



CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

INDEPENDENT AUDITORS' REPORT

To the Shareholders and the Board of Directors of South Star Mining Corp.

Opinion on the Financial Statements

We have audited the consolidated accompanying financial statements of South Star Mining Corp. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of operations and comprehensive loss, cash flows and changes in shareholders' equity for the years ended December 31, 2019 and 2018, and the related notes, including a summary of significant accounting policies and other explanatory information (collectively referred to as the "consolidated financial statements").

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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 Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our reports. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit 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.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty which 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.

Other Information

Management is responsible for the other information, which comprises 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 audit 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 consolidated financial statements or our knowledge obtained in the audit 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.

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

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, 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.

INDEPENDENT AUDITORS' REPORT

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our responsibility is to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, 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 the users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism 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 auditors' 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 auditors' 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 consolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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 audit resulting in this independent auditors' report is Fernando J. Costa.

Manning Elliott LLP

CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, British Columbia

April 28, 2020

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

AS AT	December 31, 2019	December 31, 2018
ASSETS		
Current		
Cash	\$ 110,795	\$ 1,275,577
Receivables	4,375	7,951
Prepaid expenses	<u>20,192</u>	<u>212,973</u>
	135,362	1,496,501
Equipment	5,677	7,897
Exploration and evaluation assets (Note 4)	<u>5,735,914</u>	<u>5,735,914</u>
	<u>\$ 5,876,953</u>	<u>\$ 7,240,312</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities (Note 6)	\$ 155,491	\$ 61,343
Shareholders' equity		
Share capital (Note 5)	23,710,325	23,358,715
Reserves	3,232,749	3,187,793
Accumulated other comprehensive loss	48,434	(30,950)
Deficit	<u>(21,270,046)</u>	<u>(19,336,589)</u>
	<u>5,721,462</u>	<u>7,178,969</u>
	<u>\$ 5,876,953</u>	<u>\$ 7,240,312</u>

Nature and continuance of operations (Note 1)

Commitment (Note 11)

Approved and authorized by the Board on April 28, 2020:

<u>“David McMillan”</u>	Director	<u>“Richard Pearce”</u>	Director
David McMillan		Richard Pearce	

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	2019	2018
GENERAL EXPENSES		
Business development (Note 9)	\$ 427,260	\$ 536,552
Consulting and management fees	365,000	228,000
Exploration and evaluation expenditures	1,032,557	700,130
Foreign exchange (recovery)	2,450	(308)
Office and miscellaneous	20,949	20,217
Professional fees	25,446	107,732
Property investigation	-	47,436
Share-based payments (Note 5 & 6)	2,666	709,299
Transfer agent and filing fees	41,317	106,913
Travel	15,812	49,754
	(1,933,457)	(2,505,725)
OTHER		
Interest	-	3,984
Gain on write-off of accounts payable	-	2,000
Loss for the year	(1,933,457)	(2,499,741)
Items that may be reclassified to net loss		
Other comprehensive loss		
Item that will be reclassified to loss		
Cumulative translation adjustment	79,384	(30,950)
Loss and comprehensive loss for the year	\$ (2,012,841)	\$ (2,530,691)
Basic and diluted loss per share	\$ (0.05)	\$ (0.11)
Weighted average number of common shares outstanding	42,250,772	23,845,750

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	2019	2018
CASH FROM OPERATING ACTIVITIES		
Net loss for the year	\$ (1,933,457)	\$ (2,499,741)
Items not affecting cash:		
Unrealized foreign exchange effect	86,552	-
Share-based payments	2,666	709,299
Gain on write-off of accounts payable	-	(2,000)
Depreciation included in exploration and evaluation expenditures	2,220	929
Changes in non-cash working capital items:		
Receivables	3,576	(3,418)
Prepaid expenses	192,781	(205,307)
Accounts payable and accrued liabilities	<u>94,148</u>	<u>13,573</u>
Net cash used in operating activities	<u>(1,551,514)</u>	<u>(1,986,665)</u>
CASH FROM INVESTING ACTIVITIES		
Acquisition of Brasil Graphite Corp (Note 4)	<u>-</u>	<u>(1,494,534)</u>
Net cash used in investing activities	<u>-</u>	<u>(1,494,534)</u>
CASH FROM FINANCING ACTIVITIES		
Proceeds on issuance of common shares	405,000	4,943,099
Exercise of warrants	-	180,455
Share issuance costs	<u>(11,100)</u>	<u>(500,843)</u>
Net cash provided by financing activities	<u>393,900</u>	<u>4,622,711</u>
Change in cash during the year	(1,157,614)	1,141,512
Effects of foreign exchange on cash	(7,168)	(30,950)
Cash, beginning of year	<u>1,275,577</u>	<u>165,015</u>
Cash, end of year	<u>\$ 110,795</u>	<u>\$ 1,275,577</u>

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)

	Share capital		Reserves	Accumulated other comprehensive loss	Deficit	Total
	Number	Amount				
Balance at December 31, 2017	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)
Balance at December 31, 2018	38,855,430	23,358,715	3,187,793	(30,950)	(19,336,589)	7,178,969
Common shares issued for:						
Private placement	4,050,000	364,500	40,500	-	-	405,000
Share-based payments	-	-	2,666	-	-	2,666
Share issuance costs, cash	-	(11,100)	-	-	-	(11,100)
Share issuance costs, agent warrants	-	(1,790)	1,790	-	-	-
Cumulative translation adjustment	-	-	-	79,384	-	79,384
Loss for the year	-	-	-	-	(1,933,457)	(1,933,457)
Balance at December 31, 2019	42,905,430	\$ 23,710,325	\$ 3,232,749	\$ 48,434	\$ (21,270,046)	\$ 5,721,462

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, 2019 and 2018

(Expressed in Canadian Dollars)

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 deficit of \$20,129 (2018 working capital - \$1,435,158) and had an accumulated deficit of \$21,270,046 as at December 31, 2019 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.

These consolidated financial statements do not give affect to any adjustments which would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in these financial statements.

In March 2020 the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. The impact on the Company is not currently determinable but management continues to monitor the situation.

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.

SOUTH STAR MINING CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2019 and 2018

(Expressed in Canadian Dollars)

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

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 year. 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:

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*.

Going concern

Management applies judgment in its evaluation of the Company's ability to continue as a going concern.

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.

SOUTH STAR MINING CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2019 and 2018

(Expressed in Canadian Dollars)

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.

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

Company	Place of Incorporation	Effective Interest	Principal Activity
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, acquisition costs are capitalized.

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 in accordance with IFRS 6.

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, 2019 and 2018

(Expressed in Canadian Dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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, 2019, 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, 2019 and 2018

(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:

Company	Place of Incorporation	Functional currency
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.

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.

SOUTH STAR MINING CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2019 and 2018

(Expressed in Canadian Dollars)

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

Income taxes

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

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

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:

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.

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.

SOUTH STAR MINING CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2019 and 2018

(Expressed in Canadian Dollars)

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

Financial instruments (cont'd...)

Financial assets (cont'd...)

Fair value through other comprehensive income - 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.

Financial liabilities

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

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.

Impairment of financial assets

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.

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.

SOUTH STAR MINING CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2019 and 2018

(Expressed in Canadian Dollars)

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

New standards adopted

The Company adopted the following new standards effective January 1, 2019:

IFRS 16 – Leases

The Company adopted IFRS 16 - Leases (“IFRS 16”) on January 1, 2019. The objective of the new standard is to eliminate the classification of leases as either operating or financing leases for a lessee and report all leases on the statement of financial position. The only exemption to this will be for leases that are one year or less in duration or for leases of assets with low values. Under IFRS 16 a lessee is required to recognize a right-of-use asset, representing its right to use the underlying asset, and a lease liability, representing its obligations to make lease payments. IFRS 16 also changes the nature of expenses relating to leases, as lease expenses previously recognized for operating leases are replaced with depreciation expense on capitalized right-of-use assets and finance or interest expense for the corresponding lease liabilities associated with the capitalized right-of-use leased assets.

The Company adopted IFRS 16 using the modified retrospective approach and did not restate comparative amounts for the year prior to first adoption. As the Company has no leases, no lease liability or right to use assets were measured at January 1, 2019. The Company’s accounting for finance leases remained substantially unchanged.

The following lease accounting policies have been applied as of January 1, 2019 on adoption of IFRS 16. For comparative periods prior to 2019, we applied leases policies in accordance with IAS 17, Leases and IFRS 4, Determining Whether an Arrangement Contains a Lease.

At inception of a contract, we assess whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. We assess whether the contract involves the use of an identified asset, whether we have the right to obtain substantially all of the economic benefits from use of the asset during the term of the arrangement and if we have the right to direct the use of the asset. At inception or on reassessment of a contract that contains a lease component, we allocate the consideration in the contract to each lease component on the basis of their relative standalone prices.

As a lessee, we recognize a right-of-use asset, which is included in property, plant and equipment, and a lease liability at the commencement date of a lease. The right-of-use asset is initially measured at cost, which is comprised of the initial amount of the lease liability adjusted for any payments made at or before the commencement date, plus any decommissioning and restoration costs, less any lease incentives received.

The right-of-use asset is subsequently depreciated from the commencement date to the earlier of the end of the lease term, or the end of the useful life of the asset. In addition, the right-of-use asset may be reduced due to impairment losses, if any, and adjusted for certain measurements of the lease liability.

A lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by the interest rate implicit in the lease, or if that rate cannot be readily determined, the incremental borrowing rate. Lease payments included in the measurement of the lease liability are comprised of:

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

New standards adopted (cont'd...)

- fixed payments, including in-substance fixed payments, less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee;
- exercise prices of purchase options if we are reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, or if there is a change in our estimate or assessment of the expected amount payable under a residual value guarantee, purchase, extension or termination option. Variable lease payments not included in the initial measurement of the lease liability are charged directly to profit.

As part of the initial application of IFRS 16, we have elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are charged directly to profit on a straight-line basis over the lease term.

We adopted IFRS 16 as at January 1, 2019 in accordance with the transitional provisions outlined in the standard, using a cumulative catch-up approach where we have recorded leases from that date forward and have not restated comparative information.

New or revised accounting standards not yet adopted

A number of new standards and amendments to existing standards have been issued by the IASB that are mandatory for accounting periods beginning on or after January 1, 2020, or later periods. The Company has not early adopted these new standards in preparing these consolidated financial statements. The following pronouncement is considered by the Company to be the most significant that may affect the financial statements in future periods.

IFRS 3 – Definition of a Business

In October 2018, the IASB issued amendments to IFRS 3 – Definition of a Business which:

- Clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs;
- Narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs;
- Add guidance and illustrative examples to help entities assess whether a substantive process has been acquired;
- Remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs; and
- Add an option concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020, and to asset acquisitions that occurred on or after the beginning of that period. Earlier application is permitted. The Company does not expect any material impact upon adoption.

SOUTH STAR MINING CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2019 and 2018

(Expressed in Canadian Dollars)

4. ACQUISITION OF BRASIL GRAPHITE CORP.

On October 19, 2017, the Company entered into 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:

<u>Assets acquired:</u>	
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. During the year ended December 31, 2019, the CEO and director of BGC was named as President and CEO of the Company.

5. SHARE CAPITAL AND RESERVES

Authorized share capital

As at December 31, 2019, 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, 2019, 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 consisted of one common share and one share purchase warrant exercisable at a price of \$0.15 for two years valued at \$40,500. The Company issued 49,000 agent warrants valued at \$1,790 using the Black-Scholes pricing model with an expected life of 2 years, volatility of 100%, and a discount rate of 1.77%. Each agent warrant entitles the holder to purchase a whole unit with the same terms as above, at a price of \$0.15. The Company also paid \$11,100 as finder and professional fees related to the transaction.

SOUTH STAR MINING CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2019 and 2018

(Expressed in Canadian Dollars)

5. SHARE CAPITAL AND RESERVES (cont'd...)**Private placements (cont'd...)**

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.

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, 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
Granted/issued	90,000	0.15	4,099,000	0.15
Cancelled	(1,200,000)	0.36	-	-
Outstanding, December 31, 2019	2,590,000	\$ 0.39	25,227,000	\$ 0.64
Exercisable, December 31, 2019	2,545,000	\$ 0.39	25,227,000	\$ 0.64

Stock options and share purchase warrants outstanding

The following incentive stock options and share purchase warrants were outstanding at December 31, 2019:

Number	Exercise price	Expiry date
Stock Options		
900,000	\$ 0.30	May 30, 2022
1,600,000	\$ 0.45	July 30, 2023
90,000	\$ 0.15	Jun 17, 2024
2,590,000	\$ 0.38	
Share purchase warrants		
698,433	\$ 0.45	May 15, 2020
20,429,567	\$ 0.75	June 15, 2020
4,099,000	\$ 0.15	February 28, 2021
25,227,000	\$ 0.64	

SOUTH STAR MINING CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2019 and 2018

(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 is determined by the board of directors.

During the year ended December 31, 2019, the Company granted 90,000 (2018 - 2,100,000) five-year options with a vesting period of 18 months to purchase shares of the Company at a price of \$0.15 per share. The total fair value of the stock options granted during the year ended December 31, 2019 was \$2,666 (2018 - \$709,299), which was recorded as share-based payment reserve and charged to operations. The weighted average grant date fair value of stock options granted during the year ended December 31, 2019 was \$0.04 (2018 - \$0.34)

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

	December 31, 2019	December 31, 2018
Risk-free interest rate	1.4%	2.19%
Expected life of options	5 years	5 years
Annualized volatility	100%	100%
Dividend rate	0.00%	0.00%
Forfeiture rate	0.00%	0.00%

6. 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, 2019, the Company:

- a) Paid or accrued management and consulting fees of \$107,000 (2018 - \$90,000) to the former CEO of the Company;
- b) Paid or accrued management and consulting fees of \$Nil (2018 - \$45,000) to a company controlled by the Chairman of the Board of the Company;
- c) Paid or accrued management and consulting fees of \$48,000 (2018 - \$48,000) to a company partially owned by the CFO of the Company;
- d) Paid or accrued management and consulting fees of \$175,315 (2018 - \$45,000) to the CEO of the Company from Frontera (Note 4). These are included in exploration and evaluation expenditures;
- e) Paid or accrued management and consulting fees of \$83,296 (2018 - \$45,000) to a director of the Company from Frontera (Note 4). These are included in exploration and evaluation expenditures; and
- f) Paid or accrued management and consulting fees of \$210,000 (2018 - \$90,000) to Frontera.

SOUTH STAR MINING CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2019 and 2018

(Expressed in Canadian Dollars)

6. RELATED PARTY TRANSACTIONS (cont'd...)

Included in accounts payable and accrued liabilities at December 31, 2019 is \$126,713 (2018 - \$15,000) due to both current and former officers, directors or companies with a director in common for cash advances, unpaid consulting fees and unpaid expenses.

During the year ended December 31, 2019, the Company granted stock options with a fair value of \$2,666 (2018 - \$354,649) to officers and directors of the Company.

7. 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, 2019, the carrying value and fair values of the Company's financial instruments, with comparative figures for 2018 are shown in the table below:

	December 31, 2019		December 31, 2018	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Financial assets				
Cash	\$ 110,795	\$ 110,795	\$1,275,577	\$1,275,577
Financial liabilities				
Accounts payable	\$ 155,491	\$ 155,491	\$ 61,343	\$ 61,343

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, 2019, the Company had a cash balance of \$110,795 (2018 - \$1,275,577) to settle current liabilities of \$155,491 (2018 - \$61,343). 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.

SOUTH STAR MINING CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2019 and 2018

(Expressed in Canadian Dollars)

7. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd...)

Financial risk factors (cont'd...)

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, 2019, 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.

8. 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.

9. BUSINESS DEVELOPMENT

For the years ended December 31:	2019	2018
Investor relations	\$ 148,260	\$ 272,552
Financial advisory	172,500	150,500
Business development	<u>106,500</u>	<u>113,500</u>
	<u>\$ 427,260</u>	<u>\$ 536,552</u>

SOUTH STAR MINING CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2019 and 2018

(Expressed in Canadian Dollars)

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	1,927,000
2039	2,069,000
	<u>\$ 8,187,000</u>

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

	2019	2018
Canadian statutory income tax rate	27%	27%
Income tax recovery at statutory rate	\$ (522,000)	\$ (672,000)
Permanent difference and other	(2,000)	2,000
Change in unrecognized deferred tax assets	524,000	670,000
Tax recovery for the year	\$ -	\$ -

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

	2019	2018
Non-capital losses carried forward	\$ 2,211,000	\$ 1,652,000
Exploration and evaluation assets	797,000	797,000
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	117,000	152,000
Deferred tax asset	\$ 3,274,000	\$ 2,750,000
Unrecognized deferred tax asset	\$ (3,274,000)	\$ (2,750,000)

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, 2019 and 2018

(Expressed in Canadian Dollars)

11. COMMITMENT

During the year ended December 31, 2019, the Company:

- a) Entered into a service agreement (“Agreement”) related to investment community outreach, corporate communications, branding, social and digital media for a fixed term of twelve months ending August 31, 2020. Pursuant to the Agreement, the Company will pay \$6,000 per month in fees and grant a share option consisting of 150,000 common shares vest quarterly over twelve months and have a five-year term. In the absence of written termination notice by either party effective August 31, 2020, service shall continue thereafter on a month-to-month basis whereby cancellation by either party requires two months’ notice in writing; and
- b) Entered into a consulting agreement with the President and CEO of the Company for a two year term, ending June 9, 2021. Pursuant to the agreement, the Company will pay US\$15,000 per month in fees and grant a share option consisting of 90,000 common shares vest quarterly over eighteenth months and have a five-year term. If Company treasury falls below \$100,000 cash, then no salary will be paid but will accrue.