SOUTH STAR BATTERY METALS CORP

(formerly South Star Mining Corp.)

CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and the Board of Directors of South Star Battery Metals Corp.

Opinion

We have audited the consolidated accompanying financial statements of South Star Battery Metals Corp. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2021 and 2020, and the consolidated statements of loss and comprehensive loss, cash flows and changes in shareholders' equity for the years ended December 31, 2021 and 2020, and the related notes, including a summary of significant accounting policies and other explanatory information (collectively referred to as the "consolidated financial statements").

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with those requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the accompanying consolidated financial statements, which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information, which comprises the information included in the Company's Management Discussion & Analysis to be filed with the relevant Canadian securities commissions.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated.

If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditors' report is Waseem Javed.

Manning Elliott LLP

CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, British Columbia
April 21, 2022

SOUTH STAR BATTERY METALS CORP.
(formerly South Star Mining Corp.)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)
AS AT DECEMBER 31,

	2021	2020
ASSETS		
Current		
Cash	$ 3,476,021	$ 74,410
Receivables	20,384	1,147
Prepaid expenses	151,472	7,547
	3,647,877	83,104
Equipment	5,811	2,970
Exploration and evaluation assets (Note 5)	5,735,914	5,735,914
	$ 9,389,602	$ 5,821,988
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities (Note 7)	$ 415,894	$ 427,617
Convertible debentures (Note 4)	-	289,323
	415,894	716,940
Shareholders' equity		
Share capital (Note 6)	29,652,818	23,710,325
Reserves	3,460,219	3,323,035
Accumulated other comprehensive income	87,624	75,456
Deficit	(24,226,953)	(22,003,768)
	8,973,708	5,105,048
	$ 9,389,602	$ 5,821,988

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

Approved and authorized by the Board on April 21, 2022:

"David McMillan"	Director	*"Richard Pearce"*	Director
David McMillan		Richard Pearce	

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

SOUTH STAR BATTERY METALS CORP.
(formerly South Star Mining Corp.)
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(Expressed in Canadian Dollars)
FOR THE YEARS ENDED DECEMBER 31,

	2021	2020
GENERAL EXPENSES		
Accretion expense (Note 4)	$ 7,425	$ 10,549
Business development	94,709	-
Consulting and management fees (Note 7)	249,739	73,000
Exploration and evaluation expenditures (Note 5)	782,137	414,003
Foreign exchange	2,392	1,676
Information technology	14,527	-
Interest expense (Note 4)	12,572	16,747
Investor relations	746,542	28,873
Office and miscellaneous	31,672	19,237
Professional fees	185,372	50,326
Share-based payments (Notes 6, 7)	27,705	72,313
Transfer agent and filing fees	44,000	35,932
Travel	24,393	11,066
Net loss for the year	(2,223,185)	(733,722)
Other comprehensive income		
Items that may be reclassified to net loss		
Cumulative translation adjustment	12,168	27,022
Loss and comprehensive loss for the year	$ (2,211,017)	$ (706,700)
Basic and diluted loss per share	$ (0.03)	$ (0.02)
Weighted average number of common shares outstanding	75,746,895	42,905,430

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

SOUTH STAR BATTERY METALS CORP.
(formerly South Star Mining Corp.)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)
FOR THE YEARS ENDED DECEMBER 31

	2021	2020
CASH FROM OPERATING ACTIVITIES		
Net loss for the year	$ (2,223,185)	$ (733,722)
Items not affecting cash:		
Unrealized foreign exchange	-	39,230
Accretion expense	7,425	10,549
Share-based payments	27,705	72,313
Depreciation included in exploration and evaluation expenditures	1,302	1,423
Interest on convertible debentures	12,572	16,747
Changes in non-cash working capital items:		
Receivables	(19,237)	3,228
Prepaid expenses	(144,014)	12,645
Accounts payable and accrued liabilities	(5,111)	272,126
Net cash used in operating activities	(2,332,321)	(305,461)
CASH FROM INVESTING ACTIVITIES		
Purchase of equipment	(4,463)	-
Net cash used in investing activities	(4,463)	-
CASH FROM FINANCING ACTIVITIES		
Proceeds on issuance of common shares	4,933,320	-
Share issuance costs	(119,498)	-
Proceeds on issuance of convertible debentures	-	280,000
Interest paid on convertible debentures	(29,320)	-
Exercise of warrants	948,525	-
Exercise of options	9,625	-
Net cash provided by financing activities	5,742,652	280,000
Change in cash during the year	3,405,868	(25,461)
Effects of foreign exchange on cash	(4,257)	(10,924)
Cash, beginning of year	74,410	110,795
Cash, end of year	$ 3,476,021	$ 74,410
Supplemental cash flow information:		
Broker units issued as share issuance costs	$ 45,638	$ -
Broker warrants issued as share issuance costs	133,401	-
Units issued on settlement of convertible debentures	280,000	-

The Company did not pay any cash for interest as operating activities or income taxes during the years ended December 31, 2021 and 2020.

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

SOUTH STAR BATTERY METALS CORP.
(formerly South Star Mining Corp.)
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(Expressed in Canadian Dollars)

	Share capital					
	Number	Amount	Reserves	Accumulated other comprehensive income	Deficit	Total
Balance at December 31, 2019	42,905,430	$ 23,710,325	$ 3,232,749	$ 48,434	$ (21,270,046)	$ 5,721,462
Issuance of convertible debentures	-	-	17,973	-	-	17,973
Share-based payments	-	-	72,313	-	-	72,313
Cumulative translation adjustment	-	-	-	27,022	-	27,022
Net loss for the year	-	-	-	-	(733,722)	(733,722)
Balance at December 31, 2020	42,905,430	23,710,325	3,323,035	75,456	(22,003,768)	5,105,048
Common shares issued for private placements	46,649,950	4,933,320	-	-	-	4,933,320
Share issuance costs, cash	-	(119,498)	-	-	-	(119,498)
Share issuance costs, non-cash	434,640	(133,401)	133,401	-	-	-
Common shares issued for warrants exercised	6,323,500	948,525	-	-	-	948,525
Common shares issued for convertible debenture	5,600,000	297,973	(17,973)	-	-	280,000
Common shares issued for options	175,000	15,574	(5,949)	-	-	9,625
Share-based payments	-	-	27,705	-	-	27,705
Cumulative translation adjustment	-	-	-	12,168	-	12,168
Net loss for the year	-	-	-	-	(2,223,185)	(2,223,185)
Balance at December 31, 2021	102,088,520	$ 29,652,818	$ 3,460,219	$ 87,624	$ (24,226,953)	$ 8,973,708

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

1. NATURE AND CONTINUANCE OF OPERATIONS

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

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

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

These consolidated 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 $24,226,953 as at December 31, 2021 which has been funded primarily by the issuance of shares. The Company's ability to continue as a going concern depends upon its ability to raise adequate financing and to generate profitable operations in the future. The Company has been successful in the past in raising funds for operations by issuing shares, but there is no assurance that it will be able to continue to do so in the future. There is a material uncertainty related to these conditions that casts significant doubt about the Company's ability to continue as a going concern and therefore it may be unable to realize its assets and discharge its liabilities in the normal course of business.

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

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to penetrate communities world-wide, and any related adverse public health developments, has affected workforces, and has added volatility to economies and financial markets globally. The Company continues to monitor the situation and is taking all necessary precautions in order to follow rules and best practices as set out by the federal and provincial governments. The Company adapted over 2020 and 2021 by implementing remote working conditions where necessary and has continued to advance the Santa Cruz Graphite Project.

2. BASIS OF PREPARATION

Statement of compliance

These consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB").

Basis of Presentation

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

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

2. BASIS OF PREPARATION (cont'd…)

Significant accounting judgements, estimates and assumptions

The preparation of these consolidated 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 consolidated financial statements and the reported expenses during the year. Actual results could differ from these estimates.

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

Income taxes

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

Exploration and evaluation assets

The net carrying value of each mineral property is reviewed regularly for conditions that suggest impairment. This review requires significant judgment. Factors considered in the assessment of the asset impairment include, but are not limited to, whether there has been a significant adverse change in the legal, regulatory, accessibility, title, environmental or political factors that could affect the property's value; whether there has been an accumulation of costs significantly in excess of the amounts originally expected for the property's acquisition, development or cost of holding; and whether exploration activities produced results that are not promising such that no more work is being planned in the foreseeable future.

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.

Convertible debentures

Convertible debentures are separated into their liability and equity components using the residual method. The fair value of the liability component at the time of issue is determined based on the estimated borrowing rate for a similar instrument without the conversion feature, which is subject to measurement uncertainty.

Significant judgments made during the year are as follows:

Going concern

Management applies judgment in its evaluation of the Company's ability to continue as a going concern.

Other significant judgments relate to the recoverability of capitalized amounts and refundable tax credits and mining duties receivable, recognition of deferred tax assets and liabilities and the determination of the economic viability of a project.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES

Basis of consolidation

These consolidated 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 consolidated 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 consolidated financial statements include the financial statements of the Company and its subsidiaries as follows:

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

Exploration and evaluation assets

<u>Pre-exploration costs</u>

Pre-exploration costs are expensed in the period which they are incurred.

<u>Exploration and evaluation expenditures</u>

Once the legal right to explore a property has been acquired, acquisition costs are capitalized.

Exploration and evaluation expenditures are such costs as materials used, surveying costs, drilling costs, payments made to contractors and depreciation on plant and equipment, as well as directly attributable overhead, used during the exploration phase and expensed in the period in which they occur.

In the case of amounts capitalized as acquisition cost of mineral properties, if no economically viable ore body is discovered, such costs are expensed in the period that the property is determined to be uneconomical or abandoned.

Mineral exploration and evaluation expenditures are classified in accordance with IFRS 6.

Impairment of non-financial assets

Exploration and evaluation assets are regularly tested for recoverability whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Impairment of an exploration and evaluation assets is generally considered to have occurred if one of the following factors are present: the rights to explore have expired or are near expiry with no expectation of renewal, no further substantive expenditures are planned, exploration and evaluation work is discontinued in an area for which commercially viable quantities have not been discovered, or indications that the carrying amount is unlikely to be recovered in full by development or by sale.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (cont'd…)

The recoverable amount is the higher of the fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

The cash generating unit is the lowest group of assets in which the asset belongs for which it generates cash inflows that are independent of the cash inflows from other assets.

Where an impairment subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate and its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Decommissioning, restoration and similar liabilities

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of exploration and evaluation assets. The Company records the present value of the estimated costs of legal and constructive obligations required to restore the exploration sites in the year in which the liability is incurred. Upon initial recognition of the liability, a corresponding amount is added to the carrying amount of the related asset. At the end of each period, these capitalized asset retirement costs are amortized as an expense over the economic life of the asset and the liability is increased to reflect the passage of time (accretion expense). Over time, the discounted liability is adjusted for changes in present value based on current market discount rate and the amount or timing of the underlying cash flows needed to settle the obligation.

The Company recognizes its environmental liabilities on a site-by-site basis when it can be reliably estimated. Environmental expenditures related to existing conditions resulting from past or current operations and from which no current or future benefit is discernible are charged to the net results for the period. As at December 31, 2021, the Company has not incurred any decommissioning, restoration and environmental liabilities related to the exploration of its resource properties.

Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions for environmental restoration, legal claims, onerous leases and other onerous commitments are recognized at the best estimate of the expenditure required to settle the Company's liability at the reporting date.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the obligation. The increase in the provision due to passage of time is recognized as an interest expense.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (cont'd…)

Share capital

Share capital issued for consideration other than cash are valued at the fair value of assets received or services rendered. If the fair value of assets received or services rendered cannot be reliably measured, shares issued for consideration will be valued at the quoted market price at the date of issuance.

The proceeds from the issuance of units are allocated between common shares and warrants based on the residual value method. Under this method, the proceeds are allocated first to capital stock based on the fair value of the common shares at the time the units are priced and any residual value is allocated to the warrants reserve. Consideration received for the exercise of warrants is recorded in capital stock and the related residual value is transferred from warrant reserve to capital stock.

Foreign currency translation

The Company's reporting currency and the functional currency of all of its operations is the principal currency of the economic environment in which they operate.

The functional currency of the Company and its subsidiaries is as follows:

Company	Place of Incorporation	Functional currency
South Star Mining Corp.	British Columbia, Canada	Canadian dollar
Brasil Graphite Corp.	Cayman Islands	Canadian dollar
Brasil Grafite Mineração Ltda.	Brazil	Brazilian real
South Star Battery Metals Alabama Corp.	USA	US dollar

Where the functional currency is the same as the presentation currency, foreign currencies are translated to the functional currency at the exchange rate in effect at the date of the transaction. Foreign denominated monetary assets and liabilities are translated to the presentation currency using foreign exchange rates prevailing at the end of each reporting period.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Exchange gains or losses arising on foreign currency translation are reflected in profit or loss.

Where the functional currency differs from the presentation currency, all assets and liabilities are translated at the exchange rates prevailing at the end of each reporting period, and transactions are recorded to the functional currency at the exchange rate in effect at the date of the transaction. Equity accounts are translated at historical rates.

Exchange differences arising on foreign currency translation from functional to presentation currency are reflected in accumulated other comprehensive income.

Loss per share

The Company presents basic and diluted loss per common share at each reporting period. The basic loss per common share is calculated by dividing the loss available to common shareholders by the weighted average number of common shares outstanding during the year. Diluted loss per common share is computed by dividing the net loss applicable to common shares by the sum of the weighted average number of common shares issued and outstanding and all additional common shares that would have been outstanding, if potentially dilutive instruments were converted. Diluted loss per share excludes all dilutive potential common shares because their effect is anti-dilutive.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (cont'd…)

Income taxes

The Company provides for income taxes using the liability method of tax allocation. Under this method, deferred income tax assets and liabilities are determined based on temporary differences between the accounting and tax bases of existing assets and liabilities and are measured using enacted or substantially enacted tax rates expected to apply when these differences are reversed.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. At the end of each reporting period the Company reassesses unrecognized deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Share-based payments

The Company records all share-based payment at fair value. Where equity instruments are granted to employees, they are recorded at the fair value of the equity instrument granted at the grant date. The grant date fair value is recognized in profit or loss over the vesting period, described as the period during which all the vesting conditions are to be satisfied. Agent stock options or warrants issued in connection with common share placements are recorded at their fair value on the date of issuance as share issuance costs.

Where equity instruments are granted to non-employees, they are recorded at the fair value of the good or services received in the statement of loss and comprehensive income (loss). When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value is measured by use of a valuation model.

At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of stock options expected to vest. On the exercise of stock options and agents' warrants, share capital is credited for consideration received and for fair value amounts previously credited to share compensation reserve. The Company uses the Black-Scholes option pricing model to estimate the fair value of share-based payments.

Financial instruments

Financial assets

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired and the business model which the Company is operating under. The Company's accounting policy for each category is as follows:

Fair value through profit and loss - Investments at fair value through profit and loss ("FVTPL") are recognized initially and subsequently measured at fair value. Gains or losses arising from changes in fair value are recorded in the statement of loss and comprehensive income (loss). The Company's cash is classified as FVTPL.

Amortized cost - Financial assets at amortized cost are non-derivative financial assets with fixed or determinable payments constituted solely of payments of principal and interest that are held within a "held to collect" business model. Financial assets at amortized cost are initially recognized at the amount expected to be received, less, when material, a discount to reduce the financial assets to fair value. Subsequently, financial assets at amortized cost are measured using the effective interest method less a provision for expected losses. The Company's receivables are designated as amortized cost.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (cont'd…)

Financial instruments (cont'd…)

Financial assets (cont'd…)

Fair value through other comprehensive income - Upon initial recognition of equity securities, the Company may make an irrevocable election (on an instrument-by-instrument basis) to designate its equity securities that would otherwise be measured at FVTPL to present subsequent changes in fair value in other comprehensive income. Designation at fair value through other comprehensive income ("FVTOCI") is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination. Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognized in other OCI. The cumulative gain or loss is not reclassified to profit or loss on disposal of the instrument; instead, it is transferred to retained earnings. The Company has no financial assets designated as FVTOCI.

Financial liabilities

The Company classifies its financial liabilities into one of two categories, as follows:

Financial liabilities at amortized cost - Financial liabilities at amortized cost are initially recognized at the amount required to be paid, less, when material, a discount to reduce to fair value. The Company classifies its accounts payable and convertible debentures as amortized cost.

Financial liabilities classified FVTPL - This includes financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Fair value changes on financial liabilities classified as FVTPL are recognized in the loss for the period. The Company has no financial liabilities classified as FVTPL.

Impairment of financial assets

The expected loss is the difference between the amortized cost of the financial asset and the present value of the expected future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account. Provisions for expected losses are adjusted upwards or downwards in subsequent periods if the amount of the expected loss increases or decreases.

Equipment

Equipment is carried at cost, less accumulated depreciation and accumulated impairment losses. The Company amortizes its equipment on the straight-line basis over five years.

(Expressed in Canadian Dollars)

4. CONVERTIBLE DEBENTURES

Convertible debentures		
Balance, December 31, 2019	$	-
Liability, upon recognition		262,027
Accretion expense		10,549
Interest expense		16,747
Balance, December 31, 2020	$	289,323
Accretion expense		7,425
Interest expense		12,572
Principal converted into units		(280,000)
Interest payment		(29,320)
Balance, December 31, 2021	$	-

In May 2020, the Company issued convertible debentures for gross proceeds of $280,000 with a maturity date of May 4, 2021 and an annual interest rate of 10% compounded monthly (the "Debentures"). The Debentures were convertible into units of the Company at the option of the holder at a conversion price of $0.05 per unit ("Conversion 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 3 years. Interest was also convertible into units, at the option of the Company. The Company elected to settle the interest payable in cash.

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

During the year ended December 31, 2021, the Company incurred interest expense of $12,572 (2020 - $16,747) and accretion expense of $7,425 (2020 - $10,549) on the Debentures which has been recorded in the consolidated statement of loss and comprehensive loss. Additionally, the Company paid interest of $29,320 (2020 - $Nil) in settlement of the interest payable upon maturity. During the year ended December 31, 2021, the Company issued 5,600,000 Conversion Units on conversion and settlement of the Debentures.

5. EXPLORATION AND EVALUATION ASSETS

Santa Cruz Graphite Project

The Company owns 100% of the Santa Cruz graphite project through its wholly owned subsidiaries Brasil Graphite Corp. and Brasil Grafite Mineração Ltda. The project is located in the state of Bahia, Brazil and consists of 13 approved licenses covering 13,316 hectares.

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

	2021	2020
Santa Cruz Property	$ 5,735,914	$ 5,735,914

(Expressed in Canadian Dollars)

5. EXPLORATION AND EVALUATION ASSETS (cont'd…)

Ceylon Graphite Project

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

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

Exploration and evaluation expenditures

Exploration and evaluation expenditures incurred during the years ended December 31, 2021 and 2020 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

For the year ended December 31, 2020	Santa Cruz, Brazil	Total
Exploration and geological services	$ 401,915	$ 401,915
Field office expenses	12,088	12,088
Expenses incurred during the year	$ 414,003	$ 414,003

6. SHARE CAPITAL AND RESERVES

Authorized share capital

As at December 31, 2021, 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 year ended December 31, 2021, the Company:

a) closed the first tranche of a non-brokered private placement by issuing 15,055,000 units at $0.10 per unit with gross proceeds of $1,505,500. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holders to purchase one additional common share of the Company at an exercise price of $0.15 per common share for a period of three years from the date of issue and is subject to certain acceleration provisions. In connection with the first tranche, the Company paid cash finders' fees of $20,700.

b) closed the second tranche of a non-brokered private placement by issuing 9,524,951 units at $0.105 per unit with proceeds of $1,000,120. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holders to purchase one additional common share of the Company at an exercise price of $0.15 per common share for a period of three years from the date of issue and is subject to certain acceleration provisions. In connection with the second tranche, the Company paid cash finder's fees of $3,300.

   Pursuant to the offering, the Company issued 434,640 finders' units consisting of one common share and common share purchase warrant. Each warrant is exercisable at $0.15 per common share over a period of three years. The warrants were valued at $96,360 based on the following Black-Scholes assumptions: risk-free interest rate of 0.32%, expected life of 3 years, annualized volatility of 117.0% and dividend rate of 0%. The Company incurred other share issuance costs of $41,569 with respect to the two tranches.

c) issued 5,600,000 units to convert the convertible debentures for gross proceeds of $280,000 at a conversion price of $0.05 per unit. Each unit consists of one common share and a one share purchase warrant at an exercise price of $0.06 for a period of 3 years.

d) closed a non-brokered private placement by issuing 22,069,999 units priced at $0.11 per unit for gross proceeds of $2,427,700. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one additional common share of the Company at an exercise price of $0.15 per common share for a period of three years from the date of issue, and is subject to certain acceleration provisions.

   Pursuant to the private placement, the Company issued 294,000 brokers' warrants exercisable at a price of $0.15 per common share for a period of three years, paid cash of $33,660 as finders' fees, and incurred other share issuance costs of $20,269. The warrants were valued at $37,041 based on the following Black-Scholes assumptions: risk-free interest rate of 0.94%, expected life of 3 years, annualized volatility of 106.0% and dividend rate of 0%.

e) issued 6,323,500 common shares pursuant to the exercise of share purchase warrants for gross proceeds of $948,525.

During the year ended December 31, 2020, the Company did not issue any common shares.

(Expressed in Canadian Dollars)

6. SHARE CAPITAL AND RESERVES (cont'd…)

Stock options and share purchase warrants

Stock option and share purchase transactions are summarized as follows:

	Stock options		Warrants	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding, December 31, 2019	2,590,000	$ 0.39	25,227,000	$ 0.64
Granted/issued	2,660,000	0.055	-	-
Cancelled	(1,000,000)	0.45	-	-
Expired	-	-	(21,128,000)	0.74
Outstanding, December 31, 2020	4,250,000	$ 0.16	4,099,000	$ 0.15
Exercised	(175,000)	0.06	(6,323,500)	0.15
Expired	(100,000)	0.45	(200,000)	0.15
Granted/issued	120,000	0.25	52,978,590	0.14
Outstanding, December 31, 2021	4,095,000	$ 0.16	50,554,090	$ 0.14
Exercisable, December 31, 2021	3,682,500	$ 0.17	50,554,090	$ 0.14

Stock options and share purchase warrants outstanding

The following incentive stock options and share purchase warrants were outstanding as at December 31, 2021:

	Number	Exercise price	Expiry date
Stock options			
	900,000	$ 0.30	May 30, 2022
	500,000	0.45	August 13, 2023
	90,000	0.15	June 17, 2024
	2,485,0000	0.055	August 4, 2025
	120,000	0.25	April 12, 2023
	4,095,000		
Share purchase warrants			
	13,155,000	$ 0.15	February 16, 2024
	9,435,091	0.15	February 23, 2024
	5,600,000	0.06	May 4, 2024
	22,363,999	0.15	October 25, 2024
	50,554,090		

(Expressed in Canadian Dollars)

6. SHARE CAPITAL AND RESERVES (cont'd…)

Share-based payments

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.

During the year ended December 31, 2021, the Company granted 120,000 (2020 – 2,660,000) stock options at a fair value of $0.09 (2020 - $0.03) per option. The following weighted average assumptions were used for the valuation of stock options:

	2021	2020
Risk-free interest rate	0.25%	0.41%
Expected life of options	2 years	5 years
Annualized volatility	98.33%	108.77%
Dividend rate	0.00%	0.00%
Forfeiture rate	0.00%	0.00%

The expected volatility assumption is based on the historical and implied volatility of the Company's common share price on the Exchange. The risk-free interest rate assumption is based on yield curves on Canadian government zero-coupon bonds with a remaining term equal to the stock options' expected life. The Company uses historical data to estimate option exercise, forfeiture and employee termination within the valuation model. The Company has not paid and does not anticipate paying dividends on its common shares.

7. RELATED PARTY TRANSACTIONS AND BALANCES

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 a consulting company partially owned by the Company's Chief Financial Officer ("CFO");

b) Paid or accrued management and consulting fees of $225,725 (2020 – $241,470) to the Chief Executive Officer of the Company 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 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 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 granted and vested to key management personnel.

(Expressed in Canadian Dollars)

8. 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 December 31, 2020 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 (2020 - $74,410) to settle current liabilities of $415,894 (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.

Currency risk

The Company's main project is in Brazil with local operations. As such, the Company is exposed to some foreign currency risk. Fluctuations in the exchange rate between the Canadian dollar, United States dollar and the Brazilian real (R$) may have an adverse effect on the Company's business. The Company does not enter into any foreign exchange hedging contracts. As at December 31, 2021, the Company held net financial instruments in Brazil of R$102,000 (CAD$25,500). A 10% movement in the foreign exchange rate would have impacted the net loss by approximately $2,300. Foreign currency risk will have an impact the Company's net loss and net financial instruments.

(Expressed in Canadian Dollars)

8. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd…)

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.

9. 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.

10. INCOME TAXES

Income tax expense differs from the amount that would be computed by applying the Canadian statutory income tax rate of 27.00% (2020 – 27%) to income before income taxes. The reasons for differences are as follows:

	2021	2020
Income before income tax	$ (2,223,185)	$ (733,722)
Statutory income tax rates	27.00%	27.00%
Income tax expense computed at Canadian statutory rates	(631,000)	(198,000)
Permanent difference and other	(3,000)	19,000
Change in unrecognized deferred tax assets	634,000	179,000
Income tax recovery	$ -	$ -

(Expressed in Canadian Dollars)

10. INCOME TAXES (cont'd…)

The Company recognizes tax benefits on losses or other deductible amounts where the probable criteria for the recognition of deferred tax assets has been met. The Company's unrecognized deductible temporary differences and unused tax losses for which no deferred tax asset is recognized consist of the following amounts:

	2021	2020
Non-capital losses carried forward	$ 3,280,000	$ 2,427,000
Exploration and evaluation assets	591,000	797,000
Capital loss carry forward	93,000	93,000
Investment tax credits	29,000	29,000
Eligible capital expenditures	29,000	29,000
Share issue costs	65,000	78,000
Unrecognized deductible temporary differences	$ 4,087,000	$ 3,453,000

As at December 31, 2021, the Company has Canadian non-capital losses of $11,443,000 that may be applied to reduce future taxable income. If these losses are not used to offset future income, they will expire through the year ended December 31, 2041.

11. SEGMENTED INFORMATION

The Company operates in one segment, being mineral property exploration and development. As at December 31, 2021, all of the Company's long-term assets are situated in Brazil.

12. SUBSEQUENT EVENTS

Equity issuances

Subsequent to December 31, 2021, the Company issued 450,000 common shares pursuant to the exercise of warrants for proceeds of $39,750.

Stream Agreement

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

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

Subsequent to December 31, 2021, the Company received a US$2,000,000 advance loan ("Promissory Note") for a period of six months. The Promissory Note is non-interest bearing unless Phase 1 is not completed. The Promissory Note will be repaid with proceeds from the Phase 1 Stream Consideration.

12. SUBSEQUENT EVENTS (cont'd…)

The Company has committed to raise a minimum of $6,000,000 as a condition precedent of the Agreement (the "Equity Financing"). Phase 1 closing is subject to standard closing conditions, satisfaction of conditions precedents and the approval of the TSXV. The Company 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.

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

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

Land Purchases

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.