AVALON
ADVANCED MATERIALS INC.

# Condensed Consolidated Interim Financial Statements

## For the three and six months ended February 28, 2022
## (Unaudited)

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

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

| | February 28, 2022 | August 31, 2021 |
|---|---|---|
| **Assets** | | |
| **Current Assets** | | |
| Cash and cash equivalents | $ 1,644,110 | $ 1,823,459 |
| Other receivables | 117,521 | 117,295 |
| Prepaid expenses and deposits | 552,520 | 593,866 |
| | 2,314,151 | 2,534,620 |
| **Non-Current Assets** | | |
| Exploration and evaluation assets (note 4) | 13,649,119 | 13,288,036 |
| Property, plant and equipment (note 5) | 102,564,992 | 102,646,452 |
| | 116,214,111 | 115,934,488 |
| | $ 118,528,262 | $ 118,469,108 |
| **Liabilities** | | |
| **Current Liabilities** | | |
| Accounts payable | $ 176,624 | $ 142,821 |
| Accrued liabilities | 358,201 | 486,774 |
| Deferred flow-through share premium (note 6) | 229,677 | 36,269 |
| Current portion of lease obligation (note 7) | 199,531 | 192,487 |
| Current portion of convertible note payable (note 8) | 1,830,000 | - |
| | 2,794,033 | 858,351 |
| **Non-Current Liabilities** | | |
| Lease obligation (note 7) | 394,342 | 496,087 |
| Convertible note payable (note 8) | - | 2,990,000 |
| Derivative liabilities (note 9) | 154,184 | 220,754 |
| Site closure and reclamation provisions | 278,600 | 278,600 |
| | 827,126 | 3,985,441 |
| | 3,621,159 | 4,843,792 |
| **Shareholders' Equity** | | |
| **Share Capital** (note 10b) | 184,104,891 | 181,918,759 |
| **Reserve for Warrants** (note 10c) | 4,365,391 | 4,336,380 |
| **Reserve for Share Based Payments** (note 10d) | 17,922,530 | 17,612,415 |
| **Reserve for Brokers' Compensation Warrants** (note 10e) | 301,064 | 297,113 |
| **Accumulated Deficit** | (91,786,773) | (90,539,351) |
| | 114,907,103 | 113,625,316 |
| | $ 118,528,262 | $ 118,469,108 |

Approved on behalf of the Board

"Donald S. Bubar", Director

"Alan Ferry", Director

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

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | February 28, 2022 | February 28, 2021 | February 28, 2022 | February 28, 2021 |
| **Revenue** | | | | |
| Interest | $ 1,237 | $ 1,325 | $ 2,302 | $ 2,341 |
| Management fees | - | 1,006 | - | 3,076 |
| | 1,237 | 2,331 | 2,302 | 5,417 |
| **Expenses** | | | | |
| Corporate and administrative (note 11) | 410,453 | 471,132 | 971,766 | 985,143 |
| General exploration (recovery) | (1,995) | 19,679 | 12,964 | 34,232 |
| Depreciation (note 5) | 23,900 | 26,371 | 71,335 | 60,913 |
| Share based compensation (note 10d) | 141,750 | 30,759 | 289,005 | 56,003 |
| Interest on lease obligation | 7,824 | 10,131 | 16,236 | 20,798 |
| Increase (decrease) in fair value of convertible note payable and derivative liabilities (notes 8, 9) | 9,200 | 3,421,027 | (66,570) | 3,614,084 |
| | 591,132 | 3,979,099 | 1,294,736 | 4,771,173 |
| **Net Loss before Income Taxes** | (589,895) | (3,976,768) | (1,292,434) | (4,765,756) |
| **Deferred Income Tax Recoveries** | 22,860 | 31,054 | 45,012 | 61,926 |
| **Net Loss and Total Comprehensive Loss for the period** | $ (567,035) | (3,945,714) | $ (1,247,422) | $ (4,703,830) |
| **Loss per Share - Basic and Diluted** | $ (0.001) | $ (0.011) | $ (0.003) | $ (0.013) |
| **Weighted Average Number of Common Shares Outstanding - Basic and Diluted** | 385,327,726 | 349,537,879 | 377,202,276 | 348,972,411 |

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

| | Share Capital | | Reserves | | | | |
|---|---|---|---|---|---|---|---|
| | Number of Shares | Amount | Warrants | Share Based Payments | Brokers' Compensation Warrants | Accumulated Deficit | Total |
| Balance at September 1, 2020 | 348,413,157 | $ 179,329,547 | $ 4,336,481 | $ 17,333,864 | $ 286,000 | $ (86,784,228) | $ 114,501,664 |
| Exercise of warrants | 3,075,000 | 315,080 | - | - | - | - | 315,080 |
| Exercise of options | 1,437,500 | 163,500 | - | - | - | - | 163,500 |
| Reserve transferred on exercise of options | - | 68,969 | - | (68,969) | - | - | - |
| Share based compensation | - | - | - | 58,323 | - | - | 58,323 |
| Net loss for the six month period | - | - | - | - | - | (4,703,830) | (4,703,830) |
| Balance at February 28, 2021 | 352,925,657 | 179,877,096 | 4,336,481 | 17,323,218 | 286,000 | (91,488,058) | 110,334,737 |
| Equity offerings | 2,500,000 | 400,750 | - | - | - | - | 400,750 |
| Issued for deposit on business acquisition | 1,000,000 | 219,200 | - | - | - | - | 219,200 |
| Conversion of note payable | 5,134,321 | 610,000 | - | - | - | - | 610,000 |
| Exercise of warrants | 3,412,500 | 874,095 | - | - | - | - | 874,095 |
| Reserve transferred on exercise of warrants | - | 101 | (101) | - | - | - | - |
| Exercise of options | 1,322,500 | 141,200 | - | - | - | - | 141,200 |
| Reserve transferred on exercise of options | - | 47,696 | - | (47,696) | - | - | - |
| Common shares redeemed | (955,949) | (200,750) | - | - | - | - | (200,750) |
| Compensation warrants issued on equity offerings | - | - | - | - | 11,113 | - | 11,113 |
| Share based compensation | - | - | - | 336,893 | - | - | 336,893 |
| Share issuance costs - cash | - | (39,516) | - | - | - | - | (39,516) |
| Share issuance costs - compensation warrants issued | - | (11,113) | - | - | - | - | (11,113) |
| Net income for the six month period | - | - | - | - | - | 948,707 | 948,707 |
| Balance at August 31, 2021 | 365,339,029 | 181,918,759 | 4,336,380 | 17,612,415 | 297,113 | (90,539,351) | 113,625,316 |
| Equity offerings (note 10b) | 12,019,994 | 1,113,587 | 31,992 | - | - | - | 1,145,579 |
| Conversion of note payable (note 9) | 12,109,978 | 1,160,000 | - | - | - | - | 1,160,000 |
| Exercise of options | 200,000 | 16,000 | - | - | - | - | 16,000 |
| Reserve transferred on exercise of options | - | 2,334 | - | (2,334) | - | - | - |
| Compensation warrants issued on equity offerings | - | - | - | - | 3,951 | - | 3,951 |
| Share based compensation | - | - | - | 312,449 | - | - | 312,449 |
| Share issuance costs - cash | - | (101,949) | (2,870) | - | - | - | (104,819) |
| Share issuance costs - compensation warrants issued | - | (3,840) | (111) | - | - | - | (3,951) |
| Net loss for the six month period | - | - | - | - | - | (1,247,422) | (1,247,422) |
| Balance at February 28, 2022 | 389,669,001 | $ 184,104,891 | $ 4,365,391 | $ 17,922,530 | $ 301,064 | $ (91,786,773) | $ 114,907,103 |

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

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | February 28, 2022 | February 28, 2021 | February 28, 2022 | February 28, 2021 |
| **Operating Activities** | | | | |
| Cash paid to employees | $ (289,139) | $ (361,733) | $ (565,911) | $ (525,038) |
| Cash paid to suppliers | (195,597) | (291,241) | (385,734) | (446,341) |
| Interest received | 1,237 | 1,325 | 2,302 | 2,341 |
| Management fees received | - | 362 | - | 3,689 |
| Cash Used by Operating Activities | (483,499) | (651,287) | (949,343) | (965,349) |
| **Financing Activities** | | | | |
| Net proceeds from equity offerings (share issuance costs paid) (note 10b) | 1,279,180 | - | 1,279,180 | (9,508) |
| Net proceeds from issuance of note payable | - | 2,896,885 | - | 2,896,885 |
| Proceeds from exercise of stock options | 16,000 | 163,500 | 16,000 | 163,500 |
| Proceeds from exercise of warrants | - | 215,250 | - | 215,250 |
| Net rent subsidy received (lease payments paid) | (45,586) | 15,374 | (62,784) | (8,076) |
| Cash Provided (Used) by Financing Activities | 1,249,594 | 3,291,009 | 1,232,396 | 3,258,051 |
| **Investing Activities** | | | | |
| Exploration and evaluation assets | (190,163) | (94,375) | (428,001) | (198,823) |
| Property, plant and equipment | (6,919) | (11,559) | (34,401) | (12,629) |
| Cash Provided (Used) by Investing Activities | (197,082) | (105,934) | (462,402) | (211,452) |
| **Change in Cash and Cash Equivalents** | 569,013 | 2,533,788 | (179,349) | 2,081,250 |
| **Cash and Cash Equivalents – beginning of period** | 1,075,097 | 843,185 | 1,823,459 | 1,295,723 |
| **Cash and Cash Equivalents – end of period** | $ 1,644,110 | $ 3,376,973 | $ 1,644,110 | $ 3,376,973 |

Supplemental Cash Flow Information (note 14)

## 1. Nature of Operations and Going Concern Uncertainty

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

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

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

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to a going concern, which assumes the Company will continue to meet its obligations and discharge its liabilities in the normal course of business for the foreseeable future. Different bases of measurement may be appropriate when a company is not expected to continue operations for the foreseeable future. The Company is in the exploration and development stage and raises funds in the equity markets to conduct its business activities. The Company has incurred losses in the current and prior periods, with a net loss of $1,247,422 for the six months ended February 28, 2022 (the "Period") and an accumulated deficit of $91,786,773 as at February 28, 2022. The Company's cash and cash equivalents balance at February 28, 2022 was $1,644,110, and the working capital deficit was $479,882.

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

Given the continuation of weak investor sentiment and capital market conditions in the junior resource sector, there exists an uncertainty as to the Company's ability to raise additional funds on favorable terms. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. As at February 28, 2022, the Company is required to incur additional Canadian exploration expenses ("CEE") of $1,051,954 by December 31, 2022. The Company's expenditures on discretionary exploration and development activities have some scope for flexibility in terms of amount and timing, which can be adjusted accordingly. Management intends to finance these expenditures over the next twelve months with funds currently on hand, and through planned equity financings and other sources of non-dilutive capital.

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

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

## 2. Basis of Presentation

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

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

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

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

### b) *Basis of Consolidation*

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

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

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

The Company also has a 50% interest in NWT Rare Earths Ltd., with an unrelated third party owning the other 50%, which was created during the year ended August 31, 2020 to hold the exploration permits and related authorizations pertaining to the Nechalacho REE Project, in order to assist each party's development of their respective projects. NWT Rare Earths Ltd. has not carried on any significant operations since its inception and no equity earnings/losses have been allocated to the Company.

## 3. Summary of Significant Accounting Policies

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

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

The following pronouncements are issued but not yet effective:

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

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

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

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

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

The amendments will become effective for annual reporting periods beginning on or after January 1, 2023 (which will become effective on September 1, 2023 for the Company), and will apply retrospectively. The application of these amendments will impact the current/non-current classification of the Company's convertible note payable and certain derivative liabilities.

## 4. Exploration and Evaluation Assets

| | September 1, 2021 | Expenditures | February 28, 2022 |
|---|---|---|---|
| **For the Period** | | | |
| Separation Rapids Lithium Project (a) | $ 12,826,626 | $ 327,058 | $ 13,153,684 |
| Lilypad Cesium-Tantalum Project (b) | 443,360 | 34,025 | 477,385 |
| Other (c) | 18,050 | - | 18,050 |
| | $ 13,288,036 | $ 361,083 | $ 13,649,119 |

| | September 1, 2020 | Expenditures | August 31, 2021 |
|---|---|---|---|
| **For the Year Ended August 31, 2021** | | | |
| Separation Rapids Lithium Project (a) | $ 12,025,329 | $ 801,297 | $ 12,826,626 |
| Lilypad Cesium-Tantalum Project (b) | 42,870 | 400,490 | 443,360 |
| Other (c) | 15,000 | 3,050 | 18,050 |
| | $ 12,083,199 | $ 1,204,837 | $ 13,288,036 |

## 4. 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.

b) Lilypad Cesium-Tantalum Project, Ontario

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

c) Other Resource Properties

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

During the year ended August 31, 2021, the Company entered into a binding letter of intent (the “LOI”) to purchase ownership of 2333382 Ontario Inc. (“2333382”), a private Ontario corporation which owns four industrial minerals properties and a demonstration-scale processing plant located at Matheson, Ontario. Among the industrial minerals property assets owned by 2333382 is an asset transfer agreement giving 2333382 the right to acquire full title to the Cargill Carbonatite Complex near Kapuskasing, Ontario. The total purchase price to be paid by the Company will be $16 million, payable in a combination of cash and common shares of Avalon over a period of two years. The initial payment of $200,000 in cash and the issuance of 1,000,000 common shares (with a total fair value of $219,200 based on the five day VWAP of the Company’s common shares prior to the date the shares were issued) were made during the year ended August 31, 2021. The LOI calls for the balance of the purchase price to be made in four instalments on the following schedule (assuming the Letter of Credit (“LoC”) needed to acquire title to the mining leases for the Cargill Carbonatite Complex is successfully secured):

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

The Company will also assume responsibility for managing all of 2333382’s ongoing operations upon posting of a Letter of Credit in the amount of $23.7 million with the Ontario government to meet current closure plan financial assurance requirements at the Cargill site. Discussions are in progress with a number of lenders and surety providers toward securing the required LoC. As of April 12, 2022, the required LoC has not yet been secured and the Company has delayed the further purchase payments above until 2333382 has secured the LoC and completed the asset transfer with the current owner of the mining leases. Finalization of the acquisition payment schedule is presently being re-negotiated.

During the year ended August 31, 2021, the Company staked certain mineral claims in close proximity to the Cargill Carbonatite Complex.

## 5. Property, Plant and Equipment

| | Nechalacho REE Project (a) | Airstrip | Office, Computer and Office Equipment (b) | Land and Building | Exploration Equipment | Leasehold Improvements | Total |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| As at September 1, 2020 | $ 101,504,639 | $ 646,860 | $ 1,235,239 | $ 90,905 | $ 696,832 | $ 106,754 | $ 104,281,229 |
| Additions | 41,684 | - | - | - | 5,994 | - | 47,678 |
| As at August 31, 2021 | 101,546,323 | 646,860 | 1,235,239 | 90,905 | 702,826 | 106,754 | 104,328,907 |
| Additions | 16,521 | - | - | - | 21,091 | - | 37,612 |
| Disposals | - | - | - | - | (35,828) | - | (35,828) |
| As at February 28, 2022 | $ 101,562,844 | $ 646,860 | $ 1,235,239 | $ 90,905 | $ 688,089 | $ 106,754 | $ 104,330,691 |
| **Accumulated Depreciation** | | | | | | | |
| As at September 1, 2020 | $ - | $ 305,044 | $ 354,358 | $ 18,749 | $ 669,915 | $ 96,278 | $ 1,444,344 |
| Depreciation expense | - | 17,456 | 205,522 | 4,191 | 8,525 | 2,417 | 238,111 |
| As at August 31, 2021 | - | 322,500 | 559,880 | 22,940 | 678,440 | 98,695 | 1,682,455 |
| Depreciation expense | - | 8,030 | 101,321 | 2,095 | 6,417 | 1,209 | 119,072 |
| Disposals | - | - | - | - | (35,828) | | (35,828) |
| As at February 28, 2022 | $ - | $ 330,530 | $ 661,201 | $ 25,035 | $ 649,029 | $ 99,904 | $ 1,765,699 |
| **Net Book Value** | | | | | | | |
| As at August 31, 2021 | $ 101,546,323 | $ 324,360 | $ 675,359 | $ 67,965 | $ 24,386 | $ 8,059 | $ 102,646,452 |
| As at February 28, 2022 | $ 101,562,844 | $ 316,330 | $ 574,038 | $ 65,870 | $ 39,060 | $ 6,850 | $ 102,564,992 |

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

a) Nechalacho REE Project, Northwest Territories

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

These eight contiguous mining leases total 5,786 hectares (14,297 acres), after three mining claims totalling 332 hectares on the southwest side of the original five leases were converted to mining leases. The original five leases are subject to one independently owned 2.5% Net Smelter Returns ("NSR") royalty agreement. Avalon has the contractual right to buy out this royalty on the basis of a fixed formula, which is currently approximately $1.6 million, and which will increase at a rate equal to the Canadian prime rate until the royalty is bought out.

During the year ended August 31, 2020, the Company disposed of the resources above a depth of 150 metres above sea level ("Upper Zone Resources") to a third party for a total cash consideration of $5.0 million and recognized a net gain on sale of $2,373,261. The Company continues to have access to the property for development and mining of its Basal Zone Resources.

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

During the Period, the Company generated net management fees of $Nil (2021 - $3,076) for services provided to the third party to manage its exploration activities on the property.

At February 28, 2022, the amount of the net assets of the Company is more than its market capitalization, IAS 36 – *Impairment of Assets* considers that an indicator of impairment is present based on external sources of information. The Company completed an impairment test on the Nechalacho Project as at February 28, 2022 and determined that the Project was not impaired. The main assumptions used to determine the recoverable amount related to Nechalacho were long-term commodity prices, changes in cost estimates, discount rates, foreign exchange rates and years to commencement of production.

b) Depreciation of $54,543 (2021 - $41,233) (net of $43,502 (2021 - $56,822) in rent forgiveness and subsidy under various Canadian federal COVID-19 support programs) was recognized relating to the right of use ("ROU") asset during the Period, and the carrying balance of the ROU asset was $555,586 as at February 28, 2022 (August 31, 2021 - $653,631).

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

c) Depreciation expense for the three and six months ended February 28, 2022 and 2021 consist of the following:

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | February 28, 2022 | February 28, 2021 | February 28, 2022 | February 28, 2021 |
| Depreciation expense recognized | $ 59,729 | $ 59,415 | $ 119,072 | $ 118,831) |
| Depreciation expense capitalized to exploration and evaluation assets | (2,381) | (548) | (4,235) | (1,096) |
| Rent forgiveness and rent subsidy | (33,448) | (32,496) | (43,502) | (56,822) |
| | $ 23,900 | $ 26,371 | $ 71,335 | $ 60,913 |

## 6. Deferred Flow-Through Share Premium

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

| | |
|---|---|
| Balance – September 1, 2020 | $ 136,800 |
| Increase relating to flow-through common shares issued | 99,250 |
| Decrease relating to CEE incurred | (199,781) |
| Balance – August 31, 2021 | 36,269 |
| Increase relating to flow-through common shares issued | 238,420 |
| Decrease relating to CEE incurred | (45,012) |
| Balance – February 28, 2022 | $ 229,677 |

## 7. Lease Obligation

As at February 28, 2022, the Company had the following future commitment relating to the lease contract for its office premises:

| | |
|---|---|
| 2022 | $ 111,619 |
| 2023 | 229,181 |
| 2024 | 233,563 |
| 2025 | 63,280 |
| Total future lease payments as at February 28, 2022 | 637,643 |
| Amounts representing interest | 43,770 |
| Present value of future lease payments – February 28, 2022 | $ 593,873 |

## 7. Lease Obligation (continued)

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

| | | |
|---|---|---|
| Balance - September 1, 2020 | $ | 867,467 |
| Interest expense | | 39,360 |
| Payments | | (218,253) |
| Balance - August 31, 2021 | | 688,574 |
| Interest expense | | 16,236 |
| Payments | | (110,937) |
| Balance - February 28, 2022 | | 593,873 |
| Current portion of lease obligation | | 199,531 |
| Non-current portion of lease obligation | $ | 394,342 |

The Company had net cash outflows of $62,784 (total lease payments of $110,397 less $48,153 in rent subsidy received) (2021 - $8,076 (total lease payments of $107,658 less $99,582 in rent forgiveness and rent subsidy received)) for its lease contract in the Period.

## 8. Convertible Note Payable

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

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

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

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

| | | |
|---|---|---|
| Balance - August 31, 2020 | $ | - |
| Issued | | 3,000,000 |
| Interest | | 600,000 |
| Converted to common shares | | (610,000) |
| Balance - August 31, 2021 | | 2,990,000 |
| Converted to common shares | | (1,160,000) |
| Balance - February 28, 2022 | $ | 1,830,000 |
| Current portion of convertible note payable | | 1,830,000 |
| Non-current portion of convertible note payable | $ | - |

The number of common shares to be issued would be 18,391,959 if the entire Note had been converted into common shares based on the five day VWAP of the Company's common shares on the TSX of $0.1171 on February 28, 2022.

## 9. Derivative Liabilities

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

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

| | Number of Warrants | Amount |
|---|---|---|
| **Warrants denominated in foreign currency** | | |
| Balance - September 1, 2020 | 6,466,513 | $ 1 |
| Expired | (6,466,513) | (1) |
| Balance - August 31, 2021 and February 28, 2022 | - | - |
| **Other warrants subject to potential price adjustment** | | |
| Balance - September 1, 2020 | 21,475,000 | 59,826 |
| Issued | 9,800,000 | 556,997 |
| Exercised | (6,450,000) | (630,050) |
| Increase in fair value | - | 233,981 |
| Balance - August 31, 2021 | 24,825,000 | 220,754 |
| Decrease in fair value | - | (66,570) |
| Balance - February 28, 2022 | 24,825,000 | 154,184 |
| **Total derivative liabilities** | | $ 154,184 |

The Company has the following liability classified warrants outstanding as at February 28, 2022:

i) 6,900,000 A1 Warrants with an exercise price of $0.23 per share and are exercisable until March 10, 2022;

ii) 6,250,000 B1 Warrants with an exercise price of $0.15 per share and are exercisable until January 15, 2023;

iii) 1,875,000 C1 Warrants with an exercise price of $0.125 per share and are exercisable until June 29, 2023; and

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

The fair values of the liability classified warrants were estimated at February 28, 2022 using the Black-Scholes pricing model, with the following weighted average assumptions: expected dividend yield of Nil; risk free interest rate of 1.5%; expected life of 1.5 years; and expected volatility of 35%.

## 10. Share Capital

### *a) Authorized*

The Company is presently authorized to issue an unlimited number of common shares without par value. The Company is also authorized to issue up to 25,000,000 preferred shares without par value, of which 950 have been issued and none are outstanding as at February 28, 2022.

### *b) Common Shares*

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

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

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

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

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

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

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

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

## 10. Share Capital (continued)

### c) Warrants

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

| | Number of Warrants | Weighted Average Exercise Price |
|---|---|---|
| Balance – September 1, 2020 | 5,197,500[1] | $ 0.120 |
| Exercised | (37,500) | 0.120 |
| Expired | (10,000) | 0.230 |
| Balance – August 31, 2021 | 5,150,000[1] | 0.120 |
| Issued | 6,010,000 | 0.173 |
| Balance – February 28, 2022 | 11,160,000[1] | $ 0.148 |

[1] Does not include the additional liability classified warrants as described in note 9.

The outstanding equity classified warrants have a weighted average remaining contract life of 1.2 years as at February 28, 2022.

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

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

As described in note 9, the Company also has 24,825,000 liability classified warrants outstanding as at February 28, 2022.

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

### d) Share Based Payments

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

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

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

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

## 10. Share Capital (continued)

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

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

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

| | Number of Options | Weighted Average Exercise Price |
|---|---|---|
| Balance - September 1, 2020 | 13,545,000 | $ 0.10 |
| Granted | 7,310,000 | 0.19 |
| Exercise | (2,760,000) | 0.11 |
| Expired | (1,375,000) | 0.14 |
| Forfeited | (443,750) | 0.09 |
| Balance - August 31, 2021 | 16,276,250 | 0.14 |
| Granted | 1,620,000 | 0.12 |
| Exercised | (200,000) | 0.08 |
| Expired | (825,000) | 0.10 |
| Balance - February 28, 2022 | 16,871,250 | $ 0.14 |

As at February 28, 2022, there were 5,306,250 options vested (August 31, 2021 - 5,105,000) with an average exercise price of $0.11 per share (August 31, 2021 - $0.10), that were exercisable.

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

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

| | February 28, 2022 | August 31, 2021 |
|---|---|---|
| Exercise price | $0.12 | $0.19 |
| Closing market price on day preceding date of grant | $0.11 | $0.18 |
| Risk-free interest rate | 0.90% | 0.66% |
| Expected life (years) | 3.6 | 4.1 |
| Expected volatility | 87% | 88% |
| Expected dividend yield | Nil | Nil |
| Grant date fair value | $0.07 | $0.11 |
| Forfeiture rate | 12% | 13% |

## 10. Share Capital (continued)

The following table summarizes information concerning outstanding and exercisable options as at February 28, 2022:

| Exercise Price Range | Number of Options Outstanding | Number of Options Exercisable | Weighted Average Remaining Contractual Life |
|---|---|---|---|
| $0.21 - $0.26 | 400,000 | - | 4.0 years |
| $0.15 - $0.20 | 6,200,000 | 962,500 | 3.5 years |
| $0.11 - $0.14 | 3,322,500 | 1,472,500 | 2.9 years |
| $0.08 - $0.10 | 6,948,750 | 2,871,250 | 2.7 years |
| | 16,871,250 | 5,306,250 | |

Changes to the number of share units are as follows:

| | DSU Plan (Equity Settled) | RSU Plan (Equity Settled) |
|---|---|---|
| Balance - September 1, 2020 | - | - |
| Granted | 475,000 | 1,475,000 |
| Balance - August 31, 2021 | 475,000 | 1,475,000 |
| Forfeited | - | (150,000) |
| Balance - February 28, 2022 | 475,000 | 1,325,000 |

There were 475,000 DSUs vested as at February 28, 2022 and August 31, 2021.

None of the RSUs were vested as at February 28, 2022 and August 31, 2021.

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

The estimated fair value of options, DSUs and RSUs earned during the Period was $312,449 (2021 - $58,323), of which $634 (2021 - $43) was capitalized to property, plant and equipment, $21,249 (2021 - $1,890) was capitalized as exploration and evaluation assets, $1,561 (2021 - $387) was charged to operations as general exploration expenses, with the balance of $289,005 (2021 - $56,003) charged to operations as share based compensation expense.

During the Period, an aggregate of 200,000 (2021 - 1,437,500) stock options were exercised at the weighted average exercise price of $0.08 (2021 - $0.11) per share, and the weighted average closing market share price on the date preceding the date of exercise was $0.14 (2021 - $0.21) per share.

## 10. Share Capital (continued)

### *e) Brokers' Compensation Warrants*

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

| | Number of Compensation Warrants | Weighted Average Exercise Price |
|---|---|---|
| Balance - September 1, 2020 | - | $ - |
| Issued pursuant to equity offering | 150,000 | 0.20 |
| Balance - August 31, 2021 | 150,000 | 0.20 |
| Issued pursuant to equity offering | 788,900 | 0.18 |
| Balance - February 28, 2022 | 938,900 | $ 0.18 |

The outstanding brokers' compensation warrants have a weighted average remaining contract life of 1.7 years as at February 28, 2022.

## 11. Corporate and Administrative Expenses

Corporate and administrative expenses for the three and six months ended February 28, 2022 and February 28, 2021 consist of the following:

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | February 28, 2022 | February 28, 2021 | February 28, 2022 | February 28, 2021 |
| Salaries and benefits[(1)] | $ 205,948 | $ 260,851 | $ 519,113 | $ 529,219 |
| Directors' fees[(2)] | 5,064 | 4,314 | 10,146 | 6,239 |
| Consulting and professional fees | 43,538 | 77,622 | 148,788 | 225,800 |
| Office, insurance and other expenses | 100,353 | 52,830 | 199,370 | 110,267 |
| Shareholders' communications and filing fees | 53,867 | 75,480 | 91,233 | 111,828 |
| Travel and related costs | 1,683 | 35 | 3,116 | 1,790 |
| | $ 410,453 | $ 471,132 | $ 971,766 | $ 985,143 |

(1) These figures do not include share based compensation and are net of the Canada Emergency Wage Subsidy ("CEWS") of $Nil (2021 - $71,728) for the quarter ended February 28, 2022 (the "Quarter") and $Nil for the Period (2021 - $141,529). Employees' salaries and benefits including share based compensation expensed for the Quarter and the Period totaled $297,233 (2021 - $276,011) and $710,024 (2021 - $557,620), respectively.

(2) These figures are net of the CEWS of $Nil for the Quarter (2021 - $3,307) and $Nil for the Period (2021 - $6,461), respectively.

## 12. Related Party Disclosures

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

## 12. Related Party Disclosures (continued)

### a) Trading transactions

There have been no material trading transactions with related parties during each of the six months ended February 28, 2022 and 2021, other than the participation by certain related parties in the December 2021 private placement as described in Note 10b, whereby Donald Bubar, President and CEO, and Mr. Alan Ferry, Chair of the Board of Directors subscribed for 250,000 and 300,000 FT Units at $0.12 per unit, respectively.

### b) Compensation of key management personnel

The remuneration of directors and other key members of the Company's senior management team during each of the three and six months ended February 28, 2022 and 2021 are as follows:

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | February 28, 2022 | February 28, 2021 | February 28, 2022 | February 28, 2021 |
| Salaries, benefits and directors' fees[1] | $ 230,768 | $ 270,857 | $ 538,644 | $ 579,319 |
| Share based compensation[2] | 123,139 | 17,610 | 239,825 | 34,217 |
| | $ 353,907 | $ 288,467 | $ 778,469 | $ 613,536 |

(1) Salaries and benefits of key management personnel capitalized to exploration and evaluation assets and PPE for the Quarter and for the Period totaled $38,894 (2021 - $15,492) and $78,376 (2021 - $36,891), respectively.

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

## 13. Financial Instruments

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

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

Assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The fair values of the Company's warrants with exercise prices that are subject to adjustment from time to time are based on Level 2 inputs that are observable for the liability such as interest rate, dividend yield and historical volatility. The fair value of the Convertible Note Payable was based on Level 3 inputs including the applicable face value of the Note. The Company had the right to buy back the Note at any time for the outstanding face value, as such the fair value of the Note was the outstanding face value of the Note.

### Fair Values

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

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

## 13. Financial Instruments (continued)

### *Credit risk*

The Company is not exposed to any significant credit risk as at February 28, 2022. The Company's cash and cash equivalents are either on deposit with two major Canadian Chartered banking groups in Canada or invested in bankers' acceptance notes or guaranteed investment certificates issued by a major Canadian Chartered banking group. The Company's receivables primarily consist of Goods and Services Tax/Harmonized Sales Tax receivable, government grants and refundable security deposits with various federal and provincial governments and are therefore not subject to significant credit risk.

### *Liquidity risk*

Liquidity risk is the risk that an entity will not be able to meet its financial obligations as they come due. The Company has in place a planning and budgeting process to assist in determining the funds that are required to support the Company's normal operating requirements on an ongoing basis and its plans for exploration and development expenditures. The Company ensures that there are sufficient funds to meet its short-term requirements, taking into account its anticipated cash flows from operations and its holdings of cash and cash equivalents.

As at February 28, 2022, the Company has current assets of $2,314,151 and current liabilities of $2,794,033. The Company's working capital deficit as at February 28, 2022 was $479,882.

Repayments due by period as of February 28, 2022:

| | Within 1 Year | 1-3 Years | 4-5 Years | Over 5 Years | Total |
|---|---|---|---|---|---|
| Accounts payable and accrued liabilities | $ 534,825 | $ - | $ - | $ - | $ 534,825 |
| Convertible note payable | 1,830,000 | - | - | - | 1,830,000 |
| Lease obligation | 224,724 | 412,919 | | | 637,643 |
| | $ 2,589,549 | $ 412,919 | $ - | $ - | $ 3,002,468 |

### *Market risk*

i) Interest rate risk

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

ii) Foreign currency risk

The Company's functional currency is the Canadian dollar. The majority of the Company's purchases are transacted in Canadian dollars. The Company had no significant financial assets or financial liabilities denominated in foreign currencies as at February 28, 2022.

iii) Price risk

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

## 13. Financial Instruments (continued)

### *Sensitivity analysis*

Considering the Company's budget expenditures for the balance of fiscal 2022 and its current cash and cash equivalents of $1,644,110, with other variables held constant, sensitivity to a plus or minus 25 basis points change in interest rates would not have any significant effect on the Company's net loss for the balance of fiscal 2022.

The Company had no significant financial assets or financial liabilities denominated in foreign currencies as at February 28, 2022, and its anticipated ongoing expenditures to be transacted in US dollars for the next six month period is approximately US$90,000. 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 six month period.

## 14. Supplemental Cash Flow Information

Non-cash financing and investing transactions not reflected in the Condensed Consolidated Interim Statements of Cash Flows for the three and six months ended February 28, 2022 and 2021 are as follows:

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | February 28, 2022 | February 28, 2021 | February 28, 2022 | February 28, 2021 |
| Share based compensation capitalized as property, plant and equipment | $ 634 | $ 27 | $ 634 | $ 43 |
| Share based compensation capitalized as exploration and evaluation assets | 9,415 | 1,250 | 21,249 | 1,890 |
| Depreciation expense capitalized as exploration and evaluation assets | 2,381 | 548 | 4,235 | 1,096 |
| | $ 12,430 | $ 1,825 | $ 26,118 | $ 3,029 |

## 15. Events After the Reporting Period

Subsequent to the end of the Period, the Company:

a) issued 5,344,663 common shares pursuant to the conversion of $580,000 convertible note payable;

b) issued 118,750 common shares pursuant to the exercise of 118,750 stock options with a weighted average exercise price of $0.08 per share; and

c) had 6,900,000 warrants with a weighted average exercise price of $0.23 per share expire.