



## **MASON GRAPHITE INC.**

### **CONDENSED INTERIM FINANCIAL STATEMENTS**

**For the three and six-month periods ended December 31, 2018 and 2017**

(Expressed in Canadian dollars)

(Unaudited)



## **Management's responsibility for financial reporting**

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

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

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

"Benoît Gascon"

Benoît Gascon  
President and Chief Executive Officer

"Luc Veilleux"

Luc Veilleux  
Chief Financial Officer

Laval, Québec

February 28, 2019

# Mason Graphite Inc.

## INTERIM STATEMENTS OF FINANCIAL POSITION

(Expressed in Canadian dollars)

(Unaudited)

	<u>December 31,</u> <u>2018</u>	<u>June 30,</u> <u>2018</u>
	\$	\$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	27,226,427	40,473,219
Sales tax receivable	1,284,417	1,057,681
Government assistance receivable	139,900	68,663
Prepaid and other receivables	110,996	111,876
	<u>28,761,740</u>	<u>41,711,439</u>
<b>Non-current assets</b>		
Financial assets through profit or loss (Note 3)	873,000	1,471,000
Investment in associate (Note 3)	4,978,735	3,994,235
Property, plant and equipment (Note 4)	<u>70,796,320</u>	<u>51,783,149</u>
<b>Total assets</b>	<u><u>105,409,795</u></u>	<u><u>98,959,823</u></u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	11,390,647	3,875,018
Convertible debentures – Host (Note 5)	3,793,920	3,624,816
Convertible debentures – Derivative (Note 5)	116,965	2,424,688
	<u>15,301,532</u>	<u>9,924,522</u>
<b>Non-current liabilities</b>		
Deferred income tax liability	<u>2,509,000</u>	<u>2,509,000</u>
<b>Total liabilities</b>	<u><u>17,810,532</u></u>	<u><u>12,433,522</u></u>
<b>EQUITY</b>		
Share capital	107,770,516	107,461,016
Reserves	10,996,954	10,924,185
Deficit	<u>(31,168,207)</u>	<u>(31,858,900)</u>
<b>Total equity</b>	<u><u>87,599,263</u></u>	<u><u>86,526,301</u></u>
<b>Total equity and liabilities</b>	<u><u>105,409,795</u></u>	<u><u>98,959,823</u></u>

Note 1 - Nature of operations and liquidity risk

Note 9 – Subsequent events

APPROVED ON BEHALF OF THE BOARD OF DIRECTORS:

Signed “François Laurin”, 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-month periods		For the six-month periods	
	ended December 31,		ended December 31,	
	2018	2017	2018	2017
	\$	\$	\$	\$
<b>Expenses</b>				
Salaries and consulting fees	301,548	205,493	534,900	420,555
Director fees	60,762	22,654	130,005	44,950
Professional fees	147,827	82,145	244,802	154,943
General & office expenses	49,123	109,145	147,302	183,849
Travel and accommodation expenses	24,249	12,794	39,511	38,023
Share-based compensation	18,198	216,355	59,923	450,557
Communication and promotion expenses	17,738	1,372	19,757	7,409
Transfer agent and filing fees	62,977	39,776	82,382	55,698
Royalties (Note 7)	12,500	12,500	25,000	25,000
Value-added graphite products study	333,297	166,663	704,237	511,969
Natural graphite production for customers and tests	110,250	49,950	174,323	79,825
Research and development expenses	273,821	70,010	299,426	82,928
Government assistance	(104,043)	(67,739)	(161,573)	(219,064)
Depreciation	16,100	-	16,100	-
Operating net foreign exchange loss	1,123	(189)	8,095	(193)
<b>Operating loss</b>	<b>1,325,470</b>	<b>920,929</b>	<b>2,324,190</b>	<b>1,836,449</b>
Net foreign exchange loss	-	-	-	-
Share of loss of an associate (Note 3)	353,000	181,750	725,500	811,750
Gain on dilution of investment on associate (Note 3 and 9)	(60,000)	(80,000)	(1,710,000)	(1,488,000)
Net loss (net gain) on financial assets at fair value through profit or loss (Note 3 and 9)	208,000	(987,000)	598,000	(1,460,000)
Finance costs (Note 5 and 9)	(1,105,000)	1,526,385	(2,307,723)	3,593,492
Finance income	(153,237)	(48,507)	(320,660)	(77,065)
<b>Loss (profit) before income taxes</b>	<b>568,233</b>	<b>1,513,557</b>	<b>(690,693)</b>	<b>3,216,626</b>
Deferred income tax expenses	-	-	-	-
<b>Loss (profit) and comprehensive loss (profit)</b>	<b>568,233</b>	<b>1,513,557</b>	<b>(690,693)</b>	<b>3,216,626</b>
<b>Loss (profit) per share</b>				
Basic and diluted	0.01	0.01	(0.002)	0.02

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-month periods ended December 31,	
	2018	2017
	\$	\$
<b>Cash flows from operating activities</b>		
<b>Profit (loss) for the period</b>	<b>690,693</b>	(3,216,626)
Items not affecting cash:		
Share-based compensation	59,923	450,557
Depreciation	16,100	-
Share of loss of an associate	725,500	811,750-
Gain on dilution of investment on associate	(1,710,000)	(1,488,000)
Net loss (net gain) on financial assets at fair value through profit or loss	598,000	(1,460,000)
Finance costs	(2,307,723)	3,593,492
Changes in non-cash operating working capital items:		
Sales tax receivable	(226,736)	(355,942)
Government assistance receivable	(71,237)	36,188
Prepaid and other receivable	880	(81,713)
Accounts payable and accrued liabilities	(536,978)	(135,223)
	<u>(2,761,578)</u>	<u>(1,845,517)</u>
<b>Cash flows from financing activities</b>		
Options exercised	106,600	983,650
	<u>106,600</u>	<u>983,650</u>
<b>Cash flows from investing activities</b>		
Investment in associate	-	(1,000,000)
Mining tax credit received	-	71,307
Acquisition of property, plant and equipment	(10,591,814)	(2,631,000)
	<u>(10,591,814)</u>	<u>(3,559,693)</u>
Change in cash	(13,246,792)	(4,421,560)
Cash, beginning of the period	40,473,219	15,453,470
<b>Cash, end of the period</b>	<u>27,226,427</u>	<u>11,031,910</u>
<b>Supplemental information:</b>		
Property, plant and equipment expenditures included in accounts payable and accrued liabilities	10,194,457	3,593,151
Interest paid on convertible debentures	118,500	118,550
Share-based compensation charged to property, plant and equipment	97,246	279,173
Accretion and interest on debentures charged to property, plant and equipment	406,104	390,729

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	
		\$	\$	\$	\$	\$	\$
<b>Balance as at July 1, 2018</b>	<b>135,813,323</b>	<b>107,461,016</b>	<b>5,622,949</b>	<b>591,458</b>	<b>4,709,778</b>	<b>(31,858,900)</b>	<b>86,526,301</b>
Shares issued for interest payment on convertible debentures (Note 6)	194,262	118,500					118,500
Options exercised	220,000	191,000			(84,400)		106,600
Share-based compensation					157,169		157,169
Loss and comprehensive loss for the period						690,693	690,693
<b>Balance as at December 31, 2018</b>	<b>136,227,585</b>	<b>107,770,516</b>	<b>5,622,949</b>	<b>591,458</b>	<b>4,782,547</b>	<b>(31,168,207)</b>	<b>87,599,263</b>
<b>Balance as at July 1, 2017</b>	<b>114,093,459</b>	<b>61,318,642</b>	<b>5,622,949</b>	<b>591,458</b>	<b>4,775,803</b>	<b>(30,743,347)</b>	<b>41,565,505</b>
Debentures converted	236,686	411,686	-	-	-	-	411,686
Shares issued for interest payment on convertible debentures (Note 6)	47,212	118,500	-	-	-	-	118,500
Options exercised	1,573,000	1,793,640	-	-	(809,990)	-	983,650
Share-based compensation	-	-	-	-	729,730	-	729,730
Loss and comprehensive loss for the period	-	-	-	-	-	(3,216,626)	(3,216,626)
<b>Balance as at December 31, 2017</b>	<b>115,950,357</b>	<b>63,642,468</b>	<b>5,622,949</b>	<b>591,458</b>	<b>4,695,543</b>	<b>(33,959,973)</b>	<b>40,592,445</b>

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-month periods ended December 31, 2018 and 2017

(Expressed in Canadian dollars)

(Unaudited)

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### 1. NATURE OF OPERATIONS AND LIQUIDITY RISK

Mason Graphite Inc. ("Mason Graphite" or the "Company") was incorporated on March 15, 2011 under the *Business Corporations Act* (Ontario) and was continued under the *Canada Business Corporations Act* effective March 3, 2016. The Company's head office is located at 3030 Le Carrefour Boulevard, Suite 600, Laval QC H7T 2P5 Canada.

The Company is engaged in the development of the Lac Guéret graphite property located in Québec, Canada. 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. As at June 30, 2017, management determined that the technical feasibility and commercial viability of the Lac Guéret project had been established and accordingly, the development phase for the Lac Guéret project has commenced. On December 12, 2018, the Company updated the results of the feasibility study in a technical report entitled NI 43-101: technical report feasibility study update of Lac Guéret graphite project.

Although the Company has taken steps to verify title to the property, these procedures do not guarantee the Company's title thereto. Property title may be subject to government licensing registration or regulation, unregistered prior agreements, unregistered claims, aboriginal claims, or non-compliance with regulatory and environmental requirements.

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

As at December 31, 2018, the Company had a working capital of \$13,460,208, an accumulated deficit of \$31,168,207 and a profit of \$690,693 for the six-month period then ended. Working capital included a cash balance of \$27,226,427.

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

These unaudited condensed interim financial statements were reviewed, approved and authorized for issue by the Board of Directors on February 28, 2019.

# Mason Graphite Inc.

## NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

For the three and six-month periods ended December 31, 2018 and 2017

(Expressed in Canadian dollars)

(Unaudited)

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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 International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. The unaudited condensed interim financial statements should be read in conjunction with the Company’s audited annual financial statements for the year ended June 30, 2018.

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 adopted during the period

##### 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 net 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).

#### 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.



# Mason Graphite Inc.

## NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

For the three and six-month periods ended December 31, 2018 and 2017

(Expressed in Canadian dollars)

(Unaudited)

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### ii) Financial assets measured at fair value

A financial asset shall be measured at fair value through net loss (income) 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 loss (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 loss (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 loss (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.

#### 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.

If a hybrid contract contains a host that is an asset, the entire hybrid contract is measured at fair value through net 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).

The convertible debentures issued by the Company are a hybrid financial instrument that can 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 is 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 is recognized at fair value. Any directly attributable transaction costs are 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 is measured at amortized cost using the effective interest method. The derivative component of the hybrid financial instrument is measured at fair value through profit and loss. Subsequent changes in fair value are recorded in the statements of loss (income).

# Mason Graphite Inc.

## NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

For the three and six-month periods ended December 31, 2018 and 2017

(Expressed in Canadian dollars)

(Unaudited)

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### c) New accounting standards and interpretations adopted

IFRS 9 replaces the provisions of IAS 39, Financial Instruments – Recognition and Measurement and provides guidance on the recognition, classification and measurement of financial assets and financial liabilities, the derecognition of financial instruments, impairment of financial assets and hedge accounting. The Company adopted IFRS 9 as of July 1st, 2018 and the new standard has been applied retrospectively in accordance with the transitional provisions of IFRS 9. There has been no impact on the opening balance sheet as at July 1st, 2018 and on the comparative. The classification of the financial assets and financial liabilities remains unchanged as well as their measurement resulting from their classification. The adoption of IFRS 9 has no impact on the impairment of the financial assets of the Company.

The following table summarizes the classification and measurement changes for the Company's financial assets and liabilities as of July 1, 2018:

	Category under IAS 39	Category under IFRS 9
Financial assets:		
Cash and cash equivalents	Loans and receivables	<b>Amortized cost</b>
Financial assets through profit of loss	Fair value through profit or loss	<b>Fair value through profit or loss</b>
Financial liabilities:		
Payables and accrued liabilities	Other financial liabilities	<b>Amortized cost</b>
Convertible debenture – Host	Other financial liabilities	<b>Amortized cost</b>
Convertible debenture – Derivative	Held-for-trading	<b>Fair value through profit or loss</b>

The accounting for these instruments and the line item in which they are included in the statements of financial position are unaffected by the adoption of IFRS 9, and no measurement adjustments are required to the Company's financial assets and liabilities.

#### d) New accounting standards issued but not yet adopted

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

##### IFRS 16, Leases

In January 2016, the IASB issued IFRS 16, which specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17, Leases. The standard will be adopted for the period beginning on July 1, 2019. The Company does not expect a significant impact based on actual lease contracts of the Company.

# Mason Graphite Inc.

## NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

For the three and six-month periods ended December 31, 2018 and 2017

(Expressed in Canadian dollars)

(Unaudited)

### 3. INVESTMENT IN ASSOCIATE

On September 21, 2018, NanoXplore Inc. acquired all of the issued and outstanding shares of Sigma for a total amount of \$8,793,581 paid by the issuance of 4,579,988 common shares of its share capital to all existing shareholders of Sigma and acquired all the outstanding debentures of Sigma for a total amount of \$9,993,500 of which \$9,011,000 was paid by cash and \$982,500 was paid by the issuance of 511,719 shares of its share capital to the Sigma Debentures Holders. The exchange ratio to determine the amount paid was based on a fix price; each Sigma common share has been exchanged for 0.39 common share of NanoXplore. The value of Sigma common shares has been set at \$0.75 and the value of NanoXplore common shares has been set at \$1.92. Based on the stock price (TSX-V) of NanoXplore shares at the acquisition date of \$1.61, the fair value of the total consideration paid amounted to \$17,208,648. As a result of this transaction and exercise of warrants and options during the current six-month period, the Company ownership went from 24% to 22% and recorded a gain on dilution of investment in associate of \$1,710,000 on the deemed disposal of its ownership interest.

This investment has been accounted for using the equity method:

	<u>2018</u>
	\$
<b>Balance as at July 1</b>	<b>3,994,235</b>
Gain on dilution	<b>1,710,000</b>
Share of loss and comprehensive loss for the period	<b>(725,500)</b>
<b>Balance as at December 31</b>	<b><u>4,978,735</u></b>

Financial assets through profit and loss include NanoXplore's warrants earned on the Company's investment through private placements.

	<u>2018</u>
	\$
<b>Balance as at July 1</b>	<b>1,471,000</b>
Net loss on financial assets (change in fair value)	<b>(598,000)</b>
<b>Balance as at December 31</b>	<b><u>873,000</u></b>

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.

# Mason Graphite Inc.

## NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

For the three and six-month periods ended December 31, 2018 and 2017

(Expressed in Canadian dollars)

(Unaudited)

### 4. PROPERTY, PLANT AND EQUIPMENT

	IT equipment	Production equipment	Construction in progress	Mineral property under development	Total
	\$	\$	\$	\$	\$
<b>Balance as at July 1, 2018</b>	<b>87,683</b>	<b>3,661,457</b>	<b>14,301,353</b>	<b>33,732,656</b>	<b>51,783,149</b>
Additions	92,493	8,024,677	10,505,997	-	18,623,167
Borrowing costs	-	-	406,104	-	406,104
Depreciation	(16,100)	-	-	-	(16,100)
<b>Balance as at December 31, 2018</b>	<b>164,076</b>	<b>11,686,134</b>	<b>25,213,454</b>	<b>33,732,656</b>	<b>70,796,320</b>
<b>As at December 31, 2018</b>					
Cost	180,176	11,686,134	25,213,454	33,732,656	70,812,420
Accumulated depreciation	(16,100)	-	-	-	(16,100)
<b>Net book value</b>	<b>164,076</b>	<b>11,686,134</b>	<b>25,213,454</b>	<b>33,732,656</b>	<b>70,796,320</b>

IT equipment is amortized on a straight-line basis over its estimated useful life of between 3 to 10 years.

### 5. 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-month period ended December 31, 2018		
	Host \$	Derivative \$	Total \$
<b>Balance as at July 1</b>	<b>3,624,816</b>	<b>2,424,688</b>	<b>6,049,504</b>
Change in fair value of derivative	-	(2,307,723)	(2,307,723)
Accretion	169,104	-	169,104
<b>Balance as at December 31</b>	<b>3,793,920</b>	<b>116,965</b>	<b>3,910,885</b>

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

	As at December 31, 2018	As at June 30, 2018
Expected life in years	0.5	1
Expected volatility*	64%	37%
Credit spread	12%	13%

\* 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 16% by taking into account the mining sector market situation.

# Mason Graphite Inc.

## NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

For the three and six-month periods ended December 31, 2018 and 2017

(Expressed in Canadian dollars)

(Unaudited)

### 5. CONVERTIBLE DEBENTURES (continued)

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

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

Finance costs consist of:

	Six-month periods ended December 31,	
	2018	2017
	\$	\$
Interest on the coupon	237,000	237,050
Interest – Convertible debentures accretion	169,104	153,679
Less: Borrowing costs	(406,104)	(390,729)
Loss on embedded derivative (change in fair value)	(2,307,723)	3,593,492
	<u>(2,307,723)</u>	<u>3,593,492</u>

### 6. SHARE CAPITAL

On December 21, 2018, the Company issued an aggregate of 194,262 common shares at a deemed price per share of \$0,61 in payment of \$118,500 in interest due and payable under its 12% Debentures. Under the terms of the Debentures, the Company has the option to pay 50% of the semi-annual interest due on the Debentures in common shares. The balance of the interest owing under the Debentures, being \$118,500, has been paid in cash.

### 7. RELATED PARTY TRANSACTIONS

During the three and six-month periods ended December 31, 2018 and 2017 the Company entered into the following transactions with related parties:

- Incurred royalties expenses with NanoXplore Inc. of \$12,500 and \$25,000 (2017: \$12,500 and \$25,000) with respect to patent use rights (the Company has a significant influence on NanoXplore Inc.);

As at December 31, 2018, the balance due to the related parties amounted to \$183,341. The amounts outstanding are non-interest bearing, unsecured and due on demand.

# Mason Graphite Inc.

## NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

For the three and six-month periods ended December 31, 2018 and 2017

(Expressed in Canadian dollars)

(Unaudited)

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### 8. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

#### Fair value

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

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, 2018:

Debentures (Derivative): Level 3	<u>\$116,965</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.

Financial assets through profit and loss: Level 2	<u>\$873,000</u>
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This instrument is classified in Level 2 financial instruments because the underlying share price and the risk-free rate are considered observable market data.

# Mason Graphite Inc.

## NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

For the three and six-month periods ended December 31, 2018 and 2017

(Expressed in Canadian dollars)

(Unaudited)

### 9. QUARTERLY ADJUSTMENTS (unaudited – supplementary information)

In preparing the condensed interim financial statements for the periods ended September 30, 2017, December 31, 2017 and March 31, 2018, the Company did not properly record the following items:

- the financial asset through profit and loss from the warrants that the Company holds in an associate (NanoXplore Inc.) has not been recorded in accordance with standard IAS 39 *Financial Instruments: Recognition and Measurement*. Thus, the initial recognition of the financial asset and the changes in fair values for each period must be adjusted for each period;
- the gain on dilution associated with the ownership interest in an associate (NanoXplore Inc.) in accordance with IAS 28 *Investments in associates and joint ventures*;
- Borrowing costs that are attributable to the acquisition, construction or production of a qualifying asset, that is, property, plant and equipment. should have been capitalized to the cost of that asset in accordance with IAS 23 *Borrowing costs*.

Management has determined that the above corrections of errors constitute an amendment in accordance with IAS 8, *Accounting Policies, changes in accounting estimates and errors* requiring retrospective adjustments for the interim periods for the periods ended September 30, 2017, December 31, 2017 and March 31, 2018.

The tables below show the impact of the error corrections on each item of the Company's condensed interim financial statements:

#### a) Adjustment to interim statements of financial position

	As at September 30, 2017		
	Previously stated	Adjustments	Adjusted
	\$	\$	\$
<b>Assets</b>			
Financial assets through profit or loss	-	547,000	547,000
Investment in associate	2,229,160	354,000	2,583,160
Property, plant and equipment	37,914,023	194,518	38,108,541
Total assets	53,824,953	1,095,518	54,920,471
<b>Equity</b>			
Deficit	(33,541,934)	1,095,518	(32,446,416)
Total equity	40,165,487	1,095,518	41,261,005
Total equity and liabilities	53,824,953	1,095,518	54,920,471

  

	As at December 31, 2017		
	Previously stated	Adjustments	Adjusted
	\$	\$	\$
<b>Assets</b>			
Financial assets through profit or loss	-	1,534,000	1,534,000
Investment in associate	2,047,410	434,000	2,481,410
Property, plant and equipment	42,158,617	390,729	42,549,346
Total assets	56,043,431	2,358,729	58,402,160
<b>Equity</b>			
Deficit	(36,318,702)	2,358,729	(33,959,973)
Total equity	38,233,716	2,358,729	40,592,445
Total equity and liabilities	56,043,431	2,358,729	58,402,160

# Mason Graphite Inc.

## NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

For the three and six-month periods ended December 31, 2018 and 2017

(Expressed in Canadian dollars)

(Unaudited)

### As at March 31, 2018

	Previously stated	Adjustments	Adjusted
	\$	\$	\$
<b>Assets</b>			
Financial assets through profit or loss	-	1,337,000	1,337,000
Investment in associate	2,657,725	1,699,000	4,356,725
Property, plant and equipment	46,817,383	588,723	47,406,106
Total assets	97,883,284	3,624,723	101,508,007
<b>Equity</b>			
Deficit	(35,424,378)	3,624,723	(31,799,655)
Total equity	81,115,439	3,624,723	84,740,162
Total equity and liabilities	97,883,284	3,624,723	101,508,007

b) Adjustments to interim statements of loss and comprehensive loss

### Three-months ended September 30, 2017

	Previously stated	Adjustments	Adjusted
	\$	\$	\$
Net gain on financial assets at fair value through profit or loss	-	(473,000)	(473,000)
Gain on dilution of investment on associate	(980,000)	(428,000)	(1,408,000)
Finance costs	2,261,625	(194,518)	2,067,107
Loss before income taxes	2,798,587	(1,095,518)	1,703,069
Loss and comprehensive loss	2,798,587	(1,095,518)	1,703,069
Loss per share	0,02	(0,01)	0,01

### Three-months ended December 31, 2017

	Previously stated	Adjustments	Adjusted
	\$	\$	\$
Net gain on financial assets at fair value through profit or loss	-	(987,000)	(987,000)
Gain on dilution of investment on associate	-	(80,000)	(80,000)
Finance costs	1,722,596	(196,211)	1,526,385
Loss before income taxes	2,776,768	(1,263,211)	1,513,557
Loss and comprehensive loss	2,776,768	(1,263,211)	1,513,557
Loss per share	0,02	(0,01)	0,01



# Mason Graphite Inc.

## NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

For the three and six-month periods ended December 31, 2018 and 2017

(Expressed in Canadian dollars)

(Unaudited)

	<b>Three-months ended March 31, 2018</b>		
	<b>Previously stated</b>	<b>Adjustments</b>	<b>Adjusted</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Net loss on financial assets at fair value through profit or loss	-	197,000	197,000
Gain on dilution of investment on associate	-	(1,265,000)	(1,265,000)
Finance costs	(2,585,423)	(197,994)	(2,783,417)
Loss before income taxes	(894,324)	(1,265,994)	(2,160,318)
Loss and comprehensive loss	(894,324)	(1,265,994)	(2,160,318)
Loss per share	(0,01)	(0,01)	(0,02)

c) Adjustments to interim of cash flows

	<b>Six-months ended December 31, 2017</b>		
	<b>Previously stated</b>	<b>Adjustments</b>	<b>Adjusted</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Cash flows from operating activities	(1,964,067)	118,550	(1,845,517)
Cash flows from financing activities	(3,441,143)	(118,550)	(3,559,693)

	<b>Nine-months ended March 31, 2017</b>		
	<b>Previously stated</b>	<b>Adjustments</b>	<b>Adjusted</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Cash flows from operating activities	(2,789,298)	118,550	(2,670,748)
Cash flows from financing activities	(8,645,467)	(118,550)	(8,764,017)

Adjustments made had not impact on cash flows for the three-month periods ending September 30, 2017 as they are non-cash items.