(the "Company")

FORM 51-102F1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

Introduction

This Management's Discussion and Analysis ("MD&A") of South Star Battery Metals Corp. is the responsibility of management and covers the year ended December 31, 2021. The MD&A takes into account information available up to and including April 22, 2022 and should be read together with the consolidated financial statements for the years ended December 31, 2021 and 2020, which are available on the SEDAR website at www.sedar.com. All financial information in this document is prepared in accordance with International Financial Reporting Standards ("IFRS") and is presented in Canadian dollars unless otherwise indicated.

Throughout this document the terms *we, us, our, the Company* and *South Star* refer to South Star Battery Metals Corp. On May 26, 2021, the Company changed its corporate name from South Star Mining Corp. to South Star Battery Metals Corp.

Additional information related to the Company, including its Annual Information Form, is available for view on SEDAR (www.sedar.com).

This document contains forward-looking statements. Please refer to "Note Regarding Forward-Looking Statements."

The Company trades on the TSX Venture Exchange ("TSXV") under the symbol STS and on the OTCQB under the symbol STSBF.

Description of Business

The Company's is a Canadian battery metals project developer focused on the selective acquisition and development of near-term production projects in the Americas. The Company's primary focus is the Santa Cruz Graphite Project in Southern Bahia, Brazil. In the year ended December 31, 2021, the Company acquired an option on the Ceylon Graphite Project in Alabama, USA.

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to penetrate communities world-wide, and any related adverse public health developments, has affected workforces, and has added volatility to economies and financial markets globally. The Company continues to monitor the situation and is taking all necessary precautions in order to follow rules and best practices as set out by the federal and provincial governments.
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Business Highlights

Stream Agreement on the Santa Cruz Graphite Project

On April 5, 2022, the Company announced that it entered into a binding streaming agreement (the "Agreement") with Sprott Resource Streaming and Royalty (B) Corp. ("Sprott" or "SRSR") for the Santa Cruz Graphite Project in Brazil (the "Santa Cruz Project"). The total cash consideration under the Agreement is up to US$28 million, 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.

<u>Highlights:</u>

- The Phase 1 Stream payment ("**Phase 1 Stream**") has a US$10 million cash consideration ("**Phase 1 Consideration**") to fund 100% of required Phase 1 CAPEX, which will allow South Star to start construction in the next 45-60 days with commercial production scheduled for Q2 of 2023.
- The Phase 2 Stream payment ("**Phase 2 Stream**") has a minimum of US$9 million and up to US$18 million cash consideration for partial funding of Phase 2 CAPEX (US$27 million(1)), subject to SRSR Phase 2 due diligence as well as investment committee update and approval.
- US$2M loan payable advanced on signing of the Promissory Note with use of proceeds to be used for equipment down payments, land acquisition, contractor mobilization and engineering support services.
- South Star has the option to buy back 100% of Phase 2 Stream.
- Automatic stepdown of 50% of Phase 1 Stream after sales and delivery of 75,000 tonnes of concentrate.
- Post-stream LOM EBITDA margin of 51% (Phase 1 Stream + 100% Phase 2 Stream).
- Combined cost of capital with significantly lower total financing costs compared to other available capital market alternatives.

  (1) Based on 2020 PFS Study.

<u>Financing Summary:</u>

The Agreement will provide full funding for South Star to move construction forward on the Santa Cruz Phase 1 operations with commercial production planned for Q2 of 2023. Phase 1 use of proceeds of the Agreement will be used for development, construction and commissioning of the Santa Cruz Project and achievement of the 5,000 tpa commercial production.

Phase 1 Stream financing details follow:

- 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**").
- US$2 million advance loan ("**Promissory Note**") for 6 months with use of proceeds to be used for major equipment down payments, land payments, contractor mobilizations, and engineering support services. The Promissory Note will be repaid with proceeds from the Phase 1 Stream Consideration.
- Upfront prepayment of US$10 million of graphite concentrate for 21.875% of the Phase 1 Stream Production until a total sale and delivery of 75,000 tonnes of concentrate has been achieved, at which point the Phase 1 Stream will be reduced 50 percent to 10.9375%.
- SRSR will pay South Star 20% of the per tonne sales price for Phase 1 Stream Production.
- South Star has granted Sprott a right of first refusal with respect to future potential grant of streams or royalties on the Santa Cruz Project related to graphite concentrates.
- South Star will issue Sprott 6,000,000 warrants with an exercise price that represents a 35% premium to the offering unit price of the Equity Financing described below.

- South Star has committed to raise a minimum of CAD$6 million as a condition precedent of the Agreement (the "Equity Financing"). Proceeds will be used for exploration, development, corporate G&A and general working capital requirements.

- Phase 1 closing is subject to standard closing conditions, satisfaction of conditions precedents and the approval of the TSXV.

The Phase 2 Stream provides a minimum of US$9 million and up to US$18 million cash consideration at South Star's election for partial funding of Phase 2 CAPEX. Phase 2 Stream financing details follow:

- 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**").

- Upfront prepayment up to US$18M of graphite concentrate for up to 20% ("**Phase 2 Stream Percentage**") of the Phase 2 Stream Production. South Star has at its election the option of a reduced Phase 2 draw request of a minimum of US$9M with the Phase 2 Stream Percentage reduced pro rata, provided there is viable alternative project financing available for the balance.

- SRSR will pay South Star 20% of the per tonne sales price for Phase 2 Stream Production.

- South Star has at its election the option to buy back up to 100% of the Phase 2 Stream based amount of the draw request and the multiplier in the following table:

Time Elapsed Since Phase 2 Closing Date	Applicable Multiplier
Up to and including the 12-month anniversary	1.4X
Following the 12-month anniversary, and up to and including the 24-month anniversary	1.5X
Following the 24-month anniversary, and up to and including the 36-month anniversary	1.6X
Following the 36-month anniversary, and up to and including the 48-month anniversary	1.7X

- 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 obligations of the Company's affiliate, South Star Graphite Canada Corp. ("SSGCC"), under the Promissory Note, the Agreement and related documents have been guaranteed by the Company pursuant to a limited recourse guarantee, pursuant to which recourse against the Company is limited to certain collateral subject to the Initial Share Pledges (as defined below). 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, SSGCC and Brasil Graphite Corp. ("BGC"), in favour of Sprott (collectively, the "Initial Share Pledges"). The obligations under the Agreement will be further guaranteed pursuant to a guarantee from each of Brazil Grafite Mineração Ltda. ("BGM"), the indirect wholly-owned subsidiary of the Company that holds the Project, and BGC, and further secured by a pledge of the shares of BGM and certain assets of BGM (including real property) relating to the Project.

Permitting Advancement

In February 2022, the Company received approval from the Brazilian Mining Authority ("ANM") for its final exploration reports for its 13 claims of the Santa Cruz Graphite Project.

Product Advancements

In the second quarter of 2021, the Company entered into a Memorandum of Understanding for 4,000 tonnes of natural flake graphite concentrate over a period of four years for the Santa Cruz Graphite Project. The strategic offtake was signed with a European industrial specialist in high-quality graphite products including refractories, flame retardants, conductivity materials and lubricants.

The Company also entered into a Memorandum of Understanding for 20,000 tonnes of natural flake graphite concentrate over a period of five years. The strategic offtake was signed with a United States industrial specialist in high-quality graphite including coated spherical purified graphite (CSPG), downstream processing and marketing.

The Company has realized positive purification results using a thermal process from its advanced testing program with its technology partner, a United States laboratory. The thermal purification process has resulted in 99.9993 wt% C without any of the environmental, health and worker safety issues associated with hydrofluoric acid, which is the most common practice in use today. Thermal purification is a proven, commercially viable technology for improving the quality of concentrate graphite for a broad range of value-add applications, including lithium-ion batteries.

In June, 2021, the Company successfully produced uncoated and coated spherical purified graphite ("SPG") suitable for use as anode active material for lithium-ion batteries. In August 2021, the Company used the active anode material to produce several CR2016 coin cells and announced the successful results of the initial 35 cycles of a long cycle testing program. One cycle consists of 10 hours of charge and 10 hours of discharge, therefore 35 cycles equals approximately 700 hours total. The results were very stable with little degradation throughout the initial cycles. In September, 2021, the Company announced the continuing successful results through 75 cycles of the ongoing cycle testing program as well as excellent results for 4-Point resistivity testing (4T) for use in Electrolytic Manganese Dioxide (EMD) for evaluating conductivity enhancement material used in cathodes of primary alkaline batteries. The cycle tests continue to be very stable with little degradation and 4T testing results confirmed that purified flake graphite from the Santa Cruz Project is significantly more conductive than industry-leading material currently in use currently.

In March 2022, the Company entered into a letter of intent ("LOI") with Graphex Group Limited ("Graphex") for up to 50,000 tonnes of natural flake graphite concentrate over a period of five years for the Santa Cruz Graphite Project in Brazil and the Ceylon Graphite Project in Alabama. The parties have agreed in the LOI to negotiate a binding offtake agreement ("Offtake Agreement") within 60 days of signing the LOI. The LOI was signed on March 22, 2022 and terms and conditions of the agreement are confidential.

Ceylon Graphite Project, Alabama

The Company has entered into an Earn-in and Option Agreement ("Ceylon Agreement") on the Ceylon Graphite Project in Alabama with Hexagon Energy Materials Limited ("Hexagon") (ASX: HXG) and U.S. Critical Minerals LLC, a privately held exploration company incorporated in the United States. The Ceylon Agreement allows South Star to earn-in up to 75% of the Ceylon Graphite Project.

Currently, Hexagon owns 80% of the Ceylon Graphite Project, and USCM with a small group of individuals owning the remaining 20% of the Ceylon Graphite Project. The Ceylon Graphite Project is located on the northeast end of the Alabama Graphite Belt and covers approximately 500 acres in Coosa County, Alabama. The Ceylon Graphite Project is an historic mine active during World Wars I & II. The Ceylon Graphite mine historically targeted friable outcropping graphite mineralization, averaging approximately 3%-5% graphitic carbon. Mineralization is at surface, and the graphitic host rock was mined historically with shovels and excavators with no drilling and blasting required.

Additional information with respect to the Ceylon Graphite Project is provided below.

Private placements

In February 2021, the Company issued, on a non-brokered basis, 15,055,000 units at $0.10 and 9,524,951 units at $0.105 for gross proceeds of $2,505,620. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holders to purchase one additional common share of the Company at an exercise price of $0.15 per common share for a period of three years from the date of issue, subject to acceleration provisions.

In October, 2021, the Company closed a non-brokered private placement of 22,069,999 units priced at $0.11 for gross proceeds of $2,427,700. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one additional common share of the Company at an exercise price of $0.15 per common share for a period of three years from the date of issue, subject to acceleration provisions. The Company issued 294,000 brokers' warrants on the same terms as the warrants and paid $33,600 in finders' fees.

Settlement of convertible debentures

On May 4, 2021, the Company issued 5,600,000 units to convert all of its outstanding convertible debentures in the amount of $280,000 at a conversion price of $0.05 per unit. Each unit consisted of one common share and a one share purchase warrant at an exercise price of $0.06 for a period of three years.

Santa Cruz Graphite Project

South Star Battery Metals Corp owns 100% of the Santa Cruz Graphite Project through its wholly owned subsidiaries Brasil Graphite Corp. ("BGC") and Brasil Graphite Mineracao Ltda. ("BGM"). The Santa Cruz Project is located in the state of Bahia, Brazil and consists of 13 approved licenses covering 13,316 hectares. The Company issued a Prefeasibility Study ("**PFS**") technical report prepared in accordance with National Instrument 43-101 guidelines with an effective date of March 18, 2020. Highlights of the report include:

- Combined Maiden Proven & Probable (P+P) Reserve Estimate of 12.3M tonnes with strong conversion of resource to reserves.
- The Mineral Reserve Estimate is listed below:

Mineral Reserve Estimate	Tonnage (t)	Cg (%)	In-situ Graphite (t)
Proven	3,989,635	2.49	99,340
Probable	8,318,795	2.35	195,490
Total P &P	***12,308,500***	***2.40***	***295,400***

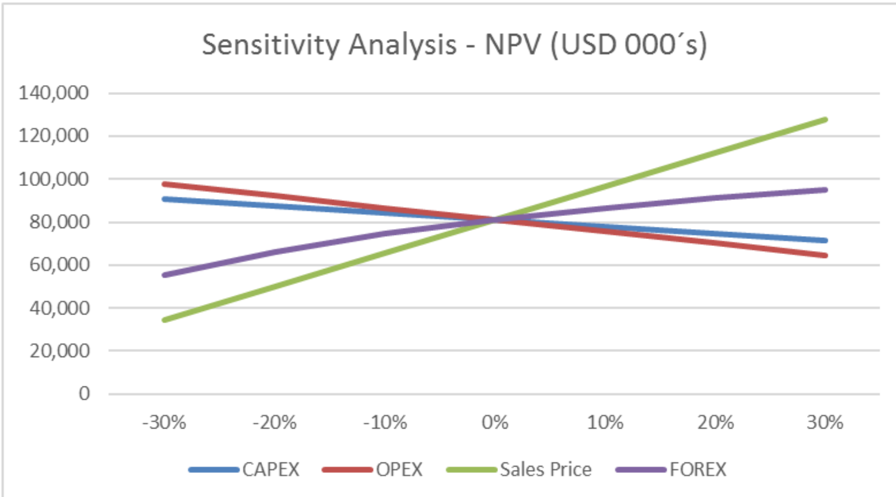
Notes:

1) Mineral Reserves are as defined by the 2014 CIM Definition Standards for Mineral Resources and Mineral Reserves.
2) Mineral Reserves are based on Mineral Resources (Published on July 8^{th}, 2019) estimated using ordinary kriging method and a three-dimensional block model using a cut-off grade of 0.75% and 1% Cg, depending on the modeled zones.
3) Numbers have been rounded.
4) Mineral Reserves have incorporated cut-off, pricing, costs, recovery & FX.

- Phase 1 Average Production of 5,000 tpy of 95% Cg Concentrate in Years 1 & 2
- Phase 2 Ramping up from 13,500 tpy of 95% Cg Concentrate in Year 3 to an average production of 25,000 tpy in years 4-11
- Average Basket Price of Products of US$1,287/t
- Open-pit mining with strip ratio of 1.6 Life of Mine (LOM)
- 12-Year LOM
- Exchange Rate of R$3.95 to US$1.00
- Post-Tax $NPV_{5\%}$ of US$81.2M and internal rate of return of 35%
- US$129M Post-tax Cash Flow LOM
- Payback Period of 4 years
- CAPEX & OPEX Parameters for Each Phase are listed below:

Parameter	Phase 1 (US$)	Phase 2 (US$)	Phase 1 & 2 (US$)
CAPEX	7.3M	27.2M	34.5
OPEX ($/t Concentrate)	604	386	396

- Sensitivity Analysis for NPV using CAPEX, OPEX, Sales Price and FX as follows:



Phase 1 pilot plant operations are fully licensed and permitted as well as ready for construction. There is a 12-month construction and commissioning schedule with commercial production scheduled for end of 2022. Detailed engineering has been completed and all major equipment, construction and support services have been recently quoted. The purpose of the Phase 1 operations is to start production and cash flow, generate large scale samples for material qualification processes and solidify long-term commercial relationships for securing purchase agreements for the Phase 2 production. The Company will continue to develop the project with additional drilling, environmental studies, independent metallurgical studies, mine planning, process plant engineering, and equipment sourcing for the Phase 2 operations, including advanced purification processing technology to upgrade concentrates for value-add applications. This includes lithium-ion battery market, alkaline battery markets, dispersions and coatings, expandable graphites & fire retardants and other newly emerging graphite technologies.

In preparation of the start of construction, the Company has assembled an excellent team in Brazil to oversee the construction and commissioning of the Phase 1 plant, as well as a core group of commercial, general and administrative staff.

Ceylon Graphite Project, Alabama

The Company has entered into an Earn-in and Option Agreement ("Ceylon Agreement") on the Ceylon Graphite Project in Alabama with Hexagon Energy Materials Limited ("Hexagon") (ASX: HXG) and U.S. Critical Minerals LLC, a privately held exploration company incorporated in the United States. The Ceylon Agreement allows South Star to earn-in up to 75% of the Ceylon Graphite Project.

Currently, Hexagon owns 80% of the Ceylon Graphite Project, and USCM with a small group of individuals owning the remaining 20% of the Ceylon Graphite Project. The Ceylon Graphite Project is located on the northeast end of the Alabama Graphite Belt and covers approximately 500 acres in Coosa County, Alabama. The Ceylon Graphite Project is an historic mine active during World Wars I & II. The Ceylon Graphite mine historically targeted friable outcropping graphite mineralization, averaging approximately 3%-5% graphitic carbon. Mineralization is at surface, and the graphitic host rock was mined historically with shovels and excavators with no drilling and blasting required.

A comprehensive preliminary exploration program and bench-scale process have been completed by Hexagon. Work completed to date includes:

- Regional scale and local geologic and structural mapping and sampling program.
- 29 trenches totaling 2,769 linear metres were dug to a maximum depth of approximately 2 metres. The trenches were mapped, logged and 765 samples plus standards and duplicates (5 per 100 samples) were analyzed.
- 100 tonnes of bulk ore samples were collected from across the claims, and a bench-scale process circuit using ten (10) representative samples was tested at GIRCU Laboratory in Guangzhou, China. The testing indicated a traditional crush/grind/floatation concentration circuit achieved grades of approximately 96%-97% with approximately 86% recoveries. In general, approximately 75%-80% of the ore concentrates (by mass) is -80 mesh material and the balance being +80 mesh material. The ore was described as well-liberated and easy to process.

Ceylon Agreement Terms

The following is a summary of the key terms of the Earn-in and Option:

- South Star to complete drilling, resource estimation, and analysis needed to produce a NI 43-101 compliant Preliminary Economic Assessment (PEA) within three years from the signing of the final agreements ("Earn-in Period").
- South Star to fund an annual minimum expenditure of CAD$250,000 (CAD$750,000 total minimum) during the Earn-in Period to earn 75% of the Ceylon Graphite Project.
- South Star to extend or renew, as needed, and as part of the earn-in expenditure, the existing mineral leases and surface agreements on the Ceylon Graphite Project to ensure they are valid for a period of a minimum of 12 months beyond the Earn-in Period.
- Upon satisfaction of the first three items listed above, South Star shall have the right, but not the obligation, exercisable within an agreed period, to acquire 75% of the Ceylon Graphite Project, following which (subject to the put option described below) the parties would operate the Ceylon Graphite Project as a joint venture.
- For a period of six months following the exercise of the 75% earn-in option ("Option Period"), Hexagon and USCM individually have the right, but not the obligation, to sell their remaining 25% interest in the Ceylon Graphite Project for an aggregate payment of CAD$250,000 in South Star shares ("Put Option").
- During the Option Period, any expenditures will be shared pro rata. Failure by any party to pay their share shall result in a proportional dilution of interest in the Ceylon Graphite Project.
- Should South Star's interest in the Ceylon Graphite Project increase to 90% or greater, South Star shall have the right, but not the obligation, to purchase the entire remaining interest not owned or under its control on a basis proportional to the Put Option.
- Within six months of the Ceylon Graphite Project achieving commercial production, South Star shall make a payment of CAD$250,000 in South Star shares ("Production Bonus"). The Production Bonus shall be proportionately reduced to reflect any reduction in the remaining 25% interest held by the parties.

Outlook

The Company continues to work toward the development of its Santa Cruz Graphite Project. The Company is developing plans and making preparations for a first exploration program on the Ceylon Graphite Project in Alabama, USA.

Richard L. Pearce, a Director of South Star Battery Metals Corp., is a Qualified Person as defined by National Instrument 43-101 and was responsible for verifying the scientific and technical information herein and has read and approved this MD&A.

Selected Annual Information

		Year ended December 31, 2021		Year ended December 31, 2020		Year ended December 31, 2019
Net loss	$	2,223,185	$	733,722	$	1,933,457
Basic and diluted loss per share		0.03		0.02		0.04
Total assets		9,389,602		5,821,988		5,876,953
Working capital (deficiency)		3,231,983		(633,836)		(20,129)
Total long-term liabilities		-		-		-

Over the years presented, the Company has focused on the development of its Santa Cruz Graphite Project. Total assets vary from year to year relative to working capital provided by private placements or convertible debt. In the year ended December 31, 2019, the Company made a substantial investment into exploration expenditures to complete its Prefeasibility Study on the Santa Cruz Project released in early 2020. The loss in 2020 was reduced as the Company worked with its internal team to advance the Santa Cruz Project and a path to development. Expenditures were reduced in light of financial capacity and uncertainty due to the global pandemic. The net loss in 2021 increased with an overall increase in expenditures following a private placement in February 2021 and significant strides to a development plan for the Santa Cruz Project and completion of the Ceylon Agreement.

Results of Operations

During the year ended December 31, 2021, the Company incurred a comprehensive loss of $2,211,107 as compared to $706,700 for the year ended December 31, 2020. Significant items making up the loss include:

- Business development of $94,709 (2020 - $Nil) for marketing services and market maker services which were new in the current fiscal year.
- Consulting and management fees of $249,739 (2020 - $73,000) related to the CEO and CFO of the Company. The increase in expense largely relates to the allocation of the CEO salary to management fees in the current year from exploration and evaluation expenditures in the prior year.
- Investor relations expense of $746,542 (2020 - $28,873) reflected additional outreach for the financings completed in 2021 as well as new programs and resources initiated in 2021.
- Professional fees of $185,372 (2020 – $50,326) related to audit and accounting fees and legal fees. The Company incurred additional costs for tax structuring in preparation for production activity in Brazil as well as costs related to the Ceylon Agreement.
- Transfer agent and filing fees of $44,000 (2020 - $35,932) related to transfer agent, regulatory, and filing fees were comparable year over year.

Exploration and evaluation expenditures of $782,137 (2020 - $414,003) as the Company continued to escalate work on its development program at the Santa Cruz Graphite Project in Bahia, Brazil with funds raised in fiscal 2021. Work in 2021 included engineering and design and material testing. The in-country team was expanded to prepare for development work escalating into 2022. In the year ended December 31, 2020, exploration and evaluation expenditures were materially exploration and geological services inclusive of work by the CEO in Brazil.

The Company's exploration and evaluation expenditures for the year ended December 31, 2021 are as follows:

For the year ended December 31, 2021	Ceylon Graphite, USA	Santa Cruz, Brazil	Total
Consulting	$ 45,101	$ 10,000	$ 55,101
Depreciation	-	1,302	1,302
Engineering and design	-	120,959	120,959
Field office expenses	-	46,491	46,491
Geological and technical reporting	-	200,645	200,645
Material testing program	-	128,117	128,117
Professional fees	-	43,137	43,137
Wages and service fees	-	186,385	186,385
Expenses incurred during the year	$ 45,101	$ 737,036	$ 782,137

Summary of Quarterly Results

The following table summarizes the quarterly results for each of the three months periods ended:

	December 31, 2021	September 30, 2021	June 30, 2021	March 31, 2021
Total assets	$ 9,389,602	$ 7,357,677	$ 7,925,478	$ 8,051,325
Working capital (deficiency)	3,231,983	1,384,562	1,928,231	2,181,080
Net loss	(902,302)	(555,933)	(530,083)	(234,867)
Net loss per share	(0.01)	(0.01)	(0.01)	(0.00)
	December 31, 2020	September 30, 2020	June 30, 2020	March 31, 2020
Total assets	$ 5,821,988	$ 5,878,502	$ 5,940,322	$ 5,783,648
Working capital	(633,836)	(347,819)	(232,650)	(109,747)
Net loss	(271,437)	(186,174)	(152,659)	(96,430)
Net loss per share	(0.00)	(0.00)	(0.00)	(0.00)

Over the quarters presented, the Company has been working to develop its Santa Cruz Graphite Project following the publication of the PFS in early 2020. Private placements completed in February 2021 and October 2021 increased the total assets for the quarters ended March 31, 2021 and December 31, 2021, respectively. The increasing net loss in the quarters ended June 30, 2021, September 30, 2021 and December 31, 2021 reflect increased capital resources available to develop engineering and design work for the Santa Cruz Graphite Project and materials testing conducted over 2021. Additional spend in the fourth quarter of 2021 related to professional services for tax advice and legal work with respect to the Sprott Agreement and Ceylon Agreement.

Fourth Quarter

Results for the three months ended December 31, 2021 and 2020

During the three months ended December 31, 2021, the Company incurred a net loss of $902,302 as compared to $271,437 for the three months ended December 31, 2020. Significant items making up the loss include:

- Business development of $15,000 (2020 - $Nil) for market maker services which were new in the current fiscal year.
- Consulting and management fees of $69,355 (2020 - $12,000) related to the CEO and CFO of the Company. The increase in expense relates to the allocation of the CEO salary to management fees in the current period from exploration and evaluation expenditures in the prior period. The CFO fees increased with the change in CFO at the end of the third quarter 2021.
- Exploration and evaluation expenditures of $276,025 (2020 - $248,456) as the Company continued to escalate work on its development program at the Santa Cruz Graphite Project in Bahia, Brazil with funds

raised in fiscal 2021. Work in the fourth quarter of 2021 included continuing engineering and design f and material testing. The Company also engaged a consultant in the fourth quarter with respect to the Ceylon Graphite Project.

- Investor relations expense of $362,729 (2020 - $3,725) reflected additional outreach for the financings completed in the fourth quarter of 2021 as well as new programs and resources initiated in 2021.
- Professional fees of $125,053 (2020 – $8,149) related to audit and accounting fees and legal fees with an increase for some increased corporate activity in the current period. The Company incurred additional costs for tax structuring in preparation for production activity in Brazil as well as costs related to the Sprott Agreement and Ceylon Agreement.
- Transfer agent and filing fees of $17,254 (2020 - $3,865) related to transfer agent, regulatory, and filing fees and were higher in the fourth quarter due to the timing of the annual general meeting.

Liquidity

The Company's mineral exploration and development activities do not currently provide a source of income and we therefore have a history of losses, and an accumulated deficit. However, given the nature of our business, the results of operations as reflected in the net losses and losses per share do not provide a complete interpretation of our valuation.

As at December 31, 2021, the Company had working capital of $3,231,983. This balance included a cash balance of $3,476,021 (December 31, 2020 - $74,410) to settle current liabilities of $415,894 (December 31, 2020 - $716,940).

The Company has financed its operations to date primarily through the issuance of common shares and convertible debentures. The Company will continue to seek capital to fund its business objectives until such time that profitable operations are achieved. Subsequent to December 31, 2021, the Company entered into the Agreement with Sprott which provided a Promissory Note of US$2,000,000 to advance the development of the Santa Cruz Graphite Project. The Company intends to execute on the full Agreement for the Phase 1 Stream which will require an equity financing of $6,000,000. There is no guarantee that the Company will be able to complete these transactions.

Operating Activities: The Company does not generate cash from operating activities. Net cash used by the Company for operating activities for the year ended December 31, 2021 was $2,332,321 (2020 - $305,461). The increase in cash consumption in fiscal 2021 is relative to the increased spend in operational activities, including exploration and evaluation expenditures.

Investing Activities: Net cash used by the Company for investing activities for the year ended December 31, 2021 was $4,463 (2020 - $Nil) reflecting a small investment in equipment.

Financing Activities: During the year ended December 31, 2021, the Company received proceeds of $5,742,652 (2020 - $280,000). Financing activities in fiscal 2021 included receipt of $4,933,320 from issuance of common shares pursuant to two private placements, $948,525 from the exercise of warrants and $9,625 from exercise of options. The Company incurred share issuance costs of $119,498 and paid interest on convertible debentures of $29,320. In the prior period, the Company received $280,000 on the issuance of convertible debentures.

The financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company's continuing operations rely on the ability of the Company to continue to raise capital until it achieves profitable operations.

Capital Resources

Subsequent to December 31, 2021, the Company entered into land purchases payable over two years pursuant to a payment schedule. Title to the land will transfer once the payments are completed. The Company has remaining purchase obligations of approximately $2,000,000.

Subsequent to December 31, 2021, the Company entered into the Stream Agreement which provided a Promissory Note of US$2,000,000. Pursuant to the terms of the Promissory Note, the Company is obligated to use the funds to develop the Santa Cruz Graphite Project. The Promissory Note has a term of 6 months and will be settled against the Phase 1 prepayment of US$10 million, should Phase 1 complete.

The Company is working toward the development of the Santa Cruz Project which will require a substantial capital investment. The Company has entered into the Stream Agreement which requires a $6,000,000 equity raise, in addition to other requirements, to complete the conditions precedent for Phase 1.

The Company will continue to seek capital. In the past the Company has raised capital in the public markets by issuing common shares pursuant to private placements and through loans payable. The Company does not presently utilize any quantitative measures to monitor its capital and is not subject to externally imposed capital requirements.

Off-Balance Sheet Arrangements

At December 31, 2021, the Company had no material off-balance sheet arrangements such as guarantee contracts, contingent interest in assets transferred to an entity, derivative instruments obligations or any obligations that trigger financing, liquidity, market or credit risk to the Company.

Related Party Transactions

Key management personnel consist of the officers of the Company and the Company's Board of Directors. During the year ended December 31, 2021, the Company:

a) Paid or accrued management and consulting fees of $49,305 (2020 - $48,000) to Red Fern Consulting Ltd., a company in which the Chief Financial Officer ("CFO") is a significant shareholder, for services provided by the CFO and accounting team;

b) Paid or accrued management and consulting fees of $225,725 (2020 – $241,470) and employment benefits of $5,721 (2020 - $6,300) to the CEO of the Company; and

c) Paid or accrued management and consulting fees of $16,000 (2020 – $15,000) to Eric Allison, a director of the Company.

Included in accounts payable and accrued liabilities as at December 31, 2021 is $192,871 (December 31, 2020 - $350,384) due to both current and former officers, directors or companies with a director in common for cash advances, unpaid consulting fees and unpaid expenses. The amounts due to related parties are unsecured, non-interest bearing and due on demand.

During the year ended December 31, 2021, the Company recorded share-based payments of $23,679 (2020 - $68,211) related to the fair value of stock options issued to key management personnel.

Proposed Transactions

There are no proposed transactions, defined as a proposed asset or business combination or disposition, under consideration.

Changes in Accounting Policies including Initial Adoption

The Company's accounting policies are described in Note 3 of its annual audited financial statements for the year ended December 31, 2021. The Company did not adopt any new accounting policies in the year ended December 31, 2021.

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

	December 31, 2021		December 31, 2020	
	Fair Value	**Carrying Value**	**Fair Value**	**Carrying Value**
Financial assets				
Cash	$ 3,476,021	$ 3,476,021	$ 74,410	$ 74,410
Financial liabilities				
Accounts payable	415,894	415,894	427,617	427,617
Convertible debentures	-	-	$ 296,747	$ 289,323

Financial risk factors

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

Credit risk

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

Liquidity risk

The Company's approach to managing liquidity risk is to try and have sufficient liquidity to meet liabilities when due. As at December 31, 2021, the Company had a cash balance of $3,476,021 (December 31, 2020 - $74,410) to settle current liabilities of $415,894 (December 31, 2020 - $716,940). 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.

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.

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 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 December 31, 2021, the Company did not have any investments in investment-grade short-term deposit certificates.

Price risk

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

Outstanding Share Data

As at the date of this report, the Company had 102,533,520 common shares issued and outstanding.

The following incentive stock options and share purchase warrants were outstanding at the date of this report:

Number		Exercise price	Expire date
Stock Options			
	900,000	$ 0.30	May 30, 2022
	500,000	0.45	August 13, 2023
	90,000	0.15	June 17, 2024
	2,485,000	0.055	August 4, 2025
	120,000	0.25	April 12, 2023
	4,095,000		
Share purchase warrants			
	13,130,000	$ 0.15	February 16, 2024(1)
	9,315,091	0.15	February 23, 2024(1)
	5,300,000	0.06	May 4, 2024(2)
	22,363,999	0.15	October 25, 2024(3)
	50,109,090		

Outstanding warrants are subject to acceleration clause: If during a period of ten consecutive trading days between the date that is four (4) months following the issuance and the expiry of the Warrants the daily volume weighted average trading price of the common shares of the Company on the TSXV (or such other stock exchange where the majority of the trading volume occurs) exceeds

(1) C$0.40,
(2) C$0.25, or
(3) C$0.50,

respectively, on each of those ten consecutive days, the Company may, within 30 days of such an occurrence, give written notice to the holders of the Warrants that the Warrants will expire at 4:00 p.m. (Vancouver time) on the 30th day following the giving of notice unless exercised by the holders prior to such date. Upon receipt of such notice, the holders of the Warrants will have 30 days to exercise their Warrants. Any Warrants which remain unexercised at 4:00 p.m. (Vancouver time) on the 30th day following the giving of such notice will expire at that time.

Risk Factors

Prior to making an investment decision, investors should consider the investment risks set out in the Annual Information Form ("AIF"), located on SEDAR at www.sedar.com, which are in addition to the usual risks associated with an investment in a business at an early stage of development. The directors of the Company consider the risks set out in the AIF to be the most significant to potential investors in the Company, but are not all of the risks associated with an investment in securities of the Company. If any of these risks materialize into actual events or circumstances or other possible additional risks and uncertainties of which the directors are currently unaware, or which they consider not to be material in relation to the Company's business, actually occur, the Company's assets, liabilities, financial condition, results of operations (including future results of operations), business and business prospects, are likely to be materially and adversely affected. In such circumstances, the price of the Company's securities could decline and investors may lose all or part of their investment.

Note Regarding Forward-Looking Statements

Except for historical information, this MD&A may contain forward-looking statements. These statements involve known and unknown risks, uncertainties, and other factors that may cause the Company's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievement expressed or implied by these forward-looking statements.

The factors that could cause actual results to differ materially include, but are not limited to, the following: The Company has no assurance that the licenses will be issued nor if issued, that they will be issued in a timely manner, general economic conditions; changes in financial markets; the impact of exchange rates; political conditions and developments in countries in which the Company operates; changes in the supply, demand and pricing of the metal commodities which the Company hopes to find and successfully mine; changes in regulatory requirements impacting the Company's operations; the sufficiency of current working capital and the estimated cost and availability of funding for the continued exploration and development of the Company's exploration properties.

This list is not exhaustive and these and other factors should be considered carefully, and readers should not place undue reliance on the Company's forward-looking statements. As a result of the foregoing and other factors, no assurance can be given as to any such future results, levels of activity or achievements and neither the Company nor any other person assumes responsibility for the accuracy and completeness of these forward-looking statements.

This MD&A contains certain forward-looking statements inclusive of, but not limited to the production arrangements and the timing of the mine development, mill construction and ore production. Although forward-looking statements and information contained in this MD&A are based on the beliefs of the Company's management, which we consider to be reasonable, as well as assumptions made by and information currently available to the Company's management, there is no assurance that the forward-looking statement or information will prove to be accurate. The assumptions made include assumptions about the Company's ability to move forward with the arrangements as set out in the Agreement. The forward-looking statements and information contained in this MD&A are subject to current risks, uncertainties and assumptions related to certain factors including, without limitations, obtaining all necessary approvals, feasibility of mine and plant development, exploration and development risks, expenditure and financing requirements, title matters, operating hazards, metal prices, political and economic factors, competitive factors, general economic conditions, relationships with vendors and strategic partners, governmental regulation and supervision, seasonality, technological change, industry practices, and one-time events as well as risks, uncertainties and other factors discussed in our quarterly and annual and interim management's discussion and analysis. Should any one or more of these risks or uncertainties materialize or change, or should any underlying assumptions prove incorrect, actual results and forward-looking statements and information may vary materially from those described herein. Accordingly, readers should not place undue reliance on forward-looking statements and information contained in this MD&A. We undertake no obligation to update forward-looking statements or information except as required by law.

South Star Battery Metals Corp.

"Samantha Shorter"

Chief Financial Officer
April 22, 2022