

LIONS BAY CAPITAL INC.

**CONSOLIDATED
FINANCIAL STATEMENTS**

For the Years Ended May 31, 2023 and 2022

(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, 2023 and 2022, and the consolidated statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at May 31, 2023 and 2022, 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 indicates 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. As stated in Note 1, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matters described below to be the key audit matters to be communicated in our auditor's report.

Assessment of Impairment Indicators of Exploration investments ("E&E Assets")

As described in Note 8 to the consolidated financial statements, the carrying amount of the Company's E&E Assets was \$327,738 as of May 31, 2023. As more fully described in Note 3 to the consolidated financial statements, management assesses E&E Assets for indicators of impairment at each reporting period.



The principal considerations for our determination that the assessment of impairment indicators of the E&E Assets is a key audit matter are that there was judgment made by management when assessing whether there were indicators of impairment for the E&E Assets, specifically relating to the investment's carrying amount which is impacted by the Company's intent and ability to continue to explore and evaluate these assets. This in turn led to a high degree of auditor judgment, subjectivity, and effort in performing procedures to evaluate audit evidence relating to the judgments made by management in their assessment of indicators of impairment that could give rise to the requirement to prepare an estimate of the recoverable amount of the E&E Assets.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. Our audit procedures included, among others:

- Evaluating management's assessment of impairment indicators.
- Evaluating the intent for the E&E investments through discussion and communication with management.
- Reviewing the Company's recent expenditure activity.
- Assessing compliance with agreements and expenditure requirements including reviewing option agreements and vouching cash payments and share issuances.
- Assessing the Company's rights to explore E&E Assets including sending confirmation requests to optionors to ensure good standing of agreements.
- Obtaining confirmation of title to ensure mineral rights underlying the E&E Assets are in good standing.

Valuation of Debt Investments

As described in Note 7 to the consolidated financial statements, the carrying amount of the Company's debt investments was \$1,740,520 as of May 31, 2023. As more fully described in Notes 3 and 13 to the consolidated financial statements, debt investments are measured at fair value at each reporting period. Management uses valuation techniques, including the income approach, the market approach, the cost approach or a combination thereof, to determine the fair value of debt investments. There are significant unobservable inputs used in estimating the value of debt investments and significant judgments are made related to uncertainty of operating in exploration and evaluation markets.

The principal considerations for our determination that the fair value of debt investments is a key audit matter are due to the estimation uncertainty underlying the valuations and the significant value of the debt investments at year-end. This determination required the use of appropriate valuation techniques which included significant unobservable inputs. This in turn led to a high degree of auditor judgment, subjectivity and effort in performing procedures to evaluate audit evidence relating to the judgments made by management in their assessment of the fair value of the debt investments.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures include, among others:

- Evaluating the competency, capabilities and objectivity of the third-party valuator used by management.
- Reviewing the valuations reports and substantively testing a sample of the assumptions within to independent sources of information.
- Utilizing our internal valuations department to conclude on the appropriateness of the methodology used in the valuations reports.
- Utilizing our internal valuations department to test the accuracy of the calculations in applying the methodology used in the valuations reports.
- Assessing management estimates underlying the valuation for evidence of bias or error.
- Checking and evaluating the financial statement disclosures in relation to the fair value of debt investments.

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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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, 2023

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

| | Notes | May 31, 2023 | May 31, 2022 |
|---|-------|---------------------|----------------------|
| ASSETS | | | |
| Current | | | |
| Cash | | \$ 67,045 | \$ 553,730 |
| Prepays and other receivables | 4 | 12,719 | 28,257 |
| Investments | 6 | 5,395,442 | 10,924,068 |
| Derivative financial instruments | 5 | 213,294 | 631,594 |
| Debt investment | 7 | 1,740,520 | 1,074,359 |
| | | 7,429,020 | 13,212,008 |
| Exploration investments | 8 | 405,004 | 479,989 |
| Related party loan | 4 | 292,673 | - |
| TOTAL ASSETS | | \$ 8,126,697 | \$ 13,691,997 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Current | | | |
| Trade and other payables | | \$ 376,764 | \$ 155,043 |
| Borrowings | 9 | 472,393 | 529,024 |
| Taxes payable | 15 | 374,454 | 277,848 |
| | | 1,223,611 | 961,915 |
| Deferred tax liability | 15 | - | 1,068,000 |
| Option on Fidelity Shares | 9 | 189,633 | - |
| TOTAL LIABILITIES | | 1,413,244 | 2,029,915 |
| 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 | | (10,706) | (16,911) |
| Retained earnings (deficit) | | (2,321,732) | 2,630,041 |
| Total shareholders' equity attributable to owners of the Company | | 6,716,514 | 11,662,082 |
| Non-controlling interest | | (3,061) | - |
| Total shareholders' equity | | 6,713,453 | 11,662,082 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | | \$ 8,126,697 | \$ 13,691,997 |

Note 1 – Nature of operations and going concern

Note 17 – Subsequent event

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 LOSS
(in Canadian dollars)

| | Year ended | |
|--|-----------------------|---------------------|
| | May 31, 2023 | May 31, 2022 |
| NET REALIZED AND UNREALIZED GAIN/(LOSS) | | |
| Net realized gain on disposal of marketable securities (note 6) | \$ 765,208 | \$ 3,517,602 |
| Net change in unrealized loss on marketable securities (note 6) | (4,872,998) | (1,701,286) |
| Fair value loss on derivative financial instrument (note 5) | (463,240) | (507,269) |
| | (4,571,030) | 1,309,047 |
| OTHER INCOME(EXPENSE) | | |
| Interest and other income (notes 7) | 191,847 | 101,277 |
| Financing costs – interest (note 9) | (43,768) | (118,110) |
| Financing costs – transaction cost accretion (note 9) | (123,459) | (249,848) |
| Foreign exchange loss | (3,284) | (136,302) |
| Impairment of exploration investments (note 8) | (450,656) | - |
| Modification gain (note 7) | 67,186 | - |
| Loss on fair value change of Fidelity option (note 9) | (55,187) | - |
| EXPENSES | | |
| Professional fees (note 14) | (426,688) | (411,597) |
| Director’s fees (note 14) | (264,462) | (264,581) |
| General and administration | (217,855) | (136,276) |
| Share-based payments (note 11) | - | (97,147) |
| TOTAL EXPENSES/OTHER INCOME (EXPENSE) | (1,326,326) | (1,312,584) |
| INCOME (LOSS) BEFORE TAX | (5,897,356) | (3,537) |
| INCOME TAX RECOVERY (EXPENSE) (note 15) | 942,522 | (94,299) |
| NET LOSS AFTER TAX | (4,954,834) | (97,836) |
| OTHER COMPREHENSIVE INCOME (LOSS) | 6,205 | (26,512) |
| COMPREHENSIVE LOSS FOR THE YEAR | \$ (4,948,629) | \$ (124,348) |
| NET LOSS ATTRIBUTABLE TO: | | |
| Owners of the Company | (4,951,773) | (97,836) |
| Non-controlling interest | (3,061) | - |
| | (4,954,834) | (97,836) |
| OTHER COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO: | | |
| Owners of the Company | 6,205 | (26,512) |
| Non-controlling interest | - | - |
| | 6,205 | (26,512) |
| Loss per share - basic and diluted | \$ (0.03) | \$ (0.00) |
| Weighted average number of shares outstanding – basic and diluted | 142,105,852 | 140,058,777 |

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, 2022 | 142,105,852 | 7,565,874 | (16,911) | 569,704 | 913,374 | 2,630,041 | 11,662,082 | - | 11,662,082 |
| Cumulative translation adjustment | - | - | 6,205 | - | - | - | 6,205 | - | 6,205 |
| Net loss for the year | - | - | - | - | - | (4,951,773) | (4,951,773) | (3,061) | (4,954,834) |

| | | | | | | | | | |
|------------------------------|--------------------|------------------|-----------------|----------------|----------------|--------------------|------------------|----------------|------------------|
| 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 |
|------------------------------|--------------------|------------------|-----------------|----------------|----------------|--------------------|------------------|----------------|------------------|

| | 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 |

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

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

| | Year Ended | |
|---|------------------|-------------------|
| | May 31, 2023 | May 31, 2022 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net loss for the year | \$ (4,954,834) | \$ (97,836) |
| Items not affecting cash: | | |
| Net realized gain on disposal of marketable securities | (765,208) | (3,517,602) |
| Net change in unrealized loss on investment | 4,872,998 | 1,701,286 |
| Fair value loss on derivative financial instrument | 463,240 | 507,269 |
| Impairment of exploration investment | 450,656 | - |
| Deferred tax gain | (1,047,296) | (77,388) |
| Financing cost | 40,523 | 109,912 |
| Foreign exchange | (47,178) | 98,193 |
| Accretion | 123,459 | 249,756 |
| Income tax expense | 104,774 | 171,687 |
| Share-based compensation expense | - | 97,147 |
| Modification gain | (67,186) | - |
| Gain on fair value of Fidelity option | 55,187 | - |
| Interest income | (191,846) | (101,277) |
| | (962,711) | (858,853) |
| Changes in Non-Cash Working Capital Items: | | |
| Receivables | 15,538 | (28,197) |
| Trade and other payables | 218,244 | 79,647 |
| Proceeds from disposal of investment | 1,539,381 | 4,616,398 |
| Purchase of investments | (216,998) | (2,320,002) |
| Debt investments | (321,652) | (968,986) |
| Exploration investments | (374,070) | (479,989) |
| | (102,268) | 40,018 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from borrowings | 507,840 | 438,223 |
| Repayment of borrowings | (632,306) | (662,238) |
| Advances to related parties | (292,673) | - |
| Transaction costs on borrowings | - | (45,080) |
| Proceeds received from private placement, net of issuance costs | - | 563,773 |
| | (417,139) | 294,678 |
| Effect of foreign exchange on cash | 32,722 | 36,705 |
| Change in Cash, During the Year | (486,685) | 371,401 |
| Cash, Beginning of Year | 553,730 | 182,329 |
| Cash, End of Year | \$ 67,045 | \$ 553,730 |

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, 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 May 31, 2023, the Company had working capital of \$6,205,409 which includes investments with a fair market value of \$5,395,442 and cash of \$67,045.

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.

LIONS BAY CAPITAL INC.

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

2. Basis of Presentation

Reporting and basis of measurement

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and interpretations issued by the International Financial Interpretations Committee (“IFRIC”) as issued by the International Accounting Standards Board (“IASB”).

These consolidated financial statements were authorized for issuance by the Board of Directors of Lions Bay Capital Inc. on September 28, 2023. 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.

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. (“Pan Andean”), the Company’s wholly owned subsidiary, and Epic Minerals Pty Ltd. (“Epic Minerals”), 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.

LIONS BAY CAPITAL INC.

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

2. **Basis of Presentation** (cont'd...)

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 and 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.

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 was 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 Loss.

As an investment entity, the Company applies an exception to consolidation to account for its investments in subsidiaries in which the Company holds a controlling interest, after factoring in qualitative factors such as common management and directors. As at May 31, 2023, the Company has a 48.35% (2022 – 48.79%) interest in Fidelity Minerals Corp., an entity incorporated and doing business in British Columbia, Canada (note 4).

LIONS BAY CAPITAL INC.

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

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 consolidated 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.
- 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 then 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 profit or loss (note 13).

LIONS BAY CAPITAL INC.

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

3. Summary of Significant Accounting Policies (cont'd...)

Critical accounting estimates and judgments (cont'd...)

(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.

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.

LIONS BAY CAPITAL INC.

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

3. Summary of Significant Accounting Policies (cont'd...)

Financial instruments (cont'd...)

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 trade and other payables 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.

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, derivative financial instruments, and the option on Fidelity shares 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.

LIONS BAY CAPITAL INC.

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

3. Summary of Significant Accounting Policies (cont'd...)

Financial instruments (cont'd...)

Impairment of financial assets (cont'd...)

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 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.

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.

LIONS BAY CAPITAL INC.

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

3. Summary of Significant Accounting Policies (cont'd...)

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.

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

LIONS BAY CAPITAL INC.

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

3. Summary of Significant Accounting Policies (cont'd...)

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.

Realized gain or loss on disposal of investments is determined based on the difference between the cost base of the investment and proceeds received on sale and unrealized gain or loss on investments are determined based on the difference between the cost base of the investment and 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 expense is recognized in the Statements of Operations and Comprehensive 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.

LIONS BAY CAPITAL INC.

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

3. Summary of Significant Accounting Policies (cont'd...)

Income tax (cont'd...)

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 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 investments

(i) Pre-license costs:

Costs incurred before the Company has obtained the legal right to explore are expensed as incurred.

(ii) Exploration and evaluation costs:

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. These investments are not considered core investments and are actively managed by the Company.

(iii) Mines under construction and development costs:

When technical feasibility and economic viability of projects have been determined and the decision to proceed with development has been approved the asset is first tested for impairment and thereafter, the expenditures related to construction are capitalized as mines under construction and classified as a component of mine properties, plant and equipment. Costs associated with the commissioning of new assets, in the pre-commercial period before they are operating in the way intended by management, are capitalized, net of any pre-production revenues. Commercial production is deemed to have occurred when management determines certain production parameters are met.

In order for production to occur, the Company must first obtain exploitation and other permits on such properties. Such permits are subject to the approval of the local government and government controlled entities. Unless and until such permits are obtained there can be no assurance that such permits will be obtained. As such, permits need to be obtained before costs are reclassified from exploration and evaluation properties to mines under construction.

LIONS BAY CAPITAL INC.

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

3. Summary of Significant Accounting Policies (cont'd...)

Exploration investments (cont'd...)

(iv) Mine properties:

Once a mineral property has been brought into commercial production as intended by management, costs of any additional work on that property are expensed as incurred, except for large development programs, which will be deferred and depleted over the remaining useful life of the related assets. Mine properties include deferred stripping costs and decommissioning and restoration costs related to the reclamation of mine properties. Mine properties are derecognized upon disposal, or impaired when no future economic benefits are expected to arise from continued use of the asset. Any gain or loss on disposal of the asset, determined as the difference between the proceeds received and the carrying amount of the asset is recognized in profit or loss.

Costs of producing mine properties are depreciated and depleted on the unit of production (“UOP”) basis using estimated resources. Depreciation or depletion is recorded against the mine property only upon the commencement of commercial production.

Mine properties are recorded at cost, net of accumulated depreciation and depletion and accumulated impairment losses and are not intended to represent future values.

Recovery of capitalized costs is dependent on successful development of economic mining operations or the disposition of the related mineral property.

Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company’s title. Such properties may be subject to prior agreements or transfers, non-compliance with regulatory requirements or title may be affected by undetected defects.

Restoration, rehabilitation and environmental obligations

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

Costs for restoration of subsequent site damage which is created on an ongoing basis during production are provided for at their net present values and charged against profits as extraction progresses. The Company estimates that the present value of the required restoration, rehabilitation and environmental costs resulting from disturbance to date to be immaterial.

LIONS BAY CAPITAL INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED
MAY 31, 2023 and 2022 (in Canadian dollars)****4. Prepaids and Other Receivables**

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

| | May 31 2023 | May 31 2022 |
|-------------------|------------------------|------------------------|
| | \$ | \$ |
| Prepaid expenses | 1,052 | 6,241 |
| Other receivables | 11,667 | 22,016 |
| | <u>12,719</u> | <u>28,257</u> |

During the year ended May 31, 2023, the Company loaned Fidelity Minerals Corp. ("FMN") \$292,673. The loan receivable is un-secured and non-interest bearing. FMN is considered a related party by virtue of the common executive and director. As the loan has no formal repayment terms the amount is classified as a long-term asset.

5. Derivative Financial Instruments

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.

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 became a derivative asset and \$199,979 was reclassified to derivative assets.

| | May 31, 2023 | May 31, 2022 |
|---|-------------------------|-------------------------|
| Expected warrant life | 1.17 years | 2.16 years |
| Expected stock price volatility | 103% | 146% |
| Dividend payment during life of warrant | Nil | Nil |
| Risk free interest rate | 3.28% | 2.60% |
| Weighted average strike price | \$ 0.019 | \$ 0.019 |
| Weighted average fair value per warrant | \$ 0.003 | \$ 0.007 |
| Weighted average share price | \$ 0.010 | \$ 0.011 |

LIONS BAY CAPITAL INC.

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

5. Derivative Financial Instruments (cont'd...)**FMN Warrants**

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

| | May 31, 2023 | May 31, 2022 |
|---|-------------------------|-------------------------|
| Expected warrant life | - | 0.33 years |
| Expected stock price volatility | - | 77% |
| Dividend payment during life of warrant | - | Nil |
| Risk free interest rate | - | 2.67% |
| Weighted average strike price | \$ - | \$ 0.09 |
| Weighted average fair value per warrant | \$ - | \$ 0.03 |
| Weighted average share price | \$ - | \$ 0.11 |

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, 2023 | May 31, 2022 |
|---|-------------------------|-------------------------|
| Expected warrant life | 1.0 years | 2.0 years |
| Expected stock price volatility | 222% | 163% |
| Dividend payment during life of warrant | Nil | Nil |
| Risk free interest rate | 4.22% | 2.73% |
| Weighted average strike price | \$ 0.15 | \$ 0.15 |
| Weighted average fair value per warrant | \$ 0.001 | \$ 0.07 |
| Weighted average share price | \$ 0.02 | \$ 0.010 |

LIONS BAY CAPITAL INC.

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

5. Derivative Financial Instruments (cont'd...)
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.

| | May 31, 2023 | May 31, 2022 | |
|---|-----------------|-----------------|--|
| Expected warrant life | 2.25 years | - | |
| Expected stock price volatility | 100% | - | |
| Dividend payment during life of warrant | Nil | - | |
| Risk free interest rate | 3.28% | - | |
| Weighted average strike price | \$ 0.30 | \$ - | |
| Weighted average fair value per warrant | \$ 0.03 | \$ - | |
| Weighted average share price | \$ 0.105 | \$ - | |

| | Number of warrants | Weighted average exercise price \$ | Derivative \$ |
|--|-----------------------|--|------------------|
| Balance, May 31, 2021 | 14,171,583 | 0.03 | 1,186,148 |
| ELT Warrants acquired (note 6) | 200,000 | 0.375 | 45,530 |
| Partly Paid Parkway Corporate Limited (note 6) | 54,534,252 | 0.019 | 199,979 |
| FMN Warrants exercised (note 6) | (7,400,000) | 0.05 | (105,300) |
| Arctic Star warrants acquired (Note 6) | 100,000 | 0.15 | 7,058 |
| FMN Warrants acquired (note 6) | 3,500,000 | 0.11 | 71,224 |
| ELT Warrants exercised (note 6) | (900,000) | 0.375 | (265,776) |
| Change in fair value | - | - | (507,269) |
| 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 |

During the year ended May 31, 2023, the Company has a total loss on derivatives of \$463,240 (2022 – loss of \$507,269).

LIONS BAY CAPITAL INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED
MAY 31, 2023 and 2022 (in Canadian dollars)****6. Investments**

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

| | 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 (viii) | 742,276 | - | (502,789) | (239,487) | - | - |
| Kalina Power Ltd. – warrants (i) | 15,113 | - | - | (15,113) | - | - |
| Meryllion Resources Corp. (vi) | 52,000 | - | (4,700) | (38,195) | - | 9,105 |
| First AU Ltd - listed options | 57,422 | - | - | (36,088) | (694) | 20,640 |
| Heavy Rare Earths Limited (vii) | 13,453 | 45,110 | - | 2,932 | (2,372) | 59,123 |
| Arctic Star (ix) | 24,000 | - | - | (20,000) | - | 4,000 |
| Bishop Resources (x) | 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 upon the disposal shares for proceeds of \$1,539,381.

LIONS BAY CAPITAL INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED
MAY 31, 2023 and 2022 (in Canadian dollars)****6. Investments (cont'd...)**

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.

| | Cost | Fair Value | Cost | Fair Value |
|--|------------------|-------------------|------------------|-------------------|
| | May 31 | May 31 | May 31 | May 31 |
| | 2023 | 2023 | 2022 | 2022 |
| | \$ | \$ | \$ | \$ |
| Kalina Power Ltd (i) | 1,727,004 | 542,472 | 1,716,904 | 1,106,292 |
| Fidelity Minerals Corp (ii) | 4,529,030 | 3,434,595 | 4,411,194 | 4,345,214 |
| Eurotin Inc (v) | - | - | - | - |
| Elementos Ltd (iii) | 747,716 | 368,357 | 1,050,928 | 2,837,865 |
| Parkway Corporate Limited (iv) | 253,810 | 886,196 | 531,551 | 1,657,552 |
| Partly Paid Parkway Corporate Limited (iv) | - | - | - | - |
| South Harz Potash Ltd. (viii) | - | - | 258,854 | 742,276 |
| Kalina Power Ltd. – warrants (i) | - | - | 15,741 | 15,113 |
| Meryllion Resources Corp. (vi) | 34,786 | 9,105 | 37,250 | 52,000 |
| First AU Ltd - listed options (xi) | 95,730 | 20,640 | 95,730 | 57,422 |
| Heavy Rare Earth Limited (vii) | 101,958 | 59,123 | 13,818 | 13,453 |
| Arctic Star (ix) | 16,000 | 4,000 | 16,000 | 24,000 |
| Bishop Resources (x) | 75,073 | 70,954 | 75,073 | 72,881 |
| Total | 7,581,107 | 5,395,442 | 8,223,043 | 10,924,068 |

- (i) 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.

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 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.

- (ii) 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).

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. 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 and allocated to derivative financial instrument (note 5). 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.

LIONS BAY CAPITAL INC.

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

6. Investments (cont'd...)

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

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 and allocated to derivative financial instrument (note 5). The fair value of the warrants received were calculated using the Black-Scholes option pricing model with the following weighted average assumptions: 0.02% 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. As at May 31, 2022, the Company had no warrants of Elementos Ltd.

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

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 financial instruments (note 5).

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

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

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, 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.

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

LIONS BAY CAPITAL INC.

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

6. Investments (cont'd...)

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

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

- (ix) During the year ended May 31, 2022, the Company 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 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: 2.73% risk free interest rate, expected life of 2.0 years, 163% annualized volatility and 0% dividend rate.
- (x) During the year ended May 31, 2022, the Company participated in a private placement for a total of \$75,073 for a total of 500,000 shares.

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

- 1) Parkway Corporate Limited - listed on the ASX (PWN). The Company owns 104,000,000 (May 31, 2022 – 167,000,000) which represents 4.67% (May 31, 2022 – 7.55%) of the outstanding common shares of Parkway Corporate Limited valued at \$886,196 (May 31, 2022 - \$1,657,552).
- 2) Kalina Power Ltd - listed on the ASX (KPO). The Company owns 52,118,115 (May 31, 2022 – 51,118,115) which represents 3.44% (May 31, 2022 – 3.25%) of the outstanding common shares of Kalina Power Ltd. valued at \$542,472 (May 31, 2022 - \$1,106,292). The Company also holds nil Kalina Power Ltd. warrants (May 31, 2022 – 4,000,000) which were exercisable at AUD \$0.044 and expired unexercised on August 27, 2022 and valued at \$nil (May 31, 2022 - \$15,113) 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 2,566,290 (May 31, 2022 – 4,456,549) which represents 1.32% (May 31, 2022 – 2.52%) of the outstanding common shares of Elementos Ltd. valued at \$368,357 (May 31, 2022 - \$2,837,865).
- 4) South Harz Potash - listed on the ASX (SHP). The Company owns nil (May 31, 2022 – 5,670,022) which represents nil% (May 31, 2022 – 1.07%) of the outstanding common shares of South Harz Potash Ltd. valued at \$nil (May 31, 2022 - \$742,276).
- 5) Fidelity Minerals Corp - listed on the TSXV (FMN). The Company owns 42,932,312 (May 31, 2022 – 41,382,811) which represents 48.35% (May 31, 2022 – 48.79%) of the outstanding common shares of FMN valued at \$3,434,595 (May 31, 2022 - \$4,345,214). FMN is considered a related party by virtue of a common officers and directors.

LIONS BAY CAPITAL INC.

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

6. Investments (cont'd...)

- 6) Meryllion Resources Corp. - listed on the CSE (MYR). The Company owns 607,000 (May 31, 2022 – 650,000) which represents 2.03% (May 31, 2022 – 2.33%) of the outstanding common shares of Meryllion Resources Corp. valued at \$9,105 (May 31, 2022 - \$52,000).
- 7) First AU Limited – The Company holds 20,000,000 (May 31, 2022 – 20,000,000) warrants of First AU Limited which are exercisable at AUD \$0.02 expiring July 1, 2023, valued at \$20,640 (May 31, 2022 - \$57,422) using the free-trading market price of the warrants.
- 8) Arctic Star Exploration Corp. - listed on the TSX-V (ADD). The Company owns 200,000 (May 31, 2022 – 200,000) which represents 0.10% (May 31, 2022 – 0.16%) of the outstanding common shares of Arctic Star valued at \$4,000 (May 31, 2022 - \$24,000).
- 9) Heavy Rare Earth Limited – listed on the ASX (HRE). The Company owns 650,000 (May 31, 2022 – 150,000) which represents 0.95% (May 31, 2022 – unknown as the HRE was private) of the outstanding common shares of HRE valued at \$59,123 (May 31, 2022 - \$13,453). HRE is considered a related party by virtue of a common director.
- 10) Bishop Resources – private company. The Company owns 500,000 (May 31, 2022 – 500,000) of the outstanding common shares of Bishop Resources valued at \$70,954 (May 31, 2022 - \$72,881).

LIONS BAY CAPITAL INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED
MAY 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).

| | May 31, 2023 | May 31, 2022 |
|-----------------------------|---------------------|---------------------|
| Opening balance | \$ 1,074,359 | \$ - |
| Advances | 54,423 | 968,986 |
| Interest accrued | 187,283 | 101,277 |
| Gain on modification | 67,186 | - |
| Unrealized foreign exchange | 81,071 | 4,096 |
| Ending balance | \$ 1,464,322 | \$ 1,074,359 |

LIONS BAY CAPITAL INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED
MAY 31, 2023 and 2022 (in Canadian dollars)****7. Debt Investment {cont'd...}**

As at May 31, 2023, the Company has advanced USD \$807,600 (2022 – USD \$767,350) under the terms of the loan. 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 has recorded interest income of \$187,283 (May 31, 2022 - \$101,277). 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. As at May 31, 2023, the Company used an indicative market approach based on the transaction subsequent to year end with unrelated market participants (note 17). 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.

Subsequent to May 31, 2023, the Company purchased a USD \$2.1 million loan note from Salamander using the debt investment as a portion of the consideration (see note 17).

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 year ended May 31, 2023, \$4,564 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.

| | May 31, 2023 | May 31, 2022 |
|-----------------------------|---------------------|---------------------|
| Opening balance | \$ - | \$ - |
| Advances | 267,229 | - |
| Interest accrued | 4,564 | - |
| Unrealized foreign exchange | 4,405 | - |
| Ending balance | \$ 276,198 | \$ - |

LIONS BAY CAPITAL INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED MAY 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 YEARS ENDED
MAY 31, 2023 and 2022 (in Canadian dollars)****8. Exploration Investments {cont'd...}****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 (transferred to the vendor subsequent to May 31, 2023);
- 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 \$77,266 as at May 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 | Total |
|--------------------------------|------------|---------------|------------|
| Balance at May 31, 2021 | \$ - | \$ - | \$ - |
| Additions | 394,036 | 85,953 | 479,989 |
| 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 | \$ - | \$ 7,738 | \$ 327,738 |

LIONS BAY CAPITAL INC.

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

9. Borrowings

| | 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 | 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 | \$ 40,523 | \$ (632,306) | \$ (134,446) | \$123,459 | \$38,299 | \$ 472,393 |
| Classified as current | | | | | | | | 472,393 |

| | May 31, 2021 | Draw | Interest | Repayment | Transaction Costs | Accretion | Foreign Exchange | 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 (ii) | 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 |

LIONS BAY CAPITAL INC.

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

9. Borrowings (cont'd...)

(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 YEARS ENDED MAY 31, 2023 and 2022 *(in Canadian dollars)*

9. Borrowings (cont'd...)

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.

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 May 31, 2023, the option over 3,500,000 Fidelity shares had a fair value of \$189,633 using the Black-Scholes option pricing model with the following assumptions: a 1.56 year expected life; 147% volatility; risk-free interest rate of 4.22%; and a dividend yield of 0%. A loss of \$55,187 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 YEARS ENDED
MAY 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.

- 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.

LIONS BAY CAPITAL INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED
MAY 31, 2023 and 2022 (in Canadian dollars)****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, 2023 | | May 31, 2022 | |
|--|-------------------------------|----------------------------------|-------------------------------|----------------------------------|
| | Number of options | Exercise price \$ | Number of options | Exercise price \$ |
| Options outstanding, beginning of the year | 1,400,000 | 0.10 | - | - |
| Options issued | - | - | 1,400,000 | 0.10 |
| Options outstanding and exercisable, end of year | 1,400,000 | 0.10 | 1,400,000 | 0.10 |
| | Number of warrants | Exercise price \$ | Number of warrants | Exercise price \$ |
| Warrants outstanding, beginning of the year | 24,353,213 | 0.09 | 21,358,054 | 0.09 |
| Warrants granted | - | - | 5,556,070 | 0.10 |
| Warrants expired | (20,828,768) | 0.09 | (2,560,911) | 0.11 |
| Warrants outstanding, end of year | 3,524,445 | 0.10 | 24,353,213 | 0.09 |

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 |
|---|----------------------------------|---|--|------------------------|
| 3,524,445 | 0.10 | 3,524,445 | 0.29 | September 14, 2023* |
| 1,400,000 | 0.10 | 1,400,000 | 0.24 | August 27, 2023* |

*expired unexercised subsequent to May 31, 2023

LIONS BAY CAPITAL INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED
MAY 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 year ended May 31, 2023.

The Company does not have any externally imposed capital requirements.

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

| As at May 31, 2022 | Level 1 | Level 2 | Level 3 | Total |
|--|-------------------|----------------|------------------|-------------------|
| | \$ | \$ | \$ | \$ |
| Investments (note 6) | 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 |

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, 2023 the Company transferred its Salamander debt investment from level 3 to level 2. Subsequent to May 31, 2023, the Company derecognized this financial instrument in exchange for receipt of another loan receivable from GnT (note 17), and this subsequent transaction between market participants was used to support the fair value of the Salamander debt investment as at May 31, 2023.

LIONS BAY CAPITAL INC.

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

13. Fair value measurement {cont'd...}

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.

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, 2023, if interest rates were higher by 1% per annum, the potential effect to the Company would change in net income (loss) of approximately \$4,724 (May 31, 2022: \$5,290).

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, 2023, the Company is primarily exposed to foreign exchange risk through Australian dollar denominated investments of \$1,947,751 (May 31, 2022: \$6,502,854), which represent approximately 36.1% (May 31, 2022: 59.5%) 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 \$97,388 respectively (May 31, 2022: \$325,298).

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 \$539,544 (May 31, 2022: \$1,092,717).

LIONS BAY CAPITAL INC.

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

13. Fair value measurement {cont'd...}

Risk Associated with Financial Instruments (cont'd...)

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 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.

LIONS BAY CAPITAL INC.

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

13. Fair value measurement {cont'd...}

Risk Associated with Financial Instruments (cont'd...)

Unlisted securities (cont'd...)

- 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.

As at May 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.

LIONS BAY CAPITAL INC.

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

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, 2023, Twenty-Second Yeneb Pty Limited, a company controlled by John Byrne, provided President and CEO services to the Company. During the year ended May 31, 2023 total fee charged was \$240,000 (2022 - \$240,000). Total amount accrued for Twenty-Second Yeneb Pty Limited as at May 31, 2023, which included fees and business expenses was \$nil (May 31, 2022 - \$25,724).

During the year ended May 31, 2023, a company controlled by Anthony Balic charged fees for CFO services of \$105,000 (2022 - \$90,000). As at May 31, 2023, the amount owed was \$18,375 (May 31, 2022 - \$nil).

During the year ended May 31, 2023, the Company was charged directors fees of \$24,000 (2022 - \$24,000) by Ross MacLachlan. As at May 31, 2023, the Company had \$62,178 (2022 - \$38,178) payable to Ross.

During the year ended May 31, 2023, the Company paid Kalina Power Ltd. \$34,509 (2022 - \$36,084) for management services and \$16,537 (2022 - \$nil) for rent. During the year end May 31, 2023, the Company received \$nil rent reimbursement from Kalina Power Ltd. (2022 - \$15,430). As at May 31, 2023 the Company had accounts payable of \$37,660 (2022 - \$16,628) outstanding to Kalina Power Ltd. which is considered a related party by virtue of a common director.

During the year ended May 31, 2023, the Company paid Heavy Rare Earths Limited \$17,864 (2022 - \$4,550) for rent. As at May 31, 2023 the Company had accounts payable of \$1,457 (2022 - \$nil) outstanding to Heavy Rare Earths Limited which is considered a related party by virtue of a common director.

During the year ended May 31, 2023, Twenty-Second Yeneb Pty Limited, a company controlled by John Byrne advanced a loan to the Company with interest payable at 10% per annum. As at May 31, 2023, total loan and interest outstanding is \$13,673 (May 31, 2022 - \$31,180).

LIONS BAY CAPITAL INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED
MAY 31, 2023 and 2022 (in Canadian dollars)****15. Income Taxes**

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

| | 2023 | 2022 |
|--|-------------|-------------|
| | \$ | \$ |
| Net income (loss) before tax | (5,897,356) | (3,537) |
| Income taxed at local statutory rates - 27% (2020: 27%) | (1,592,286) | (955) |
| Change in unrecognized deductible temporary differences | 550,117 | - |
| Permanent differences | 58,632 | 31,308 |
| Share issuance costs | - | 37 |
| Change in statutory, foreign tax, foreign exchange and other | 41,015 | 63,909 |
| Income tax expense/(recovery) | (942,522) | 94,299 |
| Current income tax expense (recovery) | 104,774 | 171,687 |
| Deferred income tax expense (recovery) | (1,047,296) | (77,388) |
| Income tax expense/(recovery) | (942,522) | 94,299 |

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, 2023 and May 31, 2022 are summarized as follows:

| | 2023 | 2022 |
|--|-------------|-------------|
| | \$ | \$ |
| Deferred tax assets: | | |
| Tax loss | 93,000 | - |
| Provisions | 59,000 | 100,000 |
| Deferred tax liabilities: | | |
| Investments | (88,000) | (922,000) |
| Exploration investment | (40,000) | (91,000) |
| Derivative financial instruments | (24,000) | (140,000) |
| Foreign exchange variance | - | (15,000) |
| Deferred tax asset/(liability) at year end | - | (1,068,000) |

LIONS BAY CAPITAL INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED
MAY 31, 2023 and 2022 (in Canadian dollars)****15. Income Taxes (cont'd...)**

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

| | <u>2023</u> | <u>Expiry date</u> | <u>2022</u> |
|-------------------------------------|-------------|--------------------|-------------|
| Property and equipment | 61,383 | No expiry | - |
| Share issuance costs | 65,026 | 2044 to 2046 | - |
| Investments | 1,744,034 | No expiry | - |
| Accruals and other | 196,279 | No expiry | - |
| Losses available for future periods | 10,477 | No expiry | - |

16. Supplemental cash flow information

| | <u>2023</u> | <u>2022</u> |
|--|-------------|-------------|
| Options granted on FMN shares | \$ 134,446 | \$ - |
| Reclass from investments to derivatives | - | 199,979 |
| Shares purchased through prepaids | - | 51,425 |
| Warrants issued for debt transaction costs | - | 112,077 |
| Cash paid for interest | 14,471 | 5,880 |
| Cash paid for taxes | - | - |

17. Subsequent events

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 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.