



A V A L O N

ADVANCED MATERIALS

Avalon Advanced Materials Inc.

Consolidated Financial Statements

**For the years ended
August 31, 2024 and 2023**

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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, 2024 and 2023, 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 material accounting policy information.

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, 2024 and 2023, and its consolidated financial performance and its consolidated cash flows for the years then ended, in accordance with IFRS Accounting Standards.

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 \$634,576 during the year ended August 31, 2024 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 of our report, 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, 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, 2024, the carrying value of property, plant and mine development was \$111.89 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, 2024 as the amount of the net assets of the Company was more than its market capitalization. As detailed in note 8 of the consolidated financial statements, the Company did not recognize any impairment in relation to this CGU for the year ended August 31, 2024.</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">• We 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.• We 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 performing a 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.• 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.• We assessed the adequacy of the disclosures included in note 8 of the accompanying consolidated financial statements in relation to this matter.

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, 2024.

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 IFRS Accounting Standards, 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, 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.

Ernst & Young LLP

Toronto, Canada
November 28, 2024

Chartered Professional Accountants
Licensed Public Accountants

Consolidated Statements of Financial Position
(expressed in Canadian Dollars)
As at August 31, 2024 and August 31, 2023

	2024	2023
Assets		
Current Assets		
Cash and cash equivalents (note 4)	\$ 712,306	\$ 2,582,110
Other receivables	49,115	146,802
Prepaid expenses and deposits	130,389	360,114
Assets held for sale (note 5)	-	16,902,462
	<u>891,810</u>	<u>19,991,488</u>
Non-Current Assets		
Exploration and evaluation assets (note 7)	-	-
Investment in associate (note 6)	22,710,238	-
Property, plant and equipment (note 8)	111,889,134	111,061,846
Deferred financing costs (note 11)	887,379	-
	<u>135,486,751</u>	<u>111,061,846</u>
	<u>\$ 136,378,561</u>	<u>\$ 131,053,334</u>
Liabilities		
Current Liabilities		
Accounts payable	\$ 458,446	\$ 459,022
Accrued liabilities	1,040,688	666,954
Deferred flow-through share premium (note 9)	-	10,674
Current portion of lease obligation (note 10)	137,034	224,295
Current portion of debenture payable (note 12)	3,237,719	-
	<u>4,873,887</u>	<u>1,360,945</u>
Non-Current Liabilities		
Lease obligation (note 10)	707,296	62,718
Convertible notes payable (note 11)	2,970,000	-
Debenture payable (note 12)	-	3,009,978
Derivative liabilities (note 13)	637	198,123
Site closure and reclamation provisions (note 14)	203,600	278,600
	<u>3,881,533</u>	<u>3,549,419</u>
	<u>8,755,420</u>	<u>4,910,364</u>
Shareholders' Equity		
Share Capital (note 15b)	201,501,514	200,590,815
Reserve for Warrants (note 15c)	4,920,753	4,371,240
Reserve for Share Based Payments (note 15d)	19,336,639	18,682,104
Reserve for Brokers' Compensation Warrants (note 15e)	301,064	301,064
Accumulated Deficit	<u>(98,436,829)</u>	<u>(97,802,253)</u>
	<u>127,623,141</u>	<u>126,142,970</u>
	<u>\$ 136,378,561</u>	<u>\$ 131,053,334</u>

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

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

	2024	2023
Revenue		
Interest	\$ 55,832	\$ 79,258
Rent	54,000	45,000
	<u>109,832</u>	<u>124,258</u>
Expenses		
Corporate and administrative (note 16)	4,315,513	3,090,055
Project development	600,921	-
Property holding costs	364,286	47,232
General exploration	42,785	1,806
Impairment loss on exploration and evaluation assets (note 7b)	-	18,050
Depreciation (note 8)	258,872	231,662
Share based compensation (note 15d)	449,075	633,719
Finance costs (note 12)	499,389	67,958
Financing transaction costs (note 11)	137,666	-
Decrease in fair values derivative liabilities (note 13)	(197,486)	(325,444)
Write-off of business acquisition costs (note 7b)	-	419,200
	<u>6,471,021</u>	<u>4,184,238</u>
Net Loss before the Undernoted Items	(6,361,189)	(4,059,980)
Gain on Sale of Exploration and Evaluation Assets (note 5)	5,722,693	-
Gain on Sale of Property, Plant and Equipment	93,818	-
Gain Recognized on Lease Amendment (note 8b)	29,487	-
Equity in Loss of Associate (note 6)	(130,059)	-
	<u>(645,250)</u>	<u>(4,059,980)</u>
Net Loss before Income Taxes	(645,250)	(4,059,980)
Deferred Income Tax Recoveries (note 21)	10,674	742,921
	<u>10,674</u>	<u>742,921</u>
Net Loss and Total Comprehensive Loss for the year	\$ (634,576)	\$ (3,317,059)
	<u>(634,576)</u>	<u>(3,317,059)</u>
Loss per Share - Basic and Diluted (note 22)	\$ (0.001)	\$ (0.007)
	<u>(0.001)</u>	<u>(0.007)</u>
Weighted Average Number of Common Shares		
Outstanding - Basic and Diluted	<u>563,399,763</u>	<u>456,059,983</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, 2022	406,948,106	\$ 185,989,431	\$ 4,358,451	\$ 18,148,159	\$ 301,064	\$ (94,485,194)	\$ 114,311,911
Equity offerings (note 15b)	122,957,110	11,551,761	19,959	-	-	-	11,571,720
Conversion of note payable (note 11)	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 15d)	255,000	56,046	-	(56,046)	-	-	-
Redemption of restricted share units - cash payroll	-	-	-	(32,994)	-	-	(32,994)
Compensation shares issued on equity offerings	487,501	58,500	-	-	-	-	58,500
Share based compensation (note 15d)	-	-	-	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
Equity offerings (note 15b)	4,250,000	422,662	2,338	-	-	-	425,000
Conversion of note payable (note 11)	6,165,381	330,000	-	-	-	-	330,000
Redemption of restricted share units - shares (note 15d)	786,071	143,937	-	(143,937)	-	-	-
Redemption of restricted share units - cash payroll withholding tax payments	-	-	-	(58,640)	-	-	(58,640)
Redemption of deferred share units - shares (note 15d)	215,000	35,684	-	(35,684)	-	-	-
Redemption of deferred share units - cash payroll withholding tax payments	-	-	-	(548)	-	-	(548)
Share based compensation (note 15d)	-	-	-	893,344	-	-	893,344
Share issuance costs - cash	-	(21,584)	-	-	-	-	(21,584)
Warrants issued with note payable (note 11)	-	-	547,175	-	-	-	547,175
Net loss and total comprehensive loss for the year	-	-	-	-	-	(634,576)	(634,576)
Balance at August 31, 2024	571,790,055	\$ 201,501,514	\$ 4,920,753	\$ 19,336,639	\$ 301,064	\$ (98,436,829)	\$ 127,623,141

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>2024</u>	<u>2023</u>
Operating Activities		
Cash paid to employees	\$ (2,063,602)	\$ (1,321,277)
Cash paid to suppliers	(2,107,066)	(1,436,542)
Interest received	55,832	79,258
Rent received	36,000	63,000
	<hr/>	<hr/>
Cash Used by Operating Activities	(4,078,836)	(2,615,561)
Financing Activities		
Net proceeds from equity offerings (note 15b)	403,416	11,955,652
Net proceeds from issuance of convertible note payable (note 11)	2,588,609	-
Net proceeds from issuance of debenture payable (note 12)	-	2,962,126
Proceeds from exercise of stock options	-	61,800
Proceeds from exercise of warrants	-	228,000
Net lease payments paid (note 10)	(245,405)	(229,180)
Repayment of convertible note payable (note 11)	-	(1,200,000)
	<hr/>	<hr/>
Cash Provided by Financing Activities	2,746,620	13,778,398
Investing Activities		
Exploration and evaluation assets	(133,736)	(2,892,854)
Property, plant and equipment	(341,284)	(8,655,285)
Proceeds from sale of property, plant and equipment	154,555	-
Transaction costs paid for acquisition of investment in associate	(217,123)	(64,628)
	<hr/>	<hr/>
Cash Used by Investing Activities	(537,588)	(11,612,767)
Change in Cash and Cash Equivalents	(1,869,804)	(449,930)
Cash and Cash Equivalents - beginning of year	<hr/> 2,582,110	<hr/> 3,032,040
Cash and Cash Equivalents - end of year	<hr/> <u>\$ 712,306</u>	<hr/> <u>\$ 2,582,110</u>

Supplemental Cash Flow Information (note 20)

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 2060, 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 investment in associate 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 the Nechalacho REE Project and its planned lithium-hydroxide processing facility, and future profitable production or proceeds of disposition from its development assets and the company’s investee’s ability to develop and generate profitable production from its mineral assets.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS Accounting Standards”) 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 \$634,576 for the year ended August 31, 2024 (the “Year”) and an accumulated deficit of \$98,436,829 as at August 31, 2024. The Company’s cash and cash equivalents balance at August 31, 2024 was \$712,306, and the working capital deficit was \$3,982,077.

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. 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. Initiatives to raise additional capital are ongoing and include financing from investing partners for developing the Company’s planned lithium-hydroxide processing facility.

Subsequent to the end of the Year, as described in note 23, the Company completed \$3,500,000 debenture financing with Sibelco. Sibelco provided an additional funding of \$3,500,000 to the Company by way of an amended and restated debenture (the “2024 Debenture”). The 2024 Debenture replaced the Company’s existing \$3,000,000 debenture (the “2023 Debenture”) and have a principal amount of \$6,500,000.

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, 2024.

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 Accounting Standards as issued by the IASB.

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

b) Basis of Consolidation

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

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, 8110131 Canada Inc., 1000560170 Ontario Inc., Avalon Lithium Inc., Lake Superior 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.

On November 9, 2023, as further described in notes 5 and 6, the Company completed the sale/transfer of its Separation Rapids Lithium Project and Lilypad Cesium-Tantalum Project (collectively the “Contributed Assets”) to the Joint Venture Company Separation Rapids Ltd. (“SRL”) and acquired a 40% equity interest in SRL, with SCR-Sibelco NV (“Sibelco”) owning the other 60%. The mandate of SRL is to advance the exploration and development activities of the Separation Rapids Lithium Project and Lilypad Cesium-Tantalum Project. Sibelco is the operator of SRL. The Company’s investment in SRL is accounted for using the equity method.

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. Material 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 (“\$”). 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.

3. Material Accounting Policies (continued)

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

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

b) Share Based Payments

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.

3. Material Accounting Policies (continued)

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.

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.

3. Material Accounting Policies (continued)

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.

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

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

e) 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.

f) 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.

g) 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. Material Accounting Policies (continued)

h) 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. Material 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.

i) Investments in Associates

The Company's interest in equity-accounted investees comprise its investment in an associate. Associates are those entities in which the Company has significant influence, but not control or joint control, over the financial and operating policies of the investee.

Investments in associates are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Company's share of the profit or loss and other comprehensive income or loss of the associates, until the date on which significant influence ceases.

Investments in associates are assessed at each reporting date to determine whether there is objective evidence of impairment.

The net investment in an associate is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the net investment (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows from the net investment that can be reliably estimated. Objective evidence that the net investment is impaired includes observable data that comes to the attention of the Company about the following loss events:

- i) significant financial difficulty of the associate;
- ii) a breach of contract, such as a default or delinquency in payments by the associate;
- iii) the entity, for economic or legal reasons relating to its associate's financial difficulty, granting to the associate a concession that the entity would not otherwise consider;
- iv) it is becoming probable that the associate will enter bankruptcy or other financial reorganization; or
- v) the disappearance of an active market for the net investment because of financial difficulties of the associate.

In addition to the above events, objective evidence of impairment for the net investment in the equity instruments of the associate includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the associate operates, and indicates that the cost of the investment in the equity instrument may not be recovered. A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment.

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.

3. Material Accounting Policies (continued)

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.

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.

3. Material Accounting Policies (continued)

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.

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

3. Material Accounting Policies (continued)

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 measured 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.

o) Related Party Disclosure

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

3. Material Accounting Policies (continued)

p) Segment Reporting

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

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

q) Critical Accounting Judgments and Estimation Uncertainties

The preparation of the consolidated financial statements in conformity with IFRS Accounting Standards 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:

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.

3. Material Accounting Policies (continued)

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.

Fair Value of Avalon's Contribution of Non-monetary Assets to an Associate in Exchange for an Equity Interest in the Associate

As described in 2, the Company transferred the "Contributed Assets" to SRL and received a 40% equity interest in SRL. The fair value of the Contributed Assets at the transfer date is based on the estimated fair value of Sibelco's cash contributions to SRL to acquire the 60% interest in SRL, which requires the estimate and assumptions of the timing of Sibelco's cash contributions, discount rate and the future foreign exchange rate of the Euro to the Canadian Dollar.

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.

r) New Accounting Standard Recently Adopted

A number of amendments to existing standards became effective September 1, 2023 for the Company but they did not have a significant impact on the Company's financial statements.

s) 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.

3. Material Accounting Policies (continued)

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 Financial 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 convertible note payable and derivative liabilities currently classified as non-current liability will be classified as current liability.

IFRS 18 - Presentation and Disclosure in the Financial Statements

In April 2024, the IASB issued IFRS 18, Presentation and Disclosure of Financial Statements ("IFRS 18"). IFRS 18 is effective for periods beginning on or after January 1, 2027 (which will become effective on September 1, 2027 for the Company) and will apply retrospectively. IFRS 18 will replace IAS 1. IFRS 18 is expected to improve the quality of financial reporting by requiring defined subtotals in the statement of profit or loss, requiring disclosure about management-defined performance measures, and adding new principles for aggregation and disaggregation of information. The Company has not yet determined the impact of this standard on its disclosures.

4. Cash and Cash Equivalents

Cash and cash equivalents are comprised of the following:

	August 31, 2024	August 31, 2023
Cash held in bank accounts	\$ 579,932	\$ 944,184
Guaranteed investment certificates	132,374	1,637,926
	<u>\$ 712,306</u>	<u>\$ 2,582,110</u>

5. Assets Held for Sale

During the year ended August 31, 2023, the Company entered into a binding term sheet agreement 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 Lithium Project and Lilypad Cesium-Tantalum Project to the joint venture company (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 Company's mineral projects, including facilities and related infrastructure. The initial participating interests of Sibelco and Avalon in the Joint Venture Company would be 60% and 40%, respectively. After total cash contributions of €34,865,810 by Sibelco, each of the parties will make any further cash contributions on a pro-rata basis (with dilution to a non-contributing party's interest).

On August 31, 2023, the Company 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").

5. Assets Held for Sale (continued)

During the quarter ended November 30, 2023, the Company incurred net exploration expenditures of \$8,391 on the Separation Rapids and Lilypad Projects.

On November 2, 2023, the Company entered into a Tripartite Purchase and Sale Agreement (the "Purchase and Sale Agreement") with Sibelco and SRL, to provide for the transfer of the Company's Separation Rapids and Lilypad projects to SRL. SRL is a joint venture entity co-owned by Sibelco (60%) and Avalon (40%). Sibelco will be the operator of SRL.

On November 9, 2023, the Company, Sibelco and SRL entered into a Joint Venture Company Shareholders Agreement (the "JV Agreement") and completed the sale/transfer of Separation Rapids and Lilypad projects.

Pursuant to the terms of the Purchase and Sale Agreement, the Company transferred the Separation Rapids and Lilypad projects to SRL and received 40% of its common shares at the deemed value of €23,243,873. Sibelco contributed €4,865,810 of cash to SRL and has committed to advance a further €30,000,000 in tranches to fund the development of the SLR's mineral projects, including facilities and related infrastructure for 60% of the common shares of SRL.

In order to determine the gain or loss on Avalon's contribution to SRL, the Company is required to determine the fair value of its 40% equity interest in SRL. The Company has based its estimate of the fair value of its contribution on the estimated fair value of Sibelco's cash contributions to SRL to acquire the 60% interest in SRL.

The Company has determined that the present value of Sibelco's total cash contributions to be \$39,560,511 using the following assumptions:

- the remaining €30,000,000 will be funded periodically during the third calendar quarter of 2024 through the first calendar quarter of 2027 (the "Additional Funding Period");
- the annual discount rate of 12.34%; and
- the estimated average exchange rate of the Euro to the Canadian Dollar during the Additional Funding Period will be 1.482.

The total fair value of the net assets of SRL on November 9, 2023 is therefore \$65,934,187, and the fair value of the Company's contribution is \$26,373,675.

The net carrying costs of the Separation Rapids and Lilypad Projects totaled \$16,835,853 (\$16,910,853 less estimated closure cost provisions of \$75,000). Accordingly, the total gain on disposal is \$9,537,822 and the Company has recognized a gain of \$5,722,693 (representing the realized gain on the 60% interest disposed of to Sibelco) and has recorded the Company's 40% equity interest in SRL at \$22,840,297 (the total of the net carrying costs of \$16,835,853, realized gain of \$5,722,693 and transaction costs of \$281,751).

6. Investment in Associate

As described in note 5 above, the Company acquired a 40% equity interest in the JV Company SRL on November 9, 2023. SRL is a corporation existing under the laws of the Province of Ontario with a registered office address at 333 Bay Street, Toronto, Ontario, Canada M5H 2T6. The other 60% equity interest is owned by Sibelco with Sibelco being the operator of SLR. The formation of SLR represents a strategic partnership between the Company and Sibelco, with the mandate to advance the exploration and development activities of the Separation Rapids Lithium Project and Lilypad Cesium-Tantalum Project.

The Company has significant influence over the operations of SRL and its investment in SRL is accounted for using the equity method.

SLR's current operation is mainly focused on continuing the exploration and development activities on the Separation Rapids Lithium Project. No other significant operating activities were carried out by SRL since its formation, other than continuing the exploration and development activities on the Separation Rapids and Lilypad Projects.

6. Investment in Associate (continued)

The following table summarizes the total comprehensive loss of SRL for the period from November 9, 2023 to August 31, 2024:

Revenue	\$	Nil
Net loss & comprehensive loss		325,148
Dividends paid		Nil

The financial information of SRL as at August 31, 2024 is summarized below, which are Avalon's best estimates of SRL's financial position:

Current assets	\$	3,155,745
Non-current assets		64,067,944
Total assets		67,223,689
Current liabilities and total liabilities		1,614,651
Shareholders' equity		65,609,038

Below is a reconciliation of Avalon's share in SRL's net shareholders' equity to Avalon's carrying cost of its investment in SRL as at November 9, 2023 and the changes since then:

Avalon's 40% share of shareholders' equity of SRL - November 9, 2023	\$	26,373,675
Acquisition transaction costs		281,751
Gain on sale of exploration and evaluation assets not recognized		(3,815,129)
Investment in SRL - November 9, 2023		22,840,297
Avalon's 40% share of SRL's net loss		(130,059)
Investment in SRL - August 31, 2024	\$	<u>22,710,238</u>

7. Exploration and Evaluation Assets

	September 1, 2022	Expenditures	Transfer to AHFS	Impairment Loss	August 31, 2023 and 2024
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>

7. 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.

As disclosed in note 5 above, the Company completed the sale/transfer of the Separation Rapids and Lilypad projects to SRL and received 40% equity interest in SRL during the Year.

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 ended August 31, 2023, 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 had been terminated and the initial payment of \$419,200 was written off during the year ended August 31, 2023.

8. Property, Plant and Equipment

	Nechalacho REE Project (a)	Transportation Facilities	Office, Computer and Office Equipment (b)	Land and Buildings	Exploration Equipment	Leasehold Improvements	Total
Cost							
As at September 1, 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	101,616,840	1,695,573	1,215,861	7,832,505	335,080	106,754	112,802,613
Additions	49,207	-	1,061,069	69,770	-	178,868	1,358,914
Lease adjustment (b)	-	-	(196,090)	-	-	-	(196,090)
Disposals	-	-	(921,843)	(94,605)	(79,752)	(106,754)	(1,202,954)
As at August 31, 2024	<u>\$ 101,666,047</u>	<u>\$ 1,695,573</u>	<u>\$ 1,158,997</u>	<u>\$ 7,807,670</u>	<u>\$ 255,328</u>	<u>\$ 178,868</u>	<u>\$ 112,762,483</u>
Accumulated Depreciation							
As at September 1, 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	-	353,334	936,188	31,631	316,085	103,529	1,740,767
Depreciation expense	-	13,593	215,048	2,237	16,847	27,074	274,799
Disposals	-	-	(921,843)	(33,868)	(79,752)	(106,754)	(1,142,217)
As at August 31, 2024	<u>\$ -</u>	<u>\$ 366,927</u>	<u>\$ 229,393</u>	<u>\$ -</u>	<u>\$ 253,180</u>	<u>\$ 23,849</u>	<u>\$ 873,349</u>
Net Book Value							
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>
As at August 31, 2024	<u>\$ 101,666,047</u>	<u>\$ 1,328,646</u>	<u>\$ 929,604</u>	<u>\$ 7,807,670</u>	<u>\$ 2,148</u>	<u>\$ 155,019</u>	<u>\$ 111,889,134</u>

8. 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 \$2.0 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, 2024, 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, 2024 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 \$197,386 (2023 - \$196,089) was recognized relating to the right of use (“ROU”) asset (which consisted of its leased office premises) during the Year.

During the Year, the Company amended the termination date of the lease contract for its old office premises from December 31, 2024 to December 31, 2023, and recognized a gain of \$29,487 relating to the lease amendment. In conjunction with the lease amendment, the Company entered into a new lease contract for another office suite in the same building, with the commencement date of January 1, 2024 (the “New Lease Contract”). The Company has recorded the ROU asset under the New Lease Contract based on the corresponding lease obligation. When measuring the lease obligation, the Company discounted the lease payments under the New Lease Contract using its estimated weighted-average incremental borrowing rate of 7.0%. The future lease payments under the New Lease Contract are disclosed in note 10. The carrying balance of the ROU asset was \$858,150 as at August 31, 2024 (August 31, 2023 - \$261,453).

In connection with exiting the old office premises, certain fully depreciated assets including the old leased office, computer and office equipment, leasehold improvements with the original costs and accumulated depreciation totalling \$1,028,597 were disposed of and had been derecognized.

8. Property, Plant and Equipment (continued)

c) Depreciation expense for the years ended August 31, 2024 and 2023 consist of the following:

	<u>August 31, 2024</u>	<u>August 31, 2023</u>
Depreciation expense recognized	\$ 274,799	\$ 238,488
Depreciation expense capitalized to exploration and evaluation assets	<u>(15,927)</u>	<u>(6,826)</u>
	<u>\$ 258,872</u>	<u>\$ 231,662</u>

9. 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, 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	10,674
Decrease relating to CEE incurred	<u>(10,674)</u>
Balance - August 31, 2024	<u>\$ -</u>

10. Lease Obligation

As at August 31, 2024, the Company had the following future commitment relating to the lease contract for its office premises:

2025	\$ 191,822
2026	240,942
2027	245,358
2028	249,846
2029	<u>56,926</u>
	984,894
Total future lease payments as at August 31, 2024	
Amounts representing interest	<u>(140,564)</u>
Present value of future lease payments - August 31, 2024	<u>\$ 844,330</u>

10. Lease Obligation (continued)

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

Balance - September 1, 2022	\$ 496,087
Interest expense	20,106
Payments	<u>(229,180)</u>
Balance - August 31, 2023	287,013
Lease amendment adjustment (note 8b)	(225,577)
New lease contract	990,172
Interest expense	38,127
Payments	<u>(245,405)</u>
Balance - August 31, 2024	844,330
Current portion of lease obligation	<u>137,034</u>
Non-current portion of lease obligation	<u>\$ 707,296</u>

The Company had net cash outflows of \$245,405 (2023 - \$229,180) for its lease contract in the Year.

11. Convertible Notes Payable

During the Year, the Company entered into an up to \$15,000,000 convertible security agreement (the "Funding Agreement") with an entity managed by The Lind Partners ("Lind") and completed the first drawdown and issued a convertible note payable of \$2,750,000 to Lind (the "2024 Note"). Subject to further agreement by the parties, an additional drawdown under the Funding Agreement can be made on satisfaction of certain conditions.

The 2024 Note has a two-year term and accrues a simple interest rate obligation of 10% per annum on the funded amount, which is prepaid and attributed to the face value of the 2024 Note upon issuance, resulting in a face value of \$3,300,000 (the "Face Value"). Lind is entitled to convert the Face Value amount over a 24-month period at a conversion price equal to 85% of the five-day trailing volume weighted average price ("VWAP") of Avalon's common shares prior to the date of conversion (the "Conversion Feature"). The 2024 Note matures on March 27, 2026. Commencing on August 26, 2024, the Company has the right to repurchase the 2024 Note at the outstanding face value (the "Buyback Option"), subject to Lind's option to convert up to one third of the Face Value into Avalon common shares prior to such repurchase.

The 2024 Note is secured by a general security agreement and a mortgage on the Company's Thunder Bay Property.

In conjunction with the issuance of the 2024 Note, the Company paid Lind a closing fee of \$96,250 and issued 15,800,000 common share purchase warrants to Lind. Each warrant entitles Lind to purchase one common share of the Company at a price of \$0.13 per common share until March 27, 2029. The Company also incurred other transaction costs of \$65,141, resulting in net cash proceeds of \$2,588,609 from the issuance of the 2024 Note.

The 2024 Note is a hybrid instrument that contains multiple embedded derivatives including the Conversion Feature and Buyback Option. The Company had designated the entire hybrid contract (the 2024 Note and all the embedded derivatives) as a financial liability at FVTPL and are re-measured at each financial statement reporting date, with the resulting change in value being recorded as increase or decrease in fair values of convertible notes payable and derivative liabilities in the consolidated statement of comprehensive income.

On evaluating the transaction and the features of the instrument described above, the initial fair value of the 2024 Note was determined to be \$3,300,000 at issuance.

11. Convertible Notes Payable (continued)

The fair value of the warrants was estimated at \$570,900 at issuance and was recorded as a component of shareholders' equity in reserve for warrants. The fair value of the warrants was estimated using the Black-Scholes pricing model, with the following assumptions: expected dividend yield of Nil; risk free interest rate of 3.5%; expected life of 5.0 years; and expected volatility of 64%.

The excess of the total fair values of the 2024 Note and the warrants over the gross proceeds \$1,120,900 were recorded as deferred financing costs on the statement of financial position and is being amortized over the term of the 2024 Note.

The total transaction costs of \$161,391 had been allocated to the 2024 Note and the Warrants on a pro rata basis, of which \$137,666 was expensed as financing transaction costs on the statement of comprehensive loss with the balance of \$23,725 recorded as a reduction to reserve for warrants.

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

Balance - September 1, 2022	\$ 4,060,000
Converted to common shares	(2,860,000)
Repayment	<u>(1,200,000)</u>
Balance - August 31, 2023	\$ -
Issued	3,300,000
Converted to common shares	<u>(330,000)</u>
Balance - August 31, 2024	<u>\$ 2,970,000</u>

As described in note 3s) with application of the amendments to IAS 1 on September 1, 2024, the convertible notes payable amount will be classified as current liability on the Company's consolidated statements of financial position for any time after August 31, 2024.

The number of common shares to be issued would be 66,146,993 if the full amount of notes payable had been converted into common shares based on the five day VWAP of the Company's common shares on the TSX of \$0.0528 on August 31, 2024.

12. Debenture Payable

During the year ended August 31, 2023, the Company issued to Sibelco the 2023 Debenture in the principal amount of \$3,000,000 for cash proceeds of \$3,000,000. The 2023 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 2023 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 2023 Debenture is secured by the Company's equity interest in SRL.

The debenture is classified and measured at amortized cost.

12. Debenture Payable (continued)

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

Balance - September 1, 2022	\$	-
Issued		3,000,000
Transaction costs		(37,874)
Interest and accretion on debenture		<u>47,852</u>
Balance - August 31, 2023	\$	3,009,978
Interest and accretion on debenture		<u>227,741</u>
Balance - August 31, 2024		3,237,719
Current portion		(3,237,719)
Non-Current portion	\$	<u>-</u>

Subsequent to the end of the Year, as described in note 23, the Company completed \$3,500,000 debenture financing with Sibelco. Sibelco provided an additional funding of \$3,500,000 to the Company by way of the 2024 Debenture. The 2024 Debenture replaced the 2023 Debenture and have a principal amount of \$6,500,000.

The Company's finance costs comprise of the following:

	August 31, 2024	August 31, 2023
Interest and accretion on debenture	\$ 227,741	\$ 47,852
Interest on lease obligation (note 10)	38,127	20,106
Amortization of deferred financing costs	<u>233,521</u>	<u>-</u>
	<u>\$ 499,389</u>	<u>\$ 67,958</u>

13. 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, 2022	26,925,000	\$ 523,567
Expired	(8,125,000)	(748)
Decrease in fair value	<u>-</u>	<u>(324,696)</u>
Balance - August 31, 2023	18,800,000	198,123
Decrease in fair value	<u>-</u>	<u>(197,486)</u>
Balance - August 31, 2024	<u>18,800,000</u>	<u>\$ 637</u>

13. Derivative Liabilities (continued)

The Company has the following liability classified warrants outstanding as at August 31, 2024:

- 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, 2024 using the Black-Scholes pricing model, with the following weighted average assumptions: expected dividend yield of Nil (August 31, 2023 - Nil); risk free interest rate of 3.2% (August 31, 2023 - 4.5%); expected life of 1.0 years (August 31, 2023 - 2.0 years); and expected volatility of 47% (August 31, 2023 - 35%).

14. 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 and the Warren Township exploration site.

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

Balance - September 1, 2022 and August 31, 2023	\$ 278,600
Decrease related to the sale of exploration and evaluation assets	<u>(75,000)</u>
Balance - August 31, 2024	<u>\$ 203,600</u>

15. 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, 2024.

b) Common Shares

Common shares issued during the years ended August 31, 2023 and 2024 are as follows:

- i) 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.

15. Share Capital (continued)

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.

- ii) In June 2023, the Company completed a 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.
- iii) 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.
- iv) In January 2024, the Company completed a private placement and issued 4,250,000 units at a price of \$0.10 per unit (the "Unit") for gross proceeds of \$425,000, of which 1,000,000 Units were subscribed by Mr. Jan Holland, former Executive Chair of the Board of Director and 150,000 Units were subscribed by a person who is related to Mr. Holland. Each unit was comprised of one common share and one half of one common share purchase warrant. Each whole warrant entitles the holder to acquire one common share at a price of \$0.15 for a period of three years until January 31, 2027, or if the closing price of the common shares on the TSX is \$0.30 or higher for a period of twenty consecutive trading days after the January 31, 2024, the Company may, by notice to the holder (supplemented by a news release of general dissemination) reduce the expiry date of the warrants to not less than 30 days from the date of such notice.

Of the Unit price of \$0.10, \$0.0994 was allocated to the common share component of the Unit and the balance of \$0.0006 was allocated to the warrant component of the Unit. These values were allocated on a pro rata basis based on the closing trading price of the Company's common shares on the TSX on the closing date of the private placement, which was \$0.090, and the estimated fair value of a whole warrant of \$0.010. The fair value of the warrant was estimated using the Black-Scholes pricing model.

The Company incurred cash issuance costs of \$21,584 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, 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 - August 31, 2023	11,620,312 ⁽¹⁾	0.211
Issued	17,925,000	0.132
Expired	(5,885,000)	0.173
Balance - August 31, 2024	23,660,312 ⁽¹⁾	\$ 0.161

⁽¹⁾ Does not include the additional liability classified warrants as described in note 13.

15. Share Capital (continued)

The outstanding equity classified warrants have a weighted average remaining contract life of 3.3 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 13, the Company also has 18,800,000 liability classified warrants outstanding as at August 31, 2024.

The Company is also committed 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, 2022	17,605,000	\$ 0.14
Granted	8,760,000	0.13
Exercise	(581,250)	0.11
Expired	(1,470,000)	0.16
Forfeited	(650,000)	0.18
Balance - August 31, 2023	23,663,750	0.14
Granted	6,875,000	0.10
Expired	(2,830,000)	0.14
Forfeited	(4,475,000)	0.15
Balance - August 31, 2024	<u>23,233,750</u>	<u>\$ 0.13</u>

As at August 31, 2024, there were 11,816,250 options vested (August 31, 2023 - 10,768,750) with an average exercise price of \$0.14 per share (August 31, 2023 - \$0.14), 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.

15. Share Capital (continued)

The weighted average assumptions for grants during the years ended August 31, 2024 and August 31, 2023 are as follows:

	<u>August 31, 2024</u>	<u>August 31, 2023</u>
Exercise price	\$0.10	\$0.13
Closing market price on day preceding date of grant	\$0.09	\$0.13
Risk-free interest rate	4.04%	3.69%
Expected life (years)	3.0	3.9
Expected volatility	72%	85%
Expected dividend yield	Nil	Nil
Grant date fair value	\$0.04	\$0.08
Forfeiture rate	10%	10%

<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	1.5 years
\$0.15 - \$0.20	5,830,000	4,132,500	1.8 years
\$0.11 - \$0.14	7,490,000	2,925,000	2.9 years
\$0.08 - \$0.10	9,513,750	4,358,750	1.7 years
	<u>23,233,750</u>	<u>11,816,250</u>	

During the year ended August 31, 2024 an aggregate of 210,000 (2023 - 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 \$0.09 (2023 - \$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 Nil (2023 - 40,000) DSUs were granted to a director in lieu of cash director's fees. During the year ended August 31, 2024 an aggregate of 4,369,424 (2023 - Nil) fully vested RSUs were granted to the Company's senior management employees in settlement of their fiscal 2023 performance bonuses of \$440,875.

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, 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	1,535,000	525,000
Granted	210,000	4,369,424
Redeemed - common shares issued	(215,000)	(786,071)
Redeemed - cash payroll withholding tax payments	(10,000)	(804,340)
Balance - August 31, 2024	<u>1,520,000</u>	<u>3,304,013</u>

There were 1,520,000 DSUs vested as at August 31, 2024 (August 31, 2023 - 1,535,000).

There were 3,304,013 RSUs vested as at August 31, 2024 (August 31, 2023 - 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.

15. Share Capital (continued)

The estimated fair value of options, DSUs and RSUs earned during the Year was \$893,344 (2023 - \$651,256), of which \$3,394 (2023 - \$12,537) was capitalized as exploration and evaluation assets, \$440,875 was charged to salaries and benefits (2023 - \$Nil), \$Nil (2023 - \$5,000) was charged to directors' fees, with the balance of \$449,075 (2023 - \$633,719) charged to operations as share based compensation expense.

During the year ended August 31, 2023, an aggregate of 581,250 stock options were exercised at the weighted average exercise price of \$0.11 per share, and the weighted average closing market share price on the date preceding the date of exercise was \$0.13 per share.

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, 2022	938,900	\$ 0.18
Expired	(150,000)	0.20
Balance - August 31, 2023	788,900	\$ 0.18
Expired	(788,900)	0.18
Balance - August 31, 2024	-	\$ -

16. Corporate and Administrative Expenses

Corporate and administrative expenses for the years ended August 31, 2024 and 2023 consist of the following:

	August 31, 2024	August 31, 2023
Salaries and benefits ⁽¹⁾	\$ 2,520,829	\$ 1,285,780
Directors' fees	25,362	26,371
Consulting and professional fees	992,625	607,120
Advertising, office, insurance and other expenses	381,502	1,000,036
Shareholders' communications and filing fees	163,648	129,499
Travel and related costs	231,547	41,249
	<u>\$ 4,315,513</u>	<u>\$ 3,090,055</u>

⁽¹⁾ These figures include performance bonuses of \$440,875 (2023 - \$Nil) that were settled in RSUs, but do not include other share based compensation and the salaries and benefits amount of \$158,746 (2023 - \$Nil) expensed as project development and general exploration costs. Employees' salaries and benefits including share based compensation expensed for the Year totaled \$3,008,112 (2023 - \$1,614,492).

17. 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 development projects; 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, 2024.

18. 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, 2024 and 2023, other than the participation by certain related parties in the January 2024 private placement as described in note 15b, whereby Mr. Jan Holland, former Executive Chair of the Board of Directors and a person related to Mr. Holland subscribed for a total of 1,150,000 Units at \$0.10 per Unit.

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, 2024 and August 31, 2023 are as follows:

	August 31, 2024	August 31, 2023
Salaries, benefits and directors' fees ⁽¹⁾	\$ 2,486,695	\$ 1,308,320
Share based compensation ⁽²⁾	401,823	530,299
	<u>\$ 2,888,518</u>	<u>\$ 1,838,619</u>

⁽¹⁾ Salaries and benefits of key management personnel capitalized to exploration and evaluation assets and PPE totaled \$115,681 (2023 - \$116,030).

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

19. 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 2024 Notes. The Company has the right to buy back the 2024 note at any time for the outstanding face value, as such the fair value of the 2024 note is the outstanding face value of the 2024 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, 2024. 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 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, 2024, the Company has current assets of \$891,810 and current liabilities of \$4,873,887. The Company's working capital deficit as at August 31, 2024 was \$3,982,077.

Repayments due by period as of August 31, 2024:

	Within 1 Year	1-3 Years	4-5 Years	Over 5 Years	Total
Accounts payable and accrued liabilities	\$ 1,499,134	\$ -	\$ -	\$ -	\$ 1,499,134
Debenture payable	3,426,900	-	-	-	3,426,900
Convertible notes payable	-	2,970,000	-	-	2,970,000
Lease obligation	191,822	486,300	306,772	-	984,894
	\$ 5,117,856	\$ 3,456,300	\$ 306,772	\$ -	\$ 8,880,928

19. Financial Instruments (continued)

Market risk

i) Interest rate risk

The Company has cash and cash equivalents balances and it has no borrowings that are subject to variable interest rates. 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, 2024.

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 \$712,306, 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, 2024, 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.

20. 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, 2024 and August 31, 2023 are as follows:

	<u>August 31, 2024</u>	<u>August 31, 2023</u>
Property, plant and equipment acquired under lease arrangement (notes 8, 10)	\$ 990,172	\$ -
Disposition of exploration and evaluation assets in exchange for investment in associate (notes 5,6)	22,558,546	-
Share based compensation capitalized exploration and evaluation assets (note 15d)	3,394	12,537
Depreciation expense capitalized exploration and evaluation assets (note 8c)	15,927	6,826
	<u>\$ 23,568,039</u>	<u>\$ 19,363</u>

21. 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, 2024	August 31, 2023
Net loss for the year before income taxes	\$ 645,250	\$ 4,059,980
Combined Canadian federal and provincial tax rate	25.0%	25.0%
Expected income tax recovery at statutory rates	161,313	1,014,995
Non-deductible share based compensation	(104,714)	(107,262)
Non-taxable capital gain (Non-allowable capital loss)	7,494	(52,400)
Other non-deductible expenses	(41,824)	(2,105)
CEE incurred applied to flow-through shares	-	(681,825)
Amortization of flow-through share premium	10,674	742,921
Non-taxable change in fair value of financial derivative instruments	49,372	81,361
Non-deductible equity loss in associate	(32,515)	-
Non-taxable gain recognized on lease amendment	7,372	-
Losses and other deductions for which no benefit has been recognized	(46,498)	(252,764)
Deferred income tax recoveries	\$ 10,674	\$ 742,921

b) Income Tax Effect of Temporary Differences Recognized

The tax effects of temporary differences recognized as at August 31, 2024 and August 31, 2023 are as follows:

	August 31, 2024	August 31, 2023
Deferred income tax assets		
Exploration and evaluation assets	\$ 9,667,344	\$ 5,448,173
Scientific research and experimental developmental expenditures	3,567,505	4,952,652
	<u>13,234,849</u>	<u>10,400,825</u>
Deferred income tax liabilities		
Property plant and equipment	(10,431,288)	(10,400,825)
Investment in associate	(2,803,561)	-
Net deferred income tax assets	<u>\$ -</u>	<u>\$ -</u>

21. Income Taxes (continued)

c) Income Tax Temporary Differences Not Recognized

The deductible income tax temporary differences that have not been recognized as deferred income tax assets as at August 31, 2024 and August 31, 2023 are as follows:

	<u>August 31, 2024</u>	<u>August 31, 2023</u>
Non-capital loss carryforwards	\$ 48,894,826	\$ 44,033,852
Scientific research and experimental developmental expenditures	13,097,736	7,557,148
Share issuance costs	801,530	1,033,397
Capital loss carry forwards	2,653,785	2,713,735
Property, plant and equipment	176,789	-
Exploration and evaluation assets	220,000	-
Lease and debt obligations	822,790	251,377
	<u>\$ 66,667,456</u>	<u>\$ 55,589,509</u>
Deductible temporary differences not recognized	\$ 66,667,456	\$ 55,589,509

The Company also has non-refundable investment tax credit carry forwards of \$5,663,423 (2023 - \$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 \$47,227,000 (2023 - \$42,366,000) 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	3,488,000
2044	4,849,000

The Company also has net operating losses of approximately \$1,668,000 (2023 - \$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

21. Income Taxes (continued)

e) Capital Losses

The Company has capital losses carried forward of approximately \$2,654,000 (2023 - \$2,714,000) available to reduce future years' Canadian taxable capital gains.

22. 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, 2023 and 2024.

The loss used to calculate the basic and diluted loss per common share for the year ended August 31, 2024 was \$634,576 (2023 - \$3,317,059).

The Company's share capital structure including its common shares and any potentially dilutive instruments outstanding as at August 31, 2023 and August 31, 2024 are as follows:

	August 31, 2024	August 31, 2023
Common shares	571,790,055	560,373,603
Warrants	42,460,312	30,420,312
Stock options	23,233,750	23,663,750
DSUs	1,520,000	1,535,000
RSUs	3,304,013	525,000
Broker Compensation Warrants	-	788,900
Convertible Notes Payables	66,146,993 ⁽¹⁾	-
Total	708,455,123	617,306,565

⁽¹⁾The number of common shares would be issued if the full amount of notes payable of \$2,970,000 outstanding as at August 31, 2024 had been converted into common shares using the 5 Day VWAP of the Company's common shares on the TSX of \$0.0528 on August 31, 2024.

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, 2024 and August 31, 2023.

In addition, as at August 31, 2024, if the Company fails to repay the principal and accrued interest of \$3,426,900 of the 2023 Debenture at Maturity, Sibelco has the right to convert the 2023 Debenture into 37,590,496 common shares of the Company.

Subsequent to the end of the Year, as described in note 23, the Company completed \$3,500,000 debenture financing with Sibelco. Sibelco provided an additional funding of \$3,500,000 to the Company by way of the 2024 Debenture. The 2024 Debenture replaced the 2023 Debenture and have a principal amount of \$6,500,000.

The Company would be required to issue 144,077,305 common shares (using the 15 Day VWAP of the Company's common shares on the TSX of \$0.0540 on August 31, 2024) to Sibelco if the Company fails to repay the principal and accrued interest of \$7,780,175 of the 2024 Debenture at maturity and Sibelco chooses to convert the 2024 Debenture into common shares of the Company.

The Company is also committed 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.

23. Events After the Reporting Period

Subsequent to the end of the Year, the Company:

- a) completed \$3,500,000 in debenture financing with Sibelco. Sibelco provided an additional funding of \$3,500,000 to the Company by way of the 2024 Debenture. The 2024 Debenture replaced the 2023 Debenture and have a principal amount of \$6,500,000. The 2024 Debenture bears interest at 7.5% per annum, with the principal and accrued interest payable on maturity, being November 18, 2026.

Should the 2024 Debenture not be repaid by the Company at maturity, Sibelco has the right to (a) convert the outstanding principal and accrued interest into additional common shares of Avalon at a price equal to the greater of (i) the 15 day VWAP of the Company's common shares on the TSX immediately prior to the exercise of this right and (ii) the minimum price allowed by the TSX or (b) convert the outstanding principal and interest into additional common shares of SRL, based on a pro-rated formula.

If the entire amount of the 2024 Debenture and accrued interest is converted to common shares of SRL at maturity, then Sibelco's equity interest in SRL will be increased by 30% to 90%, with the Company owning the remaining 10%. Sibelco will also have the right to exercise its conversion rights prior to maturity if the Company does not make certain reductions in its corporate and administrative costs. The 2024 Debenture continues to be secured by a pledge of Company's shares in SRL;

- b) issued 3,500,000 common share purchase warrants to Lind in connection with the issuance of the 2024 Debenture, and in consideration for Lind to waive certain conditions of the 2024 Note. Each warrant entitles Lind to purchase one common share of the Company at a price of \$0.0625 per common share until November 18, 2029;
- c) issued 11,764,933 common shares pursuant to the conversion of \$495,000 of the 2024 Note;
- d) completed a private placement and issued 6,400,000 units at a price of \$0.05 per unit (the "New Unit") for gross proceeds of \$320,000, of which 200,000 New Units were subscribed by Mr. Zeeshan Syed, President of the Company and 200,000 New Units were subscribed by Mr. Andrew Ramcharan, Vice President - Corporate Development of the Company. Each unit was comprised of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire one common share at a price of \$0.075 for a period of three years after closing, or if the closing price of the common shares on the TSX is \$0.15 or higher for a period of twenty consecutive trading days after the closing date, the Company may, by notice to the holder (supplemented by a news release of general dissemination) reduce the expiry date of the warrants to not less than 30 days from the date of such notice.
- e) granted an aggregate of 625,000 stock options with a weighted average exercise price of \$0.06 per share to certain directors and consultants of the Company. The weighted average contract life of these options at issuance was 2.4 years;
- f) issued 60,000 common shares to a former director of the Company pursuant to the redemption of 125,000 DSUs; and
- g) had 225,000 options with an exercise price of \$0.05 per share expire.