



Management's Discussion and Analysis of Financial Statements for the year ended August 31, 2021

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 year ended August 31, 2021 (the "Year" or "Fiscal 2021"). The following information should be read in conjunction with the accompanying audited consolidated financial statements and the related notes thereto. This MDA is prepared as of November 26, 2021.

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 primarily 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, tin, indium, gallium, germanium, tantalum and zirconium.

The Company is in various stages of developing three of its five mineral resource properties with particular emphasis on lithium, cesium, tin, indium and rare earths. Avalon continues to evaluate new opportunities with near term development potential such as extracting valuable products from 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 minesite. The concept is attracting increasing interest from ESG investors and government now promoting the "circular economy", particularly for sites with abundant critical minerals in the wastes, but securing access 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 November 2021, the Company released its tenth comprehensive Sustainability Report (the "2021 Sustainability Report") and in February, 2021 secured a top 5% ESG Risk rating amongst our peer companies from Sustainalytics.

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.

Selected Annual Information

The following selected financial data for each of the three most recently completed fiscal years are derived from the audited annual financial statements of the Company, which were prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”).

| For the Years Ended August 31, | 2021 | 2020 | 2019 |
|---------------------------------------|-------------|-------------|-------------|
| | \$ | \$ | \$ |
| Revenue | 11,249 | 134,138 | 53,023 |
| Net loss | 3,755,123 | 5,367,264 | 3,386,335 |
| Net loss, per share basic and diluted | 0.011 | 0.016 | 0.012 |
| Total assets | 118,469,108 | 116,597,484 | 124,012,322 |
| Total long term liabilities | 3,985,441 | 1,052,001 | 1,463,794 |
| Cash dividends | - | - | - |

The Company has recorded losses in each of its three most recently completed fiscal years and expects to continue to record losses until such time as an economic mineral deposit is developed and brought into profitable commercial operation on one or more of the Company’s properties, or is otherwise disposed of at a profit. Since the Company has no ongoing revenue from operations, annual operating losses typically represent the sum of business expenses, any impairment losses recognized on its mineral properties and adjustments to the fair value for the derivative liabilities and convertible redeemable preferred shares. The Company may increase or decrease its level of business activity in coming years and if it does, investors can anticipate that the Company’s annual operating losses will also increase or decrease until an economic operation is brought into profitable commercial production, or one or more of the Company’s properties are disposed of at a profit.

Resource Development Activities

Expenditures on resource properties for Fiscal 2021 totalled \$1,246,521, a 96% increase from the level of expenditures for the year ended August 31, 2020 (“Fiscal 2020”) which totaled \$635,546. Of these expenditures, 64% were incurred on the Separation Rapids Lithium Project, 4% were incurred on the Nechalacho Project and 32% were incurred on the Lilypad Cesium-Tantalum Project. Expenditures on the Separation Rapids Lithium Project increased to \$801,297 from \$503,191 in Fiscal 2020, primarily due to the 5,000 tonne bulk sampling program completed in 2021. Expenditures on the Lilypad Cesium-Tantalum Project increased to \$400,490 from \$18,382 in Fiscal 2020, primarily due to the fieldwork programs conducted in the fall of 2020 and the summer of 2021. Expenditures on the Nechalacho Project were at a similar level, totaling \$41,684 in Fiscal 2021 compared to \$30,340 in Fiscal 2020. Expenditures on the East Kemptville Project decreased to \$nil from \$83,633 in Fiscal 2020, due to the continued inability to obtain access from the surface rights holder.

Resource property expenditures for the three months ended August 31, 2021 (the “Quarter”) totalled \$441,637, a 185% increase from the level of expenditures in the comparative quarter in 2020 (\$154,717). This increase was primarily driven by the exploration program at the Lilypad Cesium-Tantalum Project, which was conducted during the Quarter. Of these expenditures, 30% were incurred on the Separation Rapids Lithium Project, 2% were incurred on the Nechalacho Project and 68% were incurred on the Lilypad Cesium-Tantalum Project.

No properties were abandoned or impairment losses recorded during the Year. During Fiscal 2020, the Company recorded an impairment loss of \$5,587,210 on its East Kemptville Project, although the Company continues to work toward a solution on securing access and re-activating the site.

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 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 lithium minerals for use in the glass and ceramics industry as well as lithium compounds for the battery industry.

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 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 looking at potentially accelerating its plans to produce lithium battery materials and has identified several potential industrial sites for a lithium refinery in Thunder Bay.

During the Year, the Company incurred \$801,297 (2020 - \$503,191) in exploration and development expenditures on the Separation Rapids Lithium Project. Approximately 60% of these expenditures were incurred primarily on the bulk sampling program completed during the Year, 18% were spent on permitting for the bulk sampling program and baseline environmental studies, and 22% were incurred on metallurgical testwork mainly to perform a calcination campaign on 50 kg of petalite concentrate and to produce a lithium sulphate solution for evaluation by potential customers. In addition, approximately \$51,000 was expended during the Year on lithium market development work towards securing offtake agreements for the petalite products and lithium battery materials products.

During the Quarter, the Company incurred \$132,668 (2020 - \$139,428) in exploration and development expenditures on the Separation Rapids Lithium Project. Approximately 13% of these expenditures were incurred on planning for the field exploration program on the NW part of the property which was completed in October, 2021, 51% were spent on permitting for future drilling programs including on the Snowbank petalite pegmatite discovery as well as baseline environmental studies. Approximately 35% were incurred on metallurgical testwork to produce a lithium sulphate crystal sample and evaluating various Dense Media Separation (“DMS”) plants for purchase. Approximately \$18,000 was expended during the Quarter on lithium market development work towards securing offtake agreements for the petalite products and lithium battery materials products.

Lithium Markets

Demand for lithium both for battery materials and high strength lithium glass-ceramics products continues to grow. The Company has received several expressions of interest in the battery material products mainly from internationally based battery manufacturers, as well as glass ceramic manufacturers. Production of small petalite product samples and lithium battery materials samples for evaluation by potential buyers continues. Global lithium carbonate prices are now rising consistent with recent lithium market forecasts showing rapid growth in demand driven mainly by the battery market with supply shortages expected within the next 2-3 years for both the battery and glass-ceramic markets. The Company is looking at a number of different production models for the lithium refinery which will depend on the specific requirements of the buyers who provide firm off-take commitments. Several companies that have expressed interest in making an off-take commitment have also expressed interest in being an investing partner in the 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. Several vacant industrial

sites on the waterfront have been evaluated with a decision expected in the second quarter of the next fiscal year. The refinery being planned would be adaptable for producing different lithium battery materials products, and would also be expandable to increase output and accept concentrates from other aspiring producers of lithium minerals from the many pegmatite deposits that occur in northwestern Ontario.

To serve the growing interest in the petalite product from the glass-ceramics industry, the Company is looking to purchase a demonstration scale DMS plant that would allow it to start producing bulk samples of the petalite concentration for customer evaluation. Once firm off-take commitments are secured, production can be scaled up as needed to meet the demand. The DMS demo plant would be installed on the Company's aggregate permit where most of the permitting requirements are advanced or already in place. The Ontario government, with input from Avalon, has initiated potential regulatory changes to the existing regulatory regime ("cutting the red tape") to differentiate critical minerals like lithium from traditional exchange-traded commodities and facilitate their more rapid development in Ontario as part of a new industrial strategy to support advanced manufacturing.

Recent Activities and Future Plans

The next step to finalize the lithium battery materials production model is to proceed with 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 bulk sample collection work program was completed with the extraction of 5,000 tonnes of mineralized rock of the three different ore types that is presently stored at a site near Kenora where it will be crushed to appropriate size prior to shipping to a metallurgical testing facility for pilot scale work. The coarse grained petalite ore will be used in the 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 began in the Quarter, but timing for a full scale pilot plant is uncertain due to a lack of available appropriately-equipped test facilities in Canada.

After being delayed due to intense forest fire activity near the property, further exploration and some early environmental baseline work on the northwestern part of the property in the vicinity of the new Snowbank petalite pegmatite discovery and the Glitter pegmatite was completed in October 2021. Assay results for all the geochemical samples and pegmatite ore samples collected during the program were still pending at the time of writing. A drilling program to begin to define the size potential of the Snowbank pegmatite discovery is planned for winter 2022.

In its 2016 Preliminary Economic Assessment, Avalon developed a proprietary process flowsheet to produce a high purity lithium hydroxide product from petalite for the lithium battery material market. The flowsheet has the advantage of generating limited waste by the recycling of the sulphuric acid solvent. To further optimize this flowsheet, Avalon shipped a 50 kg sample of petalite concentrate to XPS (Expert Process Solutions) in Sudbury, Ontario to generate leach solution for use in optimizing the final stages of the process, which involves the use of electrolysis to produce lithium hydroxide. The program focused on an improved membrane alternative and efficient crystallization of the final high purity product. The results will enable finalizing equipment selection and design for the planned lithium refinery. A sub-sample of the leach solution was used to produce a small sample of lithium sulphate monohydrate for evaluation by a potential international customer. Other testwork in progress is focused on ways to reduce processing costs and energy consumption, including alternative milling technologies.

The Company has also completed satellite image surveying of the total property area covering 100 km² which will result in computer-based topographic information with 1 metre survey grid and 1 metre contours. This information will be valuable for further exploration programs, project engineering and environmental studies in the feasibility study.

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, 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 Company has also consulted with the Métis Nation of Ontario and engagement is ongoing with other local Indigenous communities, regulators, and local government.

Environmental studies of the proposed power transmission line route are planned and opportunities to reduce costs and greenhouse gas (“GHG”) footprint with green energy supply are also being investigated. With the exception of the powerline route study, the environmental studies necessary for permitting at the pit site are largely complete, though some minor updates are planned. A University of Toronto Capstone Masters Project was completed which identified opportunities to become carbon neutral in an economic manner in the early stages of operation. Once applications are submitted, it is anticipated that all necessary permits for construction can be obtained in under a year. Construction activities for many project components can be initiated prior to receipt of all permits.

During the year, additional baseline data collection was done in preparation for the potential to utilize the aggregate quarry as the site for the planned demonstration-scale DMS plant. The site is already approved for ore crushing and storage for the bulk sample, and the additional information allowed a preliminary assessment of water supply and discharge options. Plant water use, water quality and discharge associated with the DMS plant are envisioned to be very small, reducing permitting requirements and risk. A preliminary site layout was prepared, and the seasonally sensitive baseline data collected can be utilized to complete the environmental assessment for the demonstration plant when required.

Unless otherwise noted, the technical information on the Separation Rapids Lithium Project has been reviewed and approved by the Company’s Consulting Metallurgist, Mr. David Marsh, FAusIMM (CP), or Dr. William Mercer, PhD, P.Geo. (Ontario), Vice President, Operations, who are both Qualified Persons 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 MV2020D0013, 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.

Expenditures during the Year totalled \$41,684 (2020 - \$30,340), which were incurred primarily on on-going site holding and sample storage costs in the Year.

Expenditures during the Quarter were \$9,214 (2020 - 1,654), which were incurred primarily on on-going site holding and sample storage costs.

Subsequent to the end of the Quarter, 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 growing in demand 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 slightly over 3,299 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 the cesium ore mineral pollucite ((Cs,Na)₂Al₂Si₄O₁₂·2H₂O) assaying up to 6.205% Cs₂O over 1.70 metres along with significant tantalum mineralization assaying over 0.10% Ta₂O₅. Lithium also occurs in these pegmatites both as spodumene and as lepidolite in association with the pollucite and tantalite mineralization.

The project had been inactive since 2002 but was re-activated in 2020 due to rising demand for cesium. New demand for cesium emerged in 2018 with the cessation of pollucite production at the Tanco mine in Manitoba. Then in 2019, Cabot Corp. announced the sale of its Specialty Fluids division (owner of the Tanco Mine) to Sinomine, a large Chinese mining and chemical company focused on critical minerals supply. This potentially creates new market opportunities for Avalon to serve with its cesium, tantalum and lithium products. There is now also renewed interest in tantalum due to limited supply sources and growing demand in new technology.

Some 75% of cesium production has been used to make cesium formate: a high density, low viscosity fluid used in deep offshore oil drilling. Cesium formate has a value of approximately US\$2,200/kg and is leased to oil well drilling companies and recycled after use. Because cesium is now in extremely short supply, cesium chemical products, such as cesium carbonate, now sell at prices of up to US\$5,000/kg. Cesium has a variety of other high technology applications, including extremely accurate atomic clocks, and great potential in a range of applications in the production of electronics, photoelectric cells and in specialty glass applications.

In the first quarter of the Year, the Company carried out a brief field program to collect 200 kg of cesium mineralized pegmatite rock for study on how to efficiently concentrate the pollucite mineralization which, unlike most such occurrences, is found widely distributed throughout the many LCT pegmatite dykes on the property. Follow-up work involved mineralogical and analytical testwork to characterize in detail how the pollucite occurs, followed by metallurgical process testwork to identify the most efficient methods for concentrating the pollucite and recovering by-product tantalum and lithium. This includes recent testwork using the Selfrag AG EPD process and sensor-based ore-sorting testwork conducted in January, 2021 which produced very encouraging initial results. Further ore-sorting testwork using a larger, 200kg bulk sample will be conducted and other methods for efficiently dry-processing the ore will be investigated.

The Pollucite Dyke was drilled by Avalon in 2001 and a preliminary resource was estimated in 2001 to contain roughly 340,000 tonnes grading 2.294% Cs_2O and 0.037% Ta_2O_5 based on 9 holes drilled to a maximum vertical depth of 250 metres. The resource is open to depth and along strike for expansion and recent work confirmed the dyke now has at least double the original known strike length. Other similar pollucite-bearing LCT pegmatite dykes on the property remain untested. Work is underway to verify this resource estimation under present CIM Standards for NI 43-101. The Lilypad mineral resources described above are considered historic under NI 43-101 and a qualified person has not done sufficient work to classify the historical estimate as current mineral resources, and therefore the Company is not treating the historic estimate as a current resource. The historical estimate should not be relied upon.

The historic resource estimate is stated in an Assessment Report (Rees, 2001, Report on the 2001 Exploration Program, Lilypad Lakes Tantalum Cesium Property, Fort Hope, Ontario, reference number 52P09NE2005; #2.22617) that is publicly available for download online at the Ontario government assessment report database. The methodology is briefly described in an internal Company document. No resource categories are stated. It is clear from the internal document that manual polygonal estimation methodology was utilized. This is a well-established manual method used prior to the advent of extensive computer use in resource estimation. It is stated that an SG of 2.62 was utilized but no underlying data provided. Assay procedures are described but there was apparently no current QAQC methods such as insertion of blanks and standards, duplicate analyses of core or check analyses at a second laboratory.

In order to verify this resource it would be necessary to examine all underlying data for quality including the assays and drill hole surveys, determine the density of the mineralized rock and finally re-estimate the resource. Avalon has commenced this work by completing due diligence on the database against historic laboratory assay certificates, analyzing samples for density, surveying the locations of drill holes in the field and assaying check samples from identical locations to the historic samples. This data is then utilized to estimate resources, this work being in progress.

A four week summer exploration program was completed during the Quarter including geological mapping and geochemical sampling to identify new tantalum-cesium drill targets and collection of additional sample material from the Pollucite Dyke for process testwork. Significant cesium values were obtained from four other LCT dykes on the property with three samples assaying greater than 1% Cs_2O . Two of the highest cesium values were from the previously unmapped western extension of the Pollucite Dyke, about 180 metres west of the closest historic drill hole indicating potential to at least double its strike length. Samples assaying at or greater than 1% Cs_2O were also obtained from the Rubellite Dyke, a second pegmatite with high tantalum enrichment located about 500 metres east of the Pollucite Dyke. Two other little-explored pegmatites known as the Baseline and Opie Dykes were also found to contain significant cesium values. Some samples are also highly enriched in lithium where it occurs mainly in coarse grained spodumene. One sample from the Spodumene Dyke with coarse spodumene crystals returned 3.34% Li_2O and the six samples collected from that dyke averaged 0.7% Li_2O .

A follow-up drilling program is tentatively planned in 2022, to test some of the new targets and do additional drilling on the Pollucite Dyke. Preliminary environmental studies were also 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.

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.

The Company incurred \$400,490 (2020 - \$18,382) in expenditures during the Year on the Lilypad Cesium-Tantalum Project, which were mainly spent on the fall 2020 and summer 2021 fieldwork programs.

The Company incurred \$299,755 (2020 - \$8,627) in expenditures during the Quarter on the Lilypad Cesium-Tantalum Project, which were mainly spent on the 2021 summer work 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 improved tin prices (now trading at all time highs of over US\$35,000/tonne), creating an opportunity for Avalon to re-activate the site initially by processing a large stockpile of low-grade tin mineralization 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 on hold on any new work on all of its closed minesites. Not having access to the site, caused the Company to decide to withdraw its mineral lease application (for which the fees were refunded) and the Company wrote off the costs incurred to-date of \$5,587,210 as an impairment loss during Fiscal 2020.

The Company did not incur any significant expenditures during the Year 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 with Nova Scotia Ministry of Energy and Mines officials continued during the quarter, who are very 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 including acid mine drainage at other closed mine sites. 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” through innovative recycling of waste materials.

Government is increasingly committed to supporting the establishment of new critical minerals supply chains in Canada. Subsequent to the end of the Quarter, the Government of Ontario announced its new Industrial Strategy to support establishing electric vehicle and battery manufacturing capacity in the Province including battery materials supply chains. 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 mineral 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. Some sales of these phosphate-rich tailings are already generating revenues for 2333382 with considerable potential for growth as demand for phosphate mineral products is increasing. 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 to be paid 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 is secured. The initial payment of \$200,000 in cash and the issuance of 1,000,000 common shares were made in February. 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 not yet 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. Finalization of the acquisition payment schedule is presently being re-negotiated.

Warren Township Anorthosite Project

Avalon is 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. The Company is now in conversation with a potential investing partner.

No significant expenditures were incurred on the property in fiscal 2021.

Corporate Social Responsibility

In November 2021, the Company will release its 2021 Sustainability Report, which can be downloaded at: <https://www.avalonadvancedmaterials.com>. In February, 2020 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 sets targets for the next fiscal year against the applicable and updated Mining Association of Canada "Toward Sustainable Mining" indicators.

A risk assessment was completed related to the COVID 19 pandemic and detailed office re-opening procedures were developed and training completed for all employees. The office remains largely closed with most employees still working from home and only occasionally visiting the office. No COVID 19 related illnesses have been reported and an Interim COVID 19 Policy has been approved that requires all employees and contractors to be fully vaccinated. 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 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 wide range of opportunities and potential barriers to cost effectively achieving this, and is cautiously 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.

Being a recognized sustainability leader reduces costs and facilitates good relationships with Indigenous communities, which helps 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 in the Year decreased to \$6,127 compared to \$24,787 in Fiscal 2020. During the Year the Company's interest-bearing cash balances as well as interest rates were lower than in Fiscal 2020.

Management fees of \$5,122 were earned in the Year (2020 - \$109,351) related to the management of Cheetah's work programs at Nechalacho, which had substantially ceased in Fiscal 2020.

Corporate and Administrative expenses totalled \$1,878,621 during Fiscal 2021, an 3% increase from the amount incurred in Fiscal 2020 (\$1,828,971). The main areas of increased operating expenses for the Year were expenses on salaries and benefits, and audit and legal fees, which were partly offset by lower marketing, sales and government relations expenses.

Salaries and benefits for the Year increased by approximately 4% to \$1,045,930 compared to \$1,007,016. The Company's senior management agreed to a 50% reduction in their salaries from April to August, 2020, which did not reoccur in fiscal 2021.

Audit and legal fees increased by \$79,832 (72%) during the Year compared to Fiscal 2020. The increase is primarily related to the increase in fees for the audit of the Company's financial statements for Fiscal 2020 and the increased legal work with respect to the Company's share capital amendment, and in reviewing the Company's governance documents and the Company's DSU Plan and RSU Plans.

Expenses on marketing, sales and government relations decreased by \$46,407 (33%) to \$94,367 during the Year compared to the Fiscal 2020 primarily due to government relations activities are now being conducted inhouse and reduced travel due to COVID-19.

Expenses on public and investor relations for the Year totaled \$240,948 compared to \$249,761 in Fiscal 2020. Investor relations activities during the Year continued to involve responding to regular email and phone inquiries and occasional participation by the CEO in virtual investor conferences and critical minerals webinars. During the Quarter, the Company engaged the services of a new Investor Relations consulting firm called Harbor Access LLC, that has representatives both in New York and in Toronto. They have been introducing the Company to new investors in their networks.

Interest income increased to \$1,722 in the Quarter compared to \$1,054 in the same quarter in fiscal 2020. During the Quarter interest-bearing cash balances were higher, offset somewhat by lower interest rates than in the comparative quarter in 2020.

Management fees of \$224 were earned in the Quarter (2020 - \$3,759) related to the management of Cheetah's work programs at Nechalacho, which have substantially wound up towards the end of the Quarter.

Corporate and Administrative expenses totalled \$423,027 during the Quarter, a 45% increase from the amount incurred during the comparative quarter in Fiscal 2020 (\$291,397). The main areas of increased operating expenses for the Quarter were expenses on salaries and benefits, and expenses on public and investor relations, which were partly offset by lower marketing, sales and government relations expenses.

Salaries and benefits increased by \$107,791 (77%) to \$247,176 compared to \$139,385 for the same quarter in Fiscal 2020. This increase is primarily related to a reduced level of the Canadian Emergency Wage Subsidy that the Company expects to receive for the Quarter, and the Company's senior management agreeing to a 50% reduction in their salaries from April to August, 2020.

Expenses on public and investor relations increased by \$54,327 (173%) compared to the same quarter in Fiscal 2020. The increase is primarily related to the increased amount of work provided by the Company's new Investor relations consultants Harbor Access LLC.

Expenses on general exploration decreased by \$73,541 to \$53,812 during the Year compared to \$127,353 in Fiscal 2020. This decrease was primarily due to the reduction in the level of activities undertaken to evaluate new opportunities with near term development potential such as extracting valuable products from mine wastes using new technologies.

Depreciation expense reduced to \$113,504 during the Year compared to \$163,292 in Fiscal 2020. Depreciation expense is primarily related to the Company's leased office premise, and was offset by amounts recognized under the Canada Emergency Rent Subsidy program of \$121,966 in Fiscal 2021 and \$74,997 in Fiscal 2020.

Share based compensation increased to \$368,650 for the Year compared to \$99,033 for Fiscal 2020. This increase is primarily related to the increase in the estimated fair value of the options earned, and the fair value of Deferred Share Units ("DSUs") and Restricted Share Units ("RSUs") earned and recognized during the Year compared to Fiscal 2020. The DSU and RSU Plans were approved by the shareholders in February 2021. Consistent with the Year and for similar reasons, share based compensation increased to \$143,980 during the Quarter compared to \$30,031 in the same quarter in Fiscal 2020.

The Company recognized an expense of \$1,274,563 during the Year relating to the issuance of the convertible note payable issued in January 2021 (the "Note"), which consisted of the excess of the estimated fair values of the Note and the warrants (\$4,156,997) over the net cash proceeds of \$2,882,434. This amount has been included in the increase in fair values of convertible note payable and derivative liabilities in the Statement of Comprehensive Loss.

At each reporting period date, the fair values of the Company's outstanding derivative liabilities (which included the warrants denominated in US\$ and 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 \$233,980 for the Year (being the increase in the estimated value of these warrants between August 31, 2021 and August 31, 2020) and a gain of \$954,846 for the Quarter (being the decrease in the estimated value of these warrants between May 31, 2021 and August 31, 2021). 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, the issuance of 9,800,000 warrants with exercise prices that are subject to adjustment in January 2021 and the expiry of the 6,466,513 warrants denominated in US\$ in June, 2021.

During Fiscal 2020, the Company completed the sale of the Upper Zone Resources of its Nechalacho REE Project for a total cash consideration of \$5 million, resulting in a net gain on sale of \$2,373,261.

In Fiscal 2020, the Company recognized an impairment loss of \$5,587,210 relating to its East Kemptville Project.

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 For the Quarters Ended | 2021 | | | | 2020 | | | |
|---------------------------------------|---------|---------|-------------|-----------|-------------|-----------|-----------|-----------|
| | Aug. 31 | May 31 | Feb. 28 | Nov. 30 | Aug. 31 | May 31 | Feb. 29 | Nov. 30 |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Revenue | 1,966 | 3,866 | 2,331 | 3,086 | 4,813 | 8,280 | 21,068 | 99,977 |
| Net Income (Loss) | 407,783 | 540,924 | (3,945,714) | (758,116) | (5,913,590) | (578,071) | 1,700,782 | (576,385) |
| Income (Loss), per share, basic | 0.001 | 0.002 | (0.011) | (0.002) | (0.017) | (0.002) | 0.005 | (0.002) |
| Income (Loss), per share, diluted | 0.001 | (0.001) | (0.011) | (0.002) | (0.017) | (0.002) | 0.005 | (0.002) |

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 convertible redeemable preference shares, 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 consists mainly of the exploration and development of mineral properties, the most relevant financial information relates primarily to current liquidity, solvency, and planned property expenditures. The Company's financial success will be dependent on the economic viability of its resource properties 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. In order to achieve its objectives, the Company expects to spend its existing working capital and raise additional funds as required.

The outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. However, governments are now promoting the development of critical minerals supply chains in Canada and offering financial support to companies like Avalon with significant critical minerals resources, especially lithium battery materials and rare earths. The Company has implemented measures to reduce costs and preserve working capital during this period of reduced business activity. While the Company has closed its office temporarily due to the COVID-19 pandemic, staff continue to work from home. Work programs, such as sample collection and metallurgical testwork have continued and with lockdown measures starting to be lifted, field programs can now be initiated.

On January 29, 2021, the Company issued a convertible note payable in the amount of \$3,000,000 to an entity managed by the Lind Partners ("Lind") (the "Note"). The 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 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 Note into common shares commencing on May 30, 2021 at a conversion price equal 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 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.

In conjunction with the issuance of the Note, Lind received a closing fee of \$90,000 and 9,800,000 common share purchase warrants. Each warrant entitles the holder to purchase one common share of the Company at a price of \$0.18 per common share until January 29, 2025.

The number of common shares to be issued would be 29,989,969 if the entire Note had been converted into common shares based on the five day trailing VWAP of the Company's common shares on the TSX of \$0.1172 on August 31, 2021.

On March 15, 2021, the Company completed its share capital amendment, which involved amending the Company's articles to reflect a 500:1 consolidation of the Company's common shares, immediately followed by a 1:500 split of the Company's post-consolidated common shares on March 15, 2021 (the "Share Capital Amendment"). Shareholders who held less than 500 common shares in the form of a physical certificate immediately prior to March 15, 2021 ("Registered Shareholder") were paid a cash payment in exchange for their shares (the "Cash Payment") equal to the number of common shares they held immediately prior to the Share Capital Amendment multiplied by \$0.21, which is the volume weighted average trading price of the common shares on the TSX during the five consecutive trading days prior to March 15, 2021. Shareholders holding less than 500 common shares in a brokerage account immediately prior to the March 15, 2021, and who so elected through their intermediary, have been paid the Cash Payment. All other shareholders continued to hold the exact same number of shares after the Share Capital Amendment that they did prior to the Share Capital Amendment.

As a result of the Share Capital Amendment, a total of 955,949 common shares has been redeemed and cancelled, of which 932,366 shares were elected by shareholders who held their shares in a brokerage account, and the balance of 23,583 shares were held by Registered Shareholders.

In May, 2021 the Company completed a non-brokered private placement consisting of 2,500,000 flow-through shares at a price of \$0.20 per share for gross proceeds of \$500,000.

As at August 31, 2021, the Company has current assets of \$2,534,620 and current liabilities of \$858,351. The Company's working capital as at August 31, 2021 was \$1,676,269.

The Company's monthly operating expenditures, excluding expenditures on resource property work programs, average \$220,000 during periods of moderate project activity. The Company's contemplated resource property expenditures for Fiscal 2022, assuming the requisite financing is in place, are budgeted at approximately \$6,500,000 (excluding capitalized salaries and benefits).

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 on-going and include 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.

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

will now be 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 August 31, 2021, the Company is required to incur additional Canadian Exploration Expenditures of \$182,713 by December 31, 2022. This amount represents the required expenditures resulting from the private placement completed in May, 2021. The Company also has additional payment requirements pursuant to the 2333382 LOI as outlined earlier under "Other Projects".

A joint venture with an industry partner or end-user may represent an attractive alternative for financing the further stages in the development of any of the Company's projects once the capital requirements become relatively large.

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, | 2022 | \$ | 55,297 |
| | 2023 | \$ | 229,181 |
| | 2024 | \$ | 233,563 |
| | 2025 | \$ | 63,280 |

Off Balance Sheet Arrangements

As at August 31, 2021, 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 years ended August 31, 2021 and 2020.

b) Compensation of key management personnel

The remuneration of directors and other key members of the Company's senior management team during the years ended August 31, 2021 and August 31, 2020 are as follows:

| | August 31, 2021 | August 31, 2020 |
|---|---------------------|---------------------|
| Salaries, benefits and directors' fees ⁽¹⁾ | \$ 1,159,580 | \$ 1,114,485 |
| Share based compensation ⁽²⁾ | 285,468 | 75,252 |
| | <u>\$ 1,445,048</u> | <u>\$ 1,189,737</u> |

⁽¹⁾ Salaries and benefits of key management personnel capitalized to exploration and evaluation assets and PPE totaled \$174,794 (2020 - \$199,915).

⁽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 year ended August 31, 2021, the Company:

- a) granted an aggregate of 1,020,000 stock options with a weighted average exercise price of \$0.12 per share to certain employees, directors and consultants of the Company. The weighted average contract life of these options at issuance was 4.0 years;
- b) issued 5,887,842 common shares pursuant to the conversion of \$580,000 convertible note payable;
- c) extended the expiry dates for the remaining outstanding 2,150,000 warrants (each of which with an exercise price of \$0.12 per share) that were issued in the November 2018 Private Placement as described in Note 13c); and
- d) had 100,000 stock options with a weighted average exercise price of \$0.08 per share expire.

Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, receivables, accounts payable and accrued liabilities, warrants denominated in foreign currency, 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 note 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 August 31, 2021.

As at August 31, 2021, the Company had 365,339,029 common shares issued and outstanding. Subsequent to the end of the Year, and as described earlier under "Subsequent Events", a total of 5,887,842 shares were issued. As of the date of this MDA, the Company has 371,226,871 common shares outstanding

b) Options

As at August 31, 2021, the Company had an aggregate of 16,276,250 incentive stock options outstanding with a weighted average exercise price of \$0.14 (of which 5,105,000 were vested and 11,171,250 were unvested). Subsequent to the end of the Quarter, 1,020,000 options were granted and 100,000 options expired (as described earlier under "Subsequent Events"). As at the date of this MDA, the Company has 17,196,250 incentive stock options with a weighted average exercise price of \$0.13 outstanding.

c) Deferred and Restricted Share Units

As at August 31, 2021 and the date of this MDA, the Company has 475,000 fully vested DSUs and 1,475,000 unvested RSUs outstanding.

d) Warrants

As at August 31, 2021 the Company has the following common share purchase warrants outstanding:

- i. 1,900,000 warrants with an exercise price of \$0.12 per share and expiring on November 1, 2021, or if the closing price of the common shares on the TSX is \$0.16 or higher for a period of twenty consecutive trading days after November 1, 2018, the Company may, by notice to the holder reduce the expiry date of the warrants to not less than 30 days from the date of such notice. Subsequent to the Year, the expiry dates for these warrants were extended to November 1, 2022. All other terms and conditions of these warrants remain unchanged;
- ii. 250,000 warrants with an exercise price of \$0.12 per share and expiring on November 23, 2021, or if the closing price of the common shares on the TSX is \$0.16 or higher for a period of twenty consecutive trading days after November 23, 2018, the Company may, by notice to the holder reduce the expiry date of the warrants to not less than 30 days from the date of such notice. Subsequent to the Year, the expiry dates for these warrants were extended to November 23, 2022. All other terms and conditions of these warrants remain unchanged;
- iii. 6,900,000 A1 Warrants with an exercise price of \$0.23 per common share which are exercisable until March 10, 2022;
- iv. 3,000,000 warrants with an exercise price of \$0.12 per share and expiring on August 25, 2022.
- v. 6,250,000 B1 Warrants with an exercise price of \$0.15 per common share which are exercisable until January 15, 2023;
- vi. 1,875,000 C1 Warrants with an exercise price of \$0.125 per common share which are exercisable until June 29, 2023; and
- vii. 9,800,000 warrants with an exercise price of \$0.18 per common share which are exercisable until January 29, 2025.

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 August 31, 2021 and the date of this MDA, the Company has 150,000 compensation warrants outstanding with an exercise price of \$0.20 per common share, which are exercisable until May 14, 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 evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of August 31, 2021. Based on this evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures are designed effectively 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, processed, summarized and reported within the time period specified in those rules.

During the process of review and evaluation, it was determined that the Company's disclosure controls and procedures are operating effectively as at August 31, 2021.

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.

Under the supervision, and with the participation, of the CEO and CFO, management conducted an evaluation of the effectiveness of the Company's ICFR based on the framework Internal Control - Integrated Framework (COSO 2013 framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, the CEO and CFO have concluded that the design and operation of the Company's ICFR were effective as at August 31, 2021. No material weaknesses were identified by management during this evaluation.

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 on-going 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 is based upon factors such 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 grade of the ore body. Changes in the reserve or resource estimates may impact the carrying value of exploration and evaluation assets, development assets, PPE, site closure and reclamation provision and amortization expense.

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

Several amendments to the accounting standards that are applicable to the Company became effective on September 1, 2020, which did not have a significant impact on the Company's consolidated financial statements.

Recent Accounting Pronouncements

The following pronouncement is issued but not yet effective:

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

In May 2020, the IASB issued 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. These amendments become effective for annual reporting periods beginning on or after January 1, 2022 (which will become effective on September 1, 2022 for the Company), and will apply retrospectively to items of property, plant and equipment that are available for use after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. The Company does not expect a significant impact on its consolidated financial statements.

b) 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 Financials 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, 2022 for the Company), and will apply retrospectively. The application of these amendments will impact the current/non-current classification of the Company's convertible note 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, 2021, 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., President and Chief Executive Officer of the Company and Dr. William Mercer, P. Geo., Vice-President, Operations of the Company. Mr. Bubar and Dr. Mercer are both qualified persons 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.