



## **Condensed Consolidated Interim Financial Statements**

**For the three and nine months ended  
May 31, 2022  
(Unaudited)**

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#### **NOTICE TO READER**

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

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

	May 31, 2022	August 31, 2021
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 4,123,243	\$ 1,823,459
Other receivables	66,594	117,295
Prepaid expenses and deposits	686,335	593,866
	<u>4,876,172</u>	<u>2,534,620</u>
<b>Non-Current Assets</b>		
Exploration and evaluation assets (note 4)	13,735,305	13,288,036
Property, plant and equipment (note 5)	102,524,422	102,646,452
	<u>116,259,727</u>	<u>115,934,488</u>
	<u>\$ 121,135,899</u>	<u>\$ 118,469,108</u>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 139,908	\$ 142,821
Accrued liabilities	366,932	486,774
Deferred flow-through share premium (note 6)	210,871	36,269
Current portion of lease obligation (note 7)	204,273	192,487
Current portion of convertible notes payable (note 8)	1,070,000	-
	<u>1,991,984</u>	<u>858,351</u>
<b>Non-Current Liabilities</b>		
Lease obligation (note 7)	341,012	496,087
Convertible notes payable (note 8)	3,600,000	2,990,000
Derivative liabilities (note 9)	386,645	220,754
Site closure and reclamation provisions	278,600	278,600
	<u>4,606,257</u>	<u>3,985,441</u>
	<u>6,598,241</u>	<u>4,843,792</u>
<b>Shareholders' Equity</b>		
Share Capital (note 10b)	185,365,364	181,918,759
Reserve for Warrants (note 10c)	4,358,451	4,336,380
Reserve for Share Based Payments (note 10d)	18,006,458	17,612,415
Reserve for Brokers' Compensation Warrants (note 10e)	301,064	297,113
Accumulated Deficit	(93,493,679)	(90,539,351)
	<u>114,537,658</u>	<u>113,625,316</u>
	<u>\$ 121,135,899</u>	<u>\$ 118,469,108</u>

Approved on behalf of the Board

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

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

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

	Three Months Ended		Nine Months Ended	
	May 31, 2022	May 31, 2021	May 31, 2022	May 31, 2021
<b>Revenue</b>				
Interest	\$ 3,918	\$ 2,064	\$ 6,220	\$ 4,405
Management fees	-	1,802	-	4,878
	<u>3,918</u>	<u>3,866</u>	<u>6,220</u>	<u>9,283</u>
<b>Expenses</b>				
Corporate and administrative (note 11)	596,189	472,952	1,567,955	1,458,095
General exploration	7,738	8,641	20,702	42,873
Depreciation (note 5)	40,324	31,822	111,659	92,735
Share based compensation (note 10d)	130,390	168,667	419,395	224,670
Interest on lease obligation	7,221	9,568	23,457	30,366
Increase (decrease) in fair value of convertible notes payable and derivative liabilities (notes 8, 9)	947,768	(1,150,695)	881,198	2,463,389
	<u>1,729,630</u>	<u>(459,045)</u>	<u>3,024,366</u>	<u>4,312,128</u>
<b>Net Income (Loss) before Income Taxes</b>	<u>(1,725,712)</u>	<u>462,911</u>	<u>(3,018,146)</u>	<u>(4,302,845)</u>
<b>Deferred Income Tax Recoveries</b>	<u>18,806</u>	<u>78,013</u>	<u>63,818</u>	<u>139,939</u>
<b>Net Income (Loss) and Total Comprehensive Income (Loss) for the period</b>	<u>\$ (1,706,906)</u>	<u>540,924</u>	<u>\$ (2,954,328)</u>	<u>\$ (4,162,906)</u>
<b>Income (Loss) per Share - Basic</b>	<u>\$ (0.004)</u>	<u>\$ 0.002</u>	<u>\$ (0.008)</u>	<u>\$ (0.012)</u>
<b>Income (Loss) per Share - Diluted</b>	<u>\$ (0.004)</u>	<u>\$ (0.001)</u>	<u>\$ (0.008)</u>	<u>\$ (0.012)</u>
<b>Weighted Average Number of Common Shares Outstanding - Basic</b>	<u>395,530,468</u>	<u>356,821,191</u>	<u>383,378,809</u>	<u>351,617,421</u>
<b>Weighted Average Number of Common Shares Outstanding - Diluted</b>	<u>395,530,468</u>	<u>360,938,239</u>	<u>383,378,809</u>	<u>351,617,421</u>

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

	Share Capital		Reserves				Total
	Number of Shares	Amount	Warrants	Share Based Payments	Brokers' Compensation Warrants	Accumulated Deficit	
Balance at September 1, 2020	348,413,157	\$ 179,329,547	\$ 4,336,481	\$ 17,333,864	\$ 286,000	\$ (86,784,228)	\$ 114,501,664
Equity offerings	2,500,000	400,750	-	-	-	-	400,750
Issued for deposit on business acquisition	1,000,000	219,200	-	-	-	-	219,200
Conversion of note payable	1,308,139	180,000	-	-	-	-	180,000
Exercise of warrants	6,487,500	1,189,175	-	-	-	-	1,189,175
Reserve transferred on exercise of warrants	-	101	(101)	-	-	-	-
Exercise of options	2,635,000	294,700	-	-	-	-	294,700
Reserve transferred on exercise of options	-	113,163	-	(113,163)	-	-	-
Redeemed	(955,949)	(200,750)	-	-	-	-	(200,750)
Compensation warrants issued on equity offerings	-	-	-	-	11,113	-	11,113
Share issuance costs - cash	-	(39,516)	-	-	-	-	(39,516)
Share issuance costs - compensation warrants issued	-	(11,113)	-	-	-	-	(11,113)
Share based compensation	-	-	-	234,848	-	-	234,848
Net loss for the nine month period	-	-	-	-	-	(4,162,906)	(4,162,906)
Balance at May 31, 2021	361,387,847	\$ 181,475,257	\$ 4,336,380	\$ 17,455,549	\$ 297,113	\$ (90,947,134)	\$ 112,617,165
Conversion of note payable	3,826,182	430,000	-	-	-	-	430,000
Exercise of options	125,000	10,000	-	-	-	-	10,000
Reserve transferred on exercise of options	-	3,502	-	(3,502)	-	-	-
Share based compensation	-	-	-	160,368	-	-	160,368
Net income for the three month period	-	-	-	-	-	407,783	407,783
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
Equity offerings (note 10b)	12,019,994	1,113,587	31,992	-	-	-	1,145,579
Conversion of note payable (note 9)	18,942,244	1,920,000	-	-	-	-	1,920,000
Exercise of warrants	3,125,000	382,500	-	-	-	-	382,500
Reserve transferred on exercise of warrants	-	6,940	(6,940)	-	-	-	-
Exercise of options	1,043,750	92,050	-	-	-	-	92,050
Reserve transferred on exercise of options	-	24,822	-	(24,822)	-	-	-
Redemption of restricted share units - shares	79,000	12,495	-	(12,495)	-	-	-
Redemption of restricted share units - cash payroll tax payments	-	-	-	(13,160)	-	-	(13,160)
Compensation warrants issued on equity offerings	-	-	-	-	3,951	-	3,951
Share based compensation	-	-	-	444,520	-	-	444,520
Share issuance costs - cash	-	(101,949)	(2,870)	-	-	-	(104,819)
Share issuance costs - compensation warrants issued	-	(3,840)	(111)	-	-	-	(3,951)
Net loss for the nine month period	-	-	-	-	-	(2,954,328)	(2,954,328)
Balance at May 31, 2022	400,549,017	\$ 185,365,364	\$ 4,358,451	\$ 18,006,458	\$ 301,064	\$ (93,493,679)	\$ 114,537,658

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

	Three Months Ended		Nine Months Ended	
	May 31, 2022	May 31, 2021	May 31, 2022	May 31, 2021
<b>Operating Activities</b>				
Cash paid to employees	\$ (346,256)	\$ (321,259)	\$ (912,167)	\$ (846,297)
Cash paid to suppliers	(414,699)	(311,113)	(800,433)	(757,454)
Interest received	3,918	2,064	6,220	4,405
Management fees received	-	2,042	-	5,731
Cash Used by Operating Activities	(757,037)	(628,266)	(1,706,380)	(1,593,615)
<b>Financing Activities</b>				
Net proceeds from equity offerings (note 10b)	-	468,501	1,279,180	458,993
Net proceeds from issuance of notes payable (issuance costs paid) (note 8)	2,884,693	(14,451)	2,884,693	2,882,434
Proceeds from exercise of stock options	76,050	131,200	92,050	294,700
Proceeds from exercise of warrants	382,500	343,875	382,500	559,125
Net lease payments paid	(22,361)	(23,062)	(85,145)	(31,138)
Common share redemption (note 10b)	-	(200,750)	-	(200,750)
Cash Provided by Financing Activities	3,320,882	705,313	4,553,278	3,963,364
<b>Investing Activities</b>				
Exploration and evaluation assets	(70,731)	(525,257)	(498,732)	(724,080)
Property, plant and equipment	(13,981)	(17,622)	(48,382)	(30,251)
Deposits paid for business acquisition	-	(200,000)	-	(200,000)
Cash Used by Investing Activities	(84,712)	(742,879)	(547,114)	(954,331)
<b>Change in Cash and Cash Equivalents</b>	<b>2,479,133</b>	<b>(665,832)</b>	<b>2,299,784</b>	<b>1,415,418</b>
<b>Cash and Cash Equivalents - beginning of period</b>	<b>1,644,110</b>	<b>3,376,973</b>	<b>1,823,459</b>	<b>1,295,723</b>
<b>Cash and Cash Equivalents - end of period</b>	<b>\$ 4,123,243</b>	<b>\$ 2,711,141</b>	<b>\$ 4,123,243</b>	<b>\$ 2,711,141</b>

Supplemental Cash Flow Information (note 14)

**Notes to the Condensed Consolidated Interim Financial Statements  
For the three and nine months ended May 31, 2022  
(unaudited)**

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**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 unaudited condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) applicable to a going concern, which assumes the Company will continue to meet its obligations and discharge its liabilities in the normal course of business for the foreseeable future. Different bases of measurement may be appropriate when a company is not expected to continue operations for the foreseeable future. The Company is in the exploration and development stage and raises funds in the equity markets to conduct its business activities. The Company has incurred losses in the current and prior periods, with a net loss of \$2,954,328 for the nine months ended May 31, 2022 (the “Period”) and an accumulated deficit of \$93,493,679 as at May 31, 2022. The Company’s cash and cash equivalents balance at May 31, 2022 was \$4,123,243, and the working capital was \$2,884,188.

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 May 31, 2022, the Company is required to incur additional Canadian exploration expenses (“CEE”) of \$965,014 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 and other sources of non-dilutive capital.

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

These unaudited condensed consolidated interim financial statements have been reviewed and approved by the Company’s Audit Committee and the Board of Directors on July 12, 2022.

**Notes to the Condensed Consolidated Interim Financial Statements  
For the three and nine months ended May 31, 2022  
(unaudited)**

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**2. Basis of Presentation**

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

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

These unaudited condensed consolidated interim financial statements do not contain all disclosures required by IFRS and accordingly should be read in conjunction with the Company’s consolidated annual financial statements for the year ended August 31, 2021.

These unaudited condensed consolidated interim financial statements have been prepared on a going concern basis using the historical cost basis, except for certain financial instruments which are measured at fair value in accordance with the policies disclosed in Note 3 of the Company’s consolidated annual financial statements for the year ended August 31, 2021.

b) ***Basis of Consolidation***

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

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

ARML and ALI have not carried on any significant operations since their inceptions. 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 during the year ended August 31, 2020 to hold the exploration permits and related authorizations pertaining to the Nechalacho REE Project, in order to assist each party’s development of their respective projects. NWT Rare Earths Ltd. has not carried on any significant operations since its inception and no equity earnings/losses have been allocated to the Company.

**3. Summary of Significant Accounting Policies**

These unaudited condensed consolidated interim financial statements have been prepared using the same accounting policies, significant accounting judgments and estimates, and methods of computation as the annual consolidated financial statements of the Company as at and for the year ended August 31, 2021.

The following pronouncements are 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.

**Notes to the Condensed Consolidated Interim Financial Statements  
For the three and nine months ended May 31, 2022  
(unaudited)**

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

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 Financial Statements to clarify the requirements for classifying liabilities as current or non-current.

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

The amendments will become effective for annual reporting periods beginning on or after January 1, 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 notes payable and certain derivative liabilities.

**4. Exploration and Evaluation Assets**

	September 1, 2021	Expenditures	May 31, 2022
<b>For the Period</b>			
Separation Rapids Lithium Project (a)	\$ 12,826,626	\$ 409,713	\$ 13,236,339
Lilypad Cesium-Tantalum Project (b)	443,360	37,556	480,916
Other (c)	18,050	-	18,050
	<u>\$ 13,288,036</u>	<u>\$ 447,269</u>	<u>\$ 13,735,305</u>
	September 1, 2020	Expenditures	August 31, 2021
<b>For the Year Ended August 31, 2021</b>			
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 (c)	15,000	3,050	18,050
	<u>\$ 12,083,199</u>	<u>\$ 1,204,837</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.



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

c) Other Resource Properties

The Company holds an exploration licence to search and prospect for all minerals except for coal, salt, potash and uranium within four claims in the East Kemptville area of Yarmouth, Nova Scotia. The Company also has a 100% interest in a mining lease in the Warren Township Anorthosite Project, located near Foleyet, Ontario, a 100% interest in a 2.0% NSR interest in certain claims of the East Cedartree Gold Property located near Kenora, Ontario, and a 2.4% NSR interest in the Wolf Mountain Platinum-Palladium Project located near Thunder Bay, Ontario.

During the year ended August 31, 2021, the Company entered into a binding letter of intent (the "LOI") to purchase ownership of 2333382 Ontario Inc. ("2333382"), a private Ontario corporation which owns four industrial minerals properties and a demonstration-scale processing plant located at Matheson, Ontario. 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 trailing value weighted average price ("VWAP") of the Company's common shares prior to the date the shares were issued) were made during the year ended August 31, 2021. 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 July 12, 2022, 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 ended August 31, 2021, the Company staked certain mineral claims in close proximity to the Cargill Carbonatite Complex.

**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three and nine months ended May 31, 2022**  
**(unaudited)**

**5. 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, 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	101,546,323	646,860	1,235,239	90,905	702,826	106,754	104,328,907
Additions	35,678	-	-	-	21,091	-	56,769
Disposals	-	-	-	-	(35,828)	-	(35,828)
As at May 31, 2022	<u>\$ 101,582,001</u>	<u>\$ 646,860</u>	<u>\$ 1,235,239</u>	<u>\$ 90,905</u>	<u>\$ 688,089</u>	<u>\$ 106,754</u>	<u>\$ 104,349,848</u>
<b>Accumulated Depreciation</b>							
As at September 1, 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	-	322,500	559,880	22,940	678,440	98,695	1,682,455
Depreciation expense	-	12,045	151,981	3,143	9,817	1,813	178,799
Disposals	-	-	-	-	(35,828)	-	(35,828)
As at May 31, 2022	<u>\$ -</u>	<u>\$ 334,545</u>	<u>\$ 711,861</u>	<u>\$ 26,083</u>	<u>\$ 652,429</u>	<u>\$ 100,508</u>	<u>\$ 1,825,426</u>
<b>Net Book Value</b>							
As at August 31, 2021	\$ 101,546,323	\$ 324,360	\$ 675,359	\$ 67,965	\$ 24,386	\$ 8,059	\$ 102,646,452
As at May 31, 2022	<u>\$ 101,582,001</u>	<u>\$ 312,315</u>	<u>\$ 523,378</u>	<u>\$ 64,822</u>	<u>\$ 35,660</u>	<u>\$ 6,246</u>	<u>\$ 102,524,422</u>

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

a) Nechalacho REE Project, Northwest Territories

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

These eight contiguous mining leases total 5,786 hectares (14,297 acres), after three mining claims totalling 332 hectares on the southwest side of the original five leases were converted to mining leases. The original five leases are subject to one independently owned 2.5% Net Smelter Returns ("NSR") royalty agreement. Avalon has the contractual right to buy out this royalty on the basis of a fixed formula, which is currently approximately \$1.6 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. The Company continues to have access to the property for development and mining of its Basal Zone Resources.

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

During the Period, the Company generated net management fees of \$Nil (2021 - \$4,878) for services provided to the third party to manage its exploration activities on the property.

At May 31, 2022, the amount of the net assets of the Company is more than its market capitalization, IAS 36 - *Impairment of Assets* considers that an indicator of impairment is present based on external sources of information. The Company completed an impairment test on the Nechalacho Project as at May 31, 2022 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 \$86,544 (2021 - \$63,200) (net of \$60,523 (2021 - \$83,867) in rent forgiveness and subsidy under various Canadian federal COVID-19 support programs) was recognized relating to the right of use ("ROU") asset during the Period, and the carrying balance of the ROU asset was \$ 506,564 as at May 31, 2022 (August 31, 2021 - \$653,631).

**Notes to the Condensed Consolidated Interim Financial Statements  
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**5. Property, Plant and Equipment (continued)**

c) Depreciation expense for the three and nine months ended May 31, 2022 and 2021 consist of the following:

	Three Months Ended		Nine Months Ended	
	May 31, 2022	May 31, 2021	May 31, 2022	May 31, 2021
Depreciation expense recognized	\$ 59,727	\$ 59,415	\$ 178,799	\$ 178,246
Depreciation expense capitalized to exploration and evaluation assets	(2,382)	(548)	(6,617)	(1,644)
Rent forgiveness and rent subsidy	(17,021)	(27,045)	(60,523)	(83,867)
	<u>\$ 40,324</u>	<u>\$ 31,822</u>	<u>\$ 111,659</u>	<u>\$ 92,735</u>

**6. Deferred Flow-Through Share Premium**

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

Balance - September 1, 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	36,269
Increase relating to flow-through common shares issued	238,420
Decrease relating to CEE incurred	<u>(63,818)</u>
Balance - May 31, 2022	<u>\$ 210,871</u>

**7. Lease Obligation**

As at May 31, 2022, the Company had the following future commitment relating to the lease contract for its office premises:

2022	\$ 55,810
2023	229,181
2024	233,563
2025	<u>63,280</u>
Total future lease payments as at May 31, 2022	581,834
Amounts representing interest	<u>(36,549)</u>
Present value of future lease payments - May 31, 2022	<u>\$ 545,285</u>

**Notes to the Condensed Consolidated Interim Financial Statements**  
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**7. Lease Obligation (continued)**

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

Balance - September 1, 2020	\$ 867,467
Interest expense	39,360
Payments	<u>(218,253)</u>
Balance - August 31, 2021	688,574
Interest expense	23,457
Payments	<u>(166,746)</u>
Balance - May 31, 2022	545,285
Current portion of lease obligation	<u>204,273</u>
Non-current portion of lease obligation	<u>\$ 341,012</u>

The Company had net cash outflows of \$85,145 (total lease payments of \$166,746 less \$81,601 in rent subsidy received) (2021 - \$31,138 (total lease payments of \$162,955 less \$131,817 in rent forgiveness and rent subsidy received)) for its lease contract in the Period.

**8. Convertible Notes Payable**

On January 29, 2021, the Company issued a convertible note payable in the amount of \$3,000,000 to an entity managed by the Lind Partners (the "2021 Note"). The 2021 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.

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

As the Company has the Buyback Option to repurchase the 2021 Note at the outstanding face value, the total fair value of the 2021 Note is therefore equal the face value, and was \$3,600,000 at issuance.

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

Lind is entitled to convert any outstanding amount of the face value of the 2022 Note into common shares commencing on September 10, 2022 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 same Buyback Option as for the 2021 Note commencing after September 10, 2022.

In conjunction with the issuance of the 2022 Note, Lind received a closing fee of \$90,000 and 9,000,000 common share purchase warrants. Each warrant entitles the holder to purchase one common share of the Company at a price of \$0.26 per common share until May 9, 2026. The Company also incurred other cash issuance costs of \$25,307, resulting in net cash proceeds of \$2,884,693 from the issuance of the 2022 Note.

The 2022 Note is a hybrid instrument that contains multiple embedded derivatives including the Conversion Feature and the Buyback Option.

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**8. Convertible Notes Payable (continued)**

The economic characteristics and risks of the Conversion Feature are different from that of the host contract (the "2022 Note") in that it allows Lind to convert the 2022 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 2022 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 2022 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 value of convertible notes payable and derivative liabilities in the consolidated statement of comprehensive loss.

As the Company has the Buyback Option to repurchase the 2022 Note at the outstanding face value, the total fair value of the 2022 Note is therefore equal the face value, and 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 value of derivative liabilities in the consolidated statement of comprehensive loss.

The fair value of the warrants was estimated at \$201,893 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 2.78%; expected life of 4.0 years; and expected volatility of 35%.

The fair values of the 2022 Note and the warrants at issuance totaled \$3,801,893 and the excess of this amount over the net proceeds (\$2,884,693) of \$917,200 had been recorded as an increase in fair values of convertible notes payable and derivative liabilities in the Statement of Comprehensive Loss.

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

Balance - August 31, 2020	\$	-
Issued		3,000,000
Interest		600,000
Converted to common shares		<u>(610,000)</u>
Balance - August 31, 2021		2,990,000
Issued		3,000,000
Interest		600,000
Converted to common shares		<u>(1,920,000)</u>
Balance - May 31, 2022	\$	4,670,000
Current portion of convertible notes payable		<u>1,070,000</u>
Non-current portion of convertible notes payable	\$	<u><u>3,600,000</u></u>

The number of common shares to be issued would be 42,804,766 if the full amount of notes payable had been converted into common shares based on the five day VWAP of the Company's common shares on the TSX of \$0.1283 on May 31, 2022.

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**9. 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:

	<b>Number of Warrants</b>	<b>Amount</b>
<b>Warrants denominated in foreign currency</b>		
Balance - September 1, 2020	6,466,513	\$ 1
Expired	(6,466,513)	(1)
Balance - August 31, 2021 and May 31, 2022	-	-
<b>Other warrants subject to potential price adjustment</b>		
Balance - September 1, 2020	21,475,000	59,826
Issued	9,800,000	556,997
Exercised	(6,450,000)	(630,050)
Increase in fair value	-	233,981
Balance - August 31, 2021	24,825,000	220,754
Issued	9,000,000	201,893
Expired	(6,900,000)	(267)
Decrease in fair value	-	(35,735)
Balance - May 31, 2022	26,925,000	386,645
<b>Total derivative liabilities</b>		<b>\$ 386,645</b>

The Company has the following liability classified warrants outstanding as at May 31, 2022:

- i) 6,250,000 B1 Warrants with an exercise price of \$0.15 per share and are exercisable until January 15, 2023;
- ii) 1,875,000 C1 Warrants with an exercise price of \$0.125 per share and are exercisable until June 29, 2023; and
- iii) 9,800,000 warrants with an exercise price of \$0.18 per share and are exercisable until January 29, 2025; and
- iv) 9,000,000 warrants with an exercise price of \$0.26 per share and are exercisable until May 9, 2026.

The fair values of the liability classified warrants were estimated at May 31, 2022 using the Black-Scholes pricing model, with the following weighted average assumptions: expected dividend yield of Nil; risk free interest rate of 2.29%; expected life of 2.5 years; and expected volatility of 35%.

**10. Share Capital**

**a) Authorized**

The Company is presently authorized to issue an unlimited number of common shares without par value. The Company is also authorized to issue up to 25,000,000 preferred shares without par value, of which 950 have been issued and none are outstanding as at May 31, 2022.

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

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

On December 21, 2021, the Company completed a private placement and issued 9,099,994 flow-through units at a price of \$0.12 per unit ("FT Unit") and 2,920,000 non-flow-through units at a price of \$0.10 per unit ("NFT Unit") for gross proceeds of \$1,383,999.

Mr. Donald Bubar, President and CEO of the Company, subscribed for 250,000 FT Units and Mr. Alan Ferry, Chair of the Board of Directors of the Company, subscribed for 300,000 FT Units.

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

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

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

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

The fair value of the FT Warrant was estimated using the Black-Scholes pricing model. The Flow-through Share Premium was estimated by multiplying the CEE amount to be renounced per FT Unit of \$0.1199 by the Company's current tax rate of 25%. The amount of the Flow-through Share Premium totaled \$238,420 and was recorded as a deferred flow-through share premium liability on the consolidated statement of financial position on December 21, 2021.

Of the NFT Unit price of \$0.10, \$0.0959 was allocated to the common share component of the NFT Unit and the balance of \$0.0041 was allocated to the warrant component of the NFT Unit. These values were allocated on a pro rata basis based on the closing trading price of the Company's common shares on the TSX on the closing date of the private placement, which was \$0.105, and the estimated fair value of a whole NFT warrant of \$0.0089. The fair value of the warrant was estimated using the Black-Scholes pricing model.

### ***c) Warrants***

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



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**10. Share Capital (continued)**

	Number of Warrants	Weighted Average Exercise Price
Balance - September 1, 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
Issued	6,010,000	0.173
Exercised	(3,125,000)	0.122
Balance - May 31, 2022	8,035,000 <sup>(1)</sup>	\$ 0.159

<sup>(1)</sup> Does not include the additional liability classified warrants as described in note 9.

The outstanding equity classified warrants have a weighted average remaining contract life of 1.3 years as at May 31, 2022.

During the Period, 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 9, the Company also has 26,925,000 liability classified warrants outstanding as at May 31, 2022.

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

**d) Share Based Payments**

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

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

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

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.

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**10. Share Capital (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.

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

	Number of Options	Weighted Average Exercise Price
Balance - September 1, 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
Granted	3,320,000	0.16
Exercised	(1,043,750)	0.09
Expired	(1,275,000)	0.11
Forfeited	(347,500)	0.13
Balance - May 31, 2022	16,930,000	\$ 0.14

As at May 31, 2022, there were 6,435,000 options vested (August 31, 2021 - 5,105,000) with an average exercise price of \$0.13 per share (August 31, 2021 - \$0.10), that were exercisable.

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

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

	May 31, 2022	August 31, 2021
Exercise price	\$0.16	\$0.19
Closing market price on day preceding date of grant	\$0.16	\$0.18
Risk-free interest rate	1.75%	0.66%
Expected life (years)	3.1	4.1
Expected volatility	91%	88%
Expected dividend yield	Nil	Nil
Grant date fair value	\$0.09	\$0.11
Forfeiture rate	11%	13%

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**10. Share Capital (continued)**

The following table summarizes information concerning outstanding and exercisable options as at May 31, 2022:

Exercise Price Range	Number of Options		Weighted Average Remaining Contractual Life
	Outstanding	Exercisable	
\$0.21 - \$0.26	400,000	100,000	3.7 years
\$0.15 - \$0.20	7,500,000	1,937,500	3.3 years
\$0.11 - \$0.14	3,060,000	1,550,000	2.7 years
\$0.08 - \$0.10	5,970,000	2,847,500	2.6 years
	<u>16,930,000</u>	<u>6,435,000</u>	

Changes to the number of share units are as follows:

	DSU Plan (Equity Settled)	RSU Plan (Equity Settled)
Balance - September 1, 2020	-	-
Granted	475,000	1,475,000
Balance - August 31, 2021	475,000	1,475,000
Redeemed	-	(141,668)
Forfeited	-	(316,666)
Balance - May 31, 2022	<u>475,000</u>	<u>1,016,666</u>

There were 475,000 DSUs vested as at May 31, 2022 and August 31, 2021.

There were 300,001 RSUs vested as at May 31, 2022 (Nil - August 31, 2021).

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 \$444,520 (2021 - \$234,848), of which \$660 (2021 - \$67) was capitalized to property, plant and equipment, \$22,639 (2021 - \$9,404) was capitalized as exploration and evaluation assets, \$1,826 (2021 - \$707) was charged to operations as general exploration expenses, with the balance of \$419,395 (2021 - \$224,670) charged to operations as share based compensation expense.

During the Period, an aggregate of 1,043,750 (2021 - 2,635,000) stock options were exercised at the weighted average exercise price of \$0.09 (2021 - \$0.11) per share, and the weighted average closing market share price on the date preceding the date of exercise was \$0.18 (2021 - \$0.22) per share.

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**10. Share Capital (continued)**

**e) Brokers' Compensation Warrants**

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

	Number of Compensation Warrants	Weighted Average Exercise Price
Balance - September 1, 2020	-	\$ -
Issued pursuant to equity offering	150,000	0.20
Balance - August 31, 2021	150,000	0.20
Issued pursuant to equity offering	788,900	0.18
Balance - May 31, 2022	938,900	\$ 0.18

The outstanding brokers' compensation warrants have a weighted average remaining contract life of 1.5 years as at May 31, 2022.

**11. Corporate and Administrative Expenses**

Corporate and administrative expenses for the three and nine months ended May 31, 2022 and May 31, 2021 consist of the following:

	Three Months Ended		Nine Months Ended	
	May 31, 2022	May 31, 2021	May 31, 2022	May 31, 2021
Salaries and benefits <sup>(1)</sup>	\$ 302,811	\$ 269,535	\$ 821,924	\$ 798,754
Directors' fees <sup>(2)</sup>	7,212	2,334	17,358	8,573
Consulting and professional fees	92,412	80,272	241,200	306,072
Office, insurance and other expenses	173,682	94,112	373,052	204,379
Shareholders' communications and filing fees	15,905	25,971	107,138	137,799
Travel and related costs	4,167	728	7,283	2,518
	<u>\$ 596,189</u>	<u>\$ 472,952</u>	<u>\$ 1,567,955</u>	<u>\$ 1,458,095</u>

<sup>(1)</sup> These figures do not include share based compensation and are net of the Canada Emergency Wage Subsidy ("CEWS") of \$Nil (2021 - \$51,034) for the quarter ended May 31, 2022 (the "Quarter") and \$Nil for the Period (2021 - \$192,563). Employees' salaries and benefits including share based compensation expensed for the Quarter and the Period totaled \$316,759 (2021 - \$360,855) and \$1,088,652 (2021 - \$946,876), respectively.

<sup>(2)</sup> These figures are net of the CEWS of \$Nil for the Quarter (2021 - \$2,748) and \$Nil for the Period (2021 - \$9,209), respectively.

**12. Related Party Disclosures**

Balances and transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note. Details of the transactions between the Company and other related parties are disclosed below:

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**12. Related Party Disclosures (continued)**

**a) Trading transactions**

There have been no material trading transactions with related parties during each of the nine months ended May 31, 2022 and 2021, other than the participation by certain related parties in the December 2021 private placement as described in Note 10b, whereby Donald Bubar, President and CEO, and Mr. Alan Ferry, Chair of the Board of Directors subscribed for 250,000 and 300,000 FT Units at \$0.12 per unit, respectively.

**b) Compensation of key management personnel**

The remuneration of directors and other key members of the Company's senior management team during each of the three and nine months ended May 31, 2022 and 2021 are as follows:

	Three Months Ended		Nine Months Ended	
	May 31, 2022	May 31, 2021	May 31, 2022	May 31, 2021
Salaries, benefits and directors' fees <sup>(1)</sup>	\$ 286,295	\$ 309,061	\$ 824,939	\$ 888,380
Share based compensation <sup>(2)</sup>	102,022	142,401	341,847	176,618
	<u>\$ 388,317</u>	<u>\$ 451,462</u>	<u>\$ 1,166,786</u>	<u>\$ 1,064,998</u>

(1) Salaries and benefits of key management personnel capitalized to exploration and evaluation assets and PPE for the Quarter and for the Period totaled \$23,733 (2021 - \$21,048) and \$102,109 (2021 - \$57,939), respectively.

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

**13. Financial Instruments**

IFRS 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 with exercise prices that are subject to adjustment from time to time are based on Level 2 inputs that are observable for the liability such as interest rate, dividend yield and historical volatility. The fair value of the Convertible Notes Payable was based on Level 3 inputs including the applicable face value of the 2021 and 2022 Notes. The Company had the right to buy back these notes at any time for the outstanding face values, as such the fair value of each of these notes was the outstanding face value of each note.

**Fair Values**

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

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

**Notes to the Condensed Consolidated Interim Financial Statements**  
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**13. Financial Instruments (continued)**

***Credit risk***

The Company is not exposed to any significant credit risk as at May 31, 2022. 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 May 31, 2022, the Company has current assets of \$4,876,172 and current liabilities of \$1,991,984. The Company's working capital as at May 31, 2022 was \$2,884,188.

Repayments due by period as of May 31, 2022:

	<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	\$ 506,840	\$ -	\$ -	\$ -	\$ 506,840
Convertible notes payable	1,070,000	3,600,000	-	-	4,670,000
Lease obligation	226,952	354,882	-	-	581,834
	<b>\$ 1,803,792</b>	<b>\$ 3,954,882</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 5,758,674</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 May 31, 2022.

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.

**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three and nine months ended May 31, 2022**  
**(unaudited)**

**13. Financial Instruments (continued)**

***Sensitivity analysis***

Considering the Company's budget expenditures for the balance of fiscal 2022 and its current cash and cash equivalents of \$4,123,243, with other variables held constant, sensitivity to a plus or minus 25 basis points change in interest rates would not have any significant effect on the Company's net loss for the balance of fiscal 2022.

The Company had no significant financial assets or financial liabilities denominated in foreign currencies as at May 31, 2022, and its anticipated ongoing expenditures to be transacted in US dollars for the next three month period is approximately US\$50,000. 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 three month period.

**14. Supplemental Cash Flow Information**

Non-cash financing and investing transactions not reflected in the Condensed Consolidated Interim Statements of Cash Flows for the three and nine months ended May 31, 2022 and 2021 are as follows:

	Three Months Ended		Nine Months Ended	
	May 31, 2022	May 31, 2021	May 31, 2022	May 31, 2021
Share based compensation capitalized as property, plant and equipment	\$ 26	\$ 24	\$ 660	\$ 67
Share based compensation capitalized as exploration and evaluation assets	1,390	7,514	22,639	9,404
Depreciation expense capitalized as exploration and evaluation assets	2,382	548	6,617	1,644
Common shares issued for deposit on business acquisition (note 4c)	-	219,200	-	219,200
	<b>\$ 3,798</b>	<b>\$ 227,286</b>	<b>\$ 29,916</b>	<b>\$ 230,315</b>

**15. Events After the Reporting Period**

Subsequent to the end of the Period, the Company:

- a) issued 1,780,415 common shares pursuant to the conversion of \$180,000 convertible note payable;
- b) granted 900,000 stock options with a weighted average exercise price of \$0.13 per share to certain employees and consultants of the Company. The weighted average contract life of these options at issuance was 4.3 years; and
- c) issued 125,000 common shares pursuant to the exercise of stock options with a weighted average exercise price of \$0.08 per share.