



Management's Discussion and Analysis of Financial Statements for the three and six months ended February 28, 2023

This Management's Discussion and Analysis ("MDA") of Avalon Advanced Materials Inc. (the "Company" or "Avalon") is an analysis of the Company's financial results for the three and six months ended February 28, 2023 (the "Period"). The following information should be read in conjunction with the accompanying unaudited condensed consolidated interim financial statements for the Quarter and the consolidated financial statements and Annual Information Form for the year ended August 31, 2022. This MDA is prepared as of April 12, 2023.

Nature of Business and Overall Performance

Avalon is a Canadian mineral development company that is listed on the Toronto Stock Exchange in Canada, traded on the OTCQB Venture Market in the United States and also trades on the Frankfurt Stock Exchange in Germany. The Company seeks to build shareholder value by becoming a diversified, sustainable producer and marketer of critical minerals for clean technology and by expanding the markets for its specialty mineral products.

Avalon operates in Canada with a diversified asset base giving the Company exposure to a broad range of these critical minerals including lithium, rare earth elements ("REEs"), cesium, tantalum, tin, indium, gallium, germanium and zirconium.

The Company is in various stages of developing three of its five mineral resource properties with particular emphasis on lithium, cesium, tantalum, tin, indium and rare earths. Avalon continues to evaluate new opportunities with near term development potential such as extracting critical minerals from historic mine wastes using new technologies. This is an opportunity the Company has modelled at its East Kemptville Tin-Indium Project and at another site in northeastern Ontario called Cargill where there is potential to recover rare earths and scandium from tailings at a closed phosphate mine site. The concept is attracting increasing interest from Environmental, Social and Governance ("ESG") Green Bond investors and from the Federal government now promoting the "circular economy", particularly for sites with abundant critical minerals in the wastes, but securing access to these sites continues to be challenging.

All three of the Company's advanced projects have significant mineral resources and preliminary economic evaluations for which the next step is identifying markets for the mineral products and/or processing bulk samples to demonstrate appropriate extraction processes and produce product samples for customer evaluation. Advances in technology can suddenly create new demand for certain critical minerals providing opportunities for new producers if one is in a position to react quickly to serve the new demand. A well-known example has been the sudden growth in demand for the "magnet rare earths" neodymium and praseodymium ("Nd-Pr"), coupled with the risk of supply shortages due to China's control of the rare earth supply chain.

The Company has embraced the principles of sustainability as core to its business practice and has made a strong commitment toward implementing corporate social responsibility ("CSR") best practices. In December 2022, the Company released its eleventh annual comprehensive Sustainability Report (the "2022 Sustainability Report") and in February, 2021 secured a top 5% ESG Risk rating amongst our peer companies from Sustainalytics. The Company was also featured in the Benchmark Minerals' inaugural global lithium ESG rankings, scoring in the top 5% worldwide.

The Company believes that industrial demand for the cleantech materials products it seeks to produce, particularly lithium, cesium, tantalum, rare earths, zirconium and tin, is growing due to their

critical importance in an expanding array of applications in new technology, including lithium ion batteries, electric vehicles, electronics, small modular reactors and aerospace.

Resource Development Activities

Resource property expenditures for the three months ended February 28, 2023 (the “Quarter”) totalled \$1,068,795, a 656% increase from the level of expenditures (\$141,283) for the same quarter in fiscal 2022 (“Fiscal 2022”). Of these expenditures, 99% were incurred on the Separation Rapids Lithium Project (“Separation Rapids”), 1% were incurred on the Lilypad Cesium-Tantalum Project (“Lilypad”), and less than 1% were incurred on the Nechalacho Rare Earth Elements Project (“Nechalacho”).

During the quarter and the Six Month Period certain mineral claims in close proximity to the Cargill Carbonatite Complex expired during the Quarter and the associated costs of \$3,050 were written off as an impairment loss.

Resource property expenditures for the six months ended February 28, 2023 (the “Six Month Period”) totalled \$1,569,371, a 316% increase from the level of expenditures for the six months ended February 28, 2022 (\$377,604). Of these expenditures, 99% were incurred on the Separation Rapids Project, 1% were incurred on the Lilypad Project, and less than 1% were incurred on the Nechalacho Project. Expenditures on the Separation Rapids Project increased to \$1,559,005 from \$327,058 in the same period in Fiscal 2022, primarily due to expenditures incurred during the Period on the winter drilling program. The expenditures on the Lilypad Project decreased to \$2,416 from \$34,025 in the prior period, as the Company did not conduct any significant activities during the Period. Expenditures on Nechalacho’s holding and storage costs were about the same at \$7,950 compared to \$16,521 in the prior period.

Separation Rapids Lithium Project

The Separation Rapids property consists of nineteen mineral claims and one mining lease covering a combined area of approximately 4,414 hectares (10,910 acres) in the Paterson Lake Area, Kenora Mining Division, Ontario, all of which are owned 100% by Avalon. The lease covers an area of approximately 421 hectares over the area of the main lithium pegmatite deposit (the “Big Whopper”) and adjacent lands that may be used for mine development infrastructure. Avalon also owns three aggregate permits along the road to the site, which cover a total area of approximately 16 hectares and are located within the area covered by the claims. The Separation Rapids deposit is a potential source of the high purity lithium mineral, petalite, for direct use in the glass-ceramics industry as well as lithium minerals for producing lithium battery materials.

During fiscal 2018, the Company completed an updated preliminary economic assessment (“PEA”) on a simplified business model that focuses on initial production of lithium mineral concentrates for the glass-ceramics industry, with potential for future expansion into production of the battery materials lithium carbonate and/or lithium hydroxide. This smaller scale development model reduces capital expenditure requirements substantially from the lithium hydroxide production model completed in September, 2016, while generating attractive returns and reducing overall business and permitting risk. However, with growing interest in establishing new lithium battery materials supply chains in Canada, the Company is now planning to accelerate its plans to produce lithium battery materials and has identified a sizeable industrial site on the waterfront in Thunder Bay that appears well-suited for establishing a regional lithium battery materials refinery.

During the Quarter, the Company incurred \$1,064,027 (2022 - \$114,474) in exploration and development expenditures on the Separation Rapids Lithium Project. Approximately 69% of these expenditures were incurred on the winter drilling program, 4% were spent on permitting for future drilling programs including on the Snowbank petalite lithium pegmatite discovery and environmental studies, and approximately 27% were incurred on metallurgical testwork to convert petalite and lepidolite concentrates into lithium chemicals that are suitable for lithium battery production.

Lithium Refinery

With both the Ontario and Federal Governments confirming their interest in establishing new battery materials supply chains in the province, and potentially providing financial support, Avalon continues to work towards establishing its lithium refinery in Thunder Bay, Ontario. The refinery being planned would be adaptable and would also be expandable to increase output and accept concentrates from other aspiring producers of lithium minerals including petalite, lepidolite and spodumene, from the many pegmatite deposits that occur in northwestern Ontario.

During Fiscal 2022, the Company signed a letter of intent with RenJoules International Ltd., an Essar Group Company (“Essar”), to become a strategic partner in support of Avalon’s plans to establish a regional lithium battery materials supply chain to serve the needs of future electric vehicle and battery manufacturers in Ontario and elsewhere. However, Essar failed to confirm their interest in finalizing an agreement with Avalon and no further progress with Essar is expected.

The Company is now pursuing agreements with potential investing partners, including LG Energy Solution (“LGES”), with whom Avalon entered into a Memorandum of Understanding (“MOU”) in September 2022. The planned agreement with LGES will involve providing initial financial and development support for building the lithium refinery. It will operate as a separate private business, called Avalon Lithium Inc., a newly established Avalon subsidiary in which LGES would potentially become a co-owner, when a formal agreement is completed.

Under the terms of the LGES MOU, Avalon would commit, for five years initially, to provide LGES with at least 50% of its planned initial lithium hydroxide production from its Thunder Bay facility, with the potential to increase production as demand grows. LGES has also indicated they can likely provide 50% of initial feed for the years 2025-2030, enabling Avalon’s Separation Rapids and other lithium pegmatite assets in northwestern Ontario to get into production and become suppliers of lithium mineral concentrates for the refinery.

The key next steps include finalizing initial commercial terms and the completion of final feasibility studies for both the refinery operations and lithium mineral concentrate production at the Separation Rapids site that will provide the initial feed for the refinery until other new producers also get started; and acquisition of the site for the refinery in Thunder Bay and proceeding with initial site preparation work both at Separation Rapids and the Thunder Bay site.

The Company continues to progress towards acquisition of an industrial site in Thunder Bay that would be the location for establishing the refinery. An appropriate site has been identified; the owner of the land has corrected the minor title issues that were previously identified, and the acquisition can now to be completed by the end April, 2023, subject to the Company being able to source the requisite financing.

Lithium Markets

The Company is planning to produce lithium hydroxide now which is in growing demand in North America with production initially planned to be over 20,000 tonnes (“tpa”) per annum and perhaps as much as 30,000 tpa. Several electric vehicle (“EV”) companies that have expressed interest in making an off-take commitment have also expressed interest in being an investing partner in the refinery. Avalon has been approached by, and is in active discussions with, a number of different parties who are interested in being an investing partner in the refinery and are now doing their due diligence.

To serve the rapidly growing interest in the petalite product from the glass-ceramics industry following the news that China has taken control of the traditional petalite supply sources in Zimbabwe, interest in Avalon’s petalite product has increased dramatically. With one off-take agreement already signed with a non-Chinese company that wants the petalite concentrate product made using dense media separation (“DMS”) technology, the Company is planning to purchase a demonstration scale DMS plant that would allow it to start producing bulk samples of the petalite concentrates for customer evaluation.

The Company will install the DMS demonstration plant on its aggregate permit site where most permit requirements are advanced or in place. The DMS demonstration plant cost, timeline and any operating considerations are expected to be weighed against focussing on piloting and designing a full-scale plant that would be built and installed on the Separation Rapids site as an early part of the full scale operation. Once more firm off-take commitments are secured, production can be scaled up as needed to meet the demand. The Company is also in active discussions with a major European company with experience in petalite markets for investment to help put into production, the Company's Separation Rapids Lithium Project, including the Snowbank and the large Big Whopper lithium pegmatite resources.

Separation Rapids hosts one of the few significant resources of petalite, the rare high purity lithium aluminum silicate mineral ($\text{LiAlSi}_4\text{O}_{10}$), in the world that is not controlled by China. Next steps involve processing the 5,000 tonne bulk sample collected from the project site in 2021 to produce trial quantities of the petalite product for the many end-users that have expressed interest. While the Company has been planning to establish a DMS processing facility on the property to begin producing trial quantities of the petalite product, Avalon has access to an alternative process facility in Finland that will allow the Company to create the larger product samples that have been requested by the off-taker and the other glass ceramic manufacturers that have expressed interest. Avalon will consider all options in mid 2023 and finalize a path forward.

The Ontario government, with input from Avalon, has initiated potential changes to the existing regulatory regime ("cutting the red tape") to facilitate establishing critical minerals supply chains in the Province especially lithium battery materials, and most recent announcements in the Federal Government Budget.

Many of these critical minerals, especially lithium minerals, represent significantly lower environmental risk when compared to traditional exchange-traded bulk commodities. Risk based regulation would facilitate more rapid development of lithium resources in Ontario as part of a new industrial strategy to support advanced manufacturing. Projects such as Separation Rapids also present opportunities for economic benefits and participation by Indigenous businesses, thus supporting economic reconciliation with Indigenous peoples which is also a priority with the Ontario and Federal governments.

Recent Activities and Future Plans

The next step to finalize the lithium battery materials production model is to carry out bench scale testing followed by a pilot plant program on the bulk sample to finalize flowsheet parameters for engineering purposes, including reagent recycling and water treatment processes, after which a feasibility study can be completed.

The coarse grained petalite ore will be processed in the proposed DMS plant to generate large product samples meeting the detailed specifications for glass-ceramic customer qualification and acceptance, and provide concentrate for further laboratory work on the lithium battery materials process flowsheet. Some preliminary process testwork is underway, and with access now to a properly equipped facility in Europe to process the bulk sample, significant quantities of concentrates can be produced in 2023-24.

Further exploration work on the northwestern part of the property in the vicinity of the new Snowbank petalite pegmatite discovery and the Glitter pegmatite is planned for 2023 to follow-up on encouraging initial results from the initial program completed in October 2021. A drilling program to begin to define the size potential of the Snowbank pegmatite discovery is now planned for late 2023. Based on the results of this drilling program Avalon would then plan a larger drilling program to fully define the size potential of the deposit.

A drilling program on Separation Rapids began in December 2022 and continued until April 2, 2023, when it was discontinued due to spring breakup. A total of 4,490 m was drilled. The drilling was focused on infill drilling and testing the depth of the current resource. The core is currently going

through logging and sampling while four sample lots have already been sent to assaying. It is expected that all assays will be completed prior to end May 2023. Based on results and evaluation Avalon may potentially update the resource accordingly.

Roadwork and site preparation work for the installation and commissioning of the DMS plant have commenced at the Avalon Quarry site along the Avalon Road to the Separation Rapids project site. The Avalon Quarry site is a permitted Aggregate Quarry located approximately 2 km north of the Sand Lake Road and approximately 7 km south of the project site. Aggregate for the road work will be produced at this Quarry as part of an initiative to prepare the road for heavy equipment transport and to prepare the site for the DMS plant installation.

The aggregate production, road repairs, site preparation and bulk sample crushing and hauling is being done by SOW Construction Limited Partnership, a joint venture between Moncrief Construction Limited, a large Kenora-based construction contractor and Wabaseemoong Independent Nations, in whose traditional territory the Project is located. This work had largely been completed during the Quarter.

The 5,000 tonne bulk sample collected from the project site in 2021 has been crushed, and approximately 30 tonnes has been sent to Saskatchewan Research Council (“SRC”) for concentrate production test work and DMS pilot work. A further portion may be sent to Europe to produce trial quantities of the petalite product and/or further test work to advance the understanding of Separation Rapids material for use on the ceramic and EV markets.

Preparation work is underway on request for proposal (“RFP”) packages which would go out to select engineering houses to bid on a definitive feasibility study (“DFS”) for Separation Rapids. After the RFP process, Avalon would select a best fit group to then kick-off the DFS work. This work is expected to take place in mid-calendar 2023.

Early planning is underway to further feed into environmental baseline study work already completed on the site. The site work will capture the spring freshet in spring 2023 and detail work through summer and fall for information gathering. A permit application would be submitted in late 2023.

Early discussion has to kick-off the path forward on Powerline Study work and to have community engagement discussions on an acceptable pathway and ownership of a powerline. This would lead to a project outline and schedule as well as permit application to provide hydropower to the Separation Rapids site for future construction and site operations.

Environmental Assessment and Community Engagement

Avalon is committed to developing the Separation Rapids Lithium Project based on modern CSR principles and reporting on its performance in its annual Sustainability Report. These CSR principles include commitments to minimize environmental impacts, being carbon neutral, ensuring the health and safety of employees, creating benefits for local communities and providing full transparency in its social and environmental performance. The Company and the project are now well known in the local community.

The project is located in the traditional land use area of the Wabaseemoong Independent Nations (“WIN”) for which they have stewardship under an agreement with the Province of Ontario. The Company first signed an MOU with WIN in 1999 which was renewed when the project was reactivated in 2013. Avalon management has been keeping WIN leadership informed on project activities and remains committed to fulfilling its community consultation obligations and partnering with WIN on business opportunities and providing training for community members. The WIN leadership continues to be supportive of the project. The Company has also consulted with the Métis Nation of Ontario and engagement is ongoing with other local Indigenous communities, regulators, and local government.

Unless otherwise noted, the technical information on the Separation Rapids Lithium Project has been reviewed and approved by the Company's CEO, Donald Bubar, M.Sc., P.Geo. who is a Qualified Person under NI 43-101.

Nechalacho Rare Earth Elements and Zirconium Project

The Nechalacho Rare Earth Elements Project is located at Thor Lake in the Mackenzie Mining District of the Northwest Territories ("NWT"), approximately 100 kilometres southeast of the city of Yellowknife. The property is comprised of eight contiguous mining leases totalling 5,786 hectares (14,297 acres), after three mining claims totalling 332 hectares on the southwest side of the original five leases were converted to mining leases. The original five leases are subject to one independently owned 2.5% Net Smelter Returns ("NSR") royalty agreement. Avalon has the contractual right to buy out this royalty on the basis of a fixed formula, which is currently approximately \$1.6 million, and which will increase at a rate equal to the Canadian prime rate until the royalty is bought out.

During Fiscal 2020, Avalon sold the rights to the near-surface dominantly light rare earth mineral resources above a depth of 150 metres ("Upper Zone Resources") to Cheetah Resources Pty Ltd. ("Cheetah"). Avalon retained a 3.0% NSR royalty (the "3.0% NSR Royalty") and will continue to have access to the property for development and mining of its 100% owned Basal Zone heavy rare earth resource. Avalon has also agreed to waive the 3.0% NSR Royalty for the first five years of Cheetah's commercial production and to grant Cheetah the option to pay the Company \$2 million within eight years of the transaction closing to extend the waiver of this royalty in perpetuity. Cheetah also has the option to purchase the Company's option in the 2.5% NSR Royalty, provided that, upon exercising the option, it extinguishes this royalty. The eight mining leases are jointly recorded in the names of Cheetah 50% and the Company 50%, while the beneficial ownership is held in trust by Cheetah and Avalon as to their respective beneficial ownership entitlement in and to the Upper Zone Resources and the Basal Zone Resources, respectively.

Avalon and Cheetah have formed a jointly-owned corporation ("NWT Rare Earths Ltd.") to hold the exploration permits and related authorizations related to Nechalacho and have also entered into a co-ownership agreement governing each party's activities and management at site. On November 30, 2020, a new Land Use Permit, expiring November 29, 2025, and Water License, expiring November 29, 2027, were approved for both the Cheetah Demonstration Project and the previously approved Basal Zone early works construction activities. Cheetah is also now in the process of establishing a process facility in Saskatoon to process the bastnaesite concentrates and produce a mixed rare earth oxide product. Significantly, the Saskatchewan Research Council are in the process of establishing a rare earth separation facility in Saskatoon and a facility for making the magnet metals in order to establish a complete rare earths supply chain in Canada.

Expenditures during the Quarter were \$3,975 (2022 - \$8,283), which were incurred primarily on on-going site holding and sample storage costs.

During Fiscal 2022, the Company received an expression of interest in its zirconium product. The Basal Zone HREE resource also contains abundant zirconium mineralization averaging over 3% ZrO₂. Zirconium is now in very short supply in North America and has significant growth potential as a critical material needed in small modular nuclear reactors ("SMR"). Demand is growing now for SMRs as a clean energy alternative that can be used to serve the electricity needs of small remote communities to replace diesel generators.

Lilypad Cesium-Tantalum Project

The Lilypad Cesium-Tantalum Project consists of 14 claims, comprising 166 new claim units or cells, totaling approximately 3,300 hectares (8,152 acres), covering a field of lithium, cesium, tantalum ("LCT") mineralized pegmatites, and located 150 kilometres northeast of Pickle Lake, Ontario.

The claims were originally staked between January 1999 and October 2000 and are 100% owned by the Company with no underlying royalties. Previous owners of the property drilled some 50 shallow drill holes, and Avalon completed 32 drill holes totaling 4,781 metres in 2000 and 2001 in a program

focused primarily on the tantalum potential. These produced encouraging initial results including the discovery of significant cesium mineralization as well as tantalum and lithium in a number of LCT pegmatites of which the two most promising are known as the Pollucite and Rubellite Dykes where the cesium occurs in the rare ore mineral pollucite ((Cs,Na)₂Al₂Si₄O₁₂·2H₂O). Mapping and sampling work conducted in the summer of 2021 discovered a significant extension to the Pollucite Dyke and several new mineralized LCT pegmatites. Cesium continues to be in very short supply and high demand in international markets.

During Fiscal 2022, the analytical results from a biogeochemical survey conducted during the 2021 summer field program were received. A review of the data indicates encouraging results with strong cesium and lithium anomalies associated with known mineralization at the Pollucite and Rubellite Dykes and similar anomalies in overburden covered areas indicating potential for new mineralized pegmatite discoveries. The completion of the analytical work on the samples collected will lead to the definition of new drill targets for LCT pegmatites.

A follow-up drilling program is tentatively planned in early 2024 to test some of the new lithium-cesium-tantalum targets identified through the 2021 geochemical survey work and do additional drilling on the Pollucite Dyke. Preliminary environmental studies have also been initiated. Future development of the project would be positively impacted by new infrastructure development, including road access, to the Ring of Fire mineral projects located further to the north, which the Ontario Government is now planning to go ahead with.

The project is located in the traditional territory of the Eabametoong First Nation (“EFN”), approximately 25 km west of the community of Fort Hope. The Company has been in communication with EFN community leadership who are supportive of the Project. Some community members from local First Nations assisted with camp construction, line-cutting and geochemical work in the 2021 mapping and sampling program. Former EFN Chief, Harvey Yesno, is now a member of Avalon’s Board of Directors and will be an invaluable resource for the ongoing development of Avalon’s relationship with the EFN as well as with other Indigenous communities in northwestern Ontario.

The Company incurred \$763 (2022 - \$18,526) in expenditures during the Quarter on the Lilypad Cesium-Tantalum Project, which were mainly spent on cataloguing the ashed vegetation samples collected from the 2021 fieldwork program.

East Kemptville Tin-Indium Project

The 100% owned East Kemptville Tin-Indium Project is located 55 km northeast of Yarmouth, Nova Scotia, Canada. The property consists of an exploration licence covering 1,165 hectares (2,880 acres). East Kemptville was an operating tin mine from 1985-1992 and was North America’s only large primary tin producer, before closing prematurely in 1992 due to a collapse in tin prices. Increasing global demand for tin and tightening supplies has resulted in significantly improved tin prices, creating an opportunity for Avalon to re-activate the site initially by processing a large historical stockpile of tin ore using low-impact sensor-based ore-sorting technology.

The Company completed a preliminary economic assessment during fiscal 2018 with a development model of utilizing the existing tailings management area (“TMA”) and had been in negotiation with the surface rights owner to secure full tenure to the project site. Agreement in principle was reached in Fiscal 2019, however, the surface rights owner subsequently refused to sign the agreement and denied Avalon access to the site after putting a hold on any new work on all of its closed mine sites.

The Company did not incur any significant expenditures during the Quarter on the East Kemptville Tin-Indium Project. The Company continues to retain the mineral rights through its exploration licence, and management remains optimistic that the Company will eventually be able to secure access to the site again to resume its site re-activation plans. Discussions continue with Nova Scotia Ministry of Energy and Mines officials during the Quarter, who continue to be supportive of Avalon’s re-development model involving extracting critical minerals from the historic mine wastes including lithium and indium as well as tin. Federal Government officials with Natural Resources Canada are also very supportive of the Company’s model and have expressed interest in supporting more

research work on efficient extraction processes that can be applied to recover all the critical minerals in the wastes there.

Other Projects

Clean Technology Business Opportunities

Avalon is also continuing to evaluate the opportunity to apply innovative new extraction technologies to recover rare earths and other critical minerals from historic mine wastes. There are many such sites in North America where the waste may contain critical minerals that had no value when the mine was in operation but do today.

Management sees enormous growth potential in this emerging sector and good opportunities for accessing capital from the many government programs oriented towards cleantech development and from the growing international Impact/ESG investment community. This is also consistent with the increasing interest in establishing the “Circular Economy” in the mining industry through innovative recycling of waste materials.

Government is increasingly committed to supporting the establishment of new critical minerals supply chains in Canada. In Fiscal 2022, the Government of Ontario announced its new Industrial Strategy to support establishing electric vehicle and battery manufacturing capacity and during the Quarter, the Province announced its first-ever critical minerals strategy to support establishing these new supply chains in the Province. Avalon is continuing to support the efforts of policymakers to implement needed regulatory changes to recognize many critical minerals as a unique low risk sub-sector of the mining industry. Central to this need is recognizing the importance of bulk sampling at the early stages of exploration to determine if the mineralization of economic interest can be efficiently processed to make a product that will be accepted in the market.

In February, 2021, the Company entered into a binding letter of intent (the “LOI”) to purchase ownership of 2333382 Ontario Inc. (“2333382”), a private Ontario corporation which owns four industrial minerals properties and a demonstration-scale processing plant located at Matheson, Ontario. The asset owned by 2333382 of most interest to Avalon is an asset transfer agreement giving 2333382 the right to acquire full title to the mining leases of the former phosphate mine on the Cargill Carbonatite Complex near Kapuskasing, Ontario. This carbonatite complex hosts significant concentrations of a number of critical minerals including rare earths and scandium, contained both in the bedrock and in the mine tailings.

Work done by 2333382 has demonstrated that the estimated 12.5 million tonnes of tailings contain phosphate levels ranging from 15-20% P₂O₅ and can be sold “as is” for use in various agricultural fertilizer products. Analytical work done by 2333382 and Avalon on the tailings to date indicates the presence of significant concentrations of rare earths, scandium and zirconium, which preliminary testwork indicates will be recoverable through additional processing of the tailings. This provides significant potential for future revenue growth.

The total purchase price agreed to by the Company will be \$16 million, payable in a combination of cash and common shares of Avalon over a period of two years assuming the Cargill site title can be secured. The initial payment of \$200,000 in cash and the issuance of 1,000,000 common shares were made in February, 2021. The agreement called for the balance of the purchase price to be made in four instalments over two years (assuming the Letter of Credit (“LoC”) needed to secure title to the Cargill Mining Leases is successfully secured).

As of the date of this MDA the required LoC had still not been secured and the Company has delayed all further interim purchase payments until 2333382 has secured the LoC and completed the asset transfer with the current owner of the mining leases. The Company has put on hold any further work on the Project until the asset transfer issue is resolved and is now talking to a number of potential investing partners that can finance the acquisition and the LoC.

Warren Township Anorthosite Project

Avalon has been considering reactivating its wholly-owned Warren Township Anorthosite Project in view of growing demand for the calcium feldspar product, which is being driven by innovation in glass technology and space exploration technology. The property is covered by a lease of 688 hectares (1,699 acres) that includes an aggregate permit over the historical quarry site. The high-quality calcium feldspar product is used in the manufacture of reinforcing glass fibre and other industrial products, such as mineral fillers. The market has continued to grow with new emerging cleantech applications, such as composites for wind turbine blades. There has also been demand for small quantities of the crushed anorthosite rock for use as a “lunar simulant” due to its mineralogical similarity with dust on the surface of the moon.

No significant expenditures were incurred on the property during the Quarter.

Corporate Social Responsibility

In early December 2022, the Company released its 2022 Sustainability Report, which is available for download at: <https://www.avalonadvancedmaterials.com>. In February, 2021 the Company announced receiving its Environmental, Social and Corporate Governance ("ESG") Risk Rating following an independent audit of the Company's business practices and policies performed by Sustainalytics, a Morningstar company. Avalon received an ESG Risk Rating of 28.9 in its industry, Diversified Metals, and ranked among the top 5% of 150 industry companies analyzed globally. The benefits of obtaining an ESG Risk Rating include the ability to provide better access to ESG investment capital, and the ability to gain commercial benefit from the rating externally with creditors, suppliers and other stakeholders.

Avalon's annual Sustainability Reports are prepared in accordance with the Global Reporting Initiative's Global Reporting Standards. They incorporate a self-assessment of Fiscal year performance and also sets targets for the next fiscal year against the applicable and updated Mining Association of Canada "Toward Sustainable Mining" indicators. Avalon has also initiated reporting against the applicable material UN Sustainable Development Goals. A review and update of the Sustainability Policy has been initiated to formally document the significant progress the Company had made in sustainability and to ensure its industry leadership is maintained.

Avalon is committed to working closely with its Indigenous partners to create lasting economic and social benefits in the communities.

Avalon's leadership in applying the principles of sustainability in all of the Company's work are also benefitting the mineral exploration industry generally. Avalon is supporting the PDAC, the Ontario Mining Association and the Mining Association of Canada in their efforts to educate regulators and policymakers regarding the need to update regulations in order to encourage more and sustainable development of critical minerals resources in Canada that are vital for establishing the new clean economy in Canada and to ensure access to land for exploration purposes.

The Company's main focus is on materials that enable clean technology, including electric vehicles, power storage, solar and wind power. In order to do this sustainably, Avalon designs its operations to minimize environmental impacts and greenhouse gas emissions, while planning for rehabilitation and productive use of the land post closure. The Company also now incorporates a staged-development approach to its cleantech materials projects, which involves starting production at a modest scale, to minimize project footprint and potential risks to environment, while also reducing investment risk and creating opportunities for its Indigenous business partners. Further, Avalon is a leader in promoting the Circular Economy by looking at closed mine sites as opportunities to remediate long term environmental liabilities through economic extraction of valuable minerals from waste materials using new technologies.

In response to the increasing concern expressed by regulators, insurers, investors, customers and other communities of interest, and building on its historic success in reducing greenhouse gas emissions, Avalon has continued to evaluate the potential to become carbon neutral by 2050. In conjunction with climate change risk assessment, Avalon is investigating a range of opportunities and

potential barriers to cost effectively achieving this, and is optimistic that a serious and realistic commitment to achieving this goal can be made. A University of Toronto Capstone Master's study to assess this potential at Separation Rapids successfully identified an economic path forward to achieve this goal at the mine and concentrator site, and will initiate studies for the refinery once more detail is available. Avalon believes this will give the project a competitive advantage in the ongoing efforts to obtain ESG investors and government research funding. It should also aid in getting government permits, anticipated to take less than a year.

Being a recognized sustainability leader reduces costs and facilitates good relationships with all stakeholders, including Indigenous communities, which can help reduce risk of experiencing lengthy delays in receiving operating permits and approvals. This also helps facilitate the acquisition of our social license to operate. Avalon believes that responsible users of our cleantech materials will require increasingly sustainable sources for their materials which we believe will provide Avalon with a competitive advantage in securing market access for its products.

Administration and Other

Interest income for the Quarter totalled \$24,724 compared to \$1,237 in the same quarter in Fiscal 2022, due to higher cash balances and interest rates.

Corporate and Administrative expenses totalled \$847,148 during the Quarter, a 106% increase from the amount incurred during the comparative quarter in Fiscal 2022 (2022 - \$410,453). The main areas of increased expenses for the Quarter were public and investor relations expenses, and recruitment expenses.

Salaries and benefits increased by \$9,956 (5%) to \$215,544 during the Quarter compared to \$205,948 for the same quarter in Fiscal 2022. The increase is primarily related to the addition of the Company's new COO during the Quarter.

The Company also incurred recruitment fees of \$61,250 during the Quarter related to the addition of the Company's new COO.

Expenses on public and investor relations increased by \$331,152 (436%) to \$407,115 compared to the same quarter in Fiscal 2022. The increase is primarily related to the Company's increased activities on the Innovation News Network website with the publication of several information pieces on lithium, and rare earths including an e-book on battery supply chains in Canada, and another piece on other future lithium applications, as well as the increased level of investor relations activities being conducted by external consultants.

The Company also participated in more in-person and virtual investor and industry conferences in the Quarter compared to the same quarter in 2022. Avalon's CEO also delivered several on-line presentations all designed to increase investor awareness of the Company's advanced lithium project. This included three Emerging Growth Conference virtual presentations attended by more than 1,000 viewers in December.

Corporate filing and legal fees increased by \$23,109 (42%) to \$78,597 during the Quarter compared to the same quarter in Fiscal 2022. The increase is primarily related to the increased level of business activities during the Quarter.

Depreciation expense was \$56,591 during the Quarter compared to \$23,900 for the same quarter in Fiscal 2022. Depreciation expense is primarily related to the Company's leased office premises, and was offset by amounts recognized under Federal rent subsidy programs of \$nil in the Quarter (2022 - \$33,448).

Share based compensation decreased by \$32,878 to \$108,872 for the Quarter compared to \$141,750 for the same quarter in Fiscal 2022. This decrease is primarily related to the decreased number of options and Restricted Share Units ("RSUs") earned during the Quarter compared to the same quarter in Fiscal 2022.

At each reporting period date, the fair values of the Company's outstanding derivative liabilities (which included the warrants with exercise prices that are subject to adjustment from time to time in the event of certain common share rights offerings) were re-measured using the Black-Scholes pricing model, which resulted in a loss of \$72,416 for the Quarter and a gain of \$268,787 for the Six Month Period, respectively, compared to a loss of \$9,200 and a gain of \$66,570 in the comparable quarter and six month period in Fiscal 2022, respectively. The changes in the estimated value of these warrants are mainly caused by the fluctuation in the trading price of the Company's common shares between the beginning and end of the reporting periods.

Interest income for the Six Month Period totalled \$40,626 compared to \$2,302 in the same period in Fiscal 2022.

For the Six Month Period, corporate and administrative expenses totalled \$1,490,980 compared to \$971,766 for the same period in Fiscal 2022. The main areas of increased expenses for the Six Month Period were public and investor relations expenses, and corporate filing and legal fees, which were partly offset by a decrease in salaries and benefits.

Salaries and benefits for the Six Month Period decreased by \$27,820 to \$491,293, compared to the same period in Fiscal 2022 primarily due to the decreased number of employees during the quarter ended November 30, 2022 compared to the same quarter in Fiscal 2022.

Expenses on public and investor relations increased by \$407,972 (214%) during the Six Month Period to \$599,066 compared to the same period in Fiscal 2022. The increase is primarily related to the increased amount of work provided by the Company's investor relations consultants, the increase in TV and internet base advertising campaigns and the increased number of investor conferences participated in by the Company.

Consistent with the Quarter and for similar reasons, corporate filing and legal fees increased by \$19,556 (19%) to \$120,917 during the Six Month Period compared to the same Period in Fiscal 2022.

During the Six Month Period, the Company incurred \$40,000 in financing advisory fees relating to the purchase of a suitable site for the proposed lithium refinery.

Share based compensation decreased to \$218,725 from \$289,005 during the Six Month Period compared to the same period in Fiscal 2022. This decrease is primarily related to the decrease in the number of options and RSUs earned during the Six Month Period compared to the same period in Fiscal 2022.

Summary of Quarterly Results

The following selected financial data is derived from the unaudited condensed consolidated interim financial statements and financial information of the Company.

Fiscal Year	2023		2022				2021	
	Feb. 28	Nov. 30	Aug. 31	May 31	Feb. 28	Nov. 30	Aug. 31	May 31
For the Quarters Ended	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	24,724	15,902	15,546	3,918	1,237	1,065	1,966	3,866
Net Income (Loss)	(776,075)	(355,124)	(991,515)	(1,706,906)	(567,035)	(680,387)	407,783	540,924
Income (Loss), per share, basic	(0.002)	(0.001)	(0.002)	(0.004)	(0.001)	(0.002)	0.001	0.002
Income (Loss), per share, diluted	(0.002)	(0.001)	(0.002)	(0.004)	(0.001)	(0.002)	0.001	(0.001)

The fluctuation in quarterly net loss is primarily due to share-based compensation expenses recognized as stock options, DSUs and RSUs granted to directors, officers, employees and consultants of the Company are earned, the gain on sale of property, plant and equipment, the impairment losses recognized on resource properties, changes in the fair value of derivative liabilities, and expensed financing transaction costs. The costs of resource properties are written down at the time the properties are abandoned or considered to be impaired in value.

Liquidity and Capital Resources

In management's view, given the nature of the Company's operations, which consist mainly of the exploration and development of mineral properties, the most relevant financial information relates primarily to current liquidity, solvency, and planned project expenditures. The Company's financial success will be dependent on the economic viability of its resource projects and the extent to which it can develop its mineral resources. Such development may take several years to complete and the amount of resulting income, if any, is difficult to determine until firm offtake commitments have been secured. The sales value of any mineralization discovered by the Company is largely dependent on factors beyond the Company's control, including the negotiated value of the critical minerals products to be produced.

The Company manages its capital structure and makes adjustments to it based on the funds available to the Company in light of changes in general economic conditions, the Company's short term working capital requirements, and its planned exploration and development program expenditure requirements.

As the Company is in the development stage, its principal source of capital is from the issuance of equity securities although it is now trying to access debt financing to fund the refinery site acquisition and reduce share dilution. With the likelihood of securing investing partners in the refinery and with access to government grant funding, the debt incurred to acquire the property can probably be paid back in the first year. In order to achieve its objectives, the Company expects to spend its existing working capital and raise additional funds as required including flow-through equity financing to fund exploration drilling work and some debt financing.

On May 9, 2022, the Company issued a convertible note payable in the amount of \$3,000,000 to an entity managed by the Lind Partners ("Lind") (the "2022 Note"). The 2022 Note has a term of two years with a maturity date of May 9, 2024 and accrued an interest amount of \$600,000 on the date of issuance, resulting in the 2022 Note to bear a face value of \$3,600,000 at issuance. Lind is entitled to convert any outstanding amount of the face value of the 2022 Note into common shares commencing on September 10, 2022 at a conversion price equal to 85% of the five day trailing value weighted average price ("VWAP") of the common shares prior to the date of conversion. The Company has the right to repurchase the 2022 Note at the outstanding face value at any time after September 10, 2022, subject to the holder's option to convert up to one third of the original value into common shares prior to the Company's repurchase. The balance on the 2022 Note at February 28, 2023 was \$2,550,000.

On January 29, 2021, the Company issued a convertible note payable in the amount of \$3,000,000 to an entity managed by Lind (the "2021 Note"). The 2021 Note has a term of two years with a maturity date of January 29, 2023 and accrued an interest amount of \$600,000 on the date of issuance, resulting in the 2021 Note to bear a face value of \$3,600,000 at issuance. Lind is entitled to convert any outstanding amount of the face value of the 2021 Note into common shares commencing on May 30, 2021 at a conversion price equal to 85% of the five day trailing VWAP of the common shares prior to the date of conversion. The Company has the right to repurchase the 2021 Note at the outstanding face value at any time, subject to the holder's option to convert up to one third of the original value into common shares prior to the Company's repurchase. The 2021 Note was fully repaid during the Quarter.

The number of common shares to be issued would be 21,321,070 if the full amount of notes payable had been converted into common shares based on the five day VWAP of the Company's common shares on the TSX of \$0.1407 on February 28, 2023.

As at February 28, 2023, the Company has current assets of \$3,120,109 and current liabilities of \$1,264,542. The Company's working capital as at February 28, 2023 was \$1,855,567 (August 31, 2022 - \$2,612,423)

The Company's monthly operating expenditures, excluding expenditures on resource property work programs, average approximately \$325,000 during periods of moderate project activity. The Company's contemplated capital and resource property expenditures for Fiscal 2023, assuming the requisite financing is in place, are budgeted at approximately \$11,200,000 (excluding capitalized salaries and benefits), of which approximately \$1,660,000 has been incurred to February 28, 2023.

The Company will need to raise additional capital to fund significant new work programs on the Separation Rapids Lithium and Lilypad Cesium-Tantalum Projects. Initiatives to raise additional capital are ongoing and include financing from an investing partner for developing Separation Rapids, as well as flow-through equity financing for planned exploration work programs. There continues to be increasing investor interest in critical minerals for clean technology creating many new opportunities to access capital including from the growing ESG investment community. Having the new ESG risk rating will improve access to ESG oriented risk capital including Green Bonds. Discussions with potential joint venture partners to provide project financing are also ongoing and the Company is continuing to prioritize financing opportunities that will minimize the potential for excessive shareholder dilution. The Company's expenditures on discretionary exploration and development activities have some scope for flexibility in terms of amount and timing, which can be adjusted accordingly.

The Company does not have any externally imposed capital requirements other than those certain Default Events contained in the note payable terms. The Company continues to work on attracting more substantial project financing through the participation of one or more strategic partners, a long term construction debt financing facility, and/or through the equity markets. If the Company is not able to secure financing on satisfactory terms, expenditures on the development of its projects will need to be delayed but with all the new interest in establishing new lithium battery materials supply chains here, it is just a matter of time before adequate financing is secured.

All of the Company's resource properties are owned, leased or licenced with minimal holding costs. The most significant holding costs being annual lease rental fees on Nechalacho of \$24,841 (which are shared 50/50 with Cheetah) and the annual expenditures related to the mining leases at Separation Rapids and Warren Township totalling \$3,327. As at February 28, 2023, the Company is required to incur additional CEE of \$1,195,153 by December 31, 2023. The Company also has additional payment requirements pursuant to the 2333382 LOI as outlined earlier under "Other Projects".

The Company has a lease for its premises. As at the date of this MDA, the minimum lease commitments under this lease are as follows:

Fiscal year ended August 31,	2023	\$	77,384
	2024	\$	233,563
	2025	\$	63,280

Off Balance Sheet Arrangements

As at February 28, 2023, the Company had no material off balance sheet arrangements such as guaranteed contracts, contingent interests in assets transferred to an entity, derivative instrument obligations or any instruments that could trigger financing, market or credit risk to the Company.

Transactions with Related Parties

Balances and transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed here. Details of the transactions between the Company and other related parties are disclosed below:

a) Trading transactions

There have been no material trading transactions with related parties during each of the six months ended February 28, 2023 and 2022, other than the participation by certain related parties in the December 2021 private placement, whereby Donald Bubar, CEO, and Mr. Alan Ferry, Chair of the Board of Directors subscribed for 250,000 and 300,000 flow-through units at \$0.12 per unit, respectively. Each flow-through unit consists of one flow-through common share and one half non-transferable common share purchase warrant, with each whole warrant being exercisable to acquire one non-flow-through common share of the Company at a price of \$0.18 until December 21, 2023.

b) Compensation of key management personnel

The remuneration of directors and other key members of the Company's senior management team during each of the three and six months ended February 28, 2023 and 2022 are as follows:

	Three Months Ended		Six Months Ended	
	February 28, 2023	February 28, 2022	February 28, 2023	February 28, 2022
Salaries, benefits and directors' fees ⁽¹⁾	\$ 246,193	\$ 230,768	\$ 501,978	\$ 538,644
Share based compensation ⁽²⁾	73,926	123,139	144,677	239,825
	<u>\$ 320,119</u>	<u>\$ 353,907</u>	<u>\$ 646,655</u>	<u>\$ 778,469</u>

(1) Salaries and benefits of key management personnel capitalized to exploration and evaluation assets and PPE for the Quarter and for the Period totaled \$46,942 (2022 - \$38,894) and \$52,943 (2022 - \$78,376), respectively.

(2) Fair value of stock options, DSUs & RSUs earned and recognized as share based compensation during the respective reporting period.

Subsequent Events

Subsequent to the end of the Period, the Company:

- issued 3,832,090 common shares pursuant to the conversion of \$400,000 of the convertible note payable; and
- issued 36,250 common shares pursuant to the exercise of 36,250 stock options at a weighted average exercise price of \$0.08 per share.

Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, receivables, accounts payable and accrued liabilities, convertible note payable and warrants with exercise prices that are subject to adjustment from time to time.

Management does not believe these financial instruments expose the Company to any significant interest, currency or credit risks arising from these financial instruments. The fair market values of

cash and cash equivalents, receivables, accounts payable and accrued liabilities and convertible notes payable approximate their carrying values.

Interest income from cash and cash equivalents are recorded in the statement of comprehensive loss.

Outstanding Share Data

a) Common and Preferred Shares

The Company is presently authorized to issue an unlimited number of common shares without par value. The Company is also authorized to issue up to 25,000,000 preferred shares without par value, of which 950 have been issued and none is outstanding as at February 28, 2023.

As at February 28, 2023, the Company had 433,827,951 common shares issued and outstanding. Subsequent to the end of the Period, and as described earlier under "Subsequent Events", a total of 3,868,340 shares were issued. As of the date of this MDA, the Company has 437,696,291 common shares outstanding.

b) Options

As at February 28, 2023, the Company had an aggregate of 18,085,000 incentive stock options outstanding with a weighted average exercise price of \$0.14 (of which 8,411,250 were vested and 9,673,750 were unvested). Subsequent to the end of the Quarter, 36,250 stock options were exercised (as described earlier under "Subsequent Events"). As at the date of this MDA, the Company has 18,048,750 incentive stock options with a weighted average exercise price of \$0.14 outstanding.

c) Deferred and Restricted Share Units

As at February 28, 2023, and the date of this MDA, the Company has 485,537 fully vested DSUs and 1,016,666 RSUs (of which 300,001 were vested) outstanding.

d) Warrants

As at February 28, 2023 the Company has the following common share purchase warrants outstanding:

- i. 1,875,000 C1 Warrants with an exercise price of \$0.125 per common share which are exercisable until June 29, 2023;
- ii. 9,800,000 warrants with an exercise price of \$0.18 per common share which are exercisable until January 29, 2025;
- iii. 4,425,000 warrants with an exercise price of \$0.18 per common share which are exercisable until December 21, 2023;
- iv. 1,460,000 warrants with an exercise price of \$0.15 per common share which are exercisable until December 21, 2023;
- v. 3,529,412 warrants with an exercise price of \$0.25 per common share which are exercisable until December 2, 2024;
- vi. 2,205,900 warrants with an exercise price of \$0.25 per common share which are exercisable until December 14, 2024; and

- vii. 9,000,000 warrants with an exercise price of \$0.26 per common share and are exercisable until May 9, 2026.

The Company is also committed to issue 20,000 warrants to the NWTMN in two equal installments of 10,000 warrants upon the Nechalacho Project meeting certain milestones. These warrants will have a contractual term of five years and will have an exercise price based on the then current market price of the Company's common shares at the date of issue of the warrants.

e) *Brokers' Compensation Warrants*

As at February 28, 2023 the Company has the following compensation warrants outstanding:

- i. 150,000 warrants with an exercise price of \$0.20 per common share, which are exercisable until May 14, 2023; and
- ii. 788,900 warrants with an exercise price of \$0.18 per common share, which are exercisable until December 21, 2023.

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that material information is gathered and reported to senior management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), as appropriate, to permit timely decisions regarding public disclosure.

Management, including the CEO and CFO, has designed or caused to be designed under their supervision, disclosure controls to provide reasonable assurance that the information required to be disclosed in annual filings, interim filings, or other reports filed or submitted under Canadian securities legislation is recorded, processed, summarized and reported within the time period specified in those rules.

Internal Control over Financial Reporting

The CEO and CFO are also responsible for the design of the Company's internal controls over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Because of its inherent limitation, internal control over financial reporting may not prevent or detect misstatements.

There have been no changes to the Company's design of internal controls over financial reporting that occurred during the Quarter that materially affected, or are reasonably likely to affect, the Company's ICFR.

Critical Accounting Judgments and Estimation Uncertainties

The preparation of the consolidated financial statements in conformity with IFRS requires that the Company's management make critical judgments, estimates and assumptions about future events that affect the amounts reported in the consolidated financial statements and the related notes thereto. Actual results may differ from those estimates. Estimates and assumptions are reviewed on an ongoing basis based on historical experience and other factors that are considered to be relevant under the circumstances. Revisions to estimates are accounted for prospectively.

The Company has identified the following significant areas where critical accounting judgments, estimates and assumptions are made and where actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the consolidated financial statements.

Key Sources of Estimation Uncertainty

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the financial results or the financial positions reported in future periods are included in the following notes:

Recoverability of Exploration and Evaluation Assets and Property, Plant and Equipment

The Company assesses its long-lived assets, specifically all exploration and evaluation assets and property, plant and equipment ("PPE") at each reporting date to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is the higher of the fair value less costs of disposal and value in use. These assessments require the use of estimates and assumptions such as long-term commodity prices, discount rates, foreign exchange rates, years to commencement of production, future capital requirements, exploration potential and operating performance.

Determination of Reserve and Resource Estimates

Mineral reserves and resources are estimates of the amount of ore that can be economically and legally extracted from the Company's exploration and development properties. The estimation of recoverable reserves for non-traditional mineral commodities, like lithium and rare earths, is based primarily upon demand for the product as well as estimates of commodity prices, production costs, production techniques, future capital requirements and foreign exchange rates, along with geological assumptions and judgments made in estimating the size and quality of the resource. Changes in the resource estimates may impact the carrying value of exploration and evaluation assets, development assets, PPE, site closure plans as well as the scale of the operations.

Fair Value of Share Based Payments and Warrants

The Company follows IFRS 2, Share-based Payment, in determining the fair value of share based payments. This calculated amount is not based on historical cost, but is derived based on assumptions (such as the expected volatility of the price of the underlying security, expected hold period before exercise, dividend yield and the risk-free rate of return) input into a pricing model. The model requires that management make forecasts as to future events, including estimates of: the average future hold period of issued stock options and compensation warrants before exercise, expiry or cancellation; future volatility of the Company's share price in the expected hold period; dividend yield; and the appropriate risk-free rate of interest. The resulting value calculated is not necessarily the value that the holder of the option or warrant could receive in an arm's length transaction, given that there is no market for the options or compensation warrants and they are not transferable. Similar calculations are made in estimating the fair value of the warrant component of an equity unit. The assumptions used in these calculations are inherently uncertain. Changes in these assumptions could materially affect the related fair value estimates.

Site Closure and Reclamation Provision

The Company's accounting policy for the recognition of a site closure and reclamation obligation requires significant estimates and assumptions such as: requirements of the relevant legal and regulatory framework, the magnitude of possible disturbance and the timing thereof, extent and costs of required closure and rehabilitation activity, and discount rate. These uncertainties may result in future actual expenditures differing from the amounts currently provided. Site closure and reclamation provision recognized is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs are recognized in the statement of financial position by adjusting both the site closure and reclamation asset and provision.

Property, Plant and Equipment ("PPE") - Estimated Useful Lives

Management estimates the useful lives of PPE based on the period during which the assets are expected to be available for use. The amounts and timing of recorded expenses for depreciation of PPE for any period are affected by these estimated useful lives. The estimates are reviewed at least annually and are updated if expectations change as a result of physical wear and tear, technical or commercial obsolescence and legal or other limits to use. It is possible that changes in these factors may cause significant changes in the estimated useful lives of the Company's PPE in the future.

Critical Judgments

Information about critical judgments in applying accounting policies that have most significant effect on the consolidated financial statements are as follows:

Capitalization of Exploration and Evaluation Costs

Exploration and evaluation costs incurred during the year are recorded at cost. Capitalized costs include costs directly attributable to exploration and evaluation activities, including salaries and benefits of employees who are directly engaged in the exploration and evaluation activities. Administrative and other overhead costs are expensed. Exploration and evaluation costs incurred that have been determined to have future economic benefits and can be economically recoverable are capitalized. In making this judgment, management assesses various sources of information including, but not limited to the geologic and metallurgic information, history of conversion of mineral deposits to proven and probable mineral reserves, scoping and feasibility studies, proximity of operating facilities, operating management expertise and existing permits.

Changes in Accounting Policies Including Initial Adoption

The Company adopted the new accounting standard during the Six Month Period:

Amendments to IAS 16 - Property, Plant and Equipment - Proceeds before Intended Use

On September 1, 2022, the Company adopted amendments to IAS 16, Property, Plant and Equipment ('IAS 16'). The amendments prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. A company will be required to recognize these sales proceeds and related costs in earnings. The retrospective adoption of these amendments had no impact to the Company's condensed consolidated interim financial statements and there were no adjustments to the carrying amounts of the Company's property, plant and equipment on the date of transition as a result of the application of these amendments.

Recent Accounting Pronouncements

The following pronouncement is issued but not yet effective:

Amendments to IAS 1 - Presentation of Financial Statements - Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to IAS 1, Presentation of Financial Statements to clarify the requirements for classifying liabilities as current or non-current.

The amendments specify that the conditions which exist at the end of the reporting period are those which will be used to determine if a right to defer settlement of a liability exists and clarify the situations that are considered settlement of a liability, which include settlement by transferring a company's own equity instruments to the counterparty. The amendments further clarify how an entity classifies a liability that includes a counterparty conversion option, and that when classifying liabilities as current or non-current - an entity can ignore only those conversion options that are recognized as equity.

The amendments will become effective for annual reporting periods beginning on or after January 1, 2023 (which will become effective on September 1, 2023 for the Company), and will apply retrospectively. The application of these amendments will impact the current/non-current classification of the Company's convertible notes payable and certain derivative liabilities.

Forward-Looking Information, Risk Factors and Qualified Persons

Certain of the statements that are not historical facts contained in this MDA are forward-looking information and forward-looking statements that involve risks and uncertainties that could cause actual events or results to differ materially from estimated or anticipated events or results reflected in the forward-looking statements. Such forward-looking statements reflect the Company's current views with respect to future events and include, among other things, statements regarding targets, estimates and/or assumptions in respect of reserves and/or resources, and are based on estimates and/or assumptions related to future economic, market and other conditions that, while considered reasonable by management, are inherently subject to risks and uncertainties, including significant business, economic, competitive, political and social uncertainties and contingencies. These estimates and/or assumptions include, but are not limited to:

- grade of ore;
- mineral product and commodity prices;
- metallurgical recoveries;
- operating costs;
- achievement of current timetables for development;
- strength of the global economy;
- availability of additional capital;
- availability of supplies, equipment and labour; and
- market and sector trends.

Factors that could cause the Company's actual results, performance, achievements, developments or events to differ materially from those expressed or implied by forward-looking statements include, among others, the factors described or referred to under "Description of the Business - Risk Factors" in the Company's Annual Information Form for the year ended August 31, 2022, and:

- risks related to the Company's history of losses, lack of operating history, ability to generate material revenues and continue as a going concern;
- risks related to establishing new mining operations in the event that the Company elects to proceed with the development of one of its mineral projects;
- risks related to the Company's need for additional financing;
- risks related to any joint venture or strategic alliances that may be entered into by the Company;
- risks related to the impact of the novel coronavirus ("COVID-19") pandemic, or other global pandemics;
- risks related to either Avalon's or Cheetah's development plans of the Nechalacho Project negatively impacting the other's development plans;
- risks related to the progression of the Separation Rapids Lithium Project to a positive feasibility stage;
- risks related to securing product off-take agreements on a timely basis;
- risks related to the unique ore type at the Nechalacho Project and the Separation Rapids Lithium Project for which known metallurgical processes have not previously been applied;
- uncertainty related to title to the Company's properties as well as the risk of delays in obtaining licenses and permits as a result of local opposition, including uncertainty related to any challenges in connection with Indigenous land title claims and Indigenous rights;
- risks related to the possible existence of rights and interests of Indigenous groups, which may limit the Company's ability to develop its properties;
- risks related to the need to acquire properties for the hydrometallurgical plant and potentially a rare earth refinery for the Nechalacho Project;

- risks that actual capital costs, production schedules and economic returns for the Nechalacho Project may differ significantly from those anticipated by the Company;
- risks related to the demand for technology metals and minerals and fluctuations in their pricing;
- risks related to the demand for lithium and fluctuations in its pricing;
- risks related to competition and the actions of competitors;
- risks related to costs or delays in the commercialization of rare earth products;
- uncertainties related to the fact that the Company's mineral resources and mineral reserves are only estimates;
- risks related to obtaining, maintaining and renewing licenses and permits, and the material costs, liabilities and obligations in connection therewith;
- risks that the Company will be subject to material costs, liabilities and obligations in connection with environmental laws, regulations and approvals and that approvals will not be available;
- uncertainties involving uninsured risks;
- risks related to possible shortages of supplies, equipment and labour;
- risks related to the Company's ability to attract and retain qualified management and technical personnel;
- uncertainty whether the Company will acquire commercially mineable ore deposits or whether the current mineral deposits identified by the Company can be developed as commercially viable ore bodies;
- risks inherent to the competitive nature of the mineral industry;
- risks related to the extensive federal, state, provincial, territorial and local laws and regulations to which the Company's activities are subject;
- risks related to the availability and reliability of adequate infrastructure;
- risks and hazards inherent to the mining industry;
- risks related to any changes in critical accounting estimates that adversely affect the Company's financial results;
- risks related to potential conflicts of interest of the Company's directors and officers who may have involvement with other resource companies;
- risks related to cybersecurity;
- risks due to being a "passive foreign investment company" for U.S. purposes;
- risks related to fluctuations of currency exchange rates;
- risks related to share price volatility;
- risks related to dilution of existing shareholders;
- risks related to not paying cash dividends; and
- risks related to there being no market for the Company's warrants.

Most of the foregoing factors are beyond the Company's ability to control or predict. Although the Company has attempted to identify important factors that could cause actual results, performance, achievements, developments or events to differ materially from those described in forward-looking statements, there may be other factors that cause actual results, performance, achievements, developments or events not to be as anticipated, estimated or intended. There can be no assurance that the estimates and/or assumptions upon which these forward-looking statements are based will occur.

Readers can identify many of these statements by looking for words such as "believe", "expects", "will", "intends", "projects", "anticipates", "estimates", "continues" or similar words or the negative thereof. There can be no assurance that the plans, intentions or expectations upon which these forward-looking statements are based will occur.

The forward-looking statements contained herein are made as of the date of this MDA and are expressly qualified in their entirety by this cautionary statement. Readers should not place undue reliance on the forward-looking statements, which reflect management's plans, estimates, projections and views only as of the date hereof. The Company undertakes no obligation to publicly revise these forward-looking statements to reflect subsequent events or circumstances, except as required by applicable law.

The technical information included in this MDA, unless otherwise stated, has been reviewed and approved by Donald S. Bubar, P.Geo., Chief Executive Officer of the Company. Mr. Bubar is a qualified person under National Instrument 43-101 - Standards of Disclosure for Mineral Projects ("NI 43-101").

Cautionary Note to U.S. Investors Regarding Mineral Resources

NI 43-101 is a rule of the Canadian Securities Administrators, which establishes standards for all public disclosure an issuer makes of scientific and technical information concerning mineral projects. Unless otherwise indicated, all mineral reserve and mineral resource estimates contained in or incorporated by reference in this MDA have been prepared in accordance with NI 43-101 and the Canadian Institute of Mining, Metallurgy and Petroleum classification system. These standards differ significantly from the mineral property disclosure requirements of the Securities and Exchange Commission's Industry Guide 7 ("Guide 7"), which, until recently, applied to most SEC registrants, and so the mineral reserve and mineral resource information contained in the MDA and incorporated herein by reference is not comparable to similar information disclosed by U.S. companies pursuant to Guide 7. However, on October 31, 2018, the SEC adopted changes to its disclosure rules to modernize the mineral property disclosure requirements applicable to most SEC registrants. New subpart 1300 of Regulation S-K (the "SEC Modernization Rules") became effective on February 25, 2019 and, for fiscal years beginning on or after January 1, 2021, replaces Guide 7's disclosure requirements. Under the SEC Modernization Rules, consistent with global standards as embodied by the Committee for Reserves International Reporting Standards ("CRIRSCO"), most SEC registrants will be required to disclose specified information concerning mineral resources that have been identified on their mineral properties. Consistent with CRIRSCO standards, the SEC Modernization Rules have also added definitions to recognize measured mineral resources, indicated mineral resources and inferred mineral resources. Thus, although the SEC Modernization Rules are not identical to Canada's NI 43-101 standards, they are intended to be more consistent with those standards.

Other Information

Additional information on the Company is available on SEDAR at www.sedar.com and on the Company's website at www.avalonadvancedmaterials.com.