

LIONS BAY CAPITAL INC.

**CONDENSED CONSOLIDATED INTERIM
FINANCIAL STATEMENTS**

For the Three Months Ended August 31, 2023

(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.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(in Canadian dollars)

	Notes	August 31, 2023	May 31, 2023
ASSETS			
Current			
Cash		\$ 251,616	\$ 67,045
Prepays and other receivables	4	116,775	12,719
Investments	6	3,214,169	5,395,442
Derivative financial instruments	5	200,384	213,294
Debt investment	7	1,877,278	1,740,520
		5,660,222	7,429,020
Exploration investments	8	472,615	405,004
Related party loan	4	378,070	292,673
TOTAL ASSETS		\$ 6,510,907	\$ 8,126,697
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Trade and other payables		\$ 269,411	\$ 376,764
Borrowings	9	63,587	472,393
Taxes payable		372,845	374,454
		705,843	1,223,611
Option on Fidelity Shares	9	123,475	189,633
TOTAL LIABILITIES		829,318	1,413,244
Shareholders' Equity			
Share capital	10	7,565,874	7,565,874
Share based payment reserves	11	569,704	569,704
Warrant reserves	11	913,374	913,374
Foreign currency translation reserves		(5,080)	(10,706)
Retained earnings (deficit)		(3,358,527)	(2,321,732)
Total shareholders' equity attributable to owners of the Company		5,685,345	6,716,514
Non-controlling interest		(3,756)	(3,061)
Total shareholders' equity		5,681,589	6,713,453
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$ 6,510,907	\$ 8,126,697

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.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(in Canadian dollars)

For the three months ended 31 August	2023 \$	2022 \$
NET REALISED AND UNREALISED GAIN/(LOSS)		
Net realized gain/(loss) on disposal of marketable securities (note 6)	440,379	264,491
Net change in unrealized gain/(loss) on marketable securities (note 6)	(1,343,642)	(3,061,658)
Unrealized fair value gain on derivative financial instrument (note 5)	(12,910)	(113,283)
	(916,173)	(2,910,450)
Expenses		
Interest and other income (note 7)	68,028	42,703
Finance expense – accretion (note 8)	(33,888)	(48,967)
Professional fees	(67,497)	(80,042)
Directors fees	(66,362)	(66,125)
Financing costs (note 9)	(7,175)	(6,349)
Forex variance	(35,908)	(10,740)
General and administrative	(44,673)	(26,992)
Gain on fair value change of Fidelity option (note 9)	66,158	-
	(121,317)	(196,512)
Loss before tax	(1,037,490)	(3,106,962)
Deferred income tax (expense)/recovery	-	245,000
Net loss after tax	(1,037,490)	(2,861,962)
Other comprehensive income/(loss) net of tax	5,626	(11,589)
Net loss and total comprehensive income	(1,031,864)	(2,873,551)
NET LOSS ATTRIBUTABLE TO:		
Owners of the Company	(1,036,795)	(2,861,962)
Non-controlling interest	(695)	-
	(1,037,490)	(2,861,962)
OTHER COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:		
Owners of the Company	5,626	(11,589)
Non-controlling interest	-	-
	5,626	(11,589)
Loss per common share		
- Basic and diluted	(\$0.01)	(\$0.02)
Weighted average number of common shares		
- Basic and diluted	142,105,852	135,056,963

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	Attributable to owners of the Company	Non-controlling interest	Total Equity
	Number	Share capital							
		\$	\$	\$	\$	\$	\$	\$	\$
BALANCE, MAY 31, 2023	142,105,852	7,565,874	(10,706)	569,704	913,374	(2,321,732)	6,716,514	(3,061)	6,713,453
Cumulative translation adjustment	-	-	5,626	-	-	-	5,626	-	5,626
Net loss for the year	-	-	-	-	-	(1,036,795)	(1,036,795)	(695)	(1,037,490)
BALANCE, AUGUST 31, 2023	142,105,852	7,565,874	(5,079)	569,704	913,374	(3,358,527)	5,685,345	(3,756)	5,681,589

	Issued Common Shares		Foreign currency translation reserves	Share based payment reserves	Warrant reserves	Retained earnings	Total Equity
	Number	Share capital					
		\$	\$	\$	\$	\$	\$
BALANCE, MAY 31, 2022	142,105,852	7,565,874	(16,911)	569,704	913,374	2,630,041	11,662,082
Cumulative translation adjustment	-	-	(11,589)	-	-	-	(11,589)
Net loss for the year	-	-	-	-	-	(2,861,962)	(2,861,962)
BALANCE, AUGUST 31, 2022	142,105,852	7,565,874	(28,500)	569,704	913,374	(231,921)	8,788,531

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

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

For the three months ended 31 August	2023 \$	2022 \$
Operating Activities		
Net Profit/(loss) after tax	(1,037,490)	(2,861,962)
Deduct/add Non-Cash & Other Items:		
Net realized (gain) on disposal of investments	(440,379)	(264,491)
Change in unrealized (gain) on investments	1,343,642	3,061,658
Unrealized fair value gain on derivative financial instrument	12,910	113,283
Exchange variation	(1,708)	(30,147)
Finance costs	7,175	6,349
Accretion	33,888	26,558
Interest income	(68,028)	(42,703)
Deferred tax expense/(recovery)	-	(245,000)
Gain on fair value of Fidelity option	(66,158)	-
Changes in Non-Cash Working Capital:		
(Increase)/decrease in receivable	(104,058)	16,418
(Increase)/decrease in trade and other payable	(109,922)	(3,370)
Proceeds from disposal of marketable securities	1,249,752	650,889
Debt investments	(73,274)	-
Purchase of investments	(69,490)	(91,103)
Cash Flows From (Used In) Operating Activities	676,860	336,379
Financing Activities		
Advances to related party	(85,397)	-
Repayment of loan	(443,615)	(340,835)
Cash Flows From (Used In) Financing Activities	(529,012)	(340,835)
Net increase/(decrease) in cash	147,848	(4,456)
Effect of foreign exchange on cash	36,723	(10,584)
Cash - Beginning of period	67,045	553,730
Cash - End of period	251,616	538,690

Supplemental cash flow information (note 15)

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

LIONS BAY CAPITAL INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD AUGUST 31, 2023 and 2022 (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 August 31, 2023, the Company had working capital of \$4,954,379 which includes investments with a fair market value of \$3,214,169 and cash of \$251,616.

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.

Recent global issues, including the ongoing COVID-19 pandemic and geo-political conflicts have adversely affected workplaces, economies, supply chains, and financial markets globally. It is not possible for the Company to predict the duration or magnitude of the adverse results of these issues and their effects on the Company's business or results of operations this time.

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, 2023.

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

LIONS BAY CAPITAL INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD AUGUST 31, 2023 and 2022 (in Canadian dollars)

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, 2023. 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, 2023.

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 30, 2023.

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.

LIONS BAY CAPITAL INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD AUGUST 31, 2023 and 2022 (in Canadian dollars)

- 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. 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

LIONS BAY CAPITAL INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD
AUGUST 31, 2023 and 2022 (in Canadian dollars)****FMN Warrants**

During the year ended May 31, 2023, 9,571,583 FMN warrants expired in line with their expiry dates.

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
		Aug 31, 2023	May 31, 2022
Expected warrant life		0.667 years	1.0 years
Expected stock price volatility		246%	222%
Dividend payment during life of warrant		Nil	Nil
Risk free interest rate		4.68%	4.22%
Weighted average strike price	\$	0.15	\$ 0.15
Weighted average fair value per warrant	\$	0.001	\$ 0.001
Weighted average share price	\$	0.01	\$ 0.02

Heavy Rare Earths Limited

Issuance/Purchase Date	Exercise Price \$	Number of warrants exercisable	Expiry date
August 24, 2022	0.30	2,000,000	August 24, 2025

During the year ended May 31, 2023, the Company received the Heavy Rare Earth Limited (“HRE”) warrants pursuant to HRE’s initial public offering (Note 6). HRE is a related party by virtue of a common director.

	Aug 31, 2023	May 31, 2023
Expected warrant life	1.92 years	2.25 years
Expected stock price volatility	100%	100%
Dividend payment during life of warrant	Nil	Nil
Risk free interest rate	3.58%	3.28%
Weighted average strike price	\$ 0.30	\$ 0.30
Weighted average fair value per warrant	\$ 0.025	\$ 0.03
Weighted average share price	\$ 0.063	\$ 0.105

LIONS BAY CAPITAL INC.
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD
AUGUST 31, 2023 and 2022 (in Canadian dollars)**

	Number of warrants	Weighted average exercise price \$	Derivative \$
Balance, May 31, 2022	64,205,835	0.03	631,594
HRE Warrants acquired (note 6)	2,000,000	0.30	44,940
FMN Warrants expired	(9,571,583)	0.09	-
Change in fair value	-	-	(463,240)
Balance, May 31, 2023	56,634,252	0.03	213,294
Change in fair value	-	-	(12,910)
Balance, August 31, 2023	56,634,252	0.03	200,384

During the period ended August 31, 2023, the Company has a total loss on derivatives of \$12,910 (2022 – loss of \$113,283).

6. Investments

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

	May 31, 2023 Fair value	Acquired	Disposed	Gain/(Loss)	CTA	Aug 31, 2023 Fair Value
Kalina Power Ltd (i)	\$ 542,472	\$ 28,974	\$ -	\$ (88,100)	\$ (22,048)	\$ 461,298
Fidelity Minerals Corp (ii)	3,434,595	40,516	(70,000)	(854,182)	-	2,550,929
Elementos Ltd (iii)	368,357	-	(288,710)	(14,546)	(5,700)	59,401
Parkway Corporate Limited (iv)	886,196	-	(961,042)	87,989	-	13,143
Meryllion Resources Corp. (v)	9,105	-	-	12,140	-	21,245
First AU Ltd - listed options	20,640	-	-	(20,640)	-	-
Heavy Rare Earths Limited (vi)	59,123	-	-	(24,174)	-	34,949
Arctic Star	4,000	-	-	(1,000)	-	3,000
Bishop Resources	70,954	-	-	(750)	-	70,204
Total	\$ 5,395,442	\$ 69,490	\$ (1,319,752)	\$ (903,263)	\$ (27,748)	\$ 3,214,169

The Company recorded an unrealized loss of \$1,343,642 on investments and recognized a realized gain of \$440,379 on disposal of shares for proceeds of \$1,249,752.

LIONS BAY CAPITAL INC.
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD
AUGUST 31, 2023 and 2022 (in Canadian dollars)**

	May 31, 2022 Fair value	Acquired	Disposed	Gain/(Loss)	CTA	May 31, 2023 Fair Value
Kalina Power Ltd (i)	\$ 1,106,292	\$ 9,112	\$ -	\$ (560,890)	\$ (12,042)	\$ 542,472
Fidelity Minerals Corp (ii)	4,345,214	117,836	-	(1,028,455)	-	3,434,595
Elementos Ltd (iii)	2,837,865	-	(498,521)	(1,968,089)	(2,898)	368,357
Parkway Corporate Limited (iv)	1,657,552	-	(533,371)	(202,478)	(35,507)	886,196
South Harz Potash (vii)	742,276	-	(502,789)	(239,487)	-	-
Kalina Power Ltd. – warrants (i)	15,113	-	-	(15,113)	-	-
Meryllion Resources Corp. (v)	52,000	-	(4,700)	(38,195)	-	9,105
First AU Ltd - listed options	57,422	-	-	(36,088)	(694)	20,640
Heavy Rare Earths Limited (vi)	13,453	45,110	-	2,932	(2,372)	59,123
Arctic Star	24,000	-	-	(20,000)	-	4,000
Bishop Resources	72,881	-	-	(1,927)	-	70,954
Total	\$ 10,924,068	\$172,058	\$ (1,539,381)	\$(4,107,790)	\$ (53,513)	\$ 5,395,442

The Company recorded an unrealized loss of \$4,872,998 on investments and recognized a realized gain of \$765,208 on disposal of shares for proceeds of \$1,539,381.

	Cost Aug 31 2023 \$	Fair Value Aug 31 2023 \$	Cost May 31 2023 \$	Fair Value May 31 2023 \$
Kalina Power Ltd (i)	1,755,978	461,298	1,727,004	542,472
Fidelity Minerals Corp (ii)	4,464,054	2,550,929	4,529,030	3,434,595
Elementos Ltd (iii)	184,079	59,401	747,716	368,357
Parkway Corporate Limited (iv)	3,051	13,143	253,810	886,196
Meryllion Resources Corp. (vi)	34,786	21,254	34,786	9,105
First AU Ltd - listed options (xi)	-	-	95,730	20,640
Heavy Rare Earth Limited (vii)	101,958	34,949	101,958	59,123
Arctic Star (ix)	16,000	3,000	16,000	4,000
Bishop Resources (x)	75,073	70,204	75,073	70,954
Total	6,634,979	3,214,169	7,581,107	5,395,442

LIONS BAY CAPITAL INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD AUGUST 31, 2023 and 2022 *(in Canadian dollars)*

- (i) During the period ended August 31, 2023, the Company purchased from the public markets 4,000,000 shares at a cost of \$28,974.

During the year ended May 31, 2023, the Company purchased from the public markets 1,000,000 shares at a cost of \$9,112. During the year ended May 31, 2023, the warrants expired unexercised.

- (ii) During the period ended August 31, 2023, the Company purchased from the public markets 583,000 shares at a cost of \$40,516. The Company also transferred 1,000,000 shares as part of the Greensands acquisition for \$70,000 (note 8).

During the year ended May 31, 2023, the Company purchased from the public markets 1,549,501 shares at a cost of \$117,836. During the year ended May 31, 2023, the warrants expired unexercised (note 5).

- (iii) During the period ended August 31, 2023, the Company also sold 575,000 shares for proceeds of \$288,710.

During the year ended May 31, 2023, the Company also sold 1,890,259 shares for proceeds of \$498,521.

- (iv) During the period ended August 31, 2023, the Company sold 102,750,000 common shares for proceeds of \$961,042.

During the year ended May 31, 2023, the Company sold 63,000,000 common shares for proceeds of \$533,371.

- (v) During the year ended May 31, 2023, the Company sold 43,000 common shares for proceeds of \$4,700.

- (vi) During the year ended May 31, 2023, the Company purchased 500,000 common shares of HRE which was a private company for proceeds of \$90,050, pursuant to an initial public offering. As part of the initial public offering, the Company received 2,000,000 warrants fair valued at \$44,940 allocated to derivative financial instruments (note 5). The fair value of the warrants received were calculated using the Black-Scholes option pricing model with the following weighted average assumptions: 3.08% risk free interest rate, expected life of 3.0 years, 100% annualized volatility and 0% dividend rate.

- (vii) During the year ended May 31, 2023, the Company sold the remaining 5,670,022 common shares for proceeds of \$502,798.

LIONS BAY CAPITAL INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD AUGUST 31, 2023 and 2022 *(in Canadian dollars)*

As at August 31, 2023 the Company's investments consisted of the following:

- 1) Parkway Corporate Limited - listed on the ASX (PWN). The Company owns 1,250,000 (May 31, 2023 – 104,000,000) which represents 0.05% (May 31, 2023 – 4.67%) of the outstanding common shares of Parkway Corporate Limited valued at \$13,143 (May 31, 2023 - \$886,196).
- 2) Kalina Power Ltd - listed on the ASX (KPO). The Company owns 56,118,115 (May 31, 2023 – 52,118,115) which represents 3.70% (May 31, 2023 – 3.44%) of the outstanding common shares of Kalina Power Ltd. valued at \$461,298 (May 31, 2023 - \$542,472). Kalina is considered a related party by virtue of a common director.
- 3) Elementos Ltd. - listed on the ASX (ELT). The Company owns 480,000 (May 31, 2023 – 2,566,290) which represents 0.25% (May 31, 2023 – 1.32%) of the outstanding common shares of Elementos Ltd. valued at \$59,401 (May 31, 2023 - \$368,357).
- 4) Fidelity Minerals Corp - listed on the TSXV (FMN). The Company owns 42,515,312 (May 31, 2023 – 42,932,312) which represents 47.88% (May 31, 2023 – 48.35%) of the outstanding common shares of FMN valued at \$2,550,929 (May 31, 2023 - \$3,434,595). FMN is considered a related party by virtue of a common officers and directors.
- 5) Meryllion Resources Corp. - listed on the CSE (MYR). The Company owns 607,000 (May 31, 2023 – 607,000) which represents 2.03% (May 31, 2023 – 2.03%) of the outstanding common shares of Meryllion Resources Corp. valued at \$21,245 (May 31, 2023 - \$9,105).
- 6) Arctic Star Exploration Corp. - listed on the TSX-V (ADD). The Company owns 200,000 (May 31, 2023 – 200,000) which represents 0.10% (May 31, 2023 – 0.10%) of the outstanding common shares of Arctic Star valued at \$3,000 (May 31, 2023 - \$4,000).
- 7) Heavy Rare Earth Limited – listed on the ASX (HRE). The Company owns 650,000 (May 31, 2023 – 650,000) which represents 0.95% (May 31, 2023 – 0.95%) of the outstanding common shares of HRE valued at \$34,949 (May 31, 2023 - \$59,123). HRE is considered a related party by virtue of a common director.
- 8) Bishop Resources – private company. The Company owns 500,000 (May 31, 2023 – 500,000) of the outstanding common shares of Bishop Resources valued at \$70,204 (May 31, 2023 - \$70,954).

LIONS BAY CAPITAL INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AUGUST 31, 2023 and 2022 (in Canadian dollars)

7. Debt Investment

Salamander Mining International Ltd.

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).

	Aug 31, 2023	May 31, 2023
Opening balance	\$ 1,464,322	\$ 1,074,359
Advances	73,274	54,423
Interest accrued	57,809	187,283
Gain on modification	-	67,186
Unrealized foreign exchange	(3,764)	81,071
Ending balance	\$ 1,591,642	\$ 1,464,322

During the year ended May 31, 2023, the Company entered into a six-month extension on the repayment of the outstanding loan facility where Salamander will pay an extension fee of USD \$50,000, which will be added to the outstanding balance and be payable at maturity. The Company recorded a modification gain of \$67,186 as a result of the extension. During the year ended May 31, 2023, the Company recorded interest income of \$187,283 (May 31,2022 - \$101,277). As at May 31, 2023, the Company used an indicative market approach based on the transaction subsequent to year end with unrelated market participants. Based on this approach management has concluded that the fair value as at May 31, 2023 is equal to the carrying amount of \$1,464,322.

On June 16, 2023, the Company entered into an agreement to purchase a USD \$2.1 million loan note (“Loan Note”) from Salamander. The Loan Note is owed by GnT and its subsidiary Bosveld Mines Propriety Limited (“Bosveld”). The Loan Note has priority ranking over shareholder and other debt and is secured by the Bosveld tailings project. GnT is a private company and owns 70% of Bosveld which in turn owns the Klipwal gold mine in KwaZulu -Natal, South Africa. The mine

LIONS BAY CAPITAL INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD
ENDED AUGUST 31, 2023 and 2022 (in Canadian dollars)**

is currently on care and maintenance and will restart upon completion of financing and refurbishment.

The Loan Note is interest free until May 2025 at which point interest is charged at LIBOR plus 4%.

The purchase of the Loan Note with a face value of USD \$2.1 million is to be satisfied by the forgiveness of the USD \$1,077,928 debt that Lions Bay has owing from Salamander and the payment of USD \$200,000 by Lions Bay to Salamander over the next 8 months of which USD \$55,000 has been paid to date. As part of this agreement, the Company has advanced \$73,274 (USD \$55,000). As at August 31, 2023, the Company used an indicative market approach based on the transaction above transaction with unrelated market participants. Based on this approach management has concluded that the fair value as at August 31, 2023 is equal to the carrying amount of \$1,591,642.

GnT Mining Proprietary Limited

During the year ended May 31, 2023, the Company loaned GnT Mining Proprietary Limited (“GnT”) USD \$200,000. The loan receivable bears interest at 15% per annum, is secured, and is due on April 14, 2024. During the period ended August 31, 2023, \$4,564 (2022 0 \$nil) was accrued as interest receivable.

As part of the loan agreement, the Company was granted a 90 day option to purchase GnT’s shares in a subsidiary for USD \$1,500,000. This option has since expired and the Company assigned a fair value of \$nil at the inception of the loan based on the unlikelihood of the option being exercised.

	Aug 31, 2023	May 31, 2023
Opening balance	\$ 276,198	\$ -
Advances	-	267,229
Interest accrued	10,218	4,564
Unrealized foreign exchange	(780)	4,405
Ending balance	\$ 285,636	\$ 276,198

LIONS BAY CAPITAL INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AUGUST 31, 2023 and 2022 (in Canadian dollars)

8. Exploration Investments

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, 2023, the Company concluded not to pursue the Savic option and recorded an impairment of \$450,656.

Epic Minerals Exploration Investment

Epic Minerals 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 of claims in Queensland, Australia under the following terms:

- Pay AUD \$10,000 to optionor 14 days after signing the agreement (paid),
- Spend AUD \$50,000 to earn a 10% interest in the project (incurred),
- 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.

LIONS BAY CAPITAL INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD
ENDED AUGUST 31, 2023 and 2022 (in Canadian dollars)****Greensand Australia Pty Ltd.**

During the year ended May 31, 2023, the Company entered into an option agreement to purchase 25% of Greensand Australia Pty Ltd. (“Greensand”) which is a private corporation with an exploration licence covering the Florina Greensand Project in the Northern Territory, Australia. The other 75% is being purchased by Fidelity Minerals Corp., a company related by virtue of common directors and management.

Under the terms of the agreement the Company will:

- 1) Issue 1 million Fidelity shares from its portfolio holdings, which will be restricted from trading for one year (complete);
- 2) Agree to fund its 25% share of Stage 1 costs estimated to be AUD \$250,000 (the Company’s share AUD \$62,500);
- 3) Agree to fund its share of Stage 2 costs estimated to be AUD \$1,000,000 including a scoping study (the Company’s share estimated to be AUD \$250,000);
- 4) Upon completion of the scoping study, issue an additional 1 million Fidelity share from its portfolio holding;
- 5) Should the scoping study show a pre-tax IRR of over 19% then the vendors will be entitled to a bonus payment of AUD \$1,000,000 to be satisfied by cash and shares (with a minimum 50% cash) (the Company’s share estimated to be AUD \$250,000).

Under the terms of the agreement, any amounts funded by the Company for costs will be considered a loan to Greensand which will be repayable from the profits of Greensand or from the proceeds of the financing within Greensand. As such, the Company has recorded a loan receivable from Greensand of \$74,877 as at August 31, 2023 included within Exploration investments on the statement of financial position and has determined that the fair value is equal to the carrying amount. The loan has no other significant terms.

Exploration investment	Savic	Epic Minerals	Greensands	Total
Balance at May 31, 2022	\$ 394,036	\$ 85,953	\$ -	\$ 479,989
Additions	56,620	241,785	-	298,405
Impairment	(450,656)	-	-	(450,656)
Balance at May 31, 2023	\$ -	\$ 327,738	\$ -	\$ 327,738
Additions	-	-	70,000	70,000
Balance at August 31, 2023	\$ -	\$ 327,738	\$ 70,000	\$ 397,738

LIONS BAY CAPITAL INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AUGUST 31, 2023 and 2022 (*in Canadian dollars*)

9. Borrowings

	May 31, 2023		Draw	Interest	Repayment	Transaction Costs	Accretion	Foreign Exchange	Aug 31, 2023
Riverfort 4 – new loan (i)	\$ 458,720	\$ -	\$ -	\$ 7,175	\$ (443,615)	\$ -	\$ 33,888	\$ (6,173)	\$49,995
Borrowings – related party (ii)	13,673	-	-	-	-	-	-	(81)	13,592
Total	\$ 472,393	\$ -	\$ -	\$ 7,175	\$ (443,615)	\$ -	\$ 33,888	\$(6,254)	\$ 63,587
Classified as current									63,587

	May 31, 2022		Draw	Interest	Repayment	Transaction Costs	Accretion	Foreign Exchange	May 31, 2023
Riverfort 1 – secured (i)	\$ 52,314	\$ -	\$ -	\$ -	(52,314)	\$ -	\$ -	\$ -	\$ -
Riverfort 2 – secured (i)	323,014	-	-	6,102	(386,829)	-	45,352	12,361	-
Riverfort 3 – secured (i)	122,516	-	-	8,368	(175,956)	-	18,803	26,269	-
Riverfort 4 – new loan (i)	-	507,840	507,840	25,836	-	(134,446)	59,304	186	458,720
Borrowings – related party (ii)	31,180	-	-	217	(17,207)	-	-	(517)	13,673
Total	\$ 529,024	\$ 507,840	\$ 507,840	\$ 40,523	\$ (632,306)	\$ (134,446)	\$123,459	\$38,299	\$ 472,393
Classified as current									472,393

LIONS BAY CAPITAL INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AUGUST 31, 2023 and 2022 *(in Canadian dollars)*

(i) **Riverfort 1**

On April 22, 2021, the Company drew down USD \$500,000 from the Riverfort facility. The advance had a 12-month term, bore 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 was 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, 2023, the Company fully repaid the loan of \$52,314 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 bore interest at 12% per annum and is subject to an implementation fee of 7%. During the year ended May 31, 2023, the Company repaid \$386,829 in principal and interest.

LIONS BAY CAPITAL INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AUGUST 31, 2023 and 2022 *(in Canadian dollars)*

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 had 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 bore interest at 12% per annum and is subject to an implementation fee of 7%. During the year ended May 31, 2023, the Company repaid \$175,956 in principal and interest.

Riverfort 4

On December 22, 2022, the Company drew down an additional USD \$373,118 (\$507,840), inclusive of a deemed advance of USD \$191,000 (\$259,493) which was used to repay the previous two outstanding drawdowns, and a cash advance of USD \$150,000 (\$203,790).

The total 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% (USD \$26,118). The facility also included a USD \$6,000 fee for legal costs. During the period ended August 31, 2023 the Company repaid USD \$330,465 (\$443,615) of the outstanding amount on the loan.

As part of the advance, the Company has agreed to grant Riverfort an option to purchase 3,500,000 shares of Fidelity Minerals Corp. that the Company currently holds in its investment portfolio at a price of USD \$0.07 per share for a period of 24 months. The fair value of these warrants at the date of grant was estimated at \$134,446 using the Black-Scholes option pricing model with the following assumptions: a 2 year expected life; 133% volatility; risk-free interest rate of 3.72%; and a dividend yield of 0%.

As at August 31, 2023, the option over 3,500,000 Fidelity shares had a fair value of \$123,475 using the Black-Scholes option pricing model with the following assumptions: a 1.31 year expected life; 166% volatility; risk-free interest rate of 4.64%; and a dividend yield of 0%. A loss of \$66,158 was recorded on the increase of the option liability.

- (ii) Interest payable at 10% per annum and is due on demand.

LIONS BAY CAPITAL INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD
ENDED AUGUST 31, 2023 and 2022 (in Canadian dollars)****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.

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:

	August 31, 2023		May 31, 2023	
	Number of options	Exercise price \$	Number of options	Exercise price \$
Options outstanding beginning of the year	1,400,000	0.10	1,400,000	0.10
Options expired	(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	3,524,445	0.10	24,353,213	0.09
Warrants expired	(3,524,445)	0.10	(20,828,768)	0.09
Warrants outstanding	-	-	3,524,445	0.10

LIONS BAY CAPITAL INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD
ENDED AUGUST 31, 2023 and 2022 (in Canadian dollars)****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. There have been no changes to the Company's capital management approach during the period ended August 31, 2023.

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 August 31, 2023	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Assets				
Investments (note 6)	3,143,965	70,204	-	3,214,169
Derivative financial instrument (note 5)	-	-	200,384	200,384
Debt investment (note 7)	-	1,877,278	-	1,877,278
Liabilities				
Option on Fidelity shares (note 9)	-	-	(123,475)	(123,475)
	3,143,965	1,947,482	76,909	5,168,356

LIONS BAY CAPITAL INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD
ENDED AUGUST 31, 2023 and 2022 (in Canadian dollars)**

As at May 31, 2023	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Assets				
Investments (note 6)	5,324,488	70,954	-	5,395,442
Derivative financial instrument (note 5)	-	-	213,294	213,294
Debt investment (note 7)	-	1,740,520	-	1,740,520
Liabilities				
Option on Fidelity shares (note 9)	-	-	(189,633)	(189,633)
	5,324,488	1,811,474	23,661	7,159,623

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. For the year ended May 31, 2023 the Company transferred its Salamander debt investment from level 3 to level 2. During the period ended August 31, 2023, the Company derecognized this financial instrument in exchange for receipt of another loan receivable from GnT (note 7), and this transaction between market participants was used to support the fair value of the Salamander debt investment as at August 31, 2023.

Risk Associated with Financial Instruments

The Company's business activities expose it 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.

LIONS BAY CAPITAL INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AUGUST 31, 2023 and 2022 (in Canadian dollars)

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, 2023, if interest rates were higher by 1% per annum, the potential effect to the Company would change in net income (loss) of approximately \$636 (May 31, 2023: \$4,724).

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, 2023, the Company is primarily exposed to foreign exchange risk through Australian dollar denominated investments of \$639,003 (May 31, 2023: \$1,94,751), which represent approximately 19.9% (May 31, 2023: 36.1%) 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 \$31,950 respectively (May 31, 2023: \$97,388).

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 \$321,417 (May 31, 2022: \$539,544).

The fair value of the Company's investments and derivative financial instruments 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

LIONS BAY CAPITAL INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AUGUST 31, 2023 and 2022 (in Canadian dollars)

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.
- 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

LIONS BAY CAPITAL INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED AUGUST 31, 2023 and 2022 (in Canadian dollars)

determined consistent with other investments that do not have an active market, as described above.

As at August 31, 2023, the Company has an investment in the un-listed securities of Bishop Resources.

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 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 unlisted 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.

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 three months ended August 31, 2023, Twenty-Second Yeneb Pty Limited, a company controlled by John Byrne, provides President and CEO services to the Company. During the three months ended August 31, 2023 total fees charged was \$60,000 (2022 - \$60,000). Total amount accrued for Twenty-Second Yeneb Pty Limited as at August 31, 2022, which included fees and business expenses was \$2,384 (May 31, 2023 - \$34,466).

During the three months ended August 31, 2023, a company controlled by Anthony Balic charged fees for CFO services of \$26,250 (2023 - \$26,250). As at August 31, 2023, the amount owed was \$27,562 (May 31, 2023 - \$nil).

During the three months ended August 31, 2023, the Company was charged directors fees of \$6,000 (2023 - \$6,000) by Ross MacLachlan. As at August 31, 2023, the Company had \$68,178 (May 31, 2023 - \$62,178) payable to Ross. During the three months ended August 31, 2022, the Company paid Kalina Power Ltd. \$10,451 (2023 - \$10,773) for management services and \$4,609 (2023 - \$nil) for rent. As at August 31, 2023 the Company had accounts payable of \$56,804 (May 31, 2023 - \$37,660) outstanding to Kalina Power Ltd. which is considered a related party by virtue of a common director.

LIONS BAY CAPITAL INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD
ENDED AUGUST 31, 2023 and 2022 (in Canadian dollars)**

During the period ended August 31, 2023, the Company paid Heavy Rare Earths Limited \$4,950 (2022 - \$nil) for rent. As at August 31, 2023 the Company had accounts payable of \$1,650 (May 31, 2023 - \$1,457) outstanding to Heavy Rare Earths Limited which is considered a related party by virtue of a common director.

During the three months ended August 31, 2023, 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 August 31, 2023, total loan and interest outstanding is \$13,592 (May 31, 2021 - \$13,673).

15. Supplemental cash flow information

	<u>2023</u>	<u>2022</u>
FMN shares transferred on purchase of Greensands (note 8)	\$ 134,446	\$ -
Cash paid for interest	-	-
Cash paid for taxes	-	-