AVALON
ADVANCED MATERIALS INC.

Condensed Consolidated Interim Financial Statements

For the three and nine months ended May 31, 2023 (Unaudited)

INDEX

NOTICE TO READER

The accompanying unaudited interim financial statements have been prepared by the Company's management and the Company's independent auditors have not performed a review of these financial statements.

Condensed Consolidated Interim Statements of Financial Position
(expressed in Canadian Dollars)
(unaudited)

	May 31, 2023	August 31, 2022
Assets		
Current Assets		
Cash and cash equivalents	$ 741,381	$ 3,032,040
Other receivables	103,739	46,304
Prepaid expenses and deposits	380,197	979,906
	1,225,317	4,058,250
Non-Current Assets		
Exploration and evaluation assets (note 4)	16,457,309	13,912,430
Property, plant and equipment (note 5)	102,327,813	102,476,237
	118,785,122	116,388,667
	$ 120,010,439	$ 120,446,917
Liabilities		
Current Liabilities		
Accounts payable	$ 593,830	$ 186,685
Accrued liabilities	492,983	412,068
Deferred flow-through share premium (note 6)	116,628	177,999
Current portion of lease obligation (note 7)	220,989	209,075
Current portion of convertible notes payable (note 8)	1,790,000	460,000
	3,214,430	1,445,827
Non-Current Liabilities		
Lease obligation (note 7)	120,023	287,012
Convertible notes payable (note 8)	-	3,600,000
Derivative liabilities (note 9)	64,561	523,567
Site closure and reclamation provisions	278,600	278,600
	463,184	4,689,179
	3,677,614	6,135,006
Shareholders' Equity		
Share Capital (note 10b)	189,791,440	185,989,431
Reserve for Warrants (note 10c)	4,371,240	4,358,451
Reserve for Share Based Payments (note 10d)	18,448,598	18,148,159
Reserve for Brokers' Compensation Warrants (note 10e)	301,064	301,064
Accumulated Deficit	(96,579,517)	(94,485,194)
	116,332,825	114,311,911
	$ 120,010,439	$ 120,446,917

Approved on behalf of the Board

"Scott Monteith", Director

"Alan Ferry", Director

Condensed Consolidated Interim Statements of Comprehensive Loss
(expressed in Canadian Dollars, except number of shares)
(unaudited)

	Three Months Ended		Nine Months Ended	
	May 31, 2023	May 31, 2022	May 31, 2023	May 31, 2022
Revenue				
Interest	$ 11,394	$ 3,918	$ 52,020	$ 6,220
Expenses				
Corporate and administrative (note 11)	819,114	596,189	2,310,094	1,567,955
General exploration (recovery)	(1,201)	7,738	2,581	20,702
Impairment loss on exploration and evaluation assets (note 4c)	15,000	-	18,050	-
Depreciation (note 5c)	56,590	40,324	169,911	111,659
Share based compensation (note 10d)	87,687	130,390	306,412	419,395
Interest on lease obligation (note 7)	4,708	7,221	16,068	23,457
Increase (decrease) in fair value of convertible notes payable and derivative liabilities (notes 8, 9)	(190,219)	947,768	(459,006)	881,198
Write-off of business acquisition costs (note 4c)	419,200	-	419,200	-
	1,210,879	1,729,630	2,783,310	3,024,366
Net Loss before Income Taxes	(1,199,485)	(1,725,712)	(2,731,290)	(3,018,146)
Deferred Income Tax Recoveries	236,361	18,806	636,967	63,818
Net Loss and Total Comprehensive Loss for the period	$ (963,124)	$ (1,706,906)	$ (2,094,323)	$ (2,954,328)
Loss per Share - Basic and Diluted	$ (0.002)	$ (0.004)	$ (0.005)	$ (0.008)
Weighted Average Number of Common Shares Outstanding - Basic and Diluted	437,673,506	395,530,468	426,926,200	383,378,809

Condensed Consolidated Interim Statements of Changes in Equity
(expressed in Canadian Dollars, except number of shares)
(unaudited)

	Share Capital		Reserves				
	Number of Shares	Amount	Warrants	Share Based Payments	Brokers' Compensation Warrants	Accumulated Deficit	Total
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	12,019,994	1,113,587	31,992	-	-	-	1,145,579
Conversion of note payable (note 8)	18,942,244	1,920,000	-	-	-	-	1,920,000
Exercise of warrants	3,125,000	382,500	-	-	-	-	382,500
Reserve transferred on exercise of warrants	-	6,940	(6,940)	-	-	-	-
Exercise of options	1,043,750	92,050	-	-	-	-	92,050
Reserve transferred on exercise of options	-	24,822	-	(24,822)	-	-	-
Redemption of restricted share units - shares	79,000	12,495	-	(12,495)	-	-	-
Redemption of restricted share units - cash payroll tax payments	-	-	-	(13,160)	-	-	(13,160)
Compensation warrants issued on equity offerings	-	-	-	-	3,951	-	3,951
Share based compensation (note 10d)	-	-	-	444,520	-	-	444,520
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 nine month period	-	-	-	-	-	(2,954,328)	(2,954,328)
Balance at May 31, 2022	400,549,017	185,365,364	4,358,451	18,006,458	301,064	(93,493,679)	114,537,658
Conversion of notes payable (note 8)	6,274,089	610,000	-	-	-	-	610,000
Exercise of options	125,000	10,000	-	-	-	-	10,000
Reserve transferred on exercise of options	-	4,067	-	(4,067)	-	-	-
Share based compensation (note 10d)	-	-	-	145,768	-	-	145,768
Net loss and total comprehensive loss for the three month period	-	-	-	-	-	(991,515)	(991,515)
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 10b)	11,470,624	1,354,451	19,959	-	-	-	1,374,410
Conversion of notes payable (note 8)	20,585,678	2,270,000	-	-	-	-	2,270,000
Exercise of warrants	1,900,000	228,000	-	-	-	-	228,000
Reserve transferred on exercise of warrants	-	5,135	(5,135)	-	-	-	-
Exercise of options	86,250	9,000	-	-	-	-	9,000
Reserve transferred on exercise of options	-	3,287	-	(3,287)	-	-	-
Redemption of restricted share units - shares	49,000	11,737	-	(11,737)	-	-	-
Redemption of restricted share units - cash payroll tax payments	-	-	-	(4,864)	-	-	(4,864)
Compensation shares issued on equity offerings	487,501	58,500	-	-	-	-	58,500
Share based compensation (note 10d)	-	-	-	320,327	-	-	320,327
Share issuance costs - cash	-	(80,451)	(1,185)	-	-	-	(81,636)
Share issuance costs - compensation shares issued	-	(57,650)	(850)	-	-	-	(58,500)
Net loss and total comprehensive loss for the nine month period	-	-	-	-	-	(2,094,323)	(2,094,323)
Balance at May 31, 2023	441,527,159	$ 189,791,440	$ 4,371,240	$ 18,448,598	$ 301,064	$ (96,579,517)	$ 116,332,825

Condensed Consolidated Interim Statements of Cash Flows
(expressed in Canadian Dollars)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	May 31, 2023	May 31, 2022	May 31, 2023	May 31, 2022
Operating Activities				
Cash paid to employees	$ (301,207)	$ (346,256)	$ (805,156)	$ (912,167)
Cash paid to suppliers	(179,155)	(414,699)	(1,081,881)	(800,433)
Interest received	11,394	3,918	52,020	6,220
Cash Used by Operating Activities	(468,968)	(757,037)	(1,835,017)	(1,706,380)
Financing Activities				
Net proceeds from equity offerings (note 10b)	-	-	1,868,370	1,279,180
Net proceeds from issuance of notes payable (note 8)	-	2,884,693	-	2,884,693
Proceeds from exercise of stock options	9,000	76,050	9,000	92,050
Proceeds from exercise of warrants	-	382,500	228,000	382,500
Net lease payments paid	(58,038)	(22,361)	(171,143)	(85,145)
Cash Provided (Used) by Financing Activities	(49,038)	3,320,882	1,934,227	4,553,278
Investing Activities				
Exploration and evaluation assets	(681,812)	(70,731)	(2,219,632)	(498,732)
Property, plant and equipment	(6,010)	(13,981)	(170,237)	(48,382)
Cash Used by Investing Activities	(687,822)	(84,712)	(2,389,869)	(547,114)
Change in Cash and Cash Equivalents	(1,205,828)	2,479,133	(2,290,659)	2,299,784
Cash and Cash Equivalents – beginning of period	1,947,209	1,644,110	3,032,040	1,823,459
Cash and Cash Equivalents – end of period	$ 741,381	$ 4,123,243	$ 741,381	$ 4,123,243

Supplemental Cash Flow Information (note 14)

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 materials 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 unaudited condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to a going concern, which assumes the Company will continue to meet its obligations and discharge its liabilities in the normal course of business for the foreseeable future. Different bases of measurement may be appropriate when a company is not expected to continue operations for the foreseeable future. The Company is in the exploration and development stage and raises funds in the equity markets to conduct its business activities. The Company has incurred losses in the current and prior periods, with a net loss of $2,094,323 for the nine months ended May 31, 2023 (the "Period") and an accumulated deficit of $96,579,517 as at May 31, 2023. The Company's cash and cash equivalents balance at May 31, 2023 was $741,381, and the working capital deficit was $1,989,113.

Given the continuation of weak investor interest and capital market conditions in the junior resource sector amongst other factors, there exists an uncertainty as to the Company's ability to raise additional funds on favorable terms. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. As at May 31, 2023, the Company is required to incur additional Canadian exploration expenses ("CEE") of $394,880 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.

Subsequent to the three months ended May 31, 2023 (the "Quarter"), as described in note 4 "Exploration and Evaluation Assets", the Company and SCR-Sibelco NV ("Sibelco") entered into a binding term sheet to establish a joint venture with respect to certain of the Company's lithium mineral projects located in northwestern Ontario ("Joint Venture"). The Company also issued to Sibelco, on a non-brokered private placement basis, 109,692,764 common shares of the Company for aggregate proceeds of $10,000,000 and a secured convertible debenture in the principal amount of $3,000,000 (the "Convertible Debenture") (collectively, the "2023 Private Placement").

These unaudited condensed consolidated interim 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 unaudited condensed consolidated interim financial statements have been reviewed and approved by the Company's Audit Committee and the Board of Directors on July 4, 2023.

2. Basis of Presentation

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

These unaudited condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with International Accounting Standards ("IAS") 34 *Interim Financial Reporting*, as issued by IASB.

These unaudited condensed consolidated interim financial statements do not contain all disclosures required by IFRS and accordingly should be read in conjunction with the Company's consolidated annual financial statements for the year ended August 31, 2022.

These unaudited condensed consolidated interim 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 of the Company's consolidated annual financial statements for the year ended August 31, 2022.

b) ***Basis of Consolidation***

These unaudited condensed consolidated interim 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 unaudited condensed consolidated interim financial statements include the accounts of the Company and its wholly-owned subsidiaries, 8110131 Canada Inc., Avalon Lithium Inc., 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

These unaudited condensed consolidated interim financial statements have been prepared using the same accounting policies, significant accounting judgments and estimates, and methods of computation as the annual consolidated financial statements of the Company as at and for the year ended August 31, 2022, except for the adoption of the new accounting standard as described below:

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

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

3. Summary of Significant Accounting Policies (continued)

The following pronouncement is issued but not yet effective:

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

In January 2020, the IASB issued amendments to IAS 1, Presentation of 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, 2023 (which will become effective on September 1, 2023 for the Company), and will apply retrospectively. The application of these amendments will impact the current/non-current classification of the Company's convertible note payable and certain derivative liabilities.

4. Exploration and Evaluation Assets

	September 1, 2021	Expenditures	Impairment Loss	August 31, 2022
For the Year Ended August 31, 2022				
Separation Rapids Lithium Project (a)	$ 12,826,626	$ 541,169	$ -	$ 13,367,795
Lilypad Cesium-Tantalum Project (b)	443,360	83,225	-	526,585
Other (c)	18,050	-	-	18,050
	$ 13,288,036	$ 624,394	$ -	$ 13,912,430

	September 1, 2022	Expenditures	Impairment Loss	May 31, 2023
For the Period				
Separation Rapids Lithium Project (a)	$ 13,367,795	$ 2,558,729	$ -	$ 15,926,524
Lilypad Cesium-Tantalum Project (b)	526,585	4,200	-	530,785
Other (c)	18,050	-	(18,050)	-
	$ 13,912,430	$ 2,562,929	$ (18,050)	$ 16,457,309

a) Separation Rapids Lithium Project, Ontario

The Company owns a 100% interest in certain mineral claims and a mining lease in the Kenora area of Ontario.

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

4. Exploration and Evaluation Assets (continued)

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

The Convertible 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"). To the extent not repaid by Maturity by the Company, Sibelco will have the right to convert the Convertible Debenture and all accrued and unpaid interest thereon into either an aggregate of 37,590,496 Common Shares, or an additional 5% interest in the Joint Venture Company, in which case the participating interests of Sibelco and Avalon will change to 65% and 35%, respectively. The Convertible Debenture is secured by a mortgage on the Thunder Bay Property (as defined in note 15 Events After the Reporting Period).

b) Lilypad Cesium-Tantalum Project, Ontario

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

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

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 Period.

5. Property, Plant and Equipment

	Nechalacho REE Project (a)	Airstrip	Office, Computer and Office Equipment (b)	Land and Building	Exploration Equipment	Leasehold Improvements	Total
Cost							
As at September 1, 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	22,474	-	4,132	-	-	-	26,606
Disposals	-	-	(29,888)	-	(1,817)	-	(31,705)
As at May 31, 2023	$ 101,612,340	$ 646,860	$ 1,209,483	$ 94,605	$ 686,272	$ 106,754	$ 104,356,314
Accumulated Depreciation							
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	-	11,081	151,522	3,356	7,258	1,813	175,030
Disposals	-	-	(29,888)	-	(1,817)	-	(31,705)
As at May 31, 2023	$ -	$ 349,640	$ 884,155	$ 30,511	$ 661,270	$ 102,925	$ 2,028,501
Net Book Value							
August 31, 2022	$ 101,589,866	$ 308,301	$ 472,718	$ 67,450	$ 32,260	$ 5,642	$ 102,476,237
May 31, 2023	$ 101,612,340	$ 297,220	$ 325,328	$ 64,094	$ 25,002	$ 3,829	$ 102,327,813

5. 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.

During the year ended August 31, 2020, the Company disposed of the resources above a depth of 150 metres above sea level ("Upper Zone Resources") to a third party for a total cash consideration of $5.0 million and recognized a net gain on sale of $2,373,261. 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 May 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 May 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 $147,067 (2022 - $86,544) (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 Period, and the carrying balance of the ROU asset was $ 310,475 as at May 31, 2023 (August 31, 2022 - $457,542).

c) Depreciation expense for the three and nine months ended May 31, 2023 and 2022 consist of the following:

	Three Months Ended		Nine Months Ended	
	May 31, 2023	May 31, 2022	May 31, 2023	May 31, 2022
Depreciation expense recognized	$ 58,297	$ 59,727	$ 175,030	$ 178,799
Depreciation expense capitalized to exploration and evaluation assets	(1,707)	(2,382)	(5,119)	(6,617)
Rent forgiveness and rent subsidy	-	(17,021)	-	(60,523)
	$ 56,590	$ 40,324	$ 169,911	$ 111,659

6. 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		(96,690)
Balance - August 31, 2022		177,999
Increase relating to flow-through common shares issued		575,596
Decrease relating to CEE incurred		(636,967)
Balance - May 31, 2023	$	116,628

7. Lease Obligation

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

2023	$	58,038
2024		233,563
2025		63,280
Total future lease payments as at May 31, 2023		354,881
Amounts representing interest		(13,869)
Present value of future lease payments - May 31, 2023	$	341,012

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		(222,556)
Balance - August 31, 2022		496,087
Interest expense		16,068
Payments		(171,143)
Balance - May 31, 2023		341,012
Current portion of lease obligation		220,989
Non-current portion of lease obligation	$	120,023

The Company had net cash outflows of $171,143 (2022 - $85,145 (total lease payments of $166,746 less $81,601 in rent forgiveness and rent subsidy received)) for its lease contract in the Period.

8. 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.

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 five 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.

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 five day VWAP of the common shares prior to the date of conversion. The Company has the same buyback option as for the 2021 Note commencing after September 10, 2022.

As the Company has the buyback option to repurchase the 2022 Note at the outstanding face value, the total fair value of the 2022 Note is 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 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.

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	(2,530,000)
Balance – August 31, 2022	4,060,000
Converted to common shares	(2,270,000)
Balance – May 31, 2023	1,790,000
Current portion of convertible notes payable	1,790,000
Non-current portion of convertible notes payable	$ -

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

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

9. 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
Balance - August 31, 2022	26,925,000		523,567
Expired	(6,250,000)		(655)
Decrease in fair value	-		(458,351)
Balance - May 31, 2023	20,675,000	$	64,561

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

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

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

iii) 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 May 31, 2023 using the Black-Scholes pricing model, with the following weighted average assumptions: expected dividend yield of Nil; risk free interest rate of 4.1%; expected life of 2.1 years; and expected volatility of 30%.

10. 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 May 31, 2023.

b) Common Shares

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 ("FT Unit") for gross proceeds of $1,950,006.

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 $0.25 for a period of twenty-four months after closing.

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.

10. Share Capital (continued)

The fair value of the warrant component of the FT Unit was estimated at $0.0018 and the fair value of the flow-through feature of the FT Unit was estimated at $0.0510. Using the relative fair value method, the 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 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 $0.1699 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 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 periods:

	Number of Warrants	Weighted Average Exercise Price
Balance – September 1, 2021	5,150,000[(1)]	$ 0.120
Issued	6,010,000	0.173
Exercised	(3,125,000)	0.122
Balance – August 31, 2022	8,035,000[(1)]	0.159
Issued	5,735,312	0.250
Exercised	(1,900,000)	0.120
Expired	(250,000)	0.120
Balance – May 31, 2023	11,620,312[(1)]	$ 0.211

[(1)] Does not include the additional liability classified warrants as described in note 9.

The outstanding equity classified warrants have a weighted average remaining contract life of 1.0 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 9, the Company also has 20,675,000 liability classified warrants outstanding as at May 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, Deferred Share Unit Plan (the "DSU Plan") and the Restricted Share Unit Plan (the "RSU 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.

10. Share Capital (continued)

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 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.

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

	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	2,730,000	0.13
Exercised	(86,250)	0.10
Expired	(1,270,000)	0.17
Forfeited	(200,000)	0.20
Balance - May 31, 2023	18,778,750	$ 0.14

As at May 31, 2023, there were 9,803,750 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.

10. Share Capital (continued)

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

	May 31, 2023	August 31, 2022
Exercise price	$0.13	$0.15
Closing market price on day preceding date of grant	$0.12	$0.15
Risk-free interest rate	3.33%	1.97%
Expected life (years)	4.0	3.3
Expected volatility	87%	90%
Expected dividend yield	Nil	Nil
Grant date fair value	$0.08	$0.09
Forfeiture rate	10%	11%

The following table summarizes information concerning outstanding and exercisable options as at May 31, 2023:

	Number of Options		Weighted Average Remaining
Exercise Price Range	Outstanding	Exercisable	Contractual Life
$0.21 - $0.26	400,000	200,000	2.7 years
$0.15 - $0.20	6,930,000	3,625,000	2.7 years
$0.11 - $0.14	5,840,000	2,032,500	3.1 years
$0.08 - $0.10	5,608,750	3,946,250	1.7 years
	18,778,750	9,803,750	

During the Period, 21,894 DSUs vesting at the grant date were granted to a director of the Company in lieu of cash director's fees at the grant date weighted average fair value of $0.11 per unit, which was the five day VWAP of the Company's common shares prior to the date the DSUs were granted.

Changes to the number of share units are as follows:

	DSU Plan (Equity Settled)	RSU Plan (Equity Settled)
Balance - September 1, 2021	475,000	1,475,000
Redeemed	-	(141,668)
Forfeited	-	(316,666)
Balance - August 31, 2022	475,000	1,016,666
Granted	21,894	-
Redeemed	-	(91,666)
Balance - May 31, 2023	496,894	925,000

There were 496,894 DSUs vested as at May 31, 2023 (August 31, 2022 - 475,000).

There were 566,667 RSUs vested as at May 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.

10. Share Capital (continued)

The estimated fair value of options, DSUs and RSUs earned during the Period was $317,827 (2022 – $444,520), of which $Nil (2022 - $660) was capitalized to property, plant and equipment, $11,415 (2022 - $22,639) was capitalized as exploration and evaluation assets, $Nil (2022 - $1,826) was charged to operations as general exploration expenses, with the balance of $306,412 (2022 – $419,395) charged to operations as share based compensation expense.

During Period, an aggregate of 86,250 (2022 - 1,043,750) stock options were exercised at the weighted average exercise price of $0.10 (2022 - $0.09) per share, and the weighted average closing market share price on the date preceding the date of exercise was $0.12 (2022 - $0.18) 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 periods:

	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 – May 31, 2023	788,900	$ 0.18

The outstanding brokers' compensation warrants have a weighted average remaining contract life of 0.6 years as at May 31, 2023.

11. Corporate and Administrative Expenses

Corporate and administrative expenses for the three and nine months ended May 31, 2023 and 2022 consist of the following:

	Three Months Ended		Nine Months Ended	
	May 31, 2023	May 31, 2022	May 31, 2023	May 31, 2022
Salaries and benefits[(1)]	$ 327,540	$ 302,811	$ 818,833	$ 821,924
Directors' fees	6,581	7,212	19,256	17,358
Consulting and professional fees	166,773	92,412	458,665	241,200
Advertising, office, insurance and other expenses	295,112	173,682	894,331	373,052
Shareholders' communications and filing fees	15,658	15,905	108,725	107,138
Travel and related costs	7,450	4,167	10,284	7,283
	$ 819,114	$ 596,189	$ 2,310,094	$ 1,567,955

(1) These figures do not include share based compensation. Employees' salaries and benefits including share based compensation expensed for the Quarter and the Period totaled $390,398 (2022 - $316,759) and $1,012,961 (2022 - $1,088,652) respectively.

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

b) Compensation of key management personnel

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

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

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

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

13. 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.

13. Financial Instruments (continued)

Fair Values

Except as disclosed elsewhere in these condensed consolidated interim 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 May 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 May 31, 2023, the Company has current assets of $1,225,317 and current liabilities of $3,214,430. The Company's working capital deficit as at May 31, 2023 was $1,989,113.

Repayments due by period as of May 31, 2023:

	Within 1 Year	1-3 Years	4-5 Years	Over 5 Years	Total
Accounts payable and accrued liabilities	$ 1,086,813	$ -	$ -	$ -	$ 1,086,813
Convertible notes payable	1,790,000	-	-	-	1,790,000
Lease obligation	233,034	121,847	-	-	354,881
	$ 3,109,847	$ 121,847	$ -	$ -	$ 3,231,694

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 May 31, 2023.

13. Financial Instruments (continued)

iii) Price risk

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

Sensitivity analysis

Considering the Company's budget expenditures for the balance of fiscal 2023 and its current cash and cash equivalents of $741,381, with other variables held constant, sensitivity to a plus or minus 25 basis points change in interest rates would not have any significant effect on the Company's net loss for the balance of fiscal 2023.

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

14. Supplemental Cash Flow Information

Non-cash financing and investing transactions not reflected in the Condensed Consolidated Interim Statements of Cash Flows for the three and nine months ended May 31, 2023 and 2022 are as follows:

	Three Months Ended		Nine Months Ended	
	May 31, 2023	May 31, 2022	May 31, 2023	May 31, 2022
Share based compensation capitalized as property, plant and equipment	$ -	$ 26	$ -	$ 660
Share based compensation capitalized as exploration and evaluation assets	4,919	1,390	11,415	22,639
Depreciation expense capitalized as exploration and evaluation assets	1,707	2,382	5,119	6,617
	$ 6,626	$ 3,798	$ 16,534	$ 29,916

15. Events After the Reporting Period

Subsequent to the end of the Period, the Company:

a) completed the 2023 Private Placement as described earlier in note 4 Exploration and Evaluation Assets, and issued to Sibelco, 109,692,764 common shares for aggregate proceeds of $10,000,000 and the Convertible Debenture in the principal amount of $3,000,000 for cash proceeds of $3,000,000, and entered into a binding term sheet with Sibelco to establish a Joint Venture with respect to certain of the Company's lithium mineral projects located in northwestern Ontario, with Sibelco as the operator.

15. Events After the Reporting Period (continued)

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

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

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

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

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

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

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

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