



MASON GRAPHITE INC.

FINANCIAL STATEMENTS
For the years ended June 30, 2020 and 2019
(Expressed in Canadian dollars)



Management's responsibility for financial reporting

Management is responsible for the preparation and presentation of the accompanying financial statements, which includes ensuring that significant accounting judgments and estimates are made in accordance with International Financial Reporting Standards and ensuring that all information contained in the annual report is consistent with the information presented in the financial statements. 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 annual report. 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 and the external auditor 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 financial statements together with other financial information of the Company for issuance to the shareholders. The Audit Committee is also responsible for recommending the appointment of the Company's external auditor.

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.

"Jean L'Heureux"

Jean L'Heureux
Chef Operating Officer

"Pascale Choquet"

Pascale Choquet
Chief Financial Officer (interim)

Laval, Quebec

October 22, 2020



Independent auditor's report

To the Shareholders of Mason Graphite Inc.

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Mason Graphite Inc. (the Company) as at June 30, 2020 and 2019 and July 1, 2018, and its financial performance and its cash flows for the years ended June 30, 2020 and 2019 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's financial statements comprise:

- the statements of financial position as at June 30, 2020 and 2019 and July 1, 2018;
- the statements of loss (income) and comprehensive loss (income) for the years ended June 30, 2020 and 2019;
- the statements of cash flows for the years ended June 30, 2020 and 2019;
- the statements of changes in equity for the years ended June 30, 2020 and 2019; and
- the notes to financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

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Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Nochane Rousseau.

(Signed) "PricewaterhouseCoopers LLP"¹

Montréal, Quebec
October 22, 2020

¹ FCPA auditor, FCA, public accountancy permit No. A122718

Mason Graphite Inc.
STATEMENTS OF FINANCIAL POSITION
(Audited) (Expressed in Canadian dollars)

	June 30, 2020	June 30, 2019	July 1, 2018
	\$	(adjusted – note 16) \$	(adjusted – note 16)
ASSETS			
Current assets			
Cash	26,638,101	10,618,396	40,473,219
Sales tax receivable	508,337	555,744	1,057,681
Government assistance receivable (Note 4)	243,000	113,000	68,663
Prepaid and other receivables	102,354	139,512	111,876
	<u>27,491,792</u>	<u>11,426,652</u>	<u>41,711,439</u>
Non-current assets			
Financial assets through profit or loss (Note 5)	-	561,000	1,471,000
Investment in associate (Note 5)	-	7,437,735	3,994,235
Property, plant and equipment (Note 6)	5,750,000	43,063,265	18,050,493
	<u>5,750,000</u>	<u>43,063,265</u>	<u>18,050,493</u>
Total assets	<u><u>33,241,792</u></u>	<u><u>62,488,652</u></u>	<u><u>65,227,167</u></u>
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities (Note 7)	3,012,029	5,861,095	3,875,018
Convertible debentures - host contract (Note 8)	-	-	3,624,816
Convertible debentures - derivative contract (Note 8)	-	-	2,424,688
	<u>3,012,029</u>	<u>5,861,095</u>	<u>9,924,522</u>
Total liabilities	<u><u>3,012,029</u></u>	<u><u>5,861,095</u></u>	<u><u>9,924,522</u></u>
EQUITY			
Share capital	107,770,516	107,770,516	107,461,016
Reserves	11,155,844	11,099,684	10,924,185
Deficit (Note 16)	(88,696,597)	(62,242,643)	(63,082,556)
Total equity	<u>30,229,763</u>	<u>56,627,557</u>	<u>55,302,645</u>
Total equity and liabilities	<u><u>33,241,792</u></u>	<u><u>62,488,652</u></u>	<u><u>65,227,167</u></u>

Note 1 - Nature of operations and liquidity risk

APPROVED ON BEHALF OF THE BOARD OF DIRECTORS:

Signed "Gilles Gingras", Director

Signed "François Laurin", Director

The accompanying notes are an integral part of these financial statements.

Mason Graphite Inc.

STATEMENTS OF LOSS (INCOME) AND COMPREHENSIVE LOSS (INCOME)

(Audited) (Expressed in Canadian dollars)

	Years ended June 30,	
	2020	2019
	\$	\$
Expenses		
Salaries and consulting fees	1,293,120	1,017,101
Director fees	260,365	278,387
Professional fees	418,390	524,151
General and office expenses	245,310	262,018
Travel and accommodation expenses	112,513	86,482
Share-based compensation (Note 10)	24,438	110,850
Communication and promotion expenses	2,664	25,132
Transfer agent and filing fees	92,551	107,713
Royalties (Note 15)	-	50,000
Value-added graphite product expenses (Note 11)	1,903,437	1,816,527
Natural graphite production for potentials customers and tests	-	197,811
Research and development expenses	12,143	445,268
Government assistance (Note 4)	(497,289)	(334,119)
Charge for impairment (Note 6)	41,961,793	-
Care and maintenance for Lac Guéret project	381,195	-
Depreciation	27,472	18,062
Operating net foreign exchange loss	5,010	17,427
Operating loss	46,243,112	4,622,810
Share of loss of associate (Note 5)	374,015	1,926,500
Loss (gain) on dilution of investment in associate (Note 5)	583,600	(5,370,000)
Net loss (net gain) on financial assets at fair value through profit or loss (Note 5)	(261,000)	910,000
Net finance costs (Note 8)	-	(2,424,688)
Net gain on disposition of investment in associate (Note 5)	(20,057,682)	
Finance income	(428,091)	(504,535)
Loss (income) before income taxes	26,453,954	(839,913)
Deferred income tax expenses (Note 13)	-	-
Net loss (net income) and comprehensive loss (income) for the year	26,453,954	(839,913)
Net loss (net income) per share		
Basic and diluted (Note 12)	\$0.19	(\$0.01)

The accompanying notes are an integral part of these financial statements.

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

	Years ended June 30,	
	2020	2019
	\$	\$
Cash flows from operating activities		
(Net loss) net income for the year	(26,453,954)	839,913
Items not affecting cash:		
Share-based compensation	24,438	110,850
Depreciation	27,472	18,062
Share of loss of associate	374,015	1,926,500
Loss (gain) on dilution of investment in associate	583,600	(5,370,000)
Net loss (net gain) on financial assets at fair value through profit or loss	(261,000)	910,000
Net gain on disposition of investment in associate	(20,057,682)	
Net finance costs	-	(2,424,688)
Charge for impairment	41,961,793	
Changes in non-cash operating working capital items:		
Sales tax receivable	47,405	501,937
Government assistance	(130,000)	(44,337)
Prepaid expenses and other receivables	37,158	(27,636)
Accounts payable and accrued liabilities	(312,059)	(793,301)
	<u>(4,158,814)</u>	<u>(4,352,700)</u>
Cash flows from financing activities		
Repayment of convertible debentures	-	(3,950,000)
Options exercised	-	106,600
	<u>-</u>	<u>(3,843,400)</u>
Cash flows from investing activities		
Investment in associate	(778,000)	-
Amount received on disposition of investment in associate	28,137,803	-
Acquisition of property, plant and equipment	(7,181,284)	(21,658,723)
	<u>20,178,519</u>	<u>(21,658,723)</u>
Change in cash	16,019,705	(29,854,823)
Cash, beginning of the year	10,618,396	40,473,219
Cash, end of the year	<u>26,638,101</u>	<u>10,618,396</u>
Supplemental informations:		
Property, plant and equipment expenditures included in accounts payable and accrued liabilities	2,534,444	5,039,728
Interest related to convertible debentures paid with shares	-	118,500
Interest paid with cash for convertible debentures	-	355,500
Share-based compensation charged to property, plant and equipment	31,722	149,049

The accompanying notes are an integral part of these financial statements.

Mason Graphite Inc.

STATEMENTS OF CHANGES IN EQUITY

(Audited) (Expressed in Canadian dollars, except for number of shares)

	Share Capital		Reserves				Equity
	Number	Amount \$	Warrants \$	Broker warrants \$	Options \$	Deficit \$	
Balance as at July 1, 2019 As previously published	136,227,585	107,770,516	5,622,949	591,458	4,885,277	(31,018,987)	87,851,213
Cumulative effect – change in accounting policy for exploration and evaluation assets (Note 16)	-	-	-	-	-	(31,223,656)	(31,223,656)
Balance adjusted as at July 1, 2019	136,227,585	107,770,516	5,622,949	591,458	4,885,277	(62,242,643)	56,627,557
Share-based compensation	-	-	-	-	56,160	-	56,160
Net loss and comprehensive loss for the year	-	-	-	-	-	(26,453,954)	(26,453,954)
Balance as at June 30, 2020	136,227,585	107,770,516	5,622,949	591,458	4,941,437	(88,696,597)	30,229,763
Balance as at July 1, 2018 As previously published	135,813,323	107,461,016	5,622,949	591,458	4,709,778	(31,858,900)	86,526,301
Cumulative effect – change in accounting policy for exploration and evaluation assets (Note 16)	-	-	-	-	-	(31,223,656)	(31,223,656)
Balance adjusted as at July 1, 2018	135,813,323	107,461,016	5,622,949	591,458	4,709,778	(63,082,556)	55,302,645
Shares issued for the payment of interest on convertible debentures	194,262	118,500	-	-	-	-	118,500
Options exercised	220,000	191,000	-	-	(84,400)	-	106,600
Share-based compensation	-	-	-	-	259,899	-	259,899
Net income and comprehensive income for the year	-	-	-	-	-	839,913	839,913
Balance as at June 30, 2019	136,227,585	107,770,516	5,622,949	591,458	4,885,277	(62,242,643)	56,627,557

The accompanying notes are an integral part of these financial statements.

Mason Graphite Inc.

NOTES TO FINANCIAL STATEMENTS

(Audited)
Years ended June 30, 2020 and 2019
(Expressed in Canadian dollars)

1. NATURE OF OPERATIONS AND LIQUIDITY RISK

Mason Graphite Inc. (“Mason Graphite” or the “Company”) was prorogued from the *Business Corporations Act* (Ontario) and was continued under the *Canada Business Corporations Act* effective March 3, 2016. The company was incorporated on March 15, 2011 under the *Business Corporations Act* (Ontario). The Company’s (TSX.V: LLG) head office is located at 3030 Le Carrefour Boulevard, Suite 600, Laval QC H7T 2P5 Canada.

Until the quarter ended March 31st, 2020, Mason Graphite was engaged in the development of its 100% owned Lac Guéret graphite property located in Québec, Canada. Substantially, all of the Company's efforts were devoted to financing and developing this property. The Company has a National Instrument 43-101 compliant technical report for its mineral reserve and resource estimate and for a feasibility study on the Lac Guéret property.

Since April 2020, given the current oversupply of graphite on world markets and the unfavourable capital market conditions for natural resources projects, the Company has decided to postpone, until further notice, the development of the Lac Guéret mine and concentrator (first transformation Lac Guéret project). Management has now given priority to the second transformation project (coated spherical graphite or VAP). This project will now be the main focus of the Company's resources.

Although the Company has taken steps to verify title to the property of the field, these procedures do not guarantee the Company's title. The 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 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 of June 30, 2020, the Company has a working capital of \$24,479,763 and an accumulated deficit of \$88,696,597 and has incurred a net loss of \$26,453,954 for the year then ended. Working capital included a cash balance of \$26,638,101.

Management believes that the Company has sufficient funds to meet its obligations, operating expenses and some development expenditures of the value-added graphite product for the next 12 months. To obtain additional financing, which the Company can do in various ways, including through strategic partnerships, joint venture agreements, debt project financing or other options offered by financial markets. Management continues to assess all these possibilities. 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.

During the year ended June 30, 2020, the COVID-19 epidemic was declared to be a pandemic by the World Health Organization. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect on our activities is not known at the moment, but could include an impact on our ability to obtain financing.

These financial statements were reviewed, approved and authorized for issue by the Board of Directors on October 22, 2020.

Mason Graphite Inc.
NOTES TO FINANCIAL STATEMENTS
(Audited)
Years ended June 30, 2020 and 2019
(Expressed in Canadian dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The Company's audited financial statements ("financial statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The Company has consistently applied the accounting policies used in the preparation of its IFRS financial statements to both reporting periods, except for the new standards adopted as described below (Note 2) and the modification of the accounting policy described in note 16.

Basis of measurement

These financial statements have been prepared on a historical cost basis except for the revaluation of certain financial instruments to fair value. In addition, these financial statements have been prepared using the accrual basis of accounting, except for the statements of cash flows.

Foreign currency

The Company's functional and presentation currency is the Canadian dollar. Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities that are denominated in foreign currencies are translated at the rate prevailing at the statement of financial position date. Exchange differences are recognized in expenses in the period in which they arise.

Cash

Cash and cash equivalents include cash on hand, deposits held with banks and other highly liquid short-term investments with original maturities of three months or less or that can be redeemed at any time without penalty.

Property, plant and equipment

Property, plant and equipment ("PP&E") are stated at cost less accumulated depreciation 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 PP&E have different useful lives, they are accounted for as separate items (major components) of PP&E. Replacement cost, including major inspection and overhaul expenditures are capitalized as components of PP&E, which are accounted for separately.

Depreciation is provided on PP&E at the commissioning. Depreciation 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 depreciation method are reviewed at the end of each annual reporting period. IT equipment is depreciated using the straight-line method over its useful life which is between 3 and 10 years.

Capitalized costs, including certain mine development and construction costs, are not depreciated until the time at which the related mining property has reached a pre-determined level of operating capacity intended by management. Costs incurred prior to this point, including depreciation of related PP&E, are capitalized and proceeds from sales during this period are offset against capitalized costs. Upon completion of construction, mining property under development are amortized on a unit of production basis, which is measured by the portion of the mine's economically recoverable and proven ore reserves produced during the period. Impairment is tested in the same way as other non-financial assets.

Mason Graphite Inc.
NOTES TO FINANCIAL STATEMENTS
(Audited)
Years ended June 30, 2020 and 2019
(Expressed in Canadian dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed for impairment if there is any indication that the carrying amount may not be recoverable. If any such indication is present, the recoverable amount of the asset is estimated in order to determine whether impairment exists. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the asset group to which the asset belongs.

An asset's recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or asset group is estimated to be less than its carrying amount, the carrying amount is reduced to the recoverable amount. Impairment is recognized immediately as additional depreciation or amortization. Where an impairment subsequently reverses, the carrying amount is increased to the revised estimate of recoverable amount but only to the extent that this does not exceed the carrying value that would have been determined had impairment not previously been recognized. A reversal is recognized as a reduction in the depreciation or amortization charge for the period.

Borrowing costs

Borrowing costs that are attributable to the acquisition, construction or production of a qualifying asset are capitalized to the cost of that asset until it is substantially completed, and it can be used as planned; these costs are subsequently amortized over the expected useful life of the asset. All other borrowing costs are expensed as incurred.

Equity

Common shares are classified as equity.

Transaction costs directly attributable to the issuance of common shares are recognized as a deduction from the proceeds in equity in the period in which the transaction occurs.

For offerings of units consisting of a common share and another equity instrument, the total fair value of the units is allocated between the common share and the other equity instrument based on their relative fair value. Transaction costs directly attributable to the issue of units are allocated between the instruments based on their relative fair values.

When the Company modifies the terms of warrants issued in a private placement, the adjusted measurement adjustment, as a result of the modifications, is recognized in equity (the deficit).

Mason Graphite Inc.
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(Audited)
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(Expressed in Canadian dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based compensation

The fair value of stock options granted to employees is recognized as an expense or capitalized to PP&E assets, over the vesting period with a corresponding increase in option reserves which is the counterpart. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee, including directors of the Company. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined that the fair value of the goods or services cannot be reliably measured, and are recorded at the date on which the goods or services are received.

The fair value is measured at the grant date and is recognized over the period during which the stock options vest. The fair value of options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each statement of financial position date, the amount recognized as an expense or capitalized to PP&E assets is adjusted to reflect the actual number of stock options that are expected to vest. On exercise of a stock option, any amount related to the initial value of the stock option, along with the proceeds from its exercise, are recorded in share capital.

Income taxes

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in other comprehensive loss (income) or in equity, in which case it is recognized in other comprehensive loss (income) or in equity, respectively.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year-end, adjusted for amendments to tax payable with regard to previous years. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is provided using the statement of financial position liability method, providing for temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is not recognized where the temporary difference arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction that does not affect either accounting or taxable profit or loss, other than where the initial recognition of such an asset or liability arises in a business combination. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Mason Graphite Inc.

NOTES TO FINANCIAL STATEMENTS

(Audited)
Years ended June 30, 2020 and 2019
(Expressed in Canadian dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred income tax assets and liabilities are presented as non-current. Assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities or deferred tax assets against deferred tax liabilities and the respective assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Loss (income) per share

Basic loss (income) per share is based on the weighted average number of common shares of the Company outstanding during the year. The diluted loss (income) per share reflects the potential dilution of common share equivalents, such as outstanding share options, convertible debentures, broker warrants and warrants, in the weighted average number of common shares outstanding during the year, if dilutive.

The calculation of loss (income) per share is based on the weighted average number of shares outstanding for each period. Basic loss (income) per share is calculated by dividing the profit or loss of the Company by the weighted average number of common shares outstanding during the year. The treasury stock method is used to determine the dilutive effect of the warrants, broker warrants, share options, and the if-converted method is used for the convertible debentures. Under the treasury stock method, when the Company reports a loss, the diluted loss per common share is equal to the basic loss per common share due to the anti-dilutive effect of the outstanding warrants, broker warrants and share options. Under the if-converted method, the convertible debentures are assumed to be converted at the later of the beginning of the year and the time of issuance and the loss is adjusted for transaction costs, interest accretion and the fair value fluctuation of the embedded derivatives.

Financial Instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

Financial Assets

Financial assets are initially measured at fair value. If the financial asset is not subsequently accounted for at fair value, then the initial measurement includes transaction costs that are directly attributable to the asset's acquisition or origination. On initial recognition, the Company classifies its financial assets in the following measurement categories:

- measured subsequently at amortized cost; and
- measured subsequently at fair value (either through other comprehensive loss (income), or through net loss (income)).

Investments in equity instruments are classified at fair value through profit or loss, unless the Company makes, on an instrument-by-instrument basis, an irrevocable election to present in other comprehensive income its changes in fair value. For investments in debt instruments, the classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses will either be recorded in net loss (income) or other comprehensive loss (income).

Mason Graphite Inc.
NOTES TO FINANCIAL STATEMENTS
(Audited)
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(Expressed in Canadian dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Financial assets measured at amortized cost

A financial asset is subsequently measured at amortized cost, using the effective interest method and net of any impairment loss, if:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

ii) Financial assets measured at fair value

A financial asset shall be measured at fair value through profit or loss unless it is measured at amortized cost or at fair value through other comprehensive income.

A financial asset shall be measured at fair value through other comprehensive income if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments that are not held for trading, this will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income, in which case, gains and losses will never be reclassified to net loss (income), and no impairment may be recognized in net loss (income). Dividends earned from such investments are recognized in net loss (income), unless the dividend clearly represents a repayment of part of the cost of the investment.

iii) Impairment

The Company assesses on a forward-looking basis the expected credit loss associated with its debt instruments carried at amortized cost and through other comprehensive income. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

The Company applies the simplified method permitted by IFRS 9 to trade receivables which requires the recognition of expected losses over the life of the accounts as of the initial recognition of these receivables. The Company assumes that there is no significant increase in credit risk for instruments with low credit risk.

Financial Liabilities

Financial liabilities are initially recorded at fair value net of any directly attributable transaction costs. Subsequent to initial recognition, these financial instruments are measured at amortized cost using the effective interest method.

Embedded Derivatives

An embedded derivative is a component of a hybrid contract that also includes a non-derivative host, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

If a hybrid contract contains a host that is an asset, the entire hybrid contract is measured at fair value through profit or loss. If a hybrid contract contains a host that is not an asset, embedded derivatives are recorded at fair value separately from the host contract when their economic characteristics and risks are not clearly and closely related to those of the host contract. Subsequent changes in fair value are recorded in the statements of loss (income) and comprehensive loss (income).

The convertible debentures issued by the Company were a hybrid financial instrument that could be converted into common shares of the Company at the option of the holder, where the number of shares to be issued varies depending on different scenarios of future financing. The hybrid financial instrument was recognized as a liability, with the initial carrying value of the convertible debentures (host) being the residual amount of the proceeds after separating the derivative component, which was recognized at fair value. Any directly attributable transaction costs were allocated to the host and derivative components in proportion to their initial carrying amounts. Subsequent to initial recognition, the host component of the hybrid financial instrument was measured at amortized cost using the effective interest method. The derivative component of the hybrid financial instrument was measured at fair value through profit or loss. Subsequent changes in fair value were recorded in the statements of loss (income) and comprehensive loss (income).

Investments in associates

Associates are entities over which the Company has significant influence, but not control, generally accompanying a shareholding between 20% and 50% of the voting rights. The financial results of the Company's investments in its associates are included in the Company's results according to the equity method. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the Company's share of profits or losses of associates after the date of acquisition. The Company's share of profits or losses is recognized in the statement of loss and comprehensive loss, and its share of other comprehensive income or loss of associates is included in other comprehensive income or loss. Unrealized gains on transactions between the Company and an associate are eliminated to the extent of the Company's interest in the associate. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Dilution gains and losses arising from changes in interests in investments in associates are recognized in the statement of loss and comprehensive loss. The amounts included in the IFRS financial statements of the associates (Note 6) are adjusted to reflect adjustments made by the Company, when using the equity method, such as fair value adjustments made at the time of acquisition.

The Company assesses at each year-end whether there is any objective evidence that its investments in associates are impaired. If impaired, the carrying value of the Company's share of the underlying assets of associates is written down to its estimated recoverable amount (being the higher of fair value less costs of disposal and value in use) and charged to the statement of loss (income) and comprehensive loss (income).

Government assistance and Scientific Research and Experimental Development ("SR&ED") tax credit

The Company periodically receives financial assistance under government incentive programs and SR&ED tax credit. Government assistance is recognized initially when there is reasonable assurance that it will be received and the Company will comply with the conditions associated with the assistance. Assistance that compensates the Company for expenditures incurred is recognized against expenditures incurred on a systematic basis in the same periods in which the expenditures are incurred.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Tax credit related to resources and mining tax credit

The Company is entitled to a refundable tax credit on qualified exploration expenditures incurred. The refundable tax credit is recognized against the expenditures incurred.

Segment disclosures

The Company operates in a single segment focused on the extraction and processing of graphite products. All of the Company's activities are conducted in Canada.

Provisions

Provisions are recognized when (a) the Company has a present obligation (legal or constructive) as a result of a past event, (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and (c) a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the statement of loss (income) and comprehensive loss (income), net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability.

Leases

Prior to June 30, 2019, the determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the date of inception. The arrangement is assessed to determine whether fulfillment is dependent on the use of a specific asset (or assets) and the arrangement conveys a right to use the asset (or assets), even if that right is not explicitly specified in an arrangement. Leases that do not transfer substantially all the risks and rewards incidental to ownership to the Company as a lessee are classified as operating leases. Operating lease payments are recognized as an operating expense in the statement of loss (income) and comprehensive loss (income) on a straight-line basis over the lease term.

From July 1, 2019, leases are recognized as rights-of-use assets (presented in other non-current assets in the statement of financial position), with a corresponding liability to the date on which the leased asset is available for use by the Company. Each lease payment is allocated between the liability and the cost of financing. The cost of financing is charged to profit or loss over the term of the lease so as to produce a constant periodic interest rate on the remaining balance of the liability for each period. The right-of-use asset is depreciated on a straight-line basis over the shorter period between the useful life of the asset and the term of the lease.

New accounting standards and interpretations adopted

As of July 1, 2019, the Company adopted IFRS 16 *Leases* retrospectively without restatement of comparative periods in accordance with the transitional provisions of IFRS 16. IFRS 16 describes the principles governing the recognition, measurement, presentation and disclosure of leases for both parties to a contract, namely the customer ("lessee") and the supplier (the "lessor"). IFRS 16 replaces IAS 17 *Leases* and related interpretations. Except in very specific cases, all leases ensure that the lessee obtains the right to use an asset from the start of the lease and, if lease payments are staggered over time, also obtains financing. Therefore, IFRS 16 eliminates the classification of leases as either operating leases or finance leases, as required by IAS 17 and instead replaces it with a single accounting model for tenants. By applying this model, the tenant must account for:

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1. assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and
2. amortization of leased assets separately from its share of leased liabilities on the statement of loss (income and comprehensive loss (income)).

The adoption of IFRS 16 did not have a significant impact on the financial statements at the date of adoption.

3. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions about future events that affect the amounts reported in the financial statements and related notes to the financial statements. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates and these differences could be material.

The areas which require management to make significant judgments, estimates and assumptions include, but are not limited to, the following:

- i. Impairment of non-financial assets

Asset groups are reviewed for an indication of impairment at each statement of financial position date or when a triggering event is identified. This determination requires significant judgment. Factors which could trigger an impairment are the following: very negative trends in the industry or economic conditions, including graphite prices, changes in exchange rates, changes in mineral reserves, changes in graphite grade or recovery, and/or declines in market capitalization of the Company.

The management has determined that an indication to the effect that non-financial assets could be irrecoverable happened during the years ended June 30, 2020 and 2019.

During the fiscal year ended June 30, 2020, the Company estimated that the recoverable amount of the production equipment of the Lac Guéret project is approximately \$4,950,000 and reflects the resale of this equipment on the industrial equipment market, used less disposal costs (level 3). In addition, the Company has estimated that the recoverable amount of the construction in progress category is limited to the value of the land less disposal costs, of approximately \$ 625,000. Thereby, a charge for impairment of \$41,961,793 was recorded. Almost all of the "Construction in progress" item and part of the "Production equipment" item were recorded as a charge for impairment in the statement of loss (income) and comprehensive loss (income) (note 6).

As of June 30, 2019, the Company had established the recoverable amounts of non-financial assets by deducting from the fair value the disposal costs, the fair value which had been evaluated on the basis of the cashflow projections, based on project assumptions and relying on the information available at the date of the impairment test. The Company had determined that the recoverable amount exceeded the book value and therefore no impairment charge was recorded.

The recoverable amount of non-financial assets was based on numerous assumptions and may differ significantly from actual recoverable amount. This recoverable amount was determined in part based on certain factors that may be partially or totally outside of the Company's control, such as the capital costs of the Lac Guéret project, which would be incurred for the completion of the project according to the construction schedule, forecast, estimated production, ore grade, short and long term graphite selling prices, particle size distribution, exchange rate (US\$1.0= \$1.3284), operating costs and discount rate (13.25%), which are based on the analysis of the risks associated with the projected cashflow, based on the information available at the date of the impairment test.

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3. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES (CONTINUED)

This evaluation involved a comparison of the estimated recoverable amounts of non-financial assets with their carrying amount. The estimated recoverable amount may differ from actual recoverable amounts and the difference may be significant and could have a material impact on the Company's financial position and results of operations.

Graphite sales prices variations and the discount rate were the assumptions which had the highest impact on the estimation of the non-financial assets recoverable amounts. The estimated recoverable amounts could be affected by one or more changes in the assumptions used. Any significant change in evaluations in subsequent periods could result in an impairment loss. If the selling prices of graphite as of June 2019 were representative of the long-term prices, this could lead to a loss of value. An increase of 0.25% in the discount rate could have resulted in an impairment loss.

ii. Income taxes and recoverability of potential deferred tax assets

In assessing the probability of realizing income tax assets that could be recognized, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. The Company considers whether relevant tax planning opportunities are within its control, are feasible and are within management's ability to implement. Examination by applicable tax authorities is supported based on individual facts and circumstances of the relevant tax position examined in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. Also, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred tax assets. The Company reassesses unrecognized income tax assets at each the end of reporting period.

The determination of income tax expense and deferred income tax involves judgment and estimates as to the future taxable earnings, expected timing of reversals of deferred tax assets and liabilities and interpretations of laws in Canada, including the rules and laws related to flow-through share financings. The Company is subject to assessments by tax authorities that may interpret the tax law differently. Changes in these estimates may materially affect the final amount of deferred income taxes or the timing of tax payments.

4. GOVERNMENT ASSISTANCE

In December 2019, the Company finalized a contribution agreement with the Ministry of Energy and Natural Resources represented by its Support Program for Research and Innovation in the Mining Sector (PARIDM) in order to financially assist the Company in order to characterize mine waste rock and validate deposition scenarios with amendments in order to prevent acid mine drainage (AMD). According to the agreement and subject to certain conditions, the Company may receive expense reimbursements of up to \$161,564 for the period from March 30, 2019 to May 31, 2022.

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4. GOVERNMENT ASSISTANCE (CONTINUED)

In October 2019, the Company finalized a contribution agreement with the Ministry of Energy and Natural Resources represented by its PARIDM in order to provide financial assistance to the Company in the demonstration of the robustness of the process and in the qualification of the products of the process for upgrading the graphite concentrate aimed at the production of materials for anodes. Under the terms of this agreement and subject to certain conditions, the Company may receive reimbursement of expenses of up to \$600,000 for the period from April 1, 2019 to May 31, 2021.

In August and November 2018, the Company finalized two contribution agreements with the Ministère de l'Énergie et des Ressources naturelles represented by the PARIDM and the Ministère de l'Économie et de l'Innovation (MEI) represented by its Innovation Program to financially assist the Company in the development of processes for the recovery of graphite flotation residues. Under these agreements and subject to certain conditions, the Company has received reimbursements of expenses up to \$ 213,980 for the period from April 18, 2018 to August 18, 2019.

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

	<u>As of June 30,</u>	
	<u>2020</u>	<u>2019</u>
	\$	\$
Amount received during the year	137,692	295,806
Amount recognized in the statement of loss (income) and comprehensive loss (income)	204,853	280,813
Amount receivable	243,000	113,000

For the year ended June 30, 2020, the Company recorded a provincial SR&ED tax credit of \$62,839 (2019: \$53,306) as government assistance in the statement of loss (income) and comprehensive loss (income). In addition, for the fiscal year ended June 30, 2020, the Company recorded a refundable mining tax credit of \$229,597 as government assistance in the statement of loss (income) and comprehensive loss (income).

5. INVESTMENT IN ASSOCIATE

During the year ended June 30, 2020 the Company sold its investment in NanoXplore Inc. ("NanoXplore").

NanoXplore is a manufacturer and supplier of high-volume graphene powder for use in industrial markets as well as standard and custom graphene enhanced thermoplastic products to many customers in transportation, packaging, electronics and other industrial sectors. On August 29, 2017, NanoXplore became a public company listed on the TSX Venture Exchange (TSX.V: GRA) named NanoXplore Inc., with its head office in Montréal, Quebec, Canada, upon completion of a reverse takeover.

On September 9, 2019, the Company sold 22,188,333 common shares for a total net consideration of \$28,137,803. These common shares, which represented 18.3% of NanoXplore and had been acquired through various private placements. The carrying amount of the investment in NanoXplore as at September 9, 2019 was \$8,080,120, resulting in a net gain of \$20,057,682. After this sale, Mason Graphite no longer holds any ordinary shares of NanoXplore.

The sale of the shares in the associate resulted in a taxable capital gain of approximately \$11,825,000, against which non-capital losses will be applied and, for a large portion of these losses, no assets of future tax had been recorded.

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5. INVESTMENT IN ASSOCIATE (CONTINUED)

The investment in NanoXplore has been accounted for using the equity method:

	Years ended June 30,	
	2020	2019
	\$	\$
Balance as of July 1st	7,437,735	3,994,235
Acquisition of an additional stake following the exercise of warrants whose fair value was at \$822,000	1,600,000	-
Gain (loss) on dilution of investment in associate	(583,600)	5,370,000
Share of loss and comprehensive loss for the year	(374,015)	(1,926,500)
Disposition of an interest in an associate	(8,080,120)	-
Balance as of June 30	-	7,437,735

Financial assets through profit or loss include NanoXplore's warrants earned on the Company's investment through private placements during the prior year.

	As of June 30,	
	2020	2019
	\$	\$
Balance as of July 1st	561,000	1,471,000
Change in fair value	261,000	(910,000)
Exercise of 1,111,111 warrants	(822,000)	-
Balance as of June 30	-	561,000

The fair value of these financial instruments that are not traded in active markets is determined using a valuation model, the Black-Scholes method in this case. This valuation model maximizes the use of observable market data when available and relies as little as possible on Company specific estimates. If all material data required to measure the fair value of an instrument is observable, the instrument is considered Level 2. NanoXplore warrants held by the Company are considered Level 2.

The Company also held 303,050 NanoXplore warrants with an exercise price of \$ 2.30 which expired on March 27, 2020 without being exercised.

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6. PROPERTY, PLANT AND EQUIPMENT

	<u>IT equipment</u>	<u>Production equipment</u>	<u>Construction in progress</u>	<u>Total</u>
	\$	\$	\$	\$
Balance as of July 1, 2019 (adjusted – Note 16)	194,426	13,127,440	29,741,399	43 063 265
Additions	6,105	1,942,130	2,727,765	4,676,000
Depreciation	(27,472)	-	-	(27,472)
Charge for impairment		(10,117,629)	(31,844,164)	(41,961,793)
Balance as of June 30, 2020	173,059	4,951,941	625,000	5,750,000
As of June 30, 2020				
Cost	218 593	15,069,570	32,469,164	47,757,327
Accumulated depreciation	(45,534)	-	-	(45,534)
Accumulated charge for impairment	-	(10,117,629)	(31,844,164)	(41,961,793)
Net book value	173,059	4,951,941	625,000	5,750,000

	<u>IT Equipment</u>	<u>Production Equipment</u>	<u>Construction in progress</u>	<u>Total</u>
	\$	\$	\$	\$
Balance as of July 1, 2018 (adjusted – Note 16)	87,683	3,661,457	14,301,353	18,050,493
Additions	124,805	9,465,983	14,666,835	24,257,623
Borrowing costs	-	-	773,211	773,211
Depreciation	(18,062)	-	-	(18,062)
Balance as of June 30, 2019	194,426	13,127,440	29,741,399	43,063,265
As of June 30, 2019				
Cost	212,488	13,127,440	29,741,399	43,081,327
Accumulated depreciation	(18,062)	-	-	(18,062)
Net book value	194,426	13,127,440	29,741,399	43,063,265

The management has determined that an indication to the effect that non-financial assets could be irrecoverable happened during the year ended June 30, 2020.

During the fiscal year ended June 30, 2020, the Company estimated that the recoverable amount of the production equipment of the Lac Guéret project is approximately \$4,950,000 and reflects the resale of this equipment on the industrial equipment market, used less disposal costs (level 3). In addition, the Company has estimated that the recoverable amount of the construction in progress category is limited to the value of the land less disposal costs, of approximately \$ 625,000. Thereby, a charge for impairment of \$41,961,793 was recorded. Almost all of the "Construction in progress" item and part of the "Production equipment" item were recorded as a charge for impairment in the statement of loss (income) and comprehensive loss (income).

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7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of:

	As of June 30,	
	2020	2019
	\$	\$
Trade payables	1,389,902	1,039,355
Accrued liabilities	1,622,127	4,730,149
Payroll payable	-	91,591
	<u>3,012,029</u>	<u>5,861,095</u>

8. CONVERTIBLE DEBENTURES

On June 11, 2014, the Company completed a private placement financing of convertible debentures (the "Debentures") for gross proceeds of \$ 4,150,000. Debentures have the following characteristics:

- * The Company may trigger the conversion of the Debentures and redeem them early in certain circumstances:
 - * If the Company carries out a construction project financing for the Lac Guéret project and issues common shares under this financing at a price per common share greater than \$1.00 (the "price of project financing"), it will have the right to force the conversion of all Debentures to a conversion price equal to the price of the project financing minus a 10% discount.
- * The Debentures matured on June 11, 2019. They carried interest at the fixed annual rate of 12%, with interest being paid semi-annually on June 11 and December 11 of each year. Under the terms of the Debentures, the Company had the option to pay up to 50% of the semi-annual interest due on the Debentures in common shares.
- * Holders of the Debentures had the right to convert the capital of the Debentures into common shares at a conversion price of \$ 0.845 per common share and all accrued and unpaid interest at a conversion price which will be determined by reference to the market price of the Common Shares at the time of settlement.
- * In the event that the Company, before repaying the capital of the Debentures, proceeds to the issue of common shares or other convertible securities at a price of less than \$ 0.65 per security (the "subsequent financing"), the Debentures Conversion Price will be the same as that of a Subsequent Secured Security, plus a 30% Bonus, provided the conversion price is in no case less than \$ 0.63 per Security.
- * The Company has issued to the holder of the Debentures a total of 2,075,000 common share purchase warrants (the "Warrants"), each giving the holder the right to purchase one common share of the Corporation. Corporation (the "Common Shares") at a price of \$ 0.91 for a period of 24 months following the closing of the transaction. The fair value of the warrants was estimated at \$ 315,404 using the Black-Scholes model that was incorporated into the convertible bond pricing model (estimated life of two years, interest rate). 1.07% risk free, 60% volatility, nil waiver rate and expected stock price performance of nil). The Company incurred transaction costs of \$ 15,230. The warrants expired on June 11, 2016.

The Debentures were redeemed in full on June 11, 2019.

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8. CONVERTIBLE DEBENTURES (CONTINUED)

Net finance costs consist of:

	Years ended June 30,	
	2020	2019
	\$	\$
Nominal interest on the principal amount	-	448,027
Interest – Convertible debentures accretion	-	325,184
Less: Borrowing costs capitalized	-	(773,211)
Gain on embedded derivative (change in fair value)	-	(2,424,688)
	<u>-</u>	<u>(2,424,688)</u>

9. SHARE CAPITAL

(a) Authorized

An unlimited number of common shares without value which confer to each shareholder the right to vote at any meeting of the shareholders, except at meetings which only holders of special shares are entitled to attend, receive dividends declared by the Company thereon and share the residual property upon dissolution of the Company.

The Company has an unlimited number of special shares without value which include certain rights and privileges. No special shares have been issued.

(b) Share issuances

During the current year ended June 30, 2020, the Company did not issue any common shares.

On December 21, 2018, the Company issued an aggregate of 194,262 common shares at a price per share of \$0.61 in payment of \$118,500 in interest due and payable under its Debentures. The balance of the interest owing under the Debentures, being \$118,500, has been paid in cash.

10. STOCK OPTIONS

The Company has an incentive stock option plan (the “Plan”) whereby it can grant to employees, directors, officers and consultants’ options to purchase its shares. The Plan provides for the issuance of stock options to acquire a maximum of 11,000,000 of the Company’s issued and outstanding capital. The terms and conditions of each option granted under the Plan will be determined by the Board of Directors. Options will be priced in the context of the market and in compliance with applicable securities laws and exchange guidelines. Consequently, the exercise price for any stock option shall not be lower than the market price of the underlying common shares at the time of grant. The Board shall determine the vesting period and the term of stock options granted under the Plan, provided that no stock option shall be outstanding for a period greater than ten years.

During the year ended June 30, 2020 as well as 2019 financial year, the Company has not issued any options.

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10. STOCK OPTIONS (CONTINUED)

The following table reflects the continuity of options for the years ended June 30, 2020 and 2019:

	<u>Number of options</u>	<u>Weighted average exercise price</u>
Balance as of July 1, 2019	7,170,000	0.90
Expired	(5,600,000)	0.74
Balance as of June 30, 2020	1,570,000	1.47
Balance as of July 1, 2018	8,058,334	\$0.91
Expired	(532,778)	\$1.15
Forfeited	(135,556)	\$1.27
Exercised	(220,000)	\$0.48
Balance as of June 30, 2019	7,170,000	\$0.90

During the years ended June 30, 2020 and 2019, nil and 220,000 options were exercised for total proceeds of nil and \$106,600, respectively. The weighted average price per share at the dates of the exercise was nil and \$1.11, respectively.

As of June 30, 2020, the Company had the following options outstanding:

<u>Options outstanding as of June 30, 2020</u>			<u>Options exercisable as of June 30, 2020</u>		
<u>Number</u>	<u>Weighted average exercise price</u>	<u>Weighted average remaining contractual life (years)</u>	<u>Number</u>	<u>Weighted average exercise price</u>	<u>Weighted average remaining contractual life (years)</u>
1,570,000	\$0.68 – \$2.54	1.90	1,570,000	\$0.68 – \$2.54	1.90

Share-based compensation costs for the year ended June 30, 2020 totalled \$56,160 (2019: \$259,899).

11. ADDITIONALS INFORMATIONS

Value-added graphite products study charges are composed of:

	<u>Years ended June 30,</u>	
	<u>2020</u>	<u>2019</u>
	\$	\$
Salaries	573,262	153,759
Subcontracting costs	1,242,630	1,226,162
General & office expenses	40,708	72,364
Plant supplies	3,520	348,705
Location	43,317	15,537
	1,903,437	1,816,527

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12. NET LOSS (NET INCOME) PER SHARE

	<u>Years ended June 30,</u>	
	<u>2020</u>	<u>2019</u>
Net loss (net income) attributable to common shares	\$26,453,954	(\$839,913)
Weighted average number of common shares	136,227,585	136,103,236
Dilutive effect on stock options	-	103,704
Weighted average of diluted common shares	136,227,585	136,206,940
Net loss (net income) per share – Basic and diluted	\$ 0.19	(\$ 0.01)

The effect of potential issuances of shares under options would be anti-dilutive for the year ended June 30, 2020, and accordingly, basic and diluted losses per share are the same.

13. INCOME TAXES

The major components of income tax expenses are as follows:

	<u>Years ended June 30,</u>	
	<u>2020</u>	<u>2019</u>
	\$	\$
Current taxes	-	-
Deferred taxes	-	-
Quebec mining taxes – Origination of temporary differences	-	-
Total tax expenses	-	-

The provision for income taxes presented in the financial statements is different from what would have resulted from applying the combined Canadian statutory tax rate as a result of the following:

	<u>Years ended June 30,</u>	
	<u>2020</u>	<u>2019</u>
	\$	\$
(Net loss) net income before income taxes	(26,453,954)	839,913
Combined federal and provincial income tax at 26.6% (26.7% in 2019)	(7,024,000)	224,000
Non-deductible expenses	13,000	(951,000)
Non-taxable portion of capital gain	(2,626,000)	-
Tax effect of unrecognized temporary differences and tax losses	9,637,000	727,000
Deferred income tax expense	-	-

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13. INCOME TAXES (CONTINUED)

The analysis of deferred income tax liabilities is as follows:

	<u>As of June 30,</u>	
	<u>2020</u>	<u>2019 (adjusted – Note 16)</u>
	\$	\$
<u>Deferred income tax assets</u>		
Non-capital losses carried forward	-	411,000
<u>Deferred income tax liabilities</u>		
E&E assets	-	-
Realized and unrealized gain on financial assets through profit or loss and on investment in associate	-	(411,000)
Mining duties tax	-	-
<u>Deferred income tax liabilities, net</u>	<u>-</u>	<u>-</u>

The tax effects of the following temporary differences have not been recognized in the financial statements:

	<u>As of June 30,</u>	
	<u>2020</u>	<u>2019 (adjusted – Note 16)</u>
	\$	\$
Temporary differences attributable to:		
E&E assets	5,828,000	5,522,000
Property, plant and equipment	10,146,000	-
Non-capital losses	7,881,000	9,143,000
Share issue costs	355,000	336,000
Income tax benefit on mining tax	-	-
	<u>24,210,000</u>	<u>15,001,000</u>

As of June 30, 2020, the Company had accumulated non-capital losses for tax purposes which can be used to reduce taxable income in the future amount to approximately \$26,359,000 (\$32,668,000 as of June 30, 2019).

These losses will expiry as follows:

	Federal \$	Quebec \$
Non-capital loss carry forwards expiring in		
2034	827,000	796,000
2035	6,979,000	6,974,000
2036	4,625,000	4,621,000
2037	5,352,000	6,709,000
2038	4,484,000	4,476,000
2039	4,092,000	4,094,000

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14. CAPITAL MANAGEMENT

The capital structure of the Company as of June 30, 2020 consists of equity attributable to common shareholders comprising issued capital and equity reserves.

The Company manages and adjusts its capital structure based on available funds in order to support the development of its Lac Guéret and its value-added product projects. The Board of Directors reviews, on a regular basis, the financial viability of projects before allocating its capital. The Company is not subject to any externally imposed capital requirements

The Company is currently managing two projects, the development of the Lac Guéret primary processing project, in which major expenditures have been postponed until such time as is deemed appropriate, and the evaluation of a value-added graphite products project. In order to carry out the planned activities and pay for administrative costs, the Company will rely on its existing working capital and raise additional amounts as needed.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There have been no significant changes in the capital management notes, objectives, policies and proceedings during 2020 and 2019. Changes in capital are described in the statements of changes in equity.

15. RELATED PARTY TRANSACTIONS

During the years ended June 30, 2020 and 2019, the Company entered into the following transactions with related parties:

- Incurred royalties' expenses with NanoXplore of nil (2019: \$50,000) with respect to patent use rights (the Company had a significant influence on NanoXplore);

On September 9, 2019 the Company sold its investment in NanoXplore, this transaction terminated the relationship between the Company and NanoXplore as related parties.

As of June 30, 2020, the balance due to the related parties amounted to \$58,500 (2019: \$79,193). The amounts due are mainly directors fees, do not bear interest, are not guaranteed and are payable on request.

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

	Years ended June 30,	
	2020	2019
	\$	\$
Salaries, consulting fees and other benefits	1,026,435	643,092
Severance fees	330,000	-
Directors fees	256,635	278,387
Share-based compensation – Management	24,438	168,641
Share-based compensation – Directors	-	20,560
	1,637,508	1,110,680

In accordance with IAS 24, *Related Party Disclosures*, 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.

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15. RELATED PARTY TRANSACTIONS (CONTINUED)

The Company is party to certain management contracts. Minimum commitments under these contracts are approximately \$607,000. These contracts require that maximum payments of approximately \$1,566,000 be made upon the occurrence of certain events such as a change of control. As a triggering event has not taken place, the contingent payments have not been reflected in these financial statements.

16. CHANGE IN ACCOUNTING POLICY

The Company has historically capitalized all expenses related to Exploration and Evaluation (E&E) activities after they have had a certain stage, under IFRS 6 – *Exploration for and Evaluation of Mineral Resources*.

During the year ended June 30, 2020, the Company voluntarily changed its accounting policy regarding E&E expenses. The new accounting policy indicates that all E&E expenses will be recorded on the statement of loss (income) and comprehensive loss (income).

The Company has determined that this voluntary change in accounting policy will provide more relevant financial statements while bringing the Company in line with its peers with a similar accounting approach.

This change has been implemented for all E&E activities on all Mason Graphite properties.

Under IAS 8 - *Accounting Policies, changes in Accounting Estimates and Errors*, the change in accounting policy was made retroactively and the comparables information were adjusted for all the periods presented, as if the policy had always been in place.

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16. CHANGE IN ACCOUNTING POLICY (CONTINUED)

The following table shows the impact of the change in the accounting policy for the lines of adjusted financial statements:

Statements of financial position:

	As of July 1, 2018		
	Previous treatment	Impact	Adjusted
	\$	\$	\$
Assets			
Property, plant and equipment	51 783 149	(33 732 656)	18 050 493
Total assets	98 959 823	(33 732 656)	65 227 167
Liabilities			
Deferred income tax liabilities	2 509 000	(2 509 000)	-
Total liabilities	12 433 522	(2 509 000)	9 924 522
Equity			
Deficit	(31 858 900)	(31 223 656)	(63 082 556)
Total equity	86 526 301	(31 223 656)	55 302 645
Total equity and liabilities	98 959 823	(33 732 656)	65 227 167
	As of June 30, 2019		
	Previous treatment	Impact	Adjusted
	\$	\$	\$
Assets			
Property, plant and equipment	76 795 921	(33 732 656)	43 063 265
Total assets	96 221 308	(33 732 656)	62 488 652
Liabilities			
Deferred income tax liabilities	2 509 000	(2 509 000)	-
Total liabilities	8 370 095	(2 509 000)	5 861 095
Equity			
Deficit	(31 018 987)	(31 223 656)	(62 242 643)
Total equity	87 851 213	(31 223 656)	56 627 557
Total equity and liabilities	96 221 308	(33 732 656)	62 488 652

The change in accounting policy had no impact on the information presented in the statements of loss (income) and comprehensive loss (income) and in the statements of cash flow since no exploration and evaluation activity was undertaken during these periods.

For the tax impacts, refer to note 13.

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17. 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 short-term financial assets and financial liabilities, including cash and accounts payable and accrued liabilities approximates their carrying value due to their short-term maturities.

Credit

The Company's cash is held in accounts with Canadian chartered banks. Management believes that the credit risk with respect to these financial instruments is remote.

Liquidity

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. The Company's accounts payable and accrued liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. The Company regularly evaluates its cash position to ensure preservation and security of capital and maintain liquidity.

Currency (foreign exchange)

The Company is exposed to currency risk by incurring certain expenditures in currencies other than the Canadian dollar. The Company has determined that there is limited currency risk at this time.

As of June 30, 2020, the Company's cash was mainly held in Canada in Canadian dollars.

The Company does not have other significant monetary assets and liabilities in currencies other than its functional currency.

Interest rate

The Company's cash balance is subject to interest rate cash flow risk, as it carries a variable rate of interest. The Company's interest rate risk management policy is to purchase highly liquid investments with a term to maturity of one year or less on the date of purchase.

Based on the cash as of June 30, 2020, an increase (decrease) of 0.5 % in interest rates could result in an increase (decrease) in the annual net loss of approximately \$133,190.

The Company's accounts payable and accrued liabilities are non-interest bearing.

18. COMMITMENTS

The Company and the Innu Council of Pessamit signed the Mushalakan Agreement in June 2017, an Impact Benefit Agreement ("IBA" for the construction and operation of the Lac Guéret project (Lac Guéret mine and Baie-Comeau concentrator). Under this agreement, both parties commit to develop a specific training and employment strategy for the Pessamiuinut (members of the Innus of Pessamit community). Additionally, this agreement will allow the Innus of Pessamit to participate in the Project concretely, through contracting opportunities and will ensure fair and equitable financial and socio-economic benefits.