

AVALON

ADVANCED MATERIALS

AVALON ADVANCED MATERIALS INC.
CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2026 AND 2025
(EXPRESSED IN CANADIAN DOLLARS)

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 "Company"], which comprise the consolidated statements of financial position as at August 31, 2026 and 2025, and the consolidated statements of comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at August 31, 2026 and 2025, 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.

Basis for opinion

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

Material uncertainty related to going concern

We draw attention to note 1 the consolidated financial statements, which indicates that the Company incurred a net loss of $28,913,091 during the year ended August 31, 2025 and that there exists an uncertainty as to the Company'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 Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the 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
Assessment of impairment of the Nechalacho REE Project	
As at August 31, 2026, the net book value of Property, Plant and Equipment pertaining to the Nechalacho Project was $104.4 million. An indicator of impairment of the Nechalacho REE Project cash-generating unit ["CGU"] was determined to be present as at August 31, 2026 as the amount of the net assets of the Company was more than its market capitalization. As discussed in note 7 of the consolidated financial statements, the Company's did not recognize any impairment in relation to this CGU. Auditing the Company's impairment assessment was complex, given the degree of judgment and subjectivity in evaluating the Company's significant assumptions and inputs in determining the recoverable amount, and the significant effect changes in these assumptions and inputs would have on the recoverable amount. Significant assumptions and inputs used in the Company's discounted cash flow model included the discount rate, long-term commodity prices, foreign exchange rates and years to commencement of production.	To test the Company's impairment assessment, our procedures included, among others, involving our valuation specialist to evaluate key assumptions in management's cash flow model, including the discount rate, long-term rare earth commodity prices, foreign exchange rates, and timing of production commencement. This included assessing the appropriateness of market and economic inputs, benchmarking assumptions against industry data and comparable companies, and evaluating entity- and cash flow-specific risk premiums. This also involved performing sensitivity analyses using alternative assumptions, including delays to production commencement, to assess impacts on the CGU's recoverable amount. We evaluated the proposed development timetable through inspection of the status of permits and licenses, and the Company's zirconium price assumptions by comparing them to externally available third-party data.

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, 2026.

Our opinion on the consolidated financial statements does not cover the other information and we do 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, 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 Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

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

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

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

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

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

Ernst & Young LLP

Toronto, Canada
October 23, 2026

Chartered Professional Accountants
Licensed Public Accountants

Avalon Advanced Materials Inc.
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

	As at August 31, 2026	As at August 31, 2025
ASSETS		
Current assets		
Cash and cash equivalents (note 4)	**$ 4,946,943**	$ 1,453,872
Other receivables	**590,324**	76,343
Prepaid expenses and deposits	**306,003**	223,587
	5,843,270	1,753,802
Non-current assets		
Investment in associate (note 5)	**-**	22,673,129
Exploration and evaluation assets (note 6)	**1,851,573**	-
Property, plant and equipment (note 7)	**114,060,835**	112,053,458
Deferred financing costs (note 9)	**-**	726,073
	115,912,408	135,452,660
Total assets	**$ 121,755,678**	$ 137,206,462
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**$ 6,621,587**	$ 1,377,405
Convertible notes payable (note 9)	**-**	2,715,000
Current portion of lease obligation (note 8)	**216,508**	197,659
Derivative liabilities (note 11)	**-**	336
Deferred flow-through share premium (note 13(b))	**563,345**	-
	7,401,440	4,290,400
Non-current liabilities		
Lease obligation (note 8)	**293,129**	509,637
Debenture payable (note 10)	**-**	7,174,536
Site closure and reclamation provisions (note 12)	**203,600**	203,600
	496,729	7,887,773
Total liabilities	**7,898,169**	12,178,173
Shareholders' equity		
Share capital (note 13(b))	**217,265,214**	203,883,459
Reserve for warrants (note 13(c))	**9,023,421**	5,215,436
Reserve for share-based payments (note 13(d))	**19,570,541**	19,261,885
Reserve for brokers' compensation warrants (note 13(e))	**544,979**	301,064
Accumulated deficit	**(132,546,646)**	(103,633,555)
Total shareholders' equity	**113,857,509**	125,028,289
Total shareholders' equity and liabilities	**$ 121,755,678**	$ 137,206,462

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

Approved on behalf of the Board

"Scott Monteith" *Director* *"Alan Ferry"* *Director*

Avalon Advanced Materials Inc.
Consolidated Statements of Comprehensive Loss (Expressed in Canadian Dollars, except number of shares)

	Year Ended August 31, 2026	Year Ended August 31, 2025
Expenses		
Corporate and administrative (note 14)	**6,540,199**	2,269,467
Project development (note 15)	**7,266,943**	515,928
Property holding costs	**86,828**	118,678
General exploration	**109,351**	5,561
Depreciation (note 7)	**263,246**	266,007
Share-based compensation (note 13(d))	**431,558**	373,609
Finance costs (note 16)	**1,012,131**	1,053,791
Debt refinancing costs (note 10)	**-**	183,727
Financing transaction costs	**12,362**	73,090
Decrease in fair values of derivative liabilities (note 11)	**(336)**	(301)
	(15,722,282)	(4,859,557)
Interest income	**266,606**	49,940
Equity in income (loss) of associate (note 5)	**718,283**	(37,109)
Loss due to fire damage - Nechalacho	**-**	(350,000)
Impairment of investment in associate (note 5)	**(14,174,698)**	-
Net loss and comprehensive loss for the year	**$ (28,913,091)**	$ (5,196,726)
Net loss and comprehensive loss per share - basic and diluted	**$ (6.44)**	$ (1.53)
Weighted average number of common shares outstanding - basic and diluted	**4,489,508**	3,385,739

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

On July 8, 2026, the Company completed a 180 for 1 share consolidation. The share consolidation has been applied retrospectively and as a result, all shares and per share amounts are stated on an adjusted basis.

Avalon Advanced Materials Inc.
Consolidated Statements of Changes in Equity
(Expressed in Canadian Dollars, except number of shares)

	Share capital		Reserves				
	Number of shares	Amount	Warrants	Share-based payments	Brokers' compensation warrants	Accumulated deficit	Total
Balance, August 31, 2024	**3,176,572**	**$ 201,501,514**	**$ 4,920,753**	**$ 19,336,639**	**$ 301,064**	**$ (98,436,829)**	**$ 127,623,141**
Equity offerings (note 13(b))	35,555	252,800	67,200	-	-	-	320,000
Conversion of note payable (note 9)	352,635	1,815,000	-	-	-	-	1,815,000
Redemption of RSUs - shares	15,355	306,020	-	(306,020)	-	-	-
Redemption of RSUs - cash payroll withholding payments	-	-	-	(124,221)	-	-	(124,221)
Redemption of DSUs - shares	333	15,373	-	(15,373)	-	-	-
Redemption of DSUs - cash payroll withholding payments	-	-	-	(2,749)	-	-	(2,749)
Share-based compensation (note 13(d))	-	-	-	373,609	-	-	373,609
Share issuance costs - cash	-	(7,248)	(1,928)	-	-	-	(9,176)
Warrants issued for other considerations	-	-	229,411	-	-	-	229,411
Net loss for the year	-	-	-	-	-	(5,196,726)	(5,196,726)
Balance, August 31, 2025	**3,580,450**	**$ 203,883,459**	**$ 5,215,436**	**$ 19,261,885**	**$ 301,064**	**$(103,633,555)**	**$ 125,028,289**
Equity offerings (note 13(b))	911,041	13,725,746	4,312,869	-	-	-	18,038,615
Conversion of note payable (note 9)	144,653	1,155,000	-	-	-	-	1,155,000
Redemption of RSUs - shares	8,747	66,938	-	(66,938)	-	-	-
Redemption of RSUs - cash payroll withholding payments	-	-	-	(14,732)	-	-	(14,732)
Redemption of DSUs - shares	1,472	41,232	-	(41,232)	-	-	-
Compensation warrants issued on equity offerings	-	-	-	-	243,915	-	243,915
Share-based compensation (note 13(d))	-	-	-	431,558	-	-	431,558
Share issuance costs - cash	-	(1,421,192)	(446,564)	-	-	-	(1,867,756)
Share issuance costs - compensation warrants issued	-	(185,595)	(58,320)	-	-	-	(243,915)
Cash paid in lieu of fractional shares	-	(374)	-	-	-	-	(374)
Net loss for the year	-	-	-	-	-	(28,913,091)	(28,913,091)
Balance, August 31, 2026	**4,646,363**	**$ 217,265,214**	**$ 9,023,421**	**$ 19,570,541**	**$ 544,979**	**$(132,546,646)**	**$ 113,857,509**

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

On July 8, 2026, the Company completed a 180 for 1 share consolidation. The share consolidation has been applied retrospectively and as a result, all shares and per share amounts are stated on an adjusted basis.

Avalon Advanced Materials Inc.
Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

	Year Ended August 31, 2026	Year Ended August 31, 2025
Operating activities		
Cash paid to employees	**$ (1,729,263)**	$ (2,119,497)
Cash paid to suppliers	**(7,767,919)**	(1,499,291)
Interest received	**265,606**	49,940
Net cash used in operating activities	**(9,231,576)**	(3,568,848)
Financing activities		
Net proceeds from equity offerings	**16,786,245**	310,825
Net proceeds from issuance of debenture payable	**-**	3,412,075
Net proceeds from issuance of convertible note payable	**-**	1,219,638
Lease payments	**(240,942)**	(191,822)
Repayment of convertible notes payable	**(1,560,000)**	-
Cash paid in lieu of fractional shares	**(374)**	-
Net cash provided by financing activities	**14,984,929**	4,750,716
Investing activities		
Expenditures on exploration and evaluation assets	**(52,173)**	-
Acquisition of property, plant and equipment	**(2,208,109)**	(440,302)
Net cash used in investing activities	**(2,260,282)**	(440,302)
Net change in cash and cash equivalents	**3,493,071**	741,566
Cash and cash equivalents, beginning of year	**1,453,872**	712,306
Cash and cash equivalents, end of year	**$ 4,946,943**	$ 1,453,872

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

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 a Canadian exploration and development-stage critical minerals company focused on the acquisition, exploration, evaluation and development of rare earth elements, lithium and other critical mineral assets, and on advancing related processing capabilities in Canada. The Company’s principal business objective is to advance two core assets: the Lake Superior Lithium Project in Thunder Bay, Ontario, which is planned as a lithium hydroxide conversion and processing facility, and the Nechalacho Rare Earth Elements and Zirconium Project in the Northwest Territories. The Company also owns or controls a portfolio of other mineral projects and royalty interests, including the Lilypad Cesium Project in Ontario, the East Kemptville Tin-Indium Project in Nova Scotia, the Warren Township Anorthosite Project in Ontario, a royalty on the Wolf Mountain Platinum-Palladium Project, and a royalty on the East Cedartree Gold Property. To date, the Company has not earned any significant revenues.

On July 8, 2026, the Company completed a 180 for 1 share consolidation. The share consolidation has been applied retrospectively and as a result, all shares and per share amounts are stated on an adjusted basis.

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 consolidated financial statements have been prepared in accordance with IFRS® Accounting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to a going concern, which assumes the Company will continue to meet its obligations and discharge its liabilities in the normal course of business for the foreseeable future. Different bases of measurement may be appropriate when a company is not expected to continue operations for the foreseeable future. The Company is in the exploration and development stage and raises funds in the debt and equity markets to conduct its business activities. The Company has incurred losses in the current and prior periods, with a loss of $28,913,091 for the year ended August 31, 2026, and an accumulated deficit of $132,546,646 as at August 31, 2026. The Company's cash and cash equivalents balance at August 31, 2026, was $4,946,943 and its working capital deficit was $1,558,170.

The Company's business plan is dependent on raising additional funds to support operations and strategic initiatives within and beyond the next 12 months. Management has prepared cash flow forecasts that contemplate additional financing during and beyond the next 12 months and has considered the timing of expected expenditures, the Company's current working capital position and the flexibility available to manage certain discretionary expenditures. While management has been successful in securing financing in the past, there exists uncertainty as to the Company's ability to obtain additional funding on acceptable terms or at the times required. 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.

Management intends to finance the Company's anticipated expenditures through a combination of cash currently on hand and additional sources of capital. The Company is actively evaluating and pursuing a range of financing alternatives, which may include public or private equity financings, strategic investments and joint-venture or partnership arrangements, government grants, contributions and other funding programs supporting critical-minerals development, and debt or project-finance facilities from governmental, development-finance and commercial financing institutions.

These initiatives include potential funding and strategic investment to advance the planned lithium hydroxide processing

1. Nature of operations and going concern (continued)

facility and the Nechalacho Project, including funding for technical studies, demonstration and development activities and, ultimately, project construction. The Company may also seek to generate additional liquidity through the sale, option, joint venture or other monetization of non-core mineral properties and assets. In assessing the Company's ability to continue as a going concern, management considered that a significant portion of forecasted expenditures, including certain exploration, development, marketing, government relations and corporate initiatives, are discretionary in nature and may be deferred, reduced or reprioritized depending on funding availability and project priorities.

Management's assessment contemplates that additional financing will be required and that the timing, structure and amount of such financing will be important considerations in maintaining liquidity and advancing the Company's business plan. Management believes it has flexibility to manage the timing and level of certain discretionary expenditures while pursuing financing initiatives. However, there can be no assurance that additional financing will be available on acceptable terms, on a timely basis, or at all.

These 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 consolidated financial statements have been reviewed and approved for issuance by the Company's Audit Committee and the Board of Directors on October 23, 2026.

2. Basis of presentation

(a) Statement of compliance and basis of presentation

These consolidated financial statements, including comparatives, have been prepared in accordance with IFRS as issued by the IASB.

These consolidated financial statements have been prepared on a going concern basis using the historical cost basis, except for certain financial instruments 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, 2026.

(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"), Avalon Rare Metals Ltd. ("ARML"), and Magmic Rare Earths Inc. ("Magmic"). 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:

3. Summary of material accounting policies (continued)

(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 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.

3. Summary of material accounting policies (continued)

(b) Share based payments (continued)

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.

DSU 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.

RSU 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

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.

3. Summary of material accounting policies (continued)

(c) Leases (continued)

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 fulfils the criteria for asset recognition, a deferred tax asset is recognized.

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

3. Summary of material accounting policies (continued)

(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 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 investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value. The Company defines short-term investments as those with an original maturity of three months or less from the date of acquisition. These include bankers' acceptance notes, treasury bills and guaranteed investment certificates ("GICs") that can be cashed at any time without notice or penalty.

(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)

(h) Exploration and evaluation assets (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 recognized 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:

3. Summary of material accounting policies (continued)

(i) Investments in associates (continued)

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;
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.

3. Summary of material accounting policies (continued)

(k) Impairment of non financial assets

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

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

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

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

(l) Financial instruments

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.

3. Summary of material accounting policies (continued)

(l) Financial instruments (continued)

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 and will not be reclassified to profit or loss.

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

Financial instrument	Category
Cash and cash equivalents	Amortized cost
Other receivables	Amortized cost
Accounts payable and 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.

3. Summary of material accounting policies (continued)

(m) Site closure and reclamation provision (continued)

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 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.

3. Summary of material accounting policies (continued)

(q) Critical accounting judgments and estimation uncertainties (continued)

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 all exploration and evaluation assets and property, plant and equipment at each reporting date to determine whether indicators of impairment exist. Where indicators of impairment exist, recoverable amount is estimated using assumptions including long-term commodity prices, foreign exchange rates, discount rates, future capital requirements, projected production costs, development timing, geological assumptions, and estimates of mineral resources and reserves. Changes in these assumptions could materially impact the carrying value of the Company's long-lived assets.

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.

3. Summary of material accounting policies (continued)

(q) Critical accounting judgments and estimation uncertainties (continued)

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) 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.

Amendments to IFRS 9, Financial Instruments

The Company has not yet determined the impact of this standard on its disclosures. In May 2024, the IASB issued *Amendments to the Classification and Measurement of Financial Instruments (Amendments to IFRS 9 and IFRS 7)*.
The amendments are effective for annual reporting periods beginning on or after January 1, 2026. The amendments to IFRS 9 clarify the derecognition requirements for financial liabilities settled through electronic payment systems. In accordance with these amendments, a financial liability is derecognized before settlement when payment is effected through an electronic payment system and all of the following conditions are met: (i) the Company has no practical ability to withdraw, stop or cancel the payment instruction; (ii) the payment instruction results in the counterparty obtaining an enforceable right to receive cash; and (iii) the Company does not have access to the cash transferred once the payment instruction is initiated. When these conditions are satisfied, the related financial liability and the corresponding cash and cash equivalent balance are derecognized on the date the payment instruction is initiated rather than on the settlement date.

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:

	August 31, 2026	August 31, 2025
Cash held in bank accounts	**$ 4,906,620**	$ 1,358,711
Guaranteed investment certificates	**40,323**	95,161
Total	**$ 4,946,943**	$ 1,453,872

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 had 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 was to make any further cash contributions on a pro-rata basis (with dilution to a non-contributing party's interest).

The mandate of SRL was 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 had significant influence over the operations of SRL, and its investment in SRL was accounted for using the equity method.

The following table summarizes the total comprehensive loss of SRL (100%) for the year ended August 31, 2026 and 2025:

	August 31, 2026	August 31, 2025
Revenue	**$ -**	$ -
Net income (loss) and comprehensive income (loss) [(1)]	**$ 1,795,708**	$ (92,774)
Dividend paid	**$ -**	$ -
Avalon's share of income (loss) and comprehensive income (loss) (40%)	**$ 718,283**	$ (37,109)

(1) SRL's net income and comprehensive income was $1,795,708 for the period from September 1, 2025 to April 2, 2026.

On April 2, 2026, as part of a reorganization of its joint venture arrangement with Sibelco, the Company disposed of its entire equity interest in SRL, which was previously carried as an investment with a total carrying amount of $23,391,412. The disposal was completed through two related transactions. A portion of the SRL shares was transferred to Sibelco in settlement of a debenture with a carrying value of $7,417,311 (see note 10). The remaining SRL shares were redeemed in exchange for the Lilypad property, recognized at its fair value of $1,799,400 based on an independent valuation (see note 6). The Company recognized an impairment on investment in associate of $14,174,698 in profit or loss. Following the disposition, the Company has no remaining ownership interest in SRL.

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

5. Investment in associate (continued)

	August 31, 2026	August 31, 2025
Current assets	**$ -**	$ 1,808,930
Non-current assets	**-**	65,704,040
Total assets	**-**	67,512,970
Current liabilities and total liabilities	**-**	1,996,705
Shareholders' equity	**-**	65,516,265
Avalon's share of equity (40%)	**-**	26,206,507
Acquisition transaction costs	**-**	281,751
Gain on sale of exploration and evaluation assets not recognized	**-**	(3,815,129)
		-
		-
Total	**$ -**	$ 22,673,129

6. Exploration and evaluation assets

Exploration and evaluation assets are recognized in accordance with IFRS 6 *Exploration for and Evaluation of Mineral Resources*. These assets comprise expenditures incurred in connection with the exploration for and evaluation of mineral resources before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.

	August 31, 2025	Acquisition	Additions	August 31, 2026
Lilypad Cesium-Tantalum Project (a)	$ -	$ 1,799,400	$ 52,173	$ 1,851,573

(a) Lilypad Cesium-Tantalum Project, Ontario

On April 2, 2026, as a part of a reorganization of its joint venture agreement with Sibelco on April 2, 2026, the Company recovered a 100% interest in the Lilypad Cesium-Tantalum property, located near Fort Hope in Northern Ontario (see note 5).

(b) Other resource properties

The Company holds an exploration license 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.

7. Property, plant and equipment

	Nechalacho Project (a)	Transportation facilities	Office, computer and equipment	Land and Building	Exploration equipment	Leasehold improvements	Total
Cost							
Balance, 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
Balance, August 31, 2025	102,096,378	1,695,573	1,158,997	7,807,670	255,328	178,868	113,192,814
Additions	2,255,932	-	10,672	-	-	4,019	2,270,623
Balance, August 31, 2026	$104,352,310	$ 1,695,573	$ 1,169,669	$ 7,807,670	$ 255,328	$ 182,887	$115,463,437
Accumulated depreciation							
Balance, August 31, 2024	$ -	$ 366,927	$ 229,393	$ -	$ 253,180	$ 23,849	$ 873,349
Depreciation expense	-	12,505	217,083	-	646	35,773	266,007
Balance, August 31, 2025	-	379,432	446,476	-	253,826	59,622	1,139,356
Depreciation expense	-	11,505	214,712	-	452	36,577	263,246
Balance, August 31, 2026	$ -	$ 390,937	$ 661,188	$ -	$ 254,278	$ 96,199	$ 1,402,602
Net book value							
August 31, 2025	$102,096,378	$ 1,316,141	$ 712,521	$ 7,807,670	$ 1,502	$ 119,246	$112,053,458
August 31, 2026	$104,352,310	$ 1,304,636	$ 508,481	$ 7,807,670	$ 1,050	$ 86,688	$114,060,835

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.

During the year ended August 31, 2026, the Company incurred $2,255,932 (2025 - $430,331) as it focused on reactivating and advancing its Nechalacho Rare Earth Elements and Zirconium Project by updating the project's technical and economic foundation and strengthening its development strategy. Key activities included commissioning an updated Preliminary Economic Assessment (PEA) to refresh the 2013 Definitive Feasibility Study using current processing technology, cost estimates, and market assumptions and engaging Wood Canada Limited to complete the study and supporting NI 43-101 technical report.

As at August 31, 2026, 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, 2026 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 (2025 - $198,035) was recognized relating to the ROU asset (which consisted of its leased office premises) during the year ended August 31, 2026, and the carrying balance of the ROU asset was $462,080 as at August 31, 2026 (August 31, 2025 - $660,115).

8. Lease obligations

As at August 31, 2026, the Company has the following future commitments relating to the lease contract for its office premises:

2027	$	245,358
2028		249,846
2029		56,926
Total future lease payments as at August 31, 2026		552,130
Amounts representing interest		(42,493)
Present value of future lease payments - August 31, 2026	$	509,637

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

		August 31, 2026		August 31, 2025
Balance, beginning of year	**$**	**707,296**	$	844,330
Interest expense		**43,283**		54,788
Payments		**(240,942)**		(191,822)
Total lease liability		**509,637**		707,296
Less: current portion		**(216,508)**		(197,659)
Non-current portion, end of the year	**$**	**293,129**	$	509,637

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 had a two-year term and accrued a simple interest rate obligation of 10% per annum on the funded amount, which was 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 was 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 had a maturity of March 27, 2026. Commencing on August 26, 2024, the Company had 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 had a two-year term and accrued a simple interest rate obligation of 10% per annum on the funded amount, which was 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 was 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 had a maturity of July 25, 2027. Commencing on December 3, 2025, the Company had 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.

9. Convertible notes payable (continued)

During the year ended August 31, 2026, the Company eliminated the note payable through a combination of $1,155,000 of the notes being converted into 144,653 common shares and the repayment of $1,560,000 of the notes. The 2024 and 2025 Notes were secured by a general security agreement and a mortgage on the Company's Thunder Bay Property. All security interests and liens granted in connection with the Funding Agreement have been released

The 2024 and 2025 Notes were hybrid instruments that contained 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 was remeasured at each consolidated financial statement reporting date, with the resulting change in value being recorded as an increase or decrease in fair values of convertible notes payable and derivative liabilities in the consolidated statements of comprehensive loss.

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

	August 31, 2026	August 31, 2025
Balance, beginning of year	**$ 2,715,000**	$ 2,970,000
Converted to common shares	**(1,155,000)**	(1,815,000)
New issuances	**-**	1,560,000
Repaid	**(1,560,000)**	-
Balance, end of the year	**$ -**	$ 2,715,000

As of August 31, 2026, the Company had $nil of deferred financing costs (August 31, 2025 - $726,073).

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 208,836 common shares of Avalon, or an additional 5% interest in SRL, in which case the Company's equity interest in SRL would be reduced by 5%. The 2023 Debenture was secured by the Company's equity interest in SRL.

On November 18, 2024, the Company and Sibelco amended the 2023 Debenture with Sibelco 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 had a principal amount of $6,500,000. The 2024 Debenture bore interest at 7.5% per annum, with the principal and accrued interest payable on maturity, being November 18, 2026 ("Maturity").

In connection with the replacement of the 2023 Debenture and the issuance of the 2024 Debenture, the Company issued 19,444 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 $11.25 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.

On April 2, 2026, as part of a reorganization of Avalon’s joint venture arrangement with Sibelco, the full amount of debenture was settled (see note 5).

10. Debenture payable (continued)

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

	August 31, 2026	August 31, 2025
Balance, beginning of year	**$ 7,174,536**	$ 3,237,719
Loss recognized on refinancing	**-**	15,620
Refinancing	**-**	(3,305,331)
Issued	**-**	6,805,331
Interest and accretion on debenture	**242,775**	421,197
Settled	**(7,417,311)**	-
Balance, end of the year	**$ -**	$ 7,174,536

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:

	Number of warrants	Amount
Balance, August 31, 2024	104,444	$ 637
Expired	(54,444)	(12)
Decrease in fair value	-	(289)
Balance, August 31, 2025	50,000	336
Decrease in fair value	-	(336)
Expired	(50,000)	-
Balance, August 31, 2026	-	$ -

As at August 31, 2026, the Company does not have any liability-classified warrants.

12. Asset retirement obligations

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:

	August 31, 2026	August 31, 2025
Balance, beginning of year	**$ 203,600**	$ 203,600
Adjustments	**-**	-
Balance, end of year	**$ 203,600**	$ 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, 2026.

(b) Common shares

On October 24, 2025, the Company closed a brokered private placement under the listed issuer financing exemption, wherein the Company issued an aggregate of 740,101 non-flow-through units of the Company ("Non-FT Units") at $19.80 per Non-FT Unit, and an aggregate of 170,940 flow-through units of the Company ("FT Units") at $23.40 per FT Unit 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 $30.60 per Warrant Share until October 24, 2028.

The Flow-through Share Premium of $615,385 was estimated by taking the difference between the price of the FT Unit and the non-FT Unit, as otherwise the attributes of the units were identical and was recorded as a deferred flow-through share premium liability on the statement of financial position on the completion date of the private placement. During the year ended August 31, 2026, the Company incurred approximately $338,000 of qualifying exploration expenditures and as a result the deferred flow-through share premium has been reduced to $563,345. The Company expects to incur the remaining $3,662,000 of qualifying exploration expenditures required under its flow-through share commitments by December 31, 2026 and therefore does not anticipate any penalties.

The fair value of a Warrant is estimated at $3.11 using the Black-Scholes pricing model based on the closing share price on October 24, 2025 of $12.60, with the following assumptions: expected dividend yield of 0%; risk free interest rate of 2.44%; expected life of 3 years; and expected volatility of 70%.

Using the Relative Fair Value Method, the balance of the FT Unit price of $19.80 is allocated between the share component and the warrant component of the FT Unit as follows: $15.07 and $4.73, respectively. The Company incurred cash issuance costs of $1,867,756 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:

	Year Ended August 31, 2026		Year Ended August 31, 2025	
	Warrants	Average price	Warrants	Average price
Outstanding, beginning of year	213,472	$ 19.80	131,446	$ 28.80
Issued	911,041	30.60	113,889	14.40
Expired	-	-	(31,863)	45.00
Outstanding, end of year [(1)]	1,124,513	$ 28.80	213,472	$ 19.80

[(1)] Does not include the additional liability-classified warrants as described in note 11.

13. Share capital (continued)

(c) Warrants (continued)

The outstanding equity-classified warrants have a weighted average remaining contract life of 2.24 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.

The Company is also required to issue 112 warrants to the Northwest Territory Métis Nation in two equal installments of 56 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 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 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.

13. Share capital (continued)

(d) Share-based payments (continued)

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

	Year Ended August 31, 2026		Year Ended August 31, 2025	
	Options	Average price	Options	Average price
Outstanding, beginning of year	133,698	$ 20.39	129,052	$ 23.40
Issued	55,303	11.86	36,528	9.00
Expired	(35,103)	33.88	(27,993)	16.20
Forfeited	(6,665)	18.00	(3,889)	21.60
Outstanding, end of year [(1)]	147,233	$ 14.08	133,698	$ 20.39

As at August 31, 2026, there are 91,128 options vested (August 31, 2025 - 73,611) with an average exercise price of $15.26 per share (August 31, 2025 - $25.20) 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 year ended August 31, 2026 are as follows:

	August 31, 2026	August 31, 2025
Exercise price	**$11.86**	$21.60
Closing market price on day preceding date of grant	**$11.64**	$18.00
Risk-free interest rate	**2.69%**	2.37%
Expected life (years)	**2.47**	3.46
Expected volatility	**112.84%**	80.72%
Expected dividend yield	**Nil**	Nil
Grant date fair value	**$7.25**	$10.80
Forfeiture rate	**11.05%**	11.52%

13. Share capital (continued)

(d) Share-based payments (continued)

The following table summarizes information concerning outstanding and exercisable options as at August 31, 2026:

Exercise price range	Number outstanding	Number exercisable	Weighted-average remaining contractual life (years)
$10.00 and under	39,696	28,053	1.40
$10.01 - $15.00	62,130	21,554	1.90
$15.01 - $20.00	28,467	26,663	0.87
$20.01 - $36.00	16,940	14,858	1.19
	147,233	91,128	

Changes to the number of share units are as follows:

	Year Ended August 31, 2026		Year Ended August 31, 2025	
	RSU Plan	DSU Plan	RSU Plan	DSU Plan
Outstanding, beginning of year	2,778	14,083	18,356	8,444
Granted	9,111	6,333	17,167	6,333
Redeemed - common shares issued	(11,889)	(1,472)	(15,356)	(333)
Redeemed - cash payroll withholding tax payments	-	-	(17,389)	(361)
Outstanding, end of year	-	18,944	2,778	14,083

There were no RSUs vested as at August 31, 2026 (August 31, 2025 - nil).

There were 18,944 DSUs vested as at August 31, 2026 (August 31, 2025 - 14,083).

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, 2026 was $431,558 (2025 – $373,609) and was 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:

	Year Ended August 31, 2026		Year Ended August 31, 2025	
	Brokers' compensation warrants	Average price	Brokers' compensation warrants	Average price
Outstanding, beginning of year	-	$ -	-	$ -
Issued	54,662	19.80	-	-
Outstanding, end of year	54,662	$ 19.80	-	$ -

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, 2026, is as follows:

Common shares	4,646,363
Warrants	1,124,513
Stock options	147,233
DSUs	18,944
Brokers' compensation warrants	54,662
Total	5,991,715

The Company is also required to issue 112 warrants to the Northwest Territory Métis Nation in two equal installments of 56 warrants upon the Nechalacho Project meeting certain milestones.

14. Corporate and administrative expenses

Corporate and administrative expenses for the years ended August 31, 2026 and 2025 consisted of the following:

	Year Ended August 31, 2026	Year Ended August 31, 2025
Salaries and benefits [(1)]	**$ 1,426,546**	$ 1,259,319
Directors' fees	**89,993**	25,000
Legal and consulting costs related to wildfire events	**698,783**	-
Transaction costs and others	**537,716**	-
Professional fees on US listing	**1,427,931**	-
Other consultant costs	**1,165,034**	471,232
Advertising, office, insurance and other expenses	**543,558**	194,367
Shareholders' communications and filing fees	**331,559**	138,710
Travel and related costs	**319,079**	180,839
	$ 6,540,199	$ 2,269,467

[(1)] These figures include employee severance costs for the year ended August 31, 2026 of $171,215 (2025 - $385,804) 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.

14. Corporate and administrative expenses (continued)

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:

	Year Ended August 31, 2026	Year Ended August 31, 2025
Total salaries and benefits	**$ 2,087,917**	$ 1,928,030
Capitalized to PPE and E&E assets	**(304,696)**	(212,501)
Expensed to project development	**(312,622)**	(431,507)
Expensed to general exploration	**(44,053)**	(24,703)
Expensed to corporate and administrative expenses	**$ 1,426,546**	$ 1,259,319

15. Project development costs

In January 2026, the Company announced the commencement of a Feasibility Study ("FS") for its Lake Superior Lithium Inc. lithium hydroxide processing project in Thunder Bay, Ontario, Canada. The FS builds on the technical and commercial work completed as part of the September 2024 Preliminary Economic Assessment ("PEA") and is intended to further advance the project toward engineering definition, partnership engagement and financing readiness.

During the year ended August 31, 2026, the Company incurred $7,266,943 in project development costs related to advancement of the FS (2025 - $515,928).

16. Finance costs

The Company's finance costs for the years ended August 31, 2026 and 2025 consist of the following:

	Year Ended August 31, 2026	Year Ended August 31, 2025
Interest and accretion on debenture (note 10)	**$ 242,775**	$ 421,197
Interest on lease obligation (note 8)	**43,283**	54,788
Amortization of deferred financing costs	**726,073**	577,806
	$ 1,012,131	$ 1,053,791

17. Related party disclosures

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

(a) Trading transactions

There have been no material trading transactions with related parties during each of the years ended August 31, 2026 and 2025, other than the participation by certain related parties in the October 2024 private placement, whereby Mr. Zeeshan Syed, former Vice President, External Affairs and Partnerships, and Mr. Andrew Ramcharan, Vice President, Corporate Development, each subscribed for 1,111 Units at $8.999 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, 2026 and 2025 is as follows:

	Year Ended August 31, 2026	Year Ended August 31, 2025
Salaries, benefits, consulting fees and directors' fees [1]	**$ 1,283,296**	$ 1,709,120
Share-based compensation [2]	**336,842**	363,093
	$ 1,620,138	$ 2,072,213

[1] Salaries and benefits of key management personnel capitalized to PPE and E&E assets for the year ended August 31, 2026 totaled $257,184 (2025 - $380,187).
Salaries and benefits of key management personnel expensed to project development and general exploration for the year ended August 31, 2026 totaled $194,221 (2025 - $381,199).

[2] Fair value of stock options, DSUs and RSUs earned and recognized as share-based compensation during the respective reporting years.

18. 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 had the right to buy back the 2024 and 2025 Notes at any time for the outstanding face value, and as such the fair value of the 2024 and 2025 Notes was the outstanding face value of the 2024 and 2025 Notes.

18. Financial instruments (continued)

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, 2026. 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 the Company will be unable to meet its financial obligations as they become due or obtain financing on acceptable terms. As a development-stage company with no material operating cash flow, the Company's liquidity depends on available cash resources and, where required, access to additional capital. Management monitors liquidity through budgeting, forecasting and capital planning, including reviews of cash balances, expected expenditures, commitments, project activities and financing requirements. The Company seeks to manage liquidity risk by prioritizing expenditures, maintaining flexibility over discretionary programs and evaluating funding alternatives. There can be no assurance that additional financing will be available when required or on acceptable terms.

As at August 31, 2026, the Company has current assets of $5,843,270 and current liabilities of $7,401,440. The Company's working capital deficit as at August 31, 2026 is $1,558,170.

Repayments due by period as at August 31, 2026:

	Within 1 year	1-3 years	4-5 years	Total
Accounts payable and accrued liabilities	$ 6,621,587	$ -	$ -	$ 6,621,587
Lease obligation	245,358	306,772	-	552,130
	$ 6,866,945	$ 306,772	$ -	$ 7,173,717

Market risk

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.

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, 2026.

18. Financial instruments (continued)

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 fiscal 2027 and its current cash and cash equivalents of $4,946,943, 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 2026.

The Company has no significant financial assets or financial liabilities denominated in foreign currencies as at August 31, 2026, 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.

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:

	August 31, 2026	**August 31, 2025**
Net loss for the year before income taxes	**$ (28,913,091)**	$ (5,196,726)
Combined Canadian federal and provincial tax rate	**25.0%**	25.0%
Expected income tax recovery at statutory rates	**(7,228,273)**	(1,299,182)
Non-deductible share-based compensation	**76,653**	58,527
Other non-deductible expenses	**14,316**	83,396
Non-taxable change in fair value of financial derivative instruments	**(84)**	(75)
Non-deductible equity (income) loss in associate	**(179,571)**	9,278
Renounced exploration costs	**84,565**	-
Amortization of flow-through share premium	**(13,010)**	
Taxable capital gain on disposition of SRL	**1,037,425**	-
Reversal of previously unrecognized capital loss	**(331,723)**	-
Losses and other deductions for which no benefit has been recognized	**6,539,702**	1,148,056
Income tax expense	**$ -**	$ -

19. Income taxes (continued)

(b) Income tax effect of temporary differences recognized

The tax effects of temporary differences recognized as at August 31, 2026 and 2025 are as follows:

	August 31, 2026	August 31, 2025
Deferred income tax assets		
Exploration and evaluation assets	**$ 9,169,465**	$ 9,697,490
Scientific research and experimental development expenditures	-	3,625,401
	9,169,465	13,322,891
Deferred income tax liabilities		
Property, plant and equipment	**(9,169,465)**	(10,523,969)
Investment in associate	-	(2,798,922)
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, 2026 and 2025 are as follows:

	August 31, 2026	August 31, 2025
Non-capital loss carry forwards	**$ 58,865,601**	$ 54,452,257
Scientific research and experimental development expenditures	**27,367,756**	12,866,152
Share issuance costs	**2,196,701**	431,654
Capital loss carry forwards	-	2,653,785
Property, plant and equipment	**385,710**	298,888
Exploration and evaluation assets	**4,817,321**	220,000
Lease and debt obligations	**509,637**	707,296
Deductible temporary differences not recognized	**$ 94,142,727**	$ 71,630,032

The Company also has non-refundable investment tax credit carry forwards of $5,663,423 (2025 - $5,663,423), which have not been recognized as a deferred income tax asset.

19. Income taxes (continued)

(d) Non-capital losses

The Company has non-capital losses carried forward of approximately $55,796,000 (2025 - $51,719,000) available to reduce future years' Canadian taxable income. These losses will expire as follows:

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	4,048,000
2046	4,077,000

The Company also has net operating losses of approximately $1,791,000 (2025 - $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
2035	123,000

(e) Capital losses

The Company has capital losses carried forward of $nil (2025 - $2,653,785) available to reduce future years' Canadian taxable capital gains.

20. Loss per share

The calculation of the basic and diluted loss per common share for the year ended August 31, 2026 was based on the comprehensive loss of $28,913,091 (2025 - $5,196,726) and the weighted average number of common shares outstanding of 4,489,508 (2025 - 3,385,739).

The effects of the warrants, stock options, DSUs, RSUs, convertible instruments, and brokers' compensation warrants have not been included in the diluted loss per share calculation because they were anti-dilutive.

21. Subsequent event

(a) On September 15, 2026, the Company granted 11,500 stock options to certain directors, officers and employees of the Company under its Stock Option Plan. The stock options have an exercise price of $7.66, expire in 2 or 3 years from the grant date, and have varying vesting terms.