



MASON GRAPHITE INC.

CONDENSED INTERIM FINANCIAL STATEMENTS For the three months ended September 30, 2016 and 2015

(Expressed in Canadian dollars)
(Unaudited)



Management's responsibility for financial reporting

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

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

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

"Benoit Gascon"

Benoit Gascon
President and Chief Executive Officer

"Luc Veilleux"

Luc Veilleux
Chief Financial Officer

Laval, Québec

November 25, 2016

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

| | September 30, 2016 | June 30, 2016 |
|--|-------------------------------|--------------------------|
| | <u>\$</u> | <u>\$</u> |
| ASSETS | | |
| Current assets | | |
| Cash | 28,091,546 | 1,347,003 |
| Tax credit related to resources & mining tax credit receivable | 156,724 | 213,724 |
| Sales tax receivable | 95,110 | 113,480 |
| Prepaid and other receivables | 31,926 | 36,187 |
| | <u>28,375,306</u> | <u>1,710,394</u> |
| Non-current assets | | |
| Investment in associate | 458,100 | 633,100 |
| Exploration and evaluation assets (Note 3) | 32,508,427 | 31,891,491 |
| | <u>61,341,833</u> | <u>34,234,985</u> |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | 868,271 | 538,676 |
| Debt due within one year (Note 3) | 6,257,881 | 5,927,596 |
| | <u>7,126,152</u> | <u>6,466,272</u> |
| Non-current liabilities | | |
| Convertible debentures – Host (Note 4) | 3,249,078 | 3,176,188 |
| Convertible debentures – Derivative (Note 4) | 3,623,069 | 963,630 |
| Deferred income tax liability | 2,359,000 | 2,310,000 |
| | <u>16,357,299</u> | <u>12,916,090</u> |
| EQUITY | | |
| Share capital | 60,787,108 | 33,382,627 |
| Reserves | 9,826,778 | 9,972,788 |
| Deficit | (25,629,352) | (22,036,520) |
| Total equity | <u>44,984,534</u> | <u>21,318,895</u> |
| Total equity and liabilities | <u>61,341,833</u> | <u>34,234,985</u> |

Note 1 - Nature of operations and liquidity risk

APPROVED ON BEHALF OF THE BOARD OF DIRECTORS:

Signed “Tyrone Docherty”, Director

Signed “Benoit Gascon”, Director

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

Mason Graphite Inc.

INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

(Expressed in Canadian dollars)

(Unaudited)

| | For the three months ended September 30, | |
|---|---|------------------|
| | 2016 | 2015 |
| | \$ | \$ |
| Expenses | | |
| Salaries and consulting fees | 218,809 | 219,459 |
| Director fees | 23,332 | 30,700 |
| Professional fees | 63,331 | 20,152 |
| General office expenses | 53,482 | 54,844 |
| Travel and accommodation expenses | 41,158 | 11,205 |
| Share-based compensation | 30,336 | 111,383 |
| Communication and promotion expenses | 373 | 12,720 |
| Transfer agent and filing fees | 7,755 | 9,010 |
| Royalties (Note 6) | 12,500 | 12,500 |
| Natural graphite production for customers and tests | 3,000 | - |
| Operating net foreign exchange loss | 10 | 2,052 |
| Operating loss | 454,086 | 484,025 |
| Net foreign exchange loss | 61,424 | 350,619 |
| Share of loss of an associate | 175,000 | 88,300 |
| Finance costs (Note 4) | 2,856,829 | 155,341 |
| Finance income | (3,507) | (8,450) |
| Loss before income taxes | 3,543,832 | 1,069,835 |
| Deferred income tax expenses | 49,000 | 83,000 |
| Loss and comprehensive loss | 3,592,832 | 1,152,835 |
| Loss per share | | |
| Basic and diluted | \$0.04 | \$0.01 |

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

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

| | For the three months ended September 30, | |
|--|---|------------------|
| | 2016 | 2015 |
| | \$ | \$ |
| Cash flows from operating activities | | |
| Loss for the period | (3,592,832) | (1,152,835) |
| Items not affecting cash: | | |
| Share-based compensation | 30,336 | 111,383 |
| Unrealized foreign exchange loss | 50,624 | 350,619 |
| Share of loss of an associate | 175,000 | 88,300 |
| Deferred income tax expenses | 49,000 | 83,000 |
| Finance costs | 2,732,329 | 30,841 |
| Changes in non-cash operating working capital items: | | |
| Sales tax receivable | 18,370 | 240,184 |
| Prepaid and other receivable | 4,261 | 15,469 |
| Accounts payable and accrued liabilities | 147,651 | (18,370) |
| | <u>(385,261)</u> | <u>(251,409)</u> |
| Cash flows from financing activities | | |
| Private placement | 28,778,750 | - |
| Transaction costs | (1,586,274) | - |
| Options exercised | 220,667 | - |
| | <u>27,413,143</u> | <u>-</u> |
| Cash flows from investing activities | | |
| Mining tax credit received | 56,938 | - |
| Decrease in short-term investments | - | 1,626,605 |
| Exploration and evaluation asset expenditures | (340,277) | (1,993,201) |
| | <u>(283,339)</u> | <u>(366,596)</u> |
| Effect of foreign exchange rate changes on cash | - | 54,018 |
| Change in cash | 26,744,543 | (563,987) |
| Cash, beginning of the period | 1,347,003 | 5,655,041 |
| Cash, end of the period | <u>28,091,546</u> | <u>5,091,054</u> |
| Supplemental information: | | |
| Exploration and evaluation asset expenditures included in accounts payable and accrued liabilities | 202,305 | 220,942 |
| Net interest related to a debt charged to exploration and evaluation assets (Note 3) | 279,658 | 307,031 |
| Government assistance deducted from exploration and evaluation asset expenditures | - | 9,000 |
| Transaction costs included in accounts payable and accrued liabilities | 192,329 | - |
| Share-based compensation in exploration and evaluation assets | 7,321 | 1,694 |

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

Mason Graphite Inc.

INTERIM STATEMENTS OF CHANGES IN EQUITY

(Expressed in Canadian dollars)

(Unaudited)

| | Share Capital | | Reserves | | | | Equity |
|--|--------------------|-------------------|------------------|-----------------|------------------|---------------------|-------------------|
| | Number | Amount | Warrants | Broker warrants | Options | Deficit | |
| | | \$ | \$ | \$ | \$ | \$ | \$ |
| Balance as at July 1, 2016 | 87,113,160 | 33,382,627 | 5,622,949 | 591,458 | 3,758,381 | (22,036,520) | 21,318,895 |
| Private placement – common shares (Note 5) | 26,162,500 | 28,778,750 | - | - | - | - | 28,778,750 |
| Private placement – transaction costs (Note 5) | - | (1,778,603) | - | - | - | - | (1,778,603) |
| Options exercised | 366,667 | 404,334 | - | - | (183,667) | - | 220,667 |
| Share-based compensation | - | - | - | - | 37,657 | - | 37,657 |
| Loss and comprehensive loss for the period | - | - | - | - | - | (3,592,832) | (3,592,832) |
| Balance as at September 30, 2016 | 113,642,327 | 60,787,108 | 5,622,949 | 591,458 | 3,612,371 | (25,629,352) | 44,984,534 |
| Balance as at July 1, 2015 | 86,218,559 | 32,732,890 | 5,648,068 | 591,458 | 3,630,235 | (18,093,054) | 24,509,597 |
| Share-based compensation | - | - | - | - | 113,077 | - | 113,077 |
| Loss and comprehensive loss for the period | - | - | - | - | - | (1,152,835) | (1,152,835) |
| Balance as at September 30, 2015 | 86,218,559 | 32,732,890 | 5,648,068 | 591,458 | 3,743,312 | (19,245,889) | 23,469,839 |

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

Mason Graphite Inc.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

For the three months ended September 30, 2016 and 2015

(Expressed in Canadian dollars)

(Unaudited)

1. NATURE OF OPERATIONS AND LIQUIDITY RISK

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

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

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

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

As at September 30, 2016, the Company had a working capital of \$21,249,154, an accumulated deficit of \$25,629,352 and a loss of \$3,592,832 for the three months period then ended. Working capital included a cash balance of \$28,091,546.

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

These unaudited condensed interim financial statements were reviewed, approved and authorized for issue by the Board of Directors on November 25, 2016

Mason Graphite Inc.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

For the three months ended September 30, 2016 and 2015

(Expressed in Canadian dollars)

(Unaudited)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of presentation

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

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

The accounting policies followed in these unaudited condensed interim financial statements are consistent with those of the previous financial year.

b) New accounting standards issued but not yet in effect

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

IFRS 9, Financial Instruments

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

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

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

IAS 7, Statement of Cash Flows

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

Mason Graphite Inc.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

For the three months ended September 30, 2016 and 2015

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3. EXPLORATION AND EVALUATION ASSETS

Exploration and evaluation assets consist of:

| | Lac Guéret project 2016 |
|--|--|
| | <u>\$</u> |
| Balance as at July 1 | 31,891,491 |
| Prefeasibility and feasibility studies | 207,458 |
| Environmental studies | 79,051 |
| Added value processing studies | 43,448 |
| Interest on a debt, net | 279,658 |
| Share-based compensation | 7,321 |
| Balance as at September 30 | <u>32,508,427</u> |

Under the terms of the asset purchase agreement with Quinto Mining Corporation (“Quinto”) pursuant to which the Company acquired the mining claims that comprise the Lac Guéret property, as at September 30, 2016 an amount of \$6,257,881 has been recorded as a debt due within one year after discounting the remaining cash payments of US\$2,500,000 (\$3,279,250) (October 5, 2016) and US\$2,500,000 (\$3,279,250) (April 5, 2017). This liability will be accreted to its face value using the effective interest rate method at an 18.06% discount rate. Accretion totaled \$279,658 for the three months ended September 30, 2016 and was recorded to the Lac Guéret property as interest on a debt, net.

On October 4, 2016, the Company paid Quinto US\$2,500,000 (\$3,292,500).

Mason Graphite Inc.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

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4. CONVERTIBLE DEBENTURES

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

| | For the three months ended September 30, 2016 | | |
|------------------------------------|---|------------------|------------------|
| | Host | Derivative | Total |
| | \$ | \$ | \$ |
| Balance as at July 1 | 3,176,188 | 963,630 | 4,139,818 |
| Change in fair value of derivative | - | 2,659,439 | 2,659,439 |
| Accretion | 72,890 | - | 72,890 |
| Balance as at September 30 | 3,249,078 | 3,623,069 | 6,872,147 |

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

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

| | As at September 30, 2016 | As at June 30, 2016 |
|------------------------|--------------------------------|---------------------------|
| Expected life in years | 2.71 | 3 |
| Expected volatility* | 56% | 63% |
| Credit spread | 21% | 23% |

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

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

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

Finance costs consist of:

| | Three months ended September 30, | |
|--|-------------------------------------|----------------|
| | 2016 | 2015 |
| | \$ | \$ |
| Interest on the coupon | 124,500 | 124,500 |
| Interest – Convertible debentures accretion | 72,890 | 66,566 |
| Loss on embedded derivative (change in fair value) | 2,659,439 | (35,725) |
| | 2,856,829 | 155,341 |

Mason Graphite Inc.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

For the three months ended September 30, 2016 and 2015

(Expressed in Canadian dollars)

(Unaudited)

5. SHARE CAPITAL

On September 27, 2016, the Company completed a private placement in which it issued 26,162,500 common shares at a price of \$1.10 per share for aggregate gross proceeds of \$28,778,750. The Company paid \$1,438,938 in commission and \$339,665 were incurred in other private placement issuance costs.

6. RELATED PARTY TRANSACTIONS

During the three months ended September 30, 2016 and, 2015 the Company entered into the following transactions with related parties:

- Incurred professional fees to Gestion GBG Inc. of \$935 (2015: \$6,135) to a payroll services company controlled by the spouse of an officer of the Company;
- Incurred rent and other office overhead expenses to 2227929 Ontario Inc. of \$19,500 (2015: \$30,000) with respect to the Company's Toronto office (a Company's director has a significant influence with the related party);
- Incurred royalties expenses with NanoXplore of \$12,500 (2015: \$12,500) with respect to patent use rights (the Company has a significant influence on NanoXplore).

As at September 30, 2016, the balance due to the related parties amounted to \$211,101. The amounts outstanding are non-interest bearing, unsecured and due on demand.

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

| | Three months ended September 30, | |
|--|-------------------------------------|----------------|
| | 2016 | 2015 |
| | \$ | \$ |
| Salaries, consulting fees & other benefits | 236,436 | 235,899 |
| Directors' fees | 23,332 | 30,700 |
| Share-based compensation - Management | 23,000 | 75,821 |
| Share-based compensation - Director | 9,157 | 28,750 |
| | <u>291,925</u> | <u>371,170</u> |

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

Mason Graphite Inc.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

For the three months ended September 30, 2016 and 2015

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(Unaudited)

7. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

Fair value

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

As at September 30, 2016, the fair value of the Debentures (host and derivative) approximates their carrying amounts.

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

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

The level in which the financial asset or financial liability is classified is determined based on the lowest level of significant input to the fair value measurement. The financial assets and financial liabilities measured at fair value in the statements of financial position are grouped into the fair value hierarchy as follows as at September 30, 2016:

Debentures (Derivative): Level 3: \$3,623,069

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.

8. SUBSEQUENT EVENTS

On October 28, 2016, the Company purchased 55,463 Class A common shares of Group NanoXplore Inc. for gross proceeds of \$1,000,000. After giving effect to the financing, the Company holds a 32% (31% prior) interest in Group NanoXplore Inc.