



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

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2024 AND 2023

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, 2024	December 31, 2023
ASSETS		
Current		
Cash and cash equivalents	\$ 3,226,442	\$ 6,451,034
Receivables	79,210	17,373
Prepaid expenses	126,714	95,986
Inventory (Note 4)	<u>458,527</u>	<u>-</u>
	3,890,893	6,564,393
Property, plant and equipment (Note 5)	23,212,253	18,922,553
Land (Note 5)	2,068,805	2,179,827
Non-current advances (Note 5)	<u>-</u>	<u>1,557,571</u>
	<u>\$ 29,171,951</u>	<u>\$ 29,224,344</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities (Note 11)	\$ 1,584,204	\$ 1,563,302
Land purchase liability (Note 5)	-	625,962
Lease liabilities	-	10,335
Deferred revenue (Note 7)	<u>1,433,713</u>	<u>585,363</u>
	3,017,917	2,784,962
Deferred revenue (Note 7)	<u>15,080,625</u>	<u>14,397,340</u>
	18,098,542	17,182,302
Shareholders' equity		
Share capital (Note 8)	46,579,948	39,657,239
Reserves	5,464,557	5,374,211
Accumulated other comprehensive income (loss)	(983,287)	1,151,466
Deficit	<u>(39,987,809)</u>	<u>(34,140,874)</u>
	<u>11,073,409</u>	<u>12,042,042</u>
	<u>\$ 29,171,951</u>	<u>\$ 29,224,344</u>

Nature of operations and going concern (Note 1)

Approved and authorized by the Board on November 29, 2024:

"Priscila Costa Lima"
Priscila Costa Lima

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, 2024	For the three months ended September 30, 2023	For the nine months ended September 30, 2024	For the nine months ended September 30, 2023
GENERAL EXPENSES				
Business development	\$ 71,406	\$ 25,000	\$ 101,406	\$ 72,317
Consulting and management fees (Note 10)	264,139	192,469	802,212	454,690
Depreciation (Note 5)	4,631	11,692	24,612	37,401
Exploration and evaluation expenditures (Note 6)	665,137	704,410	1,406,151	1,432,011
Foreign exchange	9,141	(137,503)	(163,976)	(90,330)
Information technology	67,195	20,670	131,274	60,789
Investor services	19,852	58,453	120,586	274,100
Office, rent, insurance	14,328	39,373	242,417	141,643
Professional fees	138,013	9,813	484,793	144,957
Share-based payments (Note 8)	61,462	34,391	226,787	58,315
Security and site operating costs	177,170	-	177,170	-
Transfer agent and filing fees	9,827	11,430	39,082	37,006
Travel, vehicle and transportation	71,136	110,354	269,553	180,237
Wages and support staff	359,045	180,079	949,062	429,899
Loss from operations	<u>(1,932,482)</u>	<u>(1,260,631)</u>	<u>(4,811,129)</u>	<u>(3,233,035)</u>
Finance expense (Note 9)	(413,225)	(406,349)	(1,225,966)	(1,209,895)
Gain on settlement of management bonus with equity (Note 10)	-	-	-	137,573
Interest income	46,959	150,278	190,160	619,535
	(366,266)	(256,071)	(1,035,806)	(452,787)
Net loss for the period	<u>(2,298,748)</u>	<u>(1,516,702)</u>	<u>(5,846,935)</u>	<u>(3,685,822)</u>
Other comprehensive income (loss)				
Items that may be reclassified to net loss				
Cumulative translation adjustment	385,021	(595,309)	(2,134,753)	711,658
Comprehensive loss for the period	<u>\$ (1,913,727)</u>	<u>\$ (2,112,011)</u>	<u>\$ (7,981,688)</u>	<u>\$ (2,974,164)</u>
Basic and diluted loss per share	<u>\$ (0.04)</u>	<u>\$ (0.04)</u>	<u>\$ (0.12)</u>	<u>\$ (0.11)</u>
Weighted average number of common shares outstanding				
– basic and diluted	52,640,227	38,308,488	50,391,917	34,198,106

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,

	2024	2023
CASH FROM OPERATING ACTIVITIES		
Net loss for the period	\$ (5,846,935)	\$ (3,685,822)
Items not affecting cash:		
Share-based payments	226,787	58,315
Depreciation	24,612	37,401
Finance expense	1,225,966	1,209,895
Settlement of management bonus with equity	-	(137,573)
Changes in non-cash working capital items:		
Receivables	(64,334)	(29,962)
Prepaid expenses	(33,388)	(89,021)
Inventory	(482,332)	-
Accounts payable and accrued liabilities	668,235	(14,257)
Net cash used in operating activities	<u>(4,281,389)</u>	<u>(2,651,024)</u>
CASH FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(6,357,817)	(6,876,641)
Purchase of land	(642,274)	(669,950)
Non-current advances, net	1,487,573	(901,291)
Net cash used in investing activities	<u>(5,512,518)</u>	<u>(8,447,882)</u>
CASH FROM FINANCING ACTIVITIES		
Proceeds on issuance of common shares	6,697,103	4,590,748
Share issuance costs	(228,835)	(96,176)
Exercise of warrants	318,000	-
Lease payments	(10,154)	(15,729)
Net cash provided by financing activities	<u>6,776,114</u>	<u>4,478,843</u>
Effects of foreign exchange on cash	(206,799)	562,310
Change in cash and cash equivalents during the period	(3,017,793)	(6,620,063)
Cash and cash equivalents, beginning of the period	<u>6,451,034</u>	<u>17,257,618</u>
Cash and cash equivalents, end of the period	<u>\$ 3,226,442</u>	<u>\$ 11,199,865</u>
Supplemental cash flow information:		
Depreciation capitalized to construction in progress	\$ -	\$ 5,554
Purchase of property, plant, and equipment in accounts payable	511,523	2,142,180
Shares issued as finders' fees	122,338	-
Restricted share units exercised	136,441	-
Finder warrants issued as share issuance costs	-	4,005

The Company did not pay any cash for income taxes during the periods ended September 30, 2024 and 2023.

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					
Balance at December 31, 2022	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)
Balance at September 30, 2023	41,851,345	\$ 39,657,239	\$ -	\$ 5,203,962	\$ 648,531	\$ (32,815,261)	\$ 12,694,471
Share-based payments	-	-	-	170,249	-	-	170,249
Cumulative translation adjustment	-	-	-	-	502,935	-	502,935
Net loss for the period	-	-	-	-	-	(1,325,613)	(1,325,613)
Balance at December 31, 2023	41,851,345	\$ 39,657,239	\$ -	\$ 5,374,211	\$ 1,151,466	\$ (34,140,874)	\$ 12,042,042
Common shares issued for private placements	9,301,532	6,697,103	-	-	-	-	6,697,103
Common shares issued for warrants	1,060,000	318,000	-	-	-	-	318,000
Restricted share units exercised	257,436	136,441	-	(136,441)	-	-	-
Share issuance costs, cash	-	(228,835)	-	-	-	-	(228,835)
Share issuance costs, non-cash	169,914	-	-	-	-	-	-
Share-based payments	-	-	-	226,787	-	-	226,787
Cumulative translation adjustment	-	-	-	-	(2,134,753)	-	(2,134,753)
Net loss for the period	-	-	-	-	-	(5,846,935)	(5,846,935)
Balance at September 30, 2024	52,640,227	\$ 46,579,948	\$ -	\$ 5,464,557	\$ (983,287)	\$ (39,987,809)	\$ 11,073,409

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, 2024, AND 2023

1. NATURE OF OPERATIONS AND GOING CONCERN

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 1500 – 1055 West Georgia Street, Vancouver, BC, V6E 4N7.

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 \$39,987,809 as at September 30, 2024 which has been primarily funded by the issuance of shares and a streaming agreement (Note 7). 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. Any such adjustments could be material.

2. BASIS OF PREPARATION

Statement of compliance

These condensed consolidated interim financial statements have been prepared using accounting policies consistent with IFRS Accounting Standards (“IFRS”) as issued by the International Accounting Standards Board.

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, 2023, and are prepared consistent with the accounting policies disclosed therein. Newly adopted policies are provided here:

Inventory

Inventory includes stockpiled graphite ore and materials and supplies. Cost of stockpiled graphite ore includes all direct costs incurred in production including direct labor and materials, contracted services, and related overhead costs. All inventories are valued at the lower of average cost or net realizable value, with net realizable value determined with reference to estimated sales prices, less estimated future production costs to convert inventories into graphite concentrate. If the carrying value exceeds the net realizable value, a write-down is recognized. The write-down may be reversed in a subsequent period if the circumstances which caused the write-down no longer exist.

Basis of Presentation

The condensed consolidated interim financial statements have been prepared on a historical cost basis except for certain financial assets measured at fair value. In addition, these condensed consolidated interim financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

The condensed consolidated interim financial statements of the Company are presented in Canadian dollars.

SOUTH STAR BATTERY METALS CORP.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2024, AND 2023

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

Reclassification

As at September 30, 2024, the Company's land asset (Note 5) was reclassified on the statement of financial position to a separate line item. Previously, the amount had been included with property, plant and equipment.

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	Functional currency
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

3. 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 nine months ended September 30, 2024. Actual results could differ from these estimates.

Significant assumptions about the future and other sources of estimation and judgment 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. Management reassesses at reporting periods the likelihood of taxable income in future periods in order to determine whether to recognize any deferred tax assets.

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 7), the Company has applied a borrowing rate to match the estimated rate of return to the purchaser of 12%.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2024, AND 2023

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (cont'd...)

Inventory valuation

Materials and supplies, and graphite ore stockpiles, are valued at the lower of cost and net realizable value. Estimates in the carrying values of inventories arise due to the nature of the Company's limited operating history, valuation of ore stockpiles based on an appropriate allocation of direct mining costs, direct labour and material costs, and mine site overhead, and estimated costs to prepare stockpiles for sale.

Property, plant and equipment

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.

Achievement of commercial production

Once a project reaches the operating levels and manner intended by management, depreciation of capitalized costs begins. Significant judgment is required to determine when certain assets of the Company's reach this level. Management considers several factors including consistent operating results are being achieved at a predetermined level of design capacity. The Company has not started commercial production as of September 30, 2024.

Deferred revenue

Management has applied judgment in the assessment that the Stream Agreement (Note 7) 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.

The Company projects its sales volumes and pricing in order to estimate the proportion of the deferred revenue liability held as a current liability, with estimated deliveries beyond one year held as a non-current liability.

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.

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.

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, 2024, AND 2023

4. INVENTORY

Inventory is comprised of consumables at the Santa Cruz Graphite Project including processing materials for the crushing circuit and fuel supplies.

As at	September 30, 2024	December 31, 2023
Graphite ore stockpile	\$ 316,490	\$ -
Materials and supplies	142,037	-
Balance, end of period	\$ 458,527	\$ -

SOUTH STAR BATTERY METALS CORP.

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5. PROPERTY, PLANT AND EQUIPMENT

	Office and computer equipment	Machinery and equipment	Leasehold improvements	Right-of-use asset	Construction in progress	Mine development	Total
Cost							
Balance, December 31, 2022	\$ 33,222	\$ 12,785	\$ 22,553	\$ 34,412	\$ 159,187	\$ 5,772,542	\$ 6,034,701
Additions	154,143	117,232	-	-	12,419,587	144,309	12,835,271
Projects completed	-	5,735,231	-	-	(5,735,231)	-	-
Disposals	(1,277)	(7,264)	-	-	-	-	(8,541)
Foreign exchange	3,380	48,719	1,444	2,202	64,967	3,527	124,239
Balance, December 31, 2023	\$ 189,468	\$ 5,906,703	\$ 23,997	\$ 36,614	\$ 6,908,510	\$ 5,920,378	\$ 18,985,670
Additions	26,877	438	-	-	5,539,049	247,866	5,814,230
Lease maturity	-	-	(22,918)	(34,969)	-	-	(57,887)
Foreign exchange	(18,772)	(543,890)	(1,079)	(1,645)	(909,483)	(29,218)	(1,504,087)
Balance, September 30, 2024	\$ 197,573	\$ 5,363,251	\$ -	\$ -	\$ 11,538,076	\$ 6,139,026	\$ 23,237,926
Accumulated Depreciation							
Balance, December 31, 2022	\$ 3,061	\$ 11,409	\$ 2,374	\$ 10,037	\$ -	\$ -	\$ 26,881
Additions	5,984	2,806	15,033	18,158	-	-	41,981
Disposals	(1,174)	(6,571)	-	-	-	-	(7,745)
Foreign exchange	235	699	275	791	-	-	2,000
Balance, December 31, 2023	\$ 8,106	\$ 8,343	\$ 17,682	\$ 28,986	\$ -	\$ -	\$ 63,117
Additions	8,908	2,388	6,031	7,285	-	-	24,612
Lease maturity	-	-	(22,918)	(34,969)	-	-	(57,887)
Foreign exchange	(1,185)	(887)	(795)	(1,302)	-	-	(4,169)
Balance, September 30, 2024	\$ 15,829	\$ 9,844	\$ -	\$ -	\$ -	\$ -	\$ 25,673
Net Book Value							
December 31, 2023	\$ 181,362	\$ 5,898,360	\$ 6,315	\$ 7,628	\$ 6,908,510	\$ 5,920,378	\$ 18,922,553
September 30, 2024	\$ 181,744	\$ 5,353,407	\$ -	\$ -	\$ 11,538,076	\$ 6,139,026	\$ 23,212,253

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, 2024 AND 2023

5. PROPERTY, PLANT 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. During the nine months ended September 30, 2024, the Company made the final payment to acquire the title of the land. The timing of payments has been estimated relative to estimated timing of delivery by the sellers. As at September 30, 2024, the land had a value of \$2,068,805 (December 31, 2023 - \$2,179,827).

	September 30, 2024	December 31, 2023
Land purchase liability		
Balance, beginning of period	\$ 625,962	\$ 1,141,103
Borrowing costs	28,194	90,310
Payments	(642,274)	(673,714)
Foreign exchange	(11,882)	68,263
Balance, end of period	\$ -	\$ 625,962

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

Non-current advances

As at September 30, 2024, the Company had advanced deposits of \$nil (December 31, 2023 - \$1,557,571) toward the purchase of machinery and development assets for the Santa Cruz Graphite Project.

6. 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) (completed) to earn a 75% in the BamaStar Graphite Project.

During the year ended December 31, 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.

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, 2024 AND 2023

6. EXPLORATION AND EVALUATION ASSETS (cont'd...)

Exploration and evaluation expenditures

Exploration and evaluation expenditures incurred on the Bama Star Graphite Project during the periods ended September 30, 2024 and 2023 were as follows:

	2024	2023
Drilling and assay	\$ 2,590	\$ 901,184
Field office expenses	35,331	146,303
Geological and technical reporting	1,095,400	289,868
Material testing	95,983	-
Project management	-	86,119
Property costs	176,847	8,537
Expenses incurred during the period	\$ 1,406,151	\$ 1,432,011

7. 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.

The Company’s (and its affiliates’) obligations under 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 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 and term of 3 years.

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.

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7. STREAM AGREEMENT (cont'd...)

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.

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 tonnes 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 deferred revenue:

Deferred revenue	September 30, 2024	December 31, 2023
Balance, beginning of period	\$ 14,982,703	\$ 13,717,660
Financing cost	1,225,683	1,619,602
Foreign exchange	<u>305,952</u>	<u>(354,559)</u>
Balance, end of period	<u>\$ 16,514,338</u>	<u>\$ 14,982,703</u>
Current, estimated deliverable within 12 months	1,433,713	585,363
Non-current	<u>15,080,625</u>	<u>14,397,340</u>

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8. SHARE CAPITAL AND RESERVES

Authorized share capital

As at September 30, 2024, 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.

Share issuances

During the period ended September 30, 2024, the Company:

- a) Closed a non-brokered private placement of 9,301,532 common shares at a price of \$0.72 per common share for gross proceeds of \$6,697,103. The Company paid \$190,421 in cash and issued 169,914 common shares as finder's fees. The Company incurred \$38,414 in other share issuance costs.
- b) Issued 1,060,000 common shares from the exercise of warrants for gross proceeds of \$318,000.

During the year ended December 31, 2023, the Company:

- a) 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%.
- b) Issued 127,925 Units at \$0.53 per Unit for gross proceeds of \$67,800.
- c) Issued 8,533,865 Units at \$0.53 per Unit for gross proceeds of \$4,522,948. The warrants were allocated a residual value of \$296,033. The Company paid cash finder's fees of \$27,825.

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.

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

Stock options and share purchase warrants

Stock option and share purchase warrant transactions are summarized as follows:

	Stock options		Warrants	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding, December 31, 2022	1,519,000	\$ 0.50	23,588,298	\$ 0.99
Expired	(104,000)	2.02	-	-
Granted/issued	<u>208,000</u>	<u>0.74</u>	<u>9,104,752</u>	<u>1.25</u>
Outstanding, December 31, 2023	1,623,000	\$ 0.43	32,693,050	\$ 1.06
Expired	(18,000)	0.75	(4,489,018)	0.75
Exercised	<u>-</u>	<u>-</u>	<u>(1,060,000)</u>	<u>0.30</u>
Outstanding, September 30, 2024	1,605,000	\$ 0.43	27,144,032	\$ 1.14
Exercisable, September 30, 2024	1,605,000	\$ 0.43	27,144,032	\$ 1.14

The following incentive stock options and share purchase warrants were outstanding as at September 30, 2024:

	Number	Exercise price	Expiry date
Stock options			
	100,000	\$ 0.62	December 7, 2024
	462,000	0.275	August 4, 2025
	835,000	0.41	August 23, 2027
	<u>208,000</u>	<u>0.74</u>	<u>December 21, 2028</u>
	1,605,000		
Share purchase warrants			
	4,472,800	\$ 0.75	October 25, 2024 ⁽¹⁾
	1,200,000	0.72	November 22, 2025
	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
	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>
	27,144,032		

(1) Expired unexercised subsequent to the September 30, 2024 period end.

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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, 2022	-	\$ -
Granted	<u>591,471</u>	<u>0.64</u>
Outstanding, December 31, 2023	591,471	\$ 0.64
Exercised	<u>(257,436)</u>	<u>0.53</u>
Outstanding, September 30, 2024	334,035	\$ 0.73
Vested, September 30, 2024	-	\$ -

The Restricted Share Units (“RSUs”) have time-based vesting conditions as follows:

	Number	Grant date price	Vesting date
Restricted Share Units	334,035	\$ 0.73	January 5, 2025

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 equal to the market price on the date of grant. The value is then expensed over the vesting term. During the period ended September 30, 2024, the Company recognized share-based payments expense of \$226,787 (2023 - \$58,315) with respect to RSUs.

9. FINANCE EXPENSE

Finance expense	2024	2023
Finance expense on deferred revenue (Note 7)	\$ 1,225,683	\$ 1,207,736
Accretion expense on lease liabilities	<u>283</u>	<u>2,159</u>
	<u>\$ 1,225,966</u>	<u>\$ 1,209,895</u>

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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, 2024, the Company:

- a) Paid or accrued management and consulting fees of \$90,448 (2023 - \$82,178) to a consulting company partially owned by the Company's Chief Financial Officer ("CFO"); and
- b) Paid or accrued management and consulting fees of \$214,074 (2023 - \$185,642) to the Chief Executive Officer ("CEO") of the Company and employment benefits of \$12,347 (2023 - \$7,868) to the CEO of the Company; and
- c) Paid or accrued management and consulting fees of \$107,977 (2023 - \$nil) to a consulting company owned by the Vice President of Operations of the Company.

Included in accounts payable and accrued liabilities as of September 30, 2024, is \$98,117 (December 31, 2023 - \$126,915) 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.

During the year ended December 31, 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 and has been exercised during the nine months period ended September 30, 2024. Consequently, the Company recorded a recovery of \$nil (2023 - \$137,573) during the period ended September 30, 2024, for the amount previously recorded to accounts payable for management bonus compensation in the year ended December 31, 2023.

During the period ended September 30, 2024, the Company recorded share-based payments expense of \$226,787 (2023 - \$58,315) for RSUs issued 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, 2024, the carrying value and fair values of the Company's financial instruments, with comparative figures for December 31, 2023 are shown in the table below:

	September 30, 2024		December 31, 2023	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Financial assets				
Cash and cash equivalents	\$ 3,226,442	\$ 3,226,442	\$ 6,451,034	\$ 6,451,034
Financial liabilities				
Accounts payable	1,584,204	1,584,204	1,563,302	1,563,302
Land purchase liability	-	-	654,701	625,962

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

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. 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, 2024, the Company had a cash and cash equivalents balance of \$3,226,442 (December 31, 2023 - \$6,451,034) to settle current liabilities of \$3,017,917 (December 31, 2023 - \$2,784,962). 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. Deferred revenue included in short-term liabilities is an estimate of value for graphite deliveries under the Stream Agreement for the next twelve months (Note 7).

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, 2024, the Company held net financial instruments liabilities in Brazil of R\$39,344 (CAD\$9,700). A 10% movement in the foreign exchange rate would have impacted other comprehensive loss by approximately \$970 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, 2024, the Company had deposits of \$781,581 (R\$3,157,903) in interest-bearing cash equivalents in Brazil. As at September 30, 2024, 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.

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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. The Company has not changed its approach to capital management in the period ended September 30, 2024.

13. SEGMENTED INFORMATION

The Company operates in one segment, being mineral property exploration and development. As at September 30, 2024 and December 31, 2023, all of the Company's long-term assets are situated in Brazil.