



Audited Consolidated Financial Statements

For the Years Ended February 28, 2023 and February 28, 2022

(Expressed in Canadian Dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of NEO Battery Materials Ltd.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of NEO Battery Material Ltd. (the "Company"), which comprise the consolidated statements of financial position as at February 28, 2023 and 2022, and the consolidated statements of loss and comprehensive loss, changes in equity (deficiency) 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, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at February 28, 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 ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company continues to incur operating losses with no source of operating cash flow and is dependent upon equity financing to continue its operations. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, 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 period. 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.

Except for the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined that there are no other key audit matters to communicate in our auditor's report.

Other Information

Management is responsible for the other information. The other information comprises the information included in "Management's Discussion and Analysis" but does not include the consolidated financial statements and our auditor's report thereon.

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. 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.

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 period 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 James Roxburgh.

A handwritten signature in black ink that reads "De Visser Gray LLP". The signature is written in a cursive, flowing style.

Chartered Professional Accountants

Vancouver, BC, Canada
June 26, 2023

NEO Battery Materials Ltd.
Consolidated Statements of Financial Position
(Expressed in *Canadian Dollars*)

Assets	February 28, 2023	February 28, 2022
		(Note 4)
Current Assets:		
Cash	\$ 1,626,408	\$ 1,247,750
Marketable securities (Note 6)	2,975	7,910
Prepaid expenses (Note 7)	99,617	161,865
Sales tax and other receivables (Note 8)	22,718	21,423
	1,751,718	1,438,948
Non-Current Assets:		
Deposits	-	12,597
Equipment and furniture (Note 10)	554,443	180,529
Exploration and evaluation assets (Note 9)	-	1,344
Intangible assets (Note 11)	55,364	49,210
Prepaid expenses – long term (Note 7)	766,327	31,212
Right-of-use asset (Note 15)	-	9,962
Total Assets	\$ 3,127,852	\$ 1,723,802
Liabilities and Equity		
Current Liabilities:		
Accounts payable and accrued liabilities (Note 14)	\$ 179,236	\$ 166,119
Lease liability – current portion (Note 15)	-	12,167
Total Liabilities	179,236	178,286
Shareholders' Equity:		
Share capital (Note 16)	22,838,207	22,311,985
Reserves (Note 16)	7,605,731	7,792,453
Accumulated other comprehensive loss	(213,523)	(213,523)
Deficit	(28,339,456)	(28,345,399)
	1,890,959	1,545,516
Non-controlling interest ("NCI") (Note 5)	1,057,657	-
Total Shareholders' Equity	2,948,616	1,545,516
Total Liabilities and Shareholders' Equity	\$ 3,127,852	\$ 1,723,802

Nature of Operations and Going Concern (Note 1)

Contingency (Note 20)

Subsequent Events (Note 21)

Approved by the Board of Directors on June 26, 2023:

"Spencer Sung Bum Huh", Director

"Larry Okada", Director

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

NEO Battery Materials Ltd.

Consolidated Statements of Loss and Comprehensive Loss

(Expressed in Canadian Dollars)

	For Year Ended	
	February 28, 2023	February 28, 2022
Expenses		(Note 4)
Amortization (Note 10 & 11)	\$ 102,540	\$ 14,656
Amortization of ROU asset (Note 15)	9,962	59,771
Advertising and marketing	46,664	127,502
Consulting and management fees (Note 17)	470,177	439,400
Corporate listing and filing fees	50,921	91,227
Exploration and evaluation expenditure	-	12,690
Investor relations	48,602	92,895
Office and general	49,393	48,409
Payroll expenses	489,558	45,563
Professional fees (Note 17)	241,864	180,068
Rent	109,579	118,167
Research and development	304,527	132,713
Stock-based compensation (Note 16)	-	683,248
Sublease income	(5,925)	(49,321)
Travel	45,054	40,105
Loss from operations	1,962,916	2,037,093
Other expenses (income)		
Write-off of debt	-	(65,845)
Impairment of E&E assets (Note 9)	1,344	-
Interest and miscellaneous income	(770)	(80)
Interest expense – lease liability (Notes 15)	1,856	12,464
Interest expense – loan	-	68,810
Loss (gain) on foreign exchange	(55,059)	7,723
Unrealized loss on marketable securities (Note 6)	4,935	4,514
Total other expense (income)	(47,694)	27,586
Net loss and comprehensive loss for the year	\$ 1,915,222	\$ 2,064,679
Net loss contributable to		
Controlling equity holders of the Company	1,609,557	2,064,679
Non-controlling interest (Note 5)	305,665	-
	1,915,222	2,064,679
Loss per share – basic and diluted	\$ 0.02	\$ 0.02
Weighted average number of common shares outstanding	98,324,449	87,949,916

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

NEO Battery Materials Ltd.
Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

	For Year Ended	
	February 28, 2023	February 28, 2022
Operating Activities:		<i>(Note 4)</i>
Net loss for the year	\$ (1,915,222)	\$ (2,064,679)
Adjustment for items which do not involve cash:		
Amortization	102,540	14,656
Amortization of ROU asset	9,962	59,771
Impairment of E&E assets	1,344	-
Unrealized loss on marketable securities	4,935	4,514
Write-off of debt	-	(65,845)
Stock-based compensation	-	683,248
Changes in non-cash working capital components:		
Accounts payable and accrued liabilities	19,796	9,218
Deposit	12,597	-
Loan interest	-	68,810
Prepaid expenses	(404)	(177,055)
Sales tax and other receivables	(1,295)	(13,052)
	(1,765,747)	(1,480,414)
Investing Activities:		
Additions to equipment and furniture	(479,869)	(177,463)
Additions to intangible assets	(9,418)	(17,119)
Prepaid expenses – commercial plant design fees	(672,463)	-
	(1,161,750)	(194,582)
Financing Activities:		
Exercise of warrants	224,000	1,660,000
Exercise of options	115,500	46,000
Proceeds from issuance of shares of Korean subsidiary	2,978,822	-
Office lease payment	(12,167)	(70,926)
Private placement	-	2,057,000
Private placement – share issue costs	-	(11,035)
Repayment of short-term loans and interest	-	(1,359,169)
Repayment of share subscriptions	-	(25,000)
	3,306,155	2,296,870
Net changes in cash and cash equivalents	378,658	621,874
Cash and cash equivalents - beginning of the year	1,247,750	625,876
Cash and cash equivalents - end of the year	\$ 1,626,408	\$ 1,247,750
Non-cash Activities:		
Equipment in accounts payable and accrued liabilities	\$ 8,619	\$ 15,298

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

NEO Battery Materials Ltd.

Consolidated Statements of Changes in Equity (Deficiency)
For the year ended February 28, 2023 and February 28, 2022
(Expressed in Canadian Dollars)

	SHARE CAPITAL		SHARE		ACCUMULATED			NON-	
	SHARES	AMOUNT	SUBSCRIPTIONS	RESERVES	OTHER	ACCUMULATED	TOTAL FOR	CONTROLLING	TOTAL EQUITY
			RECEIVED		COMPREHENSIVE	DEFICIT	OWNER	INTEREST	
					LOSS ("AOCL")				
Balance - February 28, 2021	70,233,980	18,935,514	25,000	6,733,711	(213,523)	(26,315,235)	(834,533)	-	(834,533)
Impact of change in accounting policy (Note 4)	-	-	-	-	-	34,515	34,515	-	34,515
Restated Balance - February 28, 2021	70,233,980	18,935,514	25,000	6,733,711	(213,523)	(26,280,720)	(800,018)	-	(800,018)
Repayment – share subscription	-	-	(25,000)	-	-	-	(25,000)	-	(25,000)
Share issued – private placement	17,141,667	1,159,965	-	886,000	-	-	2,045,965	-	2,045,965
Stock-based compensation	-	-	-	683,248	-	-	683,248	-	683,248
Exercise of stock options	650,000	91,166	-	(45,166)	-	-	46,000	-	46,000
Exercise of warrants	9,500,000	2,125,340	-	(465,340)	-	-	1,660,000	-	1,660,000
Net loss for the year	-	-	-	-	-	(2,064,679)	(2,064,679)	-	(2,064,679)
Balance - February 28, 2022	97,525,647	22,311,985	-	7,792,453	(213,523)	(28,345,399)	1,545,516	-	1,545,516
Balance – February 28, 2022	97,525,647	22,311,985	-	7,792,453	(213,523)	(28,394,609)	1,496,306	-	1,496,306
Impact of change in accounting policy (Note 4)	-	-	-	-	-	49,210	49,210	-	49,210
Restated Balance - February 28, 2022	97,525,647	22,311,985	-	7,792,453	(213,523)	(28,345,399)	1,545,516	-	1,545,516
Exercise of warrants (Note 16)	1,399,999	296,368	-	(72,368)	-	-	224,000	-	224,000
Exercise of stock options (Note 16)	1,878,333	229,854	-	(114,354)	-	-	115,500	-	115,500
Issuance of shares in Korea Co (Note 5)	-	-	-	-	-	1,615,500	1,615,500	1,363,322	2,978,822
Net loss for the year	-	-	-	-	-	(1,609,557)	(1,609,557)	(305,665)	(1,915,222)
Balance - February 28, 2023	100,803,979	22,838,207	-	7,605,731	(213,523)	(28,339,456)	1,890,959	1,057,657	2,948,616

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

NEO Battery Materials Ltd.

Notes to Consolidated Financial Statements

For the Years Ended February 28, 2023 and February 28, 2022

(Expressed in Canadian Dollars)

1. Nature of Operations and Going Concern

NEO Battery Materials Ltd. (the “Company” or “NEO Battery”) is a publicly listed company incorporated under the Business Corporations Act of British Columbia on February 10, 2006 as 0748496 B.C. Ltd. On March 1, 2006, the Company changed its name to BCGold Corp, and on March 16, 2017 to Pan Andean Minerals Ltd, and again on March 2, 2021, to NEO Battery Materials Ltd. The Company is listed on the TSX Venture Exchange (“TSX.V” or the “Exchange”) under the symbol “NBM”. The head office, principal address of the Company is located at 10th Floor – 4711 Yonge Street, Toronto, Ontario, Canada, M2N 6K8. The Company’s registered address is TD North, 77 King St W tower suite 700, Toronto, ON M5K 1G8.

The Company’s shareholder approved the Continuation out of the Company from British Columbia to Ontario in the most recent Annual and Special Meeting dated on February 21, 2023. On April 13, 2022, the Company commenced a “Change of Business” (the “COB”) application with the Exchange. In the past, the Company was a Vancouver-based junior resource company with exploration in North America. The Company deems that a classification to a Tier 2 Technology issuer on the Exchange instead of a junior Mineral Exploration and Mining issuer will better reflect the Company’s long-term goal and serve its shareholders’ best interests. This transition is in process and subject to Exchange acceptance as of the date of these financial statements. On November 21, 2022, the Company received conditional approval from Exchange for proposed COB into an Industrial, Technology, or Life Sciences Tier 2 Issuer. On April 28, 2023, the Company was granted extension until June 19, 2023 to complete the COB upon the minimum financing for gross proceeds of \$3,900,000 and continuing to control at least 51% NBM Korea.

The Company’s ability to continue as a going concern on the is highly dependent upon its ability to obtain the financing necessary to continue operations. The key risk to the Company’s sustainability is securing the funding for its commercial plant’s construction in the near term. The Company’s operation is highly influenced by the capital market environment, supply chain, inflation, geographic stability, and global business environment in general.

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. The Company continues to incur operating losses, has limited financial resources, no source of operating cash flow, and no assurances that sufficient funding, including adequate financing, will be available to continue operations. These material uncertainties may cast a significant doubt on the validity of this assumption. As at February 28, 2023, the Company had an accumulated deficit of \$28,339,456 (February 28, 2022 - \$28,345,399), a net loss for the year ended February 28, 2023 of \$1,915,222 (February 28, 2022 - \$2,064,679) and a working capital of \$1,572,482 (February 28, 2022 – \$1,260,662).

If the going concern assumption is not appropriate for these consolidated financial statements, adjustments could be necessary in the carrying values of assets, liabilities, reported income and expenses and the statement of financial position classifications used. Such adjustments could be material.

2. Basis of Preparation

Statement of Compliance

These consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”). The significant accounting policies, as disclosed, have been applied consistently to all periods presented in these consolidated financial statements.

NEO Battery Materials Ltd.

Notes to Consolidated Financial Statements

For the Years Ended February 28, 2023 and February 28, 2022

(Expressed in Canadian Dollars)

2. Basis of Preparation – continued

Basis of Presentation and Consolidation

These consolidated financial statements have been prepared on a historical cost basis, except for financial instruments classified as financial instruments at fair value through profit or loss, which are stated at their fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

Control is based on whether an investor has power over an investee and the ability to use its power over the investee to affect the amounts of the returns.

Where the Company's interest is less than 100%, the interest attributable to outside shareholders is reflected in non-controlling interest. Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Company's equity therein. Non-controlling interests consist of the amount of those interests at the date that the Company's interest dropped below 100% and the non-controlling interests' share of changes in equity since that date.

These consolidated financial statements incorporate the financial statements of the Company and the entities controlled (directly or indirectly) by the Company (its subsidiaries) including Neo Battery Material Korea Co, Circum-Pacific Holdings Ltd., Canada, Minera Chanape SAC, Peru and Cima De Oro SAC, Peru. All significant intercompany transactions and balances have been eliminated for consolidation purpose.

The current non-controlling interest represents a 40% interest in Neo Battery Material Korea Co (Note 5).

Critical Accounting Estimates

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported expenses during the period. Actual results could differ from these estimates.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period, that could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- i) The carrying value and the recoverability of exploration and evaluation assets, which are included in the statements of financial position based on the planned exploration budgets and drill results of exploration programs.
- ii) The incremental rate of borrowing used in the measurement of the lease liability was based on estimated interest rate the Company would borrow at from arm's-length third parties as at the dates of adopting IFRS 16 and entering into its current long-term office lease.
- iii) The inputs used in accounting for stock-based compensation expense included in profit or loss calculated using the Black-Scholes option pricing model.
- iv) The valuations of shares issued in non-cash transactions using the quoted share price as the fair value-based measurement on the date the shares are issued for the transaction.
- v) The recognition of deferred tax assets based on the change in unrecognized deductible temporary tax differences.

NEO Battery Materials Ltd.

Notes to Consolidated Financial Statements

For the Years Ended February 28, 2023 and February 28, 2022

(Expressed in Canadian Dollars)

3. Summary of Significant Accounting Policies

The significant accounting policies used in the preparation of these annual consolidated financial statements are as follows:

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held with banks, and other short-term highly liquid investments with original maturities of three months or less.

Short-term Investments

The Company classifies all its investments with maturities of less than one year as short-term investments.

Exploration and Evaluation Assets

Exploration and evaluation expenses are charged to earnings as they are incurred until the mineral property reaches the development stage. Significant costs related to property acquisitions are capitalized until the viability of the mineral interest is determined. When it has been established that a mineral deposit is commercially mineable and an economic analysis has been completed, the costs subsequently incurred to develop a mine on the property prior to the start of mining operations are capitalized and will be depreciated against production following commencement of commercial production, or written off if the property is sold, allowed to lapse or abandoned. From time to time, the Company may acquire or dispose of properties pursuant to the terms of option agreements. Because the options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as exploration and evaluation assets or recoveries when the payments are made or received.

Restoration Provision

The Company records a liability based on the best estimate of costs for restoration activities that the Company is legally or constructively required to remediate and recognizes the liability when those obligations result from the acquisition, construction, development or normal operations of assets. Restoration provisions are measured at the present value of the expected expenditures required to settle the obligation using a pre-tax discount rate reflecting the time value of money and risks specific to the liability. The liability is increased for the passage of time and adjusted for changes to the current market-based risk-free discount rate, and the amount of or timing of the underlying cash flows needed to settle the obligation. The associated restoration costs are capitalized as part of the carrying amount of the related property, plant and equipment and amortized on a systematic basis over the expected useful life of the asset.

As at February 28, 2023, the calculation of any possible asset retirement obligation is not considered material.

3. Summary of Significant Accounting Policies – continued

Impairment of Non-Current Assets

The Company follows the guidance in IFRS 6 – Exploration for and Evaluation of Mineral Resources to determine whether exploration and evaluation assets are impaired. This determination requires significant judgment. Impairment indicators relevant for exploration and evaluation properties include whether the rights to explore the area of interest have expired during the period or will expire in the near future, and the rights are not expected to be renewed, substantive expenditure of further exploration and evaluation is not planned or budgeted, the activities have not lead to a discovery of commercial reserves and the Company has decided not to continue such activities in the area of interest or deteriorating local conditions such that it may become unsafe to continue operations. If an impairment indicator is identified, management will perform an impairment test. If the recoverable amount of the exploration and evaluation assets is less than the carrying amount, an impairment loss would be recorded in the consolidated financial statements.

Property and Equipment

Property and equipment is recorded at cost less accumulated depreciation and net accumulated impairment losses. The Company provides for depreciation using the declining balance method at rates designed to amortize the cost of the property and equipment over its estimated useful life. The annual depreciation rates are as follows:

Laboratory equipment & furniture	20 %
Right-of-use assets	Over the terms of leases

Intangible Assets

Intangible assets with finite lives are measured at cost less accumulated amortization and impairment losses. These intangible assets are amortized on a straight-line basis over their estimated useful lives. Useful lives, residual values, and amortization methods for intangible assets with finite useful lives are reviewed at least annually.

The patents classified as intangible assets are being amortized over their useful lives, being 16 or 17 years.

The trademark classified as an intangible asset is being amortized over its useful life, being 15 years.

Indefinite life intangible assets are measured at cost less any impairment charges. These intangible assets are tested for impairment on an annual basis or more frequently if there are indicators that the intangible assets may be impaired.

Income Taxes

The Company uses the balance sheet method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred income tax assets also result from unused loss carry forwards, resource related pools and other deductions. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. 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.

NEO Battery Materials Ltd.

Notes to Consolidated Financial Statements

For the Years Ended February 28, 2023 and February 28, 2022

(Expressed in Canadian Dollars)

3. Summary of Significant Accounting Policies – *continued*

Share-based Payments

The Company grants stock options to buy common shares of the Company to directors, officers, employees and consultants. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The offset to the recorded cost is to share-based payments reserve. Consideration received on the exercise of stock options is recorded as share capital and the related share-based payments reserve is transferred to share capital. Where awards are forfeited because non-market based vesting conditions are not satisfied, the expense previously recognized is proportionately reversed in the period the forfeiture occurs.

Share Capital

The Company records in share capital proceeds from share issuances, net of issue costs and any tax effects. Stock options and other equity instruments issued as purchase consideration in non-monetary transactions are recorded at fair value determined by management using the Black-Scholes option pricing model. Proceeds from private placements are allocated between shares and warrants issued according to their relative fair value.

Loss per Share

Loss per share is computed by dividing the loss available to common shareholders by the weighted average number of common shares outstanding during the period. Under this method, the weighted average number of common shares used to calculate the dilutive effect in the statement of loss and comprehensive loss assumes that the proceeds that could be obtained upon exercise of options, warrants and similar instruments would be used to purchase common shares at the average market price during the period. In periods where a net loss is incurred, basic and diluted loss per share is the same as the effect of outstanding stock options and warrants would be anti-dilutive.

Foreign Currency Translation

The functional currency and, unless otherwise indicated, the presentation currency of the Company is the Canadian ("Cdn") Dollar. The transactions of foreign subsidiaries of the Company are translated into Canadian dollars as follows:

- monetary assets and liabilities at the exchange rate prevailing at the statement of financial position date;
- non-monetary assets and liabilities at the applicable historical exchange rates; and
- revenues and expenses at the average rate of exchange for the period.

Exchange gains and losses arising from the conversion of foreign currency balances and transactions are reported in profit or loss as they occur.

NEO Battery Materials Ltd.

Notes to Consolidated Financial Statements

For the Years Ended February 28, 2023 and February 28, 2022

(Expressed in Canadian Dollars)

3. Summary of Significant Accounting Policies – continued

Financial Instruments

The following is the Company's accounting policy for financial instruments:

(a) Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income (loss) ("FVTOCI") or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

The Company's financial instruments are classified and subsequently measured as follows:

Financial assets/liabilities	Classification
Cash and cash equivalents	FVTPL
Marketable securities	FVTPL
Accounts payable and accrued liabilities	Amortized cost
Lease liability	Amortized cost

(b) Measurement

Financial assets and liabilities at amortized cost

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

Financial assets and liabilities at FVTPL

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the statements of loss and comprehensive loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the statements of loss and comprehensive loss in the periods in which they arise.

Debt investments at FVTOCI

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On de-recognition, gains and losses accumulated in Other Comprehensive Income ("OCI") are reclassified to profit or loss.

NEO Battery Materials Ltd.
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3. Summary of Significant Accounting Policies - continued

Financial Instruments – continued

(b) Measurement – continued

Equity investments at FVTOCI

These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

(c) Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the statements of loss and comprehensive loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

(d) De-recognition

Financial assets

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity.

Financial liabilities

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognizes a financial liability when the terms of the liability are modified such that the terms and / or cash flows of the modified instrument are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

Gains and losses on de-recognition are recognized in profit or loss.

IFRS 16 – Leases

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases.

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Corporation assesses whether the contract involves the use of an identified asset, whether the right to obtain substantially all of the economic benefits from use of the asset during the term of the arrangement exists, and if the Company has the right to direct the use of the asset. At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative standalone prices.

NEO Battery Materials Ltd.

Notes to Consolidated Financial Statements

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3. Summary of Significant Accounting Policies – *continued*

IFRS 16 – Leases - *continued*

As a lessee, the Company recognizes a right-of-use asset and a lease liability at the commencement date of a lease. The right-of-use asset is initially measured at cost, which is comprised of the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any decommissioning and restoration costs, less any lease incentives received.

The right-of-use asset is subsequently depreciated from the commencement date to the earlier of the end of the lease term, or the end of the useful life of the asset. In addition, the right-of-use asset may be reduced due to impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

A lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by the interest rate implicit in the lease, or if that rate cannot be readily determined, the incremental borrowing rate. Lease payments included in the measurement of the lease liability are comprised of:

- fixed payments, including in-substance fixed payments, less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee;
- exercise prices of purchase options if the Company is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, or if there is a change in the estimate or assessment of the expected amount payable under a residual value guarantee, purchase, extension or termination option. Variable lease payments not included in the initial measurement of the lease liability are charged directly to profit or loss.

The Company has recognized a lease liability related to its lease commitment for its office lease. The lease liability is measured at the present value of the remaining lease payments, discounted using the Company's estimated incremental borrowing rate as at the date of entry into a lease agreement. The associated right-of-use assets will be measured at the lease liabilities amount.

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are charged directly to profit or loss on a straight-line basis over the lease term.

Research and Development

Expenditures on research and development activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognized in profit or loss as incurred.

Recent Accounting Pronouncements

A number of new standards, and amendments to standards and interpretations, were not yet effective for the year ended February 28, 2023 and have not been early adopted in preparing these consolidated financial statements. These new standards, and amendments to standards and interpretations were either not applicable or are not expected to have material impact on the company's consolidated financial statements.

NEO Battery Materials Ltd.

Notes to Consolidated Financial Statements

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4. Change in Accounting Policy

The Company is applying a change to its accounting policy relating to the treatment of license fees under IAS 38 *Intangible Assets*. The Company had previously expensed as incurred. The Company has adopted the policy, as outlined in Note 3 – Significant Accounting Policies above, to capitalize the license and patents registration fees. The Company had previously expensed these fees on the statement of loss and comprehensive loss.

With the change, the Company aims to improve its financial communication by providing more reliable, clear and relevant information regarding the Company's intangible assets to its peers in the industry. The following summarizes the impact of the change in accounting policy on the financial statement line items impacted in these financial statements:

Consolidated Statement of Financial Position as at February 28, 2022:

	As reported (\$)	Adjustment (\$)	Restated Balance (\$)
Intangible Assets	-	49,210	49,210
Total Assets	1,674,592	49,210	1,723,802
Deficit	(28,394,609)	49,210	(28,345,399)
Shareholders' Equity	1,496,306	49,210	1,545,516
Total Liabilities and Shareholders' Equity	1,674,592	49,210	1,723,802

Consolidated Statement of Loss and Comprehensive Loss for the year ended February 28, 2022:

	As reported (\$)	Adjustment (\$)	Restated Balance (\$)
Amortization	12,232	2,424	14,656
License fees	10,000	(10,000)	-
Professional fees	187,187	(7,119)	180,068

Consolidated Statement of Cash Flow for the year ended February 28, 2022:

	As reported (\$)	Adjustment (\$)	Restated Balance (\$)
Net loss for the year ended February 28, 2022	(2,079,374)	14,695	(2,064,679)
Amortization	12,232	2,424	14,656
Cash used in operating activities	(1,497,533)	17,119	(1,480,414)
Cash used in investing activities	(177,463)	(17,119)	(194,582)

Consolidated Statement of Change in Equity for the year ended February 28, 2022:

	As reported (\$)	Adjustment (\$)	Restated Balance (\$)
Deficit, as at February 28, 2021	(26,315,235)	34,515	(26,280,720)
Total Shareholders' Equity, as at February 28, 2021	(834,533)	34,515	(800,018)
Net Loss for the year ended February 28, 2022	(2,079,374)	14,695	(2,064,679)
Deficit, as at February 28, 2022	(28,394,609)	49,210	(28,345,399)
Total Shareholders' Equity, as at February 28, 2022	1,496,306	49,210	1,545,516

NEO Battery Materials Ltd.

Notes to Consolidated Financial Statements

For the Years Ended February 28, 2023 and February 28, 2022

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5. Non-controlling Interest

On July 1, 2022, Neo Battery Materials Korea Co ("Korea Co"), a wholly-owned subsidiary of the Company, entered into an Investment Agreement with Automobile & PCB Inc. ("A&P"). Under the terms of Investment Agreement, Korea Co issued 517,657 common shares to A&P at a price of \$5,796 South Korea Won ("KRW") per common share for aggregate gross proceeds of \$2,999,820,383 KRW (equivalent to CAD \$2,978,822). Upon closing of the Investment Agreement, A&P acquired 40% of the issued and outstanding common shares of Korea Co, leaving the Company with a 60% ownership interest in Korea Co on an issued and outstanding basis.

The Company controls and therefore includes the accounts of NEO Korea Co in these consolidated financial statements. A non-controlling interest ("NCI") of \$1,363,322 was recognized as being equal to 40% of the net assets of NEO Korea Co immediately after completion of the Investment Agreement. As funds are expended by NEO Korea Co, it is anticipated that losses will arise in that entity, which will reduce the collective NCI amount, recorded within equity, by its pro-rata share of such losses. The Company's share of such losses would be included within its expenses on a consolidated basis. Likewise on a consolidated basis the losses of NEO Korea Co attributable to the NCI would reduce the Company's reported loss.

As at February 28, 2023, the details of the NCI are as follows:

Non-controlling interest in net asset given up	\$	1,363,322
Net loss of NEO Korea Co attributable to the non-controlling interest		(305,665)
Non-controlling interest as at February 28, 2023	\$	1,057,657

6. Marketable Securities

As at February 28, 2023, marketable securities include 100,000 common shares of a publicly traded company, Pembridge Resources PLC, valued at \$2,975 (2022 - \$7,910).

	February 28, 2023 (\$)	February 28, 2022 (\$)
Marketable securities – fair value	2,975	7,910
Marketable securities – cost	22,200	22,200

7. Prepaid Expenses

	February 28, 2023 (\$)	February 28, 2022 (\$)
Prepaid Expenses - current		
Insurance	4,516	4,579
Rent (a)	42,030	43,736
Travel	8,933	10,550
Vendors	44,138	103,000
Short-term prepaid	99,617	161,865
Prepaid Expenses – long term		
Insurance (b)	26,838	31,212
Vendors (c)	739,489	-
Long-term prepaid	766,327	31,212
Total	865,944	193,077

NEO Battery Materials Ltd.

Notes to Consolidated Financial Statements

For the Years Ended February 28, 2023 and February 28, 2022

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7. Prepaid Expenses – continued

- (a) Includes payments made to rent a site to build the Company's commercial plant in South Korea for the period from March 1, 2023 to December 31, 2023.
- (b) Includes an insurance payment made to guarantee the deposit held for building the Company's commercial plant in South Korea for the period from March 1, 2023 to February 28, 2032.
- (c) Includes payments made to building and process design fees for the Company's commercial plant in South Korea. Such costs will be reclassified to buildings upon the completion of the facility.

8. Sales Tax and Other Receivables

	February 28, 2023 (\$)	February 28, 2022 (\$)
Sales tax (GST & VAT)	22,718	21,423

9. Exploration and Evaluation Assets and Expenditures

Details of the Company's exploration and evaluation acquisition costs are as follows:

	February 28, 2023 (\$)	February 28, 2022 (\$)
Beginning of the year	1,344	1,344
Impairment	(1,344)	-
Carrying value – end of the year	-	1,344

In connection with the COB, the Company impaired its remaining exploration and evaluation assets during the year ended February 28, 2023.

10. Equipment and Furniture

	Equipment	Furniture	Total
Cost:			
February 28, 2021	\$ -	\$ -	\$ -
Additions	192,761	-	192,761
February 28, 2022	192,761	-	192,761
Additions	470,056	3,134	473,190
February 28, 2023	\$ 662,817	\$ 3,134	\$ 665,951
Accumulated Amortization:			
February 28, 2021	\$ -	\$ -	\$ -
Additions	(12,232)	-	(12,232)
February 28, 2022	(12,232)	-	(12,232)
Additions	(98,649)	(627)	(99,276)
February 28, 2023	\$ (110,881)	\$ (627)	\$ (111,508)
Net Book Value:			
February 28, 2022	180,529	-	180,529
February 28, 2023	\$ 551,936	\$ 2,507	\$ 554,443

NEO Battery Materials Ltd.

Notes to Consolidated Financial Statements

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11. Intangible Assets

Patents

On February 8, 2021, the Company entered into an Exclusive License Agreement with Yonsei (the "First Agreement") to obtain exclusive rights to use the three patents owned by Yonsei. Under the terms of the First Agreement, the Company paid an initial license fee of \$35,030 during the year ended February 28, 2021. The remaining license fee of \$267,887 will be due upon the first sale of the product produced based on the use of the patents.

On July 22, 2021, the Company entered into a second Exclusive License Agreement with Yonsei (the "Second Agreement") to obtain exclusive rights to use a separate patent owned by Yonsei. Under the term of the Second Agreement, the Company paid an initial license fee of \$10,000 during the year ended February 28, 2022. The remaining license fee of \$40,000 will be due upon the first sale of the product produced based on the use of the patent.

The Company incurred \$7,946 of registration fees, documentation fees and other professional fees associated with patent registration during the year ended February 28, 2023 (2022 - \$7,119).

Trademark

During the year ended February 28, 2023, the Company filed a trademark, known as NBMSiDE, with the Korean Intellectual Property Office and incurred an application fee of \$1,472.

As at February 28, 2023, intangible assets include one trademark, three registered patents and two patents pending registration. For the purpose of calculating amortization, all of the patents have an expiry date of February 8, 2038.

The net book value of the Company's intangible assets is as follows:

		Patents		Trademark		Total
Cost:						
February 28, 2021	\$	35,030	\$	-	\$	35,030
Additions		17,119		-		17,119
February 28, 2022		52,149		-		52,149
Additions		7,946		1,472		9,418
February 28, 2023	\$	60,095	\$	1,472	\$	61,567
Accumulated Amortization:						
February 28, 2021	\$	(515)	\$	-	\$	(515)
Additions		(2,424)		-		(2,424)
February 28, 2022		(2,939)		-		(2,939)
Additions		(3,214)		(50)		(3,264)
February 28, 2023	\$	(6,153)	\$	(50)	\$	(6,203)
Net Book Value:						
February 28, 2022	\$	49,210	\$	-	\$	49,210
February 28, 2023	\$	53,942	\$	1,422	\$	55,364

(see Note 4)

NEO Battery Materials Ltd.

Notes to Consolidated Financial Statements

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(Expressed in Canadian Dollars)

12. Financial Risk and Capital Management

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is summarized as follows:

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash held in bank accounts. The majority of cash is deposited in bank accounts at a major bank in Canada. As most of the Company's cash is held by one bank there is a concentration of credit risk. This risk is managed by using major banks that are high credit quality financial institutions as determined by rating agencies.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company ensures that there are sufficient funds to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash.

Historically, the Company's sole source of funding has been the issuance of equity securities for cash, primarily through private placements. The Company's access to financing is always uncertain. There can be no assurance of continued access to necessary levels of equity funding.

Foreign exchange risk

Foreign currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. As at February 28, 2023, the Company had negligible financial assets or liabilities denominated in a foreign currency.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not exposed to significant interest rate risks.

Capital management

The Company's policy is, if permitted by market conditions, to maintain a strong capital base so as to support investor and creditor confidence and support future development of the business. The capital structure of the Company consists of equity, comprising share capital and reserves net of accumulated deficit. The Company is not subject to any externally imposed capital requirements.

13. Financial Instruments

The three levels of the fair value hierarchy are as follows:

- **Level 1** – Unadjusted quoted prices in active markets for identical assets or liabilities in active markets;

NEO Battery Materials Ltd.

Notes to Consolidated Financial Statements

For the Years Ended February 28, 2023 and February 28, 2022

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13. Financial Instruments – continued

- **Level 2** – Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active market; quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data; and
- **Level 3** – Unobservable inputs which are supported by little or no market activity.

As required by IFRS 13, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Cash and marketable securities are measured at fair value using Level 1 inputs. The Company's marketable securities are valued based on the closing trading price of the shares on public stock exchange at the year-end date.

14. Accounts Payable and Accrued Liabilities

	February 28, 2023 (\$)	February 28, 2022 (\$)
Trade payables	130,247	149,639
Accrued liabilities	48,989	16,480
Total	179,236	166,119

15. Right-Of-Use Asset & Lease Liability

The Company had an office lease for the period from May 1, 2019 to April 30, 2022. Minimum annual commitments for basic rent, excluding additional operating costs, were as follows:

Year	Amount
2020	\$ 64,362
2021	80,032
2022	83,390
2023	13,992
	\$ 241,776

(a) Right-of-use asset

As at February 28, 2023 and February 28, 2022, the Company recorded a right-of-use asset for its office lease as follows:

	February 28, 2023 (\$)	February 28, 2022 (\$)
Opening balance	9,962	69,733
Amortization	(9,962)	(59,771)
Ending balance	-	9,962

(b) Lease liability

Minimum lease payment in respect of the office lease liability and the effect of discounting as at February 28, 2023 and February 28, 2022 are as follows:

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Notes to Consolidated Financial Statements

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15. Right-Of-Use Asset & Lease Liability – continued

	February 28, 2023	February 28, 2022
	\$	\$
Undiscounted minimum lease payment:		
Less than one year	-	13,992
More than one year	-	-
Total undiscounted minimum lease payment	-	13,992
Effect of discounting	-	(1,825)
Present value of minimum lease payment	-	12,167
Less: current portion	-	(12,167)
Long-term portion	-	-

(c) Lease liability continuity

The net changes in the Company's lease liability during the years ended February 28, 2023 and February 28, 2022 are as follows:

	February 28, 2023	February 28, 2022
	(\$)	(\$)
Beginning balance	12,167	83,093
Principal payments	(12,167)	(70,926)
Ending balance	-	12,167

(d) Lease liability interest and sublease income

During the year ended February 28, 2023, the Company recorded \$1,856 (2022 - \$12,464) of interest expense on the lease liability and received \$5,925 (2022 - \$49,321) of sublease income.

16. Share Capital

The Company's authorized share capital consists of an unlimited number of common voting shares without par value.

Share Issuance - Private Placements

Year Ended February 28, 2023

The Company did not complete any private placements during the year ended February 28, 2023.

Year Ended February 28, 2022

On May 4, 2021, the Company completed a non-brokered private placement of 17,141,667 units at a price of \$0.12 per unit for gross proceeds of \$2,057,000. Each unit consisted of one common share and one common share warrant, with each warrant entitling the holder to purchase one common share at a price of \$0.16 per common share for 36 months from the closing date of the private placement. Under the fair value method, \$886,000 of the proceeds were allocated to the warrants. The fair value of the warrants was calculated using the Black-Scholes Option Pricing Model with the following assumptions: 0.49% risk-free interest rate, 3 years of expected life, 218% volatility and 0% dividend rate.

NEO Battery Materials Ltd.

Notes to Consolidated Financial Statements

For the Years Ended February 28, 2023 and February 28, 2022

(Expressed in Canadian Dollars)

16. Share Capital - continued

Share Issuance - Exercise of warrants

Year Ended February 28, 2023

During the year ended February 28, 2023, 1,399,999 warrants were exercised at a price of \$0.16 per warrant for total proceeds of \$224,000. Upon the exercise of the warrants, \$72,368 of the fair value of the warrants recorded was transferred from reserves to share capital.

Year Ended February 28, 2022

During the year ended February 28, 2022, 1,000,000 and 8,500,000 warrants were exercised at a price of \$0.30 and \$0.16 per warrant, respectively, for total proceeds of \$1,660,000. Upon the exercise of the warrants, \$465,340 of the fair value of the warrants recorded was transferred from reserves to share capital.

Share Issuance - Exercise of options

Year Ended February 28, 2023

During the year ended February 28, 2023, 1,858,333 and 20,000 stock options were exercised at a price of \$0.06 and \$0.20 per share, respectively, for total proceeds of \$115,500. Upon the exercise of the options, \$114,354 of the fair value of the options recorded was transferred from reserves to share capital.

Year Ended February 28, 2022

For the year ended February 28, 2022, 600,000 and 50,000 stock options were exercised at a price of \$0.06 and \$0.20 per share, respectively, for total proceeds of \$46,000. Upon the exercise of the options, \$45,166 of the fair value of the options recorded was transferred from reserves to share capital.

Share Purchase Warrants

Share purchase warrant transactions are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, February 28, 2021	4,500,000	0.30
Issued	17,141,667	0.16
Exercised	(9,500,000)	0.17
Expired	(3,500,000)	0.30
Balance, February 28, 2022	8,641,667	0.16
Exercised	(1,399,999)	0.16
Balance, February 28, 2023	7,241,668	0.16

As at February 28, 2023, outstanding warrants are as follows:

Expiry Date	Exercise Price (\$)	Number of Warrants	Weighted Average Life Remaining (Years)
May 4, 2024	0.16	7,214,668	1.18

NEO Battery Materials Ltd.

Notes to Consolidated Financial Statements

For the Years Ended February 28, 2023 and February 28, 2022

(Expressed in Canadian Dollars)

16. Share Capital - continued

Stock Options

The Company has established a stock option plan (the "Plan") for directors, employees, and consultants of the Company. From time to time, shares may be reserved by the Board, in its discretion, for options under the Plan, provided that at the time of the grant, the total number of shares so reserved for issuance by the Board shall not exceed the greater of 10% of the issued and outstanding listed shares (on a non-diluted basis) as at the date of grant. No options shall be granted, without regulatory approval, entitling any single individual to purchase in excess of 5% of the then outstanding shares in the Company in any 12-month period and no more than 2% of the optioned shares may be issued to any one individual in any 12-month period. If the option rights granted under the plan shall expire or terminate for any reason without having been exercised, such optioned shares may be made available for other options to be granted under the plan. The shares so reserved by the Board under the Plan shall be authorized but unissued shares.

The options are non-transferable and will expire, if not exercised, immediately upon dismissal by the Company with cause or 90 days following the date the optionee otherwise ceases to be a director, officer, manager, consultant or employee of the Company for reasons other than death. In the case of death, the expiry becomes one year after the death of an optionee. Pursuant to the policies of the TSX.V, options granted pursuant to the Plan in excess of 10% of the issued and outstanding common shares at the time of the grant must be subject to vesting.

The Board has previously established a rolling Stock Option Plan which reserves for issuance up to 10% of the Company's outstanding common shares. The policies of the TSX Venture exchange require such stock option plans to be approved annually by the Company's shareholders by way of an ordinary resolution. Shareholder approval shall be sought at the next AGM for the Stock Option Plan, as such, any options issued prior to such approval shall not be exercisable until such approval is granted by shareholders.

Stock Options Granted

During the year ended February 28, 2023, the Company granted 1,300,000 stock options to employees in South Korea. The options are exercisable at a price of \$0.40 per option and expire on February 10, 2028. The options vest over a period of five years, with 20% vesting on the first anniversary of the date of grant, and a further 20% vesting on each anniversary thereafter. The Company measured the total fair value of these options at \$372,790 using the Black-Scholes Option Pricing Model based on the assumptions provided in the table below.

During the year ended February 28, 2022, the Company granted 1,350,000 stock options to a director and certain consultants of the Company. The options have a weighted average exercise price of \$0.65 and vested immediately on the date of grant. The Company measured the total fair value of these options at \$683,248 using the Black-Scholes Option Pricing Model based on the assumptions provided in the table below.

	2023	2022
Risk-free interest rate	3.17%	0.83% - 0.94%
Expected life	5 years	5 years
Volatility	135.87%	157.43% - 161.79%
Expected dividend yield	Nil	Nil

During the year ended February 28, 2023, the Company recorded stock-based compensation of \$Nil (2022 - \$683,248).

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16. Share Capital - continued

Stock Options – continued

Stock option transactions are summarized as follows:

	Number of Options	Weighted Average Exercise Price (\$)
Balance, February 28, 2021	6,505,000	0.12
Granted	1,350,000	0.65
Corrected (cancelled by error)	150,000	0.06
Exercised	(650,000)	0.07
Cancelled	(90,000)	0.20
Balance, February 28, 2022	7,265,000	0.22
Granted	1,300,000	0.40
Cancelled	(290,000)	0.49
Exercised	(1,878,333)	0.06
Balance, February 28, 2023	6,396,667	0.30

As at February 28, 2023, stock options outstanding and exercisable are as follows:

Expiry Date	Weighted Average Exercise Price	Number of Options Outstanding	Number of Options Exercisable	Weighted Average Remaining Life (Years)
March 21, 2023	\$0.06	141,667	141,667	0.06
February 28, 2024	\$0.06	1,125,000	1,125,000	1.00
February 10, 2026	\$0.20	2,840,000	2,840,000	2.95
May 13, 2026	\$0.20	170,000	170,000	3.21
May 25, 2026	\$0.20	30,000	30,000	3.24
June 1, 2026	\$0.20	100,000	100,000	3.26
June 9, 2026	\$0.33	40,000	40,000	3.28
July 30, 2026	\$1.00	650,000	650,000	3.42
February 10, 2028	\$0.40	1,300,000	-	4.95
	\$0.30	6,396,667	5,096,667	3.01

17. Related Party Transactions

Related parties include the Company's key management personnel with authority and responsibility for planning, directing and controlling activities of the Company. The Company has determined that its key management personnel is comprised of the Company's Board of Directors and officers, and the entities controlled by the key management personnel.

As at February 28, 2023 and 2022, there were no balances due to related parties.

NEO Battery Materials Ltd.

Notes to Consolidated Financial Statements

For the Years Ended February 28, 2023 and February 28, 2022

(Expressed in Canadian Dollars)

17. Related Party Transactions – continued

During the years ended February 28, 2023 and 2022, the Company paid the following amounts to the officers and directors of the Company:

	February 28, 2023	February 28, 2022
Project related expenditure	\$ -	\$ 12,690
Management fees	315,226	197,900
Professional fees	93,810	62,405
Stock based compensation	-	448,753
	\$ 409,036	\$ 721,748

18. Segmented Information

The Company operates in two geographic segments: Canada and South Korea.

	Canada (\$)	Korea (\$)	Total (\$)
Total assets	234,092	2,893,760	3,127,852
Total liabilities	165,448	13,788	179,236

19. Income Tax

A reconciliation of the provision for income taxes is as follows:

	February 28, 2023	February 28, 2022
Loss before income taxes	\$ (1,915,222)	\$ (2,079,374)
Statutory tax rates	27.00%	27.00%
Expected income tax recovery	(495,213)	(557,949)
Non-deductible expenses and other items	8,277	165,405
Change in deferred tax assets	486,936	392,544
Income tax recovery	\$ -	\$ -

The Company's deferred tax assets and liabilities are as follows:

	February 28, 2023	February 28, 2022
Non-capital loss carry-forwards	\$ 3,808,750	\$ 3,295,138
Financing costs	14,100	18,802
Equipment and other	43,893	62,804
Exploration and evaluation assets	1,139,102	1,142,165
Unrecognized deferred tax asset	(5,005,845)	(4,518,909)
Deferred income tax asset (liability)	\$ -	\$ -

NEO Battery Materials Ltd.

Notes to Consolidated Financial Statements

For the Years Ended February 28, 2023 and February 28, 2022

(Expressed in Canadian Dollars)

19. Income Tax – continued

As at February 28, 2023, the Company has accumulated non-capital losses for Canadian income tax purposes totaling approximately \$12,856,000 (2022 - \$11,976,000). The losses expire in the following periods:

2006	2026	\$	14,000
2007	2027		437,000
2008	2028		1,085,000
2009	2029		744,000
2010	2030		707,000
2011	2031		872,000
2012	2032		972,000
2013	2033		769,000
2014	2034		614,000
2015	2035		250,000
2016	2036		300,000
2017	2037		738,000
2018	2038		492,000
2019	2039		639,000
2020	2040		1,102,000
2021	2041		864,000
2022	2042		1,391,000
2023	2043		866,000
		\$	<u>12,856,000</u>

20. Contingency

The Company is from time to time, involved in legal proceedings arising in the ordinary course of business. It does not believe that adverse decisions in any pending or threatened proceedings, or any amount it may be required to pay by reason thereof, will have a material adverse effect on the financial condition or future results of the operations of the Company.

21. Subsequent Events

Subsequent to February 28, 2023:

- 166,667 stock options were exercised at a price of \$0.06 per option for total proceeds of \$10,000.
- 200,000 warrants were exercised at a price of \$0.16 per warrant for total proceeds of \$32,000.