



INSIDER TRADING POLICY

Introduction

To protect investors and promote confidence in the trading of shares and other securities of public companies, securities legislation applicable in Canada prohibits persons who have access to material inside information (i.e. undisclosed information or knowledge about a company and its affairs that could reasonably influence an investor's decision to buy or sell securities of the company) from trading in the securities of that company or informing others of such information ("tipping") before it has been generally disclosed to the public. These insider trading and tipping prohibitions are designed to ensure that anyone who has access to material undisclosed information does not trade or assist others in trading to the disadvantage of the investing public generally.

This memorandum is a general outline of the insider trading and tipping prohibitions on officers, directors and employees of Avalon Advanced Materials Inc. (the "Company") with respect to the buying and selling of shares or other securities of the Company, including shares acquired upon the exercise of options.

Prohibition on Insider Trading

You are prohibited by law from buying or selling shares of the Company when you have knowledge of material facts or material changes with respect to the Company which has not been generally disclosed to the public (i.e. "insider trading"). A "material fact" with respect to the Company is legally defined as being a fact that significantly affects, or would reasonably be expected to have a significant effect on, the market price or value of the Company's shares. A "material change" with respect to the Company is legally described as being a change in the business, operations or activities of the Company (including any subsidiary of the Company) that would reasonably be expected to have a significant effect on the market price or value of its shares. (As a practical matter, it is perhaps best to view both material facts and material changes as facts or changes that a reasonable investor would consider important in a decision to buy, hold or sell shares of the Company).

For the Company, common examples of information that could be regarded as a material fact or material change would be new discoveries, assay or other results of ongoing drilling programs or other exploration or development work, new reserve or resource calculations, proposed merger, take-over, sale or acquisition of significant assets or other similar transactions (and/or the fact that negotiations are being conducted with respect to such matters) and, once material, the Company's quarterly or year-end earnings (including preliminary information indicative of such earnings and/or changes in the Company's near-term earnings prospects). Should, and upon, the Company's quarterly (and year end) earnings constituting material information, directors and officers of the Company as well as employees of the Company with pre-knowledge of the

earnings results must refrain from buying or selling shares of the Company during the period beginning at the time such knowledge is acquired and ending one business day after the date of such earnings release. **Both positive and negative information may be material or privileged.**

Accordingly, if you have knowledge of a material fact or a material change with respect to the Company that has not been generally disclosed, you are prohibited by law from buying or selling any shares (or other securities) of the Company. (Securities of the Company would include its common shares, any options to buy or sell the Company's shares and any derivatives based on the Company's shares or other securities). As you can imagine, there may be situations where it is unclear whether particular information constitutes a material fact or a material change. The prudent course of action in such situations is to refrain from buying or selling the Company's shares or to seek advice from the Company's President in respect of the foregoing. Please remember that if your buying or selling of the Company's shares becomes the subject of scrutiny, such buying or selling may well be viewed differently after-the-fact and with hindsight than the way such actions may have been viewed by you at the time.

The foregoing restrictions also apply to any trading of securities of any other company in respect of which you have obtained material non-public information as a result of your employment with the Company.

If you have placed unfilled buy or sell orders with your broker, those orders should be cancelled immediately upon gaining knowledge of any material undisclosed information.

In addition to harm to your reputation, contravention of the prohibition on insider trading is an offence which is punishable by imprisonment and/or fines. In particular, trading on material non-public information is subject to:

- (a) fines of up to \$5 million or triple the profit made or loss avoided, whichever is greater;
- (b) imprisonment for up to 5 years; and
- (c) the responsibility to compensate the other party to the illegal transaction for damages.

Additionally, where a corporation contravenes the rules, each director or officer of that corporation who authorized, permitted or acquiesced in the offence is also guilty of an offence and is liable to a fine of up to \$5 million and/or imprisonment for up to 5 years.

Prohibition on "Tipping"

In addition to the restrictions on insider trading discussed above, you are also prohibited from informing (i.e. "tipping") other persons of a material fact or a material change with respect to the Company before the material fact or material change has been generally disclosed.

The one exception to the foregoing is when such disclosure is in the necessary course of the Company's business. If, as a business matter, it is necessary to provide material non-public information to persons outside the Company, the disclosure of such

information is permitted only when necessary in the scope of your duties and in the necessary course of the Company's business and when adequate steps have been taken in respect of the ongoing maintenance by the recipient as to the confidentiality of the information. The question of whether a particular disclosure is being made in the necessary course of business is a question that must be determined in each case and in light of the policy reasons for the tipping provisions.

The "necessary course of business" exception would generally cover, among others, communications with:

- (i) employees, officers and board members;
- (ii) lenders, legal counsel, auditors, financial advisors and underwriters;
- (iii) parties to negotiations in connection with a private placement, merger, acquisition or sale of significant assets and similar transactions; and
- (iv) regulators and government agencies.

The "necessary course of business" exception would not generally permit selective disclosure of material corporate information to be made to the media, an analyst, institutional investor or other market professional.

The Company's employees should not discuss any undisclosed material fact or material change with others, including other employees of the Company, unless such is in the necessary course of the Company's business. In the event of any such disclosure, the recipient of such disclosure should be made aware of the trading restrictions imposed on such recipient by virtue of such disclosure and that such recipient must maintain the confidentiality of such information.

Contravention of the prohibition on tipping is also punishable by imprisonment and/or fines in the same manner and to the same extent as trading securities with material non-public information (see "Prohibition on Insider Trading" above).

Pre-Clearance of Trades

To provide assistance in preventing inadvertent violations and avoiding the appearance of an improper transaction (which could result, for example, where a director, officer and/or employee engages in a trade while unaware of a pending major development), the Company requires that directors and senior management confirm, prior to the sale or purchase of any of the Company's securities, with the President that there is no undisclosed material information with respect to the activities of the Company which would or could in hindsight result in the trading in the Company's securities being inappropriate or in violation of the insider trading restrictions.

Time Periods During Which Trading is Prohibited ("Black-out Periods")

In order to avoid the potential for selective disclosure or even the perception or appearance of selective disclosure, the Company or its President may institute "black-out periods" from time to time when trading (including the exercise of stock options) by all

insiders, employees and consultants should not take place. For example, a black-out period may precede the release of drill results from an exploration program, a corporate restructuring or other material change.

Where appropriate and feasible, the Company or its President may institute a black-out period in advance of the disclosure of a material change. The duration of any particular blackout period shall be determined by the Company or its President given the particular circumstances of the material change. Generally, the black-out period would end at the end of the day of announcement.

Other Trading Restrictions

It is improper for any officer, director or employee of the Company who had knowledge of material information concerning the Company's affairs prior to the public release of such information to trade the Company's shares or other securities immediately after the Company has publicly released such information as the investing public should be afforded a reasonable amount of time to receive and analyze the disclosed information. The appropriate time period will depend on a number of factors, including the circumstances in which the event arises, the nature and complexity of the information and the nature of the market for the Company's shares. Normally, a one to two business day waiting period from the time of public disclosure of the information would be ample.

The Company also discourages the frequent trading of shares of the Company.

Exercise of Options

Should any director's, officer's or employee's stock options be due to expire during a black-out period, the Company's stock option plan automatically extends the expiry date of the relevant options for a period of 5 business days after the cessation of the relevant black-out period. (It should also be noted that the optionee is permitted to exercise such options during a black-out period, but may not then in turn sell the shares so acquired until the black-out period has ended.)

Insider Reporting

Insiders of the Company are required to file insider trading reports electronically through the System for Electronic Disclosure by Insiders (SEDI) at its website www.sedi.ca within five days of the relevant trade of a Company security. In addition to trades of the Company's shares, such a filing is also required in respect of any grant, expiry or exercise of the Company's options and of any transactions involving derivatives based on the Company's security. (Note that the filing of an insider trading report is only required by an insider upon the insider initially acquiring or disposing of a Company's security, i.e. insiders of the Company who, upon becoming an insider, hold no security of the Company are not required to file a "nil" report). Insiders are encouraged to seek the advice of the Company's Secretary in the filing of such insider reports and to provide copies of any insider filings to the Secretary.

"Insider" for purposes of the foregoing is defined as being the directors and senior officers of the Company and/or any subsidiary of the Company, the assets or revenues of which comprise at least 10% of the consolidated assets or revenues of the Company.

“Senior officers” include the President, any Vice-President or the Secretary, the Treasurer and any individual performing functions in a similar capacity to said officers in respect of the Company.

General

If you have any questions about specific transactions or matters addressed in this Policy, you may obtain additional guidance from the Company’s President.

This memorandum has been provided to bring to your attention the prohibitions against insider trading and tipping, and the serious consequences that can result from a contravention of such prohibitions. The ultimate responsibility for complying with such prohibitions lies with you and it is imperative that you exercise your best judgment and seek appropriate advice if you have any questions with respect to the appropriate course of action for you to take at any time.

The matters and restrictions described in this memorandum apply to your spouse and children (and others) living in your household. You are expected to be responsible for the compliance of such individuals with the insider trading restrictions.

Approved and Adopted by the Board of Directors effective the 6th day of August, 2008.

I have read this document in its entirety and agree to adhere to the policies stated herein.

Print name: _____

Signature: _____ Date: _____