



## **Ion Energy Ltd.**

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

**CONDENSED INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS**

**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2022**

**(Expressed in Canadian Dollars)**

**(UNAUDITED)**

---

### **Notice to Reader**

The accompanying unaudited condensed interim financial statements of Ion Energy Limited ("the Company") have been prepared by and are the responsibility of management. The unaudited condensed interim financial statements as at and for the three and nine months ended September 30, 2022 have not been reviewed by the Company's auditors.

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

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

As at	Notes	September 30, 2022	December 31, 2021
<b>Assets</b>			
Current assets			
Cash and cash equivalents		1,383,106	3,970,019
Prepaid expenses and deposits		293,739	275,625
Receivables		270,235	144,029
<b>Total Current Assets</b>		<b>1,947,080</b>	<b>4,389,673</b>
Property and equipment			
	3	20,964	25,691
Baavhai-Uul Project – Exploration Licence	4	1,934,010	1,586,084
Urgakh Naran Project – Exploration Licence	5	436,798	473,423
<b>Total Non-Current Assets</b>		<b>2,391,772</b>	<b>2,085,198</b>
<b>Total Assets</b>		<b>4,338,852</b>	<b>6,474,871</b>
<b>Liabilities and shareholders' equity</b>			
<b>Liabilities</b>			
Accounts payable and other liabilities		506,123	790,702
<b>Total Liabilities</b>		<b>506,123</b>	<b>790,702</b>
<b>Shareholders' equity</b>			
Share Capital, net of issuance costs	6	10,045,847	9,795,260
Contributed surplus		3,961,449	4,005,437
Accumulated other comprehensive income/(loss)		(127,190)	(28,592)
Accumulated deficit		(10,047,377)	(8,087,936)
<b>Total shareholders' equity</b>		<b>3,832,729</b>	<b>5,684,169</b>
<b>Total liabilities and shareholders' equity</b>		<b>4,338,852</b>	<b>6,474,871</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, 2022 (Expressed in Canadian Dollars)

	Notes	Three Months Ended		Nine Months Ended	
		September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
<b>General and administrative expenses</b>					
Professional fees		224,216	222,287	682,631	698,560
Due Diligence costs		-	-	8,067	2,747
Stock based compensation		16,262	-	32,524	207,980
Filing fees		34,090	14,769	81,358	91,787
Travel and accommodation		36,613	-	177,184	530
Marketing expenses		260,576	207,322	803,879	614,527
General and office		80,446	55,603	182,503	154,267
Gain on accounts payable write off		-	-	-	(17,375)
Loss or (Gain) on exercise of warrants		-	(13,738)	-	-
Interest (income) expense		-	-	(8,666)	-
Foreign exchange (gain) or loss		456	(29,693)	(39)	(20,914)
<b>Net loss for the period</b>		<b>(652,659)</b>	<b>(456,550)</b>	<b>(1,959,441)</b>	<b>(1,732,109)</b>
<b>Cumulative translation adjustment</b>		<b>3,153</b>	<b>23,799</b>	<b>(98,598)</b>	<b>37,764</b>
<b>Net loss and comprehensive loss for the period</b>		<b>(649,506)</b>	<b>(432,751)</b>	<b>(2,058,039)</b>	<b>(1,694,345)</b>
<b>Basic and diluted net loss per share</b>	7	<b>(0.01)</b>	<b>(0.01)</b>	<b>(0.03)</b>	<b>(0.03)</b>
<b>Weighted average number of common shares outstanding</b>		<b>60,564,633</b>	<b>60,213,554</b>	<b>60,495,722</b>	<b>55,872,175</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		Contributed	Accumulated	Accumulated	Total
		Number	Amount	Surplus	OCI	Deficit	
<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	6	187,883	91,752	(18,054)	-	-	73,698
Common shares issue		11,500,000	3,048,926	1,995,080	-	-	5,044,006
Stock based compensation	6	-	-	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>
<b>Balance, December 31, 2021</b>		<b>60,333,534</b>	<b>9,795,260</b>	<b>4,005,437</b>	<b>(28,592)</b>	<b>(8,087,936)</b>	<b>5,684,169</b>
Stock options exercised	6	300,000	250,587	(76,512)	-	-	174,075
Stock based compensation		-	-	32,524	-	-	32,524
Cumulative translation adjustment		-	-	-	(98,598)	-	(98,598)
Net loss for the period		-	-	-	-	(1,959,441)	(1,959,441)
<b>Balance, September 30, 2022</b>		<b>60,633,534</b>	<b>10,045,847</b>	<b>3,961,449</b>	<b>(127,190)</b>	<b>(10,047,377)</b>	<b>3,832,729</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 Cash Flows  
For the nine months ended September 30, 2022  
(Expressed in Canadian Dollars)

Nine months ended	Note	September 30, 2022	September 30, 2021
<b>Operating Activities</b>			
Net loss for the period		(1,959,441)	(1,732,109)
Adjustments for:			
Depreciation		634	634
Stock based compensation		32,524	207,980
Gain on accounts payable write off		-	(17,375)
Loss on exercise of warrants		-	-
Foreign exchange gain or loss		3,419	(35,057)
Changes in non-cash working capital items:			
Receivables, prepaids and deposits		(125,746)	342,226
Accounts payable and accrued liabilities		(284,579)	(61,329)
<b>Net cash used in operating activities</b>		<b>(2,333,189)</b>	<b>(1,295,030)</b>
<b>Investing activities</b>			
Purchase of exploration licence - Baavhai-Uul Project	4	(409,103)	(188,154)
Purchase of exploration licence - Urgakh Naran Project	5	(122)	(465,637)
<b>Net cash used in investing activities</b>		<b>(409,225)</b>	<b>(653,791)</b>
<b>Financing activities</b>			
Loan to Aranjin Resources	8	(18,574)	-
Proceeds from exercised options	6	174,075	-
Proceeds from share issuance, net of costs		-	5,229,848
Proceeds from exercised warrants		-	73,698
<b>Net cash provided by financing activities</b>		<b>155,501</b>	<b>5,303,546</b>
<b>Effect of foreign exchange</b>		<b>-</b>	<b>6,615</b>
<b>Net change in cash and cash equivalents</b>		<b>(2,586,913)</b>	<b>3,361,340</b>
<b>Cash and cash equivalents, beginning of year</b>		<b>3,970,019</b>	<b>1,302,474</b>
<b>Cash and cash equivalents, end of the period</b>		<b>1,383,106</b>	<b>4,663,814</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 three and nine months ended September 30, 2022

(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 Energy's 59,441,940 issued and outstanding common shares to 29,720,970 post-consolidation common shares.

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.

In March of 2020, the COVID-19 outbreak was declared a global pandemic by the World Health Organization. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy, capital markets and the Company's financial position cannot be reasonably estimated at this time. The Company is monitoring developments and will adapt its business plans accordingly. The actual and threatened spread of COVID-19 globally could adversely impact the Company's ability to carry out its plans and raise capital. To date, the Company's operations have been minimally impacted and the Company continues to be able to plan and carry out activities.

#### 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 28, 2022.

##### *(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.

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

## Notes to Unaudited Condensed Interim Consolidated Financial Statements

### For the three and nine months ended September 30, 2022

(Expressed in Canadian Dollars)

---

## 2. Significant accounting policies (continued)

### *(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 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 Interests*

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.

### *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.

### *Current and Deferred Taxes*

The Company applies judgment in determining the total provision for current and deferred taxes. There are many transactions and

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

## Notes to Unaudited Condensed Interim Consolidated Financial Statements

### For the three and nine months ended September 30, 2022

(Expressed in Canadian Dollars)

---

## 2. Significant accounting policies (continued)

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.

## 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 and cash equivalents*

Cash and cash equivalents are comprised of cash on hand, guaranteed investment certificates (GICs) 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 as exploration and evaluation expense in the consolidated 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 Unaudited Condensed Interim Consolidated Financial Statements

### For the three and nine months ended September 30, 2022

(Expressed in Canadian Dollars)

---

## 2. Significant accounting policies (continued)

### (g) Property and Equipment

Property 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.

### (h) Fair value of financial instruments

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

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

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

### (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

**Ion Energy Ltd. (Formerly Spirit Banner Capital Corp.)**  
**Notes to Unaudited Condensed Interim Consolidated Financial Statements**  
**For the three and nine months ended September 30, 2022**  
**(Expressed in Canadian Dollars)**

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

recognized as other comprehensive income ("OCI").

(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. Property and Equipment**

	Equipment	Furniture	Total
<b>Cost</b>			
<b>Balance as at January 1, 2021</b>	<b>32,346</b>	<b>2,816</b>	<b>35,162</b>
Additions	-	-	-
Foreign exchange difference	(148)	-	(148)
<b>Balance as at December 31, 2021</b>	<b>32,198</b>	<b>2,816</b>	<b>35,014</b>
Additions	-	-	-
FX	(2,499)	-	(2,499)
<b>Balance as at September 30, 2022</b>	<b>29,699</b>	<b>2,816</b>	<b>32,515</b>
<b>Accumulated Amortization</b>			
<b>Balance as at January 1, 2021</b>	-	<b>422</b>	<b>422</b>
Depreciation during year	8,056	845	8,901
<b>Balance as at December 31, 2021</b>	<b>8,056</b>	<b>1,267</b>	<b>9,323</b>
Depreciation during period	2,262	634	2,895
FX	(667)	-	(667)
<b>Balance as at September 30, 2022</b>	<b>9,650</b>	<b>1,901</b>	<b>11,551</b>
<b>Net Book Value</b>			
<b>Balance as at December 31, 2021</b>	<b>24,142</b>	<b>1,549</b>	<b>25,691</b>
<b>Balance as at September 30, 2022</b>	<b>20,049</b>	<b>915</b>	<b>20,964</b>

During the nine months ended September 30, 2022, depreciation totaling \$2,262 (year ended December 31, 2021 – \$8,056) was capitalized to the Baavhai Uul Project – Exploration License with the remaining \$634 (December 31, 2021 - \$845) expensed in the condensed interim consolidated statement of loss and comprehensive loss.

**4. Baavhai Uul Project – Exploration License**

The Company is the owner of a lithium exploration license (the "License") to explore an area approximately 81,758 hectares in size containing lithium brine targets (the "Baavhai Uul Project"). The Company acquired the License pursuant to a purchase agreement dated February 15, 2019. The terms of the agreement are summarized below.

The original purchase price payable by Ion to the Seller for the License was US\$1,200,000 and 2,500,000 common shares in the capital stock of Ion Parent. The initial payment terms were as follows:

- (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.
- (iv) On completion of an initial exploration drilling programme of over 2,000 meters recommended by the Technical Report, US\$200,000 in cash.

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

## Notes to Unaudited Condensed Interim Consolidated Financial Statements

### For the three and nine months ended September 30, 2022

(Expressed in Canadian Dollars)

#### 4. Baavhai Uul Project – Exploration License (continued)

The agreement was amended on August 15, 2019, revising the purchase price payable for the License to US\$1,000,000 and 4,000,000 common shares in the capital stock of Ion Energy, payable as follows:

- (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 Baavhai 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 Baavhai Uul project located in Sukhbaatar province, US\$100,000 in cash.

The original fair value of the license was capitalized to the Baavhai Uul Project – Exploration at \$667,130 in the consolidated 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 consolidated statement of loss and comprehensive loss.

As at September 30, 2022, schedule payments (i) and (ii) have been paid. During the year ended December 31, 2021, payment (iii) has been recognized and included in accounts payable and accrued liabilities as at December 31, 2021 as the Company expects to meet this milestone during 2022. The remaining terms will be reflected in the consolidated statement of financial position of the Company once it is probable the conditions for payment will be met.

On August 8, 2019, the Company entered into a Royalty Agreement under which Ion sold a gross revenue royalty of 1.5% on the Baavhai Uul Project. As at September 30, 2022, the royalty remained active and outstanding.

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

<b>Balance, January 1, 2021</b>	<b>\$965,183</b>
Additions	363,161
Purchase price payable	253,560
Foreign exchange	4,180
<b>Balance, December 31, 2021</b>	<b>\$1,586,084</b>
Additions	409,103
Foreign exchange	(61,177)
<b>Balance, September 30, 2022</b>	<b>\$1,934,010</b>

#### 5. 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 29,770 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 following is a continuity table of the Urgakh Naran Project – Exploration License:

<b>Balance, January 1, 2021</b>	<b>\$ -</b>
Acquisition Cost	469,581
Additions	5,039
Foreign exchange	(1,197)
<b>Balance, December 31, 2021</b>	<b>\$473,423</b>
Additions	122
Foreign exchange	(36,747)
<b>Balance, September 30, 2022</b>	<b>\$436,798</b>

**Ion Energy Ltd. (Formerly Spirit Banner Capital Corp.)**  
**Notes to Unaudited Condensed Interim Consolidated Financial Statements**  
**For the three and nine months ended September 30, 2022**  
**(Expressed in Canadian Dollars)**

**6. 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, 2020</b>	<b>48,525,671</b>	<b>\$6,597,056</b>
Warrants exercised (note 6(d)(i))	307,863	149,278
Share issuance private placement (i)	11,500,000	3,616,911
Share issuance costs	-	(567,985)
<b>Balance, December 31, 2021</b>	<b>60,333,534</b>	<b>\$9,795,260</b>
Common shares issue (ii)	135,000	118,239
Common shares issue (iii)	165,000	132,348
<b>Balance, September 30, 2022</b>	<b>60,633,534</b>	<b>\$10,045,847</b>

- (i) 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 notes 7(d)(iv) and 7(d)(v). In connection with the public offering, the Company incurred \$705,944 in broker fees and legal costs allocated proportionately between common shares and warrants.
- (ii) On January 11, 2022, 135,000 stock options were exercised at a price of \$0.55 for total proceeds of \$74,250. The value attributed to these options was \$43,989.
- (iii) On July 26, 2022 and on August 25, 2022, the Company issued a total of 165,000 shares in exchange of options exercised at a price of \$0.605 with the total proceeds of \$99,825. The value attributed to these options was \$32,524.

**(c) Stock Options**

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

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

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

The following table reflects the continuity of stock options:

	Number of stock options and agent options	Weighted average exercise price
<b>Balance December 31, 2020</b>	<b>3,725,549</b>	<b>\$0.30</b>
Issued on February 3 (i)	685,000	\$0.55
Issued on December 1 (ii)	235,000	\$0.55
<b>Balance December 31, 2021</b>	<b>4,645,549</b>	<b>\$0.35</b>
Exercised on January 11 (iii)	(135,000)	\$0.55
Issued on February 4 (iv)	330,000	\$0.605
Exercised on July 26 (v)	(82,500)	\$0.605
Exercised on August 25 (v)	(82,500)	\$0.605
<b>Balance September 30, 2022</b>	<b>4,675,549</b>	<b>\$0.35</b>

**Ion Energy Ltd. (Formerly Spirit Banner Capital Corp.)**  
**Notes to Unaudited Condensed Interim Consolidated Financial Statements**  
**For the three and nine months ended September 30, 2022**  
**(Expressed in Canadian Dollars)**

**6. Share Capital (continued)**

**(c) Stock Options (continued)**

- (i) 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.
- (ii) On December 1, 2021, the Company granted to certain consultants and insiders of the Company an aggregate of 235,000 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. 185,000 of the 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: fair value share price of \$0.56, dividend yield 0%, risk-free interest rate of 0.95%, expected volatility of 113% and an expected life of 2 years. The value attributed to these options was \$76,573.
- (iii) On January 11, 135,000 options were exercised at a price of \$0.55 for total proceeds of \$74,250. The value attributed to these options was \$43,989.
- (iv) On February 4, 2022, the Company granted 330,000 options to a consultant to purchase common shares at a price of \$0.605 for a period of two years from the date of grant. The options vest 25% per quarter from the date of grant. These options were valued on the date of issue using the Black-Scholes option pricing model with the following assumptions: fair value share price of \$0.40, dividend yield 0%, risk-free interest rate of 1.29%, expected volatility of 86% and an expected life of 2 years. The value attributed to these options was \$65,048.
- (v) On July 26, 2022 and on August 25, 2022, the Company issued a total of 165,000 shares in exchange of options exercised at a price of \$0.605 with the total proceeds of \$99,825. The value attributed to these options was \$32,524.

The following table reflects the actual stock options issued and outstanding as of September 30, 2022:

Expiry date	Exercise price	Weighted average remaining life	Number of options outstanding	Number of options vested (Exercisable)
February 21, 2023	\$0.20	0.39	725,549	725,549
October 21, 2025	\$0.32	3.06	3,000,000	3,000,000
February 3, 2023	\$0.55	0.35	685,000	685,000
December 1, 2023	\$0.55	1.17	100,000	50,000
February 4, 2023	\$0.605	0.35	165,000	-

**(d) Warrants**

	Number of warrants	Weighted average exercise price (\$)	Expiry Date
<b>Balance December 31, 2020</b>	<b>9,420,409</b>	<b>\$0.40</b>	
Exercised - Broker warrants (i)	(34,550)	\$0.30	August 17, 2022
Exercised - Investor warrants (i)	(273,333)	\$0.40	August 26, 2022
Issued April 13, 2021 – Investor warrants (ii)	11,500,000	\$0.70	April 13, 2024
Issued April 13, 2021 – Broker warrants (iii)	690,000	\$0.50	April 13, 2024
<b>Balance December 31, 2021</b>	<b>21,302,546</b>	<b>\$0.56</b>	
Expired – Broker warrants (iv)	(322,550)	\$0.30	
Expired – Investor warrants (v)	(8,789,996)	\$0.40	
<b>Balance September 30, 2022</b>	<b>12,190,000</b>	<b>\$0.69</b>	

- (i) During the year ended December 31, 2021, 273,333 investor warrants were exercised at \$0.40 per common shares and 34,550 broker warrants were exercised at \$0.30 for total proceeds of \$119,692. The value of the exercised warrants determined by Black Scholes pricing model is \$29,586 which was transferred from contributed surplus to share capital on exercise.

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

## Notes to Unaudited Condensed Interim Consolidated Financial Statements

### For the three and nine months ended September 30, 2022

(Expressed in Canadian Dollars)

---

#### 6. Share Capital (continued)

##### (d) Warrants (continued)

- (ii) 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.
- (iii) 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.
- (iv) On August 17, 2022, 8,789,996 investor warrants issued on August 26, 2020 expired without exercise.
- (v) On August 26, 2022, 322,550 broker warrants issued on August 17, 2020 expired without exercise.

##### (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.

At September 30, 2022, a total of 11,810,150 shares remained in escrow.

#### 7. Net loss per common share

The calculation of basic and diluted loss per share for the nine months ended September 30, 2022 was based on the net loss attributable to shareholders of \$1,959,441 (September 30, 2021 – loss of \$1,732,109) and the weighted average number of common shares outstanding of 60,495,722 (September 30, 2021 – 55,872,175).

#### 8. Related Party Transactions

During the nine months ended September 30, 2022, the Company paid, or otherwise accrued, \$382,033 (September 30, 2021 - \$402,066) in consulting fees to key management personnel (defined as officers and directors of the Company). In addition, the Company paid or otherwise accrued \$24,500 (September 30, 2021 - \$36,840) for the office rent to Steppe Gold Ltd., whose Board includes three of the Company's Directors.

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

## **Notes to Unaudited Condensed Interim Consolidated Financial Statements**

### **For the three and nine months ended September 30, 2022**

#### **(Expressed in Canadian Dollars)**

---

During the nine months ended September 30, 2022, the Company recognized stock-based compensation totaling \$Nil (September 30, 2021 - \$30,362) in the condensed interim consolidated statement of loss and comprehensive loss in connection with the vesting of stock options granted to certain management personnel.

On September 29, 2022, the Company agreed to loan \$100,000 to Aranjin Resources Ltd. ("Aranjin"). The Company entered into a reciprocal exploration agreement with Aranjin on February 1, 2022 and three of the Company's Directors also serve as Directors of Aranjin. The loan is secured by a promissory note with no fixed repayment terms and includes interest calculated at the prime lending rate of the Royal Bank of Canada plus 1% per annum. At September 30, 2022, \$18,574 of the loan had been advanced and is included in Receivables at September 30, 2022. The balance of \$81,426 was advanced on October 3, 2022.