MASON GRAPHITE INC.

FINANCIAL STATEMENTS
For the years ended June 30, 2018 and 2017
(Expressed in Canadian dollars)

Management's responsibility for financial reporting

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

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

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

"Benoit Gascon"	"Luc Veilleux"
Benoit Gascon President and Chief Executive Officer	Luc Veilleux Chief Financial Officer

Laval, Quebec

October 26, 2018

October 26, 2018

Independent Auditor's Report

To the Shareholders of
Mason Graphite Inc.

We have audited the accompanying financial statements of Mason Graphite Inc., which comprise the statements of financial position as at June 30, 2018 and 2017 and the statements of loss and comprehensive loss, cash flows and changes in equity for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

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

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Mason Graphite Inc. as at June 30, 2018 and 2017 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP[1]

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[1] CPA auditor, CA, public accountancy permit No. A122718

Mason Graphite Inc.

STATEMENTS OF FINANCIAL POSITION

(Expressed in Canadian dollars)

	June 30, 2018	June 30, 2017
	$	$
ASSETS		
Current assets		
Cash and cash equivalents (Note 4)	**40,473,219**	15,453,470
Tax credit related to resources and mining tax credit receivable	**-**	71,307
Sales tax receivable	**1,057,681**	305,352
Government assistance (Note 5)	**68,663**	36,188
Prepaid expenses and other receivables	**111,876**	62,487
	41,711,439	15,928,804
Non-current assets		
Financial assets through profit or loss (Note 6)	**1,471,000**	-
Investment in associate (Note 6)	**3,994,235**	879,160
Property, plant and equipment (Note 7)	**51,783,149**	36,619,786
Total assets	**98,959,823**	53,427,750
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 9)	**3,875,018**	1,547,452
Convertible debentures – Host (Note 10)	**3,624,816**	-
Convertible debentures – Derivative (Note 10)	**2,424,688**	-
	9,924,522	1,547,452
Non-current liabilities		
Convertible debentures – Host (Note 10)	**-**	3,477,936
Convertible debentures – Derivative (Note 10)	**-**	4,327,857
Deferred income tax liabilities (Note 14)	**2,509,000**	2,509,000
Total liabilities	**12,433,522**	11,862,245
EQUITY		
Share capital	**107,461,016**	61,318,642
Reserves	**10,924,185**	10,990,210
Deficit	**(31,858,900)**	(30,743,347)
Total equity	**86,526,301**	41,565,505
Total equity and liabilities	**98,959,823**	53,427,750

Nature of operations and liquidity risk (Note 1)

APPROVED ON BEHALF OF THE BOARD OF DIRECTORS:

Signed "François Laurin", Director

Signed "Benoît Gascon", Director

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

Mason Graphite Inc.

STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

(Expressed in Canadian dollars)

	Years ended June 30, 2018	2017
	$	**$**
Expenses		
Salaries and consulting fees	**1,313,464**	1,183,544
Director fees	**107,940**	91,108
Professional fees	**445,668**	285,748
General and office expenses	**434,416**	241,126
Travel and accommodation expenses	**153,197**	115,084
Share-based compensation (Note 12)	**765,920**	959,076
Communication and promotion expenses	**45,088**	15,050
Transfer agent and filing fees	**93,955**	60,090
Royalties (Note 16)	**50,000**	50,000
Value-added graphite product expenses	**1,068,132**	1,367,481
Natural graphite production for customers and tests	**1,584,227**	609,455
Research and development expenses	**165,857**	157,790
Government assistance (Note 5)	**(436,608)**	(340,936)
Operating net foreign exchange loss	**(401)**	1,520
Operating loss	**5,790,855**	4,796,136
Net foreign exchange loss	**-**	91,609
Share of loss of associate (Note 6)	**1,487,000**	753,940
Gain on dilution of investment in associate (Note 6)	**(2,769,010)**	-
Net gain on financial assets at fair value through profit or loss (Note 6)	**(1,304,000)**	-
Gain on debt settlement (Note 8)	**-**	(1,176,353)
Net finance costs (Note 10)	**(1,659,095)**	4,163,975
Finance income	**(430,197)**	(121,480)
Loss before income taxes	**1,115,553**	8,507,827
Deferred income tax expenses (Note 14)	**-**	199,000
Loss and comprehensive loss for the year	**1,115,553**	8,706,827
Loss per share		
Basic and diluted (Note 13)	**$0.01**	$0.08

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

Mason Graphite Inc.

STATEMENTS OF CASH FLOWS

(Expressed in Canadian dollars)

	Years ended June 30, 2018	2017
	$	$
Cash flows from operating activities		
Loss for the year	**(1,115,553)**	(8,706,827)
Items not affecting cash:		
Share-based compensation	**765,920**	959,076
Value-added graphite product expenses	**-**	259,798
Government assistance	**-**	(50,000)
Foreign exchange loss	**-**	103,060
Share of loss of associate	**1,487,000**	753,940
Gain on dilution of investment in associate	**(2,769,010)**	-
Net gain on financial assets at fair value through profit or loss	**(1,304,000)**	-
Gain on debt settlement	**-**	(1,176,353)
Non-cash finance costs	**(1,659,095)**	3,914,974
Deferred income tax expenses	**-**	199,000
Changes in non-cash operating working capital items:		
Sales tax receivable	**(752,329)**	(191,872)
Government assistance	**(32,475)**	(36,188)
Prepaid expenses and other receivables	**(49,389)**	(26,300)
Accounts payable and accrued liabilities	**887,186**	401,431
	(4,541,745)	(3,596,261)
Cash flows from financing activities		
Private placement of common shares	**45,000,000**	28,778,750
Share issue costs	**(2,454,883)**	(1,789,319)
Repayment of long-term debt	**-**	(5,269,050)
Options exercised	**1,624,917**	382,867
	44,170,034	22,103,248
Cash flows from investing activities		
Investment in associate	**(2,000,065)**	(1,000,000)
Mining tax credit received	**71,307**	56,938
Acquisition of property, plant and equipment	**(12,679,782)**	(2,014,083)
Exploration and evaluation asset expenditures	**-**	(1,443,375)
	(14,608,540)	(4,400,520)
Change in cash and cash equivalents during the year	**25,019,749**	14,106,467
Cash and cash equivalents, beginning of the year	**15,453,470**	1,347,003
Cash and cash equivalents, end of the year	**40,473,219**	15,453,470
Supplemental information:		
Exploration and evaluation asset expenditures included in accounts payable and accrued liabilities	**-**	262,797
Property, plant and equipment expenditures included in accounts payable and accrued liabilities	**2,260,350**	557,173
Interest related to long-term debt charged to exploration and evaluation assets (Note 8)	**-**	414,748
Net tax credit related to resources, government assistance and mining tax credit deducted from exploration and evaluation asset expenditures (Note 8)	**-**	(85,417)
Interest paid on convertible debentures	**237,000**	249,000
Share-based compensation charged to property, plant and equipment (Note 12)	**491,709**	315,874
Share-based compensation charged to exploration and evaluation assets (Note 12)	**-**	57,189

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

Mason Graphite Inc.

STATEMENTS OF CHANGES IN EQUITY

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

	Share capital		Reserves				
	Number	Amount $	Warrants $	Broker warrants $	Options $	Deficit $	Equity $
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**
Private placement – Common shares (Note 11)	18,750,000	45,000,000	-	-	-	-	45,000,000
Private placement – Transaction costs (Note 11)	-	(2,454,883)	-	-	-	-	(2,454,883)
Converted debentures (Notes 10 and 11)	236,686	411,686	-	-	-	-	411,686
Shares issued for interest payment on convertible debentures (Note 11)	116,511	237,000	-	-	-	-	237,000
Options exercised (Note 12)	2,616,667	2,948,571	-	-	(1,323,654)	-	1,624,917
Share-based compensation (Note 12)	-	-	-	-	1,257,629	-	1,257,629
Loss and comprehensive loss for the year	-	-	-	-	-	(1,115,553)	(1,115,553)
Balance as at June 30, 2018	**135,813,323**	**107,461,016**	**5,622,949**	**591,458**	**4,709,778**	**(31,858,900)**	**86,526,301**
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 11)	26,162,500	28,778,750	-	-	-	-	28,778,750
Private placement – Transaction costs (Note 11)	-	(1,789,319)	-	-	-	-	(1,789,319)
Shares issued for interest payment on convertible debentures (Note 11)	166,132	249,000	-	-	-	-	249,000
Options exercised (Note 12)	651,667	697,584	-	-	(314,717)	-	382,867
Share-based compensation (Note 12)	-	-	-	-	1,332,139	-	1,332,139
Loss and comprehensive loss for the year	-	-	-	-	-	(8,706,827)	(8,706,827)
Balance as at June 30, 2017	**114,093,459**	**61,318,642**	**5,622,949**	**591,458**	**4,775,803**	**(30,743,347)**	**41,565,505**

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

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 (TSX.V: LLG) 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 had 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 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 June 30, 2018, the Company had working capital of $31,786,917 and accumulated deficit of $31,858,900 and had incurred a loss of $1,115,553 for the year then ended. Working capital included a cash and cash equivalents balance of $40,473,219.

Management believes that the Company has sufficient funds to meets 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 financial statements were reviewed, approved and authorized for issue by the Board of Directors on October 26, 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The Company's audited financial statements ("financial statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The Company has consistently applied the accounting policies used in the preparation of its IFRS financial statements to both reporting periods.

Basis of measurement

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

Foreign currency

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

Cash and cash equivalents

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

Exploration and evaluation assets

Exploration and evaluation ("E&E") assets comprise E&E expenditures and mining property acquisition costs. Expenditures incurred on activities that precede E&E, being all expenditures incurred prior to securing the legal rights to explore an area, are expensed immediately.

E&E assets include rights in mining properties, paid or acquired through a business combination or an acquisition of assets, and costs related to the initial search for mineral deposits with economic potential or the obtaining of more information about existing mineral deposits.

Mining rights are recorded at acquisition cost less accumulated impairment losses. Mining rights and options to acquire undivided interests in mining rights are amortized only as these properties are put into commercial production. Interest on long-term debt incurred on mining rights acquired and financed are also capitalized as part of E&E assets as well as the gain or loss resulting from the timing change of the remaining cash payments.

E&E expenditures for each separate area of interest are capitalized and include costs associated with prospecting, sampling, trenching, drilling and other work involved in searching for ore, such as topographical, geological, geochemical and geophysical studies. They also reflect costs related to establishing the technical and commercial viability of extracting a mineral resource identified through exploration or acquired through a business combination or asset acquisition.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Exploration and evaluation assets (continued)

E&E expenditures include the cost of:

- establishing the volume and grade of deposits through the drilling of core samples, and the trenching and sampling activities in an ore body;
- determining the optimal methods of extraction and the metallurgical and treatment processes;
- studies related to social environment, surveying, environmental requirements, and transportation and infrastructure requirements;
- permit activities and community relations; and
- economic evaluations to determine whether development of the mineralized material is commercially justified, including scoping, prefeasibility and final feasibility studies.

E&E expenditures include overhead expenses directly attributable to the related activities.

Cash flows attributable to capitalized costs are classified as investing activities in the statement of cash flows.

When a mine project moves into the development stage, E&E expenditures are tested for impairment, and are transferred to mineral property under development in property, plant and equipment.

Property, plant and equipment

Property, plant and equipment (“PP&E”) are stated at cost less accumulated depreciation and accumulated impairment losses. Cost comprises the fair value of consideration given to acquire an asset and includes the direct charges associated with bringing the asset to the location and condition necessary to put the asset into use, as well as the future cost of dismantling and removing the plant and associated infrastructure and restoring and rehabilitating the land on which it is situated. When parts of an item of PP&E have different useful lives, they are accounted for as separate items (major components) of PP&E. Replacement cost, including major inspection and overhaul expenditures are capitalized as components of PP&E, which are accounted for separately.

Depreciation is provided on PP&E at the commissioning. Depreciation is calculated so as to write off the cost of each asset over its expected useful life to its estimated residual value. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period.

Once the technical feasibility and commercial viability of the extraction of resources from a particular mineral property has been determined, exploration and evaluation assets are tested for impairment and transferred to mineral property under development within PP&E.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets

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

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

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

Borrowing costs

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

Equity

Common shares are classified as equity.

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

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

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

Share-based compensation

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Income taxes

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

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

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

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

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

Loss per share

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments

Financial assets and financial 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. A financial liability is derecognized when it is extinguished, discharged, cancelled or expired.

Financial assets and financial liabilities are measured initially at fair value plus transaction costs, except for financial assets and financial liabilities carried at fair value through profit or loss, which are measured initially at fair value. The fair value is based on quoted market prices, unless the financial instruments are not traded in an active market. In this case, the fair value is determined using valuation model such as the Black-Scholes pricing model or other valuation models.

The category of financial instruments determines subsequent measurement and whether any resulting income and expense is recognized in profit and loss or in other comprehensive income (loss). All income or expenses relating to financial instruments that are recognized in profit and loss are presented within Finance costs.

Financial assets

At initial recognition, the Company classifies its financial instruments into the following categories:

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment. The Company's cash and cash equivalents fall into the loans and receivables category.

Available-for-sale financial assets
Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of them within 12 months of the end of the reporting period.

Financial assets at fair value through profit or loss
Financial assets at fair value through the Company's profit or loss consist of derivative financial instruments in the form of warrants. These derivative financial instruments are initially recognized at fair value at the date they are acquired, and are subsequently measured at fair value at the end of each reporting period. Since the warrants are not included in hedging relationships, any change in their fair value is recognized in the statement of loss or income.

Impairment of financial assets
All financial assets are subject to review for impairment at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired.

Objective evidence of impairment could include:
- Significant financial difficulty of the issuer or counterparty;
- Default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial reorganization.

Individually significant accounts receivable are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities

Other financial liabilities
This category include accounts payable and accrued liabilities, convertible debentures (host) and long-term debt, due within one year, all of which are recognized initially 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.

Fair value through profit and loss
This category includes the derivative embedded in the convertible debentures (derivative), which is initially recognized at fair value and carried subsequently at fair value with gains or losses recognized in the statement of loss and comprehensive loss.

Compound instruments and embedded derivatives

The convertible debentures issued by the Company are considered to be a compound 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 financings as described in note 10.

The compound financial instrument is recognized as a liability, with the initial carrying value of the debenture (host) being the residual amount of the proceeds, after separating the derivative component, which is recognized at fair value, and also the warrants issued with the instruments. Any directly attributable transaction costs are allocated to the host and to the warrants issued.

The embedded derivative that constitutes the convertible debentures (derivative) is recorded at fair value separately from the host contract, as its economic characteristics and risks are not clearly and closely related to those of the host contract.

Subsequent to initial recognition, the host component of the compound financial instrument is measured at amortized cost using the effective interest method. The derivative component of the compound financial instrument is measured at fair value through profit and loss. Subsequent changes in fair value are recorded in the statement of loss and comprehensive loss in finance costs.

On the conversion date, the value of the host contract component of the financial instrument measured at amortized cost and the value of the derivative component measured at fair value are transferred to equity.

Investments in associates

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

Tax credit related to resources and mining tax credit

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

Segment disclosures

The Company currently operates in a single segment – the development of the Lac Guéret graphite property. All of the Company's activities are conducted in Canada.

Provisions

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

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the date of inception. The arrangement is assessed to determine whether fulfillment is dependent on the use of a specific asset (or assets) and the arrangement conveys a right to use the asset (or assets), even if that right is not explicitly specified in an arrangement.

Leases that do not transfer substantially all the risks and rewards incidental to ownership to the Company as a lessee are classified as operating leases. Operating lease payments are recognized as an operating expense in the statement of loss and comprehensive loss on a straight-line basis over the lease term.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. This standard has no impact on the presentation of financial statements of 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 mandatory for annual periods beginning on or after January 1, 2019. The impact of this new standard is not considered significant.

3. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

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

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

i. Impairment of non-financial assets

Asset groups are reviewed for an indication of impairment at each statement of financial position date or when a triggering event is identified. This determination requires significant judgment. Factors which could trigger an impairment are the following: very negative trends in the industry or economic conditions, including graphite prices, changes in exchange rates, changes in mineral reserves, changes in graphite grade or recovery, and/or declines in market capitalization of the Company. The recoverable amounts with respect to non-financial assets are based on numerous assumptions and may differ significantly from actual recoverable amounts. The recoverable amounts are based, in part, on certain factors that may be partially or totally outside of the Company's control. This evaluation involves a comparison of the estimated recoverable amounts of non-financial assets to their carrying values. The recoverable amount estimates may differ from actual recoverable amounts and these differences may be significant and could have a material impact on the Company's financial position and results of operations.

As at June 30, 2018, the carrying amount did not exceed its estimated recoverable amount.

ii. Income taxes and recoverability of potential deferred tax assets

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

(Expressed in Canadian dollars)

3. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES (CONTINUED)

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

iii. Fair value of embedded derivative

The convertible debentures issued by the Company include conversion and early redemption options, which are considered as Level 3 financial instruments. The derivative is measured at fair value through profit and loss, and its fair value must be measured at each reporting period, with subsequent changes in fair value recorded in the statement of loss and comprehensive loss. A derivative valuation model is used, and includes management's assumptions, to estimate the fair value. Detailed assumptions used in the model to determine the fair value of the embedded derivative as at June 30, 2018 and 2017 are provided in Note 10.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of:

	As at June 30,	
	2018	**2017**
	$	**$**
Cash	**40,473,219**	9,453,470
Cash equivalents	**-**	6,000,000
	40,473,219	15,453,470

As at June 30, 2017, an amount of $6,000,000 is included in cash equivalents and consists of a guaranteed investment certificate bearing interest at a rate of 0.94% and having a term of 88 days.

(Expressed in Canadian dollars)

5. GOVERNMENT ASSISTANCE

In October and November 2016, the Company entered into three contribution agreements with the National Research Assistance Council of Canada represented by its Industrial Research Assistance Program (NRC-IRAP), the Ministère de l'Économie, de la Science et de l'Innovation (MESI) and Innovation et Développement Manicouagan (ID Manicouagan) in order to financially assist the Company in the detailed study of value-added graphite products. Under the terms of these agreements and subject to specific conditions, the Company is eligible for expense reimbursements up to $657,000 for the period from September 6, 2016 to May 16, 2019 (previously September 28, 2018 before the amendment of the period).

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

	As at June 30,	
	2018	**2017**
	$	**$**
Amount received during the year	**301,892**	254,747
Amount recognized in the statement of loss and comprehensive loss	**334,366**	340,936
Amount receivable	**68,663**	36,188

For the year ended June 30, 2018, the Company recorded a provincial SR&ED tax credit of $102,242 (2017: nil) as government assistance in the statement of loss and comprehensive loss. The amount has been cashed in the current year.

6. INVESTMENT IN ASSOCIATE

As at June 30, 2018, the Company holds a 24% interest (2017: 32%) in NanoXplore Inc. ("NanoXplore"). NanoXplore is a manufacturer and supplier of high-volume graphene powder for use in industrial markets as well as standard and custom graphene enhanced thermoplastic products to many customers in transportation, packaging, electronics and other industrial sectors. On August 29, 2017, NanoXplore became a public company listed on the TSX Venture Exchange (TSX.V: GRA) named NanoXplore Inc., with its head office in Montréal, Quebec, Canada, upon completion of a reverse takeover.

On March 27, 2018, NanoXplore has completed a private placement of 6,060,100 common shares of Class A for gross proceeds of $10,000,155 which the Company purchased 606,100 common shares Class A for an aggregate amount of $1,000,065. The Company also obtained 303,050 warrants for NanoXplore maturing on March 27, 2020, with an exercise price of $2.30.

On August 2, 2017, the Company purchased 2,222,223 subscription receipts of NanoXplore 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. 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. The warrants acquired expire on August 2, 2019, with an exercise price of $0.70.

As a result of various financings and exercise of options and warrants in NanoXplore, the Company's ownership interest has moved from 32% to 24% during the current year. These dilutions resulted in deemed dispositions of the ownership interest in NanoXplore and the Company recorded a gain on dilution of investment in associate for a total amount of $2,769,010.

On October 28, 2016, Group NanoXplore Inc. ("NanoXplore") completed a non-brokered private placement of 125,068 Class A common shares for gross proceeds of $2,255,000, of which the Company purchased 55,463 Class A common shares for gross proceeds of $1,000,000.

(Expressed in Canadian dollars)

6. INVESTMENT IN ASSOCIATE (CONTINUED)

This investment has been accounted for using the equity method:

	Years ended June 30,	
	2018	2017
	$	$
Balance as at July 1	**879,160**	633,100
Acquisition of investments (at cost, net of warrants)	**1,833,065**	1,000,000
Gain on dilution of investment in associate	**2,769,010**	-
Share of loss and comprehensive loss for the year	**(1,487,000)**	(753,940)
Balance as at June 30	**3,994,235**	879,160

As of June 30, 2018, the stock market value of the shares held by the Company in NanoXplore is $40,048,406.

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

	As at June	
	2018	2017
	$	$
Balance as at July 1	-	-
Acquisitions	**167,000**	-
Change in fair value	**1,304,000**	-
Balance as at June 30	**1,471,000**	**-**

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

The following summarized financial information of NanoXplore includes fair value adjustments made at the time of the acquisition of the interest:

	Years ended June 30,	
	2018	2017
	$	$
Current assets	**20,034,607**	1,212,725
Cash (included in current assets)	**15,268,666**	421,214
Non-current assets (including patents and technology)	**8,273,764**	5,188,758
Current liabilities	**5,387,730**	3,128,121
Non-current liabilities	**5,741,020**	316,721
Revenues	**8,656,487**	3,367,569
Loss and comprehensive loss	**5,850,344**	2,281,695
Depreciation	**997,013**	467,285

(Expressed in Canadian dollars)

7. PROPERTY, PLANT AND EQUIPMENT

	IT Equipment	Production Equipment	Construction in progress	Mineral property under development	Total
	$	$	$	$	$
Balance as at July 1st, 2017	**-**	**-**	**2,887,130**	**33,732,656**	**36,619,786**
Additions	87,683	3,661,457	10,625,681	-	14,374,821
Borrowing costs	-	-	788,542	-	788,542
Depreciation	-	-	-	-	-
Balance as at June 30, 2018	**87,683**	**3,661,457**	**14,301,353**	**33,732,656**	**51,783,149**
As at June 30, 2018					
Cost	87,683	3,661,457	14,301,353	33,732,656	51,783,149
Accumulated depreciation	-	-	-	-	-
Net book value	**87,683**	**3,661,457**	**14,301,353**	**33,732,656**	**51,783,149**

	Construction in progress	Mineral property under development	Total
	$	**$**	**$**
Balance as at July 1, 2016	**-**	**-**	**-**
Additions	2,887,130	-	2,887,130
Transfer from E&E assets (note 8)	-	33,732,656	33,732,656
Depreciation	-	-	-
Balance as at June 30, 2017	**2,887,130**	**33,732,656**	**36,619,786**
As at June 30, 2017			
Cost	2,887,130	33,732,656	36,619,786
Accumulated depreciation	-	-	-
Net book value	**2,877,130**	**33,732,656**	**36,619,786**

(Expressed in Canadian dollars)

8. EXPLORATION AND EVALUATION ASSETS

E&E assets consist of:

	Lac Guéret project	
	Years ended June 30,	
	2018	2017
	$	$
Balance as at July 1	-	31,891,491
Mineral resource evaluation and geology	-	279,545
Environmental studies	-	536,099
Prefeasibility and feasibility studies	-	677,965
Value-added graphite products	-	(259,798)
Interest on long-term debt, net	-	414,748
Share-based compensation	-	57,189
Government assistance, net	-	50,000
Tax credit related to resources and mining tax credit, net	-	85,417
Transfer to PP&E as mineral property	-	(33,732,656)
Balance as at June 30	-	-

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 Company reclassified capitalized costs associated with the Lac Guéret project from E&E assets to mineral property under development within PP&E (Note 7). Capitalized mineral property costs will be carried at cost until the Lac Guéret project is placed into commercial production, sold, abandoned or determined by management to be impaired in value.

The related E&E assets were tested for impairment immediately prior to reclassification out of the E&E assets. In making an assessment of the potential impairment of the Lac Guéret project, management used the "fair value less costs to sell" approach. Fair value was derived from the Company's market capitalization as at June 30, 2017 and management found that the fair value less costs to sell was higher than the carrying value of the Lac Guéret Project. Therefore, no impairment charge was required prior to the reclassification to PP&E.

On April 5, 2012, the Company entered into an asset purchase agreement (the "Asset Purchase Agreement") with Quinto Mining Corporation ("Quinto"), a wholly owned subsidiary of Cliffs Natural Resources Inc., pursuant to which the Company acquired the mining claims that comprise the Lac Guéret property. The total purchase price for the acquisition was US$15,000,000 in cash, payable in installments based on the achievement of certain milestones over a five-year period, and the issuance of 2,041,571 warrants exercisable for common shares of the Company at an exercise price of $0.75 per share (which expired on April 5, 2014).

Pursuant to a general security agreement dated April 5, 2012 and updated June 24, 2013, the Company granted a security interest in favour of Quinto over all of its personal and real property, including the mining claims that comprise the Lac Guéret property, to secure payment of the remainder of the purchase price and the performance of the Company's obligations under the Asset Purchase Agreement.

An aggregate of US$7,500,000 was paid on closing, US$1,250,000 ($1,573,125) was paid on April 2, 2015 and US$1,250,000 ($1,651,750) was paid on October 2, 2015.

On December 22, 2016, the Superior Court of Quebec rendered a judgment confirming that an agreement had been reached between the Company and Quinto pursuant to which the Company was to make an accelerated payment to Quinto in the amount of US$4,000,000 instead of making two payments of US$2,500,000 in October 5, 2016 and April 5, 2017 (for a total of US$5,000,000).

On October 4, 2016 and January 18, 2017, the Company paid Quinto US$2,500,000 ($3,292,500) and US$1,500,000 ($1,976,550), respectively, and all of Quinto's security interests over the Company's assets have been discharged. Accretion totalled $414,748 for the period from July 1, 2016 to December 22, 2016 and was recorded to the Lac Guéret property as interest on debt, net. The Company recorded a gain on settlement of $1,176,353 regarding the transaction, which has been presented in the statement of loss and comprehensive loss.

(Expressed in Canadian dollars)

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of:

	As at June 30,	
	2018	2017
	$	$
Trade payables	**2,039,762**	1,156,731
Accrued liabilities	**1,835,256**	347,885
Withholding taxes payable	**-**	42,836
	3,875,018	1,547,452

10. CONVERTIBLE DEBENTURES

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

- The Company can trigger the conversion of the Debentures and anticipate the redemption under certain conditions:
  - If the Company completes a construction project financing for the Lac Guéret project and if the Company issues common shares under such financing at a price per common share that is greater than $1.00 (the "Construction Financing Price"), the Company shall have the right to force the full conversion of the Debentures at the conversion price equal to the Construction Financing Price less a 10% discount.
- The Debentures are set to mature on June 11, 2019 and bear interest at a fixed annual rate of 12%, payable semi-annually on June 11 and December 11 of each year. Under the terms of the Debentures, the Company has the option to pay 50% of the semi-annual interests due on the Debentures in common shares.
- The holders of the Debentures are entitled to convert the principal amount of the Debentures into common shares at a conversion price of $0.845 per common share and all accrued and unpaid interest at a conversion price to be determined by the market price of the common shares at the time of settlement.
- In the event that the Company, before the repayment of the principal amount of the Debentures, proceeds with the issuance of common shares or other convertible securities at a price that is less than $0.65 per security (the "Subsequent Financing"), the conversion price of the Debentures will be the price per security in the Subsequent Financing, plus a 30% premium, provided that such conversion price shall in no case be lower than $0.63 per security.
- The Company issued to the holders of the Debentures an aggregate of 2,075,000 common share purchase warrants (the "Warrants"), each of which entitles the holder to purchase one common share of the Company at a price of $0.91 for a period of 24 months following the closing of the transaction. The fair value of the Warrants was estimated at $315,404 using a Black-Scholes pricing model that was embedded in the convertible bond valuation pricing model (estimated life of two years, risk-free interest rate of 1.07%, volatility of 60%, forfeiture rate of nil, and no forecasted dividend yield). The Company incurred $15,230 in transaction costs. The Warrants expired on June 11, 2016.

(Expressed in Canadian dollars)

10. CONVERTIBLE DEBENTURES (CONTINUED)

The 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 financial liabilities in the statements of financial position. The initial carrying amount of $2,821,313 for the Host represents the residual amount of the proceeds after separating out the $1,013,283 fair value of the Derivative and the $315,404 of the Warrants valuation. Transaction costs were allocated on a pro rata basis between the Host and the Warrants. The following table shows the change in the carrying value of the Debentures for the years ended June 30, 2018 and 2017:

	Year ended June 30, 2018		
	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	-	(1,659,095)	(1,659,095)
Accretion	314,492	-	314,492
Balance as at June 30	**3,624,816**	**2,424,688**	**6,049,504**

	Year ended June 30, 2017		
	Host	**Derivative**	**Total**
	$	**$**	**$**
Balance as at July 1	**3,176,188**	**963,630**	**4,139,818**
Change in fair value of derivative	-	3,364,227	3,364,227
Accretion	301,748	-	301,748
Balance as at June 30	**3,477,936**	**4,327,857**	**7,805,793**

On July 18, 2017, an amount of $200,000 of debentures was converted into 236,686 common shares of the Company. On the conversion date, the Company's share price was $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 Debentures and the Derivative were valued using a convertible bond valuation pricing model. The following key assumptions were used in that model:

	As at June 30,	
	2018	**2017**
Expected life in years	**1**	2
Expected volatility*	**37%**	57%
Credit spread	**13%**	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 13% (2017: 12%) 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 shares issued in a subsequent financing; and
- Timing, probability of occurrence and pricing of the shares issued in a construction financing of the Lac Guéret project.

(Expressed in Canadian dollars)

10. CONVERTIBLE DEBENTURES (CONTINUED)

Finance costs consist of:

	Years ended June 30,	
	2018	**2017**
	$	**$**
Nominal interest on the principal amount	**474,050**	498,000
Interest – Convertible debentures accretion	**314,492**	301,748
Less: Borrowing costs capitalized	**(788,542)**	-
Loss (gain) on embedded derivative (change in fair value)	**(1,659,095)**	3,364,227
	(1,659,095)	4,163,975

11. SHARE CAPITAL

(a) Authorized

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

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

(b) Share issuances

On June 28, 2018, the Company issued an aggregate of 69,299 common shares at a deemed price per share of $1.71 in payment of $118,500 in interest due and payable under its 12% Debentures. The balance of the interest owing under the Debentures, being $118,500, has been paid in cash.

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. The Company paid $2,250,000 in commission and $204,883 were incurred in other private placement issuance costs.

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. The balance of the interest owing under the Debentures, being $118,500, has been paid in cash.

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 June 15, 2017, the Company issued an aggregate of 75,915 common shares at a deemed price per share of $1.64 in payment of $124,500 in interest due and payable under its 12% Debentures. The balance of the interest owing under the Debentures, being $124,500, was paid in cash.

On December 16, 2016, the Company issued an aggregate of 90,217 common shares at a deemed price per share of $1.38 in payment of $124,500 in interest due and payable under its 12% Debentures. The balance of the interest owing under the Debentures, being $124,500, was paid in cash.

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 $350,381 were incurred in other private placement issuance costs.

(Expressed in Canadian dollars)

12. STOCK OPTIONS

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

During the current year, the Company granted 400,000 options to employees of the Company. The weighted average fair value of the options granted, as estimated at the time of grant, was $1.30. This value was calculated using the Black-Scholes option pricing model and the following assumptions: weighted average exercise price of the options of $2.11 which corresponds to the share price at the time of grant , estimated life of five years, weighted average risk-free interest rate of 1.98%, volatility of 75% (based on past volatility of the Company's stock) and expected return on the stock of nil. The vesting periods are from the time of the grant to two years after the grant of options.

On March 13, 2017, the Company granted 3,240,000 options to directors, officers, consultants and employees of the Company. The weighted average fair value of options granted, as estimated at the time of the grant, was $0.81 per option. This was calculated using the Black-Scholes option pricing model with the following assumptions: option exercise price of $1.27 which corresponds to the stock price at the time of grant, estimated life of five years, risk-free interest rate of 1.31%, volatility of 79% (based on the Company's historical volatility) and no forecasted dividend yields. The vesting period for 3,240,000 options is one third upon grant, one third vesting one year after the grant, and the last third vesting two years after the grant.

The following table reflects the continuity of options for the years ended June 30, 2018 and 2017:

	Number of options	Weighted average exercise price
Balance as at July 1, 2017	**10,408,333**	**$0.80**
Granted	400,000	$2.11
Forfeited	(133,332)	$1.27
Exercised	(2,616,667)	$0.62
Balance as at June 30, 2018	**8,058,334**	**$0.91**
Balance as at July 1, 2016	**7,820,000**	**$0.58**
Granted	3,240,000	$1.27
Exercised	(651,667)	$0.59
Balance as at June 30, 2017	**10,408,333**	**$0.80**

During the years ended June 30, 2018 and 2017, 2,616,667 and 651,667 options were exercised for total proceeds of $1,624,917 and $382,867, respectively. The weighted average price per share at the dates of the exercise was $2.06 and $1.35, respectively.

(Expressed in Canadian dollars)

12. STOCK OPTIONS (CONTINUED)

As at June 30, 2018, the Company had the following options outstanding:

Options outstanding as at June 30, 2018			Options exercisable as at June 30, 2018		
Number	Weighted average exercise price	Weighted average remaining contractual life (years)	Number	Weighted average exercise price	Weighted average remaining contractual life (years)
8,058,334	$0.91	1.89	6,802,223	$0.81	1.52

Share-based compensation costs for the year ended June 30, 2018 totalled $1,257,629 (2017: $1,332,139): $765,920 (2017: $959,076) included in the statements of loss and comprehensive loss, nil (2017: $57,189) capitalized in E&E assets and $491,709 (2017: $315,874) capitalized in PP&E.

13. LOSS PER SHARE

	Years ended June 30, 2018	2017
Loss attributable to common shares	**$1,115,553**	$8,706,827
Weighted average number of common shares	**124,850,032**	107,358,763
Loss per share – Basic and diluted	**$0.01**	$0.08

The effect of potential issuances of shares under options would be anti-dilutive for the years ended June 30, 2018 and 2017, and accordingly, basic and diluted losses per share are the same. The effects of potential share issuances of the Debentures were also considered and had no dilutive impacts.

(Expressed in Canadian dollars)

14. INCOME TAXES

The major components of income tax expenses are as follows:

	Years ended June 30,	
	2018	2017
	$	$
Current taxes	**-**	-
Deferred taxes	**-**	-
Quebec mining taxes – Origination of temporary differences	**-**	199,000
Total tax expenses	**-**	199,000

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

	Years ended June 30,	
	2018	2017
	$	$
Loss before income taxes	**(1,115,553)**	(8,507,827)
Combined federal and provincial income tax at 26.9%	**(298,000)**	(2,284,000)
Non-deductible expenses	**(582,698)**	1,358,000
Quebec mining duty tax	**-**	199,000
Income tax benefit on mining duties	**-**	(53,531)
Adjustments from prior years and others	**-**	106,400
Tax effect of unrecognized temporary differences and tax losses	**880,698**	873,131
Deferred income tax expense	**-**	199,000

The analysis of deferred income tax liabilities is as follows:

	As at June 30,	
	2018	2017
	$	$
Deferred income tax assets		
Non-capital losses carried forward	**3,776,000**	3,700,000
Deferred income tax liabilities		
E&E assets	**(3,700,000)**	(3,700,000)
Realized and unrealized gain on financial assets through profit or loss	**(76,000)**	-
Mining duties tax	**(2,509,000)**	(2,509,000)
Deferred income tax liabilities, net	**(2,509,000)**	(2,509,000)

The deferred tax balance at June 30, 2018 falls due in more than 12 months.

(Expressed in Canadian dollars)

14. INCOME TAXES (CONTINUED)

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

	As at June 30,	
	2018	**2017**
	$	**$**
Temporary differences attributable to:		
Non-capital losses	**4,690,000**	3,042,000
Capital losses	**-**	293,000
Share issue costs	**746,000**	570,000
Income tax benefit on mining tax	**665,000**	665,000
	6,101,000	4,570,000

As at June 30, 2018, the Company had accumulated non-capital losses for tax purposes of approximately $31,610,000 (2017: $26,447,000) which can be used to reduce taxable income in the future as follows:

	$
Non-capital loss carry forwards* expiring in	
2033	**3,246,000**
2034	**3,890,000**
2035	**6,979,000**
2036	**4,625,000**
2037	**6,709,000**
2038	**6,511,000**

* The deferred income tax on federal non-capital losses has been totally recorded, and partially recorded on provincial non-capital losses.

15. CAPITAL MANAGEMENT

The capital structure of the Company as at June 30, 2018 consists of equity attributable to common shareholders comprising issued capital and equity reserves.

The Company manages and adjusts its capital structure based on available funds in order to support the development of its Lac Guéret project. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company is not subject to any externally imposed capital requirements.

The property in which the Company currently has an interest is in the development stage; as such, the Company is dependent on external financing to fund its activities. In order to carry out planned engineering, procurement, construction of the Lac Guéret project and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There have been no significant changes in the capital management notes, objectives, policies and proceedings during 2018 and 2017. Changes in capital are described in the statement of changes in equity.

(Expressed in Canadian dollars)

16. RELATED PARTY TRANSACTIONS

During the years ended June 30, 2018 and, 2017, the Company entered into the following transactions with related parties:

- Incurred royalties expenses with NanoXplore of $50,000 (2017: $50,000) with respect to patent use rights (the Company has a significant influence on NanoXplore);
- Incurred professional fees to Gestion GBG Inc. of nil (2017: $2,462) 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 $58,500 (2017: $78,000) with respect to the Company's Toronto office (a Company director is related to the party);
- Incurred professional fee expenses with NanoXplore of nil (2017: $18,000) with respect to laboratory services;
- Incurred R&D expenses with NanoXplore of $63,169 (2017: $32,000) with respect to laboratory services.

As at June 30, 2018, the balance due to the related parties amounted to $481,387 (2017: $59,630). The amounts outstanding are non-interest bearing, unsecured and due on demand.

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

	Years ended June 30,	
	2018	**2017**
	$	**$**
Salaries, consulting fees and other benefits	**1,134,759**	1,334,010
Directors' fees	**107,940**	91,108
Share-based compensation – Management	**671,828**	891,726
Share-based compensation – Director	**138,243**	207,175
	2,052,770	2,524,019

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

The Company is party to certain management contracts. Minimum commitments under these contracts are approximately $910,800. These contracts require that minimum payments of approximately $2,197,215 be made upon the occurrence of certain events such as a change of control. As a triggering event has not taken place, the contingent payments have not been reflected in these financial statements.

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

Fair value

All financial assets classified as loans and receivables, as well financial liabilities classified as other liabilities, are initially measured at their fair values and subsequently at their amortized cost using the effective interest method. All financial assets and financial liabilities classified as held for trading are measured at their fair values. Gains and losses related to periodic revaluations are recorded in net loss.

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

As at June 30, 2018, the fair value of the Debentures (host) is $3,885,963 (2017: $4,070,000) (Level 3 measurements).

The following table presents financial assets and financial liabilities measured at fair value in the statement 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 statement of financial position are grouped into the fair value hierarchy as follows as at June 30, 2018:

Debentures (derivative): Level 3: $2,424,688 (2017: $4,327,857).

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. A derivative gain of $1,659,095 was recognized in the statement of loss and comprehensive loss for the year ended June 30, 2018, all of which is unrealized (2017: loss of $3,364,227).

A decrease (increase) of 5% in the volatility would have decreased (increased) the fair value of the derivative, as at June 30, 2018 by nil (nil) (2017: nil ($1,937)).

A decrease (increase) of 5% in the credit spread would have decreased (increased) the fair value of the derivative as at June 30, 2018 by $180,535 ($167,122) (2017: $365,864 ($314,553)).

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

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Liquidity
The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. The Company's accounts payable and accrued liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. The Debentures mature in 2019, and the Company has the ability to settle interest payments by issuing common shares (up to 50% of total interest payable). The Company regularly evaluates its cash position to ensure preservation and security of capital and maintain liquidity. As at June 30, 2018, management estimates that funds available are sufficient to meet the Company's obligations, operating expenses and some development expenditures through June 30, 2019.

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

As at June 30, 2018, the Company's cash was mainly held in Canada in Canadian dollars.

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

Interest rate
The Company's cash balance is subject to interest rate cash flow risk, as it carries a variable rate of interest. The Company's interest rate risk management policy is to purchase highly liquid investments with a term to maturity of one year or less on the date of purchase. The risk that the Company will realize a loss as a result of a decline in the fair value of any cash equivalent (carrying a fixed rate of interest) is limited because the maturity is less than 90 days on the date of purchase.

Based on the cash as at June 30, 2018, an increase (decrease) of 1% in interest rates could result in a increase (decrease) in the annual net loss of approximately $402,337.

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

The Company has limited exposure to interest rate risk fluctuation on its Debentures, as the interest rate risk was fixed at inception.

Other price risk
The Company is exposed to other price risk arising from the impact of changes in the price of the Company's common shares on the fair value on the embedded derivative. A decrease (increased) of 10% in the Company's common shares price would have decreased (increased) the annual net loss, by $631,065 ($631,065).

(Expressed in Canadian dollars)

18. COMMITMENTS

The Company's financial commitments consist of leases agreement covering its office are as follows:

	As at June 30, 2018
	$
Within 1 year	**153,333**
1 to 5 years	**369,771**

On May 20, 2014, the Company and Forbes & Manhattan Inc. ("F&M") terminated their consulting agreement.

On June 10, 2014, the Company and F&M agreed to amend certain terms of the amended and restated assignment agreement dated October 1, 2012 (the "Assignment Agreement") between F&M and the Company. The Company engaged F&M, on a non-exclusive basis, to source and identify interested parties that would agree to a transaction with the Company commencing on June 10, 2014 and terminating on the date that is 36 months following the public announcement of a positive feasibility study by the Company which is September 25, 2018. This agreement has not been renewed. In the event that an off-take agreement or off-take related agreement is entered by the Company with any person or company identified and referred by F&M to the Company other than the designated party ("Designated"), the Company shall pay a cash fee equal to 2.0% of the proceeds raised by the Company and/or its affiliates from the material sold pursuant to such agreement for a period equal to the term of the off-take agreement (the "Off-Take Sales Fee"), payable on receipt of payment by the Company and/or its affiliates for the material sold-provided, however, that the Off-Take Sales Fee shall also be payable for each renewal period of the Off-Take Agreement. F&M and the Company agree that in the event a transaction is completed by the Company with the Designated party, the Company shall (a) with respect to any off-take agreement or off-take related agreement (an "Off-Take Agreement") entered into with the Designated party, pay a cash fee equal to 2.0% of the proceeds raised by the Company and/or its affiliates from the material sold pursuant to the Off-Take Agreement for a period equal to the term of the Off-Take Agreement (the "Off-Take Sales Fee"), payable on receipt of payment by the Company and/or its affiliates for the material sold-provided, however, that the Off-Take Sales Fee shall also be payable for each renewal period of the Off-Take Agreement; (b) if the Designated party makes an equity investment in the Company or purchases an interest in the Lac Guéret property (the "Off-Take Investment"), a fee equal to 5.0% of the gross amount of such Off-Take Investment shall be payable to F&M on the closing of the Off-Take Investment; (c) if the Designated party provides debt financing to the Company ("Off-Take Debt Financing") a fee equal to 1.5% of the gross proceeds of the Off-Take Debt Financing shall be payable to F&M on closing of the Off-Take Debt Financing; and (d) in respect of any merger, amalgamation, arrangement, reorganization or other business combination transaction whereby the Designated party acquires more than 20% of the common shares of the Company, a fee equal to 1.5% of the total transaction value shall be payable to F&M on the closing of such transaction.