

south star

BATTERY METALS CORP



CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited)
(Expressed in Canadian Dollars)

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2022 AND 2021

NOTICE TO READER

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

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these interim financial statements in accordance with standards established by the Canadian Institute of Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

SOUTH STAR BATTERY METALS CORP.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(Unaudited)

(Expressed in Canadian Dollars)

AS AT

	September 30, 2022	December 31, 2021
ASSETS		
Current		
Cash	\$ 4,319,103	\$ 3,476,021
Receivables	39,878	20,384
Prepaid expenses	<u>177,024</u>	<u>151,472</u>
	4,536,005	3,647,877
Property and equipment (Note 3)	2,063,481	5,811
Exploration and evaluation assets (Note 4)	<u>5,735,914</u>	<u>5,735,914</u>
	<u>\$ 12,335,400</u>	<u>\$ 9,389,602</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities (Note 8)	\$ 215,830	\$ 415,894
Land purchase liability (Note 3)	612,479	-
Promissory note (Note 5)	<u>2,741,400</u>	<u>-</u>
	3,569,709	415,894
Land purchase liability (Note 3)	<u>511,609</u>	<u>-</u>
	4,081,318	415,894
Shareholders' equity		
Share capital (Note 7)	31,539,123	29,652,818
Reserves	3,741,816	3,460,219
Accumulated other comprehensive income	(141,483)	87,624
Deficit	<u>(26,885,374)</u>	<u>(24,226,953)</u>
	<u>8,254,082</u>	<u>8,973,708</u>
	<u>\$ 12,335,400</u>	<u>\$ 9,389,602</u>

Nature and continuance of operations (Note 1)**Subsequent events** (Notes 5 and 12)

Approved and authorized by the Board on November 18, 2022:

"Daniel Wilton"

Daniel Wilton

Director

"Richard Pearce"

Richard Pearce

Director

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

SOUTH STAR BATTERY METALS CORP.**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**

(Unaudited)

(Expressed in Canadian Dollars)

	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2022	2021	2022	2021
GENERAL EXPENSES				
Accretion expense (Note 6)	\$ -	\$ -	\$ -	\$ 7,425
Business development	17,977	15,000	47,977	79,078
Consulting and management fees (Note 8)	68,964	56,295	284,657	180,384
Exploration and evaluation expenditures (Note 4)	331,254	274,115	827,461	506,112
Foreign exchange	(120,115)	205	(75,933)	(948)
Information technology	4,765	-	12,394	-
Interest expense (Note 6)	-	-	-	12,572
Investor relations	125,891	168,589	675,662	395,180
Office and miscellaneous	40,901	7,345	49,018	20,726
Professional fees	65,736	14,876	517,174	60,319
Share-based payments (Notes 7, 8)	285,285	6,392	286,872	24,034
Transfer agent and filing fees	11,503	8,024	50,739	26,746
Travel	28,510	5,092	30,398	9,255
Loss from operations	<u>(860,671)</u>	<u>(555,933)</u>	<u>(2,706,419)</u>	<u>(1,320,883)</u>
Interest income	32,087	-	47,998	-
Net loss for the period	<u>(828,584)</u>	<u>(555,933)</u>	<u>(2,658,421)</u>	<u>(1,320,883)</u>
Other comprehensive income (loss)				
Items that may be reclassified to net loss				
Cumulative translation adjustment	<u>(239,825)</u>	<u>5,414</u>	<u>(229,107)</u>	<u>9,979</u>
Comprehensive loss for the period	<u>\$ (1,068,409)</u>	<u>\$ (550,519)</u>	<u>\$ (2,887,528)</u>	<u>\$ (1,310,904)</u>
Basic and diluted loss per share	<u>\$ (0.04)</u>	<u>\$ (0.04)</u>	<u>\$ (0.12)</u>	<u>\$ (0.10)</u>
Weighted average number of common shares outstanding	<u>21,769,994</u>	<u>15,483,804</u>	<u>21,769,994</u>	<u>13,862,562</u>

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

SOUTH STAR BATTERY METALS CORP.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
(Unaudited)
(Expressed in Canadian Dollars)
FOR THE NINE MONTHS ENDED SEPTEMBER 30

	2022	2021
CASH FROM OPERATING ACTIVITIES		
Net loss for the period	\$ (2,658,421)	\$ (1,320,883)
Items not affecting cash:		
Accretion expense	-	7,425
Share-based payments	286,872	24,034
Depreciation included in exploration and evaluation expenditures	1,207	914
Interest on convertible debentures	-	12,572
Changes in non-cash working capital items:		
Receivables	(19,444)	(2,922)
Prepaid expenses	(23,890)	(46,971)
Accounts payable and accrued liabilities	(210,905)	(178,965)
Net cash used in operating activities	<u>(2,624,581)</u>	<u>(1,504,796)</u>
CASH FROM INVESTING ACTIVITIES		
Purchase of equipment	(24,739)	(678)
Purchase of land	(910,409)	-
Net cash used in investing activities	<u>(935,148)</u>	<u>(678)</u>
CASH FROM FINANCING ACTIVITIES		
Proceeds on issuance of common shares	1,906,990	2,505,620
Share issuance costs	(75,335)	(65,569)
Exercise of options	9,625	-
Exercise of warrants	39,750	584,850
Interest paid on convertible debentures	-	(29,320)
Funds received for promissory note	2,498,000	-
Net cash provided by financing activities	<u>4,379,030</u>	<u>2,995,581</u>
Change in cash during the period	819,301	1,490,107
Effects of foreign exchange on cash	23,781	(3,943)
Cash, beginning of period	<u>3,476,021</u>	<u>74,410</u>
Cash, end of period	<u>\$ 4,319,103</u>	<u>\$ 1,560,574</u>
Supplemental cash flow information:		
Broker units issued as share issuance costs	\$ -	\$ 141,998
Broker warrants issued as share issuance costs	\$ 673	\$ -
Units issued for convertible debenture	\$ -	\$ 280,000

The Company did not pay any cash for income taxes during the periods ended September 30, 2022 and 2021.

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

SOUTH STAR BATTERY METALS CORP.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited)

(Expressed in Canadian Dollars)

	Share capital		Reserves	Accumulated other comprehensive income	Deficit	Total
	Number	Amount				
Balance at December 31, 2020	8,581,060	\$ 23,710,325	\$ 3,323,035	\$ 75,456	\$ (22,003,768)	\$ 5,105,048
Common shares issued for private placements	4,915,990	2,505,620	-	-	-	2,505,620
Share issuance costs, cash	-	(65,569)	-	-	-	(65,569)
Share issuance costs, non-cash	86,928	(96,360)	96,360	-	-	-
Common shares issued for warrants exercised	779,800	584,850	-	-	-	584,850
Common shares issued for convertible debenture	1,120,000	297,973	(17,973)	-	-	280,000
Share-based payments	-	-	24,034	-	-	24,034
Cumulative translation adjustment	-	-	-	9,979	-	9,979
Net loss for the period	-	-	-	-	(1,320,883)	(1,320,883)
Balance at September 30, 2021	15,483,778	26,936,839	3,425,456	85,435	(23,324,651)	7,123,079
Common shares issued for private placements	4,414,000	2,427,700	-	-	-	2,427,700
Share issuance costs, cash	-	(53,929)	-	-	-	(53,929)
Share issuance costs, non-cash	-	(37,041)	37,041	-	-	-
Common shares issued for options exercised	35,000	15,574	(5,949)	-	-	9,625
Common shares issued for warrants exercised	484,900	363,675	-	-	-	363,675
Share-based payments	-	-	3,671	-	-	3,671
Cumulative translation adjustment	-	-	-	2,189	-	2,189
Net loss for the period	-	-	-	-	(902,302)	(902,302)
Balance at December 31, 2021	20,417,678	29,652,818	3,460,219	87,624	(24,226,953)	8,973,708
Common shares issued for private placements	3,467,254	1,906,990	-	-	-	1,906,990
Share issuance costs, cash	-	(75,335)	-	-	-	(75,335)
Share issuance costs, non-cash	-	(673)	673	-	-	-
Common shares issued for options exercised	35,000	15,573	(5,948)	-	-	9,625
Common shares issued for warrants exercised	89,000	39,750	-	-	-	39,750
Share-based payments	-	-	286,872	-	-	286,872
Cumulative translation adjustment	-	-	-	(229,107)	-	(229,107)
Net loss for the period	-	-	-	-	(2,658,421)	(2,658,421)
Balance at September 30, 2022	24,008,932	\$ 31,539,123	\$ 3,741,816	\$ (141,483)	\$ (26,885,374)	\$ 8,254,082

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

SOUTH STAR BATTERY METALS CORP.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited)

(Expressed in Canadian Dollars)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022 AND 2021

1. NATURE AND CONTINUANCE OF OPERATIONS

South Star Battery Metals Corp. (the “Company”, or “STS”) was incorporated in British Columbia on November 8, 1984. On May 26, 2021, the Company changed its corporate name from South Star Mining Corp. to South Star Battery Metals Corp. The Company is listed on the TSX Venture Exchange (the “Exchange”) in Canada under the symbol “STS” and the OTC Bulletin Board in the United States under the symbol “STSBF”.

The head office of the Company is 1507 – 1030 West Georgia Street, Vancouver, BC, V6E 2Y3. The registered records of the Company are located at 1200 - 750 West Pender Street, Vancouver, BC, V6C 2T8.

On June 22, 2022, the Company completed a share consolidation on the basis of 1 new common share for 5 old common shares. All share and per share information have been adjusted retrospectively to reflect the share consolidation.

The Company is a Canadian battery-metals project developer focused on the selective acquisition and development of graphite projects in the Americas.

These condensed consolidated interim financial statements have been prepared on a going concern basis, which assumes that the Company will continue its operations for a reasonable period of time. The Company has incurred losses since its inception and had an accumulated deficit of \$26,885,374 as at September 30, 2022 which has been funded primarily by the issuance of shares. The Company’s ability to continue as a going concern depends upon its ability to raise adequate financing and to generate profitable operations in the future. The Company has been successful in the past in raising funds for operations by issuing shares, but there is no assurance that it will be able to continue to do so in the future. There is a material uncertainty related to these conditions that casts significant doubt about the Company’s ability to continue as a going concern and therefore it may be unable to realize its assets and discharge its liabilities in the normal course of business.

These condensed consolidated interim financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in these financial statements.

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to penetrate communities world-wide, and any related adverse public health developments, has affected workforces, and has added volatility to economies and financial markets globally. The Company continues to monitor the situation and is taking all necessary precautions in order to follow rules and best practices as set out by the federal and provincial governments. The Company has adapted by implementing remote working conditions where necessary and has continued to advance the Santa Cruz Graphite Project. The Company is cognizant that outbreaks may occur again in the future which may cause additional disruptions.

2. BASIS OF PREPARATION

Statement of compliance

These condensed consolidated interim financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and Interpretations of the IFRS Interpretations Committee (“IFRIC”).

These condensed consolidated interim financial statements should be read in conjunction with the company’s annual consolidated financial statements for the year ended December 31, 2021 and are prepared consistent with the accounting policies disclosed therein. Accounting policies newly adopted for the current period are provided in the following note disclosures.

SOUTH STAR BATTERY METALS CORP.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited)

(Expressed in Canadian Dollars)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022 AND 2021

2. BASIS OF PREPARATION (cont'd...)

Basis of consolidation

These condensed consolidated interim financial statements include the financial statements of the Company and the subsidiaries controlled by the Company. Subsidiaries are all entities over which the Company has control. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the condensed consolidated interim financial statements from the date on which control is transferred to the Company until the date that control ceases. All intercompany transactions and balances have been eliminated on consolidation.

The condensed consolidated interim financial statements include the financial statements of the Company and its subsidiaries as follows:

Company	Place of Incorporation	Effective Interest	Principal Activity
Brasil Graphite Corp. ("BGC")	Cayman Islands	100%	Holding
Brasil Grafite Mineração Ltda. ("BGM")	Brazil	100%	Mining exploration and development
South Star Battery Metals Alabama Corp.	USA	100%	Mining exploration and development
South Star Graphite Canada Corp. ("SSGC")	Canada	100%	Mining exploration and development

Significant accounting judgments, estimates and assumptions

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

In addition to the significant accounting judgments, estimates and assumptions provided in the financial statements for the year ended December 31, 2021, the Company has identified the following estimate for the current reporting period:

Land purchases and land purchase liability

The structure of the Company's land purchase agreements requires certain estimates regarding the timing of payments contingent on certain performance obligations. The actual timing of these payments could impact the discounted carrying value of the land assets and purchase obligations. Additionally, the Company estimates the borrowing cost applicable to the payment arrangements for the purposes of recording the cash price equivalent as at the purchase date.

Borrowing costs

Interest and other financing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset. Other borrowing costs not directly attributable to a qualifying asset are expensed in the period incurred.

Property and equipment

Property and equipment is carried at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property and equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use, initial estimates of the costs of dismantling and removing an item and restoring the site on which it is located, and, where applicable, borrowing costs.

The Company amortizes its equipment on the straight-line basis over five years. Land is not depreciated.

SOUTH STAR BATTERY METALS CORP.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited)

(Expressed in Canadian Dollars)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022 AND 2021

3. PROPERTY AND EQUIPMENT

Property and equipment	Land	Equipment	Total
Balance, December 31, 2021	\$ -	\$ 5,811	\$ 5,811
Additions	1,909,571	24,739	1,934,310
Depreciation	-	(1,207)	(1,207)
Borrowing costs	98,100	-	98,100
Foreign exchange	25,808	659	26,467
Balance, September 30, 2022	\$ 2,033,479	\$ 30,002	\$ 2,063,481

In the nine months ended September 30, 2022, the Company entered into an agreement to acquire land pursuant to a payment schedule which is subject to the sellers' abilities to provide documentation required under Brazilian law. Title to the land will transfer to the Company once the payments are completed. The timing of payments have been estimated relative to estimated timing of delivery by the sellers and the Company's estimated borrowing rate.

Land purchase liability	Total
Balance, December 31, 2021	\$ -
Additions	1,909,571
Borrowing costs	98,100
Payments	(910,409)
Foreign exchange	26,826
Balance, September 30, 2022	\$ 1,124,088
Current	\$ 612,479
Long-term	\$ 511,609

4. EXPLORATION AND EVALUATION ASSETS**Santa Cruz Graphite Project**

The Company owns 100% of the Santa Cruz Graphite Project through its wholly owned subsidiaries BGC and BGM. The project is located in the state of Bahia, Brazil and consists of 13 approved licenses covering 13,316 hectares.

A summary of capitalized acquisitions costs of the Company's exploration and evaluation assets is as follows:

	2022	2021
Santa Cruz Property	\$ 5,735,914	\$ 5,735,914

SOUTH STAR BATTERY METALS CORP.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited)

(Expressed in Canadian Dollars)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022 AND 2021

4. EXPLORATION AND EVALUATION ASSETS (cont'd...)**Ceylon Graphite Project**

During the year ended December 31, 2021, the Company entered into a binding earn-in and option agreement (“Ceylon Agreement”) to earn up to a 75% interest in the Ceylon Graphite Project, which is located on the northeast end of the Alabama Graphite Belt and covers approximately 500 acres in Coosa County, Alabama, USA.

The Ceylon Agreement calls for the Company to, on signing, undertake 3 years’ worth of assessment work on the property with an annual minimum expenditure of \$250,000 (\$750,000 total) to earn a 75% in the Ceylon Graphite Project.

Exploration and evaluation expenditures

Exploration and evaluation expenditures incurred during the periods ended September 30, 2022 and 2021 are as follows:

For the nine months ended September 30, 2022	Ceylon Graphite, USA	Santa Cruz, Brazil	Total
Depreciation	\$ -	\$ 1,207	\$ 1,207
Drilling	12,123	-	12,123
Field office expenses	17,548	45,784	63,332
Geological and technical reporting	7,056	84,210	91,266
Information technology	-	55,751	55,751
Material testing program	67,489	-	67,489
Permits and licenses	-	29,938	29,938
Professional fees	-	169,271	169,271
Project management	14,953	-	14,953
Property costs	15,394	-	15,394
Travel and transportation	2,886	21,577	24,463
Wages and service fees	-	282,274	282,274
Expenses incurred during the period	\$ 137,449	\$ 690,012	\$ 827,461

For the nine months ended September 30, 2021	Ceylon Graphite, USA	Santa Cruz, Brazil	Total
Consulting	\$ -	\$ 10,000	\$ 10,000
Depreciation	-	914	914
Engineering and design	-	120,773	120,773
Field office expenses	-	23,945	23,945
Material testing program	-	142,569	142,569
Wages and service fees	-	207,911	207,911
Expenses incurred during the period	\$ -	\$ 506,112	\$ 506,112

SOUTH STAR BATTERY METALS CORP.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited)

(Expressed in Canadian Dollars)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022 AND 2021

5. PROMISSORY NOTE AND STREAM AGREEMENT

On April 4, 2022, as amended October 4, 2022, the Company entered into a binding streaming agreement (“Agreement”) with Sprott Resource Streaming and Royalty Corp. (“Sprott” or “SRSR”) for the Santa Cruz Graphite Project. The total cash consideration under the Agreement is up to US\$28,000,000, as prepayment for graphite concentrates from the Santa Cruz Project. The Company will act as sales agent for Sprott on the percentage of production subject to the Agreement.

The Agreement is structured in two phases. The Phase 1 Stream is applicable on sales and delivery of the first 6,000 tpa of graphite concentrates and 15% of all graphite concentrates greater than 6,000 tpa (“Phase 1 Stream Production”). The Phase 1 Stream is an upfront prepayment of US\$10 million of graphite concentrate for 21.875% of the Phase 1 Stream Production until a total sale and delivery of 75,000 tonnes of concentrate has been achieved, at which point the Phase 1 Stream will be reduced by 50% to 10.9375%. SRSR will pay the Company 20% of the per tonne sales price for Phase 1 Stream Production.

During the period ended September 30, 2022, the Company received a US\$2,000,000 advance loan (“Promissory Note”) for a period of nine months. The Promissory Note will be repaid with proceeds from the Phase 1 Stream Consideration. Subsequent to September 30, 2022, the Promissory Note was amended and extended to a maturity date of December 14, 2022. The Promissory Note will begin accruing interest on October 4, 2022 at a rate of 1% per month until the Promissory Note is repaid.

The Company’s (and its affiliates’) obligations under the Promissory Note, the Agreement and related documents are secured by a pledge by the Company of the shares of its direct wholly-owned subsidiaries, SSGC and BGC, in favour of Sprott (collectively, the “Initial Share Pledges”). The Initial Share Pledges serve as collateral under a limited recourse guarantee provided by the Company with respect to the Promissory Note and Agreement. The obligations under the Agreement will be further guaranteed pursuant to a guarantee from each of BGM and BGC, and further secured by a pledge of the shares of BGM and certain assets of BGM (including real property) relating to the Santa Cruz Project.

The Company has committed to raise a minimum of \$6,000,000 as a condition precedent of the Agreement (the “Equity Financing”), of which \$1,906,990 was raised in the nine months ended September 30, 2022 and an additional \$4,635,563 was raised subsequent to September 30, 2022 (Note 12). Phase 1 closing is subject to standard closing conditions, satisfaction of conditions precedent and the approval of the TSXV. The Company will issue Sprott 1,200,000 warrants with an exercise price that represents a 35% premium to the offering unit price of the Equity Financing.

The Phase 2 Stream provides a minimum of US\$9,000,000 and up to US\$18,000,000 cash consideration at the Company’s election. The Phase 2 Stream is applicable on sales and delivery of 85% of all graphite concentrates greater than 6,000 tpa (“Phase 2 Stream Production”). The Phase 2 Stream is an upfront prepayment up to US\$18,000,000 of graphite concentrate for up to 20% (“Phase 2 Stream Percentage”) of the Phase 2 Stream Production. The Company has the option of a reduced Phase 2 draw request of a minimum of US\$9,000,000 with the Phase 2 Stream Percentage reduced pro rata, provided there is viable alternative project financing available for the balance.

SRSR will pay the Company 20% of the per tonne sales price for Phase 2 Stream Production. The Company has the option to buy back up to 100% of the Phase 2 Stream based amount of the draw request and a scaling multiplier over four years. Phase 2 closing is subject to Sprott Phase 2 due diligence and investment committee update and approval, standard closing conditions, completion of condition precedents and the approval of the TSXV.

SOUTH STAR BATTERY METALS CORP.

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(Unaudited)

(Expressed in Canadian Dollars)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022 AND 2021

5. PROMISSORY NOTE AND STREAM AGREEMENT (cont'd...)

Promissory Note	
Balance, December 31, 2021	\$ -
Funds received	2,498,000
Foreign exchange	243,400
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Balance, September 30, 2022	\$ 2,741,400

6. CONVERTIBLE DEBENTURES

Convertible debentures	
Balance, December 31, 2020	\$ 289,323
Accretion expense	7,425
Interest expense	12,572
Principal converted into units	(280,000)
Interest payment	(29,320)
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Balance, December 31, 2021 and September 30, 2022	\$ -

In May 2020, the Company issued convertible debentures for gross proceeds of \$280,000 with a maturity date of May 4, 2021 and an annual interest rate of 10% compounded monthly (the “Debentures”). The Debentures were convertible into units of the Company at the option of the holder at a conversion price of \$0.25 per unit (“Conversion Unit”). Each unit consisted of one common share and a one share purchase warrant at an exercise price of \$0.30 for a period of 3 years. Interest was also convertible into units, at the option of the Company. The Company elected to settle the interest payable in cash.

For accounting purposes, the Debentures were separated into their liability and equity components using the residual method. The fair value of the liability component at the time of issue was determined based on an estimated interest rate of 17.50% for debentures without the conversion feature. The fair value of the equity component was determined as the difference between the face value of the convertible debenture and the fair value of the liability component. After initial recognition, the liability component was carried on an amortized cost basis and accreted to its face value over the term to maturity of the Debentures at an effective rate of 17.48%. During the year ended December 31, 2021, the Company issued 5,600,000 Conversion Units on conversion and settlement of the Debentures.

7. SHARE CAPITAL AND RESERVES**Authorized share capital**

As at September 30, 2022, the authorized share capital of the Company is an unlimited number of common shares without par value. All issued shares, consisting only of common shares, are fully paid. On June 22, 2022, the Company completed a share consolidation on the basis of 1 new common share for 5 old common shares. All share and per share information have been amended retrospectively to reflect the share consolidation.

SOUTH STAR BATTERY METALS CORP.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited)

(Expressed in Canadian Dollars)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022 AND 2021

7. SHARE CAPITAL AND RESERVES (cont'd...)

Share issuances

During the period ended September 30, 2022, the Company:

- a) issued 89,000 common shares pursuant to the exercise of share purchase warrants for gross proceeds of \$39,750.
- b) closed a non-brokered private placement by issuing 3,467,254 units at \$0.55 per unit with proceeds of \$1,906,990. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holders to purchase one additional common share of the Company at an exercise price of \$1.25 per common share for a period of five years from the date of issue and is subject to certain acceleration provisions. The Company paid cash finder's fees of \$54,300.

Pursuant to the private placement, the Company issued 1,636 finders' warrants. Each warrant is exercisable at \$1.25 per common share over a period of five years. The warrants were valued at \$662 based on the following Black-Scholes assumptions: risk-free interest rate of 0.94%, expected life of 5 years, annualized volatility of 122.0% and dividend rate of 0%. The Company incurred other share issuance costs of \$21,035.

- c) issued 35,000 common shares pursuant to the exercise of stock options for gross proceeds of \$9,625.

During the year ended December 31, 2021, the Company:

- a) closed the first tranche of a non-brokered private placement by issuing 3,011,000 units at \$0.50 per unit with gross proceeds of \$1,505,500. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holders to purchase one additional common share of the Company at an exercise price of \$0.75 per common share for a period of three years from the date of issue and is subject to certain acceleration provisions. In connection with the first tranche, the Company paid cash finders' fees of \$20,700.
- b) closed the second tranche of a non-brokered private placement by issuing 1,904,990 units at \$0.525 per unit with proceeds of \$1,000,120. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holders to purchase one additional common share of the Company at an exercise price of \$0.75 per common share for a period of three years from the date of issue and is subject to certain acceleration provisions. In connection with the second tranche, the Company paid cash finder's fees of \$3,300.

Pursuant to the offering, the Company issued 86,928 finders' units consisting of one common share and common share purchase warrant. Each warrant is exercisable at \$0.75 per common share over a period of three years. The warrants were valued at \$96,360 based on the following Black-Scholes assumptions: risk-free interest rate of 0.32%, expected life of 3 years, annualized volatility of 117.0% and dividend rate of 0%. The Company incurred other share issuance costs of \$41,569 with respect to the two tranches.

- c) issued 1,120,000 units to convert the convertible debentures for gross proceeds of \$280,000 at a conversion price of \$0.25 per unit. Each unit consists of one common share and a one share purchase warrant at an exercise price of \$0.30 for a period of 3 years.

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7. SHARE CAPITAL AND RESERVES (cont'd...)**Share issuances (cont'd...)**

- d) closed a non-brokered private placement by issuing 4,414,000 units priced at \$0.55 per unit for gross proceeds of \$2,427,700. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one additional common share of the Company at an exercise price of \$0.75 per common share for a period of three years from the date of issue, and is subject to certain acceleration provisions.

Pursuant to the private placement, the Company issued 58,800 brokers' warrants exercisable at a price of \$0.75 per common share for a period of three years, paid cash of \$33,660 as finders' fees, and incurred other share issuance costs of \$20,269. The warrants were valued at \$37,041 based on the following Black-Scholes assumptions: risk-free interest rate of 0.94%, expected life of 3 years, annualized volatility of 106.0% and dividend rate of 0%.

- e) issued 1,264,700 common shares pursuant to the exercise of share purchase warrants for gross proceeds of \$948,525.

Stock options and share purchase warrants

Stock option and share purchase transactions are summarized as follows:

	Stock options		Warrants	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding, December 31, 2020	850,000	\$ 0.82	819,800	\$ 0.75
Exercised	(35,000)	0.30	(1,264,700)	0.75
Expired	(20,000)	2.25	(40,000)	0.75
Granted/issued	<u>24,000</u>	<u>1.25</u>	<u>10,595,718</u>	<u>0.70</u>
Outstanding, December 31, 2021	819,000	\$ 0.82	10,110,818	\$ 0.70
Exercised	(35,000)	0.28	(89,000)	0.45
Expired	(200,000)	1.58	-	-
Granted/issued	<u>835,000</u>	<u>0.41</u>	<u>3,468,890</u>	<u>1.25</u>
Outstanding, September 30, 2022	1,419,000	\$ 0.49	13,490,708	\$ 0.84
Exercisable, September 30, 2022	1,419,000	\$ 0.49	13,490,708	\$ 0.84

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7. SHARE CAPITAL AND RESERVES (cont'd...)**Stock options and share purchase warrants outstanding**

The following incentive stock options and share purchase warrants were outstanding as at September 30, 2022:

	Number	Exercise price	Expiry date
Stock options			
	80,000	\$ 2.25	August 13, 2023
	18,000	0.75	June 17, 2024
	462,000	0.275	August 4, 2025
	24,000	1.25	April 12, 2023
	835,000	0.41	August 23, 2027
	1,419,000		
Share purchase warrants			
	2,626,000	\$ 0.75	February 16, 2024
	1,863,018	0.75	February 23, 2024
	1,060,000	0.30	May 4, 2024
	4,472,800	0.75	October 25, 2024
	3,468,890	1.25	June 23, 2027
	13,490,708		

Share-based payments

The Company has a restricted share unit plan (“RSU Plan”) which governs the granting of any RSU granted under the fixed RSU Plan, to directors, officers, employees and consultants of the Company or a subsidiary of the Company. The maximum number of RSUs issuable under the RSU Plan is 2,400,893 common shares, being 10% of the issued and outstanding common shares of the Company at the time the RSU Plan was implemented. The Company has not granted any RSUs under the RSU Plan.

The Company has a stock option plan under which it is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common stock of the Company. Under the plan the exercise price of each option equals the market price of the Company’s stock, less applicable discount, as calculated on the date of grant. The vesting terms are determined by the board of directors.

In the nine months ended September 30, 2022, the Company granted 835,000 (2021 – 24,000) options with an exercise price of \$0.41 (2021 - \$1.25). In the nine months ended September 30, 2022, the Company recognized share-based payments expense of \$286,872 (2021 - \$24,034) for options vesting in the period.

The following weighted average assumptions were used for the valuation of stock options granted in the respective periods:

	2022	2021
Risk-free interest rate	3.21%	0.25%
Expected life of options	5 years	2 years
Annualized volatility	123.17%	98.33%
Dividend rate	0.00%	0.00%
Forfeiture rate	0.00%	0.00%

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8. RELATED PARTY TRANSACTIONS AND BALANCES

Key management personnel consist of the officers of the Company and the Company's Board of Directors. During the period ended September 30, 2022, the Company:

- a) Paid or accrued management and consulting fees of \$79,001 (2021 - \$27,000) to a consulting company partially owned by the Company's Chief Financial Officer ("CFO");
- b) Paid or accrued management and consulting fees of \$193,176 (2021 - \$169,414) to the Chief Executive Officer of the Company and employment benefits of \$21,759 (2021 - \$4,274) to the CEO of the Company; and
- c) Paid or accrued management and consulting fees of \$nil (2021 - \$14,000) to a director of the Company.

Included in accounts payable and accrued liabilities as of September 30, 2022 is \$42,338 (December 31, 2021 - \$192,871) due to current and former officers, directors or companies with a director in common for cash advances, unpaid consulting fees and unpaid expenses. The amounts due to related parties are unsecured, non-interest bearing and due on demand.

During the period ended September 30, 2022, the Company recorded share-based payments of \$286,049 (2021 - \$15,327) related to the fair value of stock options granted and vested to key management personnel.

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial assets and financial liabilities are measured on an ongoing basis at fair value or amortized cost. The disclosures in the notes to these financial statements describe how the categories of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognized.

As at September 30, 2022, the carrying value and fair values of the Company's financial instruments, with comparative figures for December 31, 2021 are shown in the table below:

	September 30, 2022		December 31, 2021	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Financial assets				
Cash	\$ 4,319,103	\$ 4,319,103	\$ 3,476,021	\$ 3,476,021
Financial liabilities				
Accounts payable	215,830	215,830	415,894	415,894
Promissory note	2,741,400	2,741,400	-	-
Land purchase liability	1,265,281	1,124,088	-	-

Financial risk factors

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets including cash and receivables. The Company limits exposure to credit risk on liquid financial assets through maintaining its cash with high-credit quality financial institutions.

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9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd...)

Financial risk factors (cont'd...)

Liquidity risk

The Company's approach to managing liquidity risk is to try and have sufficient liquidity to meet liabilities when due. As at September 30, 2022, the Company had a cash balance of \$4,319,103 (December 31, 2021 - \$3,476,021) to settle current liabilities of \$3,569,709 (December 31, 2021 - \$415,894). All of the Company's accounts payable and accrued liabilities have contractual maturities of 30 days or due on demand and are subject to normal trade terms. Land purchase commitments are subject to payment plans with some timing uncertainty relative to contractual deliverables by the seller (Note 3). The Promissory Note matures on December 14, 2022 (Note 5).

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. The Company does not have a practice of trading derivatives.

Currency risk

The Company's main project is in Brazil with local operations. As such, the Company is exposed to some foreign currency risk. Fluctuations in the exchange rate between the Canadian dollar, United States dollar and the Brazilian real (R\$) may have an adverse effect on the Company's business. The Company does not enter into any foreign exchange hedging contracts. As at September 30, 2022, the Company held net financial instruments in Brazil of (R\$525,309) (CAD\$133,376). A 10% movement in the foreign exchange rate would have impacted other comprehensive income (loss) by approximately \$13,337 as the Brazilian real is the functional currency of that entity. Foreign currency risk will have an impact the Company's net loss and net financial instruments.

The Company's Promissory Note is denominated in the United States dollar which exposes the Company to fluctuations on repayment if the closing conditions on the Phase 1 Stream are not satisfied prior to maturity of the instrument.

Interest rate risk

The Company's financial assets exposed to interest rate risk consist of cash balances. The Company's current policy is to invest excess cash in high-interest bank accounts and investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. As at September 30, 2022, the Company did not have any investments in investment-grade short-term deposit certificates.

Price risk

The Company is exposed to price risk with respect to commodity and equity prices. The Company closely monitors commodity prices, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

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10. CAPITAL MANAGEMENT

The Company's primary objectives in capital management are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and to maintain sufficient funds to finance the exploration and development of its mineral property interests. Capital is comprised of the Company's shareholders' deficiency. The Company manages its capital structure to maximize its financial flexibility making adjustments to it in response to changes in economic conditions and the risk characteristics of the underlying assets and business opportunities.

The Company does not presently utilize any quantitative measures to monitor its capital and is not subject to externally imposed capital requirements.

11. SEGMENTED INFORMATION

The Company operates in one segment, being mineral property exploration and development. As at September 30, 2022, all of the Company's long-term assets are situated in Brazil.

12. SUBSEQUENT EVENT

Subsequent to September 30, 2022, the Company closed the first tranche of a non-brokered private placement by issuing 4,356,346 units at \$0.53 per unit ("Unit") for gross proceeds of \$2,308,863. Each Unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holders to purchase one additional common share of the Company at an exercise price of \$1.25 per common share for a period of five years from the date of issue and is subject to certain acceleration provisions. In connection with the first tranche, the Company paid cash finders' fees of \$129,541 and issued 77,944 finders' warrants.

The Company closed the second tranche of the non-brokered private placement of 4,390,000 Units for gross proceeds of \$2,326,700. The Company paid cash finder's fees of \$116,547 and issued 73,300 finder's warrants in connection with the second tranche. The funds provided by the tranches exceed the amount required to meet the condition precedent to the Phase 1 closing under the Sprott Agreement (Note 5).