

LIONS BAY CAPITAL INC.

**CONDENSED CONSOLIDATED INTERIM
FINANCIAL STATEMENTS**

For the Three Months Ended August 31, 2020

**(In Canadian Dollars)
(Unaudited – Prepared by Management)**

NOTICE TO READER

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor. The accompanying unaudited condensed interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these interim consolidated financial statements.

LIONS BAY CAPITAL INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Unaudited – Prepared by Management)
Expressed in Canadian Dollars

	Notes	August 31, 2020	May 31, 2020
ASSETS			
Current			
Cash		\$ 22,486	\$ 6,670
Other receivables	4	105,501	246,932
Investments	6	5,260,259	3,449,504
Derivative financial instrument	5	862,250	34,631
		6,250,496	3,737,737
TOTAL ASSETS			
		\$ 6,250,496	\$ 3,737,737
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Trade and other payables		\$ 899,316	\$ 868,872
Borrowings	7	862,204	500,058
Taxes payable		52,384	50,040
		1,813,904	1,418,970
TOTAL LIABILITIES			
		1,813,904	1,418,970
Shareholders' Equity			
Share capital		5,216,492	5,216,492
Share based payment reserve		472,557	472,557
Warrant reserve		38,497	38,497
Foreign currency translation reserve		(2,076)	(2,630)
Accumulated profit/(deficit)		(1,288,878)	(3,406,149)
Total shareholders' equity		4,436,592	2,318,767
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY			
		\$ 6,250,496	\$ 3,737,737

Note 1 – Nature of operations and going concern

On behalf of the Board of Directors

“John Byrne”
Director

“Ross MacLachlan”
Director

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

LIONS BAY CAPITAL INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND
COMPREHENSIVE LOSS
(Unaudited – Prepared by Management)
Expressed in Canadian Dollars

For the three months ended 31 August	2020 \$	2019 \$
NET REALISED AND UNREALISED GAIN/(LOSS)		
Net realized gain/(loss) on disposal of marketable securities	-	(17,042)
Net change in unrealized gain/(loss) on marketable securities (note 6)	1,609,299	(752,575)
Unrealized fair value gain on derivative financial instrument (note 5)	534,570	(75,538)
OTHER INCOME		
Interest and other income	11,029	225,080
Expenses		
Professional fees	(38,700)	(18,784)
Directors fees	(36,000)	(111,236)
Travel expenses	(490)	(6,870)
Loss from equity accounted investment	-	-
Financing costs	(23,853)	(29,714)
Forex variance	75,626	(122,765)
General and administrative	(14,210)	(172)
Total expenses	(37,627)	(289,541)
Profit/(loss) before tax	2,117,271	(909,616)
Income tax (expense)/recovery	-	-
Profit/(loss) after tax	2,117,271	(909,616)
Share of non-controlling interest loss	-	29,591
	2,117,271	(880,025)
Other comprehensive income/(loss) net of tax	554	117,373
Net income/(loss) and total comprehensive income	2,117,825	(762,652)
Profit/(loss) per common share		
- Basic	\$0.02	(\$0.01)
- Diluted	\$0.02	(\$0.01)
Weighted average number of common shares		
- Basic	97,304,478	97,304,478
- Diluted	97,304,478	97,304,478

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

LIONS BAY CAPITAL INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited – Prepared by Management)
Expressed in Canadian Dollars

	Issued Common Shares		Foreign currency translation reserves	Share based payment reserves	Warrant Reserves	Accumulated deficit	Attributable to owners of the Company	Non- controlling interest	Total Equity
	Number	Amount Received							
BALANCE, MAY 31, 2020	97,304,473	5,216,492	(2,630)	472,557	38,497	(3,406,149)	2,318,767	-	2,318,767
Cumulative translation adjustment	-	-	554	-	-	-	554	-	554
Net loss and comprehensive loss for the year	-	-	-	-	-	2,117,271	2,117,271	-	2,117,271
BALANCE, AUGUST 31, 2020	97,304,473	5,216,492	(2,076)	472,557	38,497	(1,288,878)	4,436,592	-	4,436,592
BALANCE, MAY 31, 2019	97,304,473	5,216,492	(15,040)	472,557	-	(3,003,073)	2,670,936	311,051	2,981,987
Cumulative translation adjustment	-	-	117,373	-	-	-	117,373	-	117,373
Net loss and comprehensive loss for the year	-	-	-	-	-	(880,025)	(880,025)	(29,500)	(909,615)
BALANCE, AUGUST 31, 2019	97,304,473	5,216,492	102,333	472,557	-	(3,883,098)	1,908,284	281,461	2,189,745

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

LIONS BAY CAPITAL INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited – Prepared by Management)
Expressed in Canadian Dollars

For the three months ended 31 August	2020 \$	2019 \$
Operating Activities		
Net Profit/(loss) after tax	2,117,271	(909,615)
Deduct/add Non-Cash & Other Items:		
Net realized (gain) on disposal of investments	-	17,043
Change in unrealized (gain) on investments	(1,609,299)	752,575
Impairment of derivatives	(534,570)	75,538
Exchange variation	(79,138)	123,046
Finance costs	23,853	(31,126)
Changes in Non-Cash Working Capital:		
(Increase)/decrease in receivable	(9,504)	(170,738)
(Increase)/decrease in trade and other payable	27,680	18,518
Payment for exploration and evaluation	-	-
Proceeds from disposal of marketable securities	-	103,058
Loan to others	-	-
Purchase of investments	(250,000)	(103,058)
	<u>(231,822)</u>	<u>784,856</u>
Cash Flows From (Used In) Operating Activities	<u>(313,707)</u>	<u>(124,759)</u>
Financing Activities		
Proceed from loan	336,196	259,787
Repayment of loan	(6,673)	(92,574)
Cash Flows From (Used In) Financing Activities	<u>329,523</u>	<u>167,213</u>
Net increase/(decrease) in cash	<u>15,816</u>	<u>42,454</u>
Cash - Beginning of period	<u>6,670</u>	<u>14,286</u>
Cash - End of period	<u>22,486</u>	<u>56,740</u>

Supplemental cash flow information (note 13)

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

LIONS BAY CAPITAL INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED AUGUST 31, 2020 (in Canadian dollars)

(Unaudited – Prepared by Management)

1. Nature of Operations and Going Concern

Lions Bay Capital Inc. (the Company) was formed as a Capital Pool Company in 2010 and completed its Qualifying Transaction on November 14, 2017 with Pan Andean Capital Pty Limited (“Pan Andean”). Pan Andean was established as an investment holding company and commenced its current business operations in October 2014.

The Company’s primary objective is to increase shareholder value through the identification of, and investment in, securities of primarily publicly listed and/or private corporations offering capital appreciation potential. Investments will be acquired and held for short-term gains or long-term capital appreciation, dependent upon the specific investment.

The principal place of business is Suite 1201-1166 Alberni Street, Vancouver, BC, V6E 3Z3

At the reporting date the consolidated entity had working capital of \$4,436,590 which includes investments with a fair market value of \$5,260,259 and cash of \$22,486.

- A significant portion of the Company’s accounts payable and borrowings are owed to a related party.
- The Company has a significant holding in investments listed on the Toronto Venture Exchange (“TSXV”) and Australian Stock Exchange (“ASX”), which can be converted to cash to meet the ongoing cash flow needs of the Group.

The Company’s ability to continue as a going concern is dependent upon the Company’s ability to generate returns from its investments or obtaining investor financing to meet its on-going levels of corporate overhead and investment objectives. These consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge liabilities in the normal course of business. In the past, the Company has been successful in obtaining financing, although there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company. Accordingly, it does not give effect to adjustments, if any that would be necessary should the Company be unable to continue as a going concern and, therefore, be required to realize its assets and liquidate its liabilities in other than the normal course of business and at amounts which may differ from those shown in these consolidated financial statements. These material uncertainties may cast significant doubt about the Company’s ability to continue as a going concern.

In March 2020 the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company’s business or results of operations at this time

LIONS BAY CAPITAL INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED AUGUST 31, 2020 *(in Canadian dollars)*

(Unaudited – Prepared by Management)

2. Basis of Presentation

Reporting and basis of measurement

These unaudited condensed interim consolidated financial statements have been prepared in accordance with IAS 34 – Interim Financial Reporting as issued by the International Accounting Standards Board (“IASB”). Accordingly, certain disclosures included in annual financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the IASB have been condensed or omitted and these unaudited condensed consolidated interim financial statements should be read in conjunction with the Company’s audited consolidated financial statements for the year ended May 31, 2020.

The Company’s management makes judgments in its process of applying the Company’s accounting policies in the preparation of its unaudited interim condensed consolidated financial statements. In addition, the preparation of the financial data requires that the Company’s management make assumptions and estimates of the effects of uncertain future events on the carrying amounts of the Company’s assets and liabilities at the end of the reporting period and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates as the estimation process is inherently uncertain. Estimates are reviewed on an ongoing basis based on historical experience and other factors that are considered to be relevant under the circumstances. Revisions to estimates and the resulting effects on the carrying amounts of the Company’s assets and liabilities are accounted for prospectively. The critical judgments and estimates applied in the preparation of the Company’s unaudited condensed interim consolidated financial statements are consistent with those applied and disclosed in the Company’s consolidated financial statements for the year ended May 31, 2019. In addition the accounting policies applied in these unaudited condensed interim consolidated financial statements are consistent with those applied and disclosed in the Company’s audited financial statements for the year ended May 31, 2020.

The Company’s interim results are not necessarily indicative of its results for a full year.

These unaudited condensed consolidated interim financial statements were approved by the Board of Directors on October 14, 2020.

3. Summary of Significant Accounting Policies

Critical accounting estimates and judgments

The preparation of the Company’s consolidated financial statements in accordance with IFRS requires management to make estimates and exercise judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenue and expenses during the reporting period. Key areas of estimation where management has made complex or subjective judgments include:

LIONS BAY CAPITAL INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED AUGUST 31, 2020 *(in Canadian dollars)*

(Unaudited – Prepared by Management)

(i) Determination of investment entity

The preparation of the financial statements requires management to make significant judgments and assumptions in determining how the Company meets the definition of an investment entity as previously discussed in Note 1. Entities that meet the definition of an investment entity within IFRS 10 are required to measure their subsidiaries at FVTPL in accordance with IFRS 9 rather than to consolidate them. An investment entity is an entity that meets all of the following criteria:

- a) An entity that obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services;
 - o The Company's main source of financing since inception had been via funds received from investors.
 - o Through ownership of the Company's shares, these investors are provided with investment management services through their right to investment returns via the performance of the Company's investments.
- b) An entity that commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both;
 - o The Company has communicated to investors via corporate documents that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both.
- c) An entity that measures and evaluates the performance of substantially all of its investments on a fair value basis.
 - o Substantially all of the Company's investment portfolio has been carried at fair value since inception.

Based on the analysis above, management has concluded that the Company meets the definition of an investment entity as all of the criteria are met. This will be reassessed on a continuous basis, in case any of the criteria or characteristics change.

(ii) Fair value of derivative financial instruments and investments

Derivative financial instruments are initially measured at fair value using the black-scholes valuation method and the subsequently remeasured at fair value with changes in fair value recognized in the statement of operations and comprehensive loss (note 5). The Company's investments are initially measured at fair value and subsequently remeasured at fair value with changes in fair value recognized in the statement of operations and comprehensive loss (note 6).

(iii) Income tax

The group is subject to income taxes in the jurisdiction in which it operates. Significant judgment is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognises liabilities for anticipated tax audit issues based on the group's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which determination is made.

LIONS BAY CAPITAL INC.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED AUGUST 31, 2020 (in Canadian dollars)***(Unaudited – Prepared by Management)***(iv) Share-based payment transactions**

Under IFRS 2 Share Based Payments, the Company must recognise the fair value of shares granted to directors, employees and consultants as remuneration as an expense on a pro-rata basis over the vesting period in profit or loss with a corresponding adjustment to equity.

The Company provides benefits to employees (including directors) of the Company in the form of share based payment transactions, whereby employees render services in exchange for shares of rights over shares (“equity-settled transactions”).

Estimating fair value of share-based payment transactions requires determination of the most appropriate valuations model, which depends on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option or appreciation right, volatility and dividend yield and making assumptions about them. For the measurement of the fair value of equity-settled transactions with employees at the grant date, the Company uses the black-scholes model for the options.

4. Other Receivables

The table below provides a summary of the Company’s other receivables:

	August 31	May 31
	2020	2020
	\$	\$
Loan receivable from Fidelity Minerals Corp (“FMN”), unsecured (i)	-	139,433
Loan receivable from FMN, secured, non-interest bearing (ii)	105,439	105,439
Other receivables	62	2,060
	<u>105,501</u>	<u>246,932</u>

- (i) The loan receivable bears interest at a rate of 6% per annum and is due on demand. Interest income for the period ended August 31, 2020 was \$1,528 (2019 - \$3,247). During the period ended August 31, 2020, the FMN loan receivable was converted into private placements (note 6). FMN is considered a related party by virtue of a common executive and director.
- (ii) During the year ended May 31, 2020, the Company assumed a loan receivable from an FMN creditor, resulting in a non-cash gain of \$203,850 recorded in interest and other income. This loan receivable is non-interest bearing and is due on demand. The loan is secured by FMN’s Cerro Dorado plant in Peru.

LIONS BAY CAPITAL INC.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED AUGUST 31, 2020 (in Canadian dollars)***(Unaudited – Prepared by Management)***5. Derivative Financial Instrument**

The table below provides a summary of the Company's derivatives, consisting of warrants of FMN.

Issuance Date	Exercise Price \$	Number of warrants exercisable	Expiry date
December 19, 2019	0.06	1,800,000	December 19, 2021
June 3, 2020	0.05	4,000,000	December 17, 2021
August 10, 2020	0.07	5,015,583	August 10, 2022

The fair value of the warrants is calculated using the Black-Scholes Option Pricing Model. Option pricing models require the input of highly speculative assumptions, including the expected future price volatility of a Company's shares. Changes in these assumptions can materially affect the fair value estimate and, therefore, existing models do not necessarily provide a reliable single measure of the fair value. The weighted average assumptions used in the fair value calculation are:

	August 31, 2020
Expected warrant life	1.60 years
Expected stock price volatility	177%
Dividend payment during life of warrant	Nil
Risk free interest rate	0.29%
Weighted average strike price	\$ 0.06
Weighted average fair value per warrant	\$ 0.08
Weighted average share price	\$ 0.10

	Number of warrants	Weighted average exercise price	Derivative
Balance, May 31, 2019	800,000	\$ 0.30	\$ 119,560
Warrants expired	(800,000)	\$ 0.30	\$ (119,560)
Warrants acquired	1,800,000	0.06	47,373
Warrants acquired	446,000	0.30	47,000
Change in fair value	-	-	(59,742)
Balance, May 31, 2020	2,246,000	0.10	34,631
Warrants expired	(446,000)	0.30	-
Warrants acquired (note 6)	4,000,000	0.05	62,230
Warrants acquired (note 6)	5,015,583	0.07	230,819
Change in fair value	-	-	534,570
Balance, August 31, 2020	10,815,583	0.06	862,250

LIIONS BAY CAPITAL INC.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED AUGUST 31, 2020 (in Canadian dollars)***(Unaudited – Prepared by Management)*

During the period ended August 31, 2020, the Company has a total gain on derivatives of \$534,570 (2019 – loss of \$75,538).

6. Schedule of investments

The table below provides a summary of the Company's public listed investments:

	May 31, 2020 Fair value	Acquired	Disposed	Gain/(Loss)	CTA	August 31, 2020 Fair Value
	\$	\$	\$	\$	\$	\$
Kalina Power Ltd	606,182	-	-	(57,835)	20,585	568,932
Fidelity Minerals Corp(i)	271,477	107,886	-	1,419,618	-	1,798,981
Eurotin Inc	200,001	-	-	-	-	200,001
Elementos Ltd	430,218	-	-	337,862	3,743	771,823
Parkway Minerals	1,426,782	-	-	3,591	62,692	1,493,065
Partly Paid Parkway Minerals	149,079	-	-	(103,146)	6,550	52,483
Devenport Resources	365,765	-	-	9,209	-	374,974
Total	3,449,504	107,886	-	1,609,299	93,570	5,260,259

	Cost August 31 2020	Fair Value August 31 2020	Cost May 31 2020	Fair Value May 31 2020
	\$	\$	\$	\$
Kalina Power Ltd	1,204,569	568,932	1,204,569	606,182
Fidelity Minerals Corp (i)	2,015,721	1,798,981	1,907,835	271,477
Eurotin Inc	700,000	200,001	700,000	200,001
Elementos Ltd	744,180	771,823	744,180	430,218
Parkway Minerals	1,014,868	1,493,065	1,014,868	1,426,782
Partly Paid Parkway Minerals	49,616	52,483	49,616	149,079
Devenport Resources	373,022	374,974	373,022	365,765
Total	6,101,976	5,260,259	5,994,090	3,449,504

- (i) During the period ended August 31, 2020, the Company settled receivables with FMN for \$100,000 at \$0.025/share for a total of 4,00,000 shares and \$50,935 at \$0.05/share for a total of 848,917 shares and participated in a private placement for a total of \$250,000 at \$0.06/share for total shares of 4,166,666. As part of the private placements the Company

LIONS BAY CAPITAL INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED AUGUST 31, 2020 (in Canadian dollars)

(Unaudited – Prepared by Management)

received 4,000,000 warrants fair valued at \$62,230 netted in the cost of the investment (note 5). The fair value of the warrants received were calculated using the Black-Scholes option pricing model with the following weighted average assumptions: 0.32% risk free interest rate, expected life of 1.5 years, 178% annualized volatility and 0% dividend rate. The Company also received 5,015,583 warrants fair valued at \$230,819 netted in the cost of the investment (note 5). The fair value of the warrants received were calculated using the Black-Scholes option pricing model with the following weighted average assumptions: 0.27% risk free interest rate, expected life of 2 years, 175% annualized volatility and 0% dividend rate.

As at August 31, 2020 the Company's investments consisted of the following:

- 1) Parkway Minerals Ltd - listed on the ASX (PWN). The Company owns 277,628,667 (2020 – 227,628,667) which represents 13.00% of the outstanding common shares of Parway valued at \$1,064,484 (2020 - \$1,575,861).
- 2) Kalina Power Ltd - listed on the ASX (KPO). The Company owns 23,258,900 (2020 – 23,258,900) which represents 2.38% of the outstanding common shares of Kalina valued at \$568,932 (2020 - \$606,182).
- 3) Elementos Ltd. - listed on the ASX (ELT). The Company owns 152,912,569 (2020 – 152,912,569) which represents 5.15% of the outstanding common shares of Elementos valued at \$744,180 (2020 - \$430,218).
- 4) Davenport Resources Ltd - listed on the ASX (DAV). The Company owns 10,150,000 (2020 – 10,150,000) which represents 5.15% of the outstanding common shares of Davenport valued at \$374,974 (2020 - \$365,765).
- 5) Fidelity Minerals Corp - listed on the TSXV (FMN). The Company owns 17,989,811 (2020 – 9,049,229) which represents 36.63% of the outstanding common shares of Fidelity valued at \$1,907,835 (2020 - \$271,477). FMN is considered a related party by virtue of a common officer and director.
- 6) Eurotin Inc. - listed on the TSXV (TIN). The Company owns 13,333,334 (2020 – 13,333,334) which represents 12.49% of the outstanding common shares of Eurotin valued at \$200,001 (2020 - \$200,001).

LIONS BAY CAPITAL INC.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED AUGUST 31, 2020 (in Canadian dollars)***(Unaudited – Prepared by Management)***7. Borrowings - current**

	May 31, 2020	Draw	Interest	Repayments	FX	August 31, 2020
Borrowings – secured (i)	\$ 289,091	\$ -	\$ 19,994	\$ (6,673)	\$ -	\$ 302,411
Borrowings – unsecured (ii)	147,816	-	2,235	-	-	150,051
Borrowings – related party (iii)	63,151	336,196	1,437	-	8,957	409,742
Total	\$ 500,058	\$ 336,196	\$ 23,666	\$ (6,673)	\$ 8,957	\$ 862,204

- (i) On July 1, 2019, the Company borrowed an additional USD \$200,000 at an interest rate of 12% per annum. USD \$36,383 was used to repay the previous loan outstanding and USD \$21,500 was paid in transaction costs. The loan had a repayment schedule of USD \$100,000 on November 30, 2019 and December 31, 2019. The loan is secured by a guarantee from the Company's wholly owned subsidiary, Pan Andean and a pledge by Pan Andean of certain of the investments held by Pan Andean. On December 12, 2019, the Company entered into an agreement to extend the maturity date of the facility where USD \$11,046 was paid upon execution and monthly interest of USD \$5,000 would be paid monthly January to June in addition to principal payments of USD \$100,000 to be paid on May 31, 2020 and June 30, 2020. There was no gain or loss realized upon modification of the borrowing. In addition, 2,358,000 warrants were issued at an exercise price of \$0.05 expiring July 9, 2020. The fair value of \$38,497 was recorded as borrowing costs (note 10). On June 16, 2020, the loan was further extended with principal repayments of USD \$100,000 now due on November 30, 2020 and December 31, 2020.
- (ii) Interest payable at 8% per annum (2019 - 8%) and is due on demand.
- (iii) Interest payable at 10% per annum and is due on demand.

8. Share Capital

- a) Authorized:
Unlimited number of common shares, without par value.
Unlimited number of preferred shares, without par value.

The Company is authorized to issue unlimited number of preferred shares without par value. No preferred shares have been issued since the Company's inception.

LIONS BAY CAPITAL INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED AUGUST 31, 2020 *(in Canadian dollars)*

(Unaudited – Prepared by Management)

b) Escrow shares:

(i) At August 31, 2020, 9,337,132 (May 31, 2019 - 27,988,907) common shares were held in escrow by the Company's transfer agent to be released in accordance with the escrow agreements entered into by the shareholders. In addition of the 500,000 common shares held in escrow prior to the closing of the Qualifying Transaction, 10% (50,000) were released at the closing of the QT on 14 November 2017 and the balance will be released on the same terms as the Pan Andean purchase shares. Under the escrow agreements, 10% of the common shares issued to purchase Pan Andean were released on 14 November 2017 with an additional 15% to be released on each of the dates which are 6 months, 12 months, 18 months, 24 months, 30 months and 36 months following the initial release.

9. Stock Options and Warrants

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 common shares issued and outstanding. Options may be granted for a maximum term of ten years from the date of the grant, are non-transferable and expire within 90 days of termination of employment or holding office as director or officer of the Company and, in the case of death, expire within one year thereafter. Upon death, the options may be exercised by legal representation or designated beneficiaries of the holder of the option. Unless otherwise stated, the options fully vest when granted.

On July 9, 2019, the Company issued 2,358,000 warrants pursuant to the loan amendment. The fair value of \$38,497 was recorded as borrowing costs during the year (note 7).

The fair value of the warrants is calculated using the Black-Scholes Option Pricing Model. Option pricing models require the input of highly speculative assumptions, including the expected future price volatility of a Company's shares. Changes in these assumptions can materially affect the fair value estimate and, therefore, existing models do not necessarily provide a reliable single measure of the fair value of the Company's warrants.

	May 31,
	2020
Expected warrant life	1 year
Expected stock price volatility	150%
Dividend payment during life of warrant	Nil
Expected forfeiture rate	Nil
Risk free interest rate	1.41%
Weighted average strike price	\$ 0.05
Weighted average fair value per warrant	\$ 0.016
Weighted average share price	\$ 0.035

LIONS BAY CAPITAL INC.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED AUGUST 31, 2020 (in Canadian dollars)***(Unaudited – Prepared by Management)*

A summary of the status of stock and warrant option activity under Company's Stock Option Plan and changes to outstanding and exercisable stock and warrant options during the year is presented below:

	August 31, 2020		May 31, 2020	
	Number of options	Exercise price \$	Number of options	Exercise price \$
Options outstanding beginning of the year	5,015,000	0.06	5,015,000	0.06
Options granted	-	-	-	-
Options cancelled	-	-	-	-
Options outstanding	<u>5,015,000</u>	<u>0.06</u>	<u>5,015,000</u>	<u>0.06</u>
	Number of warrants	Exercise price \$	Number of warrants	Exercise price \$
Warrants outstanding, beginning of the year	2,358,000	0.05	10,000,000	0.05
Warrants granted	-	-	2,358,000	0.05
Warrants expired	(2,358,000)	0.05	(10,000,000)	0.05
Warrants outstanding	<u>-</u>	<u>-</u>	<u>2,358,000</u>	<u>0.05</u>

The following table summarizes stock options and warrants currently outstanding and exercisable:

Number of options and warrants outstanding	Exercise Price \$	Number of options and warrants exercisable	Weighted average remaining life (years)	Expiry date
Options - 150,000	0.20	150,000	0.48	Nov 23, 2020
Options - 4,865,000	0.06	4,865,000	3.73	Feb 20, 2024

10. Capital Management

The Company's objectives in managing capital are to maintain a capital structure that allows the Company to meet its growth objectives and build long-term shareholder value, while satisfying its financial obligations and meeting its working capital needs.

LIONS BAY CAPITAL INC.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED AUGUST 31, 2020 (in Canadian dollars)***(Unaudited – Prepared by Management)*

The Company's capital consists of shareholder's equity. The Company's management is responsible for the management of capital. The Company's Board of Directors is responsible for reviewing and approving the Company's capital policy and management.

The Company continued to prudently manage its liquidity and capital and, where desirable deleverage its statement of financial position.

The Company does not have any externally imposed capital requirements.

11. Fair value measurement

The following tables summarize the valuation of the Company's financial assets and liabilities reported at fair value by the fair value hierarchy levels:

As at August 31, 2020	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Investments	5,260,259	-	-	5,260,259
Derivative financial instrument	-	-	862,250	862,250
	5,260,259	-	862,250	6,122,509

As at May 31 2020	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Investments	3,449,504	-	-	3,449,504
Derivative financial instrument	-	-	34,631	34,631
	3,449,504	-	34,631	3,484,135

Transfers between levels of the fair value hierarchy are deemed to have occurred at the date of the event or change in circumstance that caused the transfer. There were no transfers between the various levels of the fair value hierarchy for the period ended August 31, 2020.

Risk Associated with Financial Instruments

The Company's business activities expose to a variety of financial risks: market risk (which includes interest rate risk, currency risk, and price risk), credit risk and liquidity risk. The following is a description of these risks and how they are managed.

LIONS BAY CAPITAL INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED AUGUST 31, 2020 (in Canadian dollars)

(Unaudited – Prepared by Management)

Market risk

Market risk is defined for these purposes as the risk that the fair value or future cash flows of a financial instrument held by the Company will fluctuate because of changes in market prices. Market risk includes the risk of changes in the interest rates, currency exchange rates and changes in market prices due to factors other than interest rates or currency exchange rates, such changes in equity prices, commodity prices or credit spreads.

Interest rate risk

The observable impacts on the fair values and future cash flows of financial instruments that can be directly attributable to interest rate risk include change in net income from financial instruments whose cash flows are determined with reference to floating interest rates and changes in value of financial instruments whose cash flows are fixed in nature.

As at August 31, 2020, if interest rates were higher by 1% per annum, there would be no impact as all the debt is at a fixed rate.

Currency risk

Changes in currency rates will impact the carrying value of instruments denominated in currencies other than the Canadian dollar. As at August 31, 2020, the Company is primarily exposed to foreign exchange risk through Australian dollar denominated investments of \$3,167,708 (2020: \$2,978,027), which represent approximately 50.7% (2020: 79.7%) of total assets. The Company does not currently hedge its foreign currency exposure. If the Canadian dollar strengthened or weakened by 5% in relation to the foreign currencies, the investments would decrease or increase in value by approximately \$158,385 respectively (2020: \$148,910).

Price risk

Price risk is the risk of variability in fair value due to movements in equity or market prices. The Company's investments are susceptible to price risk arising from uncertainties about their future values. If the fair value for these financial assets were to increase or decrease by 10%, the Company would incur an associated increase or decrease in net gain of approximately \$526,026 (2020: \$344,950).

The fair value of the Company's investments are determined as follows:

Listed securities

The fair value of securities traded on active markets are based on quoted market prices at the close of trading on the reporting date. The Company uses the last traded market price where the last trade price falls within the bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, the Company determines the point within the bid-ask spread that is most representative of fair value based on the specific facts and

LIONS BAY CAPITAL INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED AUGUST 31, 2020 *(in Canadian dollars)*

(Unaudited – Prepared by Management)

circumstances. The fair value of securities that are subject to trading restrictions are recorded at a value that takes into account the length and nature of the restrictions.

Unlisted securities

For investments that are not publicly traded, subsequent to initial recognition, the fair value of these investments is determined by the Company using the most appropriate valuation methodology in light of the nature, facts and circumstances of the investment and its materiality in the context of the total investment portfolio.

For unlisted equity instruments:

- Investments are valued at cost for a limited period after the date of acquisition, if the purchase price remains representative of the fair value at the reporting date; otherwise, investments are valued using one of the other methodologies detailed below.
- Investments in which there has been recent or in-progress funding round involving significant financing from external investors are valued at the price of the recent funding, whereby the various shareholder categories rights are taken into account in the valuation. The price is adjusted, where appropriate, if an external investor is motivated by strategic considerations.
- Investments in which there has been a recent financing round involving only existing investor participating proportionally to their existing investment are examined as to whether specific conditions exist that could reduce the reliability of this financing round as an indication of real value. An internal financing with investors at a lower price than the valuation at the previous reporting date may indicated a decrease in value and is taken into consideration.
- Investments that have achieved an exit after the valuation date but before finalization of the financial statements are valued based on the exit valuation, if the exit valuation was reasonably evident at the measurement date.
- Investment in which there has been a recent private secondary market trade of meaningful volume and the transaction is undertaken by sophisticated, arm's length investor are valued at the price of the recent trade and are adjusted, as appropriated, if the purchaser is motivated by strategic considerations.
- Investments in early-stage companies not generating sustainable revenue or earnings and for which there has not been any recent independent funding are valued using alternative methodologies. The Company considers investee company performance relative to plan, going concern risk, continued funding availability, comparable peer group valuations, exit market conditions and general sector conditions and calibrates its valuation of each investment as appropriate.

LIONS BAY CAPITAL INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED AUGUST 31, 2020 (in Canadian dollars)

(Unaudited – Prepared by Management)

- For public company warrants (i.e., the underlying security of which is traded on a recognized stock exchange), valuation models such as the Black-Scholes model are used when there are sufficient and reliable observable market inputs. These market inputs include risk-free interest rate, exercise price, market price at date of valuation, expected dividend yield, expected life of the instrument and expected volatility of the underlying security. To the extent that the market inputs are insufficient or unreliable, the warrants are valued at their intrinsic value, which is equal to the higher of the closing price of the underlying security less the exercise price of the warrant, or nil. For private company warrants, the underlying security is not traded on a recognized stock exchange, therefore fair value is determined consistent with other investments that do not have an active market, as described above.

Fair values for unlisted debt instruments are determined as follows:

- Loans, debentures and promissory notes issued by investees are generally valued at the price at which the instrument was issued. The Company regularly considers whether any indications of deterioration in the value of the underlying business exist, which suggest that the debt instrument will not be fully recovered. The Company may employ discounted cash flow analysis, market comparable analysis, market comparable analysis of listed debt instruments with similar credit quality or liquidation value analysis to determine the fair value of the debt instrument.

The Company may apply a further illiquidity discount to the fair value of an investment if conditions exist that could make it challenging to monetize the investment in the near term at a price indicated by the valuation models. The amount of illiquidity discount applied requires considerable judgment and is based on the facts and circumstances of each investment. As at March 31, 2020 and 2019, the Company does not have any investments in unlisted securities.

12. Related party transactions

The key management personnel of the Company are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, including Directors and management.

On November 1, 2019, Anthony Balic was appointed as the new CFO of the Company. A company controlled by him charged \$15,000 for the period ended August 31, 2020 (2020 - \$nil). As at August 31, 2020, the amount owed was \$47,250 (May 31, 2020 - \$nil).

During the period ended August 31, 2020, the Company was charged directors fees of \$6,000 (2020 - \$6,000) by Ross MacLachlan. As at August 31, 2020, the Company had \$67,517 (2020 - \$61,517) payable to Ross.

During the period ended August 31, 2020, the Company was charged directors fees of \$nil (2020 - \$nil) by Bahay Ozcakmak. As at August 31, 2020, the Company had \$30,037 (2020 - \$30,037) payable to Bahay.

LIONS BAY CAPITAL INC.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED AUGUST 31, 2020 (in Canadian dollars)***(Unaudited – Prepared by Management)*

During the period ended August 31, 2020, the Company charged management fees to Fidelity Minerals Corp. of \$9,500 (2020 - \$18,000). Fidelity Minerals Corp. is a related party by virtue of a common executive and director.

During the period ended August 31, 2020, Twenty-Second Yeneb Pty Limited, a company controlled by John Byrne, President and CEO of the Company charged the Company for the provision of services of John Byrne. During the year ended August 31, 2020, total fee charged was \$42,000 (2020 - \$42,000).

Total amount accrued for Twenty-Second Yeneb Pty Limited as at May 31, 2020, which included fees and business expenses was \$639,365 (May 31, 2020 - \$588,922).

Twenty-Second Yeneb Pty Limited, a company controlled by John Byrne has a loan to the Company. Interest payable at 10% per annum. As at August 31, 2020, total loan and interest outstanding is \$409,742 (May 31, 2020 - \$63,152).

13. Supplemental cash flow information

	<u>August 31, 2020</u>	<u>August 31, 2019</u>
Shares received on settlement of other receivables (note 6)	\$ 150,935	\$ -
Cash paid for interest	23,666	-
Cash paid for taxes	-	-