

GRAPHITE ONE RESOURCES INC.

Consolidated Financial Statements

December 31, 2016





April 27, 2017

Independent Auditor's Report

To the Shareholders of Graphite One Resources Inc.

We have audited the accompanying consolidated financial statements of Graphite One Resources Inc., which comprise the consolidated statements of financial position as at December 31, 2016 and September 30, 2015 and the consolidated statements of loss and comprehensive loss, cash flows and changes in equity for the fifteen-month period ended December 31, 2016 and for the year ended September 30, 2015, and the related notes, which comprise the significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, 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.

Auditor's responsibility

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

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

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

PricewaterhouseCoopers LLP

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Graphite One Resources Inc. as at December 31, 2016 and September 30, 2015 and its financial performance and cash flows for the fifteen-month period ended December 31, 2016 and for the year ended September 30, 2015 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Emphasis of matter

Without qualifying our opinion, we draw attention to note 3 in the consolidated financial statements which discloses conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about Graphite One Resources Inc.'s ability to continue as a going concern.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

GRAPHITE ONE RESOURCES INC.
Consolidated Statements of Financial Position
(Expressed in Canadian dollars)

As at		December 31, 2016	September 30, 2015
ASSETS	Note		
Current assets			
Cash		\$ 723,434	\$ 998,937
Cash in trust	6	-	279,225
Prepayments and deposits		142,836	75,124
Amounts receivable	7	17,979	46,668
Total current assets		884,249	1,399,954
Non-current assets			
Equipment		33,479	56,316
Exploration and evaluation property	8	11,529,074	10,002,322
Total non-current assets		11,562,553	10,058,638
Total assets		\$ 12,446,802	\$ 11,458,592
EQUITY AND LIABILITIES			
Current liabilities			
Trade and other accounts payable		\$ 399,943	\$ 806,516
Total liabilities		399,943	806,516
Equity			
Share capital		27,558,625	23,711,242
Share option reserve		5,544,921	4,522,930
Deficit		(21,056,687)	(17,582,096)
Total equity		12,046,859	10,652,076
Total equity and liabilities		\$ 12,446,802	\$ 11,458,592

Going concern 3

Approved by the Board of Directors:

"Anthony Huston"
Director

"Douglas Smith"
Director

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

GRAPHITE ONE RESOURCES INC.
Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian dollars)

		For the fifteen month year ended December 31 2016	For the twelve month year ended September 30 2015
Expenses	Note		
Management fees and salaries		\$ 697,120	\$ 551,311
Marketing, advisory and investor relations		1,435,807	887,805
Office and administration		225,231	222,397
Professional fees		249,410	199,205
Share-based payments	9	885,963	540,673
		3,493,531	2,401,391
Other income (expenses)			
Foreign exchange gain/(loss)		13,297	(35,370)
Interest income		5,643	9,010
		18,940	(26,360)
Net loss for the period		\$ 3,474,591	\$ 2,427,751
Other comprehensive loss			
Foreign currency translation		-	-
Net loss and comprehensive loss for the period		\$ 3,474,591	\$ 2,427,751
Basic and diluted loss per common share		\$ 0.02	\$ 0.01
Weighted average number of common shares outstanding		215,352,456	168,168,836

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

GRAPHITE ONE RESOURCES INC.
Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

	For the fifteen month year ended December 31, 2016	For the twelve month year ended September 30, 2015
CASH DERIVED FROM (USED IN)		
OPERATING ACTIVITIES		
Loss for the period	\$ (3,474,591)	\$ (2,427,751)
Items not involving cash:		
Share-based payments	885,963	540,673
Changes in non-cash working capital items		
Amounts receivable	28,689	1,359
Prepayments and deposits	(56,172)	166,549
Trade and other accounts payable	(84,134)	224,099
	<u>(2,700,245)</u>	<u>(1,495,071)</u>
FINANCING ACTIVITIES		
Issuance of shares	4,056,777	1,359,235
Share issuance costs	(228,206)	(131,519)
Decrease in cash in trust	279,225	392,016
	<u>4,107,796</u>	<u>1,619,732</u>
INVESTING ACTIVITIES		
Exploration and evaluation property	(1,668,138)	(2,200,049)
Purchase of equipment	(3,376)	-
Decrease/(increase) in cash in trust	-	94,826
Changes in non-cash working capital items		
Prepayments and deposits	(11,540)	24,575
	<u>(1,683,054)</u>	<u>(2,080,648)</u>
(Decrease) in cash	(275,503)	(1,955,987)
Cash at beginning of period	998,937	2,954,924
Cash at end of period	\$ 723,434	\$ 998,937
Supplemental cash flow information:		
Non-cash transactions eliminated from the consolidated statements of cash flows:		
Depreciation capitalized to exploration and evaluation property	\$ 26,213	\$ 38,198
Change in Accounts payable related to financing activities	\$ (25,506)	\$ (21,325)
Change in Accounts payable related to investing activities	\$ (230,933)	\$ (59,981)
Shares issued on purchase of claims and royalty extension	\$ -	\$ 327,692
Share-based payments capitalized to exploration and evaluation property	\$ 88,840	\$ 60,000
Non-cash share issuance costs	\$ 47,188	\$ 61,228
Shares issued to settle debt	\$ 66,000	\$ -
	<u>\$ (28,198)</u>	<u>\$ 405,812</u>

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

GRAPHITE ONE RESOURCES INC.
Consolidated Statements of Changes in Equity
(Expressed in Canadian dollars)

	Common Shares		Share Option Reserve	Deficit	Total Equity
	Number	Amount \$			
October 1, 2014	166,875,949	22,217,062	3,861,029	(15,154,345)	10,923,746
Shares issued on private placement	19,417,642	1,359,235	-	-	1,359,235
Shares issued on broker warrant exercise	-	-	-	-	-
Shares issued on warrant exercise	-	-	-	-	-
Shares issued on extension of royalty purchase option	769,231	57,692	-	-	57,692
Shares issued on purchase of mineral claims	3,000,000	270,000	-	-	270,000
Cost of share issuance	-	(192,747)	61,228	-	(131,519)
Share-based payments	-	-	600,673	-	600,673
Net loss for the year	-	-	-	(2,427,751)	(2,427,751)
September 30, 2015	190,062,822	23,711,242	4,522,930	(17,582,096)	10,652,076
October 1, 2015	190,062,822	23,711,242	4,522,930	(17,582,096)	10,652,076
Shares issued on private placement	43,282,679	3,450,252	-	-	3,450,252
Shares issued on warrant exercise	5,346,500	606,525	-	-	606,525
Shares issued on settlement of debt	733,334	66,000	-	-	66,000
Cost of share issuance	-	(275,394)	47,189	-	(228,205)
Share-based payments	-	-	974,802	-	974,802
Net loss for the period	-	-	-	(3,474,591)	(3,474,591)
December 31, 2016	239,425,335	27,558,625	5,544,921	(21,056,687)	12,046,859

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

GRAPHITE ONE RESOURCES INC.
Notes to the Consolidated Financial Statements
December 31, 2016 and September 30, 2015
(Expressed in Canadian dollars)

1. NATURE OF OPERATIONS

Graphite One Resources Inc. (“Graphite One” or the “Company”) was incorporated in Alberta and commenced operations on March 16, 2006 under the name Cedar Mountain Exploration Inc. (“Cedar Mountain”). On March 23, 2012, Cedar Mountain changed its name to Graphite One and adopted the symbol GPH on the TSX-V effective March 27, 2012. The Company was continued into British Columbia on September 12, 2014. Graphite One is the parent company of its consolidated group.

Graphite One is engaged in the business of acquiring exploring and evaluating graphitic material properties. Through its 100% owned subsidiary, Graphite One (Alaska) Inc., the Company is focussed on the Graphite Creek property near Nome, Alaska, (the “Graphite Creek Project”).

The ability of the Company to proceed with the evaluation and development of the Graphite Creek Project depends on a number of factors, the key ones including obtaining the necessary financing to complete the evaluation and development, and ultimately upon future profitable production or proceeds from disposition of the Graphite Creek Project.

2. CHANGE OF FINANCIAL YEAR END

Effective with the 2016 fiscal year, the Company changed its fiscal year end from September 30 to December 31. Accordingly, the Company’s 2016 fiscal year comprises the 15 month period ended December 31, 2016. The comparative financial information for the 15 month year ended December 31, 2016 is for the twelve month year ended September 30, 2015.

3. GOING CONCERN

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period.

As at December 31, 2016, the Company had a cash balance of \$723,434 and working capital of \$484,306. Current liabilities as at December 31, 2016 totalled \$507,943. The Company has incurred losses since inception and does not generate any cash inflows from operations. In the year ended December 31, 2016, cash used in operating activities totalled \$2,675,245.

The Company’s ability to continue to meet its obligations and carry out its planned exploration and development activities is uncertain and dependent upon the continued financial support of its shareholders and on securing additional financing. There is, however, no assurance that any such initiatives will be sufficient and, as a result, there is significant doubt regarding the going concern assumption and, accordingly, the ultimate appropriateness of the use of accounting principles applicable to a going concern. These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and statement of financial position classifications that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations for the foreseeable future. These adjustments could be material.

GRAPHITE ONE RESOURCES INC.
Notes to the Consolidated Financial Statements
December 31, 2016 and September 30, 2015
(Expressed in Canadian dollars)

4. BASIS OF PRESENTATION

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

The consolidated financial statements have been authorized for issue by the Board of Directors of the Company on April 27, 2017.

4.1 Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis. The statements are presented in Canadian dollars unless otherwise noted.

4.2 Significant judgments, estimates and assumptions

The preparation of the Company’s consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continually evaluated and are based on management’s experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from these estimates.

Judgments

Exploration and evaluation property: The Company is required to make significant judgments on the ongoing feasibility of mineral exploration, and whether there are indicators that the right to explore the specific area has or will expire, that further exploration and evaluation plans have changed, or whether development of a specific area is unlikely to recover existing exploration and evaluation property costs. If any of these indicators are present, management would need to assess whether the exploration and evaluation property should be impaired.

Estimates and assumptions

Share-based payments: Share-based payments are determined using the Black-Scholes Option Pricing Model based on estimated fair values of all share-based awards at the date of grant. The Black-Scholes Option Pricing Model utilizes subjective assumptions such as expected price volatility and expected life of the option. Changes in these input assumptions can significantly affect the fair value estimate.

GRAPHITE ONE RESOURCES INC.
Notes to the Consolidated Financial Statements
December 31, 2016 and September 30, 2015
(Expressed in Canadian dollars)

5. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Graphite One (Alaska) Inc., incorporated in Alaska, USA. Control is defined as the exposure, or rights, to variable returns from involvement with an investee and the ability to affect those returns through power over the investee. Power over an investee exists when we have existing rights that give us the ability to direct the activities that significantly affect the investee's returns. The financial statement of subsidiaries are included in the consolidated financial statement from the date that control commences until the date that control ceases.

Foreign Currency Translation

The consolidated financial statements are presented in Canadian dollars which is also the functional currency of the Company and its subsidiary. Transactions in foreign currencies are translated to the appropriate functional currency at foreign exchange rates that approximate those on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange prevailing at the date of the statement of financial position. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Foreign exchange gains and losses are included in profit and loss.

Cash

Cash and cash equivalents include cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash within ninety days of purchase.

Equipment

Equipment is recorded at cost and carried net of accumulated depreciation and accumulated impairment losses. The cost of additions and improvements are capitalized. An item of equipment is derecognized upon disposal, or impaired when no future economic benefits are expected to arise from continued use of the asset. Any gain or loss on disposal of the asset, determined as the difference between the proceeds and the carrying amount of the asset is recognized in profit or loss.

	Depreciation
	Rate
Analytical equipment	20%
Mobile equipment	20%
Sample preparation lab	50%

The Company provides for depreciation using the straight line method at rates designed to depreciate the cost of individual items over their estimated useful lives, less any residual value. Depreciation on operating assets is included in the statements of net loss as a component of office and administrative expenses. Depreciation of assets utilized in mineral exploration activities is capitalized as a cost of mineral properties.

GRAPHITE ONE RESOURCES INC.
Notes to the Consolidated Financial Statements
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5. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Exploration and Evaluation Properties

(i) Pre-license costs:

Costs incurred before the Company has obtained the legal right to explore are expensed as incurred.

(ii) Exploration and evaluation costs:

Once the legal right to explore has been acquired, exploration and evaluation expenditures are capitalized as incurred, unless future economic benefit is not expected to be realized. The Company capitalizes the costs of acquiring, maintaining its interest in, exploring and evaluating mineral properties until such time as the lease expires, the property is abandoned, sold or considered impaired in value, on a property by property basis. Indirect administrative costs are expensed as incurred. Exploration and evaluation properties are not amortized during the exploration and evaluation stage.

Once the technical feasibility and commercial viability of the extraction of mineral reserves or resources from a particular mineral property has been determined, expenditures are reclassified to mineral property development costs.

The establishment of technical feasibility and commercial viability of a mineral property is assessed based on a combination of factors, including:

- The extent to which mineral reserves or mineral resources as defined in National Instrument 43-101 ("NI 43-101") have been identified through a feasibility study or similar document;
- The results of optimization studies and further technical evaluation carried out to mitigate project risks identified in the feasibility study;
- The status of environmental permits; and
- The status of mining leases or permits.

Exploration and evaluation assets are tested for impairment immediately prior to reclassification to mineral property development costs.

Although the Company has taken steps to verify title to exploration and evaluation properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers, non-compliance with regulatory requirements or title may be affected by undetected defects.

Decommissioning and Restoration

The Company is subject to various governmental laws and regulations relating to the protection of the environment. The environmental regulations are continually changing and are generally becoming more restrictive.

GRAPHITE ONE RESOURCES INC.
Notes to the Consolidated Financial Statements
December 31, 2016 and September 30, 2015
(Expressed in Canadian dollars)

5. SIGNIFICANT ACCOUNTING POLICIES (cont'd)...

Decommissioning and restoration obligations encompass legal, statutory, contractual or constructive obligations associated with the retirement of a long-lived tangible asset (for example, mine reclamation costs) that results from the acquisition, construction, development and/or normal operation of a long-lived asset. The retirement of a long-lived asset is reflected by an other-than-temporary removal from service, including sale of the asset, abandonment or disposal in some other manner.

A liability for decommissioning and restoration is recorded in the period in which the obligation first arises. The Company records the estimated present value of future cash flows associated with site closure and reclamation as a long-term liability and increases the carrying value of the related assets for that amount. Over time, the liability is increased to reflect an interest element in the estimated future cash flows (accretion expense) considered in the initial measurement of fair value. The capitalized cost is amortized on either the unit-of-production basis or the straight-line basis, as appropriate. The Company's estimates of provisions for decommissioning and restoration obligations could change as a result of changes in regulations, changes to the current market-based discount rate, the extent of environmental remediation required, and the means of reclamation or cost estimates. Changes in estimates are accounted for in the period in which these estimates are revised.

As at December 31, 2016 and September 30, 2015 the Company has determined that it does not have any decommissioning and restoration obligations related to its operations.

Impairment

The carrying values of the Company's long lived assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized if the carrying value amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. A reversal of an impairment loss is recognized immediately in profit or loss.

GRAPHITE ONE RESOURCES INC.
Notes to the Consolidated Financial Statements
December 31, 2016 and September 30, 2015
(Expressed in Canadian dollars)

5. SIGNIFICANT ACCOUNTING POLICIES (cont'd)...

Provisions

Liabilities are recognized when the Company has a present legal or constructive obligation that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation. A provision is a liability of uncertain timing or amount.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects the current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to the passage of time is recognized as a financing expense.

Income Taxes

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity.

Current tax assets and liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. Deferred tax is not provided on the initial recognition of goodwill or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects taxable profit or accounting profit. Deferred tax liabilities on temporary differences associated with shares in subsidiaries are not provided for if reversal of these temporary differences can be controlled by the Company and it is probable that reversal will not occur in the foreseeable future.

Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are likely to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in profit or loss in the period that includes the substantive enactment date. Deferred tax assets are recognized for all temporary differences, carryforward of unused tax credits and unused tax losses to the extent that it is probable that future taxable profits will be available against which they can be utilized.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted by the end of the reporting period. Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income.

GRAPHITE ONE RESOURCES INC.
Notes to the Consolidated Financial Statements
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(Expressed in Canadian dollars)

5. SIGNIFICANT ACCOUNTING POLICIES (cont'd)...

Deferred tax assets and liabilities are offset only when the Company has a right and intention to offset current tax assets and liabilities from the same taxation authority and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same entity or different entities which intend to settle current tax assets and liabilities on a net basis or simultaneously in each future period in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

Changes in deferred tax assets or liabilities are recognized as a component of tax recovery or expense in profit or loss, except where they relate to items that are recognized in other comprehensive income or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively.

Share-based Payments

Share-based payment arrangements in which the Company receives goods or services from consultants are accounted for as equity-settled transactions and, when determinable, are recorded at the value of the goods and services received. If the value of the goods and services received are not determinable, then the fair value of the share-based payment is used.

The Company uses a fair value based method (Black-Scholes Option Pricing Model) for all share options granted to directors, employees and certain consultants. For directors and employees, the fair value of the share options is measured at the date of grant. For grants to non-employees where the fair value of the goods or services is not determinable, the fair value of the share options is measured on the date the services are received.

The fair value of share-based payments is charged either to profit or loss, or exploration and evaluation property, with the offsetting credit to share option reserve. The fair value of the share options is recognized over the vesting period based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognized in the current period. If options vest immediately, the expense is recognized when the options are granted. For non-employees, the share options are recognized over the related service period. When share options are exercised, the amounts previously recognized in share option reserve are transferred to share capital.

In the event share options are forfeited prior to vesting, the associated fair value recorded to date is reversed in the period of forfeiture. The fair value of any vested share options that expire remain in share option reserve.

Share capital

When the Company issues private placement units, the shares and warrants are measured using the residual method. This method allocates value first to the more easily measureable component based on fair value and the residual to the less easily measureable component, if any. The Company considers the fair value of its shares to be the more easily measureable component and is valued with reference to the market price. The residual value is attributed to the warrants, if any, is recorded as a separate component of equity.

GRAPHITE ONE RESOURCES INC.
Notes to the Consolidated Financial Statements
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(Expressed in Canadian dollars)

5. SIGNIFICANT ACCOUNTING POLICIES (cont'd)...

Earnings (Loss) per Share

Basic earnings (loss) per share are computed by dividing net earnings (loss) (the numerator) by the weighted average number of outstanding common shares for the period (denominator). In computing diluted earnings per share, an adjustment is made for the dilutive effect of outstanding share options, warrants and other convertible instruments.

In the periods when the Company reports a net loss, the effect of potential issuances of shares under share options and other convertible instruments is anti-dilutive, therefore, basic and diluted loss per share are the same. When diluted earnings per share is calculated, only those share options and other convertible instruments with exercise prices below the average trading price of the Company's common shares for the period will be dilutive.

Financial Instruments - Recognition and Measurement

Financial instruments are classified into one of five categories, and, depending on the category, will either be measured at amortized cost using the effective interest method or at fair value. Held to maturity investments, loans and receivables, and other financial liabilities are measured at amortized cost. Financial assets and liabilities classified as fair value through profit or loss and available for sale financial assets are carried on the consolidated statement of financial position at their fair values where such fair value is determinable.

The Company classifies cash, cash in trust, amounts receivable and deposits as loans and receivables. Trade and other accounts payable are classified as other financial liabilities.

The Company assesses whether there is evidence that a financial asset or a group of assets is impaired at each reporting date. Evidence of impairment may include indication that a counterparty is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and when indicators suggest that there are measurable decreases in the estimated future cash flows.

Changes in Accounting Standards

The Company has reviewed the new and proposed accounting pronouncements issued by the IASB relevant to the year ended December 31, 2016 and subsequently, and none were considered to have a significant impact on the Company's current operations or financial statements.

6. CASH IN TRUST

The Company has \$nil (September 30, 2015 - \$279,225) Cash in trust. The balance at September 30, 2015 related to the share issuance in September 2015. The funds were held in the Company's legal counsel trust account and were released from escrow in October 2015 upon receipt of all regulatory approvals required for the share issuance.

GRAPHITE ONE RESOURCES INC.
Notes to the Consolidated Financial Statements
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(Expressed in Canadian dollars)

7. AMOUNTS RECEIVABLE

	December 31, 2016	September 30, 2015
Share subscriptions receivable	-	35,000
Government of Canada – GST	17,979	8,458
State of Alaska	-	3,210
	<u>17,979</u>	<u>46,668</u>

8. EXPLORATION AND EVALUATION PROPERTY

The following table summarizes the capitalized costs associated with the Company's exploration and evaluation property:

	Graphite Creek
Balance, September 30, 2014	\$ 7,387,334
Acquisition	473,272
Analysis	272,960
Geological consulting	531,593
Fieldwork	1,216,023
Engineering	121,140
Balance, September 30, 2015	\$ 10,002,322
Acquisition	95,554
Analysis	75,067
Geological consulting	322,012
Fieldwork	478,595
Engineering	555,524
Balance, December 31, 2016	\$ 11,529,074
Summary	
Balance, September 30, 2014	\$ 7,387,334
Acquisition	\$ 1,071,716
Exploration and evaluation	8,930,606
Balance, September 30, 2015	\$ 10,002,322
Acquisition	\$ 1,167,270
Exploration and evaluation	10,361,804
Balance, December 31, 2016	\$ 11,529,074

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8. EXPLORATION AND EVALUATION PROPERTY (cont'd)...

The Graphite Creek Property consists of twenty-four Federal mining claims (the "GC Option Property"), fifty-six Alaska state mining claims (the "GC Purchased Property") and one hundred and twenty located Alaska state mining claims around the GC Option Property (the "GC Staked Property").

In May 2015, the Company executed a long-term lease agreement with Kougarok LLC, commencing effective January 1, 2014 with an initial term of twenty years, and with provisions to extend the lease for two successive twenty year periods and ultimately for as long as production continues from the property. An advance royalty in the amount of US\$30,000 was paid upon execution of the agreement, with annual payments of US\$30,000 due each year until January 2019, and then increasing by US\$10,000 each year until production commences. All required payments under the agreement have been made to date. The production royalties are to be calculated as follows: 5% from lands in the 4 federal claims originally located in 1943; 2.5% from lands within the other 20 federal claims; 5% from lands within state claims staked by the Company within the area of interest; and 2.5% from state claims acquired by the Company within the area of interest. All advance royalties paid may be recouped from production royalties. The Company has the option to reduce the production royalties by up to 2% by paying US\$2 million for each 1% reduction of the production royalties.

On January 24, 2012, the Company purchased from a private individual (the "Seller") the GC Purchased Property for \$20,000 and a 2% production royalty on future production from the GC Purchased Property. The Company had the right to purchase the production royalty for \$1 million until January 24, 2015 (the "Royalty Purchase Option"). The Company and the Seller entered into an extension agreement effective January 24, 2015 (the "2015 Extension Agreement") whereby the Royalty Purchase Option may be exercised at any time on or before the earlier of (i) January 24, 2017, or (ii) the date that is six (6) months after the release by the Company of a feasibility study on the Graphite Creek Property. In connection with the 2015 Extension Agreement, the Company issued to the Seller 769,231 common shares of the Company at an issue price of \$0.13 per share. In January 2017, the Company and the Seller agreed to further extend the terms of the Royalty Purchase Option and entered into an extension agreement effective January 24, 2017 (the "2017 Extension Agreement") whereby the Royalty Purchase Option may be exercised at any time on or before January 24, 2021. In connection with the 2017 Extension Agreement, the Company issued to the Seller 1,666,667 common shares of the Company at an issue price of \$0.09 per share and 1,153,846 common share purchase warrants of the Company.

During June 2015, the Company purchased from another private individual the balance of the GC Purchased Property (28 Alaska state mining claims covering the same lands as the 28 Alaska state mining claims acquired in January 2012) for US\$50,000, the issuance of 3 million common shares of the Company at a fair value of \$270,000 and a royalty interest equal to 1% of the Net Smelter Returns received by the Company on production from the claims. The Company has the right to purchase the royalty for US\$500,000 at any time within 36 months following the start of mine production.

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9. SHARE CAPITAL

9.1 Authorized

Unlimited number of common shares with no par value.

9.2 Shares Issued

The following share transactions occurred during the year ended December 31, 2016:

On October 30, 2015, the Company completed a private placement for total gross proceeds of \$634,161. Pursuant to this private placement, the Company issued a total of 9,059,449 units (the "2015-2 Units") at a price of C\$0.07 per 2015-2 Unit. Each 2015-2 Unit consists of one common share and one transferable common share purchase warrant (a "2015-2 Warrant"). Each 2015-2 Warrant entitles the holder to purchase one additional common share of the Company at a purchase price of \$0.10 per share during the 36 months from the date of issuance. Based on the residual valuation method, no value was attributed to the 2015-2 Warrants. The Company paid finders' fees in the aggregate amount of \$20,384 and issued 291,200 transferrable broker warrants valued at \$12,871, each such warrant entitling the holder to acquire one additional common share of the Company at the same price as the 2015-2 Warrants described above.

On December 1, 2015, the Company issued 733,334 common shares in settlement of debt of \$66,000 at a price of \$0.09 per share.

On January 18, 2016, the Company completed a private placement for total gross proceeds of \$434,090. Pursuant to this private placement, the Company issued a total of 4,823,222 units (the "2016-1 Units") at a price of C\$0.09 per 2016-1 Unit. Each 2016-1 Unit consists of one common share and one transferable common share purchase warrant (a "2016-1 Warrant"). Each 2016-1 Warrant entitles the holder to purchase one additional common share of the Company at a purchase price of \$0.12 per share during the 36 months from the date of issuance. Based on the residual valuation method, no value was attributed to the 2016-1 Warrants. The Company paid finders' fees in the aggregate amount of \$324 and issued 3,600 transferrable broker warrants valued at \$159, each such warrant entitling the holder to acquire one additional common share of the Company at the same price as the 2016-1 Warrants described above.

On March 2, 2016, the Company completed a private placement for total gross proceeds of \$270,001. Pursuant to this private placement, the Company issued a total of 3,000,008 units (the "2016-2 Units") at a price of C\$0.09 per 2016-2 Unit. Each 2016-2 Unit consists of one common share and one transferable common share purchase warrant (a "2016-2 Warrant"). Each 2016-2 Warrant entitles the holder to purchase one additional common share of the Company at a purchase price of \$0.12 per share during the 36 months from the date of issuance. Based on the residual valuation method, no value was attributed to the 2016-2 Warrants. The Company paid finders' fees in the aggregate amount of \$6,400 and issued 71,111 transferrable broker warrants valued at \$2,226, each such warrant entitling the holder to acquire one additional common share of the Company at the same price as the 2016-2 Warrants described above.

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9. SHARE CAPITAL (cont'd)...

In April, May and June 2016, the Company raised \$606,525 and issued 5,346,500 shares through the exercise of 5,346,500 warrants at exercise prices of \$0.10 to \$0.125 per share.

On August 22, 2016, The Company issued 16,250,000 Units (the "2016-3 Units") at a price of \$0.08 per 2016-3 Unit for a total of \$1.3 million. Each 2016-3 Unit consists of one common share (a "Common Share") and one transferable common share purchase warrant (a "2016-3 Warrant"). Each 2016-3 Warrant entitles the holder to purchase one full Common Share at a purchase price of \$0.12 per Common Share and will expire on the earlier of: (a) two years from the date of issuance; and (b) in the event the Common Shares trade at a volume of \$0.21 or more on the TSXV Venture Exchange or the Toronto Stock Exchange for 10 consecutive trading days, the Company may, at its option, issue a press release and a notice to the 2016-3 Warrantholder for the expiry of the 2016-3 Warrants on the date that is 45 days from the press release and notice and the 2016-3 Warrantholder may exercise the 2016-3 Warrants during this 45 day period (but no later than two years from the date of issuance). Based on the residual valuation method, no value was attributed to the 2016-3 Warrants. The Company paid finders' fees in the aggregate amount of \$67,664 and issued 845,800 non-transferrable broker warrants valued at \$15,732, each such warrant entitling the holder to acquire one additional common share of the Company at the same price as the 2016-3 Warrants described above.

On November 8, 2016, the Company issued 10,150,000 Units (the "2016-4 Units") at a price of \$0.08 per 2016-4 Unit for a total gross proceeds of \$812,000. Each 2016-4 Unit consists of one common share (a "Common Share") and one transferable common share purchase warrant (a "2016-4 Warrant"). Each 2016-4 Warrant entitles the holder to purchase one full Common Share at a purchase price of \$0.12 per Common Share and will expire on the earlier of: (a) two years from the date of issuance; and (b) in the event the Common Shares trade at a volume of \$0.21 or more on the TSXV Venture Exchange or the Toronto Stock Exchange for 10 consecutive trading days, the Company may, at its option, issue a press release and a notice to the 2016-4 Warrantholder for the expiry of the 2016-4 Warrants on the date that is 45 days from the press release and notice and the 2016-4 Warrantholder may exercise the 2016-4 Warrants during this 45 day period (but no later than two years from the date of issuance). Based on the residual valuation method, no value was attributed to the 2016-4 Warrants. The Company paid finders' fees in the aggregate amount of \$48,000 and issued 600,000 non-transferrable broker warrants valued at \$16,200, each such warrant entitling the holder to acquire one additional common share of the Company at the same price as the 2016-4 Warrants described above.

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9. SHARE CAPITAL (cont'd)...

The following share transactions occurred during the year ended September 30, 2015:

On September 30, 2015, the Company completed a private placement for total gross proceeds of \$1,359,235. Pursuant to this private placement, the Company issued a total of 19,417,642 units (the "2015-1 Units") at a price of C\$0.07 per 2015-1 Unit. Each 2015-1 Unit consists of one common share and one transferable common share purchase warrant (a "2015-1 Warrant"). Each 2015-1 Warrant entitles the holder to purchase one additional common share of the Company at a purchase price of \$0.10 per share during the 36 months from the date of issuance. Based on the residual valuation method, no value was attributed to the warrants. The Company paid finders' fees in the aggregate amount of \$85,710 and issued 1,224,434 transferrable broker warrants valued at \$61,222, each such warrant entitling the holder to acquire one additional common share of the Company at the same price as the 2015-1 Warrants described above.

In June 2015, the Company issued 3,000,000 common shares at a fair value of \$270,000 in connection with the acquisition of mining claims (see Note 8).

In February 2015, the Company issued 769,231 common shares at a fair value of \$57,692 in connection with an agreement to extend the Company's right to purchase a net smelter return royalty (see Note 7).

The following share transactions occurred subsequent to December 31, 2016:

In connection with the 2017 Extension Agreement (Note 8), the Company issued 1,666,667 common shares of the Company at an issue price of \$0.09 per share, and 1,153,846 common share purchase warrants of the Company.

9.3 Share based compensation

Pursuant to a stock option plan (the "Plan") for directors, officers, employees and consultants, the Company may reserve a maximum of 10% of the issued and outstanding listed common shares, the exercise price to be determined on the date of issuance of the options. The options are non-transferable and will expire, if not exercised, 90 days following the date the optionee ceases to be a director, officer, employee or consultant of the Company for reasons other than death, one year after the death of an optionee or on the fifth anniversary of the date the option was granted. Options granted under the plan may not exceed five years and vest at terms to be determined by the board of directors at the time of the grant, but shall not be less than the higher of the price determined by policy or policies of the stock exchange(s) on which the Company's common shares are then listed, or \$0.10 per share.

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9. SHARE CAPITAL (cont'd)...

	Options	Weighted Average Exercise Price
Balance, September 30, 2014	10,675,000	\$ 0.22
Issued	6,850,000	\$ 0.13
Expired	(750,000)	\$ 0.15
Forfeited	(4,375,000)	\$ 0.23
Balance, September 30, 2015	12,400,000	\$ 0.17
Issued	13,600,000	\$ 0.10
Expired	(800,000)	\$ 0.28
Forfeited	(1,275,000)	\$ 0.23
Balance, December 31, 2016	23,925,000	\$ 0.12

The following table summarizes activity related to stock options:

On March 11, 2016, 9,050,000 options were granted to directors, officers and consultants of the Company. Each option has an exercise price of \$0.10, expiring 5 years from the date of grant and vested immediately.

On May 18, 2016, 500,000 options were granted to consultants of the Company. Each option has an exercise price of \$0.115, expiring 5 years from the date of grant and vesting in four equal installments commencing on the date of grant.

On November 8, 2016, 4,050,000 options were granted to directors, officers and consultants of the Company. Each option has an exercise price of \$0.10, expiring 5 years from the date of grant, and vested immediately.

During the year ended September 30, 2015, 6,850,000 options (September 30, 2014 - 900,000) were granted to directors, officers, consultants of the Company. Each option has an exercise price of \$0.13 and all options vested immediately. 5,850,000 options expire 5 years from the date of grant and 1,000,000 options expire 3 years from date of grant.

With respect to the options granted in the fifteen month period ended December 31, 2016, \$885,963 (2015 - \$540,673) was recorded in share based payments and \$88,840 (2015 - \$60,000) was capitalized to exploration and evaluation property. Options are cancelled in accordance with the Plan, when the optionees are no longer associated with the Company.

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9. SHARE CAPITAL (cont'd)...

The fair value of the share options granted in the fifteen month period ended December 31, 2016 and the year ended September 30, 2015 was estimated on the date of grant using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

	Fifteen month period ended December 31, 2016	Year ended September 30, 2015
Exercise price	\$0.10 - \$0.115	\$0.13
Market price	\$0.115 - \$0.155	\$0.12 - \$0.075
Risk free interest rate	0.75% - 0.80%	1.52% - 0.62%
Expected option life	5 years	3-5 years
Expected stock price volatility	85% - 92%	116% - 92%
Dividend payments during life of option	Nil	Nil
Expected forfeiture rate	Nil	Nil
Average fair value per option	\$0.05 - \$0.12	\$0.09

The expected life is based on current expectations. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends.

Stock options outstanding:

As at December 31, 2016				As at September 30, 2015			
Number of options outstanding #	Number of vested options #	Weighted average exercise price \$	Weighted average remaining contractual life years	Number of options outstanding #	Number of vested options #	Weighted average exercise price \$	Weighted average remaining contractual life years
-	-	-	-	200,000	200,000	0.30	0.2
-	-	-	-	300,000	300,000	0.28	0.4
-	-	-	-	300,000	300,000	0.27	0.6
975,000	975,000	0.28	0.2	1,575,000	1,575,000	0.28	1.4
100,000	100,000	0.28	0.5	100,000	100,000	0.28	1.7
300,000	300,000	0.20	0.8	525,000	525,000	0.20	2.1
600,000	600,000	0.17	1.7	1,050,000	1,050,000	0.17	3.0
600,000	600,000	0.18	1.7	600,000	600,000	0.18	3.0
600,000	600,000	0.17	1.8	600,000	600,000	0.17	3.0
300,000	300,000	0.17	1.9	300,000	300,000	0.17	3.2
5,350,000	5,350,000	0.13	2.9	5,350,000	5,350,000	0.13	4.1
500,000	500,000	0.13	3.3	500,000	500,000	0.13	4.5
1,000,000	1,000,000	0.13	1.5	1,000,000	1,000,000	0.13	2.7
9,050,000	9,050,000	0.10	4.2	-	-	-	-
500,000	375,000	0.12	4.4	-	-	-	-
4,050,000	4,050,000	0.10	4.9	-	-	-	-
23,925,000	23,800,000	0.12	3.4	12,400,000	12,400,000	0.17	3.1

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9. SHARE CAPITAL (cont'd)...

Subsequent to December 31, 2016. 975,000 options expired.

9.4 Warrants

The following table summarizes activity related to warrants: Warrants outstanding:

	Warrants	Weighted Average Exercise Price
Balance, September 30, 2014	59,351,870	\$ 0.18
Issued	19,417,642	\$ 0.10
Balance, September 30, 2015	78,769,512	\$ 0.17
Issued	43,282,679	\$ 0.12
Exercised	(5,346,500)	0.11
Expired	(13,905,000)	0.13
Balance, December 31, 2016	102,800,691	\$ 0.15

Warrants outstanding:

As at December 31, 2016			As at September 30, 2015		
Number of warrants outstanding #	Weighted average exercise price \$	Weighted average remaining contractual life years	Number of warrants outstanding #	Weighted average exercise price \$	Weighted average remaining contractual life years
-	-	-	6,004,500	0.13	0.9
-	-	-	10,775,500	0.13	1.0
4,285,785	0.30	1.1	4,285,785	0.30	2.4
15,599,160	0.20	1.7	15,599,160	0.20	2.9
22,686,925	0.20	1.7	22,686,925	0.20	3.0
16,946,142	0.10	1.7	19,417,642	0.10	3.0
9,059,449	0.10	1.8	-	-	-
4,823,222	0.12	2.0	-	-	-
3,000,008	0.12	2.2	-	-	-
16,250,000	0.12	1.6	-	-	-
10,150,000	0.12	1.8	-	-	-
102,800,691	0.15	1.7	78,769,512	0.17	2.5

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9. SHARE CAPITAL (cont'd)...

9.5 Broker Warrants

The following table summarizes activity related to Broker Warrants:

	Warrants		Weighted Average Exercise Price
Balance, September 30, 2014	4,024,922	\$	0.16
Issued	1,224,434	\$	0.10
Expired	(1,804,820)		0.10
Balance, September 30, 2015	3,444,536	\$	0.17
Issued	1,811,711	\$	0.12
Balance, December 31, 2016	5,256,247	\$	0.15

The fair value of the broker warrants granted in the year ended December 31, 2016 - \$47,188 (September 30, 2015 - \$61,228), was estimated on the date of grant using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

	Fifteen month period ended December 31, 2016	Year ended September 30, 2016
Strike price	\$0.10 - \$0.12	\$0.10 - \$0.12
Market price	\$0.075 - \$0.09	\$0.075 - \$0.09
Risk free interest rate	0.32% - 0.60%	0.32% - 0.60%
Expected warrant life	2 - 3 years	2 - 3 years
Expected stock price volatility	64% - 103%	80% - 103%
Dividend payments during life of warrant	nil	nil
Expected forfeiture rate	nil	nil
Fair value per warrant	\$0.02 - \$0.04	\$0.02 - \$0.04

The expected life is based on current expectations. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the warrants is indicative of future trends.

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9. SHARE CAPITAL (cont'd)...

Broker warrants outstanding:

As at December 31, 2016				As at September 30, 2015			
Number of warrants outstanding #	Weighted average exercise price \$	Weighted average remaining contractual life years		Number of warrants outstanding #	Weighted average exercise price \$	Weighted average remaining contractual life years	
929,902	0.20	1.7		929,902	0.20	2.9	
1,290,200	0.20	1.7		1,290,200	0.20	3.0	
1,224,434	0.10	1.7		1,224,434	0.10	3.1	
291,200	0.10	1.8		-	-	-	
3,600	0.12	2.0		-	-	-	
71,111	0.12	2.2		-	-	-	
845,800	0.12	1.6		-	-	-	
600,000	0.12	1.8		-	-	-	
5,256,247	0.15	1.7		3,444,536	0.16	3.0	

10. RELATED PARTY TRANSACTIONS AND BALANCES

Relationships

Huston Financial Corp. and Huston and Huston Holdings Corp. ("Huston")

DH Smith Resource Advisory Corp. ("Smith")

Ahlgren Consulting Inc. ("Ahlgren")

Anacortes Management Ltd. ("Anacortes")

Rockford Resources LLC ("Rockford")

0897877 BC Ltd. ("0897877 BC")

878160 Alberta Ltd. ("878160")

Nature of the relationship

Huston Financial Corp. and Huston and Huston Holdings Corp. are private companies controlled by an officer and director of the Company which provides management services and IR Consulting to the Company.

Smith is a private company controlled by a director of the Company which provides management services to the Company.

Ahlgren is a private company controlled by an officer of the Company which provides management services to the Company.

Anacortes is a private company controlled by a director of the Company which provides director services to the Company.

Rockford is a private company controlled by a director of the Company which provides director services to the Company.

0897877 BC is a private company controlled by Brian Budd, a director of the Company which provides director services to the Company.

878160 is a private company controlled by a former officer and director of the Company which provided geological services to the Company.

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10. RELATED PARTY TRANSACTIONS AND BALANCES (cont'd)...

	Management Consulting and Directors' Fees	Management Consulting and Directors' Fees	Geological Services
	For the fifteen month period ended December 31, 2016	For the year ended September 30, 2015	
Ahlgren Consulting Inc.	\$ 57,033	\$ 105,000	\$ -
DH Smith Resource Advisory Corp.	50,317	199,992	-
Huston Financial Corp./Huton & Huston Corp.	312,500	249,996	-
Anacortes Management Ltd.	30,500	30,000	-
Rockford Resources, LLC	30,500	31,705	-
0897877 BC Ltd.	30,000	-	-
878160 Alberta Ltd.	-	-	25,000

10.1 Related party transactions

The above transactions relate to consulting fees incurred by the Company. Management services expenses are included in Management fees and salaries and investor relations consulting expenses are included in Marketing and investor relations in the consolidated statements of financial position. Geological services are capitalized to Exploration and evaluation property in the consolidated statements of financial position.

Amounts owing to related parties are non-interest bearing, unsecured and due on demand. The transactions were in the normal course of operations. At December 31, 2016, the Company owed \$166,982 (September 30, 2015 - \$161,181) to related parties.

10.2 Key management compensation

Key management are those personnel having the authority and responsibility for planning, directing and controlling the Company and include the President, Chief Executive Officer, Directors, Chief Financial Officer, Vice President Exploration and General Manager, Operations. Compensation paid to key personnel was as follows:

	For the fifteen month period ended December 31, 2016	For the year ended September 30, 2015
Consulting and directors' fees	\$ 510,532	\$ 641,693
Salaries and benefits	622,923	246,190
Stock-based compensation	608,850	365,000
	\$ 1,742,305	\$ 1,252,883

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11. FINANCIAL RISK MANAGEMENT

11.1 Financial Risk Management

The Company may be exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives. The main objectives of the Company's risk management processes are to ensure that risks are properly identified and that the capital base is adequate in relation to those risks. The principal risks to which the Company is exposed are described below.

a. Credit risk

Credit risk is the risk of potential loss to the Company if counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its cash.

The Company has assessed its exposure to credit risk on its cash and has determined that such risk is minimal. The majority of the Company's cash is held with reputable financial institutions in Canada.

b. Liquidity risk

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due. As at December 31, 2016, the Company had working capital of \$484,306, and it does not have any long term monetary liabilities. The Company will seek additional financing through debt or equity offerings, but there can be no assurance that such financing will be available on terms acceptable to the Company or at all. See Note 3, Going Concern.

c. Interest rate risk

Interest rate risk is the risk arising from the effect of changes in prevailing interest rates on the Company's financial instruments.

The Company had \$723,434 in Cash at December 31, 2016, on which it earns variable rates of interest, and may therefore be subject to a certain amount of risk, though this risk is considered by management to be immaterial.

d. Foreign currency risk

Foreign currency risk is the risk that the fair value of, or future cash flows from, the Company's financial instruments will fluctuate because of changes in foreign exchange rates. The Company maintains the majority of its cash reserves in Canadian dollars. A portion of the Company's funds are held in United States dollars and are therefore subject to fluctuations in foreign exchange rates.

At December 31, 2016, the Company has certain monetary items denominated in United States dollars. Based on these net exposures at December 31, 2016 a 10% appreciation or depreciation of the Canadian Dollar against the United States dollar would result in an increase or decrease of \$10,800 in the Company's net loss.

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11. FINANCIAL RISK MANAGEMENT (cont'd)...

11.2 Fair Values

The carrying values of cash, cash in trust, deposits and amounts receivable and trade and other accounts payable approximate fair values due to their short-term to maturity nature or the ability to readily convert to cash.

12. INCOME TAXES

The income tax provision differs from the amount computed by applying the statutory rates to loss before income taxes. These differences result from the following:

Year ended	December 31 2016	September 30 2015
Loss before income taxes	\$ 3,474,591	\$ 2,427,751
Statutory rate	26.00%	26.00%
Expected tax recovery	903,394	631,215
Effect of tax rate changes and tax rates in foreign jurisdictions	5,992	15,860
Non-deductible expenses	(177,662)	-
Foreign exchange and other	(48,927)	(248,957)
Prior period adjustments	1,691,321	-
Change in unrecognized deferred tax asset	(2,374,118)	(398,118)
Income tax recovery (expense)	\$ -	\$ -

Prior period adjustment: Mineral properties - true up in the current year required to correct the tax basis in the prior year to account for the different functional currency and tax reporting currency (\$1.0 million)

Loss Carry Forward opening balance: In the current year provision, we identified that the US net operating loss tax asset was not converted from USD to CAD for the prior year tax provision. This has been adjusted in the current year (\$0.6 million).

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12. INCOME TAXES (cont'd)...

Unrecognized deferred tax asset is comprised of the following tax affected temporary differences:

Year ended	December 31 2016	September 30 2015
Mineral properties	\$ 726,646	\$ 31,004
Non-capital losses carried forward	6,076,877	4,341,746
Equipment	(391)	834
Capital loss carried forward	58,764	84,244
Share issuance and incorporation costs	108,985	139,935
Unrecognized deferred tax asset	\$ 6,970,881	\$ 4,597,763

As at December 31, 2016 the Company had tax operating losses available of the following, which expire at various dates and amounts between 2024 and 2036.

Canada	\$ 12,135,614
United States	\$ 7,106,829

The Company has accumulated capital losses of \$452,031 (September 30, 2015 - \$648,031) which can be carried forward indefinitely to offset future capital gains.

The ability to use U.S. loss carry-forwards in future is subject to certain limitations under provisions of the Internal Revenue Code, including Section 382, which relates to a 50% change in control of ultimate shareholders over a three-year period, and is further dependent upon the Company attaining profitable operations. Ownership changes, as defined, may have occurred in prior years for Graphite One Resources Inc. and the U.S. tax losses related to Graphite One (Alaska) Inc. may be subject to limitation under Section 382. Accordingly, the Company's ability to use these losses may be limited or such losses may expire un-utilized. Losses incurred to date may be further limited if a subsequent change in control occurs.