Condensed Consolidated Interim Financial Statements

For the three and nine months ended May 31, 2020 (Unaudited)

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NOTICE TO READER

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

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

	May 31, 2020	August 31, 2019
Assets		
Current Assets		
Cash and cash equivalents	$ 1,270,995	$ 1,881,841
Other receivables	136,732	337,573
Prepaid expenses and deposits	54,965	140,720
Asset held for sale (note 4)	-	2,605,147
	1,462,692	4,965,281
Non-Current Assets		
Exploration and evaluation assets (note 5)	17,517,346	17,065,203
Property, plant and equipment (note 6)	102,895,431	101,981,838
	120,412,777	119,047,041
	$ 121,875,469	$ 124,012,322
Liabilities		
Current Liabilities		
Accounts payable	$ 52,424	$ 151,318
Accrued liabilities	517,722	922,474
Deferred flow-through share premium (note 7)	-	47,481
Deferred asset sale proceeds (note 6a)	-	3,200,000
Current portion of lease obligation (note 8)	174,491	-
Current portion of convertible note payable (note 9)	58,333	-
	802,970	4,321,273
Non-Current Liabilities		
Lease obligation (note 8)	734,878	-
Convertible note payable (note 9)	-	175,000
Convertible redeemable preferred shares (note 10)	-	958,125
Derivative liabilities (note 11)	68,684	27,069
Site closure and reclamation provisions	303,600	303,600
	1,107,162	1,463,794
	1,910,132	5,785,067
Shareholders' Equity		
Share Capital (note 12)	178,916,866	177,802,700
Reserve for Warrants (note 12b)	4,330,037	4,330,037
Reserve for Share Based Payments (note 12c)	17,303,072	17,225,482
Reserve for Brokers' Compensation Warrants (note 12d)	286,000	286,000
Accumulated Deficit	(80,870,638)	(81,416,964)
	119,965,337	118,227,255
	$ 121,875,469	$ 124,012,322

Approved on behalf of the Board

"Donald S. Bubar", Director

"Alan Ferry", Director

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

	Three Months Ended		Nine Months Ended	
	May 31, 2020	May 31, 2019	May 31, 2020	May 31, 2019
Revenue				
Interest	$ 3,794	$ 10,655	$ 23,733	$ 39,722
Management fees (note 6a)	4,486	-	105,592	-
	8,280	10,655	129,325	39,722
Expenses				
Corporate and administrative (note 13)	401,568	564,961	1,537,574	1,845,836
Impairment loss on exploration and evaluation assets (note 5)	-	-	-	639,034
General exploration	23,632	3,320	104,486	6,072
Depreciation	59,236	3,068	178,770	9,204
Share based compensation (note 12c)	32,069	16,806	69,002	62,084
Interest on lease obligation	11,712	-	32,337	-
Foreign exchange loss	321	313	582	2,557
Financing transaction costs	-	-	-	177,503
Increase in fair value of convertible redeemable preferred shares (note 10)	-	68,250	39,375	329,438
Increase in fair value of derivative liabilities (note 11)	57,813	531,943	41,615	431,650
	586,351	1,188,661	2,003,741	3,503,378
Net Loss before the Undernoted item	(578,071)	(1,178,006)	(1,874,416)	(3,463,656)
Gain on Sale of Property, Plant and Equipment (note 6a)	-	-	2,373,261	-
Net Income (Loss) before Income Taxes	(578,071)	(1,178,006)	498,845	(3,463,656)
Deferred Income Tax Recoveries	-	50,687	47,481	127,580
Net Income (Loss) and Total Comprehensive Income (Loss) for the period	$ (578,071)	$ (1,127,319)	$ 546,326	$ (3,336,076)
Income (Loss) per Share - Basic	$ (0.002)	$ (0.004)	$ 0.002	$ (0.013)
Income (Loss) per Share - Diluted	$ (0.002)	$ (0.004)	$ 0.002	$ (0.013)
Weighted Average Number of Common Shares Outstanding - Basic	340,695,889	286,153,709	331,532,228	265,177,832
Weighted Average Number of Common Shares Outstanding - Diluted	340,695,889	286,153,709	333,280,674	265,177,832

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

	Share Capital		Reserves				
	Number of Shares	Amount	Warrants	Share Based Payments	Brokers' Compensation Warrants	Accumulated Deficit	Total
Balance at September 1, 2018	237,018,428	$ 173,600,797	$ 4,329,430	$ 17,130,110	$ 286,000	$ (78,030,629)	$ 117,315,708
Equity offerings	15,375,000	918,725	7,525	-	-	-	926,250
Conversion of redeemable preferred shares	46,793,660	2,348,063	-	-	-	-	2,348,063
Exercise of options	200,000	20,000	-	-	-	-	20,000
Reserve transferred on exercise of options	-	1,850	-	(1,850)	-	-	-
Exercise warrants	300,000	36,000	-	-	-	-	36,000
Reserve transferred on exercise of warrants	-	811	(811)	-	-	-	-
Share based compensation	-	-	-	78,124	-	-	78,124
Share issuance costs - cash	-	(63,642)	(261)	-	-	-	(63,903)
Net loss for the nine month period	-	-	-	-	-	(3,336,076)	(3,336,076)
Balance at May 31, 2019	299,687,088	$ 176,862,604	$ 4,335,883	$ 17,206,384	$ 286,000	$ (81,366,705)	$ 117,324,166
Conversion of redeemable preferred shares	6,543,395	425,250	-	-	-	-	425,250
Conversion of note payable	7,721,966	425,000	-	-	-	-	425,000
Exercise of warrants	700,000	84,000	-	-	-	-	84,000
Reserve transferred on exercise of warrants	-	5,846	(5,846)	-	-	-	-
Share based compensation	-	-	-	19,098	-	-	19,098
Net loss for the three month period	-	-	-	-	-	(50,259)	(50,259)
Balance at August 31, 2019	314,652,449	177,802,700	4,330,037	17,225,482	286,000	(81,416,964)	118,227,255
Conversion of redeemable preferred shares	23,706,725	997,499	-	-	-	-	997,499
Conversion of note payable	2,846,254	116,667	-	-	-	-	116,667
Share based compensation	-	-	-	77,590	-	-	77,590
Net income for the nine month period	-	-	-	-	-	546,326	546,326
Balance at May 31, 2020	341,205,428	$ 178,916,866	$ 4,330,037	$ 17,303,072	$ 286,000	$ (80,870,638)	$ 119,965,337

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

	Three Months Ended		Nine Months Ended	
	May 31, 2020	May 31, 2019	May 31, 2020	May 31, 2019
Operating Activities				
Cash paid to employees	$ (389,355)	$ (182,589)	$ (1,228,775)	$ (615,919)
Cash paid to suppliers	(196,746)	(147,674)	(523,171)	(585,410)
Interest received	3,794	10,655	23,733	39,722
Management fees received	8,815	-	112,375	-
Cash Used by Operating Activities	(573,492)	(319,608)	(1,615,838)	(1,161,607)
Financing Activities				
Net proceeds from equity offerings	-	-	-	990,033
Proceeds from exercise of warrants	-	36,000	-	36,000
Proceeds from exercise of stock options	-	20,000	-	20,000
Net proceeds from issuance of note payable	-	-	-	468,513
Lease payments	(53,095)	-	(153,968)	-
Cash Provided (Used) by Financing Activities	(53,095)	56,000	(153,968)	1,514,546
Investing Activities				
Exploration and evaluation assets	(6,719)	(73,818)	(519,478)	(467,087)
Property, plant and equipment	(6,735)	(48,727)	(99,388)	(180,876)
Net proceeds from sale of property, plant and equipment (note 6)	-	200,000	1,778,408	200,000
Cash Provided (Used) by Investing Activities	(13,454)	77,455	1,159,542	(447,963)
Change in Cash and Cash Equivalents	(640,041)	(186,153)	(610,264)	(95,024)
Foreign Exchange Effect on Cash	(321)	(313)	(582)	(2,557)
Cash and Cash Equivalents - beginning of period	1,911,357	407,942	1,881,841	319,057
Cash and Cash Equivalents - end of period	$ 1,270,995	$ 221,476	$ 1,270,995	$ 221,476

Supplemental Cash Flow Information (note 16)

1. Nature of Operations and Going Concern Uncertainty

Avalon Advanced Materials Inc. ("Avalon") is a publicly listed company incorporated in Canada and continued under the *Canada Business Corporations Act*. Avalon's common shares are listed on the Toronto Stock Exchange (the "TSX") (TSX: AVL), on the OTCQB® Venture Market (OTCQB: AVLNF), and the Frankfurt Stock Exchange in Germany.

The registered address, principal address and records office of Avalon is located at 130 Adelaide Street West, Suite 1901, Toronto, Ontario, Canada, M5H 3P5.

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

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

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to a going concern, which assumes the Company will continue to meet its obligations and discharge its liabilities in the normal course of business for the foreseeable future. Different bases of measurement may be appropriate when a company is not expected to continue operations for the foreseeable future. The Company is in the exploration and development stage and raises funds in the equity markets to conduct its business activities. The Company has incurred losses in the current and prior periods, with a loss of $1,874,416 before the gain on sale of property, plant and equipment for the nine months ended May 31, 2020 (the "Period") and an accumulated deficit of $80,870,638 as at May 31, 2020. The Company's cash and cash equivalents balance at May 31, 2020 was $1,270,995, and the working capital was $659,722.

The outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company. Given the continuation of weak investor sentiment and capital market conditions in the junior resource sector, there exists an uncertainty as to the Company's ability to raise additional funds on favorable terms. These conditions indicate the existence of a material uncertainty that raises substantial doubt about the Company's ability to continue as a going concern. The Company's expenditures on discretionary exploration and development activities have some scope for flexibility in terms of amount and timing, which can be adjusted accordingly. Management intends to finance these expenditures over the next twelve months with funds currently on hand, and through planned equity financings.

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

These unaudited condensed consolidated interim financial statements have been reviewed and approved by the Company's Audit Committee and the Board of Directors on July 7, 2020.

2. Basis of Presentation

a) Statement of Compliance and Basis of Presentation

These unaudited condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with International Accounting Standards ("IAS") 34 *Interim Financial Reporting*, as issued by IASB. These unaudited condensed consolidated interim financial statements do not contain all disclosures required by IFRS and accordingly should be read in conjunction with the Company's consolidated annual financial statements for the year ended August 31, 2019.

These unaudited condensed consolidated interim financial statements have been prepared on a going concern basis using the historical cost basis, except for certain financial instruments which are measured at fair value in accordance with the policies disclosed in Note 3 of the Company's consolidated annual financial statements for the year ended August 31, 2019.

b) Basis of Consolidation

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

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

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

3. Significant Accounting Policies

These unaudited condensed consolidated interim financial statements have been prepared using the same accounting policies, significant accounting judgments and estimates, and methods of computation as the annual consolidated financial statements of the Company as at and for the year ended August 31, 2019, as described in Note 3 of those financial statements, except for the adoption of the new accounting standard *IFRS 16, Leases* as described below:

IFRS 16, Leases ("IFRS 16") was issued by the IASB in January 2016 and replace IAS 17 Leases ("IAS 17"). IFRS 16 specifies the methodology to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases except for short-term leases and leases with low value assets. At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease obligation) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use ("ROU") asset). Lessees are required to separately recognize the interest expense on the lease obligation and the depreciation expense on the ROU asset. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.

IFRS 16 is effective for annual periods beginning on or after January 1, 2019. A lessee can apply IFRS 16 to its leases either retrospectively to each prior reporting period presented; or retrospectively with the cumulative effect of initially applying IFRS 16 being recognized at the date of initial application.

3. Significant Accounting Policies (continued)

The lease obligation is 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 entity's incremental borrowing rate. The lease obligation is measured at amortized cost using the effective interest method.

Effective September 1, 2019, the Company adopted IFRS 16 using the modified retrospective approach and accordingly the information presented for fiscal 2019 has not been restated.

On initial application, the Company recognized a ROU asset (included in property, plant and equipment) and a corresponding lease obligation relating to a lease for its office premises in Toronto, which had previously been classified as an operating lease under IAS 17. The Company has elected to record the ROU asset based on the corresponding lease obligation. The ROU asset and lease obligation of $1,045,810 were recorded as of September 1, 2019, with no net impact on the opening retained earnings. When measuring the lease obligation, the Company discounted the remaining lease payments under the lease contract using its estimated weighted-average incremental borrowing rate of 5.0%. Depreciation on the ROU asset is recognized on a straight line basis over the shorter of the lease term and the useful life.

The following table reconciles the Company's operating lease obligation on August 31, 2019, as previously disclosed in the Company's consolidated financial statements, to the lease obligation recognized on initial application of IFRS 16 on September 1, 2019.

Operating lease commitments as at August 31, 2019	$	1,156,911
Increase in lease payments relating to the operating cost of the office lease		31,794
Discounted using the estimated incremental borrowing rate		(142,895)
Lease obligation recognized on September 1, 2019	$	1,045,810

The adoption of IFRS 16 had the following impact on the Company's condensed consolidated interim statement of comprehensive income for the Period:

Increase in depreciation expense	$	147,067
Increase in interest on lease obligation		32,337
Decrease in corporate and administrative expenses		(153,968)
Total increase in expenses, decrease in net income and comprehensive income	$	25,436

The adoption of IFRS 16 had no net impact on the Company's condensed consolidated interim statement of cash flows for the Period, but had increased the cash used by financing activities by $153,968, which was offset by the same amount of decrease for the cash used by operating activities.

4. Asset Held for Sale

In June 2019, the Company entered into an agreement, under which an unrelated third party would acquire ownership of the near-surface mineral resources principally in the T-Zone and Tardiff Zones of the Nechalacho REE Project above a depth of 150 metres above sea level for a total cash consideration of $5.0 million as described in Note 6a while the Company retains ownership of the deeper resources in the Basal Zone that were the subject of its 2013 feasibility study. The sale was completed during the quarter ended February 29, 2020. Accordingly, the Company had transferred the carrying cost relating to the near-surface mineral resources of $2,605,147 from the total carrying cost of the Nechalacho REE Project included in Property, Plant and Equipment to Asset Held for Sale as at August 31, 2019.

5. Exploration and Evaluation Assets

	September 1, 2019	Expenditures	Impairment Loss	May 31, 2020
For the Period				
Separation Rapids Lithium Project (a)	$ 11,522,138	$ 363,763	$ -	$ 11,885,901
East Kemptville Tin-Indium Project (b)	5,503,577	78,624	-	5,582,201
Other (c)	39,488	9,756	-	49,244
	$ 17,065,203	$ 452,143	$ -	$ 17,517,346

	September 1, 2018	Expenditures	Impairment Loss	August 31, 2019
For the year ended August 31, 2019				
Separation Rapids Lithium Project (a)	$ 11,010,950	$ 511,188	$ -	$ 11,522,138
East Kemptville Tin-Indium Project (b)	5,827,524	315,087	(639,034)	5,503,577
Other (c)	35,760	3,728	-	39,488
	$ 16,874,234	$ 830,003	$ (639,034)	$ 17,065,203

5. Exploration and Evaluation Assets (continued)

a) Separation Rapids Lithium Project, Ontario

The Company owns a 100% interest in certain mineral claims and a mining lease in the Kenora area of Ontario.

b) East Kemptville Tin-Indium Project, Nova Scotia

The Company holds a special exploration licence (the “Special Licence”) to search and prospect for all minerals except for coal, salt, potash and uranium within four claims in the East Kemptville area of Yarmouth, Nova Scotia.

The Special Licence had a term of three years which began February 2, 2015 and was renewable for an additional two one-year periods, which extended the Special Licence until February 1, 2020, which has since been converted to a regular exploration licence.

c) Other Resource Properties

The Company has a 100% interest in a mining lease in the Warren Township Anorthosite Project, located near Foleyet, Ontario, a 100% interest in several claims in the Lilypad Lakes Cesium Property, located 150 km northeast of Pickle Lake, Ontario, 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.

6. Property, Plant and Equipment

	Nechalacho REE Project (a)	Airstrip	Office, Computer and Office Equipment	Land and Building	Exploration Equipment	Leasehold Improvements	Total
Cost							
As at September 1, 2018	$ 103,878,349	$ 646,860	$ 220,048	$ 90,905	$ 695,532	$ 94,594	$ 105,626,288
Additions	201,097	-	-	-	-	7,020	208,117
Transfer to asset held for sale	(2,605,147)	-	-	-	-	-	(2,605,147)
Disposals	-	-	(18,911)	-	-	-	(18,911)
As at August 31, 2019	101,474,299	646,860	201,137	90,905	695,532	101,614	103,210,347
Additions	28,686	-	18,575	-	-	5,140	52,401
IFRS 16 adjustments	-	-	1,045,810	-	-	-	1,045,810
Disposals	-	-	(30,283)	-	-	-	(30,283)
As at May 31, 2020	$ 101,502,985	$ 646,860	$ 1,235,239	$ 90,905	$ 695,532	$ 106,754	$ 104,278,275
Accumulated Depreciation							
As at September 1, 2018	$ -	$ 265,446	$ 179,986	$ 10,367	$ 643,185	$ 94,594	$ 1,193,578
Depreciation expense	-	20,624	12,714	4,191	15,705	108	53,342
Disposals	-	-	(18,411)	-	-	-	(18,411)
As at August 31, 2019	-	286,070	174,289	14,558	658,890	94,702	1,228,509
Depreciation expense	-	14,230	158,028	3,143	8,245	972	184,618
Disposals	-	-	(30,283)	-	-	-	(30,283)
As at May 31, 2020	$ -	$ 300,300	$ 302,034	$ 17,701	$ 667,135	$ 95,674	$ 1,382,844
Net Book Value							
As at August 31, 2019	$ 101,474,299	$ 360,790	$ 26,848	$ 76,347	$ 36,642	$ 6,912	$ 101,981,838
As at May 31, 2020	$ 101,502,985	$ 346,560	$ 933,205	$ 73,204	$ 28,397	$ 11,080	$ 102,895,431

6. Property, Plant and Equipment (continued)

a) Nechalacho REE Project, Northwest Territories

The Company owns a 100% interest in eight mining leases covering the Nechalacho rare earth elements deposit ("Nechalacho Deposit") located at Thor Lake in the Mackenzie Mining District of the Northwest Territories.

The property is subject to an underlying 2.5% net smelter returns ("NSR") royalty agreement which can be bought back at the principal amount of $150,000 compounded annually at the average Canadian prime rate from May 2, 1982 to the buyback date, and which currently approximates $1.6 million (the "2.5% NSR Royalty").

During the year ended August 31, 2012, the Company entered into an accommodation agreement (the "Accommodation Agreement") with the Deninu K'ue First Nation ("DKFN"). The DKFN is one of three Akaitcho bands who have used, occupied and have constitutionally protected aboriginal rights with respect to the lands on which the Nechalacho Deposit in the Northwest Territories is located.

The Accommodation Agreement provides for business and employment opportunities for the DKFN related to the Nechalacho Deposit and associated facilities in the Northwest Territories and contains measures to mitigate environmental and cultural impacts that may result from the project development. The Accommodation Agreement also commits the DKFN to supporting timely completion of the environmental assessment, permitting and development processes of the Nechalacho REE Project, and provides for the DKFN to participate in the project economics.

During the year ended August 31, 2019, the Company and an unrelated third party entered into an agreement under which this third party will acquire ownership of the near-surface resources principally in the T-Zone and Tardiff Zones of the property for a total cash consideration of $5.0 million while the Company will retain ownership of the mineral resources below a depth of 150 metres above sea level, a 3.0% NSR royalty (the "3.0% NSR Royalty") and will continue to have access to the property for exploration, development and mining purposes (the "Sale and Purchase Agreement"). Avalon has also agreed to waive the 3.0% NSR Royalty for the first five years of commercial production and to grant 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.

This agreement also grants the third party an option to purchase the Company's option in the 2.5% NSR Royalty for an inflation adjusted fixed amount estimated at $1.5 million as at the agreement date, provided that, upon exercising the option, it extinguishes this royalty.

The sale was expected to be completed during fiscal 2020. Accordingly, the Company had transferred the carrying cost relating to the near-surface mineral resources of $2,605,147 from the total carrying cost of the Nechalacho REE Project included in Property, Plant and Equipment to Asset Held for Sale as at August 31, 2019. The sale was completed during the quarter ended February 29, 2020, resulting in a net gain on sale of $2,373,261.

During the Period, the Company generated net management fees of $105,592 for services provided to the third party to manage its exploration activities on the property.

b) Depreciation of $147,067 was recognized relating to the ROU asset during the Period, and the carrying balance of the ROU asset was $898,743 as at May 31, 2020.

7. Deferred Flow-Through Share Premium

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

Balance – September 1, 2018	$	52,157
Increase relating to flow-through common shares issued		150,000
Decrease relating to CEE incurred		(154,676)
Balance – August 31, 2019		47,481
Decrease relating to CEE incurred		(47,481)
Balance – May 31, 2020	$	-

8. Lease Obligation

The Company had the following future commitment relating to the lease contract for its office premises:

2020	$	53,094
2021		218,253
2022		222,556
2023		229,181
2024		233,563
2025		63,280
Total future lease payments as at May 31, 2020		1,019,927
Amounts representing interest		110,558
Present value of future lease payments		909,369
Current portion of lease obligation		174,491
Non-current portion of lease obligation	$	734,878

9. Convertible Note Payable

On November 30, 2018, the Company issued a convertible note payable in the amount of $500,000 to an entity managed by the Lind Partners ("Lind") (the "Note"). The Note has a term of two years with a maturity date of November 30, 2020 and accrued an interest amount of $100,000 on the date of issuance, resulting in the Note to bear a face value of $600,000 at issuance.

Lind is entitled to convert any outstanding amount of the face value of the Note into common shares commencing on May 26, 2019 at a conversion price equal to the higher of (a) 80% of the five day trailing value weighted average price ("VWAP") of the common shares prior to the date of conversion, and (b) the five day trailing VWAP of the shares prior to the date of conversion, less the maximum discount allowable in accordance with TSX rules. The Company has floor price protection such that if any conversion results in an effective conversion price of less than $0.05 per share, then the Company has the right to instead repay the amount that was subject to that conversion for a 5% premium. The Company also has the right to repurchase the Note at the outstanding face value at any time.

9. Convertible Note Payable (continued)

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

Balance - September 1, 2018	$ -
Issued	500,000
Interest	100,000
Converted to common shares	(425,000)
Balance - August 31, 2019	175,000
Converted to common shares	(116,667)
Current portion of convertible note payable - May 31, 2020	(58,333)
Non-current portion of convertible note payable - May 31, 2020	$ -

The number of common shares to be issued would be 1,121,795 if the entire Note had been converted into common shares based on the closing price of the Company's common shares on the TSX of $0.065 on May 31, 2020.

10. Convertible Redeemable Preferred Shares

In March 2017, the Company entered into a preferred share purchase agreement (the "A1 Agreement") with an entity managed by Lind and issued 500 Series A1 Preferred Shares (the "A1 Preferred Shares") at a price of $5,000 per share for gross proceeds of $2,500,000. Pursuant to Canadian securities laws, the securities issuable under this private placement were subject to a hold period, which expired on July 11, 2017 (the "Hold Period").

The A1 Preferred Shares did not carry a dividend and had a redemption value that started at $5,000 per share and increases by $250 per share each quarter over a 24 months period ending on March 10, 2019, to a cap of $6,750 per share. The A1 Preferred Shares could be converted by Lind into common shares of the Company at a price per common share equal to 85% of the five-day volume weighted average price ("VWAP") of the common shares on the TSX immediately prior to the date that notice of conversion was given (the "Conversion Option").

In conjunction with this private placement, Lind received a commitment fee of $125,000 and 6,900,000 common share purchase warrants (the "A1 Warrants"). Each A1 Warrant entitles the holder to purchase one common share of the Company at a price of $0.23 per common share until March 10, 2022.

Lind had the basic right to convert 25 A1 Preferred Shares into common shares of the Company on a monthly basis, subject to certain conversion limits set out in the A1 Agreement, however Lind was permitted to convert up to 100 A1 Preferred Shares on a monthly basis in the event such amount did not exceed 20% of the Company's 20-day traded volume of common shares on the TSX immediately prior to the date of delivery of a conversion notice.

Lind was also entitled to accelerate its conversion right to the full amount of the redemption value applicable at such time, or demand repayment of the applicable redemption value per share in cash (the "Put Option"), upon the occurrence of certain events as set out in the A1 Agreement (most of which are beyond the Company's control) (the "Redemption Events"). The triggering Redemption Events include certain key financial and non-financial conditions, which included change of control, insolvency and liquidity conditions etc. as defined in the A1 Agreement. These Redemption Events also limited the Company from obtaining other debt or preferred share financings that were not junior to the A1 Preferred Shares other than certain project-related financings, as well as other at-the-market, equity lines or credit type of common share offerings, or convertible security financings where the price of the common share was not fixed at predetermined price. In addition, if the Redemption Event was a change of control event, the redemption amount would be equal to 110% of the applicable redemption amount at that time.

10. Convertible Redeemable Preferred Shares (continued)

The Company had the right to redeem all of the outstanding A1 Preferred Shares at any time after the Hold Period at a 5% premium to the redemption value (the “Call Option”). The Company also had floor price protection such that if any conversion results in an effective conversion price of less than $0.10 per common share, then the Company had the right to deny the conversion and instead redeem the A1 Preferred Shares that were subject to that conversion for the redemption amount in cash plus a 5% premium.

At any time while any A1 Preferred Shares are outstanding, Lind had the option of subscribing for up to an additional 165 Series A2 Preferred Shares at a price of $5,000 per share and under the same terms and conditions as the initial financing, subject to certain triggering events and subject to the prior approval of the TSX (“Series A2 Option”). Lind would also receive a certain number of Series A2 warrants (“A2 Warrants”) when it exercised the Series A2 Option. The number of A2 Warrants to be issued and the exercise price of A2 Warrants would be calculated by using similar formulas used in determining the number and the exercise price of the A1 Warrants.

The A1 Preferred Share was a hybrid instrument that contains multiple embedded derivatives: the Conversion Option, Put Option and Call Option.

The economic characteristics and risks of the Conversion Option were different from that of the host contract (the A1 Preferred Share) in that it allowed Lind to convert the A1 Preferred Shares (a debt instrument) into the Company’s common shares (an equity instrument) at a price per common share equal to 85% of the five day VWAP of the common share, thus the Conversion Option could be measured separately from the A1 Preferred Share. In addition, the number of common shares to be issued upon conversion was variable and did not meet the “a fixed amount of cash for a fixed number of equity instruments” requirement to be classified as an equity instrument. As such, the Company had designated the entire hybrid contract (the A1 Preferred Share and all of the embedded derivatives) as a financial liability at FVTPL and were re-measured at each financial statement reporting date, with the resulting change in value being recorded as increase or decrease in fair value of convertible redeemable preferred shares in the consolidated statement of comprehensive loss.

As the Company had the Call Option to redeem all of the outstanding A1 Preferred Shares at a 5% premium to the redemption value, the total fair value of the A1 Preferred Shares at issuance was therefore $2,625,000.

The exercise price of the A1 Warrant is subject to adjustment from time to time in the event of certain common share rights offering, such that the exercise of the A1 Warrants do not result in a fixed number of common shares being issued for a fixed amount of cash. As a result, The A1 Warrant had been classified as a financial liability at FVTPL and re-measured at each financial statement reporting date using the Black-Scholes pricing model, with the resulting change in value being recorded as increase or decrease in fair value of derivative liabilities in the consolidated statement of comprehensive loss.

The fair value of the A1 Warrants was estimated at $236,488 (or $0.0343 for each warrant) at issuance, and this amount was allocated to the warrant component of this private placement. The fair value of the A1 Warrant was estimated using the Black-Scholes pricing model, with the following assumptions: expected dividend yield of Nil; risk free interest rate of 1.10%; expected life of 4.0 years; and expected volatility of 35%.

In December 2017, the Company entered into a preferred share purchase agreement (the “B1 Agreement”) with Lind and issued 300 Series B1 Preferred Shares (the “B1 Preferred Shares”) at a price of $5,000 per share for gross proceeds of $1,500,000 in January 2018. Pursuant to Canadian securities laws, the securities issuable under this private placement were subject to a hold period, which expired on May 16, 2018 (the “B1 Hold Period”).

10. Convertible Redeemable Preferred Shares (continued)

In conjunction with this private placement, Lind received a commitment fee of $75,000 and 6,250,000 common share purchase warrants (the "B1 Warrants"). Each B1 Warrant entitles the holder to purchase one common share of the Company at a price of $0.15 per common share until January 15, 2023. Other than the exercise price and expiry date, the B1 Warrants bear the similar terms and conditions as the A1 Warrants.

The B1 Agreement is subject to essentially the same terms and conditions as the A1 Agreement and the B1 Preferred Shares bear the same essential features of the A1 Preferred Shares including the rate and amount of the increase in the redemption value, the conversion option, put option and call option etc.

After the B1 Hold Period, Lind has the basic right to convert 15 B1 Preferred Shares into common shares of the Company on a monthly basis, subject to certain conversion limits set out in the B1 Agreement, however Lind is permitted to convert up to 60 B1 Preferred Shares on a monthly basis in the event such amount does not exceed 20% of the Company's 20-day traded volume of common shares on the TSX immediately prior to the date of delivery of a conversion notice.

At any time while any B1 Preferred Shares are outstanding, Lind has the option of subscribing for up to an additional 100 Series B2 Preferred Shares at a price of $5,000 per share and under the same terms and conditions as the initial B1 financing, subject to certain triggering events and subject to the prior approval of the TSX ("Series B2 Option"). Lind will also receive a certain number of Series B2 warrants ("B2 Warrants") when it exercises the Series B2 Option. The number of B2 Warrants to be issued and the exercise price of the B2 Warrants will be calculated by using similar formulas used in determining the number and the exercise price of the B1 Warrants.

As the B1 Preferred Shares bear the same essential features as the A1 Preferred Shares, the Company had designated the entire hybrid contract (the B1 Preferred Share and all of the embedded derivatives) as a financial liability at FVTPL and re-measured at each financial statement reporting date.

As the Company has the Call Option to redeem all of the outstanding B1 Preferred Shares at any time after the B1 Hold Period at a 5% premium to the redemption value, the total fair value of the B1 Preferred Shares at issuance is therefore $1,575,000.

Similar to the A1 Warrants, the exercise price of the B1 Warrants is subject to adjustment from time to time in the event of certain common share rights offering, as such, the B1 Warrants had been classified as a financial liability at FVTPL and re-measured at each financial statement reporting date using the Black-Scholes pricing model.

The fair value of the B1 Warrants was estimated at $283,525 (or $0.0454 for each warrant) at issuance, and this amount was allocated to the warrant component of this private placement. The fair value of the B1 Warrant was estimated using the Black-Scholes pricing model, with the following assumptions: expected dividend yield of Nil; risk free interest rate of 1.94%; expected life of 4.0 years; and expected volatility of 35%.

In connection with this private placement, the Company also incurred other issuance costs of $34,040. Cash issuance costs incurred relating to this private placement totaled $109,040 and had been recorded in the Statement of Comprehensive Loss as financing transaction costs.

The fair values of the B1 Preferred Shares and the B1 warrants at issuance totaled $1,858,525 and the excess of this amount over the gross proceeds ($1,500,000) of $358,525 had been recorded as a financing transaction cost in the Statement of Comprehensive Loss.

In June 2018, the Company entered into a preferred share purchase agreement (the "C1 Agreement") and issued 150 Series C1 Preferred Shares (the "C1 Preferred Shares") at a price of $5,000 per share for gross proceeds of $750,000. Pursuant to Canadian securities laws, the securities issuable under this private placement were subject to a hold period, which expired on October 30, 2018 (the "C1 Hold Period").

10. Convertible Redeemable Preferred Shares (continued)

In conjunction with this private placement, Lind received a commitment fee of $37,500 and 3,750,000 common share purchase warrants (the “C1 Warrants”). Each C1 Warrant entitles the holder to purchase one common share of the Company at a price of $0.125 per common share until June 29, 2023. Other than the exercise price and expiry date, the C1 Warrants bear the similar terms and conditions as the A1 Warrants.

The C1 Agreement is subject to essentially the same terms and conditions as the A1 Agreement and the C1 Preferred Shares bear the same essential features of the A1 Preferred Shares including the rate and amount of the increase in the redemption value, the conversion option, put option and call option etc.

After the C1 Hold Period, Lind has the basic right to convert 10 C1 Preferred Shares into common shares of the Company on a monthly basis, subject to certain conversion limits set out in the C1 Agreement, however Lind is permitted to convert up to 30 C1 Preferred Shares on a monthly basis in the event such amount does not exceed 20% of the Company's 20-day traded volume of common shares on the TSX immediately prior to the date of delivery of a conversion notice.

At any time while any C1 Preferred Shares are outstanding, Lind has the option of subscribing for up to an additional 50 Series C2 Preferred Shares at a price of $5,000 per share and under the same terms and conditions as the initial C1 financing, subject to certain triggering events and subject to the prior approval of the TSX (“Series C2 Option”). Lind will also receive a certain number of Series C2 warrants (“C2 Warrants”) when it exercises the Series C2 Option. The number of C2 Warrants to be issued and the exercise price of the C2 Warrants will be calculated by using similar formulas used in determining the number and the exercise price of the C1 Warrants.

As the C1 Preferred Shares bear the same essential features as the A1 Preferred Shares, the Company had designated the entire hybrid contract (the C1 Preferred Share and all of the embedded derivatives) as a financial liability at FVTPL and re-measured at each financial statement reporting date.

As the Company has the Call Option to redeem all of the outstanding C1 Preferred Shares at any time after the C1 Hold Period at a 5% premium to the redemption value, the total fair value of the C1 Preferred Shares at issuance is therefore $787,500.

Similar to the A1 Warrants, the exercise price of the C1 Warrants is subject to adjustment from time to time in the event of certain common share rights offering, as such, the C1 Warrants had been classified as a financial liability at FVTPL and re-measured at each financial statement reporting date using the Black-Scholes pricing model.

The fair value of the C1 Warrants was estimated at $73,679 (or $0.0196 for each warrant) at issuance, and this amount was allocated to the warrant component of this private placement. The fair value of the C1 Warrant was estimated using the Black-Scholes pricing model, with the following assumptions: expected dividend yield of Nil; risk free interest rate of 2.00%; expected life of 4.0 years; and expected volatility of 35%.

In connection with this private placement, the Company also incurred other issuance costs of $18,668. Cash issuance costs incurred relating to this private placement totaled $56,168 and had been recorded in the Statement of Comprehensive Loss as financing transaction costs.

The fair values of the C1 Preferred Shares and the C1 warrants at issuance totaled $861,179 and the excess of this amount over the gross proceeds ($750,000) of $111,179 had been recorded as a financing transaction cost in the Statement of Comprehensive Loss.

10. Convertible Redeemable Preferred Shares (continued)

A summary of the changes in the convertible redeemable preferred shares amount is set out below:

	Number	Amount
A1 Preferred Shares		
Balance - September 1, 2018	180	$ 1,181,250
Increase in fair value	-	80,063
Converted to common shares	(180)	(1,261,313)
Balance - August 31, 2019 and May 31, 2020	-	$ -
B1 Preferred Shares		
Balance - September 1, 2018	240	$ 1,386,000
Increase in fair value	-	175,875
Converted to common shares	(155)	(981,750)
Balance - August 31, 2019	85	580,125
Increase in fair value	-	18,375
Converted to common shares	(85)	(598,500)
Balance - May 31, 2020	-	$ -
C1 Preferred Shares		
Balance - September 1, 2018	150	$ 787,500
Increase in fair value	-	120,750
Converted to common shares	(90)	(530,250)
Balance - August 31, 2019	60	378,000
Increase in fair value	-	21,000
Converted to common shares	(60)	(399,000)
Balance - May 31, 2020	-	$ -
	-	$ -

11. Derivative Liabilities

The derivative liabilities consist of the warrants denominated in foreign currency, and certain warrants with exercise prices that are subject to adjustment from time to time in the event of certain common share rights offering.

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

11. Derivative Liabilities (continued)

	Number of Warrants		Amount
Warrants denominated in foreign currency			
Balance - September 1, 2018	6,466,513	$	54
Decrease in fair value	-		(53)
Balance - August 31, 2019 and May 31, 2020	6,466,513	$	1
Other warrants subject to potential price adjustment			
Balance - September 1, 2018	16,900,000	$	109,767
Issued	4,575,000		44,199
Decrease in fair value	-		(126,898)
Balance - August 31, 2019	21,475,000		27,068
Increase in fair value	-		41,615
Balance - May 31, 2020	21,475,000	$	68,683
Total derivative liabilities		$	68,684

12. Share Capital

a) Authorized

The Company is presently authorized to issue an unlimited number of common shares without par value. The Company is also authorized to issue up to 25,000,000 preferred shares without par value, of which 950 have been issued and none are outstanding as at May 31, 2020.

b) Warrants

	Number of Warrants		Weighted Average Exercise Price
Balance - September 1, 2018	6,580,000[(1)]	$	0.136
Issued pursuant to equity offerings	2,687,500		0.120
Exercised	(1,000,000)		0.120
Expired	(10,000)		0.490
Balance - August 31, 2019	8,257,500[(1)]		0.132
Expired	(2,400,000)		0.160
Balance - May 31, 2020	5,857,500[(1)]	$	0.120

[(1)] Does not include the additional warrants as disclosed below.

The outstanding warrants have a weighted average remaining contract life of 0.2 years.

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

12. Share Capital (continued)

The Company also has the following warrants outstanding as at May 31, 2020:

i) 6,466,513 warrants with an adjusted exercise price of US$0.5223 per share ("US$ Warrants") and are exercisable until June 13, 2021. These warrants are subject to certain anti-dilution provisions, which may reduce the exercise price, with a floor of US$0.5095 per share;

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

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

iv) 3,750,000 C1 Warrants with an exercise price of $0.125 per share and are exercisable until June 29, 2023; and

v) 4,575,000 warrants with an exercise price of $0.07 per share and are exercisable until November 30, 2021.

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

c) Share Based Payments

The shareholders have approved a Stock Option Plan (the "Plan") that provides for the issue of up to 10% of the number of issued and outstanding common shares of the Company to eligible employees, directors and service providers of the Company.

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

	Number of Options	Weighted Average Exercise Price
Balance - September 1, 2018	11,345,000	$ 0.26
Granted	3,020,000	0.10
Exercised	(200,000)	0.10
Expired	(3,875,000)	0.43
Forfeited	(893,750)	0.17
Balance - August 31, 2019	9,396,250	0.16
Granted	6,265,000	0.08
Expired	(3,001,250)	0.21
Forfeited	(40,000)	0.16
Balance - May 31, 2020	12,620,000	$ 0.11

12. Share Capital (continued)

As at May 31, 2020, there were 4,756,250 options vested (August 31, 2019 - 6,147,500) with an average exercise price of $0.13 per share (August 31, 2019 - $0.17), that were exercisable.

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

The estimated fair value of options earned during the Period was $77,590 (2019 - $78,124), of which $297 (2019 - $3,455) was capitalized to property, plant and equipment, $6,169 (2019 - $12,585) was capitalized as exploration and evaluation assets, $2,122 (2019 - $Nil) was charged to operations as general exploration expenses with the balance of $69,002 (2019 - $62,084) charged to operations as share based compensation expense.

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

The weighted average assumptions for grants during the Period and the year ended August 31, 2019 are as follows:

	May 31, 2020	August 31, 2019
Exercise price	$0.08	$0.10
Closing market price on day preceding date of grant	$0.04	$0.08
Risk-free interest rate	1.13%	1.80%
Expected life (years)	3.6	3.3
Expected volatility	79%	63%
Expected dividend yield	Nil	Nil
Grant date fair value	$0.02	$0.03
Forfeiture rate	14%	15%

The following table summarizes information concerning outstanding and exercisable options as at May 31, 2020:

	Number of Options		Weighted Average
Exercise Price Range	Outstanding	Exercisable	Remaining Contractual Life
$0.25 - $0.30	300,000	225,000	1.0 years
$0.20 - $0.24	240,000	217,500	0.6 years
$0.15 - $0.19	970,000	712,500	1.6 years
$0.11 - $0.14	2,765,000	1,868,750	2.0 years
$0.08 - $0.10	8,345,000	1,732,500	3.4 years
	12,620,000	4,756,250	

12. Share Capital (continued)

d) Brokers' Compensation Warrants

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

	Number of Compensation Warrants	Weighted Average Exercise Price
Balance - September 1, 2018	1,232,727	$ 0.17
Expired	(812,727)	0.18
Balance - August 31, 2019	420,000	0.15
Expired	(420,000)	0.15
Balance - May 31, 2020	-	$ -

The brokers' compensation warrants reserve, included as a component of the consolidated statement of changes in equity, relates to equity settled compensation instruments issued by the Company to external service providers.

13. Corporate and Administrative Expenses

Corporate and administrative expenses for the three months and nine months ended May 31, 2020 and 2019 consist of the following:

	Three Months Ended		Nine Months Ended	
	May 31, 2020	May 31, 2019	May 31, 2020	May 31, 2019
Salaries and benefits[1]	$ 217,297	$ 381,218	$ 867,631	$ 1,082,472
Directors' fees	1,851	12,150	11,851	51,650
Consulting and professional fees	94,307	30,426	279,048	195,399
Office, insurance and other expenses	56,322	39,757	186,320	125,139
Occupancy	-	81,255	-	240,880
Shareholders' communications and filing fees	20,888	12,865	131,263	121,273
Travel and related costs	10,903	7,290	61,461	29,023
	$ 401,568	$ 564,961	$ 1,537,574	$ 1,845,836

[1] These figures do not include share based compensation and are net of the Canada Emergency Wage Subsidy ("CEWS"). Employees' salaries and benefits including share based compensation expensed for the quarter ended May 31, 2020 and for the Period totaled $231,305 (2019 - $393,594) and $907,112 (2019 - $1,127,695), respectively. The CEWS for the quarter ended May 31, 2020 and the Period totaled $77,840 (2019 - $Nil).

14. 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 nine months ended May 31, 2020 and 2019, other than the participation by Mr. Donald Bubar, Director, President and CEO in the November 2018 private placement, whereby Mr. Bubar subscribed for 1,000,000 Units at $0.07 per Unit. Each unit was comprised of one common share and one half of one common share purchase warrant. Each whole warrant entitles the holder to acquire one common share at a price of $0.12 until November 1, 2020.

b) Compensation of key management personnel

The remuneration of directors and other members of the Company's senior management team during each of the three and nine months ended May 31, 2020 and May 31, 2019 are as follows:

	Three Months Ended		Nine Months Ended	
	May 31, 2020	May 31, 2019	May 31, 2020	May 31, 2019
Salaries, benefits and directors' fees[(1)]	$ 275,266	$ 383,719	$ 930,307	$ 1,193,849
Share based compensation[(2)]	24,979	17,283	57,213	57,293
	$ 300,245	$ 401,002	$ 987,520	$ 1,251,142

(1) Salaries and benefits of key management personnel capitalized to exploration and evaluation assets and PPE for the quarter ended May 31, 2020 and for the Period totaled $45,228 (2019 - $80,332) and $188,765 (2019 - $286,217), respectively.

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

Unpaid directors' fees and salaries included in accrued liabilities and owing to the directors and members of the Company's senior management team totaled $188,800 as at May 31, 2020 (August 31, 2019 - $566,685).

15. Financial Instruments

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

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

15. Financial Instruments (continued)

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 denominated in a currency that is not the functional currency of the Company and the warrants with exercise prices that are subject to adjustment from time to time are based on Level 2 inputs that are observable for the liability such as interest rate, dividend yield and historical volatility. The fair value of the Convertible Note Payable is based on Level 3 inputs including the applicable face value of the Note. The Company has the right to buy back the Note at any time for the outstanding face value, as such the fair value of the Note is the outstanding face value of the Note. The fair values of the Company's A1, B1 and C1 Preferred Shares were based on Level 3 inputs, including applicable redemption amounts and redemption premiums. The Company had the right to redeem the A1, B1 and C1 Preferred Shares at any time and therefore the fair value of the A1, B1 and C1 Preferred Shares was the amount the Company has to pay to redeem the A1, B1 and C1 Preferred Shares, which was the redemption amount as specified in the purchase agreements plus 5% redemption premium.

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 May 31, 2020. The Company's cash and cash equivalents are either on deposit with two major Canadian Chartered banking groups in Canada or invested in bankers' acceptance notes or guaranteed investment certificates issued by a major Canadian Chartered banking group. The Company's receivables primarily consist of Goods and Services Tax/Harmonized Sales Tax receivable, government grants, refundable security deposits with various federal and provincial governments. The Company's receivables are not subject to significant credit risk, other than the amount receivable from this third party. The Company does not anticipate any significant collection issue from this third party.

Liquidity risk

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

As at May 31, 2020, the Company has current assets of $1,462,692 and current liabilities of $802,970. The Company's working capital as at May 31, 2020 was $659,722.

Repayments due by period as of May 31, 2020:

	Within 1 Year	1-3 Years	4-5 Years	Over 5 Years	Total
Accounts payable and accrued liabilities	$ 570,146	$ -	$ -	$ -	$ 570,146
Lease obligation	216,050	448,996	354,882	-	1,019,928
Convertible note payable	58,333	-	-	-	58,333
	$ 844,529	$ 448,996	$ 354,882	$ -	$ 1,648,407

15. Financial Instruments (continued)

Market risk

i) Interest rate risk

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

ii) Foreign currency risk

The Company's functional currency is the Canadian dollar. The majority of the Company's purchases are transacted in Canadian dollars. Other than the US$ Warrants as disclosed in Note 12b, the Company had no other significant financial assets or financial liabilities denominated in foreign currencies as at May 31, 2020.

iii) Price risk

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

Sensitivity analysis

Considering the Company's budget expenditures for the balance of fiscal 2020 and its current cash and cash equivalents of $1,270,995, 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 2020.

Other than the US$ Warrants as disclosed in Note 12b, the Company had no other significant financial assets or financial liabilities denominated in foreign currencies as at May 31, 2020, and its anticipated on-going expenditures to be transacted in US dollars for the next three month period is approximately US$40,000. If the Canadian dollar weakens (or strengthens) 5% against the US dollar with other variables held constant, it would not have any significant effect on the Company's expenditures over a three month period.

16. Supplemental Cash Flow Information

Non-cash financing and investing transactions not reflected in the Condensed Consolidated Interim Statements of Cash Flows for the three and nine months ended May 31, 2020 and 2019 are as follows:

	Three Months Ended		Nine Months Ended	
	May 31, 2020	May 31, 2019	May 31, 2020	May 31, 2019
Share based compensation capitalized as property, plant and equipment	$ 111	$ 1,046	$ 297	$ 3,455
Share based compensation capitalized as exploration and evaluation assets	2,165	3,272	6,169	12,585
Depreciation expense capitalized as property, plant and equipment	-	7,794	-	23,383
Depreciation expense capitalized as exploration and evaluation assets	1,949	2,336	5,847	7,006
Property, plant and equipment acquired under lease arrangement	-	-	1,045,810	-
	$ 4,225	$ 14,448	$ 1,058,123	$ 46,429

17. Events After the Reporting Period

Subsequent to the end of the Period, the Company:

a) granted an aggregate of 1,415,000 stock options with a weighted average exercise price of $0.08 per share to certain employees, directors and consultants of the Company. The weighted average contract life of these options at issuance was 4.0 years;

b) issued a total of 1,207,729 common shares pursuant to the conversion of $58,333 convertible note payable; and

c) had 1,400,000 warrants with an exercise price of $0.12 per share expire.