Common Share.

The Corporation will also covenant in the Warrant Indenture that, during the period in which the Warrants are exercisable, it will give notice to holders of Warrants of certain stated events, including events that would result in an adjustment to the exercise price for the Warrants or the number of Warrant Shares issuable upon exercise of the Warrants, at least 14 days prior to the record date or effective date, as the case may be, of such event.

No fractional Warrant Shares will be issuable upon the exercise of any Warrants, and no cash or other consideration will be paid in lieu of fractional shares. Holders of Warrants will not have any voting or pre-emptive rights or any other rights which a holder of Common Shares would have.

From time to time, the Corporation and the Warrant Agent, without the consent of the holders of Warrants, may amend or supplement the Warrant Indenture for certain purposes, including curing defects or inconsistencies or making any change that does not adversely affect the rights of any holder of Warrants. Any amendment or supplement to the Warrant Indenture that adversely affects the interests of the holders of the Warrants may only be made by “extraordinary resolution”, which will be defined in the Warrant Indenture as a resolution either (1) passed at a meeting of the holders of Warrants at which there are holders of Warrants present in person or represented by proxy representing at least 10% of the aggregate number of the then outstanding Warrants and passed by the affirmative vote of holders of Warrants representing not less than $66\frac{2}{3}\%$ of the aggregate number of all the then outstanding Warrants represented at the meeting and voted on the poll upon such resolution or (2) adopted by an instrument in writing signed by the holders of Warrants representing not less than $66\frac{2}{3}\%$ of the aggregate number of all the then outstanding Warrants.

The foregoing summary of certain provisions of the Warrant Indenture does not purport to be complete and is qualified in its entirety by reference to the provisions of the Warrant Indenture, which will be filed by the Corporation on SEDAR under the Corporation’s profile at www.sedar.com following the Closing of the Offering.

PRIOR SALES

During the 12 month period before the date of this short form prospectus, the Corporation has issued the following Common Shares, and securities that are convertible into Common Shares, as follows:

Date of Issuance	Securities Issued	Issue Price (\$)	Reason for Issuance
September 17, 2009	6,745,000 Special Warrants	2.30	Private Placement ⁽¹⁾
September 17, 2009	755,000 Flow-Through Special Warrants	2.65	Private Placement ⁽¹⁾
September 17, 2009	450,000 Brokers' Compensation Options	2.43	Private Placement ⁽¹⁾
September 22, 2009	50,000 Common Shares	1.20	Exercise of options
October 1, 2009	50,000 Common Shares	0.50	Exercise of options
October 19, 2009	25,000 Common Shares	0.70	Exercise of options
October 19, 2009	25,000 Common Shares	0.75	Exercise of options
October 29, 2009	50,000 Common Shares	1.61	Exercise of options
October 29, 2009	200,000 Options	2.35	Issuance of options
November 1, 2009	450,000 Options	2.51	Issuance of options
December 21, 2009	156,250 Common Shares	0.50	Exercise of warrants
January 5, 2010	50,000 Common Shares	0.50	Exercise of options
January 15, 2010	36,000 Common Shares	0.98	Exercise of options
January 25, 2010	50,000 Common Shares	0.70	Exercise of options
January 25, 2010	5,000 Common Shares	1.54	Exercise of options
February 1, 2010	50,000 Options	2.36	Issuance of options
April 1, 2010	175,000 Options	2.52	Issuance of options
April 6, 2010	64,000 Common Shares	0.98	Exercise of options
April 8, 2010	25,000 Common Shares	0.55	Exercise of options
April 21, 2010	100,000 Common Shares	1.20	Exercise of options
May 26, 2010	175,000 Options	2.25	Issuance of options
May 28, 2010	100,000 Options	2.32	Issuance of options
June 3, 2010	50,000 Options	2.14	Issuance of options
June 17, 2010	13,600 Common Shares	1.54	Exercise of options
June 30, 2010	400,000 Options	2.00	Issuance of options

Date of Issuance	Securities Issued	Issue Price (\$)	Reason for Issuance
July 8, 2010	50,000 Common Shares	1.80	Exercise of options
July 12, 2010	200,000 Options	2.35	Issuance of options
July 16, 2010	50,000 Common Shares	0.98	Exercise of options
July 30, 2010	100,000 Options	2.76	Issuance of options
September 2, 2010	15,000 Common Shares	1.54	Exercise of options
September 2, 2010	132,500 Common Shares	2.51	Exercise of warrants
September 8, 2010	16,400 Common Shares	1.54	Exercise of options
September 8, 2010	8,750 Common Shares	2.51	Exercise of warrants
September 13, 2010	230,750 Common Shares	2.51	Exercise of warrants
September 14, 2010	1,675,000 Common Shares	2.51	Exercise of warrants

Notes

- (1) Relates to the Corporation's private placement of special warrants, exercisable for Common Shares and common share purchase warrants of the Corporation, and flow-through special warrants exercisable for flow-through Common Shares of the Corporation, completed September 17, 2009. See the audited comparative financial statements of Avalon as at and for the financial years ended August 31, 2009 and 2008, under "Documents Incorporated by Reference".

TRADING PRICE AND VOLUME

The principal market on which the Common Shares of the Corporation trade is the TSX. The Common Shares also trade on the OTCQX.

Common Shares

The following table sets forth, for the periods indicated over the past 12 months prior to the date of this short form prospectus, the reported high and low closing prices and the aggregate volume of trading of the Common Shares on the TSX for the periods indicated:

Period	High (\$)	Low (\$)	Volume
2010			
September ⁽¹⁾	4.04	2.97	5,174,309
August	3.29	2.41	5,738,631
July	2.82	1.96	5,192,105
June	2.80	1.92	5,490,829
May	2.62	1.89	3,420,052
April	2.95	2.35	4,784,615
March	2.88	2.36	3,601,629
February	2.80	2.12	3,498,945
January	3.30	2.35	7,075,706

Period	High (\$)	Low (\$)	Volume
2009			
December	2.98	2.21	5,720,269
November	3.25	2.32	5,865,185
October	3.62	2.27	11,650,589
September	4.24	2.56	19,131,993

Notes

(1) September 1, 2010 through September 14, 2010.

RISK FACTORS

The operations of the Corporation are speculative due to the high-risk nature of its business. An investment in securities of the Corporation involves significant risks, which should be carefully considered by prospective investors before purchasing such securities. In addition to information set out below and elsewhere in this short form prospectus, investors should carefully consider the risk factors related to the business and operations of Avalon set out in the Annual Information Form and other documents that are incorporated by reference in this short form prospectus. Any one or more of such risk factors could materially affect the Corporation's future operating results and could cause actual events to differ materially from those described in forward-looking statements relating to the Corporation.

Risks Related to the Offering

Loss of Entire Investment

An investment in the Offered Units is speculative and may result in the loss of an investor's entire investment. Only potential investors who are experienced in high risk investments and who can afford to lose their entire investment should consider an investment in the Corporation.

Price Volatility

Securities markets have a high level of price and volume volatility, and the market price of securities of many companies have experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. Factors unrelated to the financial performance or prospects of Avalon include macroeconomic developments in North America and globally, and market perceptions of the attractiveness of particular industries. There can be no assurance that continued fluctuations in mineral and energy prices will not occur. As a result of any of these factors, the market price of the securities of the Corporation at any given point in time may not accurately reflect the long term value of Avalon.

Use of Proceeds

The Corporation currently intends to allocate the net proceeds received from the Offering as described under "Use of Proceeds". However, management will have discretion in the actual application of the net proceeds, and may elect to allocate net proceeds differently from that described under "Use of Proceeds" if they believe it would be in the Corporation's best interests to do so. Shareholders may not agree with the manner in which management chooses to allocate and spend the net proceeds. The failure

by management to apply these funds effectively could have a material adverse effect on the Corporation's business.

Dilution

The Corporation will require additional funds in respect of the further development of its projects. If the Corporation raises funds by issuing additional equity securities, especially at prices lower than the Offering Price, such financing will dilute the equity interests of its current shareholders, including purchasers who acquire Unit Shares pursuant to this short form prospectus.

INTEREST OF EXPERTS

The following is the current technical report prepared in accordance with NI 43-101 from which technical information relating to the Corporation's material mineral project, the Thor Lake Project, contained in this short form prospectus has been derived: "Technical Report On The Thor Lake Project, Northwest Territories, Canada" dated July 29, 2010 and prepared by Jason J. Cox, P.Eng., Christopher Moreton, Ph.D., P.Geo., John R. Goode, P.Eng. and Donald H. Hains, P.Geo., of Scott Wilson Roscoe Postle Associates Inc., who are the qualified persons for the Technical Report. A copy of the Technical Report is available under the Corporation's SEDAR profile at www.sedar.com.

Dr. William Mercer, P.Geo., Vice-President, Exploration of the Corporation, Finley Bakker, P.Geo., Senior Resource Geologist of the Corporation, Donald S. Bubar, P. Geo., President of the Corporation, and Bruce Hudgins, P. Geo., of Hudgtec Consulting Limited, are the qualified persons who prepared or supervised the preparation of the information contained in the Press Releases and the material change report of Avalon dated February 3, 2010. See "Documents Incorporated by Reference".

The aforementioned firms and persons held either less than one percent or no securities of the Corporation or of any associate or affiliate of the Corporation at or following the time when they prepared the Technical Report, or prepared or supervised the preparation of the information contained in the Press Releases and the material change report of Avalon dated February 3, 2010, as applicable, and either did not receive any or received less than a one percent direct or indirect interest in any securities of the Corporation or of any associate or affiliate of the Corporation in connection with the preparation or supervision of the preparation of such disclosure, as applicable.

Other than Messrs. Mercer, Bakker, and Bubar, who are currently officers or employees of the Corporation, none of the aforementioned persons, nor any directors, officers or employees of such the aforementioned firms, is currently expected to be elected, appointed or employed as a director, officer or employee of the Corporation or of any associate or affiliate of the Corporation.

Sievert & Sawrantschuk LLP was the auditor of the Corporation at the time of the preparation of the audited financial statements of the Corporation for the years ended August 31, 2009 and 2008, and was independent of Avalon within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario.

None of Cassels Brock & Blackwell LLP, Heenan Blaikie LLP or any partner or associate thereof received or has received a direct or indirect interest in the property of the Corporation or of any associate or affiliate of the Corporation. As at the date hereof, the partners and associates of each of the aforementioned partnerships beneficially own, directly or indirectly, in the aggregate less than one per cent of the securities of the Corporation.

STATUTORY RIGHTS OF RESCISSION AND WITHDRAWAL

Securities legislation in certain of the provinces and territories of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces and territories of Canada, securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revisions of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for the particulars of these rights or consult with a legal adviser.

AUDITOR'S CONSENT

We have read the short form prospectus of Avalon Rare Metals Inc. (the "**Corporation**") dated September ●, 2010 qualifying the distribution of units of the Corporation. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the incorporation by reference in the above-mentioned short form prospectus of our report to the directors of Avalon Rare Metals Inc. on the balance sheets, statements of operations and deficit, statements of comprehensive loss and cash flow statements for the years ended August 31, 2009 and 2008. Our report is dated October 5, 2009.

Sievert & Sawrantschuk LLP
Chartered Accountants
Toronto, Ontario
September ●, 2010

CERTIFICATE OF THE CORPORATION

Dated: September 15, 2010

This short form prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the provinces of Canada, other than Québec, and of the Northwest Territories.

(Signed) DONALD S. BUBAR
President and Chief Executive Officer

(Signed) R. JAMES ANDERSEN
Chief Financial Officer and Vice President Finance

On behalf of the Board of Directors

(Signed) PETER MCCARTER
Director

(Signed) HARI PANDAY
Director

CERTIFICATE OF THE UNDERWRITERS

Dated: September 15, 2010

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the provinces of Canada, other than Québec, and of the Northwest Territories.

CIBC WORLD MARKETS INC.

By: (Signed) DAVID COBBOLD

LAURENTIAN BANK SECURITIES INC.

STONECAP SECURITIES INC.

By: (Signed) DAVID HINCHEY

By: (Signed) RICK VERNON

CANACCORD GENUITY CORP.

By: (Signed) SACHIN MAHAJAN