AVALON

ADVANCED MATERIALS

Avalon Advanced Materials Inc.

Condensed Consolidated Interim Financial Statements

For the three months ended November 30, 2023 (Unaudited)

INDEX

NOTICE TO READER

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

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

	November 30, 2023	August 31, 2023
Assets		
Current Assets		
Cash and cash equivalents	$ 770,614	$ 2,582,110
Other receivables (note 14a)	836,117	146,802
Prepaid expenses and deposits	358,694	360,114
Assets held for sale (note 4)	-	16,902,462
	1,965,425	19,991,488
Non-Current Assets		
Investment in associate (notes 4, 5)	22,840,297	-
Property, plant and equipment (note 7)	110,871,833	111,061,846
	133,712,130	111,061,846
	$ 135,677,555	$ 131,053,334
Liabilities		
Current Liabilities		
Accounts payable	$ 919,694	$ 459,022
Accrued liabilities	1,108,881	666,954
Deferred flow-through share premium (note 8)	-	10,674
Current portion of lease obligation (note 9)	4,693	224,295
	2,033,268	1,360,945
Non-Current Liabilities		
Lease obligation (note 9)	-	62,718
Debenture payable (note 10)	3,065,806	3,009,978
Derivative liabilities (note 11)	46,096	198,123
Site closure and reclamation provisions	203,600	278,600
	3,315,502	3,549,419
	5,348,770	4,910,364
Shareholders' Equity		
Share Capital (note 12)	200,590,815	200,590,815
Reserve for Warrants (note 12b)	4,371,240	4,371,240
Reserve for Share Based Payments (note 12c)	18,816,403	18,682,104
Reserve for Brokers' Compensation Warrants (note 12d)	301,064	301,064
Accumulated Deficit	(93,750,737)	(97,802,253)
	130,328,785	126,142,970
	$ 135,677,555	$ 131,053,334

Approved on behalf of the Board

"Scott Monteith", Director

"Alan Ferry", Director

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

	Three Months Ended November 30, 2023	2022
Revenue		
Interest	$ 15,791	$ 15,902
Rent	54,000	-
	69,791	15,902
Expenses		
Corporate and administrative (note 13)	1,686,022	643,832
General exploration	3,347	3,682
Depreciation (note 7c)	55,758	56,730
Share based compensation (note 12c)	130,906	109,853
Finance costs (note 10)	57,123	5,995
Decrease in fair values of derivative liabilities (note 11)	(152,027)	(341,203)
	1,781,129	478,889
Net Loss before the Undernoted Items	(1,711,338)	(462,987)
Gain on Sale of Exploration and Evaluation Assets (note 4)	5,722,693	-
Gain Recognized on Lease Amendment (note 7b)	29,487	-
Net Income (Loss) before Income Taxes	4,040,842	(462,987)
Deferred Income Tax Recoveries	10,674	107,863
Net Income (Loss) and Total Comprehensive Income (Loss) for the period	$ 4,051,516	$ (355,124)
Income (Loss) per Share - Basic	$ 0.007	$ (0.001)
Income (Loss) per Share - Diluted	$ 0.007	$ (0.001)
Weighted Average Number of Common Shares Outstanding - Basic	560,373,603	412,929,251
Weighted Average Number of Common Shares Outstanding - Diluted	564,273,651	412,929,251

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

	Share Capital		Reserves				
	Number of Shares	Amount	Warrants	Share Based Payments	Brokers' Compensation Warrants	Accumulated Deficit	Total
Balance at September 1, 2022	406,948,106	$ 185,989,431	$ 4,358,451	$ 18,148,159	$ 301,064	$ (94,485,194)	$ 114,311,911
Conversion of notes payable	8,625,108	1,020,000	-	-	-	-	1,020,000
Exercise of warrants	1,900,000	228,000	-	-	-	-	228,000
Reserve transferred on exercise of warrants	-	5,135	(5,135)	-	-	-	-
Share based compensation (note 12c)	-	-	-	112,737	-	-	112,737
Net loss and total comprehensive loss for the three month period	-	-	-	-	-	(355,124)	(355,124)
Balance at November 30, 2022	417,473,214	187,242,566	4,353,316	18,260,896	301,064	(94,840,318)	115,317,524
Equity offerings	122,957,110	11,551,761	19,959	-	-	-	11,571,720
Conversion of notes payable	18,619,528	1,840,000	-	-	-	-	1,840,000
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	255,000	56,046	-	(56,046)	-	-	-
Redemption of restricted share units - cash payroll withholding tax payments	-	-	-	(32,994)	-	-	(32,994)
Compensation shares issued on equity offerings	487,501	58,500	-	-	-	-	58,500
Share based compensation (note 12c)				538,519	-	-	538,519
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 nine month period	-	-	-	-	-	(2,961,935)	(2,961,935)
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
Share based compensation (note 12c)	-	-	-	134,299	-	-	134,299
Net income and total comprehensive income for the three month period	-	-	-	-	-	4,051,516	4,051,516
Balance at November 30, 2023	560,373,603	$ 200,590,815	$ 4,371,240	$ 18,816,403	$ 301,064	$ (93,750,737)	$ 130,328,785

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

	Three Months Ended November 30, 2023	2022
Operating Activities		
Cash paid to employees	$ (401,899)	$ (263,880)
Cash paid to suppliers	(450,363)	(319,031)
Interest received	15,791	15,902
Rent received	36,000	-
Cash Used by Operating Activities	(800,471)	(567,009)
Financing Activities		
Proceeds from exercise of warrants	-	228,000
Net lease payments (note 9)	(70,086)	(55,810)
Cash Provided (Used) by Financing Activities	(70,086)	172,190
Investing Activities		
Exploration and evaluation assets	(99,946)	(583,321)
Property, plant and equipment	(104,928)	(158,856)
Transaction costs paid for acquisition of investment in associate	(87,670)	-
Net exploration and evaluation expenditures paid on behalf of associate (note 14a)	(648,395)	-
Cash Used by Investing Activities	(940,939)	(742,177)
Change in Cash and Cash Equivalents	(1,811,496)	(1,136,996)
Cash and Cash Equivalents – beginning of period	2,582,110	3,032,040
Cash and Cash Equivalents – end of period	$ 770,614	$ 1,895,044

Supplemental Cash Flow Information (note 16)

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 investee company's ability to develop and generate profitable production from its mineral assets.

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to a going concern, which assumes the Company will continue to meet its obligations and discharge its liabilities in the normal course of business for the foreseeable future. Different bases of measurement may be appropriate when a company is not expected to continue operations for the foreseeable future. The Company is in the exploration and development stage and raises funds in the debt and equity markets to conduct its business activities. The Company has incurred losses in the current and prior periods, with a loss before gain on sale of exploration and evaluation assets and gain recognized on lease amendment of $1,711,338 for the three months ended November 30, 2023 (the "Quarter") and an accumulated deficit of $93,750,737 as at November 30, 2023. The Company's cash and cash equivalents balance at November 30, 2023 was $770,614, and the working capital deficit was $67,843.

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.

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

These unaudited condensed consolidated interim financial statements have been reviewed and approved by the Company's Audit Committee and the Board of Directors on January 9, 2024.

2. Basis of Presentation

a) *Statement of Compliance and Basis of Presentation*

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

These unaudited condensed consolidated interim financial statements do not contain all disclosures required by IFRS and accordingly should be read in conjunction with the Company's consolidated annual financial statements for the year ended August 31, 2023.

These unaudited condensed consolidated interim financial statements have been prepared on a going concern basis using the historical cost basis, except for certain financial instruments which are measured at fair value in accordance with the policies disclosed in Note 3 of the Company's consolidated annual financial statements for the year ended August 31, 2023.

b) *Basis of Consolidation*

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

These unaudited condensed consolidated interim financial statements include the accounts of the Company and its wholly-owned subsidiaries, 8110131 Canada Inc., 1000560170 Ontario Inc., Avalon Lithium Inc. ("ALI"), Nolava Minerals Inc. ("Nolava"), and Avalon Rare Metals Ltd. ("ARML"). Nolava and ARML are incorporated in the United States of America ("USA").

All intercompany transactions and balances have been eliminated on consolidation of the accounts.

On November 9, 2023, as further described in notes 4 and 5, the Company completed the sale/transfer of its Separation Rapids Lithium Project and Lilypad Cesium-Tantalum Project 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. Summary of Significant Accounting Policies

These unaudited condensed consolidated interim financial statements have been prepared using the same accounting policies, significant accounting judgments and estimates, and methods of computation as the annual consolidated financial statements of the Company as at and for the year ended August 31, 2023, except for the estimation of the fair value of the gain on the sale/transfer of the Separation Rapids and Lilypad Projects to SRL as described in note 4 – Assets Held for Sale.

The estimation of the gain 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.

3. Summary of Significant Accounting Policies (continued)

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

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

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

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

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

4. 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 will 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").

During the Quarter, 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.

4. Assets Held for Sale (continued)

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%
- 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).

5. Investment in Associate

As described in note 4 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 focus 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 drilling program on the Separation Rapids Project and therefore the Company has not recorded any equity earnings/losses for the period from November 9 to November 30, 2023, and the Company's carrying cost of SRL remains at $22,840,297 as at November 30, 2023.

The financial information of SRL as at November 30, 2023 is summarized below, which are Avalon's best estimates of SRL's results and financial position:

Current assets	$	6,668,303
Non-current assets		60,755,028
Total assets		67,423,331
Current liabilities and total liabilities		1,489,144
Shareholders' equity		65,934,187
Revenue		Nil
Net income & comprehensive income		Nil
Dividends paid		Nil

5. Investment in Associate (continued)

Below is a reconciliation of Avalon's share in SRL's net shareholders' equity to Avalon's carrying cost of its investment in SRL:

Avalon's 40% share of shareholders' equity of SRL	$ 26,373,675
Acquisition transaction costs	281,751
Gain on sale of exploration and evaluation assets not recognized	(3,815,129)
Investment in SRL	$ 22,840,297

6. Exploration and Evaluation Assets

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 4 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 Quarter.

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.

7. Property, Plant and Equipment

	Nechalacho REE Project (a)	Transportation Facilities	Office, Computer and Office Equipment (b)	Land and Building	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	6,392	-	1,600	69,770	-	-	77,762
Lease adjustment (b)	-	-	(196,090)				(196,090)
Disposals	-	-	-	-	(79,752)		(79,752)
As at November 30, 2023	$ 101,623,232	$ 1,695,573	$ 1,021,371	$ 7,902,275	$ 255,328	$ 106,754	$ 112,604,533
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	-	3,398	50,407	1,119	16,157	604	71,685
Disposals	-	-	-	-	(79,752)	-	(79,752)
As at November 30, 2023	$ -	$ 356,732	$ 986,595	$ 32,750	$ 252,490	$ 104,133	$ 1,732,700
Net Book Value							
August 31, 2023	$ 101,616,840	$ 1,342,239	$ 279,673	$ 7,800,874	$ 18,995	$ 3,225	$ 111,061,846
November 30, 2023	$ 101,623,232	$ 1,338,841	$ 34,776	$ 7,869,525	$ 2,838	$ 2,621	$ 110,871,833

7. Property, Plant and Equipment (continued)

a) Nechalacho REE Project, Northwest Territories

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

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

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

The Company retained a 3.0% NSR royalty (the "3.0% NSR Royalty") but agreed to waive this royalty for the first five years of commercial production and granted the third party the option to pay the Company $2.0 million within eight years of the transaction closing to extend the waiver of this royalty in perpetuity. The third party also has the option to purchase the Company's option in the 2.5% NSR Royalty, provided that, upon exercising the option, it extinguishes this royalty. Avalon and the third party have formed a jointly-owned corporation to hold the exploration permits and related authorizations related to their projects and have also entered into a co-ownership agreement governing each party's activities and management at site.

At November 30, 2023, the amount of the net assets of the Company is more than its market capitalization, IAS 36 – *Impairment of Assets* considers that an indicator of impairment is present based on external sources of information. The Company completed an impairment test on the Nechalacho Project as at November 30, 2023 and determined that the Project was not impaired. The main assumptions used to determine the recoverable amount related to Nechalacho were long-term commodity prices, changes in cost estimates, discount rates, foreign exchange rates and years to commencement of production.

b) Depreciation of $49,022 (2022 - $49,022) was recognized relating to the right of use ("ROU") asset (which consisted of its leased office premises) during the Quarter.

During the Quarter, the Company amended the termination date of the lease contract for its old office premises from December 31, 2024 to December 31, 2023, which resulted in a decrease in the carrying cost of the ROU asset of $196,090 and a decrease in lease obligation of $225,577, with the difference of $29,487 being reported as a gain recognized on lease amendment on the Interim Statements Comprehensive Income. 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 future lease payments under the New Lease Contract are disclosed in note 9. The carrying of balance of the ROU asset was $16,341 as at November 30, 2023 (August 31, 2023 - $261,453).

c) Depreciation expense for the three months ended November 30, 2023 and 2022 consist of the following:

	November 30, 2023	November 30, 2022
Depreciation expense recognized	$ 71,685	$ 58,437
Depreciation expense capitalized to exploration and evaluation assets	(15,927)	(1,707)
	$ 55,758	$ 56,730

8. Deferred Flow-Through Share Premium

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

Balance – September 1, 2022	$ 177,999
Increase relating to flow-through common shares issued	575,596
Decrease relating to Canadian Exploration Expenditures incurred	(742,921)
Balance – August 31, 2023	10,674
Decrease relating to Canadian Exploration Expenditures incurred	(10,674)
Balance – November 30, 2023	$ -

9. Lease Obligation

As at November 30, 2023, the lease obligation balance under the existing lease contract for its old office premises was $4,693 and was due on December 1, 2023.

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	(229,180)
Balance – August 31, 2023	287,013
Lease amendment adjustment (note 7b)	(225,577)
Interest expense	1,295
Payments	(58,038)
Balance – November 30, 2023	4,693
Current portion of lease obligation	4,693
Non-current portion of lease obligation	$ -

The Company had net cash outflows of $70,086 for its lease contracts in the Quarter, which consisted of $58,038 for the existing lease contract plus a security deposit of $12,048 for the New Lease Contract.

As the commencement date for the New Lease Contract is January 1, 2024, the future lease payments under the New Lease Contract have not been recognized as Lease Obligation on the Interim Statement of Financial Position and no corresponding ROU asset has been recorded as at November 30, 2023. The future payments under the New Lease Contract are due as follows:

2024	$ 155,797
2025	191,822
2026	240,942
2027	245,358
2028	249,846
2029	83,784

10. Debenture Payable

During the year ended August 31, 2023, the Company issued to Sibelco the Debenture in the principal amount of $3,000,000 for cash proceeds of $3,000,000. The Debenture bears interest at 7.115% per annum and the principal and interest are payable on or before maturity, being June 14, 2025 (the "Maturity") at the option of the Company. To the extent not repaid by Maturity by the Company, Sibelco will have the right to convert the Debenture and all accrued and unpaid interest thereon into either an aggregate of 37,590,496 Common Shares of Avalon, or an additional 5% interest in SRL, in which case the Company's equity interest in SRL will be reduced by 5%. The Debenture is secured by the Company's equity interest in SRL.

The debenture is classified and measured at amortized cost.

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	47,852
Balance – August 31, 2023	3,009,978
Interest and accretion on debenture	55,828
Balance – November 30, 2023	$ 3,065,806

The Company's finance costs comprise of the following:

	November 30, 2023	November 30, 2022
Interest and accretion on debenture	$ 55,828	$ -
Interest on lease obligation (note 9)	1,295	5,995
	$ 57,123	$ 5,995

11. 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	-	(324,696)
Balance – August 31, 2023	18,800,000	198,123
Decrease in fair value	-	(152,027)
Balance – November 30, 2023	18,800,000	$ 46,096

11. Derivative Liabilities (Continued)

The Company has the following liability classified warrants outstanding as at November 30, 2023:

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

ii) 9,000,000 warrants with an exercise price of $0.26 per share and are exercisable until May 9, 2026.

The fair values of the liability classified warrants were estimated at November 30, 2023 using the Black-Scholes pricing model, with the following weighted average assumptions: expected dividend yield of Nil; risk free interest rate of 4.2%; expected life of 1.8 years; and expected volatility of 35%.

12. Share Capital

a) Authorized

The Company is presently authorized to issue an unlimited number of common shares without par value. The Company is also authorized to issue up to 25,000,000 preferred shares without par value, of which 950 have been issued and none are outstanding as at November 30, 2023.

b) Warrants

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

	Number of Warrants	Weighted Average Exercise Price
Balance – September 1, 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 and November 30, 2023	11,620,312[1]	$ 0.211

[1] Does not include the additional liability classified warrants as described in note 11.

The outstanding equity classified warrants have a weighted average remaining contract life of 0.5 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 11, the Company also has 18,800,000 liability classified warrants outstanding as at November 30, 2023.

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

12. Share Capital (continued)

c) Share Based Payments

The Company has three share incentive plans: the Stock Option Plan, Deferred Share Unit Plan (the "DSU Plan") and the Restricted Share Unit Plan (the "RSU Plan").

The Stock Option Plan provides for the issue of up to 10% of the number of issued and outstanding common shares of the Company to eligible employees, directors and service providers of the Company.

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

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

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

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

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

	Number of Options	Weighted Average Exercise Price
Balance – September 1, 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	1,250,000	0.13
Expired	(270,000)	0.11
Forfeited	(500,000)	0.13
Balance – November 30, 2023	24,143,750	$ 0.14

As at November 30, 2023, there were 10,902,500 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.

12. Share Capital (continued)

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

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

	November 30, 2023	August 31, 2023
Exercise price	$0.13	$0.13
Closing market price on day	$0.13	$0.13
Risk-free interest rate	4.6%	3.69%
Expected life (years)	2.8	3.9
Expected volatility	80%	85%
Expected dividend yield	Nil	Nil
Grant date fair value	$0.06	$0.08
Forfeiture rate	9%	10%

The following table summarizes information concerning outstanding and exercisable options as at November 30, 2023:

	Number of Options		Weighted Average Remaining
Exercise Price Range	Outstanding	Exercisable	Contractual Life
$0.21 - $0.26	400,000	400,000	2.2 years
$0.15 - $0.20	9,180,000	3,970,000	2.3 years
$0.11 - $0.14	9,190,000	2,092,500	3.5 years
$0.08 - $0.10	5,373,750	4,440,000	1.2 years
	24,143,750	10,902,500	

Changes to the number of share units are as follows:

	DSU Plan (Equity Settled)	RSU Plan (Equity Settled)
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 and November 30, 2023	1,535,000	525,000

There were 1,535,000 DSUs vested as at November 30, 2023 and August 31, 2023.

There were 300,001 RSUs vested as at November 30, 2023 and August 31, 2023.

12. Share Capital (continued)

During the Quarter, the Company awarded bonuses for the year ended August 31, 2023 totaling $440,875 to the Company's senior management employees related to their services for the year ended August 31, 2023. These bonuses were settled by granting 4,369,424 fully vested RSUs to senior management employees subsequent to the end of the Quarter. The restrictive period for these RSUs ends on the earlier of August 31, 2024 and the day prior to the employee's Separation Date.

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.

The estimated fair value of options, DSUs and RSUs earned during the Quarter was $134,299 (2022 – $112,737), of which $3,393 (2022 - $1,634) was capitalized as exploration and evaluation assets, $Nil (2022 - $1,250) was charged to directors' fees, with the balance of $130,906 (2022 – $109,853) charged to operations as share based compensation expense.

d) 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 and November 30, 2023	788,900	$ 0.18

The outstanding brokers' compensation warrants have a weighted average remaining contract life of 0.1 years as at November 30, 2023.

e) Share Capital Structure

The Company's share capital structure including its common shares and any potentially dilutive instruments outstanding as at November 30, 2023 and August 31, 2023 are as follows:

	November 30, 2023	August 31, 2023
Common shares	560,373,603	560,373,603
Warrants	30,420,312	30,420,312
Stock options	24,143,750	23,663,750
DSUs	1,535,000	1,535,000
RSUs	525,000	525,000
Broker Compensation Warrants	788,900	788,900
Total	617,786,565	617,306,565

The Company is required to issue 37,590,496 common shares to Sibelco if the Company fails to repay the principal and accrued interest of $3,426,900 of the Debenture at Maturity and Sibelco chooses to convert the Debenture into common shares of the Company. The Company is also required to issue 20,000 warrants to the Northwest Territory Métis Nation in two equal installments of 10,000 warrants upon the Nechalacho REE Project meeting certain milestones.

13. Corporate and Administrative Expenses

Corporate and administrative expenses for the three months ended November 30, 2023 and 2022 consist of the following:

	November 30, 2023	November 30, 2022
Salaries and benefits [1]	$ 850,594	$ 275,749
Directors' fees	5,089	6,335
Consulting and professional fees	414,824	119,463
Advertising, office, insurance and other expenses	289,520	206,863
Shareholders' communications and filing fees	42,072	32,621
Travel and related costs	83,923	2,801
	$ 1,686,022	$ 643,832

[1] These figures do not include share based compensation. Employees' salaries and benefits including share based compensation expensed for the Quarter totaled $ 951,519 (2022 - $339,284).

14. 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 three months ended November 30, 2023 and 2022, other than carrying out a drilling program on the Separation Rapids Lithium Project on behalf of SRL. Expenditures incurred during the Quarter totaled $1,094,203 and were passed on to SRL on a cost recovery basis. As at November 30, 2023, $648,395 is due from SRL and is included in Other Receivables on the Interim Statement of Financial Position. This amount has been received after the end of the Quarter.

b) Compensation of key management personnel

The remuneration of directors and other key members of the Company's senior management team during each of the three months ended November 30, 2023 and 2022 are as follows:

	November 30, 2023	November 30, 2022
Salaries, benefits and directors' fees[1]	$ 918,131	$ 255,785
Share based compensation[2]	114,411	70,751
	$ 1,032,542	$ 326,536

[1] Salaries and benefits of key management personnel capitalized to exploration and evaluation assets and PPE totaled $108,701 (2022 - $6,001).

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

15. 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.

Fair Values

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

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

Credit risk

The Company is not exposed to any significant credit risk as at November 30, 2023. The Company's cash and cash equivalents are either on deposit with a major Canadian Chartered banking group in Canada or invested in bankers' acceptance notes or guaranteed investment certificates issued by a major Canadian Chartered banking group. The Company's receivables primarily consist of Goods and Services Tax/Harmonized Sales Tax receivable, government grants and refundable security deposits with various federal and provincial governments, and receivable from its investment associate SRL 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 November 30, 2023, the Company has current assets of $1,965,425 and current liabilities of $2,033,268. The Company's working capital deficit as at November 30, 2023 was $67,843.

15. Financial Instruments (continued)

Repayments due by period as of November 30, 2023:

	Within 1 Year	1-3 Years	4-5 Years	Over 5 Years	Total
Accounts payable and accrued liabilities	$ 2,028,575	$ -	$ -	$ -	$ 2,028,575
Debenture payable	-	3,426,900	-	-	3,426,900
Lease obligation	4,693	-	-	-	4,693
Lease commitment under New Lease Contract	214,221	434,939	497,443	20,946	1,167,549
	$ 2,247,489	$ 3,861,839	$ 497,443	$ 20,946	$ 6,627,717

Market risk

i) Interest rate risk

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

ii) Foreign currency risk

The Company's functional currency is the Canadian dollar. The majority of the Company's purchases are transacted in Canadian dollars. The Company had no significant financial assets or financial liabilities denominated in foreign currencies as at November 30, 2023.

iii) Price risk

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

Sensitivity analysis

Considering the Company's budget expenditures for the balance of fiscal 2024 and its current cash and cash equivalents of $770,614, with other variables held constant, sensitivity to a plus or minus 25 basis points change in interest rates would not have any significant effect on the Company's net loss for the balance of fiscal 2024.

The Company had no significant financial assets or financial liabilities denominated in foreign currencies as at November 30, 2023, and no significant ongoing expenditures to be transacted in US dollars or other foreign currencies is expected for the next nine 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 nine month period.

16. Supplemental Cash Flow Information

Non-cash financing and investing transactions not reflected in the Condensed Consolidated Interim Statements of Cash Flows for the three months ended November 30, 2023 and November 30, 2022 are as follows:

	November 30, 2023	November 30, 2022
Share based compensation capitalized as exploration and evaluation assets (note 12c)	$ 3,393	$ 1,634
Depreciation expense capitalized exploration and evaluation assets (note 7c)	15,927	1,707
	$ 19,320	$ 3,341

17. Events After the Reporting Period

Subsequent to the end of the Quarter, the Company:

a) granted 500,000 stock options with an exercise price of $0.11 per share to a director. The contract life of these options at issuance was 3 years;

b) had 5,885,000 warrants with a weighted average exercise price of $0.17 per share expire;

c) had 788,900 brokers' compensation warrants with a weighted average exercise price of $0.18 per share expire; and

d) granted a total of 4,369,424 fully vested RSUs to the Company's senior management employees in settlement of accrued bonuses of $440,875. The restrictive period for these RSUs ends on the earlier of August 31, 2024 and the day prior to the employee's Separation Date.