



Consolidated Financial Statements

**For the years ended
August 31, 2020, 2019 and 2018**

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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, 2020. 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, 2020.

As at August 31, 2020, 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, 2020 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 27, 2020

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 statements of financial position of Avalon Advanced Materials Inc. (the "Company") as of August 31, 2020 and 2019 the related consolidated statements of comprehensive loss, changes in equity, and cash flows for each of the three years in the period ended August 31, 2020, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of August 31, 2020 and 2019, and its financial performance and its cash flows for each of the three years in the period ended August 31, 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

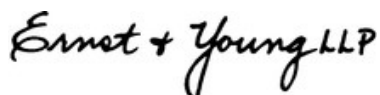
The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the company has incurred losses in the current and prior years, and has stated that there exists an uncertainty as to the Company's ability to raise additional funds on favourable terms in order to finance its planned activities and that these conditions indicate the existence of a material uncertainty that raises substantial doubt about the Company's ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding 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.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting 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.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.



Chartered Professional Accountants
Licensed Public Accountants

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

Toronto, Canada
November 27, 2020

Consolidated Statements of Financial Position
(expressed in Canadian Dollars)
As at August 31, 2020 and August 31, 2019

	2020	2019
Assets		
Current Assets		
Cash and cash equivalents (note 4)	\$ 1,295,723	\$ 1,881,841
Other receivables	263,141	337,573
Prepaid expenses and deposits	118,536	140,720
Asset held for sale (note 5)	-	2,605,147
	<u>1,677,400</u>	<u>4,965,281</u>
Non-Current Assets		
Exploration and evaluation assets (note 6)	12,083,199	17,065,203
Property, plant and equipment (note 7)	102,836,885	101,981,838
	<u>114,920,084</u>	<u>119,047,041</u>
	<u>\$ 116,597,484</u>	<u>\$ 124,012,322</u>
Liabilities		
Current Liabilities		
Accounts payable	\$ 153,743	\$ 151,318
Accrued liabilities	574,383	922,474
Deferred flow-through share premium (note 8)	136,800	47,481
Deferred asset sale proceeds (note 7a)	-	3,200,000
Current portion of lease obligation (note 9)	178,893	-
	<u>1,043,819</u>	<u>4,321,273</u>
Non-Current Liabilities		
Lease obligation (note 9)	688,574	-
Convertible note payable (note 10)	-	175,000
Convertible redeemable preferred shares (note 11)	-	958,125
Derivative liabilities (note 12)	59,827	27,069
Site closure and reclamation provisions (note 13)	303,600	303,600
	<u>1,052,001</u>	<u>1,463,794</u>
	<u>2,095,820</u>	<u>5,785,067</u>
Shareholders' Equity		
Share Capital (note 14b)	179,329,547	177,802,700
Reserve for Warrants (note 14c)	4,336,481	4,330,037
Reserve for Share Based Payments (note 14d)	17,333,864	17,225,482
Reserve for Brokers' Compensation Warrants (note 14e)	286,000	286,000
Accumulated Deficit	(86,784,228)	(81,416,964)
	<u>114,501,664</u>	<u>118,227,255</u>
	<u>\$ 116,597,484</u>	<u>\$ 124,012,322</u>

The accompanying notes are an integral part of these consolidated financial statements.
Commitments (note 22)

Approved on behalf of the Board

_____, "Donald S. Bubar", Director

_____, "Alan Ferry", Director

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

	2020	2019	2018
Revenue			
Interest	\$ 24,787	\$ 42,819	\$ 61,777
Management fees (note 7a)	109,351	10,204	-
	<u>134,138</u>	<u>53,023</u>	<u>61,777</u>
Expenses			
Corporate and administrative (note 15)	1,828,971	2,415,003	2,724,759
Impairment loss on exploration and evaluation assets (note 6)	5,587,210	639,034	-
General exploration	127,353	11,861	17,269
Depreciation (note 7)	163,292	20,617	18,538
Share based compensation (note 14d)	99,033	78,844	149,286
Interest on lease obligation	43,530	-	-
Foreign exchange loss	622	1,435	2,705
Financing transaction costs (note 10, 11)	-	177,503	634,912
Increase in fair value of convertible redeemable preferred shares (note 11)	39,375	376,688	535,500
Increase (Decrease) in fair value of derivative liabilities (note 12)	32,758	(126,951)	(562,216)
	<u>7,922,144</u>	<u>3,594,034</u>	<u>3,520,753</u>
Net Loss before the Undernoted item	(7,788,006)	(3,541,011)	(3,458,976)
Gain on Sale of Property, Plant and Equipment (note 7a)	2,373,261	-	-
Net Loss before Income Taxes	(5,414,745)	(3,541,011)	(3,458,976)
Deferred Income Tax Recoveries (note 20)	47,481	154,676	218,232
Net Loss and Total Comprehensive Loss for the year	\$ (5,367,264)	\$ (3,386,335)	\$ (3,240,744)
Loss per Share - Basic and Diluted (note 21)	\$ (0.016)	\$ (0.012)	\$ (0.015)
Weighted Average Number of Common Shares Outstanding - Basic and Diluted	334,332,582	275,760,316	215,152,381

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, 2017	196,735,521	\$169,593,205	\$ 4,258,213	\$ 16,955,411	\$ 294,166	\$ (74,789,885)	\$116,311,110
Equity offerings (note 14b)	17,652,400	1,875,886	77,290	-	-	-	1,953,176
Conversion of redeemable preferred shares (note 11)	22,280,507	2,189,250	-	-	-	-	2,189,250
Exercise of options (note 14d)	50,000	5,500	-	-	-	-	5,500
Reserve transferred on exercise of options	-	2,137	-	(2,137)	-	-	-
Exercise of compensation warrants (note 14e)	300,000	33,000	-	-	-	-	33,000
Reserve transferred on exercise of compensation warrants	-	26,671	-	-	(26,671)	-	-
Compensation warrants issued on equity offerings (note 14b)	-	-	-	-	18,505	-	18,505
Share based compensation (note 14d)	-	-	-	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
Equity offerings (note 14b)	15,375,000	918,725	7,525	-	-	-	926,250
Conversion of redeemable preferred shares (note 11)	53,337,055	2,773,313	-	-	-	-	2,773,313
Conversion of note payable (note 10)	7,721,966	425,000	-	-	-	-	425,000
Exercise of warrants (note 14c)	1,000,000	120,000	-	-	-	-	120,000
Reserve transferred on exercise of warrants	-	6,657	(6,657)	-	-	-	-
Exercise of options (note 14d)	200,000	20,000	-	-	-	-	20,000
Reserve transferred on exercise of options	-	1,850	-	(1,850)	-	-	-
Share based compensation (note 14d)	-	-	-	97,222	-	-	97,222
Share issuance costs - cash	-	(63,642)	(261)	-	-	-	(63,903)
Net loss for the year	-	-	-	-	-	(3,386,335)	(3,386,335)
Balance at August 31, 2019	314,652,449	177,802,700	4,330,037	17,225,482	286,000	(81,416,964)	118,227,255
Equity offerings (note 14b)	6,000,000	396,000	7,200	-	-	-	403,200
Conversion of redeemable preferred shares (note 11)	23,706,725	997,499	-	-	-	-	997,499
Conversion of note payable (note 10)	4,053,983	175,000	-	-	-	-	175,000
Share based compensation (note 14d)	-	-	-	108,382	-	-	108,382
Share issuance costs - cash	-	(41,652)	(756)	-	-	-	(42,408)
Net income for the year	-	-	-	-	-	(5,367,264)	(5,367,264)
Balance at August 31, 2020	348,413,157	\$179,329,547	\$ 4,336,481	\$ 17,333,864	\$ 286,000	\$ (86,784,228)	\$114,501,664

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

	2020	2019	2018
Operating Activities			
Cash paid to employees	\$ (1,399,003)	\$ (1,159,131)	\$ (1,381,833)
Cash paid to suppliers	(661,150)	(1,165,017)	(1,262,306)
Interest received	24,787	42,819	61,777
Management fees received	114,742	-	-
Cash Used by Operating Activities	(1,920,624)	(2,281,329)	(2,582,362)
Financing Activities			
Net proceeds from equity offerings	507,100	955,379	2,025,843
Net proceeds from issuance of preferred shares	-	-	2,084,792
Net proceeds from issuance of note payable	-	466,696	-
Proceeds from exercise of warrants	-	120,000	-
Proceeds from exercise of stock options	-	20,000	5,500
Proceeds from exercise of brokers' compensation warrants	-	-	33,000
Lease payments (note 3s)	(207,063)	-	-
Cash Provided by Financing Activities	300,037	1,562,075	4,149,135
Investing Activities			
Exploration and evaluation assets	(713,783)	(766,825)	(2,041,084)
Property, plant and equipment	(29,534)	(149,702)	(277,501)
Net proceeds from sale of property, plant and equipment (note 7)	1,778,408	3,200,000	-
Cash Provided (Used) by Investing Activities	1,035,091	2,283,473	(2,318,585)
Change in Cash and Cash Equivalents	(585,496)	1,564,219	(751,812)
Foreign Exchange Effect on Cash	(622)	(1,435)	(2,705)
Cash and Cash Equivalents - beginning of year	1,881,841	319,057	1,073,574
Cash and Cash Equivalents - end of year	\$ 1,295,723	\$ 1,881,841	\$ 319,057

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

Supplemental Cash Flow Information (note 19)

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 \$5,367,264 the year ended August 31, 2020 (the "Year") and an accumulated deficit of \$86,784,228 as at August 31, 2020. The Company's cash and cash equivalents balance at August 31, 2020 was \$1,295,723, and the working capital was \$633,581. Excluding the deferred flow-through share premium of \$136,800, the Company's adjusted working capital as at August 31, 2020 was \$770,381 (calculated by adding back the deferred flow-through share premium of \$136,800 to the working capital of \$633,581).

The outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments, and the impact on the Company's ability to raise capital, its financial results or its financial condition.

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. These conditions indicate 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, 2020, the Company is required to incur additional Canadian exploration expenses ("CEE") of \$539,400 by December 31, 2021. The Company's expenditures on discretionary exploration and development activities have some scope for flexibility in terms of amount and timing, which can be adjusted accordingly. 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 27, 2020.

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"), and Avalon Rare Metals Ltd. ("ARML"). Nolava and ARML are incorporated in the United States of America ("USA").

ARML has not carried on any significant operations since its 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. All intercompany transactions and balances have been eliminated on consolidation of the accounts.

The Company also has a 50% interest in NWT Rare Earths Ltd., with an unrelated third party owning the other 50%, which was created in the Year to hold the exploration permits and related authorizations pertaining to the Nechalacho REE Project, in order to assist each party's development of their respective projects. NWT Rare Earths Ltd. has not carried on any significant operations since its inception and no equity earnings/losses has been allocated to the Company.

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.

3. Summary of Significant Accounting Policies (continued)

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.

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 the 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

On September 1, 2019, the Company adopted IFRS 16, "Leases" ("IFRS 16") using the modified retrospective approach. The Company assesses at the inception of a contract whether that contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For contracts that contain a lease component, the Company then recognizes a right-of-use ("ROU") asset and a lease obligation at the lease commencement date.

Lease obligations are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Lease obligations are subsequently measured at amortized cost using the effective interest method.

The ROU assets are initially measured based on the initial amount of the lease obligation adjusted for initial direct costs incurred, lease payments made prior to inception, estimated costs to dismantle, remove or restore the asset and less any lease incentives received. ROU assets are subsequently measured at cost and are depreciated on a straight line basis over the shorter of the lease term and the useful life.

3. Summary of Significant Accounting Policies (continued)

The Company elects to apply the practical expedient not to recognize ROU assets and lease obligations for short-term (12 months or less) leases of all asset classes and also elects to apply the practical expedient not to recognize ROU assets and lease obligations for leases of low value (less than \$US5,000) assets. The lease payments associated with either short-term leases or leases of low-value underlying assets are recognized as an expense on a straight-line basis over the lease term.

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.

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.

3. Summary of Significant Accounting Policies (continued)

The Company recognizes a proportion of 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") 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.

The 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.

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.

3. Summary of Significant Accounting Policies (continued)

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. At each financial statement reporting date, the Company assesses whether there is any indication of impairment. Indicators of impairment include, but are not limited to:

- i) The right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- ii) Substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
- iii) Exploration for and evaluation of mineral resources in the specific area have not led to the commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area; and
- iv) Sufficient data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

In circumstances where indicators of impairment exist, an impairment test is performed to determine if the carrying amount of a specific project exceeds its estimated recoverable amount. The estimated recoverable amount is the greater of fair value less costs of disposal, and value in use (which is discounted expected future cash flows). If the estimated recoverable amount of the project is less than its carrying amount, the carrying amount of the project is reduced to its estimated 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.

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. Development assets are not depreciated until construction is complete and the assets are available for their intended use.

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.

3. Summary of Significant Accounting Policies (continued)

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
Leased office premises	- straight line basis over the shorter of the term of the lease and useful life
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 classified as held for sale (when assets' carrying amounts will be recovered principally through a sale transaction rather than through continuing use), 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.

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.

3. Summary of Significant Accounting Policies (continued)

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.

1) Financial Instruments

On September 1, 2018, the Company adopted IFRS 9, "Financial Instruments" ("IFRS 9") which replaces IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"). The retrospective adoption of IFRS 9 had no material impact to the Company's consolidated financial statements.

Classification and Measurement

Under IFRS 9, financial assets are initially classified and subsequently measured at amortized cost, fair value through other comprehensive income ("FVOCI"); or fair value through profit or loss "FVTPL". A financial asset is measured at either amortized cost or FVTPL based on the business model in which the financial asset is managed and its contractual cash flow characteristics, unless the financial asset is required or designated to be classified and measured at FVTPL or FVOCI. On initial recognition of an equity instrument investment, the Company may irrevocably elect to measure the investment at FVOCI on an investment-by-investment basis, where the changes in the fair value of equity instruments are permanently recognized in other comprehensive income and will not be reclassified to profit or loss.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (which generally include derivative liabilities or other financial liabilities which are held for trading), or the Company has irrevocably designated them at FVTPL on initial recognition.

Financial assets and financial liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs that are directly attributable to the acquisition or issuance of the financial asset or financial liability, and are subsequently carried at amortized cost using the effective interest rate method, less any impairment. The changes in the fair value that are attributable to changes in the Company's own credit risk of financial liabilities elected at FVTPL are permanently recognized in other comprehensive income and will not be reclassified to profit or loss.

Financial assets and financial liabilities at FVTPL are initially recognized at fair value and transaction costs are expensed in the statement profit or loss, and are subsequently measured at fair value. Any realized and unrealized gains and losses arising from the changes in fair value are included in the statement of profit or loss in the period in which they arise.

Financial assets at FVOCI are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset, and are subsequently carried at fair value, with any unrealized gains and losses arising from the changes in fair value being included in other comprehensive income or loss. When debt financial assets are derecognized, the cumulative gains and losses previously recognized in other comprehensive income are reclassified to profit or loss. The changes in the fair value of equity instrument investments elected at FVOCI are permanently recognized in other comprehensive income and will not be reclassified to profit or loss.

3. Summary of Significant Accounting Policies (continued)

The following table shows the original categories under IAS 39 and the new categories under IFRS 9 for each class of the Company's financial assets and financial liabilities:

Financial Instrument	Classification and Measurement Category	
	IAS 39	IFRS 9
Cash and cash equivalents	Loans and receivables at amortized cost	Amortized cost
Other receivables	Loans and receivables at amortized cost	Amortized cost
Accounts payable	Other financial liabilities at amortized cost	Amortized cost
Accrued liabilities	Other financial liabilities at amortized cost	Amortized cost
Convertible note payable	FVTPL	FVTPL
Convertible redeemable preferred shares	FVTPL	FVTPL
Derivative liabilities	FVTPL	FVTPL

Impairment of Financial Assets

IFRS replaces the "incurred loss" model in IAS 39 with a single forward-looking expected credit loss ("ECL") impairment model, which is based on changes in credit quality since initial recognition. The new impairment model is applied, at each reporting date, to financial assets measured at amortized costs or those measured at FVOCI (except for equity instrument investments). Any impairment losses recognized are charged to profit or loss, with the offsetting credit reducing the carrying amount of the financial assets that are measure at amortized cost. For financial assets measured at FVOCI, the impairment loss will be credited to other comprehensive income or loss.

There were no adjustments to the carrying amounts of the Company's financial instruments on the date of transition as a result of the transition from IAS 39 to IFRS 9.

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.

3. Summary of Significant Accounting Policies (continued)

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) Government Grants

Government grants are recognized as other receivables on the statements of financial position when there is reasonable assurance that the company will comply with the conditions attaching to them and the grants will be received. Government grants are recognized in profit or loss on a systematic basis over the periods in which the company recognizes as expenses the related costs for which the grants are intended to compensate and are recorded as a reduction of such expenses. Grants that are for the development and exploration of the Company's resource properties for which the related expenditures are capitalized are recorded as a reduction of the carrying amount of the related assets.

Funding amounts received in advance of expenses incurred are deferred and are recorded as accrued liabilities on the statements of financial position.

p) 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.

q) 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.

r) 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.

3. Summary of Significant Accounting Policies (continued)

Key Sources of Estimation Uncertainty

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the financial results or the financial positions reported in future periods are included in the following notes:

Recoverability of Exploration and Evaluation Assets, 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, years to commencement of production, future capital requirements, exploration potential and operating performance.

Determination of Reserve and Resource Estimates

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

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.

3. Summary of Significant Accounting Policies (continued)

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.

s) New Accounting Standards Recently Adopted

IFRS 16, Leases

As described in 3(c) above, the Company adopted IFRS 16 effective September 1, 2019 using the modified retrospective approach and accordingly the information presented for fiscal 2019 has not been restated.

On initial application, the Company recognized a ROU asset (included in property, plant and equipment) and a corresponding lease obligation relating to a lease for its office premises in Toronto, which had previously been classified as an operating lease under IAS 17 - *Leases*. The Company has elected to record the ROU asset based on the corresponding lease obligation. The ROU asset and lease obligation of \$1,045,810 were recorded as of September 1, 2019, with no net impact on the opening retained earnings. When measuring the lease obligation, the Company discounted the remaining lease payments under the lease contract using its estimated weighted-average incremental borrowing rate of 5.0%.

The following table reconciles the Company's operating lease obligation on August 31, 2019, as previously disclosed in the Company's consolidated financial statements, to the lease obligation recognized on initial application of IFRS 16 on September 1, 2019.

Operating lease commitments as at August 31, 2019	\$ 1,156,911
Increase in lease payments relating to the operating cost of the office lease	31,794
Discounted using the estimated incremental borrowing rate	<u>(142,895)</u>
Lease obligation recognized on September 1, 2019	<u>\$ 1,045,810</u>

3. Summary of Significant Accounting Policies (continued)

The adoption of IFRS 16 had the following impact on the Company's consolidated statement of comprehensive loss for the Year:

Increase in depreciation expense	\$ 196,090
Increase in interest on lease obligation	43,530
Decrease in corporate and administrative expenses	(207,063)
Total increase in expenses, decrease in net income and comprehensive income	<u>\$ 32,557</u>

The adoption of IFRS 16 had no net impact on the Company's consolidated statement of cash flows for the Year, but had increased the cash used by financing activities by \$207,063, which was offset by the same amount of decrease for the cash used by operating activities.

4. Cash and Cash Equivalents

Cash and cash equivalents are comprised of the following

	<u>August 31, 2020</u>	<u>August 31, 2019</u>
Cash held in bank accounts	\$ 263,225	\$ 748,636
Guaranteed investment certificates	1,032,498	1,133,205
	<u>\$ 1,295,723</u>	<u>\$ 1,881,841</u>

5. Asset Held for Sale

In June 2019, the Company entered into an agreement, under which an unrelated third party would acquire ownership of the near-surface mineral resources principally in the T-Zone and Tardiff Zones of the Nechalacho REE Project above a depth of 150 metres above sea level for a total cash consideration of \$5.0 million as described in Note 7a while the Company retains ownership of the deeper resources in the Basal Zone that were the subject of its 2013 feasibility study. The sale was completed during the Year. The Company had transferred the carrying cost relating to the near-surface mineral resources of \$2,605,147 from the total carrying cost of the Nechalacho REE Project included in Property, Plant and Equipment to Asset Held for Sale as at August 31, 2019, and recognized a net gain on sale of \$2,373,261 during the Year.

6. Exploration and Evaluation Assets

	September 1, 2018	Expenditures	Impairment Loss	August 31, 2019
Separation Rapids Lithium Project (a)	\$ 11,010,950	\$ 511,188	\$ -	\$ 11,522,138
East Kemptville Tin-Indium Project (b)	5,827,524	315,087	(639,034)	5,503,577
Other (c)	35,760	3,728	-	39,488
	<u>\$ 16,874,234</u>	<u>\$ 830,003</u>	<u>\$ (639,034)</u>	<u>\$ 17,065,203</u>

	September 1, 2019	Expenditures	Impairment Loss	August 31, 2020
Separation Rapids Lithium Project (a)	\$ 11,522,138	\$ 503,191	\$ -	\$ 12,025,329
East Kemptville Tin-Indium Project (b)	5,503,577	83,633	(5,587,210)	-
Other (c)	39,488	18,382	-	57,870
	<u>\$ 17,065,203</u>	<u>\$ 605,206</u>	<u>\$ (5,587,210)</u>	<u>\$ 12,083,199</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.

b) East Kemptville Tin-Indium Project, Nova Scotia

The Company held a special exploration licence (the "Special 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 had a term of three years which began February 2, 2015 and was renewable for an additional two one-year periods, which extended the Special Licence until February 1, 2020, which has since been converted to a regular exploration licence.

The Company completed a preliminary economic assessment during fiscal 2018 with a development model of utilizing the existing tailings management area ("TMA") and had been in negotiation with the surface rights owner to secure full tenure to the project site. Agreement in principle was reached in Fiscal 2019, however, the surface rights owner subsequently refused to sign the agreement after putting on hold any new work on TMAs on all of its closed minesites. Not having access to the existing unused tailings ponds severely limits the possibilities for economic re-development of the site. This realization coupled with the continuing difficulties in getting surface access to the project site, caused the Company to decide to withdraw its lease application and to write off the costs incurred to-date of \$5,587,210 as an impairment loss during the Year.

The Company also had a number of regular exploration licences covering certain claims in the same proximity to the claims covered under the special exploration licence. During the year ended August 31, 2019, the Company decided not to renew these peripheral exploration licences, and accordingly the costs incurred to-date of \$639,034 on the mineral claims under the exploration licences had been written off as an impairment loss during the year ended August 31, 2019.

c) Other Resource Properties

The Company has a 100% interest in a mining lease in the Warren Township Anorthosite Project, located near Foleyet, Ontario, a 100% interest in several claims in the Lilypad Cesium-Tantalum Property, located 150 km northeast of Pickle Lake, Ontario, 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 located near Thunder Bay, Ontario.

7. Property, Plant and Equipment

	Nechalacho REE Project (a)	Airstrip	Office, Computer and Office Equipment (b)	Land and Building	Exploration Equipment	Leasehold Improvements	Total
Cost							
As at September 1, 2018	\$ 103,878,349	\$ 646,860	\$ 220,048	\$ 90,905	\$ 695,532	\$ 94,594	\$ 105,626,288
Additions	201,097	-	-	-	-	7,020	208,117
Transfer to asset held for sale	(2,605,147)	-	-	-	-	-	(2,605,147)
Disposals	-	-	(18,911)	-	-	-	(18,911)
As at August 31, 2019	101,474,299	646,860	201,137	90,905	695,532	101,614	103,210,347
Additions	30,340	-	18,575	-	1,300	5,140	55,355
IFRS 16 adjustments	-	-	1,045,810	-	-	-	1,045,810
Disposals	-	-	(30,283)	-	-	-	(30,283)
As at August 31, 2020	<u>\$ 101,504,639</u>	<u>\$ 646,860</u>	<u>\$ 1,235,239</u>	<u>\$ 90,905</u>	<u>\$ 696,832</u>	<u>\$ 106,754</u>	<u>\$ 104,281,229</u>
Accumulated Depreciation							
As at September 1, 2018	\$ -	\$ 265,446	\$ 179,986	\$ 10,367	\$ 643,185	\$ 94,594	\$ 1,193,578
Depreciation expense	-	20,624	12,714	4,191	15,705	108	53,342
Disposals	-	-	(18,411)	-	-	-	(18,411)
As at August 31, 2019	-	286,070	174,289	14,558	658,890	94,702	1,228,509
Depreciation expense	-	18,974	210,352	4,191	11,025	1,576	246,118
Disposals	-	-	(30,283)	-	-	-	(30,283)
As at August 31, 2020	<u>\$ -</u>	<u>\$ 305,044</u>	<u>\$ 354,358</u>	<u>\$ 18,749</u>	<u>\$ 669,915</u>	<u>\$ 96,278</u>	<u>\$ 1,444,344</u>
Net Book Value							
As at August 31, 2019	<u>\$ 101,474,299</u>	<u>\$ 360,790</u>	<u>\$ 26,848</u>	<u>\$ 76,347</u>	<u>\$ 36,642</u>	<u>\$ 6,912</u>	<u>\$ 101,981,838</u>
As at August 31, 2020	<u>\$ 101,504,639</u>	<u>\$ 341,816</u>	<u>\$ 880,881</u>	<u>\$ 72,156</u>	<u>\$ 26,917</u>	<u>\$ 10,476</u>	<u>\$ 102,836,885</u>

7. Property, Plant and Equipment (continued)

a) Nechalacho REE Project, Northwest Territories

The Company owns a 100% interest in eight mining leases covering the Nechalacho rare earth elements deposit ("Nechalacho Deposit") located at Thor Lake in the Mackenzie Mining District of the Northwest Territories.

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 \$1.6 million (the "2.5% NSR Royalty").

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 Akaithcho 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.

During the year ended August 31, 2019, the Company and an unrelated third party entered into an agreement under which this third party will acquire ownership of the near-surface resources principally in the T-Zone and Tardiff Zones of the property for a total cash consideration of \$5.0 million while the Company will retain ownership of the mineral resources below a depth of 150 metres above sea level, a 3.0% NSR royalty (the "3.0% NSR Royalty") and will continue to have access to the property for exploration, development and mining purposes (the "Sale and Purchase Agreement"). The Company has also agreed to waive the 3.0% NSR Royalty for the first five years of commercial production and to grant the third party the option to pay the Company \$2.0 million within eight years of the transaction closing to extend the waiver of this royalty in perpetuity. This agreement also grants the third party an option to purchase the Company's option in the 2.5% NSR Royalty for an inflation adjusted fixed amount estimated at \$1.5 million as at the agreement date, provided that, upon exercising the option, it extinguishes this royalty.

As the sale was completed during the Year, the Company had transferred the carrying cost relating to the near-surface mineral resources of \$2,605,147 from the total carrying cost of the Nechalacho REE Project included in Property, Plant and Equipment to Asset Held for Sale as at August 31, 2019, and recognized a net gain on sale of \$2,373,261 during the Year. Advance payments totaling \$3.2 million had been received by August 31, 2019 and was recorded as Deferred Asset Sale Proceeds on the Statement of Financial Position as at August 31, 2019. The balance of \$1.8 million was received during the Year.

During the Year, the Company generated net management fees of \$109,351 (2019 - \$10,204) for services provided to the third party to manage its exploration activities on the property.

At August 31, 2020, the amount of the net assets of the Company is more than its market capitalization, IAS 36 - *Impairment of Assets* considers that an indicator of impairment is present based on external sources of information. The Company completed an impairment test on the Nechalacho Project as at August 31, 2020 and determined that the Project was not impaired. The main assumptions used to determine the recoverable amount related to Nechalacho were long-term commodity prices, changes in cost estimates, discount rates, foreign exchange rates and years to commencement of production.

- b) Depreciation of \$121,093 (net of \$74,997 in rent forgiveness receivable under the Canada Emergency Commercial Rent Assistance program) was recognized relating to the ROU asset during the Year (2019 - \$Nil), and the carrying balance of the ROU asset was \$849,720 as at August 31, 2020 (2019 - \$Nil).

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, 2018	\$ 52,157
Increase relating to flow-through common shares issued	150,000
Decrease relating to CEE incurred	<u>(154,676)</u>
Balance - August 31, 2019	47,481
Increase relating to flow-through common shares issued	136,800
Decrease relating to CEE incurred	<u>(47,481)</u>
Balance - August 31, 2020	<u>\$ 136,800</u>

9. Lease Obligation

As at August 31, 2020, the Company had the following future commitment relating to the lease contract for its office premises:

2021	\$ 218,252
2022	222,556
2023	229,181
2024	233,563
2025	<u>63,280</u>
Total future lease payments as at August 31, 2020	966,832
Amounts representing interest	<u>99,365</u>
Present value of future lease payments	867,467
Current portion of lease obligation	<u>178,893</u>
Non-current portion of lease obligation	<u>\$ 688,574</u>

10. Convertible Note Payable

On November 30, 2018, the Company issued a convertible note payable in the amount of \$500,000 to an entity managed by the Lind Partners ("Lind") (the "Note"). The Note had a term of two years with a maturity date of November 30, 2020 and accrued an interest amount of \$100,000 on the date of issuance, resulting in the Note to bear a face value of \$600,000 at issuance.

Lind was entitled to convert any outstanding amount of the face value of the Note into common shares commencing on May 26, 2019 at a conversion price equal to the higher of (a) 80% of the five day trailing value weighted average price ("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. The Company had floor price protection such that if any conversion results in an effective conversion price of less than \$0.05 per share, then the Company had the right to instead repay the amount that was subject to that conversion for a 5% premium. The Company also had the right to repurchase the Note at the outstanding face value at any time.

10. Convertible Note Payable (continued)

A summary of the changes in the convertible note payable amount is set out below:

Balance - September 1, 2018	\$ -
Issued	500,000
Interest	100,000
Converted to common shares	<u>(425,000)</u>
Balance - August 31, 2019	175,000
Converted to common shares	<u>(175,000)</u>
Balance - August 31, 2020	<u>\$ -</u>

11. Convertible Redeemable Preferred Shares

In March 2017, the Company entered into a preferred share purchase agreement (the "A1 Agreement") with an entity managed by 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 did not carry a dividend and had a redemption value that started 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 could 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 was 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 had 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 was permitted to convert up to 100 A1 Preferred Shares on a monthly basis in the event such amount did 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 was 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 included change of control, insolvency and liquidity conditions etc. as defined in the A1 Agreement. These Redemption Events also limited the Company from obtaining other debt or preferred share financings that were 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 was not fixed at predetermined price. In addition, if the Redemption Event was a change of control event, the redemption amount would be equal to 110% of the applicable redemption amount at that time.

The Company had 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 had 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 had 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.

11. Convertible Redeemable Preferred Shares (continued)

At any time while any A1 Preferred Shares are outstanding, Lind had 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 would also receive a certain number of Series A2 warrants ("A2 Warrants") if it had exercised the Series A2 Option. The number of A2 Warrants to be issued and the exercise price of A2 Warrants would be calculated by using similar formulas used in determining the number and the exercise price of the A1 Warrants.

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 expired 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 was subject to essentially the same terms and conditions as the A1 Agreement and the B1 Preferred Shares had 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 had 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 was 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 had 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 would also receive a certain number of Series B2 warrants ("B2 Warrants") if it had exercised the Series B2 Option. The number of B2 Warrants to be issued and the exercise price of the B2 Warrants would be calculated by using similar formulas used in determining the number and the exercise price of the B1 Warrants.

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 expired 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 was subject to essentially the same terms and conditions as the A1 Agreement and the C1 Preferred Shares had 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 had 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 was 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.

11. Convertible Redeemable Preferred Shares (continued)

At any time while any C1 Preferred Shares are outstanding, Lind had 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 would also receive a certain number of Series C2 warrants ("C2 Warrants") if it had exercised the Series C2 Option. The number of C2 Warrants to be issued and the exercise price of the C2 Warrants would be calculated by using similar formulas used in determining the number and the exercise price of the C1 Warrants.

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

	Number	Amount
A1 Preferred Shares		
Balance - September 1, 2018	180	\$ 1,181,250
Increase in fair value	-	80,063
Converted to common shares	(180)	(1,261,313)
	<u>-</u>	<u>-</u>
Balance - August 31, 2019 and August 31, 2020	-	\$ -
B1 Preferred Shares		
Balance - September 1, 2018	240	\$ 1,386,000
Increase in fair value	-	175,875
Converted to common shares	(155)	(981,750)
	<u>-</u>	<u>-</u>
Balance - August 31, 2019	85	580,125
Increase in fair value	-	18,375
Converted to common shares	(85)	(598,500)
	<u>-</u>	<u>-</u>
Balance - August 31, 2020	-	\$ -
C1 Preferred Shares		
Balance - September 1, 2018	150	\$ 787,500
Increase in fair value	-	120,750
Converted to common shares	(90)	(530,250)
	<u>-</u>	<u>-</u>
Balance - August 31, 2019	60	378,000
Increase in fair value	-	21,000
Converted to common shares	(60)	(399,000)
	<u>-</u>	<u>-</u>
Balance - August 31, 2020	-	\$ -
	<u>-</u>	<u>\$ -</u>

12. Derivative Liabilities

The derivative liabilities consist of the warrants denominated in foreign currency, and certain warrants with exercise prices that are subject to adjustment from time to time in the event of certain common share rights offering (collectively referred to as "liability classified warrants").

12. Derivative Liabilities (continued)

The following table summarizes information concerning the derivative liabilities as at the beginning and end of the respective reporting periods:

	Number of Warrants	Amount
Warrants denominated in foreign currency		
Balance - September 1, 2018	6,466,513	\$ 54
Decrease in fair value	-	(53)
Balance - August 31, 2019 and August 31, 2020	6,466,513	\$ 1
Other warrants subject to potential price adjustment		
Balance - September 1, 2018	16,900,000	\$ 109,767
Issued	4,575,000	44,199
Decrease in fair value	-	(126,898)
Balance - August 31, 2019	21,475,000	27,068
Increase in fair value	-	32,758
Balance - August 31, 2020	21,475,000	\$ 59,826
Total derivative liabilities		\$ 59,827

13. Site Closure and Reclamation Provision

As at August 31, 2019 and 2020, the 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 approximately 20 years after the commencement of commercial production. The expected undiscounted future cash flow is estimated to be \$539,000 for the Nechalacho exploration camp site, assuming an annual inflation rate of 3%.

14. 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 none are outstanding as at August 31, 2020.

b) Common Shares

Common shares issued during the years ended August 31, 2018, 2019 and 2020 are as follows:

- i) 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 "NFT Unit") for gross proceeds of \$1,042,175 (the "November 2017 Private Placement"). Each NFT 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.

14. Share Capital (continued)

Of the NFT Unit price of \$0.12, \$0.112 was allocated to the common share component of the NFT Unit and the balance of \$0.008 was allocated to the warrant component of the 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 \$0.135, 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.

- ii) 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.

- iii) 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.

14. Share Capital (continued)

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 New 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 Flow-through Share Premium was estimated by multiplying the CEE amount to be renounced per New 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.

- iv) In November 2018, the Company completed a private placement and issued 5,375,000 units at a price of \$0.07 per unit (the "Unit") for gross proceeds of \$376,250, of which 1,000,000 Units were subscribed by Mr. Donald Bubar, Director, President and CEO of the Company (the "November 2018 Private Placement"). 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.

Of the Unit price of \$0.07, \$0.069 was allocated to the common share component of the Unit and the balance of \$0.001 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 \$0.065, and the estimated fair value of a whole warrant of \$0.003. The fair value of the warrant was estimated using the Black-Scholes pricing model.

- v) In December 2018, the Company completed a private placement and issued 10,000,000 flow-through common shares at \$0.07 per share for gross proceeds of \$700,000.

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 \$150,000 was recorded as a deferred flow-through share premium liability on the consolidated statement of financial position on December 21, 2018.

- vi) In August 2020, the Company completed a private placement and issued 6,000,000 flow-through units ("FT Unit") at a price of \$0.09 per FT Unit for gross proceeds of \$540,000. Each 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 August 25, 2022.

The fair value of the warrant component of the FT Unit was estimated at \$0.0011 and the fair value of the flow-through feature of the FT Unit was estimated at \$0.0225. Using the relative fair value method, the FT Unit price of \$0.09 was allocated between the share component, the warrant component and the flow-through feature as follows: \$0.0660, \$0.0012, and \$0.0228, respectively.

The fair value of the warrant was estimated using the Black-Scholes pricing model. The Flow-through Share Premium was estimated by multiplying the CEE amount to be renounced per FT Unit of \$0.0899 by the Company's current tax rate of 25%. The amount of the Flow-through Share Premium totaled \$136,800 and was recorded as a deferred flow-through share premium liability on the consolidated statement of financial position on August 25, 2020.

14. Share Capital (continued)

c) Warrants

The following table reconciles the equity classified 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, 2017	9,990,000 ⁽¹⁾	\$ 0.169
Issued pursuant to equity offerings (note 14b(i) (iii))	6,550,000	0.135
Expired	(9,960,000)	0.168
Balance - August 31, 2018	6,580,000 ⁽¹⁾	0.136
Issued pursuant to equity offerings (note 14b(iv))	2,687,500	0.120
Exercised	(1,000,000)	0.120
Expired	(10,000)	0.490
Balance - August 31, 2019	8,257,500 ⁽¹⁾	0.132
Issued pursuant to equity offerings (note 14b(vi))	3,000,000	0.120
Expired	(6,060,000)	0.136
Balance - August 31, 2020	5,197,500 ⁽¹⁾	\$ 0.120

⁽¹⁾ Does not include the additional liability classified warrants as disclosed below.

The outstanding equity classified warrants have a weighted average remaining contract life of 1.2 years.

Subsequent to the Year, the expiry dates for the remaining outstanding warrants (each with an exercise price of \$0.12 per share) issued in the November 2018 Private Placement were extended. The expiry date has been extended from November 1, 2020 to November 1, 2021 for 1,900,000 warrants, and the expiry date for the remaining 287,500 warrants has been extended from November 23, 2020 to November 23, 2021. All other terms and conditions of these warrants remain unchanged.

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.

The Company also has the following liability classified warrants outstanding as at August 31, 2020:

- i) 6,466,513 warrants with an adjusted exercise price of US\$0.5223 per share ("US\$ Warrants") and are exercisable until June 13, 2021. These warrants are subject to certain anti-dilution provisions, which may reduce the exercise price, with a floor of US\$0.5095 per share;
- 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;
- iv) 3,750,000 C1 Warrants with an exercise price of \$0.125 per share and are exercisable until June 29, 2023; and
- v) 4,575,000 warrants with an exercise price of \$0.07 per share and are exercisable until November 30, 2021.

14. Share Capital (continued)

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.

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, 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
Granted	3,020,000	0.10
Exercised	(200,000)	0.10
Expired	(3,875,000)	0.43
Forfeited	(893,750)	0.17
Balance - August 31, 2019	9,396,250	0.16
Granted	7,680,000	0.08
Expired	(3,241,250)	0.21
Forfeited	(290,000)	0.10
Balance - August 31, 2020	13,545,000	\$ 0.10

As at August 31, 2020, there were 5,416,250 options vested (August 31, 2019 - 6,147,500, August 31, 2018 - 7,816,250) with an average exercise price of \$0.12 per share (August 31, 2019 - \$0.17, August 31, 2018 - \$0.31), that were exercisable.

No stock option was exercised during the Year. During the year ended August 31, 2019, an aggregate of 200,000 (2018 - 50,000) stock options were exercised at the weighted average exercise price of \$0.10 (2018 - \$0.11) per share, and the weighted average closing market share price on the date preceding the date of exercise was \$0.075 (2018 - \$0.13) per share.

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.

14. Share Capital (continued)

The estimated fair value of options earned during the Year was \$108,382 (2019 - \$97,222, 2018 - \$176,836), of which \$297 (2019 - \$4,484, 2018 - \$1,825) was capitalized to property, plant and equipment, \$6,768 (2019 - \$13,894, 2018 - \$25,129) was capitalized as exploration and evaluation assets, \$2,284 (2019 - \$Nil, 2018 - \$596) was charged to operations as general exploration expenses with the balance of \$99,033 (2019 - \$78,844, 2018 - \$149,286) charged to operations as share based compensation expense.

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, 2020, August 31, 2019 and August 31, 2018 are as follows:

	August 31, 2020	August 31, 2019	August 31, 2018
Exercise price	\$0.08	\$0.10	\$0.12
Closing market price on day preceding date of grant	\$0.05	\$0.08	\$0.12
Risk-free interest rate	1.00%	1.80%	1.88%
Expected life (years)	3.6	3.3	3.1
Expected volatility	80%	63%	59%
Expected dividend yield	Nil	Nil	Nil
Grant date fair value	\$0.02	\$0.03	\$0.05
Forfeiture rate	14%	15%	15%

The following table summarizes information concerning outstanding and exercisable options as at August 31, 2020:

Exercise Price Range	Number of Options		Weighted Average Remaining Contractual Life
	Outstanding	Exercisable	
\$0.25 - \$0.25	300,000	300,000	0.8 years
\$0.20 - \$0.24	90,000	67,500	1.0 years
\$0.15 - \$0.19	880,000	697,500	1.5 years
\$0.11 - \$0.14	2,715,000	2,075,000	1.7 years
\$0.08 - \$0.10	9,560,000	2,276,250	3.3 years
	13,545,000	5,416,250	

14. Share Capital (continued)

e) Brokers' Compensation Warrants

The following table summarizes information concerning outstanding brokers' compensation warrants as at August 31, 2018, August 31, 2019 and August 31, 2020:

	Number of Compensation Warrants	Weighted Average Exercise Price
Balance - September 1, 2017	1,292,727	\$ 0.16
Issued pursuant to equity offering (note 14b(i)(ii))	420,000	0.15
Exercised	(300,000)	0.11
Expired	(180,000)	0.18
Balance - August 31, 2018	1,232,727	0.17
Expired	(812,727)	0.18
Balance - August 31, 2019	420,000	0.15
Expired	(420,000)	0.15
Balance - August 31, 2020	-	\$ -

15. Corporate and Administrative Expenses

Corporate and administrative expenses for the years ended August 31, 2020, 2019 and 2018 consist of the following:

	August 31, 2020	August 31, 2019	August 31, 2018
Salaries and benefits ⁽¹⁾	\$ 1,007,016	\$ 1,433,624	\$ 1,387,249
Directors' fees ⁽²⁾	12,060	63,800	78,850
Consulting and professional fees	373,912	231,814	398,244
Office, insurance and other expenses	229,874	174,227	286,460
Occupancy	-	343,673	317,305
Shareholders' communications and filing fees	145,590	135,237	159,060
Travel and related costs	60,519	32,628	97,591
	\$ 1,828,971	\$ 2,415,003	\$ 2,724,759

⁽¹⁾ These figures do not include share based compensation and are net of the Canada Emergency Wage Subsidy ("CEWS") of \$176,294 (2019 - \$Nil, 2018 - \$Nil). Employees' salaries and benefits including share based compensation expensed for the Year totaled \$1,074,999 (2019 - \$1,485,977, 2018 - \$1,463,258).

⁽²⁾ These figures are net of the CEWS of \$8,677 (2019 - \$Nil, 2018 - \$Nil).

16. Capital Management

Capital of the Company consists of the components of shareholders' equity, convertible note payable, convertible and redeemable preferred shares, warrants denominated in foreign currency and warrants with exercise prices that are subject to adjustment from time to time in the event of certain common share rights offering.

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 typically from the issuance of share capital. In order to achieve its objectives, the Company expects to spend its existing working capital and raise additional funds as required.

The Company does not have any externally imposed capital requirements. There were no significant changes to the Company's approach to capital management during the year ended August 31, 2020.

17. 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 have been no material trading transactions with related parties during each of the years ended August 31, 2020, 2019 and 2018, other than the participation by certain related parties in certain equity offerings as listed below:

- i) 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, former Director subscribed for 200,000, 55,000 and 50,000 flow-through shares at \$0.145 per share, respectively; and
- ii) in November 2018, Mr. Donald Bubar subscribed for 1,000,000 Units at \$0.07 per Unit as described in Note 14b.

17. Related Party Disclosures (continued)

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, 2020, August 31, 2019 and August 31, 2018 are as follows:

	August 31, 2020	August 31, 2019	August 31, 2018
Salaries, benefits and directors' fees ⁽¹⁾	\$ 1,114,485	\$ 1,551,593	\$ 1,692,551
Share based compensation ⁽²⁾	75,252	70,992	118,991
	<u>\$ 1,189,737</u>	<u>\$ 1,622,585</u>	<u>\$ 1,811,542</u>

⁽¹⁾ Salaries and benefits of key management personnel capitalized to exploration and evaluation assets and PPE totaled \$199,915 (2019 - \$343,246, 2018 - \$577,224).

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

Unpaid directors' fees and salaries included in accrued liabilities and owing to the directors and members of the Company's senior management team totaled \$188,800 as at August 31, 2020 (August 31, 2019 - \$566,685, August 31, 2018 - \$137,500).

18. 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 warrants with exercise prices that are subject to adjustment from time to time are based on Level 2 inputs that are observable for the liability such as interest rate, dividend yield and historical volatility. The fair value of the Convertible Note Payable was based on Level 3 inputs including the applicable face value of the Note. The Company had the right to buy back the Note at any time for the outstanding face value, as such the fair value of the Note was the outstanding face value of the Note. The fair values of the Company's A1, B1 and C1 Preferred Shares were based on Level 3 inputs, including applicable redemption amounts and redemption premiums. The Company had 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 was the amount the Company had to pay to redeem the A1, B1 and C1 Preferred Shares, which was the redemption amount as specified in the purchase agreements plus 5% redemption premium.

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.

18. Financial Instruments (continued)

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, 2020. 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 a major Canadian Chartered banking group. 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, 2020, the Company has current assets of \$1,677,400 and current liabilities of \$1,043,819. The Company's working capital as at August 31, 2020 was \$633,581. Excluding the deferred flow-through share premium of \$136,800, the Company's adjusted working capital as at August 31, 2020 was \$770,381, (calculated by adding back the deferred flow-through share premium of \$136,800 to the working capital of \$633,581). 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, 2020:

	Within 1 Year	1-3 Years	4-5 Years	Over 5 Years	Total
Accounts payable and accrued liabilities	\$ 728,126	\$ -	\$ -	\$ -	\$ 728,126
Lease obligation	218,253	451,736	296,844	-	966,833
	<u>\$ 946,379</u>	<u>\$ 451,736</u>	<u>\$ 296,844</u>	<u>\$ -</u>	<u>\$ 1,694,959</u>

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.

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 14b, the Company had no other significant financial assets or financial liabilities denominated in foreign currencies as at August 31, 2020.

18. Financial Instruments (continued)

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 \$1,295,723, 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 14b, the Company had no other significant financial assets or financial liabilities denominated in foreign currencies as at August 31, 2020, and its anticipated on-going expenditures to be transacted in US dollars for the next twelve month period is approximately US\$160,000. 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.

19. 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, 2020, August 31, 2019 and August 31, 2018 are as follows:

	August 31, 2020	August 31, 2019	August 31, 2018
Share based compensation capitalized as property, plant and equipment (note 14d)	\$ 297	\$ 4,484	\$ 1,825
Share based compensation capitalized as exploration and evaluation assets (note 14d)	6,768	13,894	25,129
Depreciation expense capitalized as property, plant and equipment	-	23,383	37,513
Depreciation expense capitalized as exploration and evaluation assets	7,829	9,342	8,867
Property, plant and equipment acquired under lease arrangement	1,045,810	-	-
	\$ 1,060,704	\$ 51,103	\$ 73,334

20. 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, 2020	August 31, 2019	August 31, 2018
Net loss for the year before income taxes	\$ 5,414,745	\$ 3,541,011	\$ 3,458,976
Combined Canadian federal and provincial tax rate	25.0%	25.0%	25.1%
Expected income tax recovery at statutory rates	1,353,686	885,253	868,203
Share based compensation	(25,329)	(19,711)	(37,620)
Non-deductible financing transaction costs	-	(20,074)	(89,678)
Other non-deductible expenses	(3,012)	(736)	(2,864)
CEE incurred applied to flow-through shares	(55,395)	(179,086)	(476,559)
Amortization of flow-through share premium	47,481	154,676	218,232
Non-taxable (non-deductible) change in fair value of financial instruments	(18,033)	(62,434)	6,706
Losses and other deductions for which no benefit has been recognized	(1,251,917)	(603,212)	(268,188)
Deferred income tax recoveries	\$ 47,481	\$ 154,676	\$ 218,232

b) Income Tax Effect of Temporary Differences Recognized

The tax effects of temporary differences recognized as at August 31, 2020 and August 31, 2019 are as follows:

	August 31, 2020	August 31, 2019
Deferred income tax assets		
Exploration and evaluation assets	\$ 6,281,863	\$ 4,721,336
Scientific research and experimental developmental expenditures	4,294,187	5,424,332
	10,576,050	10,145,668
Deferred income tax liabilities		
Property plant and equipment	(10,576,050)	(10,145,668) ⁽¹⁾
Net deferred income tax assets	\$ -	\$ -

⁽¹⁾ Included the deferred income tax liability related to the carrying amount of Asset Held for Sale.

20. 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, 2020 and August 31, 2019 are as follows:

	August 31, 2020	August 31, 2019
Non-capital loss carryforwards	\$ 35,733,583	\$ 35,630,141
Scientific research and experimental developmental expenditures	10,191,008	5,670,428
Share issuance costs	291,203	458,359
Capital loss carry forwards	2,294,535	2,294,535
Lease obligation	867,467	-
Deductible temporary differences not recognized	<u>\$ 49,377,796</u>	<u>\$ 44,053,463</u>

The Company also has non-refundable investment tax credit carry forwards of \$5,687,308 (2019 - \$5,701,467), 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 \$34,066,000 (2019 - \$33,963,000, 2018 - \$31,793,000) 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
2039	2,170,000
2040	103,000

The Company also has net operating losses of approximately \$1,668,000 (2019 - \$1,668,000, 2018 - \$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 (2019 - \$2,295,000, 2018 - \$2,295,000) available to reduce future years' Canadian taxable capital gains.

21. 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, 2020	August 31, 2019	August 31, 2018
Weighted average number of common shares used in the calculation of basic loss per share	334,332,582	275,760,316	215,152,381
Diluted impact of convertible note payable	-	-	-
Diluted impact of convertible redeemable preferred shares	-	-	-
Diluted impact of warrants	-	-	-
Diluted impact of stock options	-	-	-
Weighted average number of common shares used in the calculation of diluted loss per share	<u>334,332,582</u>	<u>275,760,316</u>	<u>215,152,381</u>

The loss used to calculate the basic and diluted loss per common share for the year ended August 31, 2020 was \$5,367,264 (2019 - \$3,386,335, 2018 - \$3,240,744).

As at August 31, 2020, the Company had 33,139,013 (2019 - 36,619,013, 2018 - 31,179,240) warrants and 13,545,000 (2019 - 9,396,250, 2018 - 11,345,000) stock options outstanding. These warrants and options 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, 2020, August 31, 2019 and August 31, 2018.

22. Commitments

As at August 31, 2020, pursuant to the subscription agreements entered into for the August 2020 private placement the Company is required to incur additional CEE of \$539,400 by December 31, 2021.

23. Events After the Reporting Period

Subsequent to the year ended August 31, 2020, the Company:

- granted an aggregate of 350,000 stock options with a weighted average exercise price of \$0.08 per share to certain employees and consultants of the Company. The weighted average contract life of these options at issuance was 4.1 years;
- extended the expiry dates for the remaining outstanding 2,187,500 warrants (each of which with an exercise price of \$0.12 per share) that were issued in the November 2018 Private Placement as described in Note 14c); and
- cancelled 200,000 stock options with a weighted average exercise price of \$0.08 per share.