



MASON GRAPHITE INC.

CONDENSED INTERIM FINANCIAL STATEMENTS **For the three months ended September 30, 2015 and 2014** (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, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in 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 the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Audit Committee reports its findings to the Board of Directors 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

November 26, 2015

Mason Graphite Inc.

INTERIM STATEMENTS OF FINANCIAL POSITION

(Expressed in Canadian dollars)

(Unaudited)

	September 30, 2015	June 30, 2015
	\$	\$
ASSETS		
Current assets		
Cash (Notes 1 and 3)	5,091,054	5,655,041
Short-term investments	-	1,565,487
Tax credit related to resources & mining tax credit receivable	213,724	213,724
Sales tax receivable	141,674	381,858
Government assistance	9,000	-
Prepaid and other receivables	25,591	41,060
	<u>5,481,043</u>	<u>7,857,170</u>
Non-current assets		
Investment in associate	1,004,800	1,093,100
Exploration and evaluation assets (Note 4)	29,979,178	29,163,440
	<u>36,465,021</u>	<u>38,113,710</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	416,687	1,912,245
Long-term debt due within one year (Note 4)	1,670,074	1,485,501
	<u>2,086,761</u>	<u>3,397,746</u>
Non-current liabilities		
Convertible debentures (Note 5)	3,503,054	3,472,213
Long-term debt (Note 4)	5,322,367	4,734,154
Deferred income tax liability	2,083,000	2,000,000
	<u>12,995,182</u>	<u>13,604,113</u>
EQUITY		
Share capital	32,732,890	32,732,890
Reserves	9,982,838	9,869,761
Deficit	(19,245,889)	(18,093,054)
	<u>23,469,839</u>	<u>24,509,597</u>
Total equity and liabilities	<u>36,465,021</u>	<u>38,113,710</u>

Note 1 - Nature of operations and liquidity risk

Notes 3 - Commitments

APPROVED ON BEHALF OF THE BOARD OF DIRECTORS:

Signed "Tayfun Eldem", 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 AND COMPREHENSIVE LOSS

(Expressed in Canadian dollars)

(Unaudited)

	For the three months ended September 30,	
	2015	2014
	\$	\$
Expenses		
Salaries and consulting fees	219,459	226,433
Director fees	30,700	31,103
Professional fees	20,152	53,054
General office expenses	54,844	56,518
Travel and accommodation expenses	11,205	28,300
Share-based compensation	111,383	123,485
Communication and promotion expenses	12,720	32,232
Transfer agent and filing fees	9,010	8,888
Royalties (Note 6)	12,500	-
Operating net foreign exchange loss (gain)	2,052	(571)
Operating loss	484,025	559,442
Other income	-	(61,921)
Net foreign exchange loss	350,619	184,490
Share of loss of an associate	88,300	43,300
Finance costs	155,341	185,290
Finance income	(8,450)	(36,204)
Loss before income taxes	1,069,835	874,397
Deferred income tax expenses	83,000	50,000
Loss and comprehensive loss	1,152,835	924,397
Loss per share		
Basic and diluted	\$0.01	\$0.01

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 three months ended September 30,	
	2015	2014
	\$	\$
Cash flows from operating activities		
Loss for the period	(1,152,835)	(924,397)
Items not affecting cash:		
Share-based compensation	111,383	123,485
Other income	-	(61,921)
Unrealized foreign exchange loss	350,619	184,490
Share of loss of an associate	88,300	43,300
Deferred income tax expenses	83,000	50,000
Finance costs	30,841	60,790
Changes in non-cash operating working capital items:		
Sales tax receivable	240,184	(30,610)
Prepaid and other receivable	15,469	32,856
Accounts payable and accrued liabilities	(18,370)	39,308
	<u>(251,409)</u>	<u>(482,699)</u>
Cash flows from investing activities		
Tax credits related to resources received	-	654,211
Decrease in short-term investments	1,626,605	-
Exploration and evaluation asset expenditures	(1,993,201)	(681,448)
	<u>(366,596)</u>	<u>(27,237)</u>
Effect of foreign exchange rate changes on cash	54,018	136,000
Change in cash	(563,987)	(373,936)
Cash, beginning of the period	5,655,041	14,410,142
Cash, end of the period	<u>5,091,054</u>	<u>14,036,206</u>
Supplemental information:		
Exploration and evaluation asset expenditures included in accounts payable and accrued liabilities	220,942	600,586
Interest related to long-term debt charged to exploration and evaluation assets (Note 4)	307,031	241,558
Government assistance deducted from exploration and evaluation asset expenditures (Note 4)	9,000	-
Share-based compensation in exploration and evaluation assets	1,694	13,928

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, 2015	86,218,559	32,732,890	5,648,068	591,458	3,630,235	(18,093,054)	24,509,597
Share-based compensation	-	-	-	-	113,077	-	113,077
Loss and comprehensive loss for the period	-	-	-	-	-	(1,152,835)	(1,152,835)
Balance as at September 30, 2015	86,218,559	32,732,890	5,648,068	591,458	3,743,312	(19,245,889)	23,469,839
Balance as at July 1, 2014	85,786,034	32,486,135	5,648,068	591,458	2,659,804	(14,439,738)	26,945,727
Share-based compensation	-	-	-	-	137,413	-	137,413
Loss and comprehensive loss for the period	-	-	-	-	-	(924,397)	(924,397)
Balance as at September 30, 2014	85,786,034	32,486,135	5,648,068	591,458	2,797,217	(15,364,135)	26,158,743

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 months ended September 30, 2015 and 2014

(Expressed in Canadian dollars)

(Unaudited)

1. NATURE OF OPERATIONS AND LIQUIDITY RISK

Mason Graphite Inc. ("Mason Graphite" or the "Company") is subject to the Business Corporations Act (Ontario) and was incorporated March 15, 2011. The Company's head office is located at 3030, Boul. Le Carrefour, Suite 600, Laval, QC, H7T 2P5, Canada and the registered address is 65 Queen Street West, Suite 800, Toronto, Ontario, Canada M5H 2M5.

The Company is engaged in exploration and evaluation of the Lac Guéret graphite property located in Québec, Canada. There has been 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, 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. Property title may be subject to government licensing registration or regulating, unregistered prior agreements, unregistered claims, aboriginal claims and 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. If the going concern assumptions were not appropriate for these financial statements, then adjustments would be necessary in the carrying value of assets and liabilities and the reported expenses.

As at September 30, 2015, the Company had a working capital of \$3,394,282, had an accumulated deficit of \$19,245,889 and incurred a loss of \$1,152,835 for the three months then ended. Working capital included cash of \$5,091,054 of which US\$1,250,000 (\$1,674,250) is reserved for the next payment to Quinto Mining Corporation ("Quinto") (note 4).

Management believes that the Company has sufficient funds to meet its obligations and planned expenditures for the ensuing twelve months as they fall due. However, the Company will need additional funds to meet its payment obligation of US\$2,500,000 (\$3,348,500) on October 5, 2016 with Quinto (Note 4). 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, twelve months from the end of the reporting period. The Company's ability to continue future operations and fund its exploration and evaluation activities 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 finance, 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 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 condensed interim financial statements were reviewed, approved and authorized for issue by the Board of Directors on November 26, 2015.

Mason Graphite Inc.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

For the three months ended September 30, 2015 and 2014

(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, 2015.

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.

b) New accounting standards issued but not yet in effect

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.

3. CASH

As at September 30, 2015, an amount of US\$1,250,000 (\$1,674,250) is reserved for the next payment to Quinto as required under the terms of the convertible debentures financing (Note 5). For the three months ended September 30, 2015, the reserved amount has resulted in a foreign exchange gain of \$115,000 (2014: \$136,000) and was recorded in the statements of loss and comprehensive loss against Net foreign exchange loss.

Mason Graphite Inc.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

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4. EXPLORATION AND EVALUATION ASSETS

Exploration and evaluation assets consist of:

	Lac Guéret project 2015
	<u>\$</u>
Balance as at July 1	29,163,440
Mineral resource evaluation and geology	94,239
Prefeasibility and feasibility studies	260,125
Environmental studies	146,154
Added value processing studies	15,495
Interest on long-term debt	307,031
Share-based compensation	1,694
Government assistance	(9,000)
Balance as at September 30	<u>29,979,178</u>

Under the terms of the asset purchase agreement with Quinto pursuant to which the Company acquired the mining claims that comprise the Lac Guéret property, as at September 30, 2015 an amount of \$5,322,367 has been recorded as long-term debt and \$1,670,074 as long-term debt due within one year, for a total of \$6,992,441 after discounting the remaining cash payments of US\$1,250,000 (\$1,674,250) (October 5, 2015), US\$2,500,000 (\$3,348,500) (October 5, 2016) and US\$2,500,000 (\$3,348,500) (April 5, 2017). This liability will be accreted to its face value using the effective interest rate method at an 18.06% discount rate. Accretion totaled \$307,031 for the three months ended September 30, 2015 and was recorded to the Lac Guéret property as interest on long-term debt.

On October 2, 2015, the Company paid Quinto US\$1,250,000 (\$1,651,750).

5. CONVERTIBLE DEBENTURES

The 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 three months ended September 30, 2015		
	<u>Host</u>	<u>Derivative</u>	<u>Total</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>
Balance as at July 1	2,900,620	571,593	3,472,213
Change in fair value of derivative	-	(35,725)	(35,725)
Accretion	66,566	-	66,566
Balance as at September 30	<u>2,967,186</u>	<u>535,868</u>	<u>3,503,054</u>

Mason Graphite Inc.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

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(Unaudited)

5. CONVERTIBLE DEBENTURES (CONTINUED)

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

	<u>As at September 30, 2015</u>	<u>As at June 30, 2015</u>
Expected life in years	3.71	4
Expected volatility*	55%	55%
Credit spread	25%	25%

- * 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 25% 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.

Under the terms of this financing, as at September 30, 2015, an amount of \$ US 1,250,000 (\$1,674,250) is reserved for the next payment to Quinto (Note 4)

6. RELATED PARTY TRANSACTIONS

During the three months ended September 30, 2015 and, 2014, the Company entered into the following transactions with related parties:

- Incurred rent expenses with Lacroix Gascon, s.e.n.c., avocats of \$nil (2014: \$13,504), respectively, with respect to the Company's Laval office (a Company's officer is the brother of the related party);
- Incurred professional fees and labour expenditures to Gestion GBG Inc. of \$6,135 (2014: \$7,798) 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 \$30,000 (2014: \$30,000) 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 (2014: \$nil) with respect to patent use rights (the Company has a significant influence on NanoXplore);
- Incurred consulting fees to Hatch Ltd of \$218,756 (2014: \$nil) with respect to environmental and feasibility studies (a Company's director is Managing director – Iron Ore of the related party)

As at September 30, 2015, the balance due to the related parties amounted to \$126,310. The amounts outstanding are non-interest bearing, unsecured and due on demand.

Mason Graphite Inc.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

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(Expressed in Canadian dollars)

(Unaudited)

6. RELATED PARTY TRANSACTIONS (CONTINUED)

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

	Three months ended September 30,	
	2015	2014
	\$	\$
Salaries, consulting fees & other benefits	235,899	245,325
Directors' fees	30,700	31,103
Share-based compensation - Management	75,821	69,977
Share-based compensation - Director	28,750	21,722
	<u>371,170</u>	<u>368,127</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.

7. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

Fair value

All financial assets classified as loans and receivables, as well financial liabilities classified as other liabilities, are initially measured at their fair values and subsequently at their amortized cost using the effective interest method. All financial assets and financial liabilities classified as held for trading are measured at their fair values. Gains and losses related to periodic revaluations are recorded in net earnings (loss).

The Company has determined that the carrying value of its short-term financial assets and financial liabilities, including cash, long-term 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 September 30, 2015, the fair values of the long-term debt (Quinto) and of the Debentures (host and derivative) approximate 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 group's 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).

Mason Graphite Inc.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

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(Expressed in Canadian dollars)

(Unaudited)

7. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

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 September 30, 2015:

Debentures (Derivative): Level 3: \$535,868

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.