



## **MASON GRAPHITE INC.**

**Interim management's discussion and analysis – Quarterly highlights  
For the three and six-month periods ended December 31, 2021 and  
2020**

# MASON GRAPHITE INC.

## Management's discussion and analysis

For the three and six-months periods ended December 31, 2021 and 2020

(Expressed in Canadian dollars)

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The following Management's discussion and analysis ("MD&A") relates to the unaudited condensed consolidated financial statements of Mason Graphite Inc. ("we", "our", "us", "Mason Graphite", "Mason" or the "Company") for the three and six-months periods ended December 31, 2021 and 2020 ("Financial statements"). This MD&A reports on our activities through February 24, 2022 unless otherwise indicated. The Company's 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, including the comparative figures with the exception of the new standards adopted and the change in accounting policy as described in the financial statements.

### CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

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This MD&A contains "forward-looking information" which may include, but is not limited to, statements with respect to targeted milestones to achieve development of the Lac Guéret Project, successfully obtaining project financing, the future financial or operating performance of the Company and its projects, the future price of and supply and demand for graphite, the estimation of mineral reserves and resources, the realization of mineral reserves and resources estimates, the timing and amount of estimated future production, costs of production, capital, operating and exploration expenditures, costs and timing of the development of new and existing deposits, costs and timing of future exploration, requirements for additional capital, management's belief that the Company will have sufficient funds to meet its obligations and planned expenditures for the ensuing twelve months, government regulation of mining operations, environmental risks, reclamation expenses, the success of mining operations, permitting, economic return estimates and potential upside. Often, but not always, forward-looking statements can be recognized by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", or "does not anticipate" or "believes" or variations (including negative variations) of such words and phrases, or state that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Readers should not place undue reliance on forward-looking statements.

Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Even with the completion of the Preliminary Economic Assessment and a positive feasibility study, there are no assurances that the Lac Guéret Project and the Value-added product Project will be placed into production. Factors that could affect the outcome include, among others: the actual results of development activities; project delays; inability to raise the funds necessary to achieve the milestones or complete development; general business, economic, competitive, political and social uncertainties; future prices of metals; availability of alternative graphite sources or substitutions; actual graphite recovery; conclusions of economic evaluations; changes in project parameters as plans continue to be refined; the future cost of capital to the Company; possible variations of ore grade or recovery rates; failure of plant, equipment or processes to operate as anticipated; accidents, labor disputes and other risks of the mining industry; political instability, terrorism, insurrection or war; delays in obtaining governmental approvals, necessary permitting or in the completion of development or construction activities, the COVID-19 epidemic being declared as a pandemic by the World Health Organisation during the year ended June 30, 2020, as well as those factors discussed in the section entitled "*Risk and uncertainties*". Such forward-looking statements are also based on a number of material factors and assumptions, including: the availability of financing at rates and on terms and conditions otherwise acceptable to the Company; future graphite prices; permitting and development consistent with the Company's expectations; foreign exchange rates; prices and availability of equipment; that contracted parties provide goods and/or services on the agreed timeframes; that the current tax credit receivable from the Quebec government is collected in a timely manner; that on-going contractual negotiations will be successful and progress and/or be completed in a timely manner; and that no unusual geological or technical problems occur. Although the Company has attempted to identify important factors that could cause actual actions, events

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or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results to differ from those anticipated, estimated or intended. Forward-looking statements contained herein are made as of the date of this MD&A and the Company disclaims any obligation to update any forward-looking statements, whether as a result of new information, future events or results or otherwise, except as required by applicable securities laws. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements.

The Mineral Reserves and the "In-Pit" Mineral Resources are included in the total Measured and Indicated Mineral Resources of 65.5 Mt grading 17.2% Cg (19.0 Mt of Measured Resources grading 17.9% Cg and 46.5 Mt of Indicated Resources grading 16.9% Cg) that were reported in the Company's press release dated December 5<sup>th</sup>, 2018. The Mineral Reserves are the basis of the 25-year Mine Life of the Feasibility Study published on September 25<sup>th</sup>, 2015 (amended on February 29<sup>th</sup>, 2016 and updated on December 12<sup>th</sup>, 2018) and are not included in the "In-Pit" Measured and Indicated Mineral Resources of 58.0 Mt grading 16.3% Cg (which have an equivalent drilling definition). The reference point for the Mineral Reserves estimate is the mill feed. Mineral Resources, which are not Mineral Reserves, do not have demonstrated economic viability and were not included in the mine life or the economics of the Feasibility Study. Environmental, permitting, legal, title, taxation, sociopolitical, marketing, or other relevant issues may materially affect the estimate of Mineral Resources. In addition, there can be no assurance that Mineral Resources in a lower category may be converted to a higher category, or that Mineral Resources may be converted to Mineral Reserves.

### **1. DESCRIPTION OF BUSINESS AND OVERVIEW**

Mason Graphite is focused on the development of its 100% owned Lac Gueret graphite property located in Québec, Canada. The Company's main focus is developing this property. 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 Gueret property. In parallel the Company is also developing value-added products, based on the Lac Guéret graphite concentrates.

#### **A) CORPORATE**

On December 29, 2020, at the Annual General Meeting, a new Board of Directors was elected. The new members are: Mr. Simon Marcotte, Mr. Nav Dhaliwal, Mr. Roy McDowall and Mr. Tayfun Eldem. These are in addition to Mr. Fahad Al-Tamimi and Mr. Peter Damouni who were already in place.

Mr. Fahad Al-Tamimi was nominated as Chairman of the Board and Mr. Peter Damouni and Mr. Simon Marcotte were appointed as Executive Directors of the Company.

In July 2021, Mr. Simon Marcotte resigned as Executive Director of the Company, he remains a consultant for various mandates. The director position was filled by Mr. François Perron.

#### **B) LAC GUERET PROJECT – FIRST TRANSFORMATION**

Mason Graphite has a 100% interest in the Lac Guéret graphite property located in the Côte-Nord region in northeastern Quebec. The Lac Guéret project consists in the construction and operation of an open-pit mine in Lac Guéret, 285 km North of Baie-Comeau, and a concentrator located in Baie-Comeau. The total projected capacity of graphite concentrate is 52,000 tonnes per year. The graphite produced will be sold to various applications such as refractories, automotive friction parts, flame retardants, thermal management, and will be used as raw material for the production of value-added products.

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## **C) VALUE-ADDED PRODUCTS – SECOND TRANSFORMATION**

In parallel to the first transformation project, the Company is developing value-added products, based on the concentrate from the first transformation. The value-added products are used in more advanced applications, have more stringent specifications, and have higher sales prices and profitability.

The main product of the value-added products line is the Coated Spherical Purified Graphite ("CSPG"). This material is used to manufacture the anodes of Lithium-ion Batteries ("LIB"), which are used to power electric vehicles, mobile phones and other portable devices as well as stationary storage of energy.

The CSPG was developed using Mason Graphite's own fine natural graphite concentrate (< 106 µm, produced through pilot production of the Lac Guéret ore) as feed material and meets the following industry's requirements:

- Tap density higher than 1 g/cm<sup>3</sup>;
- Purity above 99.95% carbon;
- Reversible capacity of 355 to 365 mAh/g (milliamperes-hour per gram, for which the theoretical maximum capacity is 372);
- Adequate particle size distribution from 10 to 30 µm;
- Appropriate form factor (shape, size and volume of the particles); and
- Specific surface area less than 3 m<sup>2</sup>/g.

### **Pilot plant, scaling and process reproducibility**

Mason Graphite operates a pilot plant for micronization, spheronization and classification. This pilot plant, located in the Quebec City region, is used to produce spherical graphite samples in large quantities for potential customers with whom the Company is in discussion. This plant allows significant reduction of sample delivery times and tailoring of product specifications to users' highly diverse specifications.

Since the beginning of the project, the Company incurred the following expenditures:

|  | <b>Value-added graphite products (\$)</b> |                              |                  |
|--|---|------------------------------|------------------|
|  | <b>Expenditures</b>                       | <b>Government assistance</b> | <b>Net</b>       |
| For the year ended June 30, 2015             | 229,246                                   | 41,000                       | 188,246          |
| For the year ended June 30, 2016             | 30,552                                    | 9,000                        | 21,552           |
| For the year ended June 30, 2017             | 1,107,683                                 | 290,936                      | 816,747          |
| For the year ended June 30, 2018             | 1,068,132                                 | 334,366                      | 733,766          |
| For the year ended June 30, 2019             | 1,816,527                                 | 280,813                      | 1,535,714        |
| For the year ended June 30, 2020             | 1,903,437                                 | 204,853                      | 1,698,584        |
| For the year ended June 30, 2021             | 1,629,858                                 | 311,398                      | 1,318,460        |
| For the six-month period ended Dec. 31, 2021 | 367,434                                   | 50,925                       | 316,509          |
|  | <b>8,152,869</b>                          | <b>1,523,291</b>             | <b>6,629,578</b> |

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### **D) LAC GUÉRET PROJECT – ENGINEERING, PROCUREMENT, CONSTRUCTION AND MANAGEMENT**

Pending the completion of the construction financing for the mine and concentrator project, all major construction activities related to the first transformation have been put on hold. The management of Mason Graphite will resume the project as soon as the financing is completed. Under the leadership of the new Board of Directors, the Company reaffirmed its commitment to reaccelerate the development of the first transformation project, while keeping the same strategy of creating shareholder value with the advancement of its second transformation business. The objective is to create value and to limit the equity dilution resulting from the financing of the construction of its first transformation project.

Mason Graphite has decided to utilize the "Owner's Built" construction model after thorough review of all options available. This approach relies on an integrated Owner team which manages the project, including construction. This execution strategy maintains the control of the project within the Company while reinforcing the project team spirit. Since its creation, this total and direct implication approach for the project has always been a trademark of the Mason Graphite identity.

#### **Engineering and Construction:**

- Montreal, QC based BBA Inc., as lead engineering firm, complemented by Soutex Inc. of Québec, QC (Process Engineering), Groupe TDA Construction Inc. of Baie-Comeau, QC (Forest Road and Mining Camp Engineering) and WSP of Quebec and Baie-Comeau, QC (mine engineering) have mostly completed the engineering related to the following disciplines: mining, concentration process, civil works, concrete, structure and mechanical. Overall engineering progress (all disciplines) has reached 76% completion (approximately 65,000 hours).
- The Company maintains all the necessary permits to start the construction of the concentrator.
- On December 12, 2018, Mason Graphite issued a press release reporting that it had completed and filed the technical report NI 43-101. The preparation of the study have been supervised by Jean L'Heureux, Eng., M. Eng., Executive Vice President, Process Development.
- The six grinding mills, which are major equipment at the process plant, were delivered in Baie-Comeau in February 2019. The two press filters have also been delivered in Baie-Comeau in May 2019 et the manufacturing of the 3 thickeners was completed in Baie-Comeau.
- Research and development work on the management of waste rock and tailings, which potentially generate acids, has been launched and is continuing with various partners.

In April 2019, Mason Graphite proceeded with the acquisition of the land in Baie-Comeau to install its future concentrator, which makes the Company a corporate citizen of Baie-Comeau.

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## **E) INVESTMENT IN BLACK SWAN GRAPHENE**

The Company has announced the launch of Black Swan Graphene Inc. and the execution, on July 21, 2021, of a definitive agreement whereby Mason Graphite has agreed, through Black Swan Graphene, to purchase assets, strategies related to patented graphene production technology from Thomas Swan & Co. Limited, a leading UK-based specialty chemicals company. The Company paid \$ 7,706,200 for this transaction.

On September 2, 2021 the Company announced that it received final TSX Venture Exchange acceptance to and has accordingly completed the previously announced acquisition, through Black Swan Graphene of strategic assets related to a patented graphene processing technology from Thomas Swan & Co. Limited ("Thomas Swan").

Mason Graphite, Thomas Swan and Black Swan Graphene entered into a Definitive Agreement pursuant to which Black Swan Graphene, a special purpose subsidiary launched by Mason Graphite, has acquired strategic assets related to a patented graphene processing technology from Thomas Swan (the "Transaction"). On closing of the joint-venture Transaction, Thomas Swan received £3M and shares representing 33.33% of Black Swan Graphene's issued and outstanding capital. Mason Graphite has also invested approximately CAD\$2.5M in Black Swan Graphene for working capital purposes and holds a 66.67% equity interest in Black Swan Graphene.

In connection with the Transaction, Black Swan Graphene has acquired a license from Trinity College Dublin for the production of exfoliated defect-free, non-oxidised 2-D materials in large quantities (the "TCD License"), which license was previously held by Thomas Swan. In addition, Black Swan Graphene and Thomas Swan have entered into a License Agreement and a Sub-License Agreement, pursuant to which Black Swan Graphene has granted Thomas Swan a license to graphene processing technology for production of up to 1,000 tonnes per year and Black Swan Graphene has sub-licensed the TCD License to Thomas Swan, respectively.

Upon closing of the transaction, Mason Graphite and Thomas Swan will own 66.67% and 33.33%, respectively, of Black Swan Graphene. Pursuant to an agreement entered into simultaneously with the transaction, Mr Fahad Al Tamimi, acquired directly from Thomas Swan an 8% stake in Black Swan Graphene. Thus, as of the date of publication of this present management's discussion and analysis, October 27, 2021. Black Swan Graphene was owned as follows: 66.67% by Mason Graphite, 25.33% by Thomas Swan and 8% by Mr Fahad Al Tamimi.

On November 8, 2021, Black Swan Graphene completed a private placement of 2,205,944 common shares at a price of \$1.36 per share for gross aggregate proceeds of \$3,000,085. Following completion of the private placement, Mason Graphite's shareholding in Black Swan Graphene is now 56%.

In addition to the assets related to the graphene processing technology and associated know-how sold to Black Swan Graphene, Thomas Swan will also contribute its exclusive production and commercialization expertise while providing access to subject matter expertise, such as access to personnel and technical support, and deliverables from its operation in Northern England pursuant to a Services Agreement entered into between Black Swan Graphene and Thomas Swan. Black Swan Graphene aims to establish a large-scale commercial production facility in Québec, Canada, in order to leverage the province's competitive and green hydroelectricity, as well as the proximity of Mason Graphite's planned production sites. These factors are key and will accelerate the production and commercialization of the graphene developed by Thomas Swan by integrating the supply chain and lowering production costs.

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### **F) SOCIAL ACCEPTABILITY AND FIRST NATIONS RELATIONS**

The Lac Gueret project enjoys strong social acceptability and support from the local communities.

The Company and the Innu Council of Pessamit signed the Mushalakan Agreement in June 2017, an Impact Benefit Agreement ("IBA") for the construction and operation of the Lac Guéret project (Lac Guéret mine and Baie-Comeau concentrator). Under this agreement, both parties commit to develop a specific training and employment strategy for the Pessamiuilnut (members of the Innus of Pessamit community). Additionally, this agreement will allow the Innus of Pessamit to participate in the Project concretely, through contracting opportunities and will ensure fair and equitable financial and socio-economic benefits.

## **2. OPERATIONAL RESULTS**

### **For the three-month period ended December 31, 2021 compared with the three-month period ended December 31, 2020**

The Company's loss totaled \$1,682,710 for the three-month period ended December 31, 2021. This compares with a loss of \$2,434,278 for the three-month period ended December 31, 2020 for a variance of \$751,568. You will find the following significant variations:

|  | Three-month period ended Dec. 31, 2021<br>\$ | Three-month period ended Dec. 31, 2020<br>\$ | Variance<br>\$ |   |
|--|--|--|----------------|---|
| Salaries and consulting fees           | 527,049                                      | 262,332                                      | 264,717        | During the quarter ending December 31, 2021, the Company's subsidiary (Black Swan Graphene) incurred expenses of more than \$300K for management, Board's fees and new R&D hires. For the three-month period ended December 31, 2020, no compensation for the position of President and CEO was paid but an end-of-contract allowance has been paid in December 2020. |
| Professional fees                      | 114,186                                      | 1,565,346                                    | (1,451,160)    | In Q2-2021The Company was engaged in a proxy fight which resulted in legal fees and several special advisors.   |
| Share based compensation               | 272,938                                      | -  | 272,938        | On January 12, 2021, 6,925,000 options were granted plus 400,000 options on September 2, 2021, which explains the increase while during fiscal year 2020, no options were granted.  |
| Value-added graphite products expenses | 165,499                                      | 408,335                                      | (242,836)      | As expected, the Company spent less for the quarter of 2022 versus 2021. The value-added graphite products project is no longer the priority.   |

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|   |                  |                  |                |   |
|---|------------------|------------------|----------------|---|
| Depreciation intangibles assets             | 236,484          | -                | 236,484        | During the semester ending December 31, 2021, the company acquired patents for \$ 5M through its subsidiary Black Swan.   |
| Transfer agent and filing fees              | 64,262           | 149,574          | (85,312)       | In 2020 the Company was engaged in a proxy fight which incurred significant fees with its transfer agents.  |
| Care and maintenance for Lac Guéret project | 97,205           | 223,061          | (125,856)      | During the quarter ending December 31, 2021, care and maintenance activities for Lac Gueret are kept at the minimum compared to the corresponding quarter of 2020.  |
| Services-Thomas Swan                        | 84,882           | -                | 84,882         | The Company has a service agreement with Thomas Swan for R&D work. In the corresponding quarter of the previous fiscal year, this agreement did not exist.  |
| Government assistance                       | (67,094)         | (318,214)        | 251,120        | During the quarter ending December 31, 2021, the Company recognized a grant of \$50K for its PVA project. In the quarter of fiscal year 2020, the Company had received its mining tax credit for the year 2019 and its R&D credit for 2020. |
| Other expenses and revenues                 | 187,299          | 143,844          | 43,455         | Non-significant variances in other expenses and revenues items.   |
| <b>Total</b>                                | <b>1,682,710</b> | <b>2,434,278</b> | <b>751,568</b> |   |

### For the six-month period ended December 31, 2021 compared with the six-month period ended December 31, 2020

The Company's loss totaled \$2,667,531 for the six-month period ended December 31, 2021. This compares with a loss of \$3,486,523 for the six-month period ended December 31, 2020 for a variance of \$818,992. You will find the following significant variations:

|                              | Six-month period ended Dec. 31, 2021 \$ | Six-month period ended Dec. 31, 2020 \$ | Variance \$ |   |
|------------------------------|---|---|-------------|---|
| Salaries and consulting fees | 743,009                                 | 349,529                                 | 393,480     | During the semester ending December 31, 2021, the Company's subsidiary (Black Swan Graphene) incurred expenses of more than \$300K for management, Board's fees and new R&D hires. For the six-month period ended December 31, 2020, no compensation for the position of President and CEO was paid. And an end-of-contract allowance has been paid in December 2020. |

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|   |                  |                  |                |  |
|---|------------------|------------------|----------------|--|
| Professional fees                           | 149,680          | 1,577,396        | (1,427,716)    | In 2020 the Company was engaged in a proxy fight which resulted in legal fees and several special advisors.  |
| Share based compensation                    | 583,563          | -                | 583,563        | On January 12, 2021, 6,925,000 options were granted plus 400,000 options on September 2, 2021, which explains the increase while during fiscal year 2020, no options were granted.   |
| Care and maintenance for Lac Guéret project | 216,297          | 763,799          | (547,502)      | During the semester ending December 31, 2021, care and maintenance activities for Lac Gueret are kept at the minimum compared to the corresponding semester of 2020.   |
| Services-Thomas Swan                        | 84,882           | -                | 84,882         | The Company has a service agreement with Thomas Swan for R&D work. In the corresponding quarter of the previous fiscal year, this agreement did not exist.   |
| Value-added graphite products expenses      | 367,434          | 829,936          | (462,502)      | As expected, the Company spent less for the semester of 2022 versus 2021. The value-added graphite products project is no longer the priority.   |
| Government assistance                       | (207,542)        | (424,169)        | 216,627        | During the six months ending December 31, 2021, the Company recognized a grant of \$50K for its PVA project and received its mining tax credit for 2020 (\$80K). In the quarter of fiscal year 2020, the Company had received its mining tax credit for the year 2019 and its R&D credit for 2020. |
| Depreciation intangibles assets             | 315,252          | -                | 315,252        | During the semester ending December 31, 2021, the company acquired patents for \$ 5M through its subsidiary Black Swan.  |
| Other expenses and revenues                 | 414,956          | 390,032          | 24,925         | Non-significant variances in other expenses and revenues items.  |
| <b>Total</b>                                | <b>2,667,531</b> | <b>3,486,523</b> | <b>818,992</b> |  |

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### 3. SUMMARY OF QUARTERLY RESULTS

|  | Dec 31, 21  | Sept 30, 21 | June 30, 21 | March 31, 21 |
|--|-------------|-------------|-------------|--------------|
|  | Q2          | Q1          | Q4          | Q3           |
|  | (note 1)    |             |             | (note 2)     |
| Loss for the period                      | \$1 682 710 | \$984 821   | \$834 253   | \$2 224 634  |
| Loss per share (basic and fully diluted) | \$0,01      | \$0,01      | \$0,01      | \$0,02       |

|   | Dec 31, 20  | Sept 30, 20 | June 30, 20 | March 31, 20 |
|---|-------------|-------------|-------------|--------------|
|   | Q2          | Q1          | Q4          | Q3           |
|   |             |             | (note 3)    | (note 4)     |
| Loss (income) for the period                      | \$2 434 278 | \$1 052 245 | \$4 306 422 | \$39 857 871 |
| Loss (income) per share (basic and fully diluted) | \$0,02      | \$0,01      | \$0,03      | \$0,29       |

**Note 1:** The higher loss is explained by significant expenses of the new subsidiary acquired in the first quarter of 2022.

**Note 2:** The higher loss is explained by the fees incurred for the proxy fight and the issuance of options which generated exceptionally high expenses.

**Note 3:** The postponement of the first transformation project resulted in Mason Graphite conducting a non-financial asset impairment charge. The loss in the three-month period of 2020 was due to this impairment charge of \$3,098,083. For the three-month period ending March 31, 2020, the impairment charge was undervalued of \$1,315,968 as property, plant and equipment and tangible assets were undervalued by the same amount as of March 31, 2020. In the year ended June 30, 2020, the impairment charge is properly assessed.

**Note 4:** The postponement of the first transformation project resulted in Mason Graphite conducting a non-financial asset impairment test that resulted in an impairment charge. The higher loss was due to this impairment charge of \$38,863,710.

The quarterly financial statements have been prepared in accordance with IFRS as issued by the IASB. The Company has consistently applied the accounting policies used in the preparation of its interim IFRS financial statements with the exception of the new standards adopted and the change in accounting policy as described in the financial statements. The Company's functional and presentation currency is the Canadian dollar.

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### 4. CASH FLOW

| <u>Sources and uses of cash</u>                              | <u>Six-month periods ended December</u> |                    |
|--|---|--------------------|
|  | <u>2021</u>                             | <u>2020</u>        |
|  | \$                                      | \$                 |
| Cash used for operations prior to changes in working capital | (1 755 668)                             | (1 046 675)        |
| Changes in non-cash working capital                          | (253 297)                               | 862 144            |
| Cash used in operating activities                            | (2 008 966)                             | (184 531)          |
| Cash used in financing activities                            | 2 980 085                               | -                  |
| Cash used in investing activities                            | (6 014 219)                             | (1 193 701)        |
| <b>Change in cash</b>  | <b>(5 043 100)</b>                      | <b>(1 378 232)</b> |

#### Operating Activities

For the six-month period ended December 31, 2021, cash outflows from operating activities increased by \$708,993 before changes in non-cash items compared to the same period last year (from \$1,046,675 in 2021 to \$1,755,668 in 2022). No significant variance was noted, other than those mentioned in section 3: Operating results: Comparison of three-month period 2021 and 2020.

For the six-month period ended December 31, 2021 and 2020, non-cash working capital decreased by \$253,297 in 2021 and increased by \$862,144 in 2020. This variation is mainly explained by a significant variation in the balance of accounts payables between December 31, 2021, and June 30, 2021.

#### Financing Activities

During the six-month period ending December 31, 2021 the Company completed a private placement of 2,205,944 common shares at a price of \$1.36 per share for total gross proceeds of \$3,000,085 with issuance costs of \$20,000.

#### Investing Activities

For the six-month period ended December 31, 2021, cash used in investing activities was \$6,014,219 partly for the purchase of a patent portfolio from Thomas Swan through the subsidiary Black Swan and the final payment for equipment for the Lac Guéret project, compared to outflows of \$1,193,701 for the corresponding period last year.

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## 5. FINANCIAL POSITION

|                                    | <u>Dec 31,</u><br><u>2021</u> | <u>June 30,</u><br><u>2021</u> |
|------------------------------------|-------------------------------|--------------------------------|
|                                    | \$                            | \$                             |
| Cash (Note 1)                      | 15 259 086                    | 20 125 836                     |
| Other current assets               | 359 124                       | 234 026                        |
| <b>Total current assets</b>        | <b>15 618 210</b>             | <b>20 359 862</b>              |
| <b>Non current assets (Note 2)</b> | <b>14 849 700</b>             | <b>6 150 579</b>               |
| <b>Total assets</b>                | <b>30 467 910</b>             | <b>26 510 441</b>              |
| <b>Total liabilities</b>           | <b>826 809</b>                | <b>1 618 559</b>               |
| <b>Equity</b>                      | <b>29 641 101</b>             | <b>24 891 882</b>              |

Note 1: The decrease is due to the outflow of funds attributable to the purchase of intangible assets from Thomas Swan.

Note 2: The increase is due to the purchase of intangible assets from Thomas Swan.

## 6. LIQUIDITY AND CAPITAL RESOURCES

To benefit from the structural change rapidly unfolding in the graphite industry, a goal of the newly elected Board is to re-accelerate the development of the Company's Lac Gueret Graphite project, which was put on hold in April 2020. The Company is of the view that customers are currently looking to secure unprecedented volumes of graphite supply, preferably sourced in North America, to support the electrification of the transportation industry. As such, graphite prices will soon need to reach significantly higher levels to allow for new sources of supply, or upstream integration will be necessary to establish an adequate supply chain.

The Company has no operating income, is mainly dependent on external funding for its development projects. It has had recourse to the cash issuance of equity, borrowing, funds received from the Government of Quebec in the form of a resource-related tax credit and a mining tax credit for eligible exploration expenses and funds obtained from stock warrants and options exercised.

As of December 31, 2021, the Company had a working capital of \$ 14,791,401, an accumulated deficit of \$ 97,283,681 and a net loss of \$ 2,667,531 for the six-month period then ended. Working capital included a cash balance of \$ 15,259,086.

Management believes that the Company has sufficient funds to meet its obligations, operating expenses and some development expenditures for its value-added product project for the ensuing twelve months. The Company's ability to pursue its development activities for its value-added product project and the Lac Gueret project depends on management's ability to obtain additional financing, which it can do in various ways, including through strategic partnerships, joint venture agreements, debt project financing, royalty financing or other options offered by the financial markets. Management continues to assess all of these possibilities. Although management has been successful in securing funding in the past, there can be no assurance that it will achieve such funding in the future, or that such funding sources or measures will be available to the Company or that they will be available on good terms and conditions acceptable to the Company.

# **MASON GRAPHITE INC.**

Management's discussion and analysis

For the three and six-months periods ended December 31, 2021 and 2020

(Expressed in Canadian dollars)

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## **7. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

For a detailed description of the financial instruments and risk management associated with the Company and its activities, please refer to the Note 17 "*Financial Instruments and Risk Management*" in the audited financial statements for the years ended June 30, 2021 and 2020. The Company is not aware of any significant changes to financial instruments nor any management risk presented on those dates.

## **8. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES**

For a detailed description of the critical accounting judgments and estimates associated with the Company and its activities, please refer to the Note 3 "*Critical accounting judgments and estimates*" in the audited financial statements. Judgments and estimates are in line with last year.

## **9. NEW SIGNIFICANT ACCOUNTING POLICIES**

For a detailed description of the significant accounting policies, please refer to the Note 2 "*Summary of significant accounting policies*" in the audited financial statements for the years ended June 30, 2021 and 2020.

## **10. OUTSTANDING SHARE DATA**

As of February 24, 2022, the Company has:

- a) 136,292,585 common shares issued and outstanding;
- b) 7,742,000 options outstanding with expiry dates ranging between March 13, 2022 and September 2th, 2026 with exercise price from \$0.46 to \$1.27 (weighted average price: \$0.54). If all the options were exercised, 7,742,000 shares would be issued for proceeds of \$4,180,680.

## **11. RISKS AND UNCERTAINTIES**

The operations of the Company are speculative due to the high-risk nature of its business, which is the acquisition, financing, exploration, evaluation, development and operation of mining properties. These risk factors could materially affect the Company's future operating results and could cause actual events to differ materially from those described in forward-looking information relating to the Company.

For a detailed description of the risk factors associated with the Company and its activities, please refer to the "*Risks and Uncertainties*" in the MD&A for the year ended June 30, 2021 and 2020. The Company is not aware of significant adverse change to the risk and uncertainties presented by that date.

# MASON GRAPHITE INC.

Management's discussion and analysis

For the three and six-months periods ended December 31, 2021 and 2020

(Expressed in Canadian dollars)

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## **12. MANAGEMENT'S RESPONSIBILITY FOR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

The information provided in this MD&A, including the Condensed Consolidated Financial statements, is the responsibility of management. In the preparation of these statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying condensed consolidated financial statements.

In contrast to the certificate required under *National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings* ("NI 52-109"), the Venture Issuer Basic Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR"), as defined in NI 52-109. In particular, the certifying officers filing this certificate are not making any representations relating to the establishment and maintenance of:

- Controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and;
- A process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the Company's GAAP.

The Company's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in this certificate. Investors should be aware that the design and implementation of such processes by those responsible for a venture issuer are subject to cost limitation.

DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

## **13. SUBSEQUENT EVENTS**

On January 27, 2022 Dragonfly Capital Corp. ("Dragonfly") (NEX: DRC.H) announced that Black Swan Graphene Inc. ("Black Swan"), and the shareholders of Black Swan (collectively, the "Black Swan Shareholders") have entered into a share exchange agreement dated effective as of January 17, 2022 (the "Share Exchange Agreement"), pursuant to which Dragonfly will acquire all of the issued and outstanding common shares (each, a "Black Swan Share") of Black Swan and grant certain options (each, a "Replacement Option") of the Company in exchange for those outstanding options (each, a "Black Swan Option") of Black Swan (the "Transaction"). In connection with the Transaction, the Company and Black Swan intends to complete a concurrent equity financing with minimum gross proceeds of \$5,000,000 (the "Subscription Receipt Financing").

## **14. APPROVAL**

The Board of Directors oversees management's responsibility for financial reporting and internal control systems through an Audit Committee. This Audit Committee meets quarterly with management and annually with the independent auditors to review the scope and results of the annual audit and to review the financial statements and related financial reporting and internal control matters before the financial statements are approved by the Board of Directors and submitted to the shareholders. The Board of Directors has approved the unaudited condensed consolidated condensed interim financial statements for the three and six-month periods ended December 31, 2021 and 2020 and the disclosure contained in this MD&A.