



**AVALON**

ADVANCED MATERIALS

## **Avalon Advanced Materials Inc.**

### **Condensed Consolidated Interim Financial Statements**

**For the three months ended November 30, 2024  
(Unaudited)**

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#### **NOTICE TO READER**

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

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

	November 30, 2024	August 31, 2024
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 3,126,281	\$ 712,306
Other receivables	77,040	49,115
Prepaid expenses and deposits	126,947	130,389
	<u>3,330,268</u>	<u>891,810</u>
<b>Non-Current Assets</b>		
Investment in associate (note 4)	22,686,737	22,710,238
Property, plant and equipment (note 6)	111,864,568	111,889,134
Deferred financing costs	747,266	887,379
	<u>135,298,571</u>	<u>135,486,751</u>
	<u>\$ 138,628,839</u>	<u>\$ 136,378,561</u>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 526,215	\$ 458,446
Accrued liabilities	887,929	1,040,688
Convertible note payable (note 7)	2,475,000	2,970,000
Current portion of lease obligation (note 8)	140,536	137,034
Current portion of debenture payable (note 9)	-	3,237,719
Derivative liabilities (note 10)	3	637
	<u>4,029,683</u>	<u>7,844,524</u>
<b>Non-Current Liabilities</b>		
Lease obligation (note 8)	659,891	707,296
Debenture payable (note 9)	6,820,822	-
Site closure and reclamation provisions	203,600	203,600
	<u>7,684,313</u>	<u>910,896</u>
	<u>11,713,996</u>	<u>8,755,420</u>
<b>Shareholders' Equity</b>		
Share Capital (note 11)	202,257,439	201,501,514
Reserve for Warrants (note 11c)	5,066,207	4,920,753
Reserve for Share Based Payments (note 11d)	19,405,690	19,336,639
Reserve for Brokers' Compensation Warrants (note 11e)	301,064	301,064
Accumulated Deficit	(100,115,557)	(98,436,829)
	<u>126,914,843</u>	<u>127,623,141</u>
	<u>\$ 138,628,839</u>	<u>\$ 136,378,561</u>

Approved on behalf of the Board

\_\_\_\_\_, Director  
 "Scott Monteith"

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

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

	Three Months Ended November 30,	
	2024	2023
<b>Revenue</b>		
Interest	\$ 7,135	\$ 15,791
Rent	-	54,000
	<u>7,135</u>	<u>69,791</u>
<b>Expenses</b>		
Corporate and administrative (note 12)	845,032	1,498,483
Project development	240,725	-
Property holding costs	25,590	187,539
General exploration	6,303	3,347
Depreciation (note 6c)	66,501	55,758
Share based compensation (note 11d)	87,173	130,906
Finance costs (note 9)	222,117	57,123
Debt refinancing costs (note 9)	169,556	-
Decrease in fair values of derivative liabilities (note 10)	(634)	(152,027)
	<u>1,662,363</u>	<u>1,781,129</u>
<b>Net Loss before the Undernoted Items</b>	(1,655,228)	(1,711,338)
<b>Equity in Loss of Associate</b> (note 4)	(23,500)	-
<b>Gain on Sale of Exploration and Evaluation Assets</b>	-	5,722,693
<b>Gain Recognized on Lease Amendment</b>	-	29,487
	<u>(1,678,728)</u>	<u>4,040,842</u>
<b>Net Income (Loss) before Income Taxes</b>	(1,678,728)	4,040,842
<b>Deferred Income Tax Recoveries</b>	-	10,674
	<u>-</u>	<u>10,674</u>
<b>Net Income (Loss) and Total Comprehensive Income (Loss) for the period</b>	<u>\$ (1,678,728)</u>	<u>\$ 4,051,516</u>
<b>Income (Loss) per Share - Basic</b>	<u>\$ (0.003)</u>	<u>\$ 0.007</u>
<b>Income (Loss) per Share - Diluted</b>	<u>\$ (0.003)</u>	<u>\$ 0.007</u>
<b>Weighted Average Number of Common Shares Outstanding</b>		
- Basic	<u>580,356,143</u>	<u>560,373,603</u>
<b>Weighted Average Number of Common Shares Outstanding</b>		
- Diluted	<u>580,356,143</u>	<u>564,273,651</u>

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

	Share Capital		Reserves				Total
	Number of Shares	Amount	Warrants	Share Based Payments	Brokers' Compensation Warrants	Accumulated Deficit	
Balance at September 1, 2023	560,373,603	\$ 200,590,815	\$ 4,371,240	\$ 18,682,104	\$ 301,064	\$ (97,802,253)	\$ 126,142,970
Share based compensation (note 11d)	-	-	-	134,299	-	-	134,299
Net income and total comprehensive income for the three month period	-	-	-	-	-	4,051,516	4,051,516
Balance at November 30, 2023	560,373,603	200,590,815	4,371,240	18,816,403	301,064	(93,750,737)	130,328,785
Equity offerings	4,250,000	422,662	2,338	-	-	-	425,000
Conversion of note payable	6,165,381	330,000	-	-	-	-	330,000
Redemption of restricted share units - shares	786,071	143,937	-	(143,937)	-	-	-
Redemption of restricted share units - cash payroll withholding tax payments	-	-	-	(58,640)	-	-	(58,640)
Redemption of deferred share units - shares	215,000	35,684	-	(35,684)	-	-	-
Redemption of deferred share units - cash payroll withholding tax payments	-	-	-	(548)	-	-	(548)
Share based compensation (note 11d)	-	-	-	759,045	-	-	759,045
Share issuance costs - cash	-	(21,584)	-	-	-	-	(21,584)
Warrants issued with note payable	-	-	547,175	-	-	-	547,175
Net loss and total comprehensive loss for the nine month period	-	-	-	-	-	(4,686,092)	(4,686,092)
Balance at August 31, 2024	571,790,055	201,501,514	4,920,753	19,336,639	301,064	(98,436,829)	127,623,141
Equity offerings (note 11b)	6,400,000	252,800	67,200	-	-	-	320,000
Conversion of note payable	11,764,933	495,000	-	-	-	-	495,000
Redemption of deferred share units - shares	60,000	15,373	-	(15,373)	-	-	-
Redemption of deferred share units - cash payroll withholding tax payments	-	-	-	(2,749)	-	-	(2,749)
Share based compensation (note 11d)	-	-	-	87,173	-	-	87,173
Share issuance costs - cash (note 11b)	-	(7,248)	(1,928)	-	-	-	(9,176)
Warrants issued for other considerations (note 9)	-	-	80,182	-	-	-	80,182
Net loss and total comprehensive loss for the three month period	-	-	-	-	-	(1,678,728)	(1,678,728)
Balance at November 30, 2024	590,014,988	\$ 202,257,439	\$ 5,066,207	\$ 19,405,690	\$ 301,064	\$ (100,115,557)	\$ 126,914,843

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

	Three Months Ended November 30,	
	2024	2023
<b>Operating Activities</b>		
Cash paid to employees	\$ (655,655)	\$ (401,899)
Cash paid to suppliers	(651,844)	(450,363)
Interest received	7,135	15,791
Rent received	-	36,000
	<u>(1,300,364)</u>	<u>(800,471)</u>
Cash Used by Operating Activities		
<b>Financing Activities</b>		
Net proceeds from equity offerings (note 11b)	310,824	-
Proceeds from issuance of debenture payable (note 9)	3,500,000	-
Net lease payments (note 8)	(58,424)	(70,086)
	<u>3,752,400</u>	<u>(70,086)</u>
Cash Provided (Used) by Financing Activities		
<b>Investing Activities</b>		
Exploration and evaluation assets	-	(99,946)
Property, plant and equipment	(38,061)	(104,928)
Transaction costs paid for acquisition of investment in associate	-	(87,670)
Net exploration and evaluation expenditures paid on behalf of associate	-	(648,395)
	<u>(38,061)</u>	<u>(940,939)</u>
Cash Used by Investing Activities		
<b>Change in Cash and Cash Equivalents</b>	<b>2,413,975</b>	<b>(1,811,496)</b>
<b>Cash and Cash Equivalents - beginning of period</b>	<b>712,306</b>	<b>2,582,110</b>
<b>Cash and Cash Equivalents - end of period</b>	<b>\$ 3,126,281</b>	<b>\$ 770,614</b>

Supplemental Cash Flow Information (note 15)

## **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 2060, 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 investment in associate 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 the Nechalacho REE Project and its planned lithium-hydroxide processing facility, and future profitable production or proceeds of disposition from its development assets and the investee company’s ability to develop and generate profitable production from its mineral assets.

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS Accounting Standards”) 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 debt and equity markets to conduct its business activities. The Company has incurred losses in the current and prior periods, with a loss of \$1,678,728 for the three months ended November 30, 2024 (the “Quarter”) and an accumulated deficit of \$100,115,557 as at November 30, 2024. The Company’s cash and cash equivalents balance at November 30, 2024 was \$3,126,281, and the working capital deficit was \$699,415.

The Company’s business plan is dependent on raising additional funds to finance operations within and beyond the next twelve months. While management has been successful in securing financing in the past, there exists an uncertainty as to the Company’s ability to raise additional funds on acceptable 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. 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. Initiatives to raise additional capital are ongoing and include financing from investing partners for developing the Company’s planned lithium-hydroxide processing facility.

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

These unaudited condensed consolidated interim financial statements have been reviewed and approved by the Company’s Audit Committee and the Board of Directors on January 14, 2025.

## **2. Basis of Presentation**

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

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

These unaudited condensed consolidated interim financial statements do not contain all disclosures required by IFRS Accounting Standards and accordingly should be read in conjunction with the Company’s consolidated annual financial statements for the year ended August 31, 2024.

These unaudited condensed consolidated interim financial statements have been prepared on a going concern basis using the historical cost basis, except for certain financial instruments which are measured at fair value in accordance with the policies disclosed in Note 3 of the Company’s consolidated annual financial statements for the year ended August 31, 2024.

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

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

These unaudited condensed consolidated interim financial statements include the accounts of the Company and its wholly-owned subsidiaries, 8110131 Canada Inc., 1000560170 Ontario Inc., Avalon Lithium Inc., Lake Superior Lithium Inc., Nolava Minerals Inc. (“Nolava”), and Avalon Rare Metals Ltd. (“ARML”). Nolava and ARML are incorporated in the United States of America.

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

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

These unaudited condensed consolidated interim financial statements have been prepared using the same accounting policies, significant accounting judgments and estimates, and methods of computation as the annual consolidated financial statements of the Company as at and for the year ended August 31, 2024, except for the adoption of the new accounting standard as described below:

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

The amendments to IAS 1, Presentation of Financials Statements to clarify the requirements for classifying liabilities as current or non-current and 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.

Effective September 1, 2024, the Company adopted these amendments retrospectively. The Company’s convertible note payable and derivative liabilities are now classified as current liabilities. The convertible note payable balance of \$2,970,000 and the derivative liabilities balance of \$637 as at August 31, 2024 have been reclassified as current liabilities on the comparative interim statement of financial positions as at August 31, 2024. These amounts were classified as non-current liabilities on the Company’s previously disclosed annual consolidated statements of financial position as at August 31, 2024.

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

The Adoption of these amendments had no impact on the Company's condensed consolidated interim statement of comprehensive loss and consolidated interim statement of cash flows for the Quarter.

The following pronouncements are issued but not yet effective and have not been applied in preparing these unaudited condensed consolidated interim financial statements. Management believes that other new IFRS accounting pronouncements not yet effective do not have a significant impact on the Company's present or near future consolidated financial statements.

#### *IFRS 18 - Presentation and Disclosure in the Financial Statements*

In April 2024, the IASB issued IFRS 18, Presentation and Disclosure of Financial Statements ("IFRS 18"). IFRS 18 is effective for periods beginning on or after January 1, 2027 (which will become effective on September 1, 2027 for the Company) and will apply retrospectively. IFRS 18 will replace IAS 1. IFRS 18 is expected to improve the quality of financial reporting by requiring defined subtotals in the statement of profit or loss, requiring disclosure about management-defined performance measures, and adding new principles for aggregation and disaggregation of information. The Company has not yet determined the impact of this standard on its disclosures.

### **4. Investment in Associate**

On November 9, 2023, the Company completed the sale/transfer of its Separation Rapids Lithium Project and Lilypad Cesium-Tantalum Project to the joint venture company Separation Rapids Ltd. ("SRL") and acquired a 40% equity interest in SRL, with SCR-Sibelco NV ("Sibelco") owning the other 60%. The mandate of SRL is to advance the exploration and development activities of the Separation Rapids Lithium Project and Lilypad Cesium-Tantalum Project. Sibelco is the operator of SRL.

The Company has significant influence over the operations of SRL and its investment in SRL is accounted for using the equity method.

SRL's current operation is mainly focus on continuing the exploration and development activities on the Separation Rapids Lithium Project and Lilypad Cesium-Tantalum Project.

The following table summarizes the total comprehensive loss of SRL (100%) for the three months ended November 30, 2024 and the period from November 9, 2023 to November 30, 2023:

	<b>November 30, 2024</b>	<b>November 30, 2023</b>
Revenue	\$ -	\$ -
Net loss & comprehensive loss	\$ 58,751	\$ -
Dividends paid	\$ -	\$ -



**Condensed Consolidated Interim Financial Statements  
For the three months ended November 30, 2024  
(unaudited)**

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**4. Investment in Associate (continued)**

The following table summarizes the financial information of SRL (100%) and reconciles it to the carrying amount of Avalon's interest:

	<b>November 30, 2024</b>	<b>August 31, 2024</b>
Current assets	\$ 2,937,027	\$ 3,155,745
Non-current assets	64,292,651	64,067,944
Total assets	67,229,678	67,223,689
Current liabilities and total liabilities	1,679,391	1,614,651
Shareholders' equity	65,550,287	65,609,038
Avalon's share of equity (40%)	26,220,115	26,243,615
Acquisition transaction costs	281,751	281,751
Gain on sale of exploration and evaluation assets not recognized	(3,815,129)	(3,815,129)
	<b>\$ 22,686,737</b>	<b>\$ 22,710,238</b>

**5. Exploration and Evaluation Assets**

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.

**Condensed Consolidated Interim Financial Statements**  
**For the three months ended November 30, 2024**  
**(Unaudited)**

**6. Property, Plant and Equipment**

	Nechalacho REE Project (a)	Transportation Facilities	Office, Computer and Office Equipment (b)	Land and Building	Exploration Equipment	Leasehold Improvements	Total
<b>Cost</b>							
As at September 1, 2023	\$ 101,616,840	\$ 1,695,573	\$ 1,215,861	\$ 7,832,505	\$ 335,080	\$ 106,754	\$ 112,802,613
Additions	49,207	-	1,061,069	69,770	-	178,868	1,358,914
Lease adjustment	-	-	(196,090)				(196,090)
Disposals	-	-	(921,843)	(94,605)	(79,752)	(106,754)	(1,202,954)
As at August 31, 2024	101,666,047	1,695,573	1,158,997	7,807,670	255,328	178,868	112,762,483
Additions	41,935	-	-	-	-	-	41,935
As at November 30, 2024	\$ 101,707,982	\$ 1,695,573	\$ 1,158,997	\$ 7,807,670	\$ 255,328	\$ 178,868	\$ 112,804,418
<b>Accumulated Depreciation</b>							
As at September 1, 2023	\$ -	\$ 353,334	\$ 936,188	\$ 31,631	\$ 316,085	\$ 103,529	\$ 1,740,767
Depreciation expense	-	13,593	215,048	2,237	16,847	27,074	274,799
Disposals	-	-	(921,843)	(33,868)	(79,752)	(106,754)	(1,142,217)
As at August 31, 2024	-	366,927	229,393	-	253,180	23,849	873,349
Depreciation expense	-	3,126	54,271	-	161	8,943	66,501
As at November 30, 2024	\$ -	\$ 370,053	\$ 283,664	\$ -	\$ 253,341	\$ 32,792	\$ 939,850
<b>Net Book Value</b>							
August 31, 2024	\$ 101,666,047	\$ 1,328,646	\$ 929,604	\$ 7,807,670	\$ 2,148	\$ 155,019	\$ 111,889,134
November 30, 2024	\$ 101,707,982	\$ 1,325,520	\$ 875,333	\$ 7,807,670	\$ 1,987	\$ 146,076	\$ 111,864,568

## 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, with the resources above a depth of 150 metres above sea level having been sold to an unrelated third party. The Company continues to have access to the property for development and mining of its Basal Zone Resources.

These eight contiguous mining leases total 5,786 hectares (14,297 acres), after three mining claims totaling 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 \$2.0 million, and which will increase at a rate equal to the Canadian prime rate until the royalty is bought out.

The Company retained a 3.0% NSR royalty (the “3.0% NSR Royalty”) on the resources above a depth of 150 metres above sea level 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.

On November 30, 2024, 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 November 30, 2024 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 \$49,509 (2023 - \$49,022) was recognized relating to the right of use (“ROU”) asset (which consisted of its leased office premises) during the Quarter, and the carrying balance of the ROU asset was \$808,641 as at November 30, 2024 (August 31, 2024 - \$858,150).
- c) Depreciation expense for the three months ended November 30, 2024 and 2023 consist of the following:

	November 30, 2024	November 30, 2023
Depreciation expense recognized	\$ 66,501	\$ 71,685
Depreciation expense capitalized to exploration and evaluation assets	-	(15,927)
	<u>\$ 66,501</u>	<u>\$ 55,758</u>

## 7. Convertible Note Payable

During the year ended August 31, 2024, the Company entered into an up to \$15,000,000 convertible security agreement (the “Funding Agreement”) with an entity managed by The Lind Partners (“Lind”) and completed the first drawdown and issued a convertible note payable of \$2,750,000 to Lind (the “2024 Note”). Subject to further agreement by the parties, an additional drawdown under the Funding Agreement can be made on satisfaction of certain conditions.

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For the three months ended November 30, 2024  
(unaudited)**

**7. Convertible Note Payable (continued)**

The 2024 Note has a two-year term and accrues a simple interest rate obligation of 10% per annum on the funded amount, which is prepaid and attributed to the face value of the 2024 Note upon issuance, resulting in a face value of \$3,300,000 (the "Face Value"). Lind is entitled to convert the Face Value amount over a 24-month period at a conversion price equal to 85% of the five-day trailing volume weighted average price ("VWAP") of Avalon's common shares prior to the date of conversion (the "Conversion Feature"). The 2024 Note matures on March 27, 2026. Commencing on August 26, 2024, the Company has the right to repurchase the 2024 Note at the outstanding face value (the "Buyback Option"), subject to Lind's option to convert up to one third of the Face Value into Avalon common shares prior to such repurchase.

The 2024 Note is secured by a general security agreement and a mortgage on the Company's Thunder Bay Property.

The 2024 Note is a hybrid instrument that contains multiple embedded derivatives including the Conversion Feature and Buyback Option. The Company had designated the entire hybrid contract (the 2024 Note and all 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 income.

On evaluating the transaction and the features of the instrument described above, the initial fair value of the 2024 Note was determined to be \$3,300,000 at issuance.

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

Balance - September 1, 2023	\$ -
Issued	3,300,000
Converted to common shares	<u>(330,000)</u>
Balance - August 31, 2024	2,970,000
Converted to common shares	<u>(495,000)</u>
Balance - November 30, 2024	<u>\$ 2,475,000</u>

The number of common shares to be issued would be 75,000,000 if the full amount of note payable had been converted into common shares, based a conversion price of \$0.0330, which is 85% of the five day VWAP of the Company's common shares on the TSX on November 30, 2024.

**8. Lease Obligation**

As at November 30, 2024, the Company had the following future commitment relating to the lease contract for its office premises:

2025	\$ 133,398
2026	240,942
2027	245,358
2028	249,846
2029	<u>56,926</u>
Total future lease payments as at November 30, 2024	926,470
Amounts representing interest	<u>(126,043)</u>
Present value of future lease payments - November 30, 2024	<u>\$ 800,427</u>

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**8. Lease Obligation (continued)**

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

Balance - September 1, 2023	\$ 287,013
Lease amendment adjustment (note 7b)	(225,577)
New lease contract	990,172
Interest expense	38,127
Payments	<u>(245,405)</u>
Balance - August 31, 2024	844,330
Interest expense	14,521
Payments	<u>(58,424)</u>
Balance - November 30, 2024	800,427
Current portion of lease obligation	<u>140,536</u>
Non-current portion of lease obligation	<u>\$ 659,891</u>

The Company had net cash outflows of \$58,424 (2024 - \$70,086) for its lease contract in the Quarter.

**9. Debenture Payable**

During the year ended August 31, 2023, the Company issued to Sibelco a debenture in the principal amount of \$3,000,000 for cash proceeds of \$3,000,000 (the 2023 Debenture). The 2023 Debenture bore interest at 7.115% per annum and the principal and interest were payable on or before maturity, being June 14, 2025 (the "Original Maturity") at the option of the Company. To the extent not repaid by the Original Maturity by the Company, Sibelco would have the right to convert the Debenture and all accrued and unpaid interest thereon into either an aggregate of 37,590,496 Common Shares of Avalon, or an additional 5% interest in SRL, in which case the Company's equity interest in SRL would be reduced by 5%. The 2023 Debenture was secured by the Company's equity interest in SRL.

On November 18, 2024, the Company and Sibelco amended the 2023 Debenture with Sibelco provided an additional funding of \$3,500,000 to the Company by way of an amended and restated debenture (the "2024 Debenture"). The 2024 Debenture replaced the 2023 Debenture and has a principal amount of \$6,500,000. The 2024 Debenture bears interest at 7.5% per annum, with the principal and accrued interest payable on maturity, being November 18, 2026 ("Maturity").

Should the 2024 Debenture not be repaid by the Company at Maturity, Sibelco has the right to (a) convert the outstanding principal and accrued interest into additional common shares of Avalon at a price equal to the greater of (i) the 15 day VWAP of the Company's common shares on the TSX immediately prior to the exercise of this right and (ii) the minimum price allowed by the TSX, or (b) convert the outstanding principal and interest into additional common shares of SRL, based on a pro-rated formula.

If the entire amount of the 2024 Debenture and accrued interest is converted into common shares of SRL at Maturity, then Sibelco's equity interest in SRL will be increased by 30% to 90%, with the Company owning the remaining 10%. Sibelco will also have the right to exercise its conversion rights prior to Maturity if the Company does not make certain reductions in its corporate and administrative costs. The 2024 Debenture continues to be secured by the Company's equity interest in SRL.

In connection with the replacement of the 2023 Debenture and the issuance of the 2024 Debenture, the Company issued 3,500,000 common share purchase warrants to Lind as consideration for Lind to waive certain conditions of the 2024 Note. Each warrant entitles Lind to purchase one common share of the Company at a price of \$0.0625 per common share until November 18, 2029. The fair value of these warrants was estimated at \$80,182 using the Black-Scholes pricing model.

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**9. Debenture Payable (continued)**

The Company also incurred other transaction costs of \$73,754 in connection with the replacement of the 2023 Debenture and the issuance of the 2024 Debenture.

The debenture is classified and measured at amortized cost.

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

Balance - September 1, 2023	\$ 3,009,978
Interest and accretion on debenture	227,741
Balance - August 31, 2024	3,237,719
Interest and accretion on debenture	51,992
Balance - November 18, 2024	3,289,711
Loss recognized on refinancing	15,620
Refinanced	(3,305,331)
Issued	6,805,331
Interest and accretion on debenture	15,491
Balance - November 30, 2024	<u>\$ 6,820,822</u>

The total transaction costs of \$153,936 and the loss recognized on the replacement of the 2023 Debenture of \$15,620 have been expensed as debt refinancing costs on the Interim Statement of Comprehensive Loss.

The Company's finance costs for the three months ended November 30, 2024 and November 30, 2023 comprise of the following:

	November 30, 2024	November 30, 2023
Interest and accretion on debenture	\$ 67,483	\$ 55,828
Interest on lease obligation (note 8)	14,521	1,295
Amortization of deferred financing costs	140,113	-
	<u>\$ 222,117</u>	<u>\$ 57,123</u>

**10. Derivative Liabilities**

The derivative liabilities consist of certain warrants with exercise prices that are subject to adjustment from time to time in the event of certain common share rights offering ("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
Balance - September 1, 2023	18,800,000	\$ 198,123
Decrease in fair value	-	(197,486)
Balance - August 31, 2024	18,800,000	637
Decrease in fair value	-	(634)
Balance - November 30, 2024	<u>18,800,000</u>	<u>\$ 3</u>

## 10. Derivative Liabilities (continued)

The Company has the following liability classified warrants outstanding as at November 30, 2024:

- i) 9,800,000 warrants with an exercise price of \$0.18 per share and are exercisable until January 29, 2025; and
- ii) 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 November 30, 2024 using the Black-Scholes pricing model, with the following weighted average assumptions: expected dividend yield of Nil; risk free interest rate of 3.0%; expected life of 0.8 years; and expected volatility of 45%.

## 11. 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 November 30, 2024.

### b) Common Shares

In October 2024, the Company completed a private placement and issued 6,400,000 units at a price of \$0.05 per unit (the "Unit") for gross proceeds of \$320,000, of which 200,000 Units were subscribed by Mr. Zeeshan Syed, Vice President, External Affairs and Partnerships and 200,000 Units were subscribed by Mr. Andrew Ramcharan, Vice President, Corporate Development. Each Unit was comprised of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire one common share at a price of \$0.075 for a period of three years until October 25, 2027, or if the closing price of the common shares on the TSX is \$0.15 or higher for a period of twenty consecutive trading days after October 25, 2024, the Company may, by notice to the holder (supplemented by a news release of general dissemination) reduce the expiry date of the warrants to not less than 30 days from the date of such notice.

Of the Unit price of \$0.05, \$0.0395 was allocated to the common share component of the Unit and the balance of \$0.0105 was allocated to the warrant component of the 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 \$0.055, and the estimated fair value of a warrant of \$0.0146. The fair value of the warrant was estimated using the Black-Scholes pricing model. The Company incurred cash issuance costs of \$9,176 in connection with this private placement.

### c) Warrants

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

	Number of Warrants	Weighted Average Exercise Price
Balance - September 1, 2023	11,620,312 <sup>(1)</sup>	\$ 0.211
Issued	17,925,000	0.132
Expired	(5,885,000)	0.173
Balance - August 31, 2024	23,660,312 <sup>(1)</sup>	0.161
Issued	9,900,000	0.071
Balance - November 30, 2024	33,560,312 <sup>(1)</sup>	\$ 0.134

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

## 11. Share Capital (continued)

The outstanding equity classified warrants have a weighted average remaining contract life of 3.3 years.

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

As described in note 10, the Company also has 18,800,000 liability classified warrants outstanding as at November 30, 2024.

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

### d) Share Based Payments

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

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

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

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

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

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

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

	Number of Options	Weighted Average Exercise Price
Balance - September 1, 2023	23,663,750	\$ 0.14
Granted	6,875,000	0.10
Expired	(2,830,000)	0.14
Forfeited	(4,475,000)	0.15
Balance - August 31, 2024	23,233,750	0.13
Granted	625,000	0.06
Expired	(465,000)	0.10
Balance - November 30, 2024	23,393,750	\$ 0.12



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**11. Share Capital (continued)**

As at November 30, 2024, there were 11,948,750 options vested (August 31, 2024 - 11,816,250) with an average exercise price of \$0.14 per share (August 31, 2024 - \$0.14), that were exercisable.

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

The weighted average assumptions for grants during the Quarter and the year ended August 31, 2024 are as follows:

	November 30, 2024	August 31, 2024
Exercise price	\$0.06	\$0.10
Closing market price on day	\$0.06	\$0.09
Risk-free interest rate	2.9%	4.04%
Expected life (years)	2.2	3.0
Expected volatility	62%	72%
Expected dividend yield	Nil	Nil
Grant date fair value	\$0.02	\$0.04
Forfeiture rate	11%	10%

The following table summarizes information concerning outstanding and exercisable options as at November 30, 2024:

Exercise Price Range	Number of Options		Weighted Average Remaining Contractual Life
	Outstanding	Exercisable	
\$0.21 - \$0.26	400,000	400,000	1.2 years
\$0.15 - \$0.20	5,830,000	4,152,500	1.5 years
\$0.11 - \$0.14	7,290,000	3,127,500	2.7 years
\$0.08 - \$0.10	9,248,750	4,156,250	1.4 years
\$0.06 - \$0.07	625,000	112,500	2.2 years
	<u>23,393,750</u>	<u>11,948,750</u>	

Changes to the number of share units are as follows:

	DSU Plan (Equity Settled)	RSU Plan (Equity Settled)
Balance - September 1, 2023	1,535,000	525,000
Granted	210,000	4,369,424
Redeemed - common shares issued	(215,000)	(786,071)
Redeemed - cash payroll withholding tax payments	(10,000)	(804,340)
Balance - August 31, 2024	1,520,000	3,304,013
Redeemed - common shares issued	(60,000)	-
Redeemed - cash payroll withholding tax payments	(65,000)	-
Balance - November 30, 2024	<u>1,395,000</u>	<u>3,304,013</u>

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**11. Share Capital (continued)**

There were 1,395,000 DSUs vested as at November 30, 2024 (August 31, 2024 - 1,520,000).

There were 3,304,013 RSUs vested as at November 30, 2024 and August 31, 2024.

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 Quarter was \$87,173 (2023 - \$134,299), of which \$Nil (2023 - \$3,393) was capitalized as exploration and evaluation assets ("E&E Assets"), with the balance of \$87,173 (2023 - \$130,906) charged to operations as share based compensation expense.

**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:

	<b>Number of Compensation Warrants</b>	<b>Weighted Average Exercise Price</b>
Balance - September 1, 2023	788,900	\$ 0.18
Expired	(788,900)	0.18
Balance - August 31, 2024 and November 30, 2024	-	\$ -

**f) Share Capital Structure**

The Company's share capital structure including its common shares and any potentially dilutive instruments outstanding as at November 30, 2024:

	<b>November 30, 2024</b>
Common shares	590,014,988
Warrants	52,360,312
Stock options	23,393,750
DSUs	1,395,000
RSUs	3,304,013
Convertible note payable	75,000,000 <sup>(1)</sup>
Total	<u>745,468,063</u>

<sup>(1)</sup> The number of common shares that would be issued if the full amount of the note payable had been converted into common shares, based a conversion price of \$0.0330, which is 85% of the five day VWAP of the Company's common shares on the TSX on November 30, 2024.

In addition, the Company would be required to issue 191,633,780 common shares (using the 15 Day VWAP of the Company's common shares on the TSX on November 30, 2024) to Sibelco if the Company fails to repay the principal and accrued interest of \$7,780,331 of the 2024 Debenture at maturity and Sibelco chooses to convert the 2024 Debenture into common shares of the Company. 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.

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**12. Corporate and Administrative Expenses**

Corporate and administrative expenses for the three months ended November 30, 2024 and 2023 consist of the following:

	November 30, 2024	November 30, 2023
Salaries and benefits <sup>(1) (2)</sup>	\$ 667,763	\$ 850,594
Directors' fees	6,250	5,089
Consulting and professional fees	54,705	414,824
Advertising, office, insurance and other expenses	66,546	101,981
Shareholders' communications and filing fees	31,299	42,072
Travel and related costs	18,469	83,923
	<u>\$ 845,032</u>	<u>\$ 1,498,483</u>

(1) These figures include employee severance costs of \$379,971 (2023 - \$Nil), but do not include salaries and benefits capitalized to property, plant and equipment ("PPE") and E&E Assets and expensed to project development and general exploration. The following table reconciles the total salaries and benefits incurred to the net salaries and benefits included in the above table as Corporate and Administrative Expenses:

	November 30, 2024	November 30, 2023
Total salaries and benefits	\$ 863,942	\$ 959,295
Capitalized to PPE and E&E assets	(34,029)	(108,701)
Expensed to project development	(157,911)	-
Expensed to general exploration	(4,239)	-
	<u>\$ 667,763</u>	<u>\$ 850,594</u>
Expensed to Corporate and Administrative Expenses		

**13. Related Party Disclosures**

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

**a) Trading transactions**

There have been no material trading transactions with related parties during each of the three months ended November 30, 2024 and 2023, other than the participation by certain related parties in the October 2024 private placement as described in Note 10b, whereby Mr. Zeeshan Syed, Vice President, External Affairs and Partnerships and Mr. Andrew Ramcharan, Vice President, Corporate Development each subscribed for 200,000 Units at \$0.05 per unit.

### 13. Related Party Disclosures (continued)

#### *b) Compensation of key management personnel*

The remuneration of directors and other key members of the Company's senior management team during each of the three months ended November 30, 2024 and 2023 are as follows:

	November 30, 2024	November 30, 2023
Salaries, benefits and directors' fees <sup>(1)</sup>	\$ 804,938	\$ 918,131
Share based compensation <sup>(2)</sup>	79,061	114,411
	<u>\$ 883,999</u>	<u>\$ 1,032,542</u>

<sup>(1)</sup> Salaries and benefits of key management personnel capitalized to PPE and E&E Assets and expensed to project development and general exploration totaled \$26,443 (2023 - \$108,701), and \$135,706 (2023 - \$Nil), respectively.

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

### 14. 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 Note Payable was based on Level 3 inputs including the applicable face value of the 2024 Notes. The Company has the right to buy back the 2024 note at any time for the outstanding face value, as such the fair value of the 2024 note is the outstanding face value of the 2024 note.

#### **Fair Values**

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

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

#### **Credit risk**

The Company is not exposed to any significant credit risk as at November 30, 2024. The Company's cash and cash equivalents are either on deposit with a major Canadian Chartered banking group 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, and refundable security deposits with various federal and provincial governments and are therefore not subject to significant credit risk.

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**14. Financial Instruments (continued)**

**Liquidity risk**

Liquidity risk is the risk that an entity will not be able to meet its financial obligations as they come due. The Company has in place a planning and budgeting process to assist in determining the funds 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 November 30, 2024, the Company has current assets of \$3,330,268 and current liabilities of \$4,029,683. The Company's working capital deficit as at November 30, 2024 was \$699,415.

Repayments due by period as of November 30, 2024:

	Within 1 Year	1-3 Years	4-5 Years	Over 5 Years	Total
Accounts payable and accrued liabilities	\$ 1,414,144	\$ -	\$ -	\$ -	\$ 1,414,144
Debenture payable	-	7,780,331	-	-	7,780,331
Convertible notes payable	-	2,475,000	-	-	2,475,000
Lease obligation	192,906	488,502	245,062	-	926,470
	<u>\$ 1,607,050</u>	<u>\$ 10,743,833</u>	<u>\$ 245,062</u>	<u>\$ -</u>	<u>\$ 12,595,945</u>

**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 November 30, 2024.

iii) Price risk

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

**Sensitivity analysis**

Considering the Company's budget expenditures for the balance of fiscal 2025 and its current cash and cash equivalents of \$3,126,281, with other variables held constant, sensitivity to a plus or minus 25 basis points change in interest rates would not have any significant effect on the Company's net loss for the balance of fiscal 2025.

The Company had no significant financial assets or financial liabilities denominated in foreign currencies as at November 30, 2024, and no significant ongoing expenditures to be transacted in US dollars or other foreign currencies is expected for rest of the fiscal year. 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 the rest of the fiscal year.

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## **15. Supplemental Cash Flow Information**

Non-cash financing and investing transactions not reflected in the Condensed Consolidated Interim Statements of Cash Flows for the three months ended November 30, 2024 and November 30, 2023 are as follows:

	<u>November 30, 2024</u>	<u>November 30, 2023</u>
Share based compensation capitalized as E&E Assets (note 11d)	\$ -	\$ 3,393
Depreciation expense capitalized as E&E Assets (note 6c)	-	15,927
	<u>\$ -</u>	<u>\$ 19,320</u>

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

Subsequent to the end of the Quarter, the Company:

- a) granted a total of 2,590,000 fully vested RSUs to the Company's management employees. The restrictive period for these RSUs ends on the earlier of August 31, 2025 and the day prior to the employee's Separation Date;
- b) granted a total of 1,140,000 fully vested DSUs to the Company's directors;
- c) issued 10,322,580 common shares pursuant to the conversion of \$330,000 of the 2024 Note;
- d) issued 1,734,000 common shares to the Company's management employees pursuant to the redemption of 3,734,013 RSUs;
- e) granted 400,000 stock options with an exercise price of \$0.05 per share to an employee of the Company. These options have a contract life of 3 years at issuance;
- f) had 5,735,312 warrants with a weighted average exercise price of \$0.25 per share expire; and
- g) canceled 700,000 options with a weighted average price of \$0.12 per share.