



## Avalon Advanced Materials Inc.

### Management's Discussion and Analysis of the Consolidated Financial Statements

for the year ended August 31, 2025

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, 2025 (the "Period"). The following information should be read in conjunction with the accompanying consolidated financial statements for the Period and the consolidated financial statements and Annual Information Form for the year ended August 31, 2025. This MDA is prepared as of November 26, 2025.

#### Land Acknowledgement

Avalon Advanced Materials Inc. acknowledges that our work takes place within the ancestral and traditional territories of First Nations and Métis people. We respect Indigenous rights and are committed to deepening our existing relationships while forging new and lasting ties which will ensure we and future generations benefit from the positive social and economic opportunities related to our operations.

#### Nature of Business and Overall Performance

Avalon Advanced Materials Inc. is a Canadian critical minerals exploration company that is well positioned to serve the growing electric vehicle ("EV") battery market demand and other strategic industries dependent on critical minerals. Shares of Avalon trade on the Toronto Stock Exchange (TSX: AVL), the OTCQB® Venture Market (OTCQB: AVLN) in the United States and the Frankfurt Stock Exchange in Germany (FRA:OU5A).

In 2023, the Company recalibrated its mission and corporate strategy with an aim toward commercializing the assets it has acquired over the past two decades - evolving from largely a holding entity of undeveloped mineral deposits into an owner of fully-scaled critical minerals assets generating substantial cash flow. In that vein, management is keenly focused on developing strategic lithium and rare earth assets that enable the Company to support the advancement of secure, resilient North American supply chains for these critical minerals. The Company is advancing the Nechalacho Rare Earth Elements and Zirconium Project in the Northwest Territories, which contains all light and heavy rare earth elements, as well as yttrium, zirconium, tantalum, and niobium-critical minerals used in advanced technologies across the communications, defense, clean tech, and energy sectors. The Company is also focused on vertically integrating the Ontario lithium supply chain through the development of Lake Superior Lithium Inc., Ontario's first midstream lithium hydroxide processing facility, located in Thunder Bay.

In 2023, Avalon entered into a joint venture with Belgium-based SCR-Sibelco NV ("Sibelco"), a global leader in materials solutions, to develop the Company's flagship lithium deposit at the Separation Rapids Lithium Project ("Separation Rapids"). The same year, a strategic partnership was also signed

with Metso Corp. of Finland, a market leader in sustainable lithium processing. Additionally, in June 2023, the Company acquired a 377-acre industrial property on Strathcona Avenue in Thunder Bay, Ontario, Canada that is supplied with hydro power, gas and water, and is accessible by road, rail and water via a deep-water port. As described below, Avalon intends to develop the Strathcona property into a full-service lithium conversion and processing facility.

These developments and the advancement of the Company's Nechalacho asset are expected to be transformative to Avalon's corporate profile and demonstrate the Company's continued evolution from largely a holding entity of undeveloped mineral deposits into a potential commercial producer and advanced manufacturer.

The development of the lithium processing facility envisioned for Thunder Bay, Ontario, a strategy that will rely on lithium feedstocks from third-party producers both in the Province of Ontario and beyond, through off-take agreements and potentially assets in which it holds stakes including Separation Rapids. It is a strategy that is intended to create value for Avalon shareholders, while simultaneously creating a more favourable investment climate for the commercialization of other regional deposits, which in turn should generate ongoing, incremental processing revenues for Avalon via new off-take agreements.

The Company has embraced the principles of sustainability as core to its business operations and has made a strong commitment toward implementing corporate social responsibility ("CSR") best practices. In December 2024, the Company released its thirteenth annual comprehensive Sustainability Report (the "2024 Sustainability Report").

## **Corporate Social Responsibility**

The Company's most recent Sustainability Report is available for download at: <https://www.avalonadvancedmaterials.com>.

Avalon's annual Sustainability Report is based on International Sustainability Standard Board (ISSB) reporting structure, which is aligned with the International Accounting Standard Board. The ISSB is the most popular reporting structure in Canada. A review and update of the Sustainability Policy has been initiated to formalize the significant progress the Company has made in sustainability and to ensure its industry leadership is maintained.

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.

Advancing projects with sustainable characteristics facilitates good relationships with all stakeholders, including Indigenous communities, which can help reduce risk of experiencing lengthy delays in receiving operating permits and approvals. Additionally, Avalon believes that responsible users of our cleantech materials will require increasingly sustainable sources for their materials.

## **Lake Superior Lithium Project**

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 processing facility in Thunder Bay, Ontario. The planned facility would be adaptable and expandable to increase output and accept concentrates from other producers of the various deposits that occur in Ontario and globally. In June 2023, Avalon acquired an industrial site in Thunder Bay, Ontario (the "Thunder Bay Property") for the purchase price of \$8,300,000. The Thunder Bay Property consists of approximately 377 acres of which approximately 150 acres are on land and approximately 220 acres are in Lake Superior and shoreline land. The property also includes a 24,000 square-foot office building and a 55,000 square-foot warehouse. It

has existing road, rail, and deep-water port access, as well as existing utilities services adequate for supporting the Company's planned lithium-hydroxide (LiOH) processing facility (the "LSLi Facility").

With its existing infrastructure, strategic geographic location and multi-channel accessibility, the Thunder Bay property is uniquely suited to host the LSLi Facility and represents a material advantage for Avalon that the Company intends to widen through the adoption of market leading processing and recycling technologies, as well as the construction of an on-site Technology and Innovation Centre ("TIC"), in partnership with regional stakeholders and Qualcomm. The latter's involvement flows from the formalization, in the Fall of 2024, of a Memorandum of Understanding (the "MOU") between Avalon and Qualcomm, a U.S. technology giant. The MOU establishes the parameters of a strategic partnership aimed at introducing world-class technology tools and applications into the LSLi Facility and demonstrate the parties' joint leadership in mining innovation - a sizeable objective for both levels of Government in Canada.

In October 2023, the Company expanded a strategic partnership with Metso to advance the development of the LSLi Facility. Metso agreed to provide testing and engineering equipment procurement and related services, as well as co-develop a laboratory for research and development on lithium and clean technology solutions. Avalon and Metso also agreed to cooperate on the recycling of used batteries and the refining of battery chemicals for recycle use. The expanded partnership agreement followed a memorandum of understanding entered into in July 2023 that enabled Metso and Avalon to develop an innovative, sustainable methodology to economically produce commercial lithium hydroxide from spodumene.

Avalon's focus is also on building upon its relations with First Nations partners, the local community and local government. Deepening this collaboration is key to ensuring members of the regional ecosystem all benefit from the project and that all parties prioritize environmental stewardship. First Nations communities are valued partners, and the Company looks forward to an ongoing dialogue of mutual respect and seeking innovative partnerships in the new green economy.

The Company also continues to advance discussions with a range of other parties interested in participating in the project and helping contribute to the province's industrial competitiveness.

When complete, the integrated project will:

- Create a significant number of jobs in the City of Thunder Bay, Ontario and surrounding regions.
- Enable broader development of northwestern Ontario's lithium assets by producers seeking to utilize the proximity of Avalon's processing capacity.
- Create tangential socioeconomic and educational benefits, including the planned creation of a regional critical-minerals innovation and technology hub in partnership with local university and college stakeholders.
- Create new economic development opportunities for local and regional First Nations and Métis communities.
- Demonstrate best-in-class environmental and sustainability process innovation and enable novel Canadian IP.
- Create supply chain efficiencies by connecting lithium assets in the north with regional processing capacity, thus leading to a decreased life-cycle carbon footprint compared to producers who ship raw materials to processing facilities overseas.
- Incorporate renewable energy integration, including a proposed solar energy installation, to further enhance the project's sustainability profile.

Localizing the EV battery supply chain creates a multiplier effect of investment opportunities. In the United States, the passing of the Inflation Reduction Act (IRA) in August 2022 spurred more than US\$70 billion worth of new investment announcements across the battery supply chain. These types of investments help stimulate local economic development by supporting surrounding industries,

fostering spinoff entrepreneurship, and contributing to the development of industry clusters that improve productivity and growth.

A study was completed in early June 2024 on an order of magnitude site infrastructure valuation (the “Site Valuation Report”) for the Thunder Bay property. The report highlights that the replacement cost of the infrastructure at Avalon’s Thunder Bay site, factoring in its current condition, is estimated to be \$46 million. In addition, the land value is estimated at between \$11 to \$16 million, which brings the total estimate of the site value to be between \$57 to \$62 million. The findings highlight the value proposition inherent in Avalon’s Thunder Bay site including existing buildings, underground services, electrical services, rail spurs and a deep-water port.

A preliminary economic assessment study (the “PEA”) has been completed on the planned lithium hydroxide conversion facility at Avalon’s Thunder Bay site. Avalon engaged DRA Americans Inc., a 100% owned subsidiary of DRA Global to lead the study and which featured the environmentally friendly Metso lithium conversion technology. The PEA also included the full infrastructure layout with lithium concentrate reagent receiving and storage, processing, and site infrastructure as well as shipping/handling of product and a means to remove the byproduct off site. As well, a preliminary environmental permitting pathway and timeline was outlined within the study. The financial economics of the project was assessed, and the results were positive with an after-tax net present value (“NPV”) at 8% discount rate of \$4.1 billion over a 30-year processing life and an after-tax internal rate of return (“IRR”) of 48%.

The study summary outcome is outlined in Table 1 below. The study assumes a spodumene concentrate price of \$1,360/tonne (USD\$1,000/tonne) for the 30-year life of the project. The spodumene concentrate is expected to be sourced through competitive offtake agreements, purchasing of spodumene feed from neighbouring mines, and potentially being supplied by the Separation Rapids Ltd. Joint Venture.

The long-term pricing of lithium hydroxide is assumed to be \$35,360 /tonne (USD\$26,000/tonne). A Clean Technology Manufacturing Industrial Tax Credit of 30% was applied against the initial capital cost.

Table 1: Project Summary Financial Outcomes

Items	Units	PEA Sept. 2024
Operating Life	years	30
Steady State Annual Spodumene Feed	tpa	196,000
Spodumene Concentrate Pricing @ 6%	\$ per tonne	1,360
Annual LiOH Production	tpa	30,000
LiOH Sale Price (long term) Life of Project	\$ per tonne	35,360
Total Capital Cost	\$Billion	1.3
After-Tax Net Present Value (NPV) @ 8% discount rate	\$Billion	4.1
After-Tax Rate of Return (IRR %)	%	48
Steady State LiOH Conversion Costs	\$/t LiOH	3,898
Spodumene Purchase Cost Delivered to Site	\$/t LiOH	9,131
After-Tax Payback	years	2.5

Avalon is currently considering a solar farm on its Thunder Bay property. The site includes approximately 46 acres of land on a former landfill that may be suitable as a solar facility. Avalon is exploring the possibility of behind-the-meter generation for its own use as a direct source of power

for the lithium conversion facility or as a participant in a future Independent Electricity System Operator (IESO) procurement that would see the on-site generation used to supply power to the bulk electricity system or grid.

In September 2024, Avalon released the results of a third-party economic and labour study was conducted by RIAS Inc. (RIAS), an Ottawa-based consulting firm. The report was based on the recent PEA and customized input-output multipliers from Statistics Canada and details the significant economic and labour impacts from the LSLi Facility. The report concluded that the project will have a significant economic multiplier effect across the Thunder Bay community, to the Northwestern Ontario region, to the province, and to the country through GDP, labour income, and employment.

In February 2025, the Company announced the appointment of Mark N.J. Ashcroft, P.Eng., a seasoned mining executive with extensive experience in operations and corporate finance, as a Strategic Consultant to the LSLi Facility to support its development.

During the Period, the Company was awarded a grant of up to \$500,000 from the Government of Ontario's Critical Minerals Innovation Fund ("CMIF") to support a new research project focused on analcime, an inert sand byproduct of the Metso Lithium Hydroxide Process. The analcime project will be part of a broader initiative led by Avalon's wholly owned subsidiary, Lake Superior Lithium Inc. ("LSLi") and will be an important component of the planned LSLi Facility. The CMIF supports projects that help strengthen Ontario's critical minerals sector. The analcime project will explore innovative solutions for extracting additional value from the byproduct generated during lithium hydroxide production at the LSLi Facility. Analcime is a zeolite mineral comprised of hydrated sodium aluminum silicate. Initial research suggests that analcime's pozzolanic properties (its ability to react with calcium hydroxide in cement) may help improve the durability and carbon profile of concrete. The funding from CMIF will accelerate research and development efforts, facilitate lab-scale and pilot testing to assess analcime's performance, environmental benefits, and commercial potential in the construction sector. The analcime project also aligns with the Ontario Ministry of Transportation's efforts to explore and implement low-carbon construction materials and techniques, particularly for concrete construction.

In August 2025, Avalon strengthened its senior leadership team with the appointment of Lorin Crenshaw as Chief Financial Officer, adding experience to guide the Company's advancing lithium and rare earth strategies. A three-time public company CFO with three decades of finance expertise, he brings a combination of global capital markets depth and large-scale project execution experience. His background includes a decade on Wall Street and ten years at Albemarle Corporation (NYSE: ALB) – where he served as CFO of the Lithium division. During his tenure at Albemarle, Lorin oversaw finance functions across multiple megaprojects in Chile, Australia, and China. His appointment signals Avalon's commitment to building a senior management team capable of stewarding complex, capital-intensive critical minerals projects through development and into operation.

The Company incurred project development costs on the Lake Superior Lithium Project for the year ending August 31, 2025 of \$515,928 (2024 - \$600,921) and \$21,584 (2024 - \$437,392) during the three months ended August 31, 2025. The expenditures were incurred primarily for the analcime project, the PEA study and financing initiatives. These costs were offset by the recognition of \$200,000 from the CMIF grant as described above.

The Company incurred property holding costs for the year ending August 31, 2025, of \$118,678 (2024 - \$364,286) and \$36,494 for the three months ended August 31, 2025 (2024 - \$37,152) relating to its Thunder Bay Property. The reduction in expenditures was primarily due to a decrease in repair and maintenance costs of approximately \$200,000 for the year ended August 31, 2025 compared to the same period 2024.

## Strategic Partnership with SCR-Sibelco NV

In June 2023, the Company entered into a strategic partnership with SCR-Sibelco NV ("Sibelco"), a global leader in materials solutions. Sibelco currently owns approximately 17.3% of Avalon's common shares and is the Company's largest shareholder.

Avalon has granted to Sibelco, for so long as Sibelco holds not less than 10% of the issued and outstanding Common Shares on a non-diluted basis, the right to nominate one member to the board of directors of Avalon ("Board") (or up to two nominees if the size of the Board is increased to nine directors or more), and the right to participate in future equity offerings so that it can maintain its pro rata percentage ownership in Avalon.

During the fiscal year 2025, the Company Completed \$3,500,000 in debenture financing with Sibelco. Sibelco provided an additional funding of \$3,500,000 to the Company by way of an amended and restated debenture (the "2024 Debenture"). The 2024 Debenture has a principal amount of \$6,500,000 and replaced an earlier debenture (the "2023 Debenture") which had a principal amount of \$3,500,000 and accrued interest at 7.115% per annum. The 2024 Debenture bears interest at 7.5% per annum, with the principal and accrued interest payable on maturity, being November 18, 2026.

Should the 2024 Debenture not be repaid by the Company at maturity, Sibelco has the right to (a) convert the outstanding principal and accrued interest into additional common shares of Avalon at a price equal to the greater of (i) the 15 day VWAP of the Company's common shares on the TSX immediately prior to the exercise of this right and (ii) the minimum price allowed by the TSX or (b) convert the outstanding principal and interest into additional common shares of SRL, based on a pro-rated formula.

If the entire amount of the 2024 Debenture and accrued interest is converted to common shares of SRL at maturity, then Sibelco's equity interest in SRL will be increased by 30% to 90%, with the Company owning the remaining 10%. Sibelco will also have the right to exercise its conversion rights prior to maturity if the Company does not make certain reductions in its corporate and administrative costs. The 2024 Debenture is secured by a pledge of Company's shares in SRL.

In November 2023, Avalon and Sibelco closed a joint venture transaction with Avalon transferring its Separation Rapids Lithium Project ("Separation Rapids") and Lilypad Cesium-Tantalum Project ("Lilypad") into a new joint venture company, Separation Rapids Ltd. ("SRL"), in exchange for a 40% interest in SRL.

### ***Separation Rapids Ltd.***

Sibelco, which acts as the operator of SRL, has committed to invest €34.8 million (approximately C\$51.3 million) into the joint venture. Of this amount, €4.8 million was advanced concurrently with the contribution by Avalon of its interests in the Separation Rapids and Lilypad projects, with an additional €30 million to be advanced in tranches to fund the development of the joint venture mineral projects, including facilities and related infrastructure. After total cash contributions of €34.8 million by Sibelco, each of the parties will make any further cash contributions on a pro-rata basis (with dilution to a non-contributing party's interest).

SRL was formed on November 9, 2023. The expected funding schedule for Sibelco's additional cash contribution payments of €30,000,000 to SRL was updated to calendar year 2025 through to calendar year 2029 from the original additional funding period of the third calendar quarter of 2024 through the first calendar quarter of 2027. As such, the carrying amount of SRL's contribution receivable from Sibelco was adjusted, which resulted a loss of \$1,821,040 for SRL. This loss was partly offset by the interest income of \$1,566,312 recognized on the contribution receivable balance.

The Company recognized an equity in income (loss) of associate for the year ending August 31, 2025 with respect to SRL's operations of \$37,109 (2024 - net loss of \$130,059). For the three months ending August 31, 2025 there was a net loss of \$288,437 (2024 - \$29,949) recognized.

SRL has completed an updated mineral resource estimate for Separation Rapids during the year ended August 31, 2025. The results are disclosed below under “Updated Mineral Resource Estimate”.

Other highlighted work on Separation Rapids includes:

- Geotechnical & mineralogical studies to advance through the year to facilitate a higher of understanding.
- Environmental field work as part of the baseline and permitting process was completed mid summer
- Engagement with local communities is on-going and continues
- Preparation for exploration has commenced

### ***Updated Mineral Resource Estimate***

During the year ending August 31, 2025, SRL provided Avalon with an updated Mineral Resource Estimate (“MRE”) for the Separation Rapids Project, as disclosed in its [news release dated February 27, 2025](#). The updated MRE was prepared by SLR Consulting (Canada) Ltd., is supported by 29 new drill holes and shows an increase of 28% in Measured and Indicated Mineral Resource tonnage and a decrease of 13% in Inferred Mineral Resource tonnage compared to the 2023 MRE.

Key Highlights, effective January 30, 2025:

- As of January 30, 2025, open pit Measured and Indicated Mineral Resources are estimated at 10.73 Mt grading 1.27% Li<sub>2</sub>O for 136 kt contained Li<sub>2</sub>O and Inferred Mineral Resources include 0.46 Mt grading 0.84% Li<sub>2</sub>O for 3.8 kt contained Li<sub>2</sub>O.
- Compared to the 2023 MRE, a significant portion of the open pit mineral resources was upgraded to the Measured + Indicated category (+8% contained Li<sub>2</sub>O).
- Combined open pit and underground Measured and Indicated Mineral Resources are estimated to total 12.98 Mt grading 1.34% Li<sub>2</sub>O for 173 kt Li<sub>2</sub>O. Additionally, Inferred Mineral Resources are estimated to total 2.29 Mt grading 1.46% Li<sub>2</sub>O for 33 kt Li<sub>2</sub>O.
- The MRE shows contained Li<sub>2</sub>O metal oxide increases of 28% in the Measured + Indicated categories and decrease of 13% in the Inferred category.

## Separation Rapids Mineral Resource Summary, Effective January 30, 2025

Description	Classification	Tonnage (Mt)	Li <sub>2</sub> O (%)	Contained Li <sub>2</sub> O (t)
Open Pit	Measured	4.33	1.28	55,282
	Indicated	6.41	1.27	81,147
	<b>Measured + Indicated</b>	<b>10.73</b>	<b>1.27</b>	<b>136,429</b>
	Inferred	0.46	0.84	3,817
Underground	Measured	-	-	-
	Indicated	2.24	1.64	36,877
	<b>Measured + Indicated</b>	<b>2.24</b>	<b>1.64</b>	<b>36,877</b>
	Inferred	1.83	1.62	29,680
Total	Measured	4.33	1.28	55,282
	Indicated	8.65	1.36	118,024
	<b>Measured + Indicated</b>	<b>12.98</b>	<b>1.34</b>	<b>173,306</b>
	Inferred	2.29	1.46	33,497

**Notes:**

1. CIM (2014) definitions were followed for Mineral Resources.
2. Mineral Resources are reported using a 4.25% Li<sub>2</sub>O petalite concentrate price assumption of US\$1,000/t with an exchange rate of US\$1 = C\$1.30.
3. Open pit Mineral Resources are reported from a block model regularized to 5 m x 3 m x 5 m parent block size at a 0.48% Li<sub>2</sub>O cut-off grade (COG) in a Whittle resource shell. The Whittle resource shell and open pit COG are based on a mining cost of C\$5.50/t, a general and administration (G&A) cost of C\$3.50/t, a processing cost of C\$55.00/t, and a recovery of 40%.
4. Underground Mineral Resources are reported from a block model with a minimum sub-block size of 1 m within Deswik Stope Optimizer (DSO) resource panels which were generated using a break-even 1.46% Li<sub>2</sub>O COG. The underground break-even COG grade is based on a mining cost of C\$120/t, a G&A cost of C\$3.50/t, a processing cost of C\$55.00/t, a recovery of 40%, and an exchange rate of US\$1 = C\$1.30. The DSO resource panels are minimum 20 m by 10 m by 3 m wide.
5. Mineral Resources are reported based on a minimum thickness of approximately 3 m.
6. Average bulk densities were assigned to the blocks and range between 2.62 t/m<sup>3</sup> and 2.66 t/m<sup>3</sup> for the lithium pegmatite.
7. Numbers may not add due to rounding.
8. Mineral Resources that are not Mineral Reserves do not have demonstrated economic viability.

The MRE was prepared in accordance with CIM (2014) definitions as incorporated by reference into National Instrument 43-101 Standards of Disclosure for Mineral Projects (NI 43-101).

For 2025, the JV will advance exploration activities at the Separation Rapids Lithium Project. The planned work program includes research on lithium mineral recovery and process development to further delineate the potential of mineral resources.

Field mapping completed in 2024 has successfully delineated the northwest trend of the Separation Rapids pegmatite field, which extends from the Separation Rapids to the Snowbank and Glitter lithium pegmatites.

Volker Moeller, Ph.D., P.Geo. (ON), independent consultant, is the designated Qualified Person for the MRE within the meaning of National Instrument 43-101 (“NI 43-101”) and has reviewed and verified that the technical information contained herein is accurate and approves of the written disclosure of same. The Qualified Person is not aware of any environmental, permitting, legal, title, taxation, socio-economic, marketing, political, or other relevant factors that could materially affect the MRE.

## Resource Development Activities

Resource property expenditures for the year ended August 31, 2025 totalled \$636,731, a more than fourteen folds increase from the level of expenditures in the comparative quarter in Fiscal 2024 (\$49,207). This increase was due to increased activities on the Nechalacho Rare Earth Elements and Zirconium Project (“Nechalacho”). Of these expenditures, 100% were incurred on Nechalacho.

Resource property expenditures for the three months ended August 31, 2025 totaled \$324,471, a 755% increase from the level of expenditures for the three months ended August 31, 2024 (\$21,087). This increase was due to the increased activities on Nechalacho and 100% of these expenses were incurred on Nechalacho.

No properties were abandoned or impairment losses recorded during the Quarter or the year ended August 31, 2025.

### ***a. Nechalacho Rare Earth Elements and Zirconium Project***

The Nechalacho Rare Earth Elements and Zirconium 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 \$2.0 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 above sea level (“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. During Q4, a Land Use Permit expiring on June 19, 2025, was renewed. This new permit expires on May 26, 2030.

Rare earth elements (“REE”) belong to the lanthanide series of metals and are important in an expanding array of applications in technology related to energy efficiency and a cleaner environment. Common uses of these metals are in magnets for electric vehicles and wind turbines, solar panels, and cell phones. REEs are also a critical component in numerous military defense systems, making a reliable supply chain of these elements an important strategic matter for many governments,

including Canada and the US. Currently China produces about 60% of the world's REEs and supplies about 80% of REE imports into the US.

The Basal Zone heavy rare earth elements ("HREE") resource also contains abundant zirconium mineralization averaging over 3% ZrO<sub>2</sub>. Zirconium cladding is usually an alloy of zirconium, tin, iron, nickel and chromium and is used in the fuel rods of commercial nuclear electric generator plants as well as military reactors including nuclear submarines. China currently has a dominant position in the supply and processing of zirconium as well as rare earths.

In August 2022 the United States adopted the Inflation Reduction Act which refers to the Bipartisan Infra-Structure Law's that provides a definition for Foreign Entities of Concern ("FEOC"). The United States Government release of the Guidance of FEOC issued on December 1, 2023, which provides clarity and purpose of supporting critical mineral projects that are not owned or controlled by or subject to the jurisdiction or direction of a government of a covered country: China, Iran, Russia, North Korea. The Company's Nechalacho deposit is distinguished by its unique blend of rare earth and zirconium minerals, significant scale, location within a safe jurisdiction, and close proximity to the United States.

Expenditures during the Q4 were \$324,471 (2024 - \$21,087) and during the year ending August 31, 2025 were \$636,731 (2024 - \$49,207), which were incurred primarily on financing initiatives, preparatory work on updating certain metallurgical test work, and ongoing site holding and sample storage costs.

In the days preceding September 8, 2025, a wildfire impacted the Nechalacho site. The cores were significantly damaged. The Company is of the view that Vital Metals is legally responsible for the damage, the financial impact of which is still being evaluated. On November 24, 2025, the Company notified Vital Metals of its position, with a view to resolving the matter as required by the parties' contractual arrangements.

#### ***b. 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 reactivate 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. An 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.

No significant expenditures were incurred during Q4 or for the year ended August 31, 2025, 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 reactivation plans.

#### ***c. Warren Township Anorthosite Project***

The Warren Township Anorthosite Project is a mineral development opportunity located near the Village of Foleyet, 100 kilometres west of Timmins, Ontario. The project consists of a mining lease totalling 688 hectares (1,699 acres) that includes an aggregate permit over the historical quarry site and which is 100% owned by the Company. The lease covers a portion of the Shawmere Anorthosite Complex hosting a historic resource (not prepared in accordance with NI 43-101) of a high purity

calcium feldspar. The calcium feldspar product is used in the manufacture of reinforcing glass fibre and other industrial products, such as mineral fillers.

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. During the year, a 20-tonne test sample of anorthosite was successfully extracted and shipped to a third party company for testing with the NASA moon rover. If successful, there may be larger future quantities based on their needs.

No significant expenditures were incurred on the property during Q4 or the period ending August 31, 2025 on the Warren Township Anorthosite Project.

## 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 Accounting Standards"), as issued by the International Accounting Standards Board ("IASB").

For the Years Ended August 31,	2025	2024	2023
	\$	\$	\$
Revenue	49,940	109,832	124,258
Net loss	5,196,726	634,576	3,317,059
Net loss, per share basic and diluted	0.009	0.001	0.007
Total assets	137,206,462	136,378,561	131,053,334
Total non-current liabilities	7,887,773	3,881,533	3,549,419

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 gains or losses realized on disposition of its assets, any impairment losses recognized on its mineral properties and adjustments to the fair value for the derivative liabilities and convertible notes payable. 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.

## Administration and Other

Interest income for three months ended August 31, 2025, totalled \$14,543 compared to \$13,684 in the same period ended August 31, 2024, due to higher average cash balances.

Corporate and Administrative expenses totalled \$469,060 for the three months ended August 31, 2025, a 52.51% decrease from the amount incurred during the comparative period ended August 31, 2024 (Q4 2024 - \$987,717). The main areas of decreased expenses for the Quarter were expenses on salaries and benefits, consulting and professional fees, advertising, office, insurance and other expenses.

Salaries and benefits decreased by \$312,937 (59.86%) to \$209,842 during the three months ended August 31, 2025, compared to \$522,779 for the three months ended August 31, 2024. \$182,500 of the decrease is related to the decrease in bonuses paid to Nil.

Advertising, office, insurance and other expenses decreased by \$24,782 (29.74%) to \$58,547 during the three months ended August 31, 2025, compared to \$83,329 for the three months ended August 31, 2025. The decrease is primarily related to the reduction in computer software, insurance and advertising costs year over year.

Consulting and professional fees decreased by \$194,627 (57.4%) to \$144,498 during the three months ended August 31, 2025, compared to \$339,126 for the three months ended August 31, 2024. During the Q4, the Company reduced consulting costs in the area of environment, recruitment, agent fees, marketing development and government relations totalling \$193,993.

Share-based compensation decreased slightly by \$3,376 to \$39,669 for the three months ended August 31, 2025, when compared to \$43,045 for the same three months ended August 31, 2024.

Finance costs increased by \$73,862 to \$289,155 for the three months ended August 31, 2025, compared to \$215,293 for the same three months ended August 31, 2024. The increase primarily reflects higher interest expense related to higher long-term borrowing driven by the Sibelco debenture.

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 remeasured using the Black-Scholes pricing model, which resulted in a gain of \$334 for the three months ending August 31, 2025 a gain of \$301 for the year ending August 31, 2025 respectively, compared to a gain of \$2 and a gain of \$635 in the comparable periods ending August 31, 2025 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.

The Company also recognized debt refinancing costs of \$183,727 relating to the replacement of the 2023 debenture and the issuance of the 2024 debenture during the year ended August 31, 2025. Interest income for the year ended August 31, 2025, totalled \$49,940 compared to \$55,832 for the same period in 2024.

For the year ended August 31, 2025, corporate and administrative expenses totalled \$2,269,467 compared to \$4,315,513 for the same period 2024. The \$2,046,046 decrease is mainly from the areas of salaries and benefits, consulting and professional fees, advertising, office, insurance and other expenses, and travel and related costs.

Salaries and benefits for the year ended August 31, 2025, decreased by 50.04% (\$1,261,510) to \$1,259,319, compared to \$2,520,829 for the same period ending August 31, 2024. No bonuses were awarded to the Company's employees during the year ended May 31, 2025, compared to \$715,075 for the same period 2024. The decrease is also related to the increased amount of salaries and benefits that were charged to the Nechalacho Project, project development costs, and general exploration expenses. The balance of the decrease is primarily related to the reduced number of management employees. These decreases were partly offset by the increase of \$251,791 in severance and termination payment provisions for certain terminated employees.

Consulting and professional fees decreased by \$521,392 (52.53%) to \$471,233 during the year ended August 31, 2025, compared to \$992,625 for the same period ended August 31, 2024. The decrease is primarily related to the reduced level of environment, community, government relations and market development activities provided by consultants and human resource related services. To reduce the Company's overhead expenses, most of these activities are now handled in-house.

Advertising, office, insurance and other expenses decreased by \$186,992 (49.01%) to \$194,510 during the year ended August 31, 2025, compared to \$381,502 for the same period ended August 31, 2024. Lower office and general, and computer supplies expenses were incurred in fiscal 2025 after relocating the Company's office premises and replacing most of its small office furniture items in fiscal

2024. The balance of the decrease is primarily related to the reduction in website and newswire related spendings which reduce overhead expenses.

Travel and related costs decreased by \$50,708 (21.90%) to \$180,839 during the year ended August 31, 2025, compared to \$231,547 for the same period ended August 31, 2024. The decrease is primarily related to the reduced number of trips taken during the year ended August 31, 2025, compared to the same period ended August 31, 2025.

Share based compensation for the year ended August 31, 2025, was \$373,609 compared to \$449,075 for the same period 2024 (a decrease of \$75,466 for the year). Share based compensation expensed to amortization decreased by \$75,466 to \$373,609 during the year ended August 31, 2025, compared to the same period ended August 31, 2024 (2024 - \$449,075).

Financing costs increased to \$1,053,791 for the year ended August 31, 2025, compared to \$499,075 for the same period ended August 31, 2024. The increase is mainly related to the amortization of deferred financing costs (\$577,806) recognized on the convertible note payable and the interest expense on the debenture payable (\$421,197) during the twelve month period ended August 31, 2025. The outstanding principle of the debenture payable increased from \$3,000,000 to \$6,500,000 in November 2024.

Financing transaction costs for the period ended August 31, 2025, totalled \$73,090 compared to the same period ended August 31, 2024 of \$137,666, a reduction of \$64,576.

## Summary of Quarterly Results

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

Fiscal Year	2025				2024			
	Aug. 31	May 31	Feb. 28	Nov. 30	Aug. 31	May 31	Feb. 29	Nov. 30
For the Quarters Ended	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	14,543	8,606	19,656	7,135	13,684	19,468	6,889	69,791
Net income (Loss)	(1,025,311)	(709,668)	(1,783,019)	(1,678,728)	(1,808,873)	(1,353,168)	(1,524,051)	4,051,516
Income (Loss) per share, basic	(0.002)	(0.001)	(0.003)	(0.003)	(0.003)	(0.002)	(0.003)	0.007
Income (Loss) per share, diluted	(0.002)	(0.001)	(0.003)	(0.003)	(0.003)	(0.002)	(0.003)	0.007

The fluctuation in quarterly net loss is primarily due to the reduction in expenses of corporate and administrative expenses (\$518,111), project development expenses (\$415,808) with equity income from associate of \$288,437 for the quarter ended August 31, 2025. 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, among the most relevant financial information relates primarily to its current liquidity, planned project expenditures and financing strategy. The Company's financial success will be dependent on the economic viability of its resource projects, the development of its lithium-hydroxide processing facility 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 adequate funding and firm offtake commitments with third parties have been secured. The sales value of any mineralization discovered by the

Company is highly 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 the Company is now trying to access debt financing to fund the Nechochalo and LSLi Facility developments. In order to achieve its objectives, the Company expects to spend its existing working capital and raise additional funds as required, via equity and debt offerings.

During the Period, the Company completed \$3,500,000 in debenture financing with Sibelco. Sibelco provided an additional funding of \$3,500,000 to the Company by way of an amended and restated debenture (the "2024 Debenture"). The 2024 Debenture has a principal amount of \$6,500,000 and replaced an earlier debenture (the "2023 Debenture") which had a principal amount of \$3,500,000 and accrued interest at 7.115% per annum. The 2024 Debenture bears interest at 7.5% per annum, with the principal and accrued interest payable on maturity, being November 18, 2026.

Should the 2024 Debenture not be repaid by the Company at maturity, Sibelco has the right to (a) convert the outstanding principal and accrued interest into additional common shares of Avalon at a price equal to the greater of (i) the 15 day VWAP of the Company's common shares on the TSX immediately prior to the exercise of this right and (ii) the minimum price allowed by the TSX or (b) convert the outstanding principal and interest into additional common shares of SRL, based on a pro-rated formula.

If the entire amount of the 2024 Debenture and accrued interest is converted to common shares of SRL at maturity, then Sibelco's equity interest in SRL will be increased by 30% to 90%, with the Company owning the remaining 10%. Sibelco will also have the right to exercise its conversion rights prior to maturity if the Company does not make certain reductions in its corporate and administrative costs. The 2024 Debenture is secured by a pledge of Company's shares in SRL.

During the Period, the Company completed a private placement and issued 6,400,000 units at a price of \$0.05 per unit for gross proceeds of \$320,000 (the "October 2024 Private Placement"), of which 200,000 units were subscribed by Mr. Zeeshan Syed, Vice President, External Affairs and Partnerships and 200,000 units were subscribed by Mr. Andrew Ramcharan, Vice President, Corporate Development. Each unit was comprised of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire one common share at a price of \$0.075 for a period of three years after closing, or if the closing price of the common shares on the TSX is \$0.15 or higher for a period of twenty consecutive trading days after the closing date, the Company may, by notice to the holder (supplemented by a news release of general dissemination) reduce the expiry date of the warrants to not less than 30 days from the date of such notice

During the prior fiscal year, the Company entered into an up to \$15,000,000 convertible security agreement (the "Funding Agreement") with an entity managed by The Lind Partners ("Lind") and completed the first drawdown and issued a convertible note payable of \$2,750,000 to Lind. Subject to further agreement by the parties, an additional drawdown under the Funding Agreement can be made on satisfaction of certain conditions.

The convertible security issued pursuant to the first drawdown under the Funding Agreement has a two-year term and accrues a simple interest rate obligation of 10% per annum on the funded amount, which is prepaid and attributed to the face value of the convertible note payable upon issuance, resulting in a face value of \$3,300,000 (the "Face Value"). Lind is entitled to convert the Face Value amount over a 24-month period, subject to certain limits, at a conversion price equal to 85% of the five-day trailing volume weighted average price of Avalon's common shares prior to the date of conversion. The convertible security matures on March 27, 2026. Commencing on August 26, 2024,

the Company has the right to repurchase the convertible security, subject to Lind's option to convert up to one third of the Face Value into Avalon common shares prior to such repurchase. The convertible note payable is secured by a general security agreement and a mortgage on the Company's Thunder Bay Property.

The balance on the convertible note at August 31, 2025 was \$2,715,000. The number of common shares to be issued would be 74,383,562 if the full amount of the note payable had been converted into common shares, based on a conversion price of \$0.0365, which is 85% of the five-day VWAP of the Company's common shares on the TSX on August 31, 2025.

As at August 31, 2025, the Company has current assets of \$1,753,802 and current liabilities of \$4,290,400. The Company's working capital deficit was \$2,536,598 as at August 31, 2025 (August 31, 2024 - working capital deficit of \$3,982,077).

The Company's operating expenditures, excluding expenditures on property work programs, currently average approximately \$300,000 per month. Any significant future capital, resource property and other project expenditures will depend on the requisite financing being in place.

The Company will need to raise additional capital to fund the development of its planned midstream lithium-hydroxide processing facility. Any significant new work programs for fiscal year ending August 31, 2025 on the Separation Rapids Lithium and Lilypad Cesium-Tantalum Projects are expected to be funded by Sibelco's cash contribution to the joint venture. Initiatives to raise additional capital are ongoing and include financing from investing partners for developing the lithium-hydroxide processing facility. 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 Events of Default contained in the 2024 Debenture 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 are shared 50/50 with Cheetah). The Company also incurs holding costs with respect to its Thunder Bay property. The most significant cost being property tax of approx. \$65,000.

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 ending August 31,	2026	\$ 240,942
	2027	245,358
	2028	249,846
	2029	59,926

## Off Balance Sheet Arrangements

As at August 31, 2025, 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 year ended August 31, 2025 and 2024, other than the participation by certain related parties in the October 2024 Private Placement whereby Mr. Zeeshan Syed, Vice President, External Affairs and Partnerships and Mr. Andrew Ramcharan, Vice President, Corporate Development each subscribed for 200,000 Units at \$0.05 per unit.

### b) Compensation of key management personnel

The remuneration of directors and other key members of the Company's senior management team during the year ended August 31, 2025 and 2024 are as follows:

	August 31 2025	August 31, 2024
Salaries, benefits and directors' fees <sup>(1)</sup>	1,709,120	2,486,695
Share based compensation <sup>(2)</sup>	363,093	401,823
	2,072,213	2,888,518

<sup>(1)</sup> Salaries and benefits of key management personnel capitalized to PPE and exploration and evaluation assets for the year ended August 31, 2025, totaled \$173,787 (2024 - \$115,681), respectively. Salaries and benefits of key management personnel expensed to project development and general exploration for the year ended August 31, 2025, totaled \$361,955 (2024 - \$130,105), respectively.

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

## Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, receivables, accounts payable and accrued liabilities, debenture payable, 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, debenture payable and convertible notes payable approximate their carrying values.

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

## Shareholder Rights Plan

During the year, the Company's Board of Directors (the "Board") approved the adoption of a shareholder rights plan (the "Rights Plan") effective as of April 8, 2025, pursuant to a shareholder rights plan agreement entered into with TSX Trust Company, as rights agent under the Rights Plan.

The purpose of the Rights Plan is to ensure, to the extent possible, that all shareholders of the Company are treated fairly in connection with any unsolicited take-over bid and to protect against "creeping bids," which involve the accumulation of more than 20%, on an aggregate basis, of the Company's issued and outstanding common shares through purchases exempt from applicable take over-bid rules.

The Company scheduled as special meeting in October 2025 to approve the Rights Plan. However, the requisite quorum was not achieved and therefore the Rights Plan expired on October 8, 2025.

## Outstanding Share Data

The Company's share capital structure including its common shares and any potentially dilutive instruments outstanding as at the date of this MDA are as follows:

Common shares	834,638,796
Warrants	211,412,411
Stock options	24,870,000
DSUs	3,675,000
RSUs	2,015,000
<hr/>	
Total	<u>1,076,611,207</u>

The Company would be required to issue 204,745,564 common shares (using the 15 Day VWAP of the Company's common shares on the TSX on August 31, 2025) to Sibelco if the Company fails to repay the principal and accrued interest of \$7,780,331 of the 2024 Debenture at maturity and Sibelco chooses to convert the 2024 Debenture into common shares of the Company. The Company is also committed to issue 20,000 warrants to the Northwest Territory Métis Nation in two equal installments of 10,000 warrants upon the Nechalacho Project meeting certain milestones.

### 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, 2025.

As at August 31, 2025, the Company has 644,488,498 common shares issued and outstanding. Subsequent to August 31, 2025, a total of 190,150,298 shares were issued. As of the date of this MDA, the Company has 834,638,796 common shares outstanding.

### b) Options

As at August 31, 2025, the Company had an aggregate 24,070,000 incentive stock options outstanding with a weighted average exercise price of \$0.11 (of which 13,250,000 were vested and 10,820,000 were unvested). Subsequent to August 31, 2025, 800,000 stock options were granted. As the Date of this MDA, the Company has 24,870,000 incentive stock options with a weighted average exercise price of \$0.11 outstanding.

**c) Deferred and Restricted Share Units**

As at August 31, 2025, the Company had 2,535,000 fully vested DSUs and 500,000 unvested RSUs outstanding. As at the date of this MDA the Company had 3,675,000 fully vested DSUs and 375,000 unvested RSUs outstanding and 1,640,000 fully vested RSUs outstanding.

**d) Warrants**

As at August 31, 2025 the Company has the following common share purchase warrants outstanding:

- i. 9,000,000 warrants with an exercise price of \$0.26 per common share and are exercisable until May 9, 2026.
- ii. 2,125,000 warrants with an exercise price of \$0.15 per common share which are exercisable until January 31, 2027, or, if at any time following January 31, 2024, the closing price of the common shares on the TSX is \$0.30 or higher for a period of twenty consecutive trading days, the Company may, by notice to the holder (supplemented by a news release of general dissemination) reduce the expiry date to not less than thirty days from the date of such notice;
- iii. 15,800,000 warrants with an exercise price of \$0.13 per common share and are exercisable until March 27, 2029,
- iv. 6,400,000 warrants with an exercise price of \$0.075 per common share which are exercisable until October 25, 2027, or, if at any time following October 25, 2024, the closing price of the common shares on the TSX is \$0.15 or higher for a period of twenty consecutive trading days, the Company may, by notice to the holder (supplemented by a news release of general dissemination) reduce the expiry date to not less than thirty days from the date of such notice; and
- v. 3,500,000 common share purchase warrants with an exercise price of \$0.0625 per common share and are exercisable until November 18, 2029.
- vi. 10,600,000 common share purchase warrants with an exercise price of \$0.09 per common share and are exercisable until July 25, 2030.

Subsequent to the year ended August 31, 2025, the Company issued 163,987,411 warrants with an exercise price of \$0.17 and expiring in 36 months after the closing date as described in Subsequent Events.

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.

**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, 2024. 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, 2025.

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 Accounting Standards. 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.

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, 2025. 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 Accounting Standards 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, Investment in Associate and Property, Plant and Equipment*

The Company assesses its long-lived assets, specifically all exploration and evaluation assets, its investment in associate 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.

### ***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 Quarter as described below:

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

The amendments to IAS 1, Presentation of Financial Statements to clarify the requirements for classifying liabilities as current or non-current and 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.

Effective September 1, 2024, the Company adopted these amendments retrospectively. The Company's convertible note payable and derivative liabilities are now classified as current liabilities. The convertible note payable balance of \$2,970,000 and the derivative liabilities balance of \$637 as at August 31, 2024 have been reclassified as current liabilities on the comparative interim statement of financial positions as at August 31, 2024. These amounts were classified as non-current liabilities on the Company's previously disclosed annual consolidated statements of financial position as at August 31, 2024.

The Adoption of these amendments had no impact on the Company's condensed consolidated interim statement of comprehensive loss and consolidated interim statement of cash flows for the Period.

## **Recent Accounting Pronouncements**

The following pronouncements are issued but not yet and have not been applied in preparing the Company's consolidated financial statements. Management believes that other new IFRS accounting pronouncements not yet effective do not have a significant impact on the Company's present or near future consolidated financial statements.

### *IFRS 18 - Presentation and Disclosure in the Financial Statements*

In April 2024, the IASB issued IFRS 18, Presentation and Disclosure of Financial Statements ("IFRS 18"). IFRS 18 is effective for periods beginning on or after January 1, 2027 (which will become effective on September 1, 2027, for the Company) and will apply retrospectively. IFRS 18 will replace IAS 1. IFRS 18 is expected to improve the quality of financial reporting by requiring defined subtotals in the statement of profit or loss, requiring disclosure about management-defined performance measures, and adding new principles for aggregation and disaggregation of information. The Company has not yet determined the impact of this standard on its disclosures.

## **Subsequent Events**

Subsequent to the end of the Fiscal Year, the Company:

- a) October 24, 2025 - The Company announced the closing of a brokered private placement under the listed issuer financing exemption. The Company issued an aggregate of 133,218,180 non-flow-through units of the Company ("Non-FT Units"), an aggregate of 30,769,231 flow-through units of the Company ("FT Units") for total proceeds of \$18,654,000.

Each Non-FT Unit is comprised of (i) one common share of the Company (each a "Common Share") and (ii) one common share purchase warrant of the Company (each a "Warrant"). Each FT Unit is comprised of (i) one Common Share, each of which will qualify as a "flow-through share" within the meaning of subsection 66(15) of the Income Tax Act (Canada) (the "Tax Act"), and (ii) one Warrant, each of which will qualify as a "flow-through share" within the meaning of subsection 66(15) of the Tax Act. Each Warrant will entitle the holder to acquire one Common Share (each, a "Warrant Share") at an exercise price of \$0.17 per Warrant Share for a period of 36 months from the Closing Date (as defined herein).

- b) November 12, 2025 - The Company concluded its convertible security funding agreement with Lind Global Fund II, LP, managed by The Lind Partners, a New York-based institutional fund manager, having satisfied all obligations due under the agreement. The balance of the 2024 note was converted into common shares and the face value of the 2025 note was repaid.

## **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, 2025, 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 the Company's joint venture with Sibelco, including dilution and control risks;
- risks related to establishing new operations in the event that the Company elects to proceed with the development of one of its 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 either Avalon's or Cheetah's development plans of the Nechalacho Project negatively impacting the other's development plans;
- risks related to securing product off-take agreements on a timely basis;
- risks related to the unique ore type at the Nechalacho Project and 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;
- risks related to international conflicts;
- risks related to global financial conditions; 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 Dr. Andrew Ramcharan, Vice-President, Corporate Development. Dr. Ramcharan is a qualified person under National Instrument 43-101 - Standards of Disclosure for Mineral Projects ("NI 43-101").

## **Cautionary Note to U.S. Persons**

This MDA was prepared in accordance with Canadian standards for reporting of mineral resource estimates, which differ in some respects from United States standards. In particular, and without limiting the generality of the foregoing, the terms "mineral resources," "inferred mineral resources," "indicated mineral resources," "measured mineral resources," "mineral reserves," "proven mineral reserves," and "probable mineral reserves" used or referenced in this MDA are Canadian mineral disclosure terms as defined in accordance with NI 43-101 under the guidelines set out in the CIM Standards. These definitions differ from the definitions in Subpart 1300 of Regulation S-K ("Subpart 1300"), based on the Committee for Mineral Reserves International Reporting Standards ("CRIRSCO"), which replaced the United States Securities and Exchange Commission's (the "SEC") Industry Guide 7 as part of the SEC's amendments to its disclosure rules to modernize the mineral property disclosure requirements. These amendments became effective February 25, 2019 and registrants were required to comply with the Subpart 1300 provisions by their first fiscal year beginning on or after January 1, 2021. Readers are cautioned not to assume that all or any part of mineral reserves and mineral resources determined in accordance with NI 43-101 and CIM Standards will qualify as, or be identical to, mineral reserves and mineral resources estimated under the standards of the SEC applicable to U.S. companies under Subpart 1300. While the definitions in Subpart 1300 are more similar to the definitions in NI 43-101 and the definitions in the CIM Standards than were the Industry Guide 7 provisions due to the adoption in Subpart 1300 of terms describing mineral reserves and mineral resources that are "substantially similar" to the corresponding terms under the definitions in the CIM Standards, including the SEC now recognizing estimates of "measured mineral resources", "indicated mineral resources" and "inferred mineral resources" and amending its definitions of "proven mineral reserves" and "probable mineral reserves" to be "substantially similar" to the corresponding definitions under the CIM Standards that are required under NI 43-101, the definitions in Subpart 1300 still differ from the requirements of, and the definitions in, NI 43-101 and the CIM Standards. Investors are cautioned that while the above terms are "substantially similar" to the corresponding definitions in the CIM Standards, there are differences in the definitions in Subpart 1300 and the CIM Standards. Accordingly, there is no assurance any mineral resources or mineral reserves that the Company may report as "inferred mineral resources," "indicated mineral resources," "measured mineral resources," "proven mineral reserves," and "probable mineral reserves" under NI 43-101 would be the same had

the Company prepared the mineral resource or mineral reserve estimates under the standards adopted under the standards of the SEC applicable to U.S. domestic companies under Subpart 1300. Investors are also cautioned that while the SEC recognizes “inferred mineral resources,” “indicated mineral resources,” and “measured mineral resources” under Subpart 1300, investors should not assume that any part or all of the mineralization in these categories will ever be converted into a higher category of mineral resources or into mineral reserves. Mineralization described using these terms has a great amount of uncertainty as to its existence, and great uncertainty as to its economic feasibility than mineralization that has been characterized as reserves. Accordingly, investors are cautioned not to assume that any measured mineral resources, indicated mineral resources, or inferred mineral resources that the Company reports are or will be economically or legally mineable. Under Canadian rules, estimates of “inferred mineral resources” may not form the basis of feasibility or other economic studies, except in limited circumstances. Readers are also cautioned not to assume that all or any part of an inferred mineral resource exists. The term “resource” does not equate to the term “reserves”. Accordingly, information contained herein containing descriptions of the Company’s mineral deposits may not be comparable to similar information made public by United States companies subject to the reporting and disclosure requirements under the United States federal securities laws and the rules and regulations thereunder.

## **Other Information**

Additional information on the Company is available on SEDAR at [www.sedarplus.com](http://www.sedarplus.com) and on the Company’s website at [www.avalonadvancedmaterials.com](http://www.avalonadvancedmaterials.com).