



## CHARTER OF THE COMPENSATION, GOVERNANCE & NOMINATING COMMITTEE (the "Committee")

### Purpose

The Compensation, Governance & Nominating Committee ("Committee") of Avalon Rare Metals Inc. (the "Company") will act on behalf of and subject to the direction of the board of directors of the Company (the "Board") in all matters pertaining to the compensation, benefits and performance of all executives of the Company and any other business entity controlled in fact by the Company (each an "affiliate") (including the President and Chief Executive Officer ("the CEO"), Vice-Presidents and any group of senior employees identified by the Committee from time to time), this group being referred to as the "Senior Management Group". The Committee may delegate, in its discretion, the compensation of any member(s) of the Senior management Group (except the CEO) to the President and CEO. The Committee will make recommendations with respect to the remuneration of the Board and the board of directors of any subsidiary. In addition, the Committee will oversee and supervise any share purchase plan, share option plan, bonus participation plan, incentive-compensation plans and any other equity-based plans and any other like plan.

The Committee will act on behalf of and subject to the direction of the Board in all matters pertaining to corporate governance, new director nominees, as well as the size and composition of the Board and Board committees.

### Composition

The Committee shall be comprised of three or more directors of the Company ("Directors") as determined by the Board from time to time, each of whom must be independent<sup>1</sup>. The Committee members shall be appointed by the Board.

### Chair

The Board, upon recommendation of the Committee, will appoint the Chair of the Committee (the "Chair") annually, to be selected from the members of the Committee. If, in any year, the Board does not make an appointment of a Chair, the incumbent Chair will continue in office until that Chair's successor is appointed.

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<sup>1</sup> A committee member is considered as **independent** if he or she has no direct or indirect material relationship with the Company which could, in the view of the Board, reasonably interfere with the exercise of such individual's independent judgment as more particularly set out in Multilateral Instrument 52-110 - Audit Committees ("MI 52-110"). Determination as to whether a particular Director satisfies the requirements for membership on the Committee shall be made by the Board.

## Removal and Vacancies

Any member of the Committee may be removed and replaced at any time by the Board and will automatically cease to be a member of the Committee as soon as such member ceases to be a Director. The Board may fill vacancies in the Committee by appointment from among the members of the Board. If and whenever a vacancy exists on the Committee, the remaining members may exercise all its powers so long as a quorum remains in office.

## Meetings & Operating Procedures

- The Committee shall meet at least annually, or more frequently as circumstances dictate.
- A quorum shall be a majority of the members.
- The powers of the Committee may be exercised at a meeting where a quorum is present or by resolution in writing signed by all Committee members entitled to vote on that resolution at a meeting of the Committee.
- Meetings of the Committee shall take place in person or by telephone and shall be called by the Chair. Meetings may also be called by any other member of the Committee, or by the chair of the Board. Unless otherwise specified by the Committee Chair, the Chair shall act as secretary of the Committee and shall provide the chair of the Board and each member of the Committee with notice of the meetings of the Committee and each shall be entitled to attend such meetings. The Chair or the Committee may require any officer or employee of the Company (or any subsidiary thereof) to attend a Committee meeting and, further, may invite any such other individuals to attend a Committee meeting as deemed appropriate or advisable.
- In the absence of the Chair, the members shall appoint an acting Chair.
- A copy of the minutes of each meeting of the Committee shall be provided to each member of the Committee and to each non-officer Director of the Company in a timely fashion.
- The Chair (or other appropriate person) shall prepare and/or approve an agenda in advance of each meeting.
- The Committee, in consultation with management and the Auditors, shall develop and participate in a process for review of important compensation topics that have the potential to impact the Company's financial policies and disclosures.
- The Committee shall communicate its expectations to management and the Auditors with respect to the nature, timing and extent of its information needs. The Committee expects that written materials will be received from management and the Auditors in advance of meeting dates.
- The Committee shall periodically review its role and responsibilities.

## Remuneration of Committee Members

The members of the Committee shall be entitled to receive such remuneration for acting as members of the Committee as the Board may from time to time determine.

## Authority to Engage Outside Advisors

The Committee shall have the authority, with the prior approval of the Board, to engage independent consultants and other professional advisors as it determines necessary to carry out its duties and to set and pay the compensation for any consultants and advisors engaged by it.

## Responsibilities and Duties

### *Compensation*

The Committee will (in all cases in respect of the Company and its affiliates, and with the assistance of consultants as required):

- Establish a performance evaluation for the President and CEO and assess the performance of the President and CEO annually.
- Determine or recommend to the Board the compensation of the President and CEO.
- Review annually and make recommendations to the Board regarding all Compensation Arrangements (collectively “Compensation Arrangements”, as well as any bonus, benefits, pension, severance and termination arrangements of the Senior Management Group (including the CEO), the Directors and any employee groups of the Company.
- Monitor and assess the performance of the Senior Management Group (in conjunction with the CEO).
- Either delegate to the President and CEO or review as a Committee, the compensation of the Senior Management Group.
- Review the adequacy and form of compensation of the Board and members of Board committees in light of the responsibilities and risks involved in being a Director and/or the Chair, including their indemnification and insurance coverage.
- Review executive compensation disclosure before it is disclosed by the Company.

### *Corporate Governance*

- Develop policy in the area of corporate governance and the practices of the Board in light of the Company’s particular circumstances, the changing needs of

investors and the Company, and changes in corporate governance guidelines and practices.

- Review the statement of corporate governance practices to be included in the Company's public disclosure and ensure that such disclosure is complete and provided in accordance with regulatory requirements.
- Monitor developments in the area of corporate governance and the practices of the Board and advise the Board accordingly.
- Develop, implement and maintain appropriate policies with respect to disclosure, insider trading and other appropriate matters.
- Review from time to time a Board Manual outlining the policies and procedures by which the Board will operate and the Terms of Reference for the Board, the Board Chair, the CEO, the directors and the Board committees.
- Assess the needs of the Board in terms of the frequency and location of Board and committee meetings, meeting agendas, discussion papers, reports and information, and the conduct of meetings and make recommendations to the Board as required.
- Review the Corporation's structures and procedures to ensure the Board is able to, and in fact does, function independently of management.
- Recommend committee members and committee chair appointments to the Board for approval and review the need for, and the performance and suitability of, those committees and make recommendations as required.

### *Director Nominations*

- Identify individuals qualified to become new Board members and, as and if appropriate, recommend to the Board the new director nominees for the next annual meeting of shareholders.
- In making its recommendations, the Committee shall consider:
  - (a) the competencies and skills that the Board considers to be necessary for the Board, as a whole, to possess;
  - (b) the competencies and skills that the Board considers each existing director to possess;
  - (c) the competencies and skills each new nominee will bring to the Board;
  - (d) whether or not each new person considered for nomination can devote sufficient time and resources to fulfil his or her duties; and
  - (e) that Board composition must comply with the requirements of the applicable securities regulatory authorities.
- Establish procedures for, and approve and ensure provision of, an appropriate

orientation and education program for new recruits to the Board and continuing education for Board members (see Schedule "A" attached hereto).

- Consider and, if thought fit, approve requests from individual Directors for an engagement of special outside advisors at the expense of the Company.
- Review, on a periodic basis, the size and composition of the Board and Board Committees and make appropriate recommendations to the Board.
- Review and reassess the adequacy of this Charter from time to time and submit any changes to the Board for approval.
- Ensure that the Company's annual information form ("AIF") and management information circular (and any other relevant disclosure documentation) contains the prescribed disclosure regarding the Committee

### **Access to Records**

The Committee will be permitted access to all records and corporate information that it determines to be required in order to perform its duties.

## THE CHAIR OF THE COMPENSATION, GOVERNANCE & NOMINATING COMMITTEE

### *Position Description of the Chair*

The Chair of the Compensation, Governance & Nominating Committee (the “Committee”) is elected by the directors of Avalon Ventures Ltd. (the “Company”) annually.

Specific duties of the Chair include:

1. leading the Committee in discharging all duties set out in the Charter of the Compensation, Governance and Nominating Committee and as are delegated to the authority of the Committee by the Board;
2. managing the affairs of the Committee to ensure that the Committee is organized properly and functions effectively;
3. presiding at, and together with the members of the Committee, call, schedule and prepare the agenda for each meeting of the Committee;
4. coordinating with the CFO, Corporate Secretary, management and/or the external auditors to ensure that:
  - a) minutes are prepared and distributed on an accurate and timely basis;
  - b) documents are delivered to members in sufficient time in advance of Committee meetings for a thorough review; and
  - c) matters are properly presented for the members’ consideration at meetings;
5. ensuring that the Committee, following each meeting:
  - a) reports to the Board regarding its activities, findings and recommendations;
  - b) makes Committee information available to any director upon request;
6. annually, or more often at the discretion of the Committee, reviewing this Position Description and recommending updates to the Board for its consideration.

### **Limitations on Committee’s Duties**

In contributing to the Committee’s discharging of its duties under this Charter, each member of the Committee shall be obliged only to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Nothing in this Charter is intended, or may be construed, to impose on any member of the Committee a standard of care or diligence that is in any way more onerous or extensive than the standard to which all Board members are subject. Nothing contained in this Charter is intended to expand applicable standards of liability under statutory or regulatory requirements for the Directors or members of the Committee. Each member of

the Committee shall be entitled to rely on (i) the integrity of those persons and organizations within and outside the Company from which he or she receives information; (ii) the accuracy of the financial and other information provided by such persons or organizations (absent actual knowledge to the contrary, which shall be promptly reported to the Board) and (iii) representations made by management.

Approved by the Board of Directors effective the 6<sup>th</sup> day of August, 2008.

## Schedule "A"

### Orientation Program for Orientation of New Directors

Orientation and training of new directors is monitored by the Compensation, Governance & Nominating Committee. When a Director is elected or appointed to the Board, he or she will be provided with material that will assist him or her in becoming familiarised with the Company.

The orientation for a new Director will include:

- Information pertaining to the role of the Board;
- Meetings with operating management and familiarization with the Company's day-to-day operations;
- An outline of the Company's history and other relevant data;
- Recent analysts' reports;
- A copy of the Company's corporate governance materials;
- Information pertaining to liability insurance coverage;
- Guidance concerning trading in the Company's securities;
- Guidance regarding insider information; and
- Such other materials as the Committee deems appropriate or advisable.