



## **Ion Energy Ltd.**

**(Formerly Spirit Banner Capital Corp.)**

**CONDENSED INTERIM CONSOLIDATED**

**FINANCIAL STATEMENTS**

**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021**

**(Expressed in Canadian Dollars)**

**(UNAUDITED)**

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# Ion Energy Ltd. (Formerly Spirit Banner Capital Corp.)

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

	Notes	As at September 30, 2021	As at December 31, 2020
<b>Assets</b>			
Current assets			
Cash		4,663,814	1,302,474
Prepaid expenses and deposits		62,962	483,036
Receivables		77,848	-
<b>Total Current Assets</b>		<b>4,804,624</b>	<b>1,785,510</b>
Property and equipment	4	27,492	34,740
Baavhai-Uul Project – Exploration Licence	5	1,148,548	965,183
Urgakh Naran Project – Exploration Licence	6	467,718	-
<b>Total Non-Current Assets</b>		<b>1,643,758</b>	<b>999,923</b>
<b>Total Assets</b>		<b>6,448,382</b>	<b>2,785,433</b>
<b>Liabilities and shareholders' equity</b>			
<b>Liabilities</b>			
Accounts payable and accrued liabilities		424,244	317,106
<b>Total Liabilities</b>		<b>424,244</b>	<b>317,106</b>
<b>Shareholders' equity</b>			
Share Capital, net of issuance costs	7	9,737,734	6,597,056
Contributed surplus		3,956,688	1,771,682
Accumulated other comprehensive income/(loss)		(73,077)	(35,313)
Accumulated deficit		(7,597,207)	(5,865,098)
<b>Total shareholders' equity</b>		<b>6,024,138</b>	<b>2,468,327</b>
<b>Total liabilities and shareholders' equity</b>		<b>6,448,382</b>	<b>2,785,433</b>

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

### **Nature of business (Note 1)**

Approved by the Board of Directors:

Director: Ali Haji

Director: Matthew Wood

# Ion Energy Ltd. (Formerly Spirit Banner Capital Corp.)

Unaudited Condensed Interim Consolidated Statements of Loss and Comprehensive Loss  
For the three and nine months ended September 30, 2021  
(Expressed in Canadian Dollars)

	Notes	Three Months Ended Sep. 30, 2021	Three Months Ended Sep. 30, 2020	Nine Months Ended Sep. 30, 2021	Nine Months Ended Sep. 30, 2020
<b>Other income</b>					
Interest income		-	-		(58)
<b>General and administrative expenses</b>					
Professional fees		222,287	129,877	698,560	299,759
Due Diligence costs		-	4,952	2,747	4,952
Stock based compensation		-	-	207,980	-
Filing fees		14,769	52,023	91,787	52,023
Travel and accommodation		-	3,637	530	3,637
Marketing expenses		207,322	87,105	614,527	106,456
General and office		55,603	4,918	154,267	46,637
Gain on accounts payable write off		-	-	(17,375)	-
Loss or (Gain) on exercise of warrants		(13,738)	-	-	-
Listing fees		-	1,165,839	-	1,165,839
Foreign exchange (gain) or loss		(29,693)	(13,654)	(20,914)	16,734
<b>Net loss for the period</b>		<b>(456,550)</b>	<b>(1,434,697)</b>	<b>(1,732,109)</b>	<b>(1,695,979)</b>
<b>Cumulative translation adjustment</b>		<b>23,799</b>	<b>(6,121)</b>	<b>37,764</b>	<b>(2,454)</b>
<b>Net loss and comprehensive loss for the period</b>		<b>(432,751)</b>	<b>(1,440,818)</b>	<b>(1,694,345)</b>	<b>(1,698,433)</b>
<b>Basic and diluted net loss per share</b>	8	<b>(0.01)</b>	<b>(0.04)</b>	<b>(0.03)</b>	<b>(0.04)</b>
<b>Weighted average number of common outstanding</b>		<b>60,213,554</b>	<b>37,029,111</b>	<b>55,872,175</b>	<b>37,801,258</b>

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

# Ion Energy Ltd. (Formerly Spirit Banner Capital Corp.)

## Unaudited Condensed Interim Consolidated Statements of Changes in Shareholders' Equity (Expressed in Canadian Dollars)

	Note	Common Shares Number	Common Shares Amount	Contributed Surplus	Accumulated OCI	Accumulated Deficit	Total
<b>Balance, December 31, 2019</b>		<b>49,742,410</b>	<b>3,100,626</b>	-	<b>(8,788)</b>	<b>(2,898,253)</b>	<b>193,585</b>
Cancellation of Old Ion Energy shares		(20,021,448)					
Shares issued on private placement		9,063,329	1,582,686	905,150	-	-	2,487,736
Shares issued to SBI shareholders on RTO		9,515,390	1,841,435	114,572	-	-	1,956,007
Options exercised		225,990	72,409	(27,211)	-	-	45,198
Cumulative translation adjustment		-	-	-	(2,454)	-	(2,454)
Net loss for the period		-	-	-	-	(1,695,979)	(1,695,979)
<b>Balance, September 30, 2020</b>		<b>48,525,671</b>	<b>6,597,056</b>	<b>992,511</b>	<b>(11,242)</b>	<b>(4,594,231)</b>	<b>2,984,093</b>
<b>Balance, December 31, 2020</b>		<b>48,525,671</b>	<b>6,597,056</b>	<b>1,771,682</b>	<b>(35,313)</b>	<b>(5,865,098)</b>	<b>\$2,468,327</b>
Warrants exercised	7	187,883	91,752	(18,054)	-	-	73,698
Common shares issue	7	11,500,000	3,048,926	1,995,080	-	-	5,044,006
Stock based compensation	7	-	-	207,980	-	-	207,980
Cumulative translation adjustment		-	-	-	(37,764)	-	(37,764)
Net loss for the period		-	-	-	-	(1,732,109)	(1,732,109)
<b>Balance, September 30, 2021</b>		<b>60,213,554</b>	<b>9,737,734</b>	<b>3,956,688</b>	<b>(73,077)</b>	<b>(7,597,207)</b>	<b>6,024,138</b>

Note: The number of shares outstanding has been adjusted retroactively for the impact of a 2:1 share consolidation on August 26, 2020. See note 7.

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

# Ion Energy Ltd. (Formerly Spirit Banner Capital Corp.)

## Unaudited Condensed Interim Consolidated Statements of Cash Flows For the nine months ended September 2021 (Expressed in Canadian Dollars)

	Note	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
<b>Operating Activities</b>			
Net loss for the period		(1,732,109)	(1,695,979)
Adjustments for:			
Depreciation		634	211
Listing expense		-	1,165,839
Stock based compensation	7	207,980	-
Gain on accounts payable write off		(17,375)	-
Foreign exchange gain or loss		(35,057)	-
Changes in non-cash working capital items:			
Receivables, prepaids and deposits		342,226	(56,948)
Accounts payable and accrued liabilities		(61,329)	78,935
<b>Net cash used in operating activities</b>		<b>(1,295,030)</b>	<b>(507,942)</b>
<b>Investing activities</b>			
Purchase of exploration licence - Baavhai-Uul Project	5	(188,154)	(11,849)
Purchase of exploration licence - Urgakh Naran Project	6	(465,637)	(531,396)
Cash acquired on RTO		-	590,689
Proceeds from disposal of investment - Star Royalty		-	187,500
<b>Net cash used in investing activities</b>		<b>(653,791)</b>	<b>234,944</b>
<b>Financing activities</b>			
Related party loan repayment		-	(129,186)
Proceeds from exercised options		-	45,198
Proceeds from exercised warrants	7	73,698	-
Proceeds from issuance of units	7	5,750,000	2,718,999
Cost of share issuance	7	(520,152)	(231,262)
<b>Net cash provided by financing activities</b>		<b>5,303,546</b>	<b>2,403,749</b>
<b>Effect of foreign exchange</b>		<b>6,615</b>	<b>3,775</b>
<b>Net change in cash</b>		<b>3,361,340</b>	<b>2,134,526</b>
<b>Cash, beginning of year</b>		<b>1,302,474</b>	<b>120,947</b>
<b>Cash, end of the period</b>		<b>4,663,814</b>	<b>2,255,473</b>

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

# Ion Energy Ltd. (Formerly Spirit Banner Capital Corp.)

## Notes to Unaudited Condensed Interim Consolidated Financial Statements

### For the nine months ended September 30, 2021

(Expressed in Canadian Dollars)

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#### 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 a share consolidation on the basis of one post-consolidated common share for every two pre-consolidated common shares (the "Share Consolidation"). The Share Consolidation reduced Ion's 59,441,940 issued and outstanding common shares to 29,720,970 post-consolidation common shares. All historical information presented in the financial statements has been adjusted to reflect the Share Consolidation.

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 has been engaged in the business of seeking and identifying lithium assets in Asia since incorporation. The Company is the owner of the Baavhai-Uul and the Urgakh Naran Projects in Mongolia, lithium exploration licenses to explore areas approximately 81,758 hectares and 19,000 hectares, respectively in size containing lithium brine targets (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. Significant accounting policies

##### (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 29, 2021.

##### (b) Basis of presentation

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 unaudited condensed interim consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

In the preparation of these unaudited 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 unaudited 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 unaudited 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 unaudited 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

# Ion Energy Ltd. (Formerly Spirit Banner Capital Corp.)

## Notes to Unaudited Condensed Interim Consolidated Financial Statements

### For the nine months ended September 30, 2021

(Expressed in Canadian Dollars)

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## 2. Significant accounting policies (continued)

currency of Ion Energy LLC is the Mongolian tugrik.

### *(d) Basis of consolidation*

The unaudited condensed interim consolidated financial statements incorporate the financial statements of the Company and its wholly owned subsidiaries, Ion Energy Holdings Inc. ("Holdings Inc.") a company incorporated in Canada on November 1, 2019 and Ion Energy LLC ("Ion Mongolia") a company incorporated in Mongolia on October 4, 2017. 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 2.

# Ion Energy Ltd. (Formerly Spirit Banner Capital Corp.)

## Notes to Unaudited Condensed Interim Consolidated Financial Statements

### For the nine months ended September 30, 2021

(Expressed in Canadian Dollars)

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#### Significant accounting policies (continued)

expenses already recorded.

##### *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.

##### *(e) Cash*

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

##### *(f) 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 dependent 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.

##### *(g) 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.

# Ion Energy Ltd. (Formerly Spirit Banner Capital Corp.)

## Notes to Unaudited Condensed Interim Consolidated Financial Statements

### For the nine months ended September 30, 2021

(Expressed in Canadian Dollars)

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#### 2. Significant accounting policies (continued)

Changes to estimated useful lives, residual values or depreciation methods resulting from such review are accounted for prospectively.

##### *(h) Fair value of financial instruments*

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

- o Level 1: Valuations based on quoted prices in active markets for identical assets or liabilities;
- o Level 2: Valuations based on observable inputs other than quoted active market prices; and,
- o 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.

##### *(i) 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.

##### *(j) 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.

##### *(k) 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.

##### *(l) 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").

##### *(m) 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.

# Ion Energy Ltd. (Formerly Spirit Banner Capital Corp.)

## Notes to Unaudited Condensed Interim Consolidated Financial Statements

### For the nine months ended September 30, 2021

(Expressed in Canadian Dollars)

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## 2. Significant accounting policies (continued)

### (n) 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.

## 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:

- o 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;
- o The Company completed a share consolidation on the basis of one post-consolidated common share for every two pre-consolidated common shares (the "Share Consolidation"). The Share Consolidation reduced Ion's 59,441,940 issued and outstanding common shares to 29,720,970 post-consolidation common shares.
- o 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");
- o 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;
- o 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 SubC

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 statements 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 listing fees.
- (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 \$1,956,007.  
The stock options were assigned a grant date value of \$114,572 as estimated by using the Black-Scholes valuation model with the following assumptions: exercise price of \$0.20; share price of \$0.19; expected volatility of 116%; expected life of 2.49 years; dividend yield of 0% and risk-free interest rate of 0.29%.

**Ion Energy Ltd. (Formerly Spirit Banner Capital Corp.)**  
**Notes to Unaudited Condensed Interim Consolidated Financial Statements**  
**For the nine months ended September 30, 2021**  
**(Expressed in Canadian Dollars)**

**3. Reverse take-over transaction (continued)**

(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 – August 26, 2020	\$1,956,007
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	\$1,165,839
Total net identifiable assets and transaction costs	\$1,956,007

**4. Property and Equipment**

	Equipment	Furniture	Total
Balance as at December 31, 2020	32,346	2,816	35,162
Additions	-	-	-
Foreign exchange difference	(188)	-	(188)
Balance as at September 30, 2021	<b>32,158</b>	<b>2,816</b>	<b>34,974</b>
<b>Accumulated Depreciation</b>			
Balance as at December 31, 2020	-	422	422
Depreciation during period	6,426	634	7,060
Balance as at September 30, 2021	<b>6,426</b>	<b>1,056</b>	<b>7,482</b>
<b>Net Book Value at September 30, 2021</b>	<b>25,732</b>	<b>1,760</b>	<b>27,492</b>

A truck mounted auger drill which was purchased in 2019 was deployed during the second quarter of 2021.

**5. 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 2,500,000 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 2,500,000 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 4,000,000 common shares in the capital stock of Ion Energy.

**Ion Energy Ltd. (Formerly Spirit Banner Capital Corp.)**  
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**5. Baavhai-Uul Project – Exploration License (continued)**

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 4,000,000 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.

The original fair value of the licence was capitalized to the Baavkhai-Uul Project – Exploration at \$667,130 in the Statement of Financial Position. The agreement was subsequently amended, and the difference noted in the fair value was treated as a loss on amendment of agreement and was recorded as a loss in the Statement of Loss and Comprehensive Loss.

As at December 31, 2020, schedule payments (i) and (ii) have been paid to Golden Hill. The remaining terms will be reflected in the statement of financial position of the Company once it is probable the conditions for payment will be met.

The following is a continuity table of the Baavhai-Uul Project – Exploration Licence:

<b>Initial recognition</b>	<b>\$</b>
Cash consideration	729,630
Shares issued (2.5 million shares@ \$0.20)	500,000
<b>Total consideration</b>	<b>\$1,229,630</b>
Streaming agreement with Star Royalties	-562,500
Prepaid deposit capitalized	266,093
<b>Balance, December 31, 2019</b>	<b>\$933,223</b>
Additions	47,695
Foreign exchange	-15,735
<b>Balance, December 31, 2020</b>	<b>\$965,183</b>
Additions	188,154
Foreign exchange	(4,789)
<b>Balance, September 30, 2021</b>	<b>\$1,148,548</b>

**6. Urgakh Naran Project – Exploration License**

On February 10, 2021, the Company acquired the Urgakh Naran Lithium Brine Project (the “Urgakh Naran Project”) located in Mongolia’s Dornogovi Province. The name “Urgakh Naran” is Mongolian for “Rising Sun” and the Project covers an area of approximately over 19,000 hectares of highly prospective lithium terrain located 150km west northwest of the Company’s flagship property, the Baavhai Uul Lithium Brine Project. The Company acquired the Urgakh Naran Project as a result of a successful tender bid submitted to the Mineral Resource Authority of Mongolia. The cost of acquiring the Urgakh Naran Project was \$467,718 plus transfer taxes and legal expenses.

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**7. Share Capital**

**(a) Authorized**

Unlimited number of common voting shares.

**(b) Issued Common Shares**

Issued share capital is as follows:

	Number of Common Shares	Amount (\$)
<b>Balance, December 31, 2019</b>	<b>49,742,410</b>	<b>3,100,626</b>
Cancellation of Old Ion Energy shares pre-RTO (i)	(20,021,448))	-
Share issuance private placement (ii)	9,063,329	1,753,952
Share issuance costs	-	(171,366)
Share Issuance on qualifying Transaction (iii)	9,515,390	1,841,435
Shares issued on exercise of options (iv)	225,990	72,409
<b>Balance, December 31, 2020</b>	<b>48,525,671</b>	<b>6,597,056</b>
Warrants exercised (v)	187,883	91,752
Share issuance private placement (vi)	11,500,000	3,616,911
Share issuance costs	-	(567,985)
<b>Balance, September 30, 2021</b>	<b>60,213,554</b>	<b>9,737,734</b>

- (i) On March 18, 2020, shareholders of old Ion Energy cancelled their interests in 20,021,448 common shares of old Ion Energy.
- (ii) 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.
- (iii) 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.
- (iv) In September 225,990 options were exercised at \$0.20. These were valued at \$0.12 using Black Scholes pricing model.
- (v) During the nine months ended September 30, 2021, 173,333 investor warrants were exercised at \$0.40 per common shares and 14,550 broker warrants were exercised at \$0.30 for total proceeds of \$73,698. The value of \$91,752 added to the share capital table is based on the actual proceeds plus the Black Scholes value of the warrants.
- (vi) On April 13, 2021, the Company completed a public offering of 11,500,000 units of the Company (the "Units") at a price of \$0.50 per unit for aggregate gross proceeds of \$5,750,000. Each Unit comprises one common share and one warrant to purchase one common share for 36 months following issuance. The proceeds were allocated \$3,616,911 to shares and \$2,133,089 to warrants. Additionally, the Company issued 690,000 broker warrants as part of this transaction. See note 7(d)(v).

On August 26, 2020, Ion completed a share consolidation on the basis of one post-consolidated common share for every two pre-consolidated common shares (the "Share Consolidation"). The Share Consolidation reduced Ion's 59,441,940 issued and outstanding common shares to 29,720,970 post-consolidation common shares. All historical information presented in the financial statements has been adjusted to reflect the Share Consolidation.

**(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

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**7. Share Capital (continued)**

restrictions. Unless otherwise stated, the options fully vest when granted.

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
<b>Balance December 31, 2019</b>	-	-
Issued on August 26 (i)	951,539	\$0.20
Exercised in September (ii)	(225,990)	\$0.20
Issued on October 21 (iii)	3,000,000	\$0.32
<b>Balance December 31, 2020</b>	<b>3,725,549</b>	<b>\$0.30</b>
Issued on February 3 (iv)	685,000	\$0.55
<b>Balance September 30, 2021</b>	<b>4,410,549</b>	<b>\$0.34</b>

- (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 \$114,752.
- (ii) 225,990 options were exercised at \$0.20 for proceeds of \$45,198 and debited to Contributed surplus with the fair value of \$27,211 and credited to the share capital with the exercise value and fair value of the stock options of \$72,409 during the year ended December 31, 2020.
- (iii) On October 21, 2020, the Company has granted to its directors 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. 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 0.36%, expected volatility of 117% and an expected life of 5 years. The value attributed to these options was \$779,171.
- (iv) On February 3, 2021, the Company granted to certain consultants and insiders of the Company an aggregate of 685,000 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 \$0.55 for a period of two years from the date of grant. 635,000 of Stock Options vest immediately and 50,000 after one year and are subject to the terms and conditions of the Plan and the policies of the TSX Venture Exchange. 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 0.17%, expected volatility of 118% and an expected life of 2 years. The value attributed to these options was \$207,980.

The following table reflects the actual stock options issued and outstanding as of September 30, 2021:

Expiry date	Exercise price	Weighted average remaining life	Number of options outstanding	Number of options vested (Exercisable)
21-Feb-23	\$0.20	1.39	725,549	725,549
21-Oct-25	\$0.32	4.06	3,000,000	3,000,000
03-Feb-23	\$0.55	1.35	685,000	635,000

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**7. Share Capital (continued)**

**(d) Warrants**

	Number of warrants	Weighted average exercise price (\$)	Expiry Date
<b>Balance December 31, 2019</b>	Nil	Nil	
Issued August 17, 2020 – Broker warrants (i)	357,080	\$0.30	August 17, 2022
Issued August 26, 2020 – Investor warrants (ii)	9,063,329	\$0.40	August 26, 2022
<b>Balance December 31, 2020</b>	<b>9,420,409</b>	<b>\$0.40</b>	
Exercised - Broker warrants (iii)	(14,550)	\$0.30	August 17, 2022
Exercised - Investor warrants (iii)	(173,333)	\$0.40	August 26, 2022
Issued April 13, 2021 – Investor warrants (iv)	11,500,000	\$0.70	April 13, 2024
Issued April 13, 2021 – Broker warrants (v)	690,000	\$0.50	April 13, 2024
<b>Balance September 30, 2021</b>	<b>21,422,526</b>	<b>\$0.56</b>	

- (i) On August 17, 2020, the Company issued 357,080 warrants to the brokers in connection with the private placement closed on August 26, 2020. The broker warrants are exercisable at \$0.30 per common share. Broker warrants were valued on the date of issue using the Black-Scholes option pricing model with the following assumptions: stock price of \$0.19, 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 \$34,390.
- (ii) On August 26, 2020, 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. Subscription warrants were valued on the date of issue using the Black-Scholes option pricing model with the following assumptions: stock price of \$0.19, 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 \$870,760 net of transaction cost of \$94,287.
- (iii) During the nine months ended September 30, 2021, 173,333 investor warrants were exercised at \$0.40 per common shares and 14,550 broker warrants were exercised at \$0.30 for total proceeds of \$73,698. The value of the exercised warrants determined by Black Scholes pricing model is \$18,054 and the Company has incurred loss on exercise of warrants of \$13,739 recorded as a loss in the statement of loss and comprehensive loss.
- (iv) On April 13, 2021, the Company completed a public offering of 11,500,000 units of the Company (the "Units") at a price of \$0.50 per unit for aggregate gross proceeds of \$5,750,000. Each Unit comprises one common share and one warrant. Each warrant is exercisable to acquire one common share for 36 months from the issue date at an exercise price of \$0.70 per common share. The warrants were valued on the date of issue using the Black-Scholes option pricing model with the following assumptions: stock price of \$0.44, dividend yield 0%, risk-free interest rate of 0.48%, expected volatility of 112% and an expected life of 3 years. The value attributed to these warrants was \$1,798,117.
- (v) On April 13, 2021, as part of the public offering of 11,500,000 units of the Company, the Company issued 690,000 broker warrants. Each warrant is exercisable to acquire one common share for 36 months from the issue date at an exercise price of \$0.50 per common share. The warrants were valued on the date of issue using the Black-Scholes option pricing model with the following assumptions: stock price of \$0.44, dividend yield 0%, risk-free interest rate of 0.48%, expected volatility of 112% and an expected life of 3 years. The value attributed to these warrants was \$196,963, which was allocated \$123,895 to share capital and \$73,068 to warrants.

**(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 additional 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").

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#### 7. Share Capital (continued)

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

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

At September 30, 2021, a total of 19,019,117 shares remained in escrow.

#### 8. Net loss per common share

The calculation of basic and diluted loss per share for the nine months ended September 30, 2021 was based on the net loss attributable to shareholders of \$1,732,109 (September 30, 2020 – loss of \$1,698,433) and the weighted average number of common shares outstanding of 55,872,175 (September 30, 2020 – 37,801,258).

#### 9. Related Party Transactions

As at nine months ended September 30, 2021 and year ended December 31, 2020 there were no outstanding payable amounts to the related parties.

During the nine months ended September 30, 2021, the Company paid, or otherwise accrued, \$409,066 (September 30, 2020 - \$123,107) in consulting fees to key management personnel (defined as officers and directors of the Company).

On February 3, 2021, the Company granted to certain management of the Company an aggregate of 100,000 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 \$0.55 for a period of two years from the date of grant. 50,000 of the Stock Options will vest immediately and 50,000 after one year and be subject to the terms and conditions of the Plan and the policies of the TSX Venture Exchange. The Company recorded a stock based compensation expense of \$30,362 in the first quarter in respect of these options.

In October 2020, the Company entered into an agreement with Erdenyn Erel LLC, a Mongolian company controlled by one of the Company's directors, to act as an agent to acquire the Urgakh Naran Project. Erdenyn Erel LLC acted on behalf of the Company to obtain the licence (the "Licence") for the Urgakh Naran Project through a successful tender bid submitted to the Mineral Resource Authority of Mongolia. Ion Energy, LLC, a wholly owned Mongolian subsidiary of the Company, acquired the Licence in February 2021. The Company paid Erdenyn Erel LLC US\$333,300, including Licence cost, taxes, consulting and related expenses in connection with the acquisition of the Urgakh Naran Project.