



## **Consolidated Financial Statements**

**For the years ended  
August 31, 2021 and 2020**

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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, 2021 and 2020, and the consolidated statements of comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at August 31, 2021 and 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended, in accordance with International Financial Reporting Standards ["IFRSs"].

## Basis for opinion

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

## Material uncertainty related to going concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a net loss of \$3,755,123 during the year ended August 31, 2021, and that there exists an uncertainty as to the Company's ability to raise additional funds on favourable terms. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

## Key audit matters

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



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

Key audit matter	How our audit addressed the key audit matter
<i>Assessment of impairment of the Nechalacho REE Project</i>	
<p>At August 31, 2021, the carrying value of property, plant and mine development was \$102.6 million.</p> <p>An indicator of impairment of the Nechalacho REE Project cash generating unit ("CGU") was determined to be present as of August 31, 2021 as the amount of the net assets of the Company was more than its market capitalization. As detailed in Note 6 of the consolidated financial statements, the Company did not recognize any impairment in relation to this CGU for the year ended August 31, 2021.</p> <p>Auditing the Company’s estimate of the recoverable amount of the Nechalacho REE Project CGU was complex, given the degree of judgement 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> <p>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.</p> <p>Involved our valuation specialist to assist in evaluating the long-term rare earth commodity prices and foreign exchange rates including assessing the appropriateness of sources used by management and performed sensitivity analysis using alternative assumptions and inputs to evaluate changes in the recoverable amount of the CGU. As a significant component of projected cash flows relates to the sale of enriched zirconium concentrate, we compared management’s zirconium price to a range of market data.</p> <p>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 which 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.</p> <p>Assessed the adequacy of the disclosures included in Note 6 of the accompanying consolidated financial statements in relation to this matter.</p>

### **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, 2021.

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

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

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

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

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

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

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

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

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

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

Toronto, Canada  
November 26, 2021

*Ernst & Young LLP*

Chartered Professional Accountants  
Licensed Public Accountants



**Consolidated Statements of Financial Position**  
**(expressed in Canadian Dollars)**  
**As at August 31, 2021 and August 31, 2020**

	2021	2020
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents (note 4)	\$ 1,823,459	\$ 1,295,723
Other receivables	117,295	263,141
Prepaid expenses and deposits	593,866	118,536
	<u>2,534,620</u>	<u>1,677,400</u>
<b>Non-Current Assets</b>		
Exploration and evaluation assets (note 5)	13,288,036	12,083,199
Property, plant and equipment (note 6)	102,646,452	102,836,885
	<u>115,934,488</u>	<u>114,920,084</u>
	<u>\$ 118,469,108</u>	<u>\$ 116,597,484</u>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 142,821	\$ 153,743
Accrued liabilities	486,774	574,383
Deferred flow-through share premium (note 7)	36,269	136,800
Current portion of lease obligation (note 8)	192,487	178,893
	<u>858,351</u>	<u>1,043,819</u>
<b>Non-Current Liabilities</b>		
Lease obligation (note 8)	496,087	688,574
Convertible note payable (note 9)	2,990,000	-
Derivative liabilities (note 10)	220,754	59,827
Site closure and reclamation provisions (note 11)	278,600	303,600
	<u>3,985,441</u>	<u>1,052,001</u>
	<u>4,843,792</u>	<u>2,095,820</u>
<b>Shareholders' Equity</b>		
Share Capital (note 12b)	181,918,759	179,329,547
Reserve for Warrants (note 12c)	4,336,380	4,336,481
Reserve for Share Based Payments (note 12d)	17,612,415	17,333,864
Reserve for Brokers' Compensation Warrants (note 12e)	297,113	286,000
Accumulated Deficit	(90,539,351)	(86,784,228)
	<u>113,625,316</u>	<u>114,501,664</u>
	<u>\$ 118,469,108</u>	<u>\$ 116,597,484</u>

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

Approved on behalf of the Board

\_\_\_\_\_  
 "Donald S. Bubar", Director

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 "Alan Ferry", Director

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

	<u>2021</u>	<u>2020</u>
<b>Revenue</b>		
Interest	\$ 6,127	\$ 24,787
Management fees (note 6a)	5,122	109,351
	<u>11,249</u>	<u>134,138</u>
<b>Expenses</b>		
Corporate and administrative (note 13)	1,878,621	1,828,971
Impairment loss on exploration and evaluation assets (note 5)	-	5,587,210
General exploration	53,812	127,353
Depreciation (note 6)	113,504	163,292
Share based compensation (note 12d)	368,650	99,033
Interest on lease obligation	39,360	43,530
Foreign exchange loss	3,663	622
Increase in fair value of convertible redeemable preferred shares	-	39,375
Increase in fair values of convertible note payable and derivative liabilities (notes 9, 10)	1,508,543	32,758
	<u>3,966,153</u>	<u>7,922,144</u>
<b>Net Loss before the Undernoted item</b>	(3,954,904)	(7,788,006)
<b>Gain on Sale of Property, Plant and Equipment (note 6a)</b>	<u>-</u>	<u>2,373,261</u>
<b>Net Loss before Income Taxes</b>	(3,954,904)	(5,414,745)
<b>Deferred Income Tax Recoveries (note 18)</b>	<u>199,781</u>	<u>47,481</u>
<b>Net Loss and Total Comprehensive Loss for the year</b>	<u>\$ (3,755,123)</u>	<u>\$ (5,367,264)</u>
<b>Loss per Share - Basic and Diluted (note 19)</b>	<u>\$ (0.011)</u>	<u>\$ (0.016)</u>
<b>Weighted Average Number of Common Shares Outstanding - Basic and Diluted</b>	<u>354,590,337</u>	<u>334,332,582</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, 2019	314,652,449	\$ 177,802,700	\$ 4,330,037	\$ 17,225,482	\$ 286,000	\$(81,416,964)	\$ 118,227,255
Equity offerings (note 12b)	6,000,000	396,000	7,200	-	-	-	403,200
Conversion of redeemable preferred shares	23,706,725	997,499	-	-	-	-	997,499
Conversion of note payable (note 9)	4,053,983	175,000	-	-	-	-	175,000
Share based compensation (note 12d)	-	-	-	108,382	-	-	108,382
Share issuance costs - cash	-	(41,652)	(756)	-	-	-	(42,408)
Net loss for the year	-	-	-	-	-	(5,367,264)	(5,367,264)
Balance at August 31, 2020	348,413,157	\$ 179,329,547	\$ 4,336,481	\$ 17,333,864	\$ 286,000	\$(86,784,228)	\$ 114,501,664
Equity offerings (note 12b)	2,500,000	400,750	-	-	-	-	400,750
Issued for deposit on business acquisition (note 5)	1,000,000	219,200	-	-	-	-	219,200
Conversion of note payable (note 9)	5,134,321	610,000	-	-	-	-	610,000
Exercise of warrants	6,487,500	1,189,175	-	-	-	-	1,189,175
Reserve transferred on exercise of warrants	-	101	(101)	-	-	-	-
Exercise of options	2,760,000	304,700	-	-	-	-	304,700
Reserve transferred on exercise of options	-	116,665	-	(116,665)	-	-	-
Common shares redeemed (note 12b)	(955,949)	(200,750)	-	-	-	-	(200,750)
Compensation warrants issued on equity offerings	-	-	-	-	11,113	-	11,113
Share based compensation (note 12d)	-	-	-	395,216	-	-	395,216
Share issuance costs - cash	-	(39,516)	-	-	-	-	(39,516)
Share issuance costs - compensation warrants issued	-	(11,113)	-	-	-	-	(11,113)
Net loss for the year	-	-	-	-	-	(3,755,123)	(3,755,123)
Balance at August 31, 2021	365,339,029	\$ 181,918,759	\$ 4,336,380	\$ 17,612,415	\$ 297,113	\$(90,539,351)	\$ 113,625,316

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>2021</u>	<u>2020</u>
<b>Operating Activities</b>		
Cash paid to employees	\$ (1,059,930)	\$ (1,399,003)
Cash paid to suppliers	(983,269)	(661,150)
Interest received	6,127	24,787
Management fees received	9,935	114,742
Cash Used by Operating Activities	<u>(2,027,137)</u>	<u>(1,920,624)</u>
<b>Financing Activities</b>		
Net proceeds from equity offerings (note 12b)	450,977	507,100
Net proceeds from issuance of note payable (note 9)	2,882,434	-
Proceeds from exercise of warrants	559,125	-
Proceeds from exercise of stock options	304,700	-
Common share redemption (note 12b)	(200,750)	-
Lease payments (note 8)	(59,390)	(207,063)
Cash Provided by Financing Activities	<u>3,937,096</u>	<u>300,037</u>
<b>Investing Activities</b>		
Exploration and evaluation assets	(1,109,959)	(713,783)
Property, plant and equipment	(68,601)	(29,534)
Deposits paid for business acquisition (note 5c)	(200,000)	-
Proceeds from sale of property, plant and equipment (note 6a)	-	1,778,408
Cash Provided (Used) by Investing Activities	<u>(1,378,560)</u>	<u>1,035,091</u>
<b>Change in Cash and Cash Equivalents</b>	<b>531,399</b>	<b>(585,496)</b>
<b>Foreign Exchange Effect on Cash</b>	<b>(3,663)</b>	<b>(622)</b>
<b>Cash and Cash Equivalents - beginning of year</b>	<u><b>1,295,723</b></u>	<u><b>1,881,841</b></u>
<b>Cash and Cash Equivalents - end of year</b>	<u><b>\$ 1,823,459</b></u>	<u><b>\$ 1,295,723</b></u>

Supplemental Cash Flow Information (note 17)

## **1. Nature of Operations and Going Concern Uncertainty**

Avalon Advanced Materials Inc. (“Avalon”) is a publicly listed company incorporated in Canada and continued under the *Canada Business Corporations Act*. Avalon’s common shares are listed on the Toronto Stock Exchange (the “TSX”) (TSX: AVL), on the OTCQB® Venture Market (OTCQB: AVLNF), and the Frankfurt Stock Exchange in Germany. The registered address, principal address and records office of Avalon is located at 130 Adelaide Street West, Suite 1901, Toronto, Ontario, Canada, M5H 3P5.

Avalon, together with its subsidiaries (collectively, the “Company”) is principally engaged in the acquisition, exploration, evaluation and development of specialty metal and mineral properties, located principally in Canada. To date, the Company has not earned any significant revenues.

The realization of amounts shown for its development asset - the Nechalacho Rare Earth Elements Project (the “Nechalacho REE Project”) and its exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves (where not already identified), the ability of the Company to obtain the necessary financing to develop these assets, and future profitable production or proceeds of disposition from these assets.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) applicable to a going concern, which assumes the Company will continue to meet its obligations and discharge its liabilities in the normal course of business for the foreseeable future. The Company is in the exploration and development stage and raises funds in the equity markets to conduct its business activities. The Company has incurred losses in the current and prior years, with a net loss of \$3,755,123 in the year ended August 31, 2021 (the “Year”) and an accumulated deficit of \$90,539,351 as at August 31, 2021. The Company’s cash and cash equivalents balance at August 31, 2021 was \$1,823,459, and the working capital was \$1,676,269.

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

Given the continuation of weak investor sentiment and capital market conditions in the junior resource sector, there exists an uncertainty as to the Company’s ability to raise additional funds on favorable terms. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern. As at August 31, 2021, the Company is required to incur additional Canadian exploration expenses (“CEE”) of \$182,713 by December 31, 2022. The Company’s expenditures on discretionary exploration and development activities have some scope for flexibility in terms of amount and timing, which can be adjusted accordingly. Management intends to finance these expenditures over the next twelve months with funds currently on hand, and through planned equity financings.

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

These consolidated financial statements have been reviewed and approved by the Company’s Audit Committee and the Board of Directors on November 26, 2021.

## **2. Basis of Presentation**

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

These consolidated financial statements, including comparatives, have been prepared using accounting policies in compliance with IFRS as issued by the IASB.

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

### **b) Basis of Consolidation**

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

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

ARML has not carried on any significant operations since its inception. During the year ended August 31, 2012, 8110131 Canada Inc. acquired certain net smelter returns ("NSR") royalty interests in the Company's properties which were held by third parties. Nolava had held certain mining claims in Utah, USA and had conducted exploration work on those mining claims during fiscal year 2011 to fiscal year 2014. All intercompany transactions and balances have been eliminated on consolidation of the accounts.

The Company also has a 50% interest in NWT Rare Earths Ltd., with an unrelated third party owning the other 50%, which was created in the fiscal year 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 has been allocated to the Company.

## **3. Summary of Significant Accounting Policies**

The principal accounting policies followed by the Company are summarized as follows:

### **a) Foreign Currency Transactions**

#### *Functional and Presentation Currency*

Items included in the consolidated financial statements of the Company and each of its subsidiaries are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the Company and its subsidiaries is the Canadian dollar ("C\$"). The consolidated financial statements of the Company are presented in Canadian dollars.

#### *Transactions and Balances*

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

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

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

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

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

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 ("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 are 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 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. Summary of Significant 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. Summary of Significant 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) *Flow-through Shares***

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

The Company recognizes a proportion of the excess of cash consideration received over the market price of the Company's shares at the date of the announcement of the flow-through share financing ("Flow-through Share Premium") through the consolidated statement of comprehensive loss as a reduction of deferred income tax expense, with a corresponding reduction to the deferred flow-through share premium liability as the eligible flow-through expenditures are incurred.

The Flow-through Share Premium is recorded in the consolidated statement of financial position as a deferred flow-through share premium liability when the flow-through shares are issued. When a unit comprised of a flow-through share with an attached share purchase warrant is issued, the Company has adopted the fair value approach with respect to the measurement of the three components (share, warrant and Flow-through Share Premium) of such unit and use the relative fair value method to allocate the proceeds to each of the three components of the unit.

#### **f) *Loss per Share***

The basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the year. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options and share purchase warrants, in the weighted average number of common shares outstanding during the year, if dilutive. The "treasury stock method" is used for the assumed proceeds upon the exercise of the options and warrants that are used to purchase common shares at the average market price during the year.

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

#### ***g) Other Comprehensive Income (Loss)***

Other Comprehensive income (loss) is the change in the Company's net assets that results from transactions, events and circumstances that are not related to the Company's shares and that are not included in net profit or loss. Such items include unrealized gains or losses on available-for-sale investments, gains or losses on certain hedging derivative instruments and foreign currency gains or losses related to translation of the financial statements of foreign operations. The Company's comprehensive income (loss) and components of other comprehensive income are presented in the consolidated statements of comprehensive loss and the consolidated statements of changes in equity.

#### ***h) Cash and Cash Equivalents***

Cash and cash equivalents include bank deposits and highly liquid short-term money market investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, such as bankers' acceptance notes, treasury bills and guaranteed investment certificates ("GICs").

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

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

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

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.

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

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.

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

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

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

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

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

Airstrip	- 8% on a declining balance basis
Building	- straight line basis over its estimated useful life
Computer and office equipment	- 25% to 33 1/3% on a declining balance basis
Exploration equipment	- 30% on a declining balance basis
Leased office premises	- straight line basis over the shorter of the term of the lease and useful life
Leasehold improvements	- straight line basis over the shorter of the term of the lease and useful life

An item of PPE is derecognized upon disposal, when classified as held for sale (when assets' carrying amounts will be recovered principally through a sale transaction rather than through continuing use), or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized immediately in the consolidated statement of comprehensive loss.

The Company conducts an annual assessment of the residual balances, useful lives and depreciation methods being used for PPE and any changes arising from this assessment are applied by the Company prospectively as a change in estimate.



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

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.

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.

#### **l) 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.

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

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
Convertible note payable	FVTPL
Convertible redeemable preferred shares	FVTPL
Derivative liabilities	FVTPL

#### *Impairment of Financial Assets*

At each statement of financial position reporting date, the Company, on a forward-looking basis, assesses the expected credit losses associated with its financial assets measured at amortized costs or those measured at FVOCI (except for equity instrument investments). These assessments are based on changes in credit quality of the financial asset since initial recognition. Any impairment losses recognized are charged to profit or loss, with the offsetting credit reducing the carrying amount of the financial assets that are measure at amortized cost. For financial assets measured at FVOCI, the impairment loss will be credited to other comprehensive income or loss.

#### **m) Site Closure and Reclamation Provision**

The Company's mining exploration activities are subject to various governmental laws and regulations relating to the protection of the environment. These environmental regulations are continually changing and are generally becoming more restrictive. The Company has made, and intends to make in the future, expenditures to comply with such laws and regulations or constructive obligations.

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

Provision for site closure costs is recorded at the time an environmental disturbance occurs, and is measured at the Company's best estimate of the expected value of future cash flows required to reclaim the disturbance upon site closure, discounted to their net present value. The net present value is determined using a pre-tax discount rate that is specific to the liability. The estimated net present value is re-measured at the end of each reporting period, or when changes in circumstances occur and/or new material information becomes available. Increases or decreases to the provision arise due to changes in legal, constructive or regulatory requirements, the extent of environmental remediation required and cost estimates. The net present value of the estimated costs of these changes is recorded in the period in which the change is identified and quantifiable.

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

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

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

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

#### ***o) Government Grants***

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

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

#### ***p) Related Party Disclosure***

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

#### ***q) Segment Reporting***

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

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

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

#### ***r) Critical Accounting Judgments and Estimation Uncertainties***

The preparation of the consolidated financial statements in conformity with IFRS requires that the Company's management make critical judgments, estimates and assumptions about future events that affect the amounts reported in the consolidated financial statements and the related notes thereto. Actual results may differ from those estimates. Estimates and assumptions are reviewed on an ongoing basis based on historical experience and other factors that are considered to be relevant under the circumstances. Revisions to estimates are accounted for prospectively.

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

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

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

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

##### 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. Summary of Significant 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.

#### Site Closure and Reclamation Provision

The Company's accounting policy for the recognition of a site closure and reclamation obligation requires significant estimates and assumptions such as: requirements of the relevant legal and regulatory framework, the magnitude of possible disturbance and the timing thereof, extent and costs of required closure and rehabilitation activity, and discount rate. These uncertainties may result in future actual expenditures differing from the amounts currently provided. Site closure and reclamation provision recognized is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs are recognized in the Statement of Financial Position by adjusting both the site closure and reclamation asset and provision.

#### Property, Plant and Equipment - Estimated Useful Lives

Management estimates the useful lives of PPE based on the period during which the assets are expected to be available for use. The amounts and timing of recorded expenses for depreciation of PPE for any period are affected by these estimated useful lives. The estimates are reviewed at least annually and are updated if expectations change as a result of physical wear and tear, technical or commercial obsolescence and legal or other limits to use. It is possible that changes in these factors may cause significant changes in the estimated useful lives of the Company's PPE in the future.

#### *Critical Judgments*

Information about critical judgments in applying accounting policies that have most significant effect on the consolidated financial statements are as follows:

#### Capitalization of Exploration and Evaluation Costs

Exploration and evaluation costs incurred during the year are recorded at cost. Capitalized costs include costs directly attributable to exploration and evaluation activities, including salaries and benefits of employees who are directly engaged in the exploration and evaluation activities. Administrative and other overhead costs are expensed. Exploration and evaluation costs incurred that have been determined to have future economic benefits and can be economically recoverable are capitalized. In making this judgment, management assesses various sources of information including but not limited to the geologic and metallurgic information, history of conversion of mineral deposits to proven and probable mineral reserves, scoping and feasibility studies, proximity of operating facilities, operating management expertise and existing permits.

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

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

Several amendments to the accounting standards that are applicable to the Company became effective on September 1, 2020, which did not have a significant impact on the Company's consolidated financial statements.

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

The following pronouncement is issued but not yet effective:

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

In May 2020, the IASB issued amendments to IAS 16, Property, Plant and Equipment ('IAS 16'). The amendments prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. A company will be required to recognize these sales proceeds and related costs in earnings. These amendments become effective for annual reporting periods beginning on or after January 1, 2022 (which will become effective on September 1, 2022 for the Company), and will apply retrospectively to items of property, plant and equipment that are available for use after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. The Company does not expect a significant impact on its 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, 2023 (which will become effective on September 1, 2023 for the Company), and will apply retrospectively. The application of these amendments will impact the current/non-current classification of the Company's convertible note payable and certain derivative liabilities.

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

Cash and cash equivalents are comprised of the following:

	<b>August 31, 2021</b>	<b>August 31, 2020</b>
Cash held in bank accounts	\$ 1,691,295	\$ 263,225
Guaranteed investment certificates	132,164	1,032,498
	<b>\$ 1,823,459</b>	<b>\$ 1,295,723</b>

**5. Exploration and Evaluation Assets**

	September 1, 2019	Expenditures	Impairment Loss	August 31, 2020
Separation Rapids Lithium Project (a)	\$ 11,522,138	\$ 503,191	\$ -	\$ 12,025,329
Lilypad Cesium-Tantalum Project (b)	24,488	18,382	-	42,870
East Kemptville Tin-Indium Project (c)	5,503,577	83,633	(5,587,210)	-
Other (d)	15,000	-	-	15,000
	<u>\$ 17,065,203</u>	<u>\$ 605,206</u>	<u>\$ (5,587,210)</u>	<u>\$ 12,083,199</u>
	September 1, 2020	Expenditures	Impairment Loss	August 31, 2021
Separation Rapids Lithium Project (a)	\$ 12,025,329	\$ 801,297	\$ -	\$ 12,826,626
Lilypad Cesium-Tantalum Project (b)	42,870	400,490	-	443,360
Other (d)	15,000	3,050	-	18,050
	<u>\$ 12,083,199</u>	<u>\$ 1,204,837</u>	<u>\$ -</u>	<u>\$ 13,288,036</u>

a) Separation Rapids Lithium Project, Ontario

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

b) Lilypad Cesium-Tantalum Project, Ontario

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

c) East Kemptville Tin-Indium Project, Nova Scotia

The Company held a special exploration licence (the "Special Licence") to search and prospect for all minerals except for coal, salt, potash and uranium within four claims in the East Kemptville area of Yarmouth, Nova Scotia.

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

The Company completed a preliminary economic assessment during fiscal 2018 with a development model of utilizing the existing tailings management area ("TMA") and had been in negotiation with the surface rights owner to secure full tenure to the project site. Agreement in principle was reached in Fiscal 2019, however, the surface rights owner subsequently refused to sign the agreement after putting on hold any new work on TMAs on all of its closed minesites. Not having access to the existing unused tailings ponds severely limits the possibilities for economic re-development of the site. This realization coupled with the continuing difficulties in getting surface access to the project site, caused the Company to decide to withdraw its lease application and to write off the costs incurred to-date of \$5,587,210 as an impairment loss during the year ended August 31, 2020.

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

### **d) Other Resource Properties**

The Company has a 100% interest in a mining lease in the Warren Township Anorthosite Project, located near Foleyet, Ontario, a 2.0% NSR interest in certain claims of the East Cedartree Gold Property located near Kenora, Ontario, and a 2.4% NSR interest in the Wolf Mountain Platinum-Palladium Project located near Thunder Bay, Ontario.

During the Year, 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. Among the industrial minerals property assets owned by 2333382 is an asset transfer agreement giving 2333382 the right to acquire full title to the Cargill Carbonatite Complex near Kapuskasing, Ontario. The total purchase price to be paid by the Company will be \$16 million, payable in a combination of cash and common shares of Avalon over a period of two years. The initial payment of \$200,000 in cash and the issuance of 1,000,000 common shares (with a total fair value of \$219,200 based on the five day VWAP of the Company's common shares prior to the date the shares were issued) were made during Year. The LOI calls for the balance of the purchase price to be made in four instalments on the following schedule (assuming the Letter of Credit ("LoC") needed to acquire title to the mining leases for the Cargill Carbonatite Complex is successfully secured):

- i) on or before August 15, 2021, \$900,000 in cash, of which 50% can be paid in common shares at the Company's discretion;
- ii) on or before February 15, 2022, \$3 million in cash;
- iii) on or before August 15, 2022, \$3 million in cash; and
- iv) on or before February 15, 2023, \$8,700,000 in cash.

The Company will also assume responsibility for managing all of 2333382's ongoing operations upon posting of a Letter of Credit in the amount of \$23.7 million with the Ontario government to meet current closure plan financial assurance requirements at the Cargill site. Discussions are in progress with a number of lenders and surety providers toward securing the required LoC. As of November 26, 2021, the required LoC has not yet been secured and the Company has delayed the further purchase payments above until 2333382 has secured the LoC and completed the asset transfer with the current owner of the mining leases. Finalization of the acquisition payment schedule is presently being re-negotiated.

During the Year, the Company staked certain mineral claims in close proximity to the Cargill Carbonatite Complex.



**Notes to the Consolidated Financial Statements**  
**For the years ended August 31, 2021 and 2020**

**6. Property, Plant and Equipment**

	Nechalacho REE Project (a)	Airstrip	Office, Computer and Office Equipment (b)	Land and Building	Exploration Equipment	Leasehold Improvements	Total
<b>Cost</b>							
As at September 1, 2019	\$ 101,474,299	\$ 646,860	\$ 1,246,947	\$ 90,905	\$ 695,532	\$ 101,614	\$ 104,256,157
Additions	30,340	-	18,575	-	1,300	5,140	55,355
Disposals	-	-	(30,283)	-	-	-	(30,283)
As at August 31, 2020	101,504,639	646,860	1,235,239	90,905	696,832	106,754	104,281,229
Additions	41,684	-	-	-	5,994	-	47,678
As at August 31, 2021	<u>\$ 101,546,323</u>	<u>\$ 646,860</u>	<u>\$ 1,235,239</u>	<u>\$ 90,905</u>	<u>\$ 702,826</u>	<u>\$ 106,754</u>	<u>\$ 104,328,907</u>
<b>Accumulated Depreciation</b>							
As at September 1, 2019	\$ -	\$ 286,070	\$ 174,289	\$ 14,558	\$ 658,890	\$ 94,702	\$ 1,228,509
Depreciation expense	-	18,974	210,352	4,191	11,025	1,576	246,118
Disposals	-	-	(30,283)	-	-	-	(30,283)
As at August 31, 2020	-	305,044	354,358	18,749	669,915	96,278	1,444,344
Depreciation expense	-	17,456	205,522	4,191	8,525	2,417	238,111
As at August 31, 2021	<u>\$ -</u>	<u>\$ 322,500</u>	<u>\$ 559,880</u>	<u>\$ 22,940</u>	<u>\$ 678,440</u>	<u>\$ 98,695</u>	<u>\$ 1,682,455</u>
<b>Net Book Value</b>							
As at August 31, 2020	<u>\$ 101,504,639</u>	<u>\$ 341,816</u>	<u>\$ 880,881</u>	<u>\$ 72,156</u>	<u>\$ 26,917</u>	<u>\$ 10,476</u>	<u>\$ 102,836,885</u>
As at August 31, 2021	<u>\$ 101,546,323</u>	<u>\$ 324,360</u>	<u>\$ 675,359</u>	<u>\$ 67,965</u>	<u>\$ 24,386</u>	<u>\$ 8,059</u>	<u>\$ 102,646,452</u>

## **6. 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 \$1.6 million, and which will increase at a rate equal to the Canadian prime rate until the royalty is bought out.

During the year ended August 31, 2020, the Company disposed of the resources above a depth of 150 metres above sea level (“Upper Zone Resources”) to a third party for a total cash consideration of \$5.0 million and recognized a net gain on sale of \$2,373,261. Advance payments totalling \$3.2 million had been received by August 31, 2019 and the balance of \$1.8 million was received during the year ended August 31, 2020.

The Company retained a 3.0% NSR royalty (the “3.0% NSR Royalty”) and continue to have access to the property for development and mining of its Basal Zone resources. The Company has also agreed to waive the 3.0% NSR Royalty for the third party for the first five years of commercial production and to grant the third party the option to pay the Company \$2.0 million within eight years of the transaction closing to extend the waiver of this royalty in perpetuity. The third party 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.

During the Year, the Company generated net management fees of \$5,122 (2020 - \$109,351) for services provided to the third party to manage its exploration activities on the property.

At August 31, 2021, 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, 2021 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 \$74,123 (2020 - \$121,093) (net of \$121,965 (2020 - \$74,997) in rent forgiveness under the Canada Emergency Commercial Rent Assistance and rent subsidy under the Canada Emergency Rent Subsidy programs) was recognized relating to the ROU asset during the Year, and the carrying balance of the ROU asset was \$653,631 as at August 31, 2021 (2020 - \$849,720).
- c) Depreciation expense for the years ended August 31, 2021 and 2020 consist of the following:

	<b>August 31, 2021</b>	<b>August 31, 2020</b>
Depreciation expense recognized	\$ 238,111	\$ 246,118
Depreciation expense capitalized to exploration and evaluation assets	(2,642)	(7,829)
Rent forgiveness and rent subsidy	(121,965)	(74,997)
	<b>\$ 113,504</b>	<b>\$ 163,292</b>

## **7. 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, 2019	\$ 47,481
Increase relating to flow-through common shares issued	136,800
Decrease relating to CEE incurred	<u>(47,481)</u>
Balance - August 31, 2020	136,800
Increase relating to flow-through common shares issued	99,250
Decrease relating to CEE incurred	<u>(199,781)</u>
Balance - August 31, 2021	<u>\$ 36,269</u>

## **8. Lease Obligation**

As at August 31, 2021, the Company had the following future commitment relating to the lease contract for its office premises:

2022	\$ 222,556
2023	229,181
2024	233,563
2025	<u>63,280</u>
Total future lease payments as at August 31, 2021	748,580
Amounts representing interest	<u>60,006</u>
Present value of future lease payments - August 31, 2021	<u>\$ 688,574</u>

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

Balance - September 1, 2019	\$ 1,031,000
Interest expense	43,530
Payments	<u>(207,063)</u>
Balance - August 31, 2020	867,467
Interest expense	39,360
Payments	<u>(218,253)</u>
Balance - August 31, 2021	688,574
Current portion of lease obligation	<u>192,487</u>
Non-current portion of lease obligation	<u>\$ 496,087</u>

The Company had net cash outflows of \$59,390 (total lease payments of \$218,253 less \$158,863 in rent subsidy received) (2020 - \$207,063) for its lease contract in the Year.

## **9. Convertible Note Payable**

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

## **9. Convertible Note Payable (continued)**

Lind was entitled to convert any outstanding amount of the face value of the 2018 Note into common shares commencing on May 26, 2019 at a conversion price equal to the higher of (a) 80% of the five day trailing VWAP of the common shares prior to the date of conversion, and (b) the five day VWAP of the shares prior to the date of conversion, less the maximum discount allowable in accordance with TSX rules. The Company had floor price protection such that if any conversion results in an effective conversion price of less than \$0.05 per share, then the Company had the right to instead repay the amount that was subject to that conversion for a 5% premium. The Company also had the right to repurchase the 2018 Note at the outstanding face value at any time. The 2018 Note was converted into common shares throughout the years ended August 31, 2019 and 2020.

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

Lind is entitled to convert any outstanding amount of the face value of the Note into common shares commencing on May 30, 2021 at a conversion price equal to 85% of the five day VWAP of the common shares prior to the date of conversion (the "Conversion Feature"). The Company has the right to repurchase the Note at the outstanding face value at any time (the "Buyback Option"), subject to the holder's option to convert up to one third of the original value into common shares prior to the Company's repurchase.

In conjunction with the issuance of the Note, Lind received a closing fee of \$90,000 and 9,800,000 common share purchase warrants. Each warrant entitles the holder to purchase one common share of the Company at a price of \$0.18 per common share until January 29, 2025. The Company also incurred other cash issuance costs of \$27,566, resulting in net cash proceeds of \$2,882,434 from the issuance of the Note.

The Note is a hybrid instrument that contains multiple embedded derivatives including the Conversion Feature and Buyback Option.

The economic characteristics and risks of the Conversion Feature are different from that of the host contract (the "Note") in that it allows Lind to convert the Note (a debt instrument) into the Company's common shares (an equity instrument) at a price per share equal to 85% of the five day VWAP of the shares prior to the date of conversion, thus the Conversion Option can be measured separately from the Note. In addition, the number of common shares to be issued upon conversion is variable and does not meet the "a fixed amount of cash for a fixed number of equity instruments" requirement to be classified as an equity instrument. As such, the Company had designated the entire hybrid contract (the Note and all of 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 note payable and derivative liabilities in the consolidated statement of comprehensive loss.

As the Company has the Buyback Option to repurchase the Note at the outstanding face value, the total fair value of the Note is therefore equal the face value, and is \$3,600,000 at issuance.

The exercise price of the warrant is subject to adjustment from time to time in the event of certain common share rights offering, such that the exercise of the warrants does not result in a fixed number of common shares being issued for a fixed amount of cash. As a result, the warrants had been classified as a financial liability at FVTPL and re-measured at each financial statement reporting date using the Black-Scholes pricing model, with the resulting change in value being recorded as increase or decrease in fair values of convertible note payable and derivative liabilities in the consolidated statement of comprehensive loss.

The fair value of the warrants was estimated at \$556,997 at issuance, and this amount was allocated to the warrant component of this private placement. 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 0.37%; expected life of 4.0 years; and expected volatility of 35%.

## 9. Convertible Note Payable (continued)

The fair values of the Note and the warrants at issuance totaled \$4,156,997 and the excess of this amount over the net cash proceeds (\$2,882,434) of \$1,274,563 had been recorded as an increase in fair values of convertible note payable and derivative liabilities in the Statement of Comprehensive Loss.

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

Balance - September 1, 2019	\$ 175,000
Converted to common shares	<u>(175,000)</u>
Balance - August 31, 2020	-
Issued	3,000,000
Interest	600,000
Converted to common shares	<u>(610,000)</u>
Balance - August 31, 2021	<u>\$ 2,990,000</u>

The number of common shares to be issued would be 29,989,969 if the entire Note had been converted into common shares based on the five day VWAP of the Company's common shares on the TSX of \$0.1172 on August 31, 2021.

## 10. Derivative Liabilities

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

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

	<u>Number of Warrants</u>	<u>Amount</u>
<b>Warrants denominated in foreign currency</b>		
Balance - September 1, 2019 and August 31, 2020	6,466,513	\$ 1
Expired	<u>(6,466,513)</u>	<u>(1)</u>
Balance - August 31, 2021	<u>-</u>	<u>\$ -</u>
<b>Other warrants subject to potential price adjustment</b>		
Balance - September 1, 2019	21,475,000	\$ 27,068
Increase in fair value	<u>-</u>	<u>32,758</u>
Balance - August 31, 2020	21,475,000	59,826
Issued	9,800,000	556,997
Exercised	(6,450,000)	(630,050)
Increase in fair value	<u>-</u>	<u>233,981</u>
Balance - August 31, 2021	<u>24,825,000</u>	<u>\$ 220,754</u>
<b>Total derivative liabilities</b>		<u>\$ 220,754</u>

## **10. Derivative Liabilities (continued)**

The Company has the following liability classified warrants outstanding as at August 31, 2021:

- i) 6,900,000 A1 Warrants with an exercise price of \$0.23 per share and are exercisable until March 10, 2022;
- ii) 6,250,000 B1 Warrants with an exercise price of \$0.15 per share and are exercisable until January 15, 2023;
- iii) 1,875,000 C1 Warrants with an exercise price of \$0.125 per share and are exercisable until June 29, 2023; and
- iv) 9,800,000 warrants with an exercise price of \$0.18 per share and are exercisable until January 29, 2025.

The fair values of the liability classified warrants were estimated at August 31, 2021 using the Black-Scholes pricing model, with the following weighted average assumptions: expected dividend yield of Nil; risk free interest rate of 0.44%; expected life of 2.0 years; and expected volatility of 35%.

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

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

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

Balance - September 1, 2019 and August 31, 2020	\$ 303,600
Change in estimates	<u>(25,000)</u>
Balance - August 31, 2021	<u>\$ 278,600</u>

## **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 August 31, 2021.

### **b) Common Shares**

Common shares issued, redeemed and cancelled during the years ended August 31, 2020 and 2021 are as follows:

- i) In August 2020, the Company completed a private placement and issued 6,000,000 flow-through units ("FT Unit") at a price of \$0.09 per FT Unit for gross proceeds of \$540,000. Each FT Unit was comprised of one flow-through common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to acquire one common share at a price of \$0.12 until August 25, 2022.

In connection with this private placement, the Company paid finders' fees of \$32,400 and incurred other cash issuance costs of \$10,008 (of which \$ 500 was paid in August 2020 and the balance of \$9,508 was paid in the Year).

## **12. Share Capital (continued)**

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

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

- ii) In March 2021, completed its share capital amendment, which involved amending the Company's articles to reflect a 500:1 consolidation of the Company's common shares, immediately followed by a 1:500 split of the Company's post-consolidated common shares on March 15, 2021 (the "Share Capital Amendment"). Shareholders who held less than 500 common shares in the form of a physical certificate immediately prior to March 15, 2021 ("Registered Shareholder") were paid a cash payment in exchange for their shares (the "Cash Payment") equal to the number of common shares they held immediately prior to the Share Capital Amendment multiplied by \$0.21, which is the five day VWAP of the common shares on the TSX prior to March 15, 2021. Shareholders holding less than 500 common shares in a brokerage account immediately prior to the March 15, 2021, and who so elected through their intermediary, have been paid the Cash Payment. All other shareholders continued to hold the exact same number of shares after the Share Capital Amendment that they did prior to the Share Capital Amendment.

As a result of the Share Capital Amendment, a total of 955,949 common shares (for total cash payments of \$200,750) had been redeemed and cancelled, of which 932,366 shares were elected by shareholders who held their shares in a brokerage account, and the balance of 23,583 shares were held by Registered Shareholders.

- iii) In May 2021, the Company completed a private placement and issued 2,500,000 flow-through common shares at \$0.20 per share for gross proceeds of \$500,000. In connection with this private placement, the Company paid finders' fees of \$30,000 and incurred other cash issuance costs of \$9,515, resulting in net cash proceeds of \$460,485.

The excess of the cash consideration received over the market price of the Company's shares at the date of the announcement of the flow-through share financing totalling \$99,250 was recorded as a deferred flow-through share premium liability on the consolidated statement of financial position on May 14, 2021.

## 12. Share Capital (continued)

### c) Warrants

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

	Number of Warrants	Weighted Average Exercise Price
Balance - September 1, 2019	8,257,500 <sup>(1)</sup>	\$ 0.132
Issued pursuant to equity offerings (note 12b(i))	3,000,000	0.120
Expired	(6,060,000)	0.136
Balance - August 31, 2020	5,197,500 <sup>(1)</sup>	0.120
Exercised	(37,500)	0.120
Expired	(10,000)	0.230
Balance - August 31, 2021	5,150,000 <sup>(1)</sup>	\$ 0.120

<sup>(1)</sup> Does not include the additional liability classified warrants as disclosed in note 10.

The outstanding equity classified warrants have a weighted average remaining contract life of 0.7 years.

Subsequent to the Year, the expiry dates for the remaining outstanding warrants (each with an exercise price of \$0.12 per share) issued in the November 2018 Private Placement were extended. The expiry date has been extended from November 1, 2021 to November 1, 2022 for 1,900,000 warrants, and the expiry date for the remaining 250,000 warrants has been extended from November 23, 2021 to November 23, 2022. All other terms and conditions of these warrants remain unchanged.

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

As described in note 10, the Company also has 24,825,000 liability classified warrants outstanding as at August 31, 2021.

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

### d) Share Based Payments

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



## 12. Share Capital (continued)

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

	Number of Options	Weighted Average Exercise Price
Balance - September 1, 2019	9,396,250	\$ 0.16
Granted	7,680,000	0.08
Expired	(3,241,250)	0.21
Forfeited	(290,000)	0.10
Balance - August 31, 2020	13,545,000	0.10
Granted	7,310,000	0.19
Exercise	(2,760,000)	0.11
Expired	(1,375,000)	0.14
Forfeited	(443,750)	0.09
Balance - August 31, 2021	16,276,250	\$ 0.14

As at August 31, 2021, there were 5,105,000 options vested (August 31, 2020 - 5,416,250) with an average exercise price of \$0.10 per share (August 31, 2020 - \$0.12), that were exercisable.

During the year ended August 31, 2021, an aggregate of 2,760,000 (2020 - Nil) 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 \$0.22 per share.

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

The weighted average assumptions for grants during the years ended August 31, 2021 and August 31, 2020 are as follows:

	August 31, 2021	August 31, 2020
Exercise price	\$0.19	\$0.08
Closing market price on day preceding date of grant	\$0.18	\$0.05
Risk-free interest rate	0.66%	1.00%
Expected life (years)	4.1	3.6
Expected volatility	88%	80%
Expected dividend yield	Nil	Nil
Grant date fair value	\$0.11	\$0.02
Forfeiture rate	13%	14%

## 12. Share Capital (continued)

The following table summarizes information concerning outstanding and exercisable options as at August 31, 2021:

Exercise Price Range	Number of Options		Weighted Average Remaining Contractual Life
	Outstanding	Exercisable	
\$0.21 - \$0.26	400,000	-	4.5 years
\$0.15 - \$0.20	6,350,000	762,500	3.9 years
\$0.11 - \$0.14	1,802,500	1,050,000	2.5 years
\$0.08 - \$0.10	7,723,750	3,292,500	2.9 years
	<u>16,276,250</u>	<u>5,105,000</u>	

During the Year, an aggregate of 475,000 DSUs vesting at the grant date were granted to the Company's directors (the "DSU Grant") and a total of 1,475,000 RSUs were granted to the Company's officers and key employees (the "RSU Grant"). One-third of the RSU Grant will vest on each of the first, second and third anniversary of the grant date.

The weighted average grant date fair value of the DSUs was \$0.18 per unit, which was the five day VWAP of the Company's common shares prior to the date the DSUs were granted. The weighted average grant date fair value of the RSUs was \$0.18 per unit, which was determined based the five day VWAP of the Company's common shares of \$0.18 prior to the date the DSUs were granted and the weighted average expected forfeiture rate of 8%.

The DSU and RSU grants have been accounted for as equity settled share units as the Company has no plan to settle any DSUs and RSUs in cash at the grant date.

Changes to the number of share units are as follows:

	DSU Plan (Equity Settled)	RSU Plan (Equity Settled)
Balance - September 1, 2019 and August 31, 2020	-	-
Granted	475,000	1,475,000
Balance - August 31, 2021	<u>475,000</u>	<u>1,475,000</u>

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 Period was \$395,216 (2020 - \$108,382), of which \$354 (2020 - \$297) was capitalized to property, plant and equipment, \$24,357 (2020 - \$6,768) was capitalized as exploration and evaluation assets, \$1,855 (2020 - \$2,284) was charged to operations as general exploration expenses, with the balance of \$368,650 (2020 - \$99,033) charged to operations as share based compensation expense.

## 12. Share Capital (continued)

### e) *Brokers' Compensation Warrants*

The following table summarizes information concerning outstanding brokers' compensation warrants as at August 31, 2020 and August 31, 2021:

	Number of Compensation Warrants	Weighted Average Exercise Price
Balance - September 1, 2019	420,000	\$ 0.15
Expired	(420,000)	0.15
Balance - August 31, 2020	-	-
Issued pursuant to equity offering (note 12b(iii))	150,000	0.20
Balance - August 31, 2021	150,000	\$ 0.20

## 13. Corporate and Administrative Expenses

Corporate and administrative expenses for the years ended August 31, 2021 and 2020 consist of the following:

	August 31, 2021	August 31, 2020
Salaries and benefits <sup>(1)</sup>	\$ 1,045,930	\$ 1,007,016
Directors' fees <sup>(2)</sup>	12,978	12,060
Consulting and professional fees	408,442	373,912
Office, insurance and other expenses	257,615	229,874
Shareholders' communications and filing fees	150,344	145,590
Travel and related costs	3,312	60,519
	<u>\$ 1,878,621</u>	<u>\$ 1,828,971</u>

<sup>(1)</sup> These figures do not include share based compensation and are net of the Canada Emergency Wage Subsidy ("CEWS") of \$212,937 (2020 - \$176,294). Employees' salaries and benefits including share based compensation expensed for the Year totaled \$1,207,987 (2020 - \$1,074,999).

<sup>(2)</sup> These figures are net of the CEWS of \$10,363 (2020 - \$8,677).

## 14. Capital Management

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

The Company's objectives when managing capital are as follows:

- (i) to safeguard the Company's assets and ensure the Company's ability to continue as a going concern;
- (ii) to raise sufficient capital to finance its exploration and development activities on its resource properties; and
- (iii) to raise sufficient capital to meet its general and administrative expenditures.

The Company manages its capital structure and makes adjustments to it based on the funds available to the Company in light of changes in general economic conditions, the Company's short term working capital requirements, and its planned exploration and development program expenditure requirements.

## 14. Capital Management (continued)

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, 2021.

## 15. 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, 2021 and 2020.

### 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, 2021 and August 31, 2020 are as follows:

	August 31, 2021	August 31, 2020
Salaries, benefits and directors' fees <sup>(1)</sup>	\$ 1,159,580	\$ 1,114,485
Share based compensation <sup>(2)</sup>	285,468	75,252
	<u>\$ 1,445,048</u>	<u>\$ 1,189,737</u>

<sup>(1)</sup> Salaries and benefits of key management personnel capitalized to exploration and evaluation assets and PPE totaled \$174,794 (2020 - \$199,915).

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

## 16. Financial Instruments

IFRS 7 establishes a fair value hierarchy that reflects the significance of inputs used in making fair value measurements as follows:

Level 1	quoted prices in active markets for identical assets or liabilities;
Level 2	inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., from derived prices); and
Level 3	inputs for the asset or liability that are not based upon observable market data.

Assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The fair values of the Company's warrants denominated in a currency that is not the functional currency of the Company and the warrants with exercise prices that are subject to adjustment from time to time are based on Level 2 inputs that are observable for the liability such as interest rate, dividend yield and historical volatility. The fair value of the Convertible Note Payable was based on Level 3 inputs including the applicable face value of the Note. The Company had the right to buy back the Note at any time for the outstanding face value, as such the fair value of the Note was the outstanding face value of the Note.

## 16. Financial Instruments (continued)

### *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, 2021. The Company's cash and cash equivalents are either on deposit with two major Canadian Chartered banking groups in Canada or invested in bankers' acceptance notes or guaranteed investment certificates issued by a major Canadian Chartered banking group. The Company's receivables primarily consist of Goods and Services Tax/Harmonized Sales Tax receivable, government grants and refundable security deposits with various federal and provincial governments and are therefore not subject to significant credit risk.

### *Liquidity risk*

Liquidity risk is the risk that an entity will not be able to meet its financial obligations as they come due. The Company has in place a planning and budgeting process to assist in determining the funds that are required to support the Company's normal operating requirements on an 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, 2021, the Company has current assets of \$2,534,620 and current liabilities of \$858,351. The Company's working capital as at August 31, 2021 was \$1,676,269.

Repayments due by period as of August 31, 2021:

	<b>Within 1 Year</b>	<b>1-3 Years</b>	<b>4-5 Years</b>	<b>Over 5 Years</b>	<b>Total</b>
Accounts payable and accrued liabilities	\$ 629,595	\$ -	\$ -	\$ -	\$ 629,595
Convertible note payable	-	2,990,000	-	-	2,990,000
Lease obligation	222,556	462,744	63,280	-	748,580
	<b>\$ 852,151</b>	<b>\$ 3,452,744</b>	<b>\$ 63,280</b>	<b>\$ -</b>	<b>\$ 4,368,175</b>

### *Market risk*

#### i) Interest rate risk

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

#### ii) Foreign currency risk

The Company's functional currency is the Canadian dollar. The majority of the Company's purchases are transacted in Canadian dollars. The Company had no significant financial assets or financial liabilities denominated in foreign currencies as at August 31, 2021.

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

### iii) Price risk

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

### ***Sensitivity analysis***

Considering the Company's budget expenditures for the next twelve months and its current cash and cash equivalents of \$1,823,459, with other variables held constant, sensitivity to a plus or minus 25 basis points change in interest rates would not have any significant effect on the Company's net loss over a twelve month period.

The Company had no significant financial assets or financial liabilities denominated in foreign currencies as at August 31, 2021, and its anticipated ongoing expenditures to be transacted in US dollars for the next twelve month period is approximately US\$200,000. If the Canadian dollar weakens (or strengthens) 5% against the US dollar with other variables held constant, it would not have any significant effect on the Company's expenditures over a twelve month period.

## **17. 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, 2021 and August 31, 2020 are as follows:

	<b>August 31, 2021</b>	<b>August 31, 2020</b>
Share based compensation capitalized as property, plant and equipment (note 12d)	\$ 354	\$ 297
Share based compensation capitalized as exploration and evaluation assets (note 12d)	24,357	6,768
Depreciation expense capitalized exploration and evaluation assets	2,642	7,829
Common shares issued for deposit on business acquisition (note 5d)	219,200	-
	<b>\$ 246,553</b>	<b>\$ 14,894</b>

## 18. 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, 2021	August 31, 2020
Net loss for the year before income taxes	\$ 3,954,904	\$ 5,414,745
Combined Canadian federal and provincial tax rate	25.0%	25.0%
Expected income tax recovery at statutory rates	988,726	1,353,686
Non-deductible share based compensation	(57,667)	(25,329)
Other non-deductible expenses	(44)	(3,012)
CEE incurred applied to flow-through shares	(214,172)	(55,395)
Amortization of flow-through share premium	199,781	47,481
Non-deductible change in fair value of derivative financial instruments	(197,744)	(18,033)
Losses and other deductions for which no benefit has been recognized	(519,099)	(1,251,917)
Deferred income tax recoveries	\$ 199,781	\$ 47,481

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

The tax effects of temporary differences recognized as at August 31, 2021 and August 31, 2020 are as follows:

	August 31, 2021	August 31, 2020
Deferred income tax assets		
Exploration and evaluation assets	\$ 6,221,455	\$ 6,281,863
Scientific research and experimental developmental expenditures	4,298,464	4,294,187
	10,519,919	10,576,050
Deferred income tax liabilities		
Property plant and equipment	(10,519,919)	(10,576,050)
Net deferred income tax assets	\$ -	\$ -

**18. 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, 2021 and August 31, 2020 are as follows:

	August 31, 2021	August 31, 2020
Non-capital loss carryforwards	\$ 37,886,508	\$ 35,733,583
Scientific research and experimental developmental expenditures	10,173,900	10,191,008
Share issuance costs	725,290	291,203
Capital loss carry forwards	2,294,535	2,294,535
Lease obligation	688,574	867,467
	<u>\$ 51,768,807</u>	<u>\$ 49,377,796</u>
Deductible temporary differences not recognized	<u>\$ 51,768,807</u>	<u>\$ 49,377,796</u>

The Company also has non-refundable investment tax credit carry forwards of \$5,687,308 (2020 - \$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 \$36,219,000 (2020 - \$34,066,000) 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

The Company also has net operating losses of approximately \$1,668,000 (2020 - \$1,668,000) to reduce future years' U.S. taxable income. These losses will expire as follows:

2031	\$ 5,000
2032	2,000
2033	3,000
2034	1,658,000

**e) Capital Losses**

The Company has capital losses carried forward of approximately \$2,295,000 (2020 - \$2,295,000) available to reduce future years' Canadian taxable capital gains.



## **19. 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, 2020 and 2021.

The loss used to calculate the basic and diluted loss per common share for the year ended August 31, 2021 was \$3,755,123 (2020 - \$5,367,264).

As at August 31, 2021, the Company had 30,125,000 (2020 - 33,139,013) warrants, 16,276,250 (2020 - 13,545,000) stock options, and 1,950,000 (2020 - Nil) Share Units outstanding. As at August 31, 2021, the Company also had \$2,990,000 (2020 - \$Nil) Convertible Note Payable outstanding, which could have been converted into a total of 29,989,969 common shares based on the five day VWAP of the Company's common shares on the TSX of \$0.1172 on August 31, 2021. These warrants, options, Share Units and Convertible Note Payable 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, 2021 and August 31, 2020.

## **20. Commitments**

As at August 31, 2021, pursuant to the subscription agreements entered into for the May 2021 private placement the Company is required to incur additional CEE of \$182,713 by December 31, 2022.

## **21. Events After the Reporting Period**

Subsequent to the year ended August 31, 2021, the Company:

- a) granted an aggregate of 1,020,000 stock options with a weighted average exercise price of \$0.12 per share to certain employees, directors and consultants of the Company. The weighted average contract life of these options at issuance was 4.0 years;
- b) issued 5,887,842 common shares pursuant to the conversion of \$580,000 convertible note payable;
- c) extended the expiry dates for the remaining outstanding 2,150,000 warrants (each of which with an exercise price of \$0.12 per share) that were issued in the November 2018 Private Placement as described in Note 13c); and
- d) had 100,000 stock options with a weighted average exercise price of \$0.08 per share expire.