Management's Discussion and Analysis of Financial Statements for the three and nine months ended May 31, 2023

This Management's Discussion and Analysis ("MDA") of Avalon Advanced Materials Inc. (the "Company" or "Avalon") is an analysis of the Company's financial results for the three and nine months ended May 31, 2023 (the "Period"). The following information should be read in conjunction with the accompanying unaudited condensed consolidated interim financial statements for the Period and the consolidated financial statements and Annual Information Form for the year ended August 31, 2022. This MDA is prepared as of July 4, 2023.

Nature of Business and Overall Performance

Avalon is a Canadian mineral development company that is listed on the Toronto Stock Exchange in Canada, traded on the OTCQB Venture Market in the United States and also trades on the Frankfurt Stock Exchange in Germany. The Company seeks to build shareholder value by becoming a diversified, sustainable producer and marketer of critical materials for clean technology and by expanding the markets for its specialty material products.

Avalon operates in Canada with a diversified asset base giving the Company exposure to a broad range of these critical materials including lithium, rare earth elements ("REEs"), cesium, tantalum, tin, indium, gallium, germanium and zirconium.

Avalon's new strategic goals are focused on both organic growth of its lithium portfolio, consisting of a suite of critical-mineral mining projects across Canada, as well as developing new related opportunities. The Company's mission is to become a vertically integrated lithium supply chain within Ontario. This will position the Province of Ontario as an integral part of the North American supply chain for technical glass and ceramic market segments and electric vehicle (EV) batteries.

The Company is in various stages of developing three of its five mineral resource properties with particular emphasis on lithium, cesium, tantalum, tin, indium and rare earths. Avalon continues to evaluate new opportunities with near term development potential such as extracting critical minerals from historic mine wastes using new technologies. This is an opportunity the Company has modelled at its East Kemptville Tin-Indium Project. The concept is attracting increasing interest from Environmental, Social and Governance ("ESG") Green Bond investors and from the Federal government now promoting the "circular economy", particularly for sites with abundant critical minerals in the wastes, but securing access to these sites continues to be challenging.

All three of the Company's advanced projects have significant mineral resources and preliminary economic evaluations for which the next step is identifying markets for the mineral products and/or processing bulk samples to demonstrate appropriate extraction processes and produce product samples for customer evaluation. Advances in technology can suddenly create new demand for certain critical minerals providing opportunities for new producers if one is in a position to react quickly to serve the new demand. A well-known example has been the sudden growth in demand for the "magnet rare earths" neodymium and praseodymium ("Nd-Pr"), coupled with the risk of supply shortages due to China's control of the rare earth supply chain. Subsequent to the end of the Quarter, and as described below, the Company entered into a strategic partnership with SCR-Sibelco NV.

The Company has embraced the principles of sustainability as core to its business practice and has made a strong commitment toward implementing corporate social responsibility ("CSR") best practices. In December 2022, the Company released its eleventh annual comprehensive

Sustainability Report (the "2022 Sustainability Report") and in February, 2021 secured a top 5% ESG Risk rating amongst our peer companies from Sustainalytics. The Company was also featured in the Benchmark Minerals' inaugural global lithium ESG rankings, scoring in the top 5% worldwide.

Strategic Partnership

Subsequent to the end of the quarter ended May 31, 2023 (the "Quarter), the Company signed a binding term sheet to create a new joint venture with SCR-Sibelco NV ("Sibelco"), a global leader in materials solutions. Avalon issued to Sibelco, on a non-brokered private placement basis, 109,692,764 common shares of Avalon ("Common Shares") for aggregate proceeds of $10,000,000 and a secured convertible debenture in the principal amount of $3,000,000 (the "Debenture") (collectively, the "Private Placement").

The $63-million transaction results in Antwerp-based Sibelco owning approximately 19.9% of the issued and outstanding Common Shares, and provides Avalon with a first tranche of funding to advance the Company's lithium production and processing goals across its suite of lithium mineral assets, led by Separation Rapids in northwestern Ontario. This new joint venture is expected to accelerate Avalon's core business objective of building a mid-stream lithium-hydroxide processing facility in Ontario.

Overview of Transactions

Strategic Financing

Pursuant to the terms of the Private Placement, Sibelco purchased: (i) 109,692,764 Common Shares at a price of approximately $0.091164 per Common Share (the "Per Share Price") for gross proceeds of $10,000,000 which resulted in Sibelco owning approximately 19.9% of the issued and outstanding Common Shares; and (ii) advanced Avalon $3,000,000 for the Debenture. The Debenture bears interest at 7.115% per annum and the principal and interest are payable on maturity, being June 14, 2025 (the "Maturity"). To the extent not repaid at Maturity by Avalon, Sibelco will have the right to convert the outstanding principal amount of the Debenture and all accrued and unpaid interest thereon into either additional Common Shares at a conversion price equal to the Per Share Price, or an additional 5% interest in the joint venture corporation (the "JV Election"), as more particularly described below. The Debenture is a secured obligation, secured by a pledge of the shares of a subsidiary of Avalon subject to replacement security at defined milestones.

Avalon also granted to Sibelco, for so long as Sibelco holds not less than 10% of the issued and outstanding Common Shares on a non-diluted basis, the right to nominate one member to the board of directors of Avalon ("Board") (or up to two nominees if the size of the Board is increased to nine directors or more), and the right to participate in future equity offerings so that it can maintain its pro rata percentage ownership in Avalon. Sibelco also agreed to a 12-month standstill and certain resale restrictions placed on its holdings in Avalon.

The proceeds from the Private Placement will be used by Avalon to fund the acquisition of industrial land for a lithium-hydroxide processing facility in Thunder Bay, Ontario, and repayment of up to C$1.9 million of existing debt, and for working capital and general corporate purposes. As described below, Avalon subsequently completed the acquisition of the Thunder Bay property for cash consideration of $8.3 million, and repaid the balance of its note payable, after the permitted conversions into common shares, at its face value of $1,200,000 in cash;

Joint Venture

Subject to the terms and conditions of the binding joint venture term sheet, Avalon and Sibelco have agreed to establish a joint venture with respect to Avalon's lithium projects, including Separation Rapids and Lilypad in northwestern Ontario (the "Avalon-Sibelco JV"). Sibelco, which will act as operator of the joint venture, has committed to invest €35 million (approximately C$50.4 million) into the joint venture. Of this amount, €5 million is to be 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 €35 million by Sibelco, each of the parties will make any further cash contributions on a pro-rata basis (with dilution to a non-contributing party's interest).

While the initial participating interests to be held on the formation date of the joint venture by Sibelco and Avalon will be 60% and 40%, respectively, such participating interests may change to 65% and 35%, respectively, if on the Maturity date of the Debenture Avalon fails to pay the full principal and accrued interest and Sibelco elects to exercise the JV Election.

The joint venture term sheet is binding on the parties. Avalon and Sibelco will work together to enter into a long-form joint venture agreement as soon as practicable with a view to execution on or before August 31, 2023, but in any event not later than September 30, 2023.

New Strategy, New Vision

Avalon's new strategic goals are focused on both organic growth of its lithium portfolio, consisting of a suite of critical-mineral mining projects across Canada, as well as developing new related opportunities. The Company's mission is to vertically integrate lithium processing in Ontario, positioning the Province of Ontario as an integral part of a North American supply chain for technical glass and ceramic market segments and EV batteries.

The joint venture will facilitate Phase 1 of Avalon's new strategic growth plan, which includes:

1. The purchase of industrial land for a lithium-hydroxide processing facility in Thunder Bay, Ontario.
2. Funding to advance upstream lithium production operations across Avalon's various projects, led by the Separation Rapids and Lilypad sites, as well as further the development of the promising Snowbank discovery.
3. Enabling the Avalon-Sibelco joint venture to execute on a dual-market strategy targeting significant growth in both the glass and ceramics market and the EV clean energy market.

Updates to Management and the Board of Directors

During the Quarter, Don Bubar retired as the Company's CEO, Mr. Scott Monteith, who was appointed to Avalon's Board of Directors (the "Board") in May 2023, assumed the role of Interim CEO.

Mr. Bubar has been leading Avalon for more than 25 years, initially steering the Company towards its focus on critical minerals, and subsequently pioneering ESG and sustainability reporting within the junior mining sector. During his time at Avalon, Don grew the Company's flagship Separation Rapids Lithium Project from exploration to development stage, positioning the project for the upcoming demand in lithium, driven by the shift to electrification. The Company would like to thank Don for his unwavering commitment to Avalon for over a quarter century and wishes him well in his retirement.

Mr. Monteith is an experienced clean-tech executive and entrepreneur with a successful track record of moving inventions from ideation to commercial success. Mr. Monteith has extensive experience in the areas of marketing, manufacturing, technology transfer, technology licensing, new product development, patent management, corporate development, international business, M&A, investing, government affairs, board governance and strategic planning. Mr. Monteith is currently the Chair of Monteco Ltd., Cable House Capital Corp. and Imtex Membranes Corp.

In addition to Mr. Monteith, Mr. Jim Jaques has assumed the role of the Company's inaugural Chief Administrative Officer. Mr. Jaques will report to the CEO and be responsible for the Company's overall administration, marketing, corporate communications, human resources and information technology. A former marketing and sales executive with Bell Canada Inc., Mr. Jaques spent part of his career in senior leadership positions at both Merrill Lynch and Citibank (Australia). For the past several years, he has been a management consultant based in Toronto, working with both public and private sector organizations to help them drive revenue growth, new product innovation, strategic partnerships and secure growth capital financing.

Subsequent to the end of the Quarter, Mr. Jan Holland joined the Board, and subsequently was appointed the Board's Executive Chair. Mr. Holland brings 35 years of experience in building and reorganizing businesses across an array of Canadian industries, from aerospace to financial services. For the past decade, he has been Chair and CEO of a leading Canadian aerospace parts manufacturer, transforming its business operations through a multiphase revitalization and enabling expansion into new markets. Mr. Holland has been a Founding Partner or Director with multiple financial services firms, including Tricycle Asset Management and BMO Nesbitt Burns, respectively, raising a combined $2 billion in assets under management by pioneering innovative offerings, such as managed futures products and structured notes. His knowledge of capital markets and wealth of experience will be valued contributions to Avalon's new strategic direction.

In addition, subsequent to the end of the Quarter, Mr. Alan Ferry, the Board's former non-executive Chair, was appointed the Company's Lead Director. Appointment of Jan as Exec Chair and Alan as Lead Director. Mr. Ferry has been an independent businessperson since 2007, following a 28 year career in the investment industry as a mining analyst and mining corporate finance specialist. Mr. Ferry holds a B.Sc. in Geological Sciences from Queen's University (1977) and a Chartered Financial Analyst designation (retired). Mr. Ferry has been a director of Avalon since 2000, and is past Chair of Plateau Energy Metals Inc.

Resource Development Activities

Resource property expenditures for the Quarter totalled $1,016,032, an 864% increase from the level of expenditures ($105,343) for the same quarter in fiscal 2022 ("Fiscal 2022"). Of these expenditures, 99% were incurred on the Separation Rapids Lithium Project ("Separation Rapids"), 1% were incurred on the Nechalacho Rare Earth Elements Project ("Nechalacho"), and less than 1% were incurred on the Lilypad Cesium-Tantalum Project ("Lilypad").

During the Quarter the Company recognized an impairment loss of $15,000 related to Net Smelter Returns ("NSR") interest in the Wolf Mountain Platinum-Palladium Project.

Resource property expenditures for the nine months ended May 31, 2023 (the "Nine Month Period") totaled $2,585,403, a 435% increase from the level of expenditures for the nine months ended May 31, 2022 ($482,947). Of these expenditures, 99% were incurred on the Separation Rapids Project, 1% were incurred on the Nechalacho Project, and less than 1% were incurred on the Lilypad Project. Expenditures on the Separation Rapids Project increased to $2,558,729 from $409,713 in the same period in Fiscal 2022, primarily due to expenditures incurred during the Period on the 2023 winter drilling program. The expenditures on the Lilypad Project decreased to $4,200 from $37,556 in the prior period, as the Company did not conduct any significant activities during the Period. Expenditures on Nechalacho's holding and storage costs were about the same at $22,474 compared to $36,678 in the prior period.

During the Nine Month Period, the Company recognized an impairment loss of $18,050 related to certain insignificant mineral claims that had expired and the NSR interest in the Wolf Mountain Platinum-Palladium Project.

Separation Rapids Lithium Project

The Separation Rapids property consists of nineteen mineral claims and one mining lease covering a combined area of approximately 4,414 hectares (10,910 acres) in the Paterson Lake Area, Kenora Mining Division, Ontario, all of which are owned 100% by Avalon. The lease covers an area of approximately 421 hectares over the area of the main lithium pegmatite deposit (the "Big Whopper") and adjacent lands that may be used for mine development infrastructure. Avalon also owns three aggregate permits along the road to the site, which cover a total area of approximately 16 hectares and are located within the area covered by the claims. The Separation Rapids deposit is a potential source of the high purity lithium mineral, petalite, for direct use in the glass-ceramics industry as well as lithium minerals for producing lithium battery materials.

During fiscal 2018, the Company completed an updated preliminary economic assessment ("PEA") on a simplified business model that focuses on initial production of lithium mineral concentrates for the glass-ceramics industry, with potential for future expansion into production of the battery materials lithium carbonate and/or lithium hydroxide. This smaller scale development model reduces capital expenditure requirements substantially from the lithium hydroxide production model completed in September, 2016, while generating attractive returns and reducing overall business and permitting risk. However, with growing interest in establishing new lithium battery materials supply chains in Canada, the Company is now planning to accelerate its plans to produce lithium battery materials and has purchased a sizeable industrial site on the waterfront in Thunder Bay that appears well-suited for establishing a regional lithium battery materials refinery.

During the Quarter, the Company incurred $999,724 (2022 - $82,655) in exploration and development expenditures on the Separation Rapids Lithium Project. Approximately 67% of these expenditures were incurred on the winter drilling program, 9% were spent on permitting for future drilling programs including on the Snowbank petalite lithium pegmatite discovery and environmental studies, and approximately 24% were incurred on metallurgical testwork to convert petalite and lepidolite concentrates into lithium chemicals that are suitable for lithium battery production and preparation of the bulk sample for future testwork.

As discussed earlier under "Strategic Partnership", the Separation Rapids Project will be transferred to the Avalon-Sibelco JV once the long-form joint venture agreement is finalized.

Lithium Refinery

With both the Ontario and Federal Governments confirming their interest in establishing new battery materials supply chains in the province, and potentially providing financial support, Avalon continues to work towards establishing its lithium refinery in Thunder Bay, Ontario. The refinery being planned would be adaptable and would also be expandable to increase output and accept concentrates from other aspiring producers of lithium minerals including petalite, lepidolite and spodumene, from the many pegmatite deposits that occur in northwestern Ontario.

Subsequent to the end of the Quarter, Avalon acquired an industrial site in Thunder Bay, Ontario (965 Strathcona Avenue) (the "Thunder Bay Property") for the purchase price of $8,300,000. The Thunder Bay Property contains 380 acres of land of which approximately 126 acres are in Lake Superior, a 38,000 square feet office building and a 50,000 square feet warehouse. It has existing road, rail, deep-water port and utilities services for its planned midstream lithium-hydroxide (LiOH) processing facility.

With the finalization of this site purchase, Avalon's focus moves to build upon its relations with First Nations partners, the local community and government. Deepening this collaboration is key to ensuring members of the regional ecosystem all benefit from the project and 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 to join in the project and help contribute to the province's industrial competitiveness.

When complete, the integrated project will:

- Create a significant number of jobs in the City of Thunder Bay as well as in Kenora, Ontario and their 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 benefits, including the intention to create a regional critical-minerals innovation and R&D hub in partnership with local university and college stakeholders.
- Create new economic development opportunities for local and regional First Nations 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.

Localizing the EV battery supply chain creates a multiplier effect of investment opportunities. In just the few short months since the Inflation Reduction Act (IRA) was passed, the United States has seen more than US$40 billion worth of new investment announcements across the battery supply chain. These investments help spur local economic development by supporting surrounding industries, fostering spinoff entrepreneurship, and contributing to the development of industry clusters that improve productivity and growth.

The key next steps include finalizing initial commercial terms with potential investing partners, including LG Energy Solution with whom Avalon entered into a Memorandum of Understanding in September 2022, the completion of a feasibility study for the refinery operations and proceeding with initial site preparation work at the Thunder Bay site.

Recent Activities and Future Plans

The coarse grained petalite ore will be processed in the proposed Dense Media Separation (“DMS”) plant to generate large product samples meeting the detailed specifications for glass-ceramic customer qualification and acceptance and provide concentrate for further laboratory work on the lithium battery materials process flowsheet. Some preliminary process testwork is underway and with access now to a properly equipped facility in Europe to process the bulk sample, significant quantities of concentrates can be produced in 2023-24.

Further exploration work on the northwestern part of the property in the vicinity of the new Snowbank petalite pegmatite discovery and the Glitter pegmatite is planned for 2023 to follow-up on encouraging initial results from the initial program completed in October 2021. A drilling program to begin to define the size potential of the Snowbank pegmatite discovery is now planned for late 2023. Based on the results of this drilling program Avalon would then plan a larger drilling program to fully define the size potential of the deposit.

A drilling program on Separation Rapids began in December 2022 and continued until April 2, 2023, when it was discontinued due to spring breakup (the “2023 Drilling Program”). A total of 4,490 metres (“m”) was drilled with effective drilling totaling 4,179 m. The drilling was focused on infill drilling and testing the depth of the current resource. Results of the drilling confirming potential to significantly expand its lithium resource at depth. New significant intercepts shown below are from three of the four final drill holes.

- SR23-85: 1.56% Li_2O over 47.71 metres
- SR23-91: 1.06% Li_2O over 10.38m and 1.66% Li_2O over 7.01m and 1.36% Li_2O over 10.61m
- SR23-92: 1.47% Li_2O over 3.42m and 1.14% Li_2O over 4.35m and 1.49% Li_2O over 4.52m

The assays for drill hole SR23-93 (the fourth hole) have confirmed the petalite mineralization to 566-metre depth increasing the potential depth of the deposit by 80%. The drilling has also confirmed that the deposit is open to the east and west and to depth, over a 300-strike length, with similar grades to the current mineral resource estimate, supporting a conceptual target to double the size of the deposit through future drilling.

Additional assay result details of the 2023 Drilling Program have been disclosed in the Company's news release dated June 1, 2023.

The technical information on the assay results has been reviewed and approved by Dr. Bill Mercer, P. Geo. (ON), who is a qualified person for the purposes of National Instrument 43-101 ("NI 43-101").

Currently Avalon is working on a resource update to see how the resource improves with the recent drilling and to support efforts on further exploration planning and drilling on the resource.

The aggregate production for road repairs and site preparation is being done by SOW Construction Limited Partnership, a joint venture between Moncrief Construction Limited, a large Kenora-based construction contractor and Wabaseemoong Independent Nations, in whose traditional territory the Project is located. This work had largely been completed during the Quarter. Road repair work will commence over the third quarter.

The 5,000 tonne bulk sample collected from the project site in 2021 has been crushed, and approximately 30 tonnes was used to produce petalite and lepidolite concentrates at Saskatchewan Research Council . A further portion was sent to Europe to produce trial quantities of the petalite product and/or further testwork to advance the understanding of Separation Rapids material for use on the ceramic and EV markets. The testwork to convert petalite concentrate to lithium hydroxide continues in Finland.

Work has progressed on defining a preferred engineering house for bid on a definitive feasibility study ("DFS") for Separation Rapids. This work is expected to take place in mid-calendar 2023.

Early planning is underway to further feed into environmental baseline study work already completed on the site. The site work will capture the spring freshet in spring 2023 and detail work through summer and fall for information gathering. A permit application would be submitted in late 2023.

Early discussion has to kick-off the path forward on Powerline Study work and to have community engagement discussions on an acceptable pathway and ownership of a powerline. This would lead to a project outline and schedule as well as permit application to provide hydropower to the Separation Rapids site for future construction and site operations. Hydro One has confirmed that as much as 30 MW of power is available through different power three lines within the catchment of Separation Rapids. This would be more than enough for any future production and/or expansion in the area to be considered. Avalon will also begin to work to advance the System Impact Assessment.

Environmental Assessment and Community Engagement

Avalon is committed to developing the Separation Rapids Lithium Project based on modern CSR principles and reporting on its performance in its annual Sustainability Report. These CSR principles include commitments to minimize environmental impacts, being carbon neutral, ensuring the health and safety of employees, creating benefits for local communities and providing full transparency in its social and environmental performance. The Company and the project are now well known in the local community.

The project is located in the traditional land use area of the Wabaseemoong Independent Nations ("WIN") for which they have stewardship under an agreement with the Province of Ontario. The Company first signed an MOU with WIN in 1999 which was renewed when the project was reactivated in 2013. Avalon management has been keeping WIN leadership informed on project activities and remains committed to fulfilling its community consultation obligations and partnering with WIN on business opportunities and providing training for community members. The WIN leadership continues to be supportive of the project. The Company has also consulted with the Métis Nation of Ontario and engagement is ongoing with other local Indigenous communities, regulators, and local government.

Nechalacho Rare Earth Elements and Zirconium Project

The Nechalacho Rare Earth Elements Project is located at Thor Lake in the Mackenzie Mining District of the Northwest Territories ("NWT"), approximately 100 kilometres southeast of the city of Yellowknife. The property is comprised of eight contiguous mining leases totalling 5,786 hectares (14,297 acres), after three mining claims totalling 332 hectares on the southwest side of the original five leases were converted to mining leases. The original five leases are subject to one independently owned 2.5% Net Smelter Returns ("NSR") royalty agreement. Avalon has the contractual right to buy out this royalty on the basis of a fixed formula, which is currently approximately $1.8 million, and which will increase at a rate equal to the Canadian prime rate until the royalty is bought out.

During Fiscal 2020, Avalon sold the rights to the near-surface dominantly light rare earth mineral resources above a depth of 150 metres ("Upper Zone Resources") to Cheetah Resources Pty Ltd. ("Cheetah"). Avalon retained a 3.0% NSR royalty (the "3.0% NSR Royalty") and will continue to have access to the property for development and mining of its 100% owned Basal Zone heavy rare earth resource. Avalon has also agreed to waive the 3.0% NSR Royalty for the first five years of Cheetah's commercial production and to grant Cheetah the option to pay the Company $2 million within eight years of the transaction closing to extend the waiver of this royalty in perpetuity. Cheetah also has the option to purchase the Company's option in the 2.5% NSR Royalty, provided that, upon exercising the option, it extinguishes this royalty. The eight mining leases are jointly recorded in the names of Cheetah 50% and the Company 50%, while the beneficial ownership is held in trust by Cheetah and Avalon as to their respective beneficial ownership entitlement in and to the Upper Zone Resources and the Basal Zone Resources, respectively.

Avalon and Cheetah have formed a jointly-owned corporation ("NWT Rare Earths Ltd.") to hold the exploration permits and related authorizations related to Nechalacho and have also entered into a co-ownership agreement governing each party's activities and management at site. On November 30, 2020, a new Land Use Permit, expiring November 29, 2025, and Water License, expiring November 29, 2027, were approved for both the Cheetah Demonstration Project and the previously approved Basal Zone early works construction activities. Cheetah is also now in the process of establishing a process facility in Saskatoon to process the bastnaesite concentrates and produce a mixed rare earth oxide product. Significantly, the Saskatchewan Research Council are in the process of establishing a rare earth separation facility in Saskatoon and a facility for making the magnet metals in order to establish a complete rare earths supply chain in Canada.

Expenditures during the Quarter were $14,524 (2022 – $19,157), which were incurred primarily on on-going site holding and sample storage costs.

During Fiscal 2022, the Company received an expression of interest in its zirconium product. The Basal Zone HREE resource also contains abundant zirconium mineralization averaging over 3% ZrO_2. Zirconium is now in very short supply in North America and has significant growth potential as a critical material needed in small modular nuclear reactors ("SMR"). Demand is growing now for SMRs as a clean energy alternative that can be used to serve the electricity needs of small remote communities to replace diesel generators.

Lilypad Cesium-Tantalum Project

The Lilypad Cesium-Tantalum Project consists of 14 claims, comprising 166 new claim units or cells, totaling 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 claims were originally staked between January 1999 and October 2000 and are 100% owned by the Company with no underlying royalties. Previous owners of the property drilled some 50 shallow drill holes, and Avalon completed 32 drill holes totaling 4,781 metres in 2000 and 2001 in a program focused primarily on the tantalum potential. These produced encouraging initial results including the discovery of significant cesium mineralization as well as tantalum and lithium in a number of LCT pegmatites of which the two most promising are known as the Pollucite and Rubellite Dykes where the cesium occurs in the rare ore mineral pollucite ($(Cs,Na)_2Al_2Si_4O_{12}\cdot 2H_2O$). Mapping and sampling work conducted in the summer of 2021 discovered a significant extension to the Pollucite Dyke and several new mineralized LCT pegmatites. Cesium continues to be in very short supply and high demand in international markets.

During Fiscal 2022, the analytical results from a biogeochemical survey conducted during the 2021 summer field program were received. A review of the data indicates encouraging results with strong cesium and lithium anomalies associated with known mineralization at the Pollucite and Rubellite Dykes and similar anomalies in overburden covered areas indicating potential for new mineralized pegmatite discoveries. The completion of the analytical work on the samples collected will lead to the definition of new drill targets for LCT pegmatites.

As discussed earlier under "Strategic Partnership", the Lilypad Project will be transferred to the Avalon-Sibelco JV once the long-form joint venture agreement is finalized.

In the third quarter 2023 Avalon intends to do work on taking the Lilypad historical resource and upgrading to an NI 43-101 compliant resource. This work will then provide a strong basis for future drilling on the Lilypad site.

A follow-up drilling program is tentatively planned in early 2024 to test some of the new lithium-cesium-tantalum targets identified through the 2021 geochemical survey work and do additional drilling on the Pollucite Dyke. Future development of the project would be positively impacted by new infrastructure development, including road access, to the Ring of Fire mineral projects located further to the north, which the Ontario Government is now planning to go ahead with.

The project is located in the traditional territory of the Eabametoong First Nation ("EFN"), approximately 25 km west of the community of Fort Hope. The Company has been in communication with EFN community leadership who are supportive of the Project. Some community members from local First Nations assisted with camp construction, line-cutting and geochemical work in the 2021 mapping and sampling program. Former EFN Chief, Harvey Yesno, is now a member of Avalon's Board of Directors and will be an invaluable resource for the ongoing development of Avalon's relationship with the EFN as well as with other Indigenous communities in northwestern Ontario.

The Company incurred $1,784 (2022 - $3,531) in expenditures during the Quarter on the Lilypad Cesium-Tantalum Project, which were mainly spent on archiving the ashed vegetation samples collected from the 2021 fieldwork program.

East Kemptville Tin-Indium Project

The 100% owned East Kemptville Tin-Indium Project is located 55 km northeast of Yarmouth, Nova Scotia, Canada. The property consists of an exploration licence covering 1,165 hectares (2,880 acres). East Kemptville was an operating tin mine from 1985-1992 and was North America's only large primary tin producer, before closing prematurely in 1992 due to a collapse in tin prices. Increasing global demand for tin and tightening supplies has resulted in significantly improved tin prices, creating an opportunity for Avalon to re-activate 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. 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.

The Company did not incur any significant expenditures during the Quarter on the East Kemptville Tin-Indium Project. The Company continues to retain the mineral rights through its exploration licence, and management remains optimistic that the Company will eventually be able to secure access to the site again to resume its site re-activation plans. Discussions continue with Nova Scotia Ministry of Energy and Mines officials during the Quarter, who continue to be supportive of Avalon's re-development model involving extracting critical minerals from the historic mine wastes including lithium and indium as well as tin. Federal Government officials with Natural Resources Canada are also very supportive of the Company's model and have expressed interest in supporting more research work on efficient extraction processes that can be applied to recover all the critical minerals in the wastes there.

Other Projects

Clean Technology Business Opportunities

Avalon is also continuing to evaluate the opportunity to apply innovative new extraction technologies to recover rare earths and other critical minerals from historic mine wastes. There are many such sites in North America where the waste may contain critical minerals that had no value when the mine was in operation but do today.

Management sees enormous growth potential in this emerging sector and good opportunities for accessing capital from the many government programs oriented towards cleantech development and from the growing international Impact/ESG investment community. This is also consistent with the increasing interest in establishing the "Circular Economy" in the mining industry through innovative recycling of waste materials.

Government is increasingly committed to supporting the establishment of new critical minerals supply chains in Canada. In Fiscal 2022, the Government of Ontario announced its new Industrial Strategy to support establishing electric vehicle and battery manufacturing capacity and during the Quarter, the Province announced its first-ever critical minerals strategy to support establishing these new supply chains in the Province. Avalon is continuing to support the efforts of policymakers to implement needed regulatory changes to recognize many critical minerals as a unique low risk sub-sector of the mining industry. Central to this need is recognizing the importance of bulk sampling at the early stages of exploration to determine if the mineralization of economic interest can be efficiently processed to make a product that will be accepted in the market.

In February, 2021, the Company entered into a binding letter of intent (the "LOI") to purchase ownership of 2333382 Ontario Inc. ("2333382"), a private Ontario corporation which owns four industrial minerals properties and a demonstration-scale processing plant located at Matheson, Ontario. During the Quarter, the Company agreed with the owners of 2333382 to terminate the agreement and wrote off its payments to date of $419,200.

Warren Township Anorthosite Project

Avalon has been considering reactivating its wholly-owned Warren Township Anorthosite Project in view of growing demand for the calcium feldspar product, which is being driven by innovation in glass technology and space exploration technology. The property is covered by a lease of 688 hectares (1,699 acres) that includes an aggregate permit over the historical quarry site. The high-quality calcium feldspar product is used in the manufacture of reinforcing glass fibre and other industrial products, such as mineral fillers. The market has continued to grow with new emerging cleantech applications, such as composites for wind turbine blades. There has also been demand for small quantities of the crushed anorthosite rock for use as a "lunar simulant" due to its mineralogical similarity with dust on the surface of the moon.

No significant expenditures were incurred on the property during the Quarter.

Corporate Social Responsibility

In early December 2022, the Company released its 2022 Sustainability Report, which is available for download at: https://www.avalonadvancedmaterials.com. In February, 2021 the Company announced receiving its Environmental, Social and Corporate Governance ("ESG") Risk Rating following an independent audit of the Company's business practices and policies performed by Sustainalytics, a Morningstar company. Avalon received an ESG Risk Rating of 28.9 in its industry, Diversified Metals, and ranked among the top 5% of 150 industry companies analyzed globally. The benefits of obtaining an ESG Risk Rating include the ability to provide better access to ESG investment capital, and the ability to gain commercial benefit from the rating externally with creditors, suppliers and other stakeholders.

Avalon's annual Sustainability Reports are prepared in accordance with the Global Reporting Initiative's Global Reporting Standards. They incorporate a self-assessment of Fiscal year performance and also sets targets for the next fiscal year against the applicable and updated Mining Association of Canada "Toward Sustainable Mining" indicators. Avalon has also initiated reporting against the applicable material UN Sustainable Development Goals. A review and update of the Sustainability Policy has been initiated to formally document the significant progress the Company had made in sustainability and to ensure its industry leadership is maintained.

Avalon is committed to working closely with its Indigenous partners to create lasting economic and social benefits in the communities.

Avalon's leadership in applying the principles of sustainability in all of the Company's work are also benefitting the mineral exploration industry generally. Avalon is supporting the PDAC, the Ontario Mining Association and the Mining Association of Canada in their efforts to educate regulators and policymakers regarding the need to update regulations in order to encourage more and sustainable development of critical minerals resources in Canada that are vital for establishing the new clean economy in Canada and to ensure access to land for exploration purposes.

The Company's main focus is on materials that enable clean technology, including electric vehicles, power storage, solar and wind power. In order to do this sustainably, Avalon designs its operations to minimize environmental impacts and greenhouse gas emissions, while planning for rehabilitation and productive use of the land post closure. The Company also now incorporates a staged-development approach to its cleantech materials projects, which involves starting production at a modest scale, to minimize project footprint and potential risks to environment, while also reducing investment risk and creating opportunities for its Indigenous business partners. Further, Avalon is a leader in promoting the Circular Economy by looking at closed mine sites as opportunities to remediate long term environmental liabilities through economic extraction of valuable minerals from waste materials using new technologies.

In response to the increasing concern expressed by regulators, insurers, investors, customers and other communities of interest, and building on its historic success in reducing greenhouse gas emissions, Avalon has continued to evaluate the potential to become carbon neutral by 2050. In conjunction with climate change risk assessment, Avalon is investigating a range of opportunities and potential barriers to cost effectively achieving this, and is optimistic that a serious and realistic commitment to achieving this goal can be made. A University of Toronto Capstone Master's study to assess this potential at Separation Rapids successfully identified an economic path forward to achieve this goal at the mine and concentrator site, and will initiate studies for the refinery once more detail is available. Avalon believes this will give the project a competitive advantage in the ongoing efforts to obtain ESG investors and government research funding. It should also aid in getting government permits, anticipated to take less than a year.

Being a recognized sustainability leader reduces costs and facilitates good relationships with all stakeholders, including Indigenous communities, which can help reduce risk of experiencing lengthy delays in receiving operating permits and approvals. This also helps facilitate the acquisition of our social license to operate. Avalon believes that responsible users of our cleantech materials will require increasingly sustainable sources for their materials which we believe will provide Avalon with a competitive advantage in securing market access for its products.

Administration and Other

Interest income for the Quarter totalled $11,394 compared to $3,918 in the same quarter in Fiscal 2022, due to higher cash balances and interest rates.

Corporate and Administrative expenses totalled $819,114 during the Quarter, a 37% increase from the amount incurred during the comparative quarter in Fiscal 2022 (2022 - $596,189). The main areas of increased expenses for the Quarter were public and investor relations expenses, legal fees, and salaries and benefits.

Salaries and benefits increased by $24,729 (8%) to $327,540 during the Quarter compared to $302,811 for the same quarter in Fiscal 2022. The increase is primarily related to the increase in provision for accrued vacation pays.

Expenses on public and investor relations increased by $128,270 (62%) to $334,149 compared to the same quarter in Fiscal 2022. The increase is primarily related to the Company's increased activities on the Innovation News Network website with the publication of several information pieces on lithium, and rare earths including an e-book on battery supply chains in Canada, and another piece on other future lithium applications, as well as the increased level of investor relations activities being conducted by external consultants.

The Company participated in several in-person and virtual investor and industry conferences in the Quarter, including the Prospectors & Developers Association of Canada's 2023 convention, the Emerging Growth Virtual Conference, and Benchmark Mineral Intelligence's World Tour in Toronto.

Legal fees increased by $41,665 (534%) to $49,471 during the Quarter compared to the same quarter in Fiscal 2022. The increase is primarily related to the increased level of business activities during the Quarter.

Depreciation expense was $56,590 during the Quarter compared to $40,324 for the same quarter in Fiscal 2022. Depreciation expense is primarily related to the Company's leased office premises, and was offset by amounts recognized under Federal rent subsidy programs of $nil in the Quarter (2022 - $17,021).

Share based compensation decreased by $42,703 to $87,687 for the Quarter compared to $130,390 for the same quarter in Fiscal 2022. This decrease is primarily related to the decreased number of options and Restricted Share Units ("RSUs") earned during the Quarter compared to the same quarter in Fiscal 2022.

At each reporting period date, the fair values of the Company's outstanding derivative liabilities (which included the warrants with exercise prices that are subject to adjustment from time to time in the event of certain common share rights offerings) were re-measured using the Black-Scholes pricing model, which resulted in a gain of $190,219 for the Quarter and a gain of $459,006 for the Nine Month Period, respectively, compared to a loss of $30,568 and a gain of $36,002 in the comparable quarter and nine month period in Fiscal 2022, respectively. The changes in the estimated value of these warrants are mainly caused by the fluctuation in the trading price of the Company's common shares between the beginning and end of the reporting periods.

The Company recognized an expense of $917,200 during the quarter and the nine month period ended May 31, 2022 relating to the issuance of the convertible note payable issued in May 2022 (the "2022 Note"), which consisted of the excess of the estimated fair values of the Note and the warrants ($3,801,893) over the net cash proceeds of $2,884,693. This amount had been included in the increase in fair values of convertible notes payable and derivative liabilities in the Statement of Comprehensive Loss.

Interest income for the Nine Month Period totalled $52,020 compared to $6,220 in the same period in Fiscal 2022.

For the Nine Month Period, corporate and administrative expenses totalled $2,310,094 compared to $1,567,955 for the same period in Fiscal 2022. The main areas of increased expenses for the Nine Month Period were public and investor relations expenses, legal fees, recruitment expense and financing advisory fees.

Expenses on public and investor relations increased by $536,242 (135%) during the Nine Month Period to $933,215 compared to the same period in Fiscal 2022. The increase is primarily related to the increased amount of work provided by the Company's investor relations consultants, the increase in TV and internet base advertising campaigns and the increased number of investor conferences participated in by the Company.

Consistent with the Quarter and for similar reasons, legal fees increased by $59,386 (331%) to $77,321 during the Nine Month Period compared to the same Period in Fiscal 2022.

During the Nine Month Period, the Company incurred $55,000 in financing advisory fees relating to the purchase of the Thunder Bay Property.

During the Nine Month Period, the Company incurred a recruitment fee of $61,250 related to the addition of the Company's new COO.

Share based compensation decreased to $306,412 from $419,395 during the Nine Month Period compared to the same period in Fiscal 2022. This decrease is primarily related to the decrease in the number of options and RSUs earned during the Nine Month Period compared to the same period in Fiscal 2022.

Summary of Quarterly Results

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

Fiscal Year	2023			2022				2021
For the Quarters Ended	May 31	Feb. 28	Nov. 30	Aug. 31	May 31	Feb. 28	Nov. 30	Aug. 31
	$	$	$	$	$	$	$	$
Revenue	11,394	24,724	15,902	15,546	3,918	1,237	1,065	1,966
Net Income (Loss)	(1,199,485)	(776,075)	(355,124)	(991,515)	(1,706,906)	(567,035)	(680,387)	407,783
Income (Loss), per share, basic	(0.002)	(0.002)	(0.001)	(0.002)	(0.004)	(0.001)	(0.002)	0.001
Income (Loss), per share, diluted	(0.002)	(0.002)	(0.001)	(0.002)	(0.004)	(0.001)	(0.002)	0.001

The fluctuation in quarterly net loss is primarily due to share-based compensation expenses recognized as stock options, DSUs and RSUs granted to directors, officers, employees and consultants of the Company are earned, the 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. 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, the most relevant financial information relates primarily to current liquidity, solvency, and planned project expenditures. The Company's financial success will be dependent on the economic viability of its resource projects and the extent to which it can develop its mineral resources. Such development may take several years to complete and the amount of resulting income, if any, is difficult to determine until firm offtake commitments have been secured. The sales value of any mineralization discovered by the Company is largely dependent on factors beyond the Company's control, including the negotiated value of the critical minerals products to be produced.

The Company manages its capital structure and makes adjustments to it based on the funds available to the Company in light of changes in general economic conditions, the Company's short term working capital requirements, and its planned exploration and development program expenditure requirements.

As the Company is in the development stage, its principal source of capital is from the issuance of equity securities although it is now trying to access debt financing to fund the refinery site acquisition and reduce share dilution. With the likelihood of securing investing partners in the refinery and with access to government grant funding, the debt incurred to acquire the property can probably be paid back in the first year. In order to achieve its objectives, the Company expects to spend its existing working capital and raise additional funds as required including flow-through equity financing to fund exploration drilling work and some debt financing.

On May 9, 2022, the Company issued a convertible note payable in the amount of $3,000,000 to an entity managed by the Lind Partners ("Lind") (the "2022 Note"). The 2022 Note has a term of two years with a maturity date of May 9, 2024 and accrued an interest amount of $600,000 on the date of issuance, resulting in the 2022 Note to bear a face value of $3,600,000 at issuance. Lind is entitled to convert any outstanding amount of the face value of the 2022 Note into common shares commencing on September 10, 2022 at a conversion price equal to 85% of the five day trailing value weighted average price ("VWAP") of the common shares prior to the date of conversion. The Company has the right to repurchase the 2022 Note at the outstanding face value at any time after September 10, 2022, subject to the holder's option to convert up to one third of the original value into common shares prior to the Company's repurchase. The balance on the 2022 Note at May 31, 2023 was $2,550,000.

On January 29, 2021, the Company issued a convertible note payable in the amount of $3,000,000 to an entity managed by Lind (the "2021 Note"). The 2021 Note has a term of two years with a maturity date of January 29, 2023 and accrued an interest amount of $600,000 on the date of issuance, resulting in the 2021 Note to bear a face value of $3,600,000 at issuance. Lind is entitled to convert any outstanding amount of the face value of the 2021 Note into common shares commencing on May 30, 2021 at a conversion price equal to 85% of the five day trailing VWAP of the common shares prior to the date of conversion. The Company has the right to repurchase the 2021 Note at the outstanding face value at any time, subject to the holder's option to convert up to one third of the original value into common shares prior to the Company's repurchase. The 2021 Note was fully repaid during the Nine Month Period.

The number of common shares to be issued would be 19,779,005 if the full amount of notes payable had been converted into common shares based on the five day VWAP of the Company's common shares on the TSX of $0.1065 on May 31, 2023.

Subsequent to the end of the Quarter, the Company issued 6,658,958 common shares pursuant to the conversion of $590,000 of the 2022 Note and bought back the balance of the 2022 Note at its face value of $1,200,000 in cash.

As at May 31, 2023, the Company has current assets of $1,225,317 and current liabilities of $3,214,430. The Company's working capital deficit as at May 31, 2023 was $1,989,113 (August 31, 2022 – working capital of $2,612,423).

Subsequent to the end of the Quarter, as described earlier under "Strategic Partnership", the Company completed the Private Placement and issued to Sibelco, 109,692,764 common shares for aggregate proceeds of $10,000,000 and the Debenture in the principal amount of $3,000,000 for cash proceeds of $3,000,000.

The Company's monthly operating expenditures, excluding expenditures on resource property work programs, average approximately $325,000 during periods of moderate project activity. The Company's contemplated capital and resource property expenditures for Fiscal 2023, assuming the requisite financing is in place, are budgeted at approximately $11,200,000 (excluding capitalized salaries and benefits), of which approximately $2,470,000 has been incurred to May 31, 2023.

The Company will need to raise additional capital to fund the development of its planned midstream lithium-hydroxide processing facility. Any significant new work programs for fiscal year ending August 31, 2024 on the Separation Rapids Lithium and Lilypad Cesium-Tantalum Projects are expected be funded by Sibelco's cash contribution to the joint venture. Initiatives to raise additional capital are ongoing and include financing from an investing partner for developing the lithium-hydroxide processing facility. There continues to be increasing investor interest in critical minerals for clean technology creating many new opportunities to access capital including from the growing ESG investment community. Having the new ESG risk rating will improve access to ESG oriented risk capital including Green Bonds. Discussions with potential joint venture partners to provide project financing are also ongoing and the Company is continuing to prioritize financing opportunities that will minimize the potential for excessive shareholder dilution. The Company's expenditures on discretionary exploration and development activities have some scope for flexibility in terms of amount and timing, which can be adjusted accordingly.

The Company does not have any externally imposed capital requirements other than those certain Events of Default contained in the Convertible Debenture terms. The Company continues to work on attracting more substantial project financing through the participation of one or more strategic partners, a long term construction debt financing facility, and/or through the equity markets. If the Company is not able to secure financing on satisfactory terms, expenditures on the development of its projects will need to be delayed but with all the new interest in establishing new lithium battery materials supply chains here, it is just a matter of time before adequate financing is secured.

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) and the annual expenditures related to the mining leases at Separation Rapids and Warren Township totalling $3,327. As at May 31, 2023, the Company is required to incur additional CEE of $394,880 by December 31, 2023.

The Company has a lease for its premises. As at the date of this MDA, the minimum lease commitments under this lease are as follows:

Fiscal year ended August 31,	2023	$	19,346
	2024	$	233,563
	2025	$	63,280

Off Balance Sheet Arrangements

As at May 31, 2023, 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 nine months ended May 31, 2023 and 2022, other than the participation by certain related parties in the December 2021 private placement, whereby Donald Bubar, former CEO, and Mr. Alan Ferry, Chair of the Board of Directors subscribed for 250,000 and 300,000 flow-through units at $0.12 per unit, respectively. Each flow-through unit consists of one flow-through common share and one half non-transferable common share purchase warrant, with each whole warrant being exercisable to acquire one non-flow-through common share of the Company at a price of $0.18 until December 21, 2023.

b) Compensation of key management personnel

The remuneration of directors and other key members of the Company's senior management team during each of the three and nine months ended May 31, 2023 and 2022 are as follows:

	Three Months Ended		Nine Months Ended	
	May 31, 2023	May 31, 2022	May 31, 2023	May 31, 2022
Salaries, benefits and directors' fees[(1)]	$ 350,085	$ 286,295	$ 852,063	$ 824,939
Share based compensation[(2)]	69,243	102,022	213,920	341,847
	$ 419,328	$ 388,317	$ 1,065,983	$ 1,166,786

(1) Salaries and benefits of key management personnel capitalized to exploration and evaluation assets and PPE for the Quarter and for the Period totaled $47,717 (2022 - $23,733) and $100,660 (2022 - $102,109), respectively.

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

Subsequent Events

Subsequent to the end of the Period, the Company:

a) completed the Private Placement and issued to Sibelco, 109,692,764 common shares for aggregate proceeds of $10,000,000 and the Debenture in the principal amount of $3,000,000 for cash proceeds of $3,000,000, and entered into a binding term sheet with Sibelco to establish a Joint Venture with respect to certain of the Company's lithium mining projects located in northwestern Ontario, with Sibelco as the operator.

   The Company will initially contribute its Separation Rapids and Lilypad projects to the joint venture company (the "Joint Venture Company") upon its formation, and Sibelco will provide €5,000,000 of initial funding and has committed to advance a further €30,000,000 in tranches to fund the development of the Joint Venture's mineral projects, including facilities and related infrastructure. The initial participating interests of Sibelco and Avalon in the Joint Venture Company will be 60% and 40%, respectively.

The Debenture bears interest at 7.115% per annum and the principal and interest are payable on maturity, being June 14, 2025. To the extent not repaid at Maturity by the Company, Sibelco will have the right to convert the Convertible Debenture into either an aggregate of 37,590,496 Common Shares, or an additional 5% interest in the Joint Venture Company, in which case the participating interests of Sibelco and Avalon will change to 65% and 35%, respectively. The Convertible Debenture is secured by a mortgage on the Thunder Bay Property.

b) purchased an industrial site in Thunder Bay, Ontario (the "Thunder Bay Property") for the purchase price of $8,300,000. The Thunder Bay Property contains 380 acres of land of which approximately 126 acres are in Lake Superior, a 38,000 square feet office building and a 50,000 square feet warehouse. It has existing road, rail, deep-water port, and utilities services for the Company's planned midstream lithium-hydroxide processing facility;

c) issued 6,658,958 common shares pursuant to the conversion of $590,000 of the 2022 Note and bought back the balance of the 2022 Note at its face value of $1,200,000 in cash;

d) issued 206,000 common shares (net of payroll withholding taxes) pursuant to the redemption of 400,000 DSUs;

e) granted an aggregate of 6,030,000 stock options with a weighted average exercise price of $0.13 per share to certain employees, directors and consultants of the Company. The weighted average contract life of these options at issuance was 4 years;

f) granted an aggregate of 1,020,000 DSUs to certain directors of the Company;

g) granted 8,206 DSUs to a director in lieu of cash director's fees of $1,250;

h) issued 355,000 common shares pursuant to the exercise of 355,000 stock options at a weighted average exercise price of $0.10 per share; and

i) had 1,875,000 C1 Warrants with an exercise price of $0.125 per common share expire.

Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, receivables, accounts payable and accrued liabilities, 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 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

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 May 31, 2023.

As at May 31, 2023, the Company had 441,527,159 common shares issued and outstanding. Subsequent to the end of the Period, and as described earlier under “Subsequent Events”, a total of 116,912,722 shares were issued. As of the date of this MDA, the Company has 558,439,881 common shares outstanding.

b) *Options*

As at May 31, 2023, the Company had an aggregate of 18,778,750 incentive stock options outstanding with a weighted average exercise price of $0.14 (of which 9,803,750 were vested and 8,975,000 were unvested). Subsequent to the end of the Quarter, 6,030,000 were granted, 355,000 stock options were exercised (as described earlier under “Subsequent Events”). As at the date of this MDA, the Company has 24,453,750 incentive stock options with a weighted average exercise price of $0.14 outstanding.

c) *Deferred and Restricted Share Units*

As at May 31, 2023, the Company had 496,894 fully vested DSUs and 925,000 RSUs (of which 566,667 were vested) outstanding. Subsequent to the end of the Quarter, 1,028,206 fully vested DSUs were granted, and 400,000 RSUs were redeemed (as described earlier under “Subsequent Events”). As at the date of this MDA, the Company has 1,525,100 fully vested DSUs and 525,000 RSUs (of which 300,000 were vested) outstanding.

d) *Warrants*

As at May 31, 2023 the Company has the following common share purchase warrants outstanding:

i. 1,875,000 C1 Warrants with an exercise price of $0.125 per common share which are exercisable until June 29, 2023;

ii. 9,800,000 warrants with an exercise price of $0.18 per common share which are exercisable until January 29, 2025;

iii. 4,425,000 warrants with an exercise price of $0.18 per common share which are exercisable until December 21, 2023;

iv. 1,460,000 warrants with an exercise price of $0.15 per common share which are exercisable until December 21, 2023;

v. 3,529,412 warrants with an exercise price of $0.25 per common share which are exercisable until December 2, 2024;

vi. 2,205,900 warrants with an exercise price of $0.25 per common share which are exercisable until December 14, 2024; and

vii. 9,000,000 warrants with an exercise price of $0.26 per common share and are exercisable until May 9, 2026.

The Company is also committed to issue 20,000 warrants to the NWTMN in two equal installments of 10,000 warrants upon the Nechalacho Project meeting certain milestones. These warrants will have a contractual term of five years and will have an exercise price based on the then current market price of the Company’s common shares at the date of issue of the warrants.

Subsequent to the Period, 1,875,000 C1 Warrants with an exercise price of $0.125 per common share expired.

e) Brokers' Compensation Warrants

As at May 31, 2023 and the date of this MDA, the Company has 788,900 compensation warrants with an exercise price of $0.18 per common share outstanding.

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. Because of its inherent limitation, internal control over financial reporting may not prevent or detect misstatements.

There have been no changes to the Company's design of internal controls over financial reporting that occurred during the Quarter that materially affected, or are reasonably likely to affect, the Company's ICFR.

Critical Accounting Judgments and Estimation Uncertainties

The preparation of the consolidated financial statements in conformity with IFRS requires that the Company's management make critical judgments, estimates and assumptions about future events that affect the amounts reported in the consolidated financial statements and the related notes thereto. Actual results may differ from those estimates. Estimates and assumptions are reviewed on an 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 and Property, Plant and Equipment

The Company assesses its long-lived assets, specifically all exploration and evaluation assets and property, plant and equipment ("PPE") at each reporting date to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is the higher of the fair value less costs of disposal and value in use. These assessments require the use of estimates and assumptions such as long-term commodity prices, discount rates, foreign exchange rates, years to commencement of production, future capital requirements, exploration potential and operating performance.

Determination of Reserve and Resource Estimates

Mineral reserves and resources are estimates of the amount of ore that can be economically and legally extracted from the Company's exploration and development properties. The estimation of recoverable reserves 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.

Site Closure and Reclamation Provision

The Company's accounting policy for the recognition of a site closure and reclamation obligation requires significant estimates and assumptions such as: requirements of the relevant legal and regulatory framework, the magnitude of possible disturbance and the timing thereof, extent and costs of required closure and rehabilitation activity, and discount rate. These uncertainties may result in future actual expenditures differing from the amounts currently provided. Site closure and reclamation provision recognized is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs are recognized in the statement of financial position by adjusting both the site closure and reclamation asset and provision.

Property, Plant and Equipment ("PPE") - Estimated Useful Lives

Management estimates the useful lives of PPE based on the period during which the assets are expected to be available for use. The amounts and timing of recorded expenses for depreciation of PPE for any period are affected by these estimated useful lives. The estimates are reviewed at least annually and are updated if expectations change as a result of physical wear and tear, technical or commercial obsolescence and legal or other limits to use. It is possible that changes in these factors may cause significant changes in the estimated useful lives of the Company's PPE in the future.

Critical Judgments

Information about critical judgments in applying accounting policies that have most significant effect on the consolidated financial statements are as follows:

Capitalization of Exploration and Evaluation Costs

Exploration and evaluation costs incurred during the year are recorded at cost. Capitalized costs include costs directly attributable to exploration and evaluation activities, including salaries and benefits of employees who are directly engaged in the exploration and evaluation activities. Administrative and other overhead costs are expensed. Exploration and evaluation costs incurred that have been determined to have future economic benefits and can be economically recoverable are capitalized. In making this judgment, management assesses various sources of information including, but not limited to the geologic and metallurgic information, history of conversion of mineral deposits to proven and probable mineral reserves, scoping and feasibility studies, proximity of operating facilities, operating management expertise and existing permits.

Changes in Accounting Policies Including Initial Adoption

The Company adopted the new accounting standard during the Nine Month Period:

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

On September 1, 2022, the Company adopted amendments to IAS 16, Property, Plant and Equipment ('IAS 16'). The amendments prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. A company will be required to recognize these sales proceeds and related costs in earnings. The retrospective adoption of these amendments had no impact to the Company's condensed consolidated interim financial statements and there were no adjustments to the carrying amounts of the Company's property, plant and equipment on the date of transition as a result of the application of these amendments.

Recent Accounting Pronouncements

The following pronouncement is issued but not yet effective:

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

In January 2020, the IASB issued amendments to IAS 1, Presentation of Financial Statements to clarify the requirements for classifying liabilities as current or non-current.

The amendments specify that the conditions which exist at the end of the reporting period are those which will be used to determine if a right to defer settlement of a liability exists and clarify the situations that are considered settlement of a liability, which include settlement by transferring a company's own equity instruments to the counterparty. The amendments further clarify how an entity classifies a liability that includes a counterparty conversion option, and that when classifying liabilities as current or non-current – an entity can ignore only those conversion options that are recognized as equity.

The amendments will become effective for annual reporting periods beginning on or after January 1, 2023 (which will become effective on September 1, 2023 for the Company), and will apply retrospectively. The application of these amendments will impact the current/non-current classification of the Company's convertible notes payable and certain derivative liabilities.

Forward-Looking Information, Risk Factors and Qualified Persons

Certain of the statements that are not historical facts contained in this MDA are forward-looking information and forward-looking statements that involve risks and uncertainties that could cause actual events or results to differ materially from estimated or anticipated events or results reflected in the forward-looking statements. Such forward-looking statements reflect the Company's current views with respect to future events and include, among other things, statements regarding targets, estimates and/or assumptions in respect of reserves and/or resources, and are based on estimates and/or assumptions related to future economic, market and other conditions that, while considered reasonable by management, are inherently subject to risks and uncertainties, including significant business, economic, competitive, political and social uncertainties and contingencies. These estimates and/or assumptions include, but are not limited to:

- grade of ore;
- mineral product and commodity prices;
- metallurgical recoveries;
- operating costs;
- achievement of current timetables for development;
- strength of the global economy;
- availability of additional capital;
- availability of supplies, equipment and labour; and
- market and sector trends.

Factors that could cause the Company's actual results, performance, achievements, developments or events to differ materially from those expressed or implied by forward-looking statements include, among others, the factors described or referred to under "Description of the Business - Risk Factors" in the Company's Annual Information Form for the year ended August 31, 2022, and:

- risks related to the Company's history of losses, lack of operating history, ability to generate material revenues and continue as a going concern;
- risks related to establishing new mining operations in the event that the Company elects to proceed with the development of one of its mineral projects;
- risks related to the Company's need for additional financing;
- risks related to any joint venture or strategic alliances that may be entered into by the Company;
- risks related to the impact of the novel coronavirus ("COVID-19") pandemic, or other global pandemics;
- risks related to either Avalon's or Cheetah's development plans of the Nechalacho Project negatively impacting the other's development plans;
- risks related to the progression of the Separation Rapids Lithium Project to a positive feasibility stage;
- risks related to securing product off-take agreements on a timely basis;
- risks related to the unique ore type at the Nechalacho Project and the Separation Rapids Lithium Project for which known metallurgical processes have not previously been applied;
- uncertainty related to title to the Company's properties as well as the risk of delays in obtaining licenses and permits as a result of local opposition, including uncertainty related to any challenges in connection with Indigenous land title claims and Indigenous rights;
- risks related to the possible existence of rights and interests of Indigenous groups, which may limit the Company's ability to develop its properties;
- risks related to the need to acquire properties for the hydrometallurgical plant and potentially a rare earth refinery for the Nechalacho Project;
- risks that actual capital costs, production schedules and economic returns for the Nechalacho Project may differ significantly from those anticipated by the Company;
- risks related to the demand for technology metals and minerals and fluctuations in their pricing;

- risks related to the demand for lithium and fluctuations in its pricing;
- risks related to competition and the actions of competitors;
- risks related to costs or delays in the commercialization of rare earth products;
- uncertainties related to the fact that the Company's mineral resources and mineral reserves are only estimates;
- risks related to obtaining, maintaining and renewing licenses and permits, and the material costs, liabilities and obligations in connection therewith;
- risks that the Company will be subject to material costs, liabilities and obligations in connection with environmental laws, regulations and approvals and that approvals will not be available;
- uncertainties involving uninsured risks;
- risks related to possible shortages of supplies, equipment and labour;
- risks related to the Company's ability to attract and retain qualified management and technical personnel;
- uncertainty whether the Company will acquire commercially mineable ore deposits or whether the current mineral deposits identified by the Company can be developed as commercially viable ore bodies;
- risks inherent to the competitive nature of the mineral industry;
- risks related to the extensive federal, state, provincial, territorial and local laws and regulations to which the Company's activities are subject;
- risks related to the availability and reliability of adequate infrastructure;
- risks and hazards inherent to the mining industry;
- risks related to any changes in critical accounting estimates that adversely affect the Company's financial results;
- risks related to potential conflicts of interest of the Company's directors and officers who may have involvement with other resource companies;
- risks related to cybersecurity;
- risks due to being a "passive foreign investment company" for U.S. purposes;
- risks related to fluctuations of currency exchange rates;
- risks related to share price volatility;
- risks related to dilution of existing shareholders;
- risks related to not paying cash dividends; and
- risks related to there being no market for the Company's warrants.

Most of the foregoing factors are beyond the Company's ability to control or predict. Although the Company has attempted to identify important factors that could cause actual results, performance, achievements, developments or events to differ materially from those described in forward-looking statements, there may be other factors that cause actual results, performance, achievements, developments or events not to be as anticipated, estimated or intended. There can be no assurance that the estimates and/or assumptions upon which these forward-looking statements are based will occur.

Readers can identify many of these statements by looking for words such as "believe", "expects", "will", "intends", "projects", "anticipates", "estimates", "continues" or similar words or the negative thereof. There can be no assurance that the plans, intentions or expectations upon which these forward-looking statements are based will occur.

The forward-looking statements contained herein are made as of the date of this MDA and are expressly qualified in their entirety by this cautionary statement. Readers should not place undue reliance on the forward-looking statements, which reflect management's plans, estimates, projections and views only as of the date hereof. The Company undertakes no obligation to publicly revise these forward-looking statements to reflect subsequent events or circumstances, except as required by applicable law.

The technical information included in this MDA, unless otherwise stated, has been reviewed and approved by Rickardo Welyhorsky, P. Eng.., Chief Operating Officer of the Company. Mr. Welyhorsky is a qualified person under National Instrument 43-101 - Standards of Disclosure for Mineral Projects ("NI 43-101").

Cautionary Note to U.S. Investors Regarding Mineral Resources

NI 43-101 is a rule of the Canadian Securities Administrators, which establishes standards for all public disclosure an issuer makes of scientific and technical information concerning mineral projects. Unless otherwise indicated, all mineral reserve and mineral resource estimates contained in or incorporated by reference in this MDA have been prepared in accordance with NI 43-101 and the Canadian Institute of Mining, Metallurgy and Petroleum classification system. These standards differ significantly from the mineral property disclosure requirements of the Securities and Exchange Commission's Industry Guide 7 ("Guide 7"), which, until recently, applied to most SEC registrants, and so the mineral reserve and mineral resource information contained in the MDA and incorporated herein by reference is not comparable to similar information disclosed by U.S. companies pursuant to Guide 7. However, on October 31, 2018, the SEC adopted changes to its disclosure rules to modernize the mineral property disclosure requirements applicable to most SEC registrants. New subpart 1300 of Regulation S-K (the "SEC Modernization Rules") became effective on February 25, 2019 and, for fiscal years beginning on or after January 1, 2021, replaces Guide 7's disclosure requirements. Under the SEC Modernization Rules, consistent with global standards as embodied by the Committee for Reserves International Reporting Standards ("CRIRSCO"), most SEC registrants will be required to disclose specified information concerning mineral resources that have been identified on their mineral properties. Consistent with CRIRSCO standards, the SEC Modernization Rules have also added definitions to recognize measured mineral resources, indicated mineral resources and inferred mineral resources. Thus, although the SEC Modernization Rules are not identical to Canada's NI 43-101 standards, they are intended to be more consistent with those standards.

Other Information

Additional information on the Company is available on SEDAR at www.sedar.com and on the Company's website at www.avalonadvancedmaterials.com.