



Condensed Consolidated Interim Financial Statements

For the Six Months Ended August 31, 2022 and August 31, 2021

(Unaudited – Prepared by Management)

(Expressed in Canadian Dollars)

**NOTICE OF NO AUDITOR REVIEW OF
INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that an auditor has not reviewed the financial statements.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

NEO Battery Materials Ltd.
Condensed Consolidated Interim Statements of Financial Position

(Unaudited - Expressed in *Canadian Dollars*)

Assets	August 31, 2022	February 28, 2022
Current Assets:		
Cash and cash equivalents	\$ 2,356,391	\$ 1,247,750
Marketable securities (Note 5)	5,077	7,910
Prepaid expenses (Note 6)	88,563	161,865
Sales tax and other receivables (Note 7)	29,296	21,423
	2,479,327	1,438,948
Non-Current Assets:		
Deposits	-	12,597
Equipment (Note 9)	471,596	180,529
Exploration and evaluation assets (Note 8)	1,344	1,344
Intangible assets (Note 11)	47,646	-
Prepaid expenses – long term (Note 6)	701,600	31,212
Right-of-use asset (Note 15)	-	9,962
Total Assets	\$ 3,701,513	\$ 1,674,592
Liabilities and Equity		
Current Liabilities:		
Accounts payable and accrued liabilities (Note 14)	\$ 153,755	\$ 166,119
Lease liability – current portion (Note 15)	-	12,167
Total Liabilities	153,755	178,286
Shareholders' Equity:		
Share capital (Note 16)	22,390,351	22,311,985
Reserves (Note 16)	7,771,420	7,792,453
Accumulated other comprehensive loss	(213,523)	(213,523)
Deficit	(27,649,040)	(28,394,609)
	2,299,208	1,496,306
Non-controlling interest ("NCI") (Note 4)	1,248,550	-
Total Shareholder's Equity	3,547,758	1,496,306
Total Liabilities and Shareholder's Equity	\$ 3,701,513	\$ 1,674,592

Nature of Operations and Going Concern (Note 1)

Subsequent Events (Note 19)

Approved by the Board of Directors on October 27, 2022:

"Spencer Sung Bum Huh", Director

"Larry Okada", Director

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

NEO Battery Materials Ltd.

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss

(Expressed in Canadian Dollars)

	For Three Months Ended August 31		For Six Months Ended August 31,	
	2022	2021	2021	2021
Expenses				
Amortization (Note 9,11)	\$ 26,837	\$ -	\$ 40,565	\$ -
Amortization on ROU assets	-	14,942	9,962	29,885
Advertising and marketing	5,815	32,788	29,479	82,122
Consulting and management fees (Note 17)	194,253	109,967	283,899	232,867
Corporate listing and filing fees	10,831	11,115	25,963	83,164
Exploration and evaluation expenses	-	3,690	-	3,690
Investor relations	8,669	25,580	22,341	48,808
License fees	-	10,000	-	10,000
Office and general	11,560	8,863	24,683	17,627
Payroll expenses	122,371	-	209,803	-
Professional fees (Note 17)	52,085	32,312	100,328	76,610
Rent (non-lease portion)	21,974	19,530	65,357	36,061
Research and development (Note 10)	70,309	29,989	151,626	33,265
Sublease income	-	(10,602)	(5,925)	(28,035)
Stock-based compensation	-	604,224	-	683,248
Travel	11,373	16,407	21,304	18,937
Loss from operations	(536,077)	(908,805)	(979,385)	(1,328,249)
Other income (expense)				
Cost recovery (Note 11)	52,149	-	52,149	-
Interest and miscellaneous expense (income)	-	38	-	58
Interest expense – lease (Note 15)	-	(2,785)	(1,857)	(6,893)
Interest expense – short-term loan	-	-	-	(68,810)
Loss on foreign exchange	(33,217)	(1,374)	(52,776)	(2,702)
Unrealized (gain) loss marketable securities	(2,176)	(1,622)	(2,834)	(2,384)
Write-off debt	-	65,845	-	65,845
Total other income (expense)	16,756	60,102	(5,318)	(14,886)
Net loss for the period	(519,321)	(848,703)	(984,703)	(1,343,135)
Comprehensive loss for the period	\$ (519,321)	(848,703)	\$ (984,703)	\$ (1,343,135)
Net loss Contributable to				
Controlling equity holders of the Company	(404,549)	(848,703)	(869,931)	(1,343,135)
Non-controlling interest (Note 4)	(114,772)	-	(114,772)	-
	(519,321)	(848,703)	(984,703)	(1,343,135)
Loss per share				
Basic	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.02)
Weighted average number of common shares outstanding	97,878,979	87,758,799	97,623,388	81,511,743

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

NEO Battery Materials Ltd.
Condensed Consolidated Interim Statements of Cash Flows

(Expressed in Canadian Dollars)

	For Six Months Ended	
	August 31, 2022	August 31, 2021
Operating Activities:		
Net income (loss) for the period	\$ (984,703)	\$ (1,343,135)
Adjustment for items which do not involve cash:		
Amortization & Amortization of ROU asset	50,527	29,885
Stock-based compensation	-	683,248
Write-off of accounts payable	-	(65,845)
Cost recovery	(52,149)	-
Unrealized loss on marketable securities	2,833	2,384
Changes in non-cash working capital components:		
Accounts payable and accrued liabilities	(12,525)	(45,977)
Deposit account	12,597	
Short-term loan interest	-	68,809
Prepaid expenses	73,302	(211,276)
Sales tax and other receivables	(7,872)	(8,098)
	(917,990)	(890,005)
Investing Activities:		
Prepaid expenses - commercial plant design fees	(670,388)	-
Equipment	(326,969)	-
	(997,357)	-
Financing Activities:		
Private placement	-	2,057,000
Repayment – share subscription	-	(25,000)
Repayment – short-term loan principal and interest	-	(1,359,169)
Exercise of warrants	53,333	380,000
Exercise of options	4,000	37,000
Principal portion of lease liability	(12,167)	(34,522)
Proceeds from issuance of shares from Korea subsidiary	2,978,822	-
	3,023,988	1,055,309
Net changes in cash and cash equivalents	1,108,641	165,304
Cash and cash equivalents - beginning of the period	1,247,750	625,876
Cash and cash equivalents - end of the period	\$ 2,356,391	\$ 791,180

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

NEO Battery Materials Ltd.

Condensed Consolidated Interim Statements of Changes in Equity
For the Six Months Ended August 31, 2022 and August 31, 2021
(Expressed in Canadian Dollars)

	SHARE CAPITAL		SHARE	RESERVES	ACCUMULATED	ACCUMULATED	TOTAL FOR	NON-	TOTAL EQUITY
	SHARES	AMOUNT	SUBSCRIPTIONS		OTHER			DEFICIT	
	SHARES	AMOUNT	RECEIVED		LOSS ("AOCL")		OWNER	INTEREST	
Balance - February 28, 2021	70,233,980	18,935,514	25,000	6,733,711	(213,523)	(26,315,235)	(843,533)	-	(834,533)
Repayment – share subscription	-	-	(25,000)	-	-	-	(25,000)	-	(25,000)
Share issued – private placement	17,141,667	57,413	-	1,999,587	-	-	2,057,000	-	2,057,000
Stock-based compensation	-	-	-	683,248	-	-	683,248	-	683,248
Exercise of stock options	500,000	76,170	-	(39,170)	-	-	37,000	-	37,000
Exercise of warrants	1,500,000	464,500	-	(84,500)	-	-	380,000	-	380,000
Net loss for the period	-	-	-	-	-	(1,343,135)	(1,343,135)	-	(1,343,135)
Balance - August 31, 2021	89,375,647	19,533,597	-	9,292,876	(213,523)	(27,658,371)	954,579	-	954,579
Balance – February 28, 2022	97,525,647	22,311,985	-	7,792,453	(213,523)	(28,394,609)	1,496,306	-	1,496,306
Exercise of warrants (Note 16)	333,332	70,566	-	(17,233)	-	-	53,333	-	53,333
Stock options exercise (Note 16)	20,000	7,800	-	(3,800)	-	-	4,000	-	4,000
Issuance of shares in Korea Co (Note 4)	-	-	-	-	-	1,615,500	1,615,500	1,363,322	2,978,822
Net loss for the period	-	-	-	-	-	(869,931)	(869,931)	(114,772)	(984,703)
Balance - August 31, 2022	97,878,979	22,390,351	-	7,771,420	(213,523)	(27,649,040)	2,299,208	1,248,550	3,547,758

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

NEO Battery Materials Ltd.

Notes to Condensed Consolidated Interim Financial Statements

For the Six Months Ended August 31, 2022 and August 31, 2021

(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”) under the symbol “NBM”. The head office, principal address and records office of the Company are located at Suite 700 – 838 West Hastings Street, Vancouver, British Columbia, Canada, V6C 0A6. The Company’s registered address is Suite 1500 - 1055 West Georgia Street, Vancouver, British Columbia, Canada, V6E 4N7.

On April 13, 2022, the Company commenced a “Change of Business” (the “COB”) application with TSX Venture Exchange (the “Exchange”). In the past, the Company was a Vancouver-based junior resource company in North America. The Company deems that a classification to a Tier 2 Technology issuer on the Exchange instead of junior Mineral Exploration and Mining issuer, will reflect the Company’s long-term goal and serve its shareholders the best interests. As a result, the transition is still in process and subject to Exchange acceptance as of the date of the report.

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 operation. 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 unaudited condensed consolidated interim 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 August 31, 2022, the Company had an accumulated deficit of \$27,649,040 (February 28, 2022 - \$28,394,609), a net loss for the period ended August 31, 2022 of \$984,703 (August 31, 2021 - loss \$1,343,135) and a working capital of \$2,325,572 (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 unaudited condensed consolidated interim financial statements have been prepared in accordance with IAS 34 – Interim Financial Reporting as issued by the International Accounting Standards Board (“IASB”). Accordingly, certain disclosures included in annual financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the IASB have been condensed or omitted and these unaudited condensed consolidated interim financial statements should be read in conjunction with the Company’s audited consolidated financial statements for the year ended February 28, 2022.

The condensed consolidated interim financial statements were authorized for issue by the Board of Directors on October 27, 2022.

NEO Battery Materials Ltd.
Notes to Condensed Consolidated Interim Financial Statements
For the Six Months Ended August 31, 2022 and August 31, 2021
(Expressed in Canadian Dollars)

2. Basis of Preparation - continued

Basis of Presentation and Consolidation

These condensed consolidated interim 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 the investee and the ability to use its power over the investee to affect the amount 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 condensed consolidated interim financial statements incorporate the financial statements of the Company and the entities controlled (directly or indirectly) by the Company (its subsidiaries) including Neo Battery Materials 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.

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

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 Condensed Consolidated Interim Financial Statements

For the Six Months Ended August 31, 2022 and August 31, 2021

(Expressed in Canadian Dollars)

2. Basis of Preparation - continued

Recent accounting pronouncements

A number of new standards, and amendments to standards and interpretations, were not yet effective for the period ended August 31, 2022, 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 condensed consolidated interim financial statements.

3. Significant Accounting Policies

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 Company has patents under the intangible assets.

Definite 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 intangible assets may be impaired.

The Company's accounting policy for research and development is to expense most costs related to research and development until a product(s) are taken to a feasibility stage. The Company capitalized certain costs such as equipment, software and certain intangible costs and amortized such over their useful life and such amortization cost will be expensed in the period.

4. 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 August 31, 2022, 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		(114,772)
Non-controlling interest as at August 31, 2022	\$	1,248,550

NEO Battery Materials Ltd.

Notes to Condensed Consolidated Interim Financial Statements

For the Six Months Ended August 31, 2022 and August 31, 2021

(Expressed in Canadian Dollars)

5. Marketable Securities

As at August 31, 2022, marketable securities include 100,000 common shares of a publicly traded company, Pembridge Resources PLC, valued at \$5,077 (February 28, 2022 - \$7,910).

	August 31, 2022	February 28, 2022
	\$	\$
Marketable securities – fair value	5,077	7,910
Marketable securities – cost	22,200	22,200

6. Prepaid Expenses

	August 31, 2022	February 28, 2022
	\$	\$
Prepaid Expenses - current		
Insurance	5,064	4,579
Rent (a)	23,322	43,736
Travel	8,932	10,550
Vendors	51,245	103,000
Short-term prepaid	88,563	161,865
Prepaid Expenses – long term		
Insurance – long term (b)	29,137	31,212
Vendors (c)	672,463	-
Long-term prepaid	701,600	31,212
Total	790,163	193,077

(a) Includes payments made to rent a site to build the Company's commercial plant in South Korea for the period from March 1, 2022 to December 31, 2022.

(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 payment made to building and process design fees for the Company's commercial plant in South Korea, such cost will be capitalized upon the completion of the facility.

7. Sales Tax Receivables

	August 31, 2022	February 28, 2022
	\$	\$
Sales tax (GST & VAT)	29,296	21,423

8. Exploration and Evaluation Assets and Expenditures

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

	August 31, 2022	February 28, 2022
	\$	\$
Beginning of the period	1,344	1,344
Carrying value – end of the period	1,344	1,344

NEO Battery Materials Ltd.

Notes to Condensed Consolidated Interim Financial Statements

For the Six Months Ended August 31, 2022 and August 31, 2021

(Expressed in Canadian Dollars)

9. Equipment

The Company purchased equipment for its research and development center located in Yonsei University, South Korea. Such equipment has alternative uses in other business if the Company, in the future, ceases the research and development activities.

		Equipment		Total
Cost – February 28, 2022	\$	192,761	\$	192,761
Accumulated Amortization		(12,232)		(12,232)
NBV – February 28, 2022		180,529		180,529
Cost (increase/decrease)		326,969		326,969
Cost – August 31, 2022		513,930		513,930
Accumulated Amortization		(48,134)		(48,134)
NBV - August 31, 2022	\$	471,596	\$	471,596

10. Research and Development

On August 23, 2022, NEO Korea Co entered the Industrial Advice Agreement (“the Agreement”) with Yonsei to replace the original Collaborative Development Agreement signed between the Company and Yonsei on May 10, 2021. The Agreement has a term from August 1, 2022 to May 31, 2023. Under the term, NEO Korea Co will be responsible for research and development costs of approximately \$125,970 (KRW130,000,000).

During the six months ended August 31, 2022, the Company incurred research and development costs of \$151,626, of which, \$71,838 (2022 - \$33,265) in connection with the Research and Development activities under Yonsei Agreements.

11. Intangible Assets

Patents

On February 8, 2021, the Company entered into an Exclusive License Agreement with Yonsei (the “1st Agreement”) to obtain exclusive rights to use the three patents owned by Yonsei. Under the terms of the 1st Agreement, the Company paid an initial license fee of \$35,030 (expensed). 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 “2nd Agreement”) to obtain exclusive rights to use a separate patent owned by Yonsei. Under the term of the 2nd Agreement, the Company paid an initial license fee of \$10,000 (expensed) 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 also incurred \$7,119 of registration fee, documentation and other professional fees associated with patent registration during the year ended February 28, 2022.

The management decided to capitalize the license fees and patents registration fees rather than expense in the past. The cost recovery of \$52,149 and accumulated amortization was recorded in the current year.

As at August 31, 2022, intangible includes three registered patents and two patents are pending registration. Three patents were issued by South Korea. The patents have expiries ranging between 15 to 20 years.

NEO Battery Materials Ltd.

Notes to Condensed Consolidated Interim Financial Statements

For the Six Months Ended August 31, 2022 and August 31, 2021

(Expressed in Canadian Dollars)

11. Intangible Assets - Continued

		Patents		Total
Cost – February 28, 2021	\$	35,030	\$	35,030
Accumulated Amortization		(515)		(515)
NBV – February 28, 2021		34,515		34,515
Cost (Increase/decrease)		17,119		17,119
Cost – February 28, 2022		52,149		52,149
Accumulated Amortization		(2,939)		(2,939)
NBV – February 28, 2022		49,210		49,210
Cost – August 31, 2022		52,149		52,149
Accumulated Amortization		(4,503)		(4,503)
NBV – August 31, 2022	\$	47,646	\$	47,646

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 and a major bank in South Korea. As most of the Company's cash is held by two banks 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. The Company's exposure to credit risk is minimal.

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 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. The Company manages liquidity by maintaining a certain level of cash balances to meet liabilities as they become due. As at August 31, 2022, the Company has a cash balance of \$2,356,391 and current liabilities of \$249,011.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. The Company's financial instruments include investments which are publicly traded and therefore subject to the risks related to the fluctuation in the equity markets. The Company closely monitors market values to determine the most appropriate course of action.

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. The Company's cash, accounts receivable, and accounts payable and accrued liabilities are held in CAD and South Korea Won ("KRW"); therefore, KRW accounts are subject to fluctuation against the CAD.

NEO Battery Materials Ltd.

Notes to Condensed Consolidated Interim Financial Statements

For the Six Months Ended August 31, 2022 and August 31, 2021

(Expressed in Canadian Dollars)

12. Financial Risk and Capital Management - continued

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;
- **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.

As at August 31, 2022, the Company's marketable securities are based on level 1 inputs of the fair value hierarchy and they 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

	August 31, 2022	February 28, 2022
	\$	\$
Trade payables	145,586	149,639
Accrued liabilities	8,169	16,480
Total	153,755	166,119

15. Right-Of-Use Asset & Lease Liability

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

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

NEO Battery Materials Ltd.

Notes to Condensed Consolidated Interim Financial Statements

For the Six Months Ended August 31, 2022 and August 31, 2021

(Expressed in Canadian Dollars)

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

(a) Right-of-use asset

As at August 31, 2022 and February 28, 2022, the Company recorded a right-of-use asset for its office lease as follows:

	August 31, 2022	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 August 31, 2022 and February 28, 2022 are as follows:

	August 31, 2022	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 August 31, 2022 and February 28, 2022 are as follows:

	August 31, 2022	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 six months ended August 31, 2022, the Company recorded \$1,857 (2022 - \$6,893) of interest expense on the lease liability and received \$5,925 (2022 - \$28,035) of sublease income.

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16. Share Capital

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

Private Placements

Six Months Ended August 31, 2022

The Company did not issue any common shares.

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.

Share issuance - Exercise of Warrants

Six Months Ended August 31, 2022

During the six months ended August 31, 2022, 333,332 warrants were exercised at a price of \$0.16, for total proceeds of \$53,333. Upon the exercise of the warrants, \$17,233 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 Stock Options

Six Months Ended August 31, 2022

For the six months ended August 31, 2022, 20,000 stock options were exercised at a price of \$0.20 per share, for total proceeds of \$4,000. Upon the exercise of the options, \$3,800 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.

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16. Share Capital – continued

Share Purchase Warrants

Share purchase warrant transactions are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, February 28, 2022	8,641,667	\$ 0.16
Exercised	(333,332)	0.16
Balance, August 31, 2022	8,308,335	0.16

As at August 31, 2022, outstanding warrants are as follows:

Expiry Date	Exercise Price (\$)	Number of Warrants	Weighted Average Life Remaining (Years)
May 4, 2024	0.16	8,308,335	1.68

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 option transactions are summarized as follows:

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16. Share Capital – continued

Stock Options – continued

	Number of Options	Weighted Average Exercise Price (\$)
Balance, February 29, 2022	7,265,000	0.22
Exercised	(20,000)	0.07
Cancelled	(40,000)	0.20
Balance, August 31, 2022	7,205,000	0.22

As at August 31, 2022, outstanding stock options 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	1,200,000	1,200,000	0.55
February 28, 2024	\$0.06	1,925,000	1,925,000	1.50
February 10, 2026	\$0.20	2,840,000	2,840,000	3.45
May 13, 2026	\$0.20	320,000	320,000	3.70
May 25, 2026	\$0.20	30,000	30,000	3.73
June 1, 2026	\$0.20	100,000	100,000	3.75
June 9, 2026	\$0.33	40,000	40,000	3.78
July 30, 2026	\$1.00	750,000	750,000	3.92
	\$0.22	7,205,000	7,205,000	3.05

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 August 31, 2022 and 2021, there were no balances due to related parties.

During the six months ended August 31, 2022 and 2021, the Company paid the following amount to the officers and directors of the Company and an entity controlled by the CEO:

	August 31, 2022	August 31, 2021
Management fees	\$ 159,277	\$ 96,200
Professional fees	48,810	27,952
	\$ 208,087	\$ 124,152

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18. Segmented Information

The Company currently operates in two geographic segments: Canada and South Korea. No industry segregation is given because the Company's mineral activities are not material.

	Canada (\$)	Korea (\$)	Total (\$)
Total assets	225,624	3,475,889	3,701,513
Total liabilities	96,650	57,105	153,755

19. Contingency

A former director of the Company filed a Notice of Civil Claim (the "Claim") against the Company on December 17, 2021 in the Supreme Court of British Columbia seeking a court order compelling the Company to accept his exercise of the Company's stock options granted to him on March 21, 2018 and to issue to him 350,000 common shares of the Company upon the receipt of payment of \$21,000 (the "Order"). On January 25, 2022, the Company filed a response to the Claim to appeal against the Order.

As at August 31, 2022, the final conclusion of the Claim was indeterminable and no amount of contingency was recorded.

20. Subsequent Events

Subsequent to August 31, 2022: