

**STEM 7 CAPITAL INC.**

**CONDENSED INTERIM FINANCIAL STATEMENTS**

**FOR THE THREE AND SIX MONTHS ENDED  
JUNE 30, 2017  
(Unaudited)**

### **Notice of No Auditor Review of Interim Financial Statements**

The accompanying unaudited condensed interim financial statements have been prepared by management and approved by the Audit Committee.

The Company's independent auditors have not performed a review of these unaudited condensed interim financial statements in accordance with the standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditors.

**July 27, 2017**

**STEM 7 Capital Inc.**  
**Condensed Interim Statements of Financial Position**  
**(Unaudited - Expressed in Canadian Dollars)**

	June 30, 2017	December 31, 2016
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 361,565	\$ 4,152
Amounts receivable	5,217	1,638
Prepaid expenses	6,500	1,250
	<b>\$ 373,282</b>	<b>\$ 7,040</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities <i>(Note 8)</i>	\$ 45,658	\$ 90,341
	<b>45,658</b>	<b>90,341</b>
<b>SHAREHOLDERS' DEFICIENCY</b>		
Share capital <i>(Note 6)</i>	14,690,531	14,175,531
Share compensation reserve	2,295,422	1,882,142
Deficit	(16,658,329)	(16,140,974)
	<b>327,624</b>	<b>(83,301)</b>
	<b>\$ 373,282</b>	<b>\$ 7,040</b>

**CORPORATE INFORMATION AND NATURE OF OPERATIONS** *(Note 1)*

Approved on Behalf of the Board:

"David McMillan"

David McMillan, Director

"Eric Allison"

Eric Allison, Director

**STEM 7 Capital Inc.****Condensed Interim Statements of Comprehensive Loss****For the three and six months ended June 30, 2017 and 2016****(Unaudited - Expressed in Canadian Dollars)**

	For the three months ended		For the six months ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
<b>Expenses</b>				
Accounting and audit fees	\$ 3,861	\$ 8,380	\$ 7,717	\$ (4,714)
Interest and bank charges	113	114	204	169
Business development	25,600	-	32,100	-
Legal	17,729	(1,947)	24,407	(1,947)
Office, rent and administrative	654	357	901	756
Property investigation	25,012	-	25,012	-
Share-based payments ( <i>Note 6c</i> )	413,280	-	413,280	-
Transfer agent, listing and filing fees	8,940	4,789	12,585	10,381
Travel and promotion	1,150	50	1,150	50
<b>Net loss (gain) and comprehensive loss (gain) for the period</b>	<b>496,339</b>	<b>11,742</b>	<b>517,355</b>	<b>4,695</b>
<b>Weighted average number of shares outstanding</b>	<b>10,225,738</b>	<b>6,921,342</b>	<b>8,582,668</b>	<b>6,281,782</b>
<b>Net loss (gain) per share - basic and diluted</b>	<b>\$ (0.05)</b>	<b>\$ -</b>	<b>\$ (0.06)</b>	<b>\$ -</b>

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

**STEM 7 Capital Inc.**  
**Condensed Interim Statement of Changes in Deficiency**  
**For the six months ended June 30, 2017 and 2016**  
**(Unaudited - Expressed in Canadian Dollars)**

	<u>Common Shares</u>		Share Compensation Reserve	Deficit	Total
	Number of Shares	Amount			
<b>Balances, December 31, 2015</b>	<b>5,721,342</b>	<b>14,115,531</b>	<b>1,882,142</b>	<b>(16,138,826)</b>	<b>(141,153)</b>
Shares issued for cash	1,200,000	60,000	-	-	60,000
Loss for the period	-	-	-	(4,695)	(4,695)
<b>Balances, June 30, 2016</b>	<b>6,921,342</b>	<b>14,175,531</b>	<b>1,882,142</b>	<b>(16,143,521)</b>	<b>(85,847)</b>
Loss for the period	-	-	-	2,546	2,546
<b>Balances, December 31, 2016</b>	<b>6,921,342</b>	<b>14,175,531</b>	<b>1,882,142</b>	<b>(16,140,974)</b>	<b>(83,301)</b>
Shares issued for cash	8,500,000	425,000	-	-	425,000
Shares issued for debt	1,200,000	90,000	-	-	90,000
Share-based payments	-	-	413,280	-	413,280
Loss for the period	-	-	-	(517,355)	(517,355)
<b>Balances, June 30, 2017</b>	<b>16,621,342</b>	<b>14,690,531</b>	<b>2,295,422</b>	<b>(16,658,329)</b>	<b>327,624</b>

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

**STEM 7 Capital Inc.**  
**Condensed Interim Statements of Cash Flows**  
**For the six months ended June 30, 2017 and 2016**  
**(Unaudited - Expressed in Canadian Dollars)**

	June 30, 2017	June 30, 2016
<b>Cash resources provided by (used in)</b>		
<b>Operating activities</b>		
Net loss (income) for the period	\$ (517,355)	\$ (4,695)
Item not affected by cash:		
Share-based payments	413,280	-
Changes in non-cash working capital balances:		
Amounts receivable	(3,578)	2,934
Prepaid expenses	(5,250)	(2,565)
Accounts payable and accrued liabilities	(44,683)	(52,450)
	<b>(157,587)</b>	<b>(56,776)</b>
<b>Financing activities</b>		
Shares issued for cash	515,000	60,000
<b>Net increase (decrease) in cash during the year</b>	<b>357,413</b>	<b>3,224</b>
Cash - beginning of period	4,152	2,502
<b>Cash - end of period</b>	<b>\$ 361,565</b>	<b>\$ 5,726</b>

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

**STEM 7 Capital Inc.**  
**Notes to the Condensed Interim Financial Statements**  
**For the three and six months ended June 30, 2017**  
**(Unaudited - Expressed in Canadian Dollars)**

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**1. CORPORATE INFORMATION AND NATURE 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 ("TSX.V") 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 June 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 \$327,624 (December 31, 2016 – working capital deficiency of \$83,301) and had an accumulated deficit of \$16,658,329 as at June 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**

**a) Statement of compliance**

These unaudited condensed interim financial statements of the Company have been prepared in accordance with 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"). These unaudited condensed interim financial statements follow the same accounting policies and methods of application as our most recent annual financial statements. Accordingly, they should be read in conjunction with our most recent annual financial statements.

The unaudited condensed interim financial statements were authorized for issue by the Board of Directors on July 27, 2017.

**b) Basis of measurement**

The unaudited condensed interim financial statements have been prepared on a historical cost basis except for certain non-current assets and financial instruments, which are measured at fair value, as explained in the accounting policies set out in Note 3.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**a) Exploration and evaluation assets**

*Pre-exploration Costs*

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

*Exploration and Evaluation Expenditures*

Once the legal right to explore a property has been acquired, costs directly related to exploration and evaluation expenditures are recognized and capitalized, in addition to the acquisition costs.

**STEM 7 Capital Inc.**  
**Notes to the Condensed Interim Financial Statements**  
**For the three and six months ended June 30, 2017**  
**(Unaudited - Expressed in Canadian Dollars)**

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

**a) Exploration and evaluation assets (continued)**

*Exploration and Evaluation Expenditures (continued)*

These direct expenditures include such costs as materials used, surveying costs, drilling costs, payments made to contractors and depreciation on plant and equipment used during the exploration phase. Costs not directly attributable to exploration and evaluation activities, including general administrative overhead costs, are expensed in the period in which they occur.

When a project is deemed to no longer have commercially viable prospects to the Company, exploration and evaluation expenditures in respect of that project are deemed to be impaired. As a result, those exploration and evaluation expenditure costs, in excess of estimated recoveries, are written off to the statement of comprehensive loss/income.

As the Company currently has no operating income, any incidental revenues earned in connection with exploration activities are applied as a reduction to capitalized exploration costs.

Mineral exploration and evaluation expenditures are classified as intangible assets.

**b) Impairment of non-financial assets**

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

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

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

**c) Decommissioning, restoration and similar liabilities**

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of exploration and evaluation assets. The Company records the present value of the estimated costs of legal and constructive obligations required to restore the exploration sites in the year in which the liability is incurred. Upon initial recognition of the liability, a corresponding amount is added to the carrying amount of the related asset. At the end of each period, these capitalized asset retirement costs are amortized as an

**STEM 7 Capital Inc.**  
**Notes to the Condensed Interim Financial Statements**  
**For the three and six months ended June 30, 2017**  
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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

expense over the economic life of the asset and the liability is increased to reflect the passage of time (accretion expense). Over time, the discounted liability is adjusted for changes in present value based on current market discount rate and the amount or timing of the underlying cash flows needed to settle the obligation.

The Company recognizes its environmental liabilities on a site-by-site basis when it can be reliably estimated. Environmental expenditures related to existing conditions resulting from past or current operations and from which no current or future benefit is discernible are charged to the statement of comprehensive loss. As at June 30, 2017, the Company has not incurred any decommissioning, restoration and environmental liabilities related to the exploration of its resource properties.

**d) Provisions**

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

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

**e) Share-based payments**

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

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

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

**f) Foreign currency translation**

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

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

**STEM 7 Capital Inc.**  
**Notes to the Condensed Interim Financial Statements**  
**For the three and six months ended June 30, 2017**  
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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**f) Foreign currency translation (continued)**

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

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

**g) Income taxes**

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

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

**h) Loss per share**

The Company presents basic and diluted loss per common share at each reporting period. The basic loss per common share is calculated by dividing the loss available to common shareholders by the weighted average number of common shares outstanding during the 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. Diluted loss per share excludes all dilutive potential common shares because their effect is anti-dilutive.

**i) Financial instruments**

All financial assets are initially recorded at fair value and classified into one of four categories: held to maturity, available-for-sale, loans and receivables or at fair value through profit or loss ("FVTPL"). All financial liabilities are initially recorded at fair value and classified as either FVTPL or other financial liabilities. All transactions related to financial instruments are recorded on a settlement date basis.

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through profit or loss. The Company's cash is classified as FVTPL.

Financial assets classified as loans and receivables and held to maturity assets are measured at amortized cost. The Company does not have any amount classified as loans and receivables.

Financial assets classified as available for sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income and loss except for losses in value that are considered other than temporary which are recognized in profit or loss. The Company does not have any amount classified as available-for-sale.

Transactions costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

**STEM 7 Capital Inc.**  
**Notes to the Condensed Interim Financial Statements**  
**For the three and six months ended June 30, 2017**  
**(Unaudited - Expressed in Canadian Dollars)**

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

**i) Financial instruments (continued)**

Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. The Company's accounts payable are classified as other financial liabilities.

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives are also classified as held for trading and recognized at fair value with changes in fair value recognized in profit or loss unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as FVTPL are recognized in profit or loss. The Company does not have any amount classified as FVTPL.

**j) Significant accounting estimates and judgments**

The preparation of these financial statements in conformity with IFRS requires management to make judgments and estimates and form assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its estimates and underlying assumptions. Significant areas requiring the use of management estimates include determination of the fair value of share based payments and estimate of deferred income tax assets and liabilities. Significant judgements include the Company's ability to continue as a going concern. Actual results could differ from these estimates.

**4. NEW ACCOUNTING STANDARDS**

**New accounting standards adopted effective January 1, 2016**

New standards, interpretations and amendments to existing standards which have been issued by the IASB or the International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for accounting periods beginning on or after January 1, 2016 were not applicable or are not consequential to the Company.

**Accounting standards and amendments issued but not yet effective**

Certain new accounting standards and interpretations have been published that are not mandatory for the December 31, 2017 fiscal year. These standards have been assessed to not have a significant impact on the Company's financial statements.

**STEM 7 Capital Inc.**  
**Notes to the Condensed Interim Financial Statements**  
**For the three and six months ended June 30, 2017**  
**(Unaudited - Expressed in Canadian Dollars)**

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**4. NEW ACCOUNTING STANDARDS**

**Accounting standards and amendments issued but not yet effective (continued)**

**New accounting standards effective for annual periods on or after January 1, 2018:**

*IFRS 15 Revenue from Contracts with Customers* – In May 2014, the IASB issued IFRS 15 – Revenue from Contracts with Customers ("IFRS 15") which supersedes IAS 11 – Construction Contracts, IAS 18 – Revenue, IFRIC 13 – Customer Loyalty Programmes, IFRIC 15 – Agreements for the Construction of Real Estate, IFRIC 18 – Transfers of Assets from Customers, and SIC 31 – Revenue – Barter Transactions Involving Advertising Services. IFRS 15 establishes a comprehensive five-step framework for the timing and measurement of revenue recognition.

*IFRS 9 Financial Instruments* – In November 2009, as part of the IASB project to replace IAS 39 Financial Instruments: Recognition and Measurement, the IASB issued the first phase of IFRS 9 Financial Instruments, that introduces new requirements for the classification and measurement of financial assets. The standard was revised in October 2010 to include requirements regarding classification and measurement of financial liabilities. In November 2013 the standard was revised to add the new general hedge accounting requirements. The standard was finalized in July 2014 and was revised to add a new expected loss impairment model and amends the classification and measurement model for financial assets by adding a new fair value through other comprehensive income (FVOTCI) category for certain debt instruments and additional guidance on how to apply the business model and contractual cash flow characteristics test.

*IFRS 16 Leases* - IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions.

*IFRS 2 Shared-Based Payments* - In June 2016 the Board issued the final amendments to IFRS 2 which amended (a) the effects that vesting conditions have on the measurement of a cash-settled share-based payment; (b) the accounting for modification to the terms of a share-based payment that changes the classification of the transaction from cash-settled to equity settled; and (c) classification of share-based payment transactions with net settlement features.

The extent of the impact of adoption of these standards and interpretations on the financial statements of the Company has not been determined.

**5. MANAGEMENT OF CAPITAL**

The Company's objective is to safeguard its ability to continue as a going concern in order to maintain a flexible capital structure which will optimize the costs of capital.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk of characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company issues new shares through private placements.

The Company currently must rely on equity financing to fund its operations and continue exploration work.

As at June 30, 2017, the Company's capital structure consists of equity. The Company does not pay dividends and is not subject to any externally imposed capital requirements since its shares are listed on the NEX Board which does not impose specific capital requirements.

**STEM 7 Capital Inc.**  
**Notes to the Condensed Interim Financial Statements**  
**For the three and six months ended June 30, 2017**  
**(Unaudited - Expressed in Canadian Dollars)**

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**6. SHARE CAPITAL**

- a) **Authorized:** Unlimited number of common shares without par value
- b) **Issued and outstanding:** 16,621,342 (December 31, 2016 – 6,921,342) - see Statement of Changes in Equity.

On May 30, 2017, the Company announced that it had closed a non-brokered private placement. The Company issued in aggregate a total of 8,500,000 Units at a price of \$0.05 per Unit for gross proceeds of C\$425,000. Each Unit consisted of one common share of the Company (a "Share") and one common share purchase warrant (each whole warrant a "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 securities issuable pursuant to the private placement will be subject to a four-month hold from the closing date, in accordance with applicable securities laws. In addition to the four-month hold, all Private Placement 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 1st, 2017. No commissions were payable in connection with this Private Placement. Net proceeds will be used for general working capital.

The Company also reached an agreement with Sun Tzu Ventures Inc. (wholly owned by Dave McMillan, CEO), to loan the company \$90,000 which was used to pay all the Company's existing liabilities as of February 28, 2017. The loan was unsecured and non-interest bearing. On May 9, 2017, the loan was settled by the issuance of 1,200,000 common shares to Sun Tzu Ventures at a deemed value of \$0.075 per share.

On April 6, 2016 the Company closed a private placement of 1,200,000 units at a price of \$0.05 per unit, for gross proceeds of \$60,000. Each Unit consisted of one common share and one non-transferable share purchase warrant. Each warrant entitles the holder to purchase one additional common share of the Company at an exercise price of \$0.10 per share for a period of one year from the date of closing.

**c) Stock Options**

On March 31, 2014, the Company adopted a stock option plan pursuant to which the directors may authorize the issuance of options to directors, officers, employees and consultants of the Company and its subsidiaries to a maximum of 10% of the issued and outstanding shares on any grant date. Options granted under the plan are subject to vesting terms determined by the Board of Directors of the Company.

On May 30, 2017 the Company granted stock options to certain directors, officers and consultants to purchase up to 1,600,000 common shares under the Company's Incentive Stock Option Plan. The options were granted for a period of five years, commencing on May 30th, 2017, exercisable at a price of \$0.30 per share. The fair value of the options was estimated at \$413,280 using the Black-Scholes valuation model, based on a volatility of 131%, risk-free interest rate of 0.94%, no dividend and an expected life of 5 years. The Company recorded \$413,280 in share-based payments as all options are fully vested.

The Company did not grant options during the year ended December 31, 2016.

**STEM 7 Capital Inc.**  
**Notes to the Condensed Interim Financial Statements**  
**For the three and six months ended June 30, 2017**  
**(Unaudited - Expressed in Canadian Dollars)**

**6. SHARE CAPITAL (continued)**

A summary of the Company's outstanding options is as follows:

	<b>June 30, 2017</b>		<b>December 31, 2016</b>	
	Options Outstanding	Weighted Average Exercise Price	Options Outstanding	Weighted Average Exercise Price
Opening balance	-	-	-	-
Granted	1,600,000	\$ 0.30	-	-
Expired	-	-	-	-
<b>Ending balance</b>	<b>1,600,000</b>	<b>\$ 0.30</b>	-	-

The following table presents the assumptions used in the Black-Scholes valuation model:

	<b>June 30, 2017</b>	<b>December 31, 2016</b>
Dividend rate	0%	-
Annualized volatility	131%	-
Risk free interest rate	0.94%	-
Expected life of stock options (years)	5	-
Weighted average fair value of options \$	0.2583	-

The stock options outstanding at June 30, 2017 have a weighted average remaining life of 4.92 years (December 31, 2016 - nil).

**d) Warrants**

On May 30, 2017, the Company announced that it had closed a non-brokered private placement. The Company issued in aggregate a total of 8,500,000 Units at a price of \$0.05 per Unit for gross proceeds of C\$425,000. Each Unit consisted of one common share of the Company (a "Share") and one common share purchase warrant (each whole warrant a "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.

On April 6, 2016 the Company closed a private placement of 1,200,000 units at a price of \$0.05 per unit, for gross proceeds of \$60,000. Each Unit consisted of one common share and one non-transferable share purchase warrant. Each warrant entitles the holder to purchase one additional common share of the Company at an exercise price of \$0.10 per share for a period of one year from the date of closing.

There were 1,200,000 share purchase warrants outstanding as at December 31, 2016 (2015 - nil). The 1,200,00 share purchase warrants expired on April 6, 2017.

**STEM 7 Capital Inc.**  
**Notes to the Condensed Interim Financial Statements**  
**For the three and six months ended June 30, 2017**  
**(Unaudited - Expressed in Canadian Dollars)**

**6. SHARE CAPITAL (continued)**

Warrant transactions are summarized as follows:

	June 30, 2017		December 31, 2016	
	Warrants outstanding	Weighted average exercise price	Warrants outstanding	Weighted average exercise price
Balance - Beginning of year	1,200,000	\$0.10	-	-
Warrants expired	(1,200,000)	\$0.10	-	-
Warrants issued	8,500,000	\$0.10	1,200,000	\$0.10
Balance - End of year	8,500,000	\$0.10	1,200,000	\$0.10

The warrants outstanding at June 30, 2017 have a weighted average remaining life of .92 years (December 31, 2016 - 0.26 years).

**7. RELATED PARTY TRANSACTIONS AND BALANCES**

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

Included in accounts payable and accrued liabilities at June 30, 2017 is \$6,113 (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 six months ended June 30, 2017 and the year ended December 31, 2016 there was no key management personnel compensation.

**8. FINANCIAL INSTRUMENTS**

Financial assets and financial liabilities are measured on an ongoing basis at fair value or amortized cost. The disclosures in the notes to these financial statements describe how the categories of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognized.

As at June 30, 2017, the carrying value and fair values of the Company's financial instruments, with comparative figures for 2016 are shown in the table below:

	June 30, 2017		December 31, 2016	
	Fair Value	Carrying Value	Fair Value	Carrying Value
<b>Financial assets</b>				
Cash	\$ 361,565	\$ 361,565	\$ 4,152	\$ 4,152
<b>Financial liabilities</b>				
Accounts payable	\$ 45,658	\$ 45,658	\$ 67,693	\$ 67,693

During the year ended December 31, 2016, the Company wrote off \$26,516 of significantly aged payable balances which the Company no longer believes meet the definition of a liability. As a result, a gain on write-off of accounts payable was recognized in comprehensive loss.

**STEM 7 Capital Inc.**  
**Notes to the Condensed Interim Financial Statements**  
**For the three and six months ended June 30, 2017**  
**(Unaudited - Expressed in Canadian Dollars)**

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**8. FINANCIAL INSTRUMENTS (continued)**

Certain of the Company's financial assets and liabilities are measured at fair value on a recurring basis and classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Certain non-financial assets and liabilities may also be measured at fair value on a non-recurring basis. There are three levels of the fair value hierarchy that prioritize the inputs to valuation techniques used to measure fair value, with Level 1 inputs having the highest priority. The levels and the valuation techniques used to value our financial assets and liabilities are described below.

**Level 1 - Quoted Prices in Active Markets for Identical Assets**

Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Cash is valued using quoted market prices in active markets. Accordingly, these items are included in Level 1 of the fair value hierarchy.

**Level 2 - Significant Other Observable Inputs**

Quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.

There are no items in Level 2 of the fair value hierarchy.

**Level 3 - Significant Unobservable Inputs**

Unobservable (supported by little or no market activity) prices

There are no items in Level 3 of the fair value hierarchy.

Interest rate and credit risk

Financial instruments that potentially subject the Company to concentrations of credit risks consist principally of cash. To minimize the credit risk the Company places the cash with rated financial institutions.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's objective to managing liquidity risk is to ensure that it has sufficient liquidity available to meet its liabilities when due. Currently the Company does not have sufficient cash to pay its accounts payable.

Market risks

Market risk is the risk that the fair value of, or future cash flows from, the Company's financial instruments will significantly fluctuate due to changes in market prices. The Company is exposed to market risk in holding its marketable securities, and unfavourable market conditions could result in dispositions of investments at less than favourable prices. The significant market risks to which the Company is exposed include commodity price risk and foreign exchange risk.

Commodity price risk

The Company's ability to raise capital to fund exploration or evaluation activities is subject to risk associated with fluctuations in the market prices of gold. The Company's ability to raise capital is affected by the prices of commodities that the Company is exploring for on its mineral property interests. The Company does not have any hedging or other derivative contracts respecting its operations.

**STEM 7 Capital Inc.**  
**Notes to the Condensed Interim Financial Statements**  
**For the three and six months ended June 30, 2017**  
**(Unaudited - Expressed in Canadian Dollars)**

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**8. FINANCIAL INSTRUMENTS (continued)**

Market prices for these metals have historically fluctuated widely and are affected by numerous factors outside of the Company's control, including, but not limited to, levels of worldwide production, short-term changes in supply and demand, industrial and retail demand, central bank lending, and forward sales by producers and speculators. The Company has elected not to actively manage its commodity price risk.

**9. LETTER OF INTENT**

On June 29<sup>th</sup>, 2017, the Company announced it had signed a Letter Of Intent ("LOI") with Brasil Grafite S.A. ("BGSA") to acquire 100% interest in the advanced-stage Santa Cruz Graphite Project ("Project") located in the state of Bahia, Brazil (the "Acquisition").

Under the terms of the LOI signed with BGSA, Stem 7 will:

- Issue units (the "Consideration Units") with a value equal to US\$5,050,000 (the "Purchase Price") to the shareholders of BGSA. The Purchase Price will be converted to CDN\$ using the Bank of Canada exchange rate for the 10 days preceding the closing of the transaction and the number of Consideration Units will be determined by dividing the CDN\$ Purchase Price by the price at which units are sold pursuant to the unit financing (described below) subject to a maximum Conversion Price of CDN\$0.50; and
- Pay US\$50,000 in cash to BGSA 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 on December 1, 2017, and an additional 20% will be released every three months thereafter, with the final release occurring on December 1, 2018.

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

- Completion of a National Instrument 43-101 compliant PEA by BGSA in a form satisfactory to the TSX Venture Exchange (the "Exchange") which demonstrates a net present value (discounted at 5%) of greater than CDN\$100,000,000 (after Brazilian taxes) and an internal rate of return greater than 35% (after Brazilian taxes);
- Delivery of an acceptable title opinion respecting the Project;
- Completion of a unit financing by the Company for gross proceeds of CDN\$3,800,000;
- Negotiation of a formal agreement setting out the terms contemplated in the LOI within 120 days of the date of the LOI; and
- Exchange acceptance.

The Company has agreed, subject to Exchange acceptance, to advance CDN\$100,000 to BGSA to be used to initiate permitting on the Project and to commence preparation of a feasibility study respecting the Project. The advance will be treated as a loan and will be repayable within 12 months if the Acquisition does not complete. On closing of the Acquisition, two nominees identified by BGSA will be appointed to the Company's Board of Directors.

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.