



**FORM 51-102F1**  
**MANAGEMENT’S DISCUSSION AND ANALYSIS**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

## **Introduction**

This Management’s Discussion and Analysis (“MD&A”) of South Star Mining Corp. is the responsibility of management and covers the year period ended December 31, 2018. The MD&A takes into account information available up to and including April 17, 2019 and should be read together with the annual audited financial statements for the years ended December 31, 2018 and 2017, which are available on the SEDAR website at [www.sedar.com](http://www.sedar.com).

Throughout this document the terms *we*, *us*, *our*, *the Company* and *South Star* refer to South Star Capital Corp. All financial information in this document is prepared in accordance with International Financial Reporting Standards (“IFRS”) and is presented in Canadian dollars unless otherwise indicated. The Company’s accounting policies have changed and the presentation, certain financial statement references and terminology used in this MD&A and the accompanying financial statements differ from those used in financial statements and quarterly and annual reports issued prior to the year ended December 31, 2018.

Additional information related to the Company is available for view on SEDAR.

This document contains forward-looking statements. Please refer to “Note Regarding Forward-Looking Statements.”

## Description of Business

The Company's main business is the acquisition and exploration of natural resource properties in Brazil. During the period ended September 30, 2018, the Company acquired Brasil Graphite Corp. ("BGC"), whose subsidiary Brasil Grafite S.A. ("BGSA") owns the Santa Cruz graphite project ("Project") in Brazil. Refer to the "Outlook" section below for a description of the property and for more information.

## Performance Summary and Subsequent Events

During the year ended and subsequent to December 31, 2018, the Company:

- The Company announced that one of the main objectives, over the next 12 months, will be the completion of the requirements for a Guia de Utilizacao, or trial mining license. Under the Brazilian Mining Code, a trial mining license may be granted for the extraction of up to 5000 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 approved its budget for the next 12 months and key activities are starting up at the Santa Cruz graphite project in Bahia, Brazil. The approved budget includes drilling, engineering, testing and environmental activities focused primarily on gathering the necessary information to fulfill the requirements for a trial mining licence.

The program includes surface sampling, trenching, mapping and approximately 2,000 metres of drilling targeted to enhance the size and quality of the existing resource base as well as contributing to a more detailed mine plan to support the trial mining licence.

- The Company entered into an agreement with Urbix Resources LLC ("Urbix") for advanced testing, optimization development and commercialization of its Santa Cruz project graphite concentrates.

The testing program will include detailed characterization, purification, expandability and market suitability on four different flake-size concentrates previously produced during the company's pilot plant program. The evaluation will take place at Urbix's cutting-edge research and development facility in Mesa, Ariz., and incorporate its advanced purification and exfoliation technologies. The program began September 2018. Urbix has agreed to work toward formalizing potential commercial relationships including offtakes, processing, technology sharing and product distribution. Total estimated value of the test program is approximately \$400,000, which will be partially paid in cash and grants with the balance payable to Urbix as 384,000 shares in the company, valued at 45 cents per share. The share issuance is subject to Toronto Stock Exchange approval and a four-month hold period.

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. Samples of concentrates generated in South Star's previous 30-ton pilot plant run have already been dispatched to several independent labs and potential purchasers.

- The Company initiated a laboratory testing program at the PCM Facility near Ouro Preto, Minas Gerais, Brazil. The testing program is designed to perform bench scale concentration tests from across the ore body, both at depth and along strike, to confirm and optimize the proposed flow sheet presented in the NI43-101 report dated Feb. 06, 2018. In addition, test work to confirm whether filtered tailings is a viable alternative is planned. Filtered tailings would eliminate the requirement for a tailings dam and allow co-disposal of tails together with the mine waste.

The ability to economically generate dry stack tailings instead of a tailings dam will have a significant impact on the company's environmental impact statement and streamlining of the permitting path to both the trial mining and full installation/operating license (LI/LO).

- Listed for trading on the OTCQB Market exchange in the United States under the symbol STSBF.
- Completed a non-brokered private placement consisting of 4,050,000 units at a price of \$0.10 for gross proceeds of \$405,000. Each unit consists of one common share and one share purchase warrant. Each share purchase warrant is exercisable at a price of \$0.15 for two years.
- Appointed Daniel Wilton to the board of directors.

Mr. Wilton has 25 years of experience in M&A (mergers and acquisitions), corporate finance and principal investing in the mining sector. Mr. Wilton was most recently a partner at Pacific Road Capital Management, a mining-focused private equity investment firm with approximately \$800-million under management. At Pacific Road Capital Management, Mr. Wilton reviewed a number of projects in Brazil, led the investment in Luna Gold (now Equinox Gold Corp.) and financed the development of the Aurizona gold project through critical prefeasibility and permitting activities. Prior to joining Pacific Road Capital Management, Mr. Wilton's previous roles included managing director and head of the global mining and metals group at National Bank Financial Inc. as well as other corporate finance and M&A roles at global institutions based in London, Toronto and New York.

The Company also accepted Aman Parmar resignation as a director to pursue other endeavours.

- The Company received the first set of assay results from the 2018 exploration program at its Santa Cruz graphite project in Brazil. The first phase of the testing is completed and the results indicate a very high-quality graphite with minimum impurities and excellent suitability for further purification and value-added processing. One of the Santa Cruz samples has also qualified under part of a US Department of Energy sponsored initiative at Urbix and these initial results also confirm its potential use for nuclear grade graphite.

The Company's 2018 field investigation program includes trenching along with approximately 550 metres of diamond (HQ) and 1,250 metres of reverse circulation (RC) drilling. The program is focused on the Sao Manuel and Sao Rubens targets of the project. The 2018 field program should be completed this week with all final sample analyses expected during Q4 of 2018.

Initial sample preparation and logging are carried out at the company's facility in Itabela with analytics being performed at the SGS Geosol Laboratories in Belo Horizonte, Brazil, using LECO analysis to determine graphitic carbon (Cg).

The first hole, 55-SCP-DDH-001, is a vertical hole totalling 79.8 m of diamond drilling. Results of hole include 10 metres at an average grade of 3.9 per cent Cg and 14.3 metres at 4.4 per cent Cg. Overall, the hole resulted in 65.6 metres of continuous mineralization in friable material with an average grade of 3.1 per cent Cg. This is the second largest mineralized intersection drilled to date in the project, when compared with hole SIAC 001 from 2016 campaign with 77 metres at an average Cg of 2.9 per cent. Complete results are presented below:

Hole No.	From	To	Cg %	Int. m	Avg. Cg %		
55-SCP-DDH-001	9	11	1.8	16	1.7		
	11	13	2.41				
	13	15	0.95				
	15	17	2.36				
	17	19	2.22				
	19	21	1.88				
	21	23	0.67				
	23	25	1.7				
	25	27	4.52			10	3.9
	27	29	4.38				
	29	31.15	4.28				
	31.15	33	3.61				
	33	35	2.84				
	35	37.5	3.33	15	2.8		
	37.5	40	2.58				
	40	41.87	2.78				
	41.87	44	1.85				
	44	46	3.55				
	46	48.3	3				
	48.3	50	2.64				
	50	52.26	2.41			10.3	2.9
	52.26	54	3.96				
	54	56	2.39				
	56	58	3.22				
	58	60.3	2.62				
	60.3	62	3.5	14.3	4.4		
	62	64	3.45				
	64	66	4.83				
	66	68	5.18				
	68	70	4.3				
	70	72	4.48				
	72	74.6	4.83				
74.6	78.55	0.79	1% cut-off				
78.55	79.85	0.21					

Average Cg of entire hole: 3.1 per cent.

In addition, two channel samples (TR005 and TR006) were collected near surface close to hole 55-SCP-DDH-001. Results include 28 linear metres at an average grade of 1.9 per cent Cg in TR005 and 12 linear metres at an average grade of 3 per cent Cg in TR006.

Subsequent to December 31, 2018, the Company:

- Completed a non-brokered private placement by issuing 4,050,000 units at a price of \$0.10 per unit for gross proceeds of \$405,000. Each unit consists of one common share and one share purchase warrant with each whole share purchase warrant exercisable at a price of \$0.15 for two years. The Company paid \$4,900 and issued 49,000 finder's warrants with the same terms as those above as finder fees.

- Appointed Marc P. Leduc to the Company's board of directors.

Mr. Leduc is a mining engineer and geologist with over 30 years of experience involving all aspects of the development, operations, planning and evaluation of mining projects, including over 20 years in Latin America. Mr. Leduc served as the president and chief executive officer of Luna Gold, operator of the Aurizona mine in Brazil, from 2015 to 2016. He also led the team restarting the Castle Mountain mine in the southwest United States and served as chief operating officer and interim CEO of NewCastle Gold. Both companies were merged in 2017 to form Equinox Gold where he currently serves as the executive vice-president of United States operations. Throughout his career, Mr. Leduc has demonstrated a proven ability of unlocking the maximum value in mining assets through his experience in the design and construction of large mines, heap leach and tailings facilities. He has global experience in the areas of complex metallurgy, site water management, heap leach planning and the use of innovative solutions to solve environmental concerns. Previously, Mr. Leduc was chief operating officer at Lydian International and president and COO of Bear Creek Mining. He holds a BSc (honours) in mining engineering from Queen's University and a BSc in geology from the University of Ottawa.

The Company also accepted Graydon Kowal resignation as a director to pursue other endeavours.

- Provided an update on the pre-feasibility study for the Company's Santa Cruz Graphite Project.

The study will include both an initial 5,000-tonne-per-year trial mining plant and the 20,000-tonne-per-year facility originally contemplated under the Company's PEA. Both plants will incorporate dry stack tailings. IGEO, a leading mining engineering firm based in Sao Paulo, will be responsible for all engineering, including final flow sheet, layout and drawings, equipment specifications, infrastructure, and costings. MCB of Belo Horizonte will complete an updated resource report that incorporates the results of the recent infill drilling program. Luiz Eduardo Pignatari, a qualified person under NI 43-101, will do mine planning and resource-to-reserve conversion modelling as well as oversee the preparation of the final report. In parallel with the PFS work, the company intends to complete the applications and file all necessary information for its initial environmental licence and a guia de utilizacao (trial mining licence).

Completion of the report and the licensing activities is forecast for Q3 2019.

There were no other significant events or transactions during or subsequent to the period to the date of this report.

## Outlook

On October 19, 2017, the Company entered into a Definitive Agreement (“DA”) with BGC to acquire 100% of the issued and outstanding shares of Brasil Graphite Corp (“BGC”) (the “Acquisition”). BGC owned 51% of Brasil Graphite S.A. (“BGSA”). BGSA has a 100% interest in the advanced-stage Santa Cruz Graphite Project located in the state of Bahia, Brazil. As a condition of the Acquisition, BGC acquired the remaining shares of BGSA prior to closing.

South Star Mining owns 100% of the Santa Cruz graphite project through its wholly owned subsidiaries BGC and BGSA. The project is located in the state of Bahia, Brazil and consists of 13 approved licenses covering 13,316 hectares. The Company issued a Preliminary Economic Assessment (“PEA”) technical report prepared in accordance with National Instrument 43-101 guidelines with an effective date of August 21, 2017. Highlights of the report include:

### Key Financial Results

Post-tax NPV <sub>5%</sub> :	US\$117,000,000
Post-tax all Equity IRR:	78% per annum
Avg. Post-tax Free Cash Flow (years 1-5):	US\$15,800,000 per annum

LOM Avg. Post-tax Free Cash Flow:	US\$10,400,000 per annum
Payback Period:	2 years

### Key Parameters

Total Indicated Resources:	14,990,400 tonnes @ 2.70% graphite
Total Inferred Resources	3,572,100 tonnes @ 2.90% graphite
Current Life of Mine (“LOM”):	19 years
Annual Production (years 1-5):	18,900 tonnes per annum
Annual Production (year 5-23):	15,800 tonnes per annum
Avg. Operating Costs (years 1-5)	US\$316 per tonne of concentrate
Avg. Operating Costs (LOM):	US\$413 per tonne of concentrate
Avg. Weighted Price:	US\$1,354 per tonne of concentrate

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 tonnes 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.

*This MD&A and the PEA contain references to inferred resources. The PEA is preliminary in nature and includes inferred mineral resources that are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves. There is no certainty that the PEA will be realized.*

*Richard L. Pearce, a Director of South Star Mining, is a Qualified Person as defined by National Instrument 43-101 and was responsible for verifying the scientific and technical information herein and has read and approved this MD&A.*

### Selected Annual Information

The following table provides a brief summary of the Company's financial operations. For more detailed information, refer to the consolidated financial statements.

	Year ended December 31, 2018	Year ended December 31, 2017	Four months ended December 31, 2016
Net loss	\$ 2,530,691	\$ 695,874	\$ (45,117)
Basic and diluted loss per share	0.11	0.05	(0.00)
Total assets	7,240,312	177,214	7,040
Working capital (deficiency)	1,435,158	127,444	(83,301)
Total long-term liabilities	-	-	-
Cash dividends	-	-	-

## Results of Operations

The financial statements reflect the financial condition of the Company's business for the year ended December 31, 2018.

During the year ended December 31, 2018, the Company incurred a net loss of \$2,530,690 as compared to \$695,874 for the year ended December 31, 2017 and include significant non-cash-based transactions for share-based payments of \$709,299 (2017 - \$391,619).

Excluding share-based payments, general expenses with significant increases include:

- Business development of \$536,552 (2017 - \$38,275) as the Company has relisted on the Toronto Stock Exchange Venture ("Exchange") and is preparing various marketing and development strategies.
- Consulting and management fees of 228,000 (2017 - \$Nil) paid to the CEO, CFO and various directors including two located in Brazil.
- Exploration and evaluation expenditures of \$700,130 (2017 - \$Nil) as the Company started its exploration program at the Santa Cruz graphite project in Bahia, Brazil.
- Office and miscellaneous of \$20,217 (2017 - \$5,415) due to the Company experienced a significant growth during the year ended December 31, 2018 with the acquisition of BGC, and therefore an increase in office and miscellaneous costs is expected.
- Professional fees of \$107,732(2017 – \$115,423) due to the Company relisting on the Exchange and increased activity.
- Transfer agent and filing fees of \$106,913 (2017 - \$18,853) related to the relisting on the Exchange, listing on the OTCQB, application to the DTC and increased activity.

## Summary of Quarterly Results

The following table summarizes the quarterly results for each of the three month periods ended:

	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018
Total assets	\$ 7,240,312	\$ 7,984,418	8,555,391	57,403
Working capital (deficiency)	1,435,158	2,072,078	2,869,006	17,195
Net income (loss)	(819,908)	(1,404,803)	(164,780)	(110,281)
Net income (loss) per share	(0.10)	(0.05)	(0.01)	(0.01)
	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017
Total assets	\$ 177,214	\$ 276,896	373,282	7,120
Working capital (deficiency)	127,444	274,341	327,624	(104,319)
Net income (loss)	(125,237)	(53,281)	(496,339)	(21,017)
Net income (loss) per share	(0.05)	(0.00)	(0.05)	(0.00)

## Discussion of Quarterly Results

The variability in the Company's net loss over the last eight quarters resulted primarily from the changing levels in share-based payments and office and administrative expenses. The primary reason for the large net loss in the quarter ended September 30, 2018 was due to the issuance and fair value of stock options granted.

During the three months period ended December 31, 2018, the Company incurred a net loss of \$819,908 as compared to \$125,237 for the three months ended December 31, 2017.

Excluding share-based payments, general expenses with significant increases include:

- Business development of \$179,669 (2017 - \$1,388) as the Company has relisted on the Toronto Stock Exchange Venture ("Exchange") and is preparing various marketing and development strategies.
- Consulting and management fees of \$64,500 (2017 - \$Nil) paid to the CEO, CFO and various directors including two located in Brazil.
- Exploration and evaluation expenditures of \$639,355 (2017 - \$Nil) as the Company started its exploration program at the Santa Cruz graphite project in Bahia, Brazil.
- Office and miscellaneous of \$23,617 (2017 - \$4,177) due to the Company experienced a significant growth during the year ended December 31, 2018 with the acquisition of BGC, and therefore an increase in office and miscellaneous costs is expected.
- Professional fees of \$48,023 (2017 - \$61,860) due to the Company relisting on the Exchange and increased activity.

## Liquidity

The Company's mineral exploration and development activities do not provide a source of income and we therefore have a history of losses, working capital deficiencies and an accumulated deficit. However, given the nature of our business, the results of operations as reflected in the net losses and losses per share do not provide a complete interpretation of our valuation.

As at December 31, 2018, the Company had working capital of \$1,435,158. This balance included a cash balance of \$1,275,577 (2017 - \$165,015) to settle current liabilities of \$61,342 (2017 - \$49,770).

To maintain liquidity, the Company is currently investigating financing opportunities, included but not limited to share issuances, debt facilities, joint venture arrangements, or a combination of these options. The Company has financed its operations to date primarily through the issuance of common shares and loans payable. The Company will continue to seek capital.

**Operating Activities:** The Company does not generate cash from operating activities. Net cash used by the Company for operating activities for the year period ended December 31, 2018 was \$1,986,665 (2017 - \$354,137).

**Investing Activities:** The Company acquired BGC during the period for a cash costs of \$1,494,534.

**Financing Activities:** During the year ended December 31, 2018, the Company issued shares for gross proceeds of \$4,943,099 (2017 - \$425,000) and warrants exercised of \$180,455 (2017 - \$Nil).

The financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company's continuing operations rely on the ability of the Company to continue to raise capital.

## Related Party Transactions

Key management personnel consist of the officers of the Company and the Company's Board of Directors. During the year ended December 31, 2018, the Company:

- a) Paid or accrued management and consulting fees of \$90,000 (2017 - \$Nil) to the CEO of the Company;
- b) Paid or accrued management and consulting fees of \$45,000 (2017 - \$Nil) to a company controlled by the Chairman of the Board of the Company;
- c) Paid or accrued management and consulting fees of \$48,000 (2017 - \$12,000) to a company partially owned by the CFO of the Company;
- d) Paid or accrued management and consulting fees of \$45,000 (2017 - \$Nil) to each director of the Company from Frontera or \$90,000 in aggregate; and
- e) Paid or accrued management and consulting fees of \$90,000 (2017 - \$Nil) to Frontera.

Included in accounts payable and accrued liabilities at December 31, 2018 is \$15,000 (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.

## Outstanding Share Data

As at the date of this report the Company had 42,905,430 common shares issued and outstanding.

The following incentive stock options and share purchase warrants were outstanding at the date of this report:

Number	Exercise price	Expiry date
<b>Stock Options</b>		
1,600,000	\$ 0.30	May 30, 2022
2,100,000	\$ 0.45	July 30, 2023
3,700,000	\$ 0.39	
<b>Share purchase warrants</b>		
698,433	\$ 0.45	May 15, 2020
20,429,567	\$ 0.75	June 15, 2020
21,128,000	\$ 0.74	

## Contractual Obligations

Except as described herein or in the Company's financial statements at December 31, 2018, the Company had no material contractual obligations.

## Off-Balance Sheet Arrangements

At December 31, 2018, the Company had no material off-balance sheet arrangements such as guarantee contracts, contingent interest in assets transferred to an entity, derivative instruments obligations or any obligations that trigger financing, liquidity, market or credit risk to the Company.

## Proposed Transactions

Except as elsewhere disclosed in this document, there are no other proposed transactions under consideration.

## Capital Resources

The Company has no commitments for capital expenditures at the date of this report.

The Company will continue to seek capital. In the past the Company has raised capital public markets by issuing common shares pursuant to private placements and through loans payable. 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.

## Risk Factors

Companies in the exploration stage face a variety of risks and, while unable to eliminate all of them, the Company aims at managing and reducing such risks as much as possible. The Company faces a variety of risk factors such as project feasibility and practically, risks related to determining the validity of mineral property title claims, commodities prices, changes in laws and environmental laws and regulations. Management monitors its activities and those factors that could impact them in order to manage risk and make timely decisions. Risks and uncertainties the Company considers material in assessing its financial statements are described below.

*The Company will require additional funding.*

At December 31, 2018 the Company held cash of \$1,275,577 and accounts payable and accrued liabilities of \$61,342. The Company has historically relied upon equity subscriptions to satisfy its capital requirements and will likely continue to depend upon these sources to finance its activities. There can be no assurances that the Company will be successful in raising the desired level of financing on acceptable terms. During the current year, the Company raised \$4,943,099.

### *Country risk*

The Company's mineral properties are located in and its activities will be conducted in Brazil and as such the Company will be exposed to various levels of political, economic and other risks and uncertainties associated with carrying on business in Brazil. These risks include but are not limited to, political instability, an unpredictable legal system, civil unrest, high levels of corruption, significant delay's in permitting and approvals, fluctuations in currency exchange rates, high rates of inflation, excessive import duties and taxes on the importation of equipment, expropriation and nationalization, restrictions on foreign ownership, possible restrictions on foreign exchange, changes in taxation, labour and mining regulations and policies, and changing political conditions, currency controls, and government regulations that favour or require the awarding of contracts to local contractors or require foreign contractors to employ local citizens.

*The Company is subject to government regulation.*

The Company's mineral exploration is, and any development activities will be, subject to various laws governing exploration, development, production, taxes, labour standards and occupational health, mine safety, environmental protection, toxic substances, land use, water use and other matters. Failure to comply with applicable laws and regulations may result in civil or criminal fines or penalties or enforcement actions, including orders issued by regulatory authorities curtailing the Company's operations or requiring corrective measures, any of which could result in the Company incurring substantial expenditures. No assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner which could limit or curtail exploration or development.

*Exploration, development and mining activities can be hazardous and involve a high degree of risk.*

The Company's operations are subject to all the hazards and risks normally encountered in the exploration, development and production of base or precious metals, including, without limitation, unusual and unexpected geologic formations, seismic activity, rock bursts, pit-wall failures, cave-ins, flooding and other conditions involved in the drilling and removal of material, any of which could result in damage to, or destruction of, mines and other producing facilities, damage to life or property, environmental damage and legal liability. Milling operations, if any, are subject to various hazards, including, without limitation, equipment failure and failure of retaining dams around tailings disposal areas, which may result in environmental pollution and legal liability.

*The Company may be adversely affected by fluctuations in graphite and other metal prices.*

The value and price of the Company's common shares, the Company's financial results, and exploration, development and mining activities of the Company, if any, may be significantly adversely affected by declines in the price of graphite. Mineral prices fluctuate widely and are affected by numerous factors beyond the Company's control such as interest rates, exchange rates, inflation or deflation, global and regional supply and demand, and the political and economic conditions of mineral producing countries throughout the world.

#### *Infrastructure*

Exploration, development and ultimately mining and processing activities depend, to one degree or another, on the availability of adequate infrastructure. Reliable air service, roads, bridges, power sources and water supply are significant contributors in the determination of capital and operating costs. Inadequate infrastructure could significantly delay or prevent the Company exploring and developing its projects and could result in higher costs.

*The Company does not and likely will not insure against all risks.*

The Company's insurance will not cover all the potential risks associated with a mining company's operations. The Company may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Moreover, insurance against risks such as environmental pollution or other hazards as a result of exploration and production is not generally available to the Company or to other companies in the mining industry on acceptable terms. The Company might also become subject to environmental liability or other hazards which may not be insured against or which we may elect not to insure against because of premium costs or other reasons. Losses from these events may cause The Company to incur significant costs that could have a material adverse effect upon its financial condition and results of operations.

*The Company may be subject to disputes.*

The Company may be involved in disputes with other parties in the future, which may result in litigation or arbitration. The results of litigation or arbitration cannot be predicted with certainty. If the Company is unable to resolve these disputes favorably, it may have a material adverse impact on the Company.

All industries, including the mining industry, are subject to legal claims that are with and without merit. Due to the inherent uncertainty of the litigation process and dealings with regulatory bodies, there is no assurance that any legal or regulatory proceeding will be resolved in a manner that will not have a material and adverse effect on the Company.

*The Company is dependent on key personnel.*

The Company's success depends in part on its ability to recruit and retain qualified personnel. Due to its relatively small size, the loss of the services of one or more of such key management personnel could have a material adverse effect on the Company. In addition, despite its efforts to recruit and retain qualified personnel, even when those efforts are successful, people are fallible and human error could result in a significant uninsured loss to the Company.

*The Company's officers and directors may have potential conflicts of interest.*

The Company's directors and officers may serve as directors and/or officers of other public and private companies and devote a portion of their time to manage other business interests. This may result in certain conflicts of interest. To the extent that such other companies may participate in ventures in which the Company is also participating, such directors and officers may have a conflict of interest in negotiating and reaching an agreement with respect to the extent of each company's participation. However, applicable law requires the directors and officers to act honestly, in good faith, and in the best interests of the Company and its shareholders and in the case of directors, to refrain from participating in the relevant decision in certain circumstances.

*Permits, licenses and approvals*

In countries where we carry out exploration activities, the mineral rights or certain portions of them are owned by the relevant governments. These governments have entered into contracts with us, or granted permits or concessions that allow us to carry out operations or development and exploration activities there, but government policy could change. Any change that affects our rights to conduct these activities could have a material and adverse effect on the Company.

In addition, mineral exploration and mining activities can only be conducted by entities that have obtained or renewed exploration or mining permits and licenses in accordance with the relevant mining laws and regulations. The duration and success of each permitting effort are contingent upon many factors we do not control. In the case of foreign operations, governmental approvals, licenses and permits are, as a practical matter, subject to the discretion of the applicable governments or governmental officials. There may be delays in the review process. There is no guarantee that we will be granted the necessary permits and licenses, that they will be renewed, or that we will be in a position to comply with all conditions that are imposed.

All mining projects require a wide range of permits, licenses and government approvals and consents. It is not certain that we will be granted these at all, or in a timely manner. If we do not receive them for our mineral projects or are unable to maintain them, it could have a material and adverse effect on the Company.

*Joint venture partners*

Mining projects are often conducted through an unincorporated joint venture or an incorporated joint venture company. Joint ventures often require unanimous approval of the parties or their representatives for certain fundamental decisions like an increase (or decrease) in registered capital, a merger, division, dissolution, amendment of the constitutional documents, and pledge of the joint venture assets, which means that each party to the joint venture has a right to veto any of these decisions, which could lead to a deadlock. We are subject to a number of additional risks associated with joint ventures, including:

- disagreement with a joint venture partner about how to develop, operate or finance the project;

- that a joint venture partner may at any time have economic or business interests or goals that are, or become, inconsistent with our business interests or goals;
- that a joint venture partner may not comply with the agreements governing our relationship with them;
- disagreement with a joint venture partner over the exercise of such joint venture partner's rights under the agreements governing our relationship;
- the possibility that a joint venture partner may become insolvent;
- the possibility that we may not be able to sell our interest in a joint venture if we desire to exit the joint venture; and
- possible litigation with a joint venture partner over matters related to the project.

#### *Title to our mineral properties*

We have investigated title to all of our mineral properties and, to the best of our knowledge we have or are entitled to title to all of our properties. Challenges may be made to the title to any of our properties and, if successful, they could impair development and/or operations at our mines or projects. There is no assurance that title to any of our properties will not be challenged.

New laws and regulations, or amendments to laws and regulations relating to mineral tenure and land title and usage, including expropriations and deprivations of contractual rights, if proposed and enacted, may affect our rights to our mineral properties. There is no assurance that we will be able to operate our properties as currently permitted or that we will be able to enforce our rights with respect to our properties.

#### *Reputational risk*

Damage to our reputation can be the result of the actual or perceived occurrence of any number of events, and could include any negative publicity, whether true or not. Although we believe that we operate in a manner that is respectful to all stakeholders and take care in protecting our image and reputation, we do not have control over how we are perceived by others. Any reputation loss could result in decreased investor confidence and increased challenges in developing and maintaining community relations which may have adverse effects on the Company and the price of the Company's securities.

## **Changes in Accounting Policies including Initial Adoption**

### **New accounting standards and amendments effective for the first time**

#### *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.

#### *Impact of adoption of IFRS 9*

Financial liabilities that are considered modified must be accounted for by discounting the new cash flows at the original effective interest rate, resulting in an immediate impact to the Company's net loss and comprehensive loss. Management identified no financial liabilities that were modified prior to January 1, 2018.

IFRS 9 requires the Company to use the Expected Credit Loss (“ECL”) impairment model in calculating impairment provisions, which differs from the incurred credit loss model under IAS 39. The ECL model is a probability weighted estimate of credit losses. Management has determined that there is no impact on the financial statements due to this change in impairment models.

The Company determines the measurement of financial assets and liabilities at initial recognition and classifies them at amortized cost. The Company completed an assessment of its financial assets and liabilities as at January 1, 2018 and concluded that there were no changes in fair value measurement due to the transition to IFRS 9.

The following summarizes the classification and measurement changes for the Company’s financial assets and financial liabilities as a result of the adoption of IFRS 9.

	IAS 39	IFRS 9
<b>Financial assets</b>		
Cash	FVTPL	FVTPL
<b>Financial liabilities</b>		
Accounts payable	Other financial liabilities	Financial liabilities at amortized cost

#### **New accounting standards issued but not yet effective**

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 consolidated 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. 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 has assessed the impact of this standard and does not expect it to be significant.

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.

#### **Critical Accounting Policies and Estimates**

The Company’s accounting policies are described in Note 3 of its annual audited financial statements for the year ended December 31, 2018. Management considers the following policies to be the most critical in understanding the judgments that are involved in the preparation of our condensed interim financial statements and the uncertainties that could impact its results of operations, financial condition and cash flows:

##### **Use of Estimates**

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.

## Financial Instruments and Risk Management

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 December 31, 2018, the carrying value and fair values of the Company's financial instruments, with comparative figures for 2017 are shown in the table below:

	December 31, 2018		December 31, 2017	
	Fair Value	Fair Value	Fair Value	Carrying Value
<b>Financial assets</b>				
Cash	\$1,275,577	\$1,275,577	\$ 165,015	\$ 165,015
<b>Financial liabilities</b>				
Accounts payable	\$ 61,343	\$ 61,343	\$ 49,770	\$ 49,770

### 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 December 31, 2018, the Company had a cash balance of \$1,275,577 (2017 - \$165,015) to settle current liabilities of \$61,343 (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.

#### 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 December 31, 2018, the Company did not have any investments in investment-grade short-term deposit certificates.

## 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.

## Note Regarding Forward-Looking Statements

Except for historical information, this MD&A may contain forward-looking statements. These statements involve known and unknown risks, uncertainties, and other factors that may cause the Company's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievement expressed or implied by these forward-looking statements.

The factors that could cause actual results to differ materially include, but are not limited to, the following: The Company has no assurance that the licenses will be issued nor if issued, that they will be issued in a timely manner; general economic conditions; changes in financial markets; the impact of exchange rates; political conditions and developments in countries in which the Company operates; changes in the supply, demand and pricing of the metal commodities which the Company hopes to find and successfully mine; changes in regulatory requirements impacting the Company's operations; the sufficiency of current working capital and the estimated cost and availability of funding for the continued exploration and development of the Company's exploration properties.

This list is not exhaustive and these and other factors should be considered carefully, and readers should not place undue reliance on the Company's forward-looking statements. As a result of the foregoing and other factors, no assurance can be given as to any such future results, levels of activity or achievements and neither the Company nor any other person assumes responsibility for the accuracy and completeness of these forward-looking statements.

This MD&A contains certain forward-looking statements inclusive of, but not limited to the production arrangements and the timing of the mine development, mill construction and ore production. Although forward-looking statements and information contained in this MD&A are based on the beliefs of The Company management, which we consider to be reasonable, as well as assumptions made by and information currently available to The Company management, there is no assurance that the forward-looking statement or information will prove to be accurate. The assumptions made include assumptions about The Company's ability to move forward with the arrangements as set out in the Definitive Agreement. The forward-looking statements and information contained in this MD&A are subject to current risks, uncertainties and assumptions related to certain factors including, without limitations, obtaining all necessary approvals, feasibility of mine and plant development, exploration and development risks, expenditure and financing requirements, title matters, operating hazards, metal prices, political and economic factors, competitive factors, general economic conditions, relationships with vendors and strategic partners, governmental regulation and supervision, seasonality, technological change, industry practices, and one-time events as well as risks, uncertainties and other factors discussed in our quarterly and annual and interim management's discussion and analysis. Should any one or more of these risks or uncertainties materialize or change, or should any underlying assumptions prove incorrect, actual results and forward-looking statements and information may vary materially from those described herein. Accordingly, readers should not place undue reliance on forward-looking statements and information contained in this MD&A. We undertake no obligation to update forward-looking statements or information except as required by law.

**South Star Mining Corp.**

*“Justin Blanchet”*

Chief Financial Officer  
April 17, 2019