

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](http://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".

## SHORT FORM PROSPECTUS



New Issue

October 6, 2009

**\$17,514,250**

**6,745,000 Common Shares and 3,372,500 Common Share Purchase Warrants  
Issuable on Exercise of 6,745,000 Special Warrants  
And  
755,000 Flow-Through Common Shares  
Issuable on Exercise of 755,000 Flow-Through Special Warrants**

This short form prospectus is being filed to qualify the distribution of (i) 6,745,000 common shares (the "**Special Warrant Shares**") of Avalon Rare Metals Inc. (the "**Corporation**" or "**Avalon**") and 3,372,500 common share purchase warrants (the "**Warrants**") of the Corporation issuable upon the exercise or deemed exercise of 6,745,000 special warrants (the "**Special Warrants**") of the Corporation; and (ii) 755,000 flow-through common shares (the "**FT Shares**") of the Corporation issuable upon the exercise or deemed exercise of 755,000 flow-through special warrants ("**FT Special Warrants**") of the Corporation (the Special Warrants and the FT Special Warrants are collectively referred to herein as the "**Offered Securities**"), which were issued on September 17, 2009, in connection with a private placement financing (the "**Offering**"). The Special Warrants were issued pursuant to the terms of a Special Warrant indenture (the "**Special Warrant Indenture**") and the FT Special Warrants were issued pursuant to the terms of a FT Special Warrant indenture (the "**FT Special Warrant Indenture**"), each dated as of September 17, 2009 and entered into between the Corporation and Computershare Trust Company of Canada (the "**Warrant Agent**"), and in accordance with an underwriting agreement dated September 17, 2009 (the "**Underwriting Agreement**") between the Corporation and CIBC World Markets Inc., Cormark Securities Inc. and Research Capital Corporation (collectively, the "**Underwriters**"). The Special Warrants were sold to subscribers at a price of \$2.30 per Special Warrant (the "**SW Issue Price**") and the FT Special Warrants were sold to subscribers at a price of \$2.65 per FT Special Warrant (the "**FT Special Warrant Issue Price**"), for aggregate gross proceeds to the Corporation of \$17,514,250. Each Warrant will entitle the holder thereof to purchase one common share (each, a "**Warrant Share**") of the Corporation at a price of \$3.00 per Warrant Share at any time prior to 5:00 p.m. (Toronto time) on September 17, 2011.

	<b>Price to Subscribers</b>	<b>Underwriters' Fee (1)(4)</b>	<b>Net Proceeds to the Corporation (2)(3)</b>
Per Special Warrant.....	\$2.30	\$0.138	\$2.162
Per FT Special Warrant.....	\$2.65	\$0.159	\$2.491
Total.....	-	\$1,050,855	\$16,463,395

- (1) The Underwriters' commission (the "**Commission**") is equal to 6.0% of the gross proceeds of the Offering, or \$1,050,855.
- (2) After deducting the Commission, but before deducting the expenses of the Offering, which are estimated to be \$300,000 and which will be paid from the net proceeds of the Offering.
- (3) The distribution of the Special Warrant Shares and the Warrants on exercise or deemed exercise of the Special Warrants, and the FT Shares on exercise or deemed exercise of the FT Special Warrants, will not result in any proceeds being received by the Corporation.
- (4) The Corporation also issued to each Underwriter a Special Broker Warrant (collectively the "**Special Broker Warrants**"), which shall be automatically exercised for no additional consideration and without any further action on behalf of the holders at the Time of Expiry (as hereinafter defined) for an aggregate of 450,000 compensation options (the "**Compensation Options**") of the Corporation. Each Compensation Option is exercisable to acquire a unit (the "**Compensation Units**") consisting of one common share (the "**Compensation Shares**") and one-half of one common share purchase warrant (each whole warrant a "**Compensation Warrant**"), at an exercise price of \$2.43 per Compensation Unit at any time prior to 5:00 p.m. (Toronto time) on September 17, 2011. Each whole Compensation Warrant will entitle the holder to purchase an additional common share (each a "**Compensation Warrant Share**") at a price of \$3.00 at any time prior to 5:00 p.m. (Toronto time) on September 17, 2011. This short form prospectus also qualifies for distribution of the Compensation Options. See "Plan of Distribution" and the table below:

<b>Underwriters' Position</b>	<b>Maximum Size or Number of Securities Available</b>	<b>Exercise period or Acquisition Date</b>	<b>Exercise Price or Average Acquisition Price</b>
Special Broker Warrants	Special Broker Warrants automatically exercisable for 450,000 Compensation Options each exercisable to acquire one Compensation Unit	Compensation Options exercisable prior to 5:00 p.m. (Toronto time) on September 17, 2011	\$2.43 per Compensation Unit

Each Special Warrant entitles the holder thereof to receive, upon exercise or deemed exercise of the Special Warrant and without payment of any additional consideration, and subject to adjustment in certain circumstances, one Special Warrant Share and one-half of one Warrant at any time prior to the earlier of the third business day after: (i) 5:00 p.m. (Toronto time) on January 18, 2010, being the date that is four months and one day following the closing date of the Offering; and (b) the date on which a final receipt (the "**Final Receipt**") for the (final) prospectus is received by the Corporation (such earlier time being referred to herein as the "**Time of Expiry**"). Each FT Special Warrant will entitle the holder thereof to acquire one FT Share for no additional consideration at any time and will be deemed to be exercised on the Time of Expiry. See "Plan of Distribution" and "Description of Securities Distributed".

Definitive certificates evidencing the Special Warrant Shares and Warrants issuable upon the exercise or deemed exercise of the Special Warrants and the FT Shares issuable upon the exercise or deemed exercise of the FT Special Warrants will be available for delivery upon the exercise or deemed exercise of such securities. In the event that a holder of Special Warrants and/or FT Special Warrants exercises such securities prior to the date that the Final Receipt is received by the Corporation, the Special Warrant Shares and Warrants and, if applicable, the Penalty Shares (as hereinafter defined), issuable upon exercise of the Special Warrants and the FT Shares issuable upon exercise of the FT Special Warrants, as the case may be, will be subject to hold periods under applicable securities legislation and shall bear such legends as required by securities laws.

The Special Warrants and FT Special Warrants were sold through the Underwriters pursuant to exemptions from the prospectus and registration requirements of the provinces of Ontario, Alberta, British Columbia and Nova Scotia and the Northwest Territories (the “**Offering Jurisdictions**”) and from the registration requirements of the U.S. Securities Act and applicable state securities laws, and were issued under and are governed by the Special Warrant Indenture and FT Special Warrant Indenture, respectively. There is no market through which the Offered Securities may be sold and none is expected to develop.

The outstanding common shares (the “**Common Shares**”) 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 October 5, 2009, the last trading day prior to the date of this short form prospectus, the closing price of the Common Shares on the TSX was \$3.48. The TSX has approved the listing of the FT Shares issuable upon exercise or deemed exercise of the FT Special Warrants, the Special Warrant Shares issuable upon exercise or deemed exercise of the Special Warrants, the Warrant Shares issuable upon exercise of the Warrants, the Compensation Shares issuable upon exercise of the Compensation Options, the Compensation Warrant Shares issuable upon exercise of the Compensation Warrants.

**An investment in securities of the Corporation involves a high degree of risk. See “Cautionary Note Regarding Forward-Looking Statements” and “Risk Factors”. There is currently no market through which the Warrants may be sold and purchasers may not be able to resell the Warrants. This may affect the pricing of the Warrants, the transparency and availability of trading prices, the liquidity of the Warrants and the extent of issuer regulation.**

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 October 6, 2009, 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\$1.0571.

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

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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 of 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 the United States federal securities laws and applicable Canadian securities legislation. Forward-looking statements include, but are not limited to, statements with respect to the estimation of mineral resources, 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, including but not limited to: fluctuations in the price of rare earth metals, risks related to mineral exploration projects, including risks related to estimates of gross metal values, estimation of metallurgical recoveries, changes in laws and regulations including taxation policies, actual results of exploration activities, 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](http://www.sedar.com). Forward-looking statements are based on assumptions management believes to be

reasonable, including but not limited to the 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.

## 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 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](http://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 25, 2008 for the financial year ended August 31, 2008;
- (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 management information circular of Avalon dated December 19, 2008 prepared in connection with the annual meeting of shareholders of Avalon held on January 19, 2009;
- (d) the material change report of Avalon dated December 19, 2008 relating to the closing of the Corporation's non-brokered private placement of 3,000,000 flow-through shares;
- (e) the material change report of Avalon dated February 4, 2009 relating to the results of a new estimate of rare earth element ("**REE**") resources in the Lake Zone deposit, Thor Lake, Northwest Territories (the "**Thor Lake Project**");
- (f) the material change report of Avalon dated April 14, 2009 relating to the initial assay results from the Corporation's 2009 winter drilling program on the Thor Lake Project;

- (g) the material change report of Avalon dated May 1, 2009 relating to the receipt of the conditional approval of the TSX for an amendment to the exercise price of certain common share purchase warrants of the Corporation;
- (h) the material change report of Avalon dated May 11, 2009 relating to further assay results from the 2009 winter drilling program on the Thor Lake Project;
- (i) the amended material change report of Avalon dated May 27, 2009 relating to the exercise of certain common share purchase warrants of the Corporation;
- (j) the material change report of Avalon dated July 6, 2009 relating to the final assay results from the 2009 drilling program on the Thor Lake Project;
- (k) the material change report of Avalon dated July 20, 2009 relating to the preliminary metallurgical test results for the Thor Lake Project;
- (l) the material change report of Avalon dated August 5, 2009 relating to the commencement of trading of the Corporation's common shares on OTCQX;
- (m) the material change report of Avalon dated August 17, 2009 relating to the completion of an updated resource estimate for the Thor Lake Project;
- (n) the material change report of Avalon dated August 31, 2009 relating to the Offering;
- (o) 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; and
- (p) the material change report of Avalon dated September 24, 2009 relating to the closing of the Offering.

**Any document of the type referred to above (excluding confidential material change reports) filed by the Corporation with the securities commissions or similar regulatory authorities in Canada 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 British Columbia, Alberta and Ontario and will, following the Final Receipt for the (final) short form prospectus, be required to file reports and other information in all other provinces and territories of Canada in which the Offered Securities 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](http://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) and the regulations thereunder (the “**Tax Act**”), the Special Warrant Shares, Warrants, Warrant Shares and FT Shares, if issued on the date hereof, would be qualified investments under the Tax Act for trusts governed by registered retirement savings plans (“**RRSPs**”), registered retirement income fund, deferred profit sharing plans, registered education savings plans, registered disability savings plans and tax-free savings accounts (“**TFSAs**”) (each a “**Deferred Plans**”), provided (i) the Special Warrant Shares, Warrant Shares and FT Shares, respectively, are listed on a “designated stock exchange” as defined in the Tax Act (which includes the TSX), and (ii) in the case of the Warrants, that the Warrant Shares that may be acquired on exercise of the Warrants are listed on a “designated stock exchange” as defined in the Tax Act and the Corporation deals at arm’s length with each person who is an annuitant, a beneficiary, an employer or a subscriber under such Deferred Plans.

It is not anticipated that Deferred Plans would have subscribed for the FT Special Warrants as Deferred Plans would not benefit from a deduction in respect of “Canadian exploration expenses” as defined under the Tax Act and as described below under “Canadian Federal Income Tax Considerations”, but investors may wish to transfer their FT Shares to their RRSP or TFSA following the initial purchase. Investors who intend to contribute all or a portion of their FT Shares to an RRSP or TFSA should consult their own tax advisors as to the tax consequences of such a contribution having regard to their own particular circumstances.

Special Warrant Shares, Warrants, Warrant Shares and FT Shares will not be a “prohibited investment” for a particular trust governed by a TFSA provided the holder deals at arm's length with the Corporation and does not have a “significant interest” in the Corporation or any person or partnership with which the Corporation does not deal at arm's length for purposes of the Tax Act. Generally, a holder will not have a significant interest in the Corporation unless the holder and/or persons not dealing at arm's length with the holder, owns directly or indirectly 10% or more of the issued shares of any class of the capital stock of the Corporation or of a corporation related to the Corporation. Holders of trusts governed by a TFSA should consult their own tax advisors to ensure the Special Warrant Shares, Warrants, Warrant Shares and FT Shares 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 Kemptonville 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, REE such as neodymium, terbium and dysprosium and rare minerals such as calcium feldspar which are all in growing demand 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 Mineral 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 on its Lake Zone deposit, Thor Lake, Northwest Territories, prepared by Wardrop Engineering Ltd. as of March 30, 2009 (the "**Technical Report**"), which is available for review on the Corporation's SEDAR profile at www.sedar.com. The updated resource estimate that was prepared by Wardrop was based on the drilling completed during 2007 and 2008, as well as some of the historic drill holes that were re-assayed for the full suite of rare earth elements. 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 material change reports (the "**Material Change Reports**") 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 Material Change Reports for a full description. See "Documents Incorporated by Reference" and "Interests of Experts".

### ***Property Description and Location***

The Thor Lake Project is located in the Mackenzie Mining District of the Northwest Territories ("**NWT**"), about 5 km north of the Hearne Channel of Great Slave Lake and approximately 100 km southeast of the city of Yellowknife.

The Thor Lake property is comprised of five contiguous mining leases totalling 10,449 acres (4,249 hectares). The mining leases have a 21-year life and each lease is renewable in 21-year increments. The Thor Lake property is subject to two underlying royalty agreements entitling the royalty holders to a cumulative 5.5% Net Smelter Returns Royalty, of which 2.5% can be bought back at the principal amount of \$150,000 compounded annually at the average Canadian prime rate from May 2, 1982 to the buyback date (as at August 31, 2009, this amounted to approximately \$1.2 million).

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. 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
- Environmental assessment

- Environmental impact review (panel review)

For a production permit, the Thor Lake Project will require environmental assessment, as well as an environmental impact review. Subsequent to the acquisition of the property, and completion 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.

Past exploration on the Thor Lake property included underground bulk sampling, drilling and trenching. Accordingly, there is little surface disturbance from exploration activities. Apart from a trailer camp, miscellaneous buildings, a 60,000 gallon six tank farm, a tent camp and a core storage area located on the property, there are no other environmental liabilities left by past exploration activities. The diesel fuel remaining in the tank farm has been consumed during past exploration. Avalon is seeking ways to safely remove the tanks. The trailer camp has been rehabilitated with part scrapped and removed to Yellowknife municipal waste disposal site. 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.

#### ***Accessibility, Climate, Local Resources, Infrastructure and Physiography***

The Thor Lake property is accessible seasonally by boat, winter road and/or by float or ski-equipped aircraft from either Yellowknife or Hay River located on the southwest shore of Great Slave Lake. The freeze-up and break-up periods preclude ready access to the area except by helicopter. At present the nearest road access is the Ingraham Trail, an all season highway that is 50 kilometres in a direct line from the property. It may be possible to build a road link over this distance. Without a road link a mining operation at Thor Lake would require a suitably sized permanent airstrip, which would allow for a minimum of Twin-Otter-sized aircraft service from Yellowknife throughout the year.

During the summer ice-free period, equipment can be barged to a landing site on the Hearne Channel on Great Slave Lake and then transported by existing access road approximately 9 kilometres to the mine site at the North T Zone. During the winter months, heavy equipment and bulk materials can be brought in by winter roads on the ice cover over Great Slave Lake. During the freeze-up and break-up periods, extra storage will be necessary for fuel and bulk supplies that cannot be brought in by aircraft. Dock facilities will need to be constructed on Great Slave Lake to enable the loading and offloading of cargo going to or coming from Hay River. In addition, the access road from the wharf to the site will need to be upgraded and proper access roads will need to be constructed around the site.

The climate is typical of Northern Canada with cold, dark winters and a fairly warm, short summer with long daylight hours. Temperatures range from around extremes of -50°C to +30°C, with normal winter temperatures from mid-November to mid-April of -15°C to -35°C. Temperatures from mid-May to the end of September range from 0°C to about +20°C. Precipitation is light and similar to Yellowknife, which receives 15 centimetres of rain and 135 centimetres of snowfall annually. Most lakes in the area do not freeze to the bottom and process water is readily available year-round. Freeze-up commences in late October and break-up of the majority of the lakes in the area is generally complete by late May. Great Slave Lake freezes later and is ice-free later than the smaller lakes.

Yellowknife, the capital city of the NWT, is located 100 km by air northwest of Thor Lake and has a population of approximately 20,000. Good supporting infrastructure can be supplied from Yellowknife.

The closest source of power to Thor Lake is Yellowknife, where the source is largely hydro generation from the Snare River dam located approximately 200 km northwest of Yellowknife. However, this facility has little or no excess generation capacity. The other hydroelectric generating facility in the general area is the Taltson River dam located 200 kilometres to the south near Fort Smith. As in other mining operations in the North, such as Lupin, Ekati and Diavik, it may be necessary to use diesel power generation for any mining operation at Thor Lake although there are plans being considered to build a major transmission line north from the Taltson River dam to serve the diamond mines and possibly Yellowknife. Two out of the four routes being considered would pass through the Thor Lake project area. Fuel can be barged to the site in the summer and trucked to the site in the winter. During the transition periods in the spring and fall neither barge, nor winter road access would be possible, and a minimum of four months fuel storage capacity would be considered necessary on site.

Bulk sampling via decline ramp was conducted in the North T Zone of the Thor Lake Property in 1985. Exploration roads, a trailer camp, vehicle sheds, fuel tanks, vehicles and a miner's dry remain from this period of exploration. Necessary infrastructure and access will nevertheless have to be constructed in order to support a larger scale mining operation. Water supply is available from any one of the surrounding lakes, including Thor Lake or Long Lake. Water tanks may need to be built in the plant area to act as storage and as a reservoir for fire protection. All water lines exposed to the elements will need to be insulated and heat traced. As there are no land based communications systems in the area it will be necessary to install a satellite communications system.

The Thor Lake area is characterized by low relief, between 230 and 255 metres above sea level and subdued topography. The area is typical boreal forest of the Canadian Shield and is primarily covered by open growths of stunted spruce, birch, poplar and jack pine which mantle isolated, glaciated rocky outcrop. Approximately one third of the property is occupied by lakes and swamps; the largest lake being Thor Lake at 238 metres above mean sea level and having a surface area of approximately 136 ha. Thor Lake is generally shallow with typical depths of the order of 3 to 4 m. Baseline environmental studies have shown that discontinuous permafrost is present in the area. The exact distribution is not known, but it is believed to be prevalent in muskeg regions. The permafrost is reported to have high ice content.

## ***Geological Setting***

### Regional

The Thor Lake mineral deposits occur within the Aphebian Blachford Lake Complex, which includes Archean Yellowknife Supergroup metasedimentary rocks of the southern Slave geologic province. The complex is of variably alkaline character and intrusive phases vary successively from early peridotite, pyroxenite and gabbro through leucoferrodiorite, quartz syenite and granite, to peralkaline granite and a late syenite (Davidson, 1982). There appear to be successive intrusive centres; an early western centre that is truncated by a larger second centre consisting of the Grace Lake Granite and the Thor Lake Syenite. Nepheline syenite underlies Thor Lake Syenite and is only known from drilling on the Lake Zone.

### Local

Most of the Thor Lake Property is underlain by the Thor Lake Syenite where it occurs in the centre of the Grace Lake Granite. The T Zone deposits are seen to cross both rock types which are only demarcated by the presence or absence of quartz, and the Lake Zone is seen confined solely to the Thor Lake Syenite. The Grace Lake granite is a coarse-grained, massive, equigranular, riebeckiteperthite granite with about 25% interstitial quartz. Accessories include fluorite, zircon, monazite, apatite, sphene,

iron and titanium oxides, astrophyllite, an alkali pyroxene and secondary biotite. Near the contact of the Grace Lake Granite with the Thor Lake Syenite the two units are texturally similar and the contact appears to be gradational over a few metres rather than intrusive. The presence of interstitial quartz is the main distinguishing feature although the granite is also pinker in colour and less readily weathered than the syenite. Because of their textural similarity and gradational contact relations, Davidson suggested that both rock types are derived from the same magma. The Thor Lake Syenite is completely enclosed by the Grace Lake Granite. It has been divided into five subunits, four of which are amphibole (ferrichterite) syenites that differ mainly in texture. The fifth and most distinctive subunit is a narrow arc of fayalite-pyroxene mafic syenite, which is locally steeply dipping and lies close to the margin of the main amphibole syenite and the Grace Lake Granite. It forms a distinct semi-circular ridge, locally termed the rim syenite that can be traced for a distance of about 8 km and is thought to be a ring dyke.

### Lake Zone

The Lake Zone is the largest mineralized zone on the property. It subcrops over an area of about two square kilometres and from diamond drilling is upwards of 200 m in thickness, is subhorizontally disposed and remains open to at least the south and west. The geology of the Lake Zone is complex. Within the Avalon Lease area, the geology is dominated by a succession of syenites (Thor Lake syenite) which has evolved into a granitic counterpart (Grace Lake granite). Together, these two phases form the eastern part of the Blachford Lake Intrusive Suite of Davidson (1978). The Thor Lake syenite consists of a lower series of cumulate rocks which pass upwards into porphyritic, mafic, laminated, and pegmatitic counterparts. In outcrop, Thor Lake syenite is seen to transition to Grace Lake granite with the appearance of quartz in an otherwise feldspathic rock.

### *Mineralization*

The Lake Zone consists principally of two lithologies: Thor Lake Syenite (ferrichterite-riebeckite syenite) and a lower aegirine nepheline syenite, both of which are overprinted by repeated metasomatic events. The degree and type of metasomatic overprinting on these protoliths determines subsequent lithologic classification. Original protolith textures are locally preserved to varying degrees, but are commonly completely obliterated by metasomatic processes, particularly Na (albitization, feldspathization), and Fe+Zr+F (magnetite, hematite, biotite, zircon).

Mineralization in the Lake Zone includes LREE found principally in allanite, monazite, bastnaesite and synchysite; yttrium, HREE and tantalum found in fergusonite; niobium in ferrocolumbite; HREE and zirconium in zircon; and gallium in albitized feldspathic rocks. Several of the economically interesting minerals in the Lake Zone are found to be fine grained and form intimate admixtures which have in the past presented metallurgical difficulties.

The part of the Lake Zone 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 alteration package of approximately 0.75% to 1.0% 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 is 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 here as the Basal Zone, contains the highest proportion of 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 can 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., 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 Lake Zone. This work resulted in the discovery of significant concentrations of niobium, tantalum, yttrium and REEs. Hole 79-1 intersected 0.67% Nb<sub>2</sub>O<sub>5</sub>, and 0.034% Ta<sub>2</sub>O<sub>5</sub> 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 Lake Zone. 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% Nb<sub>2</sub>O<sub>5</sub> and 0.034% Ta<sub>2</sub>O<sub>5</sub>). Preliminary metallurgical scoping work was also conducted, but, when the mineralization did not prove amenable to conventional metallurgical extractions, 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 Lake Zone. Five holes were also drilled in the Lake Zone 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 Lake Zone, 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. (Hazen) in Denver and conducting a marketing study on Be, Hecla withdrew from the project. In 1990, control of Highwood passed to Conwest Exploration Company Ltd. (Conwest) 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., 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 Lake Zone. 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 Lake Zone drill core to further assess the yttrium and heavy REE resources on the property. In 2006, 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 Lake Zone.

### ***Drilling***

Avalon has carried out the following drilling on the Lake Zone which is summarized to August 31, 2009

Calendar Year	Holes	Metres
2007	13	2,550
2008	72	14,290
2009 winter	26	5,447
2009 summer <sup>1</sup>	25	4,825
<b>Total<sup>1</sup></b>	<b>136</b>	<b>27,112</b>

1. Year to date to August 2009.

### ***Mineral Resource Estimates***

#### Wardrop 2009 Resource Estimates

The updated resource estimate prepared by Wardrop in March 2009, as detailed in the Technical Report, focuses on the recently discovered Basal Zone which contains the most interesting grades due to its enrichment in the more valuable heavy rare earths. The results are summarized below. The Lake Zone block modelling and resource estimation were carried out using Datamine 3D modelling software. Ordinary kriging was used to estimate the grades of yttrium oxide, the 14 Rare Earth Oxides and oxides of: Ta, Nb, Zr, Ga, Hf and Th. Density was estimated using Inverse Distance Squared (ID<sup>2</sup>).

Zone	Resource Class	Cut-Off TREO (%)	Tonnes (x1000)	TREO (%)	HREO (%)	H/T (%)
Basal	Indicated	1.60	2,186	2.14	0.43	20.0
Upper	Indicated	1.60	1,873	1.96	0.19	9.7
<b>Total</b>	Indicated	1.60	4,059	2.06	0.32	15.5
Zone	Resource Class	Cut-Off TREO (%)	Tonnes (x1000)	TREO (%)	HREO (%)	H/T (%)
Basal	Inferred	1.60	28,447	1.99	0.44	22.1
Upper	Inferred	1.60	32,707	2.10	0.17	8.2
<b>Total</b>	Inferred	1.60	61,154	2.05	0.30	14.5

1 HREO (Heavy Rare Earth Oxides) is the total concentration of: Y<sub>2</sub>O<sub>3</sub>, Eu<sub>2</sub>O<sub>3</sub>, Gd<sub>2</sub>O<sub>3</sub>, Tb<sub>2</sub>O<sub>3</sub>, Dy<sub>2</sub>O<sub>3</sub>, Ho<sub>2</sub>O<sub>3</sub>, Er<sub>2</sub>O<sub>3</sub>, Tm<sub>2</sub>O<sub>3</sub>, Yb<sub>2</sub>O<sub>3</sub> and Lu<sub>2</sub>O<sub>3</sub>.

2. TREO (Total Rare Earth Oxides) are HREO plus: La<sub>2</sub>O<sub>3</sub>, Ce<sub>2</sub>O<sub>3</sub>, Pr<sub>2</sub>O<sub>3</sub>, Nd<sub>2</sub>O<sub>3</sub> and Sm<sub>2</sub>O<sub>3</sub>.

3. Wardrop considers a 1.60% TREO cut-off grade to be a reasonable estimate of potentially economic resources, based on a preliminary estimate of operating costs totaling \$197.00/tonne.

4. To determine a recommended cut-off grade, Gross Metal Values (GMV) were calculated using four- year average REE prices (where available) and assuming recoveries of: 74.6% for Y<sub>2</sub>O<sub>3</sub> and all rare earth elements. The metallurgical recoveries include both mineral processing (flotation) and hydrometallurgical recoveries.

5. H/T is the ratio of HREO to TREO expressed as percent.

#### Wardrop 2007 Resource Estimates

In 2007, Wardrop prepared various resources estimates for the Lake zone and the North T zone. As described above, Wardrop has since issued updated resource estimates for the Lake zone, however, there has been no further resource estimate update for the North T zone since the 2007 Wardrop estimate, which is detailed in the Technical Report. The following resource estimate generated by Wardrop on the North T zone includes resources in the various sub-zones of the North T deposit.

*Indicated Mineral Resource Estimate for North T Deposit:*

Sub-Zone	Cut-Off	Tonnes	TREO+Y <sub>2</sub> O <sub>3</sub> (%)	BeO (%)	Nb <sub>2</sub> O <sub>5</sub>
C,D,E	0.40 BeO	498,409	0.72	0.98	0.50
F	0.10 Ce <sub>2</sub> O <sub>3</sub>	43,877	6.50	0.16	0.01
Y	0.04 Y <sub>2</sub> O <sub>3</sub>	593,815	0.45	0.08	0.59
<b>Total</b>	-	<b>1,136,101</b>	<b>0.71</b>	<b>0.48</b>	<b>0.53</b>

Hudgtec 2009 Updated Resource Estimate

The Lake Zone resource estimate prepared by Wardrop, as set out in the Technical Report and summarized above, was further updated by Bruce Hudgins, P.Geo. of Hudgtec Consulting Limited (“**Hudgtec**”) in July 2009 based on additional assay data generated from Avalon’s 2009 winter drilling program. As much of the drilling was from more closely-spaced “in-fill” holes, at approximately 50 metre spacing, this has resulted in an increase in the proportion of resources in the deposit that can be classified as “Indicated”, as disclosed by Avalon on August 17, 2009.

The results from the 2009 winter drilling resulted in new Indicated mineral resources being defined in the southern continuation of the high-grade Basal Zone part of the deposit, in the Long Lake area. These Indicated mineral resources total 4.4 million tonnes grading 1.97% TREO (containing 25.4% HREO – heavy rare earth oxides) at the 1.60% TREO (total rare earth oxides) cut-off grade and are distinct from the 2.186 million tonnes grading 2.14% TREO (20% HREO) of Indicated mineral resources in the central part of the Basal Zone deposit set out in the Technical Report. Further in-fill drilling is presently being carried out between these two areas following which a revised estimate of Indicated mineral resources in this part of the deposit will be prepared and audited. Avalon expects that this resource will ultimately form the basis for the mine planning component of the proposed pre-feasibility study (the “**PFS**”) that Avalon intends to have prepared later this year once all assays are received and compiled.

Inferred mineral resources in the Basal Zone were estimated at 44.3 million tonnes grading 1.94% TREO (21% HREO), although this change was partly due to some resources that were previously treated as Upper Zone now being assigned to the Basal Zone. The net effect has been a small increase in the total of Inferred mineral resources for the Upper and Basal Zones combined from approximately 61 million tonnes (Wardrop, 2009) to 64.2 million tonnes at a grade of 1.96% TREO with 16.8% HREO.

The current 2009 resource estimate is based on core logging, assaying and geological interpretation by Avalon’s consulting geologists of the rare earth mineralization in the Lake Zone deposit from 51 historic and 126 recent diamond drill holes (2007-2009). The methodology employed by Hudgtec was reviewed by Scott Wilson Roscoe Postle Associates Inc. (“**Scott Wilson RPA**”), the technical consultants retained to prepare the PFS. Once all the analytical data for the current definition drilling program is received, then a final updated resource estimate will be prepared by Hudgtec which is intended to then be audited by Scott Wilson RPA for use in the PFS.

The general resource estimation parameters employed by Hudgtec are summarized as follows:

- Rare Earth Elements (REE) composited to two metre core lengths within separate mineralized zones. Evaluation of grade distribution confirmed that no “cutting” of high grade values was required.
- REE assay composites and density measurements temporarily flattened to base of Basal Zone to facilitate estimation procedure.
- Estimation of REE grades and density into separate zones in flattened Gemcom® Surpac® Block Model (10m x 10m x 5m blocks with sub-blocking to 5m x 5m x 2.5m) by the Inverse Distance Squared method. A minimum of 4 composites and maximum of 15 composites were used to estimate a block.

### ***Sampling and Analysis and Security of Samples***

Subsequent to the issuance of the Technical Report by Wardrop, Avalon changed its primary laboratory from Acme Laboratories to ALS Chemex in Yellowknife. All drill core from the 2009 work program has been split on site, sampled on two metre intervals and shipped to the ALS Chemex facility in Yellowknife for sample preparation. Analytical standards were prepared from crushed rejects of historical Lake Zone samples, then analysed at five separate laboratories to determine reproducible values. These standards were then routinely inserted into the sample batches to monitor core analyses. Barren diabase drill core is inserted as blanks. ALS Chemex ships crushed splits of all the samples to its laboratory in Vancouver, British Columbia. Selected duplicates are also analyzed at an alternative independent laboratory. The results reported to date were produced by ALS Chemex and achieved acceptable standard values for the main REE elements of economic interest (Nd, Tb and Dy).

All samples are analysed by lithium metaborate/tetraborate fusion and dilute nitric acid digestion, followed by whole rock and 45 element multielement ICP analysis, being ALS sample method ME-MS81. Commencing with hole L09-137, all samples contained within intercepts above the 1.6% cut-off criteria and any additional samples exceeding analytical limits or of geological significance are rerun using similar ALS method ME-MS81H for higher concentration levels. ME-MS81H is a similar method but with greater dilution in the analytical procedure. The use of the ME-MS81H method has resulted in lower batch failure rates when monitoring the analytical results on the Corporation’s standards, which are blind to the laboratory. An additional change in procedures at project, which was implemented in July 2009, is that all drill holes are now downhole surveyed using a Devico Deviflex survey instrument, which is a non-magnetic electronic multishot for surveying inside casings and drill strings by using the wireline system.

### ***Exploration and Development***

#### **Metallurgical Test Program, 2009**

Avalon announced preliminary metallurgical test results for the Lake Zone REE deposit on July 20, 2009. The 2009 metallurgical test program has been based on composite samples of drill core obtained between 2007 and 2008, including a main bulk sample generated by drilling during May 2008 in the central part of the deposit. The work is being conducted at the SGS Minerals Services laboratory in Lakefield, Ontario, under the supervision of J.R. Goode, P. Eng., Consulting Metallurgist. SGS Minerals Services is a global leader in metallurgical testing, consulting and on-site services for the mining and minerals sector. Specific work to recover the other rare metals present in the Lake Zone ore such as tantalum, niobium, gallium, zirconium and hafnium has not yet been undertaken although it has been noted that several of these follow the REE and therefore are also likely recoverable.

Metallurgical processing of the Lake Zone mineralization to produce saleable REE products is envisioned as a two-stage process. The first stage will be conventional milling and froth flotation to

produce a mineral concentrate. The second stage will be hydrometallurgical treatment of the mineral concentrate in order to extract the REE from the minerals, bring them into solution, partially refine them, and then precipitate them out to produce one or more chemical concentrates in the form of high-grade mixed REE carbonates. These mixed REE carbonates will ultimately require further processing to separate the individual REE, which may initially be done by third parties or ultimately built into an integrated business model. Preliminary market studies also indicate that mixed REE carbonates containing a high proportion of heavy REE, will likely be a saleable product as is.

Preliminary testing has proven a robust flotation route that yields a concentrate representing 25% of the feed mass and containing between 82% and 85% of the REE, zirconium and niobium. This process has been shown to work on several samples of different ore types and grades. More recent tests demonstrate that the flotation mass can be reduced to about 15% with a small reduction in recovery rates. Further trials to optimize the flotation process are in progress. These tests were all performed on drill core composites collected from the Basal Zone in the central part of the deposit.

Numerous hydrometallurgical tests have been conducted on bulk samples of flotation concentrate produced in large-scale, locked-cycle tests. These tests have investigated sulphuric acid baking and sodium hydroxide (caustic) cracking - processes commonly used to decompose refractory minerals. The data show that a caustic crack will give quite complete decomposition of all the REE-bearing minerals including zircon, whereas the acid bake process decomposes all minerals except zircon. Tests show that caustic cracking followed by either hydrochloric leaching or a two-stage sulphuric acid-hydrochloric acid leach will put in excess of 90% of the REE into solution as well as the zirconium and niobium.

Please refer to the Material Change Reports incorporated by reference herein for additional information on Avalon's currently proposed exploration plans. See "Documents Incorporated by Reference".

## **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 audited financial statements of the Corporation for the years ended August 31, 2009 and 2008. After giving effect to the Offering (assuming no Penalty Shares are issued) an additional (i) 7,500,000 Common Shares of the Corporation will be issued upon exercise or deemed exercise of the Special Warrants and FT Special Warrants, (ii) 3,372,500 Common Shares will be issuable upon the exercise of the Warrants, (iii) 450,000 Common Shares will be issuable upon exercise of the Compensation Options, and (iv) 225,000 Common Shares will be issuable upon exercise of the Compensation Warrants.

## **USE OF PROCEEDS**

The net proceeds to the Corporation from the Offering, after deducting the Commission and the estimated expenses of the Offering of \$300,000 are approximately \$16,163,395. The Corporation will not receive any cash proceeds upon the exercise of the Special Warrants or the FT Special Warrants.

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

<b>Thor Lake</b>	<b>Fiscal 2010</b>	<b>Fiscal 2011</b>	<b>Total</b>
Drilling	\$4,500,000	\$ 900,000	\$ 5,400,000
Prefeasibility study	\$ 650,000		\$ 650,000
Feasibility study	\$ 250,000	\$1,250,000	\$ 1,500,000
Metallurgy for prefeasibility study	\$ 350,000		\$ 350,000
Environmental testing for metallurgical products	\$ 300,000		\$ 300,000
Metallurgy, minipilot plant	\$ 750,000		\$ 750,000
Environmental baseline work, Minesite	\$1,100,000	\$ 250,000	\$ 1,350,000
Environmental baseline work, hydromet plant	\$ 250,000	\$ 250,000	\$ 500,000
Community engagement	\$ 425,000	\$ 450,000	\$ 875,000
Project management	\$ 150,000	\$ 175,000	\$ 325,000
<b>TOTAL</b>	<b>\$8,725,000</b>	<b>\$3,275,000</b>	<b>\$12,000,000</b>

Dr. William Mercer, P. Geo., Vice President, Exploration of the Corporation, is the internal qualified person at the Corporation who reviewed the Technical Report as well as the currently proposed exploration and development programs for the Lake Zone deposit on the Thor Lake Project, summarized in the table above, and has determined that, in his opinion, the allocation of \$12,000,000 towards such exploration and development programs is reasonable. See “Recent Developments – Thor Lake Mineral Project” and “Interest of Experts”.

<b>General corporate purposes</b>	<b>Fiscal 2010</b>	<b>Fiscal 2011</b>	<b>Total</b>
Salaries	\$ 900,000	\$ 945,000	\$1,845,000
Publicity and investor relations, filing fees	\$ 400,000	\$ 420,000	\$ 820,000
Professional fees	\$ 200,000	\$ 210,000	\$ 410,000
Travel	\$ 200,000	\$ 210,000	\$ 410,000
General corporate expenses (rent, insurance, office expenses, other miscellaneous)	\$ 300,000	\$ 378,395	\$ 678,395
<b>TOTAL</b>	<b>\$2,000,000</b>	<b>\$2,163,395</b>	<b>\$4,163,395</b>

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.

### **PLAN OF DISTRIBUTION**

Pursuant to the Underwriting Agreement, the Corporation agreed to sell and the Underwriters, severally, agreed to purchase, or find substituted purchasers for, 6,745,000 Special Warrants at the SW Issue Price and to offer, on a best efforts basis, 755,000 FT Special Warrants at the FT Special Warrant Issue Price. The closing of the Offering took place on September 17, 2009 (the “**Closing Date**”) and the consideration was paid against delivery of certificates representing the Special Warrants and FT Special Warrants.

The Corporation paid to the Underwriters a Commission equal to 6.0% of the gross proceeds of the Offering, being \$1,050,855. The Corporation also issued to each Underwriter a Special Broker

Warrant which shall be automatically exercised for no additional consideration and no further action on the part of the holder at the Time of Expiry for an aggregate of 450,000 Compensation Options, which amount is equal to 6% of the total number of Offered Securities, each entitling the holder to purchase a Compensation Unit consisting of one Compensation Share and one-half of a Compensation Warrant. Each Compensation Option is exercisable at a price of \$2.43 per Compensation Unit at any time prior to 5:00 p.m. (Toronto time) on September 17, 2011. Each whole Compensation Warrant will entitle the holder to purchase a Compensation Warrant Share at a price of \$3.00 at any time prior to 5:00 p.m. (Toronto time) on September 17, 2011. This short form prospectus also qualifies for distribution of the Compensation Options.

The TSX has approved the listing of the FT Shares issuable upon exercise or deemed exercise of the FT Special Warrants, the Special Warrant Shares issuable upon exercise or deemed exercise of the Special Warrants, the Warrant Shares issuable upon exercise of the Warrants, the Compensation Shares issuable upon exercise of the Broker Special Warrants, the Compensation Warrant Shares issuable upon exercise of the Compensation Warrants.

The Special Warrant Issue Price and the FT Special Warrant Issue Price were determined by negotiation between the Corporation and the Underwriters.

The Corporation has agreed to use its reasonable best efforts to: (i) file a preliminary short form prospectus qualifying the distribution of the Special Warrant Shares and Warrants issuable upon exercise or deemed exercise of the Special Warrants, the FT Shares issuable upon exercise or deemed exercise of the FT Special Warrants and the Compensation Options issuable upon the deemed exercise of the Special Broker Warrants (the “**Qualified Securities**”) in each of the Offering Jurisdictions; (ii) resolve all comments received or deficiencies raised by the securities commissions or securities regulatory authorities (the “**Commissions**”) in the Offering Jurisdictions as expeditiously as possible; and (iii) file a final short form prospectus and obtain the Final Receipt as soon as possible after such regulatory comments and deficiencies have been resolved, and in any event no later than 5:00 p.m. (Toronto time) on November 16, 2009 (the “**Qualification Deadline**”).

Special Warrants and FT Special Warrants that have not been previously exercised will be deemed to be exercised on behalf of, and without any action required on the part of, the holder thereof immediately prior to the Time of Expiry. In the event that the Final Receipt is not obtained prior to the Qualification Deadline, each Special Warrant shall thereafter be exercisable for no additional consideration into 1.1 Special Warrant Shares (the additional 0.1 of a Special Warrant Share collectively being referred to as the “**Penalty Shares**”) and one-half of one Warrant (in lieu of one Special Warrant Share and one-half of one Warrant). This short form prospectus also qualifies the distribution of any Penalty Shares issuable on the exercise or deemed exercise of the Special Warrants. For the purposes hereof, “Special Warrant Shares” includes, as applicable, the Penalty Shares. For greater certainty, no Penalty Shares are issuable in connection with the FT Special Warrants or the Compensation Options.

There is currently no market through which the Warrants may be sold and purchasers may not be able to resell the Warrants. This may affect the pricing of the Warrants, the transparency and availability of trading prices, the liquidity of the Warrants and the extent of issuer regulation.

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. The Underwriters will not receive any other fee or commission from the Corporation in connection with the completion of the Offering.

The Corporation and certain directors of the Corporation have agreed, for the benefit of the Underwriters, that during the period ending on the earlier of: (i) the date on which the Final Receipt for the final prospectus is issued qualifying the distribution of the Qualified Securities; or (ii) January 18, 2010, they will not offer, sell, agree to offer or sell, or enter into an arrangement to offer or sell any Common Shares, or securities convertible into, exchangeable for, or otherwise exercisable to acquire any Common Shares or financial instruments convertible or exchangeable into Common Shares held by them, without the prior written consent of CIBC World Markets Inc. on behalf of the Underwriters, such consent not to be unreasonably withheld or delayed, other than in connection with: (i) the Offering; or (ii) the grant or exercise of stock options pursuant to any stock option plan of the Corporation.

### **Special Warrants**

The Special Warrants were issued pursuant to and are governed by and subject to the terms and conditions of the Special Warrant Indenture. The Special Warrant Indenture provides, among other things, that the holders of Special Warrants will be entitled to receive, upon exercise or deemed exercise of the Special Warrants, without payment of any additional consideration and subject to adjustment in certain circumstances, one Special Warrant Share and one-half of one Warrant for each Special Warrant held, at any time prior to the Time of Expiry. Each Warrant issued pursuant to the exercise or deemed exercise of Special Warrants will entitle the holder to purchase one Warrant Share at an exercise price of \$3.00 at any time prior to 5:00 p.m. (Toronto time) on September 17, 2011.

Special Warrants that have not been previously exercised will be deemed to be exercised on behalf of, and without any action required on the part of, the holder thereof immediately prior to the Time of Expiry. In the event that the Final Receipt is not obtained prior to the Qualification Deadline, each Special Warrant shall thereafter be exercisable for no additional consideration into 1.1 Special Warrant Shares and one-half of one Warrant (in lieu of one Special Warrant Share and one-half of one Warrant). This short form prospectus also qualifies the distribution of the additional 0.1 of a Special Warrant Share per Special Warrant (collectively the “**Penalty Shares**”) that may be issued on the exercise or deemed exercise of the Special Warrants following the Qualification Deadline.

In the event that a holder of Special Warrants exercises such Special Warrants prior to the earlier of (i) the date that the Final Receipt is received by the Corporation, or (ii) January 18, 2010, the Special Warrant Shares and Warrants and, if applicable, the Penalty Shares issued upon exercise will be subject to hold periods under applicable securities legislation and shall bear such legends as required by securities laws.

No fractional Special Warrant Shares or Warrants will be issued upon the exercise or deemed exercise of the Special Warrants and holders of the Special Warrants will not have any rights as shareholders of the Corporation.

In addition, the Special Warrant Indenture provides for and contains provisions designed to protect the holders of the Special Warrants against dilution upon the occurrence of certain events, including any subdivision, consolidation or reclassification of the Common Shares, the amalgamation, merger or corporate reorganization of the Corporation or a rights offering.

The rights of holders of Special Warrants may be modified. The Special Warrant Indenture provides for meetings by holders of Special Warrants and the passing of resolutions by such holders which are binding on all holders of Special Warrants.

The Warrant Agent and the Corporation may supplement the Special Warrant Indenture for certain limited purposes pursuant to the terms of the Special Warrant Indenture. Additionally, they may make any changes or corrections to the Special Warrant Indenture that are required for the purpose of rectifying any ambiguity or defective provision or clerical omission or mistake or manifest or other error contained therein provided that, in the opinion of counsel to the Warrant Agent or the Corporation, the rights of the holders of the Special Warrants are not prejudiced thereby.

The Corporation has designated the Warrant Agent at its offices in Toronto, Ontario and Vancouver, British Columbia as Warrant Agent for the Special Warrants, where the Special Warrants may be surrendered for exercise, exchange or replacement.

The foregoing is a summary only of the terms of the Special Warrants and is qualified by the more detailed provisions of the Special Warrant Indenture. Special Warrant holders may obtain a copy of the Special Warrant Indenture upon request from the Corporation. The Special Warrant Indenture is also available for review on the SEDAR website located at [www.sedar.com](http://www.sedar.com) under the Corporation's profile.

### **FT Special Warrants**

The FT Special Warrants were issued pursuant to and are governed by and subject to the terms and conditions of the provisions of the FT Special Warrant Indenture. The FT Special Warrant Indenture provides, among other things, that the holders of FT Special Warrants will be entitled to receive, upon exercise or deemed exercise of the FT Special Warrants, without payment of any additional consideration and subject to adjustment in certain circumstances, one FT Share.

The Corporation has agreed to use its reasonable best efforts to: (i) file a preliminary short form prospectus qualifying the distribution of the FT Shares issuable upon exercise or deemed exercise of the FT Special Warrants in the Offering Jurisdictions; (ii) resolve all comments received or deficiencies raised by the Commissions as expeditiously as possible; and (iii) file a (final) short form prospectus and obtain the Final Receipt as soon as possible after such regulatory comments and deficiencies have been resolved, and in any event no later than the Qualification Deadline.

FT Special Warrants that have not been previously exercised will be deemed to be exercised on behalf of, and without any action required on the part of, the holder thereof immediately prior to the Time of Expiry. Unlike the treatment of the Special Warrants, no Penalty Shares will be issuable upon the exercise of the FT Special Warrants in the event that the Final Receipt is not obtained prior to the Qualification Deadline.

In the event that a holder of FT Special Warrants exercises such FT Special Warrants prior to the earlier of (i) the date that the Final Receipt is received by the Corporation or (ii) January 18, 2010, the FT Shares issued upon exercise will be subject to hold periods under applicable securities legislation and shall bear such legends as required by securities laws.

No fractional FT Shares will be issued upon the exercise or deemed exercise of the FT Special Warrants and holders of the FT Special Warrants will not have any rights as shareholders of the Corporation.

In addition, the FT Special Warrant Indenture provides for and contains provisions designed to protect the holders of the FT Special Warrants against dilution upon the occurrence of certain events, including any subdivision, consolidation or reclassification of the Common Shares, the amalgamation, merger or corporate reorganization of the Corporation or a rights offering.

The rights of holders of FT Special Warrants may be modified. The FT Special Warrant Indenture provides for meetings by holders of FT Special Warrants and the passing of resolutions by such holders which are binding on all holders of FT Special Warrants.

The Warrant Agent and the Corporation may supplement the FT Special Warrant Indenture for certain limited purposes pursuant to the terms of the FT Special Warrant Indenture. Additionally, they may make any changes or corrections to the FT Special Warrant Indenture that are required for the purpose of rectifying any ambiguity or defective provision or clerical omission or mistake or manifest or other error contained therein provided that, in the opinion of counsel to the Warrant Agent or the Corporation, the rights of the holders of the FT Special Warrants are not prejudiced thereby.

The Corporation has designated the Warrant Agent at its offices in Toronto, Ontario and Vancouver, British Columbia as Warrant Agent for the FT Special Warrants, where the FT Special Warrants may be surrendered for exercise, exchange or replacement.

The foregoing is a summary only of the terms of the FT Special Warrants and is qualified by the more detailed provisions of the FT Special Warrant Indenture. FT Special Warrant holders may obtain a copy of the FT Special Warrant Indenture upon request from the Corporation. The FT Special Warrant Indenture is also available for review on the SEDAR website located at [www.sedar.com](http://www.sedar.com) under the Corporation's profile.

### **United States Restrictions**

The Special Warrant Shares, the Warrants, the FT Shares and the Compensation Options qualified for distribution hereby and the Warrant Shares, the Compensation Shares, the Compensation Warrants and the Compensation Warrant Shares have not been, and will not be, registered under the U.S. Securities Act or applicable state securities laws and such securities may not be offered, sold or delivered directly or indirectly, within the United States, or for the account or benefit of U.S. Persons under any circumstances, except in transactions exempt from the registration requirements of the U.S. Securities Act and applicable state securities laws. In addition, until 40 days after the commencement of the Offering, any offer or sale of any of such securities within the United States by a dealer (whether or not participating in the Offering) may violate the registration requirements of the U.S. Securities Act unless such offer is made pursuant to an exemption from registration under the U.S. Securities Act.

The Compensation Options will not be exercisable in the United States or by or on behalf of a U.S. Person, nor will certificates representing the underlying securities be registered or delivered to an address in the United States. The Warrants and the Compensation Warrants will not be exercisable in the United States or by or on behalf of a U.S. Person, nor will certificates representing the Warrant Shares or the Compensation Warrant Shares be registered or delivered to an address in the United States, unless an exemption from registration under the U.S. Securities Act and any applicable state securities laws is available and the Corporation has received an opinion of counsel of recognized standing to such effect in form and substance reasonably satisfactory to the Corporation; provided, however, that an "accredited investor" (as defined in Rule 501(a) of Regulation D under the U.S. Securities Act) at the time of exercise of the Warrants that purchased Special Warrants in the Offering in the United States or who was a U.S. Person will not be required to deliver an opinion of counsel in connection with the exercise of the Warrants that are underlying those Special Warrants.

The securities offered, sold or issued in the United States or to, or for the account or benefit of, a U.S. Person will be "restricted securities" within the meaning of Rule 144(a)(3) of the U.S. Securities Act. 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 or any applicable state securities laws 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 any applicable state securities laws.

Terms used and not defined in three preceding paragraphs shall have the meanings ascribed thereto by Regulation S under the U.S. Securities Act.

## CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Cassels Brock & Blackwell LLP, counsel to the Corporation, and Heenan Blaikie, counsel to the Underwriters, the following is a summary of the principal Canadian federal income tax considerations generally applicable to the acquisition, holding and disposition of Special Warrant Shares, Warrants and FT Shares by holders of Special Warrants and FT Special Warrants respectively who acquire Special Warrant Shares, Warrants and FT Shares pursuant to this short form prospectus. This summary is applicable to a holder who, for purposes of the Tax Act and at all relevant times, is resident or deemed to be resident in Canada, holds the Special Warrant Shares, Warrants and FT Shares as capital property, and deals at arm's length and is not affiliated with the Corporation. The Special Warrant Shares, Warrants and FT Shares and will generally be considered capital property to a holder unless either the holder holds such securities in the course of carrying on a business of buying and selling securities or the holder has acquired such securities in a transaction or transactions considered to be an adventure in the nature of trade. Certain holders who might not otherwise be considered to hold their Special Warrant Shares or FT Shares as capital property may, in certain circumstances, be entitled to have such securities (and all other "Canadian securities" as defined in the Tax Act) treated as capital property by making an irrevocable election permitted by subsection 39(4) of the Tax Act. This election does not apply to Warrants. Holders should consult their own tax advisors regarding this election.

This summary is not applicable to a holder (i) that is a "financial institution", for purposes of the mark-to-market rules, (ii), that is a "specified financial institution", (iii) that is a partnership or trust; (iv) an interest in which would be a "tax shelter investment", (v) that has made a functional currency reporting election; (vi) that is a "principal business corporation" or (vii) whose business includes trading or dealing in rights, licences or privileges to explore for, drill for or take minerals, petroleum, natural gas or other related hydrocarbons, all within the meaning of the Tax Act. Such holders should consult their own tax advisors.

This summary is based on the current provisions of the Tax Act, the regulations thereunder (the "**Regulations**"), all proposals to amend the Tax Act and the Regulations publicly announced by or on behalf of the Minister of Finance prior to the date hereof (the "**Proposals**") and counsel's understanding of the administrative and assessing practices and policies of the Canada Revenue Agency ("**CRA**") which have been made publicly available prior to the date hereof. This summary assumes that the Proposals will be enacted as proposed but does not take into account or anticipate any other changes in law, whether by way of judicial, legislative or regulatory decision or action, nor does it take into account any provincial, territorial or foreign income tax considerations. No assurances can be given that any Proposals will be enacted as proposed, if at all, or that legislative, judicial or administrative changes will not modify or change the statements expressed herein.

The portions of this summary relating to the FT Special Warrants and FT Shares (collectively referred to as "**Flow-Through Shares**") also assume that the Corporation will make all filings in respect of the issue of the Flow-Through Shares and the renunciation of "Canadian exploration expenses" ("**CEE**") as defined for purposes of the Tax Act in the manner and within the time required by the Tax Act and the Regulations and that all renunciations will be validly made. In addition, while the Corporation will furnish each purchaser of FT Special Warrants with information relevant to the

investor's Canadian federal and provincial tax returns, the preparation and filing of such returns will remain the responsibility of each investor. The portions of this summary relating to the Flow-Through Shares are based upon a representation by the Corporation that it will be a "principal-business corporation" at all material times and that the Flow-Through Shares, when issued, will not be "prescribed rights" or "prescribed shares" for purposes of the definition of "flow-through share", all within the meaning of the Tax Act and the Regulations. This summary also assumes that all expenses herein discussed are reasonable. No opinion is expressed regarding any of the assumptions made in this discussion of income tax considerations.

**This summary is not exhaustive of all possible Canadian federal income tax considerations applicable to an investment in Special Warrant Shares, Warrants and FT Shares. Moreover, the income and other tax consequences of acquiring, holding and disposing of Special Warrant Shares, Warrants and FT Shares will vary according to the status of the holder, the province or provinces in which the holder resides or carries on business and, generally, the holder's own particular circumstances. Accordingly, the following description of income tax matters is of a general nature only and is not intended to constitute advice to any particular holder. Prospective holders should consult their own tax advisors with respect to the income tax consequences of investing in Special Warrant Shares, Warrants and FT Shares, based on the holder's particular circumstances.**

### **Exercise of Special Warrants and FT Special Warrants**

No gain or loss will be realized by a holder upon the exercise of a Special Warrant or FT Special Warrant.

Holders of Special Warrants will be required to allocate the aggregate cost of a Special Warrant between the Special Warrant Share and the Warrant on a reasonable basis in order to determine their respective costs for purposes of the Tax Act. Although the Corporation and the Underwriters believe that an allocation of \$2.21 to each Special Warrant Share and \$0.09 to each half Warrant is reasonable, such allocation will not be binding on the CRA or a holder.

The cost to a holder of a FT Share acquired upon the exercise of a FT Special Warrant for the purposes of the Tax Act is deemed to be nil.

The cost to a holder of a Special Warrant Share or a FT Share acquired upon the exercise of a Special Warrant or FT Special Warrant, respectively, must be averaged with the adjusted cost base (determined immediately before the exercise of the Special Warrant or FT Special Warrant) of all other Common Shares held by the holder as capital property at the time of the exercise of the Special Warrant or FT Special Warrant to determine the holder's adjusted cost base of all such Common Shares held.

### **Exercise or Expiry of Warrants**

No gain or loss will be realized by a holder upon the exercise of a Warrant. The cost to a holder of a Warrant Share acquired upon the exercise of a Warrant will be the aggregate of the holder's adjusted cost base of the Warrant so exercised and the price paid for the Warrant Share (i.e., the exercise price of the Warrant). The cost to a holder of a Warrant Share acquired upon the exercise of a Warrant must be averaged with the adjusted cost base (determined immediately before the exercise of the Warrant) of all other Common Shares held by the holder as capital property at the time of the exercise of the Warrant to determine the holder's adjusted cost base of all such Common Shares held.

The expiry of an unexercised Warrant will generally give rise to a capital loss equal to the adjusted cost base to the holder of the expired Warrant.

## **Renunciation of CEE in Respect of FT Special Warrants**

Subject to certain limitations and restrictions contained in the Tax Act, a “principal-business corporation” (as defined in the Tax Act) that incurs CEE pursuant to an agreement for the issue of its “flow-through shares” will be entitled to renounce such CEE to the initial holder and the CEE so renounced will be deemed to have been CEE incurred by such holder on the effective date of the renunciation.

The Tax Act also contains a one-year “look-back” rule which, if certain conditions are satisfied, entitles the Corporation to renounce CEE incurred by it in 2010 to investors in FT Special Warrants effective on December 31, 2009. In other words, investors in FT Special Warrants would be deemed to have incurred the CEE on December 31, 2009 even though the Corporation would not have incurred the expenditures until 2010. For this rule to apply in respect of CEE incurred in 2010, the investor must have paid the consideration in money for the share, and a subscription agreement must have been entered into during 2009 and on or before to December 31, 2009. In the event that the Corporation does not fully expend on CEE the amounts renounced under the one year “look-back” rule by the end of 2010, the Corporation will be required to reduce the amount of CEE renounced to the investors and the investors’ income tax returns for the years in which the CEE was claimed will be reassessed accordingly. An investor will not be subject to any penalties for any such reassessment and will not be subject to any interest charges for any additional taxes payable if such taxes are paid by the investor on or prior to April 30, 2011.

The Corporation has undertaken to incur sufficient CEE prior to December 31, 2010 so as to enable the Corporation to renounce in favour of the investors in FT Special Warrants an amount equal to the gross proceeds derived from the issuance of the FT Special Warrants.

CEE deemed to have been incurred by a holder will be added to the cumulative CEE (“CCEE”) account of such holder. A holder may deduct in computing income from all sources for a taxation year such amount as may be claimed not exceeding 100% of the balance in a holder’s CCEE account at the end of a taxation year. To the extent that a holder does not deduct the balance of the holder’s CCEE account at the end of a taxation year, the balance will be carried forward and may be deducted by the holder in subsequent taxation years in accordance with the provisions of the Tax Act. The CCEE account of a holder is reduced by the amount deducted by him in prior years and by the amount of any assistance that the holder receives or is entitled to receive in respect of CEE included in the CCEE account. If the balance of the holder’s CCEE account is “negative” at the end of a taxation year, which may occur if the holder receives or becomes entitled to receive assistance payments which relate to CCEE incurred in a prior year or if there are other adjustments to that CCEE account, the “negative” amount must be included in the holder’s income for that taxation year, and the balance of the holder’s CCEE account then becomes nil. The right to deduct CCEE accrues to the initial purchaser of the FT Special Warrants and is not transferable. A holder’s CCEE account will be reduced by the amount of any assistance, including grants, that the holder has received or is entitled to receive in respect of CEE.

Certain restrictions apply in respect of the deduction of CCEE following an acquisition of control and on certain reorganizations of a corporate investor. Corporate investors should consult their own tax advisors for advice with respect to the potential application of these rules to them having regard to their own particular circumstances.

## **Dispositions of Special Warrant Shares, Warrants and FT Shares**

In general, a holder of a Special Warrant Share, Warrant or FT Share will realize a capital gain (or capital loss) on a disposition, or a deemed disposition of such security (other than a disposition of a

Warrant on the exercise or expiry thereof), equal to the amount by which the proceeds of disposition of such security, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base of such security to the holder.

A holder will be required to include in income one-half of the amount of any capital gain (a “taxable capital gain”) realized in the year of a disposition and will generally be entitled to deduct one-half of the amount of any capital loss (an “allowable capital loss”) against taxable capital gains realized in the year of a disposition, the three preceding years or any subsequent year, to the extent and under the circumstances described in the Tax Act.

In general, in the case of a holder that is a corporation, the amount of any capital loss otherwise determined arising from a disposition or deemed disposition of Special Warrant Shares or FT Shares may be reduced by the amount of dividends previously received thereon to the extent and under circumstances described in the Tax Act. Similar rules may apply where a corporation is, directly or through a trust or partnership, a member of a partnership or a beneficiary of a trust which owns Special Warrant Shares or FT Shares.

A “Canadian-controlled private corporation” as defined in the Tax Act may be liable to pay, in addition to the tax otherwise payable under the Tax Act, a refundable tax of 6 2/3% of its “aggregate investment income”. For this purpose, investment income will include taxable capital gains.

One-half of the amount of the CEE renounced to an investor in FT Special Warrants will be added to the investor’s cumulative net investment loss (“**CNIL**”) account, within the meaning of the Tax Act. An investor’s CNIL account may impact an investor’s ability to access the \$750,000 lifetime capital gains exemption available on the disposition of certain qualifying business corporation shares and farm property.

### **Dividends on Special Warrant Shares and FT Shares**

Dividends received or deemed to be received on the Special Warrant Shares and FT Shares by an individual (including a trust) will be included in computing the individual’s income for tax purposes and will be subject to the gross-up and dividend tax credit rules normally applicable to dividends received from taxable Canadian corporations, including the enhanced gross-up and dividend tax credit provisions where the Corporation provides notice designating the dividend as an “eligible dividend”. A holder that is a corporation will include dividends received or deemed to be received on the Special Warrant Shares and FT Shares in computing its income for tax purposes and generally will be entitled to deduct the amount of such dividends in computing its taxable income, with the result that no tax will be payable by it in respect of such dividends.

Certain corporations, including private corporations or subject corporations (as such terms are defined in the Tax Act), may be liable to pay a refundable tax under Part IV of the Tax Act at the rate of 33 1/3% of the dividends received or deemed to be received on the Special Warrant Shares and FT Shares to the extent that such dividends are deductible in computing taxable income.

### **Alternative Minimum Tax**

Under the Tax Act, taxes payable by an individual and by most trusts will be the greater of the taxes otherwise determined and an alternative minimum tax computed by reference to such individual’s adjusted taxable income for the taxation year in excess of a \$40,000 exemption and reduced by certain tax credits. In calculating adjusted taxable income for the purpose of computing the minimum tax, certain deductions and credits otherwise available are disallowed and certain amounts not otherwise included in

income are included. The disallowed items include deductions claimed by the individual in respect of CEE in a particular taxation year to the extent such deductions exceed the individual's resource income (including income attributable to a disposition of Canadian resource properties) in that year. Capital gains realized by an individual and dividends received may give rise to a liability for alternative minimum tax. Whether and to what extent the tax liability of a particular holder will be increased by the alternative minimum tax will depend on the amount of such holder's income, the sources from which it is derived, and the nature and amounts of any deductions such holder claims.

Any additional tax payable by an individual for the taxation year resulting from the application of the alternative minimum tax will be deductible in any of the seven immediately following taxation years in computing the amount that would, but for the alternative minimum tax, be such individual's tax otherwise payable for any such year to the extent that such tax payable exceeds the individual's alternative minimum tax calculation for that particular year.

## **DESCRIPTION OF SECURITIES DISTRIBUTED**

The authorized share capital of the Corporation consists of an unlimited number of Common Shares and 25,000,000 preferred shares. As of October 6, 2009, 70,904,448 Common Shares and no preferred shares were issued and outstanding.

### **Common Shares**

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 Warrants (including the Compensation Warrants) will be issued in registered form under and be governed by the terms of the warrant indenture dated September 17, 2009 (the "**Warrant Indenture**") between the Corporation and the Warrant Agent. The Corporation has appointed the principal transfer offices of the Warrant Agent in Toronto, Ontario or Vancouver, British Columbia as the locations 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.

Each Warrant will entitle the holder to purchase one Warrant Share at a price of \$3.00 payable in Canadian dollars. The exercise price and the number of Common Shares issuable upon exercise are both subject to adjustment in certain circumstances as more fully described below. Warrants will be exercisable at any time prior to 5:00 p.m. (Toronto time) on September 17, 2011, after which time the

Warrants will expire and become null and void. Under the Warrant Indenture, the Corporation will be entitled to purchase in the market, by private contract or otherwise, all or any of the Warrants then outstanding, and any Warrants so purchased will be cancelled.

The Warrant Indenture will provide for adjustment in the number of Warrant Shares issuable upon the exercise of the Warrants and/or the exercise price per Warrant Share upon the occurrence of certain events, including:

- (a) the issuance of Common Shares or securities exchangeable for or convertible into Common Shares to all or substantially all of the holders of the Common Shares as a stock dividend or other distribution (other than a “dividend paid in the ordinary course”, as defined in the Warrant Indenture, or a distribution of Common Shares upon the exercise of the Warrants or pursuant to the exercise of stock options granted under the Corporation’s stock option plan);
- (b) the subdivision, redivision or change of the Common Shares into a greater number of shares;
- (c) the reduction, combination or consolidation of the Common Shares into a lesser number of shares;
- (d) the issuance to all or substantially all of the holders of the Common Shares of rights, options or warrants under which such holders are entitled, during a period expiring not more than 45 days after the record date for such issuance, to subscribe for or purchase Common Shares, or securities exchangeable for or convertible into Common Shares, at a price per share to the holder (or at an exchange or conversion price per share) of less than 95% of the “current market price”, as defined in the Warrant Indenture, for the Common Shares on such record date; and
- (e) the issuance or distribution to all or substantially all of the holders of the Common Shares of shares of any class other than the Common Shares, rights, options or warrants to acquire Common Shares or securities exchangeable for or convertible into Common Shares, of evidences of indebtedness or cash, securities or any property or other assets.

The Warrant Indenture also provides for adjustment in the class and/or number of securities issuable upon the exercise of the Warrants and/or exercise price per security in the event of the following additional events: (1) reclassifications of the Common Shares; (2) consolidations, amalgamations or mergers of the Corporation with or into another entity (other than consolidations, amalgamations or mergers which do not result in any reclassification of the Common Shares or a change of the Common Shares into other shares); or (3) the transfer (other than to one of the Corporation’s subsidiaries) of the undertaking or assets of the Corporation as an entirety or substantially as an entirety to another corporation or other entity.

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

The Corporation also covenants 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 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 is 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 two-thirds 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 two-thirds of the aggregate number of all the then outstanding Warrants.

The foregoing is a summary only of the terms of the Warrants and is qualified by the more detailed provisions of the Warrant Indenture. Warrant holders may obtain a copy of the Warrant Indenture upon request from the Corporation. The Warrant Indenture is also available for review on the SEDAR website located at [www.sedar.com](http://www.sedar.com) under the Corporation’s profile.

#### **PRIOR SALES**

During the 12 month period before the date of this short form prospectus, the Corporation has issued Common Shares as follows:

<b>Date of Issuance</b>	<b>Number of Common Shares Issued</b>	<b>Issue Price (\$)</b>	<b>Reason for Issuance</b>
December 15, 2008	3,000,000	0.50	Private placement
February 10, 2009	502,500	0.25	Exercise of options
April 21, 2009	17,500	0.50	Exercise of warrants
May 7, 2009	7,500	0.50	Exercise of warrants
May 20, 2009	267,500	0.70	Exercise of warrants
May 22, 2009	992,200	0.70	Exercise of warrants
May 26, 2009	50,000	0.50	Exercise of options
May 27, 2009	17,500	0.50	Exercise of warrants
June 2, 2009	200,000	0.69	Exercise of options
June 12, 2009	75,000	0.48	Exercise of options
June 25, 2009	75,000	0.48	Exercise of options
July 3, 2009	75,000	0.48	Exercise of options
July 9, 2009	50,000	0.50	Exercise of options
July 20, 2009	180,000	1.55	Exercise of agents' compensation options
July 29, 2009	180,000	1.55	Exercise of agents' compensation options
August 7, 2009	145,000	1.55	Exercise of agents' compensation options
August 20, 2009	150,000	1.55	Exercise of agents' compensation options
August 20, 2009	50,000	0.70	Exercise of options
August 21, 2009	30,000	1.20	Exercise of options
August 26, 2009	70,000	1.55	Exercise of agents' compensation options
August 28, 2009	20,000	1.20	Exercise of options
September 22, 2009	50,000	1.20	Exercise of options
October 1, 2009	50,000	0.50	Exercise of options

### **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:

<u>Period</u>	<u>High (\$)</u>	<u>Low (\$)</u>	<u>Volume</u>
<b>2009</b>			
October <sup>(1)</sup>	3.62	3.25	2,518,934
September	4.24	2.56	19,131,993
August	2.70	1.74	6,492,897
July	2.29	1.49	4,303,687
June	1.93	1.20	7,336,106
May	1.38	0.55	7,608,691
April	0.80	0.51	1,160,417
March	0.67	0.51	496,207
February	0.94	0.40	820,159
January	0.88	0.58	833,049
<b>2008</b>			
December	0.60	0.30	1,367,272
November	0.90	0.35	964,580
October	0.97	0.40	1,160,060

(1) October 1, 2009 through October 6, 2009.

## 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 elsewhere in this short form prospectus, investors should carefully consider the risk factors 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.

## INTEREST OF EXPERTS

The following is the current technical report prepared in accordance with National Instrument 43-101 from which technical information relating to the Corporation's material mineral project, Thor Lake, contained in this short form prospectus has been derived: "Thor Lake – Lake Zone Mineral Resource Update" dated March 2009 (the "**Technical Report**") prepared by Thomas C. Stubens, M.A.Sc., P. Eng. and Hai Guo, P. Eng, of Wardrop Engineering Inc. and Christopher Moreton, Ph.D., P.Geo., formerly of Wardrop Engineering Inc., who are the qualified persons for the Technical Report. The updated mineral resource estimates as at August 2009 (the "**Estimates**") for the Lake Zone Rare Earth Element deposit of the Corporation's Thor Lake project, which Estimates are also contained in this short form prospectus, were prepared by Bruce Hudgins, P. Geo. of Hudgtec Consulting Limited, who is the qualified person for the Estimates. A copy of the Technical Report and the press release disclosing the Estimates (dated August 17, 2009) are available under the Corporation's SEDAR profile at [www.sedar.com](http://www.sedar.com), and a summary of the Technical Report and the Estimates is contained in this short form prospectus.

Dr. William Mercer, P. Geo., Vice President, Exploration of the Corporation, is the internal qualified person at the Corporation who reviewed the Technical Report as well as the currently proposed exploration and development programs for the Lake Zone deposit on the Thor Lake Project and has determined that, in his opinion (the "**Opinion**"), the allocation of \$12,000,000 towards such exploration and development programs, as set forth in this short form prospectus under the heading "Use of Proceeds", is reasonable.

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, the Estimates or the Opinion, 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 of such disclosure, as applicable.

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, other than Dr. William Mercer, P. Geo., who is currently the Vice President, Exploration 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.

## **CONTRACTUAL RIGHT OF RESCISSION FOR SPECIAL WARRANT HOLDERS**

The Corporation has granted to each holder of a Special Warrant or a FT Special Warrant a contractual right of rescission in connection with the prospectus-exempt transaction under which the Special Warrant or FT Special Warrant was initially acquired. The contractual right of rescission provides that if a holder of a Special Warrant or a FT Special Warrant who acquires another security of the Corporation on exercise of the Special Warrant or FT Special Warrant as provided for in this short form prospectus is, or becomes, entitled under the securities legislation of a jurisdiction to the remedy of

rescission because of the short form prospectus or an amendment to the short form prospectus containing a misrepresentation,

- (a) the holder is entitled to rescission of both the holder's exercise of its Special Warrant or FT Special Warrant and the private placement transaction under which the Special Warrant or FT Special Warrant was initially acquired,
- (b) the holder is entitled in connection with the rescission to a full refund of all consideration paid to the Underwriters or the Corporation, as the case may be, on the acquisition of the Special Warrants and the FT Special Warrants, and
- (c) if the holder is a permitted assignee of the interest of the original Special Warrant subscriber, the holder is entitled to exercise the rights of rescission and refund as if the holder was the original subscriber.

#### **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, damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission 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 October 6, 2009 qualifying the distribution of common shares and common share purchase warrants of the Corporation issuable upon the exercise of previously issued special warrants 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 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  
October 6, 2009

## **CERTIFICATE OF THE CORPORATION**

Dated: October 6, 2009

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 Ontario, Alberta, British Columbia, Nova Scotia and 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) BRIAN MACEACHEN  
Director

(Signed) ALAN FERRY  
Director

## **CERTIFICATE OF THE UNDERWRITERS**

Dated: October 6, 2009

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 Ontario, Alberta, British Columbia, Nova Scotia and the Northwest Territories.

**CIBC WORLD MARKETS INC.**

By: (Signed) RICHARD MCCREARY

**CORMARK SECURITIES INC.**

By: (Signed) DARREN WALLACE

**RESEARCH CAPITAL CORPORATION**

By: (Signed) HOWARD KATZ