



MASON GRAPHITE INC.

CONDENSED INTERIM FINANCIAL STATEMENTS

For the three and six-month periods ended December 31, 2017 and 2016

(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 23, 2018

Mason Graphite Inc.

INTERIM STATEMENTS OF FINANCIAL POSITION

(Expressed in Canadian dollars)

(Unaudited)

	<u>December 31,</u> <u>2017</u>	<u>June 30,</u> <u>2017</u>
	\$	\$
ASSETS		
Current assets		
Cash	11,031,910	15,453,470
Tax credit related to resources & mining tax credit receivable	-	71,307
Sales tax receivable	661,294	305,352
Government assistance receivable	-	36,188
Prepaid and other receivables	144,200	62,487
	<u>11,837,404</u>	<u>15,928,804</u>
Non-current assets		
Investment in associate (Note 3)	2,047,410	879,160
Property, plant and equipment (Note 4)	42,158,617	36,619,786
	<u>56,043,431</u>	<u>53,427,750</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	4,159,437	1,547,452
	<u>4,159,437</u>	<u>1,547,452</u>
Non-current liabilities		
Convertible debentures – Host (Note 5)	3,464,003	3,477,936
Convertible debentures – Derivative (Note 5)	7,677,275	4,327,857
Deferred income tax liability	2,509,000	2,509,000
	<u>17,809,715</u>	<u>11,862,245</u>
EQUITY		
Share capital	63,642,468	61,318,642
Reserves	10,909,950	10,990,210
Deficit	(36,318,702)	(30,743,347)
	<u>38,233,716</u>	<u>41,565,505</u>
Total equity and liabilities	<u>56,043,431</u>	<u>53,427,750</u>

Note 1 - Nature of operations and liquidity risk

Note 9 – Subsequent events

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-month periods ended December 31,		For the six-month periods ended December 31,	
	2017	2016	2017	2016
	\$	\$	\$	\$
Expenses				
Salaries and consulting fees	205,493	215,519	420,555	434,328
Director fees	22,654	22,458	44,950	45,790
Professional fees	82,145	158,468	154,943	221,799
General & office expenses	109,145	58,678	183,849	112,160
Travel and accommodation expenses	12,794	18,635	38,023	59,693
Share-based compensation	216,355	12,510	450,557	42,846
Communication and promotion expenses	1,372	12,226	7,409	12,599
Transfer agent and filing fees	39,776	24,682	55,698	32,437
Royalties (Note 7)	12,500	12,500	25,000	25,000
Value-added graphite products study	166,663	529,072	511,969	529,072
Natural graphite production for customers and tests	49,950	258,902	79,825	261,902
Research and development expenses	70,010	70,250	82,928	70,250
Government assistance	(67,739)	(207,291)	(219,064)	(207,291)
Operating net foreign exchange loss	(189)	806	(193)	816
Operating loss	920,929	1,187,315	1,836,449	1,641,401
Net foreign exchange loss	-	30,185	-	91,609
Share of loss of an associate (Note 3)	181,750	141,575	811,750	316,575
Gain on dilution of investment on associate (Note 3)	-	-	(980,000)	-
Gain on debt settlement	-	(1,176,353)	-	(1,176,353)
Finance costs (Note 5)	1,722,596	(388,955)	3,984,221	2,467,874
Finance income	(48,507)	(44,490)	(77,065)	(47,997)
Loss (profit) before income taxes	2,776,768	(250,723)	5,575,355	3,293,109
Deferred income tax expenses	-	107,000	-	156,000
Loss (profit) and comprehensive loss (profit)	2,776,768	(143,723)	5,575,355	3,449,109
Loss (profit) per share				
Basic and diluted	0.02	(0.001)	0.05	0.03
Weighted average number of shares outstanding				
Basic and diluted	115,710,438	113,690,277	115,012,677	101,158,747

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,	
	2017	2016
	\$	\$
Cash flows from operating activities		
Loss for the period	(5,575,355)	(3,449,109)
Items not affecting cash:		
Share-based compensation	450,557	42,846
Value-added graphite products study	-	303,246
Government assistance	-	(50,000)
Unrealized foreign exchange loss	-	140,556
Gain on dilution of investment on associate	(980,000)	-
Share of loss of an associate	811,750	316,575
Deferred income tax expenses	-	156,000
Gain on debt settlement	-	(1,176,353)
Finance costs	3,747,171	2,343,374
Changes in non-cash operating working capital items:		
Sales tax receivable	(355,942)	(169,910)
Government assistance receivable	36,188	(109,001)
Prepaid and other receivable	(81,713)	(13,778)
Accounts payable and accrued liabilities	(16,723)	108,306
	<u>(1,964,067)</u>	<u>(1,557,248)</u>
Cash flows from financing activities		
Private placement	-	28,778,750
Repayment of long-term debt	-	(3,292,500)
Transaction costs	-	(1,789,319)
Options exercised	983,650	235,867
	<u>983,650</u>	<u>23,932,798</u>
Cash flows from investing activities		
Investment in associate	(1,000,000)	(1,000,000)
Mining tax credit received	71,307	56,938
Acquisition of property, plant and equipment	(2,512,450)	(129,085)
Exploration and evaluation asset expenditures	-	(522,131)
	<u>(3,441,143)</u>	<u>(1,594,278)</u>
Change in cash	(4,421,560)	20,781,272
Cash, beginning of the period	15,453,470	1,347,003
Cash, end of the period	11,031,910	22,128,275
Supplemental information:		
Exploration and evaluation asset expenditures included in accounts payable and accrued liabilities	-	586,588
Net interest related to a debt charged to exploration and evaluation assets	-	414,748
Property, plant and equipment expenditures included in accounts payable and accrued liabilities	3,567,178	276,038
Interest paid on convertible debentures	118,500	124,500
Share-based compensation charged to property, plant and equipment	279,173	-
Share-based compensation charged to exploration and evaluation assets	-	433

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, 2017	114,093,459	61,318,642	5,622,949	591,458	4,775,803	(30,743,347)	41,565,505
Debtures 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	-	-	-	-	-	(5,575,355)	(5,575,355)
Balance as at December 31, 2017	115,950,357	63,642,468	5,622,949	591,458	4,695,543	(36,318,702)	38,233,716
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	26,162,500	28,778,750	-	-	-	-	28,778,750
Private placement – transaction costs	-	(1,789,319)	-	-	-	-	(1,789,319)
Shares issued for interest payment on convertible debentures	90,217	124,500	-	-	-	-	124,500
Options exercised	406,667	432,334	-	-	(196,467)	-	235,867
Share-based compensation	-	-	-	-	50,600	-	50,600
Loss and comprehensive loss for the period	-	-	-	-	-	(3,449,109)	(3,449,109)
Balance as at December 31, 2016	113,772,544	60,928,892	5,622,949	591,458	3,612,514	(25,485,629)	45,270,184

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, 2017 and 2016

(Expressed in Canadian dollars)

(Unaudited)

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.

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, 2017, the Company had a working capital of \$7,677,967, an accumulated deficit of \$36,318,702 and a loss of \$5,575,355 for the six-month period then ended. Working capital included a cash balance of \$11,031,910.

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 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 February 23, 2018.

Mason Graphite Inc.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

For the three and six-month periods ended December 31, 2017 and 2016

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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, 2017.

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.

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 mandatory for annual periods beginning on or after January 1, 2019. The Company is currently evaluating the impact of this standard on its financial statements.

Mason Graphite Inc.

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3. INVESTMENT IN ASSOCIATE

On August 2, 2017, the Company purchased 2,222,223 subscription receipts of NanoXplore Inc. for a consideration of \$1,000,000. Upon the closing of the reverse takeover on August 29, 2017, the subscription receipts were converted into 2,222,223 common shares and 1,111,111 warrants of NanoXplore Inc., at which time the Company's interest in NanoXplore Inc. was reduced from 32% to 25%. Prior to the closing of the reverse takeover, NanoXplore Inc. completed the conversion of its common shares on the basis of 1.0 to 40.0667 common shares outstanding. After giving effect to financing, the Company held 25% in NanoXplore Inc. and recorded a gain on dilution of \$980,000 on the deemed disposal of its ownership interest.

This investment has been accounted for using the equity method:

	For the six-month period ended December 31, 2017
	<u>\$</u>
Balance as at July 1	879,160
Investment through a private placement	1,000,000
Gain on dilution	980,000
Share of loss and comprehensive loss for the period	(811,750)
Balance as at December 31	<u>2,047,410</u>

4. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress	Equipment	Mineral property under development	Total
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Balance as at July 1, 2017	2,887,130	-	33,732,656	36,619,786
Additions	3,794,950	1,743,881	-	5,538,831
Depreciation	-	-	-	-
Balance as at December 31, 2017	<u>6,682,080</u>	<u>1,743,881</u>	<u>33,732,656</u>	<u>42,158,617</u>
As at December 31, 2017				
Cost	6,682,080	1,743,881	33,732,656	42,158,617
Accumulated depreciation	-	-	-	-
Net book value	<u>6,682,080</u>	<u>1,743,881</u>	<u>33,732,656</u>	<u>42,158,617</u>

Mason Graphite Inc.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

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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,		
	2017		
	Host	Derivative	Total
	\$	\$	\$
Balance as at July 1	3,477,936	4,327,857	7,805,793
Debentures converted	(167,612)	(244,074)	(411,686)
Change in fair value of derivative	-	3,593,492	3,593,492
Accretion	153,679	-	153,679
Balance as at December 31	3,464,003	7,677,275	11,141,278

On July 18, 2017, \$200,000 of Debentures have been converted into 236,686 common shares of the Company. At the date of the conversion, the share price of the Company was at \$1.86.

From a liquidity perspective, the maximum amount that could be paid, if the Debentures are not converted prior to maturity, is \$3,950,000.

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

	As at December 31, 2017	As at June 30, 2017
Expected life in years	1.46	2
Expected volatility*	44%	57%
Credit spread	15%	12%

- * 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 15% 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:

	Six-month periods ended	
	December 31,	
	2017	2016
	\$	\$
Interest on the coupon	237,050	249,000
Interest – Convertible debentures accretion	153,679	147,452
Loss on embedded derivative (change in fair value)	3,593,492	2,071,422
	3,984,221	2,467,874

Mason Graphite Inc.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

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6. SHARE CAPITAL

On July 18, 2017, \$200,000 of Debentures has been converted into 236,686 common shares of the Company. At the date of the conversion, the share price of the Company was at \$1.86.

On December 11, 2017, the Company issued an aggregate of 47,212 common shares at a deemed price per share of \$2.51 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, 2017 and 2016 the Company entered into the following transactions with related parties:

- Incurred professional fees to Gestion GBG Inc. of \$nil and \$nil (2016: \$878 and \$1,813) 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 and \$39,000 (2016: \$19,500 and \$39,000) 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 Inc. of \$12,500 and \$25,000 (2016: \$12,500 and \$25,000) with respect to patent use rights (the Company has a significant influence on NanoXplore Inc.);
- Incurred professional fees expenses with NanoXplore of \$nil and \$nil (2016: \$18,000 and \$18,000) respectively, with respect to laboratory services (the Company has a significant influence on NanoXplore);
- Incurred R&D expenses with NanoXplore of \$47,250 and \$47,250 (2016: \$32,000 and \$32,000) respectively, with respect to laboratory services (the Company has a significant influence on NanoXplore);

As at December 31, 2017, the balance due to the related parties amounted to \$135,181. The amounts outstanding are non-interest bearing, unsecured and due on demand.

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, debt due within one year, and accounts payable and accrued liabilities approximates their carrying value due to the short-term maturities of these instruments.

As at December 31, 2017, the fair value of the Debentures (host) is approximately \$3,775,390.

Mason Graphite Inc.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

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8. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

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

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

The level in which the financial asset or financial liability is classified is determined based on the lowest level of significant input to the fair value measurement. The financial assets and financial liabilities measured at fair value in the statements of financial position are grouped into the fair value hierarchy as follows as at December 31, 2017:

Debentures (Derivative): Level 3: \$7,677,275

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.

9. SUBSEQUENT EVENTS

On January 4, 2018, the Company completed a private placement in which it issued 18,750,000 common shares at a price of \$2.40 per share for aggregate gross proceeds of \$45,000,000.