AVALON
ADVANCED MATERIALS INC.

Consolidated Financial Statements

For the years ended
August 31, 2022 and 2021

INDEX

Independent auditor's report

To the Shareholders of
Avalon Advanced Materials Inc.

Report on the audit of the financial statements

Opinion

We have audited the consolidated financial statements of **Avalon Advanced Materials Inc.** and its subsidiaries [the "Company"], which comprise the consolidated statements of financial position as at August 31, 2022 and 2021, and the consolidated statements of comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at August 31, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended, in accordance with International Financial Reporting Standards [IFRSs].

Basis for opinion

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

Material uncertainty related to going concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a net loss of $3,945,843 during the year ended August 31, 2022, and that there exists an uncertainty as to the Company's ability to raise additional funds on favourable terms. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key audit matters

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

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

Key audit matter	How our audit addressed the key audit matter
Assessment of impairment of the Nechalacho REE Project	
At August 31, 2022, the carrying value of property, plant and mine development was $102.5 million. An indicator of impairment of the Nechalacho REE Project cash generating unit ["CGU"] was determined to be present as of August 31, 2022 as the amount of the net assets of the Company was more than its market capitalization. As detailed in Note 6 of the consolidated financial statements, the Company did not recognize any impairment in relation to this CGU for the year ended August 31, 2022. Auditing the Company's estimate of the recoverable amount of the Nechalacho REE Project CGU was complex, given the degree of judgement and subjectivity in evaluating the Company's significant assumptions and inputs in determining the recoverable amount, and the significant effect changes in these assumptions and inputs would have on the recoverable amount. Significant assumptions and inputs used in the Company's discounted cash flow model included the discount rate, long-term commodity prices, foreign exchange rates and years to commencement of production.	To test the Company's estimated recoverable amount for the Nechalacho REE Project CGU, we performed the following procedures, among others: • Involved our valuation specialist to assist in evaluating the discount rate by referencing current industry and economic trends and data, comparable guideline companies, as well as entity and cash-flow specific risk premiums. • Involved our valuation specialist to assist in evaluating the long-term rare earth commodity prices and foreign exchange rates including assessing the appropriateness of sources used by management and performed sensitivity analysis using alternative assumptions and inputs to evaluate changes in the recoverable amount of the CGU. As a significant component of projected cash flows relates to the sale of enriched zirconium concentrate, we compared management's zirconium price to a range of market data. • To evaluate the number of years to commencement of production, we reviewed information for corroborative or contradictory evidence in respect of the proposed timetable to execute on project construction, including corroborating the status of permitting and licenses, as well as considering recent development activity on and near the site and other factors which could affect the proposed timetable. We involved our valuation specialist to evaluate the sensitivity of the model to an increase in the number of years to commencement of production. • Assessed the adequacy of the disclosures included in Note 6 of the accompanying consolidated financial statements in relation to this matter.

Other information

Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis for the year ended August 31, 2022.

Our opinion on the consolidated financial statements does not cover the other information and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. We obtained Management's Discussion & Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure, content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure of the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefit of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Eric Simmons.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
November 28, 2022

Consolidated Statements of Financial Position
(expressed in Canadian Dollars)
As at August 31, 2022 and August 31, 2021

		2022		2021
Assets				
Current Assets				
Cash and cash equivalents (note 4)	$	3,032,040	$	1,823,459
Other receivables		46,304		117,295
Prepaid expenses and deposits		979,906		593,866
		4,058,250		2,534,620
Non-Current Assets				
Exploration and evaluation assets (note 5)		13,912,430		13,288,036
Property, plant and equipment (note 6)		102,476,237		102,646,452
		116,388,667		115,934,488
	$	120,446,917	$	118,469,108
Liabilities				
Current Liabilities				
Accounts payable	$	186,685	$	142,821
Accrued liabilities		412,068		486,774
Deferred flow-through share premium (note 7)		177,999		36,269
Current portion of lease obligation (note 8)		209,075		192,487
Current portion of convertible notes payable (note 9)		460,000		-
		1,445,827		858,351
Non-Current Liabilities				
Lease obligation (note 8)		287,012		496,087
Convertible notes payable (note 9)		3,600,000		2,990,000
Derivative liabilities (note 10)		523,567		220,754
Site closure and reclamation provisions (note 11)		278,600		278,600
		4,689,179		3,985,441
		6,135,006		4,843,792
Shareholders' Equity				
Share Capital (note 12b)		185,989,431		181,918,759
Reserve for Warrants (note 12c)		4,358,451		4,336,380
Reserve for Share Based Payments (note 12d)		18,148,159		17,612,415
Reserve for Brokers' Compensation Warrants (note 12e)		301,064		297,113
Accumulated Deficit		(94,485,194)		(90,539,351)
		114,311,911		113,625,316
	$	120,446,917	$	118,469,108

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

Approved on behalf of the Board

"Donald S. Bubar", Director

"Alan Ferry", Director

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

	2022	2021
Revenue		
Interest	$ 21,766	$ 6,127
Management fees (note 6a)	-	5,122
	21,766	11,249
Expenses		
Corporate and administrative (note 13)	2,260,303	1,878,621
General exploration	21,616	53,812
Depreciation (note 6)	169,028	113,504
Share based compensation (note 12d)	565,163	368,650
Interest on lease obligation (note 8)	30,069	39,360
Foreign exchange loss	-	3,663
Increase in fair values of convertible note payable and derivative liabilities (notes 9, 10)	1,018,120	1,508,543
	4,064,299	3,966,153
Net Loss before Income Taxes	(4,042,533)	(3,954,904)
Deferred Income Tax Recoveries (note 18)	96,690	199,781
Net Loss and Total Comprehensive Loss for the year	$ (3,945,843)	$ (3,755,123)
Loss per Share - Basic and Diluted (note 19)	$ (0.010)	$ (0.011)
Weighted Average Number of Common Shares Outstanding - Basic and Diluted	388,498,568	354,590,337

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				
	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
Equity offerings (note 12b)	2,500,000	400,750	-	-	-	-	400,750
Issued for deposit on business acquisition (note 5)	1,000,000	219,200	-		-	-	219,200
Conversion of note payable (note 9)	5,134,321	610,000	-	-	-	-	610,000
Exercise of warrants	6,487,500	1,189,175	-	-	-	-	1,189,175
Reserve transferred on exercise of warrants	-	101	(101)	-	-	-	-
Exercise of options	2,760,000	304,700	-	-	-	-	304,700
Reserve transferred on exercise of options	-	116,665	-	(116,665)	-	-	-
Common shares redeemed (note 12b)	(955,949)	(200,750)	-	-	-	-	(200,750)
Compensation warrants issued on equity offerings	-	-	-	-	11,113	-	11,113
Share based compensation (note 12d)	-	-	-	395,216	-	-	395,216
Share issuance costs - cash	-	(39,516)	-	-	-	-	(39,516)
Share issuance costs - compensation warrants issued	-	(11,113)	-	-	-	-	(11,113)
Net loss and total comprehensive loss for the year	-	-	-	-	-	(3,755,123)	(3,755,123)
Balance at August 31, 2021	365,339,029	$ 181,918,759	$ 4,336,380	$ 17,612,415	$ 297,113	$ (90,539,351)	$ 113,625,316
Equity offerings (note 12b)	12,019,994	1,113,587	31,992	-	-	-	1,145,579
Conversion of note payable (note 9)	25,216,333	2,530,000	-	-	-	-	2,530,000
Exercise of warrants	3,125,000	382,500	-	-	-	-	382,500
Reserve transferred on exercise of warrants	-	6,940	(6,940)	-	-	-	-
Exercise of options	1,168,750	102,050	-	-	-	-	102,050
Reserve transferred on exercise of options	-	28,889	-	(28,889)	-	-	-
Redemption of restricted share units - shares	79,000	12,495	-	(12,495)	-	-	-
Redemption of restricted share units - cash payroll withholding tax payments	-	-	-	(13,160)	-	-	(13,160)
Compensation warrants issued on equity offerings	-	-	-	-	3,951	-	3,951
Share based compensation (note 12d)	-	-	-	590,288	-	-	590,288
Share issuance costs - cash	-	(101,949)	(2,870)	-	-	-	(104,819)
Share issuance costs - compensation warrants issued	-	(3,840)	(111)	-	-	-	(3,951)
Net loss and total comprehensive loss for the year	-	-	-	-	-	(3,945,843)	(3,945,843)
Balance at August 31, 2022	406,948,106	$ 185,989,431	$ 4,358,451	$ 18,148,159	$ 301,064	$ (94,485,194)	$ 114,311,911

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

	2022	2021
Operating Activities		
Cash paid to employees	$ (1,184,824)	$ (1,059,930)
Cash paid to suppliers	(1,292,914)	(983,269)
Interest received	21,766	6,127
Management fees received	-	9,935
Cash Used by Operating Activities	(2,455,972)	(2,027,137)
Financing Activities		
Net proceeds from equity offerings (note 12b)	1,279,180	450,977
Net proceeds from issuance of notes payable (note 9)	2,884,693	2,882,434
Proceeds from exercise of stock options	102,050	304,700
Proceeds from exercise of warrants	382,500	559,125
Net lease payments paid (note 8)	(123,934)	(59,390)
Common share redemption (note 12b)	-	(200,750)
Cash Provided by Financing Activities	4,524,489	3,937,096
Investing Activities		
Exploration and evaluation assets	(636,134)	(1,109,959)
Property, plant and equipment	(223,802)	(68,601)
Deposits paid for business acquisition (note 5c)	-	(200,000)
Cash Used by Investing Activities	(859,936)	(1,378,560)
Change in Cash and Cash Equivalents	1,208,581	531,399
Foreign Exchange Effect on Cash	-	(3,663)
Cash and Cash Equivalents – beginning of year	1,823,459	1,295,723
Cash and Cash Equivalents – end of year	$ 3,032,040	$ 1,823,459

Supplemental Cash Flow Information (note 17)

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

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 and critical minerals properties, located principally in Canada. To date, the Company has not earned any significant revenues.

The realization of amounts shown for its development asset – the Nechalacho Rare Earth Elements Project (the "Nechalacho REE Project") and its 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 $3,945,843 in the year ended August 31, 2022 (the "Year") and an accumulated deficit of $94,485,194 as at August 31, 2022. The Company's cash and cash equivalents balance at August 31, 2022 was $3,032,040, and the working capital was $2,612,423.

Given the continuation of weak investor interest and capital market conditions in the junior resource sector amongst other factors, there exists an uncertainty as to the Company's ability to raise additional funds on favorable terms. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. As at August 31, 2022, the Company is required to incur additional Canadian exploration expenses ("CEE") of $814,581 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 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 28, 2022.

2. Basis of Presentation

a) *Statement of Compliance and Basis of Presentation*

These consolidated financial statements, including comparatives, have been prepared in accordance 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.

2. Basis of Presentation (continued)

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., Avalon Lithium Inc. ("ALI"), Nolava Minerals Inc. ("Nolava"), and Avalon Rare Metals Ltd. ("ARML"). Nolava and ARML are incorporated in the United States of America ("USA").

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

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

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

a) *Foreign Currency Transactions*

Functional and Presentation Currency

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

Transactions and Balances

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

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

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

3. Summary of Significant Accounting Policies (continued)

b) Share Based Payments

The Company has three share incentive plans: the Stock Option Plan, the Deferred Share Unit Plan (the "DSU Plan") and the Restricted Share Unit Plan (the "RSU Plan"). Share based payments to employees (including directors and senior executives) and others providing similar services are measured at the fair value of the equity instruments at the grant date. The fair value of the DSUs and RSUs is determined based on the five day weighted average price on the TSX ("VWAP") of the Company's common shares prior to the date the DSUs and RSUs are awarded and are adjusted for any expected forfeitures.

The fair value of the equity-settled share based payments is recognized over the vesting period in which the service conditions are fulfilled, ending on the date in which the grantee becomes fully entitled to the award, based on the Company's estimate of equity instruments that will eventually vest, and is either expensed or capitalized to exploration and evaluation assets or property, plant and equipment, with a corresponding increase in equity.

Equity-settled share based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the Company obtains the goods or the counterparty renders the service.

Stock Option Plan

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

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

The stock options are accounted for as equity-settled awards. The fair value of the stock options 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.

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

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

The Company has the option to redeem the DSUs and RSUs either for common shares or for cash. The DSUs and RSUs are accounted for as equity-settled awards as the Company has no history of settling any DSUs and RSUs in cash (other than for the settlement of employees' payroll withholding tax obligations) and currently has no plan to settle any DSUs and RSUs in cash.

3. Summary of Significant Accounting Policies (continued)

c) Leases

The Company assesses at the inception of a contract whether that contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For contracts that contain a lease component, the Company then recognizes a right-of-use ("ROU") asset and a lease obligation at the lease commencement date.

Lease obligations are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Lease obligations are subsequently measured at amortized cost using the effective interest method.

The ROU assets are initially measured based on the initial amount of the lease obligation adjusted for initial direct costs incurred, lease payments made prior to inception, estimated costs to dismantle, remove or restore the asset and less any lease incentives received. ROU assets are subsequently measured at cost and are depreciated on a straight line basis over the shorter of the lease term and the useful life.

The Company elects to apply the practical expedient not to recognize ROU assets and lease obligations for short-term (12 months or less) leases of all asset classes and also elects to apply the practical expedient not to recognize ROU assets and lease obligations for leases of low value (less than $US5,000) assets. The lease payments associated with either short-term leases or leases of low-value underlying assets are recognized as an expense on a straight-line basis over the lease term.

d) Income Taxes

Current Income Taxes

Tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statements of comprehensive loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred Income Taxes

Deferred tax assets and liabilities represent income taxes expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the Company's consolidated financial statements and the corresponding tax basis used in the computation of taxable profit. Deferred tax assets also represent income taxes expected to be recoverable on unclaimed losses carried forward.

Deferred taxes are calculated using the asset and liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences, with some exceptions described below. Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be used. Neither deferred tax liabilities, nor deferred tax assets, are recognized as a result of temporary differences that arise from the initial recognition of goodwill or a transaction, other than a business combination, that affects neither accounting profit nor taxable profit. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset the current tax assets against the current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Deferred tax assets and liabilities are measured as of the date of the consolidated statement of financial position using the enacted or substantively enacted tax rates that are expected to be in effect when the differences reverse or when unclaimed losses are utilized.

3. Summary of Significant Accounting Policies (continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and adjusted to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of all or part of the asset to be utilized. To the extent that an asset not previously recognized fulfils the criteria for asset recognition, a deferred tax asset is recognized.

Deferred tax is recognized in the consolidated statements of comprehensive loss, unless it relates to items recognized directly in equity, in which case the deferred tax related to those items is also recognized directly in equity.

e) Flow-through Shares

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

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

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

f) Loss per Share

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

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").

3. Summary of Significant Accounting Policies (continued)

i) Exploration and Evaluation Assets

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

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

Exploration and evaluation assets are allocated to cash generating units ("CGUs") for the purpose of assessing such assets for impairment and each project is identified as a separate CGU. At each financial statement reporting date, the Company assesses whether there is any indication of impairment. Indicators of impairment include, but are not limited to:

i) The right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;

ii) Substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;

iii) Exploration for and evaluation of mineral resources in the specific area have not led to the commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area; and

iv) Sufficient data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

In circumstances where indicators of impairment exist, an impairment test is performed to determine if the carrying amount of a specific project exceeds its estimated recoverable amount. The estimated recoverable amount is the greater of fair value less costs of disposal, and value in use (which is discounted expected future cash flows). If the estimated recoverable amount of the project is less than its carrying amount, the carrying amount of the project is reduced to its estimated recoverable amount, and an impairment loss is recognized immediately in the consolidated statement of comprehensive loss.

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

The determination of the demonstration of technical feasibility and commercial viability is subject to a significant degree of judgment and assessment of all relevant factors. In general, technical feasibility may be demonstrable once a positive feasibility study is completed. When determining the commercial viability of a project, in addition to the receipt of a feasibility study, the Company also considers factors such as the existence of markets and/or long term contracts for the product, and the ability to obtain the relevant operating permits.

All subsequent expenditures to ready the property for production are capitalized within development assets, other than those costs related to the construction of property, plant and equipment. Development assets are not depreciated until construction is complete and the assets are available for their intended use.

3. Summary of Significant Accounting Policies (continued)

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

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

j) Property, plant and equipment

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

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

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

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

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

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

k) Impairment of Non-Financial Assets

At the end of each reporting period, the Company reviews the carrying amounts of its non-financial assets with finite lives at the CGU level to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant CGU is estimated in order to determine the extent of the impairment loss, if any. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The Company's CGUs are typically its significant individual exploration and evaluation assets, development projects or mines. In certain circumstances, when the recoverable amount of an individual asset can be determined, impairment assessment is performed at the individual asset level. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

3. Summary of Significant Accounting Policies (continued)

The recoverable amount of an asset is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount, and an impairment loss is recognized immediately in profit or loss.

At the end of each reporting period, the Company assesses whether there is any indication that impairment losses that were recognized in prior periods may no longer exist or have decreased. If such an indication exists, the estimated recoverable amount of the asset (or CGU) is revised and the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

l) Financial Instruments

Classification and Measurement

Under IFRS 9, financial assets are initially classified and subsequently measured at amortized cost, fair value through other comprehensive income ("FVOCI"); or fair value through profit or loss "FVTPL". A financial asset is measured at either amortized cost or FVTPL based on the business model in which the financial asset is managed and its contractual cash flow characteristics, unless the financial asset is required or designated to be classified and measured at FVTPL or FVOCI. On initial recognition of an equity instrument investment, the Company may irrevocably elect to measure the investment at FVOCI on an investment-by-investment basis, where the changes in the fair value of equity instruments are permanently recognized in other comprehensive income and will not be reclassified to profit or loss.

Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (which generally include derivative liabilities or other financial liabilities which are held for trading), or the Company has irrevocably designated them at FVTPL on initial recognition.

Financial assets and financial liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs that are directly attributable to the acquisition or issuance of the financial asset or financial liability, and are subsequently carried at amortized cost using the effective interest rate method, less any impairment. The changes in the fair value that are attributable to changes in the Company's own credit risk of financial liabilities elected at FVTPL are permanently recognized in other comprehensive income and will not be reclassified to profit or loss.

Financial assets and financial liabilities at FVTPL are initially recognized at fair value and transaction costs are expensed in the statement of profit or loss, and are subsequently measured at fair value. Any realized and unrealized gains and losses arising from the changes in fair value are included in the statement of profit or loss in the period in which they arise.

Financial assets at FVOCI are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset, and are subsequently carried at fair value, with any unrealized gains and losses arising from the changes in fair value being included in other comprehensive income or loss. When debt financial assets are derecognized, the cumulative gains and losses previously recognized in other comprehensive income are reclassified to profit or loss. The changes in the fair value of equity instrument investments elected at FVOCI are permanently recognized in other comprehensive income and will not be reclassified to profit or loss.

3. Summary of Significant Accounting Policies (continued)

The Company's financial assets and financial liabilities' classification and measurement categories are as follows:

Financial Instrument	Category
Cash and cash equivalents	Amortized cost
Other receivables	Amortized cost
Accounts payable	Amortized cost
Accrued liabilities	Amortized cost
Convertible notes payable	FVTPL
Convertible redeemable preferred shares	FVTPL
Derivative liabilities	FVTPL

Impairment of Financial Assets

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

m) Site Closure and Reclamation Provision

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

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.

3. Summary of Significant Accounting Policies (continued)

o) Government Grants

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

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

p) Related Party Disclosure

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

q) Segment Reporting

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

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

r) Critical Accounting Judgments and Estimation Uncertainties

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

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

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

Key Sources of Estimation Uncertainty

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

3. Summary of Significant Accounting Policies (continued)

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

The Company assesses its long-lived assets, specifically all exploration and evaluation assets and PPE at each reporting date to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is the higher of the fair value less costs of disposal and value in use. These assessments require the use of estimates and assumptions such as long-term commodity prices, discount rates, foreign exchange rates, years to commencement of production, future capital requirements, exploration potential and operating performance.

Determination of Reserve and Resource Estimates

Mineral reserves and resources are estimates of the amount of ore that can be economically and legally extracted from the Company's exploration and development properties. The estimation of recoverable reserves is based upon factors such as estimates of commodity prices, production costs, production techniques, future capital requirements and foreign exchange rates, along with geological assumptions and judgments made in estimating the size and grade of the ore body. Changes in the reserve or resource estimates may impact the carrying value of exploration and evaluation assets, development assets, PPE, site closure and reclamation provision and amortization expense.

Fair Value of Share Based Payments and Warrants

The Company follows IFRS 2, *Share-based Payment,* in determining the fair value of share based payments. This calculated amount is not based on historical cost, but is derived based on assumptions (such as the expected volatility of the price of the underlying security, expected hold period before exercise, dividend yield and the risk-free rate of return) input into a pricing model. The model requires that management make forecasts as to future events, including estimates of: the average future hold period of issued stock options and compensation warrants before exercise, expiry or cancellation; future volatility of the Company's share price in the expected hold period; dividend yield; and the appropriate risk-free rate of interest. The resulting value calculated is not necessarily the value that the holder of the option or warrant could receive in an arm's length transaction, given that there is no market for the options or compensation warrants and they are not transferable. Similar calculations are made in estimating the fair value of the warrant component of an equity unit. The assumptions used in these calculations are inherently uncertain. Changes in these assumptions could materially affect the related fair value estimates.

Site Closure and Reclamation Provision

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

Property, Plant and Equipment - Estimated Useful Lives

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

3. Summary of Significant Accounting Policies (continued)

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.

s) Recent Accounting Pronouncements

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

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

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

4. Cash and Cash Equivalents

Cash and cash equivalents are comprised of the following:

	August 31, 2022	August 31, 2021
Cash held in bank accounts	$ 895,819	$ 1,691,295
Guaranteed investment certificates	2,136,221	132,164
	$ 3,032,040	$ 1,823,459

5. Exploration and Evaluation Assets

	September 1, 2020	Expenditures	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

	September 1, 2021	Expenditures	August 31, 2022
Separation Rapids Lithium Project (a)	$ 12,826,626	$ 541,169	$ 13,367,795
Lilypad Cesium-Tantalum Project (b)	443,360	83,225	526,585
Other (c)	18,050	-	18,050
	$ 13,288,036	$ 624,394	$ 13,912,430

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.

5. Exploration and Evaluation Assets (continued)

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

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

The Company will also assume responsibility for managing all of 2333382's ongoing operations upon posting of a Letter of Credit in the amount of $23.7 million with the Ontario government to meet current closure plan financial assurance requirements at the Cargill site. Discussions are in progress with a number of lenders and surety providers toward securing the required LoC. As of November 28, 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.

6. 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	43,543	-	-	3,700	21,091	-	68,334
Disposals	-	-	-	-	(35,828)	-	(35,828)
As at August 31, 2022	$ 101,589,866	$ 646,860	$ 1,235,239	$ 94,605	$ 688,089	$ 106,754	$ 104,361,413
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	-	16,059	202,641	4,215	13,217	2,417	238,549
Disposals	-	-	-	-	(35,828)	-	(35,828)
As at August 31, 2022	$ -	$ 338,559	$ 762,521	$ 27,155	$ 655,829	$ 101,112	$ 1,885,176
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 August 31, 2022	$ 101,589,866	$ 308,301	$ 472,718	$ 67,450	$ 32,260	$ 5,642	$ 102,476,237

6. Property, Plant and Equipment (continued)

a) Nechalacho REE Project, Northwest Territories

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

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

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 Year, the Company generated net management fees of $Nil (2021 - $5,122) for services provided to the third party to manage its exploration activities on the property.

At August 31, 2022, the amount of the net assets of the Company is more than its market capitalization, IAS 36 – *Impairment of Assets* considers that an indicator of impairment is present based on external sources of information. The Company completed an impairment test on the Nechalacho Project as at August 31, 2022 and determined that the Project was not impaired. The main assumptions used to determine the recoverable amount related to Nechalacho were long-term commodity prices, changes in cost estimates, discount rates, foreign exchange rates and years to commencement of production.

b) Depreciation of $135,566 (2021 - $74,123) (net of $60,523 (2021 - $121,965) 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 Year, and the carrying balance of the ROU asset was $457,542 as at August 31, 2022 (2021 - $653,631).

c) Depreciation expense for the years ended August 31, 2022 and 2021 consist of the following:

	August 31, 2022	August 31, 2021
Depreciation expense recognized	$ 238,549	$ 238,111
Depreciation expense capitalized to exploration and evaluation assets	(8,998)	(2,642)
Rent forgiveness and rent subsidy	(60,523)	(121,965)
	$ 169,028	$ 113,504

7. Deferred Flow-Through Share Premium

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

Balance - September 1, 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		(96,690)
Balance - August 31, 2022	$	177,999

8. Lease Obligation

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

2023	$	229,181
2024		233,563
2025		63,280
Total future lease payments as at August 31, 2022		526,024
Amounts representing interest		29,937
Present value of future lease payments - August 31, 2022	$	496,087

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		30,069
Payments		(222,556)
Balance - August 31, 2022		496,087
Current portion of lease obligation		209,075
Non-current portion of lease obligation	$	287,012

The Company had net cash outflows of $123,934 (total lease payments of $222,556 less $98,622 in rent subsidy received) (2021 - $59,390 (total lease payments of $218,253 less $158,863 in rent forgiveness and rent subsidy received)) for its lease contract in the Year.

9. Convertible Notes Payable

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

9. Convertible Notes Payable (continued)

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

In conjunction with the issuance of the 2021 Note, Lind received a closing fee of $90,000 and 9,800,000 common share purchase warrants. Each warrant entitles the holder to purchase one common share of the Company at a price of $0.18 per common share until January 29, 2025. The Company also incurred other cash issuance costs of $27,566, resulting in net cash proceeds of $2,882,434 from the issuance of the 2021 Note.

The 2021 Note is a hybrid instrument that contains multiple embedded derivatives including the Conversion Feature and Buyback Option. The economic characteristics and risks of the Conversion Feature are different from that of the host contract (the 2021 Note) in that it allows Lind to convert the 2021 Note (a debt instrument) into the Company’s common shares (an equity instrument) at a price per share equal to 85% of the five day VWAP of the shares prior to the date of conversion, thus the Conversion Option can be measured separately from the 2021 Note. In addition, the number of common shares to be issued upon conversion is variable and does not meet the “a fixed amount of cash for a fixed number of equity instruments” requirement to be classified as an equity instrument. As such, the Company had designated the entire hybrid contract (the 2021 Note and all of the embedded derivatives) as a financial liability at FVTPL and are re-measured at each financial statement reporting date, with the resulting change in value being recorded as increase or decrease in fair values of convertible notes payable and derivative liabilities in the consolidated statement of comprehensive loss.

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

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

The fair value of the warrants was estimated at $556,997 at issuance, and this amount was allocated to the warrant component of this private placement. The fair value of the warrants was estimated using the Black-Scholes pricing model, with the following assumptions: expected dividend yield of Nil; risk free interest rate of 0.37%; expected life of 4.0 years; and expected volatility of 35%.

The fair values of the 2021 Note and the warrants at issuance totaled $4,156,997 and the excess of this amount over the net cash proceeds ($2,882,434) of $1,274,563 had been recorded as an increase in fair values of convertible notes payable and derivative liabilities in the Statement of Comprehensive Loss.

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

The terms and conditions of the 2022 Note are substantially the same as the 2021 Note and Lind is entitled to convert the face value of the 2022 Note into common shares commencing on September 10, 2022 over a twenty month period (subject to certain limits), 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 same buyback option as for the 2021 Note commencing after September 10, 2022.

9. Convertible Notes Payable (continued)

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

As with the 2021 Note, the 2022 Note is a hybrid instrument that contains multiple embedded derivatives including the conversion feature and the buyback option. The Company had designated the entire hybrid contract (the 2022 Note and all of the embedded derivatives) as a financial liability at FVTPL and are re-measured at each financial statement reporting date, with the resulting change in value being recorded as increase or decrease in fair value of convertible notes payable and derivative liabilities in the consolidated statement of comprehensive loss.

As the Company has the buyback option to repurchase the 2022 Note at the outstanding face value, the total fair value of the 2022 Note is therefore equal the face value, and is $3,600,000 at issuance.

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

The fair value of the warrants was estimated at $201,893 at issuance, and this amount was allocated to the warrant component of this private placement. The fair value of the warrants was estimated using the Black-Scholes pricing model, with the following assumptions: expected dividend yield of Nil; risk free interest rate of 2.78%; expected life of 4.0 years; and expected volatility of 35%.

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

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

Balance – September 1, 2020	$ -
Issued	3,000,000
Interest	600,000
Converted to common shares	(610,000)
Balance – August 31, 2021	2,990,000
Issued	3,000,000
Interest	600,000
Converted to common shares	(2,530,000)
Balance – August 31, 2022	$ 4,060,000
Current portion of convertible notes payable	460,000
Non-current portion of convertible notes payable	$ 3,600,000

The number of common shares to be issued would be 35,582,822 if the full amount of notes payable had been converted into common shares based on the five day VWAP of the Company's common shares on the TSX of $0.1342 on August 31, 2022.

10. Derivative Liabilities

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

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

	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 August 31, 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
Issued	9,000,000	201,893
Expired	(6,900,000)	(267)
Increase in fair value	-	101,187
Balance - August 31, 2022	26,925,000	523,567
Total derivative liabilities		$ 523,567

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

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

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

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

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

The fair values of the liability classified warrants were estimated at August 31, 2022 using the Black-Scholes pricing model, with the following weighted average assumptions: expected dividend yield of Nil; risk free interest rate of 3.5%; expected life of 2.3 years; and expected volatility of 35%.

11. Site Closure and Reclamation Provision

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

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

Balance - September 1, 2020	$	303,600
Change in estimates		(25,000)
Balance - August 31, 2021 and August 31, 2022	$	278,600

12. Share Capital

a) Authorized

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

b) Common Shares

Common shares issued, redeemed and cancelled during the years ended August 31, 2021 and 2022 are as follows:

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

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

ii) In May 2021, the Company completed a private placement and issued 2,500,000 flow-through common shares at $0.20 per share for gross proceeds of $500,000. In connection with this private placement, the Company paid finders' fees of $30,000 and incurred other cash issuance costs of $9,516, resulting in net cash proceeds of $460,484.

   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 $99,250 was recorded as a deferred flow-through share premium liability on the consolidated statement of financial position on May 14, 2021.

iii) In December 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.

12. Share Capital (continued)

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

Each FT Unit consists of one flow-through common share and one half non-transferable common share purchase warrant ("FT Warrant"), with each whole FT Warrant being exercisable to acquire one non-flow-through common share of the Company at a price of $0.18 until December 21, 2023. Each NFT Unit consists of one non-flow-through common share and one half non-transferable common share purchase warrant ("NFT Warrant"), with each whole NFT Warrant being exercisable to acquire one non-flow-through common share of the Company at a price of $0.15 until December 21, 2023.

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

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

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

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

c) Warrants

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

	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
Exercised	(3,125,000)	0.122
Balance – August 31, 2022	8,035,000[(1)]	$ 0.159

(1) Does not include the additional liability classified warrants as described in note 10.

12. Share Capital (continued)

The outstanding equity classified warrants have a weighted average remaining contract life of 1.0 years.

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

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

As described in note 10, the Company also has 26,925,000 liability classified warrants outstanding as at August 31, 2022.

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

d) Share Based Payments

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

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

	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	4,220,000	0.15
Exercised	(1,168,750)	0.09
Expired	(1,375,000)	0.11
Forfeited	(347,500)	0.13
Balance - August 31, 2022	17,605,000	$ 0.14

As at August 31, 2022, there were 7,220,000 options vested (August 31, 2021 - 5,105,000) with an average exercise price of $0.13 per share (August 31, 2021 - $0.10), that were exercisable.

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

12. Share Capital (continued)

The weighted average assumptions for grants during the years ended August 31, 2022 and August 31, 2021 are as follows:

	August 31, 2022	August 31, 2021
Exercise price	$0.15	$0.19
Closing market price on day preceding date of grant	$0.15	$0.18
Risk-free interest rate	1.97%	0.66%
Expected life (years)	3.3	4.1
Expected volatility	90%	88%
Expected dividend yield	Nil	Nil
Grant date fair value	$0.09	$0.11
Forfeiture rate	11%	13%

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

	Number of Options		Weighted Average Remaining
Exercise Price Range	Outstanding	Exercisable	Contractual Life
$0.21 - $0.26	400,000	100,000	3.5 years
$0.15 - $0.20	7,500,000	2,437,500	3.0 years
$0.11 - $0.14	3,860,000	1,600,000	2.9 years
$0.08 - $0.10	5,845,000	3,082,500	2.3 years
	17,605,000	7,220,000	

During the year ended August 31, 2021, an aggregate of 475,000 DSUs vesting at the grant date were granted to the Company's directors (the "DSU Grant") and a total of 1,475,000 RSUs were granted to the Company's officers and key employees (the "RSU Grant"). One-third of the RSU Grant will vest on each of the first, second and third anniversary of the grant date.

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

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

Changes to the number of share units are as follows:

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

12. Share Capital (continued)

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

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

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 Year was $590,288 (2021 – $395,216), of which $660 (2021 - $354) was capitalized to property, plant and equipment, $22,639 (2021 - $24,357) was capitalized as exploration and evaluation assets, $1,826 (2021 - $1,855) was charged to operations as general exploration expenses, with the balance of $565,163 (2021 – $368,650) charged to operations as share based compensation expense.

During the Year, an aggregate of 1,168,750 (2021 - 2,760,000) stock options were exercised at the weighted average exercise price of $0.09 (2021 - $0.11) per share, and the weighted average closing market share price on the date preceding the date of exercise was $0.17 (2021 - $0.22) per share.

e) Brokers' Compensation Warrants

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

	Number of Compensation Warrants	Weighted Average Exercise Price
Balance – September 1, 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 – August 31, 2022	938,900	$ 0.18

The outstanding brokers' compensation warrants have a weighted average remaining contract life of 1.2 years as at August 31, 2022.

13. Corporate and Administrative Expenses

Corporate and administrative expenses for the years ended August 31, 2022 and 2021 consist of the following:

	August 31, 2022	August 31, 2021
Salaries and benefits (1)	$ 1,086,323	$ 1,045,930
Directors' fees (2)	23,964	12,978
Consulting and professional fees	364,655	408,442
Office, insurance and other expenses	634,630	257,615
Shareholders' communications and filing fees	119,137	150,344
Travel and related costs	31,594	3,312
	$ 2,260,303	$ 1,878,621

(1) These figures do not include share based compensation and are net of the Canada Emergency Wage Subsidy ("CEWS") of $Nil (2021 - $212,937). Employees' salaries and benefits including share based compensation expensed for the Year totaled $1,427,247 (2021 - $1,207,987).

(2) These figures are net of the CEWS of $Nil (2021 - $10,363).

14. Capital Management

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

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

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

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

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

The Company does not have any externally imposed capital requirements. There were no significant changes to the Company's approach to capital management during the year ended August 31, 2022.

15. Related Party Disclosures

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

15. Related Party Disclosures (continued)

a) Trading transactions

There have been no material trading transactions with related parties during each of the years ended August 31, 2022 and 2021, other than the participation by certain related parties in the December 2021 private placement as described in Note 12b, 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 the years ended August 31, 2022 and August 31, 2021 are as follows:

	August 31, 2022	August 31, 2021
Salaries, benefits and directors' fees(1)	$ 1,053,829	$ 1,159,580
Share based compensation(2)	422,101	285,468
	$ 1,475,930	$ 1,445,048

(1) Salaries and benefits of key management personnel capitalized to exploration and evaluation assets and PPE totaled $102,109 (2021 - $174,794).

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

16. Financial Instruments

IFRS 13 establishes a fair value hierarchy that reflects the significance of inputs used in making fair value measurements as follows:

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

Assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The fair values of the Company's warrants with exercise prices that are subject to adjustment from time to time are based on Level 2 inputs that are observable for the liability such as interest rate, dividend yield and historical volatility. The fair value of the Convertible Notes Payable was based on Level 3 inputs including the applicable face value of the 2021 and 2022 Notes. The Company had the right to buy back these notes at any time for the outstanding face values, as such the fair value of each of these notes was the outstanding face value of each note.

Fair Values

Except as disclosed elsewhere in these 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:

16. Financial Instruments (continued)

Credit risk

The Company is not exposed to any significant credit risk as at August 31, 2022. The Company's cash and cash equivalents are either on deposit with two major Canadian Chartered banking groups in Canada or invested in bankers' acceptance notes or guaranteed investment certificates issued by a major Canadian Chartered banking group. The Company's receivables primarily consist of Goods and Services Tax/Harmonized Sales Tax receivable, government grants and refundable security deposits with various federal and provincial governments and are therefore not subject to significant credit risk.

Liquidity risk

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

As at August 31, 2022, the Company has current assets of $4,058,250 and current liabilities of $1,445,827. The Company's working capital as at August 31, 2022 was $2,612,423.

Repayments due by period as of August 31, 2022:

	Within 1 Year	1-3 Years	4-5 Years	Over 5 Years	Total
Accounts payable and accrued liabilities	$ 598,753	$ -	$ -	$ -	$ 598,753
Convertible notes payable	460,000	3,600,000	-	-	4,060,000
Lease obligation	229,181	296,843	-	-	526,024
	$ 1,287,934	$ 3,896,843	$ -	$ -	$ 5,184,777

Market risk

i) Interest rate risk

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

ii) Foreign currency risk

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

16. Financial Instruments (continued)

Sensitivity analysis

Considering the Company's budget expenditures for the next twelve months and its current cash and cash equivalents of $3,032,040, with other variables held constant, sensitivity to a plus or minus 100 basis points change in interest rates would not have any significant effect on the Company's net loss over a twelve month period.

The Company had no significant financial assets or financial liabilities denominated in foreign currencies as at August 31, 2022, and its anticipated ongoing 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.

17. Supplemental Cash Flow Information

Non-cash financing and investing transactions not reflected in the Consolidated Statements of Cash Flows for the years ended August 31, 2022 and August 31, 2021 are as follows:

	August 31, 2022	August 31, 2021
Share based compensation capitalized as property, plant and equipment (note 12d)	$ 660	$ 354
Share based compensation capitalized as exploration and evaluation assets (note 12d)	22,639	24,357
Depreciation expense capitalized exploration and evaluation assets	8,998	2,642
Common shares issued for deposit on business acquisition (note 5c)	-	219,200
	$ 32,297	$ 246,553

18. Income Taxes

a) Provision for Income Taxes

The following table reconciles the income tax provision from the expected income tax amount based on the statutory rates to the amount recognized in the statements of comprehensive loss:

	August 31, 2022	August 31, 2021
Net loss for the year before income taxes	$ 4,042,533	$ 3,954,904
Combined Canadian federal and provincial tax rate	25.0%	25.0%
Expected income tax recovery at statutory rates	1,010,633	988,726
Non-deductible share based compensation	(118,291)	(57,667)
Other non-deductible expenses	(100)	(44)
CEE incurred applied to flow-through shares	(114,805)	(214,172)
Amortization of flow-through share premium	96,690	199,781
Non-deductible change in fair value of derivative financial instruments	(75,703)	(197,744)
Losses and other deductions for which no benefit has been recognized	(701,734)	(519,099)
Deferred income tax recoveries	$ 96,690	$ 199,781

18. Income Taxes (continued)

b) Income Tax Effect of Temporary Differences Recognized

The tax effects of temporary differences recognized as at August 31, 2022 and August 31, 2021 are as follows:

	August 31, 2022	August 31, 2021
Deferred income tax assets		
Exploration and evaluation assets	$ 5,871,391	$ 6,221,455
Scientific research and experimental developmental expenditures	4,589,056	4,298,464
	10,460,447	10,519,919
Deferred income tax liabilities		
Property plant and equipment	(10,460,447)	(10,519,919)
Net deferred income tax assets	$ -	$ -

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, 2022 and August 31, 2021 are as follows:

	August 31, 2022	August 31, 2021
Non-capital loss carryforwards	$ 40,558,205	$ 37,886,508
Scientific research and experimental developmental expenditures	9,011,532	10,173,900
Share issuance costs	1,146,679	725,290
Capital loss carry forwards	2,294,535	2,294,535
Lease obligation	496,087	688,574
Deductible temporary differences not recognized	$ 53,507,038	$ 51,768,807

The Company also has non-refundable investment tax credit carry forwards of $5,687,308 (2021 - $5,687,308), which has not been recognized as a deferred income tax asset.

d) Non-Capital Losses

The Company has non-capital losses carried forward of approximately $38,890,000 (2021 - $36,219,000) available to reduce future years' Canadian taxable income. These losses will expire as follows:

2026	$ 156,000
2027	232,000
2028	847,000
2029	914,000
2030	1,584,000
2031	3,050,000
2032	3,601,000
2033	4,151,000
2034	4,211,000
2035	4,397,000
2036	3,008,000
2037	2,805,000
2038	2,837,000
2039	2,170,000
2040	103,000
2041	2,153,000
2042	2,671,000

18. Income Taxes (continued)

The Company also has net operating losses of approximately $1,668,000 (2021 - $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 (2021 - $2,295,000) available to reduce future years' Canadian taxable capital gains.

19. Loss per Share

The weighted average number of common shares for the purposes of diluted loss per share equals to the weighted average number of common shares used in the calculation of basic loss per share for the years ended August 31, 2021 and 2022.

The loss used to calculate the basic and diluted loss per common share for the year ended August 31, 2022 was $3,945,843 (2021 - $3,755,123).

As at August 31, 2022, the Company had 35,898,900 (2021 - 30,125,000) warrants, 17,605,000 (2021 - 16,276,250) stock options, and 1,491,666 (2021 - 1,950,000) Share Units outstanding. As at August 31, 2022, the Company also had $4,060,000 (2021 - $2,990,000) Convertible Note Payable outstanding, which could have been converted into a total of 35,582,822 common shares based on the five day VWAP of the Company's common shares on the TSX of $0.1342 on August 31, 2022. These warrants, options, Share Units and Convertible Note Payable could potentially dilute earnings per share in the future, but have not been included in the diluted loss per share calculation because they were antidilutive for the years ended August 31, 2022 and August 31, 2021.

20. Commitments

As at August 31, 2022, pursuant to the subscription agreements entered into for the December 2021 private placement the Company is required to incur additional CEE of $814,581 by December 31, 2022.

21. Events After the Reporting Period

Subsequent to the end of the Year, the Company:

a) issued 8,625,108 common shares pursuant to the conversion of $1,020,000 convertible note payable;

b) issued 1,900,000 common shares pursuant to the exercise of warrants with a weighted average exercise price of $0.12 per share;

c) granted 80,000 stock options with a weighted average exercise price of $0.15 per share to an employee of the Company. The contract life of these options at issuance was 5 years;

d) granted 200,000 stock options with a weighted average exercise price of $0.12 per share to a consultant of the Company. The contract life of these options at issuance was 2 years;

e) cancelled 200,000 stock options with a weighted average exercise price of $0.20 per share; and

f) had 250,000 warrants with a weighted average exercise price of $0.12 per share expire.