

## **BUSINESS ACQUISITION REPORT**

### **Identity of Company**

#### ***Name and Address of Company***

South Star Mining Corp. (the “Company”)  
Suite 1200 - 750 West Pender Street  
Vancouver, British Columbia, V6C 2T8

#### ***Executive Officer***

For additional information regarding any information contained in this Business Acquisition Report, please contact Justin Blanchet, Chief Financial Officer at (236) 521-0574.

### **Details of Acquisition**

#### ***Nature of Business Acquired***

On October 19, 2017, the Company entered in to a definitive agreement with Frontera Minerals Inc., Brasil Graphite Corp. (“BGC”) and Brasil Grafite S.A. (“BGSA”) to acquire 100% of the issued and outstanding shares of BGC and its subsidiary, BGSA. As consideration for the shares of BGC, the Company issued 9,444,903 units at a value of \$0.45 per unit for a total value of \$4,250,206. Each unit consisted of one common share and one share purchase warrant exercisable at a price of \$0.75 for two years. In addition, the Company paid US\$850,000 (\$1,126,165) to BGC shareholders and a finder fee of \$300,000.

BGSA has a 100% interest in the advanced-stage Santa Cruz Graphite Project (“**Project**”) located in the state of Bahia, Brazil. The Project consists of 13 approved licenses covering 13,316 hectares.

The Company’s main objective is the completion of the requirements for a Guia de Utilizacao, or trial mining license, for the Santa Cruz graphite project. Under the Brazilian Mining Code, a trial mining license may be granted for the extraction of up to 5,000 tons of graphite per year per exploration license. The purpose of the trial mining license is to evaluate the technical and economic viability of each exploration license. The Company will conduct further infill drilling, environmental studies, independent metallurgical studies, mine planning, process plant engineering, equipment sourcing, etc., which, together with ongoing concentrate marketing, will be submitted to Brazil’s National Mining Agency (ANM) in support of the trial mining license application. Additional planned test work is designed to increase the Company’s confidence in the suitability of Santa Cruz concentrates for the lithium ion battery market and other newly emerging graphite technologies.

Technical disclosure respecting the Santa Cruz Graphite Project can be found in the Company’s Amended NI 43-101 Technical Report – Preliminary Economic Assessment, Brasil Grafite S.A., on the Santa Cruz Graphite Project, Itabela, Bahia, Brazil dated effective August 21, 2017 and filed on the Sedar website at [www.sedar.com](http://www.sedar.com) on March 23, 2018.

#### ***Date of Acquisition***

The acquisition date is June 15, 2018, being the date that the Company issued the shares for BGC.

#### ***Consideration***

As outlined above, the Company issued 9,444,903 units, paid cash consideration of US\$850,000 and paid a finder's fee of \$300,000 for an aggregate value of \$5,676,371.

### ***Effect on Financial Position***

Prior to the completion of the acquisition, the Company was inactive. The completion of the acquisition has resulted in a material change to the business affairs of the Company that may have a significant effect on the results of operations and financial position of the Company. The financial impact of the acquisition for the Company is presented in the unaudited interim financial statements for the six months ended June 30, 2018 on SEDAR ([www.sedar.com](http://www.sedar.com)) on August 28, 2018.

### ***Prior Valuations***

No valuation required by securities legislation or a Canadian stock exchange or market to support the consolidation payable by the Company pursuant to the acquisition transaction was obtained in the last 12 months by either the Company, or to the knowledge of the Company, by BGC or its shareholders.

### ***Parties to Transaction***

The acquisition was not with an informed person (as such term is defined in section 1.1 of National Instrument 51-102 *Continuous Disclosure Obligations*), associate or affiliate of the Company.

### ***Date of Report***

August 29, 2018.

### ***Financial Statements***

The following financial information required by Part 8 of National Instrument 51-102 - *Continuous Disclosure Obligations* is included in this report:

1. Audited financial statements of BGSA as at December 31, 2017 and 2016 and for the years ended December 31, 2017 and 2016 attached as schedule "A" to this report. Moore Stevens have not given their consent to the inclusion s of their auditors' report on the financial statements in this report.
2. Unaudited interim financial statements of BGSA as at March 31, 2018 and for the three months ended March 31, 2018 attached as schedule "B" to this report.

### ***Forward Looking Information***

Certain information in this business acquisition report is forward-looking within the meaning of Canadian securities laws as it relates to anticipated financial performance, events or strategies. When used in this context, words such as will, anticipate, believe, plan, target, expect or similar words would suggest future outcomes.

Forward-looking information is subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of the Company to be materially different from those expressed or implied by such forward-looking information, including the fair value of assets acquired and liabilities assumed, completing the analysis of the tax treatment of the acquisition, recording any related future income tax adjustments and the effective corporate tax rate and incurring additional expenses in connection with the transaction, as well as those factors discussed in the section “Risk and Uncertainties” of the Company’s Management’s Discussion and Analysis for the year ended December 31, 2017 (which can be found on [www.sedar.com](http://www.sedar.com) under the Company’s profile).

Forward-looking information is based on the reasonable assumptions, estimates, analysis and opinions of management made in light of its experience and its perception of trends, current conditions and expected developments, as well as other factors that management believes to be relevant and reasonable in the circumstances at the date that such statements are made but may prove to be inaccurate. Although the Company believes the assumptions and expectations reflected in such forward-looking information are reasonable, undue reliance should not be placed on forward-looking information because the Company can give no assurance that such expectations will prove to be correct. Readers are cautioned that the foregoing is not exhaustive of all factors and assumptions that may have been used.

Although the Company has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking information, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such information will prove to be accurate as actual results and future events could differ materially from those anticipated in such information. Accordingly, readers should not place undue reliance on forward-looking information. The Company does not undertake to update any forward-looking information, except in accordance with applicable securities laws

Schedule A

*(Convenience Translation into English from the Original Previously Issued in Portuguese)*

**BRASIL GRAFITE S.A.**

**Financial statements for the year ended on  
December 31, 2017  
(Company in pre-operational phase)**

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## MANAGEMENT 'S REPORT

Dear Shareholders,

We submit the Management 's Report ("Report"), regarding financial year ended on December 31st of 2017. The focus of this Report was the performance and the main events of the Company in the first two quarters of the year.

### The company

The Company, founded on January 05th of 2012, is a Company that operates in the mining sector, aiming mainly to the development of mining projects, and rendered geological services and mining engineering.

The Company currently holds 13 (thirteen) researches licenses in The National Department of Mineral Production – DNPM ("DNPM"), as specified in the table below:

Process	Type of Inquiry	Current Phase	City	Substances	Maturity dates
871.524/2013	Request for Research Authorization	Research Authorization	ITABELA/BA	GRAPHITE	April 12, 2020
871.053/2011	Request for Research Authorization	Research Authorization	ITABELA/BA	GRAPHITE	December 12, 2017
871.052/2011	Request for Research Authorization	Research Authorization	ITABELA/BA	GRAPHITE	August 27, 2017
872.874/2010	Request for Research Authorization	Research Authorization	ITABELA/BA	GRAPHITE	May 15, 2017
872.737/2010	Request for Research Authorization	Research Authorization	ITABELA/BA	GRAPHITE	May 15, 2017
872.736/2010	Request for Research Authorization	Research Authorization	ITABELA/BA	GRAPHITE	May 15, 2017
872.735/2010	Request for Research Authorization	Research Authorization	ITABELA/BA	GRAPHITE	May 15, 2017
872.734/2010	Request for Research Authorization	Research Authorization	EUNÁPOLIS/BA ITABELA/BA	GRAPHITE	May 15, 2017
872.733/2010	Request for Research Authorization	Research Authorization	EUNÁPOLIS/BA	GRAPHITE	May 15, 2017
872.732/2010	Request for Research Authorization	Research Authorization	EUNÁPOLIS/BA ITABELA/BA	GRAPHITE	May 15, 2017
872.329/2010	Request for Research Authorization	Research Authorization	EUNÁPOLIS/BA GUARATINGA/BA	GRAPHITE	April 09, 2017
872.328/2010	Request for Research Authorization	Research Authorization	EUNÁPOLIS/BA GUARATINGA/BA	GRAPHITE	April 09, 2017
871.722/2010	Request for Research Authorization	Research Authorization	ITAMARAJU/BA JUCURUÇU/BA	MANGANESE AND GRAPHITE ORE	July 18, 2015

The final report of the processes listed below was presented according to the maturity dates but are still pending evaluation of the DNPM. The processes are:

872,874/2010; 872,737/2010; 872,736/2010; 872,736/2010; 872,735/2010; 872,734/2010; 872,733/2010; 872,732/2010; 872,729/2010; 872,328/2010.

A partial research report was presented on October 10, 2016 for the process 871,524/2013 and its pending to evaluation of the DNPN. The final research report was presented on July 13, 2015 for area 817,722/2010 and it is pending for evaluation of the DNPM.

The progress of the research and delivery of the respective final reports to the National Department of Mineral Production ("DNPM") are in accordance with DNPM requirements and will be delivered before their due dates.

**Itabela Graphite Project.** In 2017, the Company hired two independent specialists to consolidate all new information and to update the study "Economic Utilization Plan" (PEA) in accordance with NI 43-101. The Report was finalized in Third quarter of 2017.

The Company had very positive preliminary conversations with various investments funds and investors based on the preliminary results of the study. There is a lot of interest in the market for quality projects. The new "Economic Utilization Plan" will be the basis for conversations with new investors and stakeholders to invest in the project in the near future. The Company continues to believe in the Project, which consists of a significant deposit of graphite with a carbon level of between 2.5% (two and a half percent) and 3% (three percent) and a high quality of the material.

In the second part of 2017, two Final Research Reports were finalized and filed in the DNPM. The expectancy of entry into commercial operation of the project would be between 4 (four) and 5 (five) years, pending approval of the DNPM, licensing and the results of negotiation with new investors. If having positive results, the Company estimates a minimum additional investment of approximately US\$20,000,000 (twenty million dollars) in the following 5 (five) years.

**Products.** The main objective of the Company consists of the exploration and selling of benefited graphite. The Company is always looking to increase the competitiveness through the inclusion of improvements and operational efficiency gains and optimization of investments. However, as it is of great knowledge of the ones involved in the sector, the mineral research risk is steep and geological resources not necessarily are converted into commercially exploitable reserves, being necessary the elaboration of international standard certificates such as the Australian Joint Ore Reserves Committee ("JORC") and the Canadian NI43-101, mineral auditing models widely used and approved in the sector and backed by great volume of tangible technical information (drilling, metallurgical tests, cost estimates, etc.) for a real proof of the Project value. Until this effective certification and posterior entry in the operation of the mineral rights, it will be necessary a great increase of operational costs and in the investment of capital, in order to create value, making it tangible, and inquiring additional capital from shareholders or third parties.

**Human Resources.** The team of consultants continued working on the preparation of the final research reports with the results obtained so far. Therefore, the Brasil Grafite S.A personnel cadre is as follows:

COMPANY	NAME	FUNCTION
Consultants	Nestor Dario Alvarez	Consultant - Geology
	Placido Campos	Consultant - Process
	Eduardo Antonietto	Consultant - Engineering
	Aldo Moreno	Consultant - Geology
	Dr. Giorgio di Tomi	Consultant - Mining Engineering

**Capital Management.** The main objective of the Company has in capital management is to safeguard its capacity of preservation and continuity, to comply with its investment project, guaranteeing growth and generating value to shareholders. In 2017, the financing of the Company's projects currently originates from the following sources: loan of US\$48,785 (forty-eight thousand and seven hundred and eighty and five dollars) in favor of HVM Participações Ltda. The accumulated values of loans in favor of HVM until December 31, 2017 were transferred to Brazil Graphite Corporation at the beginning of 2018.

Belo Horizonte, April 06, 2018.

**The Board**

(Convenience Translation into English from the Original Previously Issued in Portuguese)

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## **INDEPENDENT AUDITOR'S REPORT**

To the Shareholders and Managements of  
**Brasil Grafite S.A.**  
**Belo Horizonte - MG**

### **Opinion**

We have audited the accompanying financial statements of Brasil Grafite SA ("Company"), which comprise the balance sheet as at December 31, 2017 and the statement of operations, statement of changes in equity and statement of cash flows for the year then ended, and the corresponding notes to the financial statements, including a summary of the main accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the position of **Brasil Grafite S.A.** as at December 31, 2017, and financial performance and its cash flows for the years then ended, in accordance with accounting practices adopted in Brazil and International Financial Reporting Standards ("IFRSs"), issued by the International Accounting Standards Board ("IASB").

### **Basis for Opinion**

We conducted our audit in accordance with Brazilian and International Standards on Auditing. 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 **Brasil Grafite S.A.** in accordance with the relevant ethical requirements in the Code of Ethics for Professional Accountants and the professional standards issued by the Federal Accounting Council ("CFC"), and we have fulfilled our other ethical responsibilities in accordance with these standards. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Other Matters**

#### **Uncertainty related to the operational continuity**

We would like to draw attention to the financial statements on the note No. 7, which indicates that the Company has been showing in its operations accumulate losses and unsecured liabilities arising from de pre-operational phase. The Company incurred an accumulated loss of US\$1,430,508 up to the year 2017 and on this date, the unsecured liabilities exceeded a total asset of US\$1,195,997.

These events or conditions, along with other issues described in note No. 7, aligned with audit standards, indicate the existence of uncertainty that could raise doubt about the capability to maintain its operational continuity. On the other hand, we would like to draw attention to the fact that the Company has its operations supported by the financial contribution of its shareholders that are registered on liabilities and by the shareholders' decision at any moment may be capitalized and consequently, have been reverted its unsecured liability and negative net worth. Our opinion contains no restriction related to this matter.

**Translation of Brazilian real into US dollars**

We have also audited the translation of the Brazilian real amounts into US dollars and, in our opinion, this translation has been made in conformity with the basis stated in Note No.2. The translation of the amounts into US dollars and the translation of the financial statements into English have been made for the convenience of readers outside Brazil.

**Other information accompanying the financial statements and the auditors' report**

Managements are responsible for such other information comprises the Management's report.

Our opinion on the financial statements does not cover the management's report and we do not express any opinion of audit conclusion on this report.

In connection with the audit procedures, our responsibility is to read the management's report, and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained during the audit, or, otherwise, appears to be materially distorted. If, based on the work we have performed, we understand that there is a material misstatement of this other information, we are required to report this matter. We have nothing to report in this regard.

**Responsibilities of Management and Directors for the financial statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting practices adopted in Brazil, and the International Financial Reporting Standards ("IFRSs"), issued by the International Accounting Standards Board ("IASB") 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 Entity's ability to continue as a going concern, disclosing, as applicable, matters related to the Entity's going concern and using the going concern basis of accounting unless Management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity'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 Brazilian and International Standards on Auditing 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 Brazilian and International Standards on Auditing, 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 Entity'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 Entity's and its subsidiaries' 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 Entity to cease to continue as going concern.

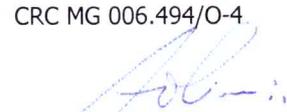
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The accompanying financial statements have been translated into English for the convenience of readers outside Brazil.

Belo Horizonte, April 06, 2018.

**Moore Stephens Consulting News**  
**Auditores Independentes**

CRC MG 006.494/O-4



*Adelfmo de Oliveira*

CRC-MG 46.235

Engagement Partner

**BRASIL GRAFITE S.A.****(Company in pre-operational phase)**

(Convenience Translation into English from the Original Previously Issued in Portuguese)

**Balance sheet for the year ended on December 31, 2017***Expressed in US\$***Assets**

	<u>Note</u>	<u>2017</u>	<u>2016</u>
<b>Noncurrent assets</b>			
Property, plant and equipments	4	8,642	9,988
Intangible		<u>8,335</u>	<u>8,461</u>
		<b><u>16,977</u></b>	<b><u>18,449</u></b>
<b>Total assets</b>		<b><u>16,977</u></b>	<b><u>18,449</u></b>

**Liabilities**

	<u>Note</u>	<u>12/31/2017</u>	<u>12/31/2016</u>
<b>Current liabilities</b>			
Taxes payable		135	6
Related parties	5	<u>1,212,839</u>	<u>1,181,519</u>
		<b><u>1,212,974</u></b>	<b><u>1,181,525</u></b>
<b>Stockholders' equity</b>			
Issued Capital	6 (a)	5,443	5,443
Accumulated losses	6 (b)	(1,430,508)	(1,378,580)
Cumulative translation Adjustments	6 (c)	<u>229,068</u>	<u>210,061</u>
		<b><u>(1,195,997)</u></b>	<b><u>(1,163,076)</u></b>
<b>Total liabilities</b>		<b><u>16,977</u></b>	<b><u>18,449</u></b>

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

**BRASIL GRAFITE S.A.****(Company in pre-operational phase)**

(Convenience Translation into English from the Original Previously Issued in Portuguese)

**Statements of operations for the year ended on December 31, 2017***Expressed in US\$*

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	<u>Note</u>	<u>2017</u>	<u>2016</u>
<b>Operating income (expenses)</b>			
Payroll expenses	8	(35,482)	(198,172)
Field office and administrative office expenses	8	(9,121)	(87,406)
Expenditure on property used for exploration	8	(5,637)	(105,349)
Depreciation and amortization expenses		(1,692)	(1,525)
Other operating income (expenses), net		-0-	(246)
		<b>(51,932)</b>	<b>(392,698)</b>
<b>Loss before financial results</b>		<b>(51,932)</b>	<b>(392,698)</b>
Financial Income		231	-0-
Financial Expenses		(227)	(2)
<b>Net loss for the year</b>		<b>(51,928)</b>	<b>(392,700)</b>
<b>Loss per shares</b>		<b>(5,19)</b>	<b>(39,27)</b>

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

**BRASIL GRAFITE S.A.****(Company in pre-operational phase)**

(Convenience Translation into English from the Original Previously Issued in Portuguese)

**Statements of changes in equity for the year ended on December 31, 2017***Expressed in US\$*

	<b>Issued Capital</b>	<b>Accumulated Losses</b>	<b>Cumulative Translation Adjustments</b>	<b>Total</b>
<b>Balances at January 1st, 2016</b>	<b><u>5,443</u></b>	<b><u>(985,880)</u></b>	<b><u>360,521</u></b>	<b><u>(619,916)</u></b>
Net loss for the period	-0-	(392,700)	-0-	(392,700)
Other comprehensive income - Loss on translation of Brazilian Reais Amounts into US Dollar	<u>-0-</u>	<u>-0-</u>	<u>150,460</u>	<u>(150,460)</u>
<b>Balances at December 31, 2016</b>	<b><u>5,443</u></b>	<b><u>(1,378,580)</u></b>	<b><u>210,061</u></b>	<b><u>(1,163,076)</u></b>
<b>Balances at December 31, 2016</b>	<b><u>5,443</u></b>	<b><u>(1,378,580)</u></b>	<b><u>210,061</u></b>	<b><u>(1,163,076)</u></b>
Net loss for the period		(51,928)	-0-	(51,928)
Other comprehensive income - Gain on translation of Brazilian Reais Amounts into US Dollar	-0-	-0-	19,007	19,007
<b>Balances at December 31, 2017</b>	<b><u>5,443</u></b>	<b><u>(1,430,508)</u></b>	<b><u>229,068</u></b>	<b><u>(1,195,997)</u></b>

The accompanying notes are an integral part of these financial statements

**BRASIL GRAFITE S.A.****(Company in pre-operational phase)**

(Convenience Translation into English from the Original Previously Issued in Portuguese)

**Statements of cash flows for the year ended on December 31, 2017***Expressed in US\$*

	<u>2017</u>	<u>2016</u>
<b>Operating activities</b>		
Net loss for the year	(51,928)	(392,700)
<b>Adjustments to reconcile net loss to net cash provided by operating activities:</b>		
Depreciation and amortization	<u>1,692</u>	<u>1,525</u>
	<b>(50,236)</b>	<b>(391,175)</b>
<b>Increase/Reduction in operating assets:</b>		
Advances	-0-	1,022
<b>Increase/Reduction in operating liabilities:</b>		
Taxes payable	<u>129</u>	<u>1</u>
<b>Net cash used by operating activities</b>	<b><u>(50,107)</u></b>	<b><u>(390,152)</u></b>
<b>Investing activities</b>		
Acquisition of property, plant, and equipment, and intangible	(346)	-0-
<b>Net cash used by investing activities</b>	<b>(346)</b>	<b>-0-</b>
<b>Financing activities</b>		
Net remittances from related parties	<u>31,320</u>	<u>543,826</u>
<b>Net cash used in financing activities</b>	<b><u>31,320</u></b>	<b><u>543,826</u></b>
<b>Gain (loss) on translation of brazilian real amounts into us dollar</b>	<b><u>19,133</u></b>	<b><u>(153,674)</u></b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b><u>-0-</u></b>	<b><u>-0-</u></b>
<b>Modifications in the financial position</b>		
Cash and cash equivalents at beginning of year	-0-	-0-
Cash and cash equivalents at end of year	-0-	-0-
<b>Increase (decrease) in cash and cash equivalents</b>	<b><u>-0-</u></b>	<b><u>-0-</u></b>

The accompanying notes are an integral part of these financial statements

**BRASIL GRAFITE S.A.****(Company in pre-operational phase)**

(Convenience Translation into English from the Original Previously Issued in Portuguese)

**Notes to the financial statements for the year ended on December 31, 2017***Expressed in US\$*

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**1. Operational context**

The Company, located in Belo Horizonte, was established on January 5, 2012, as a public limited Company.

The Company is engaged in the mining sector, aiming mainly to the development of mining projects, provision of geological services and mining engineering. As a secondary activity the participation, under any modality, of other companies, consortiums or entities, national or international, constituted under any corporate form and whatever the corporate purpose.

The Company is in pre-operational phase of its main graphite extraction Project in Itabela, Bahia, and during this phase, the related parties cover the cash requirements.

**Itabela Projects**

The Company is currently the holder of mining rights of areas for exploration of graphite in Itabela, located in State of Bahia. The mining rights have a research licenses that are in process of authorization in The National Department of Mineral Production – DNPM (“DNPM”).

The Project consists of one significant deposit of graphite with a carbon level of between 2% (two percent) and 3% (three percent) and a high quality of the material. However, the risk of mineral exploration is acute and geological resources not necessarily become commercially exploitable reserves.

The Company has been involved in the development of this Project since January 2012 and estimates an investment of approximately US\$20,000,000 (twenty million dollars) for the cost of research and commercial phase. Until December 31, 2017, the amount of US\$1,212,839 has been invested to cover the expenses in pre-operational phase (US\$1,181,519, until December 31, 2016).

## **BRASIL GRAFITE S.A.**

### **(Company in pre-operational phase)**

(Convenience Translation into English from the Original Previously Issued in Portuguese)

### **Notes to the financial statements for the years ended on December 31, 2017 and 2016**

*Expressed in US\$*

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## **2. Presentation of the financial statements**

### **a. Conformity declaration**

The financial statements have been prepared and are presented in accordance with accounting practices adopted in Brazil, comprises the policies set out in Brazilian Corporate Law, changes introduced by law 11.638/07, and 11.941/09, and the Pronouncements, Interpretations and Guidance issued by the Accounting Pronouncements Committee (CPC), approved by the Federal Accounting Council (CFC).

### **b. Basis of measurement**

The financial statements have been prepared based on the historical cost, except if otherwise indicate.

### **c. Functional currency**

The basic financial statements were stated in Brazilian reais, the currency of the country in which the Company is incorporated and operates. The translations from Brazilian real amounts into U.S. dollar amounts have been made according to the CPC 02 (R1) - "Effects of changes in foreign exchange and translation rates of financial statements" for the convenience of users outside Brazil as follows:

- Assets and liabilities were translated at the exchange rate as of the balance sheet date (R\$3.3080 to US\$1.00 as of December 31, 2017, and R\$3.2591 to US\$1.00 as of December 31, 2016). The equity accounts by the historical rates. Income and expenses were translated at the average rate on an annual basis. Gain or loss on translation are recognized as a separate component of equity ("Accumulated translation adjustment"). Such translation should not be construed as a representation that the Brazilian real amounts could be converted into US dollars at the above or any other rate.

## **BRASIL GRAFITE S.A.**

### **(Company in pre-operational phase)**

(Convenience Translation into English from the Original Previously Issued in Portuguese)

### **Notes to the financial statements for the years ended on December 31, 2017 and 2016**

*Expressed in US\$*

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## **2. Presentation of the financial statements (continuation)**

### **d. Use of estimates**

The preparation of financial statements requires management to make estimates and assumptions, based on its best judgment, that affect the reported amounts of assets, liabilities, revenues, costs and expenses. Actual results could differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. The effects of revisions to accounting estimates are recognized in the period when the estimate is reviewed if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

## **3. Summary of significant accounting practices**

### **a. Property, plant and equipment (Fixed assets)**

Stated at cost, less accumulated depreciation calculated under the straight-line method, which consider the useful life of the assets, and when applicable, less impairment losses. An item of fixed assets is written off on sale or when no future economic benefits are expected from its use. Any gain or loss on the sale or write-off of an item of fixed assets corresponds to the difference between the amounts received from the sale and the asset book value, and is recognized in profit or loss.

The estimate useful live, residual value, and method of depreciation are reviewed at each balance sheet date.

### **b. Other current and noncurrent assets and liabilities**

Stated at known or estimated values including, when applicable, related charges and inflation adjustments incurred through the balance sheet dates.

### **c. Related parties**

The funds for financing the project are obtained through loans signed between related parties. At the balance sheet date, the resources are stated at the amount of principal plus pro rata financial charges, when applicable.

## BRASIL GRAFITE S.A.

### (Company in pre-operational phase)

(Convenience Translation into English from the Original Previously Issued in Portuguese)

### Notes to the financial statements for the years ended on December 31, 2017 and 2016

Expressed in US\$

## 3. Summary of significant accounting practices (continuation)

### d. PROFIT AND LOSS

The revenues and expenses are recognized on accrual basis. Revenue is not recognized if there is significant uncertainty as to its realization

## 4. Property, plant and equipment

	2017			2016	
	Cost	Accumulated depreciation	Net balance	Net balance	Annual rates
Furniture and fixtures	1,428	(657)	771	927	10%
Machinery and equipments	<u>15,086</u>	<u>(7,215)</u>	<u>7,871</u>	<u>9,061</u>	10%
	<b><u>16,514</u></b>	<b><u>(7,872)</u></b>	<b><u>8,642</u></b>	<b><u>9,988</u></b>	

The Company reviewed the depreciation rate of the main items of its property, plant and equipment in 2017 and 2016 and did not consider it necessary to change the estimated individual useful life of these assets.

## 5. Transactions with related parties

The balances and transactions that Brasil Grafite S.A. carried out with related parties during the years ended on December 31, 2017 and 2016, are summarized below:

	Liabilities	
	2017	2016
Frontera Brasil Mineração Ltda.	-0-	537,576
HVM Participações Ltda.	-0-	643,943
Brasil Graphite Corporation	<u>1,212,839</u>	<u>-0-</u>
	<b><u>1,212,839</u></b>	<b><u>1,181,519</u></b>

The Company obtains funds from Entities connected to the Frontera Brasil Mineração Ltda. to fund necessary expenses to the Itabela Project and others necessary to the maintenance and management operations, afterward, the balance invested by Frontera is transferred to HVM Participações Ltda., by means of the assignment of rights.

## **BRASIL GRAFITE S.A.**

### **(Company in pre-operational phase)**

(Convenience Translation into English from the Original Previously Issued in Portuguese)

### **Notes to the financial statements for the years ended on December 31, 2017 and 2016**

*Expressed in US\$*

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#### **5. Transactions with related parties (continuation)**

During the year ended on December 31, 2016, the Company added the amount of US\$417,484, refers to transaction has been made with related parties, which include the amount of US\$329,026, came from to operations between Brasil Grafite and Sayona Mining Limited for the financing of the graphite extraction project. The rights of this operation were transferred to Frontera Brasil Mineração Ltda.

For the year ended on December, 31, 2017, the company added the amount of us\$ 48,785, came from to operations between Brasil Grafite and Frontera Brasil Mineração Ltda.

The rights of the operations maintained with Frontera Brasil Mineração Ltda. were transferred to HVM Participações Ltda at the end of the year on December 31, 2017, subsequently, HVM transferred the rights of its operations to Brazil Graphite Corporation.

#### **6. Stockholders' equity**

##### **a. Issued Capital**

As at December 31, 2017 and 2016, capital is R\$10,000, which represents US\$5,443, fully paid in and represented by 10,000 ordinaries shares, in the amount of R\$1.00, per share, distributed as follows:

<u>Shareholders'</u>	<u>Shares</u>	<u>%</u>
Arlindo Sales Campos	2,450	24.50
Júlio Cesar Mendes	2,450	24.50
HVM Participações Ltda.	<u>5,100</u>	<u>51.00</u>
	<b><u>10,000</u></b>	<b><u>100.00</u></b>

##### **b. Accumulated Losses**

The subgroup of deferred assets was extinguished with the edition of MP nº449/08, which added article nº299/04 to Law nº6,404/76, which was updated by Law nº11,638/07, as of December 05, 2008, Companies in pre-operating phases, should recognize their expenditures in research and developments as expenses of year.

**BRASIL GRAFITE S.A.****(Company in pre-operational phase)**

(Convenience Translation into English from the Original Previously Issued in Portuguese)

**Notes to the financial statements for the years ended on  
December 31, 2017 and 2016**

*Expressed in US\$*

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**6. Stockholders' equity (continuation)****c. Cumulative Translation Adjustments**Exchange variation on related parties

In the years ended December 31, 2017 and 2016, the Company recorded 'Cumulative translation adjustment', arising from the exchange variation, mainly on credits with related parties, in the amount of US\$19,007, loss, in 2017, and US\$150,460, gain, in 2016. These amounts recorded were mainly caused by the devaluation or valuation of the Real against the Dollar.

**7. Negative net equity**

	<u>2017</u>	<u>2016</u>
Accumulated losses	(1,430,508)	(1,378,580)
	<b><u>(1,430,508)</u></b>	<b><u>(1,378,580)</u></b>
	<u>2017</u>	<u>2016</u>
Stockholders' equity	(1,195,997)	(1,163,076)
	<b><u>(1,195,997)</u></b>	<b><u>(1,163,076)</u></b>

The Company has been showing an accumulated loss and negative net equity, as it indicated above, due to its operational activity being in a research phase. This situation shows the company's dependence on resource attainment with the connected companies, to assure the settlement of its obligations and/or the success of the future operations, in order to guarantee the normality of its operational continuity.

## BRASIL GRAFITE S.A.

### (Company in pre-operational phase)

(Convenience Translation into English from the Original Previously Issued in Portuguese)

### Notes to the financial statements for the year ended on December 31, 2017 and 2016

Expressed in US\$

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## 8. Operational expenses

The operational expenses recognized are as follows:

	<u>2017</u>	<u>2016</u>
<i>Payroll expenses</i>		
Contracted services	(35,482)	(181,727)
Hired labor	-0-	(16,445)
	<b><u>(35,482)</u></b>	<b><u>(198,172)</u></b>
<i>Field office and administrative office expenses</i>		
Transportation expenses	(3,197)	(5,317)
Veihicles expenses	-0-	(9,601)
Materials and consumables	-0-	(17,754)
Accomodations	(1,704)	(28,663)
Rentals	(3,759)	(4,090)
Utilities	(461)	(7,174)
Post office, freight and carriage	-0-	(3,873)
Telecommunications	-0-	(7,676)
Others expenses	-0-	(3,258)
	<b><u>(9,121)</u></b>	<b><u>87,406</u></b>
<i>Expenditure on property used for exploration</i>		
Technical services hired (drilling and laboratory)	1,410	89,514
Property land fees and requirements	4,227	15,835
	<b><u>5,637</u></b>	<b><u>105,349</u></b>

## 9. Financial instruments

As at December 31, 2017 and 2016, Company has financial instruments mainly represented by credits with third parties, taxes payable, and loans with related parties. The amounts of these financial instruments recognized in the balance sheets on December 31, 2017 and 2016 approximate their market values, based on comparison of contractual interest rates with market interest rates for similar transactions on such date.

**BRASIL GRAFITE S.A.**

**(Company in pre-operational phase)**

(Convenience Translation into English from the Original Previously Issued in Portuguese)

**Notes to the financial statements for the year ended on December 31, 2017**

*Expressed in US\$*

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**10. Reserve of contingencies**

The CPC 25 define that the reserves for contingencies of the Company is only recorded when there is a probability of losses, based on the opinion of the legal counsel of the Company, on the outcome of the lawsuits in progress. The criteria defined by management to recognize a contingency is as shown below:

- I. Probable – high probability of loss;
- II. Possible – There is a probability of loss, but it depends on decisions; and
- III. Remote – There is not a probability of loss.

On December 31, 2017 and 2016, the Company had not civil, taxes, and labor claims that should be classified as probable or possible as well accrued and disclosed.

**11. Insurance coverage (unaudited)**

Company adopts an insurance and guarantee policy seeking the identification of risks and, consequently, the decision on contracting proper insurance coverage, maintaining an insurance coverage in an amount considered sufficient by the management. The risk premises adopted, given their nature, are not part of the scope of an audit of the financial statements, and therefore, were not examined by the independent auditors.

**12. Subsequent Events**

On March 31, 2018, the company HVM Participações Ltda transferred all the accumulated balance until the date of December 31, 2017 to the company Brazil Graphite Corporation. The operation took place by means of the private instrument of transfer of the credits between the companies.

\_\_\_\_\_  
"Mario Danilo Paes"

**Mário Danilo Paes**

CRC/MG – 63.377

\_\_\_\_\_  
"Richard Louis Pearce Jr."

**Richard Louis Pearce Jr.**

CPF 017.568.486-37

## Schedule B

**BRASIL GRAFITE S.A.**

**CONDENSED INTERIM FINANCIAL STATEMENTS**

**(Unaudited)**  
**(Expressed in United States Dollars)**

**FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2018**

**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.

**BRASIL GRAFITE S.A.**  
**INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
(Unaudited)  
(Expressed in United States Dollars)

AS AT	March 31, 2018	December 31, 2017
<b>ASSETS</b>		
<b>Equipment</b>	\$ 7,831	\$ 8,642
<b>Intangible</b>	<u>8,335</u>	<u>8,335</u>
	<u>\$ 16,166</u>	<u>\$ 16,977</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)</b>		
<b>Current</b>		
Accounts payable and accrued liabilities (Note 8)	<u>\$ 1,212,839</u>	<u>\$ 1,212,974</u>
	<u>1,212,839</u>	<u>1,212,974</u>
<b>Shareholders' equity (deficiency)</b>		
Share capital	5,443	5,443
Cumulative translation adjustments	242,226	229,068
Deficit	<u>(1,444,342)</u>	<u>(1,430,508)</u>
	<u>(1,196,673)</u>	<u>(1,195,997)</u>
	<u>\$ 16,166</u>	<u>\$ 16,977</u>

**Nature and continuance of operations** (Note 1)

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

**BRASIL GRAFITE S.A.**  
**INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**  
(Unaudited)  
(Expressed in United States Dollars)

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	Three months ended Mach 31, 2018	Three months ended March 31, 2017
<b>EXPENSES</b>		
Depreciation	\$ 811	\$ 423
Office and administrative	13,023	3,688
Payroll	<u>-</u>	<u>8,871</u>
<b>Loss for the period</b>	(13,834)	(12,982)
Translation adjustment	<u>13,158</u>	<u>-</u>
<b>Comprehensive loss for the period</b>	<u>\$ (676)</u>	<u>\$ (12,982)</u>
<b>Basic and diluted loss per share</b>	<u>\$ (1.38)</u>	<u>\$ (1.30)</u>
<b>Weighted average number of common shares outstanding</b>	<u>10,000</u>	<u>10,000</u>

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

**BRASIL GRAFITE S.A.**  
**INTERIM STATEMENTS OF CASH FLOWS**  
(Unaudited)  
(Expressed in United Dollars)

For the three months ended	March 31 2018	March 31, 2017
<b>CASH FROM OPERATING ACTIVITIES</b>		
Loss for the period	\$ (13,834)	\$ (12,982)
Item not affecting cash:		
Depreciation and amortization	811	423
Unrealized foreign exchange	<u>13,023</u>	<u>12,559</u>
Net cash used in operating activities	<u>-</u>	<u>-</u>
<b>Change in cash during the period</b>	-	-
<b>Cash, beginning of period</b>	<u>-</u>	<u>-</u>
<b>Cash, end of period</b>	<u>\$ -</u>	<u>\$ -</u>
<b>Cash paid for interest</b>	\$ -	\$ -
<b>Cash paid for taxes</b>	\$ -	\$ -

**Supplemental disclosure with respect to cash flows (Note 7)**

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

**BRASIL GRAFITE S.A.**  
 INTERIM STATEMENT OF CHANGES IN EQUITY  
 (Unaudited)  
 (Expressed in United States Dollars)

	<u>Share capital</u>				
	Number	Amount	Cumulative Translation Adjustments	Deficit	Total
<b>Balance at December 31, 2016</b>	10,000	\$ 5,443	\$ 210,061	\$ (1,378,580)	\$ (1,163,076)
Other comprehensive income	-	-	19,007	-	19,007
Loss for the year	-	-	-	(51,928)	(51,928)
<b>Balance at December 31, 2017</b>	10,000	5,443	229,068	(1,430,508)	(1,195,997)
Other comprehensive income	-	-	13,158	-	13,158
Loss for the period	-	-	-	(13,834)	(13,834)
<b>Balance at March 31, 2018</b>	10,000	5,443	\$ 242,226	\$ (1,444,342)	\$ (1,196,673)

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

**1. NATURE AND CONTINUANCE OF OPERATIONS**

Brasil Grafite S.A. (the “**Company**”) located in Belo Horizonte, was established on January 5, 2012, as a public limited Company.

The Company is engaged in the mining sector, aiming mainly to the development of mining projects, provision of geological services and mining engineering. As a secondary activity the participation, under any modality, of other companies, consortiums or entities, national or international, constituted under any corporate form and whatever the corporate purpose.

The Company is in pre-operational phase of its main graphite extraction Project in Itabela, Bahia, and during this phase, the related parties cover the cash requirements.

**2. BASIS OF PREPARATION**

**Statement of Compliance**

The financial statements have been prepared and are presented in accordance with accounting practices adopted in Brazil, comprises the policies set out in Brazilian Corporate Law, changes introduced by law 11.638/07, and 11.941/09, and the Pronouncements, Interpretations and Guidance issued by the Accounting Pronouncements Committee (CPC), approved by the Federal Accounting Council (CFC).

**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 consolidated interim financial statements of the Company are presented in United States dollars but has a functional currency of the Brazilian Real.

**Significant accounting judgements, estimates and assumptions**

The preparation of financial statements requires management to make estimates and assumptions, based on its best judgment, that affect the reported amounts of assets, liabilities, revenues, costs and expenses. Actual results could differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. The effects of revisions to accounting estimates are recognized in the period when the estimate is reviewed if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

**3. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies followed in these condensed interim financial statements are consistent with those disclosed in Note 3 of the Company’s audited financial statements for the year ended December 31, 2017.

**4. EXPLORATION AND EVALUATION ASSETS**

The Company is currently the holder of mining rights of areas for exploration of graphite in Itabela, located in State of Bahia. The mining rights have a research licenses that are in process of authorization in The National Department of Mineral Production - DNPM ("DNPM").

The project consists of one significant deposit of graphite with a carbon level of between 2% and 3% and a high quality of the material. However, the risk of mineral exploration is acute and geological resources not necessarily become commercially exploitable reserves.

The Company has been involved in the development of this Project since January 2012 and estimates an investment of approximately \$20,000,000 for the cost of research and commercial phase. Until March 31, 2018, the amount of \$1,212,839 has been invested to cover the expenses in pre-operational phase (2017 - \$1,181,519).

**5. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

There were no non-cash transactions for the three months period ended March 31, 2018 and 2017.

**6. RELATED PARTY TRANSACTIONS**

Included in accounts payable and accrued liabilities at March 31, 2018 is \$1,212,839 (December 31, 2017 - \$1,212,839) due to Brasil Graphite Corporation a company connected to Frontera Minerals Inc.

**7. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

As at March 31, 2018, Company has financial instruments mainly represented by credits with third parties, taxes payable, and loans with related parties. The amounts of these financial instruments recognized in the balance sheets on March 31, 2018 and December 31, 2017 approximate their market values, based on comparison of contractual interest rates with market interest rates for similar transactions on such date.