

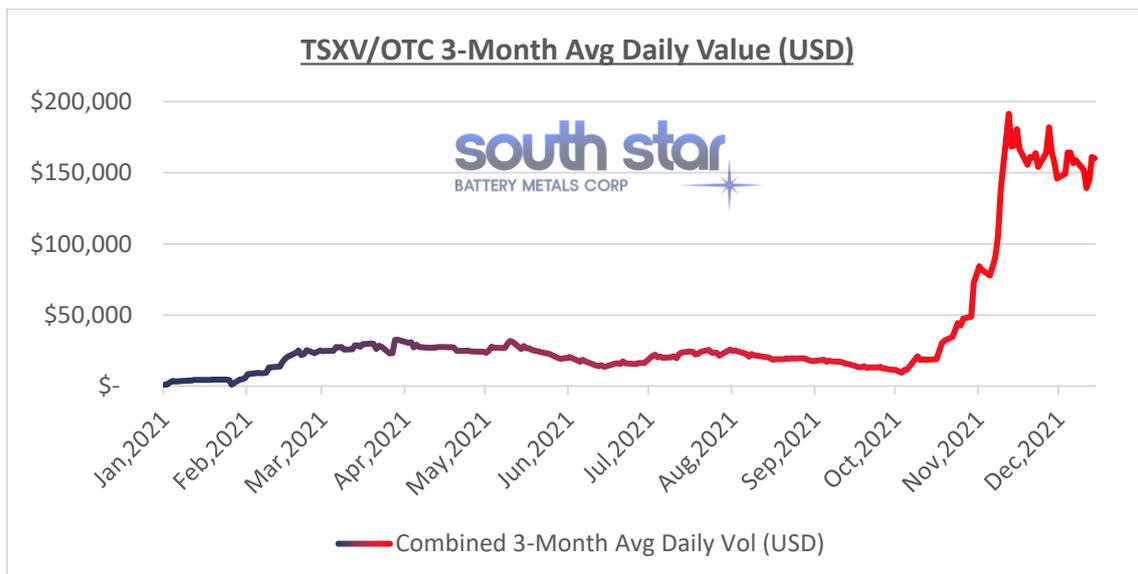
January 15, 2021

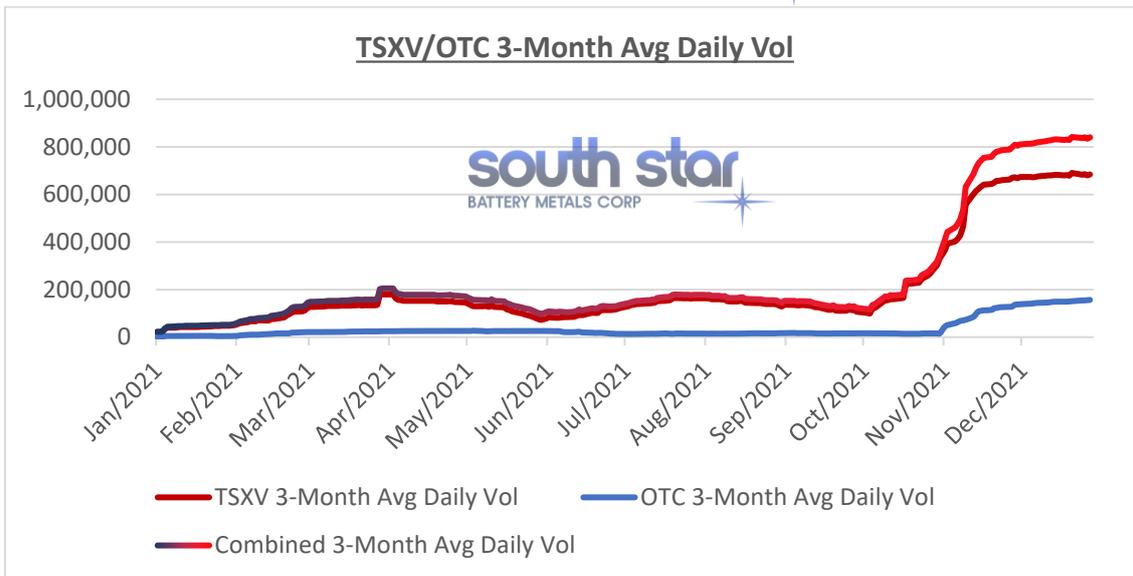
Dear Reader,

Happy 2022 to everyone! In character with the season, I was reflecting on 2021 over the holidays and wanted to put together a brief summary of all we achieved in 2021, as well as some items where we could have delivered better value. I will also outline the main goals and objectives for our 2022 plans, and mention briefly some of our long-term strategic objectives. Generally, I am very pleased with what we accomplished and more convinced than ever that South Star is on the verge of a transformational 18 to 24 months that will set the growth potential and future of the company for the next decade. Exciting times as we become the first new graphite production in the Americas in more than a decade.

SHARE STRUCTURE, STOCK PERFORMANCE AND SHARE LIQUIDITY

- Shareholders have done very well with STS.V/STSBF in 2021. We started the year at C\$0.05 and finished the year at C\$0.33 or a **560% share price return over the 12-months**. We keep track of about 50 companies in the graphite sector, and by my count we were second best performing company in the sector in 2021.
- Share liquidity for a Company our size is excellent. Liquidity for a combined STS.V/STSBF has steadily increased from a January 2021 daily average of approximately 45,000 shares traded with a daily value of approximately USD3,500 to a **December 2021 daily average of 825,000 shares traded with a daily value of approximately USD171,000**. Our daily maximum combined STS.V/STSBF traded daily volume was 6.85M shares. Another strong improvement is that **US buying has increased from basically 0 in January 2021 to account for approximately 20-25% of the daily traded value** by EOY and all indications are that this trend is continuing.





- **STS.V market capitalization has grown 1467% from CAD\$2.15M at the close of 2020 to CAD\$33.7M at the close of 2021** for the 12-months. Insiders EOY 2021 own 15% of the shares outstanding and are well aligned with shareholder's interests.

STS Cap Table		December 31, December 31,	
EOY 2020 vs EOY 2021		2020	2021
Common Shares Outstanding:		42,905,430	102,088,520
Stock Options Outstanding			
\$	0.30	900,000	900,000
\$	0.45	600,000	500,000
\$	0.15	90,000	90,000
\$	0.06	2,660,000	2,485,000
\$	0.25	-	120,000
Warrants Outstanding			
\$	0.15	4,099,000	
\$	0.15		13,155,000
\$	0.15		9,435,091
\$	0.06		5,600,000
\$	0.15		22,069,999
\$	0.15		294,000
Fully Diluted Shares:		51,254,430	156,737,610
Share Price (CAD):		\$ 0.05	\$ 0.33
Market Cap (CAD):		\$ 2,145,272	\$ 33,689,212

- **CAD\$4.93M was successfully raised in equity** in 2021 in 2 private placements.



BALANCE SHEET & EXPENSES

2021 was also a strong financial year where we were able to significantly improve our balance sheet and working capital with two successful private placements giving us good runway to advance Santa Cruz, complete the Alabama graphite deal and negotiate the best possible CAPEX financing terms for Santa Cruz Phase 1 CAPEX.

I subscribe to the Warren Buffett philosophy that stock prices reflect an expectation of future cash flows, and I've always loved his expression, "in the short run the market is a voting machine, but in the long run it is a weighing machine." Another of my favorite quotes of his "**Price is what you pay. Value is what you get.**" This is certainly true in the graphite sector, but most certainly for STS. There is lots of fluff out there with projects that will never be built in the current market conditions. In our case, we continue to strive to get into cash flow as quickly as possible and ultimately generate sustainable, long-term value for clients, stakeholders and shareholders. While we have had a great year by all measures, we continue to be extremely undervalued compared to our peer group. Mr. Market will weigh us correctly in the very near future. I am confident in adopting our slogan front and center on our home page - "Real fundamental value in one of the premier battery metals jurisdictions in the world."

We have a spectacular, scalable asset base. We are set up to get into cashflow at Santa Cruz in the very near future. We will scale Santa Cruz shortly thereafter with very reasonable cost of capital based on a phased, disciplined approach. Alabama provides us with the next potential project in the pipeline in a very important strategic jurisdiction. We are working hard to set ourselves up to deliver very real, long-term, sustainable returns for shareholders and partners based on results. Safety records, environmental compliance, cash flows, P&Ls and balance sheets will be our scorecard, and not just what a spreadsheet model predicts. STS wants to build plants/mines and scale operations. We are in the right sector at the right time with the right team!

We are still working through getting our 2021 financials closed but based on initial unaudited results, **things have drastically improved in 2021 compared to 2020 EOY**. At the end of 2020, on the positive side we had current assets of CAD83,104, including CAD74,417 in cash in the bank. On the debit side we had CAD716,940 in payables and debentures. We closed 2020 with a working capital deficit of CAD634,000.

On the back of 2 successful private placements, **STS will close 2021 with Current Assets around CAD3.5M including CAD3.4M in the bank**. On the debit side, the debenture was converted to shares, and STS has no debt. Current Liabilities are around CAD75,000. **STS will close 2021 with a working capital surplus of CAD3.4M, which is a positive WC swing of CAD4.0M compared to 2020.**

Expenses in 2020 totaled CAD733,722 or an average monthly burn of CAD61,143. **For 2021 we spent a total of CAD2.1M in Canada and Brazil or an average monthly burn of CAD168,000. When you back project development costs out, our current monthly burn**

rate is approximately CAD120,000. We are a pretty tight ship and not extravagant spenders by any yardstick. Our two heaviest spending areas were into advancing Santa Cruz and investor relations. We have been working hard on IR, business development and generally raising the profile of the Company. So far so good with reasonable ROI. A friend once told me this phrase about IR spend, and it always crosses my mind when we discuss and approve IR budgets – “I know I waste half my IR budget, I just don’t know which half.” Share price and trading volumes are the ultimate yard sticks for IR budgets, but I am still waiting for a super-genius to show me a really good KPI for how clicks and impressions turn into long-term shareholders buying shares!

We also advanced the Phase 1 engineering to final design levels for construction and have staffed up our owner’s team in preparation for Phase 1 construction. In addition, we have completed a wide range of advanced tests on our Santa Cruz concentrate for a diversified range of value-add applications. We have reported excellent results of this program throughout 2021 and are having very productive conversations based on those results. Santa Cruz ore is very clean, easy to concentrate, and we have produced purified micronized graphite (99.9993 %Cg) capable of supplying a variety of industrial and energy transition markets including expandable graphite, conductivity enhancement materials, LiB battery grade active anode materials, dispersions, and powders, amongst others.

MARKET SUPPLY/DEMAND & GRAPHITE PRICING

I won’t spend too much time on the supply / demand curve, just because I think that is well documented everywhere and clear to most people that there is a significant imbalance between supply and demand over the next decade. **In short there is a CAGR of around 25% expected in graphite markets over the next decade, and by my simple math 10-15 new average size mines must come online by 2025 and then double again by 2030.** Great time to have a fully licensed, scalable, construction ready project with very high-quality material in a proven producing district.

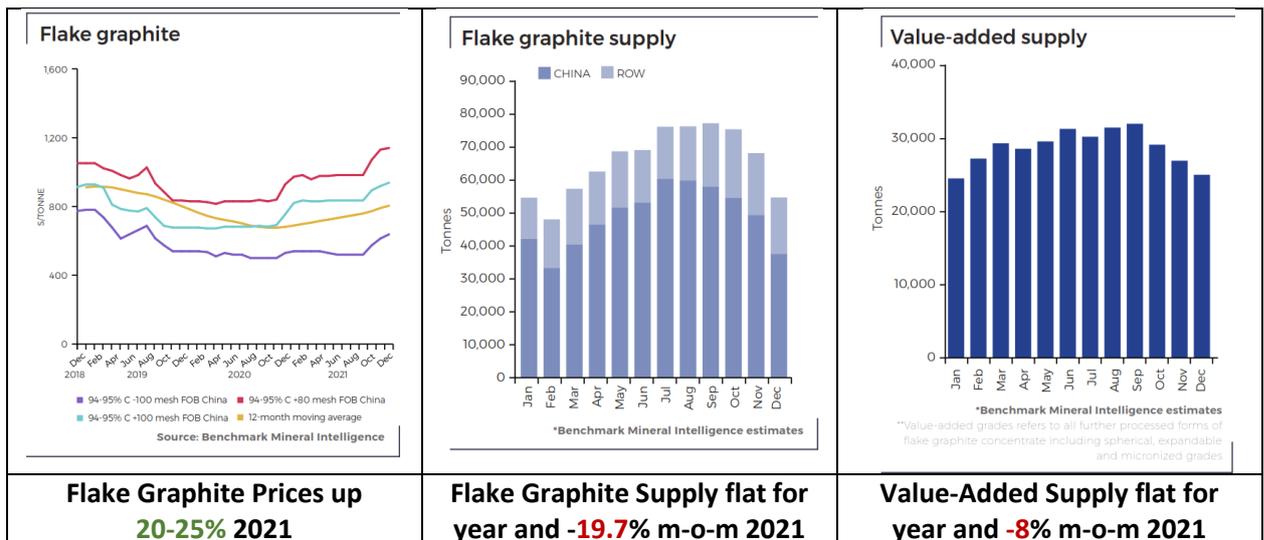
More interesting are the current pricing dynamics, where I believe we are at an inflection point. 2021 was the first time in a long time where significant pricing pressure was experienced month over month for 6 continuous months in natural flake graphite. I think there are a couple reasons for this, but in short, **all indications are that there isn’t any more additional excess production capacity in China to take up the slack and current inventory levels are low.** Also, with LiB space heating up, demand is starting to put increased pressure on prices across the board. **While logistics costs have contained prices to a certain extent and suppliers have been unwilling or unable to pass the additional cost along to clients, that appears to be shifting as well.** I also think logistics will improve in 2022, and while I’m not sure I’d use the term “normalize”, I think freight costs will naturally drop as the global supply chain improves as we move towards EOY 2022. I’m not thinking there will be a price explosion similar to lithium pricing (250-450% to approximately USD32,000/tonne - CIF China) in the graphite space, but all indications are that supply is very limited, significant new production is still years away,

and graphite pricing across the board will increase significantly in near to mid-term. It wouldn't surprise me if we experienced 80-100% price increase in next 12-18 months as supply chain tightens.

FLAKE GRAPHITE	CURRENT	LAST	CHANGE
-100 MESH, 90-93% C, FOB CHINA	\$520	\$500	4.0%
+100 MESH, 90-93% C, FOB CHINA	\$860	\$850	1.2%
-100 MESH, 94-95% C, FOB CHINA	\$650	\$625	4.0%
+100 MESH, 94-95% C, FOB CHINA	\$955	\$935	2.1%
+80 MESH, 94-95% C, FOB CHINA	\$1,160	\$1,150	0.9%
+50 MESH, 94-95% C, FOB CHINA	\$1,485	\$1,485	0.0%
-100 MESH, 94-95% C, DDP CHINA	RMB 4,650	RMB 4,500	3.3%
+100 MESH, 94-95% C, DDP CHINA	RMB 5,950	RMB 5,950	0.0%
VALUE-ADDED PRODUCTS	CURRENT	LAST	CHANGE
USPG 10 um, 99.95% C, FOB CHINA	\$3,275	\$3,275	0.0%
USPG 15 um, 99.95% C, FOB CHINA	\$2,800	\$2,800	0.0%
USPG 25 um 99.95% C, FOB CHINA	\$2,650	\$2,650	0.0%

BENCHMARK	1M	Y-O-Y	YTD	TODAY	LAST
FLAKE, 94-95%, -100 MESH	4.0%	20.4%	0.0%	\$650	\$625
BENCHMARK	1M	Y-O-Y	YTD	TODAY	LAST
FLAKE, 94-95%, +100 MESH	2.1%	24.4%	0.0%	\$955	\$935
BENCHMARK	1M	Y-O-Y	YTD	TODAY	LAST
FLAKE, 94-95%, +80 MESH	0.9%	22.8%	0.0%	\$1,160	\$1,150

Benchmark Pricing Tables December 2021





2022 CATALYST EVENTS

Santa Cruz Project

Santa Cruz Phase 1 (5,000 tpy concentrates) is fully permitted and construction ready pending CAPEX financing. We have a 12-month construction and commissioning schedule and very modest CAPEX of USD8M and first quartile OPEX. We have researched extensively and found that successful (meaning profitable) operating graphite companies have a broad portfolio of industrial and value-add products and diversified mix of clients. Santa Cruz is a world-class large flake deposit, and we should get excellent pricing for the medium and large flake fractions of our concentrates. **We have proven with our on-going testing programs that our purified graphite products made from the fines portion of our production meet or exceed a broad range of applications, including lithium-ion battery production. However, this will not be our only focus. There are many markets that have short qualification periods and excellent margins for our final products.** We are looking to consistently deliver high-quality products that deliver superior performance and value for our clients and margin for our shareholders.

- CAPEX Phase 1 Financing
- Phase 1 Start of Construction
- Phase 1 Commissioning & Start of Commercial Production
- Exploration and Resource/Reserves Expansion
- Value-add product optimizations
- Value Add Process Trade off study with conceptual level CAPEX/OPEX
- Environmental Permitting and Mining License for Phase 2 (25,000 tpy concentrate) and Phase 3 (50,000 tpy concentrate)
- Commercial Agreements

Alabama Graphite Project

We are very excited about the potential of this project in an important growth jurisdiction and leveraging our technical expertise and commercial relationships to spin this project up quickly. We are putting together our 2022 work program for Board approval, but I am preparing a program that includes the following items:

- Exploration & Drilling Program
- Maiden Resource Definition
- Preliminary Environmental Characterization
- Metallurgical testing program to create about approximately 15kg of concentrate and initial value -add testing program.

2021 MAJOR NEWS FLOW

January 2021

[South Star Mining Announces Approval of the Mining License for the Santa Cruz Graphite Project](#)

February 2021

[South Star Mining Closes Non-Brokered Private Placement Financing](#) - Non-brokered private placement of Units for an aggregate gross proceeds of C\$1,505,500. Each C\$0.10 unit consisted of 1 common share and common share purchase warrant at an exercise price of C\$0.15 per common share.

[South Star Mining Closes Secondary Non-Brokered Private Placement Financing](#) - Non-brokered private placement of Units for an aggregate gross proceeds of C\$1,000,120. Each C\$0.105 unit consisted of 1 common share and common share purchase warrant at an exercise price of C\$0.15 per common share.

March 2021

[South Star Mining Announces Advanced Graphite Battery Metals and Technology Testing Program](#)

April 2021

[Positive Initial Results from Advanced Graphite Battery Metals and Technology Testing Program](#) - Positive outcomes in the first three phases of testing confirm the suitability of the flake graphite from the Santa Cruz Project for expandability, fire retardant, gaskets & seals, specialty paints & coatings and other value-added applications.

May 2021

[South Star Mining Corp. Announces an Offtake Agreement](#) - Memorandum of Understanding for 4,000 tonnes of natural flake graphite for a period of four years for the Santa Cruz Graphite Project with European industrial partner.

[South Star Mining Corp. Announces an Additional Five-Year Offtake Agreement and Conversion of Convertible Debt](#) - Memorandum of Understanding for 20,000 tonnes of natural flake graphite for a period of five years for the Santa Cruz Graphite Project with US industrial partner in high-quality graphite including coated spherical purified graphite (CSPG).

[Positive Purification Results from Its Advanced Graphite Battery Metals and Technology Testing Program](#) - Flake graphite concentrate from the Santa Cruz Graphite Project with an average carbon content of 95.3 wt% and moisture level of 0.075 wt%, was upgraded to 99.9993 wt% C using a thermal process, which are excellent results suitable for a broad range of LiB and value-add applications. In addition, the results indicate extremely pure graphitic carbon with high-yields, low-levels of contaminants and ease of upgrading.



[South Star Mining Name Change to South Star Battery Metals Corp. to Highlight Evolution in Growth Strategy](#)

June 2021

[South Star Battery Metals Announces Positive Production of Battery Grade Coated Spherical Purified Graphite](#) - South Star has successfully produced uncoated and coated spherical purified graphite ("SPG") suitable for use as anode active material for lithium-ion batteries.

August 2021

[South Star Battery Metals Announces Successful Production of LiB Battery-Grade Anode Materials and Positive Initial Cycle Testing Results for the Santa Cruz Graphite Project](#) - South Star has announced successful initial life cycle testing results for the first 35 cycles (charging & discharging) in CR2016 LiB coin cells constructed with anode material (coated spherical purified graphite) produced from the Santa Cruz Graphite Project. Several battery cells were constructed as part of the ongoing optimization and testing program, and all the cells have an extremely flat discharge pattern without noticeable degradation over the initial testing period.

September 2021

[South Star Battery Metals Announces Successful Results from Ongoing Cycle and Value-Add Testing Program; Strengthening of Senior Management Team and Board Changes](#) - South Star announced the successful initial life cycle testing results for the first 75 cycles (charging & discharging) in CR2016 LiB coin cells constructed with anode material (coated spherical purified graphite) produced from the Santa Cruz Graphite Project. In addition, South Star has successfully completed 4-Point resistivity testing (4T) for use in Electrolytic Manganese Dioxide (EMD) for evaluating conductivity enhancement material used in cathodes of primary alkaline batteries.

October 2021

[South Star Battery Metals Closes Non-Brokered Private Placement](#) - Non-brokered private placement of Units for an aggregate gross proceeds of C\$2,427,700. Each C\$0.11 unit consisted of 1 common share and common share purchase warrant at an exercise price of C\$0.15 per common share.

November 2021

[Successful LiB Results from Completed Cycle Testing and Premium Dispersion Products for Alkaline Battery Markets Superior to Leading Synthetic Graphites](#) - South Star announced the successful final life cycle testing results for over 100 cycles (charging and discharging) in CR2016 LiB coin cells constructed with anode material (coated spherical purified graphite – "SPG") produced from the Santa Cruz Graphite Project. In separate test work, a highly conductive dispersion was also tested that exceeds current industry standards for conductive coating applications in both energy storage and advanced purity dry film lubrication markets.

December 2021

[Final Agreement for Graphite Project in Coosa County, Alabama](#) - South Star announced that it has entered into a binding Earn-in and Option Agreement ("Agreement") for the Ceylon Graphite Project ("Project") in Alabama with Hexagon Energy Materials Limited



("Hexagon") (ASX: HXG) and U.S. Critical Minerals LLC ("USCM"), a privately-held exploration company incorporated in the United States.

CONCLUSIONS

It was a very exciting 2021 for STS, but there are a couple areas that I would have liked to have delivered more value. **First, I would have liked to have our Phase 1 CAPEX financing wrapped up by the end of 2021 and be sticking shovels in the ground in January of 2022.** I'll briefly give you my two cents on financing battery metals projects generally and graphite projects specifically, based on my experience over previous 18 months. It's not a straightforward exercise! **There is very, very, very little traditional project debt financing for graphite projects** because banks and credit funds haven't been able to spin up enough technical expertise or get a comfort level around the key factors and commercial arrangements that ensure successful operations. Pricing is opaque and commercial arrangements are confidential. Technical specifications vary and every client has different requirements. It's a lot of chemistry, physics and math, so not everyone's cup of tea! A few projects have gotten some country specific development bank financing, but it's generally the exception and not the rule. In our case, the Brazilian development banks we talked with were keen to do a deal (and still are) but required 100% hard guarantees or a letter of credit from a Tier 1 bank for the financed amount. Commercial loan terms were amazing, but in practicable terms, it made it next to impossible to advance with negotiations because of the security requirements. But the effort is by no means lost, and we will return to speak with them in near future for Phase 2 and 3 CAPEX financing. Once we have cashflow, clients, operational results and a robust balance sheet, we should have a lot of options with very reasonable cost of capital.

On the equity financing side, again there has been very, very, very little (did I mention very little?) institutional money flowing into graphite project financing and most of the deals I have seen were largely (90%+) retail investors. I think this is mostly for many of the same reasons as the banks. There are a couple deals that I am aware of, but again the exception and not the rule. Lithium projects, mainly because of the explosion in lithium pricing has seen market capitalizations explode and generally have better multiples compared to graphite companies, but I think we are starting to see that change. Retail is in the driving seat for now!

There are a few streaming and royalty deals here and there that are being announced, but it is more limited capital and hard to see how larger, capital-intensive projects will be financed in the current environment. But these funds are working to step into the financing void, and I think more deals will be announced in 2022. **Traders, manufacturing companies, OEMS haven't shown any appetite for making direct investments to ensure supply chain.** As recent deals make clear, **they may be willing to sign some take or pay offtake agreements with prepayments, but again it is more limited capital.** Time will tell how this alternative plays out over next 18-36 months as all these new giga factories and EV plants come online and listed companies that have promised Tesla like returns start missing earnings because of supply chain issues. STS will be well positioned with our material qualified for a variety of applications by that time. Financing large amounts for Projects (non-producing, unproven assets) in this market is tough for graphite companies. Currently, it will take divine intervention if you have to find financing for a +USD150M CAPEX, and you don't have "Lithium" somewhere in your name! I don't even think you even need to have a lithium project, but if you put it in your name it helps the IR folks!



Having said all that, **STS is advancing well and should be able to start construction shortly. However, I think the current financing environment again reinforces the benefits of our phased approach to production.** Our Phase 1 pilot plant CAPEX is something that is relatively modest and financeable in the current markets. The commercial production volumes from Phase 1 will allow us to get large volumes of various products into the market and negotiate long-term offtake agreements. It will also allow us to get our material qualified for various value-add markets. Then we will size and finance Phase 2 & 3 production plants based on clear commercial conditions with a reasonable number of quarters of P&L and a solid balance sheet. I want to make it easy for banks to understand our operations and provide us with competitive cost of capital for traditional project debt financing.

Second, I would have liked to have gotten a take or pay offtake agreement signed in 2021, but again, until you have a clear path to production and a schedule for commercial volumes, it is understandably difficult to get too far. Again, STS is advancing well with conversations and have concentrate samples at various clients being evaluated. We are also preparing a variety of value-add samples for different applications in Q1 of 2022 so we can advance with more substantive conversations about hard agreements for value-add products.

My future vision for the Company includes a group of operating assets in various stable jurisdictions focused on delivering value to our clients with a diversified range of high-quality products in the battery metals and industrial sectors. Management and board are very focused on risk management and intelligent capital allocation, meaning if investments add good ROI/ROA and lead to increased cash flows and/or better margins, then it's a good investment. With construction and operations coming online soon, we will also be very focused on health & safety, social integration into the communities in which we operate and being a positive environmental steward for future generations.

In closing, I'll again quote Warren Buffett from his 1983 Annual Letter to Shareholders: "Although our form is corporate, our attitude is partnership." I believe the same and am convinced it serves management, shareholders clients, and stakeholders equally well. In general, STS 2021 results have been some of the best in the sector, but we are just getting started. I'm looking forward to the exciting times ahead and working with our great group of talented collaborators and partners in 2022. As always, I'd like to thank everyone for their continued support during the 2022 chapter of our journey together. Should be fun!

Kind Regards,

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