



**A V A L O N**

ADVANCED MATERIALS

## **Avalon Advanced Materials Inc.**

### **Consolidated Financial Statements**

**For the years ended  
August 31, 2023 and 2022**

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# Independent auditor's report

To the Shareholders of  
**Avalon Advanced Materials Inc.**

## Opinion

We have audited the consolidated financial statements of **Avalon Advanced Materials Inc.** and its subsidiaries [the "Company"], which comprise the consolidated statements of financial position as at August 31, 2023 and 2022, and the consolidated statements of comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at August 31, 2023 and 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended, in accordance with International Financial Reporting Standards ["IFRSs"].

## Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Material uncertainty related to going concern

We draw attention to note 1 in the consolidated financial statements, which indicates that the Company incurred a net loss of \$3,317,059 during the year ended August 31, 2023, and that there exists an uncertainty as to the Company's ability to raise additional funds on acceptable terms. These events or conditions, along with other matters as set forth in note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

## Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matter described below to be a key audit matter to be communicated in our report. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.



Key audit matter	How our audit addressed the key audit matter
<i>Assessment of impairment of the Nechalacho REE Project</i>	
<p>As at August 31, 2023, the carrying value of property, plant and mine development was \$111.06 million.</p> <p>An indicator of impairment of the Nechalacho REE Project cash generating unit ["CGU"] was determined to be present as at August 31, 2023 as the amount of the net assets of the Company was more than its market capitalization. As detailed in note 7 of the consolidated financial statements, the Company did not recognize any impairment in relation to this CGU for the year ended August 31, 2023.</p> <p>Auditing the Company's estimate of the recoverable amount of the Nechalacho REE Project CGU was complex, given the degree of judgment and subjectivity in evaluating the Company's significant assumptions and inputs in determining the recoverable amount, and the significant effect changes in these assumptions and inputs would have on the recoverable amount. Significant assumptions and inputs used in the Company's discounted cash flow model included the discount rate, long-term commodity prices, foreign exchange rates and years to commencement of production.</p>	<p>To test the Company's estimated recoverable amount for the Nechalacho REE Project CGU, we performed the following procedures, among others:</p> <ul style="list-style-type: none"> <li>Involved our valuation specialist to assist in evaluating the discount rate by referencing current industry and economic trends and data, comparable guideline companies, as well as entity and cash-flow specific risk premiums.</li> <li>Involved our valuation specialist to assist in evaluating the long-term rare earth commodity prices and foreign exchange rates, including assessing the appropriateness of sources used by management, and performed sensitivity analysis using alternative assumptions and inputs to evaluate changes in the recoverable amount of the CGU. As a significant component of projected cash flows relates to the sale of enriched zirconium concentrate, we compared management's zirconium price to a range of market data.</li> <li>To evaluate the number of years to commencement of production, we reviewed information for corroborative or contradictory evidence in respect of the proposed timetable to execute on project construction, including corroborating the status of permitting and licenses, as well as considering recent development activity on and near the site and other factors that could affect the proposed timetable. We involved our valuation specialist to evaluate the sensitivity of the model to an increase in the number of years to commencement of production.</li> <li>Assessed the adequacy of the disclosures included in note 7 of the accompanying consolidated financial statements in relation to this matter.</li> </ul>

**Other information**

Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis for the year ended August 31, 2023.

Our opinion on the consolidated financial statements does not cover the other information and will not express any form of assurance conclusion thereon.



In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

### **Responsibilities of management and those charged with governance for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### **Auditor's responsibilities for the audit of the consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure of the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditor’s report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefit of such communication.

The engagement partner on the audit resulting in this independent auditor’s report is Eric Simmons.

The signature of Ernst & Young LLP is written in a black, cursive script.

Chartered Professional Accountants  
Licensed Public Accountants

Toronto, Canada  
November 28, 2023

**Consolidated Statements of Financial Position**  
**(expressed in Canadian Dollars)**  
**As at August 31, 2023 and August 31, 2022**

	<u>2023</u>	<u>2022</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents (note 4)	\$ 2,582,110	\$ 3,032,040
Other receivables	146,802	46,304
Prepaid expenses and deposits	360,114	979,906
Assets held for sale (note 5)	16,902,462	-
	<u>19,991,488</u>	<u>4,058,250</u>
<b>Non-Current Assets</b>		
Exploration and evaluation assets (note 6)	-	13,912,430
Property, plant and equipment (note 7)	111,061,846	102,476,237
	<u>111,061,846</u>	<u>116,388,667</u>
	<u>\$ 131,053,334</u>	<u>\$ 120,446,917</u>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 459,022	\$ 186,685
Accrued liabilities	666,954	412,068
Deferred flow-through share premium (note 8)	10,674	177,999
Current portion of lease obligation (note 9)	224,295	209,075
Current portion of convertible notes payable (note 10)	-	460,000
	<u>1,360,945</u>	<u>1,445,827</u>
<b>Non-Current Liabilities</b>		
Lease obligation (note 9)	62,718	287,012
Convertible notes payable (note 10)	-	3,600,000
Debenture payable (note 11)	3,009,978	-
Derivative liabilities (note 12)	198,123	523,567
Site closure and reclamation provisions (note 13)	278,600	278,600
	<u>3,549,419</u>	<u>4,689,179</u>
	<u>4,910,364</u>	<u>6,135,006</u>
<b>Shareholders' Equity</b>		
Share Capital (note 14b)	200,590,815	185,989,431
Reserve for Warrants (note 14c)	4,371,240	4,358,451
Reserve for Share Based Payments (note 14d)	18,682,104	18,148,159
Reserve for Brokers' Compensation Warrants (note 14e)	301,064	301,064
Accumulated Deficit	(97,802,253)	(94,485,194)
	<u>126,142,970</u>	<u>114,311,911</u>
	<u>\$ 131,053,334</u>	<u>\$ 120,446,917</u>

The accompanying notes are an integral part of these consolidated financial statements.  
 Commitments (note 20)

Approved on behalf of the Board

\_\_\_\_\_, Director  
 "Scott Monteith"

\_\_\_\_\_, Director  
 "Alan Ferry"

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

	<u>2023</u>	<u>2022</u>
<b>Revenue</b>		
Interest	\$ 79,258	\$ 21,766
Rent	45,000	-
	<u>124,258</u>	<u>21,766</u>
<b>Expenses</b>		
Corporate and administrative (note 15)	3,137,287	2,260,303
General exploration	1,806	21,616
Impairment loss on exploration and evaluation assets (note 6b)	18,050	-
Depreciation (note 7)	231,662	169,028
Share based compensation (note 14d)	633,719	565,163
Finance costs (note 11)	67,958	30,069
Increase (decrease) in fair values of convertible note payable and derivative liabilities (notes 10, 12)	(325,444)	1,018,120
Write-off of business acquisition costs (note 6b)	419,200	-
	<u>4,184,238</u>	<u>4,064,299</u>
<b>Net Loss before Income Taxes</b>	(4,059,980)	(4,042,533)
<b>Deferred Income Tax Recoveries</b> (note 20)	742,921	96,690
<b>Net Loss and Total Comprehensive Loss for the year</b>	<u>\$ (3,317,059)</u>	<u>\$ (3,945,843)</u>
<b>Loss per Share - Basic and Diluted</b> (note 21)	<u>\$ (0.007)</u>	<u>\$ (0.010)</u>
<b>Weighted Average Number of Common Shares Outstanding - Basic and Diluted</b>	<u>456,059,983</u>	<u>388,498,568</u>

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

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

	Share Capital		Reserves			Accumulated Deficit	Total
	Number of Shares	Amount	Warrants	Share Based Payments	Brokers' Compensation Warrants		
Balance at September 1, 2021	365,339,029	\$ 181,918,759	\$ 4,336,380	\$ 17,612,415	\$ 297,113	\$ (90,539,351)	\$ 113,625,316
Equity offerings (note 14b)	12,019,994	1,113,587	31,992	-	-	-	1,145,579
Conversion of note payable (note 10)	25,216,333	2,530,000	-	-	-	-	2,530,000
Exercise of warrants	3,125,000	382,500	-	-	-	-	382,500
Reserve transferred on exercise of warrants	-	6,940	(6,940)	-	-	-	-
Exercise of options	1,168,750	102,050	-	-	-	-	102,050
Reserve transferred on exercise of options	-	28,889	-	(28,889)	-	-	-
Redemption of restricted share units - shares (note 14c)	79,000	12,495	-	(12,495)	-	-	-
Redemption of restricted share units - cash payroll	-	-	-	-	-	-	-
withholding tax payments	-	-	-	(13,160)	-	-	(13,160)
Compensation warrants issued on equity offerings	-	-	-	-	3,951	-	3,951
Share based compensation (note 14d)	-	-	-	590,288	-	-	590,288
Share issuance costs - cash	-	(101,949)	(2,870)	-	-	-	(104,819)
Share issuance costs - compensation warrants issued	-	(3,840)	(111)	-	-	-	(3,951)
Net loss and total comprehensive loss for the year	-	-	-	-	-	(3,945,843)	(3,945,843)
Balance at August 31, 2022	406,948,106	185,989,431	4,358,451	18,148,159	301,064	(94,485,194)	114,311,911
Equity offerings (note 14b)	122,957,110	11,551,761	19,959	-	-	-	11,571,720
Conversion of note payable (note 10)	27,244,636	2,860,000	-	-	-	-	2,860,000
Exercise of warrants	1,900,000	228,000	-	-	-	-	228,000
Reserve transferred on exercise of warrants	-	5,135	(5,135)	-	-	-	-
Exercise of options	581,250	61,800	-	-	-	-	61,800
Reserve transferred on exercise of options	-	28,271	-	(28,271)	-	-	-
Redemption of restricted share units - shares (note 14c)	255,000	56,046	-	(56,046)	-	-	-
Redemption of restricted share units - cash payroll	-	-	-	-	-	-	-
withholding tax payments	-	-	-	(32,994)	-	-	(32,994)
Compensation shares issued on equity offerings	487,501	58,500	-	-	-	-	58,500
Share based compensation (note 14d)	-	-	-	651,256	-	-	651,256
Share issuance costs - cash	-	(190,479)	(1,185)	-	-	-	(191,664)
Share issuance costs - compensation shares issued	-	(57,650)	(850)	-	-	-	(58,500)
Net loss and total comprehensive loss for the year	-	-	-	-	-	(3,317,059)	(3,317,059)
Balance at August 31, 2023	560,373,603	\$ 200,590,815	\$ 4,371,240	\$ 18,682,104	\$ 301,064	\$ (97,802,253)	\$ 126,142,970

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**

	<u>2023</u>	<u>2022</u>
<b>Operating Activities</b>		
Cash paid to employees	\$ (1,321,277)	\$ (1,184,824)
Cash paid to suppliers	(1,436,542)	(1,292,914)
Interest received	79,258	21,766
Rent received	63,000	-
Cash Used by Operating Activities	<u>(2,615,561)</u>	<u>(2,455,972)</u>
<b>Financing Activities</b>		
Net proceeds from equity offerings (note 14b)	11,955,652	1,279,180
Net proceeds from issuance of convertible note payable (note 10)	-	2,884,693
Net proceeds from issuance of debenture payable (note 11)	2,962,126	-
Proceeds from exercise of stock options	61,800	102,050
Proceeds from exercise of warrants	228,000	382,500
Net lease payments paid (note 9)	(229,180)	(123,934)
Repayment of convertible note payable (note 10)	(1,200,000)	-
Cash Provided by Financing Activities	<u>13,778,398</u>	<u>4,524,489</u>
<b>Investing Activities</b>		
Exploration and evaluation assets	(2,892,854)	(636,134)
Property, plant and equipment	(8,655,285)	(223,802)
Transaction costs paid for pending asset sale	(64,628)	-
Cash Used by Investing Activities	<u>(11,612,767)</u>	<u>(859,936)</u>
<b>Change in Cash and Cash Equivalents</b>	<b>(449,930)</b>	<b>1,208,581</b>
<b>Cash and Cash Equivalents - beginning of year</b>	<b><u>3,032,040</u></b>	<b><u>1,823,459</u></b>
<b>Cash and Cash Equivalents - end of year</b>	<b><u>\$ 2,582,110</u></b>	<b><u>\$ 3,032,040</u></b>

Supplemental Cash Flow Information (note 19)

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

## **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 and critical minerals 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 debt and equity markets to conduct its business activities. The Company has incurred losses in the current and prior years, with a net loss of \$3,317,059 for the year ended August 31, 2023 (the “Year”) and an accumulated deficit of \$97,802,253 as at August 31, 2023. The Company’s cash and cash equivalents balance at August 31, 2023 was \$2,582,110, and the working capital (which excludes Assets Held for Sale) was \$1,728,081.

The Company’s business plan is dependent on raising additional funds to finance operations within and beyond the next twelve months. While management has been successful in securing financing in the past, there exists an uncertainty as to the Company’s ability to raise additional funds on acceptable terms. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern. As at August 31, 2023, the Company is required to incur additional Canadian exploration expenses (“CEE”) of \$36,140 by December 31, 2023. 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 and other sources of non-dilutive capital.

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

These consolidated financial statements have been reviewed and approved by the Company’s Audit Committee and the Board of Directors on November 28, 2023.

## **2. Basis of Presentation**

### **a) Statement of Compliance and Basis of Presentation**

These consolidated financial statements, including comparatives, have been prepared in accordance 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.

## **2. Basis of Presentation (continued)**

### **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., 1000560170 Ontario Inc., Avalon Lithium Inc. ("ALI"), Nolava Minerals Inc. ("Nolava"), and Avalon Rare Metals Ltd. ("ARML"). Nolava and ARML are incorporated in the United States of America ("USA").

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 during the year ended August 31, 2020 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 have 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 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 Company are presented in Canadian dollars.

#### *Transactions and Balances*

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (i.e., foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each statement of financial position date, monetary assets and liabilities are translated using the foreign exchange rates prevailing at the end of each reporting period. Non-monetary assets and liabilities are translated using the historical rate on the date of the transaction.

Non-monetary assets and liabilities that are stated at fair value are translated using the historical rate on the date that the fair value was determined. All gains and losses on translation of these foreign currency transactions are included in foreign exchange loss (gain) in the consolidated statement of comprehensive loss.

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.

### **3. Summary of Significant Accounting Policies (continued)**

#### ***b) Share Based Payments***

The Company has three share incentive plans: the Stock Option Plan, the Deferred Share Unit Plan (the “DSU Plan”) and the Restricted Share Unit Plan (the “RSU Plan”). 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 DSUs and RSUs is determined based on the five day weighted average price on the TSX (“5 Day VWAP”) of the Company’s common shares prior to the date the DSUs and RSUs are awarded and are adjusted for any expected forfeitures.

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.

#### *Stock Option Plan*

The Stock Option Plan 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 Stock Option 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 stock options are accounted for as equity-settled awards. The fair value of the stock options 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.

DSUs are awarded to the Company’s directors. Under the DSU plan, directors are permitted to elect in each year to receive their respective director’s retainer in cash, DSUs or a combination thereof. The number of DSUs granted to a director electing to receive their retainer in DSUs is determined based on the 5 Day VWAP of the Company’s common shares prior to the date the DSUs are awarded and vest upon grant. The Company may grant discretionary awards of DSUs to directors from time to time, subject to such vesting, performance criteria, or other terms and conditions as the Board may prescribe.

Under the RSU Plan, the Company may grant discretionary awards of RSUs to directors, senior officers and key employees of the Company from time to time, subject to a restricted period and such vesting, performance criteria, or other terms and conditions as the Company may prescribe. Unless the Company determines otherwise at the time of the award of RSUs, one-third of such award will be restricted until the first anniversary of the grant date, another one-third will be restricted until the second anniversary of the grant date and the remaining one-third will be restricted until the third anniversary of the grant date.

The Company has the option to redeem the DSUs and RSUs either for common shares or for cash. The DSUs and RSUs are accounted for as equity-settled awards as the Company has no history of settling any DSUs and RSUs in cash and currently has no plan to settle any DSUs and RSUs in cash.

### **3. Summary of Significant Accounting Policies (continued)**

#### **c) Leases**

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.

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 assets 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.

### **3. Summary of Significant Accounting Policies (continued)**

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 fulfills the criteria for asset recognition, a deferred tax asset is recognized.

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

#### **e) *Flow-through Shares***

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

The 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").

### **3. Summary of Significant Accounting Policies (continued)**

#### ***i) Exploration and Evaluation Assets***

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

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

Exploration and evaluation assets are allocated to cash generating units (“CGUs”) for the purpose of assessing such assets for impairment and each project is identified as a separate CGU. 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.

### **3. Summary of Significant Accounting Policies (continued)**

When the asset is ready for their intended use, all costs included in development assets are reclassified to mining properties.

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

#### ***j) Property, plant and equipment***

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

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

Transportation facilities	- 8% on a declining balance basis for the airstrip, straight line basis for other transportation facilities
Buildings	- straight line basis over their estimated useful lives
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.

### **3. Summary of Significant Accounting Policies (continued)**

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

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

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

#### **1) Financial Instruments**

##### *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.

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 of 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 Company's financial assets and financial liabilities' classification and measurement categories are as follows:

<u>Financial Instrument</u>	<u>Category</u>
Cash and cash equivalents	Amortized cost
Other receivables	Amortized cost
Accounts payable	Amortized cost
Accrued liabilities	Amortized cost
Debenture payable	Amortized cost
Convertible notes payable	FVTPL
Derivative liabilities	FVTPL

#### *Impairment of Financial Assets*

At each statement of financial position reporting date, the Company, on a forward-looking basis, assesses the expected credit losses associated with its financial assets measured at amortized costs or those measured at FVOCI (except for equity instrument investments). These assessments are based on changes in credit quality of the financial asset since initial recognition. 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.

#### **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 remeasured at the end of each reporting period, or when changes in circumstances occur and/or new material information becomes available. Increases or decreases to the provision arise due to changes in legal, constructive or regulatory requirements, the extent of environmental remediation required and cost estimates. The net present value of the estimated costs of these changes is recorded in the period in which the change is identified and quantifiable.

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

#### **n) Other Provisions**

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

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

### **3. Summary of Significant Accounting Policies (continued)**

#### ***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 ongoing basis based on historical experience and other factors that are considered to be relevant under the circumstances. Revisions to estimates are accounted for prospectively.

The Company has identified the following significant areas where critical accounting judgments, estimates and assumptions are made and where actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the consolidated financial statements.

##### *Key Sources of Estimation Uncertainty*

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

### **3. Summary of Significant Accounting Policies (continued)**

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

The Company assesses its long-lived assets, specifically all exploration and evaluation assets and 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.

#### *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.

### **3. Summary of Significant Accounting Policies (continued)**

#### **s) New Accounting Standard Recently Adopted**

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

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

#### **t) Recent Accounting Pronouncements**

The following pronouncements are issued but not yet effective and have not been applied in preparing these consolidated financial statements. Management believes that other new IFRS accounting pronouncements not yet effective do not have a significant impact on the Company's present or near future consolidated financial statements.

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

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

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

The amendments will become effective for annual reporting periods beginning on or after January 1, 2024 (which will become effective on September 1, 2024 for the Company), and will apply retrospectively. With application of these amendments, the Company's derivative liabilities currently classified as non-current liability will be classified as current liability.

### **4. Cash and Cash Equivalents**

Cash and cash equivalents are comprised of the following:

	<b>August 31, 2023</b>	<b>August 31, 2022</b>
Cash held in bank accounts	\$ 944,184	\$ 895,819
Guaranteed investment certificates	1,637,926	2,136,221
	<b>\$ 2,582,110</b>	<b>\$ 3,032,040</b>

## 5. Assets Held for Sale

During the year ended August 31, 2023, the Company entered into a binding term sheet agreement with SCR-Sibelco NV (“Sibelco”) to establish a Joint Venture with respect to certain of the Company’s lithium mineral projects located in northwestern Ontario, with Sibelco as the operator. The Company will initially contribute its Separation Rapids Lithium Project and Lilypad Cesium-Tantalum Project to the joint venture company (the “Joint Venture Company”) upon its formation, and Sibelco will provide €4,865,810 of initial funding and has committed to advance a further €30,000,000 in tranches to fund the development of the Joint Venture Company’s mineral projects, including facilities and related infrastructure. The initial participating interests of Sibelco and Avalon in the Joint Venture Company will be 60% and 40%, respectively.

The sale/transfer was completed in November 2023, subsequent to the year ended August 31, 2023. Accordingly, the Company has transferred the total carrying costs for the Separation Rapids and Lilypad Projects of \$16,902,462 included in Exploration and Evaluation Assets to Assets Held for Sale (“AHFS”).

Subsequent to the completion of the sale/transfer of the Separation Rapids Lithium Project and Lilypad Cesium-Tantalum Project to the Joint Venture Company Separation Rapids Ltd. (“SRL”) in November 2023, the Company now owns 40% equity interest in SRL, which is recognized as an investment and accounted for using the equity method.

## 6. Exploration and Evaluation Assets

	September 1, 2021	Expenditures	Transfer to AHFS	Impairment Loss	August 31, 2022
Separation Rapids Lithium Project (a)	\$ 12,826,626	\$ 541,169	\$ -	\$ -	\$ 13,367,795
Lilypad Cesium-Tantalum Project (a)	443,360	83,225	-	-	526,585
Other (b)	18,050	-	-	-	18,050
	<u>\$ 13,288,036</u>	<u>\$ 624,394</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,912,430</u>

  

	September 1, 2022	Expenditures	Transfer to AHFS	Impairment Loss	August 31, 2023
Separation Rapids Lithium Project (a)	\$ 13,367,795	\$ 3,002,904	\$ (16,370,699)	\$ -	\$ -
Lilypad Cesium-Tantalum Project (a)	526,585	5,178	(531,763)	-	-
Other (b)	18,050	-	-	(18,050)	-
	<u>\$ 13,912,430</u>	<u>\$ 3,008,082</u>	<u>\$ (16,902,462)</u>	<u>\$ (18,050)</u>	<u>\$ -</u>

## **6. Exploration and Evaluation Assets (continued)**

a) Separation Rapids Lithium Project and Lilypad Cesium-Tantalum Project, Ontario

The Company owned a 100% interest in certain mineral claims and a mining lease in the Kenora area of Ontario and a 100% interest in certain mineral claims in the Lilypad Cesium-Tantalum property, located 150 km northeast of the Pickle Lake area of Ontario.

During the Year, the Company completed the 2023 Private Placement and issued to Sibelco 109,692,764 common shares for aggregate proceeds of \$10,000,000 and a debenture in the principal amount of \$3,000,000 for cash proceeds of \$3,000,000 (the "Debenture"), and entered into a binding term sheet with Sibelco to establish a Joint Venture with respect to certain of the Company's lithium mineral projects located in northwestern Ontario, with Sibelco as the operator.

The Company would initially contribute its Separation Rapids and Lilypad projects to the Joint Venture Company upon its formation, and Sibelco would provide €4,865,810 of initial funding and has committed to advance a further €30,000,000 in tranches to fund the development of the Joint Venture's mineral projects, including facilities and related infrastructure. The initial participating interests of Sibelco and Avalon in the Avalon-Sibelco Joint Venture Company will be 60% and 40%, respectively. The sale/transfer was completed in November 2023, subsequent to the year ended August 31, 2023. Accordingly, the Company has transferred the total carrying costs for the Separation Rapids and Lilypad Projects of \$16,902,462 included in Exploration and Evaluation Assets to AHFS.

b) Other Resource Properties

The Company holds an exploration licence to search and prospect for all minerals except for coal, salt, potash and uranium within four claims in the East Kemptville area of Yarmouth, Nova Scotia. The Company also has a 100% interest in a mining lease in the Warren Township Anorthosite Project, located near Foleyet, Ontario, a 100% interest in 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.

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

During the year ended August 31, 2021, the Company entered into a binding letter of intent (the "LOI") to purchase ownership of 2333382 Ontario Inc. ("2333382"), a private Ontario corporation which owns four industrial minerals properties and a demonstration-scale processing plant located at Matheson, Ontario. This LOI has been terminated and the initial payment of \$419,200 was written off during the Year.

**7. Property, Plant and Equipment**

	Nechalacho REE Project (a)	Transportation Facilities	Office, Computer and Office Equipment (b)	Land and Buildings	Exploration Equipment	Leasehold Improvements	Total
<b>Cost</b>							
As at September 1, 2021	\$ 101,546,323	\$ 646,860	\$ 1,235,239	\$ 90,905	\$ 702,826	\$ 106,754	\$ 104,328,907
Additions	43,543	-	-	3,700	21,091	-	68,334
Disposals	-	-	-	-	(35,828)	-	(35,828)
As at August 31, 2022	101,589,866	646,860	1,235,239	94,605	688,089	106,754	104,361,413
Additions	26,974	1,048,713	10,510	7,737,900	-	-	8,824,097
Disposals	-	-	(29,888)	-	(353,009)	-	(382,897)
As at August 31, 2023	<u>\$ 101,616,840</u>	<u>\$ 1,695,573</u>	<u>\$ 1,215,861</u>	<u>\$ 7,832,505</u>	<u>\$ 335,080</u>	<u>\$ 106,754</u>	<u>\$ 112,802,613</u>
<b>Accumulated Depreciation</b>							
As at September 1, 2021	\$ -	\$ 322,500	\$ 559,880	\$ 22,940	\$ 678,440	\$ 98,695	\$ 1,682,455
Depreciation expense	-	16,059	202,641	4,215	13,217	2,417	238,549
Disposals	-	-	-	-	(35,828)	-	(35,828)
As at August 31, 2022	-	338,559	762,521	27,155	655,829	101,112	1,885,176
Depreciation expense	-	14,775	203,555	4,476	13,265	2,417	238,488
Disposals	-	-	(29,888)	-	(353,009)	-	(382,897)
As at August 31, 2023	<u>\$ -</u>	<u>\$ 353,334</u>	<u>\$ 936,188</u>	<u>\$ 31,631</u>	<u>\$ 316,085</u>	<u>\$ 103,529</u>	<u>\$ 1,740,767</u>
<b>Net Book Value</b>							
As at August 31, 2022	<u>\$ 101,589,866</u>	<u>\$ 308,301</u>	<u>\$ 472,718</u>	<u>\$ 67,450</u>	<u>\$ 32,260</u>	<u>\$ 5,642</u>	<u>\$ 102,476,237</u>
As at August 31, 2023	<u>\$ 101,616,840</u>	<u>\$ 1,342,239</u>	<u>\$ 279,673</u>	<u>\$ 7,800,874</u>	<u>\$ 18,995</u>	<u>\$ 3,225</u>	<u>\$ 111,061,846</u>

## **7. Property, Plant and Equipment (continued)**

a) Nechalacho REE Project, Northwest Territories

The Company owns a 100% interest of the resources below a depth of 150 metres above sea level (the “Basal Zone Resources”) in eight mining leases located at Thor Lake in the Mackenzie Mining District of the Northwest Territories.

These eight contiguous mining leases total 5,786 hectares (14,297 acres), after three mining claims totalling 332 hectares on the southwest side of the original five leases were converted to mining leases. The original five leases are subject to one independently owned 2.5% Net Smelter Returns (“NSR”) royalty agreement. Avalon has the contractual right to buy out this royalty on the basis of a fixed formula, which is currently approximately \$1.8 million, and which will increase at a rate equal to the Canadian prime rate until the royalty is bought out.

The Company continues to have access to the property for development and mining of its Basal Zone Resources.

The Company retained a 3.0% NSR royalty (the “3.0% NSR Royalty”) but agreed to waive this royalty for the first five years of commercial production and granted 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. The third party also has the option to purchase the Company’s option in the 2.5% NSR Royalty, provided that, upon exercising the option, it extinguishes this royalty. Avalon and the third party have formed a jointly-owned corporation to hold the exploration permits and related authorizations related to their projects and have also entered into a co-ownership agreement governing each party’s activities and management at site.

At August 31, 2023, 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, 2023 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 \$196,089 (2022 - \$135,566) (net of \$Nil (2022 - \$60,523) in rent forgiveness and subsidy under various Canadian federal COVID-19 support programs) was recognized relating to the right of use (“ROU”) asset during the Year, and the carrying balance of the ROU asset was \$ 261,453 as at August 31, 2023 (2022 - \$457,542).
- c) Depreciation expense for the years ended August 31, 2023 and 2022 consist of the following:

	<b>August 31, 2023</b>	<b>August 31, 2022</b>
Depreciation expense recognized	\$ 238,488	\$ 238,549
Depreciation expense capitalized to exploration and evaluation assets	(6,826)	(8,998)
Rent forgiveness and rent subsidy	-	(60,523)
	<u>\$ 231,662</u>	<u>\$ 169,028</u>

## **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, 2021	\$ 36,269
Increase relating to flow-through common shares issued	238,420
Decrease relating to CEE incurred	<u>(96,690)</u>
Balance - August 31, 2022	177,999
Increase relating to flow-through common shares issued	575,596
Decrease relating to CEE incurred	<u>(742,921)</u>
Balance - August 31, 2023	<u>\$ 10,674</u>

## **9. Lease Obligation**

As at August 31, 2023, the Company had the following future commitment relating to the lease contract for its office premises:

2024	\$ 233,563
2025	<u>63,280</u>
Total future lease payments as at August 31, 2023	296,843
Amounts representing interest	<u>(9,830)</u>
Present value of future lease payments - August 31, 2023	<u>\$ 287,013</u>

A summary of the changes in the lease obligation amount is set out below:

Balance - September 1, 2021	\$ 688,574
Interest expense	30,069
Payments	<u>(222,556)</u>
Balance - August 31, 2022	496,087
Interest expense	20,106
Payments	<u>(229,180)</u>
Balance - August 31, 2023	287,013
Current portion of lease obligation	<u>224,295</u>
Non-current portion of lease obligation	<u>\$ 62,718</u>

The Company had net cash outflows of \$229,180 (2022 - \$123,934 (total lease payments of \$222,556 less \$98,622 in rent forgiveness and rent subsidy received)) for its lease contract in the Year.

## **10. Convertible Notes Payable**

On January 29, 2021, the Company issued a convertible note payable to an entity managed by the Lind Partners ("Lind") in the amount of \$3,000,000 (the "2021 Note"). The 2021 Note had a term of two years with a maturity date of January 29, 2023 and accrued an interest amount of \$600,000 on the date of issuance, resulting in the 2021 Note to bear a face value of \$3,600,000 at issuance.

## **10. Convertible Notes Payable (continued)**

The holder of the 2021 Note was entitled to convert any outstanding amount of the face value of the 2021 Note into common shares commencing on May 30, 2021 at a conversion price equal to 85% of the 5 Day VWAP of the common shares prior to the date of conversion. The Company had the right to repurchase the 2021 Note at the outstanding face value at any time (the “Buyback Option”), subject to the holder’s option to convert up to one third of the original value into common shares prior to the Company’s repurchase.

As the Company had the Buyback Option to repurchase the 2021 Note at the outstanding face value, the total fair value of the 2021 Note was therefore equal the face value, and was \$3,600,000 at issuance. The 2021 Note was extinguished during the Year after the remaining balance of \$460,000 was converted into common shares.

On May 9, 2022, the Company issued a convertible note payable in the amount of \$3,000,000 to an entity managed by Lind (the “2022 Note”). The 2022 Note has a term of two years with a maturity date of May 9, 2024 and accrued an interest amount of \$600,000 on the date of issuance, resulting in the 2022 Note to bear a face value of \$3,600,000 at issuance.

The terms and conditions of the 2022 Note are substantially the same as the 2021 Note and Lind is entitled to convert the face value of the 2022 Note into common shares commencing on September 10, 2022 over a twenty month period (subject to certain limits), at a conversion price equal to 85% of the 5 Day VWAP of the common shares prior to the date of conversion. The Company had the same buyback option as for the 2021 Note commencing after September 10, 2022.

As the Company had the buyback option to repurchase the 2022 Note at the outstanding face value, the total fair value of the 2022 Note was therefore equal the face value, and was \$3,600,000 at issuance.

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

In June 2023, the Company bought back the remaining balance of the 2022 Note at its face value of \$1,200,000 in cash and extinguished the 2022 Note.

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

Balance - September 1, 2021	\$ 2,990,000
Issued	3,000,000
Interest	600,000
Converted to common shares	<u>(2,530,000)</u>
Balance - August 31, 2022	4,060,000
Converted to common shares	(2,860,000)
Repayment	<u>(1,200,000)</u>
Balance - August 31, 2023	<u>\$ -</u>

## **11. Debenture Payable**

During the Year, the Company issued to Sibelco the Debenture in the principal amount of \$3,000,000 for cash proceeds of \$3,000,000. The Debenture bears interest at 7.115% per annum and the principal and interest are payable on or before maturity, being June 14, 2025 (the “Maturity”) at the option of the Company. To the extent not repaid by Maturity by the Company, Sibelco will have the right to convert the Debenture and all accrued and unpaid interest thereon into either an aggregate of 37,590,496 Common Shares, or an additional 5% interest in SRL, in which case the Company’s equity interest in SRL will be reduced by 5%. The Debenture is secured by the Company’s equity interest in SRL.

The debenture is classified and measured at amortized cost.

## 11. Debenture Payable (continued)

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

Balance - September 1, 2021 and August 31, 2022	\$ -
Issued	3,000,000
Transaction costs	(37,874)
Interest and accretion on debenture	47,852
	<u>47,852</u>
Balance - August 31, 2023	<u>\$ 3,009,978</u>

The Company's finance costs comprise of the following:

	August 31, 2023	August 31, 2022
Interest and accretion on debenture	\$ 47,852	\$ -
Interest on lease obligation (note 9)	20,106	30,069
	<u>\$ 67,958</u>	<u>\$ 30,069</u>

## 12. Derivative Liabilities

The derivative liabilities consist of certain warrants with exercise prices that are subject to adjustment from time to time in the event of certain common share rights offering ("liability classified warrants").

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

	Number of Warrants	Amount
Balance - September 1, 2021	24,825,000	\$ 220,754
Issued	9,000,000	201,893
Expired	(6,900,000)	(267)
Increase in fair value	-	101,187
	<u>26,925,000</u>	<u>523,567</u>
Balance - August 31, 2022	26,925,000	523,567
Expired	(8,125,000)	(748)
Decrease in fair value	-	(324,696)
	<u>18,800,000</u>	<u>\$ 198,123</u>
Balance - August 31, 2023	18,800,000	\$ 198,123

The Company has the following liability classified warrants outstanding as at August 31, 2023:

- i) 9,800,000 warrants with an exercise price of \$0.18 per share and are exercisable until January 29, 2025; and
- ii) 9,000,000 warrants with an exercise price of \$0.26 per share and are exercisable until May 9, 2026.

The fair values of the liability classified warrants were estimated at August 31, 2023 using the Black-Scholes pricing model, with the following weighted average assumptions: expected dividend yield of Nil (August 31, 2022 - Nil); risk free interest rate of 4.5% (August 31, 2022 - 3.5%); expected life of 2.0 years (August 31, 2022 - 2.3 years); and expected volatility of 35% (August 31, 2022 - 35%).

### **13. Site Closure and Reclamation Provision**

As none of the Company's resource properties are in production or commenced construction, the site closure and reclamation provision relates to the estimated current closure costs to reclaim the Company's Nechalacho exploration camp site at Thor Lake, the Separation Rapids, Lilypad and Warren Township exploration sites.

The site closure and reclamation provision amount is estimated at \$278,600 as at August 31, 2022 and August 31, 2023.

### **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, 2023.

#### ***b) Common Shares***

Common shares issued during the years ended August 31, 2022 and 2023 are as follows:

- i) In December 2021, the Company completed a private placement and issued 9,099,994 flow-through units at a price of \$0.12 per unit ("FT Unit") and 2,920,000 non-flow-through units at a price of \$0.10 per unit ("NFT Unit") for gross proceeds of \$1,383,999.

Mr. Donald Bubar, former CEO of the Company, subscribed for 250,000 FT Units and Mr. Alan Ferry, Lead Director of the Company, subscribed for 300,000 FT Units.

Each FT Unit consists of one flow-through common share and one half non-transferable common share purchase warrant ("FT Warrant"), with each whole FT Warrant being exercisable to acquire one non-flow-through common share of the Company at a price of \$0.18 until December 21, 2023. Each NFT Unit consists of one non-flow-through common share and one half non-transferable common share purchase warrant ("NFT Warrant"), with each whole NFT Warrant being exercisable to acquire one non-flow-through common share of the Company at a price of \$0.15 until December 21, 2023.

In conjunction with this private placement, the Company paid finder's fees of \$90,580, incurred other cash issuance costs of \$14,239 and issued 788,900 non-transferrable compensation warrants, with each compensation warrant being exercisable to acquire one common share of the Company at a price of \$0.18 until December 21, 2023. The total fair values of these compensation warrants were estimated at \$3,951 using the Black-Scholes pricing model.

The fair value of the warrant component of the FT Unit was estimated at \$0.0025 and the fair value of the flow-through feature of the FT Unit was estimated at \$0.0300. Using the relative fair value method, the FT Unit price of \$0.12 was allocated between the share component, the warrant component and the flow-through feature as follows: \$0.0916, \$0.0022, and \$0.0262, respectively.

The fair value of the FT 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 \$0.1199 by the Company's current tax rate of 25%. The amount of the Flow-through Share Premium totaled \$238,420 and was recorded as a deferred flow-through share premium liability on the consolidated statement of financial position on December 21, 2021.

Of the NFT Unit price of \$0.10, \$0.0959 was allocated to the common share component of the NFT Unit and the balance of \$0.0041 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 \$0.105, and the estimated fair value of a whole NFT warrant of \$0.0089. The fair value of the warrant was estimated using the Black-Scholes pricing model.

## 14. Share Capital (continued)

- ii) In December 2022, the Company completed a private placement and issued 11,470,624 flow-through units at a price of \$0.17 per unit ("2022 FT Unit") for gross proceeds of \$1,950,006 (the 2022 Private Placement").

Each 2022 FT Unit consists of one flow-through common share and one half non-transferable common share purchase warrant ("2022 FT Warrant"), with each whole 2022 FT Warrant being exercisable to acquire one non-flow-through common share of the Company at a price of \$0.25 for a period of twenty-four months after closing (3,529,412 of the 2022 FT Warrants will expire on December 2, 2024 and the balance of the 2022 FT Warrants of 2,205,900 will expire on December 14, 2024).

In conjunction with this private placement, the Company paid finder's fees of \$117,000, half of which was settled with 487,501 common shares of the Company at a deemed price of \$0.12 per share, and incurred other cash issuance costs of \$23,136.

The fair value of the warrant component of the 2022 FT Unit was estimated at \$0.0018 and the fair value of the flow-through feature of the 2022 FT Unit was estimated at \$0.0510. Using the relative fair value method, the 2022 FT Unit price of \$0.17 was allocated between the share component, the warrant component and the flow-through feature as follows: \$0.1181, \$0.0017, and \$0.0502, respectively.

The fair value of the 2022 FT 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 2022 FT Unit of \$0.1699 by the investors' investment tax credit rate of 30%. The amount of the Flow-through Share Premium totaled \$575,596 and was recorded as a deferred flow-through share premium liability on the consolidated statement of financial position on the completion date of the 2022 Private Placement.

- iii) As described earlier in note 6 Exploration and Evaluation Assets, in June 2023, the Company completed the 2023 Private Placement and issued 109,692,764 common shares to Sibelco for gross proceeds of \$10,000,000. The Company incurred cash issuance costs of \$77,810 in connection with the issuance of these shares.
- iv) In July 2023, the Company completed a private placement and issued 1,793,722 common shares to Sibelco for gross proceeds of \$197,309. The Company incurred cash issuance costs of \$32,218 in connection with this private placement.

### 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, 2021	5,150,000 <sup>(1)</sup>	\$ 0.120
Issued	6,010,000	0.173
Exercised	(3,125,000)	0.122
Balance - August 31, 2022	8,035,000 <sup>(1)</sup>	0.159
Issued	5,735,312	0.250
Exercised	(1,900,000)	0.120
Expired	(250,000)	0.120
Balance - August 31, 2023	11,620,312 <sup>(1)</sup>	\$ 0.211

<sup>(1)</sup> Does not include the additional liability classified warrants as described in note 12.

## 14. Share Capital (continued)

The outstanding equity classified warrants have a weighted average remaining contract life of 0.8 years.

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

As described in note 12, the Company also has 18,800,000 liability classified warrants outstanding as at August 31, 2023.

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

### d) Share Based Payments

The Company has three share incentive plans: the Stock Option Plan, the DSU Plan and the RSU Plan.

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

	Number of Options	Weighted Average Exercise Price
Balance - September 1, 2021	16,276,250	\$ 0.14
Granted	4,220,000	0.15
Exercise	(1,168,750)	0.09
Expired	(1,375,000)	0.11
Forfeited	(347,500)	0.13
Balance - August 31, 2022	17,605,000	0.14
Granted	8,760,000	0.13
Exercised	(581,250)	0.11
Expired	(1,470,000)	0.16
Forfeited	(650,000)	0.18
Balance - August 31, 2023	<u>23,663,750</u>	<u>\$ 0.14</u>

As at August 31, 2023, there were 10,768,750 options vested (August 31, 2022 - 7,220,000) with an average exercise price of \$0.14 per share (August 31, 2022 - \$0.13), that were exercisable.

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.

**14. Share Capital (continued)**

The weighted average assumptions for grants during the years ended August 31, 2023 and August 31, 2022 are as follows:

	<u>August 31, 2023</u>	<u>August 31, 2022</u>
Exercise price	\$0.13	\$0.15
Closing market price on day	\$0.13	\$0.15
Risk-free interest rate	3.69%	1.97%
Expected life (years)	3.9	3.3
Expected volatility	85%	90%
Expected dividend yield	Nil	Nil
Grant date fair value	\$0.08	\$0.09
Forfeiture rate	10%	11%

<u>Exercise Price Range</u>	<u>Number of Options</u>		<u>Weighted Average Remaining Contractual Life</u>
	<u>Outstanding</u>	<u>Exercisable</u>	
\$0.21 - \$0.26	400,000	400,000	2.5 years
\$0.15 - \$0.20	9,180,000	3,950,000	2.6 years
\$0.11 - \$0.14	8,690,000	2,102,500	3.8 years
\$0.08 - \$0.10	5,393,750	4,316,250	1.4 years
	<u>23,663,750</u>	<u>10,768,750</u>	

During the year ended August 31, 2023, an aggregate of 1,060,000 DSUs vesting at the grant date were granted to certain directors of the Company at the grant date weighted average fair value of \$0.14 per unit, which was the 5 Day VWAP of the Company's common shares prior to the date the DSUs were granted, of which 40,000 DSUs were granted to a director in lieu of cash director's fees.

Changes to the number of share units are as follows:

	<u>DSU Plan (Equity Settled)</u>	<u>RSU Plan (Equity Settled)</u>
Balance - September 1, 2021	475,000	1,475,000
Redeemed - common shares issued	-	(79,000)
Redeemed - cash payroll withholding tax payments	-	(62,668)
Forfeited	-	(316,666)
Balance - August 31, 2022	475,000	1,016,666
Granted	1,060,000	-
Redeemed - common shares issued	-	(255,000)
Redeemed - cash payroll withholding tax payments	-	(236,666)
Balance - August 31, 2023	<u>1,535,000</u>	<u>525,000</u>

There were 1,535,000 DSUs vested as at August 31, 2023 (August 31, 2022 - 475,000).

There were 300,001 RSUs vested as at August 31, 2023 (August 31, 2022 - 300,001).

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

## 14. Share Capital (continued)

The estimated fair value of options, DSUs and RSUs earned during the Year was \$651,256 (2022 - \$590,288), of which \$Nil (2022 - \$660) was capitalized to property, plant and equipment, \$12,537 (2022 - \$22,639) was capitalized as exploration and evaluation assets, \$5,000 (2022 - \$Nil) was charged to directors' fees, \$Nil (2022 - \$1,826) was charged to operations as general exploration expenses, with the balance of \$633,719 (2022 - \$565,163) charged to operations as share based compensation expense.

During the Year, an aggregate of 581,250 (2022 - 1,168,750) stock options were exercised at the weighted average exercise price of \$0.11 (2022 - \$0.09) per share, and the weighted average closing market share price on the date preceding the date of exercise was \$0.13 (2022 - \$0.17) per share.

### e) Brokers' Compensation Warrants

The following table summarizes information concerning outstanding brokers' compensation warrants as at the beginning and end of the respective reporting years:

	Number of Compensation Warrants	Weighted Average Exercise Price
Balance - September 1, 2021	150,000	\$ 0.20
Issued pursuant to equity offering	788,900	0.18
Balance - August 31, 2022	938,900	\$ 0.18
Expired	(150,000)	0.20
Balance - August 31, 2023	788,900	\$ 0.18

The outstanding brokers' compensation warrants have a weighted average remaining contract life of 0.3 years as at August 31, 2023.

## 15. Corporate and Administrative Expenses

Corporate and administrative expenses for the years ended August 31, 2023 and 2022 consist of the following:

	August 31, 2023	August 31, 2022
Salaries and benefits <sup>(1)</sup>	\$ 1,285,780	\$ 1,086,323
Directors' fees	26,371	23,964
Consulting and professional fees	607,120	364,655
Advertising, office, insurance and other expenses	1,047,268	634,630
Shareholders' communications and filing fees	129,499	119,137
Travel and related costs	41,249	31,594
	<u>\$ 3,137,287</u>	<u>\$ 2,260,303</u>

<sup>(1)</sup> These figures do not include share based compensation. Employees' salaries and benefits including share based compensation expensed for the Year totaled \$ 1,614,492 (2022 - \$1,427,247).

## 16. Capital Management

Capital of the Company consists of the components of shareholders' equity, convertible note payable, 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, 2023.

## 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, 2023 and 2022, other than the participation by certain related parties in the December 2021 private placement as described in note 14b, whereby Donald Bubar, former CEO, and Mr. Alan Ferry, lead Director subscribed for 250,000 and 300,000 flow-through units at \$0.12 per unit, respectively.

### b) Compensation of key management personnel

The remuneration of directors and other key members of the Company's senior management team during the years ended August 31, 2023 and August 31, 2022 are as follows:

	August 31, 2023	August 31, 2022
Salaries, benefits and directors' fees <sup>(1)</sup>	\$ 1,308,320	\$ 1,053,829
Share based compensation <sup>(2)</sup>	530,299	422,101
	<u>\$ 1,838,619</u>	<u>\$ 1,475,930</u>

<sup>(1)</sup> Salaries and benefits of key management personnel capitalized to exploration and evaluation assets and PPE totaled \$116,030 (2022 - \$102,109).

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

## 18. Financial Instruments

IFRS 13 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 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 Notes Payable was based on Level 3 inputs including the applicable face value of the 2021 and 2022 Notes. The Company had the right to buy back these notes at any time for the outstanding face values, as such the fair value of each of these notes was the outstanding face value of each note.

### **Fair Values**

Except as disclosed elsewhere in these consolidated financial statements, the carrying amounts for the Company's financial instruments approximate their fair values because of the short-term nature of these items.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

### **Credit risk**

The Company is not exposed to any significant credit risk as at August 31, 2023. The Company's cash and cash equivalents are either on deposit with a major Canadian Chartered banking group 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 ongoing 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, 2023, the Company has current assets of \$19,991,488 and current liabilities of \$1,360,945. The Company's working capital (which excludes AHFS) as at August 31, 2023 was \$1,728,081.

Repayments due by period as of August 31, 2023:

	<b>Within 1 Year</b>	<b>1-3 Years</b>	<b>4-5 Years</b>	<b>Over 5 Years</b>	<b>Total</b>
Accounts payable and accrued liabilities	\$ 1,125,976	\$ -	\$ -	\$ -	\$ 1,125,976
Debenture payable	-	3,426,900	-	-	3,426,900
Lease obligation	233,563	63,280	-	-	296,843
	<b>\$ 1,359,539</b>	<b>\$ 3,490,180</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 4,849,719</b>

## **18. Financial Instruments (continued)**

### ***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. The Company had no significant financial assets or financial liabilities denominated in foreign currencies as at August 31, 2023.

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 \$2,582,110, with other variables held constant, sensitivity to a plus or minus 100 basis points change in interest rates would not have any significant effect on the Company's net loss over a twelve month period.

The Company had no significant financial assets or financial liabilities denominated in foreign currencies as at August 31, 2023, and no significant ongoing expenditures to be transacted in US dollars is expected for the next twelve month period. 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, 2023 and August 31, 2022 are as follows:

	<u>August 31, 2023</u>	<u>August 31, 2022</u>
Share based compensation capitalized as property, plant and equipment (note 14d)	\$ -	\$ 660
Share based compensation capitalized as exploration and evaluation assets (note 14d)	12,537	22,639
Depreciation expense capitalized exploration and evaluation assets (note 7c)	6,826	8,998
	<u>\$ 19,363</u>	<u>\$ 32,297</u>

## 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, 2023	August 31, 2022
Net loss for the year before income taxes	\$ 4,059,980	\$ 4,042,533
Combined Canadian federal and provincial tax rate	25.0%	25.0%
Expected income tax recovery at statutory rates	1,014,995	1,010,633
Non-deductible share based compensation	(107,262)	(118,291)
Non-allowable capital loss	(52,400)	-
Other non-deductible expenses	(2,105)	(100)
CEE incurred applied to flow-through shares	(681,825)	(114,805)
Amortization of flow-through share premium	742,921	96,690
Non-taxable (Non-deductible) change in fair value of financial derivative instruments	81,361	(75,703)
Losses and other deductions for which no benefit has been recognized	(252,764)	(701,734)
Deferred income tax recoveries	\$ 742,921	\$ 96,690

### b) Income Tax Effect of Temporary Differences Recognized

The tax effects of temporary differences recognized as at August 31, 2023 and August 31, 2022 are as follows:

	August 31, 2023	August 31, 2022
Deferred income tax assets		
Exploration and evaluation assets	\$ 5,448,173	\$ 5,871,391
Scientific research and experimental developmental expenditures	4,952,652	4,589,056
	10,400,825	10,460,447
Deferred income tax liabilities		
Property plant and equipment	(10,400,825)	(10,460,447)
Net deferred income tax assets	\$ -	\$ -

### 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, 2023 and August 31, 2022 are as follows:

	August 31, 2023	August 31, 2022
Non-capital loss carryforwards	\$ 42,365,870	\$ 44,033,852
Scientific research and experimental developmental expenditures	7,557,148	9,011,532
Share issuance costs	1,033,397	1,146,679
Capital loss carry forwards	2,713,735	2,294,535
Lease and debt obligations	251,377	496,087
Deductible temporary differences not recognized	\$ 55,589,509	\$ 53,507,038

## **20. Income Taxes (continued)**

The Company also has non-refundable investment tax credit carry forwards of \$5,687,308 (2022 - \$5,687,308), 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 \$42,366,000 (2022 - \$38,890,000) 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
2041	2,153,000
2042	2,671,000
2043	3,476,000

The Company also has net operating losses of approximately \$1,668,000 (2022 - \$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 \$2,714,000 (2022 - \$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 equals to the weighted average number of common shares used in the calculation of basic loss per share for the years ended August 31, 2022 and 2023.

The loss used to calculate the basic and diluted loss per common share for the year ended August 31, 2023 was \$3,317,059 (2022 - \$3,945,843).

## 21. Loss per Share (Continued)

The Company's share capital structure including its common shares and any potentially dilutive instruments outstanding as at August 31, 2023 and August 31, 2022 are as follows:

	August 31, 2023	August 31, 2022
Common shares	560,373,603	406,948,106
Warrants	30,420,312	34,960,000
Stock options	23,663,750	17,605,000
DSUs	1,535,000	475,000
RSUs	525,000	1,016,666
Broker Compensation Warrants	788,900	938,900
Convertible Notes Payables	-	35,582,822 <sup>(1)</sup>
Total	<u>617,306,565</u>	<u>497,526,494</u>

<sup>(1)</sup>The number of common shares would be issued if the full amount of notes payable of \$4,060,000 outstanding as at August 31, 2022 had been converted into common shares using the 5 Day VWAP of the Company's common shares on the TSX of \$0.1342 on August 31, 2022.

The warrants, options, DSUs, RSUs and convertible instruments included in the above table 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, 2023 and August 31, 2022.

The Company is required to issue 37,590,496 common shares to Sibelco if the Company fails to repay the principal and accrued interest of \$3,426,900 of the Debenture at Maturity and Sibelco chooses to convert the Debenture into common shares of the Company. 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.

## 22. Commitments

As at August 31, 2023, pursuant to the subscription agreements entered into for the December 2022 private placement the Company is required to incur additional CEE of \$36,140 by December 31, 2023.

## 23. Events After the Reporting Period

Subsequent to the end of the Year, the Company:

- completed the sale of its Separation Rapids and Lilypad Projects to SRL at a deemed value of €23,243,873 and received 40% of the common shares of SRL. Sibelco contributed €4,865,810 in cash and committed to provide €30,000,000 funding to SRL and received 60% of the common shares of SRL. Sibelco is the operator of SRL;
- granted an aggregate of 1,250,000 stock options with a weighted average exercise price of \$0.13 per share to certain employees, directors and consultants of the Company. The weighted average contract life of these options at issuance was 2.8 years;
- had 250,000 options with an exercise price of \$0.11 per share expire;
- cancelled 500,000 options with an exercise price of \$0.13 per share;
- awarded bonuses for the Year totaling \$440,875 to the Company's senior management employees related to their services for the Year. These bonuses will be settled in RSUs after the release of these consolidated financial statements; and

**23. Events After the Reporting Period (continued)**

- f) amended the lease agreement for its office premises, as at November 28, 2023, the minimum lease commitments under the amended lease are as follows:

2024	\$	180,563
2025	\$	199,712
2026	\$	248,474
2027	\$	252,532
2028	\$	256,638
2029	\$	86,004