



AVALON

ADVANCED MATERIALS

**AVALON ADVANCED MATERIALS INC.
CONDENSED INTERIM CONSOLIDATED FINANCIAL
STATEMENTS
THREE MONTHS ENDED NOVEMBER 30, 2025
(EXPRESSED IN CANADIAN DOLLARS)
(UNAUDITED)**

Notice to reader

The accompanying unaudited condensed interim consolidated financial statements of Avalon Advanced Materials Inc. (the "Company") have been prepared by and are the responsibility of the Company's management. The unaudited condensed interim consolidated financial statements have not been reviewed by the Company's auditors.

Avalon Advanced Materials Inc.
Condensed Interim Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)
Unaudited

	As at November 30, 2025	As at August 31, 2025
ASSETS		
Current assets		
Cash and cash equivalents (note 4)	\$ 15,575,371	\$ 1,453,872
Other receivables	235,926	76,343
Prepaid expenses and deposits	199,121	223,587
	16,010,418	1,753,802
Non-current assets		
Investment in associate (note 5)	22,645,271	22,673,129
Property, plant and equipment (note 7)	112,335,059	112,053,458
Deferred financing costs (note 9)	-	726,073
	134,980,330	135,452,660
Total assets	\$ 150,990,748	\$ 137,206,462
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities		
Accounts payable	\$ 675,828	\$ 460,662
Accrued liabilities	965,658	916,743
Convertible notes payable (note 9)	-	2,715,000
Current portion of lease obligation (note 8)	202,236	197,659
Current portion of debenture payable (note 10)	7,293,084	-
Derivative liabilities (note 11)	28,691	336
Deferred flow-through share premium (note 13(b))	615,385	-
	9,780,882	4,290,400
Non-current liabilities		
Lease obligation (note 8)	457,654	509,637
Debenture payable (note 10)	-	7,174,536
Site closure and reclamation provisions (note 12)	203,600	203,600
	661,254	7,887,773
Total liabilities	10,442,136	12,178,173
Shareholder's equity		
Share capital (note 13(b))	217,161,924	203,883,459
Reserve for warrants (note 13(c))	9,023,421	5,215,436
Reserve for share-based payments (note 13(d))	19,440,049	19,261,885
Reserve for brokers' compensation warrants (note 13(e))	544,979	301,064
Accumulated deficit	(105,621,761)	(103,633,555)
Total shareholder's equity	140,548,612	125,028,289
Total shareholder's equity and liabilities	\$ 150,990,748	\$ 137,206,462

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.

Approved on behalf of the Board

"Scott Monteith" Director

"Alan Ferry" Director

Avalon Advanced Materials Inc.
Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars, except number of shares)
Unaudited

	Three Months Ended November 30, 2025	Three Months Ended November 30, 2024
Revenue		
Interest income	\$ 57,017	\$ 7,135
Expenses		
Corporate and administrative (note 14)	720,283	845,032
Project development	122,342	240,725
Property holding costs	29,858	25,590
General exploration	12,212	6,303
Depreciation (note 7)	64,922	66,501
Share-based compensation (note 13(d))	182,670	87,173
Finance costs (note 17)	856,722	222,117
Debt refinancing costs (note 10)	-	169,556
Increase (decrease) in fair values of derivative liabilities (note 11)	28,355	(634)
	2,017,364	1,662,363
Loss before the undernoted items	(1,960,347)	(1,655,228)
Equity in loss of associate (note 5)	(27,859)	(23,500)
Net loss and comprehensive loss for the period	\$ (1,988,206)	\$ (1,678,728)
Net loss and comprehensive loss per share		
- basic and diluted	\$ (0.003)	\$ (0.003)
Weighted average number of common shares outstanding		
- basic and diluted	726,539,056	580,356,143

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.

Avalon Advanced Materials Inc.
Condensed Interim Consolidated Statements of Changes in Equity
(Expressed in Canadian Dollars, except number of shares)
Unaudited

	Share capital		Reserves				
	Number of shares	Amount	Warrants	Share-based payments	Brokers' compensation warrants	Accumulated deficit	Total
Balance, August 31, 2024	571,790,055	\$ 201,501,514	\$ 4,920,753	\$ 19,336,639	\$ 301,064	\$ (98,436,829)	\$ 127,623,141
Equity offerings (note 13(b))	6,400,000	252,800	67,200	-	-	-	320,000
Conversion of note payable (note 9)	11,764,933	495,000	-	-	-	-	495,000
Redemption of DSUs - shares	60,000	15,373	-	(15,373)	-	-	-
Redemption of DSUs - cash payroll	-	-	-	(2,749)	-	-	(2,749)
Share-based compensation (note 13(d))	-	-	-	87,173	-	-	87,173
Share issuance costs - cash	-	(7,248)	(1,928)	-	-	-	(9,176)
Warrants issued for other considerations	-	-	80,182	-	-	-	80,182
Net loss for the period	-	-	-	-	-	(1,678,728)	(1,678,728)
Balance, November 30, 2024	590,014,988	\$ 202,257,439	\$ 5,066,207	\$ 19,405,690	\$ 301,064	\$ (100,115,557)	\$ 126,914,843
Balance, August 31, 2025	644,488,498	\$ 203,883,459	\$ 5,215,436	\$ 19,261,885	\$ 301,064	\$ (103,633,555)	\$ 125,028,289
Equity offerings (note 13(b))	163,987,411	13,725,746	4,312,869	-	-	-	18,038,615
Conversion of note payable (note 9)	26,037,887	1,155,000	-	-	-	-	1,155,000
Redemption of DSUs - shares	125,000	4,506	-	(4,506)	-	-	-
Compensation warrants issued on equity offerings	-	-	-	-	243,915	-	243,915
Share-based compensation (note 13(d))	-	-	-	182,670	-	-	182,670
Share issuance costs - cash	-	(1,421,192)	(446,564)	-	-	-	(1,867,756)
Share issuance costs - compensation warrants issued	-	(185,595)	(58,320)	-	-	-	(243,915)
Net loss for the period	-	-	-	-	-	(1,988,206)	(1,988,206)
Balance, November 30, 2025	834,638,796	\$ 217,161,924	\$ 9,023,421	\$ 19,440,049	\$ 544,979	\$ (105,621,761)	\$ 140,548,612

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.

Avalon Advanced Materials Inc.
Condensed Interim Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)
Unaudited

	Three Months Ended November 30, 2025	Three Months Ended November 30, 2024
Operating activities		
Cash paid to employees	\$ (415,873)	\$ (655,655)
Cash paid to suppliers	(339,860)	(651,844)
Interest received	57,017	7,135
Net cash used in operating activities	(698,716)	(1,300,364)
Financing activities		
Net proceeds from equity offerings	16,786,245	310,824
Net proceeds from issuance of debenture payable	-	3,500,000
Net lease payments	(59,507)	(58,424)
Repayment of convertible notes payable	(1,560,000)	-
Net cash provided by financing activities	15,166,738	3,752,400
Investing activities		
Acquisition of property, plant and equipment	(346,523)	(38,061)
Net cash used in investing activities	(346,523)	(38,061)
Net change in cash and cash equivalents	14,121,499	2,413,975
Cash and cash equivalents, beginning of period	1,453,872	712,306
Cash and cash equivalents, end of period	\$ 15,575,371	\$ 3,126,281

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.

Avalon Advanced Materials Inc.
Notes to the Condensed Interim Consolidated Financial Statements
Three Months Ended November 30, 2025 and 2024
(Expressed in Canadian Dollars)

1. Nature of operations and going concern

Avalon Advanced Materials Inc. ("Avalon") is a publicly listed company incorporated in Canada and continued under the *Canada Business Corporations Act*. Avalon's common shares are listed on the Toronto Stock Exchange (the "TSX") (TSX: AVL), OTCQB® Venture Market (OTCQB: AVLNF), and Frankfurt Stock Exchange (FRA: OU5A) in Germany. The registered address, principal address and records office of Avalon is located at 130 Adelaide Street West, Suite 2060, Toronto, Ontario, Canada, M5H 3P5.

Avalon, together with its subsidiaries (collectively, the "Company") is principally engaged in the acquisition, exploration, evaluation and development of specialty and critical minerals properties, located principally in Canada. To date, the Company has not earned any significant revenues.

The realization of amounts shown for its development asset - the Nechalacho Rare Earth Elements and Zirconium Project (the "Nechalacho Project" or "Nechalacho REE & Zirconium Project") and its investment in associate is dependent upon the discovery of economically recoverable reserves (where not already identified), the ability of the Company to obtain the necessary financing to develop the Nechalacho Project and its planned lithium-hydroxide processing facility, and future profitable production from or proceeds from the disposition of its development assets and the Company's ability to develop and generate profitable production from its mineral assets.

These unaudited condensed interim consolidated financial statements have been prepared in accordance with IFRS® Accounting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to a going concern, which assumes the Company will continue to meet its obligations and discharge its liabilities in the normal course of business for the foreseeable future. Different bases of measurement may be appropriate when a company is not expected to continue operations for the foreseeable future. The Company is in the exploration and development stage and raises funds in the debt and equity markets to conduct its business activities. The Company has incurred losses in the current and prior periods, with a loss of \$1,988,206 for the three months ended November 30, 2025, and an accumulated deficit of \$105,621,761 as at November 30, 2025. The Company's cash and cash equivalents balance at November 30, 2025, was \$15,575,371 and its working capital was \$6,229,536.

The Company's business plan is dependent on raising additional funds to finance operations beyond the next 12 months. While management has been successful in securing financing in the past, there exists uncertainty as to the Company's ability to raise additional funds on acceptable terms. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. 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. Management intends to finance these expenditures over the next 12 months with funds currently on hand, and through planned equity financings and other sources of non-dilutive capital. Initiatives to raise additional capital are ongoing and may include financing from investing partners for developing the Company's planned lithium-hydroxide processing facility, investing partners for developing the Company's Nechalacho Project, and the prospect of non-core asset sales.

These unaudited condensed interim consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and consolidated statement of financial position classifications that would be necessary should the going concern assumption be inappropriate, and those adjustments could be material.

These unaudited condensed interim consolidated financial statements have been reviewed and approved by the Company's Audit Committee and the Board of Directors on January 13, 2026.

Avalon Advanced Materials Inc.
Notes to the Condensed Interim Consolidated Financial Statements
Three Months Ended November 30, 2025 and 2024
(Expressed in Canadian Dollars)

2. Basis of presentation

(a) Statement of compliance and basis of presentation

These unaudited condensed interim consolidated financial statements, including comparatives, have been prepared in accordance with IAS 34, Interim Financial Reporting, as issued by IASB.

These unaudited condensed interim consolidated financial statements do not contain all disclosures required by IFRS and accordingly should be read in conjunction with the Company's consolidated annual financial statements for the year ended August 31, 2025.

These unaudited condensed interim consolidated financial statements have been prepared on a going concern basis using the historical cost basis, except for certain financial instruments that are measured at fair value in accordance with the policies disclosed in note 3 of the Company's consolidated financial statements for the year ended August 31, 2025.

(b) Basis of consolidation

These unaudited condensed interim consolidated financial statements include the accounts of the Company and the entities controlled by the Company. Control exists when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

These unaudited condensed interim consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, 8110131 Canada Inc., 1000560170 Ontario Inc., Avalon Lithium Inc., Lake Superior Lithium Inc., Nolava Minerals Inc. ("Nolava") and Avalon Rare Metals Ltd. ("ARML"). Nolava and ARML are incorporated in the United States of America.

All intercompany transactions and balances have been eliminated on consolidation of the accounts.

3. Summary of material accounting policies

These unaudited condensed interim consolidated financial statements have been prepared using the same accounting policies, significant accounting judgments and estimates, and methods of computation as the annual consolidated financial statements of the Company as at and for the year ended August 31, 2025, except for the adoption of the new accounting standard as described below:

IFRS 18, Presentation and Disclosure in Financial Statements

In April 2024, the IASB issued IFRS 18, Presentation and Disclosure in 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.

Avalon Advanced Materials Inc.
Notes to the Condensed Interim Consolidated Financial Statements
Three Months Ended November 30, 2025 and 2024
(Expressed in Canadian Dollars)

4. Cash and cash equivalents

Cash and cash equivalents consist of the following:

	November 30, 2025	August 31, 2025
Cash held in bank accounts	\$ 15,535,316	\$ 1,358,711
Guaranteed investment certificates	40,055	95,161
Total	\$ 15,575,371	\$ 1,453,872

5. Investment in associate

On November 9, 2023, the Company completed the sale/transfer of its Separation Rapids Lithium Project and Lilypad Cesium-Tantalum Project ("Contributed Assets") to the joint venture company Separation Rapids Ltd. ("SRL") and acquired a 40% equity interest in SRL, with SCR-Sibelco NV ("Sibelco") owning the other 60%.

Sibelco provided €4,865,810 of initial funding and has committed to advance a further €30,000,000 in tranches to fund the development of the Joint Venture Company's mineral projects, including facilities and related infrastructure. After total cash contributions of €34,865,810 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).

The mandate of SRL is to advance the exploration and development activities of the Separation Rapids Lithium Project and Lilypad Cesium-Tantalum Project. Sibelco is the operator of SRL.

The Company has significant influence over the operations of SRL, and its investment in SRL is accounted for using the equity method.

The following table summarizes the total comprehensive loss of SRL (100%) for the three months ended November 30, 2025 and 2024:

	November 30, 2025	November 30, 2024
Revenue	\$ -	\$ -
Net income (loss) and comprehensive income (loss)	\$ (69,647)	\$ (58,751)
Dividend paid	\$ -	\$ -

Avalon Advanced Materials Inc.
Notes to the Condensed Interim Consolidated Financial Statements
Three Months Ended November 30, 2025 and 2024
(Expressed in Canadian Dollars)

5. Investment in associate (continued)

The following table summarizes the financial information of SRL (100%) and reconciles it to the carrying amount of Avalon's interest:

	November 30, 2025	August 31, 2025
Current assets	\$ 1,568,101	\$ 1,808,930
Non-current assets	66,054,689	65,704,040
Total assets	67,622,790	67,512,970
Current liabilities and total liabilities	2,176,172	1,996,705
Shareholders' equity	65,446,618	65,516,265
Avalon's share of equity (40%)	26,178,649	26,206,507
Acquisition transaction costs	281,751	281,751
Gain on sale of exploration and evaluation assets not recognized	(3,815,129)	(3,815,129)
Total	\$ 22,645,271	\$ 22,673,129

6. Exploration and evaluation assets

The Company holds an exploration licence to search and prospect for all minerals except for coal, salt, potash and uranium within four claims in the East Kemptville area of Yarmouth, Nova Scotia. The Company also has a 100% interest in a mining lease in the Warren Township Anorthosite Project, located near Foleyet, Ontario, a 100% interest in a 2.0% NSR interest in certain claims of the East Cedartree Gold Property located near Kenora, Ontario, and a 2.4% NSR interest in the Wolf Mountain Platinum-Palladium Project located near Thunder Bay, Ontario.

Avalon Advanced Materials Inc.
Notes to the Condensed Interim Consolidated Financial Statements
Three Months Ended November 30, 2025 and 2024
(Expressed in Canadian Dollars)

7. Property, plant and equipment

	Nechalacho Project (a)	Transportation facilities	Office, computer and equipment	Land and Building	Exploration equipment	Leasehold improvements	Total
Cost							
Balance, August 31, 2024	\$101,666,047	\$ 1,695,573	\$ 1,158,997	\$ 7,807,670	\$ 255,328	\$ 178,868	\$112,762,483
Additions	430,331	-	-	-	-	-	430,331
Balance, August 31, 2025	102,096,378	1,695,573	1,158,997	7,807,670	255,328	178,868	113,192,814
Additions	342,504	-	-	-	-	4,019	346,523
Balance, November 30, 2025	\$102,438,882	\$ 1,695,573	\$ 1,158,997	\$ 7,807,670	\$ 255,328	\$ 182,887	\$113,539,337
Accumulated depreciation							
Balance, August 31, 2024	\$ -	\$ 366,927	\$ 229,393	\$ -	\$ 253,180	\$ 23,849	\$ 873,349
Depreciation expense	-	12,505	217,083	-	646	35,773	266,007
Balance, August 31, 2025	-	379,432	446,476	-	253,826	59,622	1,139,356
Depreciation expense	-	2,876	52,990	-	113	8,943	64,922
Balance, November 30, 2025	\$ -	\$ 382,308	\$ 499,466	\$ -	\$ 253,939	\$ 68,565	\$ 1,204,278
Net book value							
August 31, 2025	\$102,096,378	\$ 1,316,141	\$ 712,521	\$ 7,807,670	\$ 1,502	\$ 119,246	\$112,053,458
November 30, 2025	\$102,438,882	\$ 1,313,265	\$ 659,531	\$ 7,807,670	\$ 1,389	\$ 114,322	\$112,335,059

Avalon Advanced Materials Inc.
Notes to the Condensed Interim Consolidated Financial Statements
Three Months Ended November 30, 2025 and 2024
(Expressed in Canadian Dollars)

7. Property, plant and equipment (continued)

(a) Nechalacho REE & Zirconium Project, Northwest Territories

The Company owns a 100% interest in the resources below a depth of 150 metres above sea level (the "Basal Zone Resources") in eight mining leases located at Thor Lake in the Mackenzie Mining District of the Northwest Territories, with the resources above a depth of 150 metres above sea level having been sold to an unrelated third party. The Company continues to have access to the property for development and mining of its Basal Zone Resources.

These eight contiguous mining leases total 5,786 hectares (14,297 acres), after three mining claims totaling 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.

The Company retained a 3.0% NSR royalty on the resources above a depth of 150 metres above sea level but agreed to waive this royalty for the first five years of commercial production and granted the third party the option to pay the Company \$2.0 million within eight years of the transaction closing to extend the waiver of this royalty in perpetuity. The third party 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. Avalon and the third party have formed a jointly owned corporation to hold the exploration permits and related authorizations related to their projects and have also entered into a co-ownership agreement governing each party's activities and management at site.

As at November 30, 2025, the amount of the net assets of the Company is more than its market capitalization, IAS 36, Impairment of Assets considers that an indicator of impairment is present based on external sources of information. The Company completed an impairment test on the Nechalacho Project as at November 30, 2025 and determined that the Nechalacho Project was not impaired. The main assumptions used to determine the recoverable amount related to Nechalacho were the net present value of its projected future cash flows, long-term commodity prices, changes in cost estimates, discount rates, foreign exchange rates and years to commencement of production.

(b) Depreciation of \$49,509 (2024 - \$49,509) was recognized relating to the ROU asset (which consisted of its leased office premises) during the three months ended November 30, 2025, and the carrying balance of the ROU asset was \$610,606 as at November 30, 2025 (August 31, 2025 - \$660,115).

(c) Depreciation is expense for the three months ended November 30, 2025 and 2024 consists of the following:

	Three Months Ended November 30, 2025	Three Months Ended November 30, 2024
Depreciation expense recognized	\$ 64,922	\$ 66,501

Avalon Advanced Materials Inc.
Notes to the Condensed Interim Consolidated Financial Statements
Three Months Ended November 30, 2025 and 2024
(Expressed in Canadian Dollars)

8. Lease obligations

As at November 30, 2025, the Company has the following future commitments relating to the lease contract for its office premises:

2026	\$	181,434
2027		245,358
2028		249,846
2029		56,926
Total future lease payments as at November 30, 2025		733,564
Amounts representing interest		(73,674)
Present value of future lease payments - November 30, 2025	\$	659,890

A summary of the changes in the lease obligation amount is set out below:

	November 30, 2025	August 31, 2024
Balance, beginning of period	\$ 707,296	\$ 844,330
Interest expense	12,101	54,788
Payments	(59,507)	(191,822)
Total lease liability	659,890	707,296
Less: current portion	(202,236)	(197,659)
Non-current portion, end of the period	\$ 457,654	\$ 509,637

9. Convertible notes payable

During the year ended August 31, 2024, 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 (the "2024 Note"). Subject to further agreement by the parties, an additional drawdown under the Funding Agreement can be made on satisfaction of certain conditions.

The 2024 Note had a two-year term and accrues a simple interest rate obligation of 10% per annum on the funded amount, which was prepaid and attributed to the face value of the 2024 Note upon issuance, resulting in a face value of \$3,300,000 (the "2024 Face Value"). Lind was entitled to convert the 2024 Face Value amount over a 24-month period at a conversion price equal to 85% of the five-day trailing volume weighted average price ("VWAP") of Avalon's common shares prior to the date of conversion (the "Conversion Feature"). The 2024 Note had a maturity of March 27, 2026. Commencing on August 26, 2024, the Company has the right to repurchase the 2024 Note at the outstanding face value (the "2024 Buyback Option"), subject to Lind's option to convert up to one third of the 2024 Face Value into Avalon common shares prior to such repurchase.

During the year ended August 31, 2025, the Company utilized an additional \$1,300,000 from the Funding Agreement (the "2025 Note"). The 2025 Note had a two-year term and accrues a simple interest rate obligation of 10% per annum on the funded amount, which was prepaid and attributed to the face value of the 2025 Note upon issuance, resulting in a face value of \$1,560,000 (the "2025 Face Value"). Lind was entitled to convert the 2025 Face Value amount over a 24-month period at a conversion price equal to 85% VWAP of Avalon's common shares. The 2025 Note had a maturity of July 25, 2027. Commencing on December 3, 2025, the Company had the right to repurchase the 2025 Note at the outstanding face value (the "2025 Buyback Option"), subject to Lind's option to convert up to one third of the 2025 Face Value into Avalon common shares prior to such repurchase.

Avalon Advanced Materials Inc.
Notes to the Condensed Interim Consolidated Financial Statements
Three Months Ended November 30, 2025 and 2024
(Expressed in Canadian Dollars)

9. Convertible notes payable (continued)

During the period ended November 30, 2025, the Company eliminated the note payable through a combination of \$1,155,000 of the notes being converted into 26,037,887 common shares and the repayment of \$1,560,000 of the notes. The 2024 and 2025 Notes were secured by a general security agreement and a mortgage on the Company's Thunder Bay Property. All security interests and liens granted in connection with the Funding Agreement have been released

The 2024 and 2025 Notes are hybrid instruments that contain multiple embedded derivatives including the Conversion Features and Buyback Options. The Company had designated the entire hybrid contract (the 2024 and 2025 Note and all the embedded derivatives) as a financial liability at FVTPL, which is remeasured at each consolidated financial statement reporting date, with the resulting change in value being recorded as increase or decrease in fair values of convertible notes payable and derivative liabilities in the consolidated statements of comprehensive loss.

A summary of the changes in the convertible notes payable amount is provided below:

	November 30, 2025	August 31, 2025
Balance, beginning of period	\$ 2,715,000	\$ 2,970,000
Converted to common shares	(1,155,000)	(1,815,000)
New issuances	-	1,560,000
Repaid	(1,560,000)	-
Balance, end of the period	\$ -	\$ 2,715,000

During the period ended November 30, 2025, \$1,155,000 of the notes were converted into 26,037,887 common shares and \$1,560,000 was repaid.

10. Debenture payable

During the year ended August 31, 2023, the Company issued to Sibelco a debenture in the principal amount of \$3,000,000 for cash proceeds of \$3,000,000 (the "2023 Debenture"). The 2023 Debenture bore interest at 7.115% per annum, and the principal and interest were payable on or before maturity, being June 14, 2025 (the "Original Maturity") at the option of the Company. To the extent not repaid by the Original Maturity by the Company, Sibelco would have the right to convert the 2023 Debenture and all accrued and unpaid interest thereon into either an aggregate of 37,590,496 common shares of Avalon, or an additional 5% interest in SRL, in which case the Company's equity interest in SRL would be reduced by 5%. The 2023 Debenture was secured by the Company's equity interest in SRL.

On November 18, 2024, the Company and Sibelco amended the 2023 Debenture with Sibelco providing an additional funding of \$3,500,000 to the Company by way of an amended and restated debenture (the "2024 Debenture"). The 2024 Debenture replaced the 2023 Debenture and has a principal amount of \$6,500,000. The 2024 Debenture bears interest at 7.5% per annum, with the principal and accrued interest payable on maturity, being November 18, 2026 ("Maturity").

Avalon Advanced Materials Inc.
Notes to the Condensed Interim Consolidated Financial Statements
Three Months Ended November 30, 2025 and 2024
(Expressed in Canadian Dollars)

10. Debenture payable (continued)

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 into 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 continues to be secured by the Company's equity interest in SRL.

In connection with the replacement of the 2023 Debenture and the issuance of the 2024 Debenture, the Company issued 3,500,000 common share purchase warrants to Lind as consideration for Lind to waive certain conditions of the 2024 Note. Each warrant entitles Lind to purchase one common share of the Company at a price of \$0.0625 per common share until November 18, 2029. The fair value of these warrants was estimated at \$80,182 using the Black-Scholes option pricing model.

The Company also incurred other transaction costs of \$87,925 in connection with the replacement of the 2023 Debenture and the issuance of the 2024 Debenture. The debenture is classified and measured at amortized cost.

A summary of the changes in the debenture payable amount is set out below:

	November 30, 2025	August 31, 2025
Balance, beginning of period	\$ 7,174,536	\$ 3,237,719
Loss recognized on refinancing	-	15,620
Refinancing	-	(3,305,331)
Issued	-	6,805,331
Interest and accretion on debenture	118,548	421,197
Balance, end of the period	\$ 7,293,084	\$ 7,174,536

The total transaction costs of \$168,107 and the loss recognized on the replacement of the 2023 Debenture of \$15,620 have been expensed as debt refinancing costs on the consolidated statements comprehensive loss.

Avalon Advanced Materials Inc.
Notes to the Condensed Interim Consolidated Financial Statements
Three Months Ended November 30, 2025 and 2024
(Expressed in Canadian Dollars)

11. Derivative liabilities

The derivative liabilities consist of certain warrants with exercise prices that are subject to adjustment from time to time in the event of certain common share rights offering ("liability-classified warrants").

The following table summarizes information concerning the derivative liabilities as at the beginning and end of the respective reporting years:

	Number of warrants	Amount
Balance, August 31, 2024	18,800,000	\$ 637
Expired	(9,800,000)	(12)
Decrease in fair value	-	(289)
Balance, August 31, 2025	9,000,000	336
Increase in fair value	-	28,355
Balance, November 30, 2025	9,000,000	\$ 28,691

As at November 30, 2025, the Company has 9,000,000 liability-classified warrants with an exercise price of \$0.26 per share, which are exercisable until May 9, 2026.

The fair values of the liability-classified warrants were estimated as at November 30, 2025 using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; risk-free interest rate of 2.44%; expected life of 0.4 years; and expected volatility of 146%.

12. Asset retirement obligations

As none of the Company's resource properties are in production or have commenced construction, the site closure and reclamation provision relates to the estimated current closure costs to reclaim the Company's Nechalacho exploration camp site at Thor Lake and the Warren Township exploration site.

A summary of the changes in the site closure and reclamation provision amount is set out below:

	November 30, 2025	August 31, 2025
Balance, beginning of period	\$ 203,600	\$ 203,600
Adjustments	-	-
Balance, end of period	\$ 203,600	\$ 203,600

Avalon Advanced Materials Inc.
Notes to the Condensed Interim Consolidated Financial Statements
Three Months Ended November 30, 2025 and 2024
(Expressed in Canadian Dollars)

13. Share capital

(a) Authorized

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 are outstanding as at November 30, 2025.

(b) Common shares

On October 24, 2025, the Company closed a brokered private placement under the listed issuer financing exemption, wherein the Company issued an aggregate of 133,218,180 non-flow-through units of the Company ("Non-FT Units") at \$0.11 per Non-FT Unit, and an aggregate of 30,769,231 flow-through units of the Company ("FT Units") at \$0.13 per FT Unit for total proceeds of \$18,654,000.

Each Non-FT Unit consists 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 consists 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 until October 24, 2028).

The Flow-through Share Premium of \$615,385 was estimated by taking the difference between the price of the FT Unit and the non-FT Unit, as otherwise the attributes of the units were identical and was recorded as a deferred flow-through share premium liability on the statement of financial position on the completion date of the private placement.

The fair value of a Warrant is estimated at \$0.017289 using the Black-Scholes pricing model based on the closing share price on Oct 24 of \$0.07, with the following assumptions: expected dividend yield of Nil; risk free interest rate of 2.44%; expected life of 3 years; and expected volatility of 70%.

Using the Relative Fair Value Method, the balance of the FT Unit price of \$0.11 is allocated between the share component and the warrant component of the FT Unit as follows: \$ 0.0837 and 0.0263, respectively.. The Company incurred cash issuance costs of \$1,867,756 in connection with this private placement.

(c) Warrants

The following table reconciles the equity-classified warrants outstanding to purchase common shares of the Company at the beginning and end of the respective periods:

	Three Months Ended November 30, 2025		Year Ended August 31, 2025	
	Warrants	Average price	Warrants	Average price
Outstanding, beginning of period	38,425,000	\$ 0.11	23,660,312	\$ 0.16
Issued	163,987,411	0.17	20,500,000	0.08
Expired	-	-	(5,735,312)	0.25
Outstanding, end of period ⁽¹⁾	202,412,411	\$ 0.16	38,425,000	\$ 0.11

⁽¹⁾ Does not include the additional liability-classified warrants as described in note 11.

13. Share capital (continued)

(c) Warrants (continued)

The outstanding equity-classified warrants have a weighted average remaining contract life of 2.99 years.

The warrants reserve, included as a component of the consolidated statements of changes in equity, relates to equity settled instruments issued by the Company to various stakeholders.

As described in note 11, the Company also has 9,000,000 liability-classified warrants outstanding as at November 30, 2025.

The Company is also required 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.

(d) Share-based payments

The Company has three share incentive plans: the Stock Option Plan, the DSU Plan and the RSU Plan.

The Stock Option Plan provides for the issuance of up to 10% of the number of issued and outstanding common shares of the Company to eligible employees, directors and service providers of the Company.

The Stock Option Plan authorizes the granting of options to purchase common shares of the Company at a price equal to or greater than the closing price of the shares on either the trading day prior to the grant or the day of the grant. The options generally vest over a period of one to four years and generally have a term of two to five years (but can have a maximum term of up to 10 years). The stock options are accounted for as equity-settled awards.

DSUs are awarded to the Company's directors. Under the DSU Plan, directors are permitted to elect each year to receive their respective director's retainer in cash, DSUs or a combination thereof. The number of DSUs granted to a director electing to receive their retainer in DSUs is determined based on the VWAP of the Company's common shares prior to the date the DSUs are awarded and vest upon grant. The Company may grant discretionary awards of DSUs to directors from time to time, subject to such vesting, performance criteria, or other terms and conditions as the Board may prescribe.

Under the RSU Plan, the Company may grant discretionary awards of RSUs to directors, senior officers and key employees of the Company from time to time, subject to a restricted period and such vesting, performance criteria, or other terms and conditions as the Company may prescribe. Unless the Company determines otherwise at the time of the award of RSUs, one-third of such award will be restricted until the first anniversary of the grant date, another one-third will be restricted until the second anniversary of the grant date and the remaining one-third will be restricted until the third anniversary of the grant date.

The Company has the option to redeem the DSUs and RSUs either for common shares or for cash. The DSUs and RSUs are accounted for as equity-settled awards as the Company has no history of settling any DSUs and RSUs in cash and currently has no plan to settle any DSUs and RSUs in cash.

Avalon Advanced Materials Inc.
Notes to the Condensed Interim Consolidated Financial Statements
Three Months Ended November 30, 2025 and 2024
(Expressed in Canadian Dollars)

13. Share capital (continued)

(d) Share-based payments (continued)

The following table reconciles the stock options outstanding at the beginning and end of the respective reporting periods:

	Three Months Ended November 30, 2025		Year Ended August 31, 2025	
	Options	Average price	Options	Average price
Outstanding, beginning of period	24,070,000	\$ 0.11	23,233,750	\$ 0.13
Issued	800,000	0.05	6,575,000	0.05
Expired	(90,000)	0.10	(5,038,750)	0.09
Forfeited	-	-	(700,000)	0.12
Outstanding, end of period ⁽¹⁾	24,780,000	\$ 0.09	24,070,000	\$ 0.11

As at November 30, 2025, there are 15,630,000 options vested (August 31, 2025 - 13,250,000) with an average exercise price of \$0.14 per share (August 31, 2025 - \$0.14) that are exercisable.

The fair value of each option granted is estimated at the time of grant using the Black-Scholes option pricing model. The Black-Scholes option pricing model requires the input of subjective assumptions, including expected life of the option award, share price volatility and other assumptions. The expected life of options granted is derived from historical data on employee exercises and post-vesting employment termination behaviour. Expected volatility is based on the historic volatility of the Company's shares. These assumptions involve inherent uncertainties and the application of management judgment. In addition, the Company is required to estimate the expected forfeiture rate and only recognize expense for those options expected to vest.

The weighted average assumptions for grants during the period ended November 30, 2025 are as follows:

	November 30, 2025	August 31, 2025
Exercise price	\$ 0.05	\$ 0.12
Closing market price on day preceding date of grant	\$ 0.04	\$ 0.10
Risk-free interest rate	2.48 %	2.37 %
Expected life (years)	2.00	3.46
Expected volatility	87.86 %	80.72 %
Expected dividend yield	Nil	Nil
Grant date fair value	\$ 0.02	\$ 0.06
Forfeiture rate	11.43 %	11.52 %

Avalon Advanced Materials Inc.
Notes to the Condensed Interim Consolidated Financial Statements
Three Months Ended November 30, 2025 and 2024
(Expressed in Canadian Dollars)

13. Share capital (continued)

(d) Share-based payments (continued)

The following table summarizes information concerning outstanding and exercisable options as at November 30, 2025:

Exercise price range	Number outstanding	Number exercisable	Weighted-average remaining contractual life (years)
\$0.05 - \$0.05	6,750,000	1,500,000	2.13
\$0.06 - \$0.10	5,450,000	3,500,000	1.35
\$0.11 - \$0.14	6,980,000	5,105,000	1.78
\$0.15 - \$0.20	5,200,000	5,125,000	0.47
\$0.21 - \$0.26	400,000	400,000	0.25
	24,780,000	15,630,000	

Changes to the number of share units are as follows:

	Three Months Ended November 30, 2025		Year Ended August 31, 2025	
	RSU Plan	DSU Plan	RSU Plan	DSU Plan
Outstanding, beginning of period	500,000	2,535,000	3,304,013	1,520,000
Granted	1,640,000	1,140,000	3,090,000	1,140,000
Redeemed - common shares issued	(125,000)	-	(2,764,000)	(60,000)
Redeemed - cash payroll withholding tax payments	-	-	(3,130,013)	(65,000)
Outstanding, end of period	2,015,000	3,675,000	500,000	2,535,000

There were 3,675,000 DSUs vested as at November 30, 2025 (August 31, 2025 - 2,535,000).

There were 1,640,000 RSUs vested as at November 30, 2025 (August 31, 2025 - nil).

The share-based payments reserve, included as a component of the consolidated statements of changes in equity, relates to equity-settled compensation options, DSUs and RSUs issued by the Company to its directors, officers, employees and consultants.

The estimated fair value of options, DSUs and RSUs earned during the three months ended November 30, 2025 was \$182,670 (2024 – \$87,173) and was charged to operations as share-based compensation expense.

(e) Brokers' compensation warrants

The following table summarizes information concerning outstanding brokers' compensation warrants as at the beginning and end of the respective reporting periods:

	Three Months Ended November 30, 2025		Year Ended August 31, 2025	
	Brokers' compensation warrants	Average price	Brokers' compensation warrants	Average price
Outstanding, beginning of period	-	\$ -	-	\$ -
Issued	9,839,245	0.11	-	-
Outstanding, end of period	9,839,245	\$ 0.11	-	\$ -

Avalon Advanced Materials Inc.
Notes to the Condensed Interim Consolidated Financial Statements
Three Months Ended November 30, 2025 and 2024
(Expressed in Canadian Dollars)

13. Share capital (continued)

(f) Share capital structure

The Company's share capital structure, including its common shares and any potentially dilutive instruments outstanding as at November 30, 2025, is as follows:

Common shares	834,638,796
Warrants	211,412,411
Stock options	24,780,000
DSUs	3,675,000
RSUs	2,015,000
Brokers' compensation warrants	9,839,245
Total	1,086,360,452

In addition, the Company would be required to issue 140,948,034 common shares (using the 15-Day VWAP of the Company's common shares on the TSX on November 30, 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 required 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.

14. Corporate and administrative expenses

Corporate and administrative expenses for the periods ended November 30, 2025 and 2024 consist of the following:

	Three Months Ended November 30, 2025	Three Months Ended November 30, 2024
Salaries and benefits ⁽¹⁾	\$ 305,617	\$ 667,763
Directors' fees	21,625	6,250
Consulting and professional fees	218,586	54,705
Advertising, office, insurance and other expenses	72,575	66,546
Shareholders' communications and filing fees	59,144	31,299
Travel and related costs	42,736	18,469
	\$ 720,283	\$ 845,032

⁽¹⁾ These figures include employee severance costs for the three months ended November 30, 2025 of \$71,215 (2024 - \$379,971) but do not include salaries and benefits capitalized to PPE and exploration and evaluation ("E&E") assets and expensed to project development and general exploration.

Avalon Advanced Materials Inc.
Notes to the Condensed Interim Consolidated Financial Statements
Three Months Ended November 30, 2025 and 2024
(Expressed in Canadian Dollars)

14. Corporate and administrative expenses (continued)

The following table reconciles the total salaries and benefits incurred to the net salaries and benefits included in the above table as corporate and administrative expenses:

	Three Months Ended November 30, 2025	Three Months Ended November 30, 2024
Total salaries and benefits	\$ 437,205	\$ 863,942
Capitalized to PPE and E&E assets	(49,211)	(34,029)
Expensed to project development	(72,229)	(157,911)
Expensed to general exploration	(10,148)	(4,239)
Expensed to corporate and administrative expenses	\$ 305,617	\$ 667,763

15. Related party disclosures

Balances and transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note. 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 periods ended November 30, 2025 and 2024, other than the participation by certain related parties in the October 2024 private placement, whereby Mr. Zeeshan Syed, former 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 periods ended November 30, 2025 and 2024 are as follows:

	Three Months Ended November 30, 2025	Three Months Ended November 30, 2024
Salaries, benefits, consulting fees and directors' fees ⁽¹⁾	\$ 466,064	\$ 804,938
Share-based compensation ⁽²⁾	180,062	79,061
	\$ 646,126	\$ 883,999

⁽¹⁾ Salaries and benefits of key management personnel capitalized to PPE and E&E assets for the period totaled \$50,999 (2024 - \$26,443). Salaries and benefits of key management personnel expensed to project development and general exploration for the period totaled \$84,094 (2024 - \$135,706).

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

Avalon Advanced Materials Inc.
Notes to the Condensed Interim Consolidated Financial Statements
Three Months Ended November 30, 2025 and 2024
(Expressed in Canadian Dollars)

16. Financial instruments

IFRS 13 establishes a fair value hierarchy that reflects the significance of inputs used in making fair value measurements as follows:

Level 1	quoted prices in active markets for identical assets or liabilities;
Level 2	inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., from derived prices); and
Level 3	inputs for the asset or liability that are not based upon observable market data.

Assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The fair values of the Company's warrants with exercise prices that are subject to adjustment from time to time are based on Level 2 inputs that are observable for the liability such as interest rate, dividend yield and historical volatility. The fair value of the convertible notes payable was based on Level 3 inputs including the applicable face value of the 2024 and 2025 Notes. The Company has the right to buy back the 2024 and 2025 Notes at any time for the outstanding face value, and as such the fair value of the 2024 and 2025 Notes is the outstanding face value of the 2024 and 2025 Notes.

Fair values

Except as disclosed elsewhere in these consolidated financial statements, the carrying amounts for the Company's financial instruments approximate their fair values because of the short-term nature of these items.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk

The Company is not exposed to any significant credit risk as at November 30, 2025. The Company's cash and cash equivalents are either on deposit with a major Canadian chartered banking group in Canada or invested in bankers' acceptance notes or guaranteed investment certificates issued by a major Canadian chartered banking group. The Company's receivables primarily consist of Goods and Services Tax/Harmonized Sales Tax receivable, and refundable security deposits with various federal and provincial governments and are therefore not subject to significant credit risk.

Liquidity risk

Liquidity risk is the risk that an entity will not be able to meet its financial obligations as they come due. The Company has in place a planning and budgeting process to assist in determining the funds that are required to support the Company's normal operating requirements on an ongoing basis and its plans for exploration and development expenditures. The Company seeks to ensure that there are sufficient funds to meet its short-term requirements, taking into account its anticipated cash flows from operations, financing activities, and holdings of cash and cash equivalents.

As at November 30, 2025, the Company has current assets of \$16,010,418 and current liabilities of \$9,780,882. The Company's working capital as at November 30, 2025 is \$6,229,536.

Repayments due by period as at November 30, 2025:

	Within 1 year	1-3 years	4-5 years	Total
Accounts payable and accrued liabilities	\$ 1,641,486	\$ -	\$ -	\$ 1,641,486
Debenture payable	7,780,331	-	-	7,780,331
Lease obligation	242,034	491,530	-	733,564
	\$ 9,663,851	\$ 491,530	\$ -	\$ 10,155,381

Avalon Advanced Materials Inc.
Notes to the Condensed Interim Consolidated Financial Statements
Three Months Ended November 30, 2025 and 2024
(Expressed in Canadian Dollars)

16. Financial instruments (continued)

Market risk

Interest rate risk

The Company has cash and cash equivalents balances. The Company's current policy is to invest its excess cash in highly liquid money market investments such as bankers' acceptance notes, treasury bills and GICs. These short-term money market investments are subject to interest rate fluctuations. The Company's debenture payable bears interest at 7.5% per annum and is not subject to interest rate fluctuations.

Foreign currency risk

The Company's functional currency is the Canadian dollar. The majority of the Company's purchases are transacted in Canadian dollars. The Company has no significant financial assets or financial liabilities denominated in foreign currencies as at November 30, 2025.

Price risk

The prices of metals and minerals fluctuate widely and are affected by many factors outside of the Company's control. The prices of metals and minerals and future expectations of such prices have a significant impact on the market sentiment for investment in mining and mineral exploration companies. This in turn may impact the Company's ability to raise equity financing for its long-term working capital requirements.

Sensitivity analysis

Considering the Company's budget expenditures for the balance of fiscal 2026 and its current cash and cash equivalents of \$15,575,371, with other variables held constant, sensitivity to a plus or minus 25 basis points change in interest rates would not have any significant effect on the Company's net loss for the balance of fiscal 2026.

The Company has no significant financial assets or financial liabilities denominated in foreign currencies as at November 30, 2025, and no significant ongoing expenditures to be transacted in US dollars or other foreign currencies is expected for the remainder of the fiscal year. If the Canadian dollar weakens (or strengthens) 5% against the US dollar with other variables held constant, it would not have any significant effect on the Company's expenditures over the rest of the fiscal year.

17. Finance costs

The Company's finance costs for the periods ended November 30, 2025 and 2024 consist of the following:

	Three Months Ended November 30, 2025	Three Months Ended November 30, 2024
Interest and accretion on debenture (note 10)	\$ 118,548	\$ 67,483
Interest on lease obligation (note 8)	12,101	14,521
Amortization of deferred financing costs	726,073	140,113
	\$ 856,722	\$ 222,117

Avalon Advanced Materials Inc.
Notes to the Condensed Interim Consolidated Financial Statements
Three Months Ended November 30, 2025 and 2024
(Expressed in Canadian Dollars)

18. Events after the reporting period

Subsequent to November 30, 2025, the Company:

- granted 760,000 stock options with an exercise price of \$0.06 per share to an employee and consultant of the Company, with a weighted average contract life of 2.52 years;
- issued 230,000 common shares to an employee of the Company pursuant to the redemption of 520,000 RSUs; and
- had 400,000 options with an exercise price of \$0.12 per share expire.