



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

**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2023 AND 2022**

## **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, 2023	December 31, 2022
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 11,199,865	\$ 17,257,618
Receivables	51,731	21,250
Prepaid expenses	<u>227,873</u>	<u>138,365</u>
	11,479,469	17,417,233
<b>Property and equipment</b> (Note 4)	17,171,739	7,970,934
<b>Non-current advances</b> (Note 4)	<u>2,044,888</u>	<u>1,083,721</u>
	<u>\$ 30,696,096</u>	<u>\$ 26,471,888</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities (Note 10)	\$ 2,476,500	\$ 470,121
Land purchase liability (Note 4)	603,225	611,100
Lease liabilities (Note 7)	<u>15,081</u>	<u>17,653</u>
	3,094,806	1,098,874
<b>Deferred revenue</b> (Note 6)	14,906,819	13,717,660
<b>Land purchase liability</b> (Note 4)	-	530,003
<b>Lease liabilities</b> (Note 7)	<u>-</u>	<u>9,603</u>
	18,001,625	15,356,140
<b>Shareholders' equity</b>		
Share capital (Note 8)	39,657,239	35,232,539
Subscriptions received in advance (Note 8)	-	230,166
Reserves	5,203,962	4,845,609
Accumulated other comprehensive income (loss)	648,531	(63,127)
Deficit	<u>(32,815,261)</u>	<u>(29,129,439)</u>
	<u>12,694,471</u>	<u>11,115,748</u>
	<u>\$ 30,696,096</u>	<u>\$ 26,471,888</u>

**Nature of operations** (Note 1)**Subsequent event** (Note 14)

Approved and authorized by the Board on November 29, 2023:

\_\_\_\_\_  
"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 September 30, 2023	For the three months ended September 30, 2022	For the nine months ended September 30, 2023	For the nine months ended September 30, 2022
<b>GENERAL EXPENSES</b>				
Business development	\$ 25,000	\$ 17,977	\$ 72,317	\$ 47,977
Consulting and management fees (Note 10)	192,469	68,964	454,690	284,657
Depreciation (Note 4)	11,692	-	37,401	-
Exploration and evaluation expenditures (Note 5)	704,410	331,254	1,432,011	827,461
Foreign exchange	(137,503)	(120,115)	(90,330)	(75,933)
Information technology	20,670	4,765	60,789	12,394
Investor relations	58,453	125,891	274,100	675,662
Office and miscellaneous	39,373	40,901	141,643	49,018
Professional fees	9,813	65,736	144,957	517,174
Share-based payments (Notes 8 and 10)	34,391	285,285	58,315	286,872
Transfer agent and filing fees	11,430	11,503	37,006	50,739
Travel and transportation	110,354	28,510	180,237	30,398
Wages and support staff	180,079	-	429,899	-
<b>Loss from operations</b>	<b>(1,260,631)</b>	<b>(860,671)</b>	<b>(3,233,035)</b>	<b>(2,706,419)</b>
Finance expense (Note 9)	(406,349)	-	(1,209,895)	-
Settlement of management bonus with equity (Note 10)	-	-	137,573	-
Interest income	150,278	32,087	619,535	47,998
	(256,071)	32,087	(452,787)	47,998
<b>Net loss for the period</b>	<b>(1,516,702)</b>	<b>(828,584)</b>	<b>(3,685,822)</b>	<b>(2,658,421)</b>
<b>Other comprehensive income (loss)</b>				
<b>Items that may be reclassified to net loss</b>				
Cumulative translation adjustment	(595,309)	(239,825)	711,658	(229,107)
<b>Comprehensive loss for the period</b>	<b>\$ (2,112,011)</b>	<b>\$ (1,068,409)</b>	<b>\$ (2,974,164)</b>	<b>\$ (2,887,528)</b>
<b>Basic and diluted loss per share</b>	<b>\$ (0.04)</b>	<b>\$ (0.03)</b>	<b>\$ (0.11)</b>	<b>\$ (0.12)</b>
<b>Weighted average number of common shares outstanding</b>				
<b>- basic and diluted</b>	<b>38,308,488</b>	<b>24,008,932</b>	<b>34,198,106</b>	<b>21,769,994</b>

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,

	2023	2022
<b>CASH FROM OPERATING ACTIVITIES</b>		
Net loss for the period	\$ (3,685,822)	\$ (2,658,421)
Items not affecting cash:		
Share-based payments	58,315	286,872
Depreciation	37,401	1,207
Finance expense	1,209,895	-
Settlement of management bonus with equity	(137,573)	-
Changes in non-cash working capital items:		
Receivables	(29,962)	(19,444)
Prepaid expenses	(89,021)	(23,890)
Accounts payable and accrued liabilities	<u>(14,257)</u>	<u>(210,905)</u>
Net cash used in operating activities	<u>(2,651,024)</u>	<u>(2,624,581)</u>
<b>CASH FROM INVESTING ACTIVITIES</b>		
Purchase of equipment	(242,602)	(24,739)
Construction and mine development	(6,634,039)	-
Non-current advances, net	(901,291)	-
Purchase of land	<u>(669,950)</u>	<u>(910,409)</u>
Net cash used in investing activities	<u>(8,447,882)</u>	<u>(935,148)</u>
<b>CASH FROM FINANCING ACTIVITIES</b>		
Proceeds on issuance of common shares	4,590,748	1,906,990
Share issuance costs	(96,176)	(75,335)
Exercise of options	-	9,625
Exercise of warrants	-	39,750
Funds received for promissory note	-	2,498,000
Lease payments	<u>(15,729)</u>	<u>-</u>
Net cash provided by financing activities	<u>4,478,843</u>	<u>4,379,030</u>
Effects of foreign exchange on cash	562,309	23,781
Change in cash and cash equivalents during the period	(6,620,062)	819,301
Cash and cash equivalents, beginning of the period	<u>17,257,618</u>	<u>3,476,021</u>
<b>Cash and cash equivalents, end of the period</b>	<b>\$ 11,199,865</b>	<b>\$ 4,319,103</b>
<b>Non-cash investing and financing activities:</b>		
Construction in progress in accounts payable	\$ 2,142,180	\$ -
Depreciation capitalized to construction in progress	5,554	-
Finder's warrants issued as share issuance costs	4,005	673

The Company did not pay any cash for income taxes during the periods ended September 30, 2023 and 2022.

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		Subscriptions received in advance	Reserves	Accumulated other comprehensive income (loss)	Deficit	Total
	Number	Amount					
<b>Balance at December 31, 2021</b>	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)
<b>Balance at September 30, 2022</b>	24,008,932	\$ 31,539,123	\$ -	\$ 3,741,816	\$ (141,483)	\$ (26,885,374)	\$ 8,254,082
Common shares issued for private placements	8,746,346	4,066,882	-	568,681	-	-	4,635,563
Share issuance costs, cash	-	(313,196)	-	-	-	-	(313,196)
Share issuance costs, non-cash	-	(60,270)	-	60,270	-	-	-
Subscriptions received in advance	-	-	230,166	-	-	-	230,166
Warrants issued with stream agreement	-	-	-	440,882	-	-	440,882
Share-based payments	-	-	-	33,960	-	-	33,960
Cumulative translation adjustment	-	-	-	-	78,356	-	78,356
Net loss for the period	-	-	-	-	-	(2,244,065)	(2,244,065)
<b>Balance at December 31, 2022</b>	32,755,278	\$ 35,232,539	\$ 230,166	\$ 4,845,609	\$ (63,127)	\$ (29,129,439)	\$ 11,115,748
Common shares issued for private placements	9,096,067	4,524,881	(230,166)	296,033	-	-	4,590,748
Share issuance costs, cash	-	(96,176)	-	-	-	-	(96,176)
Share issuance costs, non-cash	-	(4,005)	-	4,005	-	-	-
Share-based payments	-	-	-	58,315	-	-	58,315
Cumulative translation adjustment	-	-	-	-	711,658	-	711,658
Net loss for the period	-	-	-	-	-	(3,685,822)	(3,685,822)
<b>Balance at September 30, 2023</b>	41,851,345	\$ 39,657,239	\$ -	\$ 5,203,962	\$ 648,531	\$ (32,815,261)	\$ 12,694,471

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, 2023 AND 2022

### 1. NATURE OF OPERATIONS

South Star Battery Metals Corp. (the “Company”, or “STS”) was incorporated in British Columbia on November 8, 1984. 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.

### 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, 2022 and are prepared consistent with the accounting policies disclosed therein.

#### 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:

<b>Company</b>	<b>Place of Incorporation</b>	<b>Effective Interest</b>	<b>Principal Activity</b>	<b>Functional currency</b>
South Star Battery Metals Corp.	Canada	-	Corporate head	Canadian dollar
Brasil Graphite Corp. (“BGC”)	Cayman Islands	100%	Holding	Canadian dollar
Brasil Grafite Mineração Ltda. (“BGM”)	Brazil	100%	Mining development	Brazilian real
South Star Battery Metals Alabama Corp.	USA	100%	Mining exploration	US dollar
South Star Graphite Canada Corp. (“SSGC”)	Canada	100%	Financial management	US dollar

## **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, 2023 AND 2022

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### **3. SIGNIFICANT ACCOUNTING JUDGEMENTS, 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 nine months ended September 30, 2023 and 2022. Actual results could differ from these estimates.

Significant assumptions about the future and other sources of estimation and judgement uncertainty that management has made at the end of the reporting period, that could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual results differ from assumptions made, relate to:

#### *Income taxes*

The determination of income tax is inherently complex and requires making certain estimates and assumptions about future events. While income tax filings are subject to audits and reassessments, the Company has adequately provided for all income tax obligations. However, changes in facts and circumstances as a result of income tax audits, reassessments, jurisprudence and any new legislation may result in an increase or decrease in our provision for income taxes.

#### *Borrowing costs*

The Company has made estimates with respect to applicable borrowing rates where borrowing rates are recognized for a significant financing component. In the case of the Stream Agreement (Note 6), the Company has applied a borrowing rate to match the estimated rate of return to the purchaser of 12%.

#### *Share-based payments*

Share-based payments are subject to estimation of the value of the award at the date of grant using pricing models such as the Black-Scholes option valuation model. The option valuation model requires the input of highly subjective assumptions including the expected stock price volatility. Because the Company's stock options have characteristics significantly different from those of traded options and because the subjective input assumptions can materially affect the calculated fair value, such value is subject to measurement uncertainty.

#### *Property and equipment*

Property and equipment is carried at cost less accumulated depreciation and 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 basis of 30% per annum and the leasehold improvements and right-of-use asset over two years. Construction in progress, and mine development are not depreciated until put into use.

Management reviews the estimated useful lives, residual values, and depreciation methods at the end of each financial year, and when circumstances indicate that such reviews should be made. Changes to estimated useful lives, residual values or depreciation methods resulting from such reviews are accounted for prospectively.

Assets not yet available for use including construction in progress are reviewed for impairment at the end of each financial year.

## **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, 2023 AND 2022

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#### **3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (cont'd...)**

##### *Deferred revenue*

Management has applied judgement in the assessment that the Stream Agreement (Note 6) constitutes a contract for the future sale of commodities to the counterparty. The contract will be settled through the delivery of commodity and in no event settled in cash. The deposit is therefore recorded as deferred revenue and is not a financial liability.

##### *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.

##### *Going concern*

Management has applied judgment in the assessment of the Company's ability to continue as a going concern, considering all available information, and concluded that the going concern assumption is appropriate for a period of at least twelve months following the end of the reporting period. Given the judgment involved, actual results may lead to a materially different outcome.

Other significant judgments relate to the recoverability of capitalized amounts with respect to property and equipment, recognition of deferred tax assets and liabilities and the determination of the economic and technical viability of a project.

## 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, 2023 AND 2022

#### 4. PROPERTY AND EQUIPMENT

<b>Property and equipment</b>	Office and computer equipment	Machinery and equipment	Leasehold improvements	Right-of-use asset	Construction in progress	Mine development	Land	Total
<b>Cost</b>								
Balance, December 31, 2021	\$ 3,650	\$ 12,785	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 16,435
Additions	26,746	-	22,223	33,908	156,859	36,092	1,909,571	2,185,399
Development asset	-	-	-	-	-	5,735,914	-	5,735,914
Borrowing costs	-	-	-	-	-	-	9,944	9,944
Foreign exchange	<u>2,826</u>	<u>-</u>	<u>330</u>	<u>504</u>	<u>2,328</u>	<u>536</u>	<u>43,599</u>	<u>50,123</u>
Balance, December 31, 2022	\$ 33,222	\$ 12,785	\$ 22,553	\$ 34,412	\$ 159,187	\$ 5,772,542	\$ 1,963,114	\$ 7,997,815
Additions	143,703	98,899	-	-	8,671,652	110,121	-	9,024,375
Projects completed	-	3,604,859	-	-	(3,604,859)	-	-	-
Borrowing costs	-	-	-	-	-	-	73,776	73,776
Foreign exchange	<u>2,193</u>	<u>12,060</u>	<u>1,188</u>	<u>1,813</u>	<u>23,965</u>	<u>2,268</u>	<u>103,670</u>	<u>147,157</u>
Balance, September 30, 2023	\$ 179,118	\$ 3,728,603	\$ 23,741	\$ 36,225	\$ 5,294,945	\$ 5,884,931	\$ 2,140,560	\$ 17,243,123
<b>Accumulated Depreciation</b>								
Balance, December 31, 2021	\$ 2,715	\$ 7,909	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,624
Depreciation	170	2,300	2,339	9,890	-	-	-	14,699
Foreign exchange	<u>176</u>	<u>1,200</u>	<u>35</u>	<u>147</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,558</u>
Balance, December 31, 2022	\$ 3,061	\$ 11,409	\$ 2,374	\$ 10,037	\$ -	\$ -	\$ -	\$ 26,881
Additions	16,658	5,281	7,474	13,543	-	-	-	42,956
Foreign exchange	<u>212</u>	<u>616</u>	<u>149</u>	<u>570</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,547</u>
Balance, September 30, 2023	\$ 19,931	\$ 17,306	\$ 9,997	\$ 24,150	\$ -	\$ -	\$ -	\$ 71,384
<b>Net Book Value</b>								
December 31, 2022	\$ 30,161	\$ 1,376	\$ 20,179	\$ 24,375	\$ 159,187	\$ 5,772,542	\$ 1,963,114	\$ 7,970,934
September 30, 2023	\$ 159,187	\$ 3,711,297	\$ 13,744	\$ 12,075	\$ 5,249,945	\$ 5,884,931	\$ 2,140,560	\$ 17,171,739

## 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, 2023 AND 2022

#### 4. PROPERTY AND EQUIPMENT (cont'd...)

##### 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. Development is currently underway.

The Company has 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. While the Company has rights to use the land, title to the land will transfer to the Company once the payments are completed. The timing of payments has been estimated relative to estimated timing of delivery by the sellers and the Company's estimated borrowing rate.

Land purchase liability	September 30, 2023	December 31, 2022
<b>Balance, beginning of period</b>	\$ 1,141,103	\$ -
Additions	-	1,909,571
Borrowing costs	73,776	126,885
Payments	(669,950)	(926,929)
Foreign exchange	58,296	31,576
<b>Balance, end of period</b>	<b>\$ 603,225</b>	<b>\$ 1,141,103</b>
Current	\$ 603,225	\$ 611,100
Long-term	\$ -	\$ 530,003

Borrowing costs on land prior to commencement of development activities was expensed to the statement of loss and comprehensive loss.

##### Non-current advances

As at September 30, 2023, the Company had advanced deposits of \$2,044,888 (December 31, 2022 - \$1,083,721) toward the purchase of machinery and assets for the Santa Cruz Graphite Project.

## 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, 2023 AND 2022

#### 5. EXPLORATION AND EVALUATION ASSETS

##### BamaStar Graphite Project

During the year ended December 31, 2021, the Company entered into a binding earn-in and option agreement (“BamaStar Agreement”) to earn up to a 75% interest in the BamaStar Graphite Project (formerly 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 BamaStar 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 BamaStar Graphite Project.

##### *Exploration and evaluation expenditures*

Exploration and evaluation expenditures incurred during the period ended September 30, 2023 and 2022 are as follows:

	BamaStar Graphite, USA	Total
<b>For the nine months ended September 30, 2023</b>		
Drilling	\$ 901,184	\$ 901,184
Field office expenses	146,303	146,303
Geological and technical reporting	289,868	289,868
Project management	86,119	86,119
Property costs	8,537	8,537
Expenses incurred during the period	\$ 1,432,011	\$ 1,432,011

	Ceylon Graphite, USA	Santa Cruz, Brazil	Total
<b>For the nine months ended September 30, 2022</b>			
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

<sup>(1)</sup> The Santa Cruz Project moved into development in the year ended December 31, 2022 (Note 4).

## **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, 2023 AND 2022

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#### **6. 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\$10,000,000 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 year ended December 31, 2022, the Company received a US\$2,000,000 advance loan (“Promissory Note”) from Sprott. The Promissory Note was amended and extended to a maturity date of December 14, 2022. The Promissory Note began accruing interest on October 4, 2022 at a rate of 1% per month until the Promissory Note is repaid. The Promissory Note was repaid with proceeds from the Phase 1 Stream Consideration during the year ended December 31, 2022.

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 completed conditions precedent and received the initial graphite stream advance payment of US\$10,000,000 for the Phase 1 Stream during the year ended December 31, 2022. In connection with the Phase 1 Stream, the Company issued Sprott 1,200,000 warrants (“Sprott Warrants”) at an exercise price of \$0.72 valued at \$440,882 based on the Black-Scholes methodology inputs: risk-free interest rate of 3.71%, volatility rate of 126.47% and term of 3 years. The Sprott Warrants were recorded as a financing cost in the statement of loss and comprehensive loss.

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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**6. STREAM AGREEMENT (cont'd...)**

The Company recorded the Phase 1 Stream upfront payment as deferred revenue and recognizes amounts in revenue as graphite delivered to Sprott. The Company determines the amortization of deferred revenue on a per unit basis using the estimated total number of graphite expected to be delivered to Sprott over the life of the Phase 1 and 2 Stream Production. The Company estimates the current portion of deferred revenue based on deliveries anticipated over the next twelve months based on the mine plan.

Deferred revenue consists of: 1) initial cash deposit received by the Company for future delivery of payable graphite under the terms of the Agreement, and 2) a significant financing component of the Agreement resulting from the difference in the timing of the upfront payment received and the promised goods delivered. As such, the Company recognizes interest expense at each reporting period and will accrete the deferred revenue balance to recognize the significant financing element that is part of the Agreement. The interest rate of 12% is determined based on the rate implicit in the Agreement at the date of inception.

The initial consideration received from the Agreement is considered variable, subject to changes in the total graphite ounces to be delivered in the future. Changes to variable consideration will be reflected in the condensed consolidated interim statement of loss and comprehensive loss.

The following table summarizes the promissory note:

<b>Promissory note</b>	
Balance, December 31, 2021	\$ -
Funds received	2,498,000
Interest	40,773
Repayment	(2,721,174)
Foreign exchange	182,401
<hr/>	
Balance, December 31, 2022 and September 30, 2023	\$ -

The following table summarizes deferred revenue:

<b>Deferred revenue</b>	September 30, 2023	December 31, 2022
Balance, beginning of period	\$ 13,717,660	\$ -
Initial graphite stream prepayment (US\$10,000,000)	-	13,396,000
Financing cost	1,207,736	166,847
Foreign exchange	(18,577)	154,813
	<hr/>	<hr/>
	\$ 14,906,819	\$ 13,717,660

## SOUTH STAR BATTERY METALS CORP.

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#### 7. LEASE LIABILITIES

The following is a continuity schedule of lease liabilities for the nine months ended September 30, 2023 and year ended December 31, 2022:

<b>Lease liabilities</b>	September 30, 2023	December 31, 2022
Balance, beginning of the period	\$ 27,256	\$ -
Lease additions	-	33,908
Lease payments	(15,729)	(9,467)
Finance expense	2,159	2,416
Foreign exchange	1,395	399
Balance, end of period	<u>\$ 15,081</u>	<u>\$ 27,256</u>
Current (less than one year)	\$ 15,081	\$ 17,653
Long-term (2024)	\$ -	\$ 9,603

The Company entered into an office lease agreement in the year ended December 31, 2022 and has applied an incremental borrowing rate of 13.75%.

#### 8. SHARE CAPITAL AND RESERVES

##### Authorized share capital

As at September 30, 2023, 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.

##### Share issuances

During the period ended September 30, 2023, the Company

- Closed a non-brokered private placement by issuing 434,277 units at \$0.53 per unit ("Unit") for gross proceeds of \$230,166. 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 \$13,810 and issued 8,685 finder's warrants. The entire gross proceeds were subscriptions received in advance of closing as at December 31, 2022. The finder's warrants are exercisable at a price of \$0.53 until January 12, 2028 and were valued at \$4,005 using the following Black-Scholes assumptions: risk-free rate of 3.71%, expected life of 5 years and volatility of 131.10%.
- Issued 127,925 Units at \$0.53 per Unit for gross proceeds of \$67,800.
- Issued 8,533,865 Units at \$0.53 per Unit for gross proceeds of \$4,522,948. The Company paid cash finder's fees of \$27,825.

## **SOUTH STAR BATTERY METALS CORP.**

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#### **8. SHARE CAPITAL AND RESERVES (cont'd...)**

##### **Share issuances (cont'd...)**

During the year ended December 31, 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 3.14%, expected life of 5 years, annualized volatility of 121.90% and dividend rate of 0%.

- c) issued 35,000 common shares pursuant to the exercise of stock options for gross proceeds of \$9,625.
- d) closed a non-brokered private placement by issuing 8,746,346 units at \$0.53 per unit for gross proceeds of \$4,635,563. 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 \$246,088.

Pursuant to the private placement, the Company issued 151,244 finders' warrants. Each warrant is exercisable at an average of \$0.57 per common share over a period of five years. The warrants were valued at \$60,271 based on the following Black-Scholes assumptions: risk-free interest rate of 3.32% - 3.59%, expected life of 5 years, annualized volatility of 131.1% - 131.45% and dividend rate of 0%. The funds provided by the tranches exceed the amount required to meet the condition precedent to the Phase 1 closing under the Spratt Agreement (Note 6).

##### **Equity Plans**

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 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.

## SOUTH STAR BATTERY METALS CORP.

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#### 8. SHARE CAPITAL AND RESERVES (cont'd...)

##### 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, 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>935,000</u>	<u>0.43</u>	<u>13,566,480</u>	<u>1.20</u>
Outstanding, December 31, 2022	1,519,000	\$ 0.50	23,588,298	\$ 0.99
Expired	(104,000)	2.02	-	-
Granted/issued	<u>-</u>	<u>-</u>	<u>9,104,752</u>	<u>1.25</u>
Outstanding, September 30, 2023	1,415,000	\$ 0.39	32,693,050	\$ 1.06
Exercisable, September 30, 2023	<u>1,415,000</u>	<u>\$ 0.39</u>	<u>32,693,050</u>	<u>\$ 1.06</u>

The following incentive stock options and share purchase warrants were outstanding as at September 30, 2023:

	Number	Exercise price	Expiry date
<b>Stock options</b>			
	18,000	0.75	June 17, 2024
	100,000	0.62	December 7, 2024
	462,000	0.275	August 4, 2025
	<u>835,000</u>	<u>0.41</u>	<u>August 23, 2027</u>
	1,415,000		
<b>Share purchase warrants</b>			
	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
	4,365,096	1.25	November 3, 2027
	69,194	0.53	November 3, 2027
	4,390,000	1.25	November 15, 2027
	73,300	0.53	November 15, 2027
	1,200,000	0.72	November 22, 2025
	434,277	1.25	January 9, 2028
	8,685	0.53	January 9, 2028
	127,925	1.25	May 23, 2028
	1,159,981	1.25	July 14, 2028
	<u>7,373,884</u>	<u>1.25</u>	<u>August 11, 2028</u>
	32,693,050		

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**8. SHARE CAPITAL AND RESERVES (cont'd...)****Restricted share units**

	Number	Weighted average fair value per share at grant date
Outstanding, December 31, 2021 and 2022	-	\$ -
Granted	257,436	0.53
Outstanding, September 30, 2023	257,436	\$ 0.53
Vested, September 30, 2023	-	\$ -

The Restricted Share Units (“RSUs”) have time-based vesting conditions which mature on April 27, 2024.

**Share-based payments***Restricted Share Units*

As the performance conditions of the RSU granted were not market-related, the fair value per RSU used to calculate compensation expense for the RSU granted is determined to be \$0.53, equal to the market price on the date of grant.

**9. FINANCE EXPENSE**

<b>Finance expense</b>	Nine months ended September 30, 2023	Nine months ended September 30, 2022
Finance expense on deferred revenue (Note 6)	\$ 1,207,736	\$ -
Accretion expense on lease liabilities (Note 7)	2,159	-
	\$ 1,209,895	\$ -

**10. 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, 2023, the Company:

- a) Paid or accrued management and consulting fees of \$82,178 (2022 - \$79,001) to a consulting company partially owned by the Company’s Chief Financial Officer (“CFO”); and
- b) Paid or accrued management and consulting fees of \$185,642 (2022 – \$193,176) to the Chief Executive Officer of the Company and employment benefits of \$7,868 (2022 - \$21,759) to the CEO of the Company.

Included in accounts payable and accrued liabilities as of September 30, 2023 is \$53,848 (December 31, 2022 - \$218,516) due to current 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.

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#### 10. RELATED PARTY TRANSACTIONS AND BALANCES (cont'd...)

During the period ended September 30, 2023, the Company granted 257,436 RSUs to the CEO in settlement of a compensation bonus in the amount of US\$101,068 recorded as of December 31, 2022. The RSUs vest over the period of one year. Consequently, the Company recorded a recovery of \$137,573 for the amount previously recorded to accounts payable for management bonus compensation in the nine months ended September 30, 2023 and related party share-based compensation of \$58,315 related to the RSUs.

During the period ended September 30, 2023, the Company recorded share-based payments of \$nil (2022 - \$286,049) related to the fair value of stock options granted and vested to key management personnel.

#### 11. 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, 2023, the carrying value and fair values of the Company's financial instruments, with comparative figures for December 31, 2022 are shown in the table below:

	September 30, 2023		December 31, 2022	
	Fair Value	Carrying Value	Fair Value	Carrying Value
<b>Financial assets</b>				
Cash and cash equivalents	\$ 11,199,865	\$ 11,199,865	\$ 17,257,618	\$ 17,257,618
<b>Financial liabilities</b>				
Accounts payable	2,476,500	2,476,500	470,121	470,121
Land purchase liability	647,736	603,225	1,253,685	1,141,103

##### *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 cash equivalents and receivables. The Company limits exposure to credit risk on liquid financial assets through maintaining its cash with high-credit quality financial institutions.

##### *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, 2023, the Company had a cash and cash equivalents balance of \$11,199,865 (December 31, 2022 - \$17,257,618) to settle current liabilities of \$3,094,806 (December 31, 2022 - \$1,098,874). 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 4).

## **SOUTH STAR BATTERY METALS CORP.**

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#### **11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd...)**

##### *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 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, 2023, the Company held net financial instruments in Brazil of R\$7,205,814 (CAD\$1,894,862). A 10% movement in the foreign exchange rate would have impacted other comprehensive income by approximately \$189,486 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.

##### *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, 2023, the Company had deposits of \$4,073,802 (R\$15,104,940) in interest-bearing cash equivalents in Brazil. As at September 30, 2023, the Company did not have any interest-bearing debt.

##### *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.

#### **12. 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.

#### **13. SEGMENTED INFORMATION**

The Company operates in one segment, being mineral property exploration and development. As at September 30, 2023 and 2022, all of the Company's long-term assets are situated in Brazil.

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#### **14. SUBSEQUENT EVENT**

Subsequent to September 30, 2023, the Company announced the receipt of a US\$3.2 million grant (equaling approximately CA\$4.4 million) from the Department of Defense (“DoD”) under the Defense Production Act (“DPA”) Title III authorities utilizing funds appropriated by the Inflation Reduction Act, to advance a National Instrument 43-101 Feasibility Study (“FS”) for the BamaStar Graphite Project. The DoD will contribute funding to the BamaStar FS on a cost-share basis. As part of the agreement, the DoD will provide US\$3,179,999 and the Company will contribute US\$3,772,499 in matching funding on a cost-share basis over a period of 18 months, and after the successful delivery by the Company of a National Instrument 43-101 Preliminary Economic Assessment, which is scheduled for completion at the end of Q1 2024.