



## **Avalon Advanced Materials Inc.**

### **Audited Consolidated Financial Statements**

**For the Years ended  
August 31, 2025 and 2024**

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# Independent auditor's report

To the Shareholders of  
**Avalon Advanced Materials Inc.**

## Opinion

We have audited the consolidated financial statements of **Avalon Advanced Materials Inc.** and its subsidiaries [the "Group"], which comprise the consolidated statements of financial position as at August 31, 2025 and 2024, 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 material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at August 31, 2025 and 2024, and its consolidated financial performance and its consolidated cash flows for the years then ended, in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board ["IFRS Accounting Standards"].

## 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 Group 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 of the consolidated financial statements, which indicates that the Group incurred a net loss of \$5,196,726 during the year ended August 31, 2025 and that there exists an uncertainty as to the Group's ability to raise additional funds on acceptable terms. 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 Group'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 of our report, 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, 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
<p><i>Assessment of impairment of the Nechalacho REE Project</i></p> <p>As at August 31, 2025, the carrying value of property, plant and mine development was \$112.05 million.</p> <p>An indicator of impairment of the Nechalacho REE Project cash-generating unit ("CGU") was determined to be present as at August 31, 2025 as the amount of the net assets of the Group was more than its market capitalization. As detailed in note 7 of the consolidated financial statements, the Group did not recognize any impairment in relation to this CGU for the year ended August 31, 2025.</p> <p>Auditing the Group's estimate of the recoverable amount of the Nechalacho REE Project CGU was complex, given the degree of judgment and subjectivity in evaluating the Group'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 Group's discounted cash flow model included the discount rate, long-term commodity prices, foreign exchange rates and years to commencement of production.</p>	<p>To test the Group's estimated recoverable amount for the Nechalacho REE Project CGU, we performed the following procedures, among others:</p> <ul style="list-style-type: none"><li>• We 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.</li><li>• We 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 performing a 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.</li><li>• 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 that 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.</li><li>• We assessed the adequacy of the disclosures included in note 7 of the accompanying consolidated financial statements in relation to this matter.</li></ul>

#### **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, 2025.

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 and 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 IFRS Accounting Standards, 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 Group'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 Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group'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 Group'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 Group'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 Group 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.
- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the Group as a basis for forming an opinion on the consolidated financial statements. We are responsible for the direction, supervision and review of the work performed for the purposes of the group audit. We remain solely responsible for our audit opinion.

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, 2025



A member firm of Ernst & Young Global Limited

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**Consolidated Statements of Financial Position**  
**(expressed in Canadian dollars)**  
**(audited)**

As at	<u>August 31, 2025</u>	<u>August 31, 2024</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents (note 4)	\$ 1,453,872	\$ 712,306
Other receivables	76,343	49,115
Prepaid expenses and deposits	223,587	130,389
	<u>1,753,802</u>	<u>891,810</u>
<b>Non-Current Assets</b>		
Investment in associate (note 5)	22,673,129	22,710,238
Property, plant and equipment (note 7)	112,053,458	111,889,134
Deferred financing costs (note 9)	726,073	887,379
	<u>135,452,660</u>	<u>135,486,751</u>
	<u><u>\$ 137,206,462</u></u>	<u><u>\$ 136,378,561</u></u>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 460,662	\$ 458,446
Accrued liabilities	916,743	1,040,688
Convertible notes payable (note 9)	2,715,000	2,970,000
Current portion of lease obligation (note 8)	197,659	137,034
Current portion of debenture payable (note 10)	-	3,237,719
Derivative liabilities (note 11)	336	637
	<u>4,290,400</u>	<u>7,844,524</u>
<b>Non-Current Liabilities</b>		
Lease obligation (note 8)	509,637	707,296
Debenture payable (note 10)	7,174,536	-
Site closure and reclamation provisions (note 12)	203,600	203,600
	<u>7,887,773</u>	<u>910,896</u>
	<u><u>12,178,173</u></u>	<u><u>8,755,420</u></u>
<b>Shareholders' Equity</b>		
<b>Share Capital (note 13b)</b>	203,883,459	201,501,514
<b>Reserve for Warrants (note 13c)</b>	5,215,436	4,920,753
<b>Reserve for Share-Based Payments (note 13d)</b>	19,261,885	19,336,639
<b>Reserve for Brokers' Compensation Warrants (note 13e)</b>	301,064	301,064
<b>Accumulated Deficit</b>	(103,633,555)	(98,436,829)
	<u>125,028,289</u>	<u>127,623,141</u>
	<u><u>\$ 137,206,462</u></u>	<u><u>\$ 136,378,561</u></u>

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

Approved on behalf of the Board

\_\_\_\_\_, Director  
“Scott Monteith”

\_\_\_\_\_, Director  
“Alan Ferry”

**Consolidated Statements of Comprehensive Loss**  
**(expressed in Canadian dollars, except number of shares)**  
**(audited)**

For the year ended	<u>August 31, 2025</u>	<u>August 31, 2024</u>
<b>Revenue</b>		
Interest	\$ 49,940	\$ 55,832
Rent	- ____	54,000
	49,940 ____	109,832
<b>Expenses</b>		
Corporate and administrative (note 14)	2,269,467	4,315,513
Project development	515,928	600,921
Property holding costs	118,678	364,286
General exploration	5,561	42,785
Depreciation (note 7)	266,007	258,872
Share-based compensation (note 13d)	373,609	449,075
Finance costs (note 10)	1,053,791	499,389
Debt refinancing costs (note 10)	183,727	-
Financing transaction costs (note 9)	73,090	137,666
Increase (decrease) in fair values of derivative liabilities (note 11)	(301) ____	(197,486)
	4,859,557 ____	6,471,021
<b>Net Loss before the Undnotated Items</b>		
Equity in Income (Loss) of Associate (note 5)	(4,809,617)	(6,361,189)
Loss due to fire damage - Nechalacho	(37,109)	(130,059)
Gain on Sale of Exploration and Evaluation Assets	(350,000)	-
Gain on Sale of Property, Plant and Equipment	-	5,722,693
Gain Recognized on Lease Amendment (note 7b)	-	93,818
	-	29,487 ____
<b>Net Loss before Income Taxes</b>	(5,196,726)	(645,250)
<b>Deferred Income Tax Recoveries</b>	- ____	10,674
<b>Net Loss and Total Comprehensive Loss for the period</b>	<u>\$ (5,196,726)</u>	<u>\$ (634,576)</u>
 Loss per Share - Basic	 \$ (0.009)	 \$ (0.001)
Loss per Share - Diluted	 \$ (0.009)	 \$ (0.001) ____
 Weighted Average Number of Common Shares Outstanding - Basic	 609,433,043	 563,399,763
Weighted Average Number of Common Shares Outstanding - Diluted	609,433,043	563,399,763 ____

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) (audited)

	Share Capital		Reserves			Brokers' Compensation Warrants	Accumulated Deficit	Total
	Number of Shares	Amount	Warrants	Share Based Payments				
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	
Equity offerings (note 13b)	4,250,000	422,662	2,338	-	-	-	-	425,000
Conversion of note payable (note 9)	6,165,381	330,000	-	-	-	-	-	330,000
Redemption of restricted share units - shares (note 13d)	786,071	143,937	-	(143,937)	-	-	-	-
Redemption of restricted share units - cash payroll	-	-	-	(58,640)	-	-	-	(58,640)
Redemption of deferred share units - shares (note 13d)	215,000	35,684	-	(35,684)	-	-	-	-
Redemption of deferred share units - cash payroll	-	-	-	(548)	-	-	-	(548)
Compensation shares issued on equity offerings	-	-	-	893,344	-	-	-	893,344
Share issuance costs - cash	-	(21,584)	-	-	-	-	-	(21,584)
Warrants issued with note payable (note 9)	-	-	547,175	-	-	-	-	547,175
Net loss and total comprehensive loss for the year	-	-	-	-	-	(634,576)	(634,576)	
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 13b)	6,400,000	252,800	67,200	-	-	-	-	320,000
Conversion of note payable (note 9)	63,474,443	1,815,000	-	-	-	-	-	1,815,000
Distribution of RSUs - common shares issued	2,764,000	306,020	-	(306,020)	-	-	-	-
Distribution of RSUs - cash payroll withholding tax payment	-	-	-	(124,221)	-	-	-	(124,221)
Distribution of DSUs - common shares issued	60,000	15,373	-	(15,373)	-	-	-	-
Distribution of RSUs - cash payroll withholding tax payment	-	-	-	(2,749)	-	-	-	(2,749)
Share-based compensation (note 13d)	-	-	-	373,609	-	-	-	373,609
Share issuance costs - cash	-	(7,248)	(1,928)	-	-	-	-	(9,176)
Warrants issued for other considerations (note 9)	-	-	229,411	-	-	-	-	229,411
Net loss and total comprehensive loss for the year	-	-	-	-	-	(5,196,726)	(5,196,726)	
Balance at August 31, 2025	644,488,498	\$ 203,883,459	\$ 5,215,436	\$ 19,261,885	\$ 301,064	\$ (103,633,555)	\$ 125,028,289	

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

**Consolidated Statements of Cash Flows  
(expressed in Canadian dollars)  
(audited)**

Year ended	<u>August 31, 2025</u>	<u>August 31, 2024</u>
<b>Operating Activities</b>		
Cash paid to employees	\$ (2,119,497)	\$ (2,063,602)
Cash paid to suppliers	(1,499,291)	(2,107,066)
Interest received	49,940	55,832
Rent revenue received	-	36,000
 Cash Used by Operating Activities	 (3,568,848)	 (4,078,836)
<b>Financing Activities</b>		
Net proceeds from equity offerings (note 13b)	310,825	403,416
Net proceeds from issuance of debenture payable (note 10)	3,412,075	2,588,609
Net proceeds from issuance of convertible note payable (note 9)	1,219,638	-
Net lease payments (note 8)	(191,822)	(245,405)
 Cash Provided by Financing Activities	 4,750,716	 2,746,620
<b>Investing Activities</b>		
Acquisition of exploration and evaluation assets	-	(133,736)
Acquisition of property, plant and equipment	(440,302)	(341,284)
Proceeds from sale of property, plant and equipment	-	154,555
Transaction costs paid for acquisition of investment in associate	-	(217,123)
 Cash Used by Investing Activities	 (440,302)	 (537,588)
<b>Change in Cash and Cash Equivalents</b>	 741,566	 (1,869,804)
<b>Cash and Cash Equivalents - beginning of year</b>	 712,306	 2,582,110
<b>Cash and Cash Equivalents - end of year</b>	 \$ 1,453,872	 \$ 712,306

**Supplemental Cash Flow Information (note 18)**

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

**Notes to the audited Consolidated Financial Statements  
For the years ended August 31, 2025, and 2024  
(expressed in Canadian dollars unless otherwise noted)**

**1. Nature of Operations and Going Concern**

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), OTCQB® Venture Market (OTCQB: AVLNF), and Frankfurt Stock Exchange (FRA: OU5A) 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 and Zirconium Project (the “Nechalacho Project” or “Nechalacho REE & Zirconium 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 Project and its planned lithium-hydroxide processing facility, and future profitable production from or proceeds from the disposition of its development assets and the Company’s ability to develop and generate profitable production from its mineral assets.

These audited consolidated 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 \$5,196,726 for the year ended August 31, 2025, and an accumulated deficit of \$103,633,555 as at August 31, 2025. The Company’s cash and cash equivalents balance at August 31, 2025, was \$1,453,872 and its working capital deficit was \$2,536,598.

The Company’s business plan is dependent on raising additional funds to finance operations beyond the next 12 months. While management has been successful in securing financing in the past, there exists 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 12 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 may include financing from investing partners for developing the Company’s planned lithium-hydroxide processing facility, investing partners for developing the Company’s Nechalacho Project, and the prospect of non-core asset sales.

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

These audited consolidated financial statements have been reviewed and approved by the Company’s Audit Committee and the Board of Directors on November 26, 2025.

**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 Accounting Standards as issued by the IASB.

**Notes to the audited Consolidated Financial Statements  
For the years ended August 31, 2025, and 2024  
(expressed in Canadian dollars unless otherwise noted)**

## **2. Basis of Presentation (continued)**

These consolidated financial statements have been prepared on a going concern basis using the historical cost basis, except for certain financial instruments that are measured at fair value in accordance with the policies disclosed in Note 3 of the Company's consolidated financial statements for the year ended August 31, 2025.

### ***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., 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**

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 statements 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.

### ***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

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

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 ("5-Day 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 issuance 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.

#### *Deferred Share Unit Plan*

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 5-Day 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.

#### *Restricted Share Unit Plan*

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.

#### **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

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

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.

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 fulfills 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

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

in equity.

#### **e) 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.

#### **f) 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 (loss) are presented in the consolidated statements of comprehensive loss and the consolidated statements of changes in equity.

#### **g) 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 that are subject to an insignificant risk of changes in value, such as bankers' acceptance notes, treasury bills and guaranteed investment certificates ("GICs").

#### **h) 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 that 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 consolidated 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.

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

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 statements 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.

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.

#### ***i) Investments in Associates***

The Company's interests in equity-accounted investees comprise its investment in associates. Associates are those entities in which the Company has significant influence, but not control or joint control, over the financial and operating policies of the investee.

Investments in associates are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Company's share of the profit or loss and other comprehensive income or loss of the associates, until the date on which significant influence ceases.

Investments in associates are assessed at each reporting date to determine whether there is objective evidence of impairment.

The net investment in an associate is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the net investment (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows from the net investment that can be reliably estimated. Objective evidence that the net investment is impaired includes observable data that comes to the attention of the Company about the following loss events:

- i) significant financial difficulty of the associate;
- ii) a breach of contract, such as a default or delinquency in payments by the associate;
- iii) the entity, for economic or legal reasons relating to its associate's financial difficulty, granting to the associate a concession that the entity would not otherwise consider;

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

- iv) it is becoming probable that the associate will enter bankruptcy or other financial reorganization; or
- v) the disappearance of an active market for the net investment because of financial difficulties of the associate.

In addition to the above events, objective evidence of impairment for the net investment in the equity instruments of the associate includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the associate operates, and indicates that the cost of the investment in the equity instrument may not be recovered. A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment.

#### **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:

Transportation facilities	- 8% on a declining balance basis for the Nechalacho airstrip, straight-line basis for other transportation facilities
Buildings	- straight-line basis over their estimated useful lives
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 statements 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

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

individual asset can be determined, impairment assessment is performed at the individual asset level. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

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

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

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

#### **I) 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 that 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 consolidated statements of comprehensive 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 consolidated statement of comprehensive 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

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

and will not be reclassified to profit or loss.

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

<u>Financial Instrument</u>	<u>Category</u>
Cash and cash equivalents	Amortized cost
Other receivables	Amortized cost
Accounts payable	Amortized cost
Accrued liabilities	Amortized cost
Debenture payable	Amortized cost
Convertible notes payable	FVTPL
Derivative liabilities	FVTPL

#### *Impairment of Financial Assets*

At each consolidated 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 measured 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.

A 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 remeasured 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 the 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

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

interest expense.

#### ***o) Related Party Disclosure***

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

#### ***p) Segment Reporting***

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

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

#### ***q) Critical Accounting Judgments and Estimation Uncertainties***

The preparation of the consolidated financial statements in conformity with IFRS Accounting Standards 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:

##### 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

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

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.

#### Fair Value of Avalon's Contribution of Non-monetary Assets to an Associate in Exchange for an Equity Interest in the Associate

As described in note 5, the Company transferred the "Contributed Assets" to SRL and received a 40% equity interest in SRL. The fair value of the Contributed Assets at the transfer date is based on the estimated fair value of Sibelco's cash contributions to SRL to acquire the 60% interest in SRL, which requires the estimate and assumptions of the timing of Sibelco's cash contributions, discount rate and the future foreign exchange rate of the euro to the Canadian dollar.

#### *Critical Judgments*

Information about critical judgments in applying accounting policies that have the most significant effect on the consolidated financial statements is 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.

#### **r) New Accounting Standard Recently Adopted**

The adoption of the new accounting standard is 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 Financial Statements* clarify the requirements for classifying

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

liabilities as current or non-current and specify that the conditions that exist at the end of the reporting period are those that 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 notes payable and derivative liabilities are now classified as current liabilities. The convertible notes 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 consolidated statement of financial position 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.

The adoption of these amendments had no impact on the Company's consolidated statements of comprehensive loss and consolidated statements of cash flows.

#### **s) Recent Accounting Pronouncements**

The following pronouncements are issued but not yet effective and have not been applied in preparing these consolidated 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 Financial Statements*

In April 2024, the IASB issued IFRS 18, *Presentation and Disclosure in 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. Cash and Cash Equivalents**

Cash and cash equivalents consist of the following:

	<u>August 31, 2025</u>	<u>August 31, 2024</u>
Cash held in bank accounts	\$ 1,358,711	\$ 579,932
Guaranteed investment certificates	95,161	132,374
	<hr/> <b>\$ 1,453,872</b>	<hr/> <b>\$ 712,306</b>

### **5. Investment in Associate**

On November 9, 2023, the Company completed the sale/transfer of its Separation Rapids Lithium Project and Lilypad Cesium-Tantalum Project ("Contributed Assets") 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%.

Sibelco provided €4,865,810 of initial funding and has committed to advance a further €30,000,000 in tranches to fund the development of the Joint Venture Company's mineral projects, including facilities and related infrastructure. After total cash contributions of €34,865,810 by Sibelco, each of the parties will make any further cash contributions on a pro-rata basis (with dilution to a non-contributing party's interest).

## **5. Investment in Associate (continued)**

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 focused on continuing the exploration and development activities on the Separation Rapids Lithium Project and Lilypad Cesium-Tantalum Project.

In order to determine the gain or loss on Avalon's contribution to SRL, the Company is required to determine the fair value of its 40% equity interest in SRL. The Company has based its estimate of the fair value of its contribution on the estimated fair value of Sibelco's cash contributions to SRL to acquire the 60% interest in SRL.

The Company has determined that the present value of Sibelco's total cash contributions to be \$39,560,511 using the following assumptions:

- the remaining €30,000,000 will be funded periodically during the third calendar quarter of 2024 through the first calendar quarter of 2027 (the "Additional Funding Period");
- the annual discount rate of 12.34%; and
- the estimated average exchange rate of the Euro to the Canadian Dollar during the Additional Funding Period will be 1.482.

The total fair value of the net assets of SRL on November 9, 2023 is therefore \$65,934,187, and the fair value of the Company's contribution is \$26,373,675.

The net carrying costs of the Separation Rapids and Lilypad Projects totaled \$16,835,853 (\$16,910,853 less estimated closure cost provisions of \$75,000). Accordingly, the total gain on disposal is \$9,537,822 and the Company has recognized a gain of \$5,722,693 (representing the realized gain on the 60% interest disposed of to Sibelco) and has recorded the Company's 40% equity interest in SRL at \$22,840,297 (the total of the net carrying costs of \$16,835,853, realized gain of \$5,722,693 and transaction costs of \$281,751).

The following table summarizes the total comprehensive loss of SRL (100%) for the years ended August 31, 2025 and 2024:

	<b>August 31, 2025</b>	<b>August 31, 2024</b>
Revenue	\$ -	-
Net (income) loss and comprehensive (income) loss	\$ (92,774)	325,148
Dividends paid	\$ -	-

During the year ended August 31, 2025, the expected funding schedule for Sibelco's additional cash contribution payments of €30,000,000 to SRL was updated to calendar year 2025 through to calendar year 2029 from the original additional funding period of the third calendar quarter of 2024 through the first calendar quarter of 2027. As such, the carrying amount of SRL's contribution receivable from Sibelco was adjusted, which resulted in a loss of \$1,821,040 for SRL. This loss was offset by the interest income of \$2,436,513 recognized on the contribution receivable balance.

**Notes to the audited Consolidated Financial Statements  
For the years ended August 31, 2025, and 2024  
(expressed in Canadian dollars unless otherwise noted)**

**5. 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:

	<u>August 31, 2025</u>	<u>August 31, 2024</u>
Current assets	\$ 1,808,930	\$ 3,155,745
Non-current assets	65,704,040	64,067,944
<b>Total assets</b>	<b>67,512,970</b>	<b>67,223,689</b>
Current liabilities and total liabilities	1,996,705	1,614,651
Shareholders' equity	65,516,265	65,609,038
Avalon's share of equity (40%)	26,206,507	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>\$ 22,673,129</b>	<b>\$ 22,710,237</b>

**6. 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.

**Notes to the audited Consolidated Financial Statements  
For the years ended August 31, 2025, and 2024  
(expressed in Canadian dollars unless otherwise noted)**

**7. Property, Plant and Equipment**

	<b>Nechalacho Project (a)</b>	<b>Transportation Facilities</b>	<b>Office, Computer and Office Equipment (b)</b>	<b>Land and Building</b>	<b>Exploration Equipment</b>	<b>Leasehold Improvements</b>	<b>Total</b>
<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	430,331	-	-	-	-	-	430,331
As at August 31, 2025	<u>\$ 102,096,378</u>	<u>\$ 1,695,573</u>	<u>\$ 1,158,997</u>	<u>\$ 7,807,670</u>	<u>\$ 255,328</u>	<u>\$ 178,868</u>	<u>\$ 113,192,814</u>
<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	-	12,505	217,083	-	646	35,773	266,007
As at August 31, 2025	<u>\$ -</u>	<u>\$ 379,432</u>	<u>\$ 446,476</u>	<u>\$ -</u>	<u>\$ 253,826</u>	<u>\$ 59,622</u>	<u>\$ 1,139,356</u>
<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
August 31, 2025	<u>\$ 102,096,378</u>	<u>\$ 1,316,141</u>	<u>\$ 712,521</u>	<u>\$ 7,807,670</u>	<u>\$ 1,502</u>	<u>\$ 119,246</u>	<u>\$ 112,053,458</u>

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

### **a) Nechalacho REE & Zirconium Project, Northwest Territories**

The Company owns a 100% interest in 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 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.

As at August 31, 2025, 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, 2025 and determined that the Nechalacho Project was not impaired. The main assumptions used to determine the recoverable amount related to Nechalacho were the net present value of its projected future cash flows, long-term commodity prices, changes in cost estimates, discount rates, foreign exchange rates and years to commencement of production.

- b) Depreciation of \$198,035 (2024 - \$197,386) was recognized relating to the ROU asset (which consisted of its leased office premises) during the year ended August 31, 2025, and the carrying balance of the ROU asset was \$660,115 as at August 31, 2025 (August 31, 2024 - \$858,150).**
- c) Depreciation is expense for the years ended August 31, 2025 and 2024 consists of the following:**

	<b>August 31, 2025</b>	<b>August 31, 2024</b>
Depreciation expense recognized	266,007	274,799
Depreciation expense capitalized to exploration and evaluation assets	-	(15,927)
	<b>266,007</b>	<b>258,872</b>

## **8. Lease Obligation**

As at August 31, 2025, the Company has the following future commitments relating to the lease contract for its office premises:

2026	\$ 240,942
2027	245,358
2028	249,846
2029	56,926
	<hr/>
Total future lease payments as at August 31, 2025	793,072
Amounts representing interest	(85,776)
	<hr/>
Present value of future lease payments - August 31, 2025	\$ 707,296
	<hr/>

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

Balance - September 1, 2023	\$ 287,013
Lease amendment adjustment	(225,577)
New lease contract	990,172
Interest expense	38,127
Payments	(245,405)
	<hr/>
Balance - August 31, 2024	844,330
Interest expense	54,788
Payments	(191,822)
	<hr/>
Balance - August 31, 2025	707,296
Current portion of lease obligation	(197,659)
Non-current portion of lease obligation	\$ 509,637
	<hr/>

The Company had net cash outflows of \$191,822 (2024 - \$245,405) for its lease contract in the year ended August 31, 2025.

## **9. Convertible Notes 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.

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 "2024 Face Value"). Lind is entitled to convert the 2024 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 "2024 Buyback Option"), subject to Lind's option to convert up to one third of the 2024 Face Value into Avalon common shares prior to such repurchase.

During the year ended August 31, 2025, the Company utilized an additional \$1,300,000 from the Funding Agreement (the "2025 Note"). The 2025 Note has a two-year term and accrues a simple interest rate

## **9. Convertible Notes Payable (continued)**

obligation of 10% per annum on the funded amount, which is prepaid and attributed to the face value of the 2025 Note upon issuance, resulting in a face value of \$1,560,000 (the “2025 Face Value”). Lind is entitled to convert the 2025 Face Value amount over a 24-month period at a conversion price equal to 85% VWAP of Avalon’s common shares. The 2025 Note matures on July 25, 2027. Commencing on December 3, 2025, the Company has the right to repurchase the 2025 Note at the outstanding face value (the “2025 Buyback Option”), subject to Lind’s option to convert up to one third of the 2025 Face Value into Avalon common shares prior to such repurchase.

The 2024 and 2025 Notes are secured by a general security agreement and a mortgage on the Company’s Thunder Bay Property.

The 2024 and 2025 Notes are hybrid instruments that contain multiple embedded derivatives including the Conversion Features and Buyback Options. The Company had designated the entire hybrid contract (the 2024 and 2025 Note and all the embedded derivatives) as a financial liability at FVTPL, which is remeasured at each consolidated 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 statements of comprehensive loss.

On evaluating the transaction and the features of the instruments described above, the initial fair value of the 2024 Note was determined to be \$3,300,000 at issuance and 2025 Note was determined to be \$1,560,000.

In fiscal 2025, the total transaction costs of \$80,362 were allocated to the 2025 Note and the Warrants on a pro rata basis, of which \$73,090 was expensed as financing transaction costs on the statement of comprehensive loss with the balance of \$7,272 recorded as a reduction to reserve for warrants.

In fiscal 2024, the total transaction costs of \$161,391 were allocated to the 2024 Note and the Warrants on a pro rata basis, of which \$137,666 was expensed as financing transaction costs on the statement of comprehensive loss with the balance of \$23,725 recorded as a reduction to reserve for warrants.

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

Balance - September 1, 2023	\$	-
Issued		3,300,000
Converted to common shares		(330,000)
Balance - August 31, 2024		2,970,000
Converted to common shares		(1,815,000)
New issuances		1,560,000
Balance - August 31, 2025	\$	2,715,000

The number of common shares to be issued would be 74,383,562 if the full amount of notes payable had been converted into common shares, based on a conversion price of \$0.0365, which is 85% of the 5-day VWAP of the Company’s common shares on the TSX on August 31, 2025.

Subsequent to the year ended August 31, 2025 the balance of the 2024 note was converted into common shares and the face value of the 2025 note was repaid, as further reported in note 21 (Subsequent Events”).

## **10. 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 2023 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.

## **10. Debenture Payable (continued)**

On November 18, 2024, the Company and Sibelco amended the 2023 Debenture with Sibelco providing 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 option pricing model.

The Company also incurred other transaction costs of \$87,925 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
<hr/>	<hr/>
Balance - August 31, 2024	3,237,719
Interest and accretion on debenture	51,992
<hr/>	<hr/>
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	369,205
<hr/>	<hr/>
Balance - August 31, 2025	\$ 7,174,536

The total transaction costs of \$168,107 and the loss recognized on the replacement of the 2023 Debenture of \$15,620 have been expensed as debt refinancing costs on the consolidated statements comprehensive loss.

The Company’s finance costs for the years ended August 31, 2025 and 2024 consist of the following:

	<b>August 31, 2025</b>	<b>August 31, 2024</b>
Interest and accretion on debenture	\$ 369,205	\$ 227,741
Interest on lease obligation (note 8)	54,788	38,127
Interest and accretion on debenture	51,992	-
Amortization of deferred financing costs	577,806	233,521
<hr/>	<hr/>	<hr/>
	<b>\$ 1,053,791</b>	<b>\$ 499,389</b>

## **11. 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 years:

	<b>Number of Warrants</b>	<b>Amount</b>
Balance - September 1, 2023	18,800,000	\$ 198,123
Decrease in fair value	-	(197,486)
Balance - August 31, 2024	18,800,000	637
Expired	(9,800,000)	(12)
Decrease in fair value	-	(289)
Balance - August 31, 2025	9,000,000	\$ 336

As at August 31, 2025, the Company has 9,000,000 liability-classified warrants with an exercise price of \$0.26 per share, which are exercisable until May 9, 2026.

The fair values of the liability-classified warrants were estimated as at August 31, 2025 using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of Nil; risk-free interest rate of 2.63%; expected life of 0.7 years; and expected volatility of 73%.

## **12. Asset Retirement Obligation**

As none of the Company's resource properties are in production or have 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 and the Warren Township exploration site.

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

Balance - August 31, 2024	\$ 203,600
Adjustments	-
Balance - August 31, 2025	\$ 203,600

## **13. Share Capital**

### **a) Authorized**

The Company is presently authorized to issue an unlimited number of common shares without par value. The Company is also authorized to issue up to 25,000,000 preferred shares without par value, of which 950 have been issued and none are outstanding as at August 31, 2025.

### **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 ("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 consisted 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 20 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

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

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 option 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:

	<b>Number of Warrants</b>	<b>Weighted Average Exercise Price</b>
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	20,500,000	0.081
Expired	(5,735,312)	0.250
Balance - August 31, 2025	38,425,000	( <sup>(1)</sup> ) \$ 0.110

<sup>(1)</sup> Does not include the additional liability-classified warrants as described in note 11.

The outstanding equity-classified warrants have a weighted average remaining contract life of 3.64 years.

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

As described in note 11, the Company also has 9,000,000 liability-classified warrants outstanding as at August 31, 2025.

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 Project meeting certain milestones.

#### **d) Share-Based Payments**

The Company has three share incentive plans: the Stock Option Plan, the DSU Plan<sup>”</sup> and the RSU Plan.

The Stock Option Plan provides for the issuance 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 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

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

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 years:

	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>
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	6,575,000	0.05
Expired	(5,038,750)	0.09
Forfeited	(700,000)	0.12
Balance - August 31, 2025	24,070,000	\$ 0.11

As at August 31, 2025, there are 13,250,000 options vested (August 31, 2024 - 11,816,250) with an average exercise price of \$0.14 per share (August 31, 2024 - \$0.14) that are 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 behaviour. 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 years ended August 31, 2025 and 2024 are as follows:

	<b>August 31, 2025</b>	<b>August 31, 2024</b>
Exercise price	0.12	0.10
Closing market price on day preceding date of grant	0.10	0.09
Risk-free interest rate	2.37%	4.04%
Expected life (years)	3.46	3.00
Expected volatility	80.72%	72.00%
Expected dividend yield	Nil	Nil
Grant date fair value	0.06	0.04
Forfeiture rate	11.52%	10.00%

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**13. Share Capital (continued)**

The following table summarizes information concerning outstanding and exercisable options as at August 31, 2025:

Exercise Price Range	Number of Options		Weighted Average Remaining Contractual Life (years)
	Outstanding	Exercisable	
\$0.05 - \$0.05	5,950,000	325,000	2.42
\$0.06 - \$0.10	5,540,000	2,977,500	1.57
\$0.11 - \$0.14	6,980,000	4,422,500	2.03
\$0.15 - \$0.20	5,200,000	5,125,000	0.72
\$0.21 - \$0.26	400,000	400,000	0.50
	<b>24,070,000</b>	<b>13,250,000</b>	

Changes to the number of share units are as follows:

	RSU Plan (Equity Settled)	DSU Plan (Equity Settled)
Balance - September 1, 2023	525,000	1,535,000
Granted	4,369,424	210,000
Redeemed - common shares issued	(786,071)	(215,000)
Redeemed - cash payroll withholding tax payments	(804,340)	(10,000)
Balance - August 31, 2024	3,304,013	1,520,000
Granted	3,090,000	1,140,000
Redeemed - common shares issued	(2,764,000)	(60,000)
Redeemed - cash payroll withholding tax payments	(3,130,013)	(65,000)
Balance - August 31, 2025	<b>500,000</b>	<b>2,535,000</b>

There were 2,535,000 DSUs vested as at August 31, 2025 (August 31, 2024 - 1,520,000).

There were no RSUs vested as at August 31, 2025 (August 31, 2024 - 3,304,013).

The share-based payments reserve, included as a component of the consolidated statements 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 ended August 31, 2025 was \$373,609 (2024 - \$893,344), of which \$Nil (2024 - \$3,394) was capitalized as exploration and evaluation assets, \$Nil was charged to salaries and benefits (2024 - \$440,875), and \$Nil (2024 - \$Nil) was charged to directors' fees, with the balance of \$373,609 (2024 - \$449,075) 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:

	Number of Compensation Warrants	Weighted Average Exercise Price
Balance - September 1, 2023	788,900	\$ 0.18
Expired	(788,900)	0.18
Balance - August 31, 2024 and August 31, 2025	-	\$ -

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

#### **f) Share Capital Structure**

The Company's share capital structure, including its common shares and any potentially dilutive instruments outstanding as at August 31, 2025, is as follows:

	<b>August 31, 2025</b>
Common shares	644,488,498
Warrants	47,425,000
Stock options	24,070,000
DSUs	2,535,000
RSUs	500,000
Convertible notes payable <sup>(1)</sup>	74,383,562
<b>Total</b>	<b>793,402,060</b>

<sup>(1)</sup> The number of common shares that would be issued if the full amount of the notes payable had been converted into common shares, based a conversion price of \$0.0365, which is 85% of the 5-day VWAP of the Company's common shares on the TSX on August 31, 2025.

In addition, the Company would be required to issue 204,745,564 common shares (using the 15-Day VWAP of the Company's common shares on the TSX on August 31, 2025) 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 Néchalacho Project meeting certain milestones.

### **14. Corporate and Administrative Expenses**

Corporate and administrative expenses for the years ended August 31, 2025 and 2024 consist of the following:

	<b>August 31, 2025</b>	<b>August 31, 2024</b>
Salaries and benefits <sup>(1)</sup>	\$ 1,259,319	\$ 2,520,829
Directors' fees	25,000	25,362
Consulting and professional fees	471,232	992,625
Advertising, office, insurance and other expenses	194,367	381,502
Shareholders' communications and filing fees	138,710	163,648
Travel and related costs	180,839	231,547
	<b>\$ 2,269,467</b>	<b>\$ 4,315,513</b>

<sup>(1)</sup> These figures include employee severance costs for the year ended August 31, 2025 of \$385,804 (2024 - \$173,604) but do not include salaries and benefits capitalized to PPE and exploration and evaluation ("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:

	<b>August 31, 2025</b>	<b>August 31, 2024</b>
Total salaries and benefits	\$ 1,928,030	\$ 2,804,243
Capitalized to PPE and E&E assets	(212,501)	(124,668)
Expensed to project development	(431,507)	(152,009)
Expensed to general exploration	(24,703)	(6,737)
Expensed to corporate and administrative expenses	<b>\$ 1,259,319</b>	<b>\$ 2,520,829</b>

## **15. Capital Management**

Capital of the Company consists of the components of shareholders' equity, convertible notes payable, warrants denominated in foreign currencies 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 development projects; 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, 2025.

## **16. 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 years ended August 31, 2025 and 2024, other than the participation by certain related parties in the October 2024 private placement as described in Note 13b, 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.

### **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, 2025 and 2024 are as follows:

	<b>August 31, 2025</b>	<b>August 31, 2024</b>
Salaries, benefits and directors' fees <sup>(1)</sup>	\$ 1,709,120	\$ 2,486,695
Share-based compensation <sup>(2)</sup>	363,093	401,823
	<hr/> <b>\$ 2,072,213</b>	<hr/> <b>\$ 2,888,518</b>

<sup>(1)</sup> Salaries and benefits of key management personnel capitalized to PPE and E&E assets for the year totaled \$380,187 (2024 - \$115,681). Salaries and benefits of key management personnel expensed to project development and general exploration for the year totaled \$381,199 (2024 - \$Nil).

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

## **17. 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 2024 and 2025 Notes. The Company has the right to buy back the 2024 Note at any time for the outstanding face value, and as such the fair value of the 2024 and 2025 Notes is the outstanding face value of the 2024 and 2025 Notes.

### **Fair Values**

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

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

#### **Credit Risk**

The Company is not exposed to any significant credit risk as at August 31, 2025. 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.

#### **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 seeks to ensure that there are sufficient funds to meet its short-term requirements, taking into account its anticipated cash flows from operations, financing activities, and holdings of cash and cash equivalents.

As at August 31, 2025, the Company has current assets of \$1,753,802 and current liabilities of \$4,290,400. The Company's working capital deficit as at August 31, 2025 is \$2,536,598.

Repayments due by period as at August 31, 2025:

	Within	1-3	4-5	Over		
	1 Year	Years	Years	5 Years	Total	
Accounts payable and accrued liabilities	\$ 1,377,405	\$ -	\$ -	\$ -	\$ 1,377,405	
Debenture payable	-	7,780,331	-	-	7,780,331	
Convertible notes payable	2,715,000	-	-	-	2,715,000	
Lease obligation	240,942	495,205	56,925	-	793,072	
	\$ 4,333,347	\$ 8,275,536	\$ 56,925	\$ -	\$ 12,665,808	

## **17. Financial Instruments (continued)**

### **Market Risk**

#### i) Interest Rate Risk

The Company has cash and cash equivalents balances. 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. The Company's debenture payable bears interest at 7.5% per annum and is not 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 has no significant financial assets or financial liabilities denominated in foreign currencies as at August 31, 2025.

#### 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 expectations 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 \$1,453,872, 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 has no significant financial assets or financial liabilities denominated in foreign currencies as at August 31, 2025, and no significant ongoing expenditures to be transacted in US dollars or other foreign currencies is expected for the remainder 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.

## **18. 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, 2025 and 2024 are as follows:

	<u>August 31, 2025</u>	<u>August 31, 2024</u>
Property, plant and equipment acquired under lease arrangement	-	990,172
Debt refinancing costs settled with share purchase warrants	80,182	-
Acquisition of investment in associate	-	22,558,546
Share-based compensation capitalized as E&E assets	-	3,393
Depreciation expense capitalized as E&E assets	-	15,927
	<u>80,182</u>	<u>23,568,038</u>

## 19. Income Taxes

### a) Recovery of Income Taxes

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

	<u>August 31, 2025</u>	<u>August 31, 2024</u>
Net loss for the year before income taxes	5,196,726	645,250
Combined Canadian federal and provincial tax rate	25.0%	25.0%
Expected income tax recovery at statutory rates	<u>(1,299,182)</u>	<u>161,313</u>
Non-deductible share-based compensation	58,527	(104,714)
Non-taxable capital gain	-	7,494
Other non-deductible expenses	83,396	(41,824)
Amortization of flow-through share premium	-	10,674
Non-taxable change in fair value of financial derivative instruments	(75)	49,372
Non-deductible equity loss in associate	9,278	(32,515)
Non-taxable gain recognized on lease amendment	-	7,372
Losses and other deductions for which no benefit has been recognized	<u>1,148,056</u>	<u>(46,498)</u>
Deferred income tax recoveries	-	10,674

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

The tax effects of temporary differences recognized as at August 31, 2025 and 2024 are as follows:

	<u>August 31, 2025</u>	<u>August 31, 2024</u>
Deferred income tax assets		
E&E assets	9,697,490	9,667,344
Scientific research and experimental developmental expenditures	<u>3,625,401</u>	<u>3,567,505</u>
	<u>13,322,891</u>	<u>13,234,849</u>
Deferred income tax liabilities		
PPE	(10,523,969)	(10,431,288)
Investment in associate	(2,798,922)	(2,803,561)
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, 2025 and 2024 are as follows:

	<u>August 31, 2025</u>	<u>August 31, 2024</u>
Non-capital loss carry forwards	54,452,257	48,894,826
Scientific research and experimental developmental expenditures	12,866,152	13,097,736
Share issuance costs	431,654	801,530
Capital loss carry forwards	2,653,785	2,653,785
PPE	298,888	176,789
E&E assets	220,000	220,000
Lease and debt obligations	707,296	822,790
Deductible temporary differences not recognized	<u>71,630,032</u>	<u>66,667,456</u>

## **19. Income Taxes (continued)**

The Company also has non-refundable investment tax credit carry forwards of \$5,663,423 (2024 - \$5,687,308), which have not been recognized as a deferred income tax asset.

### ***d) Non-Capital Losses***

The Company has non-capital losses carried forward of approximately \$52,434,000 (2024 - \$47,227,000) 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
2043	3,488,000
2044	5,449,000
2045	4,957,000

The Company also has net operating losses of approximately \$1,668,000 (2024 - \$1,668,000) to reduce future years' US 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 \$2,653,785 (2024 - \$2,653,785) available to reduce future years' Canadian taxable capital gains.

## **20. 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, 2025 and 2024.

The loss used to calculate the basic and diluted loss per common share for the year ended August 31, 2025, was \$5,196,726 (2024 - \$634,576).

## 20. Loss per Share (continued)

The Company's share capital structure including its common shares and any potentially dilutive instruments outstanding as at August 31, 2025 and 2024 are as follows:

	<b>August 31, 2025</b>	<b>August 31, 2024</b>
Common shares	644,488,498	571,790,055
Warrants	47,425,000	42,460,312
Stock options	24,070,000	23,233,750
DSUs	2,535,000	1,520,000
RSUs	500,000	3,304,013
Convertible notes payables <sup>(1)</sup>	74,383,562	66,146,993
<b>Total</b>	<b>793,402,060</b>	<b>708,455,123</b>

<sup>(1)</sup>The number of common shares that would be issued if the full amount of the notes payable of \$2,715,000 outstanding as at August 31, 2025 had been converted into common shares using the 5-Day VWAP of the Company's common shares on the TSX of \$0.0365 on August 31, 2025.

The warrants, options, DSUs, RSUs and convertible instruments included in the above table 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, 2025 and 2024.

The Company would be required to issue 204,745,564 common shares (using the 15-Day VWAP of the Company's common shares on the TSX of \$0.038 on August 31, 2025) 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 committed to issue 20,000 warrants to the Northwest Territory Métis Nation in two equal installments of 10,000 warrants upon the Nechalacho Project meeting certain milestones.

## 21. Events After the Reporting Period

Subsequent to August 31, 2025, the Company:

- a) October 24, 2025 - The Company announced the closing of a brokered private placement under the listed issuer financing exemption. The Company issued an aggregate of 133,218,180 non-flow-through units of the Company ("Non-FT Units"), and an aggregate of 30,769,231 flow-through units of the Company ("FT Units") for total proceeds of \$18,654,000.

Each Non-FT Unit consists of (i) one common share of the Company (each a "Common Share") and (ii) one common share purchase warrant of the Company (each a "Warrant"). Each FT Unit consists of (i) one Common Share, each of which will qualify as a "flow-through share" within the meaning of subsection 66(15) of the *Income Tax Act* (Canada) (the "Tax Act"), and (ii) one Warrant, each of which will qualify as a "flow-through share" within the meaning of subsection 66(15) of the Tax Act. Each Warrant will entitle the holder to acquire one Common Share (each, a "Warrant Share") at an exercise price of \$0.17 per Warrant Share for a period of 36 months from the Closing Date (as defined herein).

- b) November 12, 2025 - The Company concluded its convertible security funding agreement with Lind Global Fund II, LP, managed by The Lind Partners, a New York-based institutional fund manager, having satisfied all obligations due under the agreement. The balance of the 2024 note was converted into common shares and the face value of the 2025 note was repaid.