

**LITHIUM SOUTH DEVELOPMENT CORPORATION**  
**FORM 51-102F1**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**JUNE 30, 2023**

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This Management Discussion and Analysis (“MD&A”) of Lithium South Development Corporation (“LIS” or the “Company”) provides analysis of the Company’s unaudited financial results for the period ended June 30, 2023 and should be read in conjunction with the unaudited condensed interim consolidated financial statements for the period ended June 30, 2023 and the audited consolidated financial statements for the year ended December 31, 2022 and the related notes thereto, prepared in accordance with International Financial Reporting Standards (“IFRS”). All amounts are expressed in Canadian dollars, unless otherwise stated. All documents previously mentioned are available on SEDAR at [www.sedar.com](http://www.sedar.com). This discussion is based on information available as at August 28, 2023.

Management is responsible for the preparation and integrity of the financial statements, including the maintenance of appropriate information systems, procedures and internal controls. Management is also responsible for ensuring that information disclosed externally, including the financial statements and MD&A, is complete and reliable.

Certain statements made may constitute forward-looking statements. Such statements involve a number of known and unknown risks, uncertainties and other factors. Actual results, performance and achievements may be materially different from those expressed or implied by these forward-looking statements. Additional information about the Company is available at [www.sedarplus.ca](http://www.sedarplus.ca).

### **Description of Business**

The Company was incorporated in the Province of Ontario on June 20, 1995. Effective January 15, 2007, the Company was granted a Certificate of Continuation under the Business Corporation Act from the jurisdiction of Ontario into British Columbia. The Company is an exploration stage junior mining company engaged in the identification, acquisition and exploration of mineral properties. The common shares of the Company are listed on the TSX Venture Exchange (“TSX-V”) and trade under the symbol NGZ and during year ended December 31, 2020, the Company changed its name from NRG Metals Inc. to Lithium South Development Corporation and trade under the symbol LIS. To date, the Company has not generated significant revenues from its operations which are considered to be in the exploration stage.

During March 2020, the World Health Organization declared COVID-19 a global pandemic. The contagious disease outbreak and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, leading to an economic downturn. The impact on the Company is not currently determinable, but management continues to monitor the situation.

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**Hombre Muerto North Lithium Project (“HMN Project”)**

The Company owns the project which was acquired through a purchase option agreement from a private borate producer from Salta, Argentina. At June 30, 2022, the Company had capitalized a total of \$12,085,974 (December 31, 2021 - \$8,194,374) related to the HMN acquisition. Terms of the acquisition are as follows:

1. US \$50,000 (paid) on signing for a 90-day due diligence period and for the completion of a NI 43-101 Technical Report on the project.
2. Upon acceptance of the NI 43-101 report by the TSX, the Company will pay US \$100,000 and issue 1,000,000 common shares of the Company common stock (issued at a fair value of \$350,000 in fiscal 2017).
3. At March 17, 2018, US \$250,000 (paid) and 41,667 common shares of the Company (issued at a fair value of \$250,000).
4. At September 17, 2018, US \$250,000 (paid) and 41,667 common shares of the Company (issued at a fair value of \$200,000).
5. At March 17, 2019, US \$1,000,000 subsequently amended to be US\$500,000 (paid) due in March 2019 and US\$500,000 due June 24, 2019 (paid) and 166,667 common shares of the Company. (issued)
6. At March 22, 2020, US \$1,000,000 (paid) and 2,250,000 (issued at a fair value of \$528,750) common shares of the Company.
7. At March 17, 2021, US \$1,000,000 (paid) and 2,250,000 (issued at a fair value of \$1,822,500) common shares of the Company.
8. At March 17, 2022, US \$2,000,000 (paid) and 2,250,000 (issued at a fair value of \$1,315,000) common shares of the Company.
9. The project will be subject to a 3% Net Production Royalty.

**Exploration**

The Company incurred exploration costs as follows:

	Six months ended June 30, 2023	Six months ended June 30, 2022
Consultants, geologists and camp employees	\$ 570,607	\$ 448,845
Drilling, drilling prep, staggng and road costs	1,908,571	694,208
Amortization of equipment	18,870	-
Field supplies, camp costs, cannon payments and other	1,963,175	844,302
<b>Total</b>	<b>\$ 4,461,223</b>	<b>\$ 2,105,155</b>

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Current period highlights of exploration are as follows:

On May 16, 2023, the Company provided final results for the recently completed resource expansion drilling program at the 5,687-hectare Hombre Muerto North (HMN) lithium project in Salta province, Argentina. The program comprised eight core holes, seven located on the Alba Sabrina claim block (2089 hectares) and one on the Natalia Maria claim block (115 hectares). Combined with the previously drilled Tramo claim block (383 hectares) the company has now evaluated 70 per cent of the owned salar surface area.

Well	Property	Brine Samples	Average Li concentration [mg/L]	Porosity S
DDH-AS22-01	Alba Sabrina	7	722	13
DDH-AS22-02	Alba Sabrina	6	633	14
DDH-AS22-03	Alba Sabrina	6	663	15
DDH-AS22-04	Alba Sabrina	10	734	15
DDH-AS22-05	Alba Sabrina	8	705	6
DDH-AS22-06	Alba Sabrina	3	644	6
DDH-AS22-07	Alba Sabrina	1	599	2
DDH-AS22-07A	Alba Sabrina	1	694	3
DDH-NM23-01	Natalia Maria	9	1176	11

*Table 1: Lithium results for the brine samples collected using a packer system from the exploration holes at the Alba Sabrina and the Natalia claim blocks.*

Management is pleased with the excellent results from all holes. The Alba Sabrina drill program returned an average lithium concentration of 692 milligrams/litre lithium. The Natalia Maria core hole returned an average of 1,176 mg/litre lithium. The program was completed under the supervision of Dr. Mark King, qualified person of Groundwater Insight of Halifax, N.S. Lithium assay work was completed by Alex Stewart Laboratories (ISO certified) of Mendoza, Argentina. Additionally, core samples have been submitted to GeoSystems Analysis Inc. in Tucson, Ariz., for porosity analysis and results are expected in the next few weeks.

Lithium South Development is currently drilling five shallow monitoring wells on the Tramo property, to monitor groundwater levels in the salar and to support future pumping tests. The monitoring wells are located on the corners of the property. Three have been completed to date, and the remaining wells will be completed by the third week of May.

The company also plans to drill three pumping wells, two in Alba Sabrina and one in Natalia Maria, and conduct pumping tests at each well. Drilling is expected to begin in early June and completion of the pumping test program is anticipated in late August. The data obtained from the pumping tests will be used to assess hydrogeological parameters within the salar and to support future reserve estimation.

Lithium South Development is committed to responsible and sustainable exploration and development. The company is planning a third exploration campaign to drill Gaston Enrique, Via Monte and Norma Edith.

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The company is pleased with the progress achieved so far. With the Hombre Muerto North deposit yielding impressive results, Lithium South Development looks forward to further expanding its resource estimation and cementing its position as a leading lithium exploration company in the region.

On June 1, 2023, the Company completed a hydrological study on the Sophia II and Sophia III claim blocks, located at the Hombre Muerto salar, Salta province, Argentina. The report was completed by CM Hidrogeologia, a consulting and engineering company located in Salta, Argentina. Work to date has identified a potential water source near the 100-per-cent company owned Hombre Muerto North lithium project (HMN Li project), which is currently under development.

Water is a critical reagent for the production of lithium. In order to secure a reliable and sustainable water supply, the company acquired the Sophia I, II and III claim blocks for this purpose. Located approximately 10 kilometres north of the HMN Li project, the claim group is in close proximity to any future lithium production development.

Work to date included a vertical electric sounding of the Sophia II and III claim blocks. Three distinct geological zones have been identified and a drill program is now being designed to quantify the potential aquifer. Water was found on site to flow to surface.

On July 13, 2023, the Company announced that it has contracted Well Drilling of Salta, Argentina, for the provision of three pumping wells for the Hombre Muerto North lithium project (HMN Li project). The program is expected to be undertaken in the immediate future with rig availability in August.

After recent completion of the highly successful resource expansion program at the project, management is fast-tracking the development path. Two production wells, one 250 metres deep and one 400 metres deep, will be located on the Alba Sabrina claim block. One single pumping well 250 metres deep will be located on the Natalia Maria claim block. With two production wells previously installed at the Tramo claim block, the three project areas will host five production wells. The new wells will be utilized for long-term pumping tests to determine optimal pumping rates. This will determine the overall production potential for the three combined claims that make up the project area.

## **Results of Operations**

The Company incurred a loss of \$4,510,635 during the period ended June 30, 2023 (“current period”), compared to a loss of \$5,334,653 for the period ended June 30, 2022 (“comparative period”). Some of the significant changes for the current period compared to the comparative period are as follows:

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Exploration costs of \$4,461,223 (2022 - \$2,105,155) were incurred as the Company was actively exploring properties in Argentina and commenced its drill program as discussed above.

Marketing fees of \$300,594 (2022 - \$1,521,968) were incurred as the Company the Company engaged various consultants to provide services such as website landing page design, content development and digital marketing primarily through Google ads, digital media, corporate advisory, branding and strategic business services to the Company.

Share-based payments of \$333,968 (2022 - \$1,826,272), a non-cash expense was incurred during the period on the granting of incentive stock options to directors, officers and consultants of the Company.

**Summary of Quarterly Results**

	Three Months Ended June 30, 2023	Three Months Ended Mar. 31, 2023	Three Months Ended Dec. 31, 2022	Three Months Ended Sept. 30, 2022
Total assets	\$16,984,425	\$18,438,608	\$21,233,310	\$23,549,108
Evaluation and exploration assets	12,085,974	12,085,974	12,085,974	12,085,974
Working capital	4,660,505	6,124,064	8,612,552	11,140,303
Shareholders' equity	16,916,313	18,389,308	20,887,231	23,226,277
Loss for the period	(1,753,539)	(2,757,096)	(2,359,279)	(1,485,431)
Loss per share	(0.02)	(0.03)	(0.03)	(0.02)

  

	Three Months Ended June 30, 2022	Three Months Ended Mar. 31, 2022	Three Months Ended Dec. 31, 2021	Three Months Ended Sept. 30, 2021
Total assets	\$24,395,293	\$26,262,383	\$25,571,716	\$13,108,086
Evaluation and exploration assets	12,085,974	12,085,974	8,194,374	8,194,374
Working capital (deficiency)	12,186,064	14,067,220	17,314,360	4,867,155
Shareholders' equity	24,272,038	26,153,194	25,508,734	13,061,533
Loss for the period	(1,956,590)	(3,378,063)	(2,261,238)	(1,339,908)
Loss per share	(0.02)	(0.04)	(0.04)	(0.02)

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**Liquidity and Going Concern**

The Company has financed its operations to date primarily through the issuance of common shares, proceeds from related-party loans and the exercise of stock options and share purchase warrants. The Company continues to seek capital through various means including the issuance of equity and/or debt.

The Company's unaudited condensed interim consolidated financial statements for the period ended June 30, 2023 have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. As at June 30, 2023, the Company had working capital of \$4,660,505 (December 31, 2022 working capital of \$8,612,522) and an accumulated deficit of \$67,543,703 (December 31, 2022 - \$63,033,068). In addition, the Company has not generated enough revenues to meet its operating and administrative expenses or its other obligations. These circumstances cast significant doubt on the validity of the going concern assumption.

In order to continue as a going concern and to meet its corporate objectives, which primarily consist of exploration work on its Guyana mineral property, the Company will require additional financing through debt or equity issuances or other available means. Although the Company has been successful in the past in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company. Factors that could affect the availability of financing include the progress and exploration results of the mineral property, the state of international debt, equity and metals markets, and investor perceptions and expectations.

**Contingencies**

The Company has no contingencies at the date of this MD&A.

**Off-Balance Sheet Arrangements**

The Company has no off-balance sheet arrangements at the date of this MD&A.

**Investor Relations**

The Company has no investor relations agreements as at the date of this MD&A.

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**Related Party Transactions**

The Company incurred the following expenses charged by key management personnel and companies controlled by key management personnel, such personnel include the Company's Directors, Chief Executive Officer, Chief Financial Officer and Corporate Secretary:

	June 30, 2023	June 30, 2022
Consulting, management, exploration and professional fees charged by officers and directors and corporations under their control	\$ 399,775	\$ 191,360
Share-based payments	\$ -	\$ 983,377

Key management personnel were not paid any post-employment benefits, termination benefits, or other long-term benefits during the respective periods.

At June 30, 2023, the Company had a total amount due to related parties of \$Nil (2022 - \$85,592) classified within accounts payable and accrued liabilities. Amounts due to related parties are unsecured, due on demand, and bear no interest.

**Financial and Capital Risk Management**

The Company's financial instruments consist of cash, receivables, short-term investments and accounts payable and accrued liabilities. Cash has been designated as fair value through profit and loss, receivables as loans and receivables, and accounts payable and accrued liabilities and related party loans payable are designated as other financial liabilities. The fair value of these financial instruments approximates their carrying value due to the short-term nature of these instruments, except for cash which is valued at a level 1 fair value measurement. All the Company's financial liabilities have contractual maturities less than 30 days and are subject to normal trade terms.

The Company is exposed to a variety of financial risks by virtue of its activities including currency, credit, interest rate, liquidity and other price risk. There has been no change in the way management managed these risks for the period.

**Currency risk**

While the Company's parent is Canadian and its capital is raised in Canadian dollars, the Company was conducting business in Argentina, whose currency is the Peso. As such, it was subject to risk due to fluctuations in the exchange rates for the United States and Canadian dollars as well as the Argentina Peso. The Company does not manage currency risk through hedging or other currency management tools.

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As at June 30, 2023, the Company has cash and cash equivalents denominated in US dollars US\$28,302 (December 31, 2022 - US\$15,907). Based on a hypothetical change in the foreign exchange rate between the Canadian and the US dollars of 5% (2020 - 5%), the effect on net and comprehensive loss would be \$1,415 (December 31, 20022 - \$796).

As at June 30, 2023, the Company has cash denominated in Argentine Peso of \$93,985 (December 31, 2022 – \$558,882). Based on a hypothetical change in the foreign exchange rate between the Canadian dollar and Argentine Peso (2020 - Argentine Peso) of 7.5% (December 31, 2021 – 7.5%), the effect on net comprehensive loss would be \$7,048 (December 31, 2021 - \$41,916).

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The cash is held in a large Canadian financial institution, which has a strong credit rating from a primary credit rating institution. There is no risk associated with receivables as this is Goods and Services Tax (“GST”) due from the Canadian Government.

#### Interest rate risk

Interest rate risk consists of two components:

- (a) To the extent that payments made or received on the Company’s monetary assets and liabilities are affected by changes in the prevailing market interest rates, the Company is exposed to interest rate cash flow risk.
- (b) To the extent that changes in prevailing market rates differ from the interest rate in the Company’s monetary assets and liabilities, the Company is exposed to interest rate price risk.

Due to the short-term nature of the Company’s financial instruments fluctuations in market rates do not have a significant impact on estimated fair values as of June 30, 2022. Future cash flows from interest income on cash will be affected by interest rate fluctuations. The Company manages interest rate risk by maintaining an investment policy that focuses primarily on the preservation of capital and liquidity.

#### Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its financial obligations as they come due. The Company’s ability to continue as a going concern is dependent on management’s ability to raise the required capital through future equity issuances. The Company manages its liquidity risk by forecasting cash flows required by operations and anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning, and approval of significant expenditures and commitments. All the Company’s financial liabilities have contractual maturities less than 30 days and are subject to normal trade terms.



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Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices of gold and other precious and base metals, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company. Fluctuations in pricing may be significant

The Company's financial instruments consist of cash, receivables and accounts payable and accrued liabilities. Cash has been designated as fair value through profit and loss, receivables as loans and receivables, and accounts payable and accrued liabilities and related party loans payable are designated as other financial liabilities. The fair value of these financial instruments approximates their carrying value due to the short-term nature of these instruments, except for cash which is valued at a level 1 fair value measurement. All the Company's financial liabilities have contractual maturities less than 30 days and are subject to normal trade terms.

*Capital management*

The capital structure of the Company consists of equity attributable to common shareholders, comprising of issued capital, contributed surplus and deficit.

The Company's objectives when managing capital are to: (i) preserve capital, (ii) obtain the best available net return, and (iii) maintain liquidity.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash and investments.

The Company's policy is to invest its excess cash in highly liquid, fully guaranteed, bank-sponsored instruments payable on demand. This strategy is unchanged from the prior year.

The Company is not subject to externally imposed capital restrictions.

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**Current Share Data**

As at the date of this MD&A, the common shares outstanding are as follows:

	Number of Shares
Balance, August XX, 2023	96,969,542

As at the date of this MD&A, the Company has 58,326,437 share purchase warrants exercisable between \$0.35 and \$0.96 per share to February 26, 2026 and 7,995,000 stock option exercisable between \$0.20 and \$0.80.

**Disclaimer**

The information provided in this document is not intended to be a comprehensive review of all matters concerning the Company. It should be read in conjunction with all other disclosure documents provided by the Company, which can be accessed at [www.sedar.com](http://www.sedar.com). No securities commission or regulatory authority has reviewed the accuracy or adequacy of the information presented herein.

**Cautionary Statement on Forward Looking Information**

Certain statements contained in this document constitute “forward-looking statements”. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance, or achievements of the Company to be materially different from any future results, performance, or achievements expressly stated or implied by such forward-looking statements. Such factors include, among others, the following: evaluation and exploration asset costs and results, fluctuation in the prices of commodities for which the Company is exploring, foreign operations and foreign government regulations, competition, uninsured risks, recoverability of resources discovered, capitalization requirements, commercial viability, environmental risks and obligations, and the requirement for obtaining permits and licenses for the Company’s operations in the jurisdictions in which it operates.