



MASON GRAPHITE INC.

CONDENSED INTERIM FINANCIAL STATEMENTS

For the three and six months period ended December 31, 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

February 26, 2016

Mason Graphite Inc.

INTERIM STATEMENTS OF FINANCIAL POSITION

(Expressed in Canadian dollars)

(Unaudited)

	December 31, 2015	June 30, 2015
	\$	\$
ASSETS		
Current assets		
Cash	2,641,734	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	52,648	381,858
Prepaid and other receivables	30,532	41,060
	<u>2,938,638</u>	<u>7,857,170</u>
Non-current assets		
Investment in associate	968,800	1,093,100
Exploration and evaluation assets (Note 3)	<u>30,531,333</u>	<u>29,163,440</u>
Total assets	<u>34,438,771</u>	<u>38,113,710</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	348,275	1,912,245
Long-term debt due within one year (Note 3)	<u>3,009,894</u>	<u>1,485,501</u>
	3,358,169	3,397,746
Non-current liabilities		
Convertible debentures (Note 4)	3,598,226	3,472,213
Long-term debt (Note 3)	2,748,332	4,734,154
Deferred income tax liability	<u>2,211,000</u>	<u>2,000,000</u>
Total liabilities	<u>11,915,727</u>	<u>13,604,113</u>
EQUITY		
Share capital	32,857,390	32,732,890
Reserves	10,018,216	9,869,761
Deficit	<u>(20,352,562)</u>	<u>(18,093,054)</u>
Total equity	<u>22,523,044</u>	<u>24,509,597</u>
Total equity and liabilities	<u>34,438,771</u>	<u>38,113,710</u>

Note 1 - Nature of operations and going concern

Notes 3 - Commitments

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 AND COMPREHENSIVE LOSS

(Expressed in Canadian dollars)

(Unaudited)

	For the three months period ended December 31,		For the six months period ended December 31,	
	2015	2014	2015	2014
	\$	\$	\$	\$
Expenses				
Salaries and consulting fees	214,814	224,003	434,273	450,436
Director fees	32,500	31,373	63,200	62,476
Professional fees	104,098	31,478	124,250	84,532
General & office expenses	61,890	57,221	116,734	113,739
Travel and accommodation expenses	29,113	33,273	40,318	61,573
Share-based compensation	24,351	424,106	135,734	547,591
Communication and promotion expenses	37,814	36,410	50,534	68,642
Transfer agent and filing fees	23,839	31,350	32,849	40,238
Royalties (Note 6)	12,500	-	25,000	-
Operating net foreign exchange loss (gain)	257	166	2,309	(405)
Operating loss	541,176	869,380	1,025,201	1,428,822
Other income	-	(30,623)	-	(92,544)
Net foreign exchange loss	187,152	98,026	537,771	282,516
Share of loss of an associate	36,000	54,400	124,300	97,700
Gain on dilution of associate	-	(424,000)	-	(424,000)
Finance costs	219,672	108,802	375,013	294,092
Finance income	(5,327)	(27,422)	(13,777)	(63,626)
Loss before income taxes	978,673	648,563	2,048,508	1,522,960
Deferred income tax expenses	128,000	183,000	211,000	233,000
Loss and comprehensive loss	1,106,673	831,563	2,259,508	1,755,960
Loss per share				
Basic and diluted	\$0.01	\$0.01	\$0.03	\$0.02
Weighted average number of shares outstanding				
Basic and diluted	86,225,499	85,813,958	85,222,067	85,799,996

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,	
	2015	2014
	\$	\$
Cash flows from operating activities		
Loss for the period	(2,259,508)	(1,755,960)
Items not affecting cash:		
Share-based compensation	135,734	547,591
Other income	-	(92,544)
Unrealized foreign exchange loss	537,376	282,516
Share of loss of an associate	124,300	97,700
Gain on dilution of investment in associate	-	(424,000)
Deferred income tax expenses	211,000	233,000
Finance costs	250,513	168,875
Changes in non-cash operating working capital items:		
Sales tax receivable	329,210	(256,578)
Prepaid and other receivable	10,528	39,339
Accounts payable and accrued liabilities	30,891	(564,312)
	<u>(629,956)</u>	<u>(1,724,373)</u>
Cash flows from financing activities		
Repayment on long-term debt	(1,651,750)	-
Transaction costs	-	(1,123)
	<u>(1,651,750)</u>	<u>(1,123)</u>
Cash flows from investing activities		
Government assistance received	9,000	-
Tax credits related to resources received	-	654,211
Decrease in short-term investments	1,626,605	-
Exploration and evaluation asset expenditures	(2,398,724)	(1,825,083)
	<u>(763,119)</u>	<u>(1,170,872)</u>
Effect of foreign exchange rate changes on cash	31,518	234,250
Change in cash	(3,013,307)	(2,662,118)
Cash, beginning of the period	5,655,041	14,410,142
Cash, end of the period	<u>2,641,734</u>	<u>11,748,024</u>
Supplemental information:		
Exploration and evaluation asset expenditures included in accounts payable and accrued liabilities	103,269	1,539,630
Interest related to long-term debt charged to exploration and evaluation assets (Note 3)	560,309	566,796
Government assistance deducted from exploration and evaluation asset expenditures (Note 3)	9,000	1,152,000
Share-based compensation in exploration and evaluation assets (Note 3)	12,721	61,733

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 issued for interest payment on convertible debentures (Note 5)	319,231	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	86,537,790	32,857,390	5,648,068	591,458	3,778,690	(20,352,562)	22,523,044
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 issued for interest payment on convertible debentures	197,619	123,377	-	-	-	-	123,377
Share-based compensation	-	-	-	-	609,324	-	609,324
Loss and comprehensive loss for the period	-	-	-	-	-	(1,755,960)	(1,755,960)
Balance as at December 31, 2014	85,983,653	32,609,512	5,648,068	591,458	3,269,128	(16,195,698)	25,922,468

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, 2015 and 2014

(Expressed in Canadian dollars)

(Unaudited)

1. NATURE OF OPERATIONS AND GOING CONCERN

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 in accordance with International Financial Reporting Standards ("IFRS") 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.

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. In making its assessment, Management is aware of material uncertainties related to events and conditions that lend a significant doubt upon the Company's ability to continue as a going concern and accordingly, the appropriateness of the use of IFRS applicable to a going concern, as described in the following paragraph. These condensed interim financial statements do not reflect the adjustments to the carrying values of assets and liabilities, expenses and financial position classifications that would be necessary where the going concern assumption would not be appropriate. These adjustments could be material.

As at December 31, 2015, the Company had a working capital deficiency of \$419,531 had an accumulated deficit of \$20,352,562 and incurred a loss of \$2,259,508 for the six months period then ended. Working capital included cash of \$2,641,734. Management estimates that these funds will not be sufficient to meet the Company's obligation and planned expenses through the next year. Any funding shortfall may be met in the future in a number of ways, including but not limited to, the issuance of new debt or equity instruments, expenditures reductions and/or the introduction of joint venture partners and/or business combinations. 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 on terms which are acceptable to the Company. If Management is unable to obtain new funding, the Company may be unable to continue its operations, and amounts realized for assets might be less than amounts reflected in these unaudited condensed interim financial statements.

These condensed interim financial statements were reviewed, approved and authorized for issue by the Board of Directors on February 26, 2016.

Mason Graphite Inc.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

For the three and six months period ended December 31, 2015 and 2014

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of presentation

These unaudited condensed interim financial statements have been prepared in accordance with 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 and with the condensed interim financial statements for the three months period ended September 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.

Mason Graphite Inc.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

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3. EXPLORATION AND EVALUATION ASSETS

Exploration and evaluation assets consist of:

	Lac Guéret project
	\$
Balance as at July 1, 2015	29,163,440
Mineral resource evaluation and geology	121,034
Prefeasibility and feasibility studies	417,630
Environmental studies	249,704
Added value processing studies	15,495
Interest on long-term debt	560,309
Share-based compensation	12,721
Government assistance	(9,000)
Balance as at December 31, 2015	30,531,333

Under the terms of the asset purchase agreement with Quinto Mining Corporation (“Quinto”) pursuant to which the Company acquired the mining claims that comprise the Lac Guéret property, as at December 31, 2015 an amount of \$2,748,332 has been recorded as long-term debt and \$3,009,894 as long-term debt due within one year, for a total of \$5,758,226 after discounting the remaining cash payments of US\$2,500,000 (\$3,460,000) (October 5, 2016) and US\$2,500,000 (\$3,460,000) (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 \$560,309 for the six months period ended December 31, 2015 and was recorded to the Lac Guéret property as interest on long-term debt.

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

4. 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 period ended December 31, 2015		
	Host	Derivative	Total
	\$	\$	\$
Balance as at July 1	2,900,620	571,593	3,472,213
Change in fair value of derivative	-	(8,646)	(8,646)
Accretion	134,659	-	134,659
Balance as at December 31	3,035,279	562,947	3,598,226

Mason Graphite Inc.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

For the three and six months period ended December 31, 2015 and 2014

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4. 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 December 31, 2015</u>	<u>As at June 30, 2015</u>
Expected life in years	3.46	4
Expected volatility*	55%	55%
Credit spread	27%	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 27% 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.

5. SHARE CAPITAL

On December 30, 2015, the Company issued an aggregate of 319,231 common shares of the Company at a deemed price per share of \$0.39 in payment of \$124,500 in interest due and payable under the Company's 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.

Pursuant to the Filing statement dated September 15, 2012 and the Escrow Release Condition, in connection with the qualifying transaction, a total of 4,986,253 common shares have been released on October 29, 2015.

6. RELATED PARTY TRANSACTIONS

During the three and six months period ended December 31, 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 and \$nil (2014: \$1,516 and \$15,020), 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 \$6,136 and \$12,271 (2014: \$6,876 and \$14,674) 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 \$30,000 and \$60,000 (2014: \$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);

Mason Graphite Inc.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

For the three and six months period ended December 31, 2015 and 2014

(Expressed in Canadian dollars)

(Unaudited)

6. RELATED PARTY TRANSACTIONS (CONTINUED)

- Incurred royalties expenses with Group NanoXplore Inc. of \$12,500 and \$25,000 (2014: \$nil and \$nil) respectively, with respect to patent use rights (the Company has a significant influence on NanoXplore);
- Incurred consulting fees to Hatch Ltd of \$63,235 and \$281,991 (2014: \$nil and \$nil) respectively, with respect to environmental and feasibility studies (a Company's director is Managing director – Iron Ore of the related party);
- Incurred professional fees expenses with Group NanoXplore Inc. of \$32,500 and \$32,500 (2014: \$nil and \$nil) respectively, with respect to laboratory services (the Company has a significant influence on NanoXplore);

As at December 31, 2015, the balance due to the related parties amounted to \$185,528. 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,	
	2015	2014	2015	2014
	\$	\$	\$	\$
Salaries, consulting fees & other benefits	237,520	238,804	473,419	484,129
Directors' fees	32,500	31,319	63,200	62,422
Share-based compensation - Management	25,148	293,388	100,969	360,365
Share-based compensation – Director	9,583	119,962	38,333	141,684
	<u>304,751</u>	<u>683,473</u>	<u>675,921</u>	<u>1,048,600</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 December 31, 2015, the fair values of the long-term debt (Quinto) and of the Debentures (host and derivative) approximate their carrying amounts.

Mason Graphite Inc.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

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(Unaudited)

7. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

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, 2015:

Debentures (Derivative): Level 3:	<u>\$562,947</u>
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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.