NextSource Materials Inc.

Unaudited Condensed Interim Consolidated Financial Statements

For the three months ended September 30, 2023, and 2022

Expressed in US Dollars

In accordance with National Instrument 51-102, the
Company discloses that its auditors have not reviewed these
unaudited condensed interim financial statements.

NextSource Materials Inc.
Unaudited Condensed Interim Consolidated Statement of Financial Position
(Expressed in US Dollars)

	As at September 30, 2023	As at June 30, 2023
Assets		
Current Assets:		
Cash and cash equivalents	$ 36,983,648	$ 6,885,458
Amounts receivable (notes 16 and 18)	1,741,646	494,250
Inventories	520,742	470,336
Prepaid expenses	642,150	172,384
Total Current Assets	39,888,186	8,022,428
Prepayments and deposits	303,886	717,403
Property, plant, equipment, and development (note 5)	34,637,655	44,236,829
Total Assets	$ 74,829,727	$ 52,976,660
Liabilities		
Current Liabilities:		
Accounts payable and accrued liabilities (note 16)	$ 2,964,319	$ 3,014,594
Current portion of lease obligations (note 6)	41,576	1,286,561
Current portion of royalty obligations (note 7)	1,897,500	2,846,250
Commercial production obligation (note 9)	694,338	754,973
Total Current Liabilities	5,597,733	7,902,378
Lease obligations (note 6)	279,177	10,209,370
Royalty obligations (note 7)	9,534,175	9,170,631
Asset retirement obligations (note 10)	496,353	492,346
Total Liabilities	15,907,438	27,774,725
Shareholders' Equity		
Share capital (note 12)	205,479,728	169,212,945
Accumulated deficit	(144,972,225)	(142,452,034)
Accumulated other comprehensive income	(1,585,214)	(1,558,976)
Total Shareholders' Equity	58,922,289	25,201,935
Total Liabilities and Shareholders' Equity	$ 74,829,727	$ 52,976,660

Nature of operations (note 1)
Basis of presentation (note 2)
Commitments (note 11)

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.

NextSource Materials Inc.
Unaudited Condensed Interim Consolidated Statements of Operations and Comprehensive (Loss) Income
(Expressed in US Dollars, except share and per share amounts)

	Three months ended September 30, 2023	Three months ended September 30, 2022
Revenues	$ -	$ -
Expenses and other income		
Operating expenses (note 15)	-	224,376
Exploration and evaluation expenses (note 15)	9,960	-
General and administrative expenses (note 15)	1,278,982	652,390
Share-based compensation (note 14)	-	179,743
Depreciation of property, plant, equipment, and development (note 5)	328,060	16,875
Lease finance costs (note 6)	318,778	11,374
Foreign currency translation (gain) loss	786,029	224,504
Interest income	(338,515)	(43)
Sub-total before other items	2,383,294	1,309,219
Change in value of lease liability	(294,074)	-
Change in value of royalty obligation (note 7)	-	5,496
Change in fair value of warrant derivative financial liability (note 8)	-	2,048,042
Change in value of commercial production obligation (note 9)	(46,362)	(24,628)
Impairment of VAT receivable (notes 15 and 18)	477,333	2,580,301
Total Expenses	2,520,191	5,918,430
Net (loss) income	(2,520,191)	(5,918,430)
Other comprehensive income		
Items that will be reclassified subsequently to net (loss) income		
Translation adjustment for foreign operations	(26,238)	105,330
Net (loss) income and comprehensive (loss) income	$ (2,546,429)	$ (5,813,100)
Weighted-average common shares (basic and diluted)	145,473,340	101,872,614
Net (loss) income per common share (basic and diluted)	$ (0.02)	$ (0.06)

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.

NextSource Materials Inc.
Consolidated Statements of Changes in Shareholders' Equity
(Expressed in US Dollars, except share amounts)

	Common Shares Outstanding #	Share Capital $	Accumulated Deficit $	Accumulated Other Comprehensive Income $	Total (Deficit) Equity $
Balance as at June 30, 2022	101,872,614	127,377,519	(130,773,347)	331,468	(3,064,360)
Restricted share units expensed over vesting period	-	179,743	-	-	179,743
Net loss	-	-	(5,918,430)	-	(5,918,430)
Cumulative translation adjustment	-	-	-	105,330	105,330
Balance as at September 30, 2022	101,872,614	127,557,262	(136,691,777)	436,798	(8,697,717)
Reclassification of warrant liability to equity on exercise of warrants	-	24,472,850	-	-	24,472,850
Shares issued on exercise of warrants	23,214,286	17,002,227	-	-	17,002,227
Shares issued on conversion of restricted share units	184,107	-	-	-	-
Restricted share units expensed over vesting period	-	180,606	-	-	180,606
Net loss	-	-	(5,760,257)	-	(5,760,257)
Cumulative translation adjustment	-	-	-	(1,995,774)	(1,995,774)
Balance as at June 30, 2023	125,271,007	169,212,945	(142,452,034)	(1,558,976)	25,201,935
Shares issued from prospectus offering	30,303,500	37,750,585	-	-	37,750,585
Cost of issue from prospectus offering	-	(1,483,802)	-	-	(1,483,802)
Net loss	-	-	(2,520,191)	-	(2,520,191)
Cumulative translation adjustment	-	-	-	(26,238)	(26,238)
Balance as at September 30, 2023	155,574,507	205,479,728	(144,972,225)	(1,585,214)	58,922,289

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.

NextSource Materials Inc.
Unaudited Condensed Interim Consolidated Statements of Cash Flows
(Expressed in US Dollars)

	Three months ended September 30, 2023	Three months ended September 30, 2022
Operating activities		
Net (loss) income	$ (2,520,191)	$ (5,918,430)
Add (deduct) items not affecting cash:		
Depreciation of property, plant, equipment, and development (note 5)	328,060	16,875
Lease finance costs (note 6)	318,778	
Change in value of lease obligations (note 6)	(294,392)	2,451
Change in value of royalty obligations (note 7)	-	5,496
Change in fair value of warrant derivative financial liability (note 8)	-	2,048,042
Change in value of provision (note 9)	(46,362)	(24,628)
Share-based compensation expense	-	179,743
	(2,214,107)	(3,690,451)
Change in non-cash working capital balances:		
Increase in amounts receivable, prepaids and inventories	(456,820)	312,104
Increase in accounts payable and accrued liabilities	(50,275)	(856,619)
Decrease in provisions (note 9)	(14,273)	(49,375)
Net cash used in operating activities	(2,735,475)	(4,284,341)
Investing activities		
Increase in prepayments and deposits	(255,801)	(437,090)
Additions to property, plant, equipment, and development (note 5)	(2,202,329)	(3,607,555)
Net cash used in investing activities	(2,458,130)	(4,044,645)
Financing activities		
Proceeds from issuance of common shares (note 12)	37,750,585	-
Common shares issuance costs (note 12)	(1,483,802)	-
Lease obligation principal payments (note 6)	-	(976)
Repayment of royalty financing (note 7)	(948,750)	-
Proceeds from royalty financing (note 7)	-	3,000,000
Net cash provided by financing activities	35,318,033	2,999,024
Effect of exchange rate changes on cash and cash equivalents	(26,238)	105,330
Net increase (decrease) in cash and cash equivalents	30,098,190	(5,224,632)
Cash and cash equivalents, beginning of period	6,885,458	9,793,253
Cash and cash equivalents, end of period	$ 36,983,648	$ 4,568,621

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.

1. Nature of operations

NextSource Materials Inc. (the "Company" or "NextSource") was continued under the Canada Business Corporations Act from the State of Minnesota to Canada on December 27, 2017, and has a fiscal year end of June 30. The Company's registered head office and primary location of records is 130 King Street West, Exchange Tower, Suite 1940, Toronto, Ontario Canada, M5X 2A2. The Company's common shares are listed on the Toronto Stock Exchange (the "TSX") under the symbol "NEXT" and the OTCQB under the symbol "NSRCF".

NextSource is intent on becoming a vertically integrated global supplier of battery materials through the mining and value-added processing of graphite and other minerals. The Company's principal business is the development of the Molo Graphite Mine in Madagascar and has announced plans to build the first of several Battery Anode Facilities ("BAF") in Mauritius.

The Company also owns the Green Giant Vanadium Project, located in Madagascar, and the Sagar Project, located in Quebec, both of which are at the exploration and evaluation stage.

The Company has not previously operated any mines or processing facilities, and no commercial revenues have been generated from any mineral resources. The Company does not pay dividends and is unlikely to do so in the immediate or near future.

These consolidated financial statements were approved by the Board of Directors of the Company on November 13, 2023.

2. Basis of presentation

Statement of compliance with IFRS

These condensed interim consolidated financial statements have been prepared in accordance and comply with International Accounting Standard 34 Interim Financial Reporting ("IAS 34") using accounting principles consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the IFRS Interpretations Committee ("IFRIC"). These condensed interim consolidated financial statements do not include all the disclosures required by IFRS for annual audited consolidated financial statements.

These condensed interim consolidated financial statements should be read in conjunction with the Company's 2023 annual audited consolidated financial statements, including the accounting policies and notes thereto, included in the Annual Information Form for the year ended June 30, 2023, which were prepared in accordance with IFRS.

In the opinion of management, these condensed interim consolidated financial statements reflect all adjustments, which consist of normal and recurring adjustments necessary to present fairly the financial position as at September 30, 2023, and June 30, 2023, and the results of operations and cash flows for the three months ended September 30, 2023, and 2022.

Operating results for the three months ended September 30, 2023, are not necessarily indicative of the results that may be expected for the full year ending June 30, 2024.

Basis of measurement

The consolidated financial statements have been prepared on the basis of a going concern, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. Assets and liabilities are presented under the historical cost basis, except for certain financial instruments that are measured at fair value, as explained in the accounting policies below.

Basis of consolidation

These condensed interim consolidated financial statements include the financial position, results of operations and comprehensive (loss) income and cash flows of the Company and its wholly owned subsidiaries. Intercompany balances, transactions, income and expenses, profits, and losses, including gains and losses relating to subsidiaries have been eliminated on consolidation.

NextSource owns 100% of NextSource Materials (Mauritius) Ltd. ("MATMAU"), a Mauritius subsidiary, and 2391938 Ontario Inc., an Ontario Company. MATMAU owns 100% of NextSource Minerals (Mauritius) Ltd. ("MINMAU"), a Mauritius subsidiary, NextSource Graphite (Mauritius) Ltd ("GRAMAU"), a Mauritius subsidiary, NextSource CSPG (Mauritius) Ltd ("CSPGMAU"), a Mauritius subsidiary, and NextSource Materials (Madagascar) SARLU ("MATMAD"), a Madagascar subsidiary. MINMAU owns 100% of NextSource Minerals (Madagascar) SARLU ("MINMAD"), a Madagascar subsidiary. GRAMAU owns 100% of ERG (Madagascar) SARLU ("ERGMAD"), a Madagascar subsidiary.

(Expressed in US Dollars)

3. Significant accounting policies

These condensed interim consolidated financial statements follow the same accounting policies and methods of their application as disclosed in Note 3 to the Company's audited consolidated financial statements for the year ended June 30, 2023.

4. Significant judgments, estimates and assumptions

To prepare financial statements in conformity with IFRS, the Company must make estimates, judgments and assumptions concerning the future that affect the carrying values of assets and liabilities as of the date of the consolidated financial statements and the reported values of revenues and expenses during the reporting period. By their nature, these are uncertain and actual outcomes could differ from the estimates, judgments, and assumptions. The impacts of such estimates are pervasive throughout the consolidated financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in future periods when the revision affects both current and future periods. Significant accounting judgments, estimates and assumptions are reviewed on an ongoing basis.

The areas involving significant judgments, estimates and assumptions have been detailed in Note 4 to the Company's audited consolidated financial statements for the year ended June 30, 2023.

5. Property, plant, equipment, and development

As of September 30, 2023, the carrying value of property, plant, equipment, and development was $34,637,655 (June 30, 2023: $44,236,829). The property, plant, equipment and right of use assets relate to the Molo Mine in Madagascar. The assets under construction consist of $17,432,712 (June 30, 2023: $15,181,485) for the Molo Mine, $2,666,570 (June 30, 2023: $2,612,845) for the Molo Mine Phase 2 development costs, $1,095,474 (June 30, 2023: $909,647) for Mauritius BAF development costs, and $329,018 (June 30, 2023: $295,083) for North American BAF development costs.

During the three months ended September 30, 2023, the Company capitalized additions of $873,243 (year ended June 30, 2023: $25,518,369), capitalized mine development costs of $1,711,997 (year ended June 30, 2023: $2,077,755), transferred $nil from assets under construction into property, plant and equipment (year ended June 30, 2023: $7,987,025), recorded depreciation of $328,060 (year ended June 30, 2023: $380,286), and recognized an impact of foreign exchange of $15,360 (year ended June 30, 2023: $1,631,403). Disposals consisted of $11,840,994 upon termination and derecognition of the BAF lease right of use asset on September 28, 2023. Non-cash additions consisted of $363,544 for accretion of the royalty obligation.

	Property	Plant	Equipment	Right of Use Assets	Assets Under Construction	Total
	$	$	$	$	$	$
As at June 30, 2022	1,107,350	-	215,172	536,649	16,793,223	18,652,394
Additions	632,524	1,603,458	2,031,526	12,125,135	9,125,726	25,518,369
Development costs	30,122	-	-	-	2,047,633	2,077,755
Transfers	361,852	7,008,136	617,037	-	(7,987,025)	-
Depreciation	-	(45,400)	(155,133)	(179,753)	-	(380,286)
Impact of foreign exchange	(35,089)	(404,201)	(148,795)	(62,822)	(980,496)	(1,631,403)
As at June 30, 2023	2,096,759	8,161,993	2,559,807	12,419,209	18,999,061	44,236,829
Additions	25,493	(27,472)	52,452	-	822,770	873,243
Development costs	-	-	-	-	1,711,997	1,711,997
Depreciation	-	(103,625)	(99,926)	(124,509)	-	(328,060)
Disposals	-	-	-	(11,840,994)	-	(11,840,994)
Impact of foreign exchange	3,729	(6,146)	(2,431)	(459)	(10,053)	(15,360)
As at September 30, 2023	2,125,981	8,024,750	2,509,902	453,247	21,523,775	34,637,655
Cost	2,096,759	8,207,393	2,744,548	12,617,040	18,999,061	44,664,801
Accumulated depreciation	-	(45,400)	(184,741)	(197,831)	-	(427,972)
As at June 30, 2023	2,096,759	8,161,993	2,559,807	12,419,209	18,999,061	44,236,829
Cost	2,125,981	8,173,706	2,794,350	467,268	21,523,775	35,085,080
Accumulated depreciation	-	(148,956)	(284,448)	(14,021)	-	(447,425)
As at September 30, 2023	2,125,981	8,024,750	2,509,902	453,247	21,523,775	34,637,655

5. Property, plant, equipment, and development (continued)

Molo Graphite Mine Development

On February 15, 2019, the Company received a 40-year mining license for the Molo Graphite Mine, located in Madagascar, that does not limit mining to any specific volume. On March 29, 2021, the Company announced the initiation of construction of Phase 1 with a production capacity of 17,000 tonnes per annum ("tpa") of SuperFlake® graphite concentrate and began capitalizing mine development costs.

On March 23, 2023, the Company announced the initiation of commissioning of Phase 1 of its Molo Graphite Mine in Madagascar, which has a production capacity of 17,000 tpa of SuperFlake® graphite concentrate.

The Molo Graphite Mine is subject to the following royalties:

- 3% of the gross sales revenue royalty is owned by Vision Blue Resources Limited (see also *Note 7 Royalty Obligation*).
- 1.5% net smelter royalty ("NSR") owned by Capricorn Metals (formerly known as Malagasy Minerals) ("Capricorn"). Prior to becoming a Director of the Company, Brett Whalen purchased an option to acquire the 1.5% NSR from Capricorn upon the mine achieving commercial production in return for a further payment to Capricorn.
- 2% gross revenue royalty payable to the Government of Madagascar.

Mauritius BAF Development Project

The Company has an exclusive technical partnership to utilize a proprietary and well-established graphite processing technology that supplies major EV automotive companies including the Tesla and Toyota supply chains. The technology partner will receive a 2% technology licensing royalty for the design and development of the BAF process flowsheets, sourcing of all necessary equipment, and provision of all necessary training and operational expertise. The sales partner will receive a 3% sales commission for leveraging its international relationships and acting as a sales, marketing, and trading agent of our BAF products.

On September 28, 2023, the Company announced the termination of the previous long-term industrial lease intended for construction of the Mauritius BAF resulting in the derecognition of the right of use asset. The Company is in advanced lease negotiations in connection with a new location to construct the Mauritius BAF in the vicinity of the international freeport of Port Louis, Mauritius.

Exploration and Evaluation Expenditures

The Company owns the Green Giant Vanadium Project, located in Madagascar, and the Sagar Project, located in Quebec, which are at the exploration and evaluation stage. Since early 2012, the Company has focused its efforts on the Molo Graphite Project and as such only limited work has been completed on these properties. Exploration and evaluation expenditures are expensed as incurred.

As of September 30, 2023, the Company had not capitalized any acquisition, exploration, and evaluation costs for these projects.

(Expressed in US Dollars)

6. Right-of-Use lease obligations

The Company has recognized the following Right-of-Use ("ROU") assets and long-term lease obligations:

- On July 1, 2019, the Company recognized a ROU asset and lease obligation of $24,164 using an incremental borrowing rate of 10.43% for the exploration camp located in Fotadrevo, Madagascar. The exploration camp lease was terminated on June 30, 2023, and was derecognized.

- On March 31, 2022, the Company recognized a ROU asset and lease obligation of $389,049 using an incremental borrowing rate of 13.8% for the emphyteutic property lease of the Molo mine, which has an initial term of 50 years. The lease is payable annually in Ariary to the Government of Madagascar and as of September 30, 2023, the lease had a remaining term of 48.5 years.

- On February 28, 2023, the Company recognized a ROU asset and lease obligation of $12,125,134 using an incremental borrowing rate of 11.5% for the Mauritius BAF industrial lease, which has an initial term of 20 years plus a renewal of 5 years. The lease was payable annually and was terminated on September 28, 2023, in accordance with provisions in the lease agreement. The lease obligation was remeasured resulting in a gain of $294,074 and was derecognized.

The following table sets out the carrying amounts of lease obligations for ROU assets included in the consolidated statements of financial position and the movements between the reporting periods:

	Exploration Camp $	BAF Property $	Molo Property $	Total Obligations $
As at June 30, 2022	5,654	-	344,164	349,818
Additions	-	12,125,135	-	12,125,135
Finance costs	289	398,574	43,642	442,505
Lease payments	(5,685)	(1,338,637)	(43,308)	(1,387,630)
Foreign exchange adjustments	(258)	-	(33,639)	(33,897)
As at June 30, 2023	-	11,185,072	310,859	11,495,931
Finance costs	-	308,566	10,212	318,778
Remeasurement of lease liability		(294,074)		(294,074)
Disposals	-	(11,199,564)	-	(11,199,564)
Foreign exchange adjustments	-	-	(318)	(318)
As at September 30, 2023	-	-	320,753	320,753

The following table sets out the lease obligations included in the consolidated statements of financial position:

	Exploration Camp $	BAF Property $	Molo Property $	Total Obligations $
Current portion of lease obligations	-	-	41,576	41,576
Long-term lease obligations	-	-	279,177	279,177
As at September 30, 2023	-	-	320,753	320,753

Future minimum lease payments required to meet obligations that have initial or remaining non-cancellable lease terms are set out in the following table:

	Exploration Camp $	BAF Property $	Molo Property $	Total Obligations $
Within 12 months	-	-	41,576	41,576
Between 13 and 24 months	-	-	41,576	41,576
Between 25 and 36 months	-	-	41,576	41,576
Between 37 and 48 months	-	-	41,576	41,576
Between 49 and 60 months	-	-	41,576	41,576
Over 60 months	-	-	1,787,784	1,787,784
Total undiscounted lease obligations	-	-	1,995,664	1,995,664

Low value leases, short term leases of less than 12 months, and leases with variable payments proportional to the rate of use of the underlying assets do not give rise to lease obligations. During the three months ended September 30, 2023, the Company recognized short-term rent expenses of $9,196 (2022: $nil) in the consolidated statements of operations and comprehensive (loss) income.

(Expressed in US Dollars)

7. Royalty obligation

On February 8, 2021, the Company announced a financing agreement with Vision Blue for gross proceeds of $29.5 million consisting of private placements and a royalty financing agreement. As part of the royalty financing agreement:

(a) The Company received the initial royalty funding of $8.0 million (less a $1.5 million royalty financing fee) on June 28, 2021, and received the remaining $3.0 million on August 17, 2022.

(b) Beginning on the biannual period ending June 30, 2022, the Company must pay the greater of: (i) $825,000 (the "Minimum Repayment") or (ii) 3% of the gross sales revenues from graphite concentrate sales (the "GSR"). Once Vision Blue has received cumulative royalty payments of $16.5 million, the Minimum Repayment will cease, and the royalty will only be based on the GSR. NextSource has the option at any time to reduce the GSR to 2.25% by paying $20 million to Vision Blue. Each of the biannual Minimum Repayments can be deferred by 12 months, subject to accrued interest of 15% per annum.

(c) Vision Blue received a royalty of 1.0% of the gross revenues from sales of vanadium pentoxide ("V2O5") from the Green Giant Vanadium Project for a period of 15 years following commencement of production of V2O5.

On June 30, 2021, the Company recognized a royalty obligation at the fair value of $6.5 million, which was equal to the present value using an effective discount rate of 13.8% of (1) the deferred $3.0 million royalty funding, (2) the minimum royalty payments, (3) the accrued interest on the deferral of minimum royalty payments, and (4) the perpetual 3% GSR for the remaining 30-year life of mine for Phase 1. The discount rate was determined at recognition by calculating the internal rate of return (IRR) of the expected cash flows. Upon recognition, a total of $169,279 of capitalized legal fees was netted against the obligation resulting in an initial carrying value of $6,330,721. The carrying value of the royalty obligation will be remeasured at each reporting period based on the revised expected future cash flows using the original discount rate under the amortized cost method.

On September 30, 2023, the obligation was remeasured at $11,431,675 (June 30, 2023: $12,016,881). During the three months ended September 30, 2023, the obligation increased due accretion of $363,544 (2022: $253,939) and remeasurement gain of $nil (2022: gain of $87,390) recognized through the condensed interim consolidated statements of operations and comprehensive (loss) income.

	Total **$**
As at June 30, 2022	7,731,196
Accretion of royalty obligation	1,373,075
Royalty proceeds	3,000,000
Royalty minimum repayments	-
Remeasurement of royalty obligation	(87,390)
As at June 30, 2023	12,016,881
Accretion of royalty obligation	363,544
Royalty minimum repayments	(948,750)
Remeasurement of royalty obligation	-
As at September 30, 2023	11,431,675

	Total **$**
Current portion of royalty obligation	1,897,500
Long-term royalty obligation	9,534,175
As at September 30, 2023	11,431,675

Future undiscounted minimum royalty payments including accrued interest on deferrals are set out in the following table:

	Total **$**
Within 12 months	1,897,500
Between 13 and 24 months	1,897,500
Between 25 and 36 months	1,897,500
Between 37 and 48 months	1,897,500
Between 49 and 60 months	1,897,500
Over 60 months	8,538,750
Total undiscounted lease obligations	18,026,250

(Expressed in US Dollars)

8. Warrant Derivative Financial Liabilities

Warrants issued in a currency other than the Company's functional currency are considered a derivative financial liability settled through the consolidated statement of operations and comprehensive loss as per IFRS 9 *Financial Instruments*. The fair value of warrants is initially measured on their issue date as a financial liability using the Black-Scholes option valuation model. The fair value of exercised warrants is remeasured on their exercise date and the fair value is reallocated to equity. The fair value of expired warrants is remeasured on their expiration date and at each reporting period date through the condensed interim consolidated statement of operations and comprehensive loss.

	Warrant Liability
	$
As at June 30, 2022	21,689,490
Reclassification to equity on exercise of warrants	(24,472,850)
Change in fair value through profit and loss	2,783,360
As at June 30, 2023 and September 30, 2023	-

9. Commercial production obligation

On April 16, 2014, the Company signed a Sale and Purchase Agreement and a Mineral Rights Agreement (together "the Agreements") with Capricorn Metals (formerly Malagasy Minerals) to acquire the remaining 25% interest in the Molo Graphite Property. Pursuant to the Agreements, a further cash payment of CAD$1,000,000 is due within 30 days of the commencement of commercial production (the "Commercial Production Fee"). On June 30, 2021, the Company recognized a provision of $708,514 using a 13.8% discount rate based on an initial expectation of settlement on or around June 30, 2022. The provision was recorded at amortized cost and capitalized as property under property, plant, equipment, and development. The obligation expected to be settled upon the declaration of commercial production of Phase 1 of the Molo Graphite Mine.

During the three months ended September 30, 2023, the obligation increased through accretion of $nil (2022: $24,628). On September 30, 2023, the obligation was remeasured at $694,338 (June 30, 2023: $754,973) resulting in remeasurement gain of $46,362 (June 30, 2023: $nil) and a foreign exchange gain of $14,273 (June 30, 2023: $nil) that were recognized through the consolidated statements of operations and comprehensive (loss) income.

10. Asset retirement obligations

The Company has recognized provisions for asset retirement obligations at its Molo Graphite Mine property. Although the ultimate amounts of the future site reclamation provisions are uncertain, the provision of these obligations is based on information currently available, including closure plans and applicable regulations. The amount and timing of closure plans will vary depending on several factors including changes in the mining plan. Significant closure activities will include demolition of facilities, land rehabilitation, water treatment, monitoring, and other costs.

As of September 30, 2023, the undiscounted estimated cash flows required to settle the Company's estimated future closure and decommissioning costs was estimated at $1,404,798 (June 30, 2023: $1,404,798). The obligation is expected to be settled at the end of the 30-year life of mine in 2053. The estimated future cash flows were converted into local currency and inflated using an expected inflation rate of 8.15%. The provision for closure and decommissioning costs was then calculated using a discount rate of 12%.

As of September 30, 2023, the present value of future cash flows required to settle the Company's closure and decommissioning costs was estimated at $496,353 (June 30, 2023: $492,346).

11. Commitments

The Company has contractual commitments under an energy services agreement ("ESA") with CrossBoundary Energy Madagascar ("CBE") for the hybrid solar thermal power plant owned and operated by CBE that is supplying electricity to the Molo Graphite Mine. The ESA has a term of 20 years ending in 2043 and requires the Company to purchase a minimum energy output of 11,200,000 KWh per annum at a tariff of $0.0837 per KWh equivalent to $937,440 per annum. The Company is also subject to contractual obligations related to royalties, and the royalty obligation minimum repayments.

(Expressed in US Dollars)

12. Share capital

As of September 30, 2023, the Company had 155,574,507 common shares issued and outstanding (June 30, 2023: 125,271,007). The Company's common shares have no par value, and the authorized share capital is composed of an unlimited number of common shares.

The following changes occurred during the three months ended September 30, 2023:

- On August 1, 2023, the Company completed a prospectus equity funding of $37,750,585 (CAD$50,000,775) through the issuance of 30,303,500 common shares at a price of CAD$1.65 per share resulting in net proceeds of $36,266,783.

13. Stock options

The Company determined the fair value of stock options using the Black-Scholes option valuation model, which has several inputs including the market price, the exercise price, compound risk free interest rate, annualized volatility, and the number of periods until expiration. The fair value is recorded in equity and expensed through profit and loss over the vesting period. Each stock option entitles the holder to purchase one common share of the Company at the respective exercise price prior to, or on, its expiration date.

As of September 30, 2023, the Company had 1,710,000 stock options outstanding (June 30, 2023: 1,710,000) with a weighted average expiration of 0.5 years (June 30, 2023: 0.75) exercisable into 1,710,000 common shares (June 30, 2023: 1,710,000) at a weighted average exercise price of CAD$2.70 (June 30, 2023: CAD$2.70). All outstanding stock options vested on their respective grant dates.

Grant Date	**Expiration Date**	**Exercise Price**	**As at June 30, 2023**	**Awarded**	**Cancelled**	**Exercised**	**As at September 30, 2023**
March 26, 2019	March 26, 2024	CAD $1.00	580,000	-	-	-	580,000
March 19, 2021	March 19, 2024	CAD $3.60	1,100,000	-	-	-	1,100,000
May 11, 2022	May 11, 2025	CAD $2.50	30,000	-	-	-	30,000
Totals			1,710,000	-	-	-	1,710,000

There were no changes during the three months ended September 30, 2023.

14. Restricted share units (RSUs)

The fair value of RSUs is based on the grant-day intrinsic value of the shares that are expected to vest by the vesting date. Each RSU entitles the holder to receive a common share of the Company prior to, or on, its expiration date subject to achieving the performance criterion ("milestone") prior to, or on, its vesting date. The fair value is recorded in equity and expensed through profit and loss over the expected vesting period and is subject to remeasurement at the end of each reporting period based on the probability of achieving the milestone and adjustments for potential forfeitures.

As of September 30, 2023, the Company had 160,000 RSUs outstanding (June 30, 2023: 160,000) that subject to satisfying their respective vesting conditions entitle the holders to receive 160,000 common shares (June 30, 2023: 160,000) for no additional consideration. The RSUs have a weighted average time until vesting of nil years (June 30, 2023: nil) and weighted average time until expiration of 0.75 years (June 30, 2023: 1.00).

Grant Date	**Vesting Measurement Date**	**Expiration Date**	**As at June 30, 2023**	**Awarded**	**Settled in Cash**	**Settled in Shares**	**As at September 30, 2023**
Vested RSUs							
July 28, 2022	June 30, 2023	June 30, 2024	160,000	-	-	-	160,000
Totals			160,000	-	-	-	160,000

There were no changes during the three months ended September 30, 2023.

(Expressed in US Dollars)

15. Segment reporting

The Company has two operating segments, consisting of mine development and BAF development. No commercial revenues have been generated by the Company. The Company's President and Chief Executive Officer and Chief Financial Officer are the operating decision-makers and direct the allocation of resources to its segments.

The Company's reportable segments for purposes of assessing performance are presented as follows:

	Three months ended September 30, 2023			Three months ended September 30, 2022		
	Mine	**BAF**	**Total**	**Mine**	**BAF**	**Total**
Revenues	$ -	$ -	$ -	$ -	$ -	$ -
Expenses						
Operating expenses	-	-	-	224,376	-	224,376
Exploration and evaluation expenses	9,960	-	9,960	-	-	-
Depreciation	198,646	122,154	320,800	14,359	-	14,359
Impairment of VAT receivable	477,333	-	477,333	2,580,301	-	2,580,301
Segment gross profit	(685,939)	(122,154)	(808,093)	(2,819,036)	-	(2,819,036)
Other Operating Expenses						
General and administrative expenses			1,278,982			652,390
Share-based compensation			-			179,743
Depreciation			7,260			2,516
Lease finance costs			318,778			11,374
Foreign currency translation loss			786,029			224,504
Interest income			(338,515)			(43)
Loss before other items			(2,860,627)			(3,889,520)
Change in value of lease liability			(294,074)			-
Change in value of royalty obligation			-			5,496
Change in fair value of warrant derivative financial liability			-			2,048,042
Change in value of commercial production obligation			(46,362)			(24,628)
Net (loss) income			(2,520,191)			(5,918,430)
Other comprehensive income						
Items that will be reclassified subsequently to net income (loss)						
Translation adjustment for foreign operations			(26,238)			105,330
Net (loss) income and comprehensive (loss) income			$ (2,546,429)			$ (5,813,100)

The following is detailed information by geographic region as at September 30, 2023:

	Canada	**Mauritius**	**Madagascar**	**Total**
	$	$	$	$
Cash and cash equivalents	36,624,693	127,772	231,183	36,983,648
Amounts receivable	207,053	1,534,593	-	1,741,646
Inventories	-	-	520,742	520,742
Prepaid expenses	141,986	-	500,165	642,151
Prepayments and deposits	-	-	303,886	303,886
Property, plant, equipment and development	1,019,545	414,859	33,203,251	34,637,655
Total assets as at September 30, 2023	37,993,277	2,077,224	34,759,227	74,829,728

(Expressed in US Dollars)

15. Segmented reporting (continued)

The following is detailed information by geographic region as at June 30, 2023:

	Canada	Mauritius	Madagascar	Total
	$	$	$	$
Cash and cash equivalents	6,309,738	139,408	436,312	6,885,458
Amounts receivable	270,998	223,252	-	494,250
Inventories	-	-	470,336	470,336
Prepaid expenses	146,391	-	25,993	172,384
Prepayments and deposits	-	669,318	48,085	717,403
Property, plant, equipment, and development	987,725	12,192,294	31,056,810	44,236,829
Total assets as at June 30, 2023	7,714,852	13,224,272	32,037,536	52,976,660

16. Related party transactions

Parties are related if one party has the direct or indirect ability to control or exercise significant influence over the other party in making operating and financial decisions. Parties are also related if they are subject to common control or common significant influence. Related parties include the Company subsidiaries and key management. Key management consists of the Board of Directors, Chief Executive Officer, Chief Financial Officer, and Senior Vice Presidents. Related parties also include companies controlled by key management. Related party transactions occur when there is a transfer of economic resources or financial obligations between related parties. Related party transactions in the normal course of business that have commercial substance are initially measured at fair value. Balances and transactions between the Company and its wholly owned subsidiaries have been eliminated and are not disclosed in this note.

The following key management *related party transactions* occurred during the following reporting periods:

Related party transactions contained within	**Three months ended September 30, 2023**	**Three months ended September 30, 2022**
Payroll and benefits	$ 389,048	$ 149,587
Management consulting fees	90,836	92,639
Professional fees	3,350	5,194
Share-based compensation	-	179,743
Total	$ 483,235	$ 427,163

Payroll and benefits are for management compensation for Craig Scherba (CEO), Brent Nykoliation (SVP), Danniel Stokes (VP), and Markus Reichardt (VP), and for remuneration of Directors for Brett Whalen (Director), Chris Kruba (Director), Ian Pearce (Director) and Sir Mick Davis (Chair of the Board). Consulting fees are for management compensation for companies controlled by Marc Johnson (CFO) and Robin Borley (COO). Professional fees are for accounting services performed by a company controlled by Marc Johnson (CFO). Share-based compensation is for the vesting of stock options and RSUs expenditures.

The following key management *related party balances* existed at the end of the following reporting periods:

Related party transactions contained within	**As at September 30, 2023**	**As at June 30, 2023**
Amounts receivable	$ 31,971	$ 185,478
Accounts payable and accrued liabilities	$ 91,291	$ 63,750

Amounts receivable are for short-term loans to officers related to the exercise of stock options that are expected to be repaid by December 31, 2023. Accounts payable and accrued liabilities are for accounts payable to related parties and the accrual of director fees.

Vision Blue participated in the prospectus offering financing completed on August 1, 2023 by subscribing to 14,151,500 common shares for gross proceeds of 17,629,523 (CAD$23,349,975).

17. Capital management

There were no changes in the Company's approach to capital management during the three months ended September 30, 2023.

The Company's investment policy is to invest excess cash in very low risk financial instruments such as term deposits or by holding funds in high yield savings accounts with major Canadian banks. The Company is not subject to any externally imposed capital requirements. To date, the Company has funded operations by raising equity and obtaining royalty financing.

The Company manages its capital structure (consisting of shareholders' equity and debt obligations) on an ongoing basis and in response to changes in economic conditions and risk characteristics of its underlying assets. Changes to the capital structure can involve the issuance of new equity, obtaining working capital loans, construction financing, issuing debt, the acquisition or disposition of assets, or adjustments to the amounts held in cash, cash equivalents and short-term investments.

Capital Resource Analysis

As of September 30, 2023, the Company had working capital of $34,290,453 (June 30, 2023: $120,050). Based on management's past ability to manage capital, the Company believes it will be able to satisfy its current and long-term obligations as they come due. As of September 30, 2023, the Company had completed construction of Phase 1 of the Molo Graphite Mine and was progressing with commissioning. During the remaining commissioning and mine ramp-up, the Company is expecting to incur working capital of $0.5 to $1.0 million and general and administrative costs of $1.0 to $1.3 million.

As of September 30, 2023, the Company had cash and cash equivalents of $36,983,648 (June 30, 2023: $6,885,458). Cash and cash equivalents are expected to be sufficient to settle current liabilities, fund expected commissioning and ramp-up costs for Phase 1 of the Molo Graphite Mine, and fund planned Mauritius BAF development costs, and Molo Phase 2 development costs (Feasibility and FEED studies). The Company forecasts it will require additional funding to cover general and administrative costs after June 2024. If the Company makes construction decisions for an expansion the Molo Graphite Mine and for any additional BAF plants or expansion, construction will be dependent on management's ability to secure additional financing.

The Company may choose to raise such additional capital by issuing new equity, obtaining working capital, construction financing, or secured loans, or arranging other financing arrangements. While the Company has been successful at obtaining additional financing in the past, there can be no assurance it will be able to do so in the future or on terms that are acceptable to the Company.

18. Financial Instruments and Risk Management

Financial instruments are exposed to certain financial risks, which may include liquidity risk, credit risk, interest rate risk, commodity price risk, and currency risk:

Liquidity risk

As of September 30, 2023, the Company had cash and cash equivalents of $36,983,648 (June 30, 2023: $6,885,458) to settle current liabilities of $5,597,733 (June 30, 2023: $7,902,378).

The following Company obligations have contractual maturities over the next twelve months:

- Accounts payable and accrued liabilities, which are generally due within 30 days.
- Minimum Repayments under the royalty agreement due semi-annually on June 30 and December 31.
- Commercial production obligation due upon declaration of commercial production at the Molo Mine.

As a result, the Company was not exposed to liquidity risk on September 30, 2023. Liquidity risk is the risk that the Company will not be able to meet its obligations associated with financial liabilities. Liquidity risk arises from the Company's financial obligations and in the management of its assets, liabilities, and capital structure. To minimize liquidity risk, the Company has implemented cost control measures including a construction budget and the minimizing of discretionary expenditures unless the project has sufficient economic or geologic merit. In managing liquidity, the Company's primary objective is to ensure the entity can continue as a going concern while obtaining sufficient funding to meet its obligations as they come due. The Company manages this risk by regularly evaluating its liquid financial resources to fund current and long-term obligations and to meet its capital commitments in a cost-effective manner. The main factors that affect liquidity include working capital requirements, capital-expenditure requirements, and equity capital market conditions. The Company's liquidity requirements are met through a variety of sources, including cash and cash equivalents and equity capital markets. The Company is dependent on obtaining financing to complete development of the Molo Phase 2 expansion and construction of additional BAF plants.

(Expressed in US Dollars)

18. Financial instruments and risk management (continued)

Credit risk

The Company does not have commercial receivables and therefore does not have credit risk related to amounts receivables. The Company has credit risk arising from amounts classified as loans to officers. The Company manages this risk by settling against amounts due to officers. The Company has credit risk arising from the potential from counterparty default on cash and cash equivalents held on deposit with financial institutions. The Company manages this risk by ensuring that deposits are only held with large Canadian banks and financial institutions, whereas any offshore deposits are held with reputable foreign financial institutions. The Company also limits the deposits held with foreign financial institutions.

During the three months ended September 30, 2023, due to considerable uncertainty as to the timing and recoverability of refundable Madagascar value added tax (VAT) recognized as amounts receivable denominated in local currency, the Company recognized an impairment of VAT receivable of $477,333 (2023: $2,580,301). As of September 30, 2023, amounts receivable are presented net of an impairment of VAT receivable of $4,426,485 (June 30, 2023, $3,953,376).

Interest rate risk

This is the sensitivity of the fair value or of the future cash flows of a financial instrument to changes in interest rates. The Company does not have any financial assets or liabilities that are subject to variable interest rates.

Commodity price risks

This is the sensitivity of the fair value of, and future cash flows, generated from its mineral projects. The Molo Graphite Mine property and assets under construction are carried at historical cost. As a result, the recoverability of the carrying values are exposed to commodity price risks. The royalty obligation remeasurement includes an estimate of the present value of royalties paid on graphite revenues and as a result, is exposed to graphite price risk with a sensitivity to a 10% change in graphite prices of 1%. Graphite does not have an established forward pricing or futures market that could be used to hedge against this exposure. The Company manages this risk by monitoring mineral and commodity price trends to determine the appropriate timing for funding the development, acquisition or disposition of its mineral exploration and development projects.

Currency risk

This is the sensitivity of the fair value or of the future cash flows of financial instruments to changes in foreign exchange rates. The Company transacts in currencies other than the US dollar, including the Canadian dollar, the Madagascar Ariary, the Mauritius Rupee, and the South African Rand. The Company purchases services and has certain salary commitments in those foreign currencies. The Company also has monetary and financial instruments that may fluctuate due to changes in foreign exchange rates. Derivative financial instruments are not used to reduce exposure to fluctuations in foreign exchange rates. The Company is not sensitive to foreign exchange exposure on revenues since it has not made commitments to deliver products quoted in foreign currencies. Since construction of the Molo Graphite Mine, the Company is sensitive to foreign exchange risk arising from the translation of the financial statements of subsidiaries with a functional currency other than the US dollar, whereby changes in the carrying amounts of certain assets, liabilities and equity are measured through other comprehensive income.

As at September 30, 2023, the Company had the following balances in foreign currency:

		As at September 30, 2023	**As at June 30, 2023**
Cash and cash equivalents	CAD	$ 5,541,813	$ 2,119,393
Cash and cash equivalents	MGA	110,197	104,293
Cash and cash equivalents	MUR	71,436	38,448
Amounts receivable	CAD	56,182	246,616
Amounts receivable	MGA	-	-
Prepaid expenses	CAD	20,197	46,667
Prepaid expenses	ZAR	22,419	8,170
Prepaid expenses	MGA	4,180	4,184
Accounts payable and accrued liabilities	CAD	(142,714)	(306,903)
Accounts payable and accrued liabilities	MGA	(1,874,947)	(1,875,766)
Accounts payable and accrued liabilities	MUR	(104,995)	(92,542)
Accounts payable and accrued liabilities	GBP	-	16,469
Accounts payable and accrued liabilities	ZAR	-	(836)
Commercial production obligations	CAD	(694,338)	(754,973)
Current portion of lease obligations	MGA	(41,576)	(41,628)
Net foreign exchange exposure in USD		$ 2,967,853	$ (488,407)

(Expressed in US Dollars)

18. Financial instruments and risk management (continued)

As at September 30, 2023, the Company estimated that a 10% decrease of the USD versus foreign exchange rates would result in a gain of $296,785 (June 30, 2023: loss of $48,841) and a 10% increase in the USD versus foreign exchange rates would result in a loss of $296,785 (June 30, 2023: gain of $48,841).

	As at September 30, 2023	**As at June 30, 2023**
Impact of 10% increase in CAD/USD exchange rates	$ 478,114	$ 135,080
Impact of 10% increase in MGA/USD exchange rates	$ (180,215)	$ (180,892)
Impact of 10% increase in MUR/USD exchange rates	$ (3,356)	$ (5,409)
Impact of 10% increase in ZAR/USD exchange rates	$ 2,242	$ 733
Impact of 10% increase in GBP/USD exchange rates	$ -	$ 1,647
Total	$ 296,785	$ (48,841)