



**Surge Battery Metals Inc.**  
(formerly Surge Exploration Inc.)

**Consolidated Financial Statements**  
**For the years ended 31 December 2021 and 2020**  
(Expressed in Canadian dollars)



DALE MATHESON CARR-HILTON LABONTE LLP  
CHARTERED PROFESSIONAL ACCOUNTANTS

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Surge Battery Metals Inc.

### Opinion

We have audited the consolidated financial statements of Surge Battery Metals Inc. (formerly Surge Exploration Inc.) (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 equity (deficiency) for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying 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.

### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these 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 to the financial statements, which describes events or 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. The other information comprises the information included in Management's Discussion and Analysis.

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

In connection with our audit of the 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 financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, 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 Financial Statements

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

In preparing the 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.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 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 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 auditor's report to the related disclosures in the 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 auditor's 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 audit.

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 auditor's report is Barry Hartley.

*DML*

**DALE MATHESON CARR-HILTON LABONTE LLP**  
**CHARTERED PROFESSIONAL ACCOUNTANTS**  
Vancouver, BC

April 19, 2022



An independent firm  
associated with Moore  
Global Network Limited

**Surge Battery Metals Inc. (formerly Surge Exploration Inc.)****Consolidated Statements of Financial Position****31 December 2021 and 2020**

(Expressed in Canadian dollars)

	Notes	2021	2020
		\$	\$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash	5	3,969,954	6,626
Marketable securities	8	-	200,000
Amount receivable	6	12,090	15,652
Prepaid expenses		331,703	-
		4,313,747	222,278
<b>Exploration and evaluation properties</b>	7	1,753,109	48,457
<b>Total assets</b>		6,066,856	270,735
<b>EQUITY AND LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	9,10	83,620	346,418
Flow through premium liability	11	179,861	-
		263,481	346,418
<b>Equity</b>			
Share capital	11	24,058,922	17,574,829
Contributed surplus	11	3,266,627	1,718,331
Deficit		(21,522,174)	(19,368,843)
<b>Total equity</b>		5,803,375	(75,683)
<b>Total equity and liabilities</b>		6,066,856	270,735

Nature of operations and going concern (Note 1)

Commitments and contingencies (Note 17)

Subsequent events (Note 20)

**APPROVED BY THE BOARD:***“Greg Reimer”*

Greg Reimer

*“Gordon Jung”*

Gordon Jung

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

**Surge Battery Metals Inc. (formerly Surge Exploration Inc.)**  
**Consolidated Statements of Loss and Comprehensive Loss**  
**For the years ended 31 December 2021 and 2020**  
(Expressed in Canadian dollars)

	Notes	2021	2020
		\$	\$
<b>Administration expenses</b>			
Consulting	10	442,485	213,522
Exploration expense		44,044	-
Professional fees	10	55,190	45,717
Marketing and communications		858,865	69,506
Office expenses		55,112	4,860
Rent		16,500	5,250
Share-based payments	10,11	1,298,077	-
Service charges		2,177	1,756
Telephone		1,179	453
Transfer agent and regulatory fees		42,606	30,287
Travel, lodging and food		1,016	-
<b>Loss before other items</b>		<b>(2,817,251)</b>	<b>(371,351)</b>
<b>Other income (expense)</b>			
Foreign exchange gain (loss)		(278)	(5,367)
Unrealized loss on marketable securities	8	-	(25,000)
Gain from disposal of marketable securities	8	598,088	310
Gain on write-off of accounts payable	18	66,110	18,774
<b>Net loss and comprehensive loss for the year</b>		<b>(2,153,331)</b>	<b>(382,634)</b>
<b>Loss per share</b>			
Basic and diluted	12	<b>(0.03)</b>	<b>(0.04)</b>

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

# Surge Battery Metals Inc. (formerly Surge Exploration Inc.)

## Consolidated Statements of Cash Flows

For the years ended 31 December 2021 and 2020

(Expressed in Canadian dollars)

	Notes	Year ended 31 December 2021	Year ended 31 December 2020
		\$	\$
<b>OPERATING ACTIVITIES</b>			
Loss for the year		(2,153,331)	(382,634)
Adjustment for:			
Share-based payments	11	1,298,077	-
Gain on write-off of accounts payable	18	(66,110)	(18,774)
Gain on sale of marketable securities	8	(598,088)	(310)
Impairment marketable securities	8	-	25,000
Changes in operating working capital:			
Decrease in amounts receivable		3,562	8,998
Decrease (increase) in prepaid expenses		(331,703)	67,623
(Decrease) increase in trade and other payables		(196,688)	140,674
<b>Cash used in operating activities</b>		<b>(2,044,281)</b>	<b>(159,423)</b>
<b>INVESTING ACTIVITIES</b>			
Exploration and evaluation properties expenditures	7	(383,694)	-
Proceeds from sale of marketable securities	8	798,088	61,560
<b>Cash from in investing activities</b>		<b>414,394</b>	<b>61,560</b>
<b>FINANCING ACTIVITIES</b>			
Proceeds from shares issued	11	5,593,215	-
<b>Cash from financing activities</b>		<b>5,593,215</b>	<b>-</b>
<b>Increase (decrease) in cash</b>		<b>3,963,328</b>	<b>(97,863)</b>
Cash, beginning of year		6,626	104,489
<b>Cash, end of year</b>		<b>3,969,954</b>	<b>6,626</b>

Supplemental cash flow information (Note 13)

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

**Surge Battery Metals Inc. (formerly Surge Exploration Inc.)**  
**Consolidated Statements of Changes in Equity (Deficiency)**  
**For the years ended 31 December 2021 and 2020**  
(Expressed in Canadian dollars)

	Notes	Number of common shares	Common shares	Contributed Surplus	Deficit	Total
		\$	\$	\$	\$	\$
<b>Balances, 31 December 2019</b>		<b>9,934,426</b>	<b>17,611,974</b>	<b>1,718,331</b>	<b>(18,986,209)</b>	<b>344,096</b>
Common shares cancelled	18	(92,862)	(37,145)	-	-	(37,145)
Net loss for the year		-	-	-	(382,634)	(382,634)
<b>Balances, 31 December 2020</b>		<b>9,841,564</b>	<b>17,574,829</b>	<b>1,718,331</b>	<b>(19,368,843)</b>	<b>(75,683)</b>
Shares issued for cash	11	45,138,890	3,145,139	-	-	3,145,139
Shares issued for exercise of options	11	850,000	51,000	-	-	51,000
Shares issued for exercise of warrants	11	28,804,166	2,304,400	-	-	2,304,400
Shares issued for mineral properties	7,11	5,921,200	1,320,958	-	-	1,320,958
Share-based payments	11	-	-	1,298,077	-	1,298,077
Share issue costs	11	3,950,000	(337,404)	250,219	-	(87,185)
Net loss for the year		-	-	-	(2,153,331)	(2,153,331)
<b>Balances, 31 December 2021</b>		<b>94,505,820</b>	<b>24,058,922</b>	<b>3,266,627</b>	<b>(21,522,174)</b>	<b>5,803,375</b>

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

# **Surge Battery Metals Inc. (formerly Surge Exploration Inc.)**

## **Notes to the Consolidated Financial Statements**

**For the years ended 31 December 2021 and 2020**

(Expressed in Canadian dollars)

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### **1. NATURE OF OPERATIONS AND GOING CONCERN**

Surge Battery Metals Inc. (formerly Surge Exploration Inc.), (“Surge” or the “Company”) was incorporated under the Company Act (British Columbia) on 19 June 1987 and continued to the jurisdiction of the Canada Business Corporation Act on 13 August 1997. The Company trades on the TSX Venture Exchange (the “Exchange”) under symbol SUR. The Company is an exploration stage company engaged in the acquisition, exploration and development of mineral properties.

The address of the Company’s corporate office and principal place of business is Suite 1220, 789 West Pender Street, Vancouver B.C., V6C 1H2.

On 20 April 2018, the Company formed a wholly owned subsidiary called Surge Exploration Chile SpA. On 23 April 2019, the Company decided to refocus its corporate efforts on mineral exploration in North America. The Company is no longer pursuing the proposed Atacama Cobalto (cobalt) project and Incahuasi (lithium) projects, and the Company has decided to close its Santiago exploration office.

On 25 May 2020, the Company consolidated its share capital on a one (1) new common share without par value for every ten (10) existing common shares without par value. No fractional shares were issued as a result of the consolidation. Instead, all fractional shares equal or greater to one-half were rounded to the next whole share. The Company’s outstanding options and warrants were adjusted on the same basis. Unless otherwise stated, the number of shares, options, warrants and the exercise prices of options and warrants presented in these consolidated financial statements have been adjusted to include the effect of this share consolidation.

#### **1.1 Going concern**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) applicable to a going concern, which assumes that the Company will be able to continue its operations and will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. At 31 December 2021, the Company had cash of \$3,969,954 (2020: \$6,626) and incurred accumulated losses of \$21,522,174 (2020: \$19,368,843) since inception. Management cannot provide assurance that the Company will ultimately achieve profitable operations or raise additional debt and/or equity capital.

The Company is in the process of exploring its mineral property interests and has not yet determined whether they contain mineral reserves that are economically recoverable. The Company’s continuing operations and the underlying value and recoverability of the carrying amounts for exploration and evaluation property interests and related deferred exploration and development costs are entirely dependent upon the discovery of economically recoverable mineral reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of its mineral property interests, and achievement of future profitable production from or proceeds from the disposition of its mineral property interests. These material uncertainties cast significant doubt upon the Company’s ability to continue as a going concern.

These consolidated financial statements do not include any additional adjustments to the recoverability and classification of certain recorded assets amounts, classification of certain liabilities and changes to the statement of loss and comprehensive loss that might be necessary if the Company was unable to continue as a going concern. These adjustments could be material.



# Surge Battery Metals Inc. (formerly Surge Exploration Inc.)

## Notes to the Consolidated Financial Statements

For the years ended 31 December 2021 and 2020

(Expressed in Canadian dollars)

### 1.1 Going concern (continued)

In March 2020, the World Health Organization declared a global pandemic known as COVID-19. This is causing significant financial market and social dislocation. This has also resulted in significant economic uncertainty and consequently, it is difficult to reliably measure the potential impact of this uncertainty on the Company's future financial results. Though the Company has not yet experienced any significant impact on operations, the Company anticipates this could have an adverse impact on its business, results of operation, financial position and cash flow.

## 2. BASIS OF PREPARATION

### 2.1 Basis of consolidation

The Consolidated Financial Statements include the financial statements of the Company and its subsidiaries as follows:

Name	Country of Incorporation	% Equity interest at	
		31 December 2021	31 December 2020
Surge Exploration Chile SpA	Chile	100%	100%
Minera Arroyo Cobra S.A. de C.V.	Mexico	98%*	98%*

\*Two former officers of the Company own 1% each of Minera Arroyo Cobra S.A. de C.V.

As of 31 December 2021 and 2020, the Company's Mexican and Chilean subsidiaries were inactive.

Subsidiaries are those entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control is obtained to the date control ceases. All inter-company transactions, balances, income and expenses are eliminated in full upon consolidation.

### 2.2 Basis of presentation

These consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments, which are measured at fair value (Note 14).

These consolidated financial statements are presented in Canadian dollars, which is also the Company's functional currency, except where otherwise indicated, and all values are rounded to the nearest dollar.

### 2.3 Statement of compliance

These consolidated financial statements of the Company and its subsidiaries have been prepared in accordance with IFRS and International Accounting Standards ("IAS") as issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

**Surge Battery Metals Inc. (formerly Surge Exploration Inc.)**  
**Notes to the Consolidated Financial Statements**  
**For the years ended 31 December 2021 and 2020**  
(Expressed in Canadian dollars)

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**3.1 Foreign currency transactions**

At the transaction date, each asset, liability, revenue and expense denominated in a foreign currency is translated into Canadian dollars by the use of the exchange rate in effect on that date. At the reporting date, unsettled monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at the reporting date and the related translation differences are recognized in net loss.

Non-monetary assets and liabilities that are measured at historical cost are translated into Canadian dollars by using the exchange rate in effect at the date of the initial transaction and are not subsequently restated.

**3.2 Exploration and evaluation properties**

Following the acquisition of a legal right to explore a property, all direct costs related to the acquisition of the property are capitalized until the property to which they relate is placed into production, sold, allowed to lapse or abandoned. Mineral property acquisition costs include cash consideration and the fair market value of common shares issued for mineral property interests based on the trading price of the shares. These costs will be amortized over the estimated life of the property following commencement of commercial production, or written off if the property is sold, allowed to lapse or abandoned. Once commercial production has commenced, the net costs of the applicable property, will be charged to operations using the unit-of-production method based on reserves. Proceeds received from the sale of any interest in a property are first credited against the carrying value of the property, with any excess included in the statement of comprehensive loss for the period. On an ongoing basis, the Company evaluates each property based on results to date to determine the nature of exploration work that is warranted in the future. Impairment may occur in the carrying value of mineral interests when one of the following conditions exists:

- i) The Company's work program on a property has significantly changed, so that previously identified resource targets or work programs are no longer being pursued;
- ii) Exploration results are not promising and no more work is being planned in the foreseeable future; or
- iii) The remaining lease terms are insufficient to conduct necessary studies or exploration work.

Once impairment has been determined, the carrying value will be written-down to net recoverable amount. When the carrying value of the property exceeds its recoverable amount, which is the higher of the asset's fair value less costs to sell and value in use, the asset is written down accordingly. As a result, the direct costs related to the acquisition of mineral property interests in excess of estimated recoveries are written off to impairment of exploration and evaluation properties in the statement of comprehensive loss.

The Company may occasionally enter into property option agreements, whereby the Company will transfer part of a mineral interest, as consideration for the incurring of certain exploration and evaluation expenditures by the optionee which would otherwise have been undertaken by the Company. The Company does not record any expenditures made by the optionee on its behalf. Any cash consideration received from the agreement is credited against the costs previously capitalized to the property, with any excess cash accounted for as a gain on disposal.

**Surge Battery Metals Inc. (formerly Surge Exploration Inc.)**  
**Notes to the Consolidated Financial Statements**  
**For the years ended 31 December 2021 and 2020**  
(Expressed in Canadian dollars)

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.3 Impairment of long-lived assets**

The recoverability of long-lived assets is assessed when an event occurs that indicates impairment. Recoverability is based on factors such as future asset utilization and the future discounted cash flows expected to result from the use or sale of the related assets. An impairment loss is recognized in the period when it is determined that the carrying amount of the asset will not be recoverable. At that time, the carrying amount is written down to the recoverable amount, which equals the higher of fair value less costs to sell and value in use. Impairment losses are recognized in profit or loss.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

**3.4 Financial instruments**

At initial recognition, financial assets are classified and subsequently measured at amortized cost, fair value through other comprehensive income ("FVTOCI") or fair value through profit or loss ("FVTPL"). Financial assets are recognized initially at fair value, unless they are trade receivables that do not contain a significant financing component in accordance with IFRS 15, which shall be measured at their transaction price. The subsequent measurement of financial assets depends on their classification based on both the Company's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets as follows:

*Financial Assets at Amortized Cost*

The financial asset is subsequently measured at amortized cost if the financial asset is held within a business model whose objective is to hold the financial assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the financial assets are derecognized or impaired. Transaction costs are included in the initial carrying amount of the asset.

**Surge Battery Metals Inc. (formerly Surge Exploration Inc.)**  
**Notes to the Consolidated Financial Statements**  
**For the years ended 31 December 2021 and 2020**  
(Expressed in Canadian dollars)

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.4 Financial instruments (continued)**

*Financial Assets at FVTOCI*

The financial asset is subsequently measured at FVTOCI if the financial asset is held within a business model whose objectives are achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on principal amount outstanding or if an irrevocable election was made for certain equity instruments at initial recognition. After initial recognition, the financial assets are measured at fair value with gains or losses recognized within other comprehensive income. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Net gains and losses on debt investments are accumulated in OCI and reclassified to profit or loss on derecognition. Net gains and losses on equity investments are recognised in OCI and are never reclassified to profit or loss. Transaction costs are included in the initial carrying amount of the asset.

*Financial Assets at FVTPL*

A financial asset shall be measured at FVTPL if it is not measured at amortized cost or at FVTOCI. If the financial asset that would otherwise be measured at FVTPL is not acquired or incurred principally for the purpose of selling or repurchasing it in the near term, not part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking or a derivative, the Company may make an irrevocable election at initial recognition to present subsequent fair value changes of the equity instrument in OCI. Transaction costs associated with financial assets at FVTPL are expensed as incurred. These assets are carried at fair value with gains or losses recognized in profit or loss. Cash and marketable securities are included in this category of financial assets.

*Derivatives designed as hedging instruments in an effective hedge*

The Company does not hold or have any exposure to derivative instruments.

**3.5 Impairment of financial assets**

The Company shall recognize a loss allowance for expected credit losses on financial assets measured at amortized cost. If the credit risk on the financial instrument has increased significantly since initial recognition, the loss allowance shall be measured at an amount equal to the lifetime expected credit losses, otherwise, it shall be measured at an amount equal to the 12-month expected credit losses.

**3.6 Financial liabilities**

At initial recognition, financial liabilities are classified as financial liabilities measured at amortized cost unless they are financial liabilities at FVTPL (including derivatives that are liabilities). Financial liabilities are recognized initially at fair value. Transaction costs directly attributable to the issue of a financial liability are included in the initial carrying value of financial liabilities if they are not measured at FVTPL. The subsequent measurement of financial liabilities depends on their classification, as follows:

**Surge Battery Metals Inc. (formerly Surge Exploration Inc.)**  
**Notes to the Consolidated Financial Statements**  
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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.6 Financial liabilities (continued)**

*Financial liabilities measured at amortized cost*

Financial liabilities are initially recognized at fair value, net of transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses arising on the repurchase, settlement or cancellation of liabilities are recognized respectively in interest, other revenues and finance costs. Trade and other payables are included in this category of financial liabilities.

*Financial liabilities at FVTPL*

Financial liabilities are carried at fair value with gains or losses recognized in net income (loss). Where the financial liability is designed as at FVTPL, only the amount of change in the fair value of the financial liability that is attributable to the changes in the credit risk of that liability shall be presented in OCI and the remaining amount of changes in fair value presented in profit or loss. Transaction costs on financial liabilities at FVTPL are expensed as incurred.

**3.7 De-recognition of financial assets and liabilities**

Financial assets are derecognized when the contractual rights to the cash flows from the assets expire or, the financial assets are transferred, and the Company has transferred substantially all the risks and rewards of ownership of the financial assets. On de-recognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) is recognized in profit or loss. Where a transfer does not result in a derecognition due to continuing involvement, the Company shall continue to recognize the transferred asset and recognize a financial liability of the consideration received.

For financial liabilities, they are derecognized when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed is recognized in profit or loss.

**3.8 Decommissioning, restoration and similar liabilities**

The Company recognizes provisions for statutory, contractual, constructive or legal obligations associated with the reclamation of exploration and evaluation properties and retirement of long-term assets, when those obligations result from the acquisition, construction, development or normal operation of the assets. The net present value of future cost estimates arising from the decommissioning of plant, site restoration work and other similar retirement activities is added to the carrying amount of the related asset, and depreciated on the same basis as the related asset, along with a corresponding increase in the provision in the period incurred. Discount rates using a pre-tax rate that reflect the current market assessments of the time value of money are used to calculate the net present value.

**Surge Battery Metals Inc. (formerly Surge Exploration Inc.)**  
**Notes to the Consolidated Financial Statements**  
**For the years ended 31 December 2021 and 2020**  
(Expressed in Canadian dollars)

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.8 Decommissioning, restoration and similar liabilities (continued)**

The Company's estimates of reclamation costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to the related asset with a corresponding entry to the provision.

**3.9 Income taxes**

Income tax expense is comprised of current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that they relate to items recognized directly in equity or in other comprehensive loss/income.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss.

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.

**3.10 Share capital**

Equity instruments are contracts that give a residual interest in the net assets of the Company. Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability. The Company's common shares, share warrants and options are classified as equity instruments. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from proceeds.

The Company applies a residual value method with respect to the measurement of shares and warrants issued as private placement units. Under the residual method, one component is measured first and the residual amount is allocated to the remaining component. The Company measures the value of the common shares first. The balance, if any, is allocated to the warrants. Any fair value attributed to the warrants is recorded as contributed surplus.

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.11 Flow-through shares**

The Company, from time to time, issues flow-through common shares to finance a significant portion of its exploration program. Pursuant to the terms of the flow-through share agreements, these shares transfer the tax deductibility of qualifying resource expenditures to investors. On issuance, the Company bifurcates the flow-through shares into i) a flow-through share premium, equal to the estimated premium, if any, investors pay for the flow-through feature, which is recognized as a liability, and ii) share capital. Upon expenses being incurred, the Company derecognizes the liability and recognizes a deferred tax liability for the amount of tax reduction renounced to the shareholders. The premium reversal is recognized as a reduction in the deferred tax expense and the related deferred tax is recognized as a tax provision.

Proceeds received from the issuance of flow-through shares are restricted to be used only for qualifying Canadian resource property exploration expenditures, within the prescribed period.

The Company may also be subject to a Part XII.6 tax on flow-through proceeds renounced under the look-back rule, in accordance with Government of Canada income tax regulations. When applicable, this tax is accrued as a financial expense until paid.

**3.12 Loss per share**

Basic loss per share is computed by dividing the net loss applicable to common shares of the Company by the weighted average number of common shares outstanding for the relevant period. 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.

**3.13 Share-based payments**

Where equity-settled share options are awarded to employees, the fair value of the options at the date of grant is charged to the statement of loss and comprehensive loss over the vesting period. Performance vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted.

Where the terms and conditions of options are modified before they vest, any increase in the fair value of the options, measured immediately before and after the modification, is also charged to the statement of comprehensive loss over the remaining vesting period.

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 comprehensive loss over the vesting period, described as the period during which all the vesting conditions are to be satisfied.

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.13 Share-based payments (continued)**

Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods or services received in the statement of comprehensive loss, unless they are related to the issuance of shares, in which case they are recorded as a reduction of share capital.

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. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

All equity-settled share-based payments are reflected in contributed surplus, until exercised. Upon exercise, the shares are issued from treasury and the amount reflected in contributed surplus is credited to share capital, adjusted for any consideration paid.

Where a grant of options is cancelled or settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period. Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity interest except to the extent the payment exceeds the fair value of the equity instrument granted, measured at the repurchase date. Any such excess is recognized as an expense.

**3.14 Leases**

On January 2016, the IASB issued IFRS 16 which replaces IAS 17 Leases and its associated interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting remains similar to current accounting practice. The Company does not have any leases that would be applicable to this standard and the implementation of these amendments did not have an impact on the consolidated financial statements.

**3.15 Standards, amendments and interpretations issued but not yet effective**

At the date of authorization of these Consolidated Financial Statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective and have not been early adopted by the Company. New standards, amendments and interpretations are not expected to have a significant impact on the Company's consolidated financial statements.



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**4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS**

The Company makes estimates about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

Areas requiring a significant degree of estimation and judgment relate to the fair value measurements for financial instruments and share-based payments, the recognition and valuation of provisions for decommissioning liabilities, the carrying value of exploration and evaluation properties, the valuation of all liability and equity instruments including warrants and stock options, the recoverability and measurement of deferred tax assets and liabilities and the Company's ability to continue as a going concern.

Information about critical judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the consolidated financial statements within the next financial year are discussed below:

*Exploration and evaluation expenditures*

The application of the Company's accounting policy for exploration and evaluation expenditure requires judgment in determining the point at which a property has economically recoverable resources, in which case subsequent exploration costs and the costs incurred to develop the property are capitalized into development assets. The determination may be based on assumptions about future events or circumstances. Estimates and assumptions may change if new information becomes available. If, after expenditure is capitalized, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalized is written off in profit or loss in the year when new information becomes available.

Determining whether to test for impairment of mineral exploration properties and deferred exploration assets requires management's judgment regarding the following factors, among others: the period for which the entity has the right to explore in the specific area has expired or will expire in the near future, and is not expected to be renewed; substantive expenditure on further exploration and evaluation of mineral resources in a specific area is neither budgeted nor planned; exploration for and evaluation of mineral resources in a specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area; or sufficient data exists to indicate that, although a development in a specific area is likely to proceed, the carrying amounts of the exploration assets are unlikely to be recovered in full from successful development or by sale.

When an indication of impairment loss or a reversal of an impairment loss exists, the recoverable amount of the individual asset must be estimated. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs must be determined. Identifying the cash-generating units requires management judgment. In testing an individual asset or cash-generating unit for impairment and identifying a reversal of impairment losses, management estimates the recoverable amount of the asset or the cash-generating unit. This requires management to make several assumptions as to future events or circumstances. These assumptions and estimates are subject to change if new information becomes available. Actual results with respect to impairment losses or reversals of impairment losses could

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**4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)**

differ in such a situation and significant adjustments to the Company's assets and earnings may occur during the next period.

*Impairment of financial assets*

At each reporting date the Company assesses financial assets not carried at fair value through profit or loss to determine whether there is objective evidence of impairment. A financial asset is impaired if objective evidence indicates that one or more events occurred during the period that negatively affected the estimated future cash flows of the financial asset.

Objective evidence that financial assets are impaired can include significant financial difficulty of the issuer or debtor, default or the disappearance of an active market for a security. If the Company determines that a financial asset is impaired, judgment is required in assessing the available information in regards to the amount of impairment; however the final outcome may be materially different than the amount recorded as a financial asset.

*Decommissioning and restoration costs*

Management is not aware of any material restoration, rehabilitation and environmental provisions as at 31 December 2021 and 31 December 2020. Decommissioning, restoration and similar liabilities are estimated based on the Company's interpretation of current regulatory requirements, constructive obligations and are measured at fair value and these estimates are updated annually. Fair value is determined based on the net present value of estimated future cash expenditures for the settlement of decommissioning, restoration or similar liabilities that may occur upon decommissioning of the exploration and evaluation property. Such estimates are subject to change based on laws, regulators and negotiations with regulatory authorities.

*Share based payments*

Management assesses the fair value of stock options granted in accordance with the accounting policy states in note 3.14. The fair value of stock options granted using valuation models is only an estimate of their potential value and requires the use of estimates and assumptions.

*Deferred income taxes*

Judgment is required in determining whether deferred tax assets are recognized on the statement of financial position. Deferred tax assets, including those arising from unutilized tax losses require management to assess the likelihood that the Company will generate taxable earnings in future periods, in order to utilize recognized deferred tax assets. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that the cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the statement of financial position date, if any, could be impacted. Additionally, future changes in tax laws in the jurisdictions in which the Company and its subsidiaries operate could limit the ability of the Company to obtain tax deductions in future periods.

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### 5. CASH

The Company's cash is denominated in the following currencies:

As at	31 December 2021	31 December 2020
	\$	\$
Denominated in Canadian dollars	3,864,848	5,174
Denominated in U.S. dollars	105,106	1,452
<b>Total cash</b>	<b>3,969,954</b>	<b>6,626</b>

As at 31 December 2021, the Company has \$925,000 (31 December 2020: \$109,521) remaining to be spent on qualifying Canadian exploration expenditures under the terms of the flow-through share agreements (Note 17).

### 6. AMOUNT RECEIVABLE

The Company qualifies for the Goods and Sales Tax (GST) input tax credits in the amount of \$12,090 (2020: \$15,652), which may change pursuant to an audit by the taxation authorities.

### 7. EXPLORATION AND EVALUATION PROPERTIES

Exploration and evaluation properties includes the following amounts for the year ended 31 December 2021:

	Quatse Lake	Northern Nevada	San Emidio	Nickel Project	Total
	\$	\$	\$	\$	\$
<b>ACQUISITION COSTS</b>					
Balance, 1 January 2021	48,457	-	-	-	48,457
Additions	115,000	78,879	157,028	1,075,000	1,425,907
<b>Balance, 31 December 2021</b>	<b>163,457</b>	<b>78,879</b>	<b>157,028</b>	<b>1,075,000</b>	<b>1,474,364</b>
<b>EXPLORATION AND EVALUATION COSTS</b>					
Balance, 1 January 2021	-	-	-	-	-
Assaying	-	1,011	-	-	1,011
Field expenses	100,290	145,872	-	-	246,162
Staking	-	31,572	-	-	31,572
<b>Balance, 31 December 2021</b>	<b>100,290</b>	<b>178,455</b>	<b>-</b>	<b>-</b>	<b>278,745</b>
<b>Total costs</b>	<b>263,747</b>	<b>257,334</b>	<b>157,028</b>	<b>1,075,000</b>	<b>1,753,109</b>

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**7. EXPLORATION AND EVALUATION PROPERTIES (CONTINUED)**

Exploration and evaluation properties includes the following amounts for the year ended 31 December 2020:

	Glencore Bucke	Teledyne Cobalt	Quatse Lake	Total
	\$	\$	\$	\$
<b>ACQUISITION COSTS</b>				
Balance, 1 January 2020	106,991	106,992	48,457	262,440
Disposition	(106,991)	(106,992)	-	(213,983)
<b>Balance, 31 December 2020</b>	-	-	<b>48,457</b>	<b>48,457</b>
<b>EXPLORATION AND EVALUATION COSTS</b>				
Balance, 1 January 2020	3,555	7,463	-	11,018
Disposition	(3,555)	(7,463)	-	(11,018)
<b>Balance, 31 December 2020</b>	-	-	-	-
<b>Total costs</b>	-	-	<b>48,457</b>	<b>48,457</b>

***Quatse Lake***

On 17 October 2019 the Company entered into a property option agreement to acquire a 100-percent interest in three mineral claims known as the Caledonia, Cascade and Bluebell, subject to a 2-percent net smelter return (NSR). The claims are located in the Nanaimo mining district of northern Vancouver Island. Finder's fee of 80,000 shares (with a fair value of \$2,800) were issued.

The terms of the option agreement are:

- (a) By making cash payments to the Optionor as follows:
  - (i) \$10,000 upon Exchange approval (paid);
  - (ii) \$10,000 on the first anniversary of Exchange approval (paid);
  - (iii) \$15,000 on the second anniversary of Exchange approval (paid);
  - (iv) \$20,000 on the third anniversary of Exchange approval; and
  - (v) \$45,000 cash on the fourth anniversary of Exchange approval.
- (b) Completing the issuance to the Optionor of 100,000 fully paid and non-assessable common shares in the capital of the Optionee (the "Consideration Shares") as follows:
  - (i) 20,000 Consideration Shares upon receipt of Exchange approval (issued with a fair value of \$7,000) (Note 11);
  - (ii) 20,000 Consideration Shares on or before the one (1) year anniversary of Exchange approval (200,000 issued with a fair value of \$16,000) (Note 11 and 13);
  - (iii) 20,000 Consideration Shares on or before the two (2) year anniversary of Exchange approval (200,000 issued with a fair value of \$74,000) (Note 11 and 13);
  - (iv) 20,000 Consideration Shares on or before the three (3) year anniversary of Exchange approval; and
  - (v) 20,000 Consideration Shares on or before the four (4) year anniversary of Exchange approval.

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**7. EXPLORATION AND EVALUATION PROPERTIES (CONTINUED)**

- (c) Incurring cumulative minimum expenditures of \$200,000 in exploration expenditures on the property on or before the four (4) year anniversary of Exchange Approval.

On 1 November 2019, the Company entered into a purchase and sale agreement with John Malcolm Bell (Vendor) to acquire four mineral claims comprising 1,786 hectares located near Quatse Lake, in the Nanaimo Mining Division of British Columbia. The Company made cash payment of \$3,657 upon signing the agreement and issued the Vendor 100,000 fully paid and non-assessable common shares with a fair value of \$25,000 upon acceptance of the agreement by Exchange during the 2019 fiscal year.

***Northern Nevada***

On 28 June 2021, the Company acquired 38 mineral claims in Northern Nevada. The terms of the mineral claim acquisition are:

- (a) Making a cash payment to the vendor in the amount of \$12,000 (U.S.) upon signing of the agreement (paid); and  
(b) Issuing to the vendor 250,000 paid and non-assessable common shares in the capital of the Company upon acceptance of the agreement by the Exchange (issued with a fair value of \$63,750) (Note 11 and 13).

***San Emidio***

On 16 September 2021, and approved by the Exchange on 23 September 2021 (the “Effective Date”), the Company entered into an option agreement with Lithium Corp., whereby the Company may earn an undivided 80-per-cent interest in the existing San Emidio Desert lithium project that consists of 35 mineral claims located northeast of Reno, Nevada, referred to as the San Emidio lithium property.

The terms of the acquisition are:

- (a) Making a cash payment to the vendor in the amount of \$50,000 (U.S.) (paid) and issuing 200,000 common shares upon signing of the agreement (issued with a fair value of \$68,000) (Note 11 and 13);  
(b) \$70,000 (U.S.) and \$30,000 (U.S.) in common shares on or before the first anniversary of the Effective Date;  
(c) \$70,000 (U.S.) and \$30,000 (U.S.) in common shares on or before the second anniversary of the Effective Date;  
(d) \$70,000 (U.S.) and \$50,000 (U.S.) in common shares on or before third anniversary of the Effective Date;  
(e) \$70,000 (U.S.) and \$70,000 (U.S.) in common shares on or before the fourth anniversary of the Effective Date; and  
(f) \$70,000 (U.S.) and \$90,000 (U.S.) in common shares on or before the fifth anniversary of the Effective Date.

On 20 September 2021, the Company issued 71,200 finder’s shares valued at \$24,208 in relation to the San Emidio property (Note 11 and 13).

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**7. EXPLORATION AND EVALUATION PROPERTIES (CONTINUED)**

*San Emidio (continued)*

Expenditure and work commitment

Incur a minimum in Expenditures for exploration and development work on the property of \$1 million (U.S.) as follows:

- (a) \$100,000 (U.S.) of expenditures to be incurred, or caused to be incurred, by the optionee on the property on or before the first anniversary of the effective date;
- (b) A cumulative total of \$250,000 (U.S.) of expenditures to be incurred, or caused to be incurred, by the optionee on the property on or before the second anniversary of the effective date;
- (c) A cumulative total of \$450,000 (U.S.) of expenditures to be incurred, or caused to be incurred, by the optionee on the property on or before the third anniversary of the effective date;
- (d) A cumulative total of \$700,000 (U.S.) of expenditures to be incurred, or caused to be incurred, by the optionee on the property on or before the fourth anniversary of the effective date; and
- (e) A cumulative total of \$1-million (U.S.) of expenditures to be incurred, or caused to be incurred, by the optionee on the property on or before the fifth anniversary of the effective date.

*Nickel Project*

On July 7, 2021, the Company entered into an option agreement with Nickel Rock Resources Inc., whereby the Company can acquire an 80-per-cent interest in claims in the Mount Sidney Williams area, located in Northern British Columbia. The transaction is a related party transaction due to officers in common between Nickel Rock Resources Inc. and the Company (Note 10).

Under the terms of the agreement, the Company will earn an 80-per-cent interest in the property by issuing five million shares on closing (issued with a fair value of \$1,075,000) (Note 11 and 13) and incurring \$200,000 in exploration expenditures over a two-year period. A portion of the property is subject to a pre-existing 2.0-per-cent NSR held by an arm's-length third party.

*Glencore Bucke & Teledyne Cobalt Project*

On 7 May 2018, the Company entered into a property option agreement with Fuse Cobalt Inc. ("Fuse", formerly LiCo Energy Metals Inc.) to acquire, the right to earn an undivided and up to 60% interest in to the Glencore Bucke Property and Teledyne Cobalt Properties located in Bucke and Lorrain Townships, Cobalt, Ontario. The option agreement is "nonarms length" and is a related party transaction due to an officer in common between Fuse and the Company.

In order to earn the 60% interest in the mineral claims, the Company was required to issue shares, make payments and incur exploration expenditures as follows: (a) Make cash payment of \$240,000 upon Exchange approval (paid); (b) Issue 100,000 shares upon Exchange approval (issued) and (c) Incur \$1,536,000 in exploration expenditures by 7 May 2020. On 25 February 2020, the property option agreement was terminated. By doing so, Fuse will retain 100% interest in the Glencore Bucke and Teledyne Claims upon Fuse issuing the Company 2,500,000 pre-split common shares of Fuse at a fair value of \$0.09 per share (Note 8 and 10). The Company recorded an impairment of \$248,017 during the year ended 31 December 2019 to write down these properties to their fair value.

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### 7. EXPLORATION AND EVALUATION PROPERTIES (CONTINUED)

#### *Trapper Lake*

On 15 July 2019, the Company purchased all legal and beneficial ownership in the Golden Triangle Property and paid \$37,306. The Company incurred \$3,000 in staking cost. On 5 September, 2019 the Company acquired a 100-per-cent interest in additional gold-copper mineral claims adjoining its Trapper Lake property for the new mineral claims. The Company made a cash payment to the vendor in the amount of \$17,355 (paid) and issuing 50,000 fully paid and non-assessable common shares in the capital of the company (issued with a fair value of \$40,000). During the year ended 31 December 2020, the Company sold its Trapper Lake property to Brixton Metals Corp. (“Brixton”) for 350,000 shares of Brixton (with a fair value of \$61,250) (Note 8). Since the transaction met all the criteria of IFRS 5 – Asset Held for Sale, the Company wrote down the Trapper Lake property by \$41,359 to its estimated fair value of \$61,250 and reclassified the property from exploration and evaluation properties to asset held for sale during the year ended December 31, 2019.

### 8. MARKETABLE SECURITIES

On 7 January 2020, the Company received 350,000 shares of Brixton with a fair value of \$61,250 at issuance in relations to the sale of its Trapper Lake property (Note 7). During the year ended 31 December 2020, the Company sold all Brixton shares for \$61,560, and recorded a gain from sale of marketable securities of \$310.

On 25 February 2020, the Company received 2,500,000 pre-split shares from Fuse in relations to the early termination of the Glencore Bucke and Teledyne Cobalt Project option agreement (Note 7 and 10). The shares had a fair value of \$0.09 per share at issuance.

During the year ended 31 December 2020, Fuse underwent a two for one share split, so that the Company held 5,000,000 common shares with a fair value of \$0.04 per share at 31 December 2020. The Company recognized recorded an unrealized loss on marketable securities of \$25,000 for the year ended 31 December 2020

During the year ended 31 December 2021, the Company sold all Fuse shares for \$798,088, and recorded a gain from sale of marketable securities of \$598,088 (2020 - \$Nil).

### 9. TRADE AND OTHER PAYABLES

The Company’s trade payables and accrued liabilities are principally comprised of amounts for administrative activities. These are broken down as follows:

	31 December 2021	31 December 2020
Trade payables	\$ 63,620	\$ 306,088
Accrued liabilities	20,000	40,330
<b>Total trade and other payables</b>	<b>83,620</b>	346,418

Included in trade payables is \$14,425 (2020: \$163,978) due to related parties (Note 10).

# Surge Battery Metals Inc. (formerly Surge Exploration Inc.)

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### 10. RELATED PARTY TRANSACTIONS

For the year ended 31 December 2021 and 2020, the Company had transactions with the following companies related by way of directors, officers or shareholders in common:

- Fuse, a company with certain directors and former officers in common with the Company; and
- Nickel Rock Resources Inc. (formerly Nevada Energy Metals Inc.), a company with certain directors, officers, and former officers in common with the Company.

#### 10.1 Key management personnel compensation

The remuneration of directors and other members of key management for the years ended 31 December 2021 and 2020 as follows:

	2021	2020
	\$	\$
Short-term benefits – consulting, management, legal fees	157,442	160,000
Share-based payments	309,358	-
<b>Total related party expenses</b>	<b>466,800</b>	160,000

#### 10.2 Related party transactions are summarized as follows:

Related party transactions for the years ended 31 December 2021 and 2020 summarized as follows:

	2021	2020
	\$	\$
Consulting fees to Company controlled by former CEO	-	18,000
Consulting fees to Company controlled by CFO	50,000	45,000
Consulting fees to the Corporate Secretary	83,000	97,000
Legal fees to a Director	24,442	-
<b>Total related party expenses</b>	<b>157,442</b>	160,000

During the year ended 31 December 2020, the Company received 2,500,000 pre-split shares of Fuse at a fair value of \$0.09 per share at issuance in relations to the early termination of the Glencore Bucke and Teledyne Cobalt Project option agreement (Notes 7 and 8).



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### 10. RELATED PARTY TRANSACTIONS (CONTINUED)

#### 10.3 Due to related parties:

The liabilities of the Company include the following amounts due to related parties (Note 8):

As at	31 December 2021	31 December 2020
	\$	\$
Former CFO	1,076	1,076
Former director and Vice President	-	60,576
Corporate Secretary	-	89,254
Nickel Rock Resources Inc.	13,349	13,072
<b>Total amount due to related parties</b>	<b>14,425</b>	<b>163,978</b>

These amounts are unsecured, interest-free and payable on demand.

### 11. SHARE CAPITAL

#### 11.1 Authorized share capital

The Company has authorized share capital of an unlimited number of common shares with no par value.

As at 31 December 2021, the Company had 94,505,820 common shares issued and outstanding (2020: 9,841,564).

#### 11.2 Share issuance

##### a) Private Placements

- On 4 February 2021, the Company issued 40,000,000 units at \$0.06 per unit for cash proceeds of \$2,400,000. Each Unit is comprised of one common share and one share purchase warrant which entitles the holder to purchase one additional common share at \$0.08 per share during the five years following the date of closing. The Company also paid finder fees in the amount of 3,950,000 common shares with a fair value of \$237,000 and 1,975,000 warrants with a fair value of \$213,675 (Note 13). The finders' warrants are exercisable at \$0.08 per share for five years and were valued using the Black Scholes Option Pricing Model with the following assumptions: expected life of 5 years, volatility of 160%, risk-free interest rate of 0.49%, and dividend yield of 0%.

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**11. SHARE CAPITAL (CONTINUED)**

**11.2 Share issuance (continued)**

- On 15 December 2021, the Company issued 5,138,890 flow-through (FT) units at \$0.18 per FT unit for gross proceeds of \$925,000. Each FT unit comprises one flow-through common share and one-half of one non-flow-through share purchase warrant. Each whole share purchase warrant entitles the holder to purchase one additional common share at \$0.22 per share for two years following the date of closing. The flow-through premium recognized as a liability is \$179,861 (Note 13). The Company issued 411,110 finders' warrants with a fair value of \$36,544 and paid cash share issuance costs of \$87,185. The finders' warrants are exercisable at \$0.18 per share for two years and were valued using the Black Scholes Option Pricing Model with the following assumptions: expected life of 2 years, volatility of 132%, risk-free interest rate of 0.49%, and dividend yield of 0%.

b) Exploration and Evaluation Property Acquisition

- On 1 January 2021, the Company issued 200,000 common shares valued at \$16,000 in relation to the Quatse Lake property (Notes 7 and 13).
- On 16 July 2021, the Company issued 250,000 common shares valued at \$63,750 in relation to the Northern Nevada property (Notes 7 and 13).
- On 20 September 2021, the Company issued 200,000 common shares valued at \$68,000 and 71,200 finder's shares valued at \$24,208 in relation to the San Emidio property (Notes 7 and 13).
- On 25 October 2021, the Company issued 200,000 common shares valued at \$74,000 in relation to the Quatse Lake property (Notes 7 and 13).
- On 18 November 2021, the Company issued 5,000,000 common shares valued at \$ 1,075,000 in relation to the Nickel Project (Notes 7 and 13).

c) Exercise of Options

- During the year ended 31 December 2021, the Company issued 850,000 common shares related to the exercise of 850,000 options at exercise price of \$0.06 for proceeds of \$51,000. The weighted average share price on the dates of exercise was \$0.22.

d) Exercise of Warrants

- During the year ended 31 December 2021, the Company issued 28,804,166 common shares related to the exercise of 28,804,166 warrants at exercise price of \$0.08 for proceeds of \$2,304,400. The weighted average share price on the dates of exercise was \$0.22.

# Surge Battery Metals Inc. (formerly Surge Exploration Inc.)

## Notes to the Consolidated Financial Statements

For the years ended 31 December 2021 and 2020

(Expressed in Canadian dollars)

### 11. SHARE CAPITAL (CONTINUED)

#### 11.3 Stock Options

The Company's incentive stock option plan allows for the grant of options to employees, consultants, officers and directors providing the number of shares that may be purchased under the option plan and all previously granted options, does not exceed 10% of the issued and outstanding share capital at the date of grant. The exercise price of the options granted will be no less than the discounted market price of the Company's shares (subject to a minimum of \$0.05) and the maximum term of the options is ten years.

During the year ended 31 December 2021, the Company granted the following stock options:

- 850,000 stock options on 8 January 2021 exercisable at \$0.06 for 5 years;
- 4,000,000 stock options on 9 February 2021 exercisable at \$0.105 for 5 years;
- 390,000 stock options on 13 April 2021 exercisable at \$0.19 for 5 years;
- 2,500,000 stock options on 13 August 2021 exercisable at \$0.165 for 5 years; and
- 500,000 stock options on 10 September 2021 exercisable at \$0.21 for 5 years.

All the above options vested upon grant.

The following is a summary of the changes in the Company's stock option activities for the periods ended 31 December 2021 and 31 December 2020:

	31 December 2021		31 December 2020	
	Number of options	Weighted-average exercise price	Number of options	Weighted-average exercise price
Outstanding, beginning	383,000	0.67	383,000	\$ 0.67
Granted	8,240,000	0.13	-	-
Exercised	(850,000)	0.06	-	-
Cancelled/Expired	(430,000)	0.42	-	-
<b>Outstanding, ending</b>	<b>7,343,000</b>	<b>0.15</b>	383,000	0.67

# Surge Battery Metals Inc. (formerly Surge Exploration Inc.)

## Notes to the Consolidated Financial Statements

For the years ended 31 December 2021 and 2020

(Expressed in Canadian dollars)

### 11. SHARE CAPITAL (CONTINUED)

#### 11.3 Stock options (continued)

The following table summarizes information regarding stock options outstanding and exercisable as 31 December 2021:

Exercise price	Number of options outstanding	Number of options exercisable	Weighted-average remaining contractual life (years)	Weighted-average exercise price
<b>Options</b>				\$
11 December 2022	33,000	33,000	0.95	0.35
10 January 2023	120,000	120,000	1.03	0.70
08 February 2026	3,800,000	3,800,000	4.11	0.11
13 April 2026	390,000	390,000	4.28	0.19
13 August 2026	2,500,000	2,500,000	4.62	0.17
10 September 2026	500,000	500,000	4.70	0.21
<b>Total</b>	<b>7,343,000</b>	<b>7,343,000</b>	<b>4.27</b>	<b>0.15</b>

During the year ended 31 December 2021, the fair value of share-based payment expense recognized is \$1,298,077 (2020: \$Nil) or \$0.16 per option (2020: \$Nil). The fair value was calculated using the Black-Scholes Option Pricing Model using the following weighted average assumptions:

	31 December 2021	31 December 2020
Risk free interest rate	0.49%	-
Expected life	5 years	-
Expected volatility	160.39%	-
Expected dividend per share	0%	-

# Surge Battery Metals Inc. (formerly Surge Exploration Inc.)

## Notes to the Consolidated Financial Statements

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### 11. SHARE CAPITAL (CONTINUED)

#### 11.4 Share purchase warrants

The following is a summary of the changes in the Company's share purchase warrants for the year ended 31 December 2021 and 31 December 2020:

	2021		2020	
	Number of warrants	Weighted-average exercise price	Number of warrants	Weighted-average exercise price
Outstanding, beginning	800,000	\$ 0.50	1,591,391	\$ 0.80
Granted	44,955,554	0.09	-	-
Exercised	(28,804,166)	0.08	-	-
Cancelled/Expired	(800,000)	0.50	(791,391)	1.16
<b>Outstanding, ending</b>	<b>16,151,388</b>	<b>0.10</b>	<b>800,000</b>	<b>0.50</b>

The following table summarizes information regarding share purchase warrants outstanding and exercisable as at 31 December 2021:

Exercise price	Number of warrants outstanding	Weighted-average remaining contractual life (years)	Weighted-average exercise price
<b>Share purchase warrants</b>			\$
15 December 2023	2,980,554	1.96	0.21
03 February 2026	13,170,834	4.10	0.08
<b>Total</b>	<b>16,151,388</b>	<b>3.71</b>	<b>0.10</b>

The weighted average fair value of warrants granted during the year ended 31 December 2021 was \$0.10 (2020: \$Nil).

#### 11.5 Contributed surplus

Contributed surplus records items recognized as share-based payments.

# Surge Battery Metals Inc. (formerly Surge Exploration Inc.)

## Notes to the Consolidated Financial Statements

For the years ended 31 December 2021 and 2020

(Expressed in Canadian dollars)

### 12. LOSS PER SHARE

The calculation of basic and diluted loss per share is based on the following data:

	2021	2020
Net loss for the year	\$ (2,153,331)	\$ (382,634)
Weighted average number of shares – basic and diluted	67,063,677	9,888,122
<b>Loss per share, basic and diluted</b>	<b>\$ (0.03)</b>	<b>\$ (0.04)</b>

The basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the period. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options, share purchase warrants and convertible debentures, in the weighted average number of common shares outstanding during the period, if dilutive. All of the stock options and share purchase warrants were anti-dilutive for the years ended 31 December 2021 and 2020.

### 13. SUPPLEMENTAL CASH FLOW INFORMATION

During the years ended 31 December 2021 and 2020, the Company had the following non-cash investing and financing activities:

- The Company made certain option payments by issuance of common shares with respect to exploration and evaluation properties valued at \$1,320,958 (2020 - \$Nil) (Note 7 and 11).
- The Company paid finder's fees of \$237,000 by issuing common shares (2020 - \$Nil) (Note 11).
- The Company recognized a flow through premium of \$179,861 for flow through shares issued on 15 December 2021 (2020 - \$Nil) (Note 11).

### 14. FINANCIAL INSTRUMENTS

#### 14.1 Categories of financial instruments

	31 December 2021	31 December 2020
<b>FINANCIAL ASSETS</b>	\$	\$
<b>FVTPL, at fair value</b>		
Cash	3,969,954	6,626
Marketable securities	-	200,000
<b>Total financial assets</b>	<b>3,969,954</b>	<b>206,626</b>
<b>Liabilities, at amortized cost</b>		
Trade and other payables	63,620	306,088
<b>Total financial liabilities</b>	<b>63,620</b>	<b>306,088</b>

# Surge Battery Metals Inc. (formerly Surge Exploration Inc.)

## Notes to the Consolidated Financial Statements

For the years ended 31 December 2021 and 2020

(Expressed in Canadian dollars)

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### 14. FINANCIAL INSTRUMENTS (CONTINUED)

The Company is exposed through its operations to the following financial risks:

- Market Risk
- Credit Risk
- Liquidity Risk

In common with all other businesses, the Company is exposed to risks that arise from its use of financial instruments. This note describes the Company's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these Consolidated Financial Statements.

There have been no substantive changes in the Company's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous years unless otherwise stated in the note.

#### 14.2 General Objectives, Policies and Processes

The Board of Directors has overall responsibility for the determination of the Company's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Company's finance function. The Board of Directors receives monthly reports through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the Board of Directors is to set policies that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility. Further details regarding these policies are set out below.

#### 14.3 Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices such as interest rate risk.

#### 14.4 Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company does not have any borrowings. Interest rate risk is limited to potential decreases on the interest rate offered on cash and cash equivalents held with chartered Canadian financial institutions. This risk is considered minimal.

#### 14.5 Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its cash. The Company limits exposure to credit risk by maintaining its cash with large financial institutions. This risk is considered minimal.

# Surge Battery Metals Inc. (formerly Surge Exploration Inc.)

## Notes to the Consolidated Financial Statements

For the years ended 31 December 2021 and 2020

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### 14. FINANCIAL INSTRUMENTS (CONTINUED)

#### 14.6 Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company manages liquidity risk by maintaining adequate cash and restricted cash balances. The Company continuously monitors both actual and forecasted cash flows and matches the maturity profile of financial assets and liabilities.

As at 31 December 2021, the Company had a cash balance of \$3,969,954 (2020: \$6,626) and receivables of \$12,090 (2020: \$15,652) to settle current liabilities due in twelve months or less of \$83,620 (2020: \$346,418) and carry out its planned exploration program in the coming year. Management seeks additional financing through the issuance of equity instruments and liquidation of its marketable securities, either partial or in full, to continue its operations, and while it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future. Liquidity risk is assessed as high.

#### 14.7 Currency Risk

The Company is exposed to currency risk by incurring certain expenditures and holding assets denominated in currencies other than the Canadian dollar. The Company does not use derivative instruments to reduce its currency risk. Assuming all other variables remain constant, a 1% change in the Canadian dollar against the US dollar would not result in a significant change to the Company's operations. Currency risk is assessed as moderate.

#### 14.8 Determination of Fair Value

The carrying amounts for cash and accounts payable approximate fair value due to their short-term nature.

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

The Company's cash and marketable securities are measured at fair value level 1 inputs

### 15. CAPITAL DISCLOSURES

The Company's objectives when managing capital are to maintain an appropriate capital base in order to:

1. Advance the Company's corporate strategies to create long-term value for its stakeholders;
2. Sustain the Company's operations and growth throughout metals and materials cycles; and
3. Ensure compliance with the covenants of any applicable credit facility and other financing facilities used from time to time.



# **Surge Battery Metals Inc. (formerly Surge Exploration Inc.)**

## **Notes to the Consolidated Financial Statements**

**For the years ended 31 December 2021 and 2020**

(Expressed in Canadian dollars)

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### **15. CAPITAL DISCLOSURES**

The Company monitors its capital and capital structure on an ongoing basis to ensure it is sufficient to achieve the Company's short-term and long-term strategic objectives. Management primarily funds the Company's exploration by issuing share capital, rather than using other capital sources that require fixed repayments of principal and interest. Management closely monitors its cash balance. The balance of cash as at 31 December 2021 was \$3,969,954 (2020: \$6,626). The Company does not currently have significant debt outstanding and there are presently no formal capital requirements with which the Company has not complied.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is appropriate. There were no changes in the Company's approach to capital management during the period ended 31 December 2021.

### **16. SEGMENTED INFORMATION**

The Company's only business activity is exploration and development of exploration and evaluation properties carried out in Canada and the United States.

### **17. COMMITMENTS AND CONTINGENCIES**

- a) As at 31 December 2021, the Company has \$925,000 (2020: \$109,521) remaining to be spent on qualifying Canadian exploration expenditures under the terms of the flow-through share agreements (Notes 5, 7 and 11).
- b) As at 31 December 2021, the Company owns exploration and evaluation properties (Note 7). Management does not consider that any amounts related to decommissioning liabilities are payable although there is no assurance that a formal claim will not be made against the Company for some or all of these obligations in the future.
- c) The Company has indemnified the subscribers of flow-through shares of the Company issued in prior years against any tax related amounts that may become payable as a result of the Company not making eligible expenditures.
- d) The Company's exploration activities are subject to various Canadian federal and provincial laws and regulations governing the protection of the government. These laws and regulations are continually changing and generally becoming more restrictive. The Company conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

# Surge Battery Metals Inc. (formerly Surge Exploration Inc.)

## Notes to the Consolidated Financial Statements

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### 18. DEBT SETTLEMENT AND MUTUAL RELEASE AGREEMENT

In 2018, the Company commenced legal action against the former CFO and his company (the “Creditor”) for the former CFO’s breach of common law and statutory fiduciary duties owed to the Company during the year ended 2018.

The Creditor filed a counterclaim against the Company in relation to the settlement of his prior year debts owed to him by the Company. Initially during year ended 31 December 2018, the Company and the Creditor entered into an agreement to settle an aggregate balance of \$56,395 (the “Debts”) by the issuance of the Company’s shares subject to certain terms of the agreement. The Company issued 92,862 common shares to settle a portion of the Debts as a result of regulatory restriction. The Creditor did not accept the settlement.

During the year ended 31 December 2020, the Company reached a debt settlement and mutual release agreement with the Creditor, in which the Creditor returned 92,862 common shares previously issued and to be returned to treasury, and the Company paid a sum of \$45,000 to settle the Debts claimed by the Creditor, realizing a gain of \$11,395. The Company and Creditor further mutually agreed to not take any further legal action against each other in relation to the subject matter of the settlement agreement.

During the year ended 31 December 2021, the Company recognized a gain of \$66,110 related to the write off of accounts payable (2020: \$18,774).

### 19. INCOME TAXES

The provision for income taxes in the statement of loss and comprehensive represents an effective rate different than would be computed by applying the combined Canadian statutory federal and provincial income tax rates to the loss before income taxes due to the following:

As at December 31,	2021 \$	2020 \$
Net loss for the year	2,153,331	382,634
Canadian federal and provincial income tax rates	27.00%	27.00%
Expected income tax recovery	581,399	103,311
Permanent differences	(254,032)	(62,501)
Change in valuation allowance	(327,367)	(40,810)
Total income tax recovery	-	-

# Surge Battery Metals Inc. (formerly Surge Exploration Inc.)

## Notes to the Consolidated Financial Statements

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### 19. INCOME TAXES (CONTINUED)

The tax effect of temporary differences that gives rise to the Company's net future income tax assets is as follows:

As at December 31,	2021 \$	2020 \$
<b>Deferred tax assets</b>		
Non-capital loss carry forward	2,220,874	1,899,799
Net capital loss	-	3,225
Mineral properties, tax value in excess of carrying value	970,121	970,121
Other assets	58	58
Share issue costs	21,397	5,130
Unrealized loss on marketable securities	-	6,750
	<b>3,212,450</b>	2,885,083
Less: Valuation allowance	<b>(3,212,450)</b>	(2,885,083)
<b>Total deferred tax assets</b>	<b>-</b>	<b>-</b>

At 31 December 2021, the Company had capital losses in Canada totaling \$Nil that may be carried forward indefinitely, cumulative exploration and development expenses of \$5,346,149, and a non-capital loss carry forward of \$8,225,461 available for tax purposes in Canada which expires as follows:

Tax Operating Losses (\$)	Year of Expiry
236,342	2026
395,687	2027
285,499	2028
278,356	2029
488,061	2030
629,881	2031
471,642	2032
360,178	2033
67,250	2034
442,165	2035
333,769	2036
306,237	2037
1,435,657	2038
907,209	2039
389,485	2040
1,198,043	2041
<b>8,225,461</b>	<b>Total non-capital losses</b>

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**20. SUBSEQUENT EVENTS**

Subsequent to 31 December 2021, the Company has the following event:

On 23 March 2022, the Company entered into an option agreement to earn an undivided 80-per-cent interest in claims located in Nevada's San Emidio Desert. These lithium exploration claims, referred to as the Galt claim group, adjoin the company's existing San Emidio Desert lithium claims.

The proposed consideration for the undivided 80-per-cent interest in the Galt claim group is as follows:

- \$20,000 to be paid upon the closing of the transaction;
- One million restricted company shares to be issued upon the closing of the transaction, which shares shall vest and be released as follows: 25 per cent released on the closing of the transaction and 25 per cent released each three-month period thereafter;
- Four million warrants with at an exercise price of \$0.30 per share with a five-year term and vesting on the same schedule as the shares in above; and
- \$10,000 each year on the anniversary of the closing of the transaction for five years.

The transaction will be subject to Exchange approval.

**21. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS**

The financial statements of the Company for the year ended 31 December 2021 were approved and authorized for issue by the Board of Directors on 19 April 2022.