NextSource Materials Inc.

Audited Consolidated Financial Statements

For the years ended June 30, 2023 and 2022

Expressed in US Dollars

Independent Auditor's Report

MNP

To the Shareholders of NextSource Materials Inc.:

Opinion

We have audited the consolidated financial statements of NextSource Materials Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at June 30, 2023 and June 30, 2022, and the consolidated statements of operations and comprehensive (loss) income, changes in shareholders' equity (deficit) and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at June 30, 2023 and June 30, 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. We have determined that there are no key audit matters to communicate in our report.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

MNP LLP

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Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Patrycja Anna Kajda.

MNP LLP

Mississauga, Ontario — Chartered Professional Accountants

September 28, 2023 — Licensed Public Accountants

NextSource Materials Inc.
Consolidated Statements of Financial Position
(Expressed in US Dollars)

	As at June 30, 2023	As at June 30, 2022
Assets		
Current Assets:		
Cash and cash equivalents	$ 6,885,458	$ 9,793,253
Amounts receivable (notes 17 and 19)	494,250	574,260
Inventories	470,336	-
Prepaid expenses	172,384	96,792
Total Current Assets	8,022,428	10,464,305
Deposits	717,403	181,161
Property, plant, equipment and development (note 5)	44,236,829	18,652,394
Total Assets	$ 52,976,660	$ 29,297,860
Liabilities		
Current Liabilities:		
Accounts payable and accrued liabilities (note 17)	$ 3,014,594	$ 1,864,665
Current portion of lease obligations (note 6)	1,286,561	51,725
Current portion of royalty obligations (note 7)	2,846,250	-
Fair value of warrant derivative financial liabilities (note 8)	-	21,689,490
Commercial production obligation (note 9)	754,973	727,051
Total Current Liabilities	7,902,378	24,332,931
Lease obligations (note 6)	10,209,370	298,093
Royalty obligations (note 7)	9,170,631	7,731,196
Asset retirement obligations (note 10)	492,346	-
Total Liabilities	27,774,725	32,362,220
Shareholders’ Equity (Deficit)		
Share capital (note 12)	169,212,945	127,377,519
Accumulated deficit	(142,452,034)	(130,773,347)
Accumulated other comprehensive income	(1,558,976)	331,468
Total Shareholders’ Equity (Deficit)	25,201,935	(3,064,360)
Total Liabilities and Shareholders’ Equity	$ 52,976,660	$ 29,297,860

Nature of operations (note 1)
Basis of presentation (note 2)
Commitments (note 11)
Subsequent events (note 21)

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

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

	Year ended June 30, 2023	Year ended June 30, 2022
Revenues	$ -	$ -
Expenses and other income		
Operating expenses (note 16)	355,703	65,160
Exploration and evaluation expenses (note 16)	43,385	177,955
General and administrative expenses (note 16)	3,482,527	1,929,292
Share-based compensation (note 15)	514,048	385,930
Depreciation of property, plant, equipment, and development (note 5)	393,855	35,040
Lease finance costs (note 6)	442,505	11,980
Flow through provision expense	-	(28,385)
Foreign currency translation (gain) loss	(29,558)	87,543
Interest	(123,869)	(133)
Sub-total before other items	5,078,596	2,664,382
Gain on disposal of asset	-	(2,530)
Change in value of royalty obligation (note 7)	(87,390)	495,704
Change in fair value of warrant derivative financial liability (note 8)	2,783,360	(19,229,287)
Change in value of commercial production obligation (note 9)	(49,255)	(48,472)
Impairment of VAT receivable (notes 16 and 19)	3,953,376	-
Total Expenses	11,678,687	(16,120,203)
(Loss) income before income taxes	(11,678,687)	16,120,203
Income tax expense	-	-
Net (loss) income	(11,678,687)	16,120,203
Other comprehensive income		
Items that will be reclassified subsequently to net (loss) income		
Translation adjustment for foreign operations	(1,890,444)	76,154
Net (loss) income and comprehensive (loss) income	$ (13,569,131)	$ 16,196,357
Weighted-average common shares (basic and diluted)	117,264,004	99,204,079
Net (loss) income per common share (basic and diluted)	$ (0.10)	$ 0.16

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

NextSource Materials Inc.
Consolidated Statements of Changes in Shareholders' Equity (Deficit)
(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, 2021	98,184,260	120,491,932	(146,893,550)	255,314	(26,146,304)
Reclassification of warrant liability to equity on exercise of warrants	-	4,462,156	-	-	4,462,156
Shares issued on exercise of warrants	2,689,836	1,530,192	-	-	1,530,192
Shares issued on exercise of stock options	875,000	577,500	-	-	577,500
Shares issued on conversion of restricted share units	123,518	(70,190)	-	-	(70,190)
Stock options granted under long-term incentive plan	-	43,050	-	-	43,050
Restricted share units expensed over vesting period	-	342,879	-	-	342,879
Net income	-	-	16,120,203	-	16,120,203
Cumulative translation adjustment	-	-	-	76,154	76,154
Balance as at June 30, 2022	101,872,614	127,377,519	(130,773,347)	331,468	(3,064,360)
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	-	360,349	-	-	360,349
Net loss	-	-	(11,678,687)	-	(11,678,687)
Cumulative translation adjustment	-	-	-	(1,890,444)	(1,890,444)
Balance as at June 30, 2023	125,271,007	169,212,945	(142,452,034)	(1,558,976)	25,201,935

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

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

	Year ended June 30, 2023	Year ended June 30, 2022
Operating activities		
Net (loss) income	$ (11,678,687)	$ 16,120,203
Add (deduct) items not affecting cash:		
Depreciation of property, plant, equipment and development (note 5)	393,855	35,040
Change in value of lease obligations (note 6)	408,608	2,949
Change in value of royalty obligations (note 7)	(87,390)	495,704
Change in fair value of warrant derivative financial liability (note 8)	2,783,360	(19,229,287)
Change in value of provision (note 9)	(49,255)	(48,472)
Gain on disposal of asset	-	(2,530)
Share-based compensation expense	514,048	315,740
	(7,715,461)	(2,310,653)
Change in non-cash working capital balances:		
Increase in amounts receivable, prepaids and inventories	(465,918)	(525,708)
Increase in accounts payable and accrued liabilities	1,149,929	1,259,545
Decrease in provisions	(16,268)	(57,133)
Net cash used in operating activities	(7,047,718)	(1,633,949)
Investing activities		
Increase in prepayments and deposits	(538,110)	(181,161)
Additions to property, plant, equipment, and development (note 5)	(13,512,124)	(12,961,819)
Proceeds from disposition of equipment (note 5)	-	2,530
Net cash used in investing activities	(14,050,234)	(13,140,450)
Financing activities		
Proceeds from the exercise of warrants (note 13)	17,002,227	1,530,192
Proceeds from the exercise of stock options (note 14)	-	577,500
Settlement of RSUs (note 15)	(153,699)	-
Lease obligation principal payments (note 6)	(1,387,630)	(53,279)
Proceeds from royalty financing (note 7)	3,000,000	-
Net cash provided by financing activities	18,460,898	2,054,413
Effect of exchange rate changes on cash and cash equivalents	(270,741)	76,153
Net decrease in cash and cash equivalents	(2,907,795)	(12,643,833)
Cash and cash equivalents, beginning of year	9,793,253	22,437,086
Cash and cash equivalents, end of year	$ 6,885,458	$ 9,793,253

The accompanying notes are an integral part of these audited 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 foreseeable future.

These consolidated financial statements were approved by the Board of Directors of the Company on September 28, 2023.

2. Basis of presentation

Statement of compliance with IFRS

These consolidated financial statements have been prepared in accordance with and comply with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB")

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 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.

3. Significant accounting policies

Foreign currencies

The presentation and functional currency of the Company is the US dollar ("USD").

The Company has primarily expended its cash on international exploration projects and historically generated its equity funding in US dollars. The Company expects to sell graphite priced in US dollars once the Molo Graphite Mine achieves production. The Company office is in Canada and the Company expends a portion of its payroll, professional and general and administrative costs in Canadian dollars, which are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of transactions are used. The functional currency of the Mauritius subsidiaries is the US dollar. The functional currency of the Madagascar subsidiaries is the Madagascar Ariary. Transfers of cash to the subsidiaries are typically completed using US dollars. All Ariary transactions are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of transactions are used.

For the presentation of consolidated financial statements, subsidiary company assets and liabilities are expressed in US dollars using the prevailing exchange rates at the end of the reporting period. Any exchange differences that arise are recognized in other comprehensive (loss) income and cumulative translation adjustment in equity.

At the end of each reporting period, the Company translates foreign currency balances as follows:

- monetary items are translated at the closing rate in effect at the consolidated statements of financial position;
- non-monetary items that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction;
- non-monetary items measured at fair value are translated at the exchange rate in effect at the date the fair value was measured; and
- revenue and expense items are translated using the average exchange rate during the period.

The intercompany loans made to the subsidiary companies are considered part of the parent company's net investment in a foreign operation as the Company does not plan to settle these balances in the foreseeable future. As a result of this assessment, the unrealized foreign exchange gains and losses on the intercompany loans are recorded through other comprehensive income (loss). If the Company determined that settlement of these amounts was planned or likely in the foreseeable future, the resultant foreign exchange gains and losses would be recorded through the consolidated statements of operations and comprehensive (loss) income.

Cash equivalents

The Company considers cash equivalents to be cash and highly liquid investments with original maturities of three months or less.

Prepayments and deposits

The Company makes prepayments and deposits to suppliers of services and supplies. These are recognized as prepayments when made and recognized as expenses when the services and supplies are received. Prepayments and deposits on assets that are long term in nature are recorded as long-term prepayments and deposits.

Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. Financial liabilities are derecognized when the obligation under the liability is extinguished, discharged, cancelled, or expired. Gains and losses on derecognition of financial assets and financial liabilities are recognized within financing income and financing expense, respectively.

Management determines the classification of financial assets and financial liabilities at initial recognition and, except in very limited circumstances, the classification is not changed after initial recognition. The classification depends on the purpose for which the financial instruments were acquired, their characteristics and/or management's intent. Transaction costs with respect to instruments not classified as fair value through profit or loss are recognized as an adjustment to the cost of the underlying instruments and amortized using the effective interest method.

The Company's financial instruments were classified in the following categories:

Financial assets measured at fair value through profit or loss (FVTPL):

An instrument is classified as fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. A financial asset is classified as fair value through profit or loss if acquired principally for the purpose of selling in the short term or if so, designated by management. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments.

3. Significant accounting policies (continued)

Financial instruments included in this category are initially recognized at fair value and transaction costs are taken directly to earnings along with gains and losses arising from changes in fair value. All changes in their fair value are recorded through the consolidated statements of operations and comprehensive (loss) income.

The following financial assets are measured at fair value through profit or loss:

- Cash and cash equivalents

Financial assets measured at amortized cost:

Financial assets measured at amortized cost are initially recognized at fair value net of transaction costs and are subsequently measured at amortized cost. Interest revenue on amounts receivable are recognized using the effective interest method.

The following financial assets are measured at amortized cost:

- Amounts receivable (excluding sales taxes)

Impairment of financial assets measured at amortized costs:

The Company recognizes a loss allowance for the expected credit losses associated with its financial assets. Credit losses are defined as the difference between all the contractual cash flows that are due to an entity and the cash flows that it expects to receive. This difference is discounted at the original effective interest rate (or credit adjusted effective interest rate for purchased or originated credit-impaired financial assets). Expected credit losses are measured to reflect a probability-weighted amount, the time value of money, and reasonable and supportable information regarding past events, current conditions, and forecasts of future economic conditions. In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk, whereby '12-month expected credit losses' are recognized ('Stage 1')
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low, whereby 'lifetime expected credit losses' are recognized ('Stage 2'); and
- financial assets that have objective evidence of impairment at the reporting date, whereby the asset is written off as there is no reasonable expectation of recovering all or any portion thereof ('Stage 3')

The Company applies the simplified approach in accounting for amounts receivables and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. The Company uses its historical experience, external indicators and forward- looking information to calculate the lifetime expected credit losses using a provision matrix.

For financial assets assessed as impaired at the reporting date, the Company continues to recognize a loss allowance equal to lifetime expected credit losses.

Loss allowances for expected credit losses are presented in the consolidated statements of financial position as a deduction from the gross carrying amount of the financial asset.

3. Significant accounting policies (continued)

Financial liabilities measured at amortized cost:

Financial liabilities are initially recognized at fair value net of transaction costs and are subsequently measured at amortized cost using the effective interest method except for derivatives and financial liabilities designated as FVTPL.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in the consolidated statements of operations and comprehensive (loss) income are included within accretion of deferred obligation, finance costs or finance income.

The following financial liabilities are measured at amortized cost:

- Accounts payable and accrued liabilities
- Royalty obligations

Financial liabilities measured at fair value through profit or loss:

Financial liabilities designated as FVTPL are initially recognized at fair value and transaction costs are taken directly to the consolidated statements of operations and comprehensive (loss) income along with gains and losses arising from changes in fair value. Derivative instruments, including embedded derivatives, are recorded at fair value unless exempted from derivative treatment as normal purchase and sale. All changes in their fair value are recorded through the consolidated statements of operations and comprehensive (loss) income

The following financial liabilities are measured at FVTPL:

- Warrant derivative financial liabilities

Fair value measurement

Financial instruments recorded at fair value on the consolidated statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e.: as prices) or indirectly (i.e.: derived from prices); and
- Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The binomial and Black Scholes valuation techniques are permitted under IFRS for fair value calculations.

As of June 30, 2023, and 2022, only cash and cash equivalents, which is a Level 1 financial instrument, and the warrant liability, which is a Level 3 financial instrument, are recorded at fair value on the consolidated statements of financial position.

Exploration and evaluation expenditures

Exploration and evaluation expenditures are the costs incurred in the initial search for mineral deposits with economic potential or in the process of obtaining more information about existing mineral deposits. Exploration expenditures typically include costs associated with prospecting, sampling, mapping, diamond drilling and other work involved in searching for ore. Evaluation expenditures typically include the costs incurred to establish the technical and commercial viability of developing mineral deposits identified through exploration activities or by acquisition.

Exploration and evaluation expenditures are expensed as incurred unless it can be demonstrated that the project will generate future economic benefit. When it is determined that a project can generate future economic benefit the costs are capitalized in the property, plant, equipment, and development line item in the consolidated statements of financial position.

The exploration and evaluation phase ends when the technical feasibility and commercial viability of extracting the mineral is demonstrable.

Mine Development Expenditures

Mine development stage expenditures are costs incurred to obtain access to proven and probable mineral reserves or mineral resources and provide facilities for extracting, treating, gathering, transporting, and storing the minerals. The development stage of a mine commences when the technical feasibility and commercial viability of extracting the mineral resource has been determined.

Costs that are directly attributable to mine development are capitalized to the extent that they are necessary to bring the property to commercial production. Abnormal costs are expensed as incurred. Indirect costs are included only if they can be directly attributed to the area of interest. General and administrative costs are capitalized as part of the development expenditures when the costs are directly attributed to a specific mining development project.

3. Significant accounting policies (continued)

Commercial Production

A mine construction project is considered to have entered the production stage when the mine construction assets are available for use. In determining whether mine construction assets are considered available for use, the criteria considered include, but are not limited to, the following:

- completion of a reasonable period of testing mine plant and equipment;
- ability to produce minerals in saleable form (within specifications); and
- ability to sustain ongoing production of minerals.

When a mine construction project moves into the production stage, depreciation commences, the capitalization of certain mine construction costs ceases, and expenditures are either capitalized to inventories or expensed as incurred. Exceptions include costs incurred for additions or improvements to property, plant, equipment, and development and for open-pit stripping activities.

Mining properties, plant, and equipment

Properties

The cost of mining properties includes the fair value attributable to proven and probable mineral reserves and mineral resources acquired in a business combination or asset acquisition, underground mine development costs, deferred stripping, capitalized exploration and evaluation costs and capitalized borrowing costs.

Significant payments related to the acquisition of land and mineral rights are capitalized as mining properties at cost. If a mineable ore body is discovered, such costs are amortized to income when commercial production commences, using the units-of-production method, based on estimated proven and probable mineral reserves and the mineral resources included in the current life of mine plan. If no mineable ore body is discovered, such costs are expensed in the period in which it is determined that the property has no future economic value.

Plant and Equipment

Expenditures for new facilities and improvements that can extend the useful lives of existing facilities are capitalized as plant and equipment at cost. The cost of an item of plant and equipment includes: its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and the estimate of the costs of dismantling and removing the item and restoring the site on which it is located other than costs that arise as a consequence of having used the item to produce inventories during the period.

An item of plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statements of operations and comprehensive (loss) income when the asset is derecognized.

Depletion or depreciation of an asset begins when the asset is in the location and condition necessary for it to operate in the manner intended by management. Depletion or depreciation ceases at the earlier of the date the asset is classified as held for sale or the date the asset is derecognized. Assets under construction are not depleted or depreciated until the earlier of the end of the construction period or once commercial production is achieved. Depletion or depreciation is charged according to either the units-of-production method or on a straight-line basis, according to the pattern in which the asset's future economic benefits are expected to be consumed. The depletion or depreciation method applied to an asset is reviewed at least annually.

Useful lives of plant and equipment are based on the lesser of the estimated mine lives as determined by proven and probable mineral reserves and the mineral resources included in the current life of mine plan and the estimated useful life of the asset. The following sets out the useful lives of certain assets:

- Plant — 20 to 30 years
- Equipment — 3 to 10 years
- Right of use assets — lease term

Assets Under Construction

Cost components of a specific project that are included in the capital cost of the asset include salaries and wages directly attributable to the project, supplies and materials used in the project, and incremental overhead costs that can be directly attributable to the project.

Assets under construction are not depleted or depreciated until the earlier of the end of the construction period or once commercial production is achieved. Upon achieving the production stage, the capitalized construction costs are transferred to the appropriate category within property, plant, equipment, and development.

3. Significant accounting policies (continued)

Borrowing Costs

Borrowing costs are capitalized to qualifying assets. Qualifying assets are assets that take a substantial period to prepare for the Company's intended use, which includes projects that are in the exploration and evaluation, development, or construction stages. Borrowing costs attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognized as finance costs in the period in which they are incurred. Where the funds used to finance a qualifying asset form part of general borrowings, the amount capitalized is calculated using a weighted average of rates applicable to the relevant borrowings during the period.

Deferred Stripping

In open pit mining operations, it is necessary to remove overburden and other waste materials to access ore from which minerals can be extracted economically. The process of mining overburden and waste materials is referred to as stripping.

During the development stage of the mine, stripping costs are capitalized as part of the cost of building, developing, and constructing the mine and are amortized once the mine has entered the production stage.

During the production stage of a mine, stripping costs are recorded as a part of the cost of inventories unless these costs are expected to provide a future economic benefit and, in such cases, are capitalized to property, plant, equipment, and development.

Production stage stripping costs provide a future economic benefit when:

- It is probable that the future economic benefit (e.g., improved access to the ore body) associated with the stripping activity will flow to the Company;
- The Company can identify the component of the ore body for which access has been improved; and
- The costs relating to the stripping activity associated with that component can be measured reliably.

Capitalized production stage stripping costs are amortized over the expected useful life of the identified component of the ore body that becomes more accessible as a result of the stripping activity.

Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company assesses whether:

- The contract involves the use of an explicitly or implicitly identified asset;
- The Company has the right to obtain substantially all of the economic benefits from the use of the asset throughout the contract term;
- The Company has the right to direct the use of the asset.

The Company recognizes a right-of-use asset and a lease liability at the commencement date of the lease (i.e.: the date the underlying asset is available for use).

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the initial amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term. Right-of-use assets are subject to impairment.

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The lease payments include fixed payments, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees and the exercise price of a purchase option reasonably certain to be exercised by the Company.

After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the fixed lease payments or a change in the assessment to purchase the underlying asset.

The Company presents right-of-use assets in the property, plant, equipment, and development line item on the consolidated statements of financial position and lease liabilities in the lease obligations line item on the consolidated statements of financial position.

The Company has elected not to recognize right-of-use assets and lease liabilities for leases that have a lease term of 12 months or less and do not contain a purchase option or for leases related to low value assets. Lease payments on short-term leases and leases of low value assets are recognized as an expense in the consolidated statements of operations and comprehensive (loss) income.

3. Significant accounting policies (continued)

Reclamation provisions

Asset retirement obligations (''AROs'') arise from the acquisition, development and construction of mining properties, plant, and equipment due to government controls and regulations that protect the environment on the closure and reclamation of mining properties. The major parts of the carrying amount of AROs relate to tailings closure and rehabilitation, demolition of buildings and mine facilities, ongoing water treatment and ongoing care and maintenance of closed mines. The Company recognizes an ARO at the time the environmental disturbance occurs or a constructive obligation is determined to exist based on the Company's best estimate of the timing and amount of expected cash flows expected to be incurred. When the ARO provision is recognized, the corresponding cost is capitalized to the related item of property, plant, equipment, and development. Reclamation provisions that result from disturbance in the land to extract ore in the current period is included in the cost of inventories.

The timing of the actual environmental remediation expenditures is dependent on a number of factors such as the life and nature of the asset, the operating license conditions and the environment in which the mine operates. Reclamation provisions are measured at the expected value of future cash flows discounted to their present value using a risk-free interest rate. AROs are adjusted each period to reflect the passage of time (accretion). Accretion expense is recorded in finance costs each period. Upon settlement of an ARO, the Company records a gain or loss if the actual cost differs from the carrying amount of the ARO. Settlement gains or losses are recorded in the consolidated statements of operations and comprehensive (loss) income.

Expected cash flows are updated to reflect changes in facts and circumstances. The principal factors that can cause expected cash flows to change are the construction of new processing facilities, changes in the quantities of material in mineral reserves and mineral resources and a corresponding change in the life of mine plan, changing ore characteristics that impact required environmental protection measures and related costs, changes in water quality that impact the extent of water treatment required and changes in laws and regulations governing the protection of the environment.

Each reporting period, provisions for AROs are remeasured to reflect any changes to significant assumptions, including the amount and timing of expected cash flows and risk-free interest rates. Changes to the reclamation provision resulting from changes in estimate are added to or deducted from the cost of the related asset, except where the reduction of the reclamation provision exceeds the carrying value of the related assets in which case the asset is reduced to nil and the remaining adjustment is recognized in the consolidated statements of operations and comprehensive (loss) income.

Environmental remediation liabilities (''ERLs'') are differentiated from AROs in that ERLs do not arise from environmental contamination in the normal operation of a long-lived asset or from a legal or constructive obligation to treat environmental contamination resulting from the acquisition, construction, or development of a long-lived asset. The Company is required to recognize a liability for obligations associated with ERLs arising from past acts. ERLs are measured by discounting the expected related cash flows using a risk-free interest rate. The Company prepares estimates of the timing and amount of expected cash flows when an ERL is incurred. Each reporting period, the Company assesses cost estimates and other assumptions used in the valuation of ERLs to reflect events, changes in circumstances and new information available. Changes in these cost estimates and assumptions have a corresponding impact on the value of the ERLs. Any change in the value of ERLs results in a corresponding charge or credit to the consolidated statements of operations and comprehensive (loss) income. Upon settlement of an ERL, the Company records a gain or loss if the actual cost differs from the carrying amount of the ERLs in the consolidated statements of operations and comprehensive (loss) income.

The Company's operations are subject to environmental regulations in Madagascar. As at the date of these consolidated financial statements, the Company had asset retirement obligations (AROs) but did not have any environmental rehabilitation obligations (ERLs).

Provisions and contingent liabilities

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where appropriate, the future cash flow estimates are adjusted to reflect risks specific to the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money. Where discounting is used, the increase in the provision due to the passage of time is recognized as financing expense. A contingent liability is disclosed where the existence of an obligation will only be confirmed by future events or where the amount of the obligation cannot be measured with reasonable reliability. Contingent assets are not recognized but are disclosed where an inflow of economic benefits is probable.

3. Significant accounting policies (continued)

Impairment of long-lived assets

A cash generating unit ("CGU") is defined as the smallest identifiable group of assets that are able to generate cash inflows that are independent from other identifiable group of assets. If an active market exists for the output produced by an asset or group of assets, that asset or group of assets shall be identified as a CGU, even if some or all of the output is used internally. At the end of each reporting period the Company assesses whether there is any indication that long-lived assets other than goodwill may be impaired. If an indicator of impairment exists, the recoverable amount of the asset is calculated in order to determine if any impairment loss is required. If it is not possible to estimate the recoverable amount of the individual asset, assets are grouped at the CGU level for the purpose of assessing the recoverable amount. An impairment loss is recognized for any excess of the carrying amount of the CGU over its recoverable amount. If the CGU includes goodwill, the impairment loss related to a CGU is first allocated to goodwill and the remaining loss is allocated on a pro-rata basis to the remaining long-lived assets of the CGU based on their carrying amounts. Impairment losses are recorded in the consolidated statements of operations and comprehensive (loss) income in the period in which they occur.

Any impairment charge that is taken on a long-lived asset other than goodwill is reversed if there are subsequent changes in the estimates or significant assumptions that were used to recognize the impairment loss that result in an increase in the recoverable amount of the CGU. If an indicator of impairment reversal has been identified, the recoverable amount of the asset is calculated in order to determine if any impairment reversal is required. The recoverable amount is considered to be the higher of the fair value less costs to sell and value in use. A recovery is recognized to the extent the recoverable amount of the asset exceeds its carrying amount. The amount of the reversal is limited to the difference between the current carrying amount and the amount which would have been the carrying amount had the earlier impairment not been recognized and amortization of that carrying amount had continued. The impairment reversal is allocated on a pro-rata basis to the existing long-lived assets of the CGU based on their carrying amounts. Impairment reversals are recorded in the consolidated statements of operations and comprehensive (loss) income in the period in which they occur.

Share-based compensation

The Company offers equity-settled awards such as stock options and restricted share units to certain employees, officers and directors of the Company through its Long-Term Incentive Plan ("LTIP").

Stock options

The Company's LTIP provides for the granting of options to directors, officers, employees and service providers to purchase common shares. Options have exercise prices equal to the market price on the day prior to the date of grant. The fair value of these options is recognized in the consolidated statements of operations and comprehensive (loss) income or in the consolidated statements of financial position if capitalized as part of property, plant, equipment, and development over the applicable vesting period as a compensation cost. Any consideration paid by employees on exercise of options or purchase of common shares is credited to share capital.

The fair value of share-based compensation is determined at the date of grant using the Black-Scholes option valuation model. Equity- settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where this fair value cannot be measured reliably, in which case they are measured at the fair value of the equity instruments granted, as at the date the Company obtains the goods or the counterparty renders the service. The fair value of the share- based compensation is only re-measured if there is a modification to the terms of the instrument, such as a change in exercise price or legal life. The fair value of the share-based compensation is recognized as an expense over the expected vesting period with a corresponding entry to shareholders' equity.

Restricted share units (RSUs)

The Company's LTIP provides for the granting of restricted share units ("RSU") to directors, officers, employees and service providers to purchase common shares. RSUs are subject to vesting requirements based on specific performance measurements by the Company. The fair value for the portion of the RSUs related to market conditions is based on the application of pricing models at the grant date and the fair value for the portion related to non-market conditions is based on the market value of the shares at the grant date. Compensation expense is based on the current best estimate of the outcome for the specific performance measurement established by the Company and is recognized over the vesting period based on the number of units estimated to vest. The cost of the RSUs is recorded within equity until settled. Equity-settled awards are not remeasured subsequent to the initial grant date.

Income taxes

Income tax expense consists of current and deferred tax expense. Current and deferred tax are recognized in the consolidated statements of operations and comprehensive (loss) income loss except to the extent that it relates to items recognized directly in equity or other comprehensive income.

Current tax is recognized and measured at the amount expected to be recovered from or payable to the taxation authorities based on the income tax rates enacted or substantively enacted at the end of the reporting period and includes any adjustment to taxes payable in respect of previous years.

3. Significant Accounting policies (continued)

Deferred tax is recognized on any temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable income. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized and the liability is settled. The effect of a change in the enacted or substantively enacted tax rates is recognized in statements of operations and comprehensive (loss) income or in equity depending on the item to which the adjustment relates.

Deferred tax assets are recognized to the extent future recovery is probable. At each reporting period end, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

Net income (loss) per share

Basic net income (loss) per share is calculated by dividing net (loss) income for a given period by the weighted average number of common shares outstanding during that same period. Diluted net (loss) income per share reflects the potential dilution that could occur if holders with rights to convert instruments to common shares exercise these rights. The weighted average number of common shares used to determine diluted net income (loss) per share includes an adjustment, using the treasury stock method, for outstanding stock options and warrants.

Under the treasury stock method:

- the exercise of stock options and warrants is assumed to occur at the beginning of the period (or date of issuance, if later);
- the proceeds from the exercise of stock options and warrants plus the future period compensation expense on stock options and warrants granted are assumed to be used to purchase common shares at the average market price during the period; and
- the incremental number of common shares (the difference between the number of shares assumed issued and the number of shares assumed purchased) is included in the denominator of the diluted net income (loss) per share calculation.

Recently Issued Accounting Pronouncements

Property, Plant and Equipment — Proceeds before Intended Use (Amendments to IAS 16)

On May 14, 2020, the IASB issued *Property, Plant and Equipment — Proceeds before Intended Use (Amendments to IAS 16)* that clarify the accounting for the net proceeds from selling any items produced while bringing an item of property, plant, equipment, and development to the location and condition necessary for it to be capable of operating in the manner intended by management. The amendments prohibit entities from deducting amounts received from selling items produced from the cost of property, plant, equipment, and development while the Company is preparing the asset for its intended use. Instead, sales proceeds and the cost of producing these items will be recognized in the consolidated statements of operations and comprehensive (loss) income. The amendments are effective for annual reporting periods beginning on or after January 1, 2022, with earlier application permitted. The amendments apply retrospectively, but only to assets brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented in the financial statements in which the Company first applies the amendments. The Company adopted the standard on the effective date resulting in no retrospective changes to its consolidated financial statements.

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 also in future periods when the revision affects both current and future periods. Significant accounting judgments, estimates and assumptions are reviewed on an ongoing basis.

Asset retirement obligations

The Company accounts for asset retirement obligations using a discounted cash flow forecast prepared by management using observable market data that includes significant assumptions regarding the estimated future closure costs for the Molo Graphite Mine site.

4. Significant judgments, estimates and assumptions

Exploration and Evaluation Expenditures

The application of the Company's accounting policy for exploration and evaluation expenditures requires judgment to determine whether future economic benefits are likely to arise and whether activities have reached a stage where the technical feasibility and commercial viability of extracting the mineral resource is demonstrable.

Development Stage Expenditures

The application of the Company's accounting policy for development stage expenditures requires judgment to determine when the technical feasibility and commercial viability of extracting a mineral resource has been determined. Some of the factors that the Company may consider in its assessment of technical feasibility and commercial viability are set out below:

- The level of geological certainty of the mineral deposit;
- Life of mine plans or economic models to support the economic extraction of reserves and mineral resources;
- A preliminary economic assessment, prefeasibility study or feasibility study that demonstrates the reserves and mineral resources will generate a positive commercial outcome;
- Reasonable expectations that operating permits will be obtained; and
- Approval by the Board of Directors of development of the project.

Income Taxes

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

Royalty obligation

The Company accounts for a royalty obligation using a discounted cash flow forecast prepared by management that is based on estimated future revenues from the Molo Graphite Mine. The model is not based on observable market data but rather on unobservable inputs of which the significant assumptions include the estimated flake graphite sales volumes and selling prices throughout the remainder of the royalty term. Changes to these assumptions could have a significant impact on the measurement of the royalty obligation. The value of the royalty obligation is disclosed in Note 7 – *Royalty Obligation*.

Share-based compensation

Estimating fair value for granted stock options requires determining the most appropriate valuation model which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility, dividend yield, and rate of forfeitures and making assumptions about them. The value of the share-based payment expense along with the assumptions and model used for estimating fair value for share-based compensation transactions are disclosed in Note 14 – Stock Options and Note 15 – *Restricted Share Units (RSUs)*.

5. Property, plant, equipment, and development

As of June 30, 2023, the carrying value of property, plant, equipment, and development was $44,236,829 (June 30, 2022: $18,652,394). The property, plant and equipment are all for Phase 1 of the Molo Mine in Madagascar. The right of use assets consists of $11,963,148 for the BAF lease in Mauritius and $456,061 for the Molo property lease in Madagascar. The assets under construction consist of $15,181,485 for the Molo processing plant, $2,612,845 for Molo Phase 2 development costs and $1,204,731 for BAF development costs.

During the year ended June 30, 2023, the Company capitalized additions of $25,518,369 (2022: 14,350,273), capitalized mine development costs of $2,077,755 (2022: $nil), transferred $7,987,025 from assets under construction into property, plant and equipment, recorded depreciation of $380,286 (2022: $35,040), and recognized an impact of foreign exchange of $1,631,403 (2022: $nil). Non-cash additions consisted of $12,125,134 for recognition of the BAF lease Right of Use Asset, $93,445 for accretion of the commercial production obligation, $1,373,075 for accretion of the royalty obligation, and $492,346 for asset retirement obligations for the Molo Mine.

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

	Property $	Plant $	Equipment $	Right of Use Assets $	Assets Under Construction $	Total $
As at June 30, 2021	708,514	-	4,683	12,074	3,611,890	4,337,161
Additions	398,836	-	239,542	530,562	13,181,333	14,350,273
Depreciation	-	-	(29,053)	(5,987)	-	(35,040)
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
Cost	1,107,350	-	244,780	554,727	16,793,223	18,700,080
Accumulated depreciation	-	-	(29,608)	(18,078)	-	(47,686)
As at June 30, 2022	1,107,350	-	215,172	536,649	16,793,223	18,652,394
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

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 revenues 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.

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

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 long-term lease agreement terminated on June 30, 2023.
- 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 June 30, 2023, had a remaining term of 48.75 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 is payable annually in US dollars and as of June 30, 2023, has a remaining term of 24.65 years. The current annual lease is set at $1,338,637 and will increase according to the annual change in US CPI with a minimum of 0% and maximum of 3%.

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, 2021	11,099	-	-	11,099
Additions	-	-	389,049	389,049
Finance costs	900	-	11,080	11,980
Foreign exchange adjustments	(318)	-	(8,713)	(9,031)
Lease payments	(6,027)	-	(47,252)	(53,279)
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
Foreign exchange adjustments	(258)	-	(33,639)	(33,897)
Lease payments	(5,685)	(1,338,637)	(43,308)	(1,387,630)
As at June 30, 2023	-	11,185,072	310,859	11,495,931

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	-	1,244,935	41,626	1,286,561
Long-term lease obligations	-	9,940,137	269,233	10,209,370
As at June 30, 2023	-	11,185,072	310,859	11,495,931

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	-	1,338,637	41,628	1,380,265
Between 13 and 24 months	-	1,338,637	41,628	1,380,265
Between 25 and 36 months	-	1,338,637	41,628	1,380,265
Between 37 and 48 months	-	1,338,637	41,628	1,380,265
Between 49 and 60 months	-	1,338,637	41,628	1,380,265
Over 60 months	-	25,434,103	1,789,980	27,224,083
Total undiscounted lease obligations	-	32,127,288	1,998,120	34,125,408

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 year ended June 30, 2023, the Company recognized short-term rent expenses of $11,786 (2022: $7,141) in the consolidated statements of operations and comprehensive (loss) income.

7. Royalty obligation

Vision Blue

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 June 30, 2023, the obligation was remeasured at $12,016,881 (June 30, 2022: $7,731,196). During the year ended June 30, 2023, the obligation increased due to the receipt of the remaining $3.0 million royalty funding, accretion of $1,373,075 (2022: $904,771) and remeasurement gain of $87,390 (2022: loss $495,704) recognized through the consolidated statements of operations and comprehensive (loss) income. The royalty minimum repayment of $948,750 due on June 30, 2023 was completed on July 18, 2023.

	Total **$**
As at June 30, 2021	6,330,721
Accretion of royalty obligation	904,771
Remeasurement of royalty obligation	495,704
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

	Total **$**
Current portion of royalty obligation	2,846,250
Long-term royalty obligation	9,170,631
As at June 30, 2023	12,016,881

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

	Total **$**
Within 12 months	2,846,250
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 minimum payments and interest	18,975,000

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 statements of operations and comprehensive (loss) income 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 consolidated statements of operations and comprehensive (loss) income.

As of June 30, 2023, the derivative financial liability was $nil (June 30, 2022: $21,689,490). During the year ended June 30, 2023, a total of $24,472,850 was reclassified to equity upon the exercise of warrants (2022: $4,462,156).

	Warrant Liability
	$
As at June 30, 2021	45,380,933
Reclassification to equity on exercise of warrants	(4,462,156)
Change in fair value through profit and loss	(19,229,287)
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	-

On October 31, 2022, the warrants expiring on May 19, 2023 were exercised. The fair value was estimated prior to exercise using the following model inputs. The change in fair value was recognized through the consolidated statements of operations and comprehensive (loss) income and the fair value was reclassified to equity.

Warrants Expiring May 19, 2023		**Total**
		$
As of June 30, 2021		40,941,298
Change in fair value through consolidated statements of operations and comprehensive (loss) income		(19,251,808)
Share price on measurement date	(CAD $2.12) USD $1.65	
Exercise price	(CAD $1.00) USD $0.78	
Risk free rate	3.10%	
Expected volatility	71%	
Expected dividend yield	Nil	
Expected life (in years)	0.88	
As of June 30, 2022		21,689,490
Change in fair value through consolidated statements of operations and comprehensive (loss) income		2,783,360
Share price on measurement date	(CAD $2.40) USD $1.76	
Exercise price	(CAD $1.00) USD $0.73	
Risk free rate	4.05%	
Expected volatility	73%	
Expected dividend yield	Nil	
Expected life (in years)	0.55	
Reclassification to equity on exercise of warrants		(24,472,850)
As of June 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 year ended June 30, 2023, the obligation increased through accretion of $94,018. On June 30, 2023, the obligation was remeasured at $754,973 (June 30, 2022: $727,051) resulting in remeasurement gain of $49,255 and a foreign exchange gain of $16,842 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 a number of 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 June 30, 2023, the total undiscounted amount of estimated cash flows required to settle the Company's estimated future closure and decommissioning costs is $1,404,798 (2022: $nil). The estimated future cash flows were then inflated using an inflation rate of 8.15%. The total provision for closure and decommissioning costs was calculated using a discount rate of 12%. The obligation is expected to be settled at the end of the 30-year life of mine in 2053.

As of June 30, 2023, the present value of estimated future cash flows required to settle the Company's closure and decommissioning costs as of the reporting date was estimated at $492,346 (2022: $nil).

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.

12. Share capital

As of June 30, 2023, the Company had 125,271,007 common shares issued and outstanding (June 30, 2022: 101,872,614). 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 year ended June 30, 2023:

(a) On October 31, 2022, a total of 23,214,286 warrants priced at CAD$1.00 were exercised into 23,214,286 common shares for gross proceeds of $17,002,227.

(b) On June 30, 2023, a total of 184,107 RSUs were converted into 184,107 common shares.

The following changes occurred during the year ended June 30, 2022:

(a) On September 23, 2021, a total of 211,112 warrants with an exercise price of CAD$0.90 were exercised into 211,112 common shares for gross proceeds of $150,588.

(b) On October 5, 2021, a total of 54,616 warrants with an exercise price of CAD$0.65 and 206,667 warrants with an exercise price of CAD$0.90 were exercised into 261,283 common shares for gross proceeds of $175,077.

(c) On October 20, 2021, a total of 155,556 warrants with an exercise price of CAD$0.90 were exercised into 155,556 common shares for gross proceeds of $113,110.

(d) On October 22, 2021, a total of 214,445 warrants with an exercise price of CAD$0.90 were exercised into 214,445 common shares for gross proceeds of $156,129.

(e) On November 23, 2021, a total of 100,000 warrants with an exercise price of CAD$0.65 were exercised into 100,000 common shares for gross proceeds of $51,407.

(f) On December 16, 2021, a total of 123,518 RSUs were converted into common shares.

(g) On March 2, 2022, a total of 461,539 warrants with an exercise price of CAD$0.65 were exercised into 461,539 common shares for gross proceeds of $235,804.

(h) On March 31, 2022, a total of 30,800 warrants with an exercise price of CAD$0.65 were exercised into 30,800 common shares for gross proceeds of $15,998.

(i) On April 28, 2022, a total of 38,500 warrants with an exercise price of CAD$0.65 were exercised into 38,500 common shares for gross proceeds of $19,575.

(j) On May 18, 2022, a total of 325,000 warrants with an exercise price of CAD$0.65 were exercised into 325,000 common shares for gross proceeds of $162,345.

(k) On May 18, 2022, a total of 220,000 options with an exercise price of USD$0.66 were exercised into 220,000 common shares for gross proceeds of $144,833.

(l) On May 23, 2022, a total of 220,000 options with an exercise price of USD$0.66 were exercised into 220,000 common shares for gross proceeds of $146,764.

(m) On June 2, 2022, a total of 220,000 options with an exercise price of USD$0.66 were exercised into 220,000 common shares for gross proceeds of $145,200.

(n) On June 9, 2022, a total of 215,000 options with an exercise price of USD$0.66 were exercised into 215,000 common shares for gross proceeds of $141,900.

(o) On June 24, 2022, a total of 30,800 warrants with an exercise price of CAD$0.65 were exercised into 30,800 common shares for gross proceeds of $15,529.

(p) On June 27, 2022, a total of 180,000 warrants with an exercise price of CAD$0.65 were exercised into 180,000 common shares for gross proceeds of $91,090.

(q) On June 30, 2022, a total of 680,801 warrants with an exercise price of CAD$0.65 were exercised into 680,801 common shares for gross proceeds of $343,538.

13. Warrants

The Company issued common share purchase warrants as part of equity private placements. The fair value of warrants is determined using the Black-Scholes option valuation model based on the market price, the exercise price, compound risk free interest rate, annualized volatility, and number of periods until expiration. The fair value of warrants denominated in the functional currency are classified as equity. The fair value of warrants denominated in a currency other than the functional currency classified as derivative financial liabilities Each warrant entitles the holder to purchase one common share of the Company at the respective exercise price prior to or on the respective expiration date.

As of June 30, 2023, the Company had Nil common share purchase warrants outstanding (June 30, 2022: 23,214,286).

Issued Date	Expiration Date	Exercise Price	As at June 30, 2022	Issued	Cancelled	Exercised	As at June 30, 2023
May 19, 2021	May 19, 2023	CAD $1.00	23,214,286	-	-	(23,214,286)	-
Totals			23,214,286	-	-	(23,214,286)	-

The following changes occurred during the year ended June 30, 2023:

(a) On October 31, 2022, a total of 23,214,286 warrants with an exercise price of CAD$1.00 were exercised into 23,214,286 common shares for gross proceeds of $17,002,227.

The following changes occurred during the year ended June 30, 2022:

(a) On September 23, 2021, a total of 211,112 warrants with an exercise price of CAD$0.90 were exercised into 211,112 common shares for gross proceeds of $150,588.

(b) On October 5, 2021, a total of 54,616 warrants with an exercise price of CAD$0.65 and 206,667 warrants with an exercise price of CAD$0.90 were exercised into 261,283 common shares for gross proceeds of $175,077.

(c) On October 20, 2021, a total of 155,556 warrants with an exercise price of CAD$0.90 were exercised into 155,556 common shares for gross proceeds of $113,110.

(d) On October 22, 2021, a total of 214,445 warrants with an exercise price of CAD$0.90 were exercised into 214,445 common shares for gross proceeds of $156,129.

(e) On November 23, 2021, a total of 100,000 warrants with an exercise price of CAD$0.65 were exercised into 100,000 common shares for gross proceeds of $51,407.

(f) On March 2, 2022, a total of 461,539 warrants with an exercise price of CAD$0.65 were exercised into 461,539 common shares for gross proceeds of $235,804.

(g) On March 31, 2022, a total of 30,800 warrants with an exercise price of CAD$0.65 were exercised into 30,800 common shares for gross proceeds of $15,998.

(h) On April 28, 2022, a total of 38,500 warrants with an exercise price of CAD$0.65 were exercised into 38,500 common shares for gross proceeds of $19,575.

(i) On May 18, 2022, a total of 325,000 warrants with an exercise price of CAD$0.65 were exercised into 325,000 common shares for gross proceeds of $162,345.

(j) On June 24, 2022, a total of 30,800 warrants with an exercise price of CAD$0.65 were exercised into 30,800 common shares for gross proceeds of $15,529.

(k) On June 27, 2022, a total of 180,000 warrants with an exercise price of CAD$0.65 were exercised into 180,000 common shares for gross proceeds of $91,090.

(l) On June 30, 2022, a total of 680,801 warrants with an exercise price of CAD$0.65 were exercised into 680,801 common shares for gross proceeds of $343,538.

14. 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 June 30, 2023, the Company had 1,710,000 stock options outstanding (June 30, 2022: 1,910,000) with a weighted average expiration of 0.75 years (June 30, 2022: 1.74) exercisable into 1,710,000 common shares (June 30, 2022: 1,910,000) at a weighted average exercise price of CAD$2.70 (June 30, 2022: CAD$2.79). All outstanding stock options vested on their respective grant dates.

Grant Date	Expiration Date	Exercise Price	As at June 30, 2022	Awarded	Cancelled	Exercised	As at June 30, 2023
March 26, 2019	March 26, 2024	CAD $1.00	580,000	-	-	-	580,000
March 19, 2021	March 19, 2024	CAD $3.60	1,300,000	-	(200,000)	-	1,100,000
May 11, 2022	May 11, 2025	CAD $2.50	30,000	-	-	-	30,000
Totals			1,910,000	-	(200,000)	-	1,710,000

The following changes occurred during the year ended June 30, 2023:

(a) As per the terms of our long-term incentive plant, 200,000 stock options granted on March 19, 2021 were cancelled on the anniversary of the departure of former directors.

The following changes occurred during the year ended June 30, 2022:

(a) On May 11, 2022, the Company granted 30,000 stock options exercisable at a price of CAD$2.50 for a period of three years. The options were valued at $43,050 using the Black-Scholes pricing model based on a risk-free rate of 2.74%, a term of 3 years, volatility of 128% and a market price of $1.93 (CAD$2.50). These stock options vested on the grant date.

15. 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 June 30, 2023, the Company had 160,000 RSUs outstanding (June 30, 2022: 270,000) that subject to satisfying their respective vesting conditions entitle the holders to receive 160,000 common shares (June 30, 2022: 270,000) for no additional consideration. The RSUs have a weighted average time until vesting of nil years (June 30, 2022: 0.38) and weighted average time until expiration of 1.00 years (June 30, 2022: 1.00).

Grant Date	Vesting Measurement Date	Expiration Date	As at June 30, 2022	Awarded	Settled in Cash	Settled in Shares	As at June 30, 2023
Vested RSUs							
March 19, 2021	December 31, 2022	June 30, 2023	200,000	-	(49,129)	(150,871)	-
May 11, 2022	July 14, 2022	June 30, 2023	40,000	-	(6,764)	(33,236)	-
May 11, 2022	July 14, 2022	June 30, 2023	30,000	-	(30,000)	-	-
July 28, 2022	June 30, 2023	June 30, 2024	-	160,000	-	-	160,000
Totals			270,000	160,000	(85,893)	(184,107)	160,000

The following changes occurred during the year ended June 30, 2023:

(a) On July 14, 2022, the 30,000 and 40,000 RSUs granted on May 11, 2022 satisfied their respective vesting conditions.

(b) On July 28, 2022, the Company granted 160,000 RSUs with a vesting date of June 30, 2023 whereby the respective holders will receive a total of 160,000 common shares subject to being employed on the vesting date. The grant date fair value was estimated at $322,818 based on a grant-date market price of $2.02 (CAD$2.59).

(c) On December 31, 2022, the 200,000 RSUs granted on March 19, 2021 satisfied their respective vesting conditions.

(d) On June 30, 2023, 184,107 RSUs were settled in common shares and 85,893 RSUs were settled in cash.

(e) On June 30, 2023, the 160,000 RSUs granted on July 28, 2022 satisfied their respective vesting conditions.

During the year ended June 30, 2023, a total of $514,048 was expensed as share-based compensation related to the expensing of the value of RSUs over their expected vesting periods.

The following changes occurred during the year ended June 30, 2022:

(a) On May 11, 2022, the Company granted 40,000 RSUs with a vesting date of July 14, 2022, whereby the holder will receive 40,000 common shares subject to achieving certain milestones on the vesting date. The grant date fair value was estimated at $77,230 based on a grant-date market price of $1.93 (CAD$2.50).

(b) On May 11, 2022, the Company granted 30,000 RSUs with a vesting date of July 14, 2022, whereby the holder will receive 30,000 common shares subject to being employed on the vesting date. These RSUs vested on July 14, 2022. The grant date fair value was estimated at $57,922 based on a grant-date market price of $1.93 (CAD$2.50).

16. 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:

	Year ended June 30, 2023			Year ended June 30, 2022		
	Mine	**BAF**	**Total**	**Mine**	**BAF**	**Total**
Revenues	$ -	$ -	$ -	$ -	$ -	$ -
Expenses						
Operating expenses	355,703	-	355,703	65,160	-	65,160
Exploration and evaluation expenses	43,385	-	43,385	177,955	-	177,955
Depreciation	225,222	161,987	387,209	32,524	-	32,524
Impairment of VAT receivable	3,953,376	-	3,953,376	-	-	-
Segment gross profit	(4,577,686)	(161,987)	(4,739,673)	(275,639)	-	(275,639)
Other Operating Expenses						
General and administrative expenses			3,482,527			1,929,292
Share-based compensation			514,048			385,930
Depreciation			6,646			2,516
Lease finance costs			442,505			11,980
Flow through provision expense			-			(28,385)
Foreign currency translation (gain) loss			(29,558)			87,543
Interest			(123,869)			(133)
Loss before other items			(9,031,972)			(2,664,382)
Gain on disposal of asset			-			(2,530)
Change in value of royalty obligation			(87,390)			495,704
Change in fair value of warrant derivative financial liability			2,783,360			(19,229,287)
Change in value of commercial production obligation			(49,255)			(48,472)
(Loss) income before income taxes			(11,678,687)			16,120,203
Income tax expense			-			-
Net (loss) income			(11,678,687)			16,120,203
Other comprehensive income						
Items that will be reclassified subsequently to net income (loss)						
Translation adjustment for foreign operations			(1,890,444)			76,154
Net (loss) income and comprehensive (loss) income			$ (13,569,131)			$ 16,196,357

16. 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

The following is detailed information by geographic region as at June 30, 2022:

	Canada	**Mauritius**	**Madagascar**	**Total**
	$	$	$	$
Cash and cash equivalents	9,641,083	61,010	91,160	9,793,253
Amounts receivable	491,373	21,653	61,234	574,260
Prepaid expenses	90,873	-	5,919	96,792
Prepayments and deposits	181,161	-	-	181,161
Property, plant, equipment, and development	556,690	1,407	18,094,297	18,652,394
Total assets as at June 30, 2022	10,961,180	84,070	18,252,610	29,297,860

17. 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 includes 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	**Year ended June 30, 2023**	**Year ended June 30, 2022**
Payroll and benefits	$ 868,016	$ 452,631
Management consulting fees	363,621	339,612
Professional fees	18,774	27,506
Share-based compensation	514,048	385,930
Total	$ 1,764,460	$ 1,205,679

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 of June 30, 2023**	**As of June 30, 2022**
Amounts receivable	$ 185,478	$ 193,471
Accounts payable and accrued liabilities	$ 63,750	$ 35,257

17. Related party transactions (continued)

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. Accrued liabilities are for the accrual of director fees and net payroll obligations.

18. Capital management

There were no changes in the Company's approach to capital management during the year ended June 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 June 30, 2023, the Company had a working capital surplus of $120,050 (June 30, 2022: deficit of $13,868,626). Based on the surplus and subsequent prospectus equity financing as well as management's assessment of its 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 June 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 $1.5 million and general and administrative costs of $1.0 to $1.8 million.

As of June 30, 2023, the Company had cash and cash equivalents of $6,885,458 (June 30, 2022: $9,793,253). On August 1, 2023, the Company completed a prospectus equity funding of $37,750,585 (CAD$50,000,775) resulting in net proceeds of $36,569,511 (CAD$48,436,439). The cash and cash equivalents together with the prospectus offering net proceeds 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 all of the planned Mauritius BAF development costs, Molo Phase 2 development costs (Feasibility and FEED studies), and general and administrative costs during the next twelve months.

If the Company makes construction decisions, the ability to construct Phase 2 of the Molo Graphite Mine, and any additional BAF plants, 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.

19. 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 June 30, 2023, the Company had cash and cash equivalents of $6,885,458 (June 30, 2022: $9,793,253) to settle current liabilities of $7,902,378 (June 30, 2022: $24,332,931).

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.
- Annual lease payment obligations for the Mauritius BAF lease and for the Molo Mine property.

As a result, the Company was exposed to liquidity risk as of June 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 additional BAF plants.

19. Financial instruments and risk management (continued)

Credit risk

The Company does not have commercial customers 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 year ended June 30, 2023, due to considerable uncertainty as to the timing and recoverability of refundable Madagascar value added tax (VAT), the Company recognized an impairment of VAT receivable of $3,953,376 (2022: $nil). As of June 30, 2023, amounts receivable are presented net of an impairment of VAT receivable of $3,953,376 (June 30, 2022: impairment of $nil).

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 is not a commodity product and therefore 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 since it has not made commitments to deliver products quoted in foreign currencies. Due to construction activities related to the Molo Graphite Mine, the Company is increasing its sensitivity 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 certain assets, liabilities and equity are measured through other comprehensive income.

As of June 30, 2023, the Company estimated that a 10% decrease of the USD versus foreign exchange rates would result in a loss of $48,841 (June 30, 2022: gain of $68,224) and a 10% increase in the USD versus foreign exchange rates would result in a gain of $48,841 (June 30, 2022: loss of $68,224). The Company holds the following balances in foreign currency:

		As at June 30, 2023	As at June 30, 2022
Cash and cash equivalents	CAD	$ 2,119,393	$ 1,341,893
Cash and cash equivalents	MGA	104,293	62,433
Cash and cash equivalents	MUR	38,448	-
Amounts receivable	CAD	246,616	319,555
Amounts receivable	MGA	-	61,234
Prepaid expenses	CAD	46,667	-
Prepaid expenses	ZAR	8,170	-
Prepaid expenses	MGA	4,184	-
Accounts payable and accrued liabilities	CAD	(306,903)	(124,023)
Accounts payable and accrued liabilities	MGA	(1,875,766)	(203,028)
Accounts payable and accrued liabilities	MUR	(92,542)	-
Accounts payable and accrued liabilities	GBP	16,469	-
Accounts payable and accrued liabilities	ZAR	(836)	(48,773)
Commercial production obligations	CAD	(754,973)	(727,051)
Current portion of lease obligations	MGA	(41,628)	-
Net foreign exchange exposure in USD		$ (488,407)	$ 682,240

19. Financial instruments and risk management (continued)

Impact of 10% increase in CAD/USD exchange rates	$ 135,080	$ 81,037
Impact of 10% increase in MGA/USD exchange rates	$ (180,892)	$ (7,936)
Impact of 10% increase in MUR/USD exchange rates	$ (5,409)	$ -
Impact of 10% increase in ZAR/USD exchange rates	$ 733	$ (4,877)
Impact of 10% increase in GBP/USD exchange rates	$ 1,647	$ -
Total	$ (48,841)	$ 68,224

20. Income taxes

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 26.5% (2021 - 26.5%) to the effective tax rate is as follows:

	As at June 30, 2023	**As at June 30, 2022**
Net (loss) income for the year before recovery of income taxes	$ (11,678,687)	$ 16,120,203
Expected income tax (recovery) expense	(3,094,852)	4,271,860
Non-deductible expenses and other	16,900	25,250
Unrealized foreign exchange	187,330	4,810
Share cost of issue booked to equity	-	-
Share based compensation	136,220	102,270
Change in value of warrant liability	724,540	(5,108,610)
Difference in foreign tax rates	332,160	172,620
Change in tax benefits not recognized	1,697,702	531,800
Income tax (recovery) expense	$ -	$ -

Deferred Tax

Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset. The following table summarizes the components of deferred tax:

	As at June 30, 2023	**As at June 30, 2022**
Deferred tax assets		
Canadian operating tax losses carried forward	$ -	$ 71,230
Non-Canadian operating tax losses carried forward	127,030	9,210
Lease obligation	1,693,300	17,490
Subtotal of deferred tax assets	1,820,330	97,930
Deferred tax liabilities		
Property, plant, equipment, and development	(1,820,330)	(26,700)
Royalty receivable	-	(71,230)
Subtotal of deferred tax liabilities	(1,820,330)	(97,930)
Net deferred tax asset (liability)	$ -	$ -

Unrecognized Deferred Tax Assets

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

20. Income taxes (continued)

	As at June 30, 2023	As at June 30, 2022
Canadian operating tax losses carried forward	$ 29,680,730	$ 27,271,150
Non-Canadian operating tax losses carried forward	6,557,930	1,506,390
Property, plant and equipment	1,514,350	2,242,280
Royalty obligation	1,016,880	-
Share and debt issuance cost	714,650	1,088,970
Capital losses carried forward	52,720	54,160
Tax credits	30,710	31,550
Canadian resource pools - mineral properties	-	-
Unrecognized deferred tax assets	$ 39,567,970	$ 32,194,500

The Canadian Operating tax losses carried forward expire as noted in the table below. Non-Canadian operating tax losses carried forward expire between 2024 and 2028. The capital losses carried forward can be carried forward indefinitely but can only be used to reduce capital gains. Investment tax credits expire from 2026 to 2029. Share issue and financing costs will be fully amortized in 2025. The remaining deductible temporary differences may be carried forward indefinitely. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the group can utilize the benefits therefrom.

The Company's Canadian operating tax losses carried forward expire as follows:

	As at June 30, 2023
2026	829,020
2027	803,870
2028	812,970
2029	1,375,340
2030	1,938,050
2031	2,477,580
2032	2,066,170
2033	2,514,830
2034	2,002,820
2035	1,441,050
2036	1,827,310
2037	1,197,520
2038	916,790
2039	1,771,020
2040	1,372,190
2041	1,805,090
2042	1,576,300
2043	2,952,810
	29,680,730

21. Subsequent events

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 $36,569,511 (CAD$48,436,439).

On September 28, 2023, the Company announced an update in respect of the development of the Mauritius BAF, including the Company’s termination of the original long-term industrial lease entered into in respect of a property upon which the Mauritius BAF was originally intended to be constructed. Additionally, in connection therewith, the Company announced that it is in advanced discussions in connection with an alternative location for the Mauritius BAF in the vicinity of the international freeport of Port Louis, Mauritius.