



**CONSOLIDATED FINANCIAL STATEMENTS**

**(Expressed in Canadian Dollars)**

**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**



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## **INDEPENDENT AUDITORS' REPORT**

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To the Shareholders of  
South Star Mining Corp.

### **Opinion**

We have audited the consolidated financial statements of South Star Mining Corp. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of operations and comprehensive loss, cash flows and changes in equity for the years then ended and the related notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

### **Basis for Opinion**

We conducted our audits in accordance with Canadian generally accepted auditing standards. 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 Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Emphasis of Matter**

We draw attention to Note 1 to the consolidated financial statements, which indicates that the Company is not able to finance its day to day activities through current operations. As stated in Note 1, these events along with other matters set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter

### **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### **Other Information**

Management is responsible for the other information, which is comprised of the information included in the Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the consolidated financial statements does not cover the other information and do not and will not express any form of assurance conclusion thereon. In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audits and remain alert for indicators that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report. We have nothing to report in this regard.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated 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 Canadian generally accepted auditing standards 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 Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated 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 Company'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 Company's 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audits resulting in this independent auditors' report is Fernando Costa.

*Manning Elliott LLP*

CHARTERED PROFESSIONAL ACCOUNTANTS  
Vancouver, British Columbia  
April 17, 2019

**SOUTH STAR MINING CORP.**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
(Expressed in Canadian Dollars)

AS AT	December 31, 2018	December 31, 2017
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 1,275,577	\$ 165,015
Receivables	7,951	4,533
Prepaid expenses	<u>212,973</u>	<u>7,666</u>
	1,496,501	177,214
<b>Equipment (Note 6)</b>	7,897	-
<b>Exploration and evaluation assets (Note 4)</b>	<u>5,735,914</u>	<u>-</u>
	<u>\$ 7,240,312</u>	<u>\$ 177,214</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities (Note 7)	<u>\$ 61,343</u>	<u>\$ 49,770</u>
<b>Shareholders' equity</b>		
Share capital (Note 5)	23,358,715	14,690,531
Reserves	3,187,793	2,273,761
Accumulated other comprehensive loss	(30,950)	-
Deficit	<u>(19,336,589)</u>	<u>(16,836,848)</u>
	<u>7,178,969</u>	<u>127,444</u>
	<u>\$ 7,240,312</u>	<u>\$ 177,214</u>

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

**Subsequent event (Note 11)**

Approved and authorized by the Board on April 17, 2019:

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

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

**SOUTH STAR MINING CORP.****CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**

(Expressed in Canadian Dollars)

FOR THE YEARS ENDED DECEMBER 31	2018	2017
<b>GENERAL EXPENSES</b>		
Business development	\$ 536,552	\$ 38,275
Consulting and management fees	228,000	-
Exploration and evaluation expenditures	700,130	-
Foreign exchange	(308)	-
Office and miscellaneous	20,217	5,415
Professional fees	107,732	115,423
Property investigation	47,436	91,456
Share-based payments (Note 5)	709,299	391,619
Transfer agent and filing fees	106,913	18,853
Travel	49,754	34,833
	(2,505,725)	(695,874)
<b>OTHER</b>		
Interest income	3,984	-
Gain on write-off of accounts payable	2,000	-
<b>Loss for the year</b>	(2,499,741)	(695,874)
<b>Items that may be reclassified to net loss</b>		
<b>Other comprehensive loss</b>		
Cumulative translation adjustment	(30,950)	-
<b>Loss and comprehensive loss for the year</b>	\$ (2,530,691)	\$ (695,874)
<b>Basic and diluted loss per share</b>	\$ (0.11)	\$ (0.05)
<b>Weighted average number of common shares outstanding</b>	23,845,750	12,704,082

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

**SOUTH STAR MINING CORP.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Expressed in Canadian Dollars)

FOR THE YEARS ENDED DECEMBER 31	2018	2017
<b>CASH FROM OPERATING ACTIVITIES</b>		
Net loss for the year	\$ (2,499,741)	\$ (695,874)
Items not affecting cash:		
Share-based payments	709,299	391,619
Depreciation included in exploration and evaluation expenditures	929	-
Gain on write-off of accounts payable	(2,000)	-
Changes in non-cash working capital items:		
Receivables	(3,418)	(2,896)
Prepaid expenses	(205,307)	(6,416)
Accounts payable and accrued liabilities	<u>13,573</u>	<u>(40,570)</u>
Net cash used in operating activities	(1,986,665)	(354,137)
<b>CASH USED IN 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>		
Proceeds on issuance of common shares	4,943,099	425,000
Share issuance costs	(500,843)	-
Exercise of warrants	180,455	-
Loans from related parties	<u>-</u>	<u>90,000</u>
Net cash provided by financing activities	<u>4,622,711</u>	<u>515,000</u>
<b>Effects of foreign exchange on cash</b>	(30,950)	-
<b>Change in cash during the year</b>	1,110,562	160,863
<b>Cash, beginning of year</b>	<u>165,015</u>	<u>4,152</u>
<b>Cash, end of year</b>	<u>\$ 1,275,577</u>	<u>\$ 165,015</u>
Cash paid for interest	\$ -	\$ -
Cash paid for income taxes	\$ -	\$ -

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

**SOUTH STAR MINING CORP.****CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

(Expressed in Canadian Dollars)

	<u>Share capital</u>		Reserves	Accumulated other comprehensive loss	Deficit	Total
	Number	Amount				
<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	-	-	391,619	-	-	391,619
Loss for the year	-	-	-	-	(695,874)	(695,874)
<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
Exercise of warrants	1,804,549	180,455	-	-	-	180,455
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	-	-	-	(30,950)	-	(30,950)
Loss for the year	-	-	-	-	(2,499,741)	(2,499,741)
<b>Balance at December 31, 2018</b>	38,855,430	\$ 23,358,715	\$ 3,187,793	\$ (30,950)	\$ (19,336,589)	\$ 7,178,969

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

## **SOUTH STAR MINING CORP.**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the years ended December 31, 2018 and 2017

(Expressed in Canadian Dollars)

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

South Star Mining Corp. (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 (Note 4).

These consolidated 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 a working capital of \$1,435,158 (2017 - \$127,444) and had an accumulated deficit of \$19,336,589 as at December 31, 2018 which has been funded primarily by the issuance of shares. There is a material uncertainty related to these conditions that casts significant doubt about the Company’s ability to continue as a going concern and therefore it may be unable to realize its assets and discharge its liabilities in the normal course of business. The Company’s ability to continue as a going concern depends upon its ability to raise adequate financing and to generate profitable operations in the future. The Company has been successful in the past in raising funds for operations by issuing shares, but there is no assurance that it will be able to continue to do so in the future.

#### **2. BASIS OF PREPARATION**

##### **Statement of compliance**

These consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”).

##### **Basis of Presentation**

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

The consolidated financial statements of the Company are presented in Canadian dollars.

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

The preparation of these consolidated 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:

## **SOUTH STAR MINING CORP.**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the years ended December 31, 2018 and 2017

(Expressed in Canadian Dollars)

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

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

#### *Income taxes*

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.

#### *Exploration and evaluation assets*

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*

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.

Significant judgments made during the year are as follows:

#### *Business combinations*

Determining whether a set of the assets acquired and liabilities assumed constitute the acquisition of a business or the acquisition of an asset requires us to make certain judgements as to whether or not the assets acquired and liabilities assumed include the inputs, processes and outputs necessary to constitute a business as defined in IFRS 3 *Business Combinations*.

Other 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Basis of consolidation**

These consolidated financial statements include the financial statements of the Company and the subsidiaries controlled by the Company. Subsidiaries are all entities over which the Company has control. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control is transferred to the Company until the date that control ceases. All intercompany transactions and balances have been eliminated on consolidation.

## **SOUTH STAR MINING CORP.**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the years ended December 31, 2018 and 2017

(Expressed in Canadian Dollars)

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

#### **Basis of consolidation (cont'd...)**

The consolidated financial statements include the financial statements of the Company and its subsidiaries:

<b>Company</b>	<b>Place of Incorporation</b>	<b>Effective Interest</b>	<b>Principal Activity</b>
Brasil Graphite Corp.	Cayman Islands	100%	Holding
Brasil Graphite S.A.	Brazil	100%	Operating

#### **Exploration and evaluation assets**

##### Pre-exploration costs

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

##### Exploration and evaluation expenditures

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

Exploration and evaluation expenditures are such costs as materials used, surveying costs, drilling costs, payments made to contractors and depreciation on plant and equipment, as well as directly attributable overhead, used during the exploration phase and are expensed in the period in which they occur.

When a project is deemed to no longer have commercially viable prospects to the Company, exploration and evaluation expenditures in respect of that project are deemed to be impaired. As a result, those exploration and evaluation expenditure costs, in excess of estimated recoveries, are written off to the statement of comprehensive loss/income. As the Company currently has no operating income, any incidental revenues earned in connection with exploration activities are applied as a reduction to capitalized exploration costs.

Mineral exploration and evaluation expenditures are classified as intangible assets.

During the year ended December 31, 2018, the Company changed its accounting policy to expense exploration costs while capitalizing acquisition costs. This had no effect on the balances as at and for the year ended December 31, 2017.

#### **Impairment of non-financial assets**

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

## **SOUTH STAR MINING CORP.**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the years ended December 31, 2018 and 2017

(Expressed in Canadian Dollars)

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#### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

##### **Impairment of non-financial assets (cont'd...)**

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

The cash generating unit is the lowest group of assets in which the asset belongs for which it generates cash inflows that are independent of the cash inflows from other assets.

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

##### **Decommissioning, restoration and similar liabilities**

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of exploration and evaluation assets. The Company records the present value of the estimated costs of legal and constructive obligations required to restore the exploration sites in the year in which the liability is incurred. Upon initial recognition of the liability, a corresponding amount is added to the carrying amount of the related asset. At the end of each period, these capitalized asset retirement costs are amortized as an expense over the economic life of the asset and the liability is increased to reflect the passage of time (accretion expense). Over time, the discounted liability is adjusted for changes in present value based on current market discount rate and the amount or timing of the underlying cash flows needed to settle the obligation.

The Company recognizes its environmental liabilities on a site-by-site basis when it can be reliably estimated. Environmental expenditures related to existing conditions resulting from past or current operations and from which no current or future benefit is discernible are charged to the statement of comprehensive loss. As at December 31, 2018, the Company has not incurred any decommissioning, restoration and environmental liabilities related to the exploration of its resource properties.

##### **Provisions**

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

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

## **SOUTH STAR MINING CORP.**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the years ended December 31, 2018 and 2017

(Expressed in Canadian Dollars)

#### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

##### **Share capital**

Share capital issued for consideration other than cash are valued at the fair value of assets received or services rendered. If the fair value of assets received or services rendered cannot be reliably measured, shares issued for consideration will be valued at the quoted market price at the date of issuance.

The proceeds from the issuance of units are allocated between common shares and warrants based on the residual value method. Under this method, the proceeds are allocated first to capital stock based on the fair value of the common shares at the time the units are priced and any residual value is allocated to the warrants reserve. Consideration received for the exercise of warrants is recorded in capital stock and the related residual value is transferred from warrant reserve to capital stock.

##### **Foreign currency translation**

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

The functional currency of the Company and its subsidiaries is as follows:

<b>Company</b>	<b>Place of Incorporation</b>	<b>Functional currency</b>
South Star Mining Corp.	British Columbia, Canada	Canadian Dollar
Brasil Graphite Corp.	Cayman Islands	Canadian Dollar
Brasil Graphite S.A.	Brazil	Brazilian Real

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

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

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

Where the functional currency differs from the presentation currency, all assets and liabilities are translated at the exchange rates prevailing at the end of each reporting period, and transactions are recorded to the functional currency at the exchange rate in effect at the date of the transaction. Equity accounts are translated at historical rates.

Exchange differences arising on foreign currency translation from functional to presentation currency are reflected in accumulated other comprehensive income.

##### **Income taxes**

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

## **SOUTH STAR MINING CORP.**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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(Expressed in Canadian Dollars)

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#### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

##### **Income taxes (cont'd...)**

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

##### **Loss per share**

The Company presents basic and diluted loss per common share at each reporting period. The basic loss per common share is calculated by dividing the loss available to common shareholders by the weighted average number of common shares outstanding during the year. Diluted loss per common share is computed by dividing the net loss applicable to common shares by the sum of the weighted average number of common shares issued and outstanding and all additional common shares that would have been outstanding, if potentially dilutive instruments were converted. Diluted loss per share excludes all dilutive potential common shares because their effect is anti-dilutive.

##### **Share-based payments**

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

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

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

##### **Financial instruments**

###### ***Financial assets***

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired and the business model which the Company is operating under. The Company's accounting policy for each category is as follows:

*Effective January 1, 2018:*

Fair value through profit and loss - Investments at fair value through profit and loss ("FVTPL") are recognized initially and subsequently measured at fair value. Gains or losses arising from changes in fair value are recorded in the Statement of operations and comprehensive income (loss). The Company's cash is classified as FVTPL.

## **SOUTH STAR MINING CORP.**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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(Expressed in Canadian Dollars)

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#### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

##### **Financial instruments (cont'd...)**

##### ***Financial assets (cont'd...)***

Amortized cost - Financial assets at amortized cost are non-derivative financial assets with fixed or determinable payments constituted solely of payments of principal and interest that are held within a “held to collect” business model. Financial assets at amortized cost are initially recognized at the amount expected to be received, less, when material, a discount to reduce the financial assets to fair value. Subsequently, financial assets at amortized cost are measured using the effective interest method less a provision for expected losses. The Company has no assets designated as amortized cost.

Fair value through other comprehensive income - Financial assets that are held within a business model whose objective is to hold financial assets in order to both collect contractual cash flows and selling financial assets, and that the contractual terms of the financial assets give rise on specified date to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Upon initial recognition of equity securities, the Company may make an irrevocable election (on an instrument-by-instrument basis) to designate its equity securities that would otherwise be measured at FVTPL to present subsequent changes in fair value in other comprehensive income. Designation at fair value through other comprehensive income (“FVTOCI”) is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination. Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognized in other OCI. The cumulative gain or loss is not reclassified to profit or loss on disposal of the instrument; instead, it is transferred to retained earnings. The Company has no financial assets designated as FVTOCI.

##### *Until December 31, 2017:*

Fair value through profit or loss - This category comprises derivatives, or assets acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in profit or loss. The Company classified cash as FVTPL.

Loans and receivables - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

Held-to-maturity investments - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in profit or loss.

Available-for-sale - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in profit or loss.

## **SOUTH STAR MINING CORP.**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the years ended December 31, 2018 and 2017

(Expressed in Canadian Dollars)

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#### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

##### **Financial instruments (cont'd...)**

###### ***Financial liabilities***

The Company classifies its financial liabilities into one of two categories, as follows:

###### *Effective January 1, 2018:*

The classification of financial liabilities was not affected by the adoption of IFRS 9.

Financial liabilities at amortized cost - Financial liabilities at amortized cost are initially recognized at the amount required to be paid, less, when material, a discount to reduce to fair value. The Company classifies its accounts payable as amortized cost.

Financial liabilities classified FVTPL - This includes financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Fair value changes on financial liabilities classified as FVTPL are recognized in the consolidated statements of operations. The Company has no financial liabilities classified as FVTPL.

###### *Until December 31, 2017:*

Other financial liabilities - This category consists of liabilities carried at amortized cost, using the effective interest rate method. The Company classified its accounts payable as other financial liabilities.

Fair value through profit or loss - This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in profit or loss. The Company had no financial liabilities classified as FVTPL.

###### ***Impairment of financial assets***

###### *Effective January 1, 2018:*

The expected loss is the difference between the amortized cost of the financial asset and the present value of the expected future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account. Provisions for expected losses are adjusted upwards or downwards in subsequent periods if the amount of the expected loss increases or decreases.

###### *Until December 31, 2017:*

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

## **SOUTH STAR MINING CORP.**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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#### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

##### **Equipment**

Equipment is carried at cost, less accumulated depreciation and accumulated impairment losses. The Company amortizes its equipment on the straight line basis over five years.

##### **New standards adopted**

###### *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.

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

## **SOUTH STAR MINING CORP.**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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#### **3. SUMMARY OF 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 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.

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

On October 19, 2017, the Company entered in to a definitive agreement with Frontera Minerals Inc., Brasil Graphite Corp ("BGC") and Brasil Graphite S.A. ("BGSA") to acquire 100% of the issued and outstanding shares of BGC and its wholly-owned 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 fair 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 purpose of the transaction was to acquire the Santa Cruz property in Bahia, Brazil.

The transaction has been accounted for as an asset acquisition of exploration and evaluation assets and related assets as the net assets acquired did not represent a separate business.

The total purchase price of \$5,744,740 was allocated to the net assets of BGC as follows:

<hr/> <hr/>	
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.

## **SOUTH STAR MINING CORP.**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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#### **5. SHARE CAPITAL AND RESERVES**

##### **Authorized share capital**

As at December 31, 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 year ended December 31, 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 by issuing a total of 8,500,000 units at a price of \$0.05 per unit for gross proceeds of \$425,000. Each unit consisted of one common share of the Company and one common share purchase warrant. Each warrant entitles the holder thereof to acquire one share of the Company at an exercise price of \$0.10 for a period of 12 months from closing. During the year ended December 31, 2018, these warrants were extended to December 20, 2018.

##### **Shares for debt**

During the year ended December 31, 2017, the Company issued 1,200,000 common shares to a company controlled by a director and former Chief Executive Officer (“CEO”) of the Company for settlement of \$90,000 in loans which were advanced to the Company during the year.

**SOUTH STAR MINING CORP.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**5. 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
Cancelled	-	-	(1,200,000)	0.10
Outstanding, December 31, 2017	1,600,000	\$ 0.30	8,500,000	\$ 0.10
Granted/issued	2,100,000	0.45	21,128,000	0.74
Exercised	-	-	(1,804,549)	0.10
Expired	-	-	(6,695,451)	0.10
Outstanding, December 31, 2018	3,700,000	\$ 0.39	21,128,000	\$ 0.74
Number currently exercisable	3,700,000	\$ 0.39	21,128,000	\$ 0.74

**Stock options and share purchase warrants outstanding**

The following incentive stock options and share purchase warrants were outstanding at December 31, 2018:

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	

The weighted average remaining life of stock options and share purchase warrants as at December 31, 2018 is 4.31 and 1.48, respectively.

**SOUTH STAR MINING CORP.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2018 and 2017

(Expressed in Canadian Dollars)

**5. SHARE CAPITAL AND RESERVES (cont'd...)****Share-based payments**

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

During the year ended December 31, 2018, the Company granted 2,100,000 (2017 - 1,600,000) options with a weighted-average fair value of \$0.34 per option (2017 - \$0.30) to directors, officers and consultants. Total share-based payments recognized in the statement of operations for the year ended December 31, 2018 was \$709,299 (2017 - \$391,619) for stock options granted and vested. This amount was also recorded as reserves on the statement of financial position.

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

	2018	2017
Risk-free interest rate	2.19%	0.96%
Expected life of options	5 years	5 years
Annualized volatility	100.00%	118.00%
Dividend rate	0.00%	0.00%
Forfeiture rate	0.00%	0.00%

**6. EQUIPMENT**

<b>Cost</b>		
Balance, December 31, 2017 and 2016	\$	-
Additions (Note 4)		8,826
Balance, December 31, 2018	\$	8,826
<b>Accumulated depreciation</b>		
Balance, December 31, 2017 and 2016	\$	-
Additions (Note 4)		929
Balance, December 31, 2018	\$	929
Balance, December 31, 2017 and 2016	\$	-
Balance, December 31, 2018	\$	7,897

Amortization is capitalized to the Santa Cruz Property (Note 4).

## **SOUTH STAR MINING CORP.**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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#### **7. 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 (Note 4) or \$90,000 in aggregate. These are included in professional fees; and
- e) Paid or accrued management and consulting fees of \$45,000 (2017 - \$Nil) to Frontera.

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

Stock options with a fair value of \$354,649 were granted to officers and directors of the Company during the year (2017 - \$391,628).

#### **8. 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:

	<b>December 31, 2018</b>		<b>December 31, 2017</b>	
	<b>Fair Value</b>	<b>Carrying Value</b>	<b>Fair Value</b>	<b>Carrying Value</b>
<b>Financial assets</b>				
Cash	\$1,275,577	\$1,275,577	\$ 165,015	\$ 165,015
<b>Financial liabilities</b>				
Accounts payable	\$ 38,343	\$ 38,343	\$ 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.

## **SOUTH STAR MINING CORP.**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

##### *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.

#### **9. 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.

**SOUTH STAR MINING CORP.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**10. INCOME TAXES**

a) The Company has the following non-capital tax loss carry-forwards expiring in the following years:

2026	\$ 164,000
2027	394,000
2028	181,000
2029	580,000
2030	709,000
2031	475,000
2032	469,000
2033	707,000
2034	86,000
2035	115,000
2036	6,000
2037	305,000
2038	<u>1,927,000</u>
	\$ 6,118,000

b) The following table reconciles the amount of income tax recoverable on application of the statutory Canadian federal and provincial income tax rates:

	2018	2017
Canadian statutory income tax rate	27%	26%
Income tax recovery at statutory rate	\$ (672,000)	\$ (180,000)
Permanent difference and other	2,000	101,000
Effect of change in tax rate	-	(76,000)
Change in unrecognized deferred tax assets	670,000	155,000
Tax recovery for the year	\$ -	\$ -

The Company's unrecognized deductible temporary differences and unused tax losses are attributable to the following items:

	2018	2017
Non-capital losses carried forward	\$ 1,652,000	\$ 1,132,000
Exploration and evaluation assets	797,000	798,000
Capital loss carry forward	93,000	93,000
Investment tax credits	29,000	29,000
Eligible capital expenditures	27,000	27,000
Share issue costs	152,000	1,000
Deferred tax asset	2,750,000	2,080,000
Unrecognized deferred tax asset	(2,750,000)	(2,080,000)

The availability of future taxable income for which income tax benefits can be utilized is not probable. Accordingly, no deferred income tax assets have been recognized for accounting purposes.

**SOUTH STAR MINING CORP.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2018 and 2017

(Expressed in Canadian Dollars)

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**11. SUBSEQUENT EVENT**

Subsequent to December 31, 2018, the Company announced a proposed non-brokered private placement consisting of 5,000,000 units at a price of \$0.10 for gross proceeds of \$500,000. Each unit will consist of one common share and one share purchase warrant. Each share purchase warrant is exercisable at a price of \$0.15 for two years after closing.