

Ion Energy Ltd.
(Formerly Spirit Banner Capital Corp.)
CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED
SEPTEMBER 30, 2020
(Expressed in Canadian Dollars)
(UNAUDITED)

Notice to Reader

The accompanying unaudited condensed interim financial statements of Ion Energy Limited ("the Company") have been prepared by and are the responsibility of management. The unaudited condensed interim financial statements as at and for the three and nine months ended September 30, 2020 have not been reviewed by the Company's auditors.

Ion Energy Limited (Formerly Spirit Banner Capital Corp.)

Condensed Interim Statements of Financial Position
(Expressed in Canadian Dollars)
(Unaudited)

	Notes	As at September 30, 2020	As at December 31, 2019
Assets			
Current assets			
Cash		2,255,473	120,947
Prepaid expenses and deposits		97,110	-
Due from related party		4,422	4,422
Total Current Assets		2,357,005	125,369
Property, plant and equipment	5	36,367	34,457
Investment – Star Royalty	6	-	187,500
Baavhai-Uul Project – Exploration License	7	1,153,253	933,223
Total Non-Current Assets		1,189,620	1,155,180
Total Assets		3,546,625	1,280,549
Liabilities and shareholders' equity			
Liabilities			
Accounts payable and accrued liabilities		295,753	148,318
Due to related party	10	-	129,186
Loan liability	10	-	225,000
Other liabilities	7	266,780	584,460
Total Current Liabilities		562,533	1,086,964
Total Liabilities		562,533	1,086,964
Shareholders' equity			
Share Capital, net of issuance costs	8	6,623,436	3,100,626
Contributed surplus		1,043,594	(8,788)
Retained earnings (accumulated deficit)		(4,682,938)	(2,898,253)
Total shareholders' equity		2,984,092	193,585
Total liabilities and shareholders' equity		3,546,625	1,280,549

Approved by the Board of Directors:

Director: Ali Haji

Director: Matthew Wood

The notes to the unaudited condensed interim financial statements are an integral part of these statements.

Ion Energy Limited (Formerly Spirit Banner Capital Corp.)

Condensed Interim Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars)
(Unaudited)

	Notes	Three Months Ended Sept. 30, 2020	Three Months Ended Sept. 30, 2019	Nine Months Ended Sept. 30 2020	Nine Months Ended Sept. 30 2019
Other income					
Interest income		10	25,213	58	25,306
General and administrative expenses					
Professional fees		204,425	128,540	299,759	746,472
Due Diligence costs		4,952	-	4,952	-
Filing fees		52,023	-	52,023	-
Travel Accommodation		3,637	1,957	3,637	15,437
Marketing expenses		96,833	-	106,457	-
General and office		30,728	34,201	46,637	51,667
Loss on amended agreement		-	300,000	-	300,000
Listing fees		1,254,544	-	1,254,544	-
Foreign exchange gain or (loss)		(37,842)	3,619	16,734	(1,252)
Net loss for the period		(1,609,290)	(443,104)	(1,784,685)	(1,087,018)
Cumulative translation adjustment		(23,783)	9,507	(11,242)	(2,144)
Net loss and comprehensive loss for the period		(1,633,073)	(433,597)	(1,795,927)	(2,089,162)
Basic and diluted net loss per share	9	(0.04)	(0.01)	(0.06)	(0.01)
Weighted average number of common outstanding	9	37,029,111	88,576,135	32,174,793	82,639,090

The notes to the unaudited condensed interim financial statements are an integral part of these statements.

Ion Energy Limited (Formerly Spirit Banner Capital Corp.)

Condensed Interim Statements of Changes in Shareholders' Deficiency

(Expressed in Canadian Dollars)

(Unaudited)

	Note	Number	Common Shares Amount	Contributed Surplus	Accumulated Deficit	Total
Balance, December 31, 2018		60,064,320	\$ 300,322	961	(1,291,309)	(990,026)
Common shares issued to settle debt		27,400,000	1,620,000	-	-	1,620,000
Common shares issued to acquire asset		8,000,000	800,000	-	-	800,000
Private placement		4,020,500	396,048	-	-	396,048
Cumulated translation adjustment		-	-	2,144	-	2,144
Net loss for the period		-	-	-	(1,087,018)	(1,087,018)
Balance, September 30, 2019		99,484,820	3,166,370	3,105	(2,378,327)	741,148
Balance, December 31, 2019		99,484,820	\$3,100,626	\$(8,788)	\$(2,898,253)	193,585
Consolidation of Old Ion Energy shares pre-RTO	8	(69,763,858)	-	-	-	-
Shares issued on private placement	8	9,063,329	1,587,899	899,837	-	2,487,736
Shares issued to SBI shareholders on RTO	8	9,515,390	1,841,435	203,276	-	2,044,711
Options exercised	8	225,990	93,476	(48,278)	-	45,198
Cumulated translation adjustment		-	-	(2,453)	-	(2,453)
Net loss for the period		-	-	-	(1,784,685)	(1,784,685)
Balance, September 30, 2020		48,525,671	6,623,436	1,043,594	(4,682,938)	2,984,092

The notes to the unaudited condensed interim financial statements are an integral part of these statements.

Ion Energy Limited (Formerly Spirit Banner Capital Corp.)

Condensed Interim Statements of Cash Flows
(Expressed in Canadian Dollars)
(Unaudited)

	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Operating Activities		
Net loss for the period	(1,784,685)	(1,087,018)
Adjustments for:		
Depreciation	211	-
Listing expense	1,254,544	-
Loss on Star Royalty agreement	-	300,000
Foreign exchange gain or loss	(572)	2,144
Changes in non-cash working capital items:		
Accounts receivable	(97,110)	638,623
Accounts payable and accrued liabilities	147,435	64,087
Net cash used in operating activities	(480,177)	(82,164)
Investing activities		
Cash acquired on RTO	536,102	-
Disposal of investment in Star Royalty	187,500	-
Purchase of equipment	-	(35,838)
Purchase of Exploration license	(11,849)	(266,917)
Net cash used in investing activities	711,753	302,755
Financing activities		
Purchase Price Payable Exploration License	(541,987)	-
Related party loan repayment	(130,432)	-
Proceeds from private placement	2,718,999	396,048
Proceeds from exercised options	45,198	-
Transaction cost of private placement	(182,944)	-
Net cash provided by financing activities	1,908,834	396,048
Effect of foreign exchange	(5,884)	(1,265)
Net change in cash	2,134,526	9,864
Cash, beginning of period	120,947	9,936
Cash, end of period	2,255,473	19,800

The notes to the unaudited condensed interim financial statements are an integral part of these statements.

Ion Energy Limited (Formerly Spirit Banner Capital Corp.)

Notes to Condensed Interim Financial Statements

September 30, 2020

(Expressed in Canadian Dollars)

(Unaudited)

1. Incorporation and Nature of Business

Ion Energy Ltd., formerly Spirit Banner Capital Corp. (the "Company") was incorporated under the Business Corporation Act (Alberta) on June 5, 2017 and was classified as a Capital Pool Corporation as defined in the Policy 2.4 of the TSX Venture Exchange (the "Exchange").

On February 27, 2019, the Company signed a binding letter of intent ("LOI") with Ion Energy Ltd. in which the Company acquired all if the issued and outstanding common shares of Ion Energy Ltd. in a three-cornered amalgamation (the "Transaction") involving the Company, Ion Energy Ltd. and 2724661 Ontario Ltd., a wholly owned subsidiary of the Company. The transaction constitutes the "Qualifying Transaction" as such terms is defined in the TSX Venture Exchange Policy 2.4 – Capital Pool Companies. On August 26, 2020, the Company completed the Transaction, changed its name to Ion Energy Ltd. and resumed trading on the Exchange under the symbol "ION".

On the same date, the Company completed the previously announced non-brokered concurrent financing which consisted of the issuance of 9,063,329 subscription receipts offered at \$0.30 per Subscription Receipt, for gross proceeds of \$2,718,999.

The Company is engaged in the business of seeking and identifying lithium assets in Asia since incorporation. The Company is the owner of a lithium exploration license to explore an area approximately 81,758 hectares in size containing lithium brine targets (the "Baavhai-Uul Project" or the "Property").

The registered office of the Corporation is located at Suite 902, 18 King St E, Toronto Ontario M5C 1C4. The head office of the corporation is located at Suite 400, 90 Adelaide Street West, Toronto, Ontario M5H 4A6.

2. Basis of Presentation

(a) Statement of compliance

The Company applies international Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the IFRS interpretations Committee. These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34 – Interim Financial Reporting. Accordingly, they do not include all the information required for full annual financial statements.

These financial statements, and the policies applied herein, were authorized for issue by the Board of Directors on November xx, 2020.

(b) Basis of presentation and statement of compliance

These unaudited condensed interim consolidated financial statements have been prepared on a historical cost basis, with the exception of financial instruments classified at fair value through profit or loss ("FVTPL"). In addition, these condensed interim consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

In the preparation of these condensed interim consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the condensed interim consolidated financial statements and the reported amount of expenses during the period. Actual results could differ from these estimates.

(c) Basis of measurement

The condensed interim consolidated financial statements have been prepared under the historical cost method except for share-based transactions and certain financial instruments which are measured at fair value.

The condensed interim consolidated financial statements are presented in Canadian dollars, which is the Company's functional and presentation currency. The functional currency of Ion Energy Holdings Inc. is also the Canadian dollar. The functional currency of Ion Energy LLC is the Mongolian tugrik.

(d) Consolidation

The consolidated financial statements include the accounts of the Ion Energy Ltd. and its subsidiaries Ion Energy Holdings Inc. and

Ion Energy Limited (Formerly Spirit Banner Capital Corp.)

Notes to Condensed Interim Financial Statements

September 30, 2020

(Expressed in Canadian Dollars)

(Unaudited)

2. Basis of Presentation (continued)

Ion Energy LLC (hereafter referred to as the "Company"). Ion Energy Holdings Ltd. is a wholly owned subsidiary of Ion Energy Ltd. Ion Energy LLC is a wholly owned subsidiary of Ion Energy Holdings Ltd. The Company has consolidated the assets, liabilities and expenses of its subsidiaries after the elimination of inter-company transactions and balances. The subsidiary's principal business is the acquisition and development of mineral properties.

(e) Use of judgments and estimates

Management is required to make estimates, judgments and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Management reviews these judgments, estimates and assumptions on an ongoing basis, including those related to fair values of financial instruments, recoverability of assets and income taxes. Actual results may differ from these estimates.

The key estimates and judgments concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are outlined below.

Judgments

Judgment is used in situations when there is a choice and/or assessment required by management. The following are critical judgments apart from those involving estimations (disclosed below), that management has made in the process of applying the Corporation's accounting policies and that have a significant effect on the amounts recognized in the consolidated financial statements.

Going Concern

The assessment of the Company's ability to continue as a going concern involves judgment regarding future funding available for its operations and working capital requirements.

Determining cash generating units ("CGUs")

For the purpose of assessing impairment of exploration and evaluation expenditures and equipment, assets are grouped at the lowest level of separately identified cash flows which make up the CGU. Determination of what constitutes a CGU is subject to management judgement. The asset composition of a CGU can directly impact the recoverability of assets included within the CGU. In assessing the recoverability of tangible and intangible assets, each CGU's carrying value is compared to the greater of its fair value less costs to sell and value in use.

Property

Although the Company takes steps to verify title exploration and evaluation assets in which it has an interest, however, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

Fair Value of investment

The fair value of investment is measured based on the value to sell the asset to market participants at the measurement date under current market conditions.

Functional Currency

The assessment of the Company's functional currency and the functional currency of its subsidiaries involves judgment regarding the primary economic environment the Company and its subsidiaries operate in.

Taxes

The Company applies judgment in determining the total provision for current and deferred taxes. There are many transactions and calculations for which the ultimate tax determination and timing of payment is uncertain due to interpretations of complex tax regulations, changes in tax laws, and the amounts and timing of future taxable income. Differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to taxable income and expenses already recorded.

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Notes to Condensed Interim Financial Statements

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(Expressed in Canadian Dollars)

(Unaudited)

2. Basis of Presentation (continued)

Provisions

Management's determination of no material restoration, rehabilitation and environmental exposure is based on the facts and circumstances that existed during the period.

Contingencies

Management uses judgment to assess the existence of contingencies. By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. Management also uses judgment to assess the likelihood of the occurrence of one or more future events.

Estimates

Deferred Taxes

The calculations for current and deferred taxes require management's interpretation of tax regulations and legislation in the various tax jurisdictions in which the Company operates, which are subject to change. The measurement of deferred tax assets and liabilities requires estimates of the timing of the reversal of temporary differences identified and management's assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income before they expire, which involves estimating future taxable income.

The Company is subject to assessments by various taxation authorities in the tax jurisdictions in which it operates and these taxation authorities may interpret the tax legislation and regulations differently. In addition, the calculation of income taxes involves many complex factors. As such, income taxes are subject to measurement uncertainty and actual amounts of taxes may vary from the estimates made by management.

3. Reverse take-over transaction

On February 27, 2019, the Company signed a binding letter of intent ("LOI") with Ion Energy Ltd. in which the Company acquired all of the issued and outstanding common shares of Ion Energy Ltd. in a three-cornered amalgamation (the "Transaction") involving the Company, Ion Energy Ltd. and 2724661 Ontario Ltd., a wholly owned subsidiary of the Company. The transaction constitutes the "Qualifying Transaction" as such terms is defined in the TSX Venture Exchange Policy 2.4 – Capital Pool Companies.

On August 26, 2020, the Company completed the Qualifying Transaction, as follows:

- Spirit Banner implemented, immediately prior to the completion of the amalgamation (referred to below) a share consolidation of Spirit Banner's 19,030,780 issued and outstanding common shares (the "Spirit Banner Shares") on the basis of one new Spirit Banner Share for every two existing Spirit Banner Shares;
- Old Ion Energy implemented, immediately prior to the completion of the amalgamation (referred to below) a share consolidation of Old Ion Energy's 99,484,820 issued and outstanding common shares (the "Old Ion Energy Shares") on the basis of either one new Old Ion Energy Share for every two existing Old Ion Energy Shares or one new Old Ion Energy Share for every six existing Old Ion Energy Shares (the "Consolidation");
- Old Ion Energy and 2724661 Ontario Limited ("Spirit Banner SubCo"), a wholly-owned subsidiary of the Corporation, have amalgamated and continued on as a new corporation under the name "Ion Energy Holdings Inc." ("AmalCo");
- Each one issued and outstanding common share of Old Ion Energy has been cancelled and replaced by one issued and outstanding common share of the Corporation;
- All of the property and assets of each of Old Ion Energy and Spirit Banner SubCo have become the property and assets of AmalCo and AmalCo is now liable for all of the liabilities and obligations of each of Old Ion Energy and Spirit Banner SubCo

For accounting purposes, the substance of the transaction was a reverse takeover ("RTO") of a nonoperating company under IFRS 3 Business Combinations ("IFRS 3") as the shareholders of Ion Energy obtained control of the Company. However, as the Company does not meet the definition of a business as defined by IFRS 3, it has been accounted for as a share-based payment transaction in accordance with IFRS 2. The accounting for this transaction resulted in the following:

- (i) The consolidated financial of the combined entity are issued under the legal parent, Ion Energy Ltd. (formerly Spirit Banner), but are considered a continuation of the financial statements of the legal subsidiary, Ion Energy Holdings Inc. (old Ion Energy)
- (ii) As Old Ion Energy is deemed to be the acquirer for accounting purposes, its assets and liabilities are included in the consolidated financial statements at their historical carrying values. Since the shares allocated to the former shareholders of Ion Energy on closing the RTO is considered within the scope of IFRS 2, and the Company cannot identify specifically some or all of the goods or service received in return for the allocation of the shares, the value in excess of the net identifiable assets or obligations of the Company acquired on closing was expensed in the consolidated statement of loss and comprehensive loss as a listing expense.

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Notes to Condensed Interim Financial Statements

September 30, 2020

(Expressed in Canadian Dollars)

(Unaudited)

3. Reverse take-over transaction (continued)

(iii) The fair value of the 9,515,390 outstanding common shares and 951,539 outstanding stock options of Ion Energy Ltd. (formerly Spirit Banner) was determined to be \$2,044,071. This fair value is based on the per unit valuation realized in the concurrent financing completed on August 26, 2020.

(iv) The fair value of the consideration given and charged to listing expense was comprised of:

Fair value of the common shares and options at RTO date	\$2,044,711
Identifiable assets acquired – August 26, 2020	
- Cash	\$590,689
- Other receivables	225,000
- Property plant and equipment	2,816
- Accounts payable & accruals	(28,337)
	\$790,168
Unidentified assets acquired	
- Listing expense	\$1,254,544
Total net identifiable assets and transaction costs	\$2,044,711

4. Significant accounting policies

(a) Cash

Cash is comprised of cash on hand and deposits held with banks that are readily convertible into known amounts of cash.

(b) Exploration and evaluation and pre-development expenditure

Exploration and evaluation expenditures include the costs of acquiring licenses, exploration and evaluation activity, and the fair value, at the date of acquisition, of exploration and evaluation assets acquired in a business combination. Exploration and evaluation expenditures are capitalized. Costs incurred before the Company has obtained legal rights to explore an area are recognized in net loss. Acquisition costs, including general and administration costs, are only capitalized to the extent that these costs can be related directly to operational activities in the relevant area of interest where it is considered likely to be recoverable by future exploration or sale or where the activities have not reached a stage which permits a reasonable assessment of the existence of reserves. Exploration and evaluation assets are assessed for impairment if sufficient evidence exists to determine technical feasibility and commercial viability, and facts and circumstances suggest the carrying amount exceeds the recoverable amount. Once technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to the area of interest are first tested for impairment and then reclassified to mining property development assets within property and equipment.

Recoverability of the carrying amount of any exploration and evaluation assets is dependable on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

Actual costs incurred upon settlement of the decommissioning liability are charged against the provision to the extent the provision was established.

(c) Property, Plant and Equipment

Property, plant and equipment are recorded at cost less accumulated depreciation and accumulated impairment losses. The carrying amounts of plant and equipment are depreciated using the straight-line method over the estimated useful life of the asset.

Management reviews the estimated useful lives, residual values and depreciation and depletion methods of the Company's plant and equipment at the end of each financial year, and when events and circumstances indicate that such a review should be made. Changes to estimated useful lives, residual values or depreciation methods resulting from such review are accounted for prospectively.

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(Expressed in Canadian Dollars)

(Unaudited)

4. Significant accounting policies (continued)

(d) Associate and Equity accounting

Associates are all entities over which the Company has significant influence but not control or joint control. This is generally the case where the Company holds between 20% and 50% of the voting rights. Investments in associates are accounted for using equity method of accounting, after initially being recognized at cost. Under the equity method of accounting, the investments are initially recognized at cost and adjusted thereafter to recognize the Company's share of the post-acquisition profits or losses of the investee in profit or loss, and the Company's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognized as a reduction in the carrying amount of the investment.

When the Company's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Company does not recognize further losses, unless it has incurred obligations or made payments on behalf of the other entity. Unrealized gains on transactions between the Company and its associates and joint ventures are eliminated to the extent of the Company's interest in these entities.

Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the group. The carrying amount of equity-accounted investments is tested for impairment.

(e) Fair value of financial instruments

The Company has classified its financial instrument fair values based on the required three level hierarchy:

- Level 1: Valuations based on quoted prices in active markets for identical assets or liabilities;
- Level 2: Valuations based on observable inputs other than quoted active market prices; and,
- Level 3: Valuations based on significant inputs that are not derived from observable market data, such as discounted cash flows methods.

The fair value hierarchy level at which a fair value measurement is categorized is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

(f) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax, risk-free rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Company recognizes any impairment loss on associated assets.

(g) Share capital

Proceeds from the issuance of common shares are classified as equity on the consolidated statement of financial position. Incremental costs directly attributable to the issuance of shares are recognized as a deduction, net of any tax effects.

(h) Loss per share

Loss per share is computed by dividing the loss for the period by the weighted average number of common shares outstanding during the period. Basic and diluted loss per share for each year presented are the same due to the potential issuances of shares under warrant or share option agreements being, in total, anti-dilutive.

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Notes to Condensed Interim Financial Statements

September 30, 2020

(Expressed in Canadian Dollars)

(Unaudited)

4. Significant accounting policies (continued)

(i) Foreign operations

For entities whose functional currency is the Canadian dollar, transactions in currencies other than the Company's functional currency are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated. Exchange differences on monetary items are recognized in the year in which they arise.

The financial results of foreign operations that have a functional currency different from the presentation currency are translated into the presentation currency. Income and expenditures of foreign operations are translated at the average rate of the exchange for the year. All assets and liabilities are translated at the rate of exchange ruling at the reporting date. Differences arising on translation are recognized as other comprehensive income ("OCI").

(j) Taxes

Taxes are comprised of current and deferred taxes. Tax expense is recognized in the profit or loss except to the extent that it relates to items recognized directly in other comprehensive income (loss) or elsewhere in shareholders' equity, in which case the related tax expense or recovery is also recognized directly in other comprehensive income (loss) or elsewhere in shareholders' equity. Current tax expense is the expected cash tax payable on the taxable income for the year, using tax rates enacted, or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax expense and related liability is recognized with respect to temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the reporting date and are expected to continue to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered.

(k) Common control transactions

Transactions between entities that are subject to common control require that the assets be transferred at their carrying value. Any difference between the proceeds received and the carrying amount of the assets transferred is recognized in contributed surplus.

(l) Related party transactions

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.

(n) Adoption of new accounting pronouncements

In January 2016, the International Accounting Standards Board (IASB) issued a new International Financial Reporting Standard (IFRS) on lease accounting which was incorporated into Part I of the CPA Canada Handbook – Accounting by the Accounting Standards Board (AcSB) in June 2016. IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC 15 Operating Leases - Incentives and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 introduces a single lessee accounting model that requires a lessee to recognize Right-of-use (RoU) assets and lease liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. RoU assets are initially recognized on a present value basis and subsequently, at cost less depreciation. Lease liabilities are initially recognized on a present value basis and subsequently, at amortized cost. The lessor accounting requirements are substantially unchanged and, accordingly, continue to require classification and measurement as either operating or finance leases. The new standard also introduces detailed disclosure requirements for both the lessee and lessor. The Company's date of initial application was January 1, 2019.

The Company adopted IFRS 16 using the modified retrospective transition approach. Accordingly, comparative figures at and for the years ended December 31, 2019 and nine months ended September 30, 2019 have not been restated and continue to be reported under IAS 17 Leases and IFRIC 4 Determining Whether an Arrangement Contains a Lease.

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4. Significant accounting policies (continued)

The Company used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17.

2. Excluded initial direct costs from measuring the RoU assets at the date of initial application.
3. Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.
4. Elected not to reassess whether a contract is, or contains, a lease at the date of initial application.
5. For leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets the Corporation has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

At inception of a contract, the Company assesses whether a 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 in exchange for consideration.

(n) Adoption of new accounting pronouncements (continued)

The Company leases its head office building. The Company's current office lease is up to December 31, 2020 with monthly rental amount of \$3,766.86. The Company has elected not to recognize a right of use asset and lease liability in relation to this lease agreement due to the short-term nature.

(o) IFRIC 23 – Uncertainty over Income Tax Treatments (“IRFIC 23”)

IFRIC 23 clarifies the application of recognition and measurement requirements in IAS 12, Income taxes, when there is uncertainty over income tax treatments. It specifically addresses whether an entity considers each tax treatment independently or collectively, the assumptions an entity makes about the examination of tax treatments by taxation authorities, how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, and how an entity considers changes in facts and circumstances. IFRIC 23 became effective for fiscal years beginning on or after January 1, 2019, with earlier application permitted. The Company has adopted this interpretation as of its effective date and has assessed no significant impact as a result of the adoption of this interpretation.

5. Property Plant and Equipment

Balance at December 31, 2019	\$34,457
Furniture	2,816
Foreign exchange difference	(695)
Balance at September 30, 2020	\$36,578
Accumulated Amortization	
Balance as December 31, 2019	-
Depreciation during period	211
Balance at September 30, 2020	\$211
Net Book Value at September 30, 2020	\$36,367

During the year ended December 31, 2019, the Company purchased a truck mounted auger drill for the exploration program totaling \$34,457. Currently, the auger drill is stored in a secure warehouse pending deployment. Therefore, the Company has elected not to depreciate the asset at this time until the initiation of the exploration program.

6. Royalty Agreement

On August 8, 2019, the Company entered into a Royalty Agreement with an Star Royalties Ltd. which is related through common directorship. Management of the Company has concluded that the Company has significant influence over Star Royalties as it owns <20% shares of Star Royalties, therefore, needs to account the investment using equity method accounting.

The value of the royalty as at September 30, 2019 was \$562,500 which was paid via Star royalty share issuance for 7,500,000 shares at \$0.075 per share. The Fair value of the investment was calculated using the price determined in November where Star Royalties issued shares at \$0.075 to other parties.

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6. Royalty Agreement (continued)

This reduced the future economic value of the Baavhai-Uul Project – Exploration License, therefore \$562,500 was deducted from the asset.

On February 24, 2020, the Company sold back Star Royalties' shares for \$187,500. Upon this event, management assessed the impairment on investment, and recognised \$348,138 impairment loss as at December 31, 2019. There was no loss recognised during nine months ended September 30, 2020.

7. Baavhai-Uul Project – Exploration License

The Company is the owner of a lithium exploration license to explore an area approximately 81,758 hectares in size containing lithium brine targets (the "Baavhai-Uul Project" or the "Property"). On February 15, 2019 the Company signed a binding contract with Golden Hill LLC. The terms of the agreement are summarized as below:

The original purchase price payable by Ion Parent to the Golden Hill LLC for Licenses shall be aggregate amount of US\$1,200,000 and 5,000,000 common shares in the capital stock of Ion Parent.

Ion Parent initially had to pay the Purchase price less applicable taxes to the Seller on the following dates:

- (i) On the Closing date, US\$500,000 in cash and 5,000,000 common shares upon the Seller transferring the Licenses to Ion Energy LLC
- (ii) On the completing of a technical report prepared in accordance with National Instrument 43-101, US\$200,000 in cash.
- (iii) On completion of the initial exploration programmes as recommended by the Technical Report, including for greater certainty: geological, geophysical studies and soil sampling results, US\$300,000 in cash. On completion of an initial exploration drilling programme of over 2,000 meters recommended by the Technical report, US\$200,000 in cash.

The agreement was amended on August 15, 2019 for a revised purchase price payable by Ion Parent to Golden Hill LLC for the Licenses shall be an aggregate amount of US\$1,000,000 and 8,000,000 common shares in the capital stock of Ion Energy.

Ion Energy shall pay the Purchase Price less applicable taxes to the Seller on the following dates:

- (i) On the date of amendment of the agreement US\$100,000 in cash and 8,000,000 Common Shares.
- (ii) On completion of Ion Parent completing a going public transaction and listing of the Common Shares on a recognized Canadian stock exchange, US\$400,000 in cash.
- (iii) On completion of an initial exploration programme as recommended by a technical report prepared in accordance with National Instrument 43-101 prepared for the Baavkhai Uul project located in Sukhbaatar province, US\$200,000 in cash.
- (iv) On completion of a feasibility study as such term shall be defined in the Technical Report, US\$200,000 in cash.
- (v) On the issuance of a mining license for the Baavkhai Uul project located in Sukhbaatar province, US\$100,000 in cash.

As at September 30, 2020, schedule payments (i) and (ii) have been paid to Golden Hill and schedule payment (iii) above has been accrued as loans payable to Golden Hill LLC with a debit entry to the Baavhai-Uul Project – Exploration License asset. The remaining terms will be reflected in the financial positions of the Company once it is probable the conditions for payment will be met.

8. Share Capital

a) Authorized

Unlimited number of common voting shares.

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8. Share Capital (continued)

b) Issued Common Shares

Issued share capital is as follows:

	Number of Common Shares	Amount (\$)
Balance, December 31, 2017	60,064,320	300,322
Balance, December 31, 2018	60,064,320	300,322
Share issuance for debt (i)	27,400,000	1,620,000
Share issuance for acquiring asset (ii)	8,000,000	800,000
Share issuance private placement (iii)	4,020,500	396,048
Share issuance cost	-	(15,744)
Balance, December 31, 2019	99,484,820	3,100,626
Consolidation of existing common shares (iv)	(69,763,858)	-
Share issuance private placement (v)	9,063,329	1,753,952
Share issuance costs	-	(166,052)
Share Issuance on qualifying Transaction (vi)	9,515,390	1,841,435
Shares issued on exercise of options (vii)	225,990	93,476
Balance, September 30, 2020	48,525,671	6,623,437

- (i) During the year ended December 31, 2019, the Company issued 22,400,000 shares to settle debt incurred in 2017 and 2018 at a value of \$0.05. On September 10, 2019, the Company issued 5,000,000 shares to its directors and consultants to settle debt at a value of \$0.10.
- (ii) On August 20, 2019, the Company issued 8,000,000 shares to Golden Hill in relation to acquiring exploration license at value of \$0.10 per share (Note 6).
- (iii) On September 1, 2019, the Company has closed its private placement financing announced earlier by issuing 4,020,500 shares for cash at a value of \$0.10.
- (iv) On August 26, 2020, pursuant to the Qualifying Transaction, the 99,484,820 existing outstanding common shares of old Ion Energy were consolidated and exchanged for 29,720,962 new common shares of old Ion Energy.
- (v) In connection with the Qualifying Transaction, the Company completed the previously announced non-brokered concurrent financing which consisted of the issuance of 9,063,329 subscription receipts (the "Subscription Receipts") offered at \$0.30 per Subscription Receipt, for gross proceeds of \$2,718,999 (the "Financing"). Each Subscription Receipt was automatically converted, without payment of additional consideration, into one post-Consolidation unit of Old Ion Energy (a "Unit") (consisting of one common share and one warrant to purchase one common share for 24 months following issuance, at an exercise price of \$0.40 per common share) upon satisfaction of the conditions precedent to the Qualifying Transaction. Subsequent to the conversion of the Subscription Receipts, the Old Ion Energy common shares and Old Ion Energy warrants issued pursuant to the Financing were exchanged for equivalent common shares and warrants of the Corporation, respectively, on a 1:1 basis.
- (vi) On August 26, 2020, pursuant to the Qualifying Transaction, the Company issued 9,515,390 new common shares to the existing shareholders of Spirit Banner.
- (vii) In September 225,990 options were exercised at \$0.20. These were valued at \$0.21 using Black Scholes pricing model.

(c) Stock Options

The Company has established a stock option plan for its directors, officers and consultants under which the Company may grant options from time to time to acquire a maximum of 10% of the issued and outstanding common shares. The exercise price of each option granted under the plan shall be determined by the Board of Directors.

Options may be exercised for a maximum term of ten years from the date of the grant. They are non-transferable and expire the greater of 90 days of termination of employment or holding office as director or officer of the Company and 12 months after the completion of the Qualifying Transaction and, in the case of death, expire one year thereafter.

Any shares issued upon exercise of the options prior to the Company entering into a Qualifying Transaction will be subject to escrow restrictions. Unless otherwise stated, the options fully vest when granted.

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8. Share Capital (continued)

(c) Stock Options (continued)

Pursuant to the Qualifying Transaction, the Company has issued 951,539 stock options to the existing optionees of Spirit Banner.

The following table reflects the continuity of stock options:

	Number of stock options and agent options	Weighted average exercise price
Balance December 31, 2019	-	-
Issued on August 26	951,539	\$0.20
Exercised in September	(225,990)	\$0.20
Balance September 30, 2020	725,549	\$0.20

- (i) On August 26, 2020, the Company granted 951,539 options to directors and officers, which are exercisable within five years from the date of original grant (February 21, 2018) at an exercise price of \$0.20 per share. These options were valued on the date of issue using the Black-Scholes option pricing model with the following assumptions: dividend yield 0%, risk-free interest rate of 0.29%, expected volatility of 116% and an expected life of 2.5 years. The value attributed to these options was \$203,276.
- (ii) During September 2020, 225,990 options were exercised at \$0.20 for proceeds of \$45,198 and debited to Contributed surplus with the fair value of \$48,278 and credited to the share capital with the exercise value and fair value of the stock options of \$93,476.

The following table reflects the actual stock options issued and outstanding as of September 30, 2020:

Expiry date	Exercise price	Weighted average remaining life	Number of options outstanding	Number of options vested (Exercisable)
February 21, 2023	\$0.20	2.49 years	725,549	725,549

(d) Warrants

	Number of warrants	Weighted average exercise price (\$)	Expiry Date
Balance December 31, 2019	Nil	Nil	
Issued August 17, 2020	145,080	\$0.30	August 17, 2022
Issued August 26, 2020	9,063,329	\$0.40	August 26, 2022
Balance September 30, 2020	9,208,409	\$0.40	

In connection with the Qualifying Transaction, the Company completed the previously announced non-brokered concurrent financing which consisted of the issuance of 9,063,329 subscription receipts (the "Subscription Receipts") offered at \$0.30 per Subscription Receipt, for gross proceeds of \$2,718,999 (the "Financing"). The Company also issued 145,080 warrants to brokers.

Each Subscription Receipt was automatically converted, without payment of additional consideration, into one post-Consolidation unit of Old Ion Energy (a "Unit") (consisting of one common share and one warrant to purchase one common share for 24 months following issuance, at an exercise price of \$0.40 per common share) upon satisfaction of the conditions precedent to the Qualifying Transaction. Subsequent to the conversion of the Subscription Receipts, the Old Ion Energy common shares and Old Ion Energy warrants issued pursuant to the Financing were exchanged for equivalent common shares and warrants of the Corporation, respectively, on a 1:1 basis.

Broker warrants were valued on the date of issue using the Black-Scholes option pricing model with the following assumptions: dividend yield 0%, risk-free interest rate of 0.29%, expected volatility of 119% and an expected life of 2 years. The value attributed to these warrants was \$26,154.

Subscription warrants were valued on the date of issue using the Black-Scholes option pricing model with the following assumptions:

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8. Share Capital (continued)

(d) Warrants (continued)

dividend yield 0%, risk-free interest rate of 0.29%, expected volatility of 121% and an expected life of 2 years. The value attributed to these warrants was \$873,683 net of transaction cost of \$91,364.

Subscription warrants were valued on the date of issue using the Black-Scholes option pricing model with the following assumptions: dividend yield 0%, risk-free interest rate of 0.29%, expected volatility of 121% and an expected life of 2 years. The value attributed to these warrants was \$873,683 net of transaction cost of \$91,364.

If at any time after four months and one day from the completion of the Qualifying Transaction, the common shares of the Ion Energy Ltd. trade at \$0.60 per common share or higher (on a volume weighted adjusted basis) for a period of twenty days, Ion Energy Ltd. will have the right to accelerate the expiry date of the warrants exchanged for the Old Ion Energy warrants to the date that is thirty days after Ion Energy Ltd. issues a news release announcing that it has elected to exercise this acceleration right.

(e) Escrow Securities

In connection with the Company's initial public offering, 4,515,390 of the Company's common shares beneficially owned by insiders of the Company are held in escrow pursuant to a CPC escrow agreement (the "CPC Escrow Agreement") on the terms fully disclosed in the Filing Statement. In connection with the closing of the Qualified Transaction, an additional 15,337,277 common shares of the Company will be held in escrow pursuant to the additional surplus escrow agreement between the Company, its escrowed shareholders and TSX Trust Company as the escrow agent (the "Surplus Escrow Agreement"), and an addition 6,733,435 common shares of the Company will be held in escrow pursuant to the additional value escrow agreement between the Company, its escrowed shareholders and TSX Trust Company as the escrow agent (the "Value Escrow Agreement").

The 15,337,277 shares of the Company subject to escrow under the Surplus Escrow Agreement shall be released from escrow as follows:

- o 5% of such escrowed shares will be released immediately upon the issuance of the TSXV bulletin evidencing final acceptance of the Qualifying Transaction,
- o 5% six (6) months following the initial release,
- o 10% twelve (12) months after the initial release,
- o 10% eighteen (18) months following the initial release,
- o 15% twenty-four (24) months from the initial release,
- o 15% thirty (30) months from the initial release and
- o 40% thirty-six (36) months from the initial release.

The 6,733,435 shares of the Company subject to escrow under the Value Escrow Agreement shall be released from escrow as follows: 10% of such escrowed shares will be released immediately upon the issuance of the TSXV bulletin evidencing final acceptance of the Qualifying Transaction with the balance to be released in six equal tranches of 15% every six months thereafter.

9. Net loss per common share

The calculation of basic and diluted loss per share for the nine months ended September 30, 2020 was based on the net loss attributable to shareholders of \$1,784,685 (nine months ended September 30, 2019 – loss of \$1,087,018) and the weighted average number of common shares outstanding of 32,174,793 (nine months ended September 30, 2019 – 82,639,090).

10. Related Party Transactions

As at nine months ended September 30, 2020 and year ended December 31, 2019 there was an outstanding payable amount of Nil and \$129,186, respectively to Bataa Tumur-Ochir (Director). The loan, which was due on demand and non-interest bearing, was repaid on September 15, 2020.

During the nine months ended September 30, 2020 the Company issued Nil shares to key management personnel totalling Nil debt for service rendered (year ended December 31, 2019 issued 27,400,000 common shares to settle total of \$1,620,000).

The Company has a subscription receivable of \$4,422 outstanding from a director of the Company as at nine months ended September

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10. Related Party Transactions (continued)

30, 2020 and year ended December 31, 2019.

On August 8, 2019 the Company entered into a Royalty Agreement with an entity which is related through common directorship. The value of the royalty was \$562,500 which was paid via Star royalty share issuance for 7,500,000 shares. The transaction was recorded as investment in associate on the statement of financial position and as a reduction to the Baavhai-Uul Project – Exploration License, representing the sale of interest in the mineral rights. See note 6.

On November 18, 2019, the Company and Ion Energy entered into the QT Loan Agreement amended as of February 26, 2020, and March 27, 2020 whereby the Company agreed to advance \$225,000 to Ion Energy as a refundable deposit for the proposed Transaction, as contemplated by Section 8.5(a) of TSXV Policy 2.4 – Capital Pool Companies. The QT Loan Agreement does not bear interest and is due and payable on the earlier of (a) August 31, 2020; or (b) if the Transaction is not completed, on the date 10 days after the termination of the Transaction. The loan was repaid upon completion of the Transaction.

There were no other related party transactions occurred during the nine months ended September 30, 2020 and 2019.

11. Capital Risk Management

The Company's capital currently consists of common shares. Its principal source of cash is from the issuance of common shares. The Company's capital management objectives are to safeguard its ability to continue as a going-concern and to have sufficient capital to be able to identify, evaluate and then acquire an interest in a business or assets. The Company does not have any externally imposed capital requirements to which it is subject. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern, such that it can provide returns for shareholders and benefits for other stakeholders.

12. Financial Risk Management

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including interest rate risk, foreign currency risk and price risk).

(i) Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to its cash balance.

Cash is held with a Canadian chartered bank and a financial institution in Mongolia, from which management believes the risk of loss to be minimal.

(ii) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure it will have sufficient liquidity to meet liabilities when due. To the extent the Company does not believe it has sufficient liquidity to meet its obligations, it will consider securing additional equity or debt funding. The Company's cash is currently invested in business accounts with high-credit quality financial institutions which are available on demand by the Company. The Company's financial obligations consist of accounts payable, related party payable and purchase price payable to Golden Hill.

	Less than one year	1-3 years	3-5 years	More than 5 years	Total
Accounts Payable and accrued liabilities	295,753	-	-	-	\$295,753
Purchase price payable	266,780	-	-	-	\$266,780

(iii) Market risk

Market risk is the risk of loss that may arise from changes in market factors such interest rate, foreign exchange rates and commodity and equity prices.

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12. Financial Risk Management (continued)

(iv) Interest rate risk

The Company has cash balances and no interest-bearing debt. The Company does not believe it is exposed to material interest rate risks.

(v) Foreign currency risk

The Company's functional and presentation currency is the Canadian dollar. The Company has cash balances in Mongolian Tughrig and US dollar that are subject to foreign currency risk.

The Company is exposed to foreign currency risk on fluctuations related to cash, amounts receivable, accounts payable and other liabilities, that are denominated in US dollars and Mongolian Tughrig. Sensitivity to a plus or minus 5% change in the foreign exchange rate of the US dollar compared to the Canadian dollar would affect net income by \$13,499 with all other variables held constant.

(vi) Commodity and equity price risk

The Company is exposed to price risk with respect to commodity prices. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices, as they relate to lithium and the stock market to determine the appropriate course of action to be taken by the Company.

Commodity price risk could adversely affect the Company. In particular, the Company's future profitability and viability of development depends upon the work market price of lithium. There is no assurance that, even if commercial quantities of lithium deposits are produced in the future, a profitable market will exist for them. As of September 30, 2020, the Company was not a lithium producer. Even so, commodity prices may affect the completion of future equity transactions such as equity offerings. This may also affect the Company's liquidity and its ability to meet its ongoing obligations.

13. Subsequent Events

On October 21, 2020, the Company announced that it is commencing its geophysics (CSAMT and reflection seismic) study on the Baavhai Uul Lithium Brine project in Sukhbaatar Province, Mongolia. The geophysics program is specifically designed to progressively identify and map brine aquifers as potential targets for a series of drill tests.

On the same date, the Company announced that it has granted to the directors of the Company an aggregate of 3,000,000 incentive stock options to purchase common shares under the Company's incentive stock option plan. Each Stock Option is exercisable into a common share of the Company at a price of \$0.32 for a period of five years from the date of grant. The Stock Options will vest immediately and be subject to the terms and conditions of the Plan and the policies of the TSX Venture Exchange.