

# **International Battery Metals Ltd.**

Condensed Consolidated Financial Statements (Unaudited)

For the Three Months Ended June 30, 2024 and 2023

(Expressed in United States Dollars)

## **NOTICE OF NO AUDITOR REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

The accompanying unaudited condensed consolidated financial statements for International Battery Metals Ltd. (the "Company") have been prepared by management in accordance with United States Generally Accepted Accounting Principles ("GAAP"). These condensed consolidated 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 condensed consolidated 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 financial statements.

**International Battery Metals Ltd.**  
Condensed Consolidated Balance Sheets (Unaudited)  
As of June 30, 2024 and March 31, 2024  
(In thousands)

	<b>June 30, 2024</b>	<b>March 31, 2024</b>
<b>ASSETS</b>	<b>(Unaudited)</b>	
<b>Current assets</b>		
Cash	\$ 12,290	\$ 1,026
Accounts receivable	350	121
Other current assets	325	336
<b>Total current assets</b>	<b>12,965</b>	<b>1,483</b>
Plant and Equipment, net	29,465	28,793
Intangible assets, net	4,072	4,341
Right of use asset	42	67
Prepaid expenses	-	-
<b>Total assets</b>	<b>\$ 46,544</b>	<b>\$ 34,684</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 986	\$ 1,263
Accrued liabilities	470	593
Accounts payable, related party	-	710
Lease obligation, current	42	67
<b>Total current liabilities</b>	<b>1,498</b>	<b>2,633</b>
Warrant liability	25,715	4,368
<b>Total liabilities</b>	<b>27,213</b>	<b>7,001</b>
Commitments and contingencies		
<b>Shareholders' equity</b>		
Share capital, no par, 242,595 and 211,381 common shares issued and outstanding, respectively	65,039	63,733
Retained earnings deficit	(45,708)	(36,050)
<b>Total shareholders' equity</b>	<b>19,331</b>	<b>27,683</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 46,544</b>	<b>\$ 34,684</b>

Approved by the Board of Directors and authorized for issue on August 29, 2024.

\_\_\_\_\_  
“William Webster”  
Director

\_\_\_\_\_  
“Tony Colletti”  
Director

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

## International Battery Metals Ltd.

Condensed Consolidated Statements of Loss and Comprehensive Loss (Unaudited)  
For the Three Months Ended June 30, 2024 and 2023  
(In thousands, except per share amounts)

	<b>Three Months Ended June 30,</b>	
	<b>2024</b>	<b>2023</b>
<b>REVENUE, reimbursable</b>	<b>\$ 246</b>	<b>\$ -</b>
<b>OPERATING COSTS AND EXPENSES</b>		
Selling, general and administrative expenses, excluding depreciation	1,772	2,802
Operating costs, excluding depreciation	1,525	-
Reimbursable	246	-
Amortization of intangible assets	269	269
Depreciation	166	-
Operating loss	(3,732)	(3,071)
Excess fair value of warrants over private placement proceeds	(659)	-
Change in fair value of warrant liability	(5,267)	(812)
Net loss before income tax provision	(9,658)	(3,883)
Foreign currency translation loss	-	-
<b>Comprehensive loss</b>	<b>\$ (9,658)</b>	<b>\$ (3,883)</b>
<b>Net loss per share, basic and diluted</b>	<b>\$ (0.04)</b>	<b>\$ (0.02)</b>
<b>Weighted average shares outstanding, basic and diluted</b>	<b>225,119</b>	<b>200,686</b>

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

**International Battery Metals Ltd.**  
Condensed Consolidated Statements of Cash Flows (Unaudited)  
For the Three Months Ended June 30, 2024 and 2023  
(In thousands)

	<b>Three Months Ended June 30,</b>	
	<b>2024</b>	<b>2023</b>
<b>CASH USED IN OPERATING ACTIVITIES</b>		
Net loss	\$ (9,658)	\$ (3,883)
Adjustments to reconcile net loss to cash used in operating activities		
Share-based compensation	67	1,747
Amortization of intangible assets	269	269
Depreciation	166	-
Change in fair value of warrant liabilities	5,926	812
Changes in assets and liabilities:		
Accounts receivable	(229)	28
Prepaid expenses	11	46
Trade payables and other liabilities	(992)	(671)
<b>Net cash used in operating activities</b>	<b>(4,440)</b>	<b>(1,652)</b>
<b>CASH USED IN INVESTING ACTIVITIES</b>		
Purchase of equipment	(957)	(568)
<b>Net cash used in investing activities</b>	<b>(957)</b>	<b>(568)</b>
<b>CASH PROVIDED BY FINANCING ACTIVITIES</b>		
Proceeds from private placement of shares and warrants	16,867	5,000
Share issuance costs	(206)	(300)
Proceeds from exercise of warrants	-	181
Proceeds from exercise of options	-	-
<b>Net cash provided by financing activities</b>	<b>16,661</b>	<b>4,881</b>
<b>Net change in cash</b>	11,264	2,661
<b>Beginning cash balance</b>	1,026	301
<b>Ending cash balance</b>	<b>\$ 12,290</b>	<b>\$ 2,962</b>
<b>Supplemental disclosures of non-cash transactions:</b>		
Equipment purchases included in trade payables	-	213
Excess fair value of warrants over private placement proceeds	659	
Value of common shares issued share issuance costs	1,005	-
Private placement proceeds allocated to warrant liability	15,422	3,898

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

## International Battery Metals Ltd.

Condensed Consolidated Statements of Changes in Shareholders' Equity (Unaudited)  
For the Three Months Ended June 30, 2024 and 2023  
(In thousands)

	Common Shares	Share Capital	Accumulated Deficit	Total Shareholders' Equity
<b>Balance as of March 31, 2023</b>	<b>195,436</b>	<b>57,065</b>	<b>(27,540)</b>	<b>29,525</b>
Private placements of shares	6,397	1,102	-	1,102
Shares issued for exercise of warrants	422	378	-	378
Shares issued for restrictive stock unit	12	11	-	11
Share-based compensation	-	1,736	-	1,736
Net loss for the period	-	-	(3,883)	(3,883)
<b>Balance as of June 30, 2023</b>	<b>202,267</b>	<b>\$ 60,292</b>	<b>\$ (31,423)</b>	<b>\$ 28,869</b>
	Common Shares	Share Capital	Accumulated Deficit	Total Shareholders' Equity
<b>Balance as of March 31, 2024</b>	<b>211,381</b>	<b>63,733</b>	<b>(36,050)</b>	<b>27,683</b>
Private placements of shares	31,200	1,239	-	1,239
Shares issued for bonus	14	16	-	16
Share-based compensation	-	51	-	51
Net loss for the period	-	-	(9,658)	(9,658)
<b>Balance as of June 30, 2024</b>	<b>242,595</b>	<b>\$ 65,039</b>	<b>\$ (45,708)</b>	<b>\$ 19,331</b>

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

# **International Battery Metals Ltd.**

Notes to the Condensed Consolidated Financial Statements (Unaudited)  
For the Three Months Ended June 30, 2024 and 2023

## **1. Organization and Description of the Business**

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 also trades on the Over-The-Counter Markets (“OTC”) under the stock symbol “IBATF”. The Company’s registered and records office is located at Royal Centre, Suite 1750 – 1055 W Georgia Street, Vancouver, BC V6E 3P3.

The Company is an advanced technology and manufacturing focused on environmentally responsible methods of extracting lithium compounds from brine. The Company provides its technology and equipment to holders of resource properties such as oilfield brines, subsurface brine aquifers and industrial customers who have lithium rich brine by products from their operations. The Company’s proprietary extraction process is environmentally friendly, low cost and able to produce high-quality commercial grade lithium products.

The Company’s current operations consist of the development of a modular direct lithium extraction plant (“MDLE Plant”) which can be rapidly deployed and assembled onsite at a customers’ property. The MDLE Plant is designed to process brine solutions to extract lithium chloride which can be further processed into lithium carbonate and used for industrial purposes or as a battery component. The Company constructed the first MDLE Plant in Lake Charles, Louisiana where it performed feasibility testing and was made available for demonstration to potential customers. The Company is developing a second generation MDLE Plant which will provide customers with the option to greatly increase the scale of the MDLE Plant’s capacity to process brine solutions and increase lithium chloride production.

On May 1, 2024, the Company entered into a lease agreement with US Magnesium LLC (“US Magnesium”), a producer of metals and minerals including the production of lithium carbonate (the, “US Magnesium Lease”). Pursuant to the US Magnesium lease, the Company mobilized the first MDLE Plant to US Magnesium’s facility in Salt Lake City, Utah for the integration of the MDLE Plant with US Magnesium’s facilities. The MDLE Plant will be used to process a solution (the, “Leach Solution”) produced from the lithium containing waste salts derived from prior magnesium production generating a lithium chloride eluent. The lithium chloride eluent will be further processed in US Magnesium’s onsite facilities to produce a high-purity lithium carbonate. The MDLE Plant continues start-up activities as the Company and US Magnesium continue to develop the operational requirements for the Leach Solution.

The US Magnesium Lease has an initial term of two-years and automatically renews for successive one-year terms subject to a 180-day cancelation notice. The US Magnesium Lease also establishes the cost sharing percentages for the mobilization, commissioning and optimization of the plant. Under the terms of the US Magnesium Lease, once defined production targets are achieved, the Company will be entitled to rents and royalties based on the quantities of lithium carbonate produced and the prices that are realized in the market. Rents for the MDLE Plant, based on the level of production achieved, range from \$200,000 per month to \$400,000 per month and the royalties range from 3% to 5% of total product sales, depending upon the level of production achieved and the prices realized in the market. US Magnesium also has a purchase option for the MDLE Plant.

## **2. Basis of Presentation**

### ***Basis of Presentation and Principles of Consolidation***

The Company's condensed consolidated financial statements have been prepared in accordance with the accounting principles generally accepted in the United States of America ("GAAP") on a going concern basis, which contemplates the realization of assets and the discharge of liabilities in the normal course of business for the foreseeable future. The condensed consolidated financial statements include the results of the Company and its subsidiaries. A subsidiary is consolidated from the date upon which control is acquired by the Company and all intercompany transactions and balances have been eliminated. In the condensed consolidated financial statements for interim periods, certain information and disclosures have been condensed or omitted. The condensed consolidated financial statements include all normal and recurring adjustments that are, in the opinion of management, necessary for the fair presentation of the results of operations for the interim periods. These interim financial statements should be read in conjunction with our audited consolidated financial statements and related notes included in our Annual Report.

### ***Functional Currency***

The Company has determined that the U.S. dollar is the functional currency for all the Company's operations since the Company conducts the significant majority of its operations through its U.S subsidiary, IBAT USA, Inc., compensates all of its corporate officers and the board of directors in U.S. dollars and historically the majority of its expenditures are also denominated in U.S. dollars. The Company has maintained limited amounts of Canadian dollars to cover administration expenses associated with the Company's registration in Canada. The Company has limited exposure to exchange rate fluctuations, and for the three months ended June 30, 2024, and 2023, the Company recognized a net loss of approximately \$11,000, and a net gain of approximately \$181,000, respectively, related to currency exchange rates.

### ***Liquidity and Capital Resources***

As of June 30, 2024, the Company had an accumulated deficit of approximately \$45.7 million. However, the Company had working capital of approximately \$11.5 million, primarily due to raising additional cash in two private placements totalling approximately \$16.8 million during the three months ended June 30, 2024. On May 1, 2024, the Company entered the US Magnesium Lease to operate the MDLE Plant at US Magnesium's facilities in Utah. The US Magnesium Lease is anticipated to provide the Company with its first commercial revenues and operating cash flows following the completion of acceptance testing including achieving certain production levels. The commencement of revenue generating operations and the cash from the private placements is anticipated to support the Company's operation for the next 12 months and beyond.

## **3. Summary of Significant Accounting Policies**

The accounting policies followed by the Company are set out in Note 3 to the audited financial statements for the year ended March 31, 2024 and have been consistently followed in the preparation of these unaudited condensed consolidated financial statements.

### ***Revenue***

The Company's current revenue producing activities consist of the performance of the MDLE Plant for US Magnesium under the terms of the US Magnesium Lease. The US Magnesium Lease has three principal sources of revenue, (i) rents, (ii) royalty and technology fee, and (iii) reimbursement of expense. The rents and royalties are determined based on the production level of the plant which has not achieved the minimum level of production to start rents. Due to the production level to date and uncertainties associated with the MDLE Plant's lack of operating history, we have concluded that both the rents and the royalty and technology



fee are variable payments and revenue will be recognized when the contingencies are resolved. We recognize the revenue for the expense reimbursement as we deliver the goods and services to our customer.

#### ***New Accounting Standards Issued but Not Yet Effective***

In December 2023, the Financial Accounting Standard Board ("FASB") issued ASU No. 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*. This ASU enhances existing income tax disclosures to better assess how an entity's operation and related tax risks, tax planning, and operational opportunities affect its tax rate and prospects for future cash flows. The ASU is effective for annual periods beginning after December 15, 2024. We are currently evaluating the effect the guidance will have on our consolidated financial statements.

#### **4. Significant Accounting Judgments, Estimates and Assumptions**

The preparation of the Company's consolidated financial statements in conformity with GAAP requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated 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.

Judgement, estimates and assumptions where there is significant risk of material adjustments to assets and liabilities in future accounting periods are outlined below:

- The Company has determined that intangible asset costs incurred which were capitalized have future economic benefits and will be economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefits including anticipated cash flows and estimated economic life. The amortization expense related to intangible assets is determined using estimates relating to the useful life of the intangible asset.
- The functional currency for the Company and its subsidiaries is the currency of the primary economic environment in which the entity operates. Determination of the functional currency involves certain judgments to determine the primary economic environment and the Company reconsiders the functional currency of its entities if there is a change in events and conditions which determined the primary economic environment. The Company has determined that its functional currency is the United States dollar.
- The evaluation of the fair value of financial instruments, including the Company's warrants and options to purchase common shares requires judgement in selecting the appropriate methodologies and models, and evaluating the ranges of assumptions and financial inputs to calculate estimates of fair value.
- These condensed consolidated financial statements have been prepared on a basis which assumes the Company will continue to operate for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. In assessing whether this assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, 12 months from the end of the reporting period. This assessment is based upon planned actions that may or may not occur for a number of reasons including the Company's own resources and external market conditions.

## 5. Accounts Receivable

The Company's accounts receivables are as follows (in thousands):

	<b>June 30, 2024</b>	<b>March 31, 2024</b>
	<i>(Unaudited)</i>	
Accounts receivable	\$ 320	\$ 105
Sales tax refunds	30	16
	<u>\$ 350</u>	<u>\$ 121</u>

## 6. Other Assets

The Company's other assets are as follows (in thousands):

	<b>June 30, 2024</b>	<b>March 31, 2024</b>
Prepaid patent services	\$ 84	\$ 174
Prepaid insurance	205	65
Prepaid engineering services	-	50
Rental deposit	16	16
Technology licenses	4	11
Other	16	20
Total other assets	<u>\$ 325</u>	<u>\$ 336</u>

## 7. Plant and Equipment

The Company's plant and equipment are as follows (in thousands):

	<b>June 30, 2024</b>	<b>March 31, 2024</b>
MDLE Plant	\$ 29,429	\$ 28,591
Equipment	183	183
Office equipment	23	23
	<u>29,635</u>	<u>28,797</u>
Less: accumulated depreciation	<u>170</u>	<u>4</u>
	<u>\$ 29,465</u>	<u>\$ 28,793</u>

The Company completed commissioning of the MDLE Plant on June 19, 2024 and began start-up activities. The Company believes this milestone constitutes the commencement of operations and the Company began depreciating the MDLE Plant on this date. No depreciation expense had been recognized in any prior period for the MDLE Plant.

## 8. Lithium Extraction Technology and Intangible Assets

The Company acquired the technology to build the MDLE Plant in 2018 and recorded the purchase price as an intangible property (the, “Intellectual Property”) which is being amortized over ten years. The Company has filed additional patents to expand its intellectual property for the development of lithium extraction technologies. The Company’s patents are amortized over 20 years. The Company’s intangible assets as of June 30, 2024, are as follows (in thousands):

	<b>Gross Assets</b>	<b>Accumulated Amortization</b>	<b>Net Assets</b>	<b>Weighted Average Remaining Life (Years)</b>
Intellectual property	\$ 9,276	\$ (5,213)	\$ 4,063	4.2
Patents	11	(2)	9	17.2
	<u>\$ 9,287</u>	<u>\$ (5,215)</u>	<u>\$ 4,072</u>	

The Company’s intangible assets as of March 31, 2024, are as follows (in thousands):

	<b>Gross Assets</b>	<b>Accumulated Amortization</b>	<b>Net Assets</b>	<b>Weighted Average Remaining Life (Years)</b>
Intellectual property	\$ 9,276	\$ (4,945)	\$ 4,331	4.5
Patents	11	(1)	10	17.5
	<u>\$ 9,287</u>	<u>\$ (4,946)</u>	<u>\$ 4,341</u>	

## 9. Operating Lease

The Company entered into a sub-lease agreement for office space in Houston, Texas, commencing July 1, 2022, for a term of twenty-nine months at a monthly lease payment of \$8,495. The lease liability is calculated using an incremental borrowing rate of 5.65%. Lease costs for the three months ended June 30, 2024 and 2023 are as follows (in thousands):

	<b>Three Months Ended June 30,</b>	
	<b>2024</b>	<b>2024</b>
Operating lease costs	\$ 25	\$ 26
Variable lease costs	23	23
Short-term lease costs	36	9
	<u>\$ 84</u>	<u>\$ 58</u>

The Company has elected not to recognize a lease liability for leases with an expected term of 12 months or less. Additionally, certain variable lease payments are not permitted to be recognized as lease liabilities and are recognized in profit and loss as incurred. Lease balance sheet information is as follows (in thousands):

	<u>June 30,</u> <u>2024</u>	<u>March 31,</u> <u>2024</u>
Assets:		
Operating Lease right-of-use asset	\$ 42	\$ 67
Liabilities:		
Operating lease liabilities, current	42	67
Total operating lease liabilities	<u>\$ 42</u>	<u>\$ 67</u>

## 10. Fair Value Measurements

The following table summarizes the Company's assets and liabilities that are measured at fair value on a recurring basis, by level, with the fair value hierarchy as follows (in thousands):

	<u>June 30, 2024</u>			
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Liability				
Warrant liability	25,715	-	25,715	-
	<u>March 31, 2024</u>			
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Liability				
Warrant liability	4,368	-	4,368	-

## 11. Shareholders Equity

### Authorized

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

### Issued and Outstanding

On April 21, 2023, the Company completed a private placement financing ("April 2023 Placement") with Encompass Capital Advisors LLC ("Encompass") issuing 6,396,999 units for gross proceeds of \$5.0 million. Each unit consisted of one common share and one share purchase warrant, with each warrant entitling the holder to purchase one additional common share for a period of two years from the date of issuance at an exercise price of CAD \$1.21 per share. In connection with the offering, the Company paid an advisory fee of approximately \$300,000. In connection with the closing of the April 2023 Placement, the Company agreed to amend the exercise price of 3,333,333 warrants ("Existing Warrants") held by Encompass to \$1.21 from the initial exercise price of \$3.83. The Existing Warrants were allowed to expire in February 2024. The April 2023 Placement provided the Encompass with customary anti-dilution protection for a period of six months from closing and provided pre-emptive rights on future Company proposed issuances of equity, debt or other securities convertible into equity or with equity attached thereto, for a period of twenty-four months from the date of closing.

On September 21, 2023, the Company issued 400,000 common shares valued at approximately \$359,000 to a law firm as a retainer for professional services to be provided to the Company. Approximately \$210,000 of the retainer was amortized to expense during the year ended March 31, 2024 and approximately \$149,000 remains in other current assets as of March 31, 2024.

On December 8, 2023, the Company completed a private placement financing of 1,629,838 units for gross proceeds of approximately \$840,000. Each unit consisted of one common share and one share purchase warrant, with each warrant entitling the holder to purchase one additional common share for a period of two years from the date of issuance at an exercise price of CAD \$0.82 per share.

In December 2023, the Company issued 228,708 common shares as a signing bonus to the Co-Chief Executive Officer pursuant to an executive employment agreement, 150,000 for an officer's performance bonus and 123,841 common shares to members of the Board of Directors in lieu of cash board fees. Additionally, the Company issued 307,947 shares to a law firm in lieu of payment for amounts owing for services rendered to the Company. The total value of these shares was approximately \$500,000.

On December 29, 2023, the Company completed a private placement financing of 2,694,804 units for gross proceeds of approximately \$1.4 million. Each unit consisted of one common share and one share purchase warrant, with each warrant entitling the holder to purchase one additional common share for a period of two years from the date of issuance at an exercise price of CAD \$0.82 per share.

On February 11, 2024, the Company entered into a letter agreement (the, "Letter Agreement"), as amended, with EV Metals VI LLC ("EV Metals") agreeing the principal terms and conditions upon which EV Metals, directly or through one or more of its subsidiaries or affiliates, could complete one or more transactions to purchase up to \$20.0 million of units (the, "Offering"), which each unit consisting of one common shares of stock and one warrant to purchase a common share. The pricing established for the first closing (the, "Initial Closing") was CAD \$1.00 per unit and the exercise price for the warrants, with a two-year duration, as CAD \$1.25 per common share. Upon the Initial Closing, EV Metals had the right to appoint an individual to the Board of Directors of the Company and for as long as EV Metals maintains at least 5% of the issued and outstanding common shares, to nominate a potential director at subsequent shareholder meetings where directors are being considered. In addition to customary terms and conditions of such a private placement, the Letter Agreement provides EV Metals with registration rights upon EV Metals having subscribed an aggregate of \$4.0 million pursuant to the Offering and maintaining beneficial ownership or control over 5% or more of all outstanding shares. On February 29, 2024, the Company completed the Initial Closing, issuing 2,704,400 units for proceed of approximately \$2.0 million. EV Metals appointed Jacob Warnock to the Board of Directors.

On May 6, 2024, the Company completed a private placement (the, "May 2024 Placement") issuing a total of 18,642,134 units to EV Metals and Encompass for gross proceeds of approximately \$10.4 million. Each unit consisted of one common share of the Company and one warrant to purchase a common share of the Company for CAD\$0.9579 per common share. The May 2024 Placement included the second closing pursuant to the Letter Agreement with EV Metals, the Company issued 7,924,157 units to EV Metals for proceeds of approximately \$4.4 million. The Company agreed to pay EV Metals a structuring fee of approximately \$322,000 which was paid by issuing an additional 574,840 common shares.

As part of the May 2024 Placement, the Company issued 10,717,977 units to Encompass for proceeds of approximately \$6.0 million. The Company agreed to cover certain expenses incurred by for the private placement by Encompass and issued an additional 80,385 shares as payment. The Company also agreed to amend the 6,396,999 warrants issued to Encompass in the April 2023 Placement to extend the expiration date to the two-year anniversary of the closing of the May 2024 Placement. The Company agreed to provide Encompass with a most favored nations provision providing Encompass with at least as favorable rights as any existing or future investors of the Company in respect of a private placement entered into or completed

by the Company within six months of the May 2024 Placement. The Company agreed not to renew certain related party license agreements and use its best efforts to list the Company's share on certain stock exchanges. Additionally, the Company agreed to a registration rights agreement ("Registration Rights Agreement") with Encompass. The Company has determined that it will file a registration with the United States Securities and Exchange Commission ("SEC") and anticipates submitting its initial registration on Form 10 or Form S-1. The Registration Rights Agreement provides that following the filing of the Form 10, within 60 days (or 90 days in the event of a full review) the Company will file a registration statement on Form S-1 to register Encompass' shares. In the event that there are limitations on the number of shares that can be registered, the Registration Rights Agreement provides priority for Encompass' shares to be registered and requires the Company to continue to make subsequent registration filing until all of the Encompass' shares are properly registered.

On June 19, 2024, the Company completed a private placement ("June 2024 Placement") issuing 11,478,246 units for proceed of approximately \$6.4 million. Each unit consisted of one common share of the Company and one warrant to purchase a common share of the Company for CAD\$0.9579 per common share. Included in this private placement was the third closing pursuant to the Letter Agreement with EV Metals, representing 8,478,246 units for proceeds of approximately \$4.8 million. In connection with the offering, the Company agreed to pay Jacob Warnock a structuring fee of approximately \$238,000 which was paid by issuing an additional 423,912 common shares. In connection with the June 2024 Placement, EV Metals acknowledged and agrees that it will not exercise any warrants if doing so will result in EV Metals holding greater than 20% of the issued and outstanding common shares of the Company, unless prior approval from shareholders of the Company has been obtained in accordance with the policies of the Canadian Stock Exchange. The June 2024 Placement also included issuing 3,000,000 units to Encompass for proceeds of approximately \$1.6 million under the same terms and conditions as the May 2024 Placement. The Company estimated the fair value of the warrants issued in the June 2024 Placement and recorded an expense of approximately \$659,000 for excess of fair value of warrant over proceeds of private placement in the condensed consolidated statement of loss.

The proceeds of the May 2024 Placement and June 2024 Placement are being used to pay the Company's portion of the cost to optimize the MDLE Plant to expand the production capacity and for general working capital purposes.

### Weighted-average Common Shares Outstanding

(in thousands, except per share amounts)	<b>Three Months Ended June 30,</b>	
	<b>2024</b>	<b>2023</b>
Weighted average number of shares:		
Issued common shares at beginning of period	211,381	195,436
Effect of common shares issued during period	13,738	5,250
	225,119	200,686
Net loss, basic and diluted	(9,658)	(3,883)
Net loss per share, basic and diluted	\$ (0.04)	\$ (0.02)

Anti-dilutive common share equivalents excluded from the computation of diluted net loss per share for the three months ended June 30, 2024 and 2023 are as follows (in thousands):

	<b>Three Months Ended June 30,</b>	
	<b>2024</b>	<b>2023</b>
Warrants to purchase common shares	43,544	9,730
Options to purchase common shares	10,169	8,219
	<u>53,713</u>	<u>17,949</u>

## **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 of Directors (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, inclusive of all common shares reserved for issuance pursuant to previously granted stock options. 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.

On June 7, 2023, the Company amended the exercise price of 1,800,000 stock options previously granted to officers, directors and employees of the Company with exercise prices ranging from CAD\$3.50 to CAD\$4.37 per share. To amend the exercise price of the 1,800,000 stock options, the Company cancelled 1,800,000 stock options on June 7, 2023, and issued replacement options on July 7, 2023, following a thirty-day grace period at the amended exercise price of CAD\$1.41 per share, which was the trading price of the Company’s common shares on the date of grant.

The Company’s has historically issued options utilizing Canadian dollars (CAD\$) for the strike price as the Company’s principle public listing of common shares is reported on the Canadian Securities Exchange utilizing CAD\$. The Company did not issue any stock options during the three months ended June 30, 2024. During the three months ended June 30, 2023, the Company issued 2,100,000 stock options with an exercise price of CAD\$1.12 and grant date fair value of \$0.70 (CAD\$0.96) per stock option. The fair value was estimated using the Black-Scholes option pricing model assuming a risk-free interest rate of 2.9%, expected volatility of 128%, expected life of 5 years and a dividend yield 0.0%.

The share-based compensation expense for the three months ended June 30, 2024 and 2023 was approximately \$67,000 and \$1.7 million, respectively and is included in general and expenses in the consolidated financial statements. There were not option exercises during the three months ended June 30, 2024 and 2023. As of June 30, 2024, unrecognized compensation expense associated with unvested options granted and outstanding was approximately \$101,000 to be recognized over the remaining period of 1.5 years.

## **Warrants**

The Company has historically issued warrants utilizing CAD\$ for the strike price as the Company’s principle public listing of common shares is reported on the Canadian Securities Exchange utilizing CAD\$. During the three months ended June 30, 2024, the Company issued 18,642,134 and 11,478,246 warrants to purchase a common share for CAD\$0.9579 per share, as part of the May 2024 Placement and June 2024 Placement, respectively. The Company recorded the initial fair value of the warrants, approximately \$9.0 million and \$6.4 million, respectively as a warrant liability in the condensed consolidated balance sheet.

The Company valued the warrants using the Black-Scholes option pricing model with the following assumptions:

	<b>May 2024 <u>Placement</u></b>	<b>June 2024 <u>Placement</u></b>
Share price on issue date	CAD\$1.17	CAD\$1.40
Risk-free interest rate	4.2%	3.9%
Expected volatility	94%	93%
Expected life (years)	2	2
Expected dividend yield	0.0%	0.0%

During the three months ended June 30, 2023, the Company issued 6,396,999 warrants to purchase a common share for CAD\$1.21 per shares as part of the April 2023 Placement. The Company recorded the initial fair value of the warrants, approximately \$4.9 million in the condensed consolidated balance sheet. In connection with the closing of the May 2024 Placement, the Company amended the warrants issued in the April 2023 Placement to extend the maturity to two years from the closing date of the May 2024 Placement. The Company valued the warrants using the Black-Scholes option pricing model with the following assumptions:

	<b>April 2023 <u>Placement</u></b>
Share price on issue date	CAD\$1.19
Risk-free interest rate	3.7%
Expected volatility	126%
Expected life (years)	2
Expected dividend yield	0.0%

At each balance sheet date, the Company adjusts the valuation of the warrant liability to reflect fair value of the warrants outstanding as of that date. During the three months ended June 30, 2024, and 2023, the Company recorded a change in fair value of the warrant liability of approximately \$5.9 million and \$812,000, respectively, which is included in the condensed consolidated statements of loss.

### **Restricted Share Unit Plan**

On November 25, 2020, as amended and restated December 15, 2023, 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.

The Company granted 220,902 RSU’s on July 1, 2022, which were subsequently cancelled and replaced with 220,902 stock options on September 29, 2023. On June 30, 2023, the Company granted 12,500 RSU’s to an employee and concurrently issued the shares to settle the RSU’s. The Company has no RSU’s outstanding as of June 30, 2024.



## **12. Licensing Agreements with Related Parties**

In November 2018, the Company entered into licensing agreements as amended with Ensorcia Metals Corporation (“Ensorcia”) and its wholly-owned subsidiaries, Sorcia and Ensorcia Argentina LLC (“EAL”) (collectively, “Ensorcia Group”) 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%) participation interest in each of Sorcia’s and EAL’s future resource projects or lithium extraction facilities where the Company’s licensed rights are utilized. The definition of participation interest is to be agreed upon and calculated at the time any future resource projects are negotiated. Pursuant to the licensing agreements, as amended, Sorcia and EAL have a priority over construction of the Company’s next extraction system on the Company’s construction schedule. The Company can terminate the licensing agreements with Sorcia and EAL on or after December 31, 2028. Ensorcia, Sorcia and EAL are related parties of the Company by virtue of significant shareholdings. The controlling shareholder and Chairman of the Ensorcia Group is a director of the Company.

On March 30, 2023, the Company and Entec, an affiliate of the Ensorcia Group, entered into the Entec Licensing Agreement. Pursuant to the terms of the Entec Licensing Agreement, the Company will provide Entec with a non-exclusive, limited, world-wide (other than Chile and Argentina) license to access to all patents, trade secrets, and other proprietary rights for use by Entec within the territory solely for the use and operation of equipment and systems manufactured and sold in accordance with the Entec License Agreement for the extraction of lithium salts from lithium bearing raw brine. In consideration for entering the Entec Licensing Agreement, Entec has agreed to provide the Company with a royalty equal to 6% of the net sales with respect to the first resource project or lithium extraction facility utilizing the Company’s licensed technology as well as an interest in the project equal to 10% of Entec’s interest in the project (the “Entec Participation Interest”). With respect to additional resource projects, Entec has agreed to provide the Company with both royalty payments and the Entec Participation Interest equal to the last lithium production agreement entered into by the Company in the country where the project resides.

For the three months ended June 30, 2024 and 2023, the Company has not received any revenue or incurred any expense associated with these licensing agreements with the related parties.

## **13. Income Taxes**

### **Provision for Income Taxes**

The Company is incorporated in and subject to taxation in Canada and provincially British Columbia. As the Company primarily operates through its United States subsidiary, with its operations headquarters in Texas and its initial commercial operations in Utah, these jurisdictions are also subject to taxation. The provision for income tax (benefit) differs from the amount that would have resulted by applying the combined Canadian federal and provincial statutory tax rates due to the impact of United States and state income taxes, as well as certain non-deductible expenses. As the Company has not generated net taxable income since inception, the deferred tax assets are fully offset by a valuation allowance and no tax benefit has been included in the condensed consolidated financial statements.

## **14. 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 a share exchange agreement. The complaint alleges non-payment of wages and benefits, appropriation of property and interference in outside employment. The Company is objecting to the complaint, has retained counsel to address and filed a countersuit alleging the counterclaim defendants diverted Company work to themselves and interfered with contractual relations. The amounts and outcome

of the complaint cannot be determined at this time and has not been accrued for in the condensed consolidated financial statements for the three months ended June 30, 2024, and 2023.

## **15. Risk Management**

### **Concentration of Credit risk**

Financial instruments that potentially subject the Company to credit risk consist of cash. The Company manages its credit risk relating to cash by dealing only with high-rated financial institutions as determined by rating agencies. As a result, credit risk is considered insignificant. 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 is exposed to liquidity risk. The Company addresses its liquidity by raising capital through the issuance of equity. While the Company has been successful in securing financing in the past, there is no assurance that it will be able to do so in the future.

### **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 U.S. dollars. As of June 30, 2024, the Company held approximately \$22,000 of Canadian cash and trade payables and other liabilities of \$11,000 denominated in Canadian dollars.

### **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.

## **16. Segment Information**

The Company has a single reportable segment, the acquisition and development of advanced technology focused on lithium brine extraction. All non-current assets are domiciled in the United States.

## **17. Subsequent Events**

No significant events have occurred that would require recognition or disclosure in the condensed consolidated financial statements.