



MASON GRAPHITE INC.

CONDENSED INTERIM FINANCIAL STATEMENTS

For the three and six-month periods ended December 31, 2019 and 2018

(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

"Pascale Choquet"

Pascale Choquet
Chief Financial Officer (Interim)

Laval, Québec

February 25, 2020

Mason Graphite Inc.

INTERIM STATEMENTS OF FINANCIAL POSITION

(Expressed in Canadian dollars)

(Unaudited)

	<u>December 31, 2019</u>	<u>June 30, 2019</u>
	\$	\$
ASSETS		
Current assets		
Cash and cash equivalents	31,969,054	10,618,396
Sales tax receivable	252,607	555,744
Government assistance receivable	180,000	113,000
Prepaid and other receivables	54,271	139,512
	<u>32,455,932</u>	<u>11,426,652</u>
Non-current assets		
Financial assets through profit or loss (Note 3)	-	561,000
Investment in associate (Note 3)	-	7,437,735
Property, plant and equipment (Note 4)	<u>78,897,232</u>	<u>76,795,921</u>
Total assets	<u><u>111,353,164</u></u>	<u><u>96,221,308</u></u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	<u>3,231,245</u>	5,861,095
	3,231,245	<u>5,861,095</u>
Non-current liabilities		
Deferred income tax liability	<u>2,509,000</u>	<u>2,509,000</u>
Total liabilities	<u><u>5,740,245</u></u>	<u><u>8,370,095</u></u>
EQUITY		
Share capital	107,770,516	107,770,516
Reserves	11,151,051	11,099,684
Deficit	<u>(13,308,648)</u>	<u>(31,018,987)</u>
Total equity	<u><u>105,612,919</u></u>	<u><u>87,851,213</u></u>
Total equity and liabilities	<u><u>111,353,164</u></u>	<u><u>96,221,308</u></u>

Note 1 - Nature of operations and liquidity risk

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 ended December 31,		For the six-month periods ended December 31,	
	2019	2018	2019	2018
	\$	\$	\$	\$
Expenses				
Salaries and consulting fees	398,161	301,548	641,360	534,900
Director fees	76,744	60,762	124,242	130,005
Professional fees	197,986	147,827	271,879	244,802
General & office expenses	72,136	49,123	118,146	147,302
Travel and accommodation expenses	58,131	24,249	80,251	39,511
Share-based compensation	8,625	18,198	21,563	59,923
Communication and promotion expenses	-	17,738	1,191	19,757
Transfer agent and filing fees	62,151	62,977	74,230	82,382
Royalties	-	12,500	-	25,000
Value-added graphite products study	615,821	333,297	823,490	704,237
Natural graphite production for customers and tests	-	110,250	-	174,323
Research and development expenses	2,450	273,821	6,790	299,426
Government assistance	(275,577)	(104,043)	(357,830)	(161,573)
Depreciation	6,852	16,100	13,627	16,100
Operating net foreign exchange loss	3,041	1,123	3,066	8,095
Operating loss	1,226,521	1,325,470	1,822,005	2,324,190
Share of loss of an associate (Note 3)	-	353,000	374,015	725,500
Loss on dilution of investment on associate (Note 3)	-	(60,000)	583,600	(1,710,000)
Net gain on financial assets at fair value through profit or loss (Note 3)	-	208,000	(261,000)	598,000
Net finance costs (Note 5)	-	(1,105,000)	-	(2,307,723)
Net gain on disposition of investment in associate (Note 3)	-	-	(20,057,682)	-
Finance income	(120,722)	(153,237)	(171,277)	(320,660)
Loss (profit) before income taxes	1,105,799	568,233	(17,710,339)	(690,693)
Deferred income tax expenses	-	-	-	-
Loss (profit) and comprehensive loss (profit)	1,105,799	568,233	(17,710,339)	(690,693)
Loss (profit) per share				
Basic and diluted	0.01	0.01	(0.13)	(0.002)

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,	
	2019	2018
	\$	\$
Cash flows from operating activities		
Profit (loss) for the period	17,710,339	690,693
Items not affecting cash:		
Share-based compensation	21,563	59,923
Depreciation	13,627	16,100
Share of loss of an associate	374,015	725,500
Gain on dilution of investment on associate	583,600	(1,710,000)
Net gain on financial assets at fair value through profit or loss	(261,000)	598,000
Net gain on disposition of investment in associate	(20,057,682)	
Net finance costs	-	(2,307,723)
Changes in non-cash operating working capital items:		
Sales tax receivable	303,137	(226,736)
Government assistance receivable	(67,000)	(71,237)
Prepaid and other receivable	85,241	880
Accounts payable and accrued liabilities	(395,753)	(536,978)
	<u>(1,689,913)</u>	<u>(2,761,578)</u>
Cash flows from financing activities		
Options exercised	-	106,600
	<u>-</u>	<u>106,600</u>
Cash flows from investing activities		
Investment in associate	(778,000)	-
Mining tax credit received	28,137,802	-
Acquisition of property, plant and equipment	(4,319,231)	(10,591,814)
	<u>23,040,571</u>	<u>(10,591,814)</u>
Change in cash and cash equivalents	21,350,658	(13,246,792)
Cash and cash equivalents, beginning of the period	10,618,396	40,473,219
Cash and cash equivalents, end of the period	<u>31,969,054</u>	<u>27,226,427</u>
Supplemental information:		
Property, plant and equipment expenditures included in accounts payable and accrued liabilities	2,851,051	10,194,457
Share-based compensation charged to property, plant and equipment	29,804	97,246
Accretion and interest on debentures charged to property, plant and equipment	-	406,104

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, 2019	136,227,585	107,770,516	5,622,949	591,458	4,885,277	(31,018,987)	87,851,213
Share-based compensation	-	-	-	-	51,367	-	51,367
Profit and comprehensive profit for the period	-	-	-	-	-	17,710,339	17,710,339
Balance as at December 31, 2019	136,227,585	107,770,516	5,622,949	591,458	4,936,644	(13,308,648)	105,612,919
Balance as at July 1, 2018	135,813,323	107,461,016	5,622,949	591,458	4,709,778	(31,858,900)	86,526,301
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	-	-	-	-	157,169	-	157,169
Profit and comprehensive profit for the period	-	-	-	-	-	690,693	690,693
Balance as at December 31, 2018	136,227,585	107,770,516	5,622,949	591,458	4,782,547	(31,168,207)	87,599,263

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, 2019 and 2018

(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. 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.

At December 31, 2019, the Company had a working capital of \$ 29,224,687, an accumulated deficit of \$ 13,308,648 and a net income of \$ 17,710,339 for the six-month periods ended that date. Working capital included a cash balance of \$ 31,969,054.

Management believes that the Company has sufficient funds to meet its obligations, operating expenses and some development expenditures for the next 12 months. The Company's ability to continue its development activities of the Lac Gueret 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 currently seeking such sources of funding. 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 25th, 2020.

Mason Graphite Inc.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

For the three and six-month periods ended December 31, 2019 and 2018

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(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, 2019.

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, except for the following:

b) New accounting standards adopted during the period

IFRS 16, Leases

Effective 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 accounting, evaluation, presentation and disclosure of leasing contracts. for both parties to a contract, namely the customer ("lessee") and the supplier (the "lessor"). IFRS 16 replaces IAS 17 Leases and Interpretations. Except in very specific circumstances, all leases result in the lessee obtaining the right to use an asset from the outset of the lease and, if lease payments are phased in over time, also obtain financing. As a result, IFRS 16 eliminates the classification of leases into either operating leases or finance leases as required by IAS 17 and instead replaces them with a single accounting model for tenants. In applying this model, the tenant must account for:

- (i) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and
- (ii) amortization of lease assets separately from lease liabilities in the statement of operations.

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

Mason Graphite Inc.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

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3. INVESTMENT IN ASSOCIATE

	<u>2019</u>
	\$
Balance as at July 1	7,437,735
Acquisition of an additional interest resulting from the exercise of warrants with a fair value of \$822,000	1,600,000
Loss on dilution	(583,600)
Share of loss and comprehensive loss for the period	(374,015)
Disposition of an interest in an associate	(8,080,120)
Balance as at December 31	-

On September 9, 2019, the Company sold 22,188,333 common shares for a total net consideration of \$ 28,137,802. 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 transaction, 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 \$10,028,841, against which non-capital losses will be applied and, for a large portion of these losses, no assets of future tax had been recorded.

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

	<u>2019</u>
	\$
Balance as at July 1	561,000
Change in fair value	261,000
Exercise of NanoXplore warrants	(822,000)
Balance as at December 31	-

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 holds 303,050 NanoXplore warrants on September 30, 2019 at an exercise price of \$2,40 with a maturity date of March 27, 2020. The value of the financial assets of these warrants is insignificant as at September 30, 2019 using the Black-Scholes method.

Mason Graphite Inc.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

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4. PROPERTY, PLANT AND EQUIPMENT

	IT equipment	Production equipment	Construction in progress	Mineral property under development	Total
	\$	\$	\$	\$	\$
Balance as at July 1, 2019	194,426	13,127,440	29,741,399	33,732,656	76,795,921
Additions	6,105	(338,348)	2,447,181	-	2,114,938
Depreciation	(13,627)	-	-	-	(13,627)
Balance as at December 31, 2019	186,904	12,789,092	32,188,580	33,732,656	78,897,232
As at December 31, 2019					
Cost	218,593	12,789,092	32,188,580	33,732,656	78,928,921
Accumulated depreciation	(31,689)	-	-	-	(31,689)
Net book value	186,904	12,789,092	32,188,580	33,732,656	78,897,232

5. CONVERTIBLE DEBENTURES

Finance costs consist of:

	Six-month periods ended December 31,	
	2019	2018
	\$	\$
Interest on the coupon	-	237,000
Interest – Convertible debentures accretion	-	169,104
Less: Borrowing costs	-	(406,104)
Loss on embedded derivative (change in fair value)	-	(2,307,723)
	-	(2,307,723)