



Consolidated Financial Statements

**For the years ended
August 31, 2018, 2017 and 2016**

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Management's Report on Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting ("ICFR").

The Company's management assessed the effectiveness of the Company's ICFR as at August 31, 2018. The Company's management used the Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013) framework to evaluate the effectiveness of the Company's ICFR. Based on management's assessment, the Company's internal control over financial reporting is effective as of August 31, 2018.

As at August 31, 2018, the Company is not required under the Exchange Act to obtain an audit on its ICFR under Section 404(b) of Sarbanes-Oxley Act of 2002. Accordingly, the Company's auditor, Ernst and Young LLP, Independent Registered Public Accounting Firm, has not performed an audit on the effectiveness of the Company's ICFR as at August 31, 2018 and has not issued an attestation report on management's assessment of the Company's ICFR.

"Donald S. Bubar"
President and CEO

"R. James Andersen"
CFO and Vice President Finance

Toronto, Ontario
November 28, 2018

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
To the Shareholders and the Board of Directors of Avalon Advanced Materials Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Avalon Advanced Materials Inc. (the "Company"), which comprise the consolidated statements of financial position as at August 31, 2018 and 2017, the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, and the related notes, comprising a summary of significant accounting policies and other explanatory information (collectively referred to as the "consolidated financial statements").

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at August 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended, in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Company's Ability to Continue as a Going Concern

The consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, there exists an uncertainty as to the Company's ability to raise additional funds on favourable terms in order to finance its planned activities. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that raises substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that might result from the outcome of this uncertainty. Our opinion is not modified in respect of this matter.

Basis for Opinion

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement, whether due to error or fraud. Those standards also require that we comply with ethical requirements, including independence. We are required to be independent with respect to the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB. We are a public accounting firm registered with the PCAOB.

An audit includes performing procedures to assess the risks of material misstatements of the consolidated financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included obtaining and examining, on a test basis, audit evidence regarding the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes evaluating the appropriateness of accounting policies and principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a reasonable basis for our audit opinion.

Ernst + Young LLP

We have served as the Company's auditor since 2017.

Toronto, Canada

November 28 2018



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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of
Avalon Advanced Materials Inc.

We have audited the accompanying consolidated statements of comprehensive loss, cash flows and changes in equity of Avalon Advanced Materials Inc. and subsidiaries (the "Company") for the year ended August 31, 2016. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with standards of the Public Company Accounting Oversight Board (United States) and Canadian generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the results of operations and cash flows of Avalon Advanced Materials Inc. and subsidiaries for the year ended August 31, 2016, in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, there exists an uncertainty as to the Company's ability to raise additional funds on favourable terms in order to finance its planned activities, which raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

"/s/ Deloitte LLP"

Chartered Professional Accountants
Licensed Public Accountants
November 28, 2016
Toronto, Canada

Consolidated Statements of Financial Position
(expressed in Canadian Dollars)
As at August 31, 2018 and August 31, 2017

	2018	2017
Assets		
Current Assets		
Cash and cash equivalents (note 5)	\$ 319,057	\$ 1,073,574
Other receivables	168,672	117,718
Prepaid expenses and deposits	137,515	176,189
	<u>625,244</u>	<u>1,367,481</u>
Non-Current Assets		
Exploration and evaluation assets (note 6)	16,874,234	14,861,032
Property, plant and equipment (note 7)	104,432,710	104,207,866
	<u>121,306,944</u>	<u>119,068,898</u>
	<u>\$ 121,932,188</u>	<u>\$ 120,436,379</u>
Liabilities		
Current Liabilities		
Accounts payable	\$ 387,451	\$ 399,220
Accrued liabilities	408,701	412,149
Deferred flow-through share premium (note 8)	52,157	49,467
	<u>848,309</u>	<u>860,836</u>
Non-Current Liabilities		
Convertible redeemable preferred shares (note 9)	3,354,750	2,646,000
Derivative liabilities (note 10)	109,821	314,833
Site closure and reclamation provisions (note 11)	303,600	303,600
	<u>3,768,171</u>	<u>3,264,433</u>
	<u>4,616,480</u>	<u>4,125,269</u>
Shareholders' Equity		
Share Capital (note 12b)	173,600,797	169,593,205
Reserve for Warrants (note 12c)	4,329,430	4,258,213
Reserve for Share Based Payments (note 12d)	17,130,110	16,955,411
Reserve for Brokers' Compensation Warrants (note 12e)	286,000	294,166
Accumulated Deficit	(78,030,629)	(74,789,885)
	<u>117,315,708</u>	<u>116,311,110</u>
	<u>\$ 121,932,188</u>	<u>\$ 120,436,379</u>

The accompanying notes are an integral part of these consolidated financial statements.
Commitments (note 21)

Approved on behalf of the Board

_____, "Donald S. Bubar", Director

_____, "Brian MacEachen", Director

Consolidated Statements of Comprehensive Loss
(expressed in Canadian Dollars, except number of shares)
For the years ended August 31

	2018	2017	2016
Revenue			
Interest	\$ 61,777	\$ 28,211	\$ 35,160
Expenses			
Corporate and administrative (note 13)	2,724,759	2,877,792	3,221,418
Impairment loss on exploration and evaluation assets (note 6)	-	178,118	223,938
General exploration	17,269	23,677	37,987
Depreciation (note 7)	18,538	35,656	38,282
Share based compensation (note 12)	149,286	183,108	345,435
Foreign exchange loss (gain)	2,705	5,137	(9,274)
Financing transaction costs (note 9)	634,912	601,335	10,598
Increase in fair value of convertible redeemable preferred shares (note 9)	535,500	131,250	-
Increase (Decrease) in fair value of derivative liabilities (note 10)	(562,216)	(333,073)	122,561
	<u>3,520,753</u>	<u>3,703,000</u>	<u>3,990,945</u>
Net Loss before Income Taxes	(3,458,976)	(3,674,789)	(3,955,785)
Deferred Income Tax Recoveries (note 18)	<u>218,232</u>	<u>317,468</u>	<u>416,140</u>
Net Loss and Total Comprehensive Loss for the year	<u>\$ (3,240,744)</u>	<u>\$ (3,357,321)</u>	<u>\$ (3,539,645)</u>
Loss per Share - Basic and Diluted (note 19)	<u>\$ (0.015)</u>	<u>\$ (0.018)</u>	<u>\$ (0.021)</u>
Weighted Average Number of Common Shares Outstanding, Basic and Diluted	<u>215,152,381</u>	<u>187,869,637</u>	<u>167,184,272</u>

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

Consolidated Statements of Changes in Equity
(expressed in Canadian Dollars, except number of shares)
For the years ended August 31

	Share Capital		Reserves				
	Number of Shares	Amount	Warrants	Share Based Payments	Brokers' Compensation Warrants	Accumulated Deficit	Total
Balance at September 1, 2015	152,785,482	\$ 164,695,991	\$ 4,020,968	\$ 16,244,942	\$ 219,238	\$ (67,892,919)	\$ 117,288,220
Equity offerings (note 12b)	26,253,724	2,592,656	317,030	-	-	-	2,909,686
Issue for other considerations (note 7a)	-	-	1,353	-	-	-	1,353
Exercise of warrants (note 12b)	125,000	18,750	-	-	-	-	18,750
Reserve transferred on exercise of warrants (note 12b)	-	3,049	(3,049)	-	-	-	-
Exercise of brokers' compensation warrants (note 12b)	360,000	45,000	-	-	-	-	45,000
Reserve transferred on exercise of compensation warrants	-	19,573	-	-	(19,573)	-	-
Compensation warrants issued on equity offerings (note 12b)	-	-	-	-	54,447	-	54,447
Share based compensation (note 12d)	-	-	-	455,475	-	-	455,475
Share issuance costs - cash	-	(150,174)	(16,580)	-	-	-	(166,754)
Share issuance costs - compensation warrants issued	-	(43,491)	(6,021)	-	-	-	(49,512)
Net loss for the year	-	-	-	-	-	(3,539,645)	(3,539,645)
Balance at August 31, 2016	179,524,206	167,181,354	4,313,701	16,700,417	254,112	(71,432,564)	117,017,020
Equity offerings (note 12b)	13,545,454	2,064,182	-	-	-	-	2,064,182
Issue for other considerations (note 6a)	500,000	92,500	-	-	-	-	92,500
Conversion of redeemable preferred shares	890,861	110,250	-	-	-	-	110,250
Exercise of warrants (note 12b)	2,275,000	341,250	-	-	-	-	341,250
Reserve transferred on exercise of warrants	-	55,488	(55,488)	-	-	-	-
Compensation warrants issued on equity offerings (note 12b)	-	-	-	-	40,054	-	40,054
Share based compensation (note 12d)	-	-	-	254,994	-	-	254,994
Share issuance costs - cash	-	(211,765)	-	-	-	-	(211,765)
Share issuance costs - compensation warrants issued	-	(40,054)	-	-	-	-	(40,054)
Net loss for the year	-	-	-	-	-	(3,357,321)	(3,357,321)
Balance at August 31, 2017	196,735,521	169,593,205	4,258,213	16,955,411	294,166	(74,789,885)	116,311,110
Equity offerings (note 12b)	17,652,400	1,875,886	77,290	-	-	-	1,953,176
Conversion of redeemable preferred shares	22,280,507	2,189,250	-	-	-	-	2,189,250
Exercise of options (note 12b)	50,000	5,500	-	-	-	-	5,500
Reserve transferred on exercise of options	-	2,137	-	(2,137)	-	-	-
Exercise of compensation warrants (note 12b)	300,000	33,000	-	-	-	-	33,000
Reserve transferred on exercise of compensation warrants	-	26,671	-	-	(26,671)	-	-
Compensation warrants issued on equity offerings (note 12b)	-	-	-	-	18,505	-	18,505
Share based compensation (note 12d)	-	-	-	176,836	-	-	176,836
Share issuance costs - cash	-	(107,282)	(5,138)	-	-	-	(112,420)
Share issuance costs - compensation warrants issued	-	(17,570)	(935)	-	-	-	(18,505)
Net loss for the year	-	-	-	-	-	(3,240,744)	(3,240,744)
Balance at August 31, 2018	237,018,428	\$ 173,600,797	\$ 4,329,430	\$ 17,130,110	\$ 286,000	\$ (78,030,629)	\$ 117,315,708

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

Consolidated Statements of Cash Flows
(expressed in Canadian Dollars)
For the years ended August 31

	2018	2017	2016
Operating Activities			
Cash paid to employees	\$ (1,381,833)	\$ (1,620,250)	\$ (1,669,257)
Cash paid to suppliers	(1,262,306)	(1,162,240)	(1,646,458)
Interest received	61,777	28,211	50,374
Cash Used By Operating Activities	(2,582,362)	(2,754,279)	(3,265,341)
Financing Activities			
Net proceeds from equity offerings	2,025,843	2,159,353	2,955,112
Net proceeds from issuance of preferred shares	2,084,792	2,260,153	-
Proceeds from exercise of stock options	5,500	-	-
Proceeds from exercise of warrants	-	341,250	18,750
Proceeds from exercise of brokers' compensation warrants	33,000	-	45,000
Cash Provided by Financing Activities	4,149,135	4,760,756	3,018,862
Investing Activities			
Exploration and evaluation assets	(2,041,084)	(2,160,674)	(3,439,231)
Property, plant and equipment	(277,501)	(127,579)	(210,815)
Cash Used by Investing Activities	(2,318,585)	(2,288,253)	(3,650,046)
Change in Cash and Cash Equivalents	(751,812)	(281,776)	(3,896,525)
Foreign Exchange Effect on Cash	(2,705)	(5,137)	9,274
Cash and Cash Equivalents - beginning of year	1,073,574	1,360,487	5,247,738
Cash and Cash Equivalents - end of year	\$ 319,057	\$ 1,073,574	\$ 1,360,487

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

Supplemental Cash Flow Information (note 17)

1. Nature of Operations and Going Concern Uncertainty

Avalon Advanced Materials Inc. ("Avalon") is a publicly listed company incorporated in Canada and continued under the *Canada Business Corporations Act*. Avalon's common shares are listed on the Toronto Stock Exchange (the "TSX") (TSX: AVL), on the OTCQB® Venture Market (OTCQB: AVLNF), and the Frankfurt Stock Exchange in Germany.

The registered address, principal address and records office of Avalon is located at 130 Adelaide Street West, Suite 1901, Toronto, Ontario, Canada, M5H 3P5.

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

The realization of amounts shown for its development asset - the Nechalacho Rare Earth Elements Project (the "Nechalacho REE Project") and its exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves (where not already identified), the ability of the Company to obtain the necessary financing to develop these assets, and future profitable production or proceeds of disposition from these assets.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to a going concern, which assumes the Company will continue to meet its obligations and discharge its liabilities in the normal course of business for the foreseeable future. Different bases of measurement may be appropriate when a company is not expected to continue operations for the foreseeable future. The Company is in the exploration and development stage and raises funds in the equity markets to conduct its business activities. The Company has incurred losses in the current and prior years, with a net loss of \$3,240,744 for the year ended August 31, 2018 and an accumulated deficit of \$78,030,629 as at August 31, 2018. The Company's cash and cash equivalents balance at August 31, 2018 was \$319,057, working capital deficit was \$223,065. Excluding the deferred flow-through share premium of \$52,157, the Company's adjusted working capital deficit as at August 31, 2018 was \$170,908 (calculated by adding back the deferred flow-through share premium of \$52,157 to the working capital deficit of \$223,065).

Given the continuation of weak investor sentiment and capital market conditions in the junior resource sector, there exists an uncertainty as to the Company's ability to raise additional funds on favorable terms. This condition indicates the existence of a material uncertainty that raises substantial doubt about the Company's ability to continue as a going concern. As at August 31, 2018, the Company is required to incur additional Canadian exploration expenses ("CEE") of \$237,922 by December 31, 2019. This amount represents the remaining balance of the required expenditures resulting from the private placement completed in July 2018. The Company's expenditures on other discretionary exploration and development activities have some scope for flexibility in terms of amount and timing, which can be adjusted accordingly. Management intends to finance these expenditures over the next twelve months with funds currently on hand and through planned equity financings.

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

These consolidated financial statements have been reviewed and approved by the Company's Audit Committee and the Board of Directors on November 28, 2018.

2. Basis of Presentation

a) Statement of Compliance and Basis of Presentation

These consolidated financial statements, including comparatives, have been prepared using accounting policies in compliance with IFRS as issued by the IASB.

These consolidated financial statements have been prepared on a going concern basis using the historical cost basis, except for certain financial instruments which are measured at fair value in accordance with the policies disclosed in Note 3.

b) Basis of Consolidation

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

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, 8110131 Canada Inc., Nolava Minerals Inc. ("Nolava"), Avalon Rare Metals Ltd. ("ARML"), and Avalon Rare Metals Processing LLC ("ARMLLC"). Nolava, ARML and ARMLLC are incorporated in the United States of America ("USA").

ARML and ARMLLC have not carried on any significant operations since their inception. During the year ended August 31, 2012, 8110131 Canada Inc. acquired certain net smelter returns ("NSR") royalty interests in the Company's properties which were held by third parties. Nolava had held certain mining claims in Utah, USA and had conducted exploration work on those mining claims during fiscal year 2011 to fiscal year 2014. ARMLLC was dissolved on March 4, 2016. All intercompany transactions and balances have been eliminated on consolidation of the accounts.

3. Summary of Significant Accounting Policies

The principal accounting policies followed by the Company are summarized as follows:

a) Foreign Currency Transactions

Functional and Presentation Currency

Items included in the consolidated financial statements of the Company and each of its subsidiaries (the "Group") are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the Company and its subsidiaries is the Canadian dollar ("C\$"). The consolidated financial statements of the Group are presented in Canadian dollars.

Transactions and Balances

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (i.e. foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each statement of financial position date, monetary assets and liabilities are translated using the foreign exchange rates prevailing at the end of each reporting period. Non-monetary assets and liabilities are translated using the historical rate on the date of the transaction. Non-monetary assets and liabilities that are stated at fair value are translated using the historical rate on the date that the fair value was determined. All gains and losses on translation of these foreign currency transactions are included in foreign exchange loss (gain) in the consolidated statement of comprehensive loss.

3. Summary of Significant Accounting Policies (continued)

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognized in profit or loss as part of the gain or loss on sale. At the present time, the functional currency of the Company and its subsidiaries is Canadian dollar and hence this does not currently apply to the Company.

b) Share Based Payments

Equity-settled share based payments to employees (including directors and senior executives) and others providing similar services are measured at the fair value of the equity instruments at the grant date. The fair value of the share-based payment is measured by reference to the fair value of the equity instrument granted, which in turn is determined using the Black-Scholes option-pricing model on the date of the grant, with management's assumptions for the risk-free rate, dividend yield, volatility factors of the expected market price of the Company's common shares, exercise price, current market price of the underlying equity to be settled with, expected forfeitures and the life of the options.

The fair value of the equity-settled share based payments is recognized over the vesting period in which the service conditions are fulfilled, ending on the date in which the grantee becomes fully entitled to the award, based on the Company's estimate of equity instruments that will eventually vest, and is either expensed or capitalized to exploration and evaluation assets or property, plant and equipment, with a corresponding increase in equity.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the Company obtains the goods or the counterparty renders the service.

c) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognized as assets of the Company at the inception of the lease at their fair value or, if lower, at the present value of the minimum lease payments.

Finance lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Company's general policy on borrowing costs.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

d) Income Taxes

Current Income Taxes

Tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statements of comprehensive loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

3. Summary of Significant Accounting Policies (continued)

Deferred Income Taxes

Deferred tax assets and liabilities represent income taxes expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the Company's consolidated financial statements and the corresponding tax basis used in the computation of taxable profit. Deferred tax assets also represent income taxes expected to be recoverable on unclaimed losses carried forward.

Deferred taxes are calculated using the asset and liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences, with some exceptions described below. Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be used. Neither deferred tax liabilities, nor deferred tax assets, are recognized as a result of temporary differences that arise from the initial recognition of goodwill or a transaction, other than a business combination, that affects neither accounting profit nor taxable profit. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset the current tax assets against the current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Deferred tax asset and liabilities are measured as of the date of the consolidated statement of financial position using the enacted or substantively enacted tax rates that are expected to be in effect when the differences reverse or when unclaimed losses are utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and adjusted to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of all or part of the asset to be utilized. To the extent that an asset not previously recognized fulfils the criteria for asset recognition, a deferred tax asset is recognized.

Deferred tax is recognized in the consolidated statements of comprehensive loss, unless it relates to items recognized directly in equity, in which case the deferred tax related to those items is also recognized directly in equity.

e) Flow-through Shares

The Company has, from time to time, issued flow-through shares to finance a portion of its exploration and development programs. Pursuant to the terms of the related flow-through share agreements, the Company has agreed to incur eligible flow-through expenditures and renounce the tax deductions associated with these qualifying expenditures to the subscribers.

The excess of cash consideration received over the market price of the Company's shares at the date of the announcement of the flow-through share financing ("Flow-through Share Premium") is recorded in the consolidated statement of financial position as a deferred flow-through share premium liability when the flow-through shares are issued. When a unit comprised of a flow-through share with an attached share purchase warrant is issued, the Company has adopted the fair value approach with respect to the measurement of the three components (share, warrant and Flow-through Share Premium) of such unit and use the relative fair value method to allocate the proceeds to each of the three components of the unit.

The Company recognizes a proportion of the Flow-through Share Premium through the consolidated statement of comprehensive loss as a reduction of deferred income tax expense with a corresponding reduction to the deferred flow-through share premium liability as the eligible flow-through expenditures are incurred.

3. Summary of Significant Accounting Policies (continued)

f) Loss per Share

The basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the year. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options and share purchase warrants, in the weighted average number of common shares outstanding during the year, if dilutive. The “treasury stock method” is used for the assumed proceeds upon the exercise of the options and warrants that are used to purchase common shares at the average market price during the year.

g) Other Comprehensive Income (Loss)

Other Comprehensive income (loss) is the change in the Company’s net assets that results from transactions, events and circumstances that are not related to the Company’s shares and that are not included in net profit or loss. Such items include unrealized gains or losses on available-for-sale investments, gains or losses on certain hedging derivative instruments and foreign currency gains or losses related to translation of the financial statements of foreign operations. The Company’s comprehensive income (loss) and components of other comprehensive income are presented in the consolidated statements of comprehensive loss and the consolidated statements of changes in equity.

h) Cash and Cash Equivalents

Cash and cash equivalents include bank deposits and highly liquid short-term money market investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, such as bankers’ acceptance notes, treasury bills and guaranteed investment certificates (“GICs”).

i) Exploration and Evaluation Assets

These assets relate to mineral rights acquired and exploration and evaluation expenditures incurred in respect to resource projects that are in the exploration and evaluation stage.

Exploration and evaluation expenditures include costs which are directly attributable to acquisition, surveying, geological, geochemical, geophysical, exploratory drilling, land maintenance, sampling, and assessing technical feasibility and commercial viability. These expenditures are capitalized as exploration and evaluation assets until the technical feasibility and commercial viability of extracting the mineral resource of a project are demonstrable. During the exploration period, exploration and evaluation assets are not amortized.

Exploration and evaluation assets are allocated to cash generating units (“CGUs”) for the purpose of assessing such assets for impairment and each project is identified as a separate CGU. A project is tested for impairment when facts and circumstances suggest that the carrying amount of that project may exceed its recoverable amount, and the recoverable amount of the project is estimated. If the recoverable amount of the project is estimated to be less than its carrying amount, the carrying amount of the project is reduced to its recoverable amount, and an impairment loss is recognized immediately in the consolidated statement of comprehensive loss.

Once the technical feasibility and commercial viability of extracting a mineral resource of a project are demonstrable, the relevant exploration and evaluation asset is assessed for impairment, and any impairment loss is recognized, prior to the balance being reclassified as a development asset in property, plant and equipment.

3. Summary of Significant Accounting Policies (continued)

The determination of the demonstration of technical feasibility and commercial viability is subject to a significant degree of judgment and assessment of all relevant factors. In general, technical feasibility may be demonstrable once a positive feasibility study is completed. When determining the commercial viability of a project, in addition to the receipt of a feasibility study, the Company also considers factors such as the existence of markets and/or long term contracts for the product, and the ability to obtain the relevant operating permits.

All subsequent expenditures to ready the property for production are capitalized within development assets, other than those costs related to the construction of property, plant and equipment.

Once production has commenced, all costs included in development assets are reclassified to mining properties.

Exploration and evaluation expenditures incurred prior to the Company obtaining the right to explore the property are recorded as an expense in the period in which they are incurred.

j) Property, plant and equipment

Property, plant and equipment ("PPE") are stated at cost less any accumulated depreciation and accumulated impairment losses. The cost of an item of PPE consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Depreciation is provided over the estimated useful lives of the Company's assets on the following basis and rates per annum:

Airstrip	- 8% on a declining balance basis
Building	- straight line basis over its estimated useful life
Computer and office equipment	- 25% to 33 1/3% on a declining balance basis
Exploration equipment	- 30% on a declining balance basis
Leasehold improvements	- straight line basis over the shorter of the term of the lease and useful life

An item of PPE is derecognized upon disposal, when held for sale or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized immediately in the consolidated statement of comprehensive loss.

The Company conducts an annual assessment of the residual balances, useful lives and depreciation methods being used for PPE and any changes arising from this assessment are applied by the Company prospectively as a change in estimate.

Where an item of PPE comprises major components with different useful lives, the components are accounted for as separate items of PPE. Expenditures incurred to replace a component of an item of PPE that is accounted for separately, including major inspection and overhaul expenditures, are capitalized.

3. Summary of Significant Accounting Policies (continued)

k) Impairment of Non-Financial Assets

At the end of each reporting period, the Company reviews the carrying amounts of its non-financial assets with finite lives at the CGU level to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant CGU is estimated in order to determine the extent of the impairment loss, if any. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The Company's CGUs are typically its significant individual exploration and evaluation assets, development projects or mines. In certain circumstances, when the recoverable amount of an individual asset can be determined, impairment assessment is performed at the individual asset level. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

The recoverable amount of an asset is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount, and an impairment loss is recognized immediately in profit or loss.

At the end of each reporting period, the Company assesses whether there is any indication that impairment losses that were recognized in prior periods may no longer exist or have decreased. If such an indication exists, the estimated recoverable amount of the asset (or CGU) is revised and the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

l) Financial Instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities (other than financial assets and financial liabilities recorded at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities recorded at fair value through profit or loss are recognized immediately in the consolidated statement of comprehensive loss.

Financial Assets

The Company recognizes all financial assets initially at fair value and classifies them into one of the following specified categories: fair value through profit or loss ("FVTPL"), held-to-maturity ("HTM"), available-for-sale ("AFS") and loans and receivables. HTM instruments and loans and receivables are measured at amortized cost. AFS instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Instruments classified as FVTPL are measured at fair value with unrealized gains and losses recognized in profit or loss for the period.

The fair value of financial instruments traded in active markets (such as FVTPL and AFS securities) is based on quoted market prices at the date of the consolidated statement of financial position. The quoted market price used for financial assets held by the Company is the current bid price.

3. Summary of Significant Accounting Policies (continued)

Impairment of Financial Assets

Financial assets, other than those classified as FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence of an incurred loss, as a result of one or more events that occurred after the initial recognition of the financial asset, and that the estimated future cash flows of the investment have been affected.

Financial Liabilities and Equity Instruments

Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities. Financial liabilities classified as FVTPL are measured at fair value with unrealized gains and losses recognized in profit or loss for the period. Other financial liabilities including borrowings are initially measured at fair value net of transaction costs, and subsequently measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to a net carrying amount on initial recognition.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issuance costs.

Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in the consolidated statement of comprehensive loss on the purchase, sale, issuance or cancellation of the Company's own equity instruments.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

The Company's financial assets and liabilities are classified and subsequently measured as follows:

<u>Asset/Liability</u>	<u>Classification</u>	<u>Subsequent Measurement</u>
Cash and cash equivalents	Loans and receivables	Amortized cost
Other receivables	Loans and receivables	Amortized cost
Accounts payable	Other financial liabilities	Amortized cost
Accrued liabilities	Other financial liabilities	Amortized cost
Convertible redeemable preferred shares	FVTPL	Fair value
Derivative liabilities	FVTPL	Fair value

3. Summary of Significant Accounting Policies (continued)

m) Site Closure and Reclamation Provision

The Company's mining exploration activities are subject to various governmental laws and regulations relating to the protection of the environment. These environmental regulations are continually changing and are generally becoming more restrictive. The Company has made, and intends to make in the future, expenditures to comply with such laws and regulations or constructive obligations.

Provision for site closure costs is recorded at the time an environmental disturbance occurs, and is measured at the Company's best estimate of the expected value of future cash flows required to reclaim the disturbance upon site closure, discounted to their net present value. The net present value is determined using a pre-tax discount rate that is specific to the liability. The estimated net present value is re-measured at the end of each reporting period, or when changes in circumstances occur and/or new material information becomes available. Increases or decreases to the provision arise due to changes in legal, constructive or regulatory requirements, the extent of environmental remediation required and cost estimates. The net present value of the estimated costs of these changes is recorded in the period in which the change is identified and quantifiable.

Upon initial recognition of site closure provision there is a corresponding increase to the carrying amounts of related assets and the cost is amortized as an expense on a units-of-production basis over the life of the related assets. The value of the provision is progressively increased over the life of the operation as the effect of discounting unwinds and such increase is recognized as an interest expense.

n) Other Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the provision. The increase in the provision due to the passage of time is recognized as an interest expense.

o) Related Party Disclosure

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties. Related party transactions that are in the normal course of business and have commercial substance are measured at fair value.

p) Segment Reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses. In determining the Company's segment structure, consideration is given to the similar operational and political risks to which the Company's current operations within the same business and regulatory environment are exposed.

The Company's current operations comprise a single reporting operating segment engaged in the acquisition, exploration, evaluation and development of rare metal and mineral properties located principally in Canada.

3. Summary of Significant Accounting Policies (continued)

q) 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 on-going 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 are included in the following notes:

Recoverability of Exploration and Evaluation Assets, Development Assets and Property, Plant and Equipment

The Company assesses its long-lived assets, specifically all exploration and evaluation assets, development assets and 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, 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 is based upon factors such 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 grade of the ore body. Changes in the reserve or resource estimates may impact the carrying value of exploration and evaluation assets, development assets, PPE, site closure and reclamation provision and amortization expense.

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.

3. Summary of Significant Accounting Policies (continued)

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 - 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.

4. Recent Accounting Pronouncements

The following pronouncements are issued but not yet effective for the year ended August 31, 2018:

a) IFRS 9, *Financial Instruments*

IFRS 9, *Financial instruments* ("IFRS 9") was issued by the IASB in July 2014 and will replace IAS 39, *Financial Instruments: recognition and measurement* ("IAS 39"). IFRS 9 utilizes a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Final amendments released in July 2014 also introduce a new expected loss impairment model and limited changes to the classification and measurement requirements for financial assets. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Company has completed evaluating the impact of this standard and amendments and does not expect the Company's consolidated financial statements to be significantly affected by the adoption of IFRS 9 given its current business model and the amount of its financial assets.

4. Recent Accounting Pronouncements (continued)

b) IFRS 15, Revenue from Contracts and Customers

IFRS 15, *Revenue from Contracts and Customers* ("IFRS 15") was issued by the IASB in May 2014, and will replace IAS 18, *Revenue*, IAS 11, *Construction Contracts*, and related interpretations on revenue. IFRS 15 sets out the requirements for recognizing revenue that apply to all contracts with customers, except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 uses a control based approach to recognize revenue which is a change from the risk and reward approach under the current standard. Companies can elect to use either a full or modified retrospective approach when adopting this standard and it is effective for annual periods beginning on or after January 1, 2018. The Company has completed evaluating the impact of IFRS 15 and does not expect the Company's consolidated financial statements to be significantly affected by the adoption of IFRS 15 as the Company is not currently generating any significant revenue.

c) IFRS 16, Leases

IFRS 16, *Leases* ("IFRS 16") was issued by the IASB in January 2016, and will replace IAS 17 *Leases*. IFRS 16 specifies the methodology to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases except for short-term leases and leases with low value assets. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted if IFRS 15 has also been adopted. A lessee will apply IFRS 16 to its leases either retrospectively to each prior reporting period presented; or retrospectively with the cumulative effect of initially applying IFRS 16 being recognized at the date of initial application. The Company is currently evaluating the impact of IFRS 16 on its consolidated financial statements.

5. Cash and Cash Equivalents

Cash and cash equivalents are comprised of the following:

	August 31, 2018	August 31, 2017
Cash held in bank accounts	\$ 164,717	\$ 317,162
Guaranteed investment certificates	154,340	756,412
	<u>\$ 319,057</u>	<u>\$ 1,073,574</u>

6. Exploration and Evaluation Assets

	September 1, 2016	Expenditures	Impairment Loss	August 31, 2017
Separation Rapids Lithium Project (a)	\$ 7,481,410	\$ 2,042,200	\$ -	\$ 9,523,610
East Kemptville Tin-Indium Project (b)	5,011,070	311,352	-	5,322,422
Warren Township Anorthosite Project (c)	-	3,080	(3,080)	-
Mount Douglas Tin-Tungsten Property (d)	46,663	88,446	(135,109)	-
Other (e)	28,101	26,828	(39,929)	15,000
	<u>\$ 12,567,244</u>	<u>\$ 2,471,906</u>	<u>\$ (178,118)</u>	<u>\$ 14,861,032</u>

	September 1, 2017	Expenditures	Impairment Loss	August 31, 2018
Separation Rapids Lithium Project (a)	\$ 9,523,610	\$ 1,487,340	\$ -	\$ 11,010,950
East Kemptville Tin-Indium Project (b)	5,322,422	505,102	-	5,827,524
Warren Township Anorthosite Project (c)	-	-	-	-
Other (e)	15,000	20,760	-	35,760
	<u>\$ 14,861,032</u>	<u>\$ 2,013,202</u>	<u>\$ -</u>	<u>\$ 16,874,234</u>

6. Exploration and Evaluation Assets (continued)

a) Separation Rapids Lithium Project, Ontario

The Company owns a 100% interest in certain mineral claims and a mining lease in the Kenora area of Ontario. During the year ended August 31, 2017, the Company acquired a 100% interest in seven mineral claims located adjacent to the north and west of the Company's existing Separation Rapids property and issued 500,000 common shares at the fair value of \$0.185 per share.

b) East Kemptville Tin-Indium Project, Nova Scotia

During the year ended August 31, 2007, the Company was granted a special exploration licence to search and prospect for all minerals except for coal, salt, potash and uranium within four claims in the East Kemptville area of Yarmouth, Nova Scotia. The special licence has been renewed multiple times since then.

In September 2014, the Company submitted an application for a new special licence reflecting the entire original mine site. During the quarter ended May 31, 2015, by Order in Council, the Government of Nova Scotia approved an application for a new special licence reflecting the entire original mine site. The current special licence has a term of three years beginning February 2, 2015 and is renewable for an additional two one-year periods. The Special Licence was renewed during the year ended August 31, 2018 and the Company continues the process toward applying for a mining lease to replace the Special Licence and secure full surface tenure.

The Company also has a number of regular exploration licences covering certain claims in the same proximity to the claims covered under the special exploration licence.

c) Warren Township Anorthosite Project, Ontario

The Company owns a 100% interest in certain claims located near Foleyet, Ontario, which were staked by the Company during the year ended August 31, 2003. During the year ended August 31, 2013, the Company entered into a Mining Lease with the Province of Ontario under the Mining Act of Ontario covering these claims.

No substantial work has been carried out on the Warren Township project during the last five years and no work was planned or budgeted for fiscal 2018. In addition, no new potential customer has been identified for the project's calcium feldspar product. The current outlook as at August 31, 2018 for the Warren Township project remains unchanged. It is management's view that the fair value of this project has been significantly impaired and has estimated the recoverable amount of this project as at August 31, 2018 to be \$nil.

d) Mount Douglas Tin-Tungsten Property, New Brunswick

During the year ended August 31, 2016, the Company entered into an option agreement to earn a 100% interest (subject to a 2.0% NSR, which can be bought back for \$1.0 million) in certain mineral claims located in Charlotte County, New Brunswick. As at August 31, 2017, the Company had decided to terminate the option agreement, accordingly the cost incurred to-date of \$135,109 was written off as an impairment loss during the year ended August 31, 2017. These claims were returned to the original owner in September 2017.

e) Other Resource Properties

The Company has a 100% interest in several claims in the Lilypad Lakes Tantalum Property, a 2.0% NSR interest in certain claims of the East Cedartree Gold Property located near Kenora, Ontario, and a 2.4% NSR interest in the Wolf Mountain Platinum-Palladium Project.

6. Exploration and Evaluation Assets (continued)

During the year ended August 31, 2016, the Company entered into an option agreement to earn a 100% interest (subject to a 2.0% NSR, which can be bought back for \$1.0 million) in certain mineral claims located south of St. George, New Brunswick. During the year ended August 31, 2017, the Company had terminated the option agreement and returned these claims to the original owners and, accordingly, the cost incurred to-date of \$39,929 had been written off as an impairment loss during the year ended August 31, 2017.

During the year ended August 31, 2016, the Company abandoned certain claims located in York County, New Brunswick, accordingly the cost incurred to-date of \$218,620 had been written off as an impairment loss during the year ended August 31, 2016.

7. Property, Plant and Equipment

	Nechalacho REE Project (a)	Airstrip	Computer and Office Equipment	Land and Building	Exploration Equipment	Leasehold Improvements	Total
Cost							
As at September 1, 2016	\$ 103,420,326	\$ 646,860	\$ 301,556	\$ 74,455	\$ 680,884	\$ 94,594	\$ 105,218,675
Additions	198,342	-	36,603	-	2,975	-	237,920
Disposals	-	-	(120,069)	-	-	-	(120,069)
As at August 31, 2017	103,618,668	646,860	218,090	74,455	683,859	94,594	105,336,526
Additions	259,681	-	1,958	16,450	11,673	-	289,762
Disposals	-	-	-	-	-	-	-
As at August 31, 2018	\$ 103,878,349	\$ 646,860	\$ 220,048	\$ 90,905	\$ 695,532	\$ 94,594	\$ 105,626,288
Accumulated Depreciation							
As at September 1, 2016	\$ -	\$ 218,663	\$ 248,802	\$ 3,760	\$ 595,859	\$ 90,651	\$ 1,157,735
Depreciation expense	-	24,366	32,715	3,223	26,747	3,943	90,994
Disposals	-	-	(120,069)	-	-	-	(120,069)
As at August 31, 2017	-	243,029	161,448	6,983	622,606	94,594	1,128,660
Depreciation expense	-	22,417	18,538	3,384	20,579	-	64,918
Disposals	-	-	-	-	-	-	-
As at August 31, 2018	\$ -	\$ 265,446	\$ 179,986	\$ 10,367	\$ 643,185	\$ 94,594	\$ 1,193,578
Net Book Value							
As at August 31, 2017	\$ 103,618,668	\$ 403,831	\$ 56,642	\$ 67,472	\$ 61,253	\$ -	\$ 104,207,866
As at August 31, 2018	\$ 103,878,349	\$ 381,414	\$ 40,062	\$ 80,538	\$ 52,347	\$ -	\$ 104,432,710

7. Property, Plant and Equipment (continued)

a) Nechalacho REE Project, Northwest Territories

During the year ended August 31, 2005, the Company acquired a 100% interest in five mining leases covering the Nechalacho rare earth elements deposit ("Nechalacho Deposit") located at Thor Lake in the Mackenzie Mining District of the Northwest Territories. In addition, three mineral claims were staked in 2009 to cover favorable geology to the west of the mining leases which are in the process of being converted into mining leases.

The property is subject to an underlying 2.5% net smelter returns ("NSR") royalty agreement, which can be bought back at the principal amount of \$150,000 compounded annually at the average Canadian prime rate from May 2, 1982 to the buyback date, and which currently approximates \$1.46 million.

During the year ended August 31, 2012, the Company entered into an accommodation agreement (the "Accommodation Agreement") with the Deninu K'ue First Nation ("DKFN"). The DKFN is one of three Aikaitcho bands who have used, occupied and have constitutionally protected aboriginal rights with respect to the lands on which the Nechalacho Deposit in the Northwest Territories is located.

The Accommodation Agreement provides for business and employment opportunities for the DKFN related to the Nechalacho Deposit and associated facilities in the Northwest Territories and contains measures to mitigate environmental and cultural impacts that may result from the project development. The Accommodation Agreement also commits the DKFN to supporting timely completion of the environmental assessment, permitting and development processes of the Nechalacho REE Project, and provides for the DKFN to participate in the project economics.

In conjunction with the Accommodation Agreement, the Company had issued 10,000 common shares of the Company in August 2012 and granted an aggregate of 50,000 non-transferrable common share purchase warrants of the Company to the DKFN since signing the Accommodation Agreement until August 31, 2016 (of which 10,000 warrants were granted during the year ended August 31, 2016). The common shares are subject to certain contractual restrictions on transfer pending receipt of certain regulatory permits and approvals for the Nechalacho REE Project.

8. Deferred Flow-Through Share Premium

A summary of the changes in the deferred flow-through share premium amount is set out below:

Balance - September 1, 2016	\$ 96,617
Increase relating to flow-through common shares issued (note 12b)	270,318
Decrease relating to CEE incurred	<u>(317,468)</u>
Balance - August 31, 2017	49,467
Increase relating to flow-through common shares issued (note 12b)	220,922
Decrease relating to CEE incurred	<u>(218,232)</u>
Balance - August 31, 2018	<u>\$ 52,157</u>

9. Convertible Redeemable Preferred Shares

In March 2017, the Company entered into a preferred share purchase agreement (the “A1 Agreement”) with an entity managed by the Lind Partners (“Lind”) and issued 500 Series A1 Preferred Shares (the “A1 Preferred Shares”) at a price of \$5,000 per share for gross proceeds of \$2,500,000. Pursuant to Canadian securities laws, the securities issuable under this private placement were subject to a hold period, which expired on July 11, 2017 (the “Hold Period”).

The A1 Preferred Shares do not carry a dividend and have a redemption value that starts at \$5,000 per share and increases by \$250 per share each quarter over a 24 months period ending on March 10, 2019, to a cap of \$6,750 per share. The A1 Preferred Shares can be converted by Lind into common shares of the Company at a price per common share equal to 85% of the five-day volume weighted average price (“VWAP”) of the common shares on the TSX immediately prior to the date that notice of conversion is given (the “Conversion Option”).

In conjunction with this private placement, Lind received a commitment fee of \$125,000 and 6,900,000 common share purchase warrants (the “A1 Warrants”). Each A1 Warrant entitles the holder to purchase one common share of the Company at a price of \$0.23 per common share until March 10, 2022.

Lind has the basic right to convert 25 A1 Preferred Shares into common shares of the Company on a monthly basis, subject to certain conversion limits set out in the A1 Agreement, however Lind is permitted to convert up to 100 A1 Preferred Shares on a monthly basis in the event such amount does not exceed 20% of the Company's 20-day traded volume of common shares on the TSX immediately prior to the date of delivery of a conversion notice.

Lind is also entitled to accelerate its conversion right to the full amount of the redemption value applicable at such time, or demand repayment of the applicable redemption value per share in cash (the “Put Option”), upon the occurrence of certain events as set out in the A1 Agreement (most of which are beyond the Company's control) (the “Redemption Events”). The triggering Redemption Events include certain key financial and non-financial conditions, which include change of control, insolvency and liquidity conditions etc. as defined in the Agreement. These Redemption Events also limit the Company from obtaining other debt or preferred share financings that are not junior to the A1 Preferred Shares other than certain project-related financings, as well as other at-the-market, equity lines or credit type of common share offerings, or convertible security financings where the price of the common share is not fixed at predetermined price. In addition, if the Redemption Event is a change of control event, the redemption amount will be equal to 110% of the applicable redemption amount at that time.

The Company has the right to redeem all of the outstanding A1 Preferred Shares at any time after the Hold Period at a 5% premium to the redemption value (the “Call Option”). The Company also has floor price protection such that if any conversion results in an effective conversion price of less than \$0.10 per common share, then the Company has the right to deny the conversion and instead redeem the A1 Preferred Shares that were subject to that conversion for the redemption amount in cash plus a 5% premium.

At any time while any A1 Preferred Shares are outstanding, Lind has the option of subscribing for up to an additional 165 Series A2 Preferred Shares at a price of \$5,000 per share and under the same terms and conditions as the initial financing, subject to certain triggering events and subject to the prior approval of the TSX (“Series A2 Option”). Lind will also receive a certain number of Series A2 warrants (“A2 Warrants”) when it exercised the Series A2 Option. The number of A2 Warrants to be issued and the exercise price of A2 Warrants will be calculated by using similar formulas used in determining the number and the exercise price of the A1 Warrants.

The A1 Preferred Share is a hybrid instrument that contains multiple embedded derivatives: the Conversion Option, Put Option and Call Option.

9. Convertible Redeemable Preferred Shares (continued)

The economic characteristics and risks of the Conversion Option are different from that of the host contract (the A1 Preferred Share) in that it allows Lind to convert the A1 Preferred Shares (a debt instrument) into the Company's common shares (an equity instrument) at a price per common share equal to 85% of the five day VWAP of the common share, thus the Conversion Option can be measured separately from the A1 Preferred Share. In addition, the number of common shares to be issued upon conversion is variable and does not meet the "a fixed amount of cash for a fixed number of equity instruments" requirement to be classified as an equity instrument under *IAS 32 Financial Instruments: Presentation* ("IAS 32"). As such, the Company had designated the entire hybrid contract (the A1 Preferred Share and all of the embedded derivatives) as a financial liability at FVTPL in accordance with IAS 39 and re-measured at each financial statement reporting date, with the resulting change in value being recorded as increase or decrease in fair value of convertible redeemable preferred shares in the consolidated statement of comprehensive loss.

As the Company has the Call Option to redeem all of the outstanding A1 Preferred Shares at a 5% premium to the redemption value, the total fair value of the A1 Preferred Shares at issuance is therefore \$2,625,000.

The exercise price of the A1 Warrant is subject to adjustment from time to time in the event of certain common share rights offering, such that the exercise of the A1 Warrants do not result in a fixed number of common shares being issued for a fixed amount of cash. As a result, The A1 Warrant had been classified as a financial liability at FVTPL and re-measured at each financial statement reporting date using the Black-Scholes pricing model, with the resulting change in value being recorded as increase or decrease in fair value of derivative liabilities in the consolidated statement of comprehensive loss.

The fair value of the A1 Warrants was estimated at \$236,488 (or \$0.0343 for each warrant) at issuance, and this amount was allocated to the warrant component of this private placement. The fair value of the A1 Warrant was estimated using the Black-Scholes pricing model, with the following assumptions: expected dividend yield of Nil; risk free interest rate of 1.10%; expected life of 4.0 years; and expected volatility of 35%.

In December 2017, the Company entered into a preferred share purchase agreement (the "B1 Agreement") with Lind and issued 300 Series B1 Preferred Shares (the "B1 Preferred Shares") at a price of \$5,000 per share for gross proceeds of \$1,500,000 in January 2018. Pursuant to Canadian securities laws, the securities issuable under this private placement were subject to a hold period, which expires on May 16, 2018 (the "B1 Hold Period").

In conjunction with this private placement, Lind received a commitment fee of \$75,000 and 6,250,000 common share purchase warrants (the "B1 Warrants"). Each B1 Warrant entitles the holder to purchase one common share of the Company at a price of \$0.15 per common share until January 15, 2023. Other than the exercise price and expiry date, the B1 Warrants bear the similar terms and conditions as the A1 Warrants.

The B1 Agreement is subject to essentially the same terms and conditions as the A1 Agreement and the B1 Preferred Shares bear the same essential features of the A1 Preferred Shares including the rate and amount of the increase in the redemption value, the conversion option, put option and call option etc.

After the B1 Hold Period, Lind has the basic right to convert 15 B1 Preferred Shares into common shares of the Company on a monthly basis, subject to certain conversion limits set out in the B1 Agreement, however Lind is permitted to convert up to 60 B1 Preferred Shares on a monthly basis in the event such amount does not exceed 20% of the Company's 20-day traded volume of common shares on the TSX immediately prior to the date of delivery of a conversion notice.

At any time while any B1 Preferred Shares are outstanding, Lind has the option of subscribing for up to an additional 100 Series B2 Preferred Shares at a price of \$5,000 per share and under the same terms and conditions as the initial B1 financing, subject to certain triggering events and subject to the prior approval of the TSX ("Series B2 Option"). Lind will also receive a certain number of Series B2 warrants ("B2 Warrants") when it exercises the Series B2 Option. The number of B2 Warrants to be issued and the exercise price of the B2 Warrants will be calculated by using similar formulas used in determining the number and the exercise price of the B1 Warrants.

9. Convertible Redeemable Preferred Shares (continued)

As the B1 Preferred Shares bear the same essential features as the A1 Preferred Shares, the Company had designated the entire hybrid contract (the B1 Preferred Share and all of the embedded derivatives) as a financial liability at FVTPL in accordance with IAS 39 and re-measured at each financial statement reporting date.

As the Company has the Call Option to redeem all of the outstanding B1 Preferred Shares at any time after the B1 Hold Period at a 5% premium to the redemption value, the total fair value of the B1 Preferred Shares at issuance is therefore \$1,575,000.

Similar to the A1 Warrants, the exercise price of the B1 Warrants is subject to adjustment from time to time in the event of certain common share rights offering, as such, the B1 Warrants had been classified as a financial liability at FVTPL and re-measured at each financial statement reporting date using the Black-Scholes pricing model.

The fair value of the B1 Warrants was estimated at \$283,525 (or \$0.0454 for each warrant) at issuance, and this amount was allocated to the warrant component of this private placement. The fair value of the B1 Warrant was estimated using the Black-Scholes pricing model, with the following assumptions: expected dividend yield of Nil; risk free interest rate of 1.94%; expected life of 4.0 years; and expected volatility of 35%.

In connection with this private placement, the Company also incurred other issuance costs of \$34,040. Cash issuance costs incurred relating to this private placement totaled \$109,040 and had been recorded in the Statement of Comprehensive Loss as financing transaction costs.

The fair values of the B1 Preferred Shares and the B1 warrants at issuance totaled \$1,858,525 and the excess of this amount over the gross proceeds (\$1,500,000) of \$358,525 had been recorded as a financing transaction cost in the Statement of Comprehensive Loss as a financing transaction cost.

In June 2018, the Company entered into a preferred share purchase agreement (the "C1 Agreement") and issued 150 Series C1 Preferred Shares (the "C1 Preferred Shares") at a price of \$5,000 per share for gross proceeds of \$750,000. Pursuant to Canadian securities laws, the securities issuable under this private placement were subject to a hold period, which expires on October 30, 2018 (the "C1 Hold Period").

In conjunction with this private placement, Lind received a commitment fee of \$37,500 and 3,750,000 common share purchase warrants (the "C1 Warrants"). Each C1 Warrant entitles the holder to purchase one common share of the Company at a price of \$0.125 per common share until June 29, 2023. Other than the exercise price and expiry date, the C1 Warrants bear the similar terms and conditions as the A1 Warrants.

The C1 Agreement is subject to essentially the same terms and conditions as the A1 Agreement and the C1 Preferred Shares bear the same essential features of the A1 Preferred Shares including the rate and amount of the increase in the redemption value, the conversion option, put option and call option etc.

After the C1 Hold Period, Lind has the basic right to convert 10 C1 Preferred Shares into common shares of the Company on a monthly basis, subject to certain conversion limits set out in the C1 Agreement, however Lind is permitted to convert up to 30 C1 Preferred Shares on a monthly basis in the event such amount does not exceed 20% of the Company's 20-day traded volume of common shares on the TSX immediately prior to the date of delivery of a conversion notice.

At any time while any C1 Preferred Shares are outstanding, Lind has the option of subscribing for up to an additional 50 Series C2 Preferred Shares at a price of \$5,000 per share and under the same terms and conditions as the initial C1 financing, subject to certain triggering events and subject to the prior approval of the TSX ("Series C2 Option"). Lind will also receive a certain number of Series C2 warrants ("C2 Warrants") when it exercises the Series C2 Option. The number of C2 Warrants to be issued and the exercise price of the C2 Warrants will be calculated by using similar formulas used in determining the number and the exercise price of the C1 Warrants.

9. Convertible Redeemable Preferred Shares (continued)

As the C1 Preferred Shares bear the same essential features as the A1 Preferred Shares, the Company had designated the entire hybrid contract (the C1 Preferred Share and all of the embedded derivatives) as a financial liability at FVTPL in accordance with IAS 39 and re-measured at each financial statement reporting date.

As the Company has the Call Option to redeem all of the outstanding C1 Preferred Shares at any time after the C1 Hold Period at a 5% premium to the redemption value, the total fair value of the C1 Preferred Shares at issuance is therefore \$787,500.

Similar to the A1 Warrants, the exercise price of the C1 Warrants is subject to adjustment from time to time in the event of certain common share rights offering, as such, the C1 Warrants had been classified as a financial liability at FVTPL and re-measured at each financial statement reporting date using the Black-Scholes pricing model.

The fair value of the C1 Warrants was estimated at \$73,679 (or \$0.0196 for each warrant) at issuance, and this amount was allocated to the warrant component of this private placement. The fair value of the C1 Warrant was estimated using the Black-Scholes pricing model, with the following assumptions: expected dividend yield of Nil; risk free interest rate of 2.00%; expected life of 4.0 years; and expected volatility of 35%.

In connection with this private placement, the Company also incurred other issuance costs of \$18,668. Cash issuance costs incurred relating to this private placement totaled \$56,168 and had been recorded in the Statement of Comprehensive Loss as financing transaction costs.

The fair values of the C1 Preferred Shares and the C1 warrants at issuance totaled \$861,179 and the excess of this amount over the gross proceeds (\$750,000) of \$111,179 had been recorded as a financing transaction cost in the Statement of Comprehensive Loss as a financing transaction cost.

A summary of the changes in the convertible redeemable preferred shares amount is set out below:

	Number	Amount
A1 Preferred Shares		
Balance - September 1, 2016	-	\$ -
Preferred shares issued	500	2,625,000
Increase in fair value	-	131,250
Converted to common shares	(20)	(110,250)
Balance - August 31, 2017	480	2,646,000
Increase in fair value	-	385,875
Converted to common shares	(300)	(1,850,625)
Balance - August 31, 2018	180	\$ 1,181,250
B1 Preferred Shares		
Balance - September 1, 2016 and August 31, 2017	-	\$ -
Preferred shares issued	300	1,575,000
Increase in fair value	-	149,625
Converted to common shares	(60)	(338,625)
Balance - August 31, 2018	240	\$ 1,386,000
C1 Preferred Shares		
Balance - September 1, 2016 and August 31, 2017	-	\$ -
Preferred shares issued	150	787,500
Balance - August 31, 2018	150	\$ 787,500
	570	\$ 3,354,750

9. Convertible Redeemable Preferred Shares (continued)

As at August 31, 2018, Lind has the right to convert all of the outstanding A1 and B1 Preferred shares and also has the right to convert all of the outstanding C1 Preferred Shares after the C1 Hold Period. The number of common shares to be issued would be 59,235,294 if all of the outstanding A1, B1 and C1 Preferred Shares had been converted into common shares based on the closing price of the Company's common shares on the TSX of \$0.075 on August 31, 2018.

10. Derivative Liabilities

The derivative liabilities consist of the warrants denominated in foreign currency, the A1 Warrants, the B1 Warrants and C1 Warrants.

The derivative liability of \$181,671 for warrants denominated in foreign currency as at August 31, 2017 should have been classified as a non-current liability in accordance with IAS 1, *Presentation of Financial Statements* as at August 31, 2017, but was presented as a current liability on the Statement of Financial Position in the Company's consolidated annual financial statements for the year ended August 31, 2017. This amount has been reclassified as a non-current liability on the comparative Statement of Financial Position as included in these consolidated financial statements to conform with the current year's presentation.

The following table reconciles the outstanding warrants (with an exercise price in a currency that is not the functional currency of the Company) and the A1 and B1 Warrants to purchase common shares of the Company at the beginning and end of the respective periods:

	Number of Warrants	Amount
Warrants denominated in foreign currency		
Balance - September 1, 2016	6,466,513	\$ 411,418
Decrease in fair value	-	(229,747)
Balance - August 31, 2017	6,466,513	181,671
Decrease in fair value	-	(181,617)
Balance - August 31, 2018	6,466,513	\$ 54
A1, B1 and C1 Warrants		
Balance - September 1, 2016	-	\$ -
Issued	6,900,000	236,488
Decrease in fair value	-	(103,326)
Balance - August 31, 2017	6,900,000	133,162
Issued	10,000,000	357,204
Decrease in fair value	-	(380,599)
Balance - August 31, 2018	16,900,000	\$ 109,767
Total derivative liabilities		\$ 109,821

11. Site Closure and Reclamation Provision

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

	August 31, 2018	August 31, 2017
Balance - beginning of year	\$ 303,600	\$ 263,600
Increase in provision for site closure and reclamation costs	-	40,000
Balance - end of year	\$ 303,600	\$ 303,600

11. Site Closure and Reclamation Provision (continued)

As at August 31, 2018, the current estimated closure costs to reclaim the Company's Nechalacho exploration camp site at Thor Lake, the Separation Rapids and the Warren Township exploration sites are \$250,000, \$40,000 and \$13,600 respectively. The closure costs for the Nechalacho exploration camp site are expected to be incurred over the years of 2040 and 2041. The expected undiscounted future cash flow is estimated to be \$508,200 for the Nechalacho exploration camp site, assuming an annual inflation rate of 3%.

12. Share Capital

a) Authorized

The Company is presently authorized to issue an unlimited number of common shares without par value. The Company is also authorized to issue up to 25,000,000 preferred shares without par value, of which 950 have been issued and 570 are outstanding as at August 31, 2018.

b) Common Shares

Common shares issued during the years ended August 31, 2016, 2017 and 2018 are as follows:

- i) In September 2013, the Company entered into a sales agreement (the "Sales Agreement") with Cowen and Company, LLC ("Cowen"), pursuant to which the Company could, at its discretion and from time to time during the term of the Sales Agreement, sell, through Cowen, as agent and/or principal, such number of the Company's common shares as would result in aggregate gross proceeds to the Company of up to US\$25,000,000. Sales of common shares could be made through "at the market" issuances on the NYSE MKT at the market price prevailing at the time of each sale, and, as a result, prices varied.

The Company filed a prospectus supplement, dated September 24, 2013, pursuant to which the Company could issue up to US\$8,100,000 in common shares using the Sales Agreement (each prospectus supplement is limited to 10% of the market value of the Company at the end of the month prior to filing) (the "First Supplement").

The Company could pay Cowen a commission, or allowed a discount, equal to 3.0% of the gross proceeds of all common shares sold under the Sales Agreement.

Pursuant to the Sales Agreement, as at August 31, 2015, the Company had issued 9,428,180 common shares for gross proceeds of \$3,855,388 (US\$3,439,916) and paid cash commissions totaling \$115,661 (US\$103,197). During the year ended August 31, 2014, the Company had also incurred other costs (primarily related to the preparation of the Sales Agreement and the First Supplement) of \$399,032, of which \$381,775 had been recognized as share issuance costs as at August 31, 2015, and the balance of \$17,257 was recorded as prepaid transaction costs.

During the year ended August 31, 2016, the Company had issued 1,553,724 common shares for gross proceeds of \$248,086 (US\$187,696) pursuant to the Sales Agreement and paid cash commissions totaling \$7,443 (US\$5,631). The Company had recognized the balance of the prepaid transaction costs of \$17,257 as share issuance costs.

The Sales Agreement expired in October 2015.

12. Share Capital (continued)

- ii) On December 24, 2015, the Company completed a private placement (the “December 2015 Private Placement”) and issued 6,000,000 flow-through units (“Flow-Through Unit”) at \$0.125 per unit (the “Unit Price”) for gross proceeds of \$750,000. Each Flow-Through Unit consists of one flow-through common share and one-half of one non-transferrable common share purchase warrant. Each whole warrant entitles the holder to purchase one common share of the Company at a price of \$0.175 per share, until December 24, 2017.

The fair value of the warrant component of the Flow-Through Unit was estimated at \$0.0196 and the fair value of the flow-through feature of the Flow-Through Unit was estimated at \$0.0313. Using the relative fair value method, the Flow-Through Unit price of \$0.125 was allocated between the share component, the warrant component and the flow-through feature as follows: \$0.0917, \$0.0128, and \$0.0205, respectively.

The fair value of the warrant was estimated using the Black-Scholes pricing model, with the following assumptions: expected dividend yield of Nil; risk free interest rate of 0.48%; expected life of 2.0 years; and expected volatility of 64%. The fair value of the flow-through feature (flow-through share premium) is estimated by multiplying the CEE amount to be renounced per Flow-Through Unit of \$0.1249 by the Company’s current tax rate of 25%.

In connection with the December 2015 Private Placement, the Company paid cash commission of \$45,000, incurred other issuance costs of \$23,541 and issued 360,000 non-transferrable compensation warrants. Each compensation warrant entitles the holder to purchase one common share of the Company at an exercise price of \$0.125 per share until December 24, 2017. The estimated fair value of the compensation warrants totaled \$19,573. The fair values of these compensation warrants were estimated using the Black-Scholes pricing model, with the following assumptions: expected dividend yield of Nil; risk free interest rate of 0.48%; expected life of 2.0 years; and expected volatility of 64%.

Cash issuance costs and the estimated fair value of the compensation warrants were allocated on a pro-rata basis between the three components of the Flow-Through Unit.

The total flow-through share premium of \$108,549 (net of issuance costs of \$14,451) was recorded as a deferred flow-through share premium liability on the consolidated statement of financial position on December 24, 2015. The CEE expenditures renounced relating to the December 2015 Private Placement were incurred during the year ended August 31, 2016, accordingly the Company has recognized a deferred income tax recovery \$108,549 through the consolidated statement of comprehensive loss with a corresponding reduction to the deferred flow-through share premium liability during the year ended August 31, 2016.

- iii) On March 11, 2016, the Company completed a private placement (the “Private Placement”) and issued 13,700,000 units (“PP Unit”) at a price of \$0.10 per PP Unit for gross proceeds of \$1,370,000, of which 1,000,000 PP Units were issued to Mr. Donald Bubar. Each PP Unit consists of one common share and one-half of one non-transferrable common share purchase warrant. Each whole warrant entitles the holder to purchase one common share of the Company at a price of \$0.15 per share, until March 11, 2018, or if at any time following September 11, 2016, the closing price of the common shares on the TSX is \$0.25 or higher for a period of twenty consecutive trading days, the Company may, by notice to the holder reduce the expiry date of the warrants to not less than 30 days from the date of such notice (the “Accelerated Expiry Date”).

Of the PP Unit price of \$0.10, \$0.0871 was allocated to the common share component of the PP Unit and the balance of \$0.0129 was allocated to the warrant component of the PP Unit. These values were allocated on a pro rata basis based on the closing trading price of the Company’s common shares on the TSX on the date the terms of the private placement were finalized, which was \$0.14, and the estimated fair value of a whole warrant of \$0.0208. The fair value of the warrant was estimated using the Black-Scholes pricing model, with the following assumptions: expected dividend yield of Nil; risk free interest rate of 0.50%; expected life of 1.0 years; and expected volatility of 82%.

12. Share Capital (continued)

In connection with the Private Placement, the Company paid finders' fees of \$30,000, incurred other issuance costs of \$17,864 and issued 300,000 non-transferrable finder's compensation warrants. Each finder's compensation warrant entitles the holder to purchase one common share of the Company at an exercise price of \$0.11 per share until the earlier of March 11, 2018 or the Accelerated Expiry Date. The estimated fair value of the compensation warrants totaled \$26,671.

The fair values of these compensation warrants were estimated using the Black-Scholes pricing model, with the following assumptions: expected dividend yield of Nil; risk free interest rate of 0.50%; expected life of 1.0 years; and expected volatility of 82%.

Cash issuance costs and the estimated fair value of the compensation warrants were allocated on a pro-rata basis between the two components of the Unit.

- iv) On March 29, 2016, the Company completed a private placement (the "March 2016 Private Placement") and issued 3,000,000 flow-through units ("FT Unit") at a price of \$0.175 per FT Unit and 2,000,000 units ("Non-FT Unit") at a price of \$0.125 per Non-FT Unit for gross proceeds of \$775,000. Each FT Unit consists of one flow-through common share and one-half of one non-transferrable common share purchase warrant ("FT Warrant"). Each whole FT Warrant entitles the holder to purchase one common share of the Company at a price of \$0.20 per share until March 29, 2018, or if at any time following September 29, 2016, the closing price of the common shares on the TSX is \$0.25 or higher for a period of twenty consecutive trading days, the Company may, by notice to the holder reduce the expiry date of the warrants to not less than 30 days from the date of such notice ("Expiry Date"). Each Non-FT Unit consists of one common share and one-half of one non-transferrable common share purchase warrant (Non-FT Warrant). Each whole Non-FT Warrant entitles the holder to purchase one common share of the Company at a price of \$0.175 per share until the Expiry Date.

The fair value of the warrant component of the F-T Unit was estimated at \$0.0147 and the fair value of the flow-through feature of the FT Unit was estimated at \$0.0439. Using the relative fair value method, the FT Unit price of \$0.175 was allocated between the share component, the warrant component and the flow-through feature as follows: \$0.1259, \$0.0123, and \$0.0368, respectively.

The fair value of the FT Warrant was estimated using the Black-Scholes pricing model, with the following assumptions: expected dividend yield of Nil; risk free interest rate of 0.50%; expected life of 1.0 years; and expected volatility of 74%. The fair value of the flow-through feature ("flow-through share premium") was estimated by multiplying the CEE amount to be renounced per FT Unit of \$0.1749 by the Company's current tax rate of 25%.

Of the Non-FT Unit price of \$0.125, \$0.1117 was allocated to the common share component of the Non-FT Unit and the balance of \$0.0133 was allocated to the warrant component of the Non-FT Unit. These values were allocated on a pro rata basis based on the closing trading price of the Company's common shares on the TSX on the date the terms of the private placement were finalized, which was \$0.15, and the estimated fair value of a whole Non-FT Warrant of \$0.0356. The fair value of the Non-FT Warrant was estimated using the Black-Scholes pricing model, with the same assumptions as for the FT Warrant.

In connection with the issuance of the FT Units, the Company paid finders' fees of \$31,500 and issued 180,000 non-transferrable finder's compensation warrants. Each finder's compensation warrant entitles the holder to purchase one common share of the Company at an exercise price of \$0.175 per share until March 29, 2018. The estimated fair value of the compensation warrants totaled \$8,203. The fair values of these compensation warrants were estimated using the Black-Scholes pricing model, with the following assumptions: expected dividend yield of Nil; risk free interest rate of 0.51%; expected life of 2.0 years; and expected volatility of 72%.

The Company also incurred other issuance costs of \$14,263 relating to the March 2016 Private Placement.

12. Share Capital (continued)

Cash issuance costs and the estimated fair value of the compensation warrants totaling \$50,397 were allocated on a pro-rata basis between the three components of the FT Unit. The balance of the cash issuance costs of \$3,569 were allocated on a pro-rata basis between the two components of the Non-FT Unit.

The total flow-through share premium of \$110,400 was recorded as a deferred flow-through share premium liability on the consolidated statement of financial position on March 29, 2016. As at August 31, 2016, the Company had incurred CEE of \$65,505 related to the March 2016 Private Placement and the balance of \$459,195 had been incurred during the year ended August 31, 2017. Accordingly, the Company had recognized a pro rata amount of the flow-through share premium of \$13,783 and \$96,617 through the consolidated statement of comprehensive loss as a deferred income tax recovery with a corresponding reduction to the deferred flow-through share premium liability during the years ended August 31, 2016 and August 31, 2017, respectively.

- v) On November 7, 2016, the Company completed a private placement (the "November 2016 Private Placement") and issued 4,545,454 flow-through common shares at \$0.22 per share for gross proceeds of \$1,000,000.

In connection with the November 2016 Private Placement, the Company paid finders' fees of \$60,000, incurred other issuance costs of \$11,351 and issued 272,727 non-transferrable finder's compensation warrants. Each compensation warrant entitles the holder to purchase one common share of the Company at an exercise price of \$0.25 per share until November 7, 2018. The estimated fair value of the compensation warrants totaled \$12,747. The fair values of these compensation warrants were estimated using the Black-Scholes pricing model, with the following assumptions: expected dividend yield of Nil; risk free interest rate of 0.70%; expected life of 2.0 years; and expected volatility of 74%.

The excess of the cash consideration received over the market price of the Company's shares at the date of the announcement of the flow-through share financing totaling \$181,818 was recorded as a deferred flow-through share premium liability on the consolidated statement of financial position on November 7, 2016.

- vi) On December 23, 2016, the Company completed a private placement (the "December 2016 Private Placement") and issued 2,500,000 flow-through common shares at \$0.15 per share for gross proceeds of \$375,000.

In connection with the December 2016 Private Placement, the Company paid finders' fees of \$22,500, incurred other issuance costs of \$15,367 and issued 150,000 non-transferrable finder's compensation warrants. Each compensation warrant entitles the holder to purchase one common share of the Company at an exercise price of \$0.15 per share until December 23, 2018. The estimated fair value of the compensation warrants totaled \$9,189. The fair values of these compensation warrants were estimated using the Black-Scholes pricing model, with the following assumptions: expected dividend yield of Nil; risk free interest rate of 0.78%; expected life of 2.0 years; and expected volatility of 85%.

The excess of the cash consideration received over the market price of the Company's shares at the date of the announcement of the flow-through share financing totaling \$25,000 was recorded as a deferred flow-through share premium liability on the consolidated statement of financial position on December 23, 2016.

- vii) On June 12, 2017, the Company completed a private placement (the "June 2017 Private Placement") and issued 3,400,000 flow-through common shares at \$0.15 per share for gross proceeds of \$510,000.

12. Share Capital (continued)

In connection with the June 2017 Private Placement, the Company paid finders' fees of \$30,600, incurred other issuance costs of \$23,069 and issued 204,000 non-transferrable finder's compensation warrants. Each compensation warrant entitles the holder to purchase one common share of the Company at an exercise price of \$0.15 per share until June 12, 2019. The estimated fair value of the compensation warrants totaled \$10,463. The fair values of these compensation warrants were estimated using the Black-Scholes pricing model, with the following assumptions: expected dividend yield of Nil; risk free interest rate of 0.83%; expected life of 2.0 years; and expected volatility of 66%.

The excess of the cash consideration received over the market price of the Company's shares at the date of the announcement of the flow-through share financing totaling \$17,000 was recorded as a deferred flow-through share premium liability on the consolidated statement of financial position on June 12, 2017.

- viii) On August 16, 2017, the Company completed a private placement (the "August 2017 Private Placement") and issued 3,100,000 flow-through common shares at \$0.145 per share for gross proceeds of \$449,500.

In connection with the August 2017 Private Placement, the Company paid finders' fees of \$26,970, incurred other issuance costs of \$21,908 and issued 186,000 non-transferrable finder's compensation warrants. Each compensation warrant entitles the holder to purchase one common share of the Company at an exercise price of \$0.145 per share until August 16, 2019. The estimated fair value of the compensation warrants totaled \$7,655. The fair values of these compensation warrants were estimated using the Black-Scholes pricing model, with the following assumptions: expected dividend yield of Nil; risk free interest rate of 1.23%; expected life of 2.0 years; and expected volatility of 63%.

The excess of the cash consideration received over the market price of the Company's shares at the date of the announcement of the flow-through share financing totaling \$46,500 was recorded as a deferred flow-through share premium liability on the consolidated statement of financial position on August 16, 2017.

- ix) In November 2017, the Company completed a private placement and issued 3,215,000 flow-through common shares at a price of \$0.145 per share (of which 305,000 flow-through common shares were subscribed by certain directors and officers of the Company) and 4,800,000 non-flow-through units at a price of \$0.12 per unit (the "Unit") for gross proceeds of \$1,042,175 (the "November 2017 Private Placement"). Each Unit consists of one non-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 \$0.16 until November 3, 2019.

Of the Unit price of \$0.12, \$0.112 was allocated to the common share component of the Unit and the balance of \$0.008 was allocated to the warrant component of the Unit. These values were allocated on a pro rata basis based on the closing trading price of the Company's common shares on the TSX on the closing date of the private placement, which was \$0.135, and the estimated fair value of a whole warrant of \$0.0193. The fair value of the warrant was estimated using the Black-Scholes pricing model.

In conjunction with this private placement, the Company paid finder's fees of \$34,560, incurred other issuance costs of \$10,192 and issued 288,000 non-transferrable compensation warrants, with each compensation warrant being exercisable to acquire one common share of the Company at a price of \$0.15 until November 3, 2019. The total fair values of these compensation warrants were estimated at \$14,030 using the Black-Scholes pricing model.

The excess of the cash consideration received over the market price of the Company's shares at the date of the announcement of the flow-through share financing totaling \$32,150 was recorded as a deferred flow-through share premium liability on the consolidated statement of financial position on the date of issuance.

12. Share Capital (continued)

- x) In December 2017, the Company completed a private placement (the “December 2017 Private Placement”) and issued 3,737,400 flow-through common shares at \$0.145 per share for gross proceeds of \$541,923.

In connection with the December 2017 Private Placement, the Company paid finders’ fees of \$19,140, incurred other issuance costs of \$9,322 and issued 132,000 non-transferrable finder’s compensation warrants. Each compensation warrant entitles the holder to purchase one common share of the Company at an exercise price of \$0.15 per share until December 22, 2019. The fair values of these compensation warrants were estimated at \$4,475 using the Black-Scholes pricing model.

The excess of the cash consideration received over the market price of the Company’s shares at the date of the announcement of the flow-through share financing totaling \$112,122 was recorded as a deferred flow-through share premium liability on the consolidated statement of financial position on December 29, 2017.

- xi) In July 2018, the Company completed a private placement and issued 2,400,000 non-flow-through units (“New NFT Unit”) at a price of \$0.10 per New NFT Unit and 3,500,000 flow-through units (“New FT Unit”) at a price of \$0.10 per New FT Unit for total gross proceeds of \$590,000. Each New NFT Unit was comprised of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire one common share at a price of \$0.12 for a period of two years from the closing date of the private placement (the “Closing Date”), or if the closing price of the common shares on the TSX is \$0.16 or higher for a period of twenty consecutive trading days after the Closing Date, the Company may, by notice to the holder (supplemented by a news release of general dissemination) reduce the expiry date of the warrants to not less than 30 days from the date of such notice (the “Expiry Date”). Each New FT Unit was comprised of one flow-through common share and one half of one common share purchase warrant. Each whole warrant entitles the holder to acquire one common share at a price of \$0.12 until the Expiry date.

Of the New NFT Unit price of \$0.10, \$0.0889 was allocated to the common share component of the New NFT Unit and the balance of \$0.0111 was allocated to the warrant component of the New NFT Unit. These values were allocated on a pro rata basis based on the closing trading price of the Company’s common shares on the TSX on the Closing Date of the private placement, which was \$0.095, and the estimated fair value of a warrant of \$0.0119. The fair value of the warrant was estimated using the Black-Scholes pricing model.

The fair value of the warrant component of the New FT Unit was estimated at \$0.0040 and the fair value of the flow-through feature of the FT Unit was estimated at \$0.0250. Using the relative fair value method, the New FT Unit price of \$0.10 was allocated between the share component, the warrant component and the flow-through feature as follows: \$0.0746, \$0.0035, and \$0.0219, respectively.

The fair value of the warrant was estimated using the Black-Scholes pricing model. The fair value of the flow-through feature (“flow-through share premium”) was estimated by multiplying the CEE amount to be renounced per FT Unit of \$0.0999 by the Company’s current tax rate of 25%, which totaled \$76,650 and was recorded as a deferred flow-through share premium liability on the consolidated statement of financial position on July 11, 2018.

12. Share Capital (continued)

c) Warrants

The following table reconciles the warrants outstanding to purchase common shares of the Company at the beginning and end of the respective years:

	Number of Warrants	Weighted Average Exercise Price
Balance - September 1, 2015	3,478,485 ⁽¹⁾	\$0.490
Issued pursuant to equity offerings (Note 12b(ii) (iii) (iv))	12,350,000	0.164
Issued pursuant to Accommodation Agreement (note 7a)	10,000	0.230
Exercised	(125,000)	0.150
Balance - August 31, 2016	15,713,485 ⁽¹⁾	0.237
Exercised	(2,275,000)	0.150
Expired	(3,448,485)	0.490
Balance - August 31, 2017	9,990,000 ⁽¹⁾	0.169
Issued pursuant to equity offerings (Note 12b(ix) (xi))	6,550,000	0.135
Expired	(9,960,000)	0.168
Balance - August 31, 2018	6,580,000 ⁽¹⁾	\$0.136

⁽¹⁾ Does not include the 6,466,513 US\$ Warrants, 6,900,000 A1 Warrants, 6,250,000 B1 warrants and 3,750,000 C1 Warrants as disclosed below.

The outstanding warrants have a weighted average remaining contract life of 1.6 years.

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

As disclosed in Note 10, the Company also has the following warrants outstanding as at August 31, 2018:

- i) 6,466,513 US\$ Warrants with an adjusted exercise price of US\$0.5223 per share and are exercisable until June 13, 2021;
- ii) 6,900,000 A1 Warrants with an exercise price of \$0.23 per share and are exercisable until March 10, 2022;
- iii) 6,250,000 B1 Warrants with an exercise price of \$0.15 per share and are exercisable until January 15, 2023; and
- iv) 3,750,000 C1 Warrants with an exercise price of \$0.125 per share and are exercisable until June 29, 2023.

The Company is also required to issue 20,000 warrants to the Northwest Territory Métis Nation in two equal installments of 10,000 warrants upon the Nechalacho REE Project meeting certain milestones.

12. Share Capital (continued)

d) Share Based Payments

The shareholders have approved a Stock Option Plan (the "Plan") that provides for the issue of up to 10% of the number of issued and outstanding common shares of the Company to eligible employees, directors and service providers of the Company.

The Plan authorizes the granting of options to purchase common shares of the Company at a price equal to or greater than the closing price of the shares on either the trading day prior to the grant or the day of the grant. The options generally vest over a period of one to four years, and generally have a term of two to five years (but can have a maximum term of up to 10 years).

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

	Number of Options	Weighted Average Exercise Price
Balance - September 1, 2015	9,775,000	\$ 1.56
Granted	2,140,000	0.16
Expired	(1,125,000)	4.46
Forfeited	(150,000)	2.13
Balance - August 31, 2016	10,640,000	0.96
Granted	3,180,000	0.17
Expired	(3,075,000)	2.15
Forfeited	(410,000)	0.86
Balance - August 31, 2017	10,335,000	0.37
Granted	2,345,000	0.12
Exercised	(50,000)	0.11
Expired	(1,215,000)	0.91
Forfeited	(70,000)	0.44
Balance - August 31, 2018	11,345,000	\$ 0.26

As at August 31, 2018, there were 7,816,250 options vested (August 31, 2017 - 7,223,750, August 31, 2016 - 7,551,250) with an average exercise price of \$0.31 per share (August 31, 2017 - \$0.42, August 31, 2016 - \$1.15), that were exercisable.

During the year ended August 31, 2018, an aggregate of 50,000 stock options were exercised at the weighted average exercise price of \$0.11 per share, and the weighted average closing market share price on the date preceding the date of exercise was \$0.13 per share. No stock options were exercised during the years ended August 31, 2016 and 2017.

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

The estimated fair value of options earned during the year ended August 31, 2018 was \$176,836 (2017 - \$254,994, 2016 - \$455,475), of which \$1,825 (2017 - \$3,172, 2016 - \$5,633) was capitalized to property, plant and equipment, \$25,129 (2017 - \$66,082, 2016 - \$103,407) was capitalized as exploration and evaluation assets, \$596 (2017 - \$2,632, 2016 - \$1,000) was charged to operations as general exploration expenses, with the balance of \$149,286 (2017 - \$183,108, 2016 - \$345,435) charged to operations as share based compensation expense.

12. Share Capital (continued)

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

The weighted average assumptions for grants during the years ended August 31, 2018, August 31, 2017 and August 31, 2016 are as follows:

	August 31, 2018	August 31, 2017	August 31, 2016
Exercise price	\$0.12	\$0.17	\$0.16
Closing market price on day preceding date of grant	\$0.12	\$0.17	\$0.16
Risk-free interest rate	1.88%	0.75%	0.53%
Expected life (years)	3.1	3.0	3.5
Expected volatility	59%	77%	71%
Expected dividend yield	Nil	Nil	Nil
Grant date fair value	\$0.05	\$0.08	\$0.08
Forfeiture rate	15%	16%	16%

The following table summarizes information concerning outstanding and exercisable options as at August 31, 2018:

Exercise Price Range	Number of Options		Weighted Average Remaining Contractual Life
	Outstanding	Exercisable	
\$0.60 - \$0.84	1,035,000	1,035,000	0.5 years
\$0.40 - \$0.59	1,140,000	1,117,500	0.7 years
\$0.30 - \$0.39	585,000	438,750	1.7 years
\$0.20 - \$0.29	1,770,000	1,488,750	1.8 years
\$0.11 - \$0.19	6,815,000	3,736,250	2.2 years
	<u>11,345,000</u>	<u>7,816,250</u>	

12. Share Capital (continued)

e) *Brokers' Compensation Warrants*

The following table summarizes information concerning outstanding brokers' compensation warrants as at August 31, 2016, August 31, 2017 and August 31, 2018:

	Number of Compensation Warrants	Weighted Average Exercise Price
Balance - September 1, 2015	1,732,612	\$ 0.45 ⁽¹⁾
Issued pursuant to equity offerings (Note 12b(ii)(iii)(iv))	840,000	0.13
Exercised	(360,000)	0.13
Balance - August 31, 2016	2,212,612	0.38 ⁽¹⁾
Issued pursuant to equity offerings (Note 12b(v)(vi)(vii)(viii))	812,727	0.18
Expired	(1,732,612)	0.44
Balance - August 31, 2017	1,292,727	0.16
Issued pursuant to equity offering (note 12b(ix)(x))	420,000	0.15
Exercised	(300,000)	0.11
Expired	(180,000)	0.18
Balance - August 31, 2018	1,232,727	\$ 0.17

⁽¹⁾ 554,273 of the compensation warrants outstanding as at September 1, 2015 and throughout the period to August 31, 2016 were denominated in US\$. The effect of the change in the foreign exchange rate between the Canadian\$ and the US\$ had been reflected in the weighted average exercise price as at September 1, 2015 and as at August 31, 2016.

The brokers' compensation warrants reserve, included as a component of the consolidated statement of changes in equity, relates to equity settled compensation instruments issued by the Company to external service providers.

As at August 31, 2018, the Company has the following compensation warrants outstanding:

- (i) 272,727 compensation warrants with an exercise price of \$0.25 per common share, which are exercisable until November 7, 2018;
- (ii) 150,000 compensation warrants with an exercise price of \$0.15 per common share, which are exercisable until December 23, 2018;
- (iii) 204,000 compensation warrants with an exercise price of \$0.15 per common share, which are exercisable until June 12, 2019;
- (iv) 186,000 compensation warrants with an exercise price of \$0.145 per common share, which are exercisable until August 16, 2019;
- (v) 288,000 compensation warrants with an exercise price of \$0.15 per common share, which are exercisable until November 3, 2019; and
- (vi) 132,000 compensation warrants with an exercise price of \$0.15 per common share, which are exercisable until December 22, 2019.

13. Corporate and Administrative Expenses

Corporate and administrative expenses for the years ended August 31, 2018, 2017 and 2016 consist of the following:

	August 31, 2018	August 31, 2017	August 31, 2016
Salaries and benefits ⁽¹⁾	\$ 1,387,249	\$ 1,509,865	\$ 1,607,078
Directors' fees	78,850	83,404	86,321
Consulting and professional fees	398,244	368,610	546,675
Office, insurance and other expenses	286,460	336,744	381,710
Occupancy	317,305	310,842	303,096
Shareholders' communications and filing fees	159,060	150,607	176,624
Travel and related costs	97,591	117,720	119,914
	<u>\$ 2,724,759</u>	<u>\$ 2,877,792</u>	<u>\$ 3,221,418</u>

⁽¹⁾ These figures do not include share based compensation. Employees' salaries, benefits including share based compensation expensed for the year ended August 31, 2018 totaled \$1,463,258 (2017 - \$1,694,241, 2016 - \$1,830,114).

14. Capital Management

Capital of the Company consists of the components of shareholders' equity, convertible and redeemable preferred shares, warrants denominated in foreign currency and the A1, B1 and C1 Warrants.

The Company's objectives when managing capital are as follows:

- (i) to safeguard the Company's assets and ensure the Company's ability to continue as a going concern;
- (ii) to raise sufficient capital to finance its exploration and development activities on its resource properties; and
- (iii) to raise sufficient capital to meet its general and administrative expenditures.

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 common shares. In order to achieve its objectives, the Company expects to spend its existing working capital and raise additional funds as required.

As disclosed in Note 9, the holder of the Preferred Shares Lind is also entitled to accelerate its conversion right, or demand repayment of the applicable redemption value per share in cash, upon the occurrence of certain Redemption Events. The Redemption Events also limit the Company from obtaining other debt or preferred share financings that are not junior to the Preferred Shares other than certain project-related financings, as well as other at-the-market, equity lines or credit type of common share offerings, or convertible security financings where the price of the common share is not fixed at predetermined price. No Redemption Event had occurred since the issuance of the Preferred Shares.

The Company does not have any externally imposed capital requirements other than those Redemption Events as discussed above. There were no significant changes to the Company's approach to capital management during the year ended August 31, 2018.

15. Related Party Disclosures

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

a) Trading transactions

There had been no material trading transactions with related parties during each of the years ended August 31, 2018, 2017 and 2016, other than the participation by certain related parties in certain equity offerings as listed below:

- (i) on March 11, 2016, pursuant to the Private Placement, Mr. Donald Bubar subscribed for 1,000,000 PP Units at \$0.10 per unit (note 12(b)(iii)); and
- (ii) the participation by certain related parties in the November 2017 Private Placement, whereby Donald Bubar, Director, President and CEO, Mark Wiseman, Vice President Sustainability, Patricia Mohr, Director subscribed for 200,000, 55,000 and 50,000 flow-through shares at \$0.145 per share, respectively.

b) Compensation of key management personnel

The remuneration of directors and other key members of the Company's senior management team during the years ended August 31, 2018, August 31, 2017 and August 31, 2016 are as follows:

	August 31, 2018	August 31, 2017	August 31, 2016
Salaries, benefits and directors' fees ⁽¹⁾	\$ 1,692,551	\$ 1,744,508	\$ 1,803,314
Share based compensation ⁽²⁾	118,991	281,657	337,541
	<u>\$ 1,811,542</u>	<u>\$ 2,026,165</u>	<u>\$ 2,140,855</u>

⁽¹⁾ Salaries and benefits of key management personnel capitalized to exploration and evaluation assets and PPE totaled \$577,224 (2017 - \$571,471, 2016 - \$603,415).

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

16. Financial Instruments

IFRS 7 establishes a fair value hierarchy that reflects the significance of inputs used in making fair value measurements as follows:

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

Assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The fair values of the Company's warrants denominated in a currency that is not the functional currency of the Company and the A1, B1 and C1 Warrants are based on Level 2 inputs that are observable for the liability such as interest rate, dividend yield and historical volatility. The fair values of the Company's A1, B1 and C1 Preferred Shares are based on Level 3 inputs, including applicable redemption amounts and redemption premiums. The Company has the right to redeem the A1, B1 and C1 Preferred Shares at any time and therefore the fair value of the A1, B1 and C1 Preferred Shares is the amount the Company has to pay to redeem the A1, B1 and C1 Preferred Shares, which is the redemption amount as specified in the purchase agreements plus 5% redemption premium.

16. Financial Instruments (continued)

Fair Values

Except as disclosed elsewhere in these consolidated financial statements, the carrying amounts for the Company's financial instruments approximate their fair values because of the short-term nature of these items. The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk

The Company is not exposed to any significant credit risk as at August 31, 2018. The Company's cash and cash equivalents are either on deposit with two major Canadian Chartered banking groups in Canada or invested in bankers' acceptance notes or guaranteed investment certificates issued by two major Canadian Chartered banking groups. The Company's receivables primarily consist of Goods and Services Tax/Harmonized Sales Tax receivable, government grants and refundable security deposits with various federal and provincial governments and are therefore not subject to significant credit risk.

Liquidity risk

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

As at August 31, 2018, the Company has current assets of \$625,244 and current liabilities of \$848,309. As disclosed in Note 9, the holder of the A1, B1 and C1 Preferred Shares is entitled to demand repayment of the applicable redemption value per share in cash (which totaled \$3,195,000 as at August 31, 2018) upon the occurrence of certain Redemption Events. No redemption event has occurred since the issuances of the A1, B1 and C1 Preferred Shares. Excluding the deferred flow-through share premium of \$52,157, the Company's adjusted working capital deficit as at August 31, 2018 was \$170,908, (calculated by adding back the deferred flow-through share premium of \$52,157 to the working capital deficit of \$223,065). As the de-recognition of the deferred flow-through share premium will not require the future out flow of resources by the Company, it is management's belief that the adjusted working capital figure provides useful information in assessing the Company's liquidity risk.

Repayments due by period as of August 31, 2018:

	Within 1 Year	1-3 Years	4-5 Years	Over 5 Years	Total
Accounts payable and accrued liabilities	\$ 796,152	\$ -	\$ -	\$ -	\$ 796,152
Operating lease obligations	318,395	681,430	711,190	484,047	2,195,062
	\$ 1,114,547	\$ 681,430	\$ 711,190	\$ 484,047	\$ 2,991,214

Market risk

(i) Interest rate risk

The Company has cash and cash equivalents balances and it has no interest-bearing debt. The Company's current policy is to invest its excess cash in highly liquid money market investments such as bankers' acceptance notes, treasury bills and GICs. These short term money market investments are subject to interest rate fluctuations.

16. Financial Instruments (continued)

(ii) Foreign currency risk

The Company's functional currency is the Canadian dollar. The majority of the Company's purchases are transacted in Canadian dollars. Other than the US\$ Warrants as disclosed in Note 10, the Company had no other significant financial assets or financial liabilities denominated in foreign currencies as at August 31, 2018.

(iii) Price risk

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

Sensitivity analysis

Considering the Company's budget expenditures for the next twelve months and its current cash and cash equivalents of \$319,057, with other variables held constant, sensitivity to a plus or minus 25 basis points change in interest rates would not have any significant effect on the Company's net loss over a twelve month period.

Other than the US\$ Warrants as disclosed in note 10, the Company had no other significant financial assets or financial liabilities denominated in foreign currencies as at August 31, 2018, and its anticipated on-going expenditures to be transacted in US dollars for the next twelve month period is approximately US\$200,000. If the Canadian dollar weakens (or strengthens) 5% against the US dollar with other variables held constant, it would not have any significant effect on the Company's expenditures over a twelve month period.

17. Supplemental Cash Flow Information

Non-cash financing and investing transactions not reflected in the Consolidated Statements of Cash Flows for the years ended August 31, 2018, August 31, 2017 and August 31, 2016 are as follows:

	August 31, 2018	August 31, 2017	August 31, 2016
Share based compensation capitalized as property, plant and equipment (note 12d)	\$ 1,825	\$ 3,172	\$ 5,633
Share based compensation capitalized as exploration and evaluation assets (note 12d)	25,129	66,082	103,407
Depreciation expense capitalized as property, plant and equipment	37,513	46,912	57,265
Depreciation expense capitalized as exploration and evaluation assets	8,867	8,424	8,883
Warrants issued pursuant to the Accommodation Agreement and capitalized as property, plant and equipment (note 7a)	-	-	1,353
Common shares issued for exploration and evaluation assets (note 6a)	-	92,500	-
	\$ 73,334	\$ 217,090	\$ 176,541

18. Income Taxes

a) Provision for Income Taxes

The following table reconciles the income tax provision from the expected income tax amount based on the statutory rates to the amount recognized in the statements of comprehensive loss:

	August 31, 2018	August 31, 2017	August 31, 2016
Net loss for the year before income taxes	\$ 3,458,976	\$ 3,674,789	\$ 3,955,785
Combined Canadian federal and provincial tax rate	25.1%	25.0%	25.4%
Expected income tax recovery at statutory rates	868,203	918,697	1,004,769
Share based compensation	(37,620)	(45,777)	(87,740)
Non-deductible financing transaction costs	(89,678)	(90,372)	-
Other non-deductible expenses	(2,864)	(6,708)	(8,697)
Exploration expenditures to be renounced	-	-	(16,638)
Non-taxable (non-deductible) change in fair value of financial instruments	6,706	50,456	(31,130)
Losses and other deductions for which no benefit has been recognized	(526,515)	(508,828)	(444,424)
Deferred income tax recoveries	\$ 218,232	\$ 317,468	\$ 416,140

b) Income Tax Effect of Temporary Differences Recognized

The tax effects of temporary differences recognized as at August 31, 2018 and August 31, 2017 are as follows:

	August 31, 2018	August 31, 2017
Deferred income tax assets		
Exploration and evaluation assets	\$ 4,647,258	\$ 5,518,746
Scientific research and experimental developmental expenditures	5,527,640	4,594,951
	10,174,898	10,113,697
Deferred income tax liabilities		
Property plant and equipment	(10,174,898)	(10,113,697)
Net deferred income tax assets	\$ -	\$ -

18. Income Taxes (continued)

c) Income Tax Temporary Differences Not Recognized

The deductible income tax temporary differences that have not been recognized as deferred income tax assets as at August 31, 2018 and August 31, 2017 are as follows:

	August 31, 2018	August 31, 2017
Non-capital loss carryforwards	\$ 33,460,535	\$ 28,092,197
Scientific research and experimental developmental expenditures	5,345,287	8,987,956
Share issuance costs	781,253	1,226,581
Capital loss carry forwards	2,294,535	2,294,535
Deductible temporary differences not recognized	\$ 41,881,610	\$ 40,601,269

The Company also has non-refundable investment tax credit carry forwards of \$5,773,473 (2017 - \$5,817,339), which has not been recognized as a deferred income tax asset.

d) Non-Capital Losses

The Company has non-capital losses carried forward of approximately \$31,793,000 (2017 - \$26,424,000, 2016 - \$24,367,000) available to reduce future years' Canadian taxable income. These losses will expire as follows:

2026	\$ 156,000
2027	232,000
2028	847,000
2029	914,000
2030	1,584,000
2031	3,050,000
2032	3,601,000
2033	4,151,000
2034	4,211,000
2035	4,397,000
2036	3,008,000
2037	2,805,000
2038	2,837,000

The Company also has net operating losses of approximately \$1,668,000 (2017 - \$1,668,000, 2016 - \$1,668,000) to reduce future years' U.S. taxable income. These losses will expire as follows:

2031	\$ 5,000
2032	2,000
2033	3,000
2034	1,658,000

e) Capital Losses

The Company has capital losses carried forward of approximately \$2,295,000 (2017 - 2,295,000, 2016 - \$2,295,000) available to reduce future years' Canadian taxable capital gains.

19. Loss per Share

The weighted average number of common shares for the purposes of diluted loss per share reconciles to the weighted average number of common shares used in the calculation of basic loss per share as follows:

	August 31, 2018	August 31, 2017	August 31, 2016
Weighted average number of common shares used in the calculation of basic loss per share	215,152,381	187,869,637	167,184,272
Diluted impact of convertible redeemable preferred shares	-	-	-
Diluted impact of warrants	-	-	-
Diluted impact of stock options	-	-	-
Weighted average number of common used in the calculation of diluted loss per share	<u>215,152,381</u>	<u>187,869,637</u>	<u>167,184,272</u>

The loss used to calculate the basic and diluted loss per common share for the year ended August 31, 2018 was \$3,240,744 (2017 - \$3,357,321, 2016 - \$3,539,645).

As at August 31, 2018, the Company had 31,179,240 (2017 - 24,649,240, 2016 - 24,392,610) warrants and 11,345,000 (2017 - 10,335,000, 2016 - 10,640,000) stock options outstanding. The Company also had 570 Preferred Shares outstanding as at August 31, 2018 (2017 - 480, 2016 - Nil), which could have been converted into 59,235,294 common shares based on the closing price of the Company's common shares on the TSX of \$0.075 on August 31, 2018. These warrants, options and Preferred Shares could potentially dilute earnings per share in the future, but have not been included in the diluted loss per share calculation because they were antidilutive for the years ended August 31, 2018, August 31, 2017 and August 31, 2016.

20. Operating Lease Arrangements

The Company has entered into commercial leases on its premises and the future minimum lease payments under non-cancellable operating leases are as follows:

2019	\$318,395
2020	333,275
2021	348,155
2022	351,875
2023	359,315
2024 and thereafter	484,047

21. Commitments

As at August 31, 2018, pursuant to the subscription agreements entered into for the June and August private placements the Company is required to incur additional CEE of \$237,922 by December 31, 2019.

22. Events After the Reporting Period

Subsequent to the year ended August 31, 2018, the Company:

- granted an aggregate of 100,000 stock options with a weighted average exercise price of \$0.10 per share to certain employees of the Company. The weighted average contract life of these options at issuance was 5 years;
- issued a total of 6,094,954 common shares pursuant to the conversion of 30 A1 Preferred Shares, 20 B1 Preferred Shares and 10 C1 Preferred Shares;

22. Events After the Reporting Period (continued)

- c) had 1,400,000 stock options with a weighted average exercise price of \$0.17 per share expire;
- d) had 272,727 broker's compensation warrants with an exercise price of \$0.25 per share expire;
- e) completed a private placement and issued 5,375,000 units at the price of \$0.07 per unit for gross proceeds of \$376,250. Each unit was comprised of one common share and one half of one common share purchase warrant. Each whole warrant entitles the holder to acquire one common share at a price of \$0.12 for a period of two years from the closing date of the private placement (the "Closing Date"), or if the closing price of the common shares on the TSX is \$0.16 or higher for a period of twenty consecutive trading days after the Closing Date, the Company may, by notice to the holder (supplemented by a news release of general dissemination) reduce the expiry date of the warrants to not less than 30 days from the date of such notice. Donald Bubar, Director, President and CEO subscribed for 1,000,000 units; and
- f) entered into a \$500,000 convertible security funding agreement ("Funding Agreement") with Lind. The convertible security under the Funding Agreement has a two year term and will accrue a simple interest rate obligation of 10% on the amount funded that is prepaid and attributed to its face value upon issuance. Lind will be entitled to convert the convertible security commencing 180 days after execution of the Funding Agreement at a conversion price equal to the higher of (a) 80% of the five day trailing VWAP of the common shares prior to the date of conversion, and (b) the five day trailing VWAP of the shares prior to the date of conversion, less the maximum discount allowable in accordance with TSX rules. Company has floor price protection such that if any conversion results in an effective conversion price of less than \$0.05 per share, then the Company has the right to instead repay the amount that was subject to that conversion for a 5% premium. The Company also has the right to repurchase the convertible security at any time.

In conjunction with the closing of the convertible security, Lind will receive a commitment fee of \$15,000 and 4,575,000 common share purchase warrants. Each warrant entitles the holder to purchase one common share of the Company at a price of \$0.07 per common share until 36 months after closing.