



**(formerly STEM 7 Capital Inc.)**

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**(Unaudited)**  
**(Expressed in Canadian Dollars)**

**FOR THE THREE AND NINE MONTH PERIOD ENDED SEPTEMBER 30, 2018 AND 2017**

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

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

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

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

**SOUTH STAR MINING CORP. (Formerly STEM 7 CAPITAL INC.)**  
**INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
(Unaudited)  
(Expressed in Canadian Dollars)

AS AT	September 30, 2018	December 31, 2017
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 1,950,175	\$ 165,015
Receivables	12,551	4,533
Prepaid expenses	<u>277,405</u>	<u>7,666</u>
	2,240,131	177,214
<b>Equipment</b>	8,373	-
<b>Exploration and evaluation assets (Note 5)</b>	<u>5,735,914</u>	<u>-</u>
	<u>\$ 7,984,418</u>	<u>\$ 177,214</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)</b>		
<b>Current</b>		
Accounts payable and accrued liabilities (Note 8)	<u>\$ 168,053</u>	<u>\$ 49,770</u>
	<u>168,053</u>	<u>49,770</u>
<b>Shareholders' equity (deficiency)</b>		
Share capital (Note 6)	23,178,260	14,690,531
Reserves	3,187,793	2,273,761
Accumulated other comprehensive loss	(33,008)	-
Deficit	<u>(18,516,680)</u>	<u>(16,836,848)</u>
	<u>7,816,365</u>	<u>127,444</u>
	<u>\$ 7,984,418</u>	<u>\$ 177,214</u>

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

Approved and authorized by the Board on November 23, 2018:

<u>“Dave McMillan”</u>	Director	<u>“Eric Allison”</u>	Director
David McMillan		Eric Allison	

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

**SOUTH STAR MINING CORP. (Formerly STEM 7 CAPITAL INC.)**  
**INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**  
(Unaudited)  
(Expressed in Canadian Dollars)

	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
<b>EXPENSES</b>				
Business development	\$ 229,554	\$ 4,787	\$ 356,883	\$ 36,887
Consulting and management fees	139,500	-	163,500	-
Depreciation	453	-	453	-
Exploration and evaluation expenditures	60,775	-	60,775	-
Foreign exchange	6,414	-	6,414	-
Office and miscellaneous	37,828	134	43,834	1,238
Professional fees	100,645	21,439	155,755	53,563
Property investigation	-	23,137	47,436	48,150
Share-based payments	709,299	-	709,299	413,280
Transfer agent, exchange and filing fees	50,335	3,784	106,135	16,369
Travel	-	-	35,322	1,150
	(1,404,803)	(53,281)	(1,685,806)	(570,637)
<b>OTHER</b>				
Interest	-	-	3,974	-
Gain on settlement of accounts payable	-	-	2,000	-
<b>Loss for the period</b>	\$ (1,404,803)	\$ (53,281)	\$ (1,679,832)	\$ (570,637)
<b>Items that may be reclassified</b>				
<b>Other comprehensive income</b>				
Cumulative translation adjustment	(33,008)	-	(33,008)	-
<b>Loss and comprehensive loss for the period</b>	\$ (1,437,811)	\$ (53,281)	\$ (1,712,840)	\$ (570,637)
<b>Basic and diluted loss per share</b>	\$ (0.05)	\$ (0.00)	\$ (0.07)	\$ (0.05)
<b>Weighted average number of common shares outstanding</b>	28,566,483	16,621,342	24,628,524	11,291,672

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

**SOUTH STAR MINING CORP. (Formerly STEM 7 CAPITAL INC.)**  
**INTERIM STATEMENTS OF CASH FLOWS**  
(Unaudited)  
(Expressed in Canadian Dollars)

For the nine months ended	September 30, 2018	September 30, 2017
<b>CASH FROM OPERATING ACTIVITIES</b>		
Loss for the period	\$ (1,679,832)	\$ (570,637)
Item not affecting cash:		
Gain on settlement of accounts payable	2,000	-
Depreciation	453	-
Unrealized foreign exchange	(33,008)	-
Share-based payments	709,299	413,280
Changes in non-cash working capital items:		
Receivables	(8,018)	(4,924)
Prepayments	(269,739)	-
Accounts payable and accrued liabilities	<u>116,283</u>	<u>(87,786)</u>
Net cash used in operating activities	<u>(1,162,562)</u>	<u>(250,067)</u>
<b>CASH FROM INVESTING ACTIVITIES</b>		
Acquisition of Brasil Graphite Corp. (Note 4)	<u>(1,494,534)</u>	<u>-</u>
Net cash used in investing activities	<u>(1,494,534)</u>	<u>-</u>
<b>CASH FROM FINANCING ACTIVITIES</b>		
Issuance of common shares	4,943,099	515,000
Share issuance costs	<u>(500,843)</u>	<u>-</u>
Net cash used in financing activities	<u>(4,442,756)</u>	<u>515,000</u>
<b>Change in cash during the period</b>	<b>1,785,160</b>	<b>264,933</b>
<b>Cash, beginning of period</b>	<u><b>165,015</b></u>	<u><b>4,152</b></u>
<b>Cash, end of period</b>	<u><b>\$ 1,950,175</b></u>	<u><b>\$ 269,085</b></u>
<b>Cash paid for interest</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Cash paid for taxes</b>	<b>\$ -</b>	<b>\$ -</b>

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

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

**SOUTH STAR MINING CORP. (Formerly STEM 7 CAPITAL INC.)**  
**INTERIM STATEMENT OF CHANGES IN EQUITY**  
(Unaudited)  
(Expressed in Canadian Dollars)

	<u>Share capital</u>			<u>Accumulated other</u>		<u>Total</u>
	<u>Number</u>	<u>Amount</u>	<u>Reserves</u>	<u>comprehensive loss</u>	<u>Deficit</u>	
<b>Balance at December 31, 2016</b>	6,921,342	\$ 14,175,531	\$ 1,882,142	\$ -	\$ (16,140,974)	\$ (83,301)
Common shares issued for:						
Private placement	8,500,000	425,000	-	-	-	425,000
Debt	1,200,000	90,000	-	-	-	90,000
Share-based payments	-	-	413,280	-	-	413,280
Loss for the period	-	-	-	-	(570,638)	(570,638)
<b>Balance at September 30, 2017</b>	16,621,342	14,690,531	2,295,422	-	(16,711,612)	274,341
Share-based payments	-	-	(21,661)	-	-	(21,661)
Loss for the period	-	-	-	-	(125,236)	(125,236)
<b>Balance at December 31, 2017</b>	16,621,342	14,690,531	2,273,761	-	(16,836,848)	127,444
Common shares issued for:						
Private placement	10,984,636	4,943,099	-	-	-	4,943,099
Acquisition of Brasil Graphite Corp. (Note 4)	9,444,903	4,250,206	-	-	-	4,250,206
Share issuance costs, cash	-	(500,843)	-	-	-	(500,843)
Share issuance costs, agent warrants	-	(204,733)	204,733	-	-	-
Share-based payments	-	-	709,299	-	-	709,299
Cumulative translation adjustment	-	-	-	(33,008)	-	(33,008)
Loss for the period	-	-	-	-	(1,679,832)	(1,679,832)
<b>Balance at September 30, 2018</b>	37,050,881	\$ 23,178,260	\$ 3,187,793	\$ (33,008)	\$ (18,516,680)	\$ 7,816,365

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

## **1. NATURE AND CONTINUANCE OF OPERATIONS**

South Star Mining Inc. (formerly STEM 7 Capital Inc.) (the “**Company**”, or “**STS**”) was incorporated in British Columbia. The Company is listed on the TSX Venture Exchange (the “**Exchange**”) in Canada 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 in Brazil.

The unaudited condensed consolidated 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 \$2,072,078 (December 31, 2017 – \$127,444) and had an accumulated deficit of \$18,516,680 as at September 30, 2018 (December 31, 2017 - \$16,836,848) which has been funded primarily by the issuance of shares. The Company’s ability to continue as a going concern depends upon its ability to raise adequate financing and to generate profitable operations in the future. The Company has been successful in the past in raising funds for operations by issuing shares, but there is no assurance that it will be able to continue to do so in the future.

## **2. BASIS OF PREPARATION**

### **Statement of Compliance**

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

### **Basis of Presentation**

The condensed consolidated 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 Canadian dollars, which is the functional currency of Brasil Graphite Corp. (“**BGC**”) and South Star Mining Corp, the parent company. Brasil Grafite S.A. (“**BGSA**”), has a functional currency of the Brazilian Real.

### **Significant accounting judgements, estimates and assumptions**

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

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

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

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

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

The net carrying value of each mineral property is reviewed regularly for conditions that suggest impairment. This review requires significant judgment. Factors considered in the assessment of the asset impairment include, but are not limited to, whether there has been a significant adverse change in the legal, regulatory, accessibility, title, environmental or political factors that could affect the property's value; whether there has been an accumulation of costs significantly in excess of the amounts originally expected for the property's acquisition, development or cost of holding; and whether exploration activities produced results that are not promising such that no more work is being planned in the foreseeable future.

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

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

**3. SIGNIFICANT ACCOUNTING POLICIES**

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

*IFRS 9 – Financial Instruments*

The Company adopted IFRS 9 effective January 1, 2018. IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 requires financial assets to be classified into three measurement categories: those measured at fair value through profit and loss, at fair value through other comprehensive income, and at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than in net earnings.

The requirements in IAS 39 for classification and measurement were carried forward to IFRS 9 and the Company's accounting policy with respect to financial liabilities remains unchanged.

As a result of the adoption of this standard, the Company has changed its accounting policy for financial assets. The change did not impact the carrying value of any financial assets on the transition date, January 1, 2018.

**3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**New standards not yet adopted**

Certain pronouncements were issued by the IASB or IFRIC that are not mandatory for accounting periods beginning on or after January 1, 2018 or later periods. They have not been early adopted in these condensed consolidated interim financial statements, and they are expected to affect the Company in the period of initial application. In all cases the Company intends to apply these standards from application date as indicated below:

IFRS 16 Leases will be effective for accounting periods beginning on or after January 1, 2019. Early adoption will be permitted. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The Company is in the process of assessing the impact, if any, on the financial statements of this new standard.

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

**4. ACQUISITION OF BRASIL GRAPHITE CORP.**

On October 19, 2017, the Company entered in to a definitive agreement with Frontera Minerals Inc., BGC and 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 an acquisition cost of US\$850,000 (\$1,126,165) to BGC shareholders, \$68,369 in transaction costs and a finder fee of \$300,000.

On June 15, 2018, the Company completed the transaction. The total cost of the acquisition was \$5,744,740.

The transaction has been accounted for as an asset acquisition of exploration and evaluation assets and related assets using the purchase method, rather than as a business combination, as the net assets acquired did not represent a separate business.

The total purchase price of \$5,744,119 was allocated to the net assets of BGC as follows:

Net assets acquired:	
Equipment	\$ 8,826
Exploration and evaluation assets	<u>5,735,914</u>
Purchase price	<u>\$ 5,744,740</u>

Upon completion of the acquisition on June 15, 2018, two directors of Frontera Minerals Inc. ("Frontera"), one of which is the CEO and director of BGC and the other COO and Director of BGC, became directors of the Company.

**5. EXPLORATION AND EVALUATION ASSETS**

The Company has certain exploration mining rights for graphite in Itabela, Bahia, Brazil.

**6. SHARE CAPITAL AND RESERVES**

**Authorized share capital**

As at September 30, 2018, the authorized share capital of the Company is an unlimited number of common shares without par value. All issued shares, consisting only of common shares, are fully paid.

**Private placements**

During the period ended September 30, 2018, the Company completed brokered and non-brokered private placements by issuing 10,984,664 units at a price of \$0.45 per unit for gross proceeds of \$4,943,099. Each unit consisted of one common share and one share purchase warrant exercisable at a price of \$0.75 for two years. The Company issued 698,433 agent warrants valued at \$204,733 using the Black-Scholes pricing model with an expected life of 2 years, volatility of 100%, and a discount rate of 1.88%. Each agent warrant entitles the holder to purchase a whole unit with the same terms as above, at a price of \$0.45. The Company also paid \$500,843 as finder and professional fees related to the transaction.

During the year ended December 31, 2017, the Company completed a non-brokered private placement whereby it issued 8,500,000 units at a price of \$0.05 per unit for gross proceeds of \$425,000. Each unit consisted of one common share and one share purchase warrant of the Company exercisable at \$0.10 for 1 year.

**Shares for Debt**

On May 9, 2017, the Company issued 1,200,000 common shares to a company controlled by a director and former CEO of the Company for settlement of \$90,000 in loans payable.

**SOUTH STAR MINING CORP. (Formerly STEM 7 CAPITAL INC.)**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**  
September 30, 2018  
(Unaudited)  
(Expressed in Canadian Dollars)

**6. SHARE CAPITAL AND RESERVES (cont'd...)**

**Stock options and share purchase warrants**

Stock option and share purchase transactions are summarized as follows:

	Stock options		Warrants	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding, December 31, 2016	-	\$ -	1,200,000	\$ 0.10
Granted	1,600,000	0.30	8,500,000	0.10
Expired / Cancelled	-	-	<u>(1,200,000)</u>	0.10
Outstanding, December 31, 2017	1,600,000	0.30	8,500,000	0.10
Granted	<u>2,100,000</u>	0.45	<u>21,128,000</u>	0.74
Outstanding, September 30, 2018	3,700,000	\$ 0.39	29,628,000	\$ 0.56
Number currently exercisable	3,700,000	\$ 0.39	29,628,000	\$ 0.56

**Stock options and share purchase warrants outstanding**

The following incentive stock options and share purchase warrants were outstanding at September 30, 2018:

Number	Exercise price	Expiry date
<b>Stock Options</b>		
1,600,000	\$ 0.30	May 29, 2022
2,100,000	\$ 0.45	July 30, 2023
<b>Share purchase warrants</b>		
8,500,000	\$ 0.10	December 20, 2018
698,433	\$ 0.45	May 15, 2020
20,429,567	\$ 0.75	June 15, 2020

**Share-based payments**

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

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

During the nine months period ended September 30, 2018, the Company issued agent warrants with a fair value of \$204,733 as share issuance costs.

There were no non-cash transactions for the six months period ended September 30, 2017.

**8. RELATED PARTY TRANSACTIONS**

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

During the nine months ended September 30, 2018, the Company:

- a) Paid or accrued management and consulting fees of \$45,000 (2017 - \$Nil) to the CEO of the Company;
- b) Paid or accrued management and consulting fees of \$22,500 (2017 - \$Nil) to a company controlled by the Chairman of the Board of the Company;
- c) Paid or accrued management and consulting fees of \$36,000 (2017 - \$Nil) to a company partially owned by the CFO of the Company;
- d) Paid or accrued management and consulting fees of \$22,500 (2017 - \$Nil) to each director of the Company from Frontera (Note 4) or \$45,000 in aggregate; and
- e) Paid or accrued management and consulting fees of \$45,000 (2017 - \$Nil) to Frontera.

Included in accounts payable and accrued liabilities at September 30, 2018 is \$79,200 (December 31, 2017 - \$8,659) due to both current and former officers, directors or companies with a director in common for cash advances, unpaid consulting fees and unpaid expenses.

**9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

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

Cash is carried at a level 1 fair value measurement. The carrying value of receivables and accounts payable and accrued liabilities approximates fair value due to the short-term nature of the financial instruments.

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

**9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd...)**

**Financial risk factors**

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

*Credit risk*

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

*Liquidity risk*

The Company's approach to managing liquidity risk is to try and have sufficient liquidity to meet liabilities when due. As at September 30, 2018, the Company had a cash balance of \$1,950,175 (December 31, 2017 - \$165,015) to settle current liabilities of \$168,053 (December 31, 2017 - \$49,770). All of the Company's accounts payable and accrued liabilities have contractual maturities of 30 days or due on demand and are subject to normal trade terms.

*Market risk*

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

a) Interest rate risk

The Company's financial assets exposed to interest rate risk consist of cash balances. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. As at September 30, 2018, the Company did not have any investments in investment-grade short-term deposit certificates.

b) Price risk

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

**10. CAPITAL MANAGEMENT**

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

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