

## NEWS RELEASE

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### **Stem 7 Signs Agreement to Acquire 100% Interest in Santa Cruz Graphite Project; Concurrent Project Financing Announced**

October 23<sup>rd</sup>, 2017 – Vancouver, B.C. - Stem 7 Capital Inc. (“Stem 7” or the “Company”) (TSXV: STS.H) is pleased to announce (further to an announcement made on June 29<sup>th</sup>, 2017) that it has entered into a binding Definitive Agreement (the “Agreement”) with Brasil Graphite Corp. to acquire a 100% interest in the advanced-stage Santa Cruz Graphite Project in the Bahia State of Brazil (“Santa Cruz”). The Santa Cruz project is the subject of a recently completed NI43-101 Preliminary Economic Assessment (“PEA”) which indicates a 78 percent after tax Internal Rate of Return (“IRR”). The Company also announces a private placement of units to raise up to C\$6,000,000 to fund the acquisition and development of Santa Cruz.

The Company believes that the Santa Cruz Graphite Project offers several distinct advantages over other graphite projects including excellent infrastructure and location, low capex and opex, and significant resource expansion potential. In addition, the resource has excellent granulometry with approximately 63% of the graphite concentrate produced in pilot plant testing being the more valuable jumbo to large flake sizes (+30, +50 and +80 mesh). Mr. Eric Allison, Chief Executive Officer of the Company stated “the Company is very excited to be advancing its Brazil focused project development strategy with the completion of these important steps in the acquisition of the Santa Cruz Graphite Project. We firmly believe that the many positive aspects of this first project, coupled with the excellent team we have assembled, are the critical initial building blocks for the Company to achieve its goal of creating long-term shareholder value”.

#### **About the Santa Cruz Graphite Project**

Company management was attracted to Santa Cruz due to its advanced-stage status as a pre-production graphite project, backed up by a positive NI43-101 Preliminary Economic Assessment that supports the need for further studies to evaluate and advance the project's potential. The Company has filed a copy of the PEA for Santa Cruz with the TSX Venture Exchange (the “Exchange”) and will file the PEA on Sedar within 45 days of this news release.

The PEA will outline the following parameters for a Santa Cruz graphite production base case:

#### **Key Financial Results**

Post-tax NPV <sub>50%</sub> :	US\$ 117,000,000
Post-tax all Equity IRR:	78% p.a.
Avg. Post-tax Free Cash Flow (years 1-5):	US\$ 15,800,000 p.a.
LOM Avg. Post-tax Free Cash Flow:	US\$ 10,400,000 p.a.
Payback Period:	2 years

### Key Parameters

Total Indicated Resources:	14,990,400 t @ 2.70% Cg
Total Inferred Resources	3,572,100 t @ 2.90% Cg
Current Life of Mine (“LOM”):	19 years
Annual Production (years 1-5):	18,900 t p.a.
Annual Production (year 5-23):	15,800 t p.a.
Avg. Operating Costs (years 1-5)	US\$ 316 per tonne of conc.
Avg. Operating Costs (LOM):	US\$ 413 per tonne of conc.
Avg. Weighted Price:	US\$ 1354 per tonne of conc.

The PEA will have an effective date of August 21, 2017, which is the effective date of the mineral resource estimates contained in this news release. The mineral resources in this news release were estimated using the Canadian Institute of Mining, Metallurgy and Petroleum (CIM) CIM Standards on Mineral Resources and Reserves, Definitions and Guidelines prepared by the CIM Standing Committee on Reserve Definitions and adopted by the CIM Council.

The PEA also outlines significant geological potential to expand graphite resources at Santa Cruz. Located in the second-largest graphite producing district in the world, the project consists of thirteen (13) approved exploration licenses covering approximately 13,000 hectares. The project benefits from at-surface mineralization containing large and extra-large graphite flakes. The mineralization currently defined is contained in highly weathered saprolite that is free digging and requires no drilling or blasting. Significant work has been completed to date including over 7,000m of drilling and a pilot plant test on over 30 tonnes of mineralized material which produced high-quality concentrates.

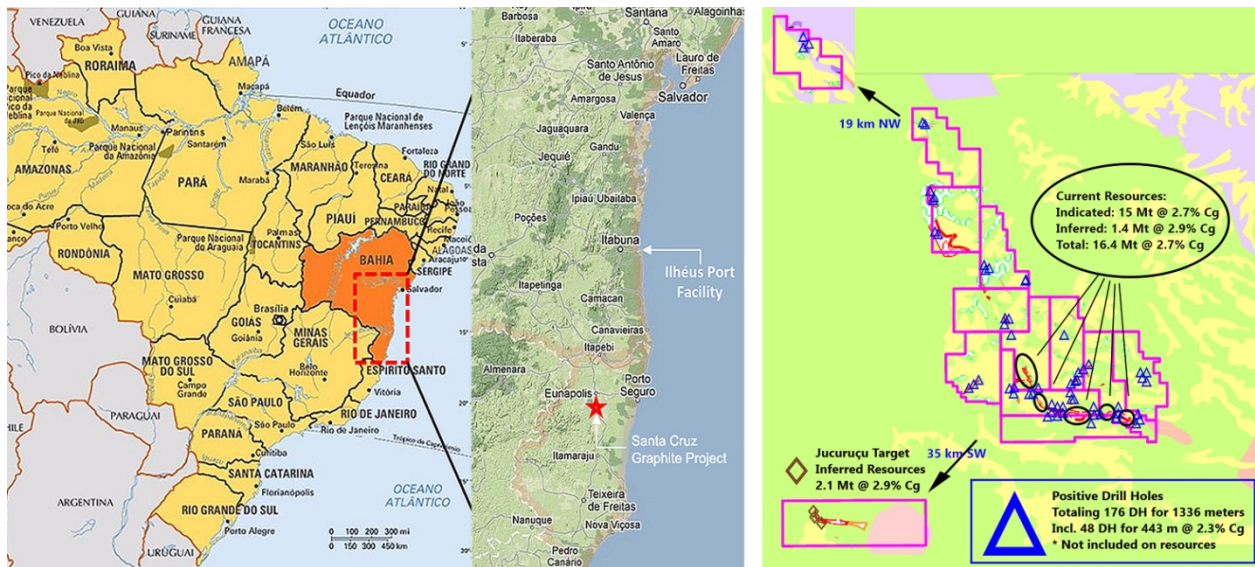
### Santa Cruz Graphite Mineral Resources Summary

Category	Tonnage	Cg	In-situ Graphite
	(t)	(%)	(t)
Measured	0	0	0
Indicated	14,990,400	2.70%	404,741
<b>Total</b>	<b>14,990,400</b>	<b>2.70%</b>	<b>404,741</b>
Inferred	3,572,100	2.90%	103,591

*Note: The PEA is preliminary in nature and includes Inferred Mineral Resources that are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as Mineral Reserves, and there is no certainty that the PEA will be realized.*

## Santa Cruz Graphite Representative Graphite Concentrates

Mesh Size (#)	Distribution	% Cg
30#	4%	95%
50#	32%	95%
80#	27%	97%
140#	17%	97%
-140#	20%	97%
<b>Recovery 88%</b>		



Graphite mineralization at Santa Cruz remains open at depth and along strike with significant room for expansion. The current 43-101 resource is defined down to only 40 meters. The Company has extensive exploration drilling planned to extend known areas of graphitic mineralization and significantly increase the graphite resource potential at Santa Cruz.

Planned future development at Santa Cruz includes:

- Additional 2,000 – 4,000 meters of drilling in main resource areas in order to increase measured and indicated and expand current known resource
- Complete Environmental Impact Study and Mining License Application
- Additional 1,000 to 3,000 meters of drilling in satellite targets
- Further rotary drilling for exploration potential
- Investigate further use of geophysics

- Geologic mapping and further investigations of satellite targets. Only 5% of the 13,000 hectares has been explored.
- Develop and carry out condemnation drilling once preliminary layouts are finalized
- Optimize the mine plan.

Santa Cruz has excellent infrastructure and logistics. High-tension power is within 3 km of the plant site along with a major natural gas line within 5 km. City water and wastewater are within 3-5 km and access to the project is provided by a well-maintained 1.3km long road connecting to a main highway. The major port of Ilheus is 270 km away via paved federal highways.

The scientific and technical information contained in this news release pertaining to the Santa Cruz Graphite Project has been reviewed and approved by Luiz Eduardo Pignatari, a qualified person under National Instrument 43-101 – *Standards of Disclosure for Mineral Projects* ("NI 43-101"). The qualified person has verified the information disclosed herein, including the sampling, preparation, security and analytical procedures underlying such information, and is not aware of any significant risks and uncertainties that could be expected to affect the reliability or confidence in the information discussed herein.

### **The Definitive Agreement**

Pursuant to the Agreement, the Company will acquire a 100% interest in the Santa Cruz Graphite Project through the acquisition (the "**Acquisition**") of all the issued and outstanding shares (the "**BGC Shares**") of Brasil Graphite Corp. ("**BGC**"). BGC owns 51% of the issued and outstanding shares of Brasil Grafite S.A. ("**BGSA**"), a private Brazilian company which owns the Santa Cruz Graphite Project. It is a condition to closing of the Acquisition that BGC acquire the remaining shares of BGSA (the "**Remaining BGSA Shares**") on or prior to closing, or be in a position acquire the Remaining BGSA Shares concurrent with closing, so that the Company will acquire a 100% interest in the Santa Cruz Graphite Project.

As consideration for the BGC Shares, the Company will issue 9,444,903 units (the "**Consideration Units**") to certain shareholders and nominees of BGC at a deemed price of C\$0.45 per Consideration Unit and pay US\$850,000 to BGC. Each Consideration Unit will be comprised of one common share of the Company (a "**Consideration Share**") and one share purchase warrant (a "**Consideration Warrant**"). Each Consideration Warrant will entitle the holder to acquire one additional common share of the Company at a price of C\$0.75 per common share for a period of two years after closing. The Consideration Warrants will be subject to acceleration provisions which will be triggered if the closing price of the Company's common shares on the Exchange exceeds C\$1.10 for 10 consecutive trading days.

The Consideration Shares and any shares acquired on exercise of the Consideration Warrants will be subject to resale restrictions pursuant to which they may not be resold by the holders except in accordance with a prescribed schedule. An aggregate of 20% of the Consideration Units will be released from such resale restrictions every 4 months after closing, with all Consideration Units being released on the date which is 20 months after closing.

Completion of the Acquisition is subject to the fulfillment of certain obligations, including:

- (a) Exchange acceptance;
- (b) completion of the PEA in a form satisfactory to the Exchange;
- (c) the Company issuing a minimum of 7,777,777 Financing Units for aggregate gross proceeds of C\$3,500,000 pursuant to the Placement (described in detail below);
- (d) BGC acquiring the Remaining BGSA Shares on or prior to closing or being in a position to acquire such shares concurrent with closing;
- (e) receipt of consolidated audited financial statements of BGC and BGSA for the three most recently completed financial years and consolidated unaudited financial statements of BGC and BGSA for the most recent interim period which ended more than 60 days before closing;
- (f) receipt of a title opinion acceptable to the Exchange; and
- (g) receipt of satisfactory corporate opinions respecting BGC and BGSA.

After closing, two nominees identified by the vendors prior to closing will be appointed to the Company's Board of Directors.

### **Private Placement of Units**

The Company has proposed a non-brokered private placement (the "**Placement**") consisting of up to 13,333,333 units (the "**Financing Units**") at a price of C\$0.45 per unit for gross proceeds of up to C\$6,000,000. Each Financing Unit consists of one common share of the Company (a "**Share**") and one common share purchase warrant (a "**Warrant**"). Each Warrant entitles the holder thereof to acquire one additional share of the Company at an exercise price of C\$0.75 for a period of 24 months from closing. The Warrants will be subject to acceleration provisions which will be triggered if the closing price of the Company's common shares on the Exchange exceeds C\$1.10 for 10 consecutive trading days.

Completion of the Acquisition is subject to the Company issuing a minimum of 7,777,777 Financing Units for aggregate gross proceeds of C\$3,500,000 pursuant to the Placement.

All securities issuable pursuant to the Placement will be subject to a four-month hold from the closing date, in accordance with applicable securities laws. Finders fees may be payable in connection with the Placement.

The Company previously announced its decision to change the Company name to **South Star Mining Corp.** Management advises that the name change requires Exchange approval and expects this upon approval of the Santa Cruz acquisition.

**On behalf of the Board,**

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*Neither TSX Venture Exchange nor its Regulation Services Provider (as that term is defined in policies of the TSX Venture Exchange) accepts responsibility for the adequacy or accuracy of this release.*

***Cautionary Note: The PEA is considered by STS to meet the requirements of a Preliminary Economic Assessment as defined by Canadian Securities Administrators' National Instrument 43-101 ("NI 43-101") Standards of Disclosure for Mineral Projects. The economic analysis contained in the technical report is based, in part, on Inferred Resources (as defined in NI 43-101) and is preliminary in nature. Mineral Resources that are not Mineral Reserves do not have demonstrated economic viability. There is no guarantee that all or any part of the Mineral Resource will be converted into a Mineral Reserve. Inferred Resources are considered too geologically speculative to have mining and economic considerations applied to them and to be categorized as Mineral Reserves (as defined in NI 43-101). Additional trenching and/or drilling will be required to convert Inferred Mineral Resources to Measured or Indicated Mineral Resources. Mineral Resources that are not Mineral Reserves do not have demonstrated economic viability. There is no certainty that the reserve's development, production and economic forecasts on which the PEA is based will be realized.***

**Cautionary Statement on Forward Looking Statements**

This news release contains “forward-looking statements” within the meaning of applicable Canadian securities legislation. Statements in this news release pertaining to expected financings, filings, uses of proceeds or project completion dates are forward-looking statements. These forward-looking statements are based on assumptions and address future events and conditions and are subject to known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company to be materially different from those expressed or implied by such forward-looking statements.

Such projections are and will inevitably always be dependent on assumptions about future mineral prices and development costs which will be subject to fluctuation due to global and local economic and industry conditions. Further information regarding risks and uncertainties which may cause results to differ from those contained in forward-looking statements is included in filings by the Company with securities regulatory authorities and is available at [www.sedar.com](http://www.sedar.com). Although the Company has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking statements, there may be other factors that cause results not to be as anticipated,

estimated or intended.

There can be no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. The Company does not undertake to update any forward-looking statements that are contained herein, except in accordance with applicable securities laws.

The statements contained in this news release in regard to Stem 7 Capital Corp. that are not purely historical are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including Stem 7's beliefs, expectations, hopes or intentions regarding the future. All forward-looking statements are made as of the date hereof and are based on information available to Stem 7 Capital Corp. as of such date. It is important to note that actual outcome and the actual results could differ from those in such forward-looking statements. Factors that could cause actual results to differ materially include risks and uncertainties such as technological, legislative, corporate, commodity price and marketplace changes.