



## 2022 Letter to Shareholders

---

Dear Shareholders:

Despite the difficult year in capital markets, specifically small-cap equities, I am pleased to report that we have made significant progress on strategic initiatives related to our flagship Separation Rapids Lithium Project in Northwestern Ontario. Leveraging positive sentiment gained from the continued rise in lithium hydroxide prices, we are well positioned to take advantage of this market as we continue to advance and de-risk our flagship project.

In recent years, there has been a renewed interest in, and government support for, developing battery supply chain and EV manufacturing capacity in Canada. Government interest in battery materials remains strong, with the Federal and Ontario governments offering support to companies seeking to establish local EV manufacturing capacity, critical minerals processing and battery supply chains, with the recent federal budget announcing \$15B over five years in funding to support these sectors.

In addition, the Government of Ontario has committed to establishing an EV hub in the province to facilitate local partnerships between leading automotive companies and players within the EV supply chain. Stellantis and GM are amongst the first automotive manufacturers to put Ontario on the map with the establishment of two R&D centres in the province, which will focus on EV and battery technologies (Stellantis), and GM Canada's opening of its first full-scale EV manufacturing plant in Ingersoll, Ontario. In time, we hope these manufacturers will look locally to secure critical minerals and mid-stream processing capacity to support their EV manufacturing plans.

Avalon continues to be a leader in applying ESG principles in the mineral development sector, and we are now getting greater recognition from the ESG investment community globally and with potential strategic partners. In August 2022, Benchmark Minerals produced its inaugural ESG tiering system with over 60 metrics measured to assess companies on their ESG performance. Avalon scored in the top 3%, being "**Benchmark Approved**". In December 2022, we published our 11th annual Sustainability Report. The report is a self-assessment of Avalon's 2022 fiscal year sustainability performance, sets targets for 2023 and long-term goals, as well as assessing our performance against the applicable Towards Sustainable Mining indicators defined by the Mining Association of Canada. This follows a top 5% ESG Risk rating amongst our peer companies obtained from Sustainalytics, a Morningstar company in 2021.

### New Strategic Partnerships

During 2022, the team remained focused on our plan to establish Ontario's first lithium refinery in Thunder Bay; advantageous in its location, as a transportation hub and the availability of industrial lands on the Lake Superior waterfront, providing good access to international markets in Europe and the Eastern

US. Importantly, the location's proximity to many other undeveloped lithium resources in northwestern Ontario could offer future lithium mineral feedstock for the proposed refinery once operational.

Avalon also made significant progress in building key strategic relationships during the year. The Company entered into an off-take agreement with a major international glass-ceramics manufacturer to supply high-quality petalite concentrates. This agreement remained consistent with our plan to pursue a multi-market strategy while remaining committed to the domestic battery materials market. Since then, demand for petalite concentrates has significantly increased after China secured control of the traditional supply sources in Zimbabwe creating a global shortage of petalite supply.

In addition, we signed a memorandum of understanding ("MOU") with LG Energy Solution ("LGES"), agreeing to provide the leading global manufacturer of lithium-ion batteries with battery-grade lithium hydroxide starting in 2025. We are delighted to have entered into this agreement with LGES to support our aspirations of establishing the mid-stream processing capacity in Thunder Bay, which we believe will take advantage of the many lithium resources located in northwestern Ontario.

As Premier Ford has noted, the establishment of an EV (and battery) hub will create a win-win for Ontario's economy in both the south and the north and will also create many new economic development opportunities for remote Indigenous communities. This MOU is a key milestone along the path to establishing Ontario as a global leader in the emerging battery sector. While we are still in the early stages of development, this project will create jobs for people across northern and Indigenous communities, provide new opportunities for youth and apprenticeship programs, support Indigenous businesses and create local supply chain opportunities. Avalon is proud to work alongside a government that is committed to establishing essential mid-stream processing capacity, making sure the province has the infrastructure needed to compete on the global stage.

We continue to look for ways to strengthen existing relationships and are excited to pursue new strategic initiatives with like-minded companies, while continuing to build value for Avalon shareholders.

### **Separation Rapids Remains Our Focus**

During the second half of 2022, we continued work on our Separation Rapids Lithium Project, including roadwork and site preparation for the installation and commissioning of a demonstration-scale Dense Media Separation ("DMS") plant. This plant will be used to produce the trial quantities of the petalite product for the many end-users that have expressed interest. We remain on track with expectations of the plant being operational in Q2 2023 as we now have an opportunity to acquire a second-hand DMS plant at a discounted price.

Our Separation Rapids Project is supported by a robust petalite and lepidolite lithium resource base, low initial capex, and attractive lithium hydroxide (LiOH) prices. Lithium hydroxide prices used in the 2018 preliminary economic study provides significant project upside given LiOH price performance over the last 12 months. Preparation of an updated engineering and economic study will more accurately indicate the

opportunity at Separation Rapids, which we expect to initiate in 2023. In addition, there has been very little drilling conducted on the main lithium pegmatite resource since the original drilling program in 1997-98, but it is open for expansion below a depth of 250 metres. A targeted exploration program was initiated at Separation Rapids at the end of 2022, which will focus on deeper drilling to assess the full potential of the resource. Drilling is planned for the main pegmatite resource, and also the new Snowbank pegmatite discovery once the necessary permit has been secured in the upcoming year.

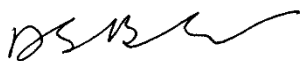
### **Key Priorities for 2023**

As the next step for our Separation Rapids Lithium Project, we have been working to secure a location and strategic partner for the planned Thunder Bay-based lithium battery materials refinery. We are also preparing Feasibility Study-level cost estimates, project engineering and pilot plant work to finalize our lithium battery materials (lithium hydroxide) process flowsheet. Finally, we plan to continue environmental assessments and project permitting work in the coming months.

On behalf of Avalon's Board of Directors, I would like to thank our employees for their continued support and dedication, our long-time shareholders for trusting us to eventually pursue these value-creating initiatives, and our many partners and stakeholders for their invaluable contributions. We remain committed to establishing a diversified clean technology materials business and is making progress toward achieving the goals we set for ourselves and remain confident in our ability to continue grow, creating significant value for all of our shareholders.

We look forward to sharing more with you as 2023 unfolds.

Sincerely,



Donald S. Bubar  
President and Chief Executive Officer

January 9, 2023

For more information, please refer to Avalon's website at [www.AvalonAdvancedMaterials.com](http://www.AvalonAdvancedMaterials.com).

130 Adelaide Street W., Suite 1901  
Toronto, Ontario, Canada M5H 3P5  
Telephone: +1 (416) 364-4938  
Email: [ir@AvalonAM.com](mailto:ir@AvalonAM.com)

TSX: AVL

OTCQB: AVLNF

FRANKFURT WKN: OUS

---

This document contains “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995 and applicable Canadian securities legislation. Forward-looking statements include, but are not limited to, statements related to project development plans and timelines, and future opportunities for the Company. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as “potential”, “scheduled”, “anticipates”, “continues”, “expects” or “does not expect”, “is expected”, “scheduled”, “targeted”, “planned”, or “believes”, or variations of such words and phrases or state that certain actions, events or results “may”, “could”, “would”, “might” or “will be” or “will not be” taken, reached or result, “will occur” or “be achieved”. Forward-looking statements are subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of Avalon to be materially different from those expressed or implied by such forward-looking statements. Forward-looking statements are based on assumptions management believes to be reasonable at the time such statements are made. Although Avalon has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking statements, there may be other factors that cause results not to be as anticipated, estimated or intended. Factors that may cause actual results to differ materially from expected results described in forward-looking statements include, but are not limited to market conditions, and the possibility of cost overruns or unanticipated costs and expenses as well as those risk factors set out in the Company’s current Annual Information Form, Management’s Discussion and Analysis and other disclosure documents available under the Company’s profile at [www.SEDAR.com](http://www.SEDAR.com). There can be no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Such forward-looking statements have been provided for the purpose of assisting investors in understanding the Company’s plans and objectives and may not be appropriate for other purposes. Accordingly, readers should not place undue reliance on forward-looking statements. Avalon does not undertake to update any forward-looking statements that are contained herein, except in accordance with applicable securities laws.