NextSource Materials Inc.

Management Discussion and Analysis ("MD&A")

Financial Statement Report Date – June 30, 2017

Date of this Report – September 27, 2017

FORWARD-LOOKING STATEMENTS

This Annual Report contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 ("PSLRA") regarding management's plans and objectives for future operations including plans and objectives relating to our planned marketing efforts and future economic performance.

Any statement in this report that is not a statement of an historical fact constitutes a "forward-looking statement". Further, when we use the words "may", "expect", "anticipate", "plan", "believe", "seek", "estimate", and similar words, we intend to identify statements and expressions that may be forward-looking statements. We believe it is important to communicate certain of our expectations to our investors. Forward-looking statements are not guarantees of future performance. They involve risks, uncertainties and assumptions that could cause our future results to differ materially from those expressed in any forward-looking statements. Many factors are beyond our ability to control or predict. You are accordingly cautioned not to place undue reliance on such forward-looking statements. Important factors that may cause our actual results to differ from such forward-looking statements include, but are not limited to, the risks outlined under "Risk Factors" herein.

The forward-looking statements herein are based on current expectations that involve a number of risks and uncertainties. Such forward-looking statements are based on assumptions described herein. The assumptions are based on judgments with respect to, among other things, future economic, competitive and market conditions, and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond our control. Accordingly, although we believe that the assumptions underlying the forward-looking statements are reasonable, any such assumption could prove to be inaccurate and therefore there can be no assurance that the results contemplated in forward-looking statements will be realized. In addition, as disclosed in "Risk Factors", there are a number of other risks inherent in our business and operations, which could cause our operating results to vary markedly, and adversely from prior results or the results contemplated by the forward-looking statements. Management decisions, including budgeting, are subjective in many respects and periodic revisions must be made to reflect actual conditions and business developments, the impact of which may cause us to alter marketing, capital investment and other expenditures, which may also materially adversely affect our results of operations. In light of the significant uncertainties inherent to forward-looking information included in the report statement, the inclusion of such information should not be regarded as a representation by us or any other person that our objectives or plans will be achieved.

The forward-looking statements and associated risks set forth in this Report include or relate to, among other things: (a) our growth strategies, (b) anticipated trends in the mining industry, (c) currency fluctuations, (d) our ability to obtain and retain sufficient capital for future operations, and (e) our anticipated needs for working capital. These statements may be found under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Description of Business".

Our future financial results are uncertain due to a number of factors, some of which are outside the Company's control. These factors include, but are not limited to: (a) our ability to raise additional funding; (b) the market price for graphite, vanadium and other minerals and materials; (c) the results of the exploration programs and metallurgical analysis of our mineral properties; (d) the political instability and/or environmental regulations that may adversely impact costs and ability to operate in Madagascar; and (e) our ability to find joint venture and/or off-take partners in order to advance the development of our mineral properties. Actual events or results may differ materially from those discussed in forward-looking statements as a result of various factors, including, without limitation, the risks outlined under "Risk Factors". In light of these risks and uncertainties, there can be no assurance that the forward-looking statements contained in this report will in fact occur.

The reader is cautioned that our Company does not have a policy of updating or revising forward-looking statements and thus the reader should not assume that silence by management of our Company over time means that actual events are bearing out as estimated in such forward-looking statements.

All references to "dollars", "$" or "US$" are to United States dollars and all references to "CAD$" are to Canadian dollars. United States dollar equivalents of Canadian dollar figures are based on the daily average exchange rate as reported by the Bank of Canada on the applicable date. All references to "common shares" refer to the common shares in our capital stock.

All references to "tpa" refer to tonnes per annum.

FINANCIAL INFORMATION
As used in these footnotes, "we", "us", "our", "NextSource Materials ", "NextSource", "Company" or "our company" refers to NextSource Materials Inc. and all of its subsidiaries.

All references to "dollars", "$" or "US$" are to United States dollars and all references to "CAD$" are to Canadian dollars. United States dollar equivalents of Canadian dollar figures are based on the daily average exchange rate as reported by the Bank of Canada on the applicable date. All references to "common shares" refer to the common shares in our capital stock.

All references to "tpa" refer to tonnes per annum.

ITEM 1. – BUSINESS

Company Overview

Our principal business is the acquisition, exploration and development of mineral resources. We are primarily focused on the development of the Molo Graphite Project into a fully operational and sustainable graphite mine.

The Molo Graphite Project currently consists of a commercially minable graphite deposit situated in the African country of Madagascar. No mine infrastructure currently exists at the Molo Graphite Project site. We have additional exploration-stage mineral properties situated in Madagascar, including the Green Giant Property.

We have not generated operating revenues or paid dividends since inception on March 1, 2004 to the period ended June 30, 2017 and we are unlikely to do so in the immediate future. Our business activities have been entirely financed from the proceeds of securities subscriptions.

Our executive offices are situated at 1001–145 Wellington Street West, Toronto, Ontario, Canada, M5J 1H8 and the primary telephone number is (416) 364-4986. Our website is www.nextsourcematerials.com (which website is expressly not incorporated by reference into this filing).

We are incorporated in the State of Minnesota, USA and have a fiscal year end of June 30.

On April 19, 2017, the Company changed its name from Energizer Resources Inc. to NextSource Materials Inc. as part of our rebranding effort and to better reflect our evolution from an exploration-stage company into a mine-development company. Our new symbol on the Toronto Stock Exchange is "NEXT" and on the OTC Markets is "NSRC."

During fiscal 2008, the Company incorporated Energizer (Mauritius) Ltd. ("ERMAU"), a Mauritius subsidiary, and Energizer Madagascar Sarl. ("ERMAD"), a Madagascar subsidiary of ERMAU. During fiscal 2009, the Company incorporated THB Ventures Ltd. ("THB"), a Mauritius subsidiary of ERMAU, and Energizer Minerals Sarl. ("ERMIN"), a Madagascar subsidiary of THB, which holds the 100% ownership interest of the Green Giant Property in Madagascar (see note 5). During fiscal 2012, the Company incorporated Madagascar-ERG Joint Venture (Mauritius) Ltd. ("ERGJVM"), a Mauritius subsidiary of ERMAU, and ERG (Madagascar) Sarl. ("ERGMAD"), a Madagascar subsidiary of ERGJVM, which holds the Malagasy Joint Venture Ground. During fiscal 2014, the Company incorporated 2391938 Ontario Inc., an Ontario, Canada subsidiary.

Our authorized capital is 650,000,000 shares, with a par value of $0.001 per share, of which 640,000,000 are deemed common shares and the remaining 10,000,000 are deemed eligible to be divisible into classes, series and types with rights and preferences as designated by our Board of Directors.

We have not had any bankruptcy, receivership or similar proceeding since incorporation. Except as described below, there have been no material reclassifications, mergers, consolidations or purchases or sales of any significant amount of assets not in the ordinary course of business since the date of incorporation.

Further details regarding each of our Madagascar properties, although not incorporated by reference, including the comprehensive feasibility studies prepared in accordance with Canada's National Instrument 43-101 - *Standards of Disclosure for Mineral Projects* ("NI 43-101") for the Molo Graphite Project and separately the technical report on the Green Giant Property in Madagascar can be found on the Company's website at www.nextsourcematerials.com (which website is expressly not incorporated by reference into this filing) or in the Company's Canadian regulatory filings at www.sedar.com (which website and content is expressly not incorporated by reference into this filing).

We report mineral reserve estimates in accordance with the Securities and Exchange Commission's Industry Guide 7 ("Guide 7") under the Securities Act of 1933, as amended (the "U.S. Securities Act"). As a reporting issuer in Canada with our primary trading market in Canada, we are also required to prepare reports on our mineral properties in accordance with NI 43-101. The technical reports referenced in this document use the terms "mineral resource," "measured mineral resource," "indicated mineral resource" and "inferred mineral resource". These terms are defined in and required to be disclosed by NI 43-101; however, these terms are not defined terms under Guide 7 and are normally not permitted to be used in reports filed with the Securities and Exchange Commission. As a result, information in respect of our mineral resources determined in accordance with NI 43-101 is not contained in this document.

Cautionary Note

Based on the nature of our business, we anticipate incurring operating losses for the foreseeable future. We base this expectation, in part, on the fact that very few mineral properties in the exploration stage are ultimately developed into producing and profitable mines. Our future financial results are uncertain due to a number of factors, some of which are outside the Company's control. These factors include, but are not limited to: (a) our ability to raise additional funding; (b) the market price for graphite, vanadium, gold and/or uranium; (c) the results of the exploration programs and metallurgical analysis of our mineral properties; (d) the political instability and/or environmental regulations that may adversely impact costs and ability to operate in Madagascar; and (e) our ability to find joint venture and/or off-take partners in order to advance the development of our mineral properties.

Any future equity financing will cause existing shareholders to experience dilution of their ownership interest in the Company. In the event the Company is not successful in raising additional financing, we anticipate the Company will not be able to proceed with its business plan. In such a case, the Company may decide to discontinue or modify its current business plan and seek other business opportunities in the resource sector.

During this period, the Company will need to maintain periodic filings with the appropriate regulatory authorities and will incur legal, accounting, administrative and listing costs. In the event no other such opportunities are available and the Company cannot raise additional capital to sustain operations, the Company may be forced to discontinue the business. The Company does not have any specific alternative business opportunities under consideration and have not planned for any such contingency.

Due to the present inability to generate revenues, accumulated losses, recurring losses and negative operating cash flows, the Company has stated its opinion in Note 1 of our audited financial statements, as included in this annual report, that there currently exists substantial doubt regarding the Company's ability to continue as a going concern.

Summary of Milestones

In July 2016, we appointed UK-based HCF International Advisers Limited ("HCF") as advisor in negotiating and structuring strategic partnerships, off take agreements and debt financing for our Molo Graphite Project in Madagascar. Discussions in respect of these matters have been ongoing for the past 26 months and are expected to continue during the coming months with no assurances as to the conclusion or results of these discussions.

In August 2016, we initiated a Front-End Engineering Design Study (the "FEED Study") and value engineering for our Molo Graphite Project in Madagascar. The FEED Study was undertaken in order to optimize the mine plan as envisioned in the technical report titled "Molo Feasibility Study – National Instrument 43-101 Technical Report on the Molo Graphite Project located near the village of Fotadrevo in the Province of Toliara, Madagascar", dated July 13, 2017, effective as of July 13, 2017 (the "Molo Feasibility Study") and determine the optimal development path based on discussions with prospective strategic partners. All costing aspects were examined with the goal of providing a method to produce meaningful, multi-tonne test samples of Molo graphite concentrate to potential off-takers while reducing the CAPEX and time required to the commencement of commercial production.

On November 7, 2016, we outlined a phased mine development plan for the Molo Graphite Project based on the FEED Study and value engineering. The results supported the construction of a plant to test and verify the flow sheet design from the Molo Feasibility Study. Under the existing Exploration Permit, the Company is limited to an ore input of 20,000 cubic meters (or approximately 50,000 tonnes) of front-end feed into the demonstration plant. Upon approval of a full mining permit, the 20,000-cubic meter test limit would be removed and at full capacity, the demonstration plant would be capable of processing up to 240,000 tonnes of feed per annum, which equates to 30 tonnes per hour of ore feed and roughly 1 to 3 tonnes of flake graphite concentrate production per hour.

Phase 1

Phase 1 would consist of a fully operational and sustainable graphite mine with a permanent processing plant capable of producing, in our estimation, approximately 17,000 tpa of high-quality SuperFlake™ graphite concentrate with a mine life of 30 years (as discussed below). The fully-modularized mining operation in this phase will use a 100% owner-operated fleet that we believe will process an average of 240,000 tonnes of ore per year (or 30 tonnes per hour) of mill feed (ore) that will be processed on site. Phase 1 will provide "proof of concept" for the modular methodology and allow NextSource the flexibility to optimize further the process circuit while being capable of supplying a true "run-of-mine" flake concentrate to potential off-takers and customers for final product validation. All supporting infrastructure including water, fuel, power, dry-stack tailings and essential buildings will be constructed during Phase 1 to sustain the fully operational and permanent processing plant. The plant will utilize dry-stack tailings in order to eliminate the up-front capital costs associated with a tailings dam. NextSource's existing camp adjacent to the nearby town of Fotadrevo will be used to accommodate employees and offices, with additional housing available within the town for additional employees.

Phase 2

Phase 2 would consist of a modular expansion to plant capable of producing approximately 50,000 tpa of high-quality SuperFlake™ graphite concentrate. Timing of the implementation of Phase 2 will be determined by market demand for SuperFlake™ graphite and will incorporate the unique full-modular build approach used in Phase 1. This phase will include the construction of additional on-site accommodation and offices, upgrading of road infrastructure, port facility upgrades, a wet tailings dam facility and further equipment purchases to provide redundancy within the processing circuit. The costs for these capital expenditures are unknown at this time, but will be assessed as part of an economic analysis completed in parallel with Phase 1 development.

On June 1, 2017, we released the results of a positive updated Molo Feasibility Study for Phase 1 of the mine development plan utilizing a fully modular build-out approach which was based on the FEED Study and subsequent detailed engineering studies. Phase 1 would consist of a fully operational and sustainable graphite mine with a permanent processing plant capable of producing, in our estimation, approximately 17,000 tpa of high-quality SuperFlake™ graphite concentrate per year with a mine life of 30 years. The Phase 1 production costs were estimated at $433 per tonne at the plant and $688 per tonne delivered CIF port of Rotterdam. The Phase 1 capital costs were estimated at $18.4 million with a construction projected but not guaranteed timeline of approximately 9 months. Based on an average selling cost of $1,014 per tonne, the Phase 1 was estimated to have a pre-tax NPV of $34 million using an 8% discount rate, a pre-tax internal rate of return (IRR) of 25.2%, and a post-tax IRR of 21.5%.

Summary of Future Plans

We have applied for a mining permit from the Government of Madagascar to begin construction of Phase 1 of the Molo Graphite Project. Although the Company believes it has complied with all permit requirements and has submitted all necessary documents, there can be no assurances as to the timing of the receipt of a mining permit.

In anticipation of receiving the mine permit and of eventual graphite production, we have continued to pursue negotiations in respect of potential off-take agreements with graphite end-users and intermediaries with the intention of securing project financing alternatives, which may include debt, equity and derivative instruments.

From the date of this report, and subject to availability of capital and unforeseen delays in receiving the mining permit for the Molo Graphite Project, our business plan during the next 12 months is to incur between $2,200,000 to $23,000,000 on further permitting, engineering, construction, professional fees, G&A and working capital costs to achieve initial production at the Molo Graphite Project by July 2018. No assurances can be provided that we will achieve our production objective by that date.

The following is a summary of the amounts budgeted to be incurred (presuming all $23,000,000 is required):

Professional Fees and General and Administrative	$	1,500,000
Environmental and Permitting Fees	$	700,000
Phase 1 Processing Plant CAPEX	$	14,500,000
Phase 1 Infrastructure CAPEX	$	400,000
Construction Financing Costs	$	1,100,000
Construction Contingency Costs (10%)	$	1,700,000
Working Capital for Mine Startup	$	3,100,000
Total	**$**	**23,000,000**

The above amounts may be updated based on actual costs and the timing may be delayed or adjusted based on several factors, including the availability of capital to fund the budget. We anticipate that the source of funds required to complete the budgeted items disclosed above will come from private placements in the capital markets, but there can be no assurance that financing will be available on terms favorable to the Company or at all.

We will also assess the addition of back-end value-added processing for lithium-ion battery and graphite foil applications in the classification portion of the plant. The costs for any value-added processing is unknown at this time, but will be assessed in parallel with the development of Phase 1.

Employees

As of the date of this annual report, we have 4 full-time employees and consultants based in Toronto and South Africa engaged in the management of the Company as well as several additional consultants in South Africa and Madagascar that serve managerial and non-managerial functions.

Competitive Conditions in our Industry

The mineral exploration and mining industry is competitive in all phases of exploration, development and production. We compete with a number of other entities and individuals in the search for, and acquisition of, attractive mineral properties. As a result of this competition, the majority of which is with companies with greater financial resources than us, we may not in the future be able to acquire attractive properties on terms our management considers acceptable. Furthermore, we compete with other resource companies, many of whom have greater financial resources and/or more advanced properties that are better able to attract equity investments and other capital. Factors beyond our control may affect the marketability of minerals mined or discovered by us.

Government Regulations and Permitting

The receipt of the exploitation permit is a critical step in the larger permitting and licensing regime. The permitting and licensing of the Molo Graphite Project requires dedicated attention to ensure momentum is maintained during the application for and delivery of all necessary permits and licenses.

The Molo Graphite Project exploration permit PR 3432 is currently held under the name of one of our Madagascar subsidiary ERG Madagascar SARLU. Our Madagascar subsidiaries have paid all taxes and administrative fees to the Madagascar government and its mining ministry with respect to all the mining permits held in country. These taxes and administrative fee payments have been acknowledged and accepted by the Madagascar government. In addition, we continue to diligently work with the Madagascar government to obtain the necessary permits as the country clears its backlog of applications and amendments.

We have applied to have the Molo Graphite Project exploration permit converted into an exploitation permit, which is expected to be completed in due course. The exploitation permit is required to advance the Molo Project into the developmental stage.

A comprehensive Environmental and Social Impact Assessment ("ESIA"), developed to local Malagasy, Equator Principles, World Bank and International Finance Corporation (IFC) standards, is nearing completion. This process was preceded by an Environmental Legal Review and an Environmental and Social Screening Assessment; both providing crucial information to align the project development and design with international best practice on sustainable project development.

Application for all necessary permits to construct and operate the mine, including water use, construction, mineral processing, transportation, export, and labour will be undertaken within the ESIA review period (6 months), which is expected to be from September 2017 till February 2018.

Security of land tenure is a process that is estimated to take 6-9 months to complete. Compilation of a comprehensive legal register will also be required.

The Company cannot provide any assurance as to the timing of the receipt of the required permits and licenses.

Graphite Prices

Graphite prices are highly variable depending on the flake size, carbon content and level of processing.

Natural flake graphite prices rose steeply in 2010 and 2011 before declining steadily until mid-2016. This price peak was the result of graphite consumer fears that Chinese consolidation in the flake graphite sector, coupled with bullish forecasts for demand growth for use in lithium-ion batteries, would create an eventual shortage of supply and encouraged producers to hoard stocks and traders to speculate on prices. Instead, Chinese flake graphite consolidation continued but at a slower than expected pace and lithium-ion-based electric vehicle ("EV") adoption rates were also been slower than first predicted.

This is expected to change over the next decade as the market for lithium-ion battery components increases graphite demand, resulting in price increases for battery grades.

Larger flake sizes and higher carbon grades have always achieved the highest price. The jumbo flake price premium is justified because of the use of the larger fractions in specialist applications. The actual market size for these larger fractions is relatively small but is forecast to grow over the next ten years.

The 3-year historic average price for global flake graphite across different flake sizes were as follows:

Global Flake Graphite Weighted Average Selling Price

	2014	2015	2016	3-Year Average
Jumbo Flake	$1,821	$1,530	$1,470	$1,607
Large Flake	$1,317	$1,183	$861	$1,120
Medium Flake	$1,042	$1,025	$770	$946
Fine Flake	$965	$846	$668	$826

Source: Flake graphite average prices provided by Roskill Consulting Group Ltd.

The rapid uptake of lithium-ion batteries between 2017 and 2030 is expected to encourage growth in the demand for fine and medium size flake graphite. The future price of flake graphite from 2017 until 2030 will be influenced by several factors until 2030, including:

- Amount of graphite supply from new projects and expansions of existing projects in China and ROW
- Curtailment of flake graphite production in China as the government imposes environmental controls
- Demand and supply balance by graphite flake size
- Growth of the lithium-ion battery market
- Competition from synthetic graphite
- Recycling of refractory graphite products

Cautionary note to U.S. investors regarding estimates of measured, indicated and inferred resources and proven and probable reserves

As used in this Annual Report on Form 10-K, the terms "mineral reserve", "proven mineral reserve" and "probable mineral reserve" are Canadian mining terms as defined in accordance with NI 43-101 and the Canadian Institute of Mining, Metallurgy and Petroleum (CIM)-CIM Definition Standards on Mineral Resources and Mineral Reserves, adopted by the CIM Council, as amended ("CIM Definition Standards").

These definitions differ from the definitions in Guide 7 under the Securities Act. However, despite the differences in the definition between NI 43-101 and Guide 7:

- *Erudite Strategies (Pty) Ltd. has stated that the Proven and Probable Reserves reported in the Molo Feasibility Study are equal to the proven and probable reserves which would have been reported had the reports been prepared pursuant to Guide 7 standards, and in such disclosures, the procedures and definitions employed in the estimation of proven and probable reserves is also consistent with Guide 7 definitions*

Proven and probable reserves are based on extensive drilling, sampling, mine modeling and metallurgical testing from which we determined economic feasibility. The term "proven reserves" means mineral reserves for which (i) quantity is computed from dimensions revealed in outcrops, trenches, workings or drill holes; (ii) grade and/or quality are computed from the results of detailed sampling; and (iii) the sites for inspection, sampling and measurements are spaced so closely and the geologic character is sufficiently defined that size, shape, depth and mineral content of reserves are well established. The term "probable reserves" means mineral reserves for which quantity and grade are computed from information similar to that used for proven reserves, but the sites for sampling are farther apart or are otherwise less adequately spaced. The degree of assurance, although lower than that for proven reserves, is high enough to assume continuity between points of observation. The price sensitivity of reserves depends upon several factors including grade, metallurgical recovery, operating cost, waste-to-ore ratio and ore type. Metallurgical recovery rates vary depending on the metallurgical properties of each deposit and the production process used.

The proven and probable reserve figures presented herein are estimates based on information available at the time of calculation. No assurance can be given that the indicated levels of recovery of minerals will be realized. Minerals included in the proven and probable reserves are those contained prior to losses during metallurgical treatment. Reserve estimates may require revision based on actual production. Market fluctuations in the price of minerals, as well as increased production costs or reduced metallurgical recovery rates, could render certain proven and probable reserves containing lower grades of mineralization uneconomic to exploit and might result in a reduction of reserves

Mr. Craig Scherba, President and CEO of the Company, is designated as the "qualified person" who reviewed and approved the technical disclosure contained in this document.

Molo Graphite Project, Southern Madagascar, Africa

Madagascar has been a traditional producer of flake graphite for over a century but has never exceeded 12,000 tonnes of production annually. Currently, Madagascar's annual production of flake graphite averages about 5,000 tonnes. The Molo Graphite Project deposit represents the first new and substantial graphite discovery in the country in over 50 years.

Project Timeline

The Molo Graphite Project is one of seven surficial graphite trends discovered and drill tested by NextSource in late 2011 and announced to the market in early January 2012. The Molo deposit itself occurs in a flat, sparsely populated and dry savannah grassland region that has easy access via a network of seasonal secondary roads.

The Molo Graphite Project graphitic zone consists of multi-folded graphitic strata with a surficially exposed strike length of over two kilometres. Outcrop mapping and trenching on the Molo Graphite Project has shown the surface geology to be dominated by resistant ridges of graphitic schist and graphitic gneiss, as well as abundant graphitic schist float. Geological modeling has shown that the Molo Graphite Project deposit consists of various zones of mineralized graphitic gneiss, with a barren footwall composed of garnetiferous gneiss. The host rock of the mineralized zones on the Molo Graphite Project is graphitic gneiss.

Resource delineation, drilling and trenching on the Molo Graphite Project took place between May and November of 2012, which resulted in a maiden mineral resource estimate to be released in early December of the same year. This maiden mineral resource estimate formed the basis for the Company's Preliminary Economic Assessment (the "PEA"), which was undertaken by DRA Mineral Projects and released in 2013.

The positive outcome of the PEA led NextSource to undertake another phase of exploratory drilling and sampling in 2014 to upgrade the deposit and its contained mineral resources to mineral reserves. The process included an additional 32 diamond drill holes (totaling 2,063 metres) and 9 trenches (totaling 1,876 metres). The entire database upon which the upgraded resource estimate was based contained 80 drill holes (totaling 11,660 metres) and 35 trenches (totaling 8,492 metres). This new mineral resource formed the basis of the Molo Feasibility Study, which was originally released in February 2015.

In July 2016, we appointed HCF as advisor in negotiating and structuring strategic partnerships, off-take agreements and debt financing for its Molo Graphite Project.

In August 2016, we initiated the FEED Study and value engineering for our Molo Graphite Project in Madagascar. The FEED Study was undertaken in order to optimize the mine plan as envisioned in the Molo Feasibility Study and determine the optimal development path based on discussions with prospective strategic partners. All costing aspects were examined with the goal of providing a method to produce meaningful, multi-tonne test samples of Molo graphite concentrate to potential off-takers while reducing the CAPEX and time required to the commencement of commercial production.

On November 7, 2016, we outlined a phased mine development plan for the Molo Graphite Project based on the FEED Study and value engineering. The results supported the construction of a cost-effective demonstration plant to test and verify the flow sheet design from the Molo Feasibility Study. Under the Exploration Permit, the Company would initially be limited to an ore input of 20,000 cubic meters (or approximately 50,000 tonnes) of front-end feed into the demonstration plant. Upon approval of a full mining permit, the 20,000 cubic meter test limit would be removed and at full capacity, the demonstration plant would be capable of processing up to 240,000 tonnes of feed per annum, which equates to 30 tonnes per hour of ore feed and roughly 1 to 3 tonnes of flake graphite concentrate production per hour.

On June 1, 2017, we released the results of a positive updated Molo Feasibility Study for Phase 1 of the mine development plan utilizing a fully modular build-out approach and based on the FEED Study and subsequent detailed engineering studies. Phase 1 would consist of a fully operational and sustainable graphite mine with a permanent processing plant capable of producing approximately 17,000 tpa of high-quality SuperFlake™ graphite concentrate per year with a mine life of 30 years. The Phase 1 production costs were estimated at $433 per tonne at the plant and $688 per tonne delivered CIF port of Rotterdam. The Phase 1 capital costs were estimated at US$18.4 million with a construction timeline of approximately 9 months. Based on an average selling cost of $1,014 per tonne, the Phase 1 financials were estimated to have a pre-tax NPV of $34M using an 8% discount rate, a pre-tax internal rate of return (IRR) of 25.2%, and a post-tax IRR of 21.5%. The average selling price of $1,014 per tonne is the weighted average

selling price for the different graphite sizes that we expect to sell. The average selling price is less than the comparable 3-year historic weighted average price.

Molo Feasibility Study

The following information is derived from the Molo Feasibility Study dated July 13, 2017 and prepared by J.K. de Bruin Pr.Eng of Erudite Strategies (Pty) Ltd., J. Hancox of Caracle Creek International Consulting (Pty) Ltd., D. Subrumani of Caracle Creek International Consulting (Pty) Ltd., D. Thompson of DRA Projects (Pty) Ltd., O. Peters of Metpro Management Inc., P. Harvey of Met63 (Pty) Ltd., H. Smit of Erudite Projects (Pty) Ltd., E.V. Heerden of EVH Consulting (Pty) Ltd., G. Pappagiorgio of Epoch Resources (Pty) Ltd. and A. Marais of GCS Consulting (Pty) Ltd., each of whom is a "qualified person" and "independent", as such terms are defined in NI 43-101.

The information below does not purport to be a complete summary of the Molo Graphite Project and is subject to all the assumptions, qualifications and procedures set out in the Molo Feasibility Study and is qualified in its entirety with reference to the full text of the Molo Feasibility Study. It is advised that this summary should be read in conjunction with the Molo Feasibility Study (which is not incorporated by reference into this filing).

(See "*Cautionary note to U.S. investors regarding estimates of measured, indicated and inferred resources and proven and probable reserves.")*

Overview

The Molo Feasibility Study was undertaken to reflect the Company's decision to revise Phase 1 of its Molo Graphite Project mine plan from a demonstration plant to a fully operational and sustainable graphite mine with a permanent processing plant capable of producing, in our estimation, approximately 17,000 tpa of high-quality SuperFlake™ concentrate per year with a mine life of 30 years.

The Molo Feasibility Study for Phase 1 of the Molo Graphite Project was based on FEED Study and subsequent detailed engineering studies. The updated Molo Feasibility Study incorporates the procurement of all mining equipment, off-site modular fabrication and assembly, factory acceptance testing ("FAT"), module disassembly, shipping, plant infrastructure construction, onsite module re-assembly, commissioning, project contingencies and three months of capital. All capital and operating costs expressed below are considered to be accurate to +/- 10%.

The Molo Feasibility Study highlights are:

- Initial production of 17,000 tpa of SuperFlake™ graphite during Phase 1
- Phase 1 CAPEX estimated at $18.4 million using a modular assembly approach
- Dry stack tailings can be utilized for Phase 1 production instead of cyclone deposition, which significantly reduces the CAPEX associated with a conventional tailings deposition facility
- Total build and commissioning of the Molo Graphite Project mine is estimated at 9 months
- Number of on-site personnel during construction is estimated at 50 people
- Weighted averge selling price of $1,014 per tonne, which reflects current market conditions and is lower than the 3-year historic weighted average price for flake graphite
- Total all-in OPEX of $433 per tonne at the plant and of $688 per tonne for CIF delivery to customer port Rotterdam
- The financial results are based on 100% equity funding
- Pre-tax NPV of $34 million and pre-tax IRR of 25.2%

Updated Phase 1 Feasibility Study Results Highlights[(1)]	**Pre-Tax**	**Post-Tax**
NPV at 8% Discount Rate	$34.0 M	$25.5 M
Internal Rate of Return (IRR)	25.2%	21.6%
Payback Period	4.2 years	4.8 years
Average annual graphite concentrate production	17,000 tonnes	
Average production costs of graphite concentrate (at plant)	$433 / tonne	
Average production costs of graphite concentrate (Delivered CIF Port of Rotterdam)	$688 / tonne	
Weighted average selling price (in USD)	$1,014 / tonne	
Direct CAPEX	$14.5 M	

Indirect CAPEX	$0.4 M
Environmental and Permitting	$0.7 M
Owner's Costs	$1.1 M
Contingency (10%)	$1.7 M
Sub Total CAPEX	**$18.4 M**
Working Capital (3 months)	$3.1 M
Total CAPEX	**$21.5 M**
Projected build period	9 months

(1) Unless otherwise noted, all monetary figures presented throughout this press release are expressed in US dollars (USD). The exchange rates used in the financial model are 12.85 South African Rand (ZAR) to US$1, moving in line with purchasing power parity

(2) Direct CAPEX includes process equipment, civil & infrastructure, mining, buildings, electrical infrastructure, and project & construction services

The weighted average selling price used in the Molo Feasibility Study is the volume weighted average sales price for the various flake sizes and grades of SuperFlake™ graphite concentrate that are expected to be produced from the Molo Graphite Project deposit. This price is based on current quotes and projected real (as opposed to nominal) estimates provided by UK-based Roskill Consulting Group Ltd ("Roskill"), who are recognized as a leader in providing independent and unbiased market research, pricing trends and demand and supply analysis for the natural flake graphite market.

Molo Feasibility Study Weighted Average Selling Price

Flake Sizes	Graphite Sales Volume Weighting	Forecast Average Price per Tonne	Basket Price per Tonne
Jumbo Flake	15.7%	$1,499	$235
Large Flake	27.8%	$1,094	$304
Medium Flake	9.7%	$920	$89
Fine Flake	46.7%	$824	$385
Feasibility Study Weighted Average Selling Price			**$1,014**

The weighted average selling price used in the Molo Feasibility Study is less than the 3-year historic weighted average selling price, which was $1,041 per tonne.

Global Graphite Average Selling Prices by Flake Size

Flake Sizes	2014	2015	2016	3-Year Historic Average Price Per Tonne
Jumbo Flake	$1,821	$1,530	$1,470	$1,607
Large Flake	$1,317	$1,183	$861	$1,120
Medium Flake	$1,042	$1,025	$770	$946
Fine Flake	$965	$846	$668	$826

Source: Flake graphite average prices provided by Roskill Consulting Group Ltd.

Weighted Average Selling Price Using 3-Year Historic Average Price

Flake Sizes	Graphite Sales Volume Weighting	3-Year Historic Average Price per Tonne	Basket Price per Tonne
Jumbo Flake	15.7%	$1,607	$252
Large Flake	27.8%	$1,120	$311
Medium Flake	9.7%	$946	$91
Fine Flake	46.7%	$826	$386
3-Year Historic Weighted Average Selling Price			**$1,041**

No pricing premium for valued-added applications was applied on any sales. Furthermore, no financial or operational calculations and/or scenarios in the updated Molo Feasibility Study financial model with regards to downstream value-added processing of SuperFlake™ graphite concentrate were included. This includes purification, spherodization coating for battery-grade graphite and thermal expansion for specialty graphite applications, such as foils.

Project Description, Location and Access

Property and Site Description

The Molo Graphite Project deposit is situated 160 km southeast of the city of Toliara, in the Tulear region of south-western Madagascar, and about 220 km NW of Fort Dauphin. The deposit occurs in a sparsely populated, dry savannah grassland region, which has easy access via a network of seasonal secondary roads radiating outward from the village of Fotadrevo. Fotadrevo in turn has an all-weather airstrip and access to a road system that leads to the regional capital (and port city) of Toliara and the Port of Ehoala at Fort Dauphin via the RN10, or RN13.

The Project is centred on UTM coordinates 413,390 Easting 7,345,713 Northing (UTM 38S, WGS 84 datum). The Molo Graphite Project covers an area of 62.5 hectares ("ha"). The Government of Madagascar designates individual claims by a central LaBorde UTM location point, comprising a square with an area of 6.25 km2.

Geologically, the Molo Graphite Project is situated in the Bekikiy block (Tolagnaro-Ampanihy high grade metamorphic province) of southern Madagascar. The deposit is underlain predominantly by moderately to highly metamorphosed and sheared graphitic (biotite, chlorite and garnet- rich) quartzo-feldspathic schists and gneisses, which are variably mineralised. Near surface rocks are oxidised, and saprolitic to a depth, usually of less than 5m.

The Molo Graphite Project is one of several surficial graphite trends discovered by the Company in late 2011 and announced in early January 2012. The deposit was originally drill tested in 2012, with an initial seven holes being completed. Resource delineation, drilling and trenching on the Molo Graphite Project took place between May and November of 2012, and allowed for a maiden mineral resource estimates to be stated in early December of the same year. This maiden mineral resource estimate formed the basis for the PEA, which was undertaken by DRA Mineral Projects in 2013. The positive outcome of the PEA led the Company to undertake another phase of exploratory drilling and sampling in 2014, which was done under the supervision of Caracle Creek International Consulting (Proprietary) Limited ("Caracle Creek"). This phase of exploration was aimed at improving the geological confidence of the deposit and the contained mineral resources, and included an additional 32 diamond drill holes (totalling 2,063 metres) and 9 trenches (totalling 1,876 metres). Caracle Creek were subsequently engaged to update the geological model and mineral resource estimate. The entire database on which this new model and mineral resource estimate is based contains 80 drill holes (totalling 11,660 metres) and 35 trenches (totalling 8,492 metres). This new mineral resource forms the basis for the original feasibility study completed on the Molo Graphite Project in 2015 which targeted 860ktpa of ore processing capacity.

The Molo Feasibility Study utilises the knowledge base of the original feasibility study completed on the Molo Graphite Project in 2015 on a smaller scale low capital cost 240ktpa process capacity option.

Figure 1: Project Location

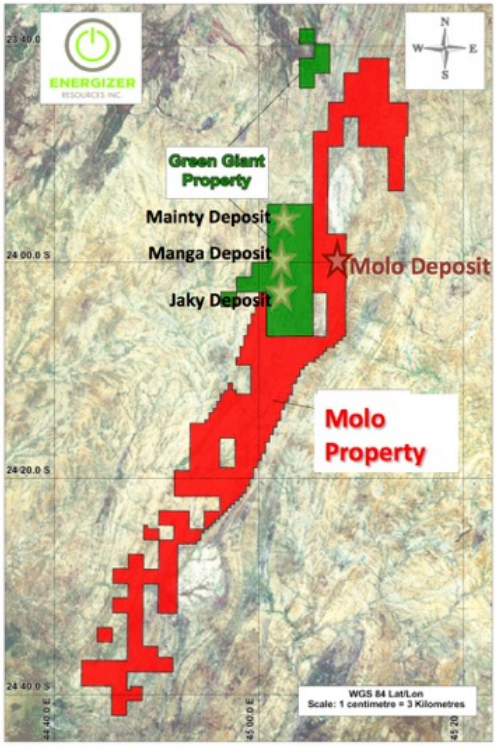

Figure 2.1: Exploration Area

The proposed development of the Molo graphite project includes the construction of a green fields open pit mine, a processing plant with a capacity of 240,000 tonnes of ore per annum and all supporting infrastructure including water, fuel, power, tailings, buildings and permanent accommodation.

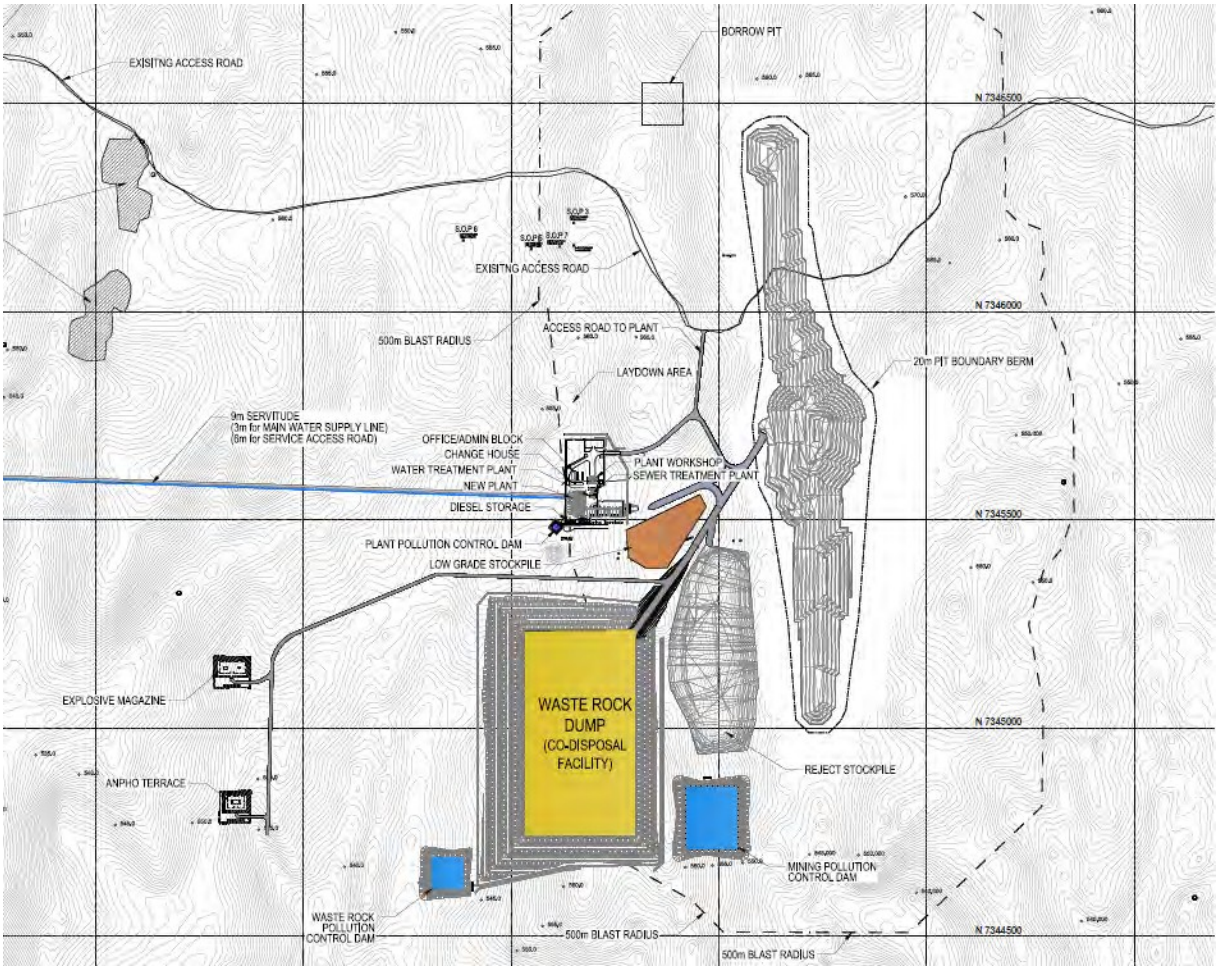

Figure 2.2: Site Layout

Ownership

On December 14, 2011, we entered into a Definitive Joint Venture Agreement ("JVA") with Malagasy Minerals Limited ("Malagasy"), a public company on the Australian Stock Exchange, to acquire a 75% interest to explore and develop a group of industrial minerals, including graphite, vanadium and approximately 25 other minerals at the Molo Graphite Project. The land position covers 2,119 permits and 827.7 square kilometres and is mostly adjacent to the south and east of the Company's 100% owned Green Giant Property. We paid $2,261,690 and issued 7,500,000 common shares valued at $1,350,000 to Malagasy.

On April 16, 2014, we signed a Sale and Purchase Agreement and a Mineral Rights Agreement with Malagasy to acquire the remaining 25% interest in the Molo Graphite Project. We made the following payments at that time: $364,480 (CAD$400,000); issued 2,500,000 common shares subject to a 12 month voluntary vesting period and valued at $325,000; and issued 3,500,000 common share purchase warrants, valued at $320,950 using the Black Scholes pricing model with an exercise price of $0.14 and an expiry date of April 15, 2019.

On May 20, 2015 we paid $546,000 (CAD$700,000), and issued 1,000,000 common shares due to the completion of a bankable feasibility study (“BFS”) for the Molo Graphite Project. Further, a cash payment of $801,584 (CAD$1,000,000) will be due within five days of the commencement of commercial production. Malagasy retains a 1.5% net smelter return royalty ("NSR") on the Molo Graphite Project. We also acquired a 100% interest to the industrial mineral rights on approximately 1 1/2 additional claim blocks comprising 10,811 hectares to the east and adjoining the Molo Graphite Project.

Royalties

Malagasy retains a 1.5% net smelter return royalty on the Molo Graphite Project.

Government Regulations and Permitting

The Molo Graphite Project is located within Exploration Permit #3432 (the “Exploration Permit” or “PR 3432”) as issued by the Bureau de Cadastre Minier de Madagascar (“BCMM”) pursuant to the Mining Code 1999 (as amended) and its implementing decrees.

Carracle Creek International Consulting (Pty) Ltd., which was a consultant for the Molo Feasibility Study, has had sight of and reviewed a copy of the “Contrat d’amodiation” pertaining to this right and are satisfied that the rights to explore this Exploration Permit have been ceded to the Company or one of its Madagascar subsidiaries.

The Company holds the exclusive right to explore for a defined group of industrial minerals within the Exploration Permit listed above. These industrial minerals include the following: Vanadium, Lithium, Aggregates, Alunite, Barite, Bentonite, Vermiculite, Carbonatites, Corundum, Dimensional stone (excluding labradorite), Feldspar (excluding labradorite), Fluorspar, Granite, Graphite, Gypsum, Kaolin, Kyanite, Limestone / Dolomite, Marble, Mica, Olivine, Perlite, Phosphate, Potash–Potassium minerals, Pumice Quartz, Staurolite, and Zeolites.

Reporting requirements of exploration activities carried out by the titleholder on an Exploration Permit are minimal. A titleholder must maintain a diary of events and record the names and dates present of persons active on the project. In addition, a site plan with a scale between 1/100 and 1/10,000 showing “a map of the work completed” must be presented. Upon establishment of a mineral resource, Exploration Permits may be converted into Exploitation Permits by application. Carracle Creek is of the opinion that the Company is compliant in terms of its commitments under these reporting requirements.

The Molo Graphite Project has not been legally surveyed; however, since all claim boundaries conform to the predetermined rectilinear LaBorde Projection grid, these can be readily located on the ground by use of Global Positioning System (“GPS”) instruments. Most current GPS units and software packages do not however offer LaBorde among their available options, and therefore defined shifts have to be employed to display LaBorde data in the WGS 84 system. For convenience, all Company positional data is collected in WGS 84, and if necessary converted back to LaBorde Royalties.

The receipt of the exploitation permit is a critical step in the larger permitting and licensing regime. The permitting and licensing of the Molo Graphite Project requires dedicated attention to ensure momentum is maintained during the application for and delivery of all necessary permits and licenses.

The Molo Graphite Project exploration permit PR 3432 is currently held under the name of one of our Madagascar subsidiary ERG Madagascar SARLU. Our Madagascar subsidiaries have paid all taxes and administrative fees to the Madagascar government and its mining ministry with respect to all the mining permits held in country. These taxes and administrative fee payments have been acknowledged and accepted by the Madagascar government. In addition, we continue to diligently work with the Madagascar government to obtain the necessary permits as the country clears its backlog of applications and amendments.

We have applied to the BCMM to have the Molo Graphite Project exploration permit converted into an exploitation permit, which is expected to be completed in due course. The exploitation permit is required to advance the Molo Project into the developmental stage.

A comprehensive Environmental and Social Impact Assessment ("ESIA"), developed to local Malagasy, Equator Principles, World Bank and International Finance Corporation (IFC) standards, is nearing completion. This process was preceded by an Environmental Legal Review and an Environmental and Social Screening Assessment; both providing crucial information to align the project development and design with international best practice on sustainable project development.

Application for all necessary permits to construct and operate the mine, including water use, construction, mineral processing, transportation, export, and labour will be undertaken within the ESIA review period (6 months), which is expected to be from September 2017 till February 2018.

Security of land tenure is a process that is estimated to take 6-9 months to complete. Compilation of a comprehensive legal register will also be required.

The Company cannot provide any assurance as to the timing of the receipt of the required permits and licenses.

Geological Setting, Mineralization and Deposit Types

Regional Geology

Madagascar comprises a fragment of the African Plate, which rifted from the vicinity of Tanzania at the time of the breakup of Gondwana, some 180 million years ago. At that time Madagascar remained joined with India, moving east-by-south until the late Cretaceous (approximately 70 million years ago), whereupon the two land masses split apart. On a regional scale Madagascar can be described as being formed by two geological entities, a Precambrian crystalline basement, and a much younger Phanerozoic sedimentary cover Figure 12 that hosts potentially economic coal deposits. The central and eastern two thirds of the island are mainly composed of Neoproterozoic-aged, crystalline basement rocks, composed of a complex mélange of metamorphic schist and gneiss intruded by younger granitic and basic igneous Carboniferous to Permian-Triassic. These rocks correlate with the Karoo Super group successions of sub-Saharan Africa, which was widespread in the former supercontinent of Gondwana.

The geology of the basement of Madagascar is composed of intercontinental tectonic blocks made up of ancient poly-deformed, high-grade metamorphic rocks and later igneous intrusions. The tectonic and metallogenic basement framework was originally subdivided into four blocks (Besarie, 1967), these beingthe: northern Bemarivo Block; northeastern Antongil Block; central Antananarivo Block; and the southern Bekily Block. The Molo Graphite Project lies entirely within the bounds of the Bekily Block.

Molo Graphite Project Geology

The Molo Graphite Project graphitic zone consists of multi-folded graphitic strata with a surficially exposed strike length of over two kilometres. Outcrop mapping and trenching on Molo Graphite Project has shown the surface geology to be dominated by resistant ridges of graphitic schist and graphitic gneiss, with fracture-lined vanadium mineralisation, as well as abundant graphitic schist float. Geological modelling has shown that the deposit consists of various zones of mineralised graphitic gneiss, with a barren footwall composed of garnetiferous gneiss. The host rock of the mineralised zones is graphitic gneiss.

No academic studies have been undertaken on the graphitic schists and gneisses of the Molo Graphite Project deposit and at present the deposit is still not fully understood. There is, however, no indication of secondary hydrothermal, or other transported, post-metamorphic graphitic mineralisation or upgrading and the present distribution and crystallinity of the graphite zones seem to be primarily due to regional metamorphic and structural events.

Deposit Types

The Molo Graphite Project primarily hosts at least two different deposit types: (i) metamorphosed black shale/roll front redox vanadium deposits, and deposit types; and (ii) flake graphite deposits.

Exploration History

The region around the Molo Graphite Project has primarily been explored for base metal type occurrences, although colonial geologic services were alert to all kinds of mineral potential in the region. In 1985 the Bureau de Recherches Géologiques et Minières ("BRGM") produced a three-volume country scale compilation of all exploration and mineral inventory data in their files. Relatively little exploration and development work has been completed in south-western Madagascar after that of BRGM, and therefore these volumes are key to retracing any historical data. Archival research by the Company has not revealed evidence of mineral exploration in the past fifty years within the Molo Graphite Project area.

Prior to the exploration work completed by the Company in 2007, there is no record of any previous exploration activity within the Molo Graphite Project area and no historical resource estimates exist for the area. Between 2007 and 2011 the Company retained Taiga Consultants Limited ("Taiga") to manage exploration activities on the Molo Graphite Project.

The identification of graphite as a potential credit to the the Company's NI 43-101 compliant vanadium resources led to a reconnaissance exploration programme being undertaken on the Molo Graphite Project in September 2011, with the goal of delineating new graphitic trends. Activities during this phase of exploration included prospecting, grab and trench sampling, and diamond drilling.

Based on the results of this programme, the Company launched a second phase of exploration in November 2011. The objective of this second programme was to use geophysical techniques to delineate additional graphite mineralisation, as well as to drill test the known graphitic. The signing of the JVA with Malagasy in November, 2011 prompted additional exploration to ascertain the industrial mineral potential of the Molo Graphite Project area. Exploration activities consisted of, geologic mapping, prospecting and sampling, (including metallurgical), ground geophysical surveying (EM-31), trenching, and diamond drilling. As a consequence of the work undertaken during 2011, the Molo Graphite Project was identified and targeted for additional work, which was undertaken between May 2012 and June 2014.

As at the effective date of the Molo Feasibility Study, no further exploration work is currently planned.

Drilling

The Molo Graphite Project is one of seven surficial graphite trends discovered and drill tested by the Company in late 2011 and announced to the market in early January 2012.

Resource delineation, drilling and trenching on the Molo Graphite Project took place between May and November of 2012, and allowed for a maiden mineral resource estimates to be stated in early December of the same year. This maiden mineral resource estimate formed the basis for the Company's Preliminary Economic Assessment (the "PEA"), which was undertaken by DRA Mineral Projects and released to the market in 2013.

The positive outcome of the PEA led NextSource to undertake another phase of exploratory drilling and sampling in 2014 to upgrade the deposit and its contained mineral resources to mineral reserves. The process included an additional 32 diamond drill holes (totaling 2,063 metres) and 9 trenches (totaling 1,876 metres). The entire database upon which the upgraded resource estimate was based contained 80 drill holes (totaling 11,660 metres) and 35 trenches (totaling 8,492 metres). This new mineral resource formed the basis of the Molo Feasibility Study, which was originally released in February 2015.

Sampling, Analysis and Data Verification

At all times during sample collection, storage, and shipment to the laboratory facility, the samples are in the control of the Company, or our agents. When sufficient sample material (grab, trench, or core) has been collected, the samples are trucked, or flown to the Company's storage location in Antananarivo, at all times accompanied by an employee of the Company.

From there, samples are further shipped to either South Africa (Mintek, or Genalysis), or Canada (Activation Labs) for ICP-MS analysis. Drill core samples collected during 2011 were directed to two major laboratories. All samples collected during Phase I of 2011 were sent to Mintek, South Africa. Samples were then tested for Carbon content (Total Organic Carbon and Overall Carbon content), as well as the full range of elements available through ICP-OES (Mintek code FA5) and XRF analysis.

The remainder of samples collected during Phase II of the 2011 exploration programme were submitted for analysis to Activation Labs, Canada. Samples were again submitted for analysis of Carbon content, as well as for a large range of elemental analysis. During 2012 all samples were submitted to Intertek Genalysis. All work undertaken by Intertek is performed in accordance with the Intertek Minerals Standard Terms and Conditions of which can be downloaded from their web page. All analytical results were e-mailed directly by both Genalysis and Mintek to the Project Manager, as well as the Company's executive staff, and were posted on a secure website and downloaded by Company personnel using a secure username and password. Following the site inspection in May 2012, all analytical results were also e-mailed directly to Dr. Hancox (Carracle Creek) and these were compared against the final data set as presented by the Company.

All of the laboratories that carried out the sampling and analytical work are independent of the Company.

Quality Control Measures

In order to carry out QA/QC protocols on the assays, blanks, standards and duplicates were inserted into the sample streams. This was done once in every 30 samples, representing an insertion rate of 3.33% of the total.

Data Verification

Prior to Carracle Creek's involvement with the Company and the Molo Graphite Project, all information published regarding the 2011 exploration programme was reviewed by an independent Qualified Person as it became available.

The database received by Carracle Creek from the Company contained 80 drill holes totalling 11,660 m and data from 35 trenches totalling 8,492m. With regards to the database, Carracle Creek performed various tests to verify the integrity of the collar co-ordinates, logging and sampling procedures, and assay results. Leapfrog™ Geo software was used for most of the checks.

Metallurgical Test Work

The Molo Feasibility Study is based on a full suite of metallurgical test work performed by SGS Canada Metallurgical Services Inc. in Lakefield, Ontario, Canada. These tests included laboratory scale metallurgical work and a 200 tonne bulk sample / pilot plant program. The laboratory scale work included comminution tests, process development and optimization tests, variability flotation, and concentrate upgrading tests.

Comminution test results place the Molo Graphite Project ore into the very soft to soft category with low abrasivity. A simple reagent regime consists of fuel oil number 2 and methyl isobutyl carbinol at dosages of approximately 120 g/t and 195 g/t, respectively. A total of approximately 150 open circuit and locked cycle flotation tests were completed on almost 70 composites as part of the process development, optimization, and variability flotation program. The metallurgical programs culminated in a process flowsheet that is capable of treating the ore using proven mineral processing techniques and its robustness has been successfully demonstrated in the laboratory and pilot plant campaigns.

The metallurgical programs indicated that variability exists with regards to the metallurgical response of the ore across the deposit, which resulted in a range of concentrate grades between 88.8% total carbon and 97.8% total carbon. Optical mineralogy on representative concentrate samples identified interlayered graphite and non-sulphide gangue minerals as the primary source of impurities. The process risk that was created by the ore variability was mitigated with the design of an upgrading circuit, which improved the grade of a concentrate representing the average mill product of the first five years of operation from 92.1% total carbon to 97.1% total carbon.

The overall graphitic carbon recovery into the final concentrate is 87.8% based on the metallurgical response of composites using samples from all drill holes within the five year pit design of the original feasibility study at the higher concentrate production rate of 53,000 tpa. The average composition of the combined concentrate grade is presented in the table below entitled “Metallurgical Data - Flake Size Distribution and Product Grade”. The size fraction analysis results were converted into a grouping reflecting a typical pricing matrix, which is shown in table below entitled “Pricing Matrix - Flake Size Distribution Grouping and Product Grade”.

All assays were completed using control quality analysis and cross checks were completed during the mass balancing process to verify that the results were within the estimated measurement uncertainly of up to 1.7% relative for graphite concentrate grades greater than 90% total carbon.

Metallurgical Data - Flake Size Distribution and Product Grade

Product Size	% Distribution	Product Grade (%) Carbon
+48 mesh (jumbo flake)	23.6	96.9
+65 mesh (coarse flake)	14.6	97.1
+80 mesh (large flake)	8.2	97.0
+100 mesh (medium flake)	6.9	97.3
+150 mesh (medium flake)	15.5	98.1
+200 mesh (small flake)	10.1	98.1
-200 mesh (fine flake)	21.1	97.5

Pricing Matrix - Flake Size Distribution Grouping and Product Grade

Product Size	% Distribution	Product Grade (%) Carbon
>50 mesh	23.6	96.9
-50 to +80 mesh	22.7	97.1
-80 to +100 mesh	6.9	97.2
-100 mesh	46.8	97.6

Vendor testing including solid-liquid separation of tailings and concentrate, screening and dewatering of concentrate, and drying of concentrate was completed successfully.

Mineral Reserve Estimate

As at the date of the Molo Feasibility Study, the following proven and probable mineral reserves are declared:

Mineral Reserves

Category	Tonnes	C Grade (%)
Proven	5,881,243	8.04
Probable	1,278,757	8.07
Proven and Probable	7,160,000	8.05

Proven reserves are reported as the measured resources inside the designed open pit and above the grade cut off of 5.5% C. Similarly, the probable reserves are reported as the indicated resources inside the designed open pit and above the grade cut-off of 5.5% C.

Mining Methods

The surficial, lateral expanse and the massive nature of the Molo Graphite Project deposit make it suitable for open-pit mining methods. It is a typical pipe-shaped and steeply dipping ore body, with extended mineral outcrop along the strike (north-south direction) of the deposit. In this mining method, the following activities are executed:

- The land is cleared, topsoil is removed and stockpiled at designated sites for use in the future land rehabilitation. Depending on the extent of the abse of weathering, any further waste or ore that can be removed by free-digging is removed and stockpiled accordingly. The topsoil is planned to be used as a berm around the pit to prevent water flow into the pit and minimize transportation costs

- In a number of cyclic processes the waste and/or ,mineralized material is drilled, charged with explosives and blasted, excavated, hauled and dumped in designated sites
- At strategically planned periods the waste around the boundary of the pit is removed in order to mine out deeper ore

The conventional open-pit mining activities are carried out with small to medium sized mining equipment including 30t dump trucks, an excavator and a front end loader.

Detailed geotechnical and hydro-geological studies have been conducted and the reports indicated that there are no fatal flaws regarding the adoption of the open-pit mining as the preferred mining method.

Processing and Recovery Methods

The process design is based on an annual feed plant throughput capacity of 240 kilotonnes at a nominal head grade of 7.04% C(t) producing an estimated average of 15-17 kilotonnes per annum ("ktpa") of final concentrate.

The ore processing circuit consists of three stages of crushing which comprises jaw crushing in the primary circuit, followed by secondary cone crushing and tertiary cone crushing; the secondary and tertiary crushers operate in closed circuit with a double deck classification screen. Crushing is followed by primary milling and screening, graphite recovery by froth flotation and concentrate upgrading circuit, and graphite product and tailings effluent handling unit operations. The crusher circuit is designed to operate 365 days per annum for 24 hours per day at ±55% utilization. The crushed product (P80 of approximately 13 mm) passes through a surge bin from where it is fed to the milling circuit.

The milling and flotation circuits are designed to operate 365 days per annum for 24 hours per day at 92% utilization. A single stage primary ball milling circuit is employed, incorporating a closed circuit classifying screen and a scalping screen ahead of the mill. The scalping screen undersize feeds into a flash flotation cell before combining with the mill discharge material. Scalping and classification screen oversize are the fed to the primary mill.

Primary milling is followed by rougher flotation which, along with flash flotation, recovers graphite to concentrate from the main stream. Rougher flotation employs six forced-draught trough cells. The primary, fine-flake and attritioning cleaning circuits upgrade the concentrate to the final product grade of above 94% C(t). Concentrate from the main stream feeds into the primary cleaning circuit consisting essentially of a dewatering screen, a polishing ball mill, a column flotation cell and flotation cleaner/cleaner scavenger trough cells.

The primary cleaner column cell concentrate gravitates to a 212 µm classifying screen, from where the large-flake oversize stream is pumped to a high rate thickener located in the concentrate attritioning circuit whilst the undersize is pumped to the fine-flake cleaning circuit.

The fine flake cleaning circuit consists primarily of a dewatering screen, a polishing ball mill, a column flotation cell and flotation cleaner/cleaner scavenger trough cells. The attritioning cleaning circuit employs a high rate thickener, an attritioning stirred media mill, a column flotation cell and flotation cleaner/cleaner scavenger trough cells. Fine flake column concentrate is combined with the +212 µm primary cleaner classifying screen oversize as it feeds the attritioning circuit thickener. Concentrate from the attrition circuit is pumped to the final concentrate thickener.

The combined fine flake cleaner concentrate and the +212 µm may also be processed through the secondary attrition circuit which consists of a dewatering screen, an attrition scrubber, column flotation cell and cleaner/cleaner scavenger trough cells. Concentrate from this circuit is pumped to the final concentrate. The secondary attrition circuit is optimal.

Combined rougher and cleaner flotation final tailings are pumped to the final tailings thickener. Thickened final concentrate is pumped to a filter press for further dewatering before the filter cake is stockpiled prior to load and haul.

The concentrate thickener underflow is pumped to a linear belt filter for further dewatering and fed to a diesel-fired rotary kiln for drying. The dried concentrate is then screened into four size fractions:

- +48 mesh
- -48 + 80 Mesh
- -80 +100 mesh
- -100 mesh

The various product sizes are bagged and readied for shipping.

Chemical reagents are used throughout the froth flotation circuits and thickeners. Diesel fuel is used as collector and liquid MIBC (methyl isobutyl carbinol) frother are used within the flotation circuits. Diesel collector is pumped from a diesel storage isotainer, from where it enters a manifold system which supplies multiple variable speed peristaltic pumps which discretely pump the collector at set rates to the various points-of-use within the flotation circuits.

MIBC (methyl isobutyl carbinol) frother is delivered by road to an isotainer. A manifold system on the storage isotainer supplies multiple variable speed peristaltic pumps, which discretely pump the frother at set rates to the various points-of-use within the flotation circuits.

Flocculant powder (Magnafloc 24) is delivered by road to the plant reagent store in 25 kg bags. The bags are collected by forklift as required and delivered to a flocculant mixing and dosing area. Here the flocculant is diluted as required using parallel, duplicate vendor-package automated make-up plants, each one being dedicated to supplying the concentrate and tailings thickeners due to the flocculant types required being different for each application. Variable speed peristaltic pumps discretely pump the flocculant at set rates to the thickeners' points-of- use.

Coagulant powder (Magnafloc 1707) for thickening enhancement is handled similarly to the flocculant as described above, the exception being that a single make-up system is provided to supply both the concentrate and tailings thickeners. Again, variable speed peristaltic pumps discretely pump the coagulant at set rates to the thickeners' points-of-use.

Infrastructure, Logistics and Permitting

The Molo Graphite Project is located in a relatively remote part of Southwestern Madagascar, approximately 13 km NE of the local village of Fotadrevo. There is currently limited infrastructure on site and project infrastructure will have to be constructed.

The following elements are all part of the Molo Graphite Project scope:

- Raw water supply (from a network of bore holes extracting ground water)
- Power supply (temporary during construction) and then a permanent diesel power station to supply the plant and permanent camp
- Sanitation for the plant, permanent camp, and temporary during construction
- Storm water control and management
- All permanent buildings (offices, workshops, stores, laboratory)
- All buried services (potable water, sewage, storm water, electrical reticulation)
- In plant roads
- Haul road
- Waste, high and low grade -Rock dumps.

The following section describes the methods, assumptions and specifications used in the preliminary design of the civil, structural and infrastructure portions of the proposed new modular graphite plant. As the proposed new plant is a temporary pilot plant for a potentially much larger process plant and mining operation, the brief form the client was to develop a "fit for purpose" and cost-effective design without compromising on safety or quality.

Basis of Civil, Structural and Infrastructure Design

The scope of the civil and structural design covers the following facilities and areas:

- Bulk earthworks and terraces for the process plant, administration and workshop areas
- Earthworks for laydown areas
- Bulk earthworks and retaining walls for the Run of Mine (ROM) tip ramp
- Foundations and slabs for:
    - Front end crushing circuit
    - Conveyors, transfer stations and bins
    - Complete modular process plant
    - Workshops, offices, change-house, laboratory and stores
    - Security and access control buildings
    - Modular water treatment plant
    - Modular sewer treatment plant

    - Diesel generators
- In plant roads and access
- Fuel storage and bund area
- Storm water drainage (Concrete lined v-drains) and protection berms
- Plant pollution control dam

As the process plant is supplied in modular units by a vendor, the design of these structures are not included in this section. Critical structural design criteria are however still included.

Bulk Earthworks

Geotechnical

The geotechnical investigation conducted by SRK Consulting in 2014 was used as reference document for the design and planning of this phase of the project.

In summary, transported soils are present across all areas investigated to shallow depths not exceeding a maximum depth of 0.6 m. From the consistencies noted during test pit excavations the transported soils are anticipated to have a maximum allowable bearing capacity of 100 kPa, limiting total consolidation settlement to 25 mm.

Residual soils were noted in the majority of the test pits excavated and comprised dense to very dense silty and/ or clayey sands. The residual soils are expected to have a maximum allowable bearing capacity of 200 kPa, limiting total consolidation settlement to 25 mm (differential settlement expected to be half this value).

As rock is located at a shallow depth at most locations it is recommended that structures generally be founded on rock rather than the overlying thin soils. However, light structures with loads of less than 100 kPa could be founded on the soils if necessary.

Site Clearance

The entire plant area is to be cleared and grubbed. Topsoil shall be stripped nominally 150mm deep after clearing and grubbing and stockpiled in designated areas for possible re-use in accordance with the recommendations of the EIA. Topsoil may also be used for screen and drainage berms.

Terrace Design

Bulk earthworks are required for the process plant and building platforms, plant roads, storm water drainage, access ramps and laydown areas.

Finished surface levels for bulk earthworks at all plant will be 200 mm below the nominated top of concrete of all footings and foundation slabs with grading of the surface surrounding the foundation to ensure runoff is directed away from the foundations.

All fill areas will be compacted to a minimum modified AASHTO density of at least 95%. The terraces will be formed using a cut to fill operation with suitable in-situ material after all unsuitable topsoil has been removed. A borrow pit has been identified for any shortfall fill material.

The terrace design has been done to allow for a minimum load bearing capacity of 150kPa for concrete foundations and structures.

All fill slopes will be between 1:1.5 and 1:3 in accordance with the geotechnical report.

Plant Roads

Site roads will be formed from existing site material and be shaped to assist rainfall runoff. In plant roads will be 6m wide and constructed of in situ material. Borrow pit material is to be used for heavy vehicle haul roads.

Run of Mine (ROM) Ram

The ROM ramp will be constructed from borrow pit material with a ramp slope of 10 degrees. The ROM ramp retaining walls will be constructed with gabion baskets on a concrete footing.

Soil and Compaction Testing

All tests test work shall be done in accordance with the latest and applicable SANS 1200 specification.

Storm Water Runoff

Storm water runoff within the process plant areas are dealt with by a minimum slope on the terrace platform. Runoff is then collected in concrete lined V-drains. All V-drains form the process plant area will be routed to the plant pollution control dam.

Earth berms are proposed on the high sides of the process plant to prevent rainwater runoff from entering the process plant area and possibly becoming contaminated by plant spills or materials.

All runoff not affected by possibly contaminated areas will be routed to local low areas and natural seasonal watercourses.

Plant Pollution Control Dam

A pollution control dam will be constructed on the low side of the plant. All potentially contaminated water runoff from the process plant will be routed to this dam. The dam will be an earth wall dam constructed from in situ materials. If required by the Environmental Impact Assessment the dam will be lined.

Raw Water Supply

Water is supplied by a network of boreholes. A detailed water demand and supply analysis was done as part of the feasibility study, and this has shown that the water demands of the plant can be accommodated by boreholes within a radius of 5km from the plant. The daily maximum raw water make up requirement is estimated to be 561m3 per day, decreasing to 222m3 per day for latter part of the life of mine.

Power Supply

Due to the remote location of the Molo site, no other power or electrical infrastructure is available on the site, hence the supply to the Molo Graphite plant shall be independent by stand-alone diesel generators and not grid tied.

The total installed generation capacity equals to 2.8MW. Power to the plant and infrastructure shall be supplied by 2 x 1.4 MW, 3-ph, 400Vac diesel generators, interlocked and operating either in parallel or independently. Power to remote areas, such as the water wells shall be supplied via independent stand - alone 15kVA, 3-ph, 400Vac diesel generators.

Subject to the sequential starting of the larger loads for e.g. the Mill, it might be required during an ore loaded start-up, that both generators run in parallel. Once the plant has reached equilibrium the standby generator shall be stepped back. During continuous normal operation of the plant, one generator will suffice. The second unit shall primarily be used during maintenance and operational rotations

Product Pricing

Graphite prices are based on current quotes and projected estimates provided by UK-based Roskill Consulting Group Ltd ("Roskill"), recognized as a leader in providing independent and unbiased market research, pricing trends, and demand and supply analysis for the natural flake graphite market.

The weighted average price per tonne of graphite concentrate used for this study is based on the findings of Roskill and yielded $1,014/tonne. This is a basket price and reflects the contribution of the different flake sizes and carbon grades to the overall price. The start- up price (in 2018 terms) for a tonne graphite concentrate is a projection based on Roskill information. The nominal graphite price was used in the financial model, which in essence ‘flat-lines’ the price forecast over the life of mine. The reader is cautioned that these are forecasts and may change subject to market dynamics.

Logistics

The cost to transport one tonne of dry concentrate (0.5% moisture content) from the Molo Graphite Project to Rotterdam via Fort Dauphin, Madagascar, in December 2014 terms is $337 per tonne. This is based on shipping 26 tonnes of concentrate in 1 m3 bags placed inside a 40 ft. container.

The route from the Molo Graphite Project to Fort Dauphin runs either via the RN 10 or the RN 13. Both these routes are in relatively poor condition and trucks are expected to take between four and five days to make the round trip. A truck was run over the route by a Madagascan trucking contractor to gauge cycle times and they completed the journey in two long days each way. This was in the dry season and in the wet season there may be periods of time when the roads become impassable. No money has been budgeted for roads repairs or upgrades.

The Port of Ehoala at Fort Dauphin is a modern (2009) port developed by Rio Tinto for the QMM project. It has a 15m draft with shipping lines calling on a regular basis. There are however no crane facilities and vessels require their own cranes.

Figure 4: Port of Ehoala at Fort Dauphin

Figure 5: Road conditions between Molo and Fort Dauphin

Environmental Permitting and Social Impact Assessment

A comprehensive Environmental and Social Impact Assessment ("ESIA"), developed to local Malagasy, Equator Principles, World Bank and International Finance Corporation (IFC) standards, is nearing completion. This process was preceded by an Environmental Legal Review and an Environmental and Social Screening Assessment; both providing crucial information to align the project development and design with international best practice on sustainable project development.

The ESIA submission is subject to approval of the investment amount by Madagascar's Ministry of Mines, which is anticipated in October 2017. The investment application was submitted on June 21, 2017. The Company will receive a Global Environmental Permit upon approval of the ESIA, a process which is expected to take six months from date of submission.

A comprehensive permitting register is in place and additional sectorial permit applications will form part of the early execution phase. Approval of the sectorial applications is expected within the same six month period as the ESIA review.

No material issues were identified in relation to Environmental, Social and Permitting processes and through the stakeholder engagement process the local and regional community has expressed a desire for the project to move forward.

Capital and Operating Costs

The capital cost for the project is estimated to be $18.4 million, including a contingency of $1.7 million. A firm offer was obtained for the beneficiation facility, and supporting earthworks and civils have been quantified based on detailed designs and firm price offers from contractors established on the island.

The base date for the capital costs is April 2017 and no provision has been made for escalation. The accuracy of capital costs is considered to be accurate to +/- 10%.

Initial Capital Cost Summary

Capital Cost Breakdown	**Cost (USD)**
Process Equipment	$ 8,072,750
Civil & Infrastructure	1,842,450
Mining	2,292,885
Buildings	322,998
Electrical Infrastructure	89,670
Project Services	832,041
Construction Services	1,050,000
Indirect Costs	355,000
Environmental & Permitting costs	695,074
Owner's Costs	1,140,000
Capital Cost Sub-Total	**16,692,871**
Contingency (10%)	1,669,287
Total *Excludes taxes, tariffs, duties and interest	**$18,362,158**

Sustaining capital expenditure expected to be incurred has been allowed for in the financial model to cover replacement of the:

- mine fleet,
- replacement of the power plant,
- process plant replacement items,

- administration facilities maintenance
- and for rehabilitation at the end of the project.

Over the life of mine the sustaining capital accounts for $3.3 million. Additionally, three months working capital is estimated at $3.1 million.

The operating costs per tonne of finished graphite flake concentrate delivered on a CIF basis in Rotterdam are outlined in the table below.

Operating Costs per Tonne of Finished Graphite Concentrate

Category	
Mining (US$/T)	102.81
Processing (US$/T)	265.82
Trucking to local port / Ft. Dauphin (US$/T)	133.01
Shipping to customer port; CIF Rotterdam (US$/T)	122.50
General and Administration (US$/T)	64.29
Total	**$688.43**

The operating costs expressed above are considered to be accurate to +/- 10%, and assume a varying USD inflation rate of 1.6% in 2015 and escalating to 2.0% from 2017 onward. Currency inflation rates were also considered in the financial model and were applied to the South African Rand and Malagasy Ariary portions of the operating costs.

Please note that these operating costs assume that the plant is able to successfully handle the variability in the ore body, as shown by the SGS test work. Should the plant not perform as expected this could have a material impact on operating costs as:

- The flake size distribution could be worse than expected
- The product grade could be lower than expected
- The recoveries could be lower than expected or a combination of all of these

Economic analysis

The table below summarizes the economic analysis of the project using discounted cash flow methods. The weighted average selling price is less than the 3-year historic average price for Madagascar exports of flake graphite across all flake sizes to the USA and Germany, which was $1,000-1,200 per tonne between 2014 and 2016, and averaged $1,088 per tonne.

Economic Analysis of the Project

Category	**Value**
Average price / tonne of concentrate (at start up, 2018)	$1,014 per tonne
Internal Rate of Return ("IRR") - Project Equity	25.2%
NPV @ 8% Discounted Cash Flow	$34 million
NPV @ 10% Discounted Cash Flow	$24.8 million
NPV @ 12% Discounted Cash Flow	$18 million
Project Payback Period * Assumes that the project is financed through 100% equity.	4.2 years

Notes

All values in the above table do not account for inflation. Also included in the above table are forecasted prices for 2018, which coincides with the year the Molo Graphite Project mine is expected to be in production.

The exchange rates used in the financial model are as follows:

- 11.31 South African Rand (ZAR) to US$1, moving in line with purchasing power parity
- 0.833 Euro to US$1, fixed for the modelled period
- 2,746 Malagasy Ariary (MGA) to US$1, moving in line with purchasing power parity

Molo Feasibility Study Conclusions

Geology

The Company's 2011 exploration programme delineated a number of new graphitic trends in southern Madagascar. The resource delineation drilling undertaken during 2012-2014 focussed on only one of these, the Molo Graphite Project deposit, and this has allowed for an Independent, CIM compliant, updated resource statement for the Molo deposit.

Mining

Maiden mineral reserves of 7,160,000 tonnes have been declared for in the Molo Feasibility Study at an average grade of 8.05% and based on such information it is possible to economically mine the Molo Graphite Project deposit.

Tailings

Due to the substantially reduced tonnages for the project as envisaged, tailings will be dried and co- disposed with the waste rock generated as part of the open cast mining. Despite this co-disposal approach, a detailed design has been completed, complete with environmental and social impact assessment and closure to allow for the upgrade to a more conventional, cyclone facility, should the throughput be increased during the life of the mine. This approach has been pursued to ensure that sufficient flexibility is built into the project development strategy to accommodate the anticipated increase in market demand.

Risks

In addition to the qualitative risk assessment completed during the previous BFS, a comprehensive HAZID study was completed as part of this study.

Permitting

Various permits will have to be obtained for the project including an Environmental Permit, a Mining permit, land tenure and land use approvals and finally supplementary sectoral permits. The most urgent permit is for the Company to obtain the exploitation permit for the right to mine and produce.

Metallurgical Test Work

Comprehensive metallurgical test programs culminated in a process flowsheet that is capable of treating the ore using conventional and established mineral processing techniques.

Process risks associated with the variability with regards to metallurgical performance have been mostly mitigated through the addition of an upgrading circuit. The upgrading circuit treated the combined concentrate after the secondary cleaning circuit. Reduced flake degradation and an improved process flexibility may be obtained by employing separate upgrading circuits for the coarse and fine flakes.

Molo Feasibility Study Recommendations

Geology

No further recommendations.

Mining

The following recommendations are made for the mine planning and production stage:

- The Molo Graphite Project will allow for potential optimization of drilling and blasting designs during execution that could reduce operating costs slightly.

- From a pure mining perspective, the Molo Graphite Project is very small and provided reasonable levels of short term planning are applied it should have very few challenges in delivering the required tonnages at the required grade to meet the production targets set out in this study.

Metallurgical Test Work

The following recommendations are made for the detailed engineering stage:

- Investigate the metallurgical impact of different attrition mill technologies such as stirred media mills or attrition scrubbers
- Evaluate a range of different grinding media (e.g. different size, shape, material) to determine if flake degradation can be reduced without affecting the concentrate grade
- Develop a grinding energy versus concentrate grade relationship for the best grinding media. This will allow a more accurate prediction of the required attrition mill grinding energy as a function of the final concentrate grade
- Conduct attrition mill vendor tests to aid in the sizing of the equipment
- Carry out vendor testing on graphite tailings using the optimized reagent regime proposed by the reagent supplier
- Complete a series of flotation tests on samples covering mine life intervals for the Molo Feasibility Study pit design

Recovery Methods

The following recommendations are made for the detailed engineering stage:

- The process plant has been designed to easily optimize the final product grade, this is achieved by having two options in the attrition cleaning step. It is however recommended that additional laboratory test work be conducted to test the current plant configuration for treatment for higher feed grade material.

Infrastructure

The following are recommended prior to the detailed design stage:

- Additional geotechnical investigations at the proposed new construction and permanent camp site, particularly at the location of the new potable water storage tanks
- A detailed geotechnical investigation will need to be undertaken to identify and confirm suitable sources of concrete aggregate and concrete sand materials at the location of the project site. This testing will need to include for concrete material testing and the production of concrete trial mixes with the material identified
- The geotechnical information will also need to confirm the suitability for construction of all the material to be excavated from the Return Water Dam. It is proposed that all the material excavated from the Return Water Dam is utilized in the works as processed fill material
- Confirmation as to whether the material from the proposed borrow pit near Fotadrevo (which will be used to supply all fill material for the TSF starter wall construction) can be utilized as fill material, or if this material can be stabilized in some manner and used in the works
- A detailed topographical survey will need to be undertaken of the proposed construction site, borrow pit areas and the access road between Fotadrevo and the mine site. This information is required prior to the final detailed design of the plant layout and associated earthworks

Water

The following is recommended during the detailed design phase:

- Water quality and quantity data is required to provide a baseline for comparison once the Molo Graphite Project mine is commissioned. To provide the necessary baseline data, regular ground and surface water quality monitoring must be carried out leading up to the date when the mine will be commissioned. Additionally, proposed monitoring boreholes must be installed. This also should include the installation of flow meters on relevant pipelines to verify the dynamic water balance with measured flow rates during operations.
- The installation of a weather station on the Molo Graphite project site should be done as soon as possible.
- Quantitative and predictive water balance, groundwater and geochemical analyses should be undertaken on regular intervals in order to update the water management plan.

Environmental, Social

The following is recommended during the development and production phases:

- The installation of a suitable weather station at or as near as possible to the proposed project site, even before construction commences, is recommended. Accurate, local weather data is almost non-existent in Madagascar. This data will prove invaluable for model calibration, improvement in baseline understanding and for future energy supply options which could utilize wind and or solar power generation.
- Clean and or renewable energy supply should be considered as a medium to long term target.
- Appointment of a community representative and the establishment of a mandate to sensitize the local communities prior to any project activities.
- Monitoring and auditing to commence at project preparation phase.
- Compilation of Standard Operating Procedures for Environmental and Social aspects requiring direct management and intervention.
- It is recommended that actual activity data, (e.g. kilometres travelled, or litres of diesel consumed) for a financial year is used when a GHG Assessment is being calculated. Given that this project involves an estimation of a future GHG assessment for activities yet to begin, a series of assumptions have been made in order to obtain the activity data required to undertake this calculation.
- Community recruitment, skills development and training should begin at project preparation phase.

Green Giant Property, Southern Madagascar, Africa

During 2007, the Company acquired a 75% interest in the Green Giant Property. We paid $765,000, issued 2,500,000 common shares and 1,000,000 now expired common share purchase warrants to enter into a joint venture agreement for the Green Giant Property with Madagascar Minerals and Resources Sarl ("MMR"). On July 9, 2009, we acquired the remaining 25% interest for $100,000. MMR retains a 2% NSR. The NSR can be purchased at our option, for $500,000 in cash or common shares for the first 1% NSR and at a price of $1,000,000 in cash or common shares for the second 1% NSR.

The Green Giant Property comprises claims located in south-central Madagascar located in the UTM zone 38S on the WGS 84 datum at coordinates 510,000 E 7,350,000 N, 145 km southeast of the city of Toliara, in the Tulear region/Fotadrevo, covering an area of 225 km2 situated in two separate blocks. The Green Giant Property is composed of two separate groups of four and two Research Permits respectively.

The discovery of potentially economic vanadium mineralization on the Green Giant Property changed the focus of the 2008 diamond-drilling program. Through a combination of prospecting, ground based scintillometer surveying, and analysis of a published airborne radiometric survey, five extensive vanadium-bearing trends were identified during the 2008 exploration program. These vanadiferous trends are theorized to have formed in a black shale or paleo-roll-front environment before being subjected to regional granulite facies metamorphism.

The Company selected the Jaky and Manga vanadium-bearing trend as the most prospective targets on the property and focus the late 2009-drill program at delineating mineralized material on these two deposits. Various metallurgical scoping test programs have been completed since Q4 2009, covering physical and chemical pre-concentration processes, acid and alkaline leaching (atmospheric and pressure), alkaline salt roasting and high definition mineralogical characterization. Mineralogical characterization of several silicate samples has revealed a unique deportment of vanadium at the Green Giant Property. Vanadium bearing minerals include clays, micas, oxides, and sulphides.

The mineral deposits on the Green Giant Property have been divided into three separate zones, which are referred to as the Jaky, Manga, and Mainty deposits. The vanadium deposits on the Green Giant Property are split into two separate categories: oxide and primary. The mineralization analysis utilized 18,832 m of diamond drill hole data from the 2008, 2009, and 2010 drill programs and was supplemented by approximately 5,928 m of trench data from the 2008 and 2009 exploration programs.

Since early 2012, the Company has focused its efforts on the Molo Graphite Project and as such only minimal work has been completed on the Green Giant property since that time. At such time, the Company does not consider the Green Giant Property to be a material asset of the Company.

Sagar Property, Labrador Trough Region, Quebec, Canada

In 2006, the Company purchased from Virginia Mines Inc. ("Virginia") a 100% interest in 382 claims located in northern Quebec, Canada. Virginia retains a 2% net smelter return royalty ("NSR") on certain claims within the property. Other unrelated parties also retain a 1% NSR and a 0.5% NSR on certain claims within the property, of which half of the 1% NSR can be acquired by the Company by paying $200,000 and half of the 0.5% NSR can be acquired by the Company by paying $100,000.

On February 28, 2014, the Company signed an agreement to sell a 35% interest in the Sagar Property to Honey Badger Exploration Inc. (“Honey Badger”), a public company that is a related party through common management. The terms of the agreement were subsequently amended on July 31, 2014 and again on May 8, 2015. To earn the 35% interest, Honey Badger was required to complete a payment of $36,045 (CAD$50,000) by December 31, 2015, incur exploration expenditures of $360,450 (CAD$500,000) by December 31, 2016 and issue 20,000,000 common shares to the Company by December 31, 2015. Honey Badger did not complete the earn-in requirements by December 31, 2015 resulting in the termination of the option agreement.

Since early 2012, the Company has focused its efforts on the Molo Graphite Project and as such only minimal work has been completed on the Sagar Property since that time. At such time, the Company does not consider the Sagar Property to be a material asset of the Company.

ITEM 1A. – RISK FACTORS

The risk factors required pursuant to Regulation S-K, Item 503(c) are not required for smaller reporting companies. However, the Company has determined to provide particular risk factors at this time.

Our business is subject to a variety of risks and uncertainties, including, but not limited to, the risks and uncertainties described below. If any of the risks described below, or elsewhere in this report on Form 10-K, or our Company's other filings with the Securities and Exchange Commission (the "SEC"), were to occur, our financial condition and results of operations could suffer and the trading price of our common stock could decline. Additionally, if other risks not presently known to us, or that we do not currently believe to be significant, occur or become significant, our financial condition and results of operations could suffer and the trading price of our common stock could decline. Our risk factors, including but not limited to the risk factors listed below, are as follows:

SHOULD ONE OR MORE OF THE FOREGOING RISKS OR UNCERTAINTIES MATERIALIZE, OR SHOULD THE UNDERLYING ASSUMPTIONS OF OUR BUSINESS PROVE INCORRECT, ACTUAL RESULTS MAY DIFFER SIGNIFICANTLY FROM THOSE ANTICIPATED, BELIEVED, ESTIMATED, EXPECTED, INTENDED OR PLANNED.

The report of our independent registered public accounting firm contains explanatory language that substantial doubt exists about our ability to continue as a going concern.

The independent auditor's report on our financial statements contains explanatory language that substantial doubt exists about our ability to continue as a going concern. Due to our lack of operating history and present inability to generate revenues, we have sustained operating losses since our inception.

Since our inception, up to June 30, 2017, we had accumulated net losses of $97,960,105 (June 30, 2016: $93,960,748). If we are unable to obtain sufficient financing in the near term as required or achieve profitability, then we would, in all likelihood, experience severe liquidity problems and may have to curtail our operations. If we curtail our operations, we may be placed into bankruptcy or undergo liquidation, the result of which will adversely affect the value of our common shares.

We may not have access to sufficient capital to pursue our business and therefore would be unable to achieve our planned future growth.

We intend to pursue a strategy that includes development of our Company's business plan. Currently we have limited capital, which is insufficient to pursue our plans for development and growth. Our ability to implement our Company's plans will depend primarily on our ability to obtain additional private or public equity or debt financing. Such financing may not be available, or we may be unable to locate and secure additional capital on terms and conditions that are acceptable to us. Financing exploration plans through equity financing will have a dilutive effect on our common shares. Our failure to obtain additional capital will have a material adverse effect on our business.

Dependence on Molo Graphite Project

Our only material mineral property is the Molo Graphite Project. As a result, unless we acquire or develop any additional material properties or projects, any adverse developments affecting this project or our rights to develop the Molo Graphite Project could materially adversely affect our business, financial condition and results of oprations.

Our primary exploration efforts are in the African country of Madagascar, where a new democratically elected government has been in place since early 2014.

Any adverse developments to the political situation in Madagascar could have a material effect on the Company's business, results of operations and financial condition. Democratic elections in Madagascar occurred toward the end of 2013 as planned by the elections calendar jointly established between the UN and the Elections Commission. To date, the Company has not experienced any disruptions or been placed under any constraints in our exploration efforts due to the political situation in Madagascar. Depending on future actions taken by the newly elected government, or any future government, the Company's business operations could be impacted.

The newly elected President was inaugurated on January 25, 2014 and the lower house of Parliament took office in February 2014. A government reshuffle occurred in early 2015, with the naming of a new Prime Minister on January 14, 2015. Ministers composing the new government were named on January 25, 2015. On May 26, 2015, the Parliament

voted to impeach the President on the grounds that he had violated the Constitution. The High Constitutional Court invalidated the claim, declaring the accusation unfounded. Solonandrasana Olivier Mahafaly became prime minister of Madagascar after Jean Ravelonarivo resigned, ostensibly, due to disagreements with President Hery Rajaonarimampianina over development policy In December 2015, the Senate was elected. As of this report, the President, the Government and the Parliament continue to operate as before but Madagascar continues to experience occasional political instability.

The Company is actively monitoring the political climate in Madagascar and continues to hold meetings with representatives of the government and the Ministry attached to the Presidency in charge of Mining.

The Molo Graphite Project exploration permit PR 3432 is currently held under the name of one of our Madagascar subsidiary ERG Madagascar SARLU. Our Madagascar subsidiaries have paid all taxes and administrative fees to the Madagascar government and its mining ministry with respect to all the mining permits held in country. These taxes and administrative fee payments have been acknowledged and accepted by the Madagascar government. In addition, we continue to diligently work with the Madagascar government to obtain the necessary permits as the country clears its backlog of applications and amendments.

We have applied to have the Molo Graphite Project exploration permit converted into an exploitation permit, which is expected to be completed in due course. The exploitation permit is required to advance the Molo Project into the developmental stage.

The Company cannot provide any assurance as to the timing of the receipt of the required permits.

Our common shares have been subject to penny stock regulation in the United States of America.

Our common shares have been subject to the provisions of Section 15(g) and Rule 15g-9 of the (US) Securities Exchange Act of 1934, as amended (the "Exchange Act"), commonly referred to as the "penny stock" rule. Section 15(g) sets forth certain requirements for transactions in penny stocks and Rule 15g-9(d)(1) incorporates the definition of penny stock as that used in Rule 3a51-1 of the Exchange Act. The Commission generally defines penny stock to be any equity security that has a market price less than US$5.00 per share, subject to certain exceptions. Rule 3a51-1 provides that any equity security is considered to be penny stock unless that security is: registered and traded on a national securities exchange meeting specified criteria set by the Commission; issued by a registered investment company; excluded from the definition on the basis of price (at least US$5.00 per share) or the registrant's net tangible assets; or exempted from the definition by the Commission. If our common shares are deemed to be "penny stock", trading in common shares will be subject to additional sales practice requirements on broker/dealers who sell penny stock to persons other than established customers and accredited investors.

Financial Industry Regulatory Authority, Inc. ("FINRA") sales practice requirements may limit a shareholder's ability to buy and sell our common shares.

In addition to the "penny stock" rules described above, FINRA has adopted rules that require that in recommending an investment to a client, a broker-dealer must have reasonable grounds for believing that the investment is suitable for that client. Prior to recommending speculative low-priced securities to their non-institutional clients, broker-dealers must make reasonable efforts to obtain information about the client's financial status, tax status, investment objectives and other information. Under interpretations of these rules, FINRA believes that there is a high probability that speculative low-priced securities will not be suitable for at least some clients. FINRA requirements make it more difficult for broker-dealers to recommend that their clients buy our common shares, which may limit your ability to buy and sell our stock and have an adverse effect on the market for our shares.

As a public company, we are subject to complex legal and accounting requirements that will require us to incur significant expenses and will expose us to risk of non-compliance.

As a public company, we are subject to numerous legal and accounting requirements in both Canada and the United States of America that do not apply to private companies. The cost of compliance with many of these requirements is material, not only in absolute terms but, more importantly, in relation to the overall scope of the operations of a small company. Our relative inexperience with these requirements may increase the cost of compliance and may also increase the risk that we will fail to comply. Failure to comply with these requirements can have numerous adverse consequences including, but not limited to, our inability to file required periodic reports on a timely basis, loss of market confidence, delisting of our securities and/or governmental or private actions against us. We cannot assure you that we

will be able to comply with all of these requirements or that the cost of such compliance will not prove to be a substantial competitive disadvantage compared to privately held and larger public competitors.

Compliance with changing regulation of corporate governance and public disclosure will result in additional expenses and pose challenges for our management.

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Dodd-Frank Wall Street Reform and Consumer Protection Act and the rules and regulations promulgated thereunder, the Sarbanes-Oxley Act and SEC regulations, have created uncertainty for public companies and significantly increased the costs and risks associated with accessing the U.S. public markets. Our management team needs to devote significant time and financial resources to comply with both existing and evolving standards for public companies, which will lead to increased general and administrative expenses and a diversion of management time and attention from revenue generating activities to compliance activities.

Changes in tax laws or tax rulings could materially affect our financial position and results of operations.

Changes in tax laws or tax rulings could materially affect our financial position and results of operations. For example, the current U.S. administration and key members of Congress have made public statements indicating that tax reform is a priority. Certain changes to U.S. tax laws, including limitations on the ability to defer U.S. taxation on earnings outside of the United States until those earnings are repatriated to the United States, could affect the tax treatment of our foreign earnings. In addition, many countries in the European Union, as well as a number of other countries and organizations such as the Organization for Economic Cooperation and Development, are actively considering changes to existing tax laws. Certain proposals could include recommendations that would significantly increase our tax obligations in many countries where we do business. Due to the large and expanding scale of our international business activities, any changes in the taxation of such activities may increase our worldwide effective tax rate and harm our financial position and results of operations.

Because we are quoted on the OTCQB instead of a national securities exchange in the United States, our U.S. investors may have more difficulty selling their stock or experience negative volatility on the market price of our stock in the United States.

In the United States, our common shares are quoted on the OTCQB. The OTCQB is marketed as an electronic exchange for high growth and early stage U.S. companies and a prospective "final step toward a NASDAQ or NYSE listing" (although no assurances can be provided that such change of market shall occur). Trades are settled and cleared in the U.S. similar to any NASDAQ or NYSE stock and trade reports are disseminated through Yahoo, Bloomberg, Reuters, and most other financial data providers. The OTCQB may be significantly illiquid, in part because it does not have a national quotation system by which potential investors can follow the market price of shares except through information received and generated by a limited number of broker-dealers that make markets in particular stocks. There is a greater chance of volatility for securities that trade on the OTCQB as compared to a national securities exchange in the United States, such as the New York Stock Exchange, the NASDAQ Stock Market or the NYSE Amex. This volatility may be caused by a variety of factors, including the lack of readily available price quotations, the absence of consistent administrative supervision of bid and ask quotations, lower trading volume, and market conditions. U.S. investors in our common shares may experience high fluctuations in the market price and volume of the trading market for our securities. These fluctuations, when they occur, have a negative effect on the market price for our common shares. Accordingly, our U.S. shareholders may not be able to realize a fair price from their shares when they determine to sell them or may have to hold them for a substantial period of time until the market for our common shares improves.

In addition to being quoted on the OTCQB under the symbol "NSRC", our common shares trade on the Toronto Stock Exchange, Canada's national stock exchange, under the symbol "NEXT" and on the Frankfurt Exchange under the symbol "A1CXW3".

The market price for our common shares is particularly volatile given our status as a relatively unknown company with a small and thinly traded public float, limited operating history and lack of profits which could lead to wide fluctuations in our share price.

The market for our common shares is characterized by significant price volatility when compared to seasoned issuers, and we expect that our share price will continue to be more volatile than a seasoned issuer. The volatility in our share price is attributable to a number of factors. First our common shares, at times, are thinly traded. As a consequence of this lack of liquidity, the trading of relatively small quantities of shares by our shareholders may disproportionately

influence the price of those shares in either direction. The price for our common shares could, for example, decline precipitously in the event that a large number of our common shares are sold on the market without commensurate demand, as compared to a seasoned issuer which could better absorb those sales without adverse impact on its share price. Second, we are a speculative or "risky" investment due to our limited operating history, lack of profits to date and uncertainty of future market acceptance for our potential products. As a consequence, more risk-adverse investors may, under the fear of losing all or most of their investment in the event of negative news or lack of progress, be more inclined to sell their shares on the market more quickly and at greater discounts than would be the case with the stock of a seasoned issuer. Many of these factors are beyond our control and may decrease the market price of our common shares, regardless of our performance. We cannot make any predictions as to what the prevailing market price for our common shares will be at any time or as to what effect that the sale of common shares or the availability of common shares for sale at any time will have on the prevailing market price.

Shareholders should be aware that, according to SEC Release No. 34-29093, the market for penny stocks has suffered in recent years from patterns of fraud and abuse. Such patterns include control of the market for the security by one or a few broker-dealers that are often related to the promoter or issuer; manipulation of prices through prearranged matching of purchases and sales and false and misleading press releases; boiler room practices involving high-pressure sales tactics and unrealistic price projections by inexperienced sales persons; excessive and undisclosed bid-ask differential and markups by selling broker-dealers; and the wholesale dumping of the same securities by promoters and broker-dealers after prices have been manipulated to a desired level, along with the resulting inevitable collapse of those prices and with consequent investor losses. Our management is aware of the abuses that have occurred historically in the penny stock market. Although we do not expect to be in a position to dictate the behavior of the market or of broker-dealers who participate in the market, management will strive within the confines of practical limitations to prevent the described patterns from being established with respect to our securities. The occurrence of these patterns or practices could increase the volatility of our share price.

Volatility in our common share price may subject us to securities litigation, thereby diverting our resources that may have a material effect on our profitability and results of operations.

The market for our common shares is characterized by significant price volatility when compared to seasoned issuers, and we expect that our share price will continue to be more volatile than a seasoned issuer for the indefinite future. In the past, plaintiffs have often initiated securities class action litigation against a company following periods of volatility in the market price of its securities. We may in the future be the target of similar litigation. This type of litigation could result in substantial costs and could divert management's attention and resources.

Failure to achieve and maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act") could have a material adverse effect on our business and our operating results.

If we fail to comply with the requirements of Section 404 of the Sarbanes-Oxley Act regarding internal control over financial reporting or to remedy any material weaknesses in our internal controls that we may identify, such failure could result in material misstatements in our financial statements, cause investors to lose confidence in our reported financial information and have a negative effect on the trading price of our common shares.

Pursuant to Section 404 of the Sarbanes-Oxley Act and current SEC regulations, we are required to prepare assessments regarding internal controls over financial reporting. In connection with our on-going assessment of the effectiveness of our internal control over financial reporting, we may discover "material weaknesses" in our internal controls as defined in standards established by the Public Company Accounting Oversight Board, or the PCAOB. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The PCAOB defines "significant deficiency" as a deficiency that results in more than a remote likelihood that a misstatement of the financial statements that is more than inconsequential will not be prevented or detected. In the event that a material weakness is identified, we will employ qualified personnel and adopt and implement policies and procedures to address any material weaknesses that we identify. However, the process of designing and implementing effective internal controls is a continuous effort that requires us to anticipate and react to changes in our business and the economic and regulatory environments and to expend significant resources to maintain a system of internal controls that is adequate to satisfy our reporting obligations as a public company. We cannot assure you that the measures we will take will remediate any material weaknesses that we may identify or that we will implement and maintain adequate controls over our financial process and reporting in the future.

Our CEO and Principal Financial and Accounting Officer, concluded that our disclosure controls and procedures were effective as of June 30, 2017.

A failure to remediate any material weaknesses that we may identify or to implement new controls, or difficulties encountered in their implementation, could harm our operating results, cause us to fail to meet our reporting obligations or result in material misstatements in our financial statements. Any such failure could adversely affect the results of the management evaluations of our internal controls. Inadequate internal controls could also cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our common shares.

Should we lose the services of our key executives, our financial condition and proposed expansion may be negatively impacted.

We depend on the continued contributions of our executive officers to work effectively as a team, to execute our business strategy and to manage our business. The loss of key personnel, or their failure to work effectively, could have a material adverse effect on our business, financial condition, and results of operations. Specifically, we rely on Craig Scherba, our President and Chief Executive Officer and Marc Johnson, our Chief Financial Officer.

We do not maintain key man life insurance. Should we lose any or all of their services and we are unable to replace their services with equally competent and experienced personnel, our operational goals and strategies may be adversely affected, which will negatively affect our potential revenues.

Minnesota law and our articles of incorporation protect our directors from certain types of lawsuits, which could make it difficult for us to recover damages from them in the event of a lawsuit.

Minnesota law provides that our directors will not be liable to our Company or to our stockholders for monetary damages for all but certain types of conduct as directors. Our articles of incorporation require us to indemnify our directors and officers against all damages incurred in connection with our business to the fullest extent provided or allowed by law. The exculpation provisions may have the effect of preventing stockholders from recovering damages against our directors caused by their negligence, poor judgment or other circumstances. The indemnification provisions may require our Company to use its assets to defend our directors and officers against claims, including claims arising out of their negligence, poor judgment, or other circumstances.

Due to the speculative nature of mineral property exploration, there is substantial risk that our assets will not go into commercial production and our business will fail.

Exploration for minerals is a speculative venture involving substantial risk. We cannot provide investors with any assurance that our claims and properties will ever enter into commercial production. The exploration work that we have completed on our Molo Graphite Project claims may not result in the commercial production of graphite. The exploration work that we have completed on our Green Giant Property may not result in the commercial production of vanadium or other minerals.

We are a mineral exploration company with a limited operating history and expect to incur operating losses for the foreseeable future.

We are a mineral exploration company. We have not earned any revenues and we have not been profitable. Prior to completing exploration on our claims, we may incur increased operating expenses without realizing any revenues. There are numerous difficulties normally encountered by mineral exploration companies, and these companies experience a high rate of failure. The likelihood of success must be considered in light of the problems, expenses, difficulties, complications and delays encountered in connection with the exploration of the mineral properties that we plan to undertake. These potential problems include, but are not limited to, unanticipated problems relating to exploration and additional costs and expenses that may exceed current estimates. We have no history upon which to base any assumption as to the likelihood that our business will prove successful, and we can provide no assurance to investors that we will generate any operating revenues or ever achieve profitable operations.

Because of the inherent dangers involved in mineral exploration, there is a risk that we may incur liability or damages as we conduct our business.

The search for valuable minerals involves numerous hazards. As a result, we may become subject to liability for such

hazards, including pollution, cave-ins and other hazards against which we cannot, or may elect not, to insure against. We currently have no such insurance, but our management intends to periodically review the availability of commercially reasonable insurance coverage. If a hazard were to occur, the costs of rectifying the hazard may exceed our asset value and cause us to liquidate all our assets.

We can provide no assurance that we will be able to successfully bring our claims or interests into commercial production.

We will require significant additional funds in order to place the claims and interests into commercial production. This may occur for a number of reasons, including because of regulatory or permitting difficulties, because we are unable to obtain any adequate funds or because we cannot obtain such funds on terms that we consider economically feasible.

Because access to our properties may be restricted by inclement weather or proper infrastructure, our exploration programs are likely to experience delays.

Access to most of the properties underlying our claims and interests is restricted due to their remote locations and because of weather conditions. Some of our properties are only accessible by air. As a result, any attempts to visit, test, or explore the property are generally limited to those periods when weather permits such activities. These limitations can result in significant delays in exploration efforts, as well as mining and production efforts in the event that commercial amounts of minerals are found. This could cause our business to fail.

Our operations are subject to strict environmental regulations, which result in added costs of operations and operational delays.

Our operations are subject to environmental regulations, which could result in additional costs and operational delays. All phases of our operations are subject to environmental regulation. Environmental legislation is evolving in some countries and jurisdictions in a manner that may require stricter standards, and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects, and a heightened degree of responsibility for companies and their officers, directors, and employees. There is no assurance that any future changes in environmental regulation will not negatively affect our projects.

Our business is subject to U.S. Foreign Corrupt Practices Act and similar worldwide anti-bribery laws, a breach or violation of which could lead to civil and criminal fines and penalties, loss of licenses or permits and reputational harm.

We operate in certain jurisdictions that have experienced governmental and private sector corruption to some degree, and, in certain circumstances, strict compliance with anti-bribery laws may conflict with certain local customs and practices. For example, the U.S. Foreign Corrupt Practices Act and anti-bribery laws in other jurisdictions generally prohibit companies and their intermediaries from making improper payments for the purpose of obtaining or retaining business or other commercial advantage. Our corporate policies mandate compliance with these anti-bribery laws, which often carry substantial penalties. There can be no assurance that our internal control policies and procedures always will protect it from recklessness, fraudulent behavior, dishonesty or other inappropriate acts committed by the Company's affiliates, employees or agents. As such, our corporate policies and processes may not prevent all potential breaches of law or other governance practices. Violations of these laws, or allegations of such violations, could lead to civil and criminal fines and penalties, litigation, and loss of operating licenses or permits, and may damage the Company's reputation, which could have a material adverse effect on our business, financial position and results of operations or cause the market value of our common shares to decline.

Mining companies are increasingly required to consider and provide benefits to the communities and countries in which they operate, and are subject to extensive environmental, health and safety laws and regulations.

As a result of public concern about the real or perceived detrimental effects of economic globalization and global climate impacts, businesses generally and large multinational corporations in natural resources industries, face increasing public scrutiny of their activities. These businesses are under pressure to demonstrate that, as they seek to generate satisfactory returns on investment to shareholders, other stakeholders, including employees, governments, communities surrounding operations and the countries in which they operate, benefit and will continue to benefit from their commercial activities. Such pressures tend to be particularly focused on companies whose activities are perceived to have a high impact on their social and physical environment. The potential consequences of these pressures include reputational damage, legal suits, increasing social investment obligations and pressure to increase taxes and royalties

payable to governments and communities.

In addition, our ability to successfully obtain key permits and approvals to explore for, develop and operate mines and to successfully operate in communities around the world will likely depend on our ability to develop, operate and close mines in a manner that is consistent with the creation of social and economic benefits in the surrounding communities, which may or may not be required by law. Our ability to obtain permits and approvals and to successfully operate in particular communities may be adversely impacted by real or perceived detrimental events associated with our activities or those of other mining companies affecting the environment, human health and safety of communities in which we operate. Delays in obtaining or failure to obtain government permits and approvals may adversely affect our operations, including our ability to explore or develop properties, commence production or continue operations. Key permits and approvals may be revoked or suspended or may be varied in a manner that adversely affects our operations, including our ability to explore or develop properties, commence production or continue operations.

Our exploration, development, mining and processing operations are subject to extensive laws and regulations governing worker health and safety and land use and the protection of the environment, which generally apply to air and water quality, protection of endangered, protected or other specified species, hazardous waste management and reclamation. Some of the countries in which we operate have implemented, and are developing, laws and regulations related to climate change and greenhouse gas emissions. We have made, and expect to make in the future, significant expenditures to comply with such laws and regulations. Compliance with these laws and regulations imposes substantial costs and burdens, and can cause delays in obtaining, or failure to obtain, government permits and approvals which may adversely impact our closure processes and operations.

We have no insurance for environmental problems.

Insurance against environmental risks, including potential liability for pollution or other hazards as a result of the disposal of waste products occurring from exploration and production, has not been available generally in the mining industry. We have no insurance coverage for most environmental risks. In the event of a problem, the payment of environmental liabilities and costs would reduce the funds available to us for future operations. If we are unable to full pay for the cost of remedying an environmental problem, we might be required to enter into an interim compliance measure pending completion of the required remedy.

We do not intend to pay dividends.

We do not anticipate paying cash dividends on our common shares in the foreseeable future. We may not have sufficient funds to legally pay dividends. Even if funds are legally available to pay dividends, we may nevertheless decide, in our sole discretion, not to pay dividends. The declaration, payment and amount of any future dividends will be made at the discretion of our board of directors, and will depend upon, among other things, the results of our operations, cash flows and financial condition, operating and capital requirements, and other factors our board of directors may consider relevant. There is no assurance that we will pay any dividends in the future, and, if dividends are paid, there is no assurance with respect to the amount of any such dividend.

Due to external market factors in the mining business, we may not be able to market any minerals that may be found.

The mining industry, in general, is intensely competitive. Even if commercial quantities of minerals are discovered, we can provide no assurance to investors that a ready market will exist for the sale of these minerals. Numerous factors beyond our control may affect the marketability of any substances discovered. These factors include market fluctuations, the sale price of the minerals, the proximity and capacity of markets and processing equipment, and government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, mineral importing and exporting and environmental protection. The effect of these factors cannot be accurately predicted, but any combination of these factors may result in our not receiving an adequate return on invested capital.

Our performance may be subject to fluctuations in market prices of any minerals that we find.

The profitability of a mineral exploration project could be significantly affected by changes in the market price of the relevant minerals. A number of factors affect the market prices of minerals. The aggregate effect of the factors affecting the prices of various minerals is impossible to predict with accuracy. Fluctuations in mineral prices may adversely affect the value of any mineral discoveries made on the properties with which we are involved, which may in turn affect the market price and liquidity of our common shares and our ability to pursue and implement our business plan. In

addition, the price of both graphite and vanadium can fluctuate significantly on a month-to-month and year-to-year basis.

Because from time to time we hold a significant portion of our cash reserves in Canadian dollars, we may experience losses due to foreign exchange translations.

From time to time we hold a significant portion of our cash reserves in Canadian dollars. Due to foreign exchange rate fluctuations, the value of these Canadian dollar reserves can result in translation gains or losses in U.S. dollar terms. If there was a significant decline in the Canadian dollar versus the U.S. dollar, our converted Canadian dollar cash balances presented in U.S. dollars on our balance sheet would significantly decline. If the US dollar significantly declines relative to the Canadian dollar our quoted US dollar cash position would significantly decline as it would be more expensive in US dollar terms to pay Canadian dollar expenses. We have not entered into derivative instruments to offset the impact of foreign exchange fluctuations. In addition, certain of our ongoing expenditures are in South African Rand, Madagascar Ariary and Euros requiring us to occasionally hold reserves of these foreign currencies with a similar risk of foreign exchange currency translation losses.

We are exposed to general economic conditions, which could have a material adverse impact on our business, operating results and financial condition.

Recently there have been adverse conditions and uncertainty in the global economy as the result of unstable global financial and credit markets, inflation, and recession. These unfavorable economic conditions and the weakness of the credit market may continue to have, an impact on our Company's business and our Company's financial condition. The current global macroeconomic environment may affect our Company's ability to access the capital markets may be severely restricted at a time when our Company wishes or needs to access such markets, which could have a materially adverse impact on our Company's flexibility to react to changing economic and business conditions or carry on our operations.

Climate change and related regulatory responses may impact our business.

Climate change as a result of emissions of greenhouse gases is a current topic of discussion and may generate government regulatory responses in the near future. It is impracticable to predict with any certainty the impact of climate change on our business or the regulatory responses to it, although we recognize that they could be significant. However, it is too soon for us to predict with any certainty the ultimate impact, either directionally or quantitatively, of climate change and related regulatory responses.

To the extent that climate change increases the risk of natural disasters or other disruptive events in the areas in which we operate, we could be harmed. While we maintain rudimentary business recovery plans that are intended to allow us to recover from natural disasters or other events that can be disruptive to our business, our plans may not fully protect us from all such disasters or events.

The current financial environment may impact our business and financial condition that we cannot predict.

The continued instability in the global financial system and related limitation on availability of credit may continue to have an impact on our business and our financial condition, and we may continue to face challenges if conditions in the financial markets do not improve. Our ability to access the capital markets has been restricted as a result of the economic downturn and related financial market conditions and may be restricted in the future when we would like, or need, to raise capital. The difficult financial environment may also limit the number of prospects for potential joint venture, asset monetization or other capital raising transactions that we may pursue in the future or reduce the values we are able to realize in those transactions, making these transactions uneconomic or difficult to consummate.

We will require additional capital in the future and no assurance can be given that such capital will be available on terms acceptable to us or at all.

We will require additional capital in the future and no assurance can be given that such capital will be available on terms acceptable to us or at all. Our currently available funds will not be sufficient to finance the development capital costs of the Molo Graphite Project as disclosed in the Molo Feasibility Study. Accordingly, we will need to raise further equity and/or debt financing to fund development of the Molo Graphite Project. The success and the pricing of any such equity and/or debt financing will be dependent upon the prevailing market conditions at that time, the outcomes of the permitting and development activities or any relevant studies and exploration programs at the Molo Graphite Project. If

additional capital is raised by an issue of securities, this may have the effect of diluting stockholders' interests. Any debt financing, if available, may involve financial covenants which limit our operations. If we cannot obtain such additional capital, we may not be able to complete the development of the Molo Graphite Project which would have a materially adverse effect on our business, operating results and financial condition.

Market Price of Common Shares

Securities of small-cap and mid-cap companies have experienced substantial volatility in the recent past, often based on factors unrelated to the financial performance or prospects of the companies involved. These factors include macroeconomic developments in North America and globally and market perceptions of the attractiveness of particular industries. The price of our common shares is also likely to be significantly affected by short-term changes in graphite prices and demand, the U.S. dollar, the Malagasy ariary, the Canadian dollar, and our financial condition or results of operations as reflected in its financial statements. Other factors unrelated to the performance of our Company that may have an effect on the price of the common shares include the following: the extent of analytical coverage available to investors concerning our business may be limited if investment banks with research capabilities do not follow our Company's securities; lessening in trading volume and general market interest in our Company's securities may affect an investor's ability to trade significant numbers of our common shares; the size of our public float may limit the ability of some institutions to invest in our securities; and a substantial decline in the price of our common shares that persists for a significant period of time could cause our Company's securities, if listed on an exchange, to be delisted from such exchange, further reducing market liquidity.

As a result of any of these factors, the market price of our common shares at any given point in time may not accurately reflect the long-term value of the Company. Class action litigation often has been brought against companies following periods of volatility in the market price of their securities. We may in the future be the target of similar litigation. Securities litigation could result in substantial costs and damages and divert management's attention and resources.

Negative Operating Cash Flow

We reported negative cash flow from operations for the year ended June 30, 2017. It is anticipated that we will continue to report negative operating cash flow in future periods, likely until one or more of our mineral properties generate recurring revenues from being placed into production.

Inability to Enforce Legal Rights

Substantially all of our assets are located outside of the United States, in Madagascar. It may not be possible for investors to enforce judgments in the United States against our assets. In addition, many of our directors and officers, and some of the experts named in this document, are residents of Canada or otherwise reside outside the United States, and all or a substantial portion of their assets, are located outside the United States. It may also be difficult for holders of our common shares who reside in the United States to realize in the United States upon judgments of courts of the United States predicated upon our civil liability and the civil liability of our directors, officers and experts under the U.S. federal securities laws.

ITEM 1B. – UNRESOLVED STAFF COMMENTS

This Item is not applicable to us as we are not an accelerated filer, a large accelerated filer, or a well-seasoned issuer.

ITEM 2. – PROPERTY

The Company's executive offices are currently located at 1001-145 Wellington Street West, Toronto, Ontario, Canada, M5J 1H8. These offices are leased on a month-to-month basis, and the Company's current monthly rental payments are approximately CAD $2,000.

See Item 1 – Business, for the description of our material exploration properties.

ITEM 3. - LEGAL PROCEEDINGS

We are not currently involved in any litigation that we believe could have a material adverse effect on our financial condition or results of operations. There is no action, suit, proceeding, inquiry or investigation before or by any court, public board, government agency, self-regulatory organization or body pending or, to the knowledge of the executive officers of our Company or any of our subsidiaries, threatened against or affecting our company, our common stock, any of our subsidiaries or of our companies or our subsidiaries' officers or directors in their capacities as such, in which an adverse decision could have a material adverse effect.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

As of September 27, 2017, there were 460,995,711 common shares issued and outstanding and 74,991,256 common shares underlying outstanding options and warrants to purchase, or securities convertible into, our common shares. Our common shares are quoted on the OTCQB under the symbol "NSRC", the TSX under the symbol "NEXT" and the Frankfurt Stock Exchange under the symbol "A1CXW3".

On September 27, 2017, the last reported sale price for our common shares on the OTCQB and TSX was US$0.05 and CAD$0.07 per share, respectively. The table below sets forth the high and low closing sale prices of our common shares for the fiscal quarters indicated as reported on the OTCQB and TSX. Over-the-counter market quotations reflect inter-dealer prices, without retail mark-up, markdown or commission and may not necessarily represent actual transactions.

	OTCBB / OTCQX / OTCQB (US$)		**TSX / TSX-V** (CDN$)	
Period	**High**	**Low**	**High**	**Low**
Fiscal year ended June 30, 2017				
First quarter ended September 30, 2016	$0.08	$0.05	$0.11	$0.07
Second quarter ended December 31, 2016	$0.05	$0.05	$0.07	$0.06
Third quarter ended March 31, 2017	$0.06	$0.05	$0.08	$0.06
Fourth quarter ended June 30, 2017	$0.08	$0.05	$0.11	$0.06
Fiscal year ended June 30, 2016				
First quarter ended September 30, 2015	$0.09	$0.03	$0.11	$0.04
Second quarter ended December 31, 2015	$0.09	$0.02	$0.12	$0.03
Third quarter ended March 31, 2016	$0.07	$0.05	$0.10	$0.07
Fourth quarter ended June 30, 2016	$0.10	$0.05	$0.13	$0.07
Fiscal year ended June 30, 2015				
First quarter ended September 30, 2014	$0.25	$0.11	$0.28	$0.12
Second quarter ended December 31, 2014	$0.19	$0.09	$0.20	$0.11
Third quarter ended March 31, 2015	$0.11	$0.09	$0.14	$0.12
Fourth quarter ended June 30, 2015	$0.11	$0.09	$0.14	$0.10
Fiscal year ended June 30, 2014				
First quarter ended September 30, 2013	$0.28	$0.10	$0.28	$0.11
Second quarter ended December 31, 2013	$0.16	$0.11	$0.18	$0.12
Third quarter ended March 31, 2014	$0.17	$0.12	$0.18	$0.13
Fourth quarter ended June 30, 2014	$0.14	$.011	$0.15	$0.12

Our common shares commenced trading on the TSXV on May 5, 2010. Our common shares ceased trading on the TSXV and commenced trading on the TSX on June 16, 2011. Our common shares traded on the OTCQX from August 28, 2013 to September 4, 2015. Since September 8, 2015 our common shares trade on the OTCQB. Prior to August 28, 2014, our common shares traded on the OTCBB.

Holders

As of September 27, 2017, there were approximately 2,500 holders of record of common shares.

Dividends

We have never declared any cash dividends with respect to our common shares. Future payment of dividends is within the discretion of our board of directors, and will depend upon, among other things, the results of our operations, cash flows and financial condition, operating and capital requirements, and other factors our board of directors may consider relevant. Although there are no material restrictions limiting, or that are likely to limit, our ability to pay dividends on our common shares, we presently intend to retain future earnings, if any, for use in our business and have no present intention to pay cash dividends on our common shares.

Equity Compensation Plan Information

The following table sets forth information as of June 30, 2017 for: (i) all compensation plans previously approved by the Company's security holders and (ii) all compensation plans not previously approved by the Company's security holders. Options reported below were issued under the Company's Stock Option Plan.

Plan Category	Number of securities to be issued upon exercise of outstanding options, and warrants	Weighted-average exercise price of outstanding options and warrants	Number of securities remaining available for future under equity compensation plans (excluding securities reflected in column (a)
Equity compensation plans approved by security holders	44,470,000	$0.11	1,530,000
Equity compensation plans not approved by security holders	--	--	--
Total	44,470,000	$0.11	1,530,000

ITEM 6. SELECTED FINANCIAL DATA

As a "smaller reporting company", we are not required to provide the information required by this Item.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

As used in this annual report, "we", "us", "our", "NextSource Materials", "NextSource", "Company" or "our company" refers to NextSource Materials Inc. and all of its subsidiaries. The term NSR stands for Net Smelter Royalty.

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with our financial statements included herein. Further, this MD&A should be read in conjunction with our Financial Statements and Notes to Financial Statements included in this Annual Report on Form 10-K for the years ended June 30, 2017 and 2016.

Our actual results could differ materially from those anticipated by the forward-looking statements due to important factors and risks including, but not limited to, those set forth under "Risk Factors" in Part I, Item 1A of our Annual Report on Form 10-K and discussed below under "Cautionary Note". In addition, the foregoing factors may affect generally our business, results of operations and financial position. Forward-looking statements speak only as of the date the statement was made. We do not undertake and specifically decline any obligation to update any forward-looking statements. Our financial statements have been prepared in accordance with United States generally accepted accounting principles (US GAAP). We urge you to read this report in conjunction with the risk factors referenced above.

Management's Discussion and Analysis may contain various "forward looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, regarding future events or the future financial performance of the Company that involve risks and uncertainties. Certain statements included in this Form 10-K, including, without limitation, statements related to anticipated cash flow sources and uses, and words including but not limited to "anticipates", "estimates", "believes", "plans", "expects", "future" and similar statements or expressions, identify forward looking statements. Any forward-looking statements herein are subject to certain risks and uncertainties in the Company's business and any changes in current accounting rules, all of which may be beyond the control of the Company. The Company has adopted the most conservative recognition of revenue based on the most stringent guidelines of the SEC. The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth therein. Undue reliance should not be placed on these forward-looking statements, which speak only as of the date hereof. We undertake no obligation to update these forward-looking statements.

Company Overview

Our principal business is the acquisition, exploration and development of mineral resources. We are primarily focused on the development of the Molo Graphite Project into a fully operational and sustainable graphite mine.

The Molo Graphite Project currently consists of a commercially minable graphite deposit situated in the African country of Madagascar. No mine infrastructure currently exists at the Molo Graphite Project site. We have additional exploration-stage mineral properties situated in Madagascar, including the Green Giant Property.

We have not generated operating revenues or paid dividends since inception on March 1, 2004 to the period ended June 30, 2017 and we are unlikely to do so in the immediate future. Our business activities have been entirely financed from the proceeds of securities subscriptions.

Our executive offices are situated at 1001–145 Wellington Street West, Toronto, Ontario, Canada, M5J 1H8 and the primary telephone number is (416) 364-4986. Our website is www.nextsourcematerials.com (which website is expressly not incorporated by reference into this filing).

We are incorporated in the State of Minnesota, USA and have a fiscal year end of June 30.

On April 19, 2017, the Company changed its name from Energizer Resources Inc. to NextSource Materials Inc. as part of our rebranding effort and to better reflect our evolution from an exploration-stage company into a mine-development company. Our new symbol on the Toronto Stock Exchange is "NEXT" and on the OTC Markets is "NSRC."

During fiscal 2008, the Company incorporated Energizer (Mauritius) Ltd. ("ERMAU"), a Mauritius subsidiary, and Energizer Madagascar Sarl. ("ERMAD"), a Madagascar subsidiary of ERMAU. During fiscal 2009, the Company incorporated THB Ventures Ltd. ("THB"), a Mauritius subsidiary of ERMAU, and Energizer Minerals Sarl. ("ERMIN"), a Madagascar subsidiary of THB, which holds the 100% ownership interest of the Green Giant Property in Madagascar (see note 5). During fiscal 2012, the Company incorporated Madagascar-ERG Joint Venture (Mauritius) Ltd. ("ERGJVM"), a Mauritius subsidiary of ERMAU, and ERG (Madagascar) Sarl. ("ERGMAD"), a Madagascar subsidiary of ERGJVM, which holds the Malagasy Joint Venture Ground. During fiscal 2014, the Company incorporated 2391938 Ontario Inc., an Ontario, Canada subsidiary.

Our authorized capital is 650,000,000 shares, with a par value of $0.001 per share, of which 640,000,000 are deemed common shares and the remaining 10,000,000 are deemed eligible to be divisible into classes, series and types with rights and preferences as designated by our Board of Directors.

We have not had any bankruptcy, receivership or similar proceeding since incorporation. Except as described below, there have been no material reclassifications, mergers, consolidations or purchases or sales of any significant amount of assets not in the ordinary course of business since the date of incorporation.

Further details regarding each of our Madagascar properties, although not incorporated by reference, including the comprehensive feasibility studies prepared in accordance with Canada's National Instrument 43-101 - *Standards of Disclosure for Mineral Projects* ("NI 43-101") for the Molo Graphite Project and separately the technical report on the Green Giant Property in Madagascar can be found on the Company's website at www.nextsourcematerials.com (which website is expressly not incorporated by reference into this filing) or in the Company's Canadian regulatory filings at www.sedar.com (which website and content is expressly not incorporated by reference into this filing).

We report mineral reserve estimates in accordance with the Securities and Exchange Commission's Industry Guide 7 ("Guide 7") under the Securities Act of 1933, as amended (the "U.S. Securities Act"). As a reporting issuer in Canada with our primary trading market in Canada, we are also required to prepare reports on our mineral properties in accordance with NI 43-101. The technical reports referenced in this document use the terms "mineral resource," "measured mineral resource," "indicated mineral resource" and "inferred mineral resource". These terms are defined in and required to be disclosed by NI 43-101; however, these terms are not defined terms under Guide 7 and are normally not permitted to be used in reports filed with the Securities and Exchange Commission. As a result, information in respect of our mineral resources determined in accordance with NI 43-101 is not contained in this document.

Cautionary Note

Based on the nature of our business, we anticipate incurring operating losses for the foreseeable future. We base this expectation, in part, on the fact that very few mineral properties in the exploration stage are ultimately developed into producing and profitable mines. Our future financial results are uncertain due to a number of factors, some of which are outside the Company's control. These factors include, but are not limited to: (a) our ability to raise additional funding; (b) the market price for graphite, vanadium, gold and/or uranium; (c) the results of the exploration programs and metallurgical analysis of our mineral properties; (d) the political instability and/or environmental regulations that may

adversely impact costs and ability to operate in Madagascar; and (e) our ability to find joint venture and/or off-take partners in order to advance the development of our mineral properties.

Any future equity financing will cause existing shareholders to experience dilution of their ownership interest in the Company. In the event the Company is not successful in raising additional financing, we anticipate the Company will not be able to proceed with its business plan. In such a case, the Company may decide to discontinue or modify its current business plan and seek other business opportunities in the resource sector.

During this period, the Company will need to maintain periodic filings with the appropriate regulatory authorities and will incur legal, accounting, administrative and listing costs. In the event no other such opportunities are available and the Company cannot raise additional capital to sustain operations, the Company may be forced to discontinue the business. The Company does not have any specific alternative business opportunities under consideration and have not planned for any such contingency.

Due to the present inability to generate revenues, accumulated losses, recurring losses and negative operating cash flows, the Company has stated its opinion in Note 1 of our audited financial statements, as included in this annual report, that there currently exists substantial doubt regarding the Company's ability to continue as a going concern.

Summary of Milestones

In July 2016, we appointed UK-based HCF International Advisers Limited ("HCF") as advisor in negotiating and structuring strategic partnerships, off take agreements and debt financing for our Molo Graphite Project in Madagascar. Discussions in respect of these matters have been ongoing for the past 26 months and are expected to continue during the coming months with no assurances as to the conclusion or results of these discussions.

In August 2016, we initiated a Front-End Engineering Design Study (the "FEED Study") and value engineering for our Molo Graphite Project in Madagascar. The FEED Study was undertaken in order to optimize the mine plan as envisioned in the technical report titled "Molo Feasibility Study – National Instrument 43-101 Technical Report on the Molo Graphite Project located near the village of Fotadrevo in the Province of Toliara, Madagascar", dated July 13, 2017, effective as of July 13, 2017 (the "Molo Feasibility Study") and determine the optimal development path based on discussions with prospective strategic partners. All costing aspects were examined with the goal of providing a method to produce meaningful, multi-tonne test samples of Molo graphite concentrate to potential off-takers while reducing the CAPEX and time required to the commencement of commercial production.

On November 7, 2016, we outlined a phased mine development plan for the Molo Graphite Project based on the FEED Study and value engineering. The results supported the construction of a plant to test and verify the flow sheet design from the Molo Feasibility Study. Under the existing Exploration Permit, the Company is limited to an ore input of 20,000 cubic meters (or approximately 50,000 tonnes) of front-end feed into the demonstration plant. Upon approval of a full mining permit, the 20,000-cubic meter test limit would be removed and at full capacity, the demonstration plant would be capable of processing up to 240,000 tonnes of feed per annum, which equates to 30 tonnes per hour of ore feed and roughly 1 to 3 tonnes of flake graphite concentrate production per hour.

Phase 1

Phase 1 would consist of a fully operational and sustainable graphite mine with a permanent processing plant capable of producing, in our estimation, approximately 17,000 tpa of high-quality SuperFlake™ graphite concentrate with a mine life of 30 years (as discussed below). The fully-modularized mining operation in this phase will use a 100% owner-operated fleet that we believe will process an average of 240,000 tonnes of ore per year (or 30 tonnes per hour) of mill feed (ore) that will be processed on site. Phase 1 will provide "proof of concept" for the modular methodology and allow NextSource the flexibility to optimize further the process circuit while being capable of supplying a true "run-of-mine" flake concentrate to potential off-takers and customers for final product validation. All supporting infrastructure including water, fuel, power, dry-stack tailings and essential buildings will be constructed during Phase 1 to sustain the fully operational and permanent processing plant. The plant will utilize dry-stack tailings in order to eliminate the up-front capital costs associated with a tailings dam. NextSource's existing camp adjacent to the nearby town of Fotadrevo will be used to accommodate employees and offices, with additional housing available within the town for additional employees.

Phase 2

Phase 2 would consist of a modular expansion to plant capable of producing approximately 50,000 tpa of high-quality SuperFlake™ graphite concentrate. Timing of the implementation of Phase 2 will be determined by market demand for SuperFlake™ graphite and will incorporate the unique full-modular build approach used in Phase 1. This phase will include the construction of additional on-site accommodation and offices, upgrading of road infrastructure, port facility upgrades, a wet tailings dam facility and further equipment purchases to provide redundancy within the processing circuit. The costs for these capital expenditures are unknown at this time, but will be assessed as part of an economic analysis completed in parallel with Phase 1 development.

On June 1, 2017, we released the results of a positive updated Molo Feasibility Study for Phase 1 of the mine development plan utilizing a fully modular build-out approach which was based on the FEED Study and subsequent detailed engineering studies. Phase 1 would consist of a fully operational and sustainable graphite mine with a permanent processing plant capable of producing, in our estimation, approximately 17,000 tpa of high-quality SuperFlake™ graphite concentrate per year with a mine life of 30 years. The Phase 1 production costs were estimated at $433 per tonne at the plant and $688 per tonne delivered CIF port of Rotterdam. The Phase 1 capital costs were estimated at $18.4 million with a construction projected but not guaranteed timeline of approximately 9 months. Based on an average selling cost of $1,014 per tonne, the Phase 1 was estimated to have a pre-tax NPV of $34 million using an 8% discount rate, a pre-tax internal rate of return (IRR) of 25.2%, and a post-tax IRR of 21.5%.

Summary of Future Plans

We have applied for a mining permit from the Government of Madagascar to begin construction of Phase 1 of the Molo Graphite Project. Although the Company believes it has complied with all permit requirements and has submitted all necessary documents, there can be no assurances as to the timing of the receipt of a mining permit.

In anticipation of receiving the mine permit and of eventual graphite production, we have continued to pursue negotiations in respect of potential off-take agreements with graphite end-users and intermediaries with the intention of securing project financing alternatives, which may include debt, equity and derivative instruments.

From the date of this report, and subject to availability of capital and unforeseen delays in receiving the mining permit for the Molo Graphite Project, our business plan during the next 12 months is to incur between $2,200,000 to $23,000,000 on further permitting, engineering, construction, professional fees, G&A and working capital costs to achieve initial production at the Molo Graphite Project by July 2018. No assurances can be provided that we will achieve our production objective by that date.

The following is a summary of the amounts budgeted to be incurred (presuming all $23,000,000 is required):

Professional Fees and General and Administrative	$	1,500,000
Environmental and Permitting Fees	$	700,000
Phase 1 Processing Plant CAPEX	$	14,500,000
Phase 1 Infrastructure CAPEX	$	400,000
Construction Financing Costs	$	1,100,000
Construction Contingency Costs (10%)	$	1,700,000
Working Capital for Mine Startup	$	3,100,000
Total	**$**	**23,000,000**

The above amounts may be updated based on actual costs and the timing may be delayed or adjusted based on several factors, including the availability of capital to fund the budget. We anticipate that the source of funds required to complete the budgeted items disclosed above will come from private placements in the capital markets, but there can be no assurance that financing will be available on terms favorable to the Company or at all.

We will also assess the addition of back-end value-added processing for lithium-ion battery and graphite foil applications in the classification portion of the plant. The costs for any value-added processing is unknown at this time, but will be assessed in parallel with the development of Phase 1.

Employees

As of the date of this annual report, we have 4 full-time employees and consultants based in Toronto and South Africa engaged in the management of the Company as well as several additional consultants in South Africa and Madagascar that serve managerial and non-managerial functions.

RESULTS OF OPERATIONS

The following are explanations of the material changes for the year ended June 30, 2017 compared to the year ended June 30, 2016:

	Year ended June 30, 2017	Year ended June 30, 2016
Revenues	**$ -**	**$ -**
Expenses		
Mineral exploration expense	1,839,659	812,477
Professional and consulting fees	770,397	811,704
Stock-based compensation	794,864	331,491
General and administrative	458,780	279,097
Depreciation	21,911	56,602
Foreign currency translation loss (gain)	93,476	106,036
Total Expenses	3,979,087	2,408,778
Net Loss From Operations	(3,979,087)	(2,408,778)
Other Income (Expenses)		
Investment income	-	623
Gain on legal settlement	-	59,556
(Loss) gain on sale of marketable securities	-	(18,916)
Change in value of warrant liability	111,049	733,802
Part XII.6 taxes	(131,320)	-
Net Loss	(3,999,358)	(1,633,713)
Realized gain from marketable securities	-	4,323
Comprehensive Loss	$ (3,999,358)	$ (1,629,390)
Loss per share – basic and diluted	($0.01)	($0.00)
Weighted average shares outstanding – basic and diluted	448,187,140	343,243,652

Results for the year ended June 30, 2017:

- Mineral exploration costs increased to $1,839,659 (2016: $812,477) as our company completed metallurgical analysis activities related to the Feed Study, environmental permitting and consulting and general project expenditures as compared to the previous year.
- Professional fees decreased to $770,397 (2016: $811,704)as a result of a reduction in the number of employees and legal fees as compared to the previous year.

- General and administrative (G&A) costs increased to $458,780 (2016: $279,097)as a result of increased travel costs and investor relations activities as compared to the previous year.
- Part XII.6 taxes of $131,320 (2016: $nil) were incurred to settle taxes payable to the Canada Revenue Agency (CRA) related to the issuance of flow-through shares during fiscal 2014.
- A non-cash gain in the value of a warrant liability of $111,049 (2016: $733,802) was recognized. This is in relation to warrants that expried in January 2017 that were issued in a currency other than our functional currency. In accordance with ASC 815 *Derivatives and Hedging*, upon recognition the fair value of these warrants was estimated using a binomial model and was recorded as a derivative liability. The liability was subsequently remeasured at the end of each financial reporting period until expiration.

Liquidity, Capital Resources and Foreign Currencies

The following are explanations of the material changes to the working capital position as of June 30, 2017 when compared to June 30, 2016:

	June 30, 2017	June 30, 2016
Assets		
Current Assets:		
Cash and cash equivalents (note 12)	$ 1,964,948	$ 544,813
Amounts receivable	39,441	13,955
Prepaid expenses (note 6)	39,096	11,545
Total current assets	2,043,485	570,313
Current Liabilities:		
Accounts payable (note 6)	$ 159,147	$ 215,391
Accrued liabilities	68,241	24,743
Contingency provision (note 13)	182,883	182,742
Warrant liability (note 10)	-	111,049
Total current liabilities	410,271	533,925
Net working capital position	**$ 1,633,214**	**$ 36,388**

In managing liquidity, management's primary objective is to ensure the entity can continue as a going concern while raising additional funding to meet our obligations as they come due. However, due to the present inability to generate revenues, accumulated losses, recurring losses and negative operating cash flows, the Company has stated its opinion in Note 1 of our audited financial statements, as included in this annual report, that there currently exists substantial doubt regarding the Company's ability to continue as a going concern. Our operations to date have been funded by issuing equity. Our company expects to raise additional working capital to fund planned project expenditures by securing additional financing. The existing working capital position is expected to be sufficient to fund non-project expenditures for the next 12 months.

We hold a significant portion of our cash reserves in Canadian dollars to satisfy non-exploration expenditures such as professional and consulting fees and general and administrative costs, which are mainly incurred in Canadian dollars. Due to foreign exchange rate fluctuations, the remeasurement of the value of Canadian dollar reserves into US dollars results in foreign currency translation gains or losses. If there was to be a significant decline in the Canadian dollar against the US dollar, the value of that Canadian dollar cash reserves, as presented on the balance sheet, could significantly decline causing significant foreign currency translation losses. For illustration, there has been a consistent and steady decline in the value of the Canadian dollar from near par in 2013 to the Canadian dollar's current rates. In addition, certain of our ongoing expenditures are in South African Rand, Madagascar Ariary and Euros requiring us to occasionally hold reserves of these foreign currencies with a similar risk of foreign exchange currency translation losses.

Capital Financings

We have funded our business to date from sales of our securities. We will require additional funding throughout fiscal 2018 to advance our projects, which will likely be in the form of equity financing from the issuance of additional

common shares. However, we cannot provide investors with any assurance that we will be able to raise sufficient funding from the sale of our common shares.

Net proceeds during the past two years:

- On October 7, 2015, we closed a non-brokered private placement offering of 14,200,000 units at a price of $0.04 (CAD$0.05) per unit, representing gross proceeds of $530,673 (CAD$710,000). Insiders subscribed for a total of $50,000CAD as part of this offering. Each unit is comprised of one (1) common share and one-half (0.5) of one (1) common share purchase warrant. Each warrant entitling the holder thereof to acquire one (1) additional common share at a price of $0.07 per share until October 6, 2017.
- On February 4, 2016, we closed a private placement offering of 6,437,900 units at a price of $0.05 (CAD$0.07) per unit, representing aggregate gross proceeds of $328,977 (CAD$450,653). Each unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share at a price of $0.11 per common share until February 4, 2018.
- On April 11, 2016, we closed a private placement offering of 3,207,857 units at a price of $0.05 (CAD$0.07) per unit, representing aggregate gross proceeds of $172,633 (CAD$224,550). Each unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share at a price of $0.11 per common share until April 11, 2018.
- On May 17, 2016, we closed a private placement offering of 11,150,000 common shares at a price of $0.07 (CAD$0.09) per unit, representing aggregate gross proceeds of $782,730 (CAD$1,003,500).
- On August 18, 2016, we closed a private placement offering of 96,064,286 common shares at a price of $0.05 (CAD$0.07) per unit, representing aggregate gross proceeds of $5,177,885 (CAD$6,724,500).

Net proceeds subsequent to the end of the current reporting period:

- None.

Each of the issuances above were effected in reliance upon the exemption provided by Regulation S under the Securities Act of 1933, as amended, for a transaction not involving a public offering. We completed the offering of the shares pursuant to Rule 903 of Regulation S of the Securities Act on the basis that the sale of the securities was completed in an "offshore transaction", as defined in Rule 902(h) of Regulation S. Each investor represented to us that the investor was not a U.S. person, as defined in Regulation S, and was not acquiring the shares for the account or benefit of a U.S. person. The securities contain a legend restricting the sale of such securities in accordance with the Securities Act.

Off-balance sheet arrangements

The Company does not have off-balance sheet arrangements including any arrangements that would affect the liquidity, capital resources, market risk support and credit risk support or other benefits.

ITEM 7.A. - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 8. – FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements required by this Item, the accompanying notes thereto and the reports of independent accountants are included, as part of this Form 10-K immediately following the signature page.

ITEM 9. – CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. - CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management team, under the supervision and with the participation of our chief executive officer and our chief financial officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as such term is defined under Rule 13a-15(e) promulgated under the Exchange Act, as of the last day of the fiscal period covered by this report, June 30, 2017.

The term disclosure controls and procedures means our controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to management, including our chief executive and chief financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Based on this evaluation, our chief executive officer and our chief financial officer concluded that, our disclosure controls and procedures were effective as of June 30, 2017.

Management's report on internal control over financial reporting

Our principal executive officer and our principal financial officer, are responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Management is required to base its assessment of the effectiveness of our internal control over financial reporting on a suitable, recognized control framework, such as the framework developed by the Committee of Sponsoring Organizations (COSO). The 2013 COSO framework, published in *Internal Control-Integrated Framework*, is known as the COSO Report. Our principal executive officer and our principal financial officer, have chosen the COSO framework on which to base its assessment. Based on this evaluation, we have concluded that, as of June 30, 2017, our internal controls over financial reporting was effective.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even systems like ours which have been determined to be effective can only provide reasonable and not absolute assurance of achieving their control objectives. Furthermore, smaller reporting companies, like ours, face additional limitations. Smaller reporting companies employ fewer individuals and find it difficult to properly segregate duties. Often, only a few individuals control every aspect of the Company's operation and are in a position to override any system of internal control. Additionally, smaller reporting companies tend to utilize general accounting software packages that lack a rigorous set of software controls.

This annual report does not include an attestation report of our independent registered public accounting firm over management's assessment regarding internal control over financial controls. However, the auditors have reported that they have found no material weaknesses in internal controls during the period of their audit. Management's report was not subject to attestation by our registered public accounting firm pursuant to an exemption for smaller reporting companies under Section 989G of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

It should be noted that any system of controls, however well designed and operated, can provide only reasonable and not absolute assurance that the objectives of the system are met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of certain events. However, as noted, when the size of our Company and its finance department is materially increased, the deficiencies can be addressed. Once increased, we intend to create a new finance and accounting position that will allow for proper segregation of duties consistent with control objectives, and will increase our personnel resources and technical accounting expertise within the accounting function; and we will prepare and implement appropriate written policies and checklists which set forth procedures for accounting and financial reporting with respect to the requirements and application of US generally accepted accounting principles and SEC disclosure requirements. Because of these and other inherent limitations of control systems, there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of

how remote or when the size of our Company and our finance department will materially increase to address these issues.

Changes In Internal Control Over Financial Reporting

There were no changes in the Company's internal controls over financial reporting during the most recently completed fiscal quarter that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

ITEM 9B. – OTHER INFORMATION

Not applicable.