



MASON GRAPHITE INC.

CONDENSED INTERIM FINANCIAL STATEMENTS

For the three and six months period ended December 31, 2016 and 2015

(Expressed in Canadian dollars)

(Unaudited)



Management's responsibility for financial reporting

Management is responsible for the preparation and presentation of the accompanying condensed interim financial statements, which includes ensuring that significant accounting judgments and estimates are made in accordance with International Financial Reporting Standards. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions for which objective judgment is required.

The Board of Directors is responsible for overseeing management in the performance of its financial reporting responsibilities and for approving the financial information included in the condensed interim financial statements. The Board fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management. The Audit Committee has the responsibility of meeting with management to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues. The Audit Committee reports its findings to the Board for its consideration in approving the condensed interim financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

"Benoit Gascon"

Benoit Gascon
President and Chief Executive Officer

"Luc Veilleux"

Luc Veilleux
Chief Financial Officer

Laval, Québec

February 23, 2017

Mason Graphite Inc.

INTERIM STATEMENTS OF FINANCIAL POSITION

(Expressed in Canadian dollars)

(Unaudited)

	<u>December 31, 2016</u>	<u>June 30, 2016</u>
	\$	\$
ASSETS		
Current assets		
Cash	22,128,275	1,347,003
Tax credit related to resources & mining tax credit receivable	156,724	213,724
Sales tax receivable	283,390	113,480
Government assistance receivable (Note 3)	109,001	-
Prepaid and other receivables	49,965	36,187
	<u>22,727,355</u>	<u>1,710,394</u>
Non-current assets		
Investment in associate (Note 4)	1,316,525	633,100
Property, plant and equipment (Note 5)	405,123	-
Exploration and evaluation assets (Note 6)	<u>32,956,841</u>	<u>31,891,491</u>
Total assets	<u>57,405,844</u>	<u>34,234,985</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	1,296,918	538,676
Debt due within one year (Note 6)	<u>2,014,050</u>	<u>5,927,596</u>
	<u>3,310,968</u>	<u>6,466,272</u>
Non-current liabilities		
Convertible debentures - Host (Note 7)	3,323,640	3,176,188
Convertible debentures – Derivative (Note 7)	3,035,052	963,630
Deferred income tax liability	<u>2,466,000</u>	<u>2,310,000</u>
Total liabilities	<u>12,135,660</u>	<u>12,916,090</u>
EQUITY		
Share capital	60,928,892	33,382,627
Reserves	9,826,921	9,972,788
Deficit	<u>(25,485,629)</u>	<u>(22,036,520)</u>
Total equity	<u>45,270,184</u>	<u>21,318,895</u>
Total equity and liabilities	<u>57,405,844</u>	<u>34,234,985</u>

Note 1 - Nature of operations and liquidity risk

APPROVED ON BEHALF OF THE BOARD OF DIRECTORS:

Signed "Tyrone Docherty", Director

Signed "Benoit Gascon", Director

The notes to the financial statements are an integral part of these condensed interim financial statements.

Mason Graphite Inc.

INTERIM STATEMENTS OF LOSS (PROFIT) AND COMPREHENSIVE LOSS (PROFIT)

(Expressed in Canadian dollars)

(Unaudited)

	For the three months period ended December 31,		For the six months period ended December 31,	
	2016	2015	2016	2015
	\$	\$	\$	\$
Expenses				
Salaries and consulting fees	215,519	214,814	434,328	434,273
Director fees	22,458	32,500	45,790	63,200
Professional fees	158,468	104,098	221,799	124,250
General & office expenses	58,678	61,890	112,160	116,734
Travel and accommodation expenses	18,535	29,113	59,693	40,318
Share-based compensation	12,510	24,351	42,846	135,734
Communication and promotion expenses	12,226	37,814	12,599	50,534
Transfer agent and filing fees	24,682	23,839	32,437	32,849
Royalties (Note 9)	12,500	12,500	25,000	25,000
Value-added graphite products study	529,072	-	529,072	-
Natural graphite production for customers and tests	258,902	-	261,902	-
Research and development expenses	70,250	-	70,250	-
Government assistance (Note 3)	(207,291)	-	(207,291)	-
Operating net foreign exchange loss	806	257	816	2,309
Operating loss	1,187,315	541,176	1,641,401	1,025,201
Net foreign exchange loss	30,185	187,152	91,609	537,771
Share of loss of an associate (Note 4)	141,575	36,000	316,575	124,300
Gain on debt settlement (Note 6)	(1,176,353)	-	(1,176,353)	-
Finance costs (Note 7)	(388,955)	219,672	2,467,874	375,013
Finance income	(44,490)	(5,327)	(47,997)	(13,777)
Loss (profit) before income taxes	(250,723)	978,673	3,293,109	2,048,508
Deferred income tax expenses	107,000	128,000	156,000	211,000
Loss (profit) and comprehensive loss (profit)	(143,723)	1,106,673	3,449,109	2,259,508
Loss (profit) per share				
Basic and diluted	(\$0,001)	\$0.01	\$0,03	\$0.03
Weighted average number of shares outstanding				
Basic and diluted	113,690,277	86,225,499	101,158,747	85,222,067

The notes to the financial statements are an integral part of these condensed interim financial statements.

Mason Graphite Inc.
INTERIM STATEMENTS OF CASH FLOWS
(Expressed in Canadian dollars)
(Unaudited)

	For the six months period ended December 31,	
	2016	2015
	\$	\$
Cash flows from operating activities		
Loss for the period	(3,449,109)	(2,259,508)
Items not affecting cash:		
Share-based compensation	42,846	135,734
Value-added graphite products study	303,246	-
Government assistance	(50,000)	-
Unrealized foreign exchange loss	94,056	537,376
Share of loss of an associate	316,575	124,300
Gain on debt settlement	(1,176,353)	-
Deferred income tax expenses	156,000	211,000
Finance costs	2,343,374	250,513
Changes in non-cash operating working capital items:		
Sales tax receivable	(169,910)	329,210
Government assistance receivable	(109,001)	-
Prepaid and other receivable	(13,778)	10,528
Accounts payable and accrued liabilities	108,305	30,891
	<u>(1,603,749)</u>	<u>(629,956)</u>
Cash flows from financing activities		
Private placement	28,778,750	-
Transactions costs	(1,789,319)	-
Repayment on debt	(3,292,500)	(1,651,750)
Options exercised	235,867	-
	<u>23,932,798</u>	<u>(1,651,750)</u>
Cash flows from investing activities		
Investment in associate	(1,000,000)	-
Mining tax credit received	56,938	-
Acquisition of Property, plant and equipment	(129,085)	-
Decrease in short-term investments	-	1,626,605
Exploration and evaluation asset expenditures	(522,131)	(2,398,724)
	<u>(1,594,278)</u>	<u>(763,119)</u>
Effect of foreign exchange rate changes on cash	46,500	31,518
Change in cash	20,781,272	(3,013,307)
Cash, beginning of the period	1,347,003	5,655,041
Cash, end of the period	<u>22,128,275</u>	<u>2,641,734</u>
Supplemental information:		
Exploration and evaluation asset expenditures included in accounts payable and accrued liabilities	586,588	103,269
Property, plant and equipment expenditures included in accounts payable and accrued liabilities	276,038	-
Interest related to long-term debt charged to exploration and evaluation assets (Note 6)	414,748	560,309
Government assistance deducted from exploration and evaluation asset expenditures (Note 3)	-	9,000
Interest paid on convertible debentures	124,500	124,500
Share-based compensation in exploration and evaluation assets (Note 6)	433	12,721

The notes to the financial statements are an integral part of these condensed interim financial statements.

Mason Graphite Inc.

INTERIM STATEMENTS OF CHANGES IN EQUITY

(Expressed in Canadian dollars)

(Unaudited)

	Share Capital		Reserves				Equity
	Number	Amount	Warrants	Broker warrants	Options	Deficit	
Balance as at July 1, 2016	87,113,160	33,382,627	5,622,949	591,458	3,758,381	(22,036,520)	21,318,895
Private placement – common shares (Note 8)	26,162,500	28,778,750	-	-	-	-	28,778,750
Private placement – transaction costs (Note 8)	-	(1,789,319)	-	-	-	-	(1,789,319)
Share issued for interest payment on convertible debentures (Note 8)	90,217	124,500	-	-	-	-	124,500
Options exercised	406,667	432,334	-	-	(196,467)	-	235,867
Share-based compensation	-	-	-	-	50,600	-	50,600
Loss and comprehensive loss for the period	-	-	-	-	-	(3 449 109)	(3 449 109)
Balance as at December 31, 2016	113,772,544	60,928,892	5,622,949	591,458	3,612,514	(25,485,629)	45 270 184
Balance as at July 1, 2015	86,218,559	32,732,890	5,648,068	591,458	3,630,235	(18,093,054)	24,509,597
Share issued for interest payment on convertible debentures	319,321	124,500	-	-	-	-	124,500
Share-based compensation	-	-	-	-	148,455	-	148,455
Loss and comprehensive loss for the period	-	-	-	-	-	(2,259,508)	(2,259,508)
Balance as at December 31, 2015	86,537,880	32,857,390	5,648,068	591,458	3,778,690	(20,352,562)	22,523,044

The notes to the financial statements are an integral part of these condensed interim financial statements.

Mason Graphite Inc.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

For the three and six months period ended December 31, 2016 and 2015

(Expressed in Canadian dollars)

(Unaudited)

1. NATURE OF OPERATIONS AND LIQUIDITY RISK

On March 3, 2016, Mason Graphite Inc. ("Mason Graphite" or the "Company") has continued out of the jurisdiction of the Business Corporations Act (Ontario) and into the jurisdiction of the Canadian Business Corporations Act. The Company was incorporated March 15, 2011 under the Business Corporations Act (Ontario). The Company's head office is located at 3030, Boul. Le Carrefour, Suite 600, Laval, QC, H7T 2P5, Canada.

The Company is engaged in exploration and evaluation of the Lac Guéret graphite property located in Québec, Canada. There has been a determination that the Company's exploration and evaluation assets contain mineral reserves which are economically recoverable. The Company has a National Instrument 43-101 compliant disclosure for its mineral resource estimate and for a feasibility study on the Lac Guéret property.

Although the Company has taken steps to verify title to the property on which it is conducting exploration and evaluation activities, and in which it has an interest, in accordance with industry standards for the current stage of exploration and evaluation of such property, these procedures do not guarantee the Company's title thereto. Property title may be subject to government licensing registration or regulation, unregistered prior agreements, unregistered claims, aboriginal claims, or non-compliance with regulatory and environmental requirements.

These condensed interim financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, 12 months from the end of the most recent reporting period.

As at December 31, 2016, the Company had a working capital of \$19,416,387, an accumulated deficit of \$25,485,629 and a loss of \$3,449,109 for the six months period then ended. Working capital included a cash balance of \$22,128,275.

Management believes that the Company has sufficient funds to meet its obligations and planned expenditures for the ensuing 12 months as they fall due. The Company's ability to continue its exploration and evaluation activities, the engineering, the procurement and the construction of the Lac Guéret project is dependent on management's ability to secure additional financing in the future, which may be completed in a number of ways including, but not limited to, a combination of strategic partnerships, joint venture arrangements, project debt financing, royalty financing and other capital market alternatives. Management will pursue such additional financial sources when required, and while management has been successful in securing financing in the past, there can be no assurance that it will be able to do so in the future or that these sources of funding or initiatives will be available for the Company or that they will be available on terms which are acceptable to the Company.

These unaudited condensed interim financial statements were reviewed, approved and authorized for issue by the Board of Directors on February 23, 2017.

Mason Graphite Inc.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

For the three and six months period ended December 31, 2016 and 2015

(Expressed in Canadian dollars)

(Unaudited)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of presentation

These unaudited condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. The unaudited condensed interim financial statements should be read in conjunction with the Company's audited annual financial statements for the year ended June 30, 2016.

The preparation of the condensed interim financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies.

The accounting policies followed in these unaudited condensed interim financial statements are consistent with those of the previous financial year, with the additional policy described below:

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated amortization and accumulated impairment losses. Cost comprises the fair value of consideration given to acquire an asset and includes the direct charges associated with bringing the asset to the location and condition necessary to put the asset into use, as well as the future cost of dismantling and removing the plant and associated infrastructure and restoring and rehabilitating the land on which it is situated. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. Replacement cost, including major inspection and overhaul expenditures are capitalized as components of property, plant and equipment, which are accounted for separately.

Amortization is provided on property, plant and equipment. Amortization is calculated so as to write off the cost of each asset over its expected useful life to its estimated residual value. The estimated useful lives, residual values and amortization method are reviewed at the end of each annual reporting period. Construction in progress is not amortized; rather it is deferred until the asset is ready for use, at which point the deferred amount is transferred to the appropriate asset category.

Mason Graphite Inc.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

For the three and six months period ended December 31, 2016 and 2015

(Expressed in Canadian dollars)

(Unaudited)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) New accounting standards issued but not yet in effect

The following standards and amendments to existing standards have been published, and their adoption is mandatory for future accounting periods and could have a material impact on the Company:

IFRS 9, Financial Instruments

In November 2009 and October 2010, the IASB issued the first phase of IFRS 9. In November 2013, the IASB issued a new general hedge accounting standard, which forms part of IFRS 9. The final version of IFRS 9 was issued in July 2014 and includes a third measurement category for financial assets (fair value through other comprehensive income) and a single, forward-looking "expected loss" impairment model.

IFRS 9 replaces the current multiple classification and measurement models for financial assets and financial liabilities with a single model that has three classification categories: amortized cost, fair value through other comprehensive income and fair value through profit and loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset or financial liability. It also introduces limited changes relating to financial liabilities and aligns hedge accounting more closely with risk management.

The new standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. Management is currently reviewing the impact that this standard will have on the Company's financial statements.

IAS 7, Statement of Cash Flows

In January 2016, IASB amended International Accounting Standard ("IAS") 7, Statement of Cash Flows. The amendments require that the following changes in liabilities arising from financing activities are disclosed (to the extent necessary): (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes. One way to fulfill the new disclosure requirement is to provide a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. Finally, the amendments state that changes in liabilities arising from financing activities must be disclosed separately from changes in other assets and liabilities. This amendment will be mandatory for annual periods beginning on or after January 1, 2017. Management is currently reviewing the impact that this standard will have on the Company's financial statements.

3. GOVERNMENT ASSISTANCE

In October and November 2016, the Company entered into three contribution agreements with the National Research Assistance Council of Canada represents by its Industrial Research Assistance Program (NRC-IRAP), the Ministry of Économie, Science et Innovation (MESI) and Innovation et Développement Manicouagan (ID Manicouagan) in order to financially assist the Company in the detailed study of the value-added graphite products. Under the terms of these agreements and subject to specific conditions, the Company is eligible for expenses reimbursements up to \$657,000 for the period from September 6, 2016 to September 28, 2018.

As part of the contribution agreements, the Company accrued government assistance as detailed below:

	As at December 31, 2016
	<u> </u>
	\$
Amount received during the period	48,290
Amount recognized against the expenditures incurred during the period	207,291
Amount receivable	109,001

Mason Graphite Inc.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

For the three and six months period ended December 31, 2016 and 2015

(Expressed in Canadian dollars)

(Unaudited)

4. INVESTMENT IN ASSOCIATE

On October 28, 2016, Group NanoXplore inc. ("NanoXplore") completed a non-brokered private placement of 125,068 Class A common shares for gross proceeds of \$2,255,000 of which the Company purchase 55,463 Class A common shares for gross proceeds of \$1,000,000. After giving effect to the financing, the Company holds a 32% interest (31% prior) in NanoXplore.

The carrying value of the investment was determined as follows using the equity method:

	\$
Balance as at July 1, 2016	633,100
Acquisition of interest (at cost)	1,000,000
Share of loss and comprehensive loss for the period	<u>(316,575)</u>
Balance as at December 31, 2016	<u>1,316,525</u>

The following summarized financial information of NanoXplore is as follows, including fair value adjustments made at the time of the acquisition of the interests:

	<u>As at December 31, 2016</u>	<u>As at June 30, 2016</u>
	\$	\$
Current assets	2,242,000	1,943,098
Non-current assets (including patents and technology)	5,129,000	4,245,336
Current liabilities	758,000	1,602,402
Non-current liabilities	2,438,000	2,525,566
	<u>For the six months ended December 31, 2016</u>	
	\$	
Revenues	1,774,000	
Loss and comprehensive loss	993,000	

5. PROPERTY, PLANT AND EQUIPMENT

	<u>Construction in progress</u>
	\$
Balance as at July 1, 2016	-
Additions	405,123
Depreciation	-
Balance as at December 31, 2016	<u>405,123</u>
As at December 31, 2016	
Cost	405,123
Accumulated depreciation	-
Net book value	<u>405,123</u>

Mason Graphite Inc.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

For the three and six months period ended December 31, 2016 and 2015

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6. EXPLORATION AND EVALUATION ASSETS

Exploration and evaluation assets consist of:

	Lac Guéret project
	<u>\$</u>
Balance as at July 1, 2016	31,891,491
Exploration and evaluation assets expenditures	642,848
Interest on a debt, net	414,748
Share-based compensation	7,754
Balance as at December 31, 2016	<u>32,956,841</u>

On April 5, 2012, the Company entered into an asset purchase agreement (the "Asset Purchase Agreement") with Quinto Mining Corporation ("Quinto"), a wholly owned subsidiary of Cliffs Natural Resources Inc., pursuant to which the Company acquired the mining claims that comprise the Lac Guéret property. The total purchase price for the acquisition was US\$15,000,000 in cash, payable in installments based on the achievement of certain milestones over a five-year period, and the issuance of 2,041,571 warrants exercisable for common shares of the Company at an exercise price of \$0.75 per share (which expired on April 5, 2014).

Pursuant to a general security agreement dated April 5, 2012 and updated June 24, 2013, the Company granted a security interest in favour of Quinto over all of its personal and real property, including the mining claims that comprise the Lac Guéret property, to secure payment of the remainder of the purchase price and the performance of the Company's obligations under the Asset Purchase Agreement.

An aggregate of US\$7,500,000 was paid on closing, US\$1,250,000 (\$1,573,125) was paid on April 2, 2015, US\$1,250,000 (\$1,651,750) was paid on October 2, 2015 and US\$5,000,000 (\$6,734,000) was due on achievement of commercial production. If commercial production was not achieved by October 5, 2016, the Company was required to pay (a) US\$2,500,000 (\$3,367,000) on October 5, 2016; and (b) US\$2,500,000 (\$3,367,000) on the earlier of (i) the fifth business day following the day on which commercial production was achieved; and (ii) April 5, 2017. On the occurrence of certain events, including, without limitation, the Company granting any option to acquire an interest in the mining claims, becoming the subject of an insolvency event, being in default of its obligations under the asset purchase agreement, a change of control (as such term is defined in the Asset Purchase Agreement) of the Company occurring, or any event occurs that could have a material adverse effect on the ability of the Company to perform its obligations, the obligation to pay Quinto any amounts then outstanding shall accelerate and said amounts shall be immediately due and payable.

On December 22, 2016, the Superior Court of Quebec rendered a judgment confirming that an agreement had been reached between the Company and Quinto pursuant to which the Company was to make an accelerated payment to Quinto in the amount of US\$4,000,000 instead of making two payments of US\$2,500,000 in October 5, 2016 and April 5, 2017 (for a total of US\$5,000,000).

On October 4, 2016, the Company paid Quinto US\$2,500,000 (\$3,292,500). As at December 31, 2016 an amount of US\$1,500,000 (\$2,014,050) has been recorded as a debt due within one year and all of Quinto's security interests over the Company's assets are in the process of being discharged. Accretion totaled \$414,748 for the period from July 1, 2016 to December 22, 2016 and was recorded to the Lac Guéret property as interest on a debt, net. The Company recorded a gain settlement of \$1,176,353 regarding the transaction and was recorded in the statements of loss and comprehensive loss.

Mason Graphite Inc.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

For the three and six months period ended December 31, 2016 and 2015

(Expressed in Canadian dollars)

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7. CONVERTIBLE DEBENTURES

The convertible debentures (Debentures) are compound financial instruments, comprising a debt portion (Host) and conversion and early redemption options portion (Derivative) and they are presented in their entirety as a financial liability, in the statement of financial position. The following table shows the change in the carrying value of the Debentures:

	For the six months ended December 31, 2016		
	Host	Derivative	Total
	\$	\$	\$
Balance as at July 1	3,176,188	963,630	4,139,818
Change in fair value of derivative	-	2,071,422	2,071,422
Accretion	147,452	-	147,452
Balance as at December 31	3,323,640	3,035,052	6,358,692

From a liquidity perspective, the maximum amount that could be paid, if the Debentures are not converted prior to maturity, is \$4,150,000.

The Derivative was valued using a convertible bond valuation pricing model. The following key assumptions were used in that model:

	As at December 31, 2016	As at June 30, 2016
Expected life in years	2.46	3
Expected volatility (1)	56%	63%
Credit spread (1)	21%	23%

- (1) Expected volatility was based on the Company's historical volatility and the volatility of an equity market index in the mining sector. To evaluate the Derivative, the credit spread was calibrated to 21% by taking into account the mining sector market situation.

Other key assumptions are the following since they are included in the features of the Debentures:

- Timing, probability of occurrence and pricing of the share issued in a subsequent financing;
- Timing, probability of occurrence and pricing of the shares issued in a Construction financing of the Lac Guéret project.

Finance costs consist of:

	For the three months period ended December 31,		For the six months period ended December 31,	
	2016	2015	2016	2015
	\$	\$	\$	\$
Interest on the coupon	124,500	124,500	249,000	249,000
Interest – convertible debentures accretion	74,562	68,093	147,452	134,659
Loss (gain) on embedded derivative (change in fair value)	(588,017)	27,079	2,071,422	(8,646)
	(388,955)	219,672	2,467,874	375,013

Mason Graphite Inc.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

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8. SHARE CAPITAL

On September 27, 2016, the Company completed a private placement in which it issued 26,162,500 common shares at a price of \$1.10 per share for aggregate gross proceeds of \$28,778,750. The Company paid \$1,438,938 in commission and \$350,381 were incurred in other private placement issuance costs.

On December 16, 2016, the Company issued an aggregate of 90,217 common shares at a deemed price per share of \$1.38 in payment of \$124,500 in interest due and payable under its 12% Debentures. Under the terms of the Debentures, the Company has the option to pay 50% of the semi-annual interest due on the Debentures in common shares. The balance of the interest owing under the Debentures, being \$124,500, has been paid in cash.

9. RELATED PARTY TRANSACTIONS

During the three and six months period ended December 31, 2016 and, 2015 the Company entered into the following transactions with related parties:

- Incurred professional fees to Gestion GBG Inc. of \$878 and \$1,813 (2015: \$6,136 and 12,271) respectively, to a payroll services company controlled by the spouse of an officer of the Company;
- Incurred rent and other office overhead expenses to 2227929 Ontario Inc. of \$19,500 and \$39,000 (2015: \$30,000 and \$60,000) respectively, with respect to the Company's Toronto office (a Company's director has a significant influence with the related party);
- Incurred royalties expenses with NanoXplore of \$12,500 and \$25,000 (2015: \$12,500 and \$25,000) respectively, with respect to patent use rights (the Company has a significant influence on NanoXplore);
- Incurred professional fees expenses with NanoXplore of \$18,000 and \$18,000 (2015: \$32,500 and \$32,500) respectively, with respect to laboratory services (the Company has a significant influence on NanoXplore);
- Incurred R&D expenses with NanoXplore of \$32,000 and \$32,000 (2015: \$nil and \$nil) respectively, with respect to laboratory services (the Company has a significant influence on NanoXplore);

As at December 31, 2016, the balance due to the related parties amounted to \$163,278. The amounts outstanding are non-interest bearing, unsecured and due on demand.

The remuneration of directors and key management personnel during the period was as follows:

	For the three months period ended December 31,		For the six months period ended December 31,	
	2016	2015	2016	2015
	\$	\$	\$	\$
Salaries, consulting fees & other benefits	236,987	237,520	473,423	473,419
Directors' fees	22,458	32,500	45,790	63,200
Share-based compensation - Management	5,468	25,148	28,468	100,969
Share-based compensation – Director	1,823	9,583	10,980	38,333
	<u>266,736</u>	<u>304,751</u>	<u>558,661</u>	<u>675,921</u>

In accordance with IAS 24, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including any directors (executive and non-executive) of the Company.

Mason Graphite Inc.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

For the three and six months period ended December 31, 2016 and 2015

(Expressed in Canadian dollars)

(Unaudited)

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

Fair value

The Company has determined that the carrying value of its current financial assets and financial liabilities, including cash, debt due within one year, and accounts payable and accrued liabilities approximates their carrying value due to the short-term maturities of these instruments.

As at December 31, 2016, the fair value of the Debentures (host and derivative) approximates their carrying amounts.

The following table presents financial assets and financial liabilities measured at fair value in the statements of financial position in accordance with the fair value hierarchy. This hierarchy groups financial assets and financial liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and financial liabilities. The fair value hierarchy has the following levels:

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level in which the financial asset or financial liability is classified is determined based on the lowest level of significant input to the fair value measurement. The financial assets and financial liabilities measured at fair value in the statements of financial position are grouped into the fair value hierarchy as follows as at December 31, 2016:

Debentures (Derivative): Level 3: \$3,035,052

This financial instrument is classified as a Level 3 financial instrument, since the implied volatility and the credit spread are considered unobservable inputs on the market.