Avalon Advanced Materials Inc.

Management's Discussion and Analysis of Financial Statements for the year ended August 31, 2026

This Management's Discussion and Analysis ("MD&A") of Avalon Advanced Materials Inc. (the "Company" or "Avalon") is an analysis of the Company's financial results for the year ended August 31, 2026 (the "Period"). The following information should be read in conjunction with the accompanying consolidated financial statements and Annual Information Form for the year ended August 31, 2026. This MD&A is prepared as of October 23, 2026.

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. ("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 a Canadian exploration and development-stage critical minerals company focused on the acquisition, exploration, evaluation and development of rare earth elements, lithium and other critical mineral assets, and on advancing related processing capabilities in Canada. The Company's principal business objective is to advance two core assets: the Lake Superior Lithium Project in Thunder Bay, Ontario, which is planned as a lithium hydroxide conversion and processing facility, and the Nechalacho Rare Earth Elements and Zirconium Project in the Northwest Territories, which is its material mineral property under S-K 1300. The Company also owns or controls a portfolio of other mineral projects and royalty interests, including the Lilypad Cesium Project in Ontario, the East Kemptville Tin-Indium Project in Nova Scotia, the Warren Township Anorthosite Project in Ontario, a royalty on the Wolf Mountain Platinum-Palladium Project, and a royalty on the East Cedartree Gold Property. To date, the Company has not earned any significant revenues.

On June 29, 2026, the Company's shareholders approved a consolidation of the Company's common shares. At a Board of Directors Meeting held immediately after the June 29, 2026 shareholders' special meeting, the Board approved the share consolidation on the basis of one (1) post-consolidation common share for every one hundred eighty (180) pre-consolidation common shares (the "Share Consolidation"). The Share Consolidation became effective on July 8, 2026. It is intended to provide the Company with a more conventional capital structure and support its ongoing evaluation of broader capital markets opportunities, including a potential future U.S. exchange listing. The share consolidation has been applied retrospectively and as a result, all shares and per share amounts are stated on an adjusted basis.

The Company's strategy is to transition Avalon from a holder of undeveloped mineral assets into a critical minerals development platform capable of supporting secure North American supply chains. Its business objective is to advance a portfolio of Canadian critical minerals assets and processing opportunities positioned to support secure North American supply chains for rare earth elements and lithium. Management intends to pursue this objective through disciplined technical advancement, strategic partnerships, offtake arrangements, government-supported funding initiatives, project-level financing and selective monetization of non-core assets.

For the Nechalacho Project, the Company's strategy is to advance updated technical work, including a preliminary economic assessment being prepared by Wood Canada Limited in accordance with Subpart 1300 of Regulation S-K, pursue strategic capital and project-level financing, including government-supported financing tools, evaluate processing and development alternatives, seek government-supported financing and policy alignment, and maintain stakeholder and Indigenous engagement.

For the Lake Superior Lithium Project, the Company's strategy is to advance a planned lithium hydroxide processing facility in Thunder Bay, source feedstock from third-party producers, convert lithium-bearing concentrate into battery-grade lithium hydroxide, advance our feasibility study commenced in January 2026 with Nordmin Engineering Ltd., develop and evaluate lower-impact processing technology with Metso, establish strategic and commercial partnerships, position Thunder Bay as a regional critical minerals processing hub, and pursue by-product utilization opportunities.

Overall, the Company is focused on three related but distinct market opportunities: rare earth elements, lithium processing and zirconium, each of which is affected by different demand drivers, supply-chain constraints, pricing dynamics and geopolitical considerations.

In November 2023, Avalon established a joint venture - Separation Rapids Ltd. ("SRL") - with Belgium-based SCR-Sibelco NV ("Sibelco"), a global leader in materials solutions, to develop the Company's lithium deposit at Separation Rapids, of which Avalon owned a 40% equity interest and Sibelco owned the other 60%. In July 2023, a strategic partnership was signed with Metso Corp. of Finland, a market leader in sustainable lithium processing. In addition, in June 2023, the Company acquired a 377-acre industrial property on Strathcona Avenue in Thunder Bay that is supplied by municipal power, gas and water, and is accessible by road, rail and water via a deep-water port. As described under the Lake Superior Lithium Project, Avalon intends to develop the Strathcona property into a lithium conversion and processing facility.

Following the successful completion of an equity offering for aggregate gross proceeds of approximately C$18.65 million in October 2025, the Company significantly advanced its rare earth and lithium strategy, funding key development activities at its Nechalacho and Lake Superior Lithium projects while strengthening its balance sheet.

In January 2026, a Feasibility Study ("FS") commenced for its Lake Superior Lithium Project in Thunder Bay, Ontario, with Nordmin Engineering Ltd. engaged as lead engineering consultant, supported by process technology and engineering providers including Metso Corporation. The FS is expected to build upon the 2024 Preliminary Economic Assessment ("PEA") and incorporate updated engineering, process design, and capital and operating cost estimates reflecting current market conditions. The FS is intended to provide the level of technical definition, cost accuracy, and risk assessment required to support project financing, offtake arrangements, and strategic partnership discussions.

In parallel, the Company has also commissioned a Preliminary Economic Assessment ("PEA") with Wood Canada Limited for its Nechalacho Rare Earths and Zirconium Project in the Northwest Territories. The PEA is expected to update the project's 2013 Definitive Feasibility Study ("DFS"), incorporating advancements in processing technology and updated capital and operating cost assumptions reflecting current market conditions. Following completion of the PEA, the Company intends to proceed to a DFS as the next phase of project development, providing the level of engineering, cost definition, and risk assessment required to support project financing, offtake, and

strategic partnership discussions.

In February 2026, the Company engaged SCP Resource Finance as a strategic capital advisor to support the development of a long-term capital and partnership strategy in connection with its lithium and rare earth projects. SCP is expected to assist the Company in identifying and engaging potential strategic investors, industrial partners, and other sources of capital, with a focus on project-level financing initiatives. The engagement reflects the Company's ongoing efforts to evaluate capital formation alternatives and advance its critical minerals assets in alignment with its development timeline and funding requirements.

During fiscal 2026, the Company added project and corporate development leadership to support work on its two principal projects. Glen Smith was appointed Project Director for the Lake Superior Lithium Project, with responsibility for coordinating feasibility and related development work in Thunder Bay. Burl Joseph was appointed Project Director for the Nechalacho Rare Earth Elements and Zirconium Project, with responsibility for updated engineering, development planning and regional engagement. Christopher Senyk was appointed Vice President, Corporate Development, to support strategic partnerships, commercial discussions and financing opportunities across the Company's portfolio. These appointments expanded the Company's capacity to manage technical work and pursue the commercial arrangements needed to advance both projects.

On April 2, 2026, the Company completed a strategic reorganization of its Separation Rapids joint venture with Sibelco, resulting in Avalon exiting its 40% interest in Separation Rapids Ltd. and retaining full ownership of the Lilypad cesium project. While Separation Rapids remains a high-quality petalite asset, Avalon's lithium refinery strategy is now centered on spodumene-based feedstock, which the Company believes provides a more attractive basis for advancing its planned lithium hydroxide refinery. The reorganization also strengthened Avalon's financial position by simplifying its capital structure, eliminating outstanding debt and removing a significant potential source of shareholder dilution.

In July 2026, Finnvera, Finland's export credit agency, issued a non-binding letter of interest concerning potential financing for equipment and services to be supplied by Metso for the proposed Thunder Bay lithium processing facility. The letter relates to an anticipated Metso contract valued at approximately €100 million. Any financing remains subject to due diligence, credit approval, agreement on terms and final documentation; no financing has been committed.

These developments and the advancement of the Company's Nechalacho and Lake Superior Lithium assets are expected to facilitate Avalon's strategy of evolving from principally a holding entity of undeveloped mineral deposits into a potential commercial producer and advanced manufacturer of critical minerals, including rare earths and lithium hydroxide.

Corporate Social Responsibility

The Company views sustainability and responsible development as integral to its business strategy and to the long-term advancement of its critical minerals projects. Avalon is committed to incorporating corporate social responsibility best practices across its activities, including stakeholder engagement, environmental stewardship, health and safety, Indigenous and community relations, and transparent reporting. The Company's most recent Sustainability Report is available at: https://www.avalonadvancedmaterials.com.

Avalon's annual Sustainability Report is prepared with reference to the International Sustainability Standards Board ("ISSB") reporting structure, which is aligned with global sustainability disclosure standards and is increasingly recognized by Canadian regulators, investors, and market participants.

The Company believes that advancing projects with strong sustainability characteristics is important to maintaining constructive relationships with stakeholders, including Indigenous communities, local communities, governments, regulators, customers, and financing partners. Early and meaningful engagement, responsible environmental planning, and transparent communication can help reduce project execution risk, including risks related to permitting, approvals, community acceptance, and

project delays. Avalon also believes that end-users of critical minerals will increasingly seek secure, traceable, and responsibly developed sources of supply to support electric vehicles, clean energy, advanced manufacturing, and broader North American supply-chain resilience.

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 location, and access to multiple transportation channels, the Thunder Bay property is well suited to host the Lake Superior Lithium Facility and represents a material strategic advantage for Avalon. The Company intends to build on this advantage through the potential adoption of advanced processing, recycling, automation, and digital technologies, including through the planned development of an on-site Technology and Innovation Centre ("TIC") in collaboration with regional stakeholders.

In furtherance of this strategy, Avalon entered into a Memorandum of Understanding with Qualcomm Technologies, Inc. in the fall of 2024 to explore the application of Qualcomm Technologies' industrial and edge-computing technologies across Avalon's operations. The collaboration is intended to support the development of a strategic roadmap for Internet-of-Things-enabled solutions, digital infrastructure, data connectivity, and other technology applications that could enhance operational efficiency, safety, traceability, and commercialization opportunities over time.

Avalon believes the proposed TIC, together with the Company's collaboration with Qualcomm Technologies and regional partners, has the potential to position the Lake Superior Lithium Facility as more than a conventional lithium processing facility. It could serve as a platform for demonstrating next-generation critical minerals processing, recycling, and digital mining innovation in Canada, directly aligned with federal and provincial priorities to strengthen domestic critical minerals supply chains, industrial competitiveness, and advanced manufacturing capacity.

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 is expected to:

- 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.

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. Initial feedstock supply is expected to be secured through global trading counterparties, supplemented over time by purchases from regional producers.

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.

During Fiscal 2025, 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 October 2024, the Company announced the successful demonstration of a key processing milestone using Metso Corporation's proprietary alkaline leach process at bench scale. Test work confirmed the conversion of lithium-bearing mineral concentrate into lithium hydroxide while simultaneously producing analcime, an inert by-product with potential industrial applications. The process eliminates the use of sulfuric acid and sulfate reagents, reducing environmental risk, effluent management requirements, and operational complexity relative to conventional acid-based flowsheets. The results represent an important technical de-risking step toward further engineering work, process optimization, and potential scale-up in support of the Company's proposed Thunder Bay lithium processing facility. The Company continues to evaluate the commercial implications of the process, including sustainability benefits and potential by-product utilization opportunities.

In January 2026, the Company announced the commencement of a Feasibility Study ("FS") for its Lake Superior Lithium Inc. lithium hydroxide processing project in Thunder Bay, Ontario, Canada. The FS builds on the technical and commercial work completed as part of the September 2024 Preliminary Economic Assessment ("PEA") and is intended to further advance the project toward engineering definition, partnership engagement and financing readiness.

Nordmin Engineering Ltd. has been engaged as the lead FS consultant and is responsible for overall project coordination, including the design of the processing plant and site infrastructure, in collaboration with Primero Americas Inc. and Krech Ojard & Associates. The Company has also retained Metso Corporation, which previously supported the project during the PEA phase, to provide additional process-related technical support.

During the Period, the Company incurred $7,266,943 (2025 - $515,928) in project development costs on the Lake Superior Lithium Project. These expenditures were incurred primarily to advance the project from the 2024 PEA stage toward a feasibility study. These costs were offset by the recognition

of $205,826 (2025 - $nil) from the CMIF grant as described above.

The Company incurred property holding costs of $86,828 (2025 - $118,678) during the Period relating to its Thunder Bay Property. These expenditures include primarily property taxes and repair and maintenance costs.

In accordance with IAS 38 Intangible Assets, an asset is recognized only when it is probable that future economic benefits will flow to the entity and the cost can be reliably measured. As these project activities are in the early development phase and the recognition criteria for capitalization have not yet been satisfied, the associated costs are expensed as incurred. Accordingly, these expenditures are recognized in the statement of profit or loss in the period in which they arise, rather than being capitalized as assets, consistent with IAS 38 requirements regarding research and pre-development activities.

Strategic Partnership with SCR-Sibelco NV (Joint Venture Reorganized and Exited in April 2026)

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 13.4% of Avalon's common shares and is the Company's largest shareholder.

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.

Sibelco, which acted as the operator of SRL, had 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 was to make any further cash contributions on a pro-rata basis (with dilution to a non- contributing party's interest).

The Company recognized an equity income from associate for the Period with respect to SRL's operations of $718,283 (2025 – loss of $37,109).

SRL completed an updated mineral resource estimate for Separation Rapids during the year ended August 31, 2025.

Prior to the disposition, other highlighted work on Separation Rapids included:

- Geotechnical & mineralogical studies were advanced through the year to facilitate a higher level of understanding.
- Environmental fieldwork as part of the baseline and permitting process was completed mid-summer.
- Engagement with local communities was ongoing.
- Preparation for exploration had commenced.

On April 2, 2026, as part of a reorganization of its joint venture arrangement with Sibelco, the Company disposed of its entire equity interest in SRL, which was previously carried as an investment with a total carrying amount of $23,391,412. The disposal was completed through two related transactions: A portion of the SRL shares was transferred to Sibelco in settlement of a debenture with a carrying value of $7,417,311. The remaining SRL shares were redeemed in exchange for the Lilypad property, recognized at its fair value of $1,799,400 based on an independent valuation. The Company recognized a loss on disposal of $14,174,698 in profit or loss. Following the disposition, the Company has no remaining ownership interest in SRL.

Resource Development Activities

Resource property expenditures for the Period totalled $2,255,932, a 424% increase from the level of expenditures in the comparative period in Fiscal 2025 ($430,331). This increase was primarily related to the increased activities on the Nechalacho Rare Earth Elements and Zirconium Project ("Nechalacho"). Of these expenditures, 100% were incurred on Nechalacho.

No properties were abandoned or impairment losses recorded during the Period.

a. Nechalacho Rare Earth Elements and Zirconium Project

The Nechalacho Rare Earth Elements and Zirconium Project is located at Thor Lake in the Northwest Territories, approximately 110 kilometres east of Yellowknife. The property comprises eight contiguous mining leases totalling 5,786 hectares. Avalon holds the beneficial interest in the Basal Zone, which contains rare earth element and zirconium mineralization. The original five leases are subject to an independently owned 2.5% net smelter returns ("NSR") royalty. Avalon has a contractual right to buy out that royalty under a fixed formula currently equal to approximately C$2.0 million, subject to increases at the Canadian prime rate until it is bought out.

In fiscal 2020, Avalon sold the rights to the near-surface, predominantly light rare earth mineralization above an elevation of 150 metres above sea level (the "Upper Zone") to Cheetah Resources Pty Ltd. ("Cheetah"), while retaining its beneficial interest in the underlying Basal Zone and a 3.0% NSR royalty on the Upper Zone. Avalon waived the 3.0% NSR royalty for Cheetah's first five years of commercial production and granted Cheetah an option to pay C$2.0 million within eight years of closing to extend that waiver in perpetuity. Cheetah also has an option to acquire Avalon's buyout right in the 2.5% NSR royalty, provided it extinguishes that royalty upon exercise. The leases are jointly recorded in the names of Avalon and Cheetah, with each party's beneficial ownership governed by its respective rights to the Basal Zone and Upper Zone. The parties formed NWT Rare Earths Ltd. to hold certain permits and authorizations and entered into a co-ownership agreement governing activities at the site. Avalon's current mineral resource estimate for Nechalacho was prepared by Micon International Limited in accordance with Subpart 1300 of Regulation S-K. It provides the current technical basis for describing the project's mineral resources. It does not establish mineral reserves or demonstrate economic viability. Avalon completed a feasibility study under Canadian standards in 2013; that study is historical and does not represent a current feasibility study or current reserve estimate. Avalon is working toward a new preliminary economic assessment to evaluate a potential development approach for the Basal Zone.

The Basal Zone contains both light and heavy rare earth elements, including rare earths used in permanent magnets, as well as substantial zirconium mineralization. This combination gives Avalon potential exposure to markets seeking more diversified sources of critical minerals. The extent to which these minerals can be recovered and sold economically will depend on further technical work, product development, commercial arrangements and financing.

Nechalacho has an established regulatory history, including a federal environmental assessment approval received in 2013. A Water Licence for the Cheetah Demonstration Project and previously approved Basal Zone early works expires on November 29, 2027. A separate Land Use Permit renewed during the fourth quarter of fiscal 2025 expires on May 26, 2030. A Land Use Permit covering the demonstration project and Basal Zone early works expired on November 29, 2025 and is being renewed. Additional permits, authorizations and financial assurance would be required for construction and operation of a Basal Zone mine and related facilities.

Avalon's near-term priorities are to advance the preliminary economic assessment, continue metallurgical and process development, and assess potential strategic, offtake and financing arrangements. Nechalacho's location in Canada may make it relevant to North American efforts to diversify rare earth supply chains. Advancing the project remains dependent on the results of further studies, permitting, commercial agreements and access to capital.

Recent policy initiatives in Canada and the United States reflect increased emphasis on developing domestic and allied sources of rare earth elements and reducing supply chain dependence on concentrated foreign sources.

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. The parties are currently engaged in an arbitration with a hearing scheduled in November 2026 and a decision expected 2-3 months thereafter. Vital Metals, an Australian-listed mining company, acquired Cheetah Resources in 2019, making it a subsidiary that now leads on-the-ground activities in Canada.

Expenditures during the Period were $2,255,932 (2025 – $430,331), which were incurred primarily on financing initiatives, preparatory work on updating certain metallurgical test work and ongoing site holding and sample storage costs.

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 the Period 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 ended August 31, 2025, 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 the Period on the Warren Township Anorthosite Project.

d. Lilypad Cesium-Tantalum Project

The Lilypad Cesium-Tantalum Project consists of 14 claims, comprising 166 new claim units or cells, totalling approximately 3,300 hectares (8,152 acres), covering a field of lithium, cesium, tantalum ("LCT") mineralized pegmatites, and located 150 kilometres northeast of Pickle Lake, Ontario. The project is located in the traditional territory of the Eabametoong First Nation ("EFN"), approximately 25 km west of the community of Fort Hope. As discussed earlier under "Strategic Partnership", the Lilypad Project was transferred to SRL in November 2023.

On April 2, 2026, as part of the reorganization of its joint venture arrangement with Sibelco, the Company reacquired the Lilypad property, which was valued at $1,799,400 based on an independent valuation. Following the transaction, the Company holds a 100% interest in the Lilypad Cesium-Tantalum Project.

During the Period, minimum expenses incurred on Lilypad property.

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

For the Years Ended August 31,	2026	2025	2024
	$	$	$
Net loss	28,913,091	5,196,726	634,576
Net loss, per share basic and diluted	6.44	1.53	0.20
Total assets	121,755,678	137,206,462	136,378,561
Total non-current liabilities	496,729	7,887,773	910,896

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

Three Months Ended August 31, 2026

Net loss and comprehensive loss for the quarter totalled $6,627,773 compared to $1,025,311 in the same quarter in Fiscal 2025. The difference is mainly due to the following:

- Corporate and Administrative expenses increased by $2,776,543 to $3,245,603 during the quarter compared to the same quarter in Fiscal 2025 (2025 - $469,060). The main areas of increased expenses for the quarter were consulting and professional fees, advertising, office, insurance and other expenses, and shareholders' communications and filing fees.
    - Consulting and professional fees increased by $2,062,506 to $2,173,878 during the

quarter compared to the same quarter in Fiscal 2025 ($111,372). The increase was primarily due to higher audit and legal costs related to potential U.S. exchange listing evaluation and professional fees relating to the wildfire events

- Advertising, office, insurance and other expenses increased by $91,744 to $150,148 during the quarter compared to the same quarter in Fiscal 2025 ($58,404). The increase was primarily from higher investor relations costs.

- Shareholders' communications and filings fees increased by $85,938 to $106,478 during the quarter compared to the same quarter in Fiscal 2025 ($20,540). The increase was primarily related to the cost of the Special Meeting and Share Consolidation which took place in June 2026.

- Project development totalled $3,212,279 during the quarter, a $3,190,695 increase from the amount incurred during the comparative quarter in Fiscal 2025 (2025 - $21,584) as the Company continued to advance the 2024 PEA related to the Lake Superior Lithium Inc. Project toward a feasibility study during the quarter.

- Equity in income of associate decreased to $nil for the quarter compared to an income of $288,437 for the same quarter in Fiscal 2025 as the Company disposed of its interest in SRL during the quarter. Equity in income of associate varies depending the activities in SRL.

Year Ended August 31, 2026 and 2025

Net loss and comprehensive loss for the Period totalled $28,913,091 compared to $5,196,726 in the same period in Fiscal 2025. The difference is mainly due to the following:

- Interest income for the Period totalled $265,606 compared to $49,940 in the same Period in Fiscal 2025, due to increased cash balances.

- Corporate and Administrative expenses increased by $4,270,732 to $6,540,199 during the Period compared to the same period in Fiscal 2025 (2025 - $2,269,467). The main area of increased expenses for the period was consulting and professional fees and advertising, office, insurance and other expenses, and shareholders' communications and filings fees.

    - Consulting and professional fees in total increased by $3,358,232 to $3,829,464 during the Period compared to the same period in Fiscal 2025 ($471,232). This includes Legal and consulting costs related to wildfire events $698,783; Transaction costs and others of $537,716; Professional fees on US listing of $1,427,931 and other consulting costs of $1,165,034.

    - Advertising, office, insurance and other expenses increased by $349,191 to $543,558 during the Period compared to the same period in Fiscal 2025 ($194,367). The increase was primarily from higher investor relations costs.

    - Shareholders' communications and filing fees increased by $192,849 to $331,559 during the Period compared to the same period in Fiscal 2025 ($138,710). The increase was primarily due to higher fees related to the Special Meeting and Share Consolidation which took place in June 2026.

- Project development totalled $7,266,943 during the Period, a $6,751,015 increase from the amount incurred during the comparative period in Fiscal 2025 (2025 - $515,928) primarily to advance the project from the 2024 PEA stage toward a feasibility study, including related engineering, technical, and project development activities.

- Interest income increased to $265,606,from $49,940 in fiscal 2025, primarily due to higher average cash balances during the year.

- Equity in income of associate increased to $718,283 for the Period compared to a loss of $37,109 for the same period in Fiscal 2025. Under the equity method of accounting, the Company recognizes its proportionate share of SRL's results. During the Period, the Company recognized its share of SRL's earnings up to the date the investment was disposed of, compared to a share of losses recognized during the corresponding period in Fiscal 2025.

- Impairment of investment in associate increased to $14,174,698 for the Period compared to $nil for the same period in Fiscal 2025. The impairment relates to the Company's disposal of its interest in SRL.

Summary of Quarterly Results

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

Fiscal Year	FY 2026				FY 2025			
For the Quarters Ended	Aug. 31	May 31	Feb. 28	Nov. 30	Aug. 31	May 31	Feb. 28	Nov. 30
	$	$	$	$	$	$	$	$
Net income (Loss)	(6,627,773)	(4,118,095)	(16,179,017)	(1,988,206)	(1,025,311)	(709,668)	(1,783,019)	(1,678,728)
Income (Loss) per share, basic	(1.428)	(0.888)	(3.489)	(0.493)	(0.290)	(0.206)	(0.534)	(0.521)
Income (Loss) per share, diluted	(1.428)	(0.888)	(3.489)	(0.493)	(0.290)	(0.206)	(0.534)	(0.521)

The fluctuation in quarterly net loss (FY 26 VS FY 25 as shown in the above table) is primarily due to increased project development costs, the recognition of share based compensation expenses as stock options, DSUs and RSUs granted to directors, officers, employees and consultants of the Company are earned, the impairment losses recognized on resource properties changes in the fair value of derivative liabilities, write-off of business acquisition costs and expensed financing transaction costs, and any gain/loss realized on disposition of its assets. 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 actively manages its capital structure in light of available funding, prevailing market and economic conditions, near-term working capital requirements, and planned exploration and development expenditures. As a development-stage company, Avalon has historically relied primarily on the issuance of equity securities to fund its activities. As the Nechalacho and Lake Superior Lithium Facility projects advance, the Company is broadening its evaluation of available funding sources, including potential debt financing, strategic investments, government funding, and other non-dilutive or less-dilutive financing alternatives. To achieve its objectives, the Company expects to deploy its existing working capital and raise additional capital as required through a combination of equity, debt,

and other available financing sources, while seeking to maintain sufficient financial flexibility to support project execution and corporate requirements.

In October 2025, the Company completed a brokered private placement under the listed issuer financing exemption, issuing an aggregate of 740,101 non-flow-through units of the Company ("Non-FT Units") and an aggregate of 170,940 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 $30.60 per Warrant Share and are exercisable until October 24, 2028.

In November 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.

In November 2024, the Company completed $3,500,000 in debenture financing with Sibelco. Sibelco provided additional funding of $3,500,000 to the Company by way of an amended and restated debenture (the "2024 Debenture"). The 2024 Debenture had 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 bore interest at 7.5% per annum, with the principal and accrued interest payable on maturity, being November 18, 2026.

Prior to its extinguishment, the 2024 Debenture provided Sibelco with the right, upon maturity, 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 had been converted to common shares of SRL at maturity, Sibelco's equity interest in SRL would have increased by up to 90%, with the Company owning the remaining 10%. Sibelco also had the right to exercise its conversion rights prior to maturity under certain conditions. The 2024 Debenture was secured by a pledge of Company's shares in SRL.

As at August 31, 2026, the Company has current assets of $5,843,270 and current liabilities of $7,401,440. The Company's working capital deficit was $1,558,170 as at August 31, 2026 (August 31, 2025 – working capital deficit of $2,536,598).

During the Period, Avalon incurred approximately $2.7 million of incremental costs associated with strategic initiatives and corporate actions, including approximately $1.4 million related to the Company's potential U.S. exchange listing and approximately $1.3 million related to other discrete matters. The latter primarily comprised legal costs associated with the northern fire matter ($0.7 million), transaction-related fees ($0.4 million), and organizational restructuring costs ($0.2 million). While certain costs related to regulatory compliance, governance and public company reporting may continue in future periods, management believes that a significant portion of these expenditures relates to specific initiatives and matters undertaken during the period and is not reflective of the Company's normal ongoing operating activities. These expenditures were incurred to support Avalon's strategic objectives, enhance governance practices and strengthen its position for future growth.

The development of the Company's planned midstream lithium-hydroxide processing facility and the

Nechalacho Project will require additional capital, which is expected to be pursued through a combination of strategic partnerships and project-level financing initiatives. The Company continues to engage with potential strategic and industrial partners to support these funding requirements, with the objective of aligning capital sources with long-term asset development while minimizing shareholder dilution.

In February 2026, SCP Resource Finance was engaged as a strategic capital advisor to support the development and execution of a structured capital and partnership strategy across the Company's lithium and rare earth projects. SCP is assisting in identifying and engaging potential strategic investors, industrial partners, and other sources of capital, with an emphasis on project-level financing solutions.

The Company continues to maintain flexibility in the timing and scope of certain discretionary exploration and development expenditures, enabling alignment of capital deployment with funding progress and market conditions.

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 MD&A, the minimum lease commitments under this lease are as follows:

Fiscal year ending August 31,	2027	$ 245,358
	2028	249,846
	2029	56,926

Off Balance Sheet Arrangements

As at August 31, 2026, the Company had no material off balance sheet arrangements such as guaranteed contracts, contingent interests in assets transferred to an entity, derivative instrument obligations or any instruments that could trigger financing, market or credit risk to the Company.

Transactions with Related Parties

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

a) Trading transactions

There have been no material trading transactions with related parties during each of the years ended August 31, 2026 and 2025, 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, former Vice President, Corporate Development each subscribed for 1,111 Units at $8.999 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 years ended August 31, 2026 and 2025 is as follows:

	Year Ended August 31, 2026	Year Ended August 31, 2025
Salaries, benefits and directors' fees [1]	$ 1,283,296	$ 1,709,120
Share based compensation [2]	336,842	363,093
	$ 1,620,138	$ 2,072,213

[1] Salaries and benefits of key management personnel capitalized to PPE and E&E assets for the year ended August 31, 2026 totaled $257,184 (2025 - $380,187).

Salaries and benefits of key management personnel expensed to project development and general exploration for the year ended August 31, 2026 totaled $194,221 (2025 - $381,199).

[2] 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.

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 MD&A are as follows:

Common shares	4,646,363
Warrants	1,124,513
Broker warrants	54,662
Stock options	153,734
DSUs	18,944
RSUs	-
Total	5,998,216

The Company is also committed to issue 112 warrants to the Northwest Territory Métis Nation in two equal installments of 56 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, 2026.

As at August 31, 2026, and as of the date of this MD&A the Company has 4,646,363 common

shares issued and outstanding.

b) Options

As at August 31, 2026, the Company had an aggregate 147,233 incentive stock options outstanding with a weighted average exercise price of $14.08 (of which 91,128 were vested).

Subsequent to August 31, 2026, the Company granted additional 11,500 stock options under its equity incentive plan. As at the date of this MD&A, the Company had 153,734 stock options outstanding.

c) Deferred and Restricted Share Units

As at August 31, 2026, and at of the date of this MD&A the Company had 18,944 fully vested DSUs and no RSUs outstanding.

d) Warrants

As at August 31, 2026, the Company has the following common share purchase warrants outstanding:

i. 11,805 warrants with an exercise price of $27.00 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 $54.00 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;

ii. 87,778 warrants with an exercise price of $23.40 per common share and are exercisable until March 27, 2029;

iii. 35,556 warrants with an exercise price of $13.50 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 $27.00 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;

iv. 19,444 common share purchase warrants with an exercise price of $11.25 per common share and are exercisable until November 18, 2029;

v. 58,889 common share purchase warrants with an exercise price of $16.20 per common share and are exercisable until July 25, 2030; and

vi. 911,041 common share purchase warrants with an exercise price of $30.60 per common share and are exercisable until October 24, 2028.

The Company is also committed to issue 112 warrants to the Northwest Territory Métis Nation in two equal installments of 56 warrants upon the Nechalacho Project meeting certain milestones. These warrants will have a contractual term of five years and will have an exercise price based on the then current market price of the Company's common shares at the date of issue of the warrants.

e) Broker Warrants

As at August 31, 2026 and the date of this MD&A the Company has the following common share purchase broker warrants outstanding:

i. 54,662 warrants with an exercise price of $19.80 per common share and are exercisable until October 24, 2028

Disclosure Controls and Procedures

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

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

Internal Control over Financial Reporting

The CEO and CFO are also responsible for the design of the Company's internal controls over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS 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 Period 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 did not adopt any new accounting standard during the Period.

Recent Accounting Pronouncements

The following pronouncements are issued but not yet effective 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.

Amendments to IFRS 9, Financial Instruments

The Company has not yet determined the impact of this standard on its disclosures. In May 2024, the IASB issued Amendments to the Classification and Measurement of Financial Instruments (Amendments to IFRS 9 and IFRS 7). The amendments are effective for annual reporting periods beginning on or after January 1, 2026. The amendments to IFRS 9 clarify the derecognition requirements for financial liabilities settled through electronic payment systems. In accordance with these amendments, a financial liability is derecognized before settlement when payment is effected through an electronic payment system and all of the following conditions are met: (i) the Company has no practical ability to withdraw, stop or cancel the payment instruction; (ii) the payment instruction results in the counterparty obtaining an enforceable right to receive cash; and (iii) the Company does not have access to the cash transferred once the payment instruction is initiated. When these conditions are satisfied, the related financial liability and the corresponding cash and cash equivalent balance are derecognized on the date the payment instruction is initiated rather than on the settlement date.

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) On September 15, 2026, the Company granted 11,500 stock options to certain directors, officers and employees of the Company under its Stock Option Plan. The stock options have an exercise price of $7.66, expire in 2 or 3 years from the grant date, and have varying vesting terms.

Forward-Looking Information, Risk Factors and Qualified Persons

Certain of the statements that are not historical facts contained in this MD&A 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 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 MD&A 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 MD&A, unless otherwise stated, has been reviewed and approved by Mr. Dave Marsh, who previously served as Chief Operating Officer and Senior Vice President, Metallurgy at Avalon, where he led the metallurgical and process development programs supporting the Company’s 2013 Feasibility Study for the Nechalacho Project.

Cautionary Note to U.S. Persons

This MD&A 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 MD&A 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 and on the Company's website at www.avalonadvancedmaterials.com.