

Ion Energy Ltd.

(Formerly Spirit Banner Capital Corp.)

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED

DECEMBER 31, 2020 AND DECEMBER 31, 2019

(Expressed in Canadian Dollars)



Independent Auditor's Report

To the Shareholders of Ion Energy Ltd. (formerly Spirit Banner Capital Corp.):

Opinion

We have audited the consolidated financial statements of Ion Energy Ltd. (formerly Spirit Banner Capital Corp.) and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2020 and December 31, 2019, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2020 and December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Toronto, Ontario
April 28, 2021

MNP LLP

Chartered Professional Accountants
Licensed Public Accountants

MNP

Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

| | Notes | As at December 31, 2020 | As at December 31, 2019 |
|---|-------|----------------------------|----------------------------|
| Assets | | | |
| Current assets | | | |
| Cash | | 1,302,474 | 120,947 |
| Prepaid expenses and deposits | | 483,036 | - |
| Due from related party | | - | 4,422 |
| Total Current Assets | | 1,785,510 | 125,369 |
| Property and equipment | | | |
| Investment – Star Royalties | 4 | 34,740 | 34,457 |
| Baavhai-Uul Project – Exploration License | 5 | - | 187,500 |
| | 6 | 965,183 | 933,223 |
| Total Non-Current Assets | | 999,923 | 1,155,180 |
| Total Assets | | 2,785,433 | 1,280,549 |
| Liabilities and shareholders' equity | | | |
| Liabilities | | | |
| Accounts payable and accrued liabilities | | 317,106 | 148,318 |
| Due to related party | 9 | - | 129,186 |
| Loan liability | 9 | - | 225,000 |
| Other liabilities | 6 | - | 584,460 |
| Total Current Liabilities | | 317,106 | 1,086,964 |
| Total Liabilities | | 317,106 | 1,086,964 |
| Shareholders' equity | | | |
| Share Capital, net of issuance costs | 7 | 6,597,056 | 3,100,626 |
| Contributed surplus | | 1,771,682 | - |
| Accumulated other comprehensive income/(loss) | | (35,313) | (8,788) |
| Accumulated deficit | | (5,865,098) | (2,898,253) |
| Total shareholders' equity | | 2,468,327 | 193,585 |
| Total liabilities and shareholders' equity | | 2,785,433 | 1,280,549 |

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

Nature of business (Note 1)

Subsequent events (Note 13)

Approved by the Board of Directors:

Director: Ali Haji

Director: Matthew Wood

Consolidated Statements of Loss and Comprehensive Loss
For the years ended
(Expressed in Canadian Dollars)

| | Notes | December 31, 2020 | December 31, 2019 |
|---|----------|----------------------|----------------------|
| Other income | | | |
| Interest income | | (58) | (25,344) |
| General and administrative expenses | | | |
| Professional fees | | 531,387 | 860,997 |
| Due Diligence costs | | 14,723 | - |
| Stock based compensation | | 779,171 | - |
| Filing fees | | 66,282 | - |
| Travel and accommodation | | 1,002 | 34,017 |
| Marketing expenses | | 312,499 | 16,391 |
| General and office | | 76,135 | 59,406 |
| Loss on amended agreement | | - | 300,000 |
| Impairment loss on Investment in Associate | | - | 348,138 |
| Share of loss of Associate | | - | 26,862 |
| Listing fees | | 1,165,839 | - |
| Foreign exchange gain or (loss) | | 19,865 | (13,524) |
| Net loss for the year | | (2,966,845) | (1,606,943) |
| Cumulative translation adjustment | | (26,525) | (8,788) |
| Net loss and comprehensive loss for the year | | (2,993,370) | (1,615,731) |
| Basic and diluted net loss per share | 8 | (0.07) | (0.04) |
| Weighted average number of common shares outstanding | | 40,607,963 | 35,718,052 |

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

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

Consolidated Statements of Changes in Shareholders' Equity (Expressed in Canadian Dollars)

| | | Common Shares | Contributed | Accumulated | Accumulated | Total | |
|--|------|-------------------|--------------------|------------------|------------------|-----------------------|---------------------|
| | Note | Number | Amount | Surplus | OCI | Deficit | |
| Balance, December 31, 2018 | | 30,032,160 | \$ 300,322 | - | \$ 961 | \$ (1,291,309) | \$ (990,026) |
| Common shares issued to settle debt | | 13,700,000 | 1,620,000 | - | - | - | 1,620,000 |
| Common shares issued to acquire asset | | 4,000,000 | 800,000 | - | - | - | 800,000 |
| Private placement | | 2,010,250 | 396,048 | - | - | - | 396,048 |
| Cumulated translation adjustment | | - | (15,744) | - | (9,749) | - | (25,493) |
| Net loss for the period | | - | - | - | - | (1,606,944) | (1,606,944) |
| Balance, December 31, 2019 | | 49,742,410 | \$3,100,626 | - | \$(8,788) | \$(2,898,253) | 193,585 |
| Cancellation of shares | 7 | (20,021,448) | - | - | - | - | - |
| Shares issued on private placement | 7 | 9,063,329 | 1,582,586 | 905,150 | - | - | 2,487,736 |
| Shares issued to SBI shareholders on RTO | 7 | 9,515,390 | 1,841,435 | 114,572 | - | - | 1,956,007 |
| Options exercised | 7 | 225,990 | 72,409 | (27,211) | - | - | 45,198 |
| Stock based compensation | 7 | - | - | 779,171 | - | - | 779,171 |
| Cumulated translation adjustment | | - | - | - | (26,525) | - | (26,525) |
| Net loss for the period | | - | - | - | - | (2,966,845) | (2,966,845) |
| Balance, December 31, 2020 | | 48,525,671 | 6,597,056 | 1,771,682 | (35,313) | (5,865,098) | 2,468,327 |

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 consolidated financial statements are an integral part of these statements.

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

Consolidated Statements of Cash Flows For the years ended (Expressed in Canadian Dollars)

| | Note | December 31, 2020 | December 31, 2019 |
|---|------|----------------------|----------------------|
| Operating Activities | | | |
| Net loss for the period | | (2,966,845) | (1,606,944) |
| Adjustments for: | | | |
| Depreciation | | 422 | - |
| Impairment loss on investment | | - | 348,138 |
| Share of Associate's loss | | - | 26,862 |
| Listing expense | 3 | 1,165,839 | - |
| Stock based compensation | 7 | 779,171 | - |
| Loss on Star Royalties agreement | | - | 300,000 |
| Foreign exchange gain or loss | | (26,525) | (21,723) |
| Changes in non-cash working capital items: | | | |
| Prepays and Deposits | | (478,616) | 205,917 |
| Accounts payable and accrued liabilities | | 70,084 | 628,291 |
| Net cash used in operating activities | | (1,456,470) | (119,459) |
| Investing activities | | | |
| Cash acquired from reverse takeover transaction | 3 | 590,689 | - |
| Proceeds from disposal of investment - Star Royalties | 5 | 187,500 | - |
| Purchase of property and equipment | | - | (34,457) |
| Purchase of Baavhai-Uul Project – Exploration license | 6 | (543,245) | (398,533) |
| Net cash used in investing activities | | 234,944 | (432,990) |
| Financing activities | | | |
| Related party loan repayment | 9 | (129,186) | 58,912 |
| Proceeds from loans | | - | 225,000 |
| Net proceeds from private placement | 7 | 2,487,737 | 380,304 |
| Proceeds from exercised options | 7 | 45,198 | - |
| Net cash provided by financing activities | | 2,403,749 | 664,216 |
| Effect of foreign exchange | | (696) | (756) |
| Net change in cash | | 1,181,527 | 111,011 |
| Cash, beginning of year | | 120,947 | 9,936 |
| Cash, end of year | | 1,302,474 | 120,947 |

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

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

Notes to Consolidated Financial Statements For the years ended December 31, 2020 and 2019 (Expressed in Canadian Dollars)

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 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. Significant accounting policies

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB").

The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of April 28, 2020 the date the Board of Directors approved the statements.

(b) Basis of presentation

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

In the preparation of these 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 consolidated financial statements and the reported amount of expenses during the period. Actual results could differ from these estimates.

(c) Basis of measurement

The 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 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.

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

Notes to Consolidated Financial Statements For the years ended December 31, 2020 and 2019 (Expressed in Canadian Dollars)

2. Significant accounting policies (continued)

(d) Basis of consolidation

The 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.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Company obtains control, and continues to be consolidated until the date that such control ceases. Control is achieved when an investor has power over an investee to direct its activities, exposure to variable returns from an investee, and the ability to use the power to affect the investor's returns. The results of subsidiaries acquired or disposed of during the years presented are included in the consolidated statements of loss and comprehensive loss from the effective date of control and up to the effective date of disposal or loss of control, as appropriate. All intercompany transactions, balances, income and expenses are eliminated upon consolidation.

(e) Financial instruments

Below is a summary showing the classification and measurement bases of the Company's financial instruments.

| Classification | IFRS 9 |
|--|----------------|
| Cash | FVTPL |
| Accounts payable and other liabilities | Amortized cost |
| Due from related party | Amortized cost |
| Due to related party | Amortized cost |
| Loan liability | Amortized cost |
| Other liabilities | Amortized cost |

Financial assets

Financial assets are classified as either financial assets at FVTPL, amortized cost, or fair value through other comprehensive income. The Company determines the classification of its financial assets at initial recognition.

i. Financial assets recorded at FVTPL

Financial assets are classified as FVTPL if they do not meet the criteria of amortized cost or fair value through other comprehensive income. Gains or losses on these items are recognized in profit or loss. The Company's cash is classified as financial assets measured at FVTPL.

ii. Investments recorded at fair value through other comprehensive income (FVOCI)

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to measure the investment at FVOCI whereby changes in the investment's fair value (realized and unrealized) will be recognized permanently in OCI with no reclassification to profit or loss. The election is made on an investment-by-investment basis

iii. Amortized cost

Financial assets are classified as measured at amortized cost if both of the following criteria are met and the financial assets are not designated as at fair value through profit and loss: 1) the objective of the Company's business model for these financial assets is to collect their contractual cash flows; and 2) the asset's contractual cash flows represent "solely payments of principal and interest".

Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or at amortized cost. The Company determines the classification of its financial liabilities at initial recognition.

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

Notes to Consolidated Financial Statements For the years ended December 31, 2020 and 2019 (Expressed in Canadian Dollars)

2. Significant accounting policies (continued)

(e) Financial instruments (continued)

Financial liabilities (continued)

i. Amortized cost

Financial liabilities are classified as measured at amortized cost unless they fall into one of the following categories: financial liabilities at FVTPL, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition, financial guarantee contracts, commitments to provide a loan at a below-market interest rate, or contingent consideration recognized by an acquirer in a business combination.

ii. Financial liabilities recorded fair value through profit or loss ("FVTPL")

Financial liabilities are classified as FVTPL if they fall into one of the five exemptions detailed above.

Fair Value Hierarchy

IFRS establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy are described as follows:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors which can be substantially observed or corroborated in the marketplace.

Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

Cash is a level 1 financial instrument measured at fair value on the statements of financial position.

Transaction costs

Transaction costs associated with financial instruments, carried FVTPL, are expensed as incurred, while transaction costs associated with all other financial instruments are included in the initial carrying amount of the asset or the liability.

Subsequent measurement

Instruments classified as FVTPL are measured at fair value with unrealized gains or losses recognized in profit or loss. Instruments classified as amortized cost are measured at amortized cost using the effective interest rate method. Instruments classified as FVOCI are measured at fair value with unrealized gains or losses recognized in other comprehensive income.

Derecognition

The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled, or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

Expected Credit Loss Impairment Model

IFRS 9 introduced a single expected credit loss impairment model, which is based on changes in credit quality since initial application.

The carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

(f) Cash

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

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

Notes to Consolidated Financial Statements
For the years ended December 31, 2020 and 2019
(Expressed in Canadian Dollars)

2. Significant accounting policies (continued)

(g) Property, plant and equipment

Property, plant and equipment include furniture at Ion Energy Ltd. and equipment of Baavhai Uul Project. 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.

Impairment

The carrying values of plant and equipment are reviewed for impairment at each balance date, with recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired. The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to approximate fair value. An impairment exists when the carrying value of an asset or cash-generating unit exceeds its estimated recoverable amount. The asset or cash generating unit is then written down to its recoverable amount.

Derecognition

Upon disposal or abandonment, the carrying amounts of property and equipment are derecognized and any associated gains or losses are recognized in net earnings. The cost and accumulated depreciation and impairment of fully depleted mineral properties and fully depreciated equipment are derecognized.

(h) 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 as exploration and evaluation expense in the statement of loss and comprehensive 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.

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

Notes to Consolidated Financial Statements For the years ended December 31, 2020 and 2019 (Expressed in Canadian Dollars)

2. Significant accounting policies (continued)

(i) 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.

(j) Impairment of Non-Financial Assets

The Company assesses the carrying amount of non-financial assets including property rights and evaluation and exploration costs and property, plant and equipment at each reporting date to determine whether there is any indication of impairment. Internal factors, such as budgets and forecasts, as well as external factors, such as expected future prices, costs and other market factors are also monitored to determine if indications of impairment exist.

An impairment loss is the amount equal to the excess of the carrying amount of the individual asset or cash-generating unit ("CGU") over the recoverable amount. The recoverable amount is the higher of estimated value in use and the estimated fair value less costs of disposal.

Impairment is assessed at the individual asset or the CGU level which is the geographical operating segments of the Company. A CGU is the smallest identifiable group of assets that generates cash inflows largely independent of the cash inflows from other assets or group of assets.

An impairment loss for an individual asset or CGU shall be reversed if there has been a change in estimates used to determine the recoverable amount since the last impairment loss was recognized and is only reversed to the extent that the assets carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(k) 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.

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

Notes to Consolidated Financial Statements
For the years ended December 31, 2020 and 2019
(Expressed in Canadian Dollars)

2. Significant accounting policies (continued)

(l) Restoration, rehabilitation and environmental obligations

A legal or constructive obligation to incur restoration, rehabilitation and environmental costs may arise when environmental disturbance is caused by the exploration, development or ongoing production of a mineral property interest. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized at the start of each project to the carrying amount of the asset, as soon as the obligation to incur such costs arises. Discount rates using a pretax rate that reflects the time value of money are used to calculate the net present value. These costs are charged against profit or loss over the economic life of the related asset, through amortization using either a unit of production or the straight-line method as appropriate. The related liability is adjusted for each period for the unwinding of the discount rate and for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation. Costs for restoration of subsequent site damage that is created on an ongoing basis during production are provided for at their net present values and charged against profit or loss as extraction progresses.

The Company has no material restoration, rehabilitation and environmental costs as the disturbance to date is minimal and the Company is in the early stages of exploration of its properties.

(m) 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.

(n) Share-based payment transactions

The Company has a stock option plan, refer to note 7. Employees (including officers), directors and consultants of the Company receive remuneration in the form of stock options granted under the plan for rendering services to the Company. Stock options granted during the period are accounted for in accordance with the fair value method of accounting for stock-based compensation. The fair value for these options is estimated at the date of grant using the Black-Scholes option pricing model.

The Company is also required to estimate the expected future forfeiture rate of options in its calculation of stock-based compensation expense. The cost of options is recognized, together with a corresponding increase in share-based payment reserve, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant options becomes fully entitled to the award (the "vesting date"). The cumulative expense recognized for option grants at each reporting date until the vesting date reflects the portion of the vesting period that passed and is the Company's best estimate of the number of options that will ultimately vest on the vesting date. The Company records compensation expense and credits contributed surplus for all stock options granted which represents the movement in cumulative expense recognized as at the beginning and end of that period. Any consideration received on the exercise of stock options is credited to share capital.

Where the terms of a stock option award are modified, the minimum expense recognized in compensation expense is the expense as if the terms had not been modified. An additional expense is recognized for any modification that increases the total fair value of the option or is otherwise beneficial to the options as measured at the date of modification.

(o) Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision makers – being the Board of Directors.

For management purposes, the Company is organized into one main operating segment, which involves exploration for lithium. All of the Company's activities are interrelated, and discrete financial information is reported to the Board as a single segment.

Accordingly, all significant operating decisions are based upon analysis of the Company as one segment. The financial results from this segment are equivalent to the financial statements of the Company as a whole.

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

Notes to Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

2. Significant accounting policies (continued)

(p) Foreign operations

For entity 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").

(q) 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.

(r) 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.

(s) 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.

(t) Leases

On January 13, 2016, the IASB issued IFRS 16 Leases. The new standard is effective for annual periods beginning on or after January 1, 2019. IFRS 16 will replace IAS 17 Leases. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. IFRS 16 substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided. The Company has adopted IFRS 16 in its financial statements for the period beginning on January 1, 2019. The adoption of IFRS 16 had no impact on the consolidated financial statements.

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

Notes to Consolidated Financial Statements For the years ended December 31, 2020 and 2019 (Expressed in Canadian Dollars)

2. Significant accounting policies (continued)

(u) IFRIC 23 – Uncertainty over Income Tax Treatments (“IFRIC 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.

(v) 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 significant influence

The significant influence is presumed to exist when an investor holds, directly or indirectly through subsidiaries, 20 per cent or more of the voting power of the investee. This presumption relates to voting rights, which can arise not just in relation to an ordinary share holding.

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 Interests

Although the Corporation takes steps to verify title exploration and evaluation assets in which it has an interest, however, these procedures do not guarantee the Corporation'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.

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

Notes to Consolidated Financial Statements For the years ended December 31, 2020 and 2019 (Expressed in Canadian Dollars)

2. Significant accounting policies (continued)

(v) Use of judgments and estimates (continued)

Taxes

The Corporation 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.

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.

Adjusting event

An event after the reporting period that provides further evidence of conditions that existed at the end of the reporting period, including an event that indicates that the going concern assumption in relation to the whole or part of the enterprise is not appropriate. Subsequent to the year ended December 31, 2019, the Company closed its Qualifying transaction which it is considered as adjusting event.

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 Corporation 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 Corporation's ability to utilize the underlying future tax deductions against future taxable income before they expire, which involves estimating future taxable income.

The Corporation 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:

- 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;

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

Notes to Consolidated Financial Statements For the years ended December 31, 2020 and 2019 (Expressed in Canadian Dollars)

3. Reverse take-over transaction (continued)

- 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%.
- (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, Plant and Equipment

| | Equipment | Furniture | Total |
|--|-----------------|----------------|-----------------|
| Balance as at December 31, 2019 | \$34,457 | - | \$34,457 |
| Additions | - | \$2,816 | 2,816 |
| Foreign exchange difference | (2,111) | 0 | (2,111) |
| Balance as at December 31, 2020 | \$32,346 | \$2,816 | \$35,162 |
| Accumulated Amortization | | | |
| Balance as at December 31, 2019 | - | - | - |
| Depreciation during period | - | \$422 | 422 |
| Balance as at December 31, 2020 | \$0 | \$422 | \$422 |
| Net Book Value at December 31, 2020 | \$32,346 | \$2,394 | \$34,740 |

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

Notes to Consolidated Financial Statements For the years ended December 31, 2020 and 2019 (Expressed in Canadian Dollars)

4. Property, Plant and Equipment (continued)

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.

5. Royalty Agreement

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

The value of the royalty as at December 31, 2019 was \$562,500 which was paid via Star Royalties' 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.

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 year ended December 31, 2020.

As at year end December 31, 2019, Star Royalties incurred a total loss of \$140,274 and the Company recognized its post acquisition share of loss in the Statement of Loss.

The following table summarizes the financial information of Star Royalties as at December 31, 2019:

| <i>Statement of Financial Position</i> | |
|--|--------------------|
| Cash | 516,700 |
| GST recoverable | 18,223 |
| Royalty – Ion Energy | 562,500 |
| Royalty - Others | 312,500 |
| Total Assets (100%) | \$1,409,923 |
| Liabilities | 146,506 |
| Equity | 1,403,696 |
| Deficit | (140,279) |
| Total Liabilities and Equity (100%) | \$1,409,923 |

| <i>Statement of Loss and Comprehensive Loss</i> | |
|---|------------------|
| Revenue | - |
| Total Expenses | 140,279 |
| Net loss and comprehensive loss for the period | \$140,279 |

6. 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.

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

Notes to Consolidated Financial Statements For the years ended December 31, 2020 and 2019 (Expressed in Canadian Dollars)

6. Baavhai-Uul Project – Exploration License (continued)

(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 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.

Below is the continuity table of the Baavhai-Uul Project – Exploration Licence

| | |
|---|--------------------|
| Initial recognition | |
| Cash consideration | 729,630 |
| Shares issued (2.5 million shares @ \$0.20) | 500,000 |
| Total consideration | \$1,229,630 |
| Streaming agreement with Star Royalties | (562,500) |
| Prepaid deposit capitalized | 266,093 |
| Balance, December 31, 2019 | \$933,223 |
| Additions | 47,695 |
| Foreign exchange | (15,735) |
| Balance, December 31, 2020 | \$965,183 |

7. Share Capital

(a) Authorized

Unlimited number of common voting shares.

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

Notes to Consolidated Financial Statements For the years ended December 31, 2020 and 2019 (Expressed in Canadian Dollars)

7. Share Capital (continued)

(b) Issued Common Shares

Issued share capital is as follows:

| | Number of Common Shares | Amount (\$) |
|--|-------------------------|------------------|
| Balance, December 31, 2018 | 30,032,160 | 300,322 |
| Share issuance for debt (i) | 13,700,000 | 1,620,000 |
| Share issuance for acquiring asset (ii) | 4,000,000 | 800,000 |
| Share issuance private placement (iii) | 2,010,250 | 396,048 |
| Share issuance cost | - | (15,744) |
| Balance, December 31, 2019 | 49,742,410 | 3,100,626 |
| Cancellation of Old Ion Energy shares pre-RTO (iv) | (20,021,448) | - |
| Share issuance private placement (v) | 9,063,329 | 1,753,952 |
| Share issuance costs | - | (171,366) |
| Share Issuance on qualifying Transaction (vi) | 9,515,390 | 1,841,435 |
| Shares issued on exercise of options (vii) | 225,990 | 72,409 |
| Balance, December 31, 2020 | 48,525,671 | 6,597,056 |

- (i) During the year ended December 31, 2019, the Company issued 11,200,000 shares to settle debt incurred in 2017 and 2018 at a value of \$0.10. On September 10, 2019, the Company issued 2,500,000 shares to its directors and consultants to settle debt at a value of \$0.20.
- (ii) On August 20, 2019, the Company issued 4,000,000 shares to Golden hill in relation to acquiring exploration license at value of \$0.20 per share (Note 6).
- (iii) On September 1, 2019, the Company has closed its private placement financing announced earlier by issuing 2,010,250 shares for cash at a value of \$0.20.
- (iv) On March 18, 2020, shareholders of old Ion Energy cancelled their interests in 20,021,448 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 \$0.12 using Black Scholes pricing model.

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.

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

Notes to Consolidated Financial Statements For the years ended December 31, 2020 and 2019 (Expressed in Canadian Dollars)

7. Share Capital (continued)

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.

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 (i) | 951,539 | \$0.20 |
| Exercised in September (ii) | (225,990) | \$0.20 |
| Issued on October 21 (iii) | 3,000,000 | \$0.32 |
| Balance December 31, 2020 | 3,725,549 | \$0.30 |

- (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.

The following table reflects the actual stock options issued and outstanding as of December 31, 2020:

| Expiry date | Exercise price | Weighted average remaining life | Number of options outstanding | Number of options vested (Exercisable) |
|-------------|----------------|---------------------------------|-------------------------------|--|
| 21-Feb-23 | \$0.20 | 2.14 years | 725,549 | 725,549 |
| 21-Oct-25 | \$0.32 | 4.81 years | 3,000,000 | 3,000,000 |

(d) Warrants

| | Number of warrants | Weighted average exercise price (\$) | Expiry Date |
|----------------------------------|--------------------|--------------------------------------|-----------------|
| Balance December 31, 2019 | Nil | Nil | |
| Issued August 17, 2020 | 357,080 | \$0.30 | August 17, 2022 |
| Issued August 26, 2020 | 9,063,329 | \$0.40 | August 26, 2022 |
| Balance December 31, 2020 | 9,420,409 | \$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 357,080 warrants to brokers.

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

Notes to Consolidated Financial Statements For the years ended December 31, 2020 and 2019 (Expressed in Canadian Dollars)

7. Share Capital (continued)

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: 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.

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.

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 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").

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.

8. Net loss per common share

The calculation of basic and diluted loss per share for the year ended December 31, 2020 was based on the net loss attributable to shareholders of \$2,966,845 (year ended December 31, 2019 – loss of \$1,606,944) and the weighted average number of common shares outstanding of 40,607,963 (year ended December 31, 2019 – 35,718,052).

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

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9. Related Party Transactions

As at years ended December 31, 2020 and 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 year ended December 31, 2020 the Company issued Nil shares to key management personnel totalling Nil debt for service rendered (year ended December 31, 2019 issued 13,700,000 common shares to settle total of \$1,620,000).

During the year ended December 31, 2020, the Company paid, or otherwise accrued, \$331,771 (2019 - \$240,065) in consulting fees to key management personnel (defined as officers and directors of the Company).

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. On February 24, 2020, the Company sold back these shares for proceeds of \$187,500. See note 5.

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. The loan was repaid upon completion of the Transaction.

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. The value of these options of \$779,171, determined as described in note 7 (c) (iii), was recognized as Stock Based Compensation in the Statement of Loss.

10. 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.

11. 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.

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11. Financial Risk Management (continued)

| Years ended | | Less than one year | 1-3 years | 3-5 years | More than 5 years | Total |
|--------------|--|-----------------------|-----------|-----------|----------------------|--------------------|
| Dec 31, 2019 | Accounts payable and accrued liabilities | 1,086,964 | - | - | - | \$1,086,964 |
| Dec 31, 2020 | Accounts payable and accrued liabilities | 317,106 | - | - | - | \$317,106 |

(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.

(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 tughrick and US dollars that are subject to foreign currency risk.

The Company is exposed to foreign currency risk on fluctuations related to cash, accounts payable and other liabilities, that are denominated in US dollars and Mongolian Tughrick. 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 \$510 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 December 31, 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.

12. Income Tax

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 26.5% (2019 – 26.5%) to the effective tax rate is as follows:

| | December 31, 2020 | December 31, 2019 |
|---|-------------------|-------------------|
| | \$ | \$ |
| Net Income (Loss) before recovery of income taxes | (\$2,966,845) | (\$1,615,732) |
| Expected income tax (recovery) expense | (786,214) | (412,011) |
| Tax rate changes and other adjustments | 8,649 | (16,523) |
| Permanent difference and others | 513,115 | 150,041 |
| Share issuance cost booked directly to equity | (70,398) | - |
| Change in tax benefits not recognized | 334,848 | 278,493 |
| Income tax (recovery) expense | \$- | \$- |

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Notes to Consolidated Financial Statements
For the years ended December 31, 2020 and 2019
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12. Income Tax (continued)

Deferred tax

The following table summarizes the components of deferred tax:

| | December 31, 2020 | December 31, 2019 |
|---|-------------------|-------------------|
| | \$ | \$ |
| Deferred tax assets | | |
| Non-capital losses carried forward - Canada | - | 1,950 |
| Non-capital losses carried forward - Mongolia | 33 | 403 |
| Deferred tax liabilities | | |
| Golden Hill Payable denominated in USD | - | (1,658) |
| Property, plant and equipment - Mongolia | - | (5) |
| Unrealized foreign exchange gain or losses - Mongolia | (33) | (690) |
| Net deferred tax asset | \$- | \$- |

Unrecognized deferred tax assets

Deferred taxes are provided as a result of the temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

| | December 31, 2020 | December 31, 2019 |
|---|-------------------|-------------------|
| | \$ | \$ |
| License | \$306,957 | \$306,957 |
| Unrealized FX on account of capital | 22,270 | - |
| Share issuance costs - 20(1)(e) | 241,596 | 12,676 |
| Non-capital losses carried forward - Canada | 2,839,172 | 1,827,269 |
| Capital losses carried forward | 375,000 | - |
| Non-capital losses carried forward - Mongolia | 52,195 | - |
| Investment | - | 375,876 |

The Canadian non-capital loss carry forwards expire as noted in the table below.

The Mongolian non-capital loss carry forwards expires in 2024.

The net capital loss carry forward may be carried forward indefinitely but can only be used to reduce capital gains.

Share issue and financing costs will be fully amortized in 2024.

The remaining deductible temporary differences may be carried forward indefinitely.

The Company's Canadian non-capital income tax losses expire as follows:

| Year | |
|--------------|--------------------|
| 2036 | \$327,476 |
| 2037 | 960,557 |
| 2038 | 554,669 |
| 2040 | 996,470 |
| Total | \$2,839,172 |

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Notes to Consolidated Financial Statements

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13. Subsequent Events

On January 14, 2021, the Company received approval from the OTC Markets Group to begin trading on the OTCQB Market under the ticker symbol "IONGF" at the open of markets.

On February 3, 2021, the Company granted to certain consultants and insiders of the Company an aggregate of 685,000 incentive stock options (the "Stock Options") to purchase common shares under the Company's incentive stock option plan (the "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. 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.

On February 10, 2021, the Company acquired the Urgakh Naran Lithium Brine Project (the "Urgakh Naran Project") located in Mongolia's Dornгови 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 WNW of the Company's flagship property, the Baavhai Uul Lithium Brine Project. The Company acquired the Urgakh Naran Project as a result of its successful tender bid submitted to the Mineral Resource Authority of Mongolia. The total cost of acquiring the Urgakh Naran Project was approximately USD\$333,300 for consulting, administrative and transfer tax costs.

On March 17, 2021, the Company entered into an agreement with PI Financial Corp. ("PI"), as lead underwriter on its own behalf and on behalf of a syndicate of underwriters (together with PI, the "Underwriters") pursuant to which the underwriters have agreed to purchase, on a bought deal basis, 10,000,000 units of the Company (the "Units") at a price of C\$0.50 per Unit (the "Offering Price") for gross proceeds of C\$5,000,000 (the "Offering").

On April 13, 2021 the Company completed its public offering of 11,500,000 units of the Company (the "Units") at a price of \$0.50 per Unit for aggregate gross proceeds to the Company of \$5,750,000, which amounts included the full exercise of the underwriters' over-allotment option (the "Offering"). Each Unit comprises one common share in the capital of the Company (each, a "Common Share") and one Common Share purchase warrant (each, a "Warrant"). Each Warrant is exercisable to acquire one Common Share (a "Warrant Share") for 36 months from the date hereof at an exercise price of \$0.70 per Warrant Share.

As at reporting date of the Financial Statements, there are 140,000 investor warrants exercised at \$0.40 per common shares and 14,550 broker warrants exercised at \$0.30 for total proceeds of \$60,365. The value attributed to these warrants, determined using the Black Scholes option pricing model at the time of issue (see note 7), was \$14,837.