

LIONS BAY CAPITAL INC.

**CONSOLIDATED
FINANCIAL STATEMENTS**

For the Years Ended May 31, 2022 and 2021

(In Canadian Dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Lions Bay Capital Inc.

Opinion

We have audited the accompanying consolidated financial statements of Lions Bay Capital Inc. (the "Company"), which comprise the consolidated statements of financial position as at May 31, 2022 and 2021, and the consolidated statements of operations and comprehensive income (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, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at May 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit 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 audit 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 in our audit is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the consolidated financial statements, which states that the Company's ability to continue as a going concern is dependent upon the Company's ability to generate proceeds from its investments or obtaining investor financing to meet its on-going levels of corporate overhead and investment objectives. These material uncertainties may cast significant doubt about the Company's ability to continue as a going concern.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes 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 audit 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 audit, 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, 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 IFRS, 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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 Stephen Hawkshaw.

A handwritten signature in black ink that reads "Davidson & Company LLP". The signature is written in a cursive, flowing style.

Vancouver, Canada

Chartered Professional Accountants

September 28, 2022

LIONS BAY CAPITAL INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(in Canadian dollars)

	Notes	May 31, 2022	May 31, 2021
ASSETS			
Current			
Cash		\$ 553,730	\$ 182,329
Prepays and other receivables	4	28,257	51,485
Investments	6	10,924,068	11,456,240
Derivative financial instrument	5	631,594	1,186,148
Debt investment	7	1,074,359	-
		13,212,008	12,876,202
Exploration investment	8	479,989	-
TOTAL ASSETS		\$ 13,691,997	\$ 12,876,202
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Trade and other payables		\$ 155,043	\$ 73,750
Borrowings	9	529,024	514,195
Taxes payable	15	277,848	128,829
		961,915	716,774
Deferred tax liability	15	1,068,000	1,145,995
TOTAL LIABILITIES		2,029,915	1,862,769
Shareholders' Equity			
Share capital	10	7,565,874	7,142,504
Share based payment reserves	11	569,704	472,557
Warrant reserves	11	913,374	660,894
Foreign currency translation reserves		(16,911)	9,601
Retained earnings		2,630,041	2,727,877
Total shareholders' equity		11,662,082	11,013,433
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$ 13,691,997	\$ 12,876,202

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.

LIIONS BAY CAPITAL INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(LOSS)
(in Canadian dollars)

	Year ended	
	May 31, 2022	May 31, 2021
NET REALIZED AND UNREALIZED GAIN/(LOSS)		
Net realized gain on disposal of marketable securities (note 6)	\$ 3,517,602	\$ 1,023,917
Net change in unrealized gain (loss) on marketable securities (note 6)	(1,701,286)	6,746,873
Fair value gain (loss) on derivative financial instrument (note 5)	(507,269)	474,770
	1,309,047	8,245,560
EXPENSES		
Professional fees (note 14)	(411,597)	(383,997)
Interest and other income (notes 7)	101,277	13,401
Director's fees (note 14)	(264,581)	(181,347)
Financing costs – interest (note 9)	(118,110)	(84,602)
Financing costs – transaction cost accretion (note 9)	(249,848)	(19,293)
Foreign exchange (loss) gain	(136,302)	14,230
General and administration	(136,276)	(70,850)
Loss on shares for debt settlement and settlement of accounts payable (notes 10,14)	-	(151,661)
Share-based payments (note 11)	(97,147)	-
TOTAL EXPENSES	(1,312,584)	(864,119)
INCOME (LOSS) BEFORE TAX	(3,537)	7,381,441
INCOME TAX EXPENSE (note 15)	(94,299)	(1,247,415)
NET (LOSS) INCOME AFTER TAX	(97,836)	6,134,026
OTHER COMPREHENSIVE INCOME (LOSS)	(26,512)	12,231
COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	\$ (124,348)	\$ 6,146,257
Earnings (loss) per share - basic and diluted	\$ (0.00)	\$ 0.05
Weighted average number of shares outstanding – basic and diluted*	140,058,777	116,242,403

*Potentially dilutive securities excluded in the diluted earnings per share calculation for the year ended May 31, 2021 were 21,358,054 warrants that were anti-dilutive.

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

LIONS BAY CAPITAL INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(in Canadian dollars, except share number)

	Issued Common Shares		Foreign currency translation reserves	Share based payment reserves	Warrant reserves	Retained earnings	Total Equity
	Number	Share capital					
		\$	\$	\$	\$	\$	\$
BALANCE, MAY 31, 2021	135,056,963	7,142,504	9,601	472,557	660,894	2,727,877	11,013,433
Private placement	7,048,889	423,508	-	-	140,403	-	563,911
Share issuance costs	-	(138)	-	-	-	-	(138)
Cumulative translation adjustment	-	-	(26,512)	-	-	-	(26,512)
Share-based payments	-	-	-	97,147	-	-	97,147
Warrants issued – transaction costs	-	-	-	-	112,077	-	112,077
Net loss for the year	-	-	-	-	-	(97,836)	(97,836)
BALANCE, MAY 31, 2022	142,105,852	7,565,874	(16,911)	569,704	913,374	2,630,041	11,662,082

	Issued Common Shares		Foreign currency translation reserves	Share based payment reserves	Warrant reserves	Retained earnings (deficit)	Total Equity
	Number	Share capital					
		\$	\$	\$	\$	\$	\$
BALANCE, MAY 31, 2020	97,304,473	5,216,492	(2,630)	472,557	38,497	(3,406,149)	2,318,767
Shares for debt	18,955,347	1,137,371	-	-	-	-	1,137,371
Private placement	18,797,143	811,300	-	-	504,500	-	1,315,800
Share issuance costs	-	(22,659)	-	-	-	-	(22,659)
Cumulative translation adjustment	-	-	12,231	-	-	-	12,231
Warrants issued – transaction costs	-	-	-	-	117,897	-	117,897
Net income for the year	-	-	-	-	-	6,134,026	6,134,026
BALANCE, MAY 31, 2021	135,056,963	7,142,504	9,601	472,557	660,894	2,727,877	11,013,433

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

LIONS BAY CAPITAL INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in Canadian dollars)

	Year Ended	
	May 31, 2022	May 31, 2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss) for the year	\$ (97,836)	\$ 6,134,026
Items not affecting cash:		
Net realized gain on disposal of marketable securities	(3,517,602)	(1,023,917)
Net change in unrealized (gain) loss on investment	1,701,286	(6,746,873)
Fair value gain (loss) on derivative financial instrument	507,269	(474,770)
Loss on shares for debt settlement and settlement of accounts payable	-	151,661
Deferred tax expense (gain)	(77,388)	1,166,983
Financing cost	109,912	83,721
Foreign exchange	98,193	8,385
Accretion	249,756	19,293
Income tax expense	171,687	80,432
Share-based compensation expense	97,147	-
Interest Income	(101,277)	-
	(858,853)	(601,059)
Changes in Non-Cash Working Capital Items:		
Receivables	(28,197)	44,512
Trade and other payables	79,647	(156,774)
Proceeds from disposal of investment	4,616,398	1,864,301
Purchase of investments	(2,320,002)	(2,698,803)
Debt investment	(968,986)	-
Exploration investment	(479,989)	-
Net Cash Provided by (Used in) Operating Activities	40,018	(1,547,823)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	438,223	1,060,673
Repayment of borrowings	(662,238)	(574,110)
Transaction costs on borrowings	(45,080)	(58,150)
Receipts on loans receivable	-	-
Proceeds received from private placement, net of issuance costs	563,773	1,293,141
Net Cash Provided by Financing Activities	294,678	1,721,554
Effect of foreign exchange on cash	36,705	1,928
Change in Cash, During the Year	371,401	175,659
Cash, Beginning of Year	182,329	6,670
Cash, End of Year	\$ 553,730	\$ 182,329

Supplemental cash flow information (note 16)

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

LIONS BAY CAPITAL INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED MAY 31, 2022 and 2021 (in Canadian dollars)

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 May 31, 2022, the Company had working capital of \$12,250,093 which includes investments with a fair market value of \$10,924,068 and cash of \$553,730.

The Company’s ability to continue as a going concern is dependent upon the Company’s ability to generate proceeds 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

2. Basis of Presentation

Reporting and basis of measurement

These audited financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

These financial statements were authorized for issuance by the Board of Directors of Lions Bay Capital Inc. on September 28, 2022. The following are the significant accounting policies used in the preparation of these financial statements.

Certain comparative figures have been updated to agree with current year presentation.

LIONS BAY CAPITAL INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED
MAY 31, 2022 and 2021 *(in Canadian dollars)*

Foreign currency translation

(i) Functional currency

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements of Lions Bay Capital Inc. are measured in Canadian Dollars (CAD) which is that entity's functional currency. The functional currency of Pan Andean Capital Pty Ltd., the Company's wholly owned subsidiary, and Epic Minerals Pty Ltd., the Company's 80% owned subsidiary which was incorporated on November 18, 2021, is the Australian dollar (AUD).

(ii) Presentation currency

The consolidated financial statements are presented in Canadian Dollars (CAD), which is the Company's presentation currency.

(iii) Translation and balances

Transactions in foreign currencies are converted to the functional currency at the exchange rate at the date of the transaction. Amounts payable to and by the parent and subsidiaries outstanding at year end and denominated in foreign currencies have been converted to local currency using rates prevailing at the end of the financial year. All exchange differences are taken to profit or loss.

(iv) Group companies

The results of foreign subsidiaries and the parent entity are translated to CAD at the exchange rate at the date of the transaction. Assets and liabilities of foreign subsidiaries are translated to CAD at exchange rates prevailing at year end. All resulting exchange differences are recognised in other comprehensive income and in the foreign currency translation reserve in equity.

(v) Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences on translation of foreign controlled subsidiaries. Amounts are reclassified to profit or loss when the investment is disposed of.

Principals of consolidation

The consolidated financial statements incorporate all of the assets, liabilities and results of the parent company, Lions Bay Capital Inc., Pan Andean Capital Pty Limited ("Pan Andean") and Epic Minerals Pty Ltd. ("Epic Minerals"). Subsidiaries are entities the parent controls. The parent controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The assets, liabilities and results of all subsidiaries are fully consolidated into the financial statements of Lions Bay Capital, Pan Andean and Epic Minerals ("the Group") from the date on which control is obtained by the Group. The consolidation of a subsidiary is discontinued from the date that control ceases. Intercompany transactions, balances and unrealized gains or losses on transactions between group entities are fully eliminated on consolidation.

LIONS BAY CAPITAL INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED MAY 31, 2022 and 2021 (in Canadian dollars)

Accounting policies of subsidiaries have been changed and adjustments made where necessary to ensure uniformity of the accounting policies adopted by the Group. Equity interests in a subsidiary not attributable, directly or indirectly, to the Group are presented as “non-controlling interests”.

The Group initially recognise non-controlling interests (“NCI”) that are present ownership interests in subsidiaries and are entitled to a proportionate share of the subsidiary’s net assets on liquidation at either fair value or at the non-controlling interests’ proportionate share of the subsidiary’s net assets. Subsequent to initial recognition, non-controlling interests are attributed their share of profit or loss each component of other comprehensive income. As there was no activity in Epic Minerals there is no NCI recorded during the year ended May 31, 2022.

Non-controlling interests are shown separately within the equity section of the Statement of Financial Position and Statement of Operations and Comprehensive Income (Loss).

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:

(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; and
 - 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.

LIONS BAY CAPITAL INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED MAY 31, 2022 and 2021 (in Canadian dollars)

- 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. 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 income (loss) (note 13).

(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.

(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.

LIONS BAY CAPITAL INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED MAY 31, 2022 and 2021 (in Canadian dollars)

Financial instruments

Investments and other financial assets

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. Such assets are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on both the business model within which such assets are held and the contractual cash flow characteristics of the financial asset unless, an accounting mismatch is being avoided.

Financial assets at fair value through profit or loss

Financial assets not measured at amortised cost or at fair value through other comprehensive income are classified as financial assets at fair value through profit or loss. Typically, such financial assets will be either: (i) held for trading, where they are acquired for the purpose of selling in the short-term with an intention of making a profit, or a derivative; or (ii) designated as such upon initial recognition where permitted. Fair value movements are recognised in profit or loss.

Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income include equity investments which the consolidated entity intends to hold for the foreseeable future and has irrevocably elected to classify them as such upon initial recognition.

Non-derivative financial liabilities

Financial liabilities, other than derivatives, are initially recognized at fair value less directly attributable transaction costs. Subsequently, financial liabilities are measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and allocating the interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. The Company's accounts payable and accrued liabilities and loan payable are measured at amortized cost.

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon recognition as FVTPL. Fair value changes on these liabilities are recognized in profit or loss.

Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date.

LIONS BAY CAPITAL INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED MAY 31, 2022 and 2021 (in Canadian dollars)

The classification determines the method by which the financial instruments are carried on the statement of financial position subsequent to inception and how changes in value are recorded. Cash, other receivables, trade and other payables, borrowings, and taxes payable are measured at amortized cost with subsequent impairments recognized in profit or loss. Investments, debt investments and derivative financial instruments are classified as FVTPL.

Impairment of financial assets

The Company recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost or fair value through other comprehensive income. The measurement of the loss allowance depends upon the Company's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

For financial assets measured at fair value through other comprehensive income, the loss allowance is recognised within other comprehensive income. In all other cases, the loss allowance is recognised in profit or loss.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the de-recognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the group's right to receive payments is established.

Changes in the fair value of financial assets at fair value through profit or loss are recognised in other gain/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at fair value through other comprehensive income (FVOCI) are not reported separately from other changes in fair value.

LIONS BAY CAPITAL INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED MAY 31, 2022 and 2021 *(in Canadian dollars)*

Impairment

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition receivables.

Fair value measurement

The fair value measurements underlying the carrying value of the investments are classified within a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The level in the hierarchy within which the 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. The fair value hierarchy has the following levels:

- (i) Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities. The type of investment and marketable securities include in this category are publicly traded equities, debts and securities sold short;
- (ii) Level 2 Inputs other than quoted prices included within Level 1 that are observable for the assets, either directly or indirectly. The type of investments included in this category include less liquid and restricted equity securities and certain over-the-counter derivatives; and
- (iii) Level 3 Inputs for the assets or liability that are not based on observable market data. Investments classified within this category consist of private equity and debts securities.

See Note 13, Fair value measurement, for additional disclosure of the Company's investments by the level in the fair value hierarchy into which the fair value measurement is categorized and the Company's valuation techniques that involve unobservable inputs.

Impairment of non-financial assets

The carrying values of non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets that suffer impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

LIONS BAY CAPITAL INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED MAY 31, 2022 and 2021 (in Canadian dollars)

Impairment exists when the carrying value of an asset exceeds its estimated recoverable amount. The asset is then written down to its recoverable amount.

Investments and other financial assets

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. They are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on the purpose of the acquisition and subsequent reclassification to other categories is restricted.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the consolidated entity has transferred substantially all the risks and rewards of ownership.

Revenue recognition

Realized gain or loss on disposal of investments and unrealized gain or loss on investments are determined based on year end value. Interest income is recorded on an accrual basis. Divided income is recognized on the ex-dividend date.

Earnings (loss) per share

Basic earnings (loss) per share is calculated by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is calculated using the weighted average number of shares that would have been outstanding during the period had all potential common shares been issued at the beginning of the period, or when other potential dilutive instruments were granted or issued, if later.

Income tax

Income tax expense is composed of current and deferred tax. Income tax expenses recognized in the Statements of Operations and Comprehensive Income (loss) except to the extent that it relates to items recognized directly in equity or other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax liabilities are generally recognized for all temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences, and the carry forward of non-capital losses, can be utilized.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the tax laws that have been enacted or substantively enacted by the

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reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same taxation authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future profit will allow the deferred tax asset to be recovered and/or the carrying value of temporary differences to exceed their tax basis. Refer to Note 15 for specific disclosure on income taxes.

Exploration investment

Once the legal right to explore has been acquired, exploration and evaluation expenditures are capitalized on a property by property basis until such time as the lease expires, the mineral properties abandoned, sold or considered impaired in value or is transferred to mines under construction as development cost. Indirect administrative costs are expensed as incurred. Exploration and evaluation properties are not amortized during the exploration and evaluation stage.

4. Prepays and Other Receivables

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

	May 31 2022	May 31 2021
	\$	\$
Prepaid expenses (Note 6)	6,241	51,425
Other receivables	22,016	60
	<u>28,257</u>	<u>51,485</u>

5. Derivative Financial Instrument

The table below provides a summary of the Company's derivatives, consisting of warrants of Fidelity Minerals Corp., Partly Paid Parkway Corporate Limited and Arctic Star Exploration Corp.

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Parkway Corporate Warrants

Issuance/Purchase Date	Exercise Price \$	Number of warrants exercisable	Expiry date
July 28, 2019	0.019	54,534,252	July 28, 2024

During the year ended May 31, 2022, the Partly Paid Parkway Corporate Limited options were no longer quoted and therefore have become a derivative asset and \$199,979 has been reclassified to derivative assets.

	May 31, 2022	May 31, 2021
Expected warrant life	2.16 years	-
Expected stock price volatility	146%	-
Dividend payment during life of warrant	Nil	-
Risk free interest rate	2.60%	-
Weighted average strike price	\$ 0.019	\$ -
Weighted average fair value per warrant	\$ 0.007	\$ -
Weighted average share price	\$ 0.011	\$ -

FMN Warrants

Issuance/Purchase Date	Exercise Price \$	Number of warrants exercisable	Expiry date
August 10, 2020	0.07	5,015,583	August 10, 2022
April 16, 2021	0.15	1,056,000	April 16, 2023
April 16, 2022	0.11	3,500,000	October 12, 2022

	May 31, 2022	May 31, 2021
Expected warrant life	0.33 years	0.95 years
Expected stock price volatility	77%	141%
Dividend payment during life of warrant	Nil	Nil
Risk free interest rate	2.67%	0.19%
Weighted average strike price	\$ 0.09	\$ 0.04
Weighted average fair value per warrant	\$ 0.03	\$ 0.04
Weighted average share price	\$ 0.11	\$ 0.06

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Arctic Star Exploration Corp.

Issuance/Purchase Date	Exercise Price \$	Number of warrants exercisable	Expiry date
May 11, 2022	0.15	100,000	May 11, 2024
		May 31, 2022	May 31, 2021
Expected warrant life		2.0 years	-
Expected stock price volatility		163%	-
Dividend payment during life of warrant		Nil	-
Risk free interest rate		2.73%	-
Weighted average strike price	\$	0.15	\$ -
Weighted average fair value per warrant	\$	0.07	\$ -
Weighted average share price	\$	0.010	\$ -
		Number of warrants	Weighted average exercise price \$
			Derivative \$
Balance, May 31, 2020		2,246,000	0.10
FMN Warrants Expired		(446,000)	0.30
FMN Warrants acquired (note 6)		4,000,000	0.05
FMN Warrants acquired (note 6)		1,056,000	0.15
FMN Warrants acquired (note 6)		5,015,583	0.07
FMN Warrants acquired *		1,600,000	0.05
ELT Warrants acquired (note 6)		700,000	0.375
Change in fair value		-	-
Balance, May 31, 2021		14,171,583	0.03
ELT Warrants acquired (note 6)		200,000	0.375
Partly Paid Parkway Corporate Limited (note 6)		54,534,252	0.019
FMN Warrants exercised (note 6)		(7,400,000)	0.05
Arctic Star warrants acquired (Note 6)		100,000	0.15
FMN Warrants acquired (note 6)		3,500,000	0.11
ELT Warrants exercised (note 6)		(900,000)	0.375
Change in fair value		-	-
Balance, May 31, 2022		60,705,835	0.03

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* These warrants were purchased privately from an individual for a cash payment of \$80,000.

During the year ended May 31, 2022, the Company has a total loss on derivatives of \$507,269 (2021 – gain of \$474,770).

6. Investments

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

	May 31, 2021 Fair value	Acquired	Disposed	Gain/(Loss)	CTA	May 31, 2022 Fair Value
Kalina Power Ltd (i)	\$ 1,092,121	\$ 545,044	\$ -	\$ (514,551)	\$ (16,322)	\$ 1,106,292
Fidelity Minerals Corp(ii)	2,932,715	1,347,020	-	65,479	-	4,345,214
Eurotin Inc (v)	200,001	-	(850,467)	650,466	-	-
Elementos Ltd (iii)	3,808,551	552,047	(2,871,726)	1,367,094	(18,101)	2,837,865
Parkway Corporate Limited (iv)	2,096,407	-	(88,302)	(308,409)	(42,144)	1,657,552
Partly Paid Parkway Corporate Limited (iv)	199,979	-	(199,979)	-	-	-
South Harz Potash (viii)	900,003	-	(797,691)	639,964	-	742,276
Kalina Power Ltd. – warrants (i)	26,055	4,341	-	(15,283)	-	15,113
Meryllion Resources Corp. (vi)	86,250	-	(8,212)	(26,038)	-	52,000
First AU Lid - listed options (xi)	114,158	-	-	(55,272)	(1,464)	57,422
HRE Corporation (vii)	-	13,818	-	-	(365)	13,453
Arctic Star (ix)	-	8,942	-	15,058	-	24,000
Bishop Resources (x)	-	75,073	-	(2,192)	-	72,881
Total	\$ 11,456,240	\$2,546,285	\$ (4,816,377)	\$1,816,316	\$ (78,396)	\$ 10,924,068

The Company recorded an unrealized loss of \$1,701,286 on investments and recognized a realized gain of \$3,517,602 upon the disposal shares for proceeds of \$4,616,398.

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	May 31, 2020 Fair value	Acquired	Disposed	Gain/(Loss)	CTA	May 31, 2021 Fair Value
Kalina Power Ltd (i)	\$ 606,182	708,005	\$ (476,017)	\$ 255,568	\$ (1,617)	\$ 1,092,121
Fidelity Minerals Corp(ii)	271,477	771,243	-	1,889,995	-	2,932,715
Eurotin Inc	200,001	-	-	-	-	200,001
Elementos Ltd (iii)	430,218	344,750	-	3,040,822	(7,239)	3,808,551
Parkway Corporate Limited (iv)	1,426,782	144,081	(1,388,284)	1,926,661	(12,833)	2,096,407
Partly Paid Parkway Corporate Limited (iv)	149,079	-	-	52,205	(1,305)	199,979
South Harz Potash	365,765	-	-	534,238	-	900,003
Kalina Power Ltd. – warrants (i)	-	11,400	-	14,655	-	26,055
Meryllion Resources Corp. (v)	-	48,750	-	37,500	-	86,250
First AU Lid - listed options (vi)	-	95,730	-	19,146	(718)	114,158
Total	\$ 3,449,504	\$ 2,123,959	\$ (1,864,301)	\$ 7,770,790	\$ (23,712)	\$ 11,456,240

The Company recorded an unrealized gain of \$6,746,873 and recognized a realized gain of \$1,023,917 upon the disposal of shares for proceeds of \$1,864,301.

	Cost May 31 2022 \$	Fair Value May 31 2022 \$	Cost May 31 2021 \$	Fair Value May 31 2021 \$
Kalina Power Ltd (i)	1,716,904	1,106,292	1,171,860	1,092,121
Fidelity Minerals Corp (ii)	4,411,194	4,345,214	3,064,174	2,932,715
Eurotin Inc (v)	-	-	115,000	200,001
Elementos Ltd (iii)	1,050,928	2,837,865	1,282,783	3,808,551
Parkway Corporate Limited (iv)	531,551	1,657,552	551,075	2,096,407
Partly Paid Parkway Corporate Limited (iv)	-	-	42,963	199,979
South Harz Potash Ltd. (viii)	258,854	742,276	463,379	900,003
Kalina Power Ltd. – warrants (i)	15,741	15,113	11,400	26,055
Meryllion Resources Corp. (vi)	37,250	52,000	48,750	86,250
First AU Lid - listed options (xi)	95,730	57,422	95,730	114,158
HRE Corporation (vii)	13,818	13,453	-	-
Arctic Star (ix)	16,000	24,000	-	-
Bishop Resources (x)	75,073	72,881	-	-
Total	8,223,043	10,924,068	6,847,114	11,456,240

- (i) During the year ended May 31, 2022, the Company purchased from the public markets 15,177,733 shares at a cost of \$383,834. The Company participated in private placements

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for a total of \$161,210 for total shares of 6,481,482. The Company also purchased an additional 2,000,000 warrants at cost of \$4,341.

During the year ended May 31, 2021, the Company participated in a private placement for a total of \$47,460 for total shares of 2,000,000. The Company also bought from the public markets 14,200,000 shares at a cost of \$671,945. As part of the private placement the Company received 2,000,000 warrants fair valued at \$11,400 netted in the cost of the investment. These warrants are quoted and traded on an exchange. The Company also sold 10,000,000 shares for proceeds of \$476,017.

- (ii) During the year ended May 31, 2022, the Company purchased from the public markets 5,623,500 shares at a cost of \$523,519 and 420,000 shares at a cost of \$51,425 which was in prepaids as at May 31, 2021 (note 4). The Company converted 7,400,000 warrants for proceeds of \$388,000 and a reclass of \$105,300 from warrants. The Company also participated in a private placement for a total of \$350,000 for a total of 3,500,000 units. As part of the private placement the Company received 3,500,000 warrants fair valued at \$71,224 netted in the cost of the investment (note 6). The fair value of the warrants received were calculated using the Black-Scholes option pricing model with the following weighted average assumptions: 2.26% risk free interest rate, expected life of 0.5 years, 84% annualized volatility and 0% dividend rate.

During the year ended May 31, 2021, the Company participated in private placements for a total of \$532,935 for total shares of 10,071,583. The Company also bought from the public markets 5,326,000 shares at a cost of \$625,855. As part of the private placement the Company received 10,071,583 warrants fair valued at \$387,547 netted in the cost of the investment (note 6). The fair value of the warrants received were calculated using the Black-Scholes option pricing model with the following weighted average assumptions: 0.29% risk free interest rate, expected life of 1.8 years, 174% annualized volatility and 0% dividend rate.

- (iii) During the year ended May 31, 2022, the Company participated in private placements for a total of \$92,120 for total units of 400,000. As part of the private placement the Company received 200,000 warrants fair valued at \$45,530 netted in the cost of the investment (note 6). The fair value of the warrants received were calculated using the Black-Scholes option pricing model with the following weighted average assumptions: 0.02% risk free interest rate, expected life of 1 years, 160% annualized volatility and 0% dividend rate. The Company converted 900,000 warrants for proceeds of \$310,905 and a reclass of \$194,552 from warrants. The Company also sold 4,959,954 shares for proceeds of \$2,871,726.

During the year ended May 31, 2021, the Company participated in private placements for a total of \$338,138 for total shares of 35,000,000. The Company also bought from the public markets 15,000,000 shares at a cost of \$215,812. As part of the private placement the Company received 700,000 warrants fair valued at \$209,200 netted in the cost of the investment (note 6). The fair value of the warrants received were calculated using the

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Black-Scholes option pricing model with the following weighted average assumptions: 0.07% risk free interest rate, expected life of 1 years, 183% annualized volatility and 0% dividend rate.

- (iv) During the year ended May 31, 2022, the Company sold 8,000,000 common shares for proceeds of \$88,302. The Partly Paid Parkway Corporate Limited options were no longer quoted and therefore have become a derivative assets and \$199,979 has been reclassified to derivative assets.

During the year ended May 31, 2021, the Company purchased 10,000,000 shares of PWN from the public markets at a cost of \$144,081 and sold 58,094,414 shares for proceeds of \$1,388,284.

- (v) During the year ended May 31, 2022, the Company sold 106,904 common shares for proceeds of \$850,467.

During the year ended May 31, 2021, the Company participated in a private placement for a total of \$48,750 for total shares of 750,000.

- (vi) During the year ended May 31, 2022, the Company sold 100,000 common shares for proceeds of \$8,212.

- (vii) During the year ended May 31, 2022, the Company purchased 150,000 common shares of HRE Corporation which is a private company for proceeds of \$13,818.

- (viii) During the year ended May 31, 2022, the Company sold 4,479,978 common shares for proceeds of \$797,691.

- (ix) The Company also participated in a private placement for a total of \$16,000 for a total of 200,000 units. As part of the private placement the Company received 100,000 warrants fair valued at \$7,058 netted in the cost of the investment (note 6). The fair value of the warrants received were calculated using the Black-Scholes option pricing model with the following weighted average assumptions: 2.73% risk free interest rate, expected life of 2.0 years, 163% annualized volatility and 0% dividend rate.

- (x) The Company also participated in a private placement for a total of \$75,073 for a total of 500,000 shares.

- (xi) During the year ended May 31, 2021, the Company purchased listed options for a total of \$95,730 for total shares of 20,000,000.

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As at May 31, 2022 the Company's investments consisted of the following:

- 1) Parkway Corporate Limited - listed on the ASX (PWN). The Company owns 167,000,000 (May 31, 2021 – 175,000,000) which represents 7.55% (May 31, 2021 – 10.20%) of the outstanding common shares of Parkway Corporate Limited valued at \$1,657,552 (May 31, 2021 - \$2,096,407).
- 2) Kalina Power Ltd - listed on the ASX (KPO). The Company owns 51,118,115 (May 31, 2021 – 29,458,900) which represents 3.25% (May 31, 2021 – 3.60%) of the outstanding common shares of Kalina Power Ltd. valued at \$1,106,292 (May 31, 2021 - \$1,092,121). The Company also holds 4,000,000 Kalina Power Ltd. Warrants (May 31, 2021 – 2,000,000) exercisable at AUD \$0.044 expiring August 27, 2022 (these warrants expired unexercised subsequent to May 31, 2022), valued at \$15,113 (May 31, 2021 - \$26,055) using the free-trading market price of the warrants. Kalina is considered a related party by virtue of a common director.
- 3) Elementos Ltd. - listed on the ASX (ELT). The Company owns 4,456,549 (May 31, 2021 – 8,116,503) which represents 2.52% (May 31, 2021 – 5.26%) of the outstanding common shares of Elementos Ltd. valued at \$2,837,865 (May 31, 2021 - \$3,808,551).
- 4) South Harz Potash (formerly “Davenport Resources Ltd”) - listed on the ASX (SHP). The Company owns 5,670,022 (May 31, 2021 – 10,150,000) which represents 1.07% (May 31, 2021 – 2.40%) of the outstanding common shares of South Harz Potash Ltd. valued at \$742,276 (May 31, 2021 - \$900,003).
- 5) Fidelity Minerals Corp - listed on the TSXV (FMN). The Company owns 41,382,811 (May 31, 2021 – 24,446,812) which represents 48.79% (May 31, 2021 – 40.72%) of the outstanding common shares of FMN valued at \$4,345,214 (May 31, 2021 - \$2,932,715). FMN is considered a related party by virtue of a common officers and directors.
- 6) Eurotin Inc. - listed on the TSXV (TIN). The Company owns nil (May 31, 2021 – 13,333,334) which represents nil% (May 31, 2021 – 12.49%) of the outstanding common shares of Eurotin Inc. valued at \$nil (May 31, 2021 - \$200,001).
- 7) Meryllion Resources Corp. - listed on the CSE (MYR). The Company owns 650,000 (May 31, 2021 – 750,000) which represents 2.33% (May 31, 2021 – 3.6%) of the outstanding common shares of Meryllion Resources Corp. valued at \$52,000 (May 31, 2021 - \$86,250).
- 8) First AU Limited – The Company holds 20,000,000 (May 31, 2021 – 20,000,000) warrants of First AU Limited which are exercisable at AUD \$0.02 expiring July 1, 2023, valued at \$57,422 (May 31, 2021 - \$114,158) using the free-trading market price of the warrants.

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- 9) Arctic Star Exploration Corp. - listed on the TSX-V (ADD). The Company owns 200,000 (May 31, 2021 – nil) which represents 0.16% (May 31, 2021 – nil) of the outstanding common shares of Arctic Star valued at \$24,000 (May 31, 2021 - \$nil).
- 10) HRE Corporation – private company. The Company owns 150,000 (May 31, 2021 – nil) of the outstanding common shares of HRE Corporation valued at \$13,453 (May 31, 2021 - \$nil).
- 11) Bishop Resources – private company. The Company owns 500,000 (May 31, 2021 – nil) of the outstanding common shares of HRE Corporation valued at \$72,881 (May 31, 2021 - \$nil).

7. Debt Investment

On June 16, 2021, the Company entered into a loan and option agreement with Salamander Mining International Ltd. (“Salamander”).

Under the terms of the agreement the Company will:

- Loan Salamander up to USD \$1 million secured by a first charge over its assets;
- Receive interest of 15% on the outstanding balance.
- The loan will be repaid on a monthly basis from the free cash flow from the Joyce tailings project upon commencement of the project, with total term of the loan being 18 months;
- Receive a raising fee entitling the Company to 25% of the free cash flow of the Joyce tailings project in Zimbabwe;
- Be granted a 9-month option to acquire 100% of Salamander in return for the issuance of 100 million the Company’s common shares; (expired)
- Be mandated to secure a public listing of Salamander on an appropriate recognized international stock exchange (expired); and
- Receive a 12-month option to acquire 20% of Salamander for \$2 million (expired)

As at May 31, 2022, the Company has advanced \$973,082 (USD \$767,350) under the terms of the loan. During the year ended May 31, 2022, the Company has recorded interest income of \$101,277 (2020: \$nil). As at May 31, 2022, the Company used a market and calibration approach to fair value the debt investment. This market approach to valuation, where a prior (and the most recent) investment transaction is used to establish the value of the overall business enterprise, by calibrating to the original investment price. Under the assumption that the original transaction price was fair value at initial recognition, adjustments (if necessary) are applied to the valuation date based on quantitative and qualitative factors.

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8. Exploration Investment

Title to exploration and evaluation assets involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral properties. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties are in good standing.

Savic Exploration Investment

On August 23, 2021, the Company entered into an option agreement, which if exercised, enables the Company to enter into a joint venture (“JV”) on rare earth exploration licenses in Western Victoria, Australia which are held by Savic Pty Ltd. (“Savic”). Under the terms of the option agreement, the Company will pay an option fee of AUD \$200,000 (CAD \$183,000) (paid) to enable it to carry out a 4-month evaluation of the area. At the end of the option period the Company has the right to enter a JV agreement under which it can earn a 50% interest in the Savic areas by spending AUD \$5.0 million (CAD \$4.57 million) over 3 years. At the end of the 4-month period, Savic had the right to put 100% of the areas to the Company in return for 50 million common shares of the Company. This right can only be put if the Company’s share price has averaged more than \$0.25 for the previous five trading days. This right was initially valued at \$nil and has now expired.

During the year ended May 31, 2022, the Company has capitalized \$445,696 (May 31, 2021: \$nil) related to the exploration activities of the project.

Epic Minerals Exploration Investment

During the year ended May 31, 2022, the Company has capitalized \$34,293 (May 31, 2021: \$nil) related to the exploration activities of Epic Minerals which is engaged in the business of exploring for tin, gold, copper and other minerals in Queensland, Australia. During the year ended May 31, 2022, the Company entered into an option agreement to earn into a portfolio or claims in Queensland, Australia under the following terms:

- Pay AUD \$10,000 to optionor 14 days after signing the agreement,
- Spend AUD \$50,000 to earn a 10% interest in the project,
- Spend a further AUD \$250,000 to earn a 51% interest in the project,
- Spend a further AUD \$500,000 to earn a 90% interest in the project, and
- Upon earning a 90% interest, the optionor will retain a 10% free carried interest

Exploration investment	Savic	Epic Minerals	Total
Balance at May 31, 2021 and 2020	\$ -	\$ -	\$ -
Additions	445,696	34,293	479,989
Balance at May 31, 2022	\$ 445,696	\$ 34,293	\$ 479,989

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9. Borrowings

	May 31, 2021	Draw	Interest	Repayment	Trans Costs	Amort	FX	May 31, 2022
Riverfort 1 – secured (i)	\$ 454,778	-	68,225	(631,550)	-	156,754	4,107	52,314
Riverfort 2 – secured (i)	-	310,013	34,457	-	(116,559)	71,206	23,897	323,014
Riverfort 3 – secured (i)	-	128,210	3,774	-	(40,598)	21,796	9,334	122,516
Borrowings – related party (iii)	59,417	-	3,456	(30,688)	-	-	(1,005)	31,180
Total	\$ 514,195	\$ 438,223	\$ 109,912	\$ (662,238)	\$(157,157)	\$249,756	\$36,333	\$ 529,024
Classified as current								\$ 529,024

	May 31, 2020	Draw	Interest	Repayment	Trans Costs	Amort	FX	May 31, 2021
Borrowings – secured (i)	\$ 289,091	\$ -	\$ 59,065	\$ (320,685)	\$ -	\$ -	\$ (27,471)	\$ -
Borrowings 2 – secured (i)	-	624,910	8,354	-	(176,047)	19,293	(21,732)	454,778
Borrowings – unsecured (ii)	147,816	-	2,235	(150,051)	-	-	-	-
Borrowings – related party (iii)	63,151	435,763	14,067	(454,862)	-	-	1,298	59,417
Total	\$ 500,058	\$ 1,060,673	\$ 83,721	\$ (925,598)	\$(176,047)	\$19,293	\$(47,905)	\$514,195

- (i) On July 1, 2019, the Company borrowed USD \$200,000 at an interest rate of 12% per annum. The loan had a repayment schedule of USD \$100,000 on November 30, 2019 and December 31, 2019. The loan was 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

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warrants were issued at an exercise price of \$0.05 expiring July 9, 2020 pursuant to modifying the loan. The fair value of \$38,497 was recorded as borrowing costs. The fair value of the warrants issued was calculated using the Black-Scholes option pricing model with the following weighted average assumptions: 1.41% risk free interest rate, expected life of 1 years, 150% annualized volatility and 0% dividend rate. 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. During the year ended May 31, 2021, this loan was repaid.

Riverfort 1

On April 22, 2021, the Company drew down USD \$500,000 from the Riverfort facility. The advance has a 12-month term, bears interest at 12% per annum and was subject to an implementation fee of USD \$35,000 and incurred USD \$10,000 in other transaction costs for total transaction costs of \$58,150. The advance is secured by a guarantee from the Company and its wholly owned subsidiary, Pan Andean and a pledge by Pan Andean of certain of the investments held by Pan Andean. As part of the draw down, the Company issued 2,560,991 warrants exercisable at \$0.11 for a period of 12 months. The fair value of \$117,897 was recorded as a reduction of the loan and will be amortized over the term of the loan. The fair value of the warrants received were calculated using the Black-Scholes option pricing model with the following weighted average assumptions: 0.31% risk free interest rate, expected life of 1 years, 162% annualized volatility and 0% dividend rate. During the year ended May 31, 2022, the Company repaid \$631,550 (USD \$504,594) in principal and interest.

Riverfort 2

On June 30, 2021, the Company amended the secured loan facility ("Loan Facility") with Riverfort Global Capital Ltd. on behalf of Riverfort Global Opportunities PCC Ltd. (the "Lender"). The Loan Facility has amended the previously announced secured facility and amended on July 4, 2019 to increase the Loan Facility to USD \$2.0 million. Concurrent with the amendment the Company arranged for the advancement of USD \$250,000 for a total of USD \$750,000 advanced on the Loan Facility. As part of the new advance, the Company issued 1,438,686 warrants exercisable at \$0.095 for a period of 18 months to the Lender. The fair value of \$81,274 was recorded as a reduction of the loan and will be amortized over the term of the loan. The fair value of the warrants received were calculated using the Black-Scholes option pricing model with the following weighted average assumptions: 0.44% risk free interest rate, expected life of 1.5 years, 148% annualized volatility and 0% dividend rate.

The additional advance has an 18-month term, with 70% of the advance payable in 12 months with 5% of the advance payable monthly in each of the last 6 months. The additional advance bears interest at 12% per annum and is subject to an implementation fee of 7%.

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Riverfort 3

On August 20, 2021, the Company drew down an additional USD \$100,000 on the Riverfort facility and issued 592,939 warrants exercisable at \$0.095 for a period of 18 months to the Lender. The fair value of \$30,803 was recorded as a reduction of the loan and will be amortized over the term of the loan. The fair value of the warrants received were calculated using the Black-Scholes option pricing model with the following weighted average assumptions: 0.45% risk free interest rate, expected life of 1.5 years, 147% annualized volatility and 0% dividend rate.

The additional advance has an 18-month term, with 70% of the advance payable in 12 months with 5% of the advance payable monthly in each of the last 6 months. The additional advance bears interest at 12% per annum and is subject to an implementation fee of 7%.

- (ii) Interest payable at 8% per annum (2021 - 8%) and was due on demand. During the year ended May 31, 2021 the amount was settled in a shares for debt transaction (note 9 (c)).
- (iii) Interest payable at 10% per annum and is due on demand During the year ended May 31, 2021, a portion was settled in a shares for debt transaction (note 9 (c)).

10. 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.

- b) On September 14, 2021, the Company issued 7,048,889 units at \$0.08 per unit for gross proceeds of \$563,911. Each unit consists of one common share and one-half of a transferable share purchase warrant with each full warrant exercisable into an additional common share at \$0.10 per share for a period of 2 years. The fair value of the warrants issued was calculated as \$0.04 per warrant and was determined using the relative fair value method on the date of the issuance using the Black-Scholes option pricing model with the following weighted average assumptions: 0.40% risk free interest rate, expected life of 2.0 years, 146% annualized volatility and 0% dividend rate. The share purchase warrant's relative fair value of \$140,403 was allocated to the warrant and recorded in reserves. The Company incurred share issuance costs of \$138 related to the financing.
- c) On November 17, 2020, the Company closed a shares for debt transaction and issued 18,955,347 common shares at a fair value of \$1,137,371 to settle debt of \$947,767 recording a loss of \$189,604. Of this, 15,955,348 common shares were issued to settle \$797,767 of related party debt.

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- d) On December 22, 2020, the Company issued 18,797,143 units at \$0.07 per unit for gross proceeds of \$1,315,800. Each unit consists of one common share and one transferable share purchase warrant with each warrant exercisable into an additional common share at \$0.085 per share for a period of 18 months. The fair value of the warrants issued was calculated as \$0.03 per warrant and was determined using the relative fair value method on the date of the issuance using the Black-Scholes option pricing model with the following weighted average assumptions: 0.22% risk free interest rate, expected life of 1.5 years, 154% annualized volatility and 0% dividend rate. The value of the share was determined to be \$0.04. The share purchase warrant's relative fair value of \$504,500 was allocated to the warrant and recorded in reserves. The Company incurred share issuance costs of \$22,659 related to the financing.

11. 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.

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:

	May 31, 2022		May 31, 2021	
	Number of options	Exercise price \$	Number of options	Exercise price \$
Options outstanding beginning of the year	-	-	5,015,000	0.06
Options cancelled	-	-	(5,015,000)	0.06
Options issued	1,400,000	0.10	-	-
Options outstanding	1,400,000	0.10	-	-
	Number of warrants	Exercise price \$	Number of warrants	Exercise price \$
Warrants outstanding, beginning of the year	21,358,054	0.09	2,358,000	0.05
Warrants granted	5,556,070	0.10	21,358,054	0.09
Warrants expired	(2,560,911)	0.11	(2,358,000)	0.05
Warrants outstanding	24,353,213	0.09	21,358,054	0.09

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

Number of options/warrants outstanding	Exercise Price \$	Number of warrants exercisable	Weighted average remaining life (years)	Expiry date
18,797,143*	0.085	18,797,143	0.56	June 22, 2022
1,438,686	0.095	1,438,686	1.08	December 28, 2022
592,939	0.095	592,939	1.22	February 18, 2023
3,524,445	0.10	3,524,445	1.79	September 14, 2023
1,400,000	0.10	1,400,000	1.78	August 27, 2023

* These warrants expired unexercised subsequent to May 31, 2022.

12. 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.

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.

13. 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 May 31, 2022	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Investments	10,837,734	86,334	-	10,924,068
Derivative financial instrument (note 5)	-	-	631,594	631,594
Debt investment (note 7)	-	-	1,074,359	1,074,359
	10,837,734	86,334	1,705,953	12,630,021

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As at May 31, 2021	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Investments	11,456,240	-	-	11,456,240
Derivative financial instrument (note 5)	-	-	1,186,148	1,186,148
	11,456,240	-	1,186,148	12,642,388

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. During the year ended May 31, 2022, the Partly Paid Parkway Corporate Limited warrants ceased to be traded on a quoted market and the warrants moved from investments fair valued at level 1 to derivative financial instruments fair valued at level 3. For the year ended May 31, 2021 there were no transfers between the various levels of the fair value hierarchy

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.

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 May 31, 2022, if interest rates were higher by 1% per annum, the potential effect to the Company would change in net income (loss) of approximately \$5,290 (May 31, 2021: \$5,142).

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Currency risk

Changes in currency rates will impact the carrying value of instruments denominated in currencies other than the Canadian dollar. As at May 31, 2022, the Company is primarily exposed to foreign exchange risk through Australian dollar denominated investments of \$6,502,854 (May 31, 2021: \$8,261,287), which represent approximately 59.5% (May 31, 2021: 72.1%) of total investments. 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 \$325,298 respectively (May 31, 2021: \$413,064).

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 \$1,092,717 (May 31, 2021: \$1,145,624).

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 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.

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- 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.
- 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 issue. The Company regularly considers

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whether any indications of deterioration in the value of the underlying business exist, which suggest that the debts 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 debts 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 illiquidity discount applied requires considerable judgment and is based on the facts and circumstances of each investment. As at May 31, 2022, the Company has investment in the un-listed securities of HRE Corporation and Bishop Resources.

14. 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.

During the year ended May 31, 2022, Twenty-Second Yeneb Pty Limited, a company controlled by John Byrne, President and CEO of the Company for the provision of services of John Byrne. During the year ended May 31, 2022, total fee charged was \$240,000 (2021 - \$189,000). Total amount accrued for Twenty-Second Yeneb Pty Limited as at May 31, 2022, which included fees and business expenses was \$25,724 (May 31, 2021 - \$nil). During the year ended May 31, 2021, the Company issued 14,000,000 common shares to settle \$700,000 of related party debt and wrote-off \$37,893 as part of the transaction.

During the year ended May 31, 2022, a company controlled by Anthony Balic charged fees for CFO services of \$90,000 (2021 - \$60,000). As at May 31, 2022, the amount owed was \$nil (May 31, 2021 - \$nil). During the year ended May 31, 2021, the Company issued 525,000 common shares to settle \$26,250 of related party debt.

During the year ended May 31, 2022, the Company was charged directors fees of \$24,000 (2021 - \$24,000) by Ross MacLachlan. As at May 31, 2022, the Company had \$38,178 (2021 - \$14,000) payable to Ross. During the year ended May 31, 2021, the Company issued 1,430,348 common shares to settle \$71,517 of related party debt. During the year ended May 31, 2022, the Company paid Kalina Power Ltd. \$36,084 (2021 - \$66,926) for management services. As at May 31, 2022 the Company had accounts payable of \$16,628 (2021 - \$12,363) outstanding to Kalina Power Ltd. which is considered a related party by virtue of a common director.

As at May 31, 2022, the Company charged management fees to Fidelity Minerals Corp. of \$nil (2021 - \$9,500). Fidelity Minerals Corp. is a related party by virtue of a common executive and director.

During the year ended May 31, 2022, Twenty-Second Yeneb Pty Limited, a company controlled by John Byrne advanced a loan to the Company. Interest payable at 10% per annum. As at May 31, 2022, total loan and interest outstanding is \$31,180 (May 31, 2021 - \$59,417).

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Taxation in the Company's operational jurisdiction is calculated at the rate prevailing in its respective jurisdiction.

	2022	2021
	\$	\$
Net income (loss) before tax	(3,537)	7,381,441
Income taxed at local statutory rates - 27% (2020: 27%)	(955)	1,992,989
Change in unrecognized deductible temporary differences	-	(903,892)
Permanent differences	31,308	15,246
Share issuance costs	37	6,108
Change in statutory, foreign tax, foreign exchange and other	63,909	136,964
Income tax expense/(recovery)	94,299	1,247,415
Current income tax expense (recovery)	171,687	80,432
Deferred income tax expense (recovery)	(77,388)	1,166,983
Income tax expense/(recovery)	94,299	1,247,415

The Canadian Federal corporate tax rate remained at 15.00% and the British Columbia provincial tax rate remained at 12.00%. The tax rate of the subsidiaries operating in Australia remained at 30.00%.

Deferred Tax Assets and Liabilities

The nature and tax effect of the temporary differences giving rise to the deferred tax assets and liabilities at May 31, 2022 and May 31, 2021 are summarized as follows:

	2022	2021
	\$	\$
Deferred tax assets:		
-Tax loss	-	429,000
-Provisions	100,000	89,000
Deferred tax liabilities:		
-Investments	(922,000)	(1,436,000)
-Exploration investment	(91,000)	-
-Derivative financial instruments	(140,000)	(263,000)
-Foreign exchange variance	(15,000)	35,005
Deferred tax asset/(liability) at year end	(1,068,000)	(1,145,995)

Significant components of deductible and taxable temporary differences, unused tax losses and unused tax credits are as follows:

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	<u>2022</u>	<u>Expiry date</u>	<u>2021</u>
Property and equipment	-	No expiry	-
Share issuance costs	-	2040 to 2044	-
Investments	-	No expiry	-
Accruals and other	-	No expiry	-
Losses available for future periods	-	2030 to 2042	-

16. Supplemental cash flow information

	<u>2022</u>	<u>2021</u>
Shares received on settlement of other receivables	\$ -	\$ 150,935
Shares for debt settlement	-	1,137,371
Reclass from investments to derivatives	199,979	-
Shares purchased through prepaids	51,425	-
Warrants issued for debt transaction costs	112,077	117,897
Cash paid for interest	5,880	75,367
Cash paid for taxes	-	-