

STEM 7 Capital Inc.

CONDENSED INTERIM FINANCIAL STATEMENTS

(Unaudited)

(Expressed in Canadian Dollars)

FOR THE THREE AND NINE MONTH PERIOD ENDED SEPTEMBER 30, 2017

**NOTICE OF NO AUDITOR REVIEW OF
CONDENSED INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the condensed interim financial statements, they must be accompanied by a notice indicating that an auditor has not reviewed the financial statements.

The accompanying unaudited condensed interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these condensed interim financial statements in accordance with standards established by the Canadian Institute of Chartered Professional Accountants for a review of interim financial statements by an entity's auditor.

STEM 7 CAPITAL INC.
CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION
(Unaudited)
(Expressed in Canadian Dollars)
AS AT

	September 30, 2017	December 31, 2016
ASSETS		
Current		
Cash	\$ 269,084	\$ 4,152
Receivables and prepayments	<u>7,812</u>	<u>2,888</u>
	<u>\$ 276,896</u>	<u>\$ 7,040</u>
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)		
Current		
Accounts payable and accrued liabilities (Note 6)	<u>\$ 2,555</u>	<u>\$ 90,341</u>
	<u>2,555</u>	<u>90,341</u>
Shareholders' equity (deficiency)		
Share capital (Note 4)	14,690,531	14,175,531
Reserves	2,295,422	1,882,142
Deficit	<u>(16,711,612)</u>	<u>(16,140,974)</u>
	<u>274,341</u>	<u>(83,301)</u>
	<u>\$ 276,896</u>	<u>\$ 7,040</u>

Nature and continuance of operations (Note 1)

Approved and authorized by the Board on October 24, 2017:

"David McMillan" Director "Eric Allison" Director

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

STEM 7 CAPITAL INC.**CONDENSED INTERIM STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**

(Unaudited)

(Expressed in Canadian Dollars)

	Three months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
GENERAL EXPENSES				
Business development	\$ 4,787	\$ -	\$ 36,887	\$ -
Office and miscellaneous	134	(8,112)	1,238	(7,188)
Professional fees	21,439	(98)	53,563	(6,759)
Property investigation	23,137	-	48,150	-
Share-based payments (Note 4)	-	-	413,280	-
Transfer agent and filing fees	3,784	2,081	16,369	12,463
Travel	-	-	1,150	50
Net and comprehensive income (loss) for the period	\$ (53,281)	\$ 6,129	\$ (570,637)	\$ 1,434
Basic and diluted income (loss) per share	\$ (0.00)	\$ 0.00	\$ (0.05)	\$ 0.00
Weighted average number of common shares outstanding	16,621,342	6,921,342	11,291,672	6,496,524

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

STEM 7 CAPITAL INC.
CONDENSED INTERIM STATEMENTS OF CASH FLOWS
(Unaudited)
(Expressed in Canadian Dollars)
FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30

	2017	2016
CASH FROM OPERATING ACTIVITIES		
Net (loss) income for the period	\$ (570,637)	\$ 1,434
Item not affecting cash:		
Share-based payments	413,280	-
Changes in non-cash working capital items:		
Receivables and prepayments	(4,924)	(41)
Accounts payable and accrued liabilities	<u>(87,786)</u>	<u>(61,057)</u>
Net cash used in operating activities	<u>(250,067)</u>	<u>(59,664)</u>
CASH FROM FINANCING ACTIVITIES		
Proceeds on issuance of capital stock	<u>515,000</u>	<u>60,000</u>
Net cash provided by (used in) financing activities	<u>515,000</u>	<u>60,000</u>
Change in cash during the period	264,933	336
Cash, beginning of period	<u>4,152</u>	<u>2,502</u>
Cash, end of period	<u>\$ 269,085</u>	<u>\$ 2,838</u>
Cash paid for interest	\$ -	\$ 41
Cash paid for income taxes	\$ -	\$ -

Supplemental disclosure with respect to cash flows (Note 5)

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

STEM 7 CAPITAL INC.
CONDENSED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIENCY
(Unaudited)
(Expressed in Canadian Dollars)

	<u>Share capital</u>				
	Number	Amount	Reserves	Deficit	Total
Balance at December 31, 2015	5,721,342	\$ 14,115,531	\$ 1,882,142	\$ (16,138,826)	\$ (141,153)
Issued for:					
Private placement	1,200,000	60,000	-	-	60,000
Loss for the period	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,434</u>	<u>1,434</u>
Balance at September 30, 2016	6,921,342	14,175,531	1,882,142	(16,137,392)	(79,719)
Loss for the period	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,583)</u>	<u>(3,583)</u>
Balance at December 31, 2016	6,921,342	14,175,531	1,882,142	(16,140,975)	(83,302)
Issued for:					
Private placement	8,500,000	425,000	-	-	425,000
debt	1,200,000	90,000	-	-	90,000
Share-based payments	-	-	413,280	-	413,280
Income for the period	<u>-</u>	<u>-</u>	<u>-</u>	<u>(570,637)</u>	<u>(570,637)</u>
Balance at September 30, 2017	<u>16,621,342</u>	<u>\$ 14,690,531</u>	<u>\$ 2,295,422</u>	<u>\$ (16,711,612)</u>	<u>\$ 274,341</u>

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

1. NATURE AND CONTINUANCE OF OPERATIONS

STEM 7 Capital Inc. (the “Company”, or “STEM 7”) was incorporated in British Columbia. The Company is listed on the NEX Board of the TSX Venture Exchange (the “Exchange”) in Canada, the Frankfurt Stock Exchange in Germany and the OTC Bulletin Board in the United States.

The head office and records are located at 1200 - 750 West Pender Street, Vancouver, BC, V6C 2T8.

The Company is in the exploration stage and its principal business activity is the exploration and evaluation of mineral properties. At September 30, 2017, the Company had no exploration and evaluation assets.

The unaudited condensed interim financial statements have been prepared on a going concern basis, which assumes that the Company will continue its operations for a reasonable period of time. The Company has incurred losses since its inception, has working capital of \$274,341 (December 31, 2016 – working capital deficiency of \$83,301) and had an accumulated deficit of \$16,711,612 as at September 30, 2017 (December 31, 2016 - \$16,140,974) which has been funded primarily by the issuance of shares. There is a material uncertainty related to these conditions that casts significant doubt about the Company’s ability to continue as a going concern and therefore it may be unable to realize its assets and discharge its liabilities in the normal course of business. The Company’s ability to continue as a going concern depends upon its ability to raise adequate financing and to generate profitable operations in the future. The Company has been successful in the past in raising funds for operations by issuing shares, but there is no assurance that it will be able to continue to do so in the future.

2. BASIS OF PREPARATION

Statement of Compliance

These condensed interim financial statements, including comparatives, have been prepared in accordance with International Accounting Standards (“IAS”) 34 ‘Interim Financial Reporting’ (“IAS 34”) using accounting policies consistent with the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

Basis of Presentation

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

The condensed interim financial statements of the Company are presented in Canadian dollars, which is the functional currency of the parent company and its subsidiaries.

Significant accounting judgements, estimates and assumptions

The preparation of these condensed interim financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported expenses during the period. Actual results could differ from these estimates.

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

2. BASIS OF PREPARATION (cont'd...)

Significant accounting judgements, estimates and assumptions (cont'd...)

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

Share-based payments are subject to estimation of the value of the award at the date of grant using pricing models such as the Black-Scholes option valuation model. The option valuation model requires the input of highly subjective assumptions including the expected stock price volatility. Because the Company's stock options have characteristics significantly different from those of traded options and because the subjective input assumptions can materially affect the calculated fair value, such value is subject to measurement uncertainty.

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

New standards, interpretations and amendments adopted

The accounting policies adopted in the preparation of the condensed interim financial statements are consistent with those followed in the preparation of the Company's annual audited financial statements for the year ended December 31, 2016. There are no new standards or interpretations effective as of January 1, 2017 that are applicable to the financial statements of the Company.

New standards not yet adopted

Certain pronouncements were issued by the IASB or IFRIC that are not mandatory for accounting periods beginning on or after July 1, 2015 or later periods. They have not been early adopted in these financial statements, and they are expected to affect the Company in the period of initial application. In all cases the Company intends to apply these standards from application date as indicated below:

IFRS 9, Financial Instruments is part of the IASB's wider project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for annual periods beginning on or after January 1, 2018. The Company has not yet made an assessment of the impact of the amendments.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

3. ACQUISITION

On October 23, 2017, the Company announced it had signed a Definitive Agreement (“DA”) with Brasil Graphite Corp. (“BGC”) to acquire 100% of the issued and outstanding shares of BGC (the “Acquisition”). BGC owns 51% of Brasil Grafite S.A. (“BGSA”). BGSA has a 100% interest in the advanced-stage Santa Cruz Graphite Project (“Project”) located in the state of Bahia, Brazil. As a condition of the Acquisition, BGC will acquire the remaining shares of BGSA on or prior to closing or be in a position to acquire the remaining shares of BGSA concurrent with closing.

Under the terms of the DA signed with BGC, the Company will:

- Issue 9,444,903 units (the “Consideration Units”) with a value of \$4,250,206 (the “Purchase Price”) to the shareholders or nominees of BGC. Each Consideration Unit will be comprised of one common share of the Company and one share purchase warrant. Each share purchase warrant is exercisable at a price of \$0.75 for two years after closing. The share purchase warrants will be subject to an acceleration provision if common shares on the Exchange exceed \$1.10 for 10 consecutive trading days; and
- Pay US\$850,000 in cash to BGC as consideration for the Project.

The Consideration Units will be subject to voluntary pooling restrictions pursuant to which they may not be transferred by the holders until released from pooling. Twenty percent of the Consideration Units will be released from the pooling arrangement four months from closing, and an additional 20% will be released every four months thereafter, with the final release occurring 20 months after closing.

Closing of the Acquisition and issuance of the Consideration Shares will be subject to:

- Completion of a preliminary economic assessment in a form satisfactory to the Exchange;
- Delivery of an acceptable title opinion respecting the Project;
- Completion of a unit financing by the Company for gross proceeds of \$3,500,000; and
- Exchange approval.

The Company anticipates that the transaction will enable it to meet the Exchange’s initial listing requirements for a Tier 2 issuer, as a result of which the Company will graduate from NEX to Tier 2 of the Exchange.

4. SHARE CAPITAL AND RESERVES

Authorized share capital

As at September 30, 2017, the authorized share capital of the Company is an unlimited number of common shares without par value. All issued shares, consisting only of common shares, are fully paid.

Private placements

During the nine month period ended September 30, 2017, the Company completed a non-brokered private placement by issuing a total of 8,500,000 units at a price of \$0.05 per unit for gross proceeds of \$425,000. Each unit consisted of one common share of the Company and one common share purchase warrant. Each warrant entitles the holder thereof to acquire one share of the Company at an exercise price of \$0.10 for a period of 12 months from closing.

All subscribers have entered into a voluntary pooling agreement with the company whereby the common shares are subject to a 20% release every three months starting December 1, 2017. No commissions were payable in connection with this private placement.

The Company did not complete any private placements during the year ended December 31, 2016.

Shares for Debt

During the nine month period ended September 30, 2017, the Company issued 1,200,000 common shares to a company controlled by a director and former CEO of the Company for settlement of \$90,000 in loans payable.

Stock options and share purchase warrants

Stock option and share purchase transactions are summarized as follows:

	Stock options		Warrants	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding, December 31, 2015	-	\$ -	-	\$ -
Granted	-	-	<u>1,200,000</u>	0.10
Outstanding, December 31, 2016	-	-	1,200,000	0.10
Granted	1,600,000	0.30	8,500,000	0.10
Expired / Cancelled	-	-	<u>(1,200,000)</u>	0.10
Outstanding, September 30, 2017	<u>1,600,000</u>	\$ 0.30	<u>8,500,000</u>	\$ 0.10
Number currently exercisable	<u>1,600,000</u>	\$ 0.30	<u>8,500,000</u>	\$ 0.10

STEM 7 CAPITAL INC.
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
September 30, 2017
(Unaudited)
(Expressed in Canadian Dollars)

4. SHARE CAPITAL AND RESERVES (cont'd...)

Stock options and share purchase warrants outstanding

The following incentive stock options and share purchase warrants were outstanding at September 30, 2017:

Number	Exercise price	Expiry date
Stock Options		
1,600,000	\$ 0.30	May 29, 2022
Share purchase warrants		
8,500,000	\$ 0.10	May 29, 2018

Share-based payments

The Company has a stock option plan under which it is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common stock of the Company. Under the plan the exercise price of each option equals the market price of the Company's stock, less applicable discount, as calculated on the date of grant. The vesting determined by the board of directors.

During the nine month period ended September 30, 2017, the Company granted 1,600,000 (2016 – Nil) options with a weighted-average fair value of \$0.26 per option (2016 – Nil) to directors, officers and consultants. Total share-based payments recognized in the statement of operations for the nine month period ended September 30, 2017 was \$413,280 (2016 – Nil) for incentive options granted and vested. This amount was also recorded as reserves on the statement of financial position.

The following weighted average assumptions were used for the valuation of stock options:

	2017	2016
Risk-free interest rate	1.09%	NA
Expected life of options	5 years	NA
Annualized volatility	131.00%	NA
Dividend rate	0.00%	NA
Forfeiture rate	0.00%	NA

5. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

During the nine month period ended September 30, 2017, the Company issued 1,200,000 common shares, valued at \$90,000 for settlement of debt.

There were no non-cash transactions for the nine month period ended September 30, 2016.

6. RELATED PARTY TRANSACTIONS

Related party transactions not disclosed elsewhere in these financial statements, are as follows:

Included in accounts payable and accrued liabilities at September 30, 2017 is \$458 (December 31, 2016 - \$13,908) due to both current and former officers, directors or companies with a director in common for cash advances, unpaid consulting fees and unpaid expenses.

Key management personnel consist of the officers of the Company and the Company's Board of Directors.

During the three and nine months ended September 30, 2017 and the year ended December 31, 2016 there was no key management personnel compensation.

7. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial assets and liabilities are classified in the fair value hierarchy according to the lowest level of input that is significant to the fair value measurement. Assessment of the significance of a particular input to the fair value measurement requires judgement and may affect placement within the fair value hierarchy levels (Note 3).

Cash and marketable securities are carried at a level 1 fair value measurement. The derivative liability is measured using level 2 inputs. The carrying value of receivables, deposit, accounts payable and accrued liabilities, and convertible debenture approximates fair value due to the short term nature of the financial instruments.

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

Financial risk factors

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

Credit risk

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

Liquidity risk

The Company's approach to managing liquidity risk is to try and have sufficient liquidity to meet liabilities when due. As at September 30, 2017, the Company had a cash balance of \$269,084 (December 31, 2016 - \$4,152) to settle current liabilities of \$2,555 (December 31, 2016 - \$90,341). All of the Company's accounts payable and accrued liabilities have contractual maturities of 30 days or due on demand and are subject to normal trade terms.

7. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd...)

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. The Company does not have a practice of trading derivatives.

a) Interest rate risk

The Company's financial assets exposed to interest rate risk consist of cash balances. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. As at September 30, 2017, the Company did not have any investments in investment-grade short-term deposit certificates.

b) Price risk

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

8. CAPITAL MANAGEMENT

The Company's primary objectives in capital management are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and to maintain sufficient funds to finance the exploration and development of its mineral property interests. Capital is comprised of the Company's shareholders' deficiency. The Company manages its capital structure to maximize its financial flexibility making adjustments to it in response to changes in economic conditions and the risk characteristics of the underlying assets and business opportunities.

The Company does not presently utilize any quantitative measures to monitor its capital and is not subject to externally imposed capital requirements.

9. SUBSEQUENT EVENT

Subsequent to September 30, 2017, the Company announced a proposed non-brokered private placement consisting of 13,333,333 units at a price of \$0.45 for gross proceeds of \$6,000,000. Each unit will consist of one common share and one share purchase warrant. Each share purchase warrant is exercisable at a price of \$0.75 for two years after closing. The share purchase warrants will be subject to an acceleration provision if common shares on the Exchange exceed \$1.10 for 10 consecutive trading days.