

International Battery Metals Ltd.

Condensed Consolidated Interim Financial Statements

Three and Nine Months Ended October 31, 2021 and 2020

(Expressed in Canadian dollars)

(Unaudited)

NOTICE OF NO AUDITOR REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The accompanying unaudited condensed consolidated interim financial statements for International Battery Metals Ltd. (the “Company”) have been prepared by management in accordance with International Financing Reporting Standards (“IFRS”). These condensed consolidated interim financial statements, which are the responsibility of management, are unaudited and have not been reviewed by the Company’s auditors. The Company’s Audit Committee and Board of Directors have reviewed and approved these consolidated interim financial statements. In accordance with the disclosure requirements of National Instrument 51-102 released by the Canadian Securities Administrators, the Company’s independent auditors have not performed a review of these condensed consolidated interim financial statements.

International Battery Metals Ltd.

Condensed Consolidated Interim Statements of Financial Position

As at October 31, 2021 and January 31, 2021

(Expressed in Canadian dollars)

| | Note | October 31, 2021 (unaudited) | January 31, 2021 (audited) |
|--|------------|------------------------------------|----------------------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash | 20 | \$ 85,034 | \$ 212,213 |
| Amounts receivable | 5 | 7,118 | 5,830 |
| Prepaid expenses | 6 | 62,969 | 106,594 |
| Total current assets | | 155,121 | 324,637 |
| Equipment | 7 | 7,569,906 | 4,161,248 |
| Intangible assets | 8, 9 | 4,330,418 | 4,831,008 |
| Deferred acquisition costs | 11 | - | 229,967 |
| | | \$ 12,055,445 | \$ 9,546,860 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade payables and other liabilities | 12, 15, 20 | \$ 2,861,344 | \$ 589,619 |
| Derivative liability | 13, 14, 20 | 3,623,146 | 4,239,699 |
| Total current liabilities | | 6,484,490 | 4,829,318 |
| Shareholders' equity | | | |
| Share capital | 13 | 26,169,596 | 23,560,826 |
| Obligation to issue shares | 8, 13 | 543,451 | 895,470 |
| Reserves | 14 | 5,279,161 | 5,210,671 |
| Deficit | | (26,520,818) | (24,993,136) |
| Accumulated other comprehensive income | | 99,565 | 43,711 |
| | | 5,570,955 | 4,717,542 |
| | | \$ 12,055,445 | \$ 9,546,860 |

Nature and Continuance of Operations (Note 1)

Subsequent Event (Note 22)

Approved and Authorized by the Board on December 22, 2021:

"John Burba"

Director

"Logan Anderson"

Director

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

International Battery Metals Ltd.

Condensed Consolidated Interim Statements of Income and Comprehensive Income

For the three and nine months ended October 31, 2021 and 2020

(Expressed in Canadian dollars)

(Unaudited)

| | | Three months ended October | | Nine months ended October | |
|---|-------|----------------------------|----------------|---------------------------|----------------|
| | Note | 31, | 31, | 31, | 31, |
| | | 2021 | 2020 | 2021 | 2020 |
| Expenses | | | | | |
| Amortization of intangible asset | 9 | \$ 169,317 | \$ 169,318 | \$ 500,590 | \$ 504,272 |
| General and administrative | 15,16 | 690,795 | 373,392 | 1,643,645 | 829,777 |
| Operating loss | | (860,112) | (542,710) | (2,144,235) | (1,334,049) |
| Gain on derecognition of derivative liability | 13,14 | - | - | 3,962,612 | - |
| Change in fair value of derivative liability | 13,14 | 762,027 | (185,054) | (3,346,059) | 406,337 |
| Other income | 10 | - | - | - | 2,700 |
| Finance costs | 10 | - | - | - | (46) |
| Loss on settlement of debt | 13 | - | (490,271) | - | (490,271) |
| Loss for the period | | \$ (98,085) | \$ (1,218,035) | \$ (1,527,682) | \$ (1,415,329) |
| Other comprehensive income (loss) | | | | | |
| Foreign currency translation adjustments | | 73,261 | (36,680) | 55,854 | (20,809) |
| Loss and comprehensive loss for the period | | (24,824) | (1,254,715) | (1,471,828) | (1,436,138) |
| Earnings (Loss) per share, basic and diluted | | | | | |
| | | \$ (0.00) | \$ (0.02) | \$ (0.01) | \$ (0.02) |
| Weighted average number of common shares outstanding | | | | | |
| | | 126,401,332 | 63,971,166 | 124,683,129 | 63,620,801 |

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

International Battery Metals Ltd.

Condensed Consolidated Interim Statements of Cash Flows

For the nine months ended October 31, 2021 and 2020

(Expressed in Canadian dollars)

(Unaudited)

| Cash provided by (used in) | 2021 | 2020 |
|--|----------------|----------------|
| Cash flows from operating activities | | |
| Income (loss) for the period | \$ (1,527,682) | \$ (1,415,329) |
| Non-cash transactions: | | |
| Unrealized foreign exchange | (15,171) | (1,679) |
| Depreciation expense | 363 | 5,303 |
| Amortization of intangible asset | 500,590 | 504,272 |
| Loss of settlement of debt | - | 490,271 |
| Gain on derecognition of derivative liability | (3,962,612) | - |
| Change in fair value of derivative liability | 3,346,059 | (406,337) |
| Share-based compensation | 203,395 | - |
| Changes in operating assets and liabilities: | | |
| Amounts receivable | (1,288) | 4,202 |
| Prepaid expenses | 43,625 | (127,757) |
| Trade payables and other liabilities | 1,042,986 | 2,103,679 |
| Net cash provided by (used in) operating activities | (369,735) | 1,156,625 |
| Cash flows from investing activities | | |
| Purchase of equipment | (1,228,798) | (1,384,014) |
| Deferred acquisition costs | - | (657,388) |
| Net cash used in investing activities | (1,228,798) | (2,041,402) |
| Cash flows from financing activities | | |
| Proceeds from private placements | 711,307 | 830,177 |
| Proceeds from warrants exercised | 581,358 | - |
| Proceeds from options exercised | 117,875 | - |
| Share issuance costs | - | (12,678) |
| Principal payments on lease liability | - | (5,572) |
| Net cash provided by financing activities | 1,410,540 | 811,927 |
| Decrease in cash | (187,993) | (72,850) |
| Effect of foreign exchange rate changes on cash | 60,814 | (20,809) |
| Cash, beginning of period | 212,213 | 393,224 |
| Cash, end of period | \$ 85,034 | \$ 299,565 |

Supplemental Disclosures with Respect to Cash Flows (Note 17)

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

International Battery Metals Ltd.

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity

For the nine months ended October 31, 2021 and 2020

(Expressed in Canadian dollars)

(Unaudited)

| | Common shares | Share capital | Reserves | Obligation to issue shares | Deficit | Accumulated other comprehensive income | Total equity |
|--------------------------------------|--------------------|-------------------|------------------|----------------------------|---------------------|--|------------------|
| | | \$ | \$ | \$ | \$ | \$ | \$ |
| Balance at January 31, 2020 | 63,371,166 | 12,109,277 | 2,633,546 | 591,451 | (10,903,251) | (12,249) | 4,418,774 |
| Private placements | 600,000 | 34,643 | 25,357 | - | - | - | 60,000 |
| Shares issued to Sorcia Minerals LLC | 25,000,000 | 3,000,000 | - | (201,531) | - | - | 2,798,469 |
| Share issue costs – cash | - | (12,678) | - | - | - | - | (12,678) |
| Expiration of warrants | - | 1,470,955 | (1,470,955) | - | - | - | - |
| Expiration of special warrants | - | 109,547 | (109,547) | - | - | - | - |
| Forfeited options | - | - | (287,615) | - | 287,615 | - | - |
| Obligation to issue shares | - | - | - | 201,531 | - | - | 201,531 |
| Foreign currency translation | - | - | - | - | - | (20,809) | (20,809) |
| Loss for the period | - | - | - | - | (1,415,329) | - | (1,415,329) |
| Balance at October 31, 2020 | 88,971,166 | 16,711,744 | 790,786 | 591,451 | (12,030,965) | (33,058) | 6,029,958 |
| Balance at January 31, 2020 | 114,151,166 | 23,560,826 | 5,210,671 | 895,470 | (24,993,136) | 43,711 | 4,717,542 |
| Private placements | 4,664,306 | 1,422,613 | - | - | - | - | 1,422,613 |
| Warrants exercised | 7,186,666 | 955,353 | (21,976) | (352,019) | - | - | 581,358 |
| Options exercised | 425,000 | 230,804 | (112,929) | - | - | - | 117,875 |
| Share-based compensation | - | - | 203,395 | - | - | - | 203,395 |
| Foreign currency translation | - | - | - | - | - | 55,854 | 55,854 |
| Loss for the period | - | - | - | - | (1,527,682) | - | (1,527,682) |
| Balance at October 31, 2021 | 126,427,138 | 26,169,596 | 5,279,161 | 543,451 | (26,520,818) | 99,565 | 5,570,955 |

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

International Battery Metals Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended October 31, 2021 and 2020

(Expressed in Canadian dollars)

(Unaudited)

1. Nature and Continuance of Operations

International Battery Metals Ltd., (the “Company”) was incorporated under the Business Corporations Act (British Columbia) on July 29, 2010. The Company trades on the Canadian Securities Exchange under the stock symbol “IBAT”.

The Company’s head office is located at 625 Howe Street, Suite 1140, Vancouver, British Columbia, V6C 2T6 and the Company’s registered and records office is located at Suite 704, 595 Howe Street, Vancouver BC, V6C 2T5.

The Company is an advanced technology company focused on lithium extraction from salars, geothermal brines and oil field brines.

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) applicable to a going concern which assumes that the Company will be able to continue its operations and will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

The Company has not generated revenue from operations. The Company had a net loss of \$1,527,682 for the nine months ended October 31, 2021 and as of that date the Company’s accumulated deficit was \$26,520,818. The Company will periodically have to raise funds to continue operations and, although it has been successful in doing so in the past, there is no assurance it will be able to do so in the future. These factors comprise a material uncertainty which may cast significant doubt about the Company’s ability to continue as a going concern. These condensed consolidated interim financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate.

Since March 2020, several measures have been implemented in Canada and the rest of the world in response to the increased impact from novel coronavirus (“COVID-19”). The Company continues to operate its business at this time. While the impact of COVID-19 is expected to be temporary, the current circumstances are dynamic and the impacts of COVID-19 on business operations, cannot be reasonably estimated at this time. The Company anticipates this could have an adverse impact on its operations.

2. Basis of Preparation

Statement of compliance

The condensed consolidated interim financial statements of the Company have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including International Accounting Standards (“IAS”) 34, Interim Financial Reporting, as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

The Company’s condensed consolidated interim financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value.

International Battery Metals Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

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(Expressed in Canadian dollars)

(Unaudited)

2. Basis of Preparation (continued)

Basis of consolidation

In addition to the Company, the condensed consolidated interim financial statements incorporate the financial statements of its wholly owned subsidiaries in the United States, IBAT USA, Inc. and Selective Adsorption Lithium, Inc. (“SAL”) (Note 8).

A subsidiary is an entity over which the Company has control, directly or indirectly, where control is defined as the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. A subsidiary is consolidated from the date upon which control is acquired by the Company and all intercompany transactions and balances have been eliminated on consolidation.

3. Summary of Significant Accounting Policies

The accounting policies followed by the Company are set out in Note 3 to the audited annual financial statements for the year ended January 31, 2021, and have been consistently followed in the preparation of these condensed consolidated interim financial statements.

Accounting standards issued but not yet effective

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. The Company has not early adopted any new standards and determined that there are no new standards that are relevant to the Company.

4. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the Company’s condensed consolidated interim financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the condensed consolidated interim financial statements and reported amounts of income and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management’s experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates. In preparing these condensed consolidated interim financial statements, the significant estimates and critical judgments were the same as those applied to the audited financial statements as at and for the year ended January 31, 2021.

5. Amounts Receivable

| | October 31, 2021 | January 31, 2021 |
|----------------|-------------------------|-------------------------|
| GST receivable | \$ 7,118 | \$ 5,830 |

International Battery Metals Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

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(Expressed in Canadian dollars)

(Unaudited)

6. Prepaid Expenses

| | October 31, 2021 | January 31, 2021 |
|------------------|------------------|------------------|
| Prepaid expenses | \$ 62,969 | \$ 106,594 |

As at October 31, 2021, the prepaid expenses included a balance of US\$42,100 (CA\$52,189) (January 31, 2021- US\$81,072 (CA\$103,578)).

7. Equipment

During the nine months ended October 31, 2021, the Company incurred a total of \$3,409,021 for the construction of the lithium extraction unit. During the year ended January 31, 2021, the Company began construction of its first lithium extraction unit and incurred total costs of \$4,158,827. Of the total costs, \$1,425,286 (US\$1,074,290) was paid in shares to Sorcia Minerals LLC and \$2,480,639 (US\$1,920,940) was paid in shares to EVL Holdings LLC (“EVL”) who made payments to engineers, consultants, and fabricators on the Company’s behalf (Note 13). As the asset is not yet completed, no depreciation has been recorded.

| Cost and Net Book Value | Lithium extraction unit | Computer | Total |
|----------------------------------|-------------------------|--------------|------------------|
| Balance, January 31, 2020 | \$ - | - | - |
| Additions | 4,158,827 | 2,421 | 4,161,248 |
| Balance, January 31, 2021 | \$ 4,158,827 | 2,421 | 4,161,248 |
| Additions | 3,409,021 | - | 3,409,021 |
| Balance, October 31, 2021 | \$ 7,567,848 | 2,421 | 7,570,269 |

| Accumulated Depreciation | Lithium extraction unit | Computer | Total |
|------------------------------------|-------------------------|------------|------------|
| Balance, January 31, 2020 and 2021 | \$ - | - | - |
| Depreciation | - | 363 | 363 |
| Balance, October 31, 2021 | \$ - | 363 | 363 |

| Net Book Value | Lithium extraction unit | Computer | Total |
|----------------------------------|-------------------------|--------------|------------------|
| Balance, January 31, 2021 | \$ 4,158,827 | 2,421 | 4,161,248 |
| Balance, October 31, 2021 | \$ 7,567,848 | 2,058 | 7,569,906 |

8. Lithium Extraction Technology Asset Purchase

On April 12, 2018, the Company closed an asset purchase agreement with North American Lithium Inc. (“NAL”) and SAL, a company formerly controlled by shareholders of NAL, pursuant to which the Company acquired (i) NAL’s data, analysis and reports related to lithium extraction from oilfield brines for petro-lithium extraction projects for consideration of US\$875,000 cash and (ii) 100% of the outstanding shares of SAL, which holds intellectual property for consideration of up to 25,309,488 common shares of the Company (the “Acquisition”). As part of the exchange, the Company also granted a 5% gross profits royalty to NAL.

International Battery Metals Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended October 31, 2021 and 2020

(Expressed in Canadian dollars)

(Unaudited)

8. Lithium Extraction Technology Asset Purchase (*continued*)

The 25,309,488 in share-based consideration for the acquisition is in the form of milestone shares (“Milestone shares”) will be issued upon SAL achieving certain milestones (the “Milestones”) as follows:

| Milestone | Number of performance shares to be issued |
|--|--|
| Shares on closing date (issued on April 12, 2018) | 4,700,000 |
| Shares on SAL and the Company filing three U.S. or foreign patent applications with respect to intellectual property | 4,000,000 |
| Shares on SAL and the Company filing three additional patents with respect to intellectual property | 5,536,496 |
| Shares on SAL and the Company filing three additional patents with respect to intellectual property | 5,536,496 |
| Shares upon the Company completing either of the following: one or more private placement financing(s) resulting in the issuance of an aggregate of no less than 5,000,000 common shares in the Company; or completing a laboratory – scale pilot plant for the processing of lithium or lithium concentrates (issued on November 7, 2018) | 5,536,496 |

During the year ended January 31, 2019, the Company issued 4,700,000 common shares with a fair value of \$2,256,000 on the date of closing the acquisition.

The remaining shares are contingently issuable, and their fair value was estimated using a probability-weighted analysis based on the probability of achieving the Milestones. The resulting valuation was recorded as obligation to issue Milestone shares of \$3,201,185. On November 7, 2018, the Company issued 5,536,496 Milestone shares and transferred \$2,657,734 from obligation to issue shares to share capital.

As at October 31, 2021 and January 31, 2021, the Company has an obligation to issue Milestone shares with a value of \$543,451. The Company incurred an additional \$50,000 in costs associated with the closing of the Acquisition and is required to issue a finder’s fee of 100,000 common shares, valued at \$48,000. During the year ended January 31, 2021, the Company issued these shares and transferred \$48,000 from obligation to issue shares to share capital (Note 13).

In November 2018, the Company entered into licensing agreements as amended with Ensorcia Metals Corporation (“Ensorcia”) and its wholly-owned subsidiaries, Sorcia Minerals LLC (“Sorcia”) and Ensorcia Argentina LLC (“EAL”) whereby the Company issued lithium extraction technology licenses to Sorcia and EAL to use Extraction systems manufactured by the Company in exchange for a six percent royalty (6%) on the gross sales price of all products produced and sold, less selling costs, using the Licensed Technology and a ten percent (10%) common membership interest in Sorcia and EAL. The agreements can be terminated by the Company if the first extraction system is not installed or operational by December 31, 2021 with Sorcia and by June 30, 2022 with EAL. As a signing incentive, the Company issued 1,000,000 common share purchase warrants valued at \$103,512 to Ensorcia for the agreement with Sorcia which were expensed as a share-based payment expense to obtain a contract.

International Battery Metals Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended October 31, 2021 and 2020

(Expressed in Canadian dollars)

(Unaudited)

8. Lithium Extraction Technology Asset Purchase (*continued*)

The investments in Sorcia and EAL are accounted for as investments carried at FVTPL whose fair values at initial recognition, October 31, 2021 and January 31, 2021 were \$Nil.

As a result of share transactions during fiscal 2021 (Note 13), Ensorcia and Sorcia became significant shareholders of the Company (Note 15).

9. Intangible Assets

On April 12, 2018, upon completion of the Acquisition (Note 8), the Company acquired certain intellectual property (the "Intellectual Property"), from the shareholders of SAL. A continuity of the Company's intangible assets is as follows:

| | | |
|------------------------------------|-----------|------------------|
| Cost | | |
| Balance, January 31, 2020 and 2021 | \$ | 6,717,487 |
| Additions | | - |
| Balance, October 31, 2021 | \$ | 6,717,487 |
| Accumulated Amortization | | |
| Balance, January 31, 2020 | \$ | 1,214,667 |
| Amortization | | 671,812 |
| Balance, January 31, 2021 | \$ | 1,886,479 |
| Amortization | | 500,590 |
| Balance, October 31, 2021 | \$ | 2,387,069 |
| Net Book Value | | |
| At January 31, 2021 | \$ | 4,831,008 |
| At October 31, 2021 | \$ | 4,330,418 |

10. Leases

The Company's lease liability consisted of a single lease for office space. The lease had an imputed interest rate of 10% per annum and expired in February 2020. The Company's lease liability as at October 31, 2021 and January 31, 2021 was \$nil.

| | | |
|---|-----------|----------|
| Lease assets | | |
| At January 31, 2020 | \$ | 5,303 |
| Depreciation expense | | (5,303) |
| At January 31, 2021 and October 31, 2021 | \$ | - |

International Battery Metals Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended October 31, 2021 and 2020

(Expressed in Canadian dollars)

(Unaudited)

10. Leases (continued)

| Amounts recognized in profit or loss | October 31, 2021 | October 31, 2020 |
|--|------------------|------------------|
| Interest on lease liabilities | \$ - | \$ 46 |
| Income from sub-leasing right-of-use asset | - | 2,700 |
| Expenses relating to short-term leases | - | 3,193 |

| Amounts recognized in the statement of cash flows | October 31, 2021 | October 31, 2020 |
|---|------------------|------------------|
| Interest paid | \$ - | \$ 46 |
| Principal payments on lease liabilities | - | 5,572 |
| Expenses relating to short-term leases | - | 15,187 |
| Total cash outflows for leases | \$ - | \$ 20,805 |

11. Deferred Acquisition Costs

On September 26, 2019, the Company, through its wholly owned subsidiary, entered into an agreement to purchase a reserve osmosis desalination system. As at October 31, 2021, the Company had paid \$1,036,827 (US\$813,661) (January 31, 2021 - \$229,967 (US\$180,000)) which is included in deferred acquisition costs.

During the year ended January 31, 2021, the Company entered into a revised agreement with payments as follows:

| Milestone description | Amount (USD) |
|---|------------------|
| Payment made under the initial agreement upon closing (paid) | \$180,000 |
| Upon placement of purchase order (paid) | \$234,638 |
| Upon preliminary completion of request order (paid) | \$234,638 |
| Upon delivery of factory acceptance report (paid) | \$164,385 |
| Upon arrival at buyer's location (accrued) | \$70,406 |
| | \$884,067 |

A continuity of the Company's deferred acquisition costs is as follows:

| | |
|-------------------------------------|-------------|
| Balance, January 31, 2020 | 238,032 |
| Translation adjustment | (8,065) |
| Balance, January 31, 2021 | 229,967 |
| Additions | 896,008 |
| Transfer to Lithium Extraction Unit | (1,134,040) |
| Translation adjustment | (8,065) |
| Balance, October 31, 2021 | - |

International Battery Metals Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended October 31, 2021 and 2020

(Expressed in Canadian dollars)

(Unaudited)

12. Trade Payables and Other Liabilities

| | October 31, 2021 | January 31, 2021 |
|---------------------|---------------------|-------------------|
| Trade payables | \$ 2,674,149 | \$ 352,829 |
| Accrued liabilities | 187,195 | 236,790 |
| | \$ 2,861,344 | \$ 589,619 |

13. Share Capital

Authorized

Authorized share capital: an unlimited number of common shares with no par value.

Issued and outstanding

For the nine months ended October 31, 2021:

- On February 8, 2021, the Company issued a total of 3,333,333 common shares to Ensorcia for 3,333,333 warrants exercised at US\$0.105 per share for gross proceeds of \$446,211 (US\$350,000) which included a transfer of \$352,019 (US\$276,500) from obligation to issue shares to share capital for proceeds received during the year ended January 31, 2021. As at the date of issuance, the fair value of the warrants was revalued to \$1,865,312 (US\$1,461,744) using the Black-Scholes Option Pricing Model (Note 14). The Company incurred \$1,106 in share issuance costs for the year ended January 31, 2021.
- On February 26, 2021, the Company issued 225,000 common shares for 225,000 options exercised at \$0.355 per share for gross proceeds of \$79,875 which resulted in a transfer from equity reserves to share capital of \$75,746.
- On March 4, 2021, the Company issued a total of 4,664,306 common shares at \$0.305 per share for the exercise of the pre-emptive rights under the private placement closed in August 2019. Under the terms of the private placement closed in August 2019, the placees were granted a pre-emptive right for two years from closing, in respect of any equity securities issuance by the Company, to purchase at fair market value the amount of securities required to maintain their percentage holding of the Company. The share price was based on the 30-day average market closing price for the 30 days prior to the Company sending a notice to the placees of their rights to exercise the pre-emptive rights. The Company has received a total of \$711,307 for 2,332,153 common shares issued at \$0.305 per share. The other 2,332,153 common shares were issued to Ensorcia in exchange for \$711,306 of payments made by Ensorcia on the Company's behalf.
- The Company issued 1,666,667 common shares and 1,666,666 common shares on March 18, 2021 and March 31, 2021 respectively for 3,333,333 warrants exercised at US\$0.105 per share for gross proceeds of \$435,166 (US\$350,000). As at the dates of issuance, the fair value of the warrants were revalued to \$2,097,300 (US\$1,675,955) using the Black-Scholes Option Pricing Model (Note 14).

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13. Share Capital (*continued*)

- e) On June 23, 2021, the Company issued 520,000 common shares for 520,000 warrants exercised at \$0.10 per share for gross proceeds of \$52,000 which resulted in a transfer from equity reserves to share capital of \$21,976.
- f) On August 11, 2021, the Company issued 200,000 common shares for 200,000 stock options exercised at \$0.19 per share for gross proceeds of \$38,000 which resulted in a transfer from equity reserves to share capital of \$37,183.

For the year ended January 31, 2021:

- a) On July 9, 2020, the Company closed a private placement and issued a total of 600,000 units at \$0.10 per unit for gross proceeds of \$60,000. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire one common share at a price of \$0.10 per share for a period of two years. The fair value of the warrants was \$25,357 and was calculated using the Black-Scholes Option Pricing Model. The Company incurred share issuance costs of \$1,847 associated with the financing.
- b) On October 21, 2020, the Company issued 7,831,770 common shares to Sorcia for \$783,177 cash and 17,168,230 common shares to Sorcia in exchange for consideration of \$1,726,552 for payments to consultants on behalf of the Company to fund the design and construction of its first lithium extraction unit (Note 7). The fair value of 17,168,230 common shares on the date issued was \$2,060,188 resulting in a loss on settlement of debt of \$333,636. The Company incurred share issuance costs of \$10,831 associated with the financing.
- c) On December 15, 2020, the Company issued 169,470 common shares to EVL for \$16,947 cash and 24,830,530 common shares to EVL in exchange for consideration of \$2,483,053 for payments to consultants on behalf of the Company to fund the design and construction of its first lithium extraction unit (Note 7). The fair value of the shares on the date issued was \$6,828,396 resulting in a loss on settlement of debt of \$4,345,343. The Company incurred share issuance costs of \$1,412 associated with the financing.
- d) On January 5, 2021, the Company issued 100,000 common shares as finder's fee for the Acquisition (Note 8) which resulted in a transfer from obligation to issue shares to share capital of \$48,000.
- e) On January 6, 2021, the Company issued 80,000 common shares for 80,000 warrants exercised at \$0.10 per share for proceeds of \$8,000 which resulted in a transfer from equity reserve to share capital of \$3,381.

International Battery Metals Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended October 31, 2021 and 2020

(Expressed in Canadian dollars)

(Unaudited)

13. Share Capital (*continued*)

Restricted Share Unit Plan

On November 25, 2020, the Company adopted a restricted share unit plan (the “RSU Plan”) which allows for certain discretionary bonuses and similar awards, related to the achievement of long-term financial and strategic objectives of the Company, to be provided to eligible directors, officers, employees and consultants of the Company. The RSU Plan is administered by the Board, or if appointed, by a special committee of directors appointed from time to time by the Board. The maximum number of common shares issuable under the RSU Plan shall not exceed 10% of the number of common shares of the Company issued and outstanding as of each award date.

14. Reserves

Stock options

The Company has a stock option plan (the “Plan”) which provides eligible directors, officers, employees and consultants of the Company with the opportunity to acquire an ownership interest in the Company and is the basis for the Company’s long-term incentive scheme. The Plan is administered by the Board, or if appointed, by a special committee of directors appointed from time to time by the Board. The maximum number of common shares issuable under the Plan shall not exceed 10% of the number of common shares of the Company issued and outstanding as of each award date. The exercise price of options granted under the Plan will not be less than the closing market price of the Company’s common shares on the exchange. The options have a maximum term of ten years from date of issue and vesting is determined by the Board.

For the nine months ended October 31, 2021:

- On February 26, 2021, 225,000 stock options were exercised which resulted in a transfer from equity reserves to share capital of \$75,746 (Note 13).
- On June 15, 2021, 400,000 stock options were issued to directors and advisory board members of the Company. The fair value of the options of \$203,395 was recorded as stock-based compensation expense included in general and administrative expenses and was calculated using the Black-Scholes Option Pricing Model.
- On August 11, 2021, 200,000 stock options were exercised which resulted in a transfer from equity reserves to share capital of \$37,184 (Note 13).

For the year ended January 31, 2021:

- The Company granted 8,148,500 stock options to the directors and consultants of the Company. The fair value of the options of \$4,526,778 was recorded as stock-based compensation expense included in general and administrative expenses and was calculated using the Black-Scholes Option Pricing Model.
- A total of 130,000 stock options were forfeited due to the departure of employees of the Company. As a result, the original share-based payment expense of \$61,212 was reversed from reserves and credited to deficit.

International Battery Metals Ltd.

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14. Reserves (continued)

- On May 10, 2020, a total of 620,000 stock options expired. As a result, the original share-based payment expense of \$226,403 was reversed from reserves and credited to deficit.

The following table summarizes information regarding stock options outstanding and exercisable as at October 31, 2021:

| Exercise price | Expiry date | Number of options outstanding and exercisable | Weighted-average remaining contractual life (years) |
|----------------|------------------|---|---|
| \$0.62 | October 23, 2022 | 300,000 | 0.98 |
| \$0.19 | August 28, 2023 | 1,200,000 | 1.82 |
| \$0.38 | January 5, 2026 | 8,148,500 | 4.18 |
| \$0.57 | June 15, 2026 | 400,000 | 4.62 |
| Total | | 10,048,500 | 3.82 |

Warrants

The following table summarizes information regarding warrants outstanding and exercisable as at October 31, 2021:

| Exercise price | Expiry date | Number of warrants outstanding and exercisable | Weighted-average remaining contractual life (years) |
|----------------|-------------------|--|---|
| \$0.13 | December 13, 2021 | 3,000,000 | 0.12 |
| \$0.13 | January 22, 2022 | 2,912,621 | 0.23 |
| Total | | 5,912,621 | 0.17 |

For the nine months ended October 31, 2021:

- A total of 6,666,666 warrants were exercised at US\$0.105 per share (Note 13). These warrants were in a currency other than the Company's functional currency and were initially recorded as a derivative liability.
- A total of 520,000 warrants were exercised at CAD \$0.10 per share. As a result, \$21,976 was reversed from reserves and credited to share capital.

For the year ended January 31, 2021:

- A total of 8,316,077 warrants expired. As a result, \$1,574,467 was reversed from reserves and credited to share capital.
- As at January 31, 2020, 300,000 special unit warrants were outstanding and exercisable. Each special unit warrant outstanding was exercisable at \$0.35 for a period of 24 months from the date of issuance into one common share and one share purchase warrant. The special unit warrants expired unexercised on May 10, 2020 which resulted in a transfer of \$109,547 from reserves to share capital.

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14. Reserves (continued)

Derivative liability

During the year ended January 31, 2020, the Company issued a total of 12,579,287 warrants in a currency other than the Company's functional currency. These warrants have been accounted for as a derivative liability. During the nine months ended October 31, 2021, 6,666,666 of these warrants were exercised. At the settlement dates, the warrants were re-valued using the Black-Scholes Option Pricing Model and a total gain of \$3,962,612 was recorded upon exercise (Note 13).

The Company's derivative liability arises as a result of the issuance of warrants exercisable in United States dollars. As the denomination is different from the Company's Canadian dollar functional currency, the Company recognizes a derivative liability for these warrants and remeasures the liability at the end of each reporting period using the Black-Scholes Option Pricing Model.

A reconciliation of the changes in the derivative liability during the period is as follows:

| | |
|----------------------------------|------------------|
| Balance, January 31, 2020 | 1,087,855 |
| Change in fair value | 3,151,844 |
| Balance, January 31, 2021 | 4,239,699 |
| Change in fair value | 3,346,059 |
| Derecognition upon exercise | (3,962,612) |
| Balance, October 31, 2021 | 3,623,146 |

Stock option and warrant transactions are summarized as follows:

| | Warrants | | Options | |
|----------------------------------|------------------|------------------------------------|-------------------|------------------------------------|
| | Number | Weighted average exercise price \$ | Number | Weighted average exercise price \$ |
| Balance, January 31, 2020 | 20,895,364 | 0.34 | 2,675,000 | 0.30 |
| Granted | 600,000 | 0.10 | 8,148,500 | 0.38 |
| Exercised | (80,000) | 0.10 | - | - |
| Expired/forfeited | (8,316,077) | 0.63 | (750,000) | 0.37 |
| Balance, January 31, 2021 | 13,099,287 | 0.13 | 10,073,500 | 0.36 |
| Granted | - | - | 400,000 | 0.57 |
| Exercised | (7,186,666) | 0.13 | (425,000) | 0.28 |
| Balance, October 31, 2021 | 5,912,621 | 0.13 | 10,048,500 | 0.37 |

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14. Reserves (continued)

Fair value determination

Fair values were estimated using the Black-Scholes Option Pricing Model with the following assumptions:

| | Nine months ended October 31, 2021 | | Year-ended January 31, 2021 | |
|-------------------------|---------------------------------------|--------------|-----------------------------|--------------|
| | Options | Warrants | Options | Warrants |
| Risk-free interest rate | 0.84% | 0.03 – 0.07% | 0.39% | 0.11 – 0.24% |
| Expected volatility | 143% | 109 – 161% | 192% | 128 – 165% |
| Expected life (years) | 5.00 | 0.12 – 0.62 | 5.00 | 0.56 – 3.00 |
| Expected dividend yield | 0.00 | 0.00% | 0.00% | 0.00% |

The expected volatility assumptions have been developed taking into consideration historical volatility of the Company's share price.

15. Related Party Transactions

Key management personnel compensation and other related party transactions

Key management personnel include directors and officers of the Company. The remuneration of directors and other members of key management are as follows:

| For nine months ended October 31, | 2021 | 2020 |
|---|-------------------|-------------------|
| Management fees, salaries and benefits ⁽¹⁾ | \$ 322,213 | \$ 339,840 |
| Directors' fees ⁽¹⁾ | 41,500 | 36,000 |
| Share-based compensation ⁽¹⁾ | 101,697 | - |
| | <u>\$ 465,410</u> | <u>\$ 375,840</u> |

⁽¹⁾ Included in management fees, salaries and benefits and share-based compensation under general and administrative expense.

During the nine months ended October 31, 2021 and 2020, other related party transactions consisted of the following:

- Included in general and administrative expenses is \$27,000 (2020 - \$27,000) in consulting fees paid to a Company controlled by the wife of the Company's CFO and Director.
- Included in general and administrative expenses is \$18,000 (2020 - \$20,500) in rent paid to a Company with common directors.

Due from/to related parties

At October 31, 2021, \$297,141 (January 31, 2021 - \$124,479) was due to directors and former directors and related parties and is included in trade payables and accrued liabilities. The amounts were unsecured, non-interest bearing and due on demand.

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15. Related Party Transactions (continued)

At October 31, 2020, the Company had an obligation to issue 100,000 shares valued at \$48,000 to an entity controlled by the Chief Financial Officer of the Company as part of the finders' fees related to the acquisition of SAL (Note 8). During the year ended January 31, 2021, the Company issued the shares (Note 13).

During fiscal 2021, Ensorcia, Sorcia and EVL became significant shareholders of the Company.

At October 31, 2021, \$1,633,588 (January 31, 2021 - \$Nil) was due to a significant shareholder of the Company and is included in trade payables and accrued liabilities. The amounts were unsecured, non-interest bearing and due on demand.

16. General and Administrative Expenses

| | Three months ended | | Nine months ended | |
|--|--------------------|------------|-------------------|------------|
| | October 31, | | October 31, | |
| | 2021 | 2020 | 2021 | 2020 |
| Advertising and promotion | \$ 64,323 | \$ 570 | \$ 131,225 | \$ 1,007 |
| Bank charges and interest | 7,824 | 2,285 | 11,470 | 2,957 |
| Consulting fees (Note 15) | 145,016 | 189,088 | 373,613 | 300,599 |
| Depreciation | 121 | - | 363 | 5,303 |
| Filing fees | 3,439 | 5,272 | 26,720 | 15,643 |
| Foreign exchange loss (gain) | 20,704 | 10,675 | 29,380 | (16,414) |
| Management fees, salaries and benefits (Note 14) | 173,043 | 137,188 | 386,175 | 391,224 |
| Meals and entertainment and travel | - | (118) | - | 9,649 |
| Office and miscellaneous | 16,412 | 4,811 | 45,340 | 16,451 |
| Professional fees | 253,913 | 17,649 | 420,964 | 88,199 |
| Rent (Note 15) | 6,000 | 5,972 | 15,000 | 15,159 |
| Share based compensation | - | - | 203,395 | - |
| | \$ 690,795 | \$ 373,392 | \$ 1,643,645 | \$ 829,777 |

17. Supplemental Disclosures with Respect to Cash Flows

| For the nine months ended October 31, | 2021 | 2020 |
|--|-----------|--------------|
| Value of expired warrants transferred to share capital | \$ - | \$ 1,580,502 |
| Equipment purchases included in trade payables and other liabilities | 1,942,191 | - |
| Value of forfeited/expired options transferred to deficit | - | 287,615 |
| Shares issued for debt settlement | 711,306 | 249,674 |
| Shares issued for equipment | - | 573,159 |
| Shares issued for intangible assets | - | 916,719 |
| Value of exercised options transferred to share capital | 112,929 | - |
| Value of exercised warrants transferred to share capital | 21,976 | - |

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18. Contingency

In April 2021, former company employees and directors and a company which they control, filed a complaint in the United States District Court for the District of Colorado against the Company for alleged wrongful dismissal and breach of share exchange agreement. The Company is objecting to the complaint and has retained counsel to address. The amounts and outcome of the complaint cannot be determined at this time and has not been accrued for in the consolidated financial statements for the nine months ended October 31, 2021.

19. Capital Risk Management

The Company manages its capital structure and makes adjustments to it to effectively support the development and acquisition of technologies extraction and processing of lithium from various sources, as well as the acquisition of lithium resource properties. In the definition of capital, the Company includes, as disclosed on its statement of financial position: share capital, deficit and reserves.

The Company is dependent on external financing to fund its activities. In order to carry out the planned development and acquisitions and pay for general administrative costs, the Company will be using its existing working capital and will raise additional amounts as needed. The Company will continue to develop and acquire new technology if it feels there is sufficient economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the nine months ended October 31, 2021. The Company is not subject to externally imposed capital requirements and does not have exposure to asset-backed commercial paper or similar products.

20. Financial Instruments and Risk Management

Categories of financial instruments

| | October 31, 2021 | January 31, 2021 |
|---|---------------------|---------------------|
| FINANCIAL ASSETS | \$ | \$ |
| FVTPL, at fair value | | |
| Cash | 85,034 | 212,213 |
| Total financial assets | 85,034 | 212,213 |
| FINANCIAL LIABILITIES | | |
| FVTPL, at fair value | | |
| Derivative liability | 3,623,146 | 4,239,699 |
| Other liabilities, at amortized cost | | |
| Trade payables and other liabilities | 2,861,344 | 589,619 |
| Total financial liabilities | 6,484,490 | 4,829,318 |

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20. Financial Instruments and Risk Management (continued)

The Company has classified fair value measurements of its financial instruments using a fair value hierarchy that reflects the significance of inputs used in making the measurements as follows:

- Level 1 fair value measurements are those derived from quoted prices in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1, that are observable either directly or indirectly.
- Level 3 fair value measurements are those derived from valuation techniques that include inputs that are not based on observable market data.

The fair value of financial assets and financial liabilities at amortized cost is determined based on discounted cash flow analysis or using prices from observable current market transactions. The Company considers that the carrying amount of all its financial assets and financial liabilities recognized at amortized cost in the condensed consolidated interim financial statements approximates their fair value due to the demand nature or short-term maturity of these instruments. Cash is measured using level 1 of the fair value hierarchy. Derivative liability is measured at level 3 of the fair value hierarchy. The financial asset portion of amounts receivable does not include amounts due from a government agency as it is a statutory (not contractual) obligation.

Credit risk

Financial instruments that potentially subject the Company to credit risk consist of cash and amounts receivable. The Company manages its credit risk relating to cash by dealing only with high-rated financial institutions as determined by rating agencies. As at October 31, 2021, amounts receivable of \$7,118 are due from a government agency. As a result, credit risk is considered nominal. The Company does not consider any of its financial assets to be impaired.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company manages liquidity risk by maintaining sufficient cash balances to enable settlement of transactions on the due date. The Company addresses its liquidity by raising capital through the issuance of equity. While the Company has been successful in securing financings in the past, there is no assurance that it will be able to do so in the future. The Company is exposed to liquidity risk.

Foreign currency risk

Foreign currency risk is the risk that a variation in exchange rates between the Canadian dollar and the U.S. dollar will affect the Company's operations and financial results. The operating results and financial position of the Company are reported in Canadian dollars.

As at October 31, 2021, if the value of the Canadian dollar had strengthened or weakened by 5% against the U.S. dollar, with all other variables held constant, comprehensive income would have been approximately \$113,000 lower or higher respectively.

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20. Financial Instruments and Risk Management (*continued*)

Other risks

Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest rate risk and commodity price risk arising from financial instruments.

21. Segmented Information

The Company has a single reportable segment, the acquisition and development of advanced technology focused on Lithium brine extraction from oil field brines for petro lithium extraction projects. All non-current assets are domiciled in the United States.

22. Subsequent Event

On December 6, 2021, the Company issued 5,912,621 common shares for 5,912,621 warrants exercised at US\$0.103 per share per share for gross proceeds of \$779,337 (US \$609,000).