

RECYCLICO BATTERY MATERIALS INC.

Consolidated Financial Statements

Years ended July 31, 2023 and 2022

(Expressed in Canadian dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of RecycLiCo Battery Materials Inc.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of RecycLiCo Battery Materials Inc. (the "Company"), which comprise the consolidated statements of financial position as at July 31, 2023 and 2022, and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at July 31, 2023 and 2022 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company is dependent on equity issuances to fund operations and has an accumulated deficit as at July 31, 2023. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

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

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

Other Information

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

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate,

to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the Company as a basis for forming an opinion on the group financial statements. We are responsible for the direction, supervision and review of the audit work performed for purposes of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

The engagement partner on the audit resulting in this independent auditor's report is James Roxburgh.

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

Chartered Professional Accountants

Vancouver, BC, Canada
November 27, 2023

RECYCLICO BATTERY MATERIALS INC.

Consolidated Statements of Financial Position

As at July 31, 2023 and July 31, 2022

(Expressed in Canadian dollars unless specifically indicated otherwise)

	July 31, 2023	July 31, 2022
Assets		
Current		
Cash (Note 4)	\$ 19,589,483	\$ 21,294,768
Restricted cash equivalents (Note 4)	-	23,000
Amounts receivable (Note 5)	211,076	204,805
Prepaid expenses and advances	74,289	98,085
	19,874,848	21,620,658
Non-current		
Reclamation deposits	18,700	18,700
Exploration and evaluation assets (Note 7)	3	647,194
Total assets	\$ 19,893,551	\$ 22,286,552
Liabilities		
Current		
Accounts payable and accrued liabilities (Note 5)	\$ 164,586	\$ 198,452
Equity		
Share capital (Note 8)	57,699,077	52,349,250
Share-based payments reserve (Note 8)	24,937,933	22,757,174
Warrants reserve (Note 8)	11,964,591	12,173,758
Deficit	(74,872,636)	(65,192,082)
Total equity	19,728,965	22,088,100
Total liabilities and equity	\$ 19,893,551	\$ 22,286,552

Nature and Continuance of Operations (Note 1)

Subsequent event (Note 14)

Approved on behalf of the Board of Directors and authorized for issue on November 27, 2023.

Zarko Meseldzija

Director

Paul Hildebrand

Director

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

RECYCLICO BATTERY MATERIALS INC.

Consolidated Statements of Comprehensive Loss

For the years ended July 31, 2023 and 2022

(Expressed in Canadian dollars unless specifically indicated otherwise)

	2023	2022
Expenses		
Administration (Note 9)	\$ 4,380,239	\$ 7,486,364
Research and development	5,601,833	4,090,904
Loss from operations	(9,982,072)	(11,577,268)
Other items		
Finance income	878,789	101,879
Foreign exchange gain	14,009	23,781
Government grants received	75,000	255,460
Write-down of exploration and evaluation assets (Note 7)	(666,280)	(116,452)
Net loss and comprehensive loss for the year	(9,680,554)	(11,312,600)
Basic and diluted loss per share	\$ (0.038)	\$ (0.047)
Weighted average shares outstanding (basic and diluted)	253,284,926	240,395,056

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

RECYCLICO BATTERY MATERIALS INC.

Consolidated Statements of Changes in Equity

For the years ended July 31, 2023 and 2022

(Expressed in Canadian dollars unless specifically indicated otherwise)

	Number of shares (Note 8)	Share capital (Note 8)	Share-based payments reserve (Note 8)	Warrants reserve (Note 8)	Deficit	Total equity
Balance, July 31, 2021	217,918,443	\$ 39,202,150	\$ 17,153,390	\$ 4,422,363	\$ (53,879,482)	\$ 6,898,421
Share-based payments	-	-	6,191,384	-	-	6,191,384
Issued pursuant to private placements	20,000,000	20,000,000	-	-	-	20,000,000
Cost of share issuance	-	(2,652,147)	-	808,296	-	(1,843,851)
Warrants issued with private placement	-	(7,389,737)	-	7,389,737	-	-
Issued pursuant to options exercised	3,345,300	1,238,207	(587,600)	-	-	650,607
Issued pursuant to warrants exercised	6,982,604	1,950,777	-	(446,638)	-	1,504,139
Net loss for the year	-	-	-	-	(11,312,600)	(11,312,600)
Balance, July 31, 2022	248,246,347	\$ 52,349,250	\$ 22,757,174	\$ 12,173,758	\$ (65,192,082)	\$ 22,088,100
Share-based payments	-	-	2,982,584	-	-	2,982,584
Issued pursuant to joint venture agreement	4,000,000	1,840,000	-	-	-	1,840,000
Warrants issued pursuant to joint venture agreement	-	-	-	55,480	-	55,480
Cost of share issuance	-	(9,938)	-	-	-	(9,938)
Issued pursuant to options exercised	3,875,700	1,721,493	(801,825)	-	-	919,668
Issued pursuant to warrants exercised	5,112,080	1,798,272	-	(264,647)	-	1,533,625
Net loss for the year	-	-	-	-	(9,680,554)	(9,680,554)
Balance July 31, 2023	261,234,127	\$ 57,699,077	\$ 24,937,933	\$ 11,964,591	\$ (74,872,636)	\$ 19,728,965

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

RECYCLICO BATTERY MATERIALS INC.

Consolidated Statements of Cash Flows

For the years ended July 31, 2023 and 2022

(Expressed in Canadian dollars unless specifically indicated otherwise)

	2023	2022
Cash flows from (used in) operating activities		
Net loss for the year	\$ (9,680,554)	\$ (11,312,600)
Add items not affecting cash		
Share-based payments	2,982,584	6,191,384
Write-down of exploration and evaluation assets	666,280	116,452
Common shares issued pursuant to the JV Agreement	1,840,000	-
Warrants issued pursuant to the JV Agreement	55,480	-
Net changes in non-cash working capital items related to operations:		
Amounts receivable	(6,271)	(85,586)
Prepaid expenses and advances	23,796	694,364
Accounts payable and accrued liabilities	(33,866)	(309,522)
Net cash used in operating activities	(4,152,551)	(4,705,508)
Cash flows used in investing activities		
Reclamation deposits, net	-	22,716
Exploration and evaluation expenditures	(19,089)	(238,979)
Net cash used in investing activities	(19,089)	(216,263)
Cash flows from financing activities		
Net proceeds from issuance of shares	2,443,355	20,310,895
Net cash from financing activities	2,443,355	20,310,895
Increase (decrease) in cash and cash equivalents	(1,728,285)	15,389,124
Cash and cash equivalents, beginning of year	21,317,768	5,928,644
Cash and cash equivalents, end of year	\$ 19,589,483	\$ 21,317,768

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

RECYCLICO BATTERY MATERIALS INC.

Notes to the Consolidated Financial Statements

For the years ended July 31, 2023 and 2022

(Expressed in Canadian dollars unless specifically indicated otherwise)

1. Nature and Continuance of Operations

RecycLiCo Battery Materials Inc. (the “Company”) was incorporated under the laws of British Columbia on July 8, 1987, and is a publicly-traded company with its shares listed on the TSX Venture Exchange trading under the symbol “AMY”. The Company is principally engaged in research and development of recycling battery cathode waste in lithium-ion batteries and prior to October 31, 2023 its business focus was the acquisition, exploration and development of interests in mineral resource projects in British Columbia, Canada and Arizona, USA. The Company maintains certain mineral exploration interests, however, all are in the exploration stage and none have generated any revenue.

On June 12, 2023, and subsequently amended on October 2, 2023, the Company entered into a joint venture agreement (the “JV Agreement”) with Zenith Chemical Corporation (“Zenith”) for the purpose of establishing a commercial-scale recycling plant to process and convert lithium-ion battery waste into various materials in Taiwan. As per the terms of the JV Agreement, the Company has agreed to make capital contributions to fund the construction of the recycling plant. Upon receiving investment approval from the Investment Commission, Ministry of Economic Affairs of the People’s Republic of China, the Company intends to make its first capital contribution and acquire a 50% interest in the joint venture entity. (See Note 8(b)).

The address of the Company’s corporate office and principal place of business is Unit 2 – 17942 55th Avenue, Surrey, British Columbia, Canada, V3S 6C8.

These consolidated financial statements comprise the financial statements of the Company and its wholly-owned subsidiary, Rocher Manganese Inc. (“RMI”), incorporated in the state of Arizona, USA.

Management estimates that the Company will have adequate funds to meet its current corporate, administrative and other obligations for the forthcoming 12-month period. The Company has financed its exploration and research and development activities and operations through equity issuances and expects to continue to do so to the extent such instruments are issuable under terms acceptable to the Company and until such time as its operations provide positive cash flows. However, while, the Company has been successful in raising financing in the past, there is no guarantee that it will be able to do so in the future.

These factors indicate the existence of a material uncertainty which may cast significant doubt about the Company’s ability to continue operating as a going concern. If the going concern assumption is not appropriate for these financial statements, then potentially material adjustments may be necessary to the carrying values of assets and liabilities, the reported expenses and the statement of financial position classifications used.

As of July 31, 2023 and July 31, 2022, the Company reported the following:

	July 31, 2023	July 31, 2022
Comprehensive loss for the year	\$ (9,680,554)	\$ (11,312,600)
Deficit	\$ (74,872,636)	\$ (65,192,082)
Working capital	\$ 19,710,262	\$ 21,422,206

RECYCLICO BATTERY MATERIALS INC.

Notes to the Consolidated Financial Statements

For the years ended July 31, 2023 and 2022

(Expressed in Canadian dollars unless specifically indicated otherwise)

2. Basis of Presentation

a) Statement of compliance

These consolidated financial statements were authorized for issue by the Board of Directors on November 27, 2023 and have been prepared in accordance with and in full compliance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements are stated in Canadian dollars and were prepared under the historical cost convention, except for share-based payment transactions (Note 8(e)).

b) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the parent Company's functional currency, and the currency of the primary economic environment in which the entity operates (the "functional currency"). Prior to July 31, 2020, the functional currency of the Company's subsidiary, RMI, was the United States dollar ("USD"). The accounts of the subsidiary are translated to the Canadian dollar for reporting purposes.

Effective July 31, 2020, the Company has assessed the current functional currency of RMI to be the Canadian dollar. Accordingly, the Company now recognizes in current income its foreign exchange translation gains and losses.

Refer also to Note 3(b).

c) Critical accounting estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities and contingent liabilities as at the date of the consolidated financial statements, and the reported amount of revenues and expenses during the reporting period. Estimates and judgments 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. Actual results may differ from these estimates.

Key sources of estimation uncertainty

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the amounts recognized in the consolidated financial statements are as follows:

(i) Measurement and recoverability of the carrying value of exploration and evaluation assets

The Company makes certain estimates and assumptions regarding the recoverability of the carrying values of exploration and evaluation assets. These assumptions are changed when conditions exist that indicate the carrying value may be impaired, at which time an impairment loss is recorded.

RECYCLICO BATTERY MATERIALS INC.

Notes to the Consolidated Financial Statements

For the years ended July 31, 2023 and 2022

(Expressed in Canadian dollars unless specifically indicated otherwise)

2. Basis of Presentation (continued)

c) Critical accounting estimates and judgments (continued)

Management is required to review the carrying value of its exploration and evaluation assets for potential impairment.

Evaluating the recoverability during the exploration and evaluation phase requires judgments in determining whether future economic benefits from future exploitation, sale or otherwise are likely. Evaluation may be more complex where activities have not yet reached a stage which permits a reasonable assessment of the existence of reserves or resources.

As such, it requires management to make certain estimates and assumptions about future events or circumstances including, but not limited to, the interpretation of geological, geophysical and seismic data, the Company's financial ability to continue exploration and evaluation activities and the impact of the current and future mining processes for potential reserves.

The determination of historical costs applicable to the carrying value of residual exploration property interests, subsequent to their partial impairment or abandonment, is subject to significant estimation uncertainty.

(ii) Measurement of the fair value of the common shares and warrants issuant pursuant to the JV Agreement

The fair value of the equity instruments issued pursuant to the JV Agreement (Note 8(b)) were measured at their fair value at the date of grant.

The fair value of the common shares granted was determined based on the Company's trading price on the date of issue.

The fair value of the warrants issued was determined using the Black-Scholes Option Pricing Model based on estimates at the date of grant. The Black-Scholes Option Pricing Model utilizes subjective assumptions such as expected price volatility and expected life of the warrants. Changes in these assumptions can significantly affect the fair value estimate.

RECYCLICO BATTERY MATERIALS INC.

Notes to the Consolidated Financial Statements

For the years ended July 31, 2023 and 2022

(Expressed in Canadian dollars unless specifically indicated otherwise)

2. Basis of Presentation (continued)

c) Critical accounting estimates and judgments (continued)

Critical judgments in applying accounting policies

Significant judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are as follows:

(i) Going Concern

The assessment of the Company's ability to execute its strategy by funding future working capital requirements requires judgment. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, such as expectations of future events that are believed to be reasonable under the circumstances (see Note 1).

(ii) Economic recoverability and probability of future economic benefits of exploration, evaluation and development costs

Management uses several criteria in its assessments of economic recoverability and probability of future economic benefit including geologic information, scoping and feasibility studies, accessible facilities, existing permits and life of mine plans.

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by the Company and its subsidiary.

a) Principles of consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned and controlled subsidiary as described in Note 1. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of the subsidiary are included in the consolidated financial statements from the date that control commences until the date that control ceases. All inter-company transactions and balances have been eliminated upon consolidation.

b) Foreign currency

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities not denominated in the functional currency of an entity are recognized in the consolidated statements of comprehensive loss.

RECYCLICO BATTERY MATERIALS INC.

Notes to the Consolidated Financial Statements

For the years ended July 31, 2023 and 2022

(Expressed in Canadian dollars unless specifically indicated otherwise)

3. Significant Accounting Policies (continued)

c) Cash and cash equivalents

Cash and cash equivalents include short-term investments that are readily convertible into cash with original maturities of three months or less.

d) Reclamation deposits

The Company maintains cash deposits, as required by regulatory bodies, as assurance for the funding of decommissioning costs. These funds are restricted to that purpose and are not available to the Company until the reclamation obligations have been fulfilled and are therefore classified as long-term assets.

e) Research and development

Expenditures on research activities undertaken to develop a hydrometallurgical process to extract and recover high purity manganese from lower grade domestic resources within North America are expensed as incurred. Development expenditures, including all costs incurred to apply for and receive patents, are expensed in the period incurred unless the technology or project meets certain strict accounting criteria for deferral and amortization. No development expenditures have met the criteria for deferral to date.

f) Government assistance

The Company is in receipt of funding from the National Research Council of Canadian Industrial Research Assistance Program ("NRC-IRAP") to continue the research and development of its hydrometallurgical process and from the US Defense Logistics Agency ("DLA") for research, assessment and evaluation of the Company's patented electrolytic manganese recovery process. Funds received under the NRC-IRAP program and from the DLA are recognized as government grant income in the consolidated statements of comprehensive loss.

The Company is eligible for a refundable tax credit related to eligible exploration expenditures conducted in certain regions of British Columbia. The refundable mining exploration tax credits are recorded as government assistance against exploration and evaluation assets at fair value when there is reasonable assurance that they will be received.

g) Exploration and evaluation assets

General exploration and evaluation expenditures incurred prior to acquiring the legal right to explore are charged to the consolidated statements of comprehensive loss as incurred.

The Company's exploration and evaluation assets relate to mineral rights acquired and exploration and evaluation expenditures capitalized in respect of projects that are at the exploration/pre-development stage, which are incurred subsequent to the acquisition of the legal right to explore.

RECYCLICO BATTERY MATERIALS INC.

Notes to the Consolidated Financial Statements

For the years ended July 31, 2023 and 2022

(Expressed in Canadian dollars unless specifically indicated otherwise)

3. Significant Accounting Policies (continued)

g) Exploration and evaluation assets (continued)

No amortization charge is recognized in respect of exploration and evaluation assets. These assets are transferred to mine development when they are determined to meet certain technical feasibility and commercial viability thresholds as determined by management.

Exploration and evaluation expenditures in the relevant area of interest comprise costs which are directly attributable to:

- Drilling and related costs;
- Professional / technical fees;
- Surveying, geological and geotechnical;
- Land maintenance;
- Sampling and storage; and
- Mineral claims and permits.

Exploration and evaluation expenditures related to an area of interest where the Company has tenure are initially capitalized as incurred and are recorded at cost less impairment.

Exploration and evaluation expenditures also include the costs incurred in acquiring mineral rights, the entry premiums paid to gain access to areas of interest and amounts payable to third parties to acquire interests in existing projects. Capitalized costs, including general and administrative costs, are only allocated to the extent that those costs can be related directly to operations activities in the relevant area of interest.

All capitalized exploration and evaluation expenditures are assessed during each financial reporting period for impairment if facts and circumstances indicate that impairment may exist under IFRS 6 or IAS 36. In circumstances where a property is abandoned, the cumulative capitalized costs relating to that property are written off in the period.

h) Impairment of non-financial assets

Non-financial assets are evaluated at the end of each reporting period by management for indicators that carrying value is impaired and may not be recoverable. When indicators of impairment are present, the recoverable amount of an asset is evaluated at the level of a cash generating unit ("CGU"), the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets, where the recoverable amount of the CGU is the greater of the CGU's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments to the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in the statements of comprehensive loss.

RECYCLICO BATTERY MATERIALS INC.

Notes to the Consolidated Financial Statements

For the years ended July 31, 2023 and 2022

(Expressed in Canadian dollars unless specifically indicated otherwise)

3. Significant Accounting Policies (continued)

h) Impairment of non-financial assets (continued)

Where an impairment loss subsequently reverses for assets with a finite useful life, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in the statements of comprehensive loss.

i) Income taxes

Income tax expense comprises current and deferred tax. Income tax is recognized in the consolidated statements of comprehensive loss except to the extent it relates to items recognized in other comprehensive income or directly in equity.

Current tax

Current tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax

Deferred taxes are the taxes expected to be payable or recoverable on the difference between the carrying amounts of assets in the statement of financial position and their corresponding tax bases used in the computation of taxable profit, and are accounted for using the statement of financial position liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences between the carrying amounts of assets and their corresponding tax bases. Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities:

- are generally recognized for all taxable temporary differences;
- are recognized for taxable temporary differences arising on investments in subsidiaries except where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future; and
- are not recognized on temporary differences that arise from goodwill which is not deductible for tax purposes.

RECYCLICO BATTERY MATERIALS INC.

Notes to the Consolidated Financial Statements

For the years ended July 31, 2023 and 2022

(Expressed in Canadian dollars unless specifically indicated otherwise)

3. Significant Accounting Policies (continued)

i) Income taxes (continued)

Deferred tax assets:

- are recognized to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilized; and
- are reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of an asset to be recovered.

Flow-through shares are accounted for as compound instruments comprising liability and equity components upon issuance, with any premium received that can be reasonably determined being attributed to the tax benefit provided and considered a liability. Upon qualifying expenditures being incurred, this liability is reversed and recognized in income, and any deferred tax liability in respect to the amounts renounced to investors is recorded. Costs related to the liability component are also charged to profit or loss.

The Company estimates the value of the liability component using the residual method, whereby the quoted price of the Company's non-flow-through shares issued is compared to the price investors paid for the flow-through shares and any difference forms the premium amount.

j) Loss per share

Basic loss per share is calculated by dividing profit or loss attributable to ordinary equity holders (numerator) by the weighted average number of ordinary shares outstanding (denominator) during the period. The denominator is calculated by adjusting the shares issued at the beginning of the period by the change in the number of shares issued during the period, multiplied by a time-weighting factor.

Diluted loss per share would be calculated by adjusting the earnings and number of shares for the effects of dilutive options and other dilutive potential units. The effects of anti-dilutive potential units are ignored in calculating loss per share. All options and warrants are considered anti-dilutive when the Company is in a loss position.

k) Segmented reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. All operating segments' operating results are reviewed regularly by the Company's President and CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The Company manages its business on the basis of one reportable segment under two geographic regions, being Canada and the United States ("USA"). Refer to Note 12.

RECYCLICO BATTERY MATERIALS INC.

Notes to the Consolidated Financial Statements

For the years ended July 31, 2023 and 2022

(Expressed in Canadian dollars unless specifically indicated otherwise)

3. Significant Accounting Policies (continued)

l) Share-based payments

The Company has an equity settled share purchase stock option plan that is described in Note 8. Share-based payments to employees are measured at the fair value of the instruments issued at the grant date using the Black-Scholes pricing model, and are expensed over the vesting period, which is the period over which all of the specific vesting conditions are satisfied. For awards with graded vesting, the fair value of each tranche is recognized over its respective vesting period.

Share-based payments to non-employees are measured at the fair value of goods or services received, or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The offset to the recorded cost is to share-based payments reserve. Consideration received on the exercise of stock options is recorded as share capital and the related share-based payments reserve is transferred to share capital.

The fair values of share-based payments are determined using an estimated forfeiture rate. Compensation ultimately recognized is revised in subsequent periods to reflect final grant amounts.

m) Share capital

The Company records proceeds from share issuances net of issuance costs. Proceeds from unit placements are allocated between shares and warrants according to their relative fair values. See Note 3(p). Shares issued for consideration other than cash are valued at the quoted price on the date the agreement to issue the shares was reached.

n) Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of a financial instrument. On initial recognition, financial assets are classified and measured at amortized cost, fair value through profit or loss ("FVTPL") or fair value through other comprehensive income ("FVOCI"). A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL: (i) it is held within a business model whose objective is to hold assets to collect contractual cash flows, and (ii) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL: (i) it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and (ii) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities classified as FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

RECYCLICO BATTERY MATERIALS INC.

Notes to the Consolidated Financial Statements

For the years ended July 31, 2023 and 2022

(Expressed in Canadian dollars unless specifically indicated otherwise)

3. Significant Accounting Policies (continued)

n) Financial instruments (continued)

Transaction costs directly attributable to the acquisition of financial assets or financial liabilities classified as FVTPL are recognized immediately in the statement of loss and comprehensive loss.

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

Account	Classification
Cash and cash equivalents	Amortized cost
Amounts receivable (excluding sales tax receivable)	Amortized cost
Reclamation deposits	Amortized cost
Accounts payable and accrued liabilities	Amortized cost

Impairment

The Company recognizes an allowance using the Expected Credit Loss ("ECL") model on financial assets classified as amortized cost. The Company has elected to use the simplified approach for measuring ECL by using a lifetime expected loss allowance for all amounts recoverable. Under this model, impairment provisions are based on credit risk characteristics and days past due. When there is no reasonable expectation of collection, financial assets classified as amortized cost are written off. Indications of credit risk arise based on failure to pay and other factors. Should objective events occur after an impairment loss is recognized, a reversal of impairment is recognized in the statement of loss and comprehensive loss.

o) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost in the statement of comprehensive loss.

p) Share purchase warrants

The Company has adopted the Black Scholes Valuation model with respect to the measurement of warrants issued as private placement units. Proceeds from unit placements are allocated between shares and warrants issued according to their relative fair values. The fair value attributed to the warrants is credited to warrants reserve. When warrants are exercised, the value is transferred from warrants reserve to share capital. If the warrants expire unexercised, the related amount remains in warrants reserve.

RECYCLICO BATTERY MATERIALS INC.

Notes to the Consolidated Financial Statements

For the years ended July 31, 2023 and 2022

(Expressed in Canadian dollars unless specifically indicated otherwise)

4. Cash and Cash Equivalents

Cash and cash equivalents are comprised of cash at banks and on hand. Cash at banks earn interest at floating rates based on daily bank deposit rates.

5. Amounts Receivable and Accounts Payable and Accrued Liabilities

Amounts receivable are all current and include the following:

	<u>July 31, 2023</u>	<u>July 31, 2022</u>
Trade amounts receivable	\$ 12,928	\$ -
GST receivable	198,148	204,805
	<u>\$ 211,076</u>	<u>\$ 204,805</u>

Accounts payable and accrued liabilities include the following:

	<u>July 31, 2023</u>	<u>July 31, 2022</u>
Trade payables	\$ 143,022	\$ 183,856
Payroll amounts	21,564	14,596
	<u>\$ 164,586</u>	<u>\$ 198,452</u>

6. Related Party Transactions

a) Investment in subsidiaries

The wholly-owned subsidiary of the Company has been incorporated in the USA and is included in these consolidated financial statements as disclosed in Note 1.

b) Compensation of key management personnel

Total compensation expense for key management personnel and the composition thereof, is as follows:

	<u>July 31, 2023</u>	<u>July 31, 2022</u>
Short-term benefits	\$ 454,910	\$ 588,109
Share-based payments	2,060,052	2,856,279
	<u>\$ 2,514,962</u>	<u>\$ 3,444,388</u>

RECYCLICO BATTERY MATERIALS INC.

Notes to the Consolidated Financial Statements

For the years ended July 31, 2023 and 2022

(Expressed in Canadian dollars unless specifically indicated otherwise)

7. Exploration and Evaluation Assets

Rocher Deboule Property		Balance		Balance		Balance	
British Columbia		July 31, 2021	Expenditures	July 31, 2022	Expenditures	July 31, 2023	
Acquisition and staking	\$	164,898	\$ 446	\$ 165,344	\$ 3,761	\$	169,105
Assays & analysis		73,767	8,432	82,199	-		82,199
Camp & supplies		59,504	-	59,504	4,750		64,254
Drilling		146,826	124,000	270,826	-		270,826
Geological and geophysical		677,559	33,284	710,843	444		711,287
Travel and accommodation		34,355	10,500	44,855	-		44,855
Freight and transport		133,108	25,020	158,128	10,134		168,262
Mineral property option		(24,500)	-	(24,500)	-		(24,500)
BC Mining Exploration Tax Credit		(288,007)	-	(288,007)	-		(288,007)
Impairment		(532,000)	-	(532,000)	(666,280)		(1,198,280)
	\$	445,510	\$ 201,682	\$ 647,192	\$ (647,191)	\$	1
Lonnie Property							
British Columbia							
Acquisition and staking	\$	54,121	\$ -	\$ 54,121	\$ -	\$	54,121
Assays & analysis		4,528	-	4,528	-		4,528
Drilling		60,073	-	60,073	-		60,073
Geological and geophysical		82,025	-	82,025	-		82,025
Travel and accommodation		186	-	186	-		186
Mineral property option		(56,000)	-	(56,000)	-		(56,000)
BC Mining Exploration Tax Credit		(28,480)	-	(28,480)	-		(28,480)
Impairment		-	(116,452)	(116,452)	-		(116,452)
	\$	116,453	\$ (116,452)	\$ 1	\$ -	\$	1
Artillery Peak Property							
Arizona							
Acquisition and staking	\$	3,226,449	\$ -	\$ 3,226,449	\$ -	\$	3,226,449
Assays & analysis		417,870	-	417,870	-		417,870
Drilling		3,125,410	-	3,125,410	-		3,125,410
Equipment and rentals		11,860	-	11,860	-		11,860
Geological and geophysical		4,851,642	-	4,851,642	-		4,851,642
Travel and accommodation		231,495	-	231,495	-		231,495
Property maintenance		40,781	-	40,781	-		40,781
Other fieldwork		4,694	-	4,694	-		4,694
Impairment		(11,910,200)	-	(11,910,200)	-		(11,910,200)
	\$	1	\$ -	\$ 1	\$ -	\$	1
Total	\$	561,964	\$ 85,230	\$ 647,194	\$ (647,191)	\$	3

Although the Company has taken steps to verify title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfers and may be affected by undetected defects.

a) Rocher Deboule Property, British Columbia

The Rocher Deboule property consists of mineral claims covering approximately 1,367 hectares near New Hazelton, British Columbia. The Company initially acquired four staked claims consisting of 1,325 hectares in May 2011, and expanded the area of the property through additional staking. The Company owns a 100% interest in the Rocher Deboule property.

During the year ended July 31, 2023, management determined the carrying value of the property was impaired and wrote the carrying value of the property down to \$1.

RECYCLICO BATTERY MATERIALS INC.

Notes to the Consolidated Financial Statements

For the years ended July 31, 2023 and 2022

(Expressed in Canadian dollars unless specifically indicated otherwise)

7. Exploration and Evaluation Assets (continued)

b) Lonnie Property, British Columbia

The Lonnie property is a niobium exploration property which covers approximately 674 hectares in the Omineca mining division of British Columbia. The Company staked mineral claims covering an area of approximately 1,788 hectares at a cost of \$10,000 and 100,000 shares of the Company. The Company owns a 100% interest in the property.

During the year ended July 31, 2022, management determined the carrying value of the property was impaired and wrote the carrying value of the property down to \$1.

c) Artillery Peak Project, Arizona, USA

The Artillery Peak project includes 30 unpatented mineral claims covering approximately 600 acres and 13 patented surface estates, and is prospective for manganese.

During the year ended July 31, 2015, the Company decided to suspend conventional exploration on the Artillery Peak Property and wrote off a total of \$5,977,294 in deferred costs. The residual balance was based on an estimate of the cumulative hydrometallurgical and related exploration costs incurred in connection with the patented technologies which have since been further developed by the Company.

These technologies are related in part to the recovery of manganese and accordingly, in the view of management, provided the potential to positively impact the future exploration and development of the Artillery Peak project. Current costs specifically related to the research and development process in respect to these technologies are being expensed as incurred as disclosed at Note 9.

Pursuant to a purchase agreement dated May 31, 2007, the Company purchased 90 unpatented lode claims (of which it currently retains 13) from Primus Resources, L.C. for \$96,000 USD and 1,000,000 common shares of the Company. The purchase agreement also provides for a 2% NSR royalty in favour of the vendors. The Company has the right to repurchase 1% of the NSR for \$2,000,000 USD.

At July 31, 2019, the Company elected to write off the balance of the remaining costs down to a nominal amount on the basis that there had been an extended period of limited direct exploration activity.

RECYCLICO BATTERY MATERIALS INC.

Notes to the Consolidated Financial Statements

For the years ended July 31, 2023 and 2022

(Expressed in Canadian dollars unless specifically indicated otherwise)

8. Share Capital, Share-Based Payments and Reserves

a) Authorized capital

The authorized share capital consists of an unlimited number of common voting shares without nominal or par value.

b) Issued shares

Fiscal 2023:

During the year ended July 31, 2023, 3,875,700 share purchase options with a weighted-average exercise price of \$0.24 per option were exercised for proceeds of \$919,668. These options were originally valued at \$801,825 using the Black Scholes Valuation Model and the value of these options was reclassified from the share-based payments reserve to share capital upon exercise.

During the year ended July 31, 2023, 5,112,080 share purchase warrants with a weighted-average exercise price of \$0.30 per warrant were exercised for proceeds of \$1,533,625. These warrants were originally valued at \$264,647 using the Black Scholes Valuation Model and the value of these warrants was reclassified from the warrants reserve to share capital upon exercise.

On July 12, 2023, as an inducement to enter into the JV Agreement, the Company issued to Zenith 4,000,000 common shares and 6,000,000 common share purchase warrants (the "JV Warrants") entitling the holder to purchase one common share at a price of \$0.35 per share for five years following the warrant's date of issuance. The JV Warrants will become exercisable on the 30th day following the completion of construction on the commercial-scale recycling plant, provided that should the Company undergo a change in control the warrants shall become exercisable immediately. The common shares were valued at \$1,840,000 based on the Company's trading price on the date of issue. The JV Warrants were ascribed a fair value of \$2,190,000 based on the Black-Scholes pricing model (see Note 8(c)) and are being recognized over the estimated time period to complete construction on the commercial-scale recycling plant, with \$55,480 having been recognized during the year ended July 31, 2023. These amounts are recorded within Research and development expense on the statement of comprehensive loss.

Fiscal 2022:

On October 4, 2021, the Company closed a brokered private placement, issuing 20,000,000 non-flow-through units at \$1.00 per unit for gross proceeds of \$20,000,000. Each unit consists of one common share in the capital of the Company and one share purchase warrant entitling the holder to purchase one non-flow-through common share at a price of \$1.25 per share during the three years following the warrant's date of issuance. The warrants attached to this issuance were valued at \$7,389,737 using the Black Scholes Valuation Model, with this value allocated to the warrants reserve. The Company paid \$1,843,851 in cash share issue costs and issued 1,400,000 broker warrants exercisable at a price of \$1.00 per share for three years pursuant to this issuance. The broker warrants were valued at \$808,296 using the Black Scholes Valuation Model, with this value allocated to the warrants reserve.

RECYCLICO BATTERY MATERIALS INC.

Notes to the Consolidated Financial Statements

For the years ended July 31, 2023 and 2022

(Expressed in Canadian dollars unless specifically indicated otherwise)

8. Share Capital, Share-Based Payments and Reserves (continued)

b) Issued shares (continued)

During the year ended July 31, 2022, 3,345,300 share purchase options with exercise prices ranging from \$0.15 to \$0.24 per option were exercised for proceeds of \$650,607. These options were originally valued at \$587,600 using the Black Scholes Valuation Model and the value of these options was reclassified from the share-based payments reserve to share capital upon exercise.

During the year ended July 31, 2022, 6,982,604 share purchase warrants with exercise prices ranging from \$0.20 to \$0.30 per warrant were exercised for proceeds of \$1,504,139. These warrants were originally valued at \$446,638 using the Black Scholes Valuation Model and the value of these warrants was reclassified from the warrants reserve to share capital upon exercise.

c) Issued warrants

Changes in the Company's share purchase warrants outstanding during the years ended July 31, 2023 and July 31, 2022 are summarized as follows:

	Number of warrants	Weighted average exercise price
Balance outstanding at July 31, 2021	13,776,684	\$ 0.26
Issued	20,000,000	1.25
Exercised	(6,982,604)	0.22
Balance outstanding at July 31, 2022	26,794,080	\$ 1.01
Issued	6,000,000	0.35
Exercised	(5,112,080)	0.30
Expired	(1,682,000)	0.30
Balance outstanding at July 31, 2023	26,000,000	\$ 1.04

As at July 31, 2023, the following common share purchase warrants were outstanding:

Expiry Date	Number of warrants	Exercise price (\$)	Weighted average remaining contractual life (years)
October 4, 2024	20,000,000	1.25	1.18
July 12, 2028	6,000,000	0.35	4.95
	26,000,000		2.05

RECYCLICO BATTERY MATERIALS INC.

Notes to the Consolidated Financial Statements

For the years ended July 31, 2023 and 2022

(Expressed in Canadian dollars unless specifically indicated otherwise)

8. Share Capital, Share-Based Payments and Reserves (continued)

c) Issued warrants (continued)

The fair values of JV Warrants and the warrants issued pursuant to private placements were estimated using the Black Scholes Valuation Model with the following assumptions used:

	2023	2022
Dividend yield	0.00%	0.00%
Expected volatility	99.90%	105.46%
Risk-free interest rate	3.64%	0.65%
Expected lives (years)	5.00	3.00
Issue date fair value	\$0.383	\$0.3695 - \$0.5774

d) Broker warrants

Changes in the Company's broker warrants outstanding during the years ended July 31, 2023 and July 31, 2022 are summarized as follows:

	Number of warrants	Weighted average exercise price
Balance outstanding at July 31, 2021	-	\$ -
Issued	1,400,000	1.00
Balance outstanding at July 31, 2023 and 2022	1,400,000	\$ 1.00

As at July 31, 2023, the following broker warrants were outstanding:

Expiry Date	Number of warrants	Exercise price (\$)	Weighted average remaining contractual life (years)
October 4, 2024	1,400,000	1.00	1.18
	1,400,000		1.18

RECYCLICO BATTERY MATERIALS INC.

Notes to the Consolidated Financial Statements

For the years ended July 31, 2023 and 2022

(Expressed in Canadian dollars unless specifically indicated otherwise)

8. Share Capital, Share-Based Payments and Reserves (continued)

e) Share-based payments

In November 2016, the Company adopted an incentive stock option plan, under the rules of the TSX-V pursuant to which it is authorized to grant stock options to executive officers, directors, employees and consultants, enabling them to acquire shares in a quantity of up to 20% of the Company's issued and outstanding common shares. Under the stock option plan, the option exercise price of any option granted shall not be less than the discounted market price of the Company's common shares. If options are granted within 90 days of a distribution by prospectus, the minimum exercise price per share is the greater of the discounted market price and the share price paid by investors pursuant to the distribution. For the purposes of the stock option plan, the discounted market price is calculated in accordance with the policies of the TSX-V at the time of the grant of the options.

The options may be granted for a maximum term of 5 years and vest 25% on the date of grant and 25% every 6 months thereafter for 18 months. No individual may hold options to purchase common shares of the Company exceeding 5% of the total number of common shares outstanding. Pursuant to the policies of the TSX-V, shares issued upon the exercise of options are restricted from trading during the 4-month period subsequent to the exercise of options.

Fiscal 2023:

On November 8, 2022, the Company granted 2,700,000 common share purchase options exercisable at a price of \$0.39 per share for five years.

On May 25, 2023, the Company granted 600,000 common share purchase options exercisable at a price of \$0.35 per share for five years.

On June 12, 2023, the Company granted 5,200,000 common shares purchase options exercisable at a price of \$0.48 per share for five years.

Fiscal 2022:

On October 22, 2021, the Company granted 400,000 common share purchase options exercisable at a price of \$0.80 per share for five years.

RECYCLICO BATTERY MATERIALS INC.

Notes to the Consolidated Financial Statements

For the years ended July 31, 2023 and 2022

(Expressed in Canadian dollars unless specifically indicated otherwise)

8. Share Capital, Share-Based Payments and Reserves (continued)

e) Share-based payments (continued)

During the year ended July 31, 2023, the Company recognized share-based payments expense of \$2,982,584 (2022 - \$6,191,384) in connection with the share purchase options issued and vested during the year.

The fair value of each option granted or amended is estimated at the time of the grant or amendment using the Black Scholes option pricing model with weighted average assumptions for grants as follows:

	Year ended July 31, 2023	Year ended July 31, 2022
Dividend yield	0%	0%
Expected volatility	98.73% - 99.90%	101.49% - 102.63%
Risk-free interest rate	3.41% - 3.67%	1.34% - 1.37%
Expected lives	5.00	5.00
Grant date fair value	\$0.2550 - \$0.3640	\$0.4465 - \$0.5797

Changes in the Company's share purchase options outstanding during the years ended July 31, 2023 and July 31, 2022 are summarized as follows:

	Number of options	Weighted average exercise price
Balance outstanding as at July 31, 2021	19,325,600	\$ 0.78
Granted	400,000	0.80
Exercised	(3,345,300)	0.19
Cancelled/Expired	(800,000)	0.18
Balance outstanding as at July 31, 2022	15,580,300	\$ 0.94
Granted	8,500,000	0.44
Exercised	(3,875,700)	0.24
Cancelled/Expired	(2,160,100)	0.84
Balance outstanding as at July 31, 2023	18,044,500	\$ 0.87

RECYCLICO BATTERY MATERIALS INC.

Notes to the Consolidated Financial Statements

For the years ended July 31, 2023 and 2022

(Expressed in Canadian dollars unless specifically indicated otherwise)

8. Share Capital, Share-Based Payments and Reserves (continued)

e) Share-based payments (continued)

As at July 31, 2023, the following share purchase options were outstanding:

Expiry date	Number of options	Exercise price (\$)	Weighted average remaining contractual life (years)
August 2, 2024	3,144,500	0.21	1.01
February 16, 2026 ^(a)	1,000,000	1.00	2.55
February 17, 2026 ^(b)	2,000,000	1.00	2.55
February 17, 2026	3,000,000	2.63	2.55
October 22, 2026	400,000	0.80	3.23
November 8, 2027	2,700,000	0.39	4.28
May 25, 2028	600,000	0.35	4.82
June 12, 2028	5,200,000	0.48	4.87
	18,044,500		3.30

(a) On November 2, 2021, the exercise price of these warrants was reduced from \$1.99 to \$1.00. The incremental \$93,062 value of the amendment of these options, calculated using the Black Scholes Valuation Model, was recognized in share-based payments expense during the year ended July 31, 2022.

(b) On November 2, 2021, the exercise price of these warrants was reduced from \$2.63 to \$1.00. The incremental \$346,203 value of the amendment of these options, calculated using the Black Scholes Valuation Model, was recognized in share-based payments expense during the year ended July 31, 2022.

f) Share-based payments reserve

The share-based payments reserve is used to recognize the fair value of share options granted to employees, including key management personnel, as part of their remuneration. When options are subsequently exercised, the fair value of such options in share-based payments reserve is credited to share capital.

g) Warrants reserve

The warrants reserve is used to recognize the fair value of warrants issued. When warrants are subsequently exercised, the fair value of such warrants in warrants reserve is credited to share capital.

RECYCLICO BATTERY MATERIALS INC.

Notes to the Consolidated Financial Statements

For the years ended July 31, 2023 and 2022

(Expressed in Canadian dollars unless specifically indicated otherwise)

8. Share Capital, Share-Based Payments and Reserves (continued)

h) Dilutive common shares

For the year ended July 31, 2023, potentially dilutive common shares relating to share purchase warrants broker warrants and share purchase options outstanding totalling 26,000,000, 1,400,000, and 18,044,500, respectively (July 31, 2022 – 26,794,080, 1,400,000, and 15,580,300), were not included in the computation of loss per share as the effect would be anti-dilutive.

9. Administration Expenses

General and administration expenses for the years ended July 31, 2023 and 2022 consist of the following:

	2023	2022
Bank charges and interest	\$ 2,513	\$ 2,239
Consulting fees	260,658	189,614
Filing agent and transfer fees	82,103	110,564
Insurance	23,677	21,863
Management fees	4,026	3,807
Office and miscellaneous	64,140	44,256
Office rent and property taxes	15,819	14,628
Professional fees	125,512	27,382
Property maintenance	13,285	32,075
Shareholder communications	280,731	245,006
Share-based payments	2,982,584	6,191,384
Telephone	4,629	4,056
Travel	57,517	27,971
Wages and benefits	463,045	571,519
Total	\$ 4,380,239	\$ 7,486,364

RECYCLICO BATTERY MATERIALS INC.

Notes to the Consolidated Financial Statements

For the years ended July 31, 2023 and 2022

(Expressed in Canadian dollars unless specifically indicated otherwise)

10. Financial Instruments and Financial Risk Management

a) Financial assets and liabilities by category

The Company classifies its cash and cash equivalents, amounts receivable (excluding sales tax receivable), and reclamation deposits as financial assets measured at amortized costs. Accounts payable and accrued liabilities are classified as other financial liabilities measured at amortized cost.

As at July 31, 2023, the statement of financial position carrying amounts of these financial instruments closely approximate their fair values, except for accounts payable and accrued liabilities, where the fair value may be less than carrying amounts due to liquidity risks.

b) Fair value

The fair value of financial instruments is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair values are determined by reference to quoted market prices, as appropriate, in the most advantageous market for that instrument to which the Company has immediate access. Where quoted market prices are not available, the Company uses the closing price of the most recent transaction for that instrument. In the absence of an active market, fair values are determined based on prevailing market rates for instruments with similar characteristics. The fair value of current financial instruments approximates their carrying values as long as they are short term in nature or bear interest at market rates.

c) Fair value hierarchy

Financial instruments that are held at fair value are categorized based on a valuation hierarchy which is determined by the valuation methodology utilized:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

There were no transfers between levels 1, 2 and 3 during the years ended July 31, 2023 and July 31, 2022.

RECYCLICO BATTERY MATERIALS INC.

Notes to the Consolidated Financial Statements

For the years ended July 31, 2023 and 2022

(Expressed in Canadian dollars unless specifically indicated otherwise)

10. Financial Instruments and Financial Risk Management (continued)

d) Financial risk management

The Company's Board of Directors has the overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and in response to the Company's activities. Management regularly monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

In the normal course of operations, the Company is exposed to various risks such as interest rate, foreign exchange, credit and liquidity risks. To manage these risks, management determines what activities must be undertaken to minimize potential exposure to risks. The objectives of the Company in managing risks are as follows:

- Maintaining sound financial condition;
- Financing operations; and
- Ensuring liquidity to all operations.

There have been no changes in risks that have arisen or how the Company manages those risks during the years ended July 31, 2023 and July 31, 2022.

(i) Interest rate risk

The Company's interest rate risk arises primarily from the interest received on cash and cash equivalents, which is invested on a short-term basis to enable adequate liquidity for payment of operational and capital expenditures.

(ii) Foreign currency risk

The Company is exposed to foreign currency risk on fluctuations related to cash and cash equivalents, amounts receivable, reclamation deposits and accounts payable and accrued liabilities that are denominated in US dollars. As at July 31, 2023, total net monetary assets denominated in US dollars amounted totalled \$479,501 (US\$363,893). Sensitivity to a plus or minus 10% change in the foreign exchange rate would affect net loss and comprehensive loss by \$47,502 with all other variables remaining constant.

RECYCLICO BATTERY MATERIALS INC.

Notes to the Consolidated Financial Statements

For the years ended July 31, 2023 and 2022

(Expressed in Canadian dollars unless specifically indicated otherwise)

10. Financial Instruments and Financial Risk Management (continued)

d) Financial risk management (continued)

(iii) Credit risk

Credit risk is the risk of loss if counterparties do not fulfill their contractual obligations. The Company's credit risk is primarily attributable to cash and cash equivalents and trade receivables. The Company limits its exposure to credit risk on cash and short-term investment as these financial instruments are held with major Canadian and international banks, from which management believes the risk of loss to be remote.

(iv) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company manages liquidity risk by maintaining cash and cash equivalents. Liquidity requirements are managed based on expected cash flow to ensure there is capital to meet short term and long-term obligations. As disclosed in Note 1, the ability of the Company to continue as a going concern is dependent on many factors. The Company's cash and cash equivalents are primarily invested in bank accounts and guaranteed investment certificates which are cashable on demand.

11. Capital Management

The Company classifies its share capital, share-based payments reserve and warrants reserve as capital, which at July 31, 2023 totalled \$94,601,601 (July 31, 2022 - \$87,280,182). When managing capital, the Company's objectives are to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management adjusts the capital structure as necessary in order to support its business objectives. The Board of Directors does not establish qualitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. In order to carry out the planned research and development and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is appropriate. There were no changes in the Company's approach to capital management during the years ended July 31, 2023 and July 31, 2022. The Company is not subject to any externally imposed capital requirements.

RECYCLICO BATTERY MATERIALS INC.

Notes to the Consolidated Financial Statements

For the years ended July 31, 2023 and 2022

(Expressed in Canadian dollars unless specifically indicated otherwise)

12. Segmented Information

The Company operates in two segments – the research and development of recycling battery cathode waste in lithium-ion batteries and the acquisition, exploration and development of interests in mineral resource projects in British Columbia, Canada and Arizona, USA. The Company has not capitalized any assets related to the research and development of recycling battery cathode waste in lithium-ion batteries. All of the Company's non-current assets relate to acquisition, exploration and development of interests in mineral resource projects in British Columbia, Canada and Arizona, USA.

Geographic information for the Company is as follows:

	July 31, 2023		July 31, 2022	
	Canada	USA	Canada	USA
Current assets	\$ 19,853,971	\$ 20,877	\$ 21,580,021	\$ 40,637
Non-current assets	18,702	1	665,893	1
Total assets	\$ 19,872,673	\$ 20,878	\$ 22,245,914	\$ 40,638
Current liabilities	\$ 164,586	\$ -	\$ 198,452	\$ -
Total liabilities	\$ 164,586	\$ -	\$ 198,452	\$ -

13. Income Taxes

The income tax provision differs from income taxes, which would result from applying the expected tax rate to net loss before income taxes. The difference between the expected income tax expense and the actual income tax provision are summarized as follows:

	2023	2022
Loss before income taxes	\$ (9,680,554)	\$ (11,312,600)
Statutory income tax rate	26.99%	26.98%
Expected income tax recovery	(2,612,564)	(3,052,316)
Differences resulting from:		
Deductible and non-deductible items and other	934,563	2,204,732
True-up of prior period amounts	7,920	-
Change in deferred tax assets not recognized	1,670,081	847,584
Provision for income taxes	\$ -	\$ -

RECYCLICO BATTERY MATERIALS INC.

Notes to the Consolidated Financial Statements

For the years ended July 31, 2023 and 2022

(Expressed in Canadian dollars unless specifically indicated otherwise)

13. Income Taxes (continued)

Deferred income taxes reflect the tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes. Deferred tax assets as at July 31, 2023 and 2022 are comprised of the following:

	July 31, 2023		July 31, 2022
Deferred income tax assets – Canada			
Non-capital loss carryforwards	\$ 8,940,510	\$	7,227,090
Fixed assets	-		1,943
Financing costs	308,238		412,690
Exploration and evaluation assets	982,492		991,193
Capital loss carryforwards	295		3,430
	10,231,535		8,636,346
Deferred tax asset not recognized	(10,231,535)		(8,636,346)
Net deferred tax asset	\$ -	\$	-

	July 31, 2023		July 31, 2022
Deferred income tax assets – US			
Non-capital loss carryforwards	\$ 169,680	\$	165,480
Exploration and evaluation assets	2,638,828		2,568,136
	2,808,508		2,733,616
Deferred tax asset not recognized	(2,808,508)		(2,733,616)
Net deferred tax asset	\$ -	\$	-

The Company has non-capital loss carryforwards of approximately \$33,113,000, expiring from 2026 to 2043, which may be carried forward to apply against future year income tax for Canadian income tax purposes.

The Company has net operating loss carryforwards of approximately \$808,000, losses of which incurred in fiscal 2022 and earlier may be carried forward indefinitely and losses of which incurred after fiscal 2022 may be carried forward 20 years, to be applied against future year income tax for US tax purposes.

Deferred tax assets have not been recognized because at this stage of the Company's development, it is not determinable that taxable profit will be available against which the Company can utilize such deferred income tax assets.

14. Subsequent Event

Subsequent to July 31, 2023, 1,760,000 share purchase options were exercised for total proceeds of \$369,600.