



## Consolidated Financial Statements

For the years ended  
August 31, 2017, 2016 and 2015

### INDEX

Management's Responsibility for Financial Reporting and Report on Internal Control over Financial Reporting	1
Reports of Independent Registered Public Accounting Firms	2-3
Consolidated Statements of Financial Position	4
Consolidated Statements of Comprehensive Loss	5
Consolidated Statements of Changes in Equity	6
Consolidated Statements of Cash Flows	7
Notes to the Consolidated Financial Statements	8 - 45

---

## Management's Report on Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting ("ICFR").

The Company's management assessed the effectiveness of the Company's ICFR as at August 31, 2017. The Company's management used the Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013) framework to evaluate the effectiveness of the Company's ICFR. Based on management's assessment, the Company's internal control over financial reporting is effective as of August 31, 2017.

As at August 31, 2017, the Company is not required under the Exchange Act to obtain an audit on its ICFR under Section 404(b) of Sarbanes-Oxley Act of 2002. Accordingly, the Company's auditor, Ernst and Young LLP, Independent Registered Public Accounting Firm, has not performed an audit on the effectiveness of the Company's ICFR as at August 31, 2017 and has not issued an attestation report on management's assessment of the Company's ICFR.

"Donald S. Bubar"  
*President and CEO*

"R. James Andersen"  
*CFO and Vice President Finance*

Toronto, Ontario  
November 24, 2017

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of Avalon Advanced Materials Inc.:

We have audited the accompanying consolidated statement of financial position of **Avalon Advanced Materials Inc.** (the "Company") as at August 31, 2017, and the related consolidated statement of comprehensive loss, cash flows and changes in equity for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with standards of the Public Company Accounting Oversight Board (United States) and Canadian generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as at August 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

### *Emphasis of Matter*

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, there exists an uncertainty as to the Company's ability to raise additional funds on favourable terms in order to finance its planned activities. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that might result from the outcome of this uncertainty.

### *Other Matter*

The consolidated statement of financial position as at August 31, 2016, and the related consolidated statement of comprehensive loss, cash flows and changes in equity for the years ended August 31, 2016 and 2015 were audited by other auditors whose report, dated November 28, 2016, on those statements included an explanatory paragraph that described the conditions that raised substantial doubt about the Company's ability to continue as a going concern as discussed in Note 1 to the consolidated financial statements.

*"/s/ Ernst & Young LLP"*

Chartered Professional Accountants,  
Licensed Public Accountants  
November 24, 2017  
Toronto, Canada



Deloitte LLP  
Bay Adelaide East  
8 Adelaide Street West Suite  
200  
Toronto ON M5H 0A9  
Canada

Tel: 416-601-6150  
Fax: 416-601-6151  
[www.deloitte.ca](http://www.deloitte.ca)

## Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of  
Avalon Advanced Materials Inc.

We have audited the accompanying consolidated statement of financial position of Avalon Advanced Materials Inc. and subsidiaries (the “Company”) as at August 31, 2016 and the related consolidated statements of comprehensive loss, cash flows and changes in equity for each of the years in the two year period ended August 31, 2016. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States) and Canadian generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Avalon Advanced Materials Inc. and subsidiaries as at August 31, 2016 and the results of their operations and their cash flows for each of the years in the two year period ended August 31, 2016, in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, there exists an uncertainty as to the Company’s ability to raise additional funds on favourable terms in order to finance its planned activities, which raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

*“/s/ Deloitte LLP”*

Chartered Professional Accountants  
Licensed Public Accountants  
November 28, 2016  
Toronto, Canada

**Consolidated Statements of Financial Position**  
**(expressed in Canadian Dollars)**  
**As at August 31, 2017 and August 31, 2016**

	<u>2017</u>	<u>2016</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents (note 5)	\$ 1,073,574	\$ 1,360,487
Other receivables	117,718	226,485
Prepaid expenses and deposits	176,189	299,894
	<u>1,367,481</u>	<u>1,886,866</u>
<b>Non-Current Assets</b>		
Exploration and evaluation assets (note 6)	14,861,032	12,567,244
Property, plant and equipment (note 7)	104,207,866	104,060,940
	<u>119,068,898</u>	<u>116,628,184</u>
	<u>\$ 120,436,379</u>	<u>\$ 118,515,050</u>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 399,220	\$ 223,661
Accrued liabilities	412,149	502,734
Deferred flow-through share premium (note 8)	49,467	96,617
Warrants denominated in foreign currency (note 9)	181,671	411,418
	<u>1,042,507</u>	<u>1,234,430</u>
<b>Non-Current Liabilities</b>		
Convertible redeemable preferred shares (note 10)	2,646,000	-
Derivative liabilities (note 11)	133,162	-
Site closure and reclamation provisions (note 12)	303,600	263,600
	<u>3,082,762</u>	<u>263,600</u>
	<u>4,125,269</u>	<u>1,498,030</u>
<b>Shareholders' Equity</b>		
Share Capital (note 13b)	169,593,205	167,181,354
Reserve for Warrants (note 13c)	4,258,213	4,313,701
Reserve for Share Based Payments (note 13d)	16,955,411	16,700,417
Reserve for Brokers' Compensation Warrants (note 13e)	294,166	254,112
Accumulated Deficit	(74,789,885)	(71,432,564)
	<u>116,311,110</u>	<u>117,017,020</u>
	<u>\$ 120,436,379</u>	<u>\$ 118,515,050</u>

The accompanying notes are an integral part of these consolidated financial statements.  
 Commitments (note 23)

Approved on behalf of the Board

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

\_\_\_\_\_, Director  
 "Brian MacEachen"

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

	2017	2016	2015
<b>Revenue</b>			
Interest	\$ 28,211	\$ 35,160	\$ 66,014
<b>Expenses</b>			
Corporate and administrative (note 14)	2,877,792	3,221,418	3,949,320
Impairment loss on exploration and evaluation assets (note 6)	178,118	223,938	6,425
Write-off of land acquisition option payments (note 15)	-	-	212,960
General exploration	23,677	37,987	33,782
Depreciation (note 7)	35,656	38,282	55,730
Share based compensation (note 13)	183,108	345,435	788,880
Foreign exchange loss (gain)	5,137	(9,274)	(25,355)
Financing transaction costs (note 10, 13)	601,335	10,598	-
Increase (Decrease) in fair value of warrants denominated in foreign currency (note 9)	(229,747)	122,561	(1,431,765)
Increase in fair value of convertible redeemable preferred shares (note 10)	131,250	-	-
Increase (Decrease) in fair value of derivative liabilities (note 11)	(103,326)	-	-
	<u>3,703,000</u>	<u>3,990,945</u>	<u>3,589,977</u>
<b>Net Loss before Income Taxes</b>	(3,674,789)	(3,955,785)	(3,523,963)
<b>Deferred Income Tax Recoveries</b> (note 20)	317,468	416,140	347,589
<b>Net Loss and Total Comprehensive Loss for the year</b>	<u>\$ (3,357,321)</u>	<u>(3,539,645)</u>	<u>\$ (3,176,374)</u>
<b>Loss per Share - Basic and Diluted</b> (note 21)	<u>\$ (0.018)</u>	<u>(0.021)</u>	<u>\$ (0.023)</u>
<b>Weighted Average Number of Common Shares Outstanding, Basic and Diluted</b>	<u>187,869,637</u>	<u>167,184,272</u>	<u>139,893,312</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				Total
	Number of Shares	Amount	Warrants	Share Based Payments	Brokers' Compensation Warrants	Accumulated Deficit	
Balance at September 1, 2014	126,343,686	\$ 158,553,485	\$ 3,863,018	\$ 15,270,866	\$ 123,576	\$ (64,716,545)	\$ 113,094,400
Equity offerings (note 13b)	26,391,796	7,295,234	184,370	-	-	-	7,479,604
Issue for other considerations (note 13b)	-	-	1,184	-	-	-	1,184
Exercise of options (note 13b)	50,000	11,000	-	-	-	-	11,000
Reserve transferred on exercise of options	-	4,282	-	(4,282)	-	-	-
Compensation warrants issued on equity offerings (note 13b)	-	-	-	-	95,662	-	95,662
Share based compensation (note 13d)	-	-	-	978,358	-	-	978,358
Share issuance costs - cash	-	(1,075,249)	(24,703)	-	-	-	(1,099,952)
Share issuance costs - compensation warrants issued	-	(92,761)	(2,901)	-	-	-	(95,662)
Net loss for the year	-	-	-	-	-	(3,176,374)	(3,176,374)
Balance at August 31, 2015	152,785,482	\$ 164,695,991	\$ 4,020,968	\$ 16,244,942	\$ 219,238	\$ (67,892,919)	\$ 117,288,220
Equity offerings (note 13b)	26,253,724	2,592,656	317,030	-	-	-	2,909,686
Issue for other considerations (note 13b)	-	-	1,353	-	-	-	1,353
Exercise of warrants (note 13b)	125,000	18,750	-	-	-	-	18,750
Reserve transferred on exercise of warrants (note 13b)	-	3,049	(3,049)	-	-	-	-
Exercise of brokers' compensation warrants (note 13b)	360,000	45,000	-	-	-	-	45,000
Reserve transferred on exercise of compensation warrants	-	19,573	-	-	(19,573)	-	-
Compensation warrants issued on equity offerings (note 13b)	-	-	-	-	54,447	-	54,447
Share based compensation (note 13d)	-	-	-	455,475	-	-	455,475
Share issuance costs - cash	-	(150,174)	(16,580)	-	-	-	(166,754)
Share issuance costs - compensation warrants issued	-	(43,491)	(6,021)	-	-	-	(49,512)
Net loss for the year	-	-	-	-	-	(3,539,645)	(3,539,645)
Balance at August 31, 2016	179,524,206	\$ 167,181,354	\$ 4,313,701	\$ 16,700,417	\$ 254,112	\$ (71,432,564)	\$ 117,017,020
Equity offerings (note 13b)	13,545,454	2,064,182	-	-	-	-	2,064,182
Issue for other considerations (note 13b)	500,000	92,500	-	-	-	-	92,500
Conversion of redeemable preferred shares	890,861	110,250	-	-	-	-	110,250
Exercise of warrants (note 13b)	2,275,000	341,250	-	-	-	-	341,250
Reserve transferred on exercise of warrants	-	55,488	(55,488)	-	-	-	-
Compensation warrants issued on equity offerings (note 13b)	-	-	-	-	40,054	-	40,054
Share based compensation (note 13d)	-	-	-	254,994	-	-	254,994
Share issuance costs - cash	-	(211,765)	-	-	-	-	(211,765)
Share issuance costs - compensation warrants issued	-	(40,054)	-	-	-	-	(40,054)
Net loss for the year	-	-	-	-	-	(3,357,321)	(3,357,321)
Balance at August 31, 2017	196,735,521	\$ 169,593,205	\$ 4,258,213	\$ 16,955,411	\$ 294,166	\$ (74,789,885)	\$ 116,311,110

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**

	2017	2016	2015
<b>Operating Activities</b>			
Cash paid to employees	\$ (1,620,250)	\$ (1,669,257)	\$ (2,020,914)
Cash paid to suppliers	(1,162,240)	(1,646,458)	(1,866,686)
Interest received	28,211	50,374	62,019
<b>Cash Used By Operating Activities</b>	<b>(2,754,279)</b>	<b>(3,265,341)</b>	<b>(3,825,581)</b>
<b>Financing Activities</b>			
Net proceeds from equity offerings	2,159,353	2,955,112	7,290,345
Proceeds from exercise of warrants	341,250	18,750	-
Net proceeds from issuance of preferred shares	2,260,153	-	-
Proceeds from exercise of stock options	-	-	11,000
Proceeds from exercise of brokers' compensation warrants	-	45,000	-
<b>Cash Provided by Financing Activities</b>	<b>4,760,756</b>	<b>3,018,862</b>	<b>7,301,345</b>
<b>Investing Activities</b>			
Exploration and evaluation assets	(2,160,674)	(3,439,231)	(1,947,465)
Property, plant and equipment	(127,579)	(210,815)	(2,323,514)
<b>Cash Used by Investing Activities</b>	<b>(2,288,253)</b>	<b>(3,650,046)</b>	<b>(4,270,979)</b>
<b>Change in Cash and Cash Equivalents</b>	<b>(281,776)</b>	<b>(3,896,525)</b>	<b>(795,215)</b>
<b>Foreign Exchange Effect on Cash</b>	<b>(5,137)</b>	<b>9,274</b>	<b>25,355</b>
<b>Cash and Cash Equivalents - beginning of year</b>	<b>1,360,487</b>	<b>5,247,738</b>	<b>6,017,598</b>
<b>Cash and Cash Equivalents - end of year</b>	<b>\$ 1,073,574</b>	<b>\$ 1,360,487</b>	<b>\$ 5,247,738</b>

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

Supplemental Cash Flow Information (note 19)

## 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 OTCQX® Best Market (OTCQX: 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. 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 years, with a net loss of \$3,357,321 for the year ended August 31, 2017 (2016 - \$3,539,645) and an accumulated deficit of \$74,789,885 as at August 31, 2017 (2016 - \$71,432,564). The Company’s cash and cash equivalents balance at August 31, 2017 was \$1,073,574 (2016 - \$1,360,487), working capital was \$324,974 (2016 - \$652,436). Excluding the deferred flow-through share premium of \$49,467 (2016 - \$96,617) and the liability for warrants denominated in foreign currency of \$181,671 (2016 - \$411,418), the Company’s adjusted working capital as at August 31, 2017 was \$556,112 (calculated by adding back the deferred flow-through share premium of \$49,467 and the liability for warrants denominated in foreign currency of \$181,671 to the working capital of \$324,974). The adjusted working capital as at August 31, 2016 was \$1,160,471.

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. This condition indicates the existence of a material uncertainty that raises substantial doubt about the Company’s ability to continue as a going concern. As at August 31, 2017, the Company is required to incur additional Canadian exploration expenses (“CEE”) of \$538,510 by December 31, 2018. These amounts represent the remaining balance of the required expenditures resulting from the private placements completed in June and August 2017. As at August 31, 2016, the Company was required to incur additional CEE of \$495,195 by December 31, 2017, which had been incurred during the year ended August 31, 2017. The Company’s expenditures on other 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. In November 2017, the Company completed a private placement and issued 3,215,000 flow-through common shares and 4,800,000 non-flow-through units for gross proceeds of \$1,042,175 and is required to incur CEE of \$466,175 by December 31, 2018 (in addition to the CEE requirement of \$538,510 noted above).

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 24, 2017.

## 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"), Avalon Rare Metals Ltd. ("ARML"), Avalon Rare Metals Processing Inc. ("ARMP"), and Avalon Rare Metals Processing LLC ("ARMLLC"). Nolava, ARML, ARMP and ARMLLC are incorporated in the United States of America ("USA").

ARML, ARMP and ARMLLC have not carried on any significant operations since their 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. ARMP and ARMLLC were dissolved on February 11, 2015 and March 4, 2016, respectively. All intercompany transactions and balances have been eliminated on consolidation of the accounts.

## 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 (the "Group") 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 Group 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. 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.

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

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 Canadian dollar and hence this does not currently apply to the Company.

#### *b) Share Based Payments*

Equity-settled 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 share-based payment is measured by reference to the fair value of the equity instrument granted, which in turn is determined using the Black-Scholes option-pricing model on the date of the grant, with management's assumptions for the risk-free rate, dividend yield, volatility factors of the expected market price of the Company's common shares, exercise price, current market price of the underlying equity to be settled with, expected forfeitures and the life of the options.

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.

#### *c) Leases*

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognized as assets of the Company at the inception of the lease at their fair value or, if lower, at the present value of the minimum lease payments.

Finance lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Company's general policy on borrowing costs.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

#### *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.

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

#### *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.

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 asset 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 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") 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.

The Company recognizes a proportion of the 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.

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

#### *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.

#### *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. A project is tested for impairment when facts and circumstances suggest that the carrying amount of that project may exceed its recoverable amount, and the recoverable amount of the project is estimated. If the recoverable amount of the project is estimated to be less than its carrying amount, the carrying amount of the project is reduced to its recoverable amount, and an impairment loss is recognized immediately in the consolidated statement of comprehensive loss.

Once the technical feasibility and commercial viability of extracting a mineral resource of a project are demonstrable, the relevant exploration and evaluation asset is assessed for impairment, and any impairment loss is recognized, prior to the balance being reclassified as a development asset in property, plant and equipment.

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

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.

Once production has commenced, 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
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 held for sale or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized immediately in the consolidated statement of comprehensive loss.

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

Where an item of PPE comprises major components with different useful lives, the components are accounted for as separate items of PPE. Expenditures incurred to replace a component of an item of PPE that is accounted for separately, including major inspection and overhaul expenditures, are capitalized.

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

#### *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*

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities (other than financial assets and financial liabilities recorded at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities recorded at fair value through profit or loss are recognized immediately in the consolidated statement of comprehensive loss.

##### *Financial Assets*

The Company recognizes all financial assets initially at fair value and classifies them into one of the following specified categories: fair value through profit or loss ("FVTPL"), held-to-maturity ("HTM"), available-for-sale ("AFS") and loans and receivables. HTM instruments and loans and receivables are measured at amortized cost. AFS instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Instruments classified as FVTPL are measured at fair value with unrealized gains and losses recognized in profit or loss for the period.

The fair value of financial instruments traded in active markets (such as FVTPL and AFS securities) is based on quoted market prices at the date of the consolidated statement of financial position. The quoted market price used for financial assets held by the Company is the current bid price.

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

#### *Impairment of Financial Assets*

Financial assets, other than those classified as FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence of an incurred loss, as a result of one or more events that occurred after the initial recognition of the financial asset, and that the estimated future cash flows of the investment have been affected.

#### *Financial Liabilities and Equity Instruments*

##### Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities. Financial liabilities classified as FVTPL are measured at fair value with unrealized gains and losses recognized in profit or loss for the period. Other financial liabilities including borrowings are initially measured at fair value net of transaction costs, and subsequently measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to a net carrying amount on initial recognition.

##### Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issuance costs.

Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in the consolidated statement of comprehensive loss on the purchase, sale, issuance or cancellation of the Company's own equity instruments.

#### *Offsetting financial instruments*

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

The Company's financial assets and liabilities are classified and subsequently measured as follows:

<u>Asset/Liability</u>	<u>Classification</u>	<u>Subsequent Measurement</u>
Cash and cash equivalents	Loans and receivables	Amortized cost
Other receivables	Loans and receivables	Amortized cost
Accounts payable	Other financial liabilities	Amortized cost
Accrued liabilities	Other financial liabilities	Amortized cost
Convertible redeemable preferred shares	FVTPL	Fair value
Derivative liabilities	FVTPL	Fair value
Warrants denominated in foreign currency	FVTPL	Fair value

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

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

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

Provision for site closure costs is recorded at the time an environmental disturbance occurs, and is measured at the Company's best estimate of the expected value of future cash flows required to reclaim the disturbance upon site closure, discounted to their net present value. The net present value is determined using a pre-tax discount rate that is specific to the liability. The estimated net present value is 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) 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.

#### *p) Segment Reporting*

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

The Company's current operations comprise a single reporting operating segment engaged in the acquisition, exploration, evaluation and development of rare metal and mineral properties located principally in Canada. The Company has conducted exploration work on certain mineral claims in the United States from fiscal 2011 to fiscal 2014, and considers Canada and the United States as a single geographical segment as the Company is exposed to similar operational and political risks when conducting mineral exploration and evaluation activities in both Canada and the United States.

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

#### *q) 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 on-going 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 are included in the following notes:

#### Recoverability of Exploration and Evaluation Assets, Development Assets and Property, Plant and Equipment

The Company assesses its long-lived assets, specifically all exploration and evaluation assets, development 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, 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.

#### 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.

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

#### 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.

### 4. Recent Accounting Pronouncements

The following pronouncements are issued but not yet effective for the year ended August 31, 2017:

#### **a) IFRS 9, Financial Instruments**

IFRS 9, *Financial instruments* ("IFRS 9") was issued by the IASB in July 2014 and will replace IAS 39, *Financial Instruments: recognition and measurement* ("IAS 39"). IFRS 9 utilizes a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Final amendments released in July 2014 also introduce a new expected loss impairment model and limited changes to the classification and measurement requirements for financial assets. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Company is currently evaluating the impact of this standard and amendments on its consolidated financial statements. However it is expected that the adoption of IFRS 9 will not have any significant impact on the Company's consolidated financial statements given its current business model and the amount of its financial assets.

#### 4. Recent Accounting Pronouncements (continued)

##### b) IFRS 15, Revenue from Contracts and Customers

IFRS 15, *Revenue from Contracts and Customers* (“IFRS 15”) was issued by the IASB in May 2014, and will replace IAS 18, *Revenue*, IAS 11, *Construction Contracts*, and related interpretations on revenue. IFRS 15 sets out the requirements for recognizing revenue that apply to all contracts with customers, except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 uses a control based approach to recognize revenue which is a change from the risk and reward approach under the current standard. Companies can elect to use either a full or modified retrospective approach when adopting this standard and it is effective for annual periods beginning on or after January 1, 2018. The Company is currently evaluating the impact of IFRS 15 on its consolidated financial statements. However it is expected that the adoption of IFRS 15 will not have any significant impact on the Company’s consolidated financial statements as the Company is not currently generating any significant revenue.

##### c) IFRS 16, Leases

IFRS 16, *Leases* (“IFRS 16”) was issued by the IASB in January 2016, and will replace IAS 17 *Leases*. IFRS 16 specifies the methodology to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases except for short-term leases and leases with low value assets. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted if IFRS 15 has also been adopted. A lessee will apply IFRS 16 to its leases either retrospectively to each prior reporting period presented; or retrospectively with the cumulative effect of initially applying IFRS 16 being recognized at the date of initial application. The Company is currently evaluating the impact of IFRS 16 on its consolidated financial statements.

#### 5. Cash and Cash Equivalents

Cash and cash equivalents are comprised of the following:

	August 31, 2017	August 31, 2016
Cash held in bank accounts	\$ 317,162	\$ 250,445
Guaranteed investment certificates	756,412	1,110,042
	<u>\$ 1,073,574</u>	<u>\$ 1,360,487</u>

6. Exploration and Evaluation Assets

	September 1, 2015	Expenditures	Impairment Loss	August 31, 2016
Separation Rapids Lithium Project (a)	\$ 5,637,890	\$ 1,843,520	\$ -	\$ 7,481,410
East Kemptville Tin-Indium Project (b)	3,148,165	1,862,905	-	5,011,070
Miramichi Tin Property (c)	202,925	15,695	(218,620)	-
Mount Douglas Tin-Tungsten Property (d)	-	46,663	-	46,663
Warren Township Anorthosite Project (e)	-	5,318	(5,318)	-
Other (f)	15,000	13,101	-	28,101
	<u>\$ 9,003,980</u>	<u>\$ 3,787,202</u>	<u>\$ (223,938)</u>	<u>\$ 12,567,244</u>

	September 1, 2016	Expenditures	Impairment Loss	August 31, 2017
Separation Rapids Lithium Project (a)	\$ 7,481,410	\$ 2,042,200	\$ -	\$ 9,523,610
East Kemptville Tin-Indium Project (b)	5,011,070	311,352	-	5,322,422
Mount Douglas Tin-Tungsten Property (d)	46,663	88,446	(135,109)	-
Warren Township Anorthosite Project (e)	-	3,080	(3,080)	-
Other (f)	28,101	26,828	(39,929)	15,000
	<u>\$ 12,567,244</u>	<u>\$ 2,471,906</u>	<u>\$ (178,118)</u>	<u>\$ 14,861,032</u>

## 6. Exploration and Evaluation Assets (continued)

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. During the year ended August 31, 2017, the Company acquired a 100% interest in seven mineral claims located adjacent to the north and west of the Company's existing Separation Rapids property and issued 500,000 common shares at the fair value of \$0.185 per share.

b) East Kemptville Tin-Indium Project, Nova Scotia

During the year ended August 31, 2007, the Company was granted a special 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 special licence has been renewed multiple times since then.

In September 2014, the Company submitted an application for a new special licence reflecting the entire original mine site. During the quarter ended May 31, 2015, by Order in Council, the Government of Nova Scotia approved an application for a new special licence reflecting the entire original mine site. The current special licence has a term of three years beginning February 2, 2015 and includes a requirement to incur \$5.25 million in expenditures by January 31, 2018 (of which \$3,152,858 had been incurred by August 31, 2017). Subsequent to the year ended August 31, 2017, the Company has commenced the process toward converting the Special Licence into a mining lease.

The Company also has a number of regular exploration licences covering certain claims in the same proximity to the claims covered under the special exploration licence.

c) Miramichi Tin Property, New Brunswick

The Company owned a 100% interest in certain claims located in York County, New Brunswick, which were staked by the Company during the year ended August 31, 2012.

As at August 31, 2016, the Company had decided not to renew the claims when they were due for renewal in September 2016, accordingly the cost incurred to-date of \$218,620 had been written off as an impairment loss during the year ended August 31, 2016. These claims expired in September 2016.

d) Mount Douglas Tin-Tungsten Property, New Brunswick

During the year ended August 31, 2016, the Company entered into an option agreement to earn a 100% interest (subject to a 2.0% NSR, which can be bought back for \$1.0 million) in certain mineral claims located in Charlotte County, New Brunswick. As at August 31, 2017, the Company had decided to terminate the option agreement, accordingly the cost incurred to-date of \$135,109 had been written off as an impairment loss during the year ended August 31, 2017. These claims were returned to the original owner in September 2017.

e) Warren Township Anorthosite Project, Ontario

The Company owns a 100% interest in certain claims located near Foleyet, Ontario, which were staked by the Company during the year ended August 31, 2003. During the year ended August 31, 2013, the Company entered into a Mining Lease with the Province of Ontario under the Mining Act of Ontario covering these claims.

No substantial work has been carried out on the Warren Township project during the last five years and no work was planned or budgeted for fiscal 2018. In addition, no new potential customer has been identified for the project's calcium feldspar product. The current outlook as at August 31, 2017 for the Warren Township project remains unchanged. It is management's view that the fair value of this project has been significantly impaired and has estimated the recoverable amount of this project as at August 31, 2017 to be \$nil.

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

f) Other Resource Properties

The Company has a 100% interest in several claims in the Lilypad Lakes Tantalum Property, 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.

During the year ended August 31, 2016, the Company entered into an option agreement to earn a 100% interest (subject to a 2.0% NSR, which can be bought back for \$1.0 million) in certain mineral claims located south of St. George, New Brunswick. During the year ended August 31, 2017, the Company had terminated the option agreement and returned these claims to the original owners and, accordingly, the cost incurred to-date of \$39,929 had been written off as an impairment loss during the year ended August 31, 2017.

## 7. Property, Plant and Equipment

	Nechalacho REE Project (a)	Airstrip	Computer and Office Equipment	Land and Building	Exploration Equipment	Leasehold Improvements	Total
<b>Cost</b>							
As at September 1, 2015	\$ 103,122,245	\$ 646,860	\$ 301,556	\$ 74,455	\$ 680,884	\$ 94,594	\$ 104,920,594
Additions	298,081	-	-	-	-	-	298,081
As at August 31, 2016	103,420,326	646,860	301,556	74,455	680,884	94,594	105,218,675
Additions	198,342	-	36,603	-	2,975	-	237,920
Disposals	-	-	(120,069)	-	-	-	(120,069)
As at August 31, 2017	<u>\$ 103,618,668</u>	<u>\$ 646,860</u>	<u>\$ 218,090</u>	<u>\$ 74,455</u>	<u>\$ 683,859</u>	<u>\$ 94,594</u>	<u>\$ 105,336,526</u>
<b>Accumulated Depreciation</b>							
As at September 1, 2015	\$ -	\$ 192,178	\$ 226,295	\$ 537	\$ 559,419	\$ 74,876	\$ 1,053,305
Depreciation expense	-	26,485	22,507	3,223	36,440	15,775	104,430
As at August 31, 2016	-	218,663	248,802	3,760	595,859	90,651	1,157,735
Depreciation expense	-	24,366	32,715	3,223	26,747	3,943	90,994
Disposals	-	-	(120,069)	-	-	-	(120,069)
As at August 31, 2017	<u>\$ -</u>	<u>\$ 243,029</u>	<u>\$ 161,448</u>	<u>\$ 6,983</u>	<u>\$ 622,606</u>	<u>\$ 94,594</u>	<u>\$ 1,128,660</u>
<b>Net Book Value</b>							
As at August 31, 2016	<u>\$ 103,420,326</u>	<u>\$ 428,197</u>	<u>\$ 52,754</u>	<u>\$ 70,695</u>	<u>\$ 85,025</u>	<u>\$ 3,943</u>	<u>\$ 104,060,940</u>
As at August 31, 2017	<u>\$ 103,618,668</u>	<u>\$ 403,831</u>	<u>\$ 56,642</u>	<u>\$ 67,472</u>	<u>\$ 61,253</u>	<u>\$ -</u>	<u>\$ 104,207,866</u>

## 7. Property, Plant and Equipment (continued)

### a) Nechalacho REE Project, Northwest Territories

During the year ended August 31, 2005, the Company acquired a 100% interest in five mining leases covering the Nechalacho rare earth elements deposit ("Nechalacho Deposit") located at Thor Lake in the Mackenzie Mining District of the Northwest Territories. In addition, three mineral claims were staked in 2009 to cover favorable geology to the west of the mining leases.

The property is subject to an underlying 2.5% net smelter returns ("NSR") royalty agreement, which can be bought back at the principal amount of \$150,000 compounded annually at the average Canadian prime rate from May 2, 1982 to the buyback date, and which currently approximates \$1.46 million.

During the year ended August 31, 2012, the Company entered into an accommodation agreement (the "Accommodation Agreement") with the Deninu K'ue First Nation ("DKFN"). The DKFN is one of three Akaitcho bands who have used, occupied and have constitutionally protected aboriginal rights with respect to the lands on which the Nechalacho Deposit in the Northwest Territories is located.

The Accommodation Agreement provides for business and employment opportunities for the DKFN related to the Nechalacho Deposit and associated facilities in the Northwest Territories and contains measures to mitigate environmental and cultural impacts that may result from the project development. The Accommodation Agreement also commits the DKFN to supporting timely completion of the environmental assessment, permitting and development processes of the Nechalacho REE Project, and provides for the DKFN to participate in the project economics.

In conjunction with the Accommodation Agreement, the Company had issued 10,000 common shares of the Company in August 2012 and granted an aggregate of 50,000 non-transferrable common share purchase warrants of the Company to the DKFN since signing the Accommodation Agreement until August 31, 2016 (of which 10,000 warrants were granted during the year ended August 31, 2016). The common shares are subject to certain contractual restrictions on transfer pending receipt of certain regulatory permits and approvals for the Nechalacho REE Project.

## 8. Deferred Flow-Through Share Premium

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

Balance - September 1, 2015	\$ 293,808
Increase relating to flow-through common shares issued (note 13b)	218,949
Decrease relating to CEE incurred	<u>(416,140)</u>
Balance - August 31, 2016	96,617
Increase relating to flow-through common shares issued (note 13b)	270,318
Decrease relating to CEE incurred	<u>(317,468)</u>
Balance - August 31, 2017	<u>\$ 49,467</u>

## 9. Warrants Denominated in Foreign Currency

The following table reconciles the outstanding warrants (with an exercise price in a currency that is not the functional currency of the Company) to purchase common shares of the Company at the beginning and end of the respective years:

	Number of Warrants		Amount
Balance - September 1, 2015	6,466,513	\$	288,857
Increase (Decrease) in fair value	-		122,561
Balance - August 31, 2016	6,466,513		411,418
Increase (Decrease) in fair value	-		(229,747)
Balance - August 31, 2017	6,466,513	\$	181,671

In June 2014, the Company issued 9,237,875 units of the Company at a price of \$0.469 (US\$0.433) per unit ("US\$ Unit") pursuant to a security purchase agreement for gross proceeds of \$4,331,200 (US\$4,000,000). Each US\$ Unit was comprised of one common share and 0.70 of one common share purchase warrant (each whole warrant, a "US\$ Warrant"). Each US\$ Warrant is exercisable into one common share of the Company at an exercise price of US\$0.56 per share commencing on December 13, 2014 until June 13, 2021, and is subject to certain anti-dilution provisions, which may reduce the exercise price, with a floor of US\$0.5095 per share. The adjusted exercise price as calculated by the anti-dilution provisions as at August 31, 2017 is US\$0.5223.

In accordance with IAS 32 and IAS 39, the fair value of the warrant component of the Unit has been classified as a financial liability at FVTPL and recorded at fair value at the time of issuance, and was 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.

## 10. Convertible Redeemable Preferred Shares

In March 2017, the Company entered into a preferred share purchase agreement (the "Agreement") with an entity managed by the Lind Partners ("Lind") and issued 500 Series A1 Preferred Shares (the "Preferred Shares") at a price of \$5,000 per share for gross proceeds of \$2,500,000. Pursuant to Canadian securities laws, the securities issuable under this private placement will be subject to a hold period, which expired on July 11, 2017 (the "Hold Period").

The Preferred Shares do not carry a dividend and have a redemption value that starts at \$5,000 per share and increases by \$250 per share each quarter over a 24 months period ending on March 10, 2019, to a cap of \$6,750 per share. After the Hold Period, the Preferred Shares can be converted by Lind into common shares of the Company at a price per common share equal to 85% of the five-day volume weighted average price ("VWAP") of the common shares on the TSX immediately prior to the date that notice of conversion is given (the "Conversion Option").

In conjunction with this private placement, Lind received a commitment fee of \$125,000 and 6,900,000 common share purchase warrants (the "A1 Warrants"). Each A1 Warrant entitles the holder to purchase one common share of the Company at a price of \$0.23 per common share until March 10, 2022.

After the Hold Period, Lind has the basic right to convert 25 Preferred Shares into common shares of the Company on a monthly basis, subject to certain conversion limits set out in the Agreement, however Lind is permitted to convert up to 100 Preferred Shares on a monthly basis in the event such amount does not exceed 20% of the Company's 20-day traded volume of common shares on the TSX immediately prior to the date of delivery of a conversion notice.

## 10. Convertible Redeemable Preferred Shares (continued)

Lind is also entitled to accelerate its conversion right to the full amount of the redemption value applicable at such time, or demand repayment of the applicable redemption value per share in cash (the "Put Option"), upon the occurrence of certain events as set out in the Agreement (most of which are beyond the Company's control) (the "Redemption Events"). The triggering Redemption Events include certain key financial and non-financial conditions, which include change of control, insolvency and liquidity conditions etc. as defined in the Agreement. These Redemption Events also limit the Company from obtaining other debt or preferred share financings that are not junior to the Preferred Shares other than certain project-related financings, as well as other at-the-market, equity lines or credit type of common share offerings, or convertible security financings where the price of the common share is not fixed at predetermined price. In addition, if the Redemption Event is a change of control event, the redemption amount will be equal to 110% of the applicable redemption amount at that time. No Redemption Event had occurred since the issuance of the Preferred Shares.

The Company has the right to redeem all of the outstanding Preferred Shares at any time after the Hold Period at a 5% premium to the redemption value (the "Call Option"). The Company also has floor price protection such that if any conversion results in an effective conversion price of less than \$0.10 per common share, then the Company has the right to deny the conversion and instead redeem the Preferred Shares that were subject to that conversion for the redemption amount in cash plus a 5% premium.

At any time while any Preferred Shares are outstanding, Lind has the option of subscribing for up to an additional 165 Series A2 Preferred Shares at a price of \$5,000 per share and under the same terms and conditions as the initial financing, subject to certain triggering events and subject to the prior approval of the TSX ("Series A2 Option"). Lind will also receive a certain number of Series A2 warrants ("A2 Warrants") when it exercised the Series A2 Option. The number of A2 Warrants to be issued and the exercise price of A2 Warrants will be calculated by using similar formulas used in determining the number and the exercise price of the A1 Warrants.

In connection with this private placement, the Company also incurred other issuance costs of \$114,847.

The Preferred Share is a hybrid instrument that contains multiple embedded derivatives: the Conversion Option, Put Option and Call Option.

The economic characteristics and risks of the Conversion Option are different from that of the host contract (the Preferred Share) in that it allows Lind to convert the Preferred Shares (a debt instrument) into the Company's common shares (an equity instrument) at a price per common share equal to 85% of the five day VWAP of the common share, thus the Conversion Option can be measured separately from the Preferred Share. 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 under *IAS 32 Financial Instruments: Presentation* ("IAS 32"). As such, the Company had designated the entire hybrid contract (the Preferred Share and all of the embedded derivatives) as a financial liability at FVTPL in accordance with IAS 39 and 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 redeemable preferred shares in the consolidated statement of comprehensive loss.

As the Company has the Call Option to redeem all of the outstanding Preferred Shares at any time after the Hold Period at a 5% premium to the redemption value, the total fair value of the Preferred Shares at issuance is therefore \$2,625,000.

The exercise price of the A1 Warrant is subject to adjustment from time to time in the event of certain common share rights offering, such that the exercise of the A1 Warrants do not result in a fixed number of common shares being issued for a fixed amount of cash. As a result, The A1 Warrant 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 A1 Warrants was estimated at \$236,488 (or \$0.0343 for each warrant) at issuance, and this amount was allocated to the warrant component of this private placement. The fair value of the A1 Warrant was estimated using the Black-Scholes pricing model, with the following assumptions: expected dividend yield of Nil; risk free interest rate of 1.10%; expected life of 4.0 years; and expected volatility of 35%.

## 10. Convertible Redeemable Preferred Shares (continued)

Cash issuance costs incurred relating to this private placement totaled \$239,847 and had been recorded in the Statement of Comprehensive Loss as financing transaction costs.

The fair values of the Preferred Shares and the A1 warrants at issuance totaled \$2,861,488 and the excess of this amount over the gross proceeds (\$2,500,000) of \$361,488 had been recorded as a financing transaction cost in the Statement of Comprehensive Loss as a financing transaction cost.

A summary of the changes in the convertible redeemable preferred shares amount is set out below:

	Number	Amount
Balance - September 1, 2015 and August 31, 2016	-	\$ -
Preferred shares issued	500	2,625,000
Increase in fair value	-	131,250
Converted to common shares	(20)	(110,250)
Balance - August 31, 2017	480	\$ 2,646,000

The number of common shares to be issued would be 21,176,470 if all of the outstanding Preferred Shares had been converted into common shares based on the closing price of the Company's common shares on the TSX of \$0.14 on August 31, 2017.

## 11. Derivative Liabilities

The derivative liabilities consist of the A1 Warrants.

The following table reconciles the outstanding A1 Warrants to purchase common shares of the Company at the beginning and end of the respective years:

	Number of Warrants	Amount
Balance - September 1, 2015 and August 31, 2016	-	\$ -
Issued	6,900,000	236,488
Increase (decrease) in fair value	-	(103,326)
Balance - August 31, 2017	6,900,000	\$ 133,162

## 12. Site Closure and Reclamation Provision

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

	August 31, 2017	August 31, 2016
Balance - beginning of year	\$ 263,600	\$ 263,600
Increase in provision for site closure and reclamation costs	40,000	-
Balance - end of year	\$ 303,600	\$ 263,600

## **12. Site Closure and Reclamation Provision (continued)**

As at August 31, 2017, the current estimated closure costs to reclaim the Company's Nechalacho exploration camp site at Thor Lake, the Separation Rapids and the Warren Township exploration sites are \$250,000, 40,000 and \$13,600 respectively. The closure costs for the Nechalacho exploration camp site are expected to be incurred over the years of 2040 and 2041. The expected undiscounted future cash flow is estimated to be \$508,000 for the Nechalacho exploration camp site, assuming an annual inflation rate of 3%.

## **13. 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 500 have been issued and 480 are outstanding as at August 31, 2017.

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

Common shares issued during the years ended August 31, 2015, 2016 and 2017 are as follows:

- i) In September 2013, the Company entered into a sales agreement (the "Sales Agreement") with Cowen and Company, LLC ("Cowen"), pursuant to which the Company could, at its discretion and from time to time during the term of the Sales Agreement, sell, through Cowen, as agent and/or principal, such number of the Company's common shares as would result in aggregate gross proceeds to the Company of up to US\$25,000,000. Sales of common shares could be made through "at the market" issuances on the NYSE MKT at the market price prevailing at the time of each sale, and, as a result, prices varied.

The Company filed a prospectus supplement, dated September 24, 2013, pursuant to which the Company could issue up to US\$8,100,000 in common shares using the Sales Agreement (each prospectus supplement is limited to 10% of the market value of the Company at the end of the month prior to filing) (the "First Supplement").

The Company could pay Cowen a commission, or allowed a discount, equal to 3.0% of the gross proceeds of all common shares sold under the Sales Agreement.

Pursuant to the Sales Agreement, as at August 31, 2015, the Company had issued 9,428,180 common shares for gross proceeds of \$3,855,388 (US\$3,439,916) and paid cash commissions totaling \$115,661 (US\$103,197). During the year ended August 31, 2014, the Company had also incurred other costs (primarily related to the preparation of the Sales Agreement and the First Supplement) of \$399,032, of which \$381,775 had been recognized as share issuance costs as at August 31, 2015, and the balance of \$17,257 was recorded as prepaid transaction costs.

During the year ended August 31, 2016, the Company had issued 1,553,724 common shares for gross proceeds of \$248,086 (US\$187,696) pursuant to the Sales Agreement and paid cash commissions totaling \$7,443 (US\$5,631). The Company had recognized the balance of the prepaid transaction costs of \$17,257 as share issuance costs.

The Sales Agreement expired in October 2015.

### 13. Share Capital (continued)

- ii) In December 2014, the Company completed a private placement (the “December 2014 Private Placement”) and issued 8,981,781 flow-through common shares at \$0.27 per share for gross proceeds of \$2,425,081, of which 185,000 flow-through shares were issued to Mr. Donald Bubar, who is a director and the President and CEO of the Company.

In connection with the December 2014 Private Placement, the Company paid finders’ fees of \$142,508, incurred other issuance costs of \$23,652 and issued 527,806 non-transferrable finder’s compensation warrants. Each compensation warrant entitles the holder to purchase one common share of the Company at an exercise price of \$0.27 per share from June 20, 2015 to December 19, 2016. The estimated fair value of the compensation warrants totaled \$32,618. The fair values of these compensation warrants were estimated using the Black-Scholes pricing model, with the following assumptions: expected dividend yield of Nil; risk free interest rate of 1.01%; expected life of 2.0 years; and expected volatility of 62%.

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 totaling \$449,089 was recorded as a deferred flow-through share premium liability on the consolidated statement of financial position on December 19, 2014.

As at August 31, 2015, the Company had incurred CEE of \$1,876,977 related to the December 2014 Private Placement and the balance of \$548,104 was incurred by December 31, 2015. Accordingly, the Company had recognized a pro rata amount of the flow-through share premium of \$347,589 and \$101,500 through the consolidated statement of comprehensive loss as a deferred income tax recovery with a corresponding reduction to the deferred flow-through share premium liability during the years ended August 31, 2015 and August 31, 2016, respectively.

- iii) In May 2015, the Company completed a prospectus offering (the “Prospectus Offering”) and issued 6,410,254 flow-through common shares at \$0.39 per share and 4,431,970 Units at \$0.34 per Unit (the “Unit Price”) for total gross proceeds of \$4,006,869, of which 50,000 Units were issued to the spouse of Mr. Donald Bubar. Each Unit consisted of one common share and one-half of one non-transferrable common share purchase warrant. Each whole warrant entitiled the holder to purchase one common share of the Company at a price of \$0.425 per share, until November 27, 2016.

The fair value of the warrant component of the Unit was estimated at \$0.0502. Using the relative fair value method, \$0.2984 and \$0.0416 of the Unit Price was allocated to the share component and the warrant component of the Unit respectively. The fair value of the warrant was estimated using the Black-Scholes pricing model, with the following assumptions: expected dividend yield of Nil; risk free interest rate of 0.63%; expected life of 1.5 years; and expected volatility of 69%.

In connection with the Prospectus Offering, the Company paid cash commission of \$240,412, incurred other issuance costs of \$296,451 and issued 650,533 non-transferrable compensation warrants. Each compensation warrant entitiled the holder to purchase one common share of the Company at an exercise price of \$0.34 per share until November 27, 2016. The estimated fair value of the compensation warrants totaled \$63,044. The fair values of these compensation warrants were estimated using the Black-Scholes pricing model, with the following assumptions: expected dividend yield of Nil; risk free interest rate of 0.63%; expected life of 1.5 years; and expected volatility of 69%.

Cash issuance costs and the estimated fair value of the compensation warrants were allocated on a pro-rata basis between the warrants and common shares issued as part of the Prospectus Offering. The warrants issued as part of the Units were allocated \$24,703 and \$2,901 of the cash issuance costs and the value of the compensation warrants, respectively. The remaining \$512,160 of the cash issuance costs and \$60,143 of the value of the compensation warrants were allocated to the common shares issued as part of the Prospectus Offering.

### 13. Share Capital (continued)

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 totaling \$192,308 was recorded as a deferred flow-through share premium liability on the consolidated statement of financial position on May 27, 2015. The CEE expenditures renounced relating to the Prospectus Offering were incurred during the year ended August 31, 2016, accordingly the Company has recognized a deferred income tax recovery \$192,308 through the consolidated statement of comprehensive loss with a corresponding reduction to the deferred flow-through share premium liability during the year ended August 31, 2016.

- iv) On December 24, 2015, the Company completed a private placement (the "December 2015 Private Placement") and issued 6,000,000 flow-through units ("Flow-Through Unit") at \$0.125 per unit (the "Unit Price") for gross proceeds of \$750,000. Each Flow-Through Unit consists of one flow-through common share and one-half of one non-transferrable common share purchase warrant. Each whole warrant entitles the holder to purchase one common share of the Company at a price of \$0.175 per share, until December 24, 2017.

The fair value of the warrant component of the Flow-Through Unit was estimated at \$0.0196 and the fair value of the flow-through feature of the Flow-Through Unit was estimated at \$0.0313. Using the relative fair value method, the Flow-Through Unit price of \$0.125 was allocated between the share component, the warrant component and the flow-through feature as follows: \$0.0917, \$0.0128, and \$0.0205, respectively.

The fair value of the warrant was estimated using the Black-Scholes pricing model, with the following assumptions: expected dividend yield of Nil; risk free interest rate of 0.48%; expected life of 2.0 years; and expected volatility of 64%. The fair value of the flow-through feature (flow-through share premium) is estimated by multiplying the CEE amount to be renounced per Flow-Through Unit of \$0.1249 by the Company's current tax rate of 25%.

In connection with the December 2015 Private Placement, the Company paid cash commission of \$45,000, incurred other issuance costs of \$23,541 and issued 360,000 non-transferrable compensation warrants. Each compensation warrant entitles the holder to purchase one common share of the Company at an exercise price of \$0.125 per share until December 24, 2017. The estimated fair value of the compensation warrants totaled \$19,573. The fair values of these compensation warrants were estimated using the Black-Scholes pricing model, with the following assumptions: expected dividend yield of Nil; risk free interest rate of 0.48%; expected life of 2.0 years; and expected volatility of 64%.

Cash issuance costs and the estimated fair value of the compensation warrants were allocated on a pro-rata basis between the three components of the Flow-Through Unit.

The total flow-through share premium of \$108,549 (net of issuance costs of \$14,451) was recorded as a deferred flow-through share premium liability on the consolidated statement of financial position on December 24, 2015. The CEE expenditures renounced relating to the December 2015 Private Placement were incurred during the year ended August 31, 2016, accordingly the Company has recognized a deferred income tax recovery \$108,549 through the consolidated statement of comprehensive loss with a corresponding reduction to the deferred flow-through share premium liability during the year ended August 31, 2016.

### 13. Share Capital (continued)

- v) On March 11, 2016, the Company completed a private placement (the "Private Placement") and issued 13,700,000 units ("PP Unit") at a price of \$0.10 per PP Unit for gross proceeds of \$1,370,000, of which 1,000,000 PP Units were issued to Mr. Donald Bubar. Each PP Unit consists of one common share and one-half of one non-transferrable common share purchase warrant. Each whole warrant entitles the holder to purchase one common share of the Company at a price of \$0.15 per share, until March 11, 2018, or if at any time following September 11, 2016, the closing price of the common shares on the TSX is \$0.25 or higher for a period of twenty consecutive trading days, the Company may, by notice to the holder reduce the expiry date of the warrants to not less than 30 days from the date of such notice (the "Accelerated Expiry Date").

Of the PP Unit price of \$0.10, \$0.0871 was allocated to the common share component of the PP Unit and the balance of \$0.0129 was allocated to the warrant component of the PP 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 date the terms of the private placement were finalized, which was \$0.14, and the estimated fair value of a whole warrant of \$0.0208. The fair value of the warrant was estimated using the Black-Scholes pricing model, with the following assumptions: expected dividend yield of Nil; risk free interest rate of 0.50%; expected life of 1.0 years; and expected volatility of 82%.

In connection with the Private Placement, the Company paid finders' fees of \$30,000, incurred other issuance costs of \$17,864 and issued 300,000 non-transferrable finder's compensation warrants. Each finder's compensation warrant entitles the holder to purchase one common share of the Company at an exercise price of \$0.11 per share until the earlier of March 11, 2018 or the Accelerated Expiry Date. The estimated fair value of the compensation warrants totaled \$26,671.

The fair values of these compensation warrants were estimated using the Black-Scholes pricing model, with the following assumptions: expected dividend yield of Nil; risk free interest rate of 0.50%; expected life of 1.0 years; and expected volatility of 82%.

Cash issuance costs and the estimated fair value of the compensation warrants were allocated on a pro-rata basis between the two components of the Unit.

- vi) On March 29, 2016, the Company completed a private placement (the "March 2016 Private Placement") and issued 3,000,000 flow-through units ("FT Unit") at a price of \$0.175 per FT Unit and 2,000,000 units ("Non-FT Unit") at a price of \$0.125 per Non-FT Unit for gross proceeds of \$775,000. Each FT Unit consists of one flow-through common share and one-half of one non-transferrable common share purchase warrant ("FT Warrant"). Each whole FT Warrant entitles the holder to purchase one common share of the Company at a price of \$0.20 per share until March 29, 2018, or if at any time following September 29, 2016, the closing price of the common shares on the TSX is \$0.25 or higher for a period of twenty consecutive trading days, the Company may, by notice to the holder reduce the expiry date of the warrants to not less than 30 days from the date of such notice ("Expiry Date"). Each Non-FT Unit consists of one common share and one-half of one non-transferrable common share purchase warrant (Non-FT Warrant). Each whole Non-FT Warrant entitles the holder to purchase one common share of the Company at a price of \$0.175 per share until the Expiry Date.

The fair value of the warrant component of the F-T Unit was estimated at \$0.0147 and the fair value of the flow-through feature of the FT Unit was estimated at \$0.0439. Using the relative fair value method, the FT Unit price of \$0.175 was allocated between the share component, the warrant component and the flow-through feature as follows: \$0.1259, \$0.0123, and \$0.0368, respectively.

The fair value of the FT Warrant was estimated using the Black-Scholes pricing model, with the following assumptions: expected dividend yield of Nil; risk free interest rate of 0.50%; expected life of 1.0 years; and expected volatility of 74%. The fair value of the flow-through feature (flow-through share premium) was estimated by multiplying the CEE amount to be renounced per FT Unit of \$0.1749 by the Company's current tax rate of 25%.

### 13. Share Capital (continued)

Of the Non-FT Unit price of \$0.125, \$0.1117 was allocated to the common share component of the Non-FT Unit and the balance of \$0.0133 was allocated to the warrant component of the Non-FT 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 date the terms of the private placement were finalized, which was \$0.15, and the estimated fair value of a whole Non-FT Warrant of \$0.0356. The fair value of the Non-FT Warrant was estimated using the Black-Scholes pricing model, with the same assumptions as for the FT Warrant.

In connection with the issuance of the FT Units, the Company paid finders' fees of \$31,500 and issued 180,000 non-transferrable finder's compensation warrants. Each finder's compensation warrant entitles the holder to purchase one common share of the Company at an exercise price of \$0.175 per share until March 29, 2018. The estimated fair value of the compensation warrants totaled \$8,203. The fair values of these compensation warrants were estimated using the Black-Scholes pricing model, with the following assumptions: expected dividend yield of Nil; risk free interest rate of 0.51%; expected life of 2.0 years; and expected volatility of 72%.

The Company also incurred other issuance costs of \$14,263 relating to the March 2016 Private Placement.

Cash issuance costs and the estimated fair value of the compensation warrants totaling \$50,397 were allocated on a pro-rata basis between the three components of the FT Unit. The balance of the cash issuance costs of \$3,569 were allocated on a pro-rata basis between the two components of the Non-FT Unit.

The total flow-through share premium of \$110,400 was recorded as a deferred flow-through share premium liability on the consolidated statement of financial position on March 29, 2016. As at August 31, 2016, the Company had incurred CEE of \$65,505 related to the March 2016 Private Placement and the balance of \$459,195 had been incurred during the year ended August 31, 2017. Accordingly, the Company had recognized a pro rata amount of the flow-through share premium of \$13,783 and \$96,617 through the consolidated statement of comprehensive loss as a deferred income tax recovery with a corresponding reduction to the deferred flow-through share premium liability during the years ended August 31, 2016 and August 31, 2017, respectively.

- vii) On November 7, 2016, the Company completed a private placement (the "November 2016 Private Placement") and issued 4,545,454 flow-through common shares at \$0.22 per share for gross proceeds of \$1,000,000.

In connection with the November 2016 Private Placement, the Company paid finders' fees of \$60,000, incurred other issuance costs of \$11,351 and issued 272,727 non-transferrable finder's compensation warrants. Each compensation warrant entitles the holder to purchase one common share of the Company at an exercise price of \$0.25 per share until November 7, 2018. The estimated fair value of the compensation warrants totaled \$12,747. The fair values of these compensation warrants were estimated using the Black-Scholes pricing model, with the following assumptions: expected dividend yield of Nil; risk free interest rate of 0.70%; expected life of 2.0 years; and expected volatility of 74%.

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 totaling \$181,818 was recorded as a deferred flow-through share premium liability on the consolidated statement of financial position on November 7, 2016.

- viii) On December 23, 2016, the Company completed a private placement (the "December 2016 Private Placement") and issued 2,500,000 flow-through common shares at \$0.15 per share for gross proceeds of \$375,000.

### 13. Share Capital (continued)

In connection with the December 2016 Private Placement, the Company paid finders' fees of \$22,500, incurred other issuance costs of \$15,367 and issued 150,000 non-transferrable finder's compensation warrants. Each compensation warrant entitles the holder to purchase one common share of the Company at an exercise price of \$0.15 per share until December 23, 2018. The estimated fair value of the compensation warrants totaled \$9,189. The fair values of these compensation warrants were estimated using the Black-Scholes pricing model, with the following assumptions: expected dividend yield of Nil; risk free interest rate of 0.78%; expected life of 2.0 years; and expected volatility of 85%.

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 totaling \$25,000 was recorded as a deferred flow-through share premium liability on the consolidated statement of financial position on December 23, 2016.

- ix) On June 12, 2017, the Company completed a private placement (the "June 2017 Private Placement") and issued 3,400,000 flow-through common shares at \$0.15 per share for gross proceeds of \$510,000.

In connection with the June 2017 Private Placement, the Company paid finders' fees of \$30,600, incurred other issuance costs of \$23,069 and issued 204,000 non-transferrable finder's compensation warrants. Each compensation warrant entitles the holder to purchase one common share of the Company at an exercise price of \$0.15 per share until June 12, 2019. The estimated fair value of the compensation warrants totaled \$10,463. The fair values of these compensation warrants were estimated using the Black-Scholes pricing model, with the following assumptions: expected dividend yield of Nil; risk free interest rate of 0.83%; expected life of 2.0 years; and expected volatility of 66%.

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 totaling \$17,000 was recorded as a deferred flow-through share premium liability on the consolidated statement of financial position on June 12, 2017.

- x) On August 16, 2017, the Company completed a private placement (the "August 2017 Private Placement") and issued 3,100,000 flow-through common shares at \$0.145 per share for gross proceeds of \$449,500.

In connection with the August 2017 Private Placement, the Company paid finders' fees of \$26,970, incurred other issuance costs of \$21,908 and issued 186,000 non-transferrable finder's compensation warrants. Each compensation warrant entitles the holder to purchase one common share of the Company at an exercise price of \$0.145 per share until August 16, 2019. The estimated fair value of the compensation warrants totaled \$7,655. The fair values of these compensation warrants were estimated using the Black-Scholes pricing model, with the following assumptions: expected dividend yield of Nil; risk free interest rate of 1.23%; expected life of 2.0 years; and expected volatility of 63%.

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 totaling \$46,500 was recorded as a deferred flow-through share premium liability on the consolidated statement of financial position on August 16, 2017.

### 13. Share Capital (continued)

#### c) Warrants

The following table reconciles the 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, 2014	1,252,500 <sup>(1)</sup>	\$0.607
Issued pursuant to equity offerings (Note 13(iii))	2,215,985	0.425
Issued pursuant to Accommodation Agreement (note 7a)	10,000	0.210
Balance - August 31, 2015	3,478,485 <sup>(1)</sup>	\$0.490
Issued pursuant to equity offerings (Note 13b(iv) (v) (vi))	12,350,000	0.164
Issued pursuant to Accommodation Agreement (note 7a)	10,000	0.230
Exercised	(125,000)	0.150
Balance - August 31, 2016	15,713,485 <sup>(1)</sup>	\$0.237
Exercised	(2,275,000)	0.150
Expired	(3,448,485)	0.490
Balance - August 31, 2017	9,990,000 <sup>(1)</sup>	\$0.169

<sup>(1)</sup> Does not include the 6,466,513 US\$ Warrants and 6,900,000 A1 Warrants as disclosed below.

The outstanding warrants have a weighted average remaining contract life of 0.5 years.

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

As disclosed in Notes 9 and 11, the Company also has the following warrants outstanding as at August 31, 2017:

- i) 6,466,513 US\$ Warrants with an adjusted exercise price of US\$0.5223 per share and are exercisable until June 13, 2021; and
- ii) 6,900,000 A1 Warrants with an exercise price of \$0.23 per share and are exercisable until March 10, 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 shareholders have approved a Stock Option Plan (the "Plan") that 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 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).

### 13. 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, 2014	8,630,250	\$ 2.02
Granted	2,620,000	0.27
Exercised	(50,000)	0.22
Expired	(1,200,250)	1.94
Forfeited	(225,000)	2.51
Balance - August 31, 2015	9,775,000	\$ 1.56
Granted	2,140,000	0.16
Expired	(1,125,000)	4.46
Forfeited	(150,000)	2.13
Balance - August 31, 2016	10,640,000	\$ 0.96
Granted	3,180,000	0.17
Expired	(3,075,000)	2.15
Forfeited	(410,000)	0.86
Balance - August 31, 2017	10,335,000	\$ 0.37

As at August 31, 2017, there were 7,223,750 options vested (August 31, 2016 - 7,551,250, August 31, 2015 - 6,570,000) with an average exercise price of \$0.42 per share (August 31, 2016 - \$1.15, August 31, 2015 - \$1.89), that were exercisable.

No stock options were exercised during the years ended August 31, 2016 and 2017. During the year ended August 31, 2015, an aggregate of 50,000 stock options were exercised at the weighted average exercise price of \$0.22 per share, and the weighted average closing market share price on the date preceding the date of exercise was \$0.36 per share.

The share based payments reserve, included as a component of the consolidated statement of changes in equity, relates to equity settled compensation options issued by the Company to its directors, officers, employees and consultants.

The estimated fair value of options earned during the year ended August 31, 2017 was \$254,994 (2016 - \$455,475, 2015 - \$978,358), of which \$3,172 (2016 - \$5,633, 2015 - \$98,730) was capitalized to property, plant and equipment, \$66,082 (2016 - \$103,407, 2015 - \$87,812) was capitalized as exploration and evaluation assets, \$2,632 (2016 - \$1,000, 2015 - \$2,936) was charged to operations as general exploration expenses, with the balance of \$183,108 (2016 - \$345,435, 2015 - \$788,880) charged to operations as share based compensation expense.

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.

### 13. Share Capital (continued)

The weighted average assumptions for grants during the years ended August 31, 2017, August 31, 2016 and August 31, 2015 are as follows:

	August 31, 2017	August 31, 2016	August 31, 2015
Exercise price	\$0.17	\$0.16	\$0.27
Closing market price on day preceding date of grant	\$0.17	\$0.16	\$0.27
Risk-free interest rate	0.75%	0.53%	0.94%
Expected life (years)	3.0	3.5	3.1
Expected volatility	77%	71%	64%
Expected dividend yield	Nil	Nil	Nil
Grant date fair value	\$0.08	\$0.08	\$0.12
Forfeiture rate	16%	16%	17%

The following table summarizes information concerning outstanding and exercisable options as at August 31, 2017:

Exercise Price Range	Number of Options		Weighted Average Remaining Contractual Life
	Outstanding	Exercisable	
\$1.00 - \$1.44	515,000	515,000	0.4 years
\$0.70 - \$0.99	1,385,000	1,153,750	1.3 years
\$0.40 - \$0.69	1,290,000	1,113,750	1.7 years
\$0.20 - \$0.39	2,555,000	1,841,250	2.6 years
\$0.11 - \$0.19	4,590,000	2,600,000	2.8 years
	<u>10,335,000</u>	<u>7,223,750</u>	

#### e) Brokers' Compensation Warrants

The following table summarizes information concerning outstanding brokers' compensation warrants as at August 31, 2015, August 31, 2016 and August 31, 2017:

	Number of Compensation Warrants	Weighted Average Exercise Price
Balance - September 1, 2014	554,273	\$ 0.61
Issued pursuant to equity offerings (Note 13b(ii)(iii))	1,178,339	0.31
Balance - August 31, 2015	1,732,612	\$ 0.45 <sup>(1)</sup>
Issued pursuant to equity offerings (Note 13b(iv)(v)(vi))	840,000	0.13
Exercised	(360,000)	0.13
Balance - August 31, 2016	2,212,612	\$ 0.38 <sup>(1)</sup>
Issued pursuant to equity offerings (Note 13b(viii)(ix)(x))	812,727	0.18
Expired	(1,732,612)	0.44
Balance - August 31, 2017	<u>1,292,727</u>	<u>\$ 0.16</u>

<sup>(1)</sup> 554,273 of the compensation warrants outstanding as at August 31, 2015 and throughout the period to August 31, 2016 were denominated in US\$. The effect of the change in the foreign exchange rate between the Canadian\$ and the US\$ had been reflected in the weighted average exercise price as at August 31, 2015 and as at August 31, 2016.

### 13. Share Capital (continued)

The brokers' compensation warrants reserve, included as a component of the consolidated statement of changes in equity, relates to equity settled compensation instruments issued by the Company to external service providers.

As at August 31, 2017, the Company has the following compensation warrants outstanding:

- (i) 300,000 compensation warrants with an exercise price of \$0.11 per common share, which are exercisable until the earlier of March 11, 2018 or the Accelerated Expiry Date;
- (ii) 180,000 compensation warrants with an exercise price of \$0.175 per common share, which are exercisable until March 29, 2018.
- (iii) 272,727 compensation warrants with an exercise price of \$0.25 per common share, which are exercisable until November 7, 2018;
- (iv) 150,000 compensation warrants with an exercise price of \$0.15 per common share, which are exercisable until December 23, 2018;
- (v) 204,000 compensation warrants with an exercise price of \$0.15 per common share, which are exercisable until June 12, 2019; and
- (vi) 186,000 compensation warrants with an exercise price of \$0.145 per common share, which are exercisable until August 16, 2019.

### 14. Corporate and Administrative Expenses

Corporate and administrative expenses for the years ended August 31, 2017, 2016 and 2015 consist of the following:

	August 31, 2017	August 31, 2016	August 31, 2015
Salaries and benefits <sup>(1)</sup>	\$ 1,509,865	\$ 1,607,078	\$ 1,981,542
Directors' fees	83,404	86,321	125,631
Consulting and professional fees	368,610	546,675	691,196
Office, insurance and other expenses	336,744	381,710	430,441
Occupancy	310,842	303,096	340,322
Shareholders' communications and filing fees	150,607	176,624	233,796
Travel and related costs	117,720	119,914	146,392
	<u>\$ 2,877,792</u>	<u>\$ 3,221,418</u>	<u>\$ 3,949,320</u>

<sup>(1)</sup> These figures do not include share based compensation. Employees' salaries, benefits including share based compensation expensed for the year ended August 31, 2017 totaled \$1,694,241 (2016 - \$1,830,114, 2015 - \$2,424,197).

### 15. Write-off of Land Acquisition Option Payments

During the year ended August 31, 2014, the Company entered into an option agreement to purchase a land parcel in Geismar, Louisiana. During the year ended August 31, 2015, the option payments made totaling \$212,960 were written off after the option agreement had expired.

## **16. Capital Management**

Capital of the Company consists of the components of shareholders' equity, convertible and redeemable preferred shares, warrants denominated in foreign currency and the A1 Warrants.

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.

As the Company is in the development stage, its principal source of capital is from the issuance of common shares. In order to achieve its objectives, the Company expects to spend its existing working capital and raise additional funds as required.

As disclosed in Note 9, the holder of the Preferred Shares Lind is also entitled to accelerate its conversion right, or demand repayment of the applicable redemption value per share in cash, upon the occurrence of certain Redemption Events. The Redemption Events also limit the Company from obtaining other debt or preferred share financings that are not junior to the Preferred Shares other than certain project-related financings, as well as other at-the-market, equity lines or credit type of common share offerings, or convertible security financings where the price of the common share is not fixed at predetermined price. No Redemption Event had occurred since the issuance of the Preferred Shares.

The Company does not have any externally imposed capital requirements other than those Redemption Events as discussed above. There were no significant changes to the Company's approach to capital management during the year ended August 31, 2017.

## **17. 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 had been no material trading transactions with related parties during each of the years ended August 31, 2017, 2016 and 2015, other than the participation by certain related parties in certain equity offerings as listed below:

- (i) in December 2014, pursuant to the December 2014 Private Placement, Mr. Donald Bubar subscribed for 185,000 flow-through shares at \$0.27 per share (note 12(b)(ii));
- (ii) in May 2015, pursuant to the Prospectus Offering, the spouse of Mr. Donald Bubar subscribed for 50,000 Units at \$0.34 per (note 12(b)(iii)); and
- (iii) on March 11, 2016, pursuant to the Private Placement, Mr. Donald Bubar subscribed for 1,000,000 PP Units at \$0.10 per unit (note 12(b)(v)).

## 17. Related Party Disclosures (continued)

### 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, 2017, August 31, 2016 and August 31, 2015 are as follows:

	August 31, 2017	August 31, 2016	August 31, 2015
Salaries, benefits and directors' fees <sup>(1)</sup>	\$ 1,744,508	\$ 1,803,314	\$ 1,957,710
Share based compensation <sup>(2)</sup>	281,657	337,541	691,224
	<u>\$ 2,026,165</u>	<u>\$ 2,140,855</u>	<u>\$ 2,648,934</u>

(1) Salaries and benefits of key management personnel capitalized to exploration and evaluation assets and PPE totaled \$571,471 (2016 - \$603,415, 2015 - \$580,535).

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

## 18. 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 A1 Warrants 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 Company's Preferred Shares is based on Level 3 inputs, including applicable redemption amounts and redemption premium. As the Company has the right to redeem the Preferred Shares at any time and the fair value of the Preferred Shares is the amount the Company has to pay to redeem the Preferred Shares, and is the redemption amount as specified in the Agreement plus 5% redemption premium.

### *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, 2017. 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 two major Canadian Chartered banking groups. 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.

## 18. Financial Instruments (continued)

### 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 required to support the Company's normal operating requirements on an on-going 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, 2017, the Company has current assets of \$1,367,481 and current liabilities of \$1,042,507. As disclosed in Note 10, the holder of the Preferred Shares is entitled to demand repayment of the applicable redemption value per share in cash (which totaled \$2,520,000 as at August 31, 2017) upon the occurrence of certain Redemption Events. Excluding the deferred flow-through share premium of \$49,467 and the liability for warrants denominated in foreign currency of \$181,671, the Company's adjusted working capital as at August 31, 2017 was \$556,112, (calculated by adding back the deferred flow-through share premium of \$49,467 and the liability for warrants denominated in foreign currency of \$181,671 to the working capital of \$324,974). As the de-recognition of the deferred flow-through share premium and the liability for warrants denominated in foreign currency will not require the future out flow of resources by the Company, it is management's belief that the adjusted working capital figure provides useful information in assessing the Company's liquidity risk.

Repayments due by period as of August 31, 2017:

	Within 1 Year	1-3 Years	4-5 Years	Total
Accounts payable and accrued liabilities	\$ 811,369	\$ -	\$ -	\$ 811,369
Operating lease obligations	315,995	421,327	-	737,322
	\$ 1,127,364	\$ 421,327	\$ -	\$ 1,548,691

### 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. Other than the US\$ Warrants as disclosed in Note 10, the Company had no other significant financial assets or financial liabilities denominated in foreign currencies as at August 31, 2017.

#### (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.

## 18. Financial Instruments (continued)

### *Sensitivity analysis*

Considering the Company's budget expenditures for the next twelve months and its current cash and cash equivalents of \$1,073,574, 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.

Other than the US\$ Warrants as disclosed in note 10, the Company had no other significant financial assets or financial liabilities denominated in foreign currencies as at August 31, 2017, and its anticipated on-going expenditures to be transacted in US dollars for the next twelve month period is approximately US\$250,000. 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.

## 19. 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, 2017, August 31, 2016 and August 31, 2015 are as follows:

	August 31, 2017	August 31, 2016	August 31, 2015
Share based compensation capitalized as property, plant and equipment (note 13d)	\$ 3,172	\$ 5,633	\$ 98,730
Share based compensation capitalized as exploration and evaluation assets (note 13d)	66,082	103,407	87,812
Depreciation expense capitalized as property, plant and equipment	46,912	57,265	76,218
Depreciation expense capitalized as exploration and evaluation assets	8,424	8,883	1,351
Warrants issued pursuant to the Accommodation Agreement and capitalized as property, plant and equipment (note 7a)	-	1,353	1,184
Common shares issued for exploration and evaluation assets	92,500	-	-
	<u>\$ 217,090</u>	<u>\$ 176,541</u>	<u>\$ 265,295</u>

## 20. 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, 2017	August 31, 2016	August 31, 2015
Net loss for the year before income taxes	\$ 3,674,789	\$ 3,955,785	\$ 3,523,963
Combined Canadian federal and provincial tax rate	25.0%	25.4%	25.1%
Expected income tax recovery at statutory rates	918,697	1,004,769	884,515
Share based compensation	(45,777)	(87,740)	(198,009)
Non-deductible financing transaction costs	(90,372)	-	-
Other non-deductible expenses	(6,708)	(8,697)	(6,279)
Non-allowable portion of capital loss	-	-	(26,726)
Exploration expenditures to be renounced	-	(16,638)	-
Non-taxable (non-deductible) change in fair value of financial instruments	50,456	(31,130)	359,373
Losses and other deductions for which no benefit has been recognized	(508,828)	(444,424)	(665,285)
Deferred income tax recoveries	\$ 317,468	\$ 416,140	\$ 347,589

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

The tax effects of temporary differences recognized as at August 31, 2017 and August 31, 2016 are as follows:

	August 31, 2017	August 31, 2016
Deferred income tax assets		
Exploration and evaluation assets	\$ 20,988,308	\$ 20,954,149
Scientific research and experimental developmental expenditures	4,594,950	4,502,603
	25,583,258	25,456,752
Deferred income tax liabilities		
Property plant and equipment	(25,583,258)	(25,456,752)
Net deferred income tax assets	\$ -	\$ -

## 20. 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, 2017 and August 31, 2016 are as follows:

	August 31, 2017	August 31, 2016
Non-capital loss carryforwards	\$ 28,092,197	\$ 26,034,890
Scientific research and experimental developmental expenditures	8,987,956	9,640,972
Share issuance costs	1,226,581	1,453,037
Capital loss carry forwards	2,294,535	2,294,535
	<u>\$ 40,601,269</u>	<u>\$ 39,423,434</u>

The Company also has non-refundable investment tax credit carry forwards of \$5,817,339 (2016 - \$5,817,339), 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 \$26,424,000 (2016 - \$24,367,000, 2015 - \$22,253,000) 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	3,507,000
2036	2,114,000
2037	2,057,000

The Company also has net operating losses of approximately \$1,668,000 (2016 - \$1,668,000, 2015 - \$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 (2016 - 2,295,000, 2015 - \$2,295,000) available to reduce future years' Canadian taxable capital gains.

## 21. Loss per Share

The weighted average number of common shares for the purposes of diluted loss per share reconciles to the weighted average number of common shares used in the calculation of basic loss per share as follows:

	August 31, 2017	August 31, 2016	August 31, 2015
Weighted average number of common shares used in the calculation of basic loss per share	187,869,637	167,184,272	139,893,312
Diluted impact of convertible redeemable preferred shares	-	-	-
Diluted impact of warrants	-	-	-
Diluted impact of stock options	-	-	-
Weighted average number of common used in the calculation of diluted loss per share	<u>187,869,637</u>	<u>167,184,272</u>	<u>139,893,312</u>

The loss used to calculate the basic and diluted loss per common share for the year ended August 31, 2017 was \$3,357,321 (2016 - \$3,539,645, 2015 - \$3,176,374).

As at August 31, 2017, the Company had 24,649,240 (2016 - 24,392,610, 2015 - 11,677,610) warrants and 10,335,000 (2016 - 10,640,000, 2015 - 9,775,000) stock options outstanding. The Company also had 480 Preferred Shares outstanding as at August 31, 2017 (2016 and 2015 - Nil), which could have been converted into 21,176,470 common shares based on the closing price of the Company's common shares on the TSX of \$0.14 on August 31, 2017. These warrants, options and Preferred Shares 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, 2017, August 31, 2016 and August 31, 2015.

## 22. Operating Lease Arrangements

The Company has entered into commercial leases on its premises and the future minimum lease payments under non-cancellable operating leases are as follows:

2018	315,995
2019	315,995
2020	105,332

## 23. Commitments

As at August 31, 2017, pursuant to the subscription agreements entered into for the June and August private placements the Company is required to incur additional CEE of \$538,510 by December 31, 2018. The Company is also required to incur additional CEE of \$466,175 by December 31, 2018 pursuant to the private placement completed in November 2017.

## 24. Events After the Reporting Period

Subsequent to the year ended August 31, 2017, the Company:

- a) granted an aggregate of 100,000 stock options with a weighted average exercise price of \$0.14 per share to certain employees of the Company. The weighted average contract life of these options was 5.0 years;
- b) issued 3,743,559 common shares pursuant to the conversion of 75 Preferred Shares;

## **24. Events After the Reporting Period (continued)**

- c) completed a private placement and issued 3,215,000 flow-through common shares at a price of \$0.145 per share (of which 305,000 flow-through common shares were subscribed by certain directors and officers of the Company) and 4,800,000 non-flow-through units at a price of \$0.12 per unit for gross proceeds of \$1,042,175. Each unit consists of one non-flow-through common share and one half non-transferable common share purchase warrant, with each whole warrant being exercisable to acquire one non-flow-through common share of the Company at a price of \$0.16 until November 3, 2019.

In conjunction with this private placement, the Company paid finder's fees of \$34,560 and issued 288,000 non-transferrable compensation warrants, with each compensation warrant being exercisable to acquire one common share of the Company at a price of \$0.15 until November 3, 2019.