



## **MASON GRAPHITE INC.**

**Management's Discussion and Analysis  
For the years ended June 30, 2018 and 2017**

# MASON GRAPHITE INC.

## Management's discussion and analysis

For the years ended June 30, 2018 and 2017

(Expressed in Canadian dollars)

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The following Management's discussion and analysis ("MD&A") relates to the audited financial statements of Mason Graphite Inc. ("we", "our", "us", "Mason Graphite", "Mason" or the "Company") for the years ended June 30, 2018 and 2017 ("Financial statements"). This MD&A reports on our activities through October 26, 2018 unless otherwise indicated. The Company's Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The Company has consistently applied the accounting policies used in the preparation of its IFRS financial statements, including the comparative figures.

### Qualified person consent

Jean L'Heureux, Eng., M. Eng., Executive Vice-President, Process Development for Mason Graphite, and a Qualified Person, as defined by NI 43-101, for Mason Graphite was responsible for verifying the scientific and technical data herein and has read and approved this MD&A.

All amounts included in the MD&A are in Canadian dollars, unless otherwise specified. Additional information, including our press releases, has been filed electronically through the System for Electronic Document Analysis and Retrieval ("SEDAR") and is available online under our profile at [www.sedar.com](http://www.sedar.com).

## **CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION**

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

Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Even with the completion of the Preliminary Economic Assessment and a positive feasibility study, there are no assurances that the Lac Guéret Project will be placed into production. Factors that could affect the outcome include, among others: the actual results of development activities; project delays; inability to raise the funds necessary to achieve the milestones or complete development; general business, economic, competitive, political and social uncertainties; future prices of metals; availability of alternative graphite sources or substitutions; actual graphite recovery; conclusions of economic evaluations; changes in project parameters as plans continue to be refined; the future cost of capital to the Company; possible variations of ore grade or recovery rates; failure of plant, equipment or processes to operate as anticipated; accidents, labor disputes and other risks of the mining industry; political instability, terrorism, insurrection or war; delays in obtaining governmental approvals, necessary permitting or in the completion of development or construction activities, as well as those factors discussed in the section entitled "*Risk and uncertainties*". Such forward-looking statements are also based on a number of material factors and assumptions, including: the availability of financing at rates and on terms and conditions otherwise acceptable to the Company; future graphite prices; permitting and development consistent with the Company's expectations; foreign exchange rates; prices and availability of equipment; that contracted parties provide goods and/or services on the agreed timeframes; that on-going

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contractual negotiations will be successful and progress and/or be completed in a timely manner; and that no unusual geological or technical problems occur. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results to differ from those anticipated, estimated or intended. Forward-looking statements contained herein are made as of the date of this MD&A and the Company disclaims any obligation to update any forward-looking statements, whether as a result of new information, future events or results or otherwise, except as required by applicable securities laws. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements.

The Mineral Reserves are the basis of the 25-year Mine Life of the Feasibility Study published on September 25<sup>th</sup>, 2015 (amended on February 29, 2016) and are not included in the "In-Pit" Measured and Indicated Mineral Resources of 58.1 Mt grading 16.3% Cg (which have an equivalent drilling definition). The Mineral Reserves and the "In-Pit" Mineral Resources are included in the total Measured and Indicated Mineral Resources of 65.7 Mt grading 17.2% Cg (19.1 Mt of Measured Resources grading 17.9% Cg and 46.6 Mt of Indicated Resources grading 16.9% Cg) that were reported in the Company's press release dated December 15<sup>th</sup>, 2014. The reference point for the Mineral Reserves estimate is the mill feed. Mineral Resources, which are not Mineral Reserves, do not have demonstrated economic viability and were not included in the mine life or the economics of the Feasibility Study. Environmental, permitting, legal, title, taxation, sociopolitical, marketing, or other relevant issues may materially affect the estimate of Mineral Resources. In addition, there can be no assurance that Mineral Resources in a lower category may be converted to a higher category, or that Mineral Resources may be converted to Mineral Reserves.

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

The Company is engaged in the development of its 100% owned Lac Guéret graphite property located in Québec, Canada. Substantially all of the Company's efforts are devoted to financing and developing this property. The Company has a National Instrument 43-101 compliant technical report for its mineral reserve and resource estimate and for a feasibility study on the Lac Guéret property. As at June 30, 2017, management determined that the technical feasibility and commercial viability of the Lac Guéret project had been established and accordingly, the development phase for the Lac Guéret project has commenced.

### **A) LAC GUÉRET PROJECT**

Mason Graphite has a 100% interest in the Lac Guéret graphite property located in the Côte-Nord region in northeastern Québec.

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## **B) ENGINEERING, PROCUREMENT, CONSTRUCTION AND MANAGEMENT AND MINE & PROCESSING PLANT CONSTRUCTION**

Mason Graphite has decided to utilize the "Owner Built" construction model after thorough review of all options available. Following receipt of Decree (608-2018) from the Québec government (the "Decree"), pursuant to which Project is authorized, and following advancements made toward detailed engineering and procurement, Mason Graphite has focused on building its construction team. Mr. Yves Perron, VP Construction, is joined by many key members of his former team, who successfully completed the northern Québec Stornoway Renard diamond mine under budget and ahead of schedule.

Mason Graphite executives' greater than 50 years of aggregate graphite experience combined with the newly-acquired construction team have positioned the Company to maintain control and ownership of the Project within the Company and best represents the identity of Mason Graphite since inception.

### Engineering and Construction

- Detailed mine, tailings management facility, civil works, equipment and process engineering is largely complete.
- Montreal, QC based BBA Inc., as lead engineering firm, complemented by Soutex Inc. of Québec, QC (Process Engineering) and Groupe TDA Construction Inc. of Baie-Comeau, QC (Forest Road and Mining Camp Engineering) have completed approximately 50% of the engineering related to the structural design of plant buildings, electrical systems and piping. The remaining work outstanding is scheduled to be finalized in early 2019.
- Manufacturing of the grinding mills is nearing completion with shipping expected prior to the end of November 2018.
- The bidding process for wood clearing at the Lac Guéret mine site is complete with contracts to be awarded shortly and work on site expected to begin in the coming weeks.
- Forest Road 202 maintenance to improve the road for industrial usage, linking the Lac Guéret mine to Highway 389, has been completed by local partners Transport Savard Ltée and Roland Munger Inc.
- With Mason Graphite's receipt of the Decree in June 2018, ground work will now commence upon granting of specific permits allowing for civil work and construction (the "Permits"). Mason Graphite expects that the Permits will be issued imminently.
- Mason Graphite's construction team has updated the Project capital expenditures estimate ("CAPEX") to account for recent changes to the Project including, design improvements, additional environmental constraints, additional pre-production and commissioning costs, updated quantities (materials and construction labour) and general cost escalation (past and future). Contingency estimates have also been revised accordingly. The net effect of the updated CAPEX estimates results in revised capital cost of \$258M (as compared to the 2017 estimated CAPEX of \$200M).
- Mason Graphite believes the strength of the Project continues to be the extensive mineral resources, which remain unchanged with regard to previous disclosures. During the first 25 years of planned operations, only ~7% of the known mineral resources are expected to be mined and processed. Furthermore, Lac Guéret location in Québec ensures operating in a geo-politically stable and dependable, mining friendly jurisdiction.

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### C) VALUE-ADDED GRAPHITE PRODUCTS WORK

A coated spherical graphite evaluation (the "Evaluation"), which Mason Graphite initiated in 2015, has recently achieved some of the Evaluation's major objectives. Results from the Evaluation have met performance specifications required by battery manufacturers, including battery cells for electric vehicles, in matter of size distribution, purity, shape, tap density and specific surface. Larger scale spherical graphite production is expected soon, with pouch cell testing to immediately follow.

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

	<u>Value-added graphite products</u>		
	<u>Expenditures</u>	<u>Government assistance</u>	<u>Net</u>
For the year ended June 30, 2015	229,246	41,000	188,246
For the year ended June 30, 2016	30,552	9,000	21,552
For the year ended June 30, 2017	1,107,683	290,936	816,747
For the year ended June 30, 2018	<u>1,068,132</u>	<u>334,366</u>	<u>733,766</u>
	<u><b>2,435,613</b></u>	<u><b>675,302</b></u>	<u><b>1,760,311</b></u>

A 90-ton bulk graphite sample extracted from the Lac Guéret deposit in March 2018 was processed at COREM's research laboratories in Quebec City. The sample generated 20 tons of graphite concentrate for additional process validation, product qualification with customers and feed material for testing in transformation to coated spherical graphite. Processing results surpassed expectations, yielding purities up to 98% for products larger than 106 microns (150 US mesh) and 95% purity for products finer than 106 microns.

### D) ENVIRONMENTAL STUDIES

On November 3, 2015 the Company announced the completion and filing, with the Ministère du Développement durable, de l'Environnement et de la Lutte contre les changements climatiques (MDDELCC), of an Environmental Impact Study for its Lac Guéret Project located in northeastern Québec. The study was jointly prepared by Mason Graphite and the Environmental services of the engineering firm Hatch and represents an important milestone in the permitting process of the project.

The document consists of numerous technical analyses and provides a full and thorough assessment of the predicted project effects on the biophysical and human environments. Furthermore, the First Nation of Pessamit participated in the process by sharing their traditional knowledge and commenting on the content of the study.

In September 2017, the Company has been informed by the Ministry of Développement durable, Environnement et Lutte contre les changements climatiques (MDDELCC) that the Company will not be subject to a public hearing by the Bureau des audiences publiques en environnement (BAPE) for the Lac Guéret graphite project.

With Mason Graphite's receipt of the Decree in June 2018, ground work will now commence upon granting of specific permits allowing for civil work and construction (the "Permits"). Mason Graphite expects that the Permits will be issued imminently.

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## E) FIRST NATION RELATIONS

On June 16, 2017, the Company and the Innu Council of Pessamit signed the Mushalakan Agreement, an Impact Benefit Agreement ("IBA") resulting from the 2014 Cooperation Agreement between the parties.

The Mushalakan Agreement, negotiated directly between the Pessamit Council and the executives of Mason Graphite, reflects the willingness of the Parties to work closely together to ensure that the Lac Guéret graphite mining project is a success and benefits the Pessamit Community and the population of Manicouagan.

Under the Mushalakan Agreement, both parties commit to develop a specific training and employment strategy for the Pessamiuilnut. This strategy will be developed in such a way as to ensure employment opportunities at all levels for the Pessamiuilnut and to encourage their retention and advancement within the project. In addition to the strategy, this agreement will allow the Innus of Pessamit to participate in the project concretely, through contracting opportunities and will ensure fair and equitable financial and socio-economic benefits. The latter will promote and protect the rights, the way of life and the culture of the Pessamiuilnut in addition to supporting the economic development of present and future generations.

## 2. SELECTED ANNUAL FINANCIAL INFORMATION

The following selected financial data are derived from the Financial Statements of the Company for the following periods:

	<u>For the years ended, June 30,</u>		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>
Revenues	-	-	-
Loss and comprehensive loss	1 115 553	8 706 827	3 943 466
Loss per share (basic and fully diluted)	0,01	0,08	0,05
Total assets	98 959 823	53 427 750	34 234 985
Non-current financial liabilities	-	7 805 793	4 139 818

The Company has not, since the date of its incorporation, declared or paid dividends on its common shares. For the foreseeable future, the Company anticipates that it will retain future earnings and other cash resources for the operation and development of its business. The Company's functional and presentation currency is the Canadian dollars. The Company's Financial Statements have been prepared in accordance with IFRS as issued by the IASB. The Company has consistently applied the accounting policies used in the preparation of its IFRS financial statements, including the comparative figures.

### **Significant variation explanations of the selected annual financial information are as follows for the years 2018 and 2017:**

- Loss and comprehensive loss: see below section 3 Results of operations;
- Total assets: the total assets increased by \$45,532,073. The increase is explained by the private placement of \$45,000,000 completed in January 2018. The Company has no income and the Company spent cash on the Lac Guéret project, on the value-added graphite project and on general corporate expenses. The Company also invested an additional amount of \$2,000,065 in NanoXplore Inc.
- Non-current financial liabilities: the convertible debentures are now classified in the current while the maturity is June 11, 2019.

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### Significant variation explanations of the selected annual financial information are as follows for the years 2017 and 2016:

- Loss and comprehensive loss: see below section 3 Results of operations;
- Total assets: the total assets increased by \$19,192,765. The increase is explained by the private placement of \$28,778,750 completed in September 2016. The Company has no income and the Company spent cash on the Lac Guéret project, on general corporate expenses and on Quinto debt reimbursement;
- Non-current financial liabilities: the increase of \$3,665,974 is explained by the following:
  - the convertible debentures increased by \$3,665,974. A loss has been recorded on the embedded derivative due to assumptions change (\$3,364,227) and the convertible debentures accretion (\$301,748);

### 3. RESULTS OF OPERATIONS

#### Year ended June 30, 2018 compared with year ended June 30, 2017

The Company's loss is \$1,115,553 for the year ended June 30, 2018. This compares with a loss of \$8,706,827 for the year ended June 30, 2017 for a decrease of \$7,591,274. You will find the following significant variations:

	Year ended June 30, 2018 \$	Year ended June 30, 2017 \$	Variance \$	
Value-added graphite products	1,068,132	1,367,481	(299,349)	As planned, the Company incurred less expenses for value-added graphite products work during the current year.
Natural graphite production for customers and tests	1,584,227	609,455	974,772	As planned, the Company incurred expenses for the third phase of the natural graphite production to ship samples to future customers and internal testing.
Share of loss of an associate	1,487,000	753,940	733,060	On August 29, 2017, NanoXplore completed a RTO transaction and became a public company. The increase is mainly explained by the RTO expenses and the graphene sales are still at the development stage.
Gain on dilution of investment in associate	(2,769,010)	-	(2,769,010)	In fiscal year 2018, NanoXplore Inc. completed a reverse takeover transaction and became publicly traded, completed a financing in March 2018 and various transactions allocated its share capital. As a result of these transactions, the Company's interest in NanoXplore Inc. decreased from 32% to 24% and recorded a gain on dilution on the

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				deemed dispositions of its interest.
Net gain on financial assets at fair value through profit or loss	(1,304,000)	-	(1,304,000)	Gain on NanoXplore's warrants owned by the Company.
Gain on debt settlement	-	(1,176,353)	1,176,353	During the year 2017, the Company has agreed to an early payment regarding the debt with Quinto. The early payment agreement has resulted in a gain on debt settlement.
Net finance costs	(1,659,095)	4,163,975	(5,823,070)	Mainly explained by the embedded derivative components of the Debentures due to valuation assumptions update (stock price of LLG decreased significantly from \$1.71 to \$1.35 during the current year while during 2017, LLG increased from \$0.77 to \$1.71). During the year 2018, the Company recorded a gain of \$1,659,095 on embedded derivative while during the year 2017, it was a loss of \$3,364,227. Also, given that since July 1, 2017, Lac Guéret's project expenditures are now capitalized to property, plant and equipment, borrowing costs are now capitalized to property, plant and equipment (2017: nil).
Finance income	(430,197)	(121,480)	(308,717)	Following the financing of \$45M in January 2018, the average cash balance was higher in 2018 compared to 2017
Others	3,138,496	3,109,809	28,687	
<b>Total</b>	<b>1,115,553</b>	<b>8,706,827</b>	<b>(7,591,274)</b>	

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### Year ended June 30, 2017 compared with year ended June 30, 2016

The Company's loss and comprehensive loss totaled \$8,706,827 for the year ended June 30, 2017. This compares with a loss of \$3,943,466 for the year ended June 30, 2016 for an increase of \$4,763,361. You will find the following significant variations:

	Year ended June 30, 2017 \$	Year ended June 30, 2016 \$	Variance \$	
Salaries and consulting fees	1,183,544	868,986	314,558	Incentive compensation of \$325,000 was paid to the management during the current year (\$nil in 2016).
Share-based compensation	959,076	212,981	746,095	3,240,000 options were granted during the year 2017 which explains the increase while during the year 2016, no significant options were granted.
Natural graphite production for customers and tests	609,455	-	609,455	With the pilot of a subcontractor, the Company began the production of natural graphite in order to ship samples to future customers and internal testing (\$nil in 2016).
Value-added graphite products	1,367,481	-	1,367,481	The Company incurred these expenses for value-added graphite products work (\$nil in 2016) of which \$259,798 is a reclass from the exploration and evaluation assets expenditures.
Government assistance	(340,936)	-	(340,936)	Related to added-value graphite products work (\$nil in 2016) of which \$50,000 is a reclass from the exploration and evaluation assets expenditures.
Share of loss of an associate	753,940	460,000	293,940	NanoXplore spending has increased during the year 2017 compared to the year 2016 in order to develop their business. The graphene sales are still minimal as the company is in the development stage.
Gain on debt settlement	(1,176,353)	-	(1,176,353)	The Company has agreed to an early payment regarding the debt with Quinto. The early payment agreement has resulted in a gain on debt settlement (\$nil in 2016).
Finance costs	4,163,975	1,165,605	2,998,370	Mainly explained by the embedded derivative due to valuation assumptions change (stock price of LLG increased significantly during the year 2017). During the year 2017, the Company recorded a loss of \$3,364,227 on embedded derivative while during the year 2016, it was a loss of \$392,037.

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Others	1,186,645	1,235,894	(49,249)	
Total	<b>8,706,827</b>	<b>3,943,466</b>	<b>4,763,361</b>	

### 4. SUMMARY OF QUARTERLY RESULTS

	June 30, 18	Mar 31, 18	Dec 31, 17	Sept 30, 17
	Q4	Q3	Q2	Q1
	(Note 1)	(Note 2)	(Note 3)	(Note 4)
Loss (profit) for the period	(\$3 565 478)	(\$894 324)	\$2 776 768	\$2 798 587
Loss (profit) per share (basic and fully diluted)	(\$0,03)	(\$0,01)	\$0,02	\$0,02

  

	June 30, 17	Mar 31, 17	Dec 31, 16	Sept 30, 16
	Q4	Q3	Q2	Q1
	(Note 5)	(Note 6)	(Note 7)	(Note 8)
Loss for the period	\$2 913 372	\$2 344 346	(\$143 723)	\$3 592 832
Loss per share (basic and fully diluted)	\$0,03	\$0,02	(\$0,001)	\$0,04

**Note 1:** The unusual profit is mainly due to the gain of \$2,469,170 on the embedded derivative recorded during the quarter due to changes in the valuation assumptions (the share price decreased significantly during the quarter), the capitalization of the finance costs of the convertible debentures (\$788,542), a gain on dilution of \$1,789,010 in NanoXplore Inc. following equity transactions and a net gain of \$1,304,000 on financial assets (NanoXplore's warrants owned by the Company) at fair value through profit or loss. These gains were offset by high but anticipated expenditures for production of natural graphite for customers and testing (\$1,136,058).

**Note 2:** The unusual profit is mainly explained by the gain of \$2,783,417 on the embedded derivative recorded during the quarter due to valuation assumptions update (stock price of LLG decreased significantly during the quarter).

**Note 3:** The higher loss is mainly explained by the loss of \$1,527,519 on the embedded derivative recorded during the quarter due to valuation assumptions change (stock price of LLG increased significantly during the quarter).

**Note 4:** The higher loss is mainly explained by the loss of \$2,065,973 on the embedded derivative recorded during the quarter due to valuation assumptions change (stock price of LLG increased significantly during the quarter), value-added graphite products work (\$345,306) partially offset by the dilutive profit of an associate (\$980,000).

**Note 5:** The higher loss is mainly explained by the loss of \$1,346,240 on the embedded derivative recorded during the quarter due to valuation assumptions change (stock price of LLG increased significantly during the quarter), value-added graphite products work (\$314,234) and the expenses to produce natural graphite to ship samples to future customers and internal testing (\$237,028).

**Note 6:** The higher loss is mainly explained by the incentive compensation was paid to the management (\$325,000), value-added graphite products work (\$524,175) and options granted (\$648,000).

**Note 7:** The unusual profit is mainly explained by the gain on debt settlement of \$1,176,353 for an early and reduced payment to Quinto and by a gain of \$588,017 on the embedded derivative recorded during the quarter due to valuation assumptions change (stock price of LLG decreased during the quarter).

**Note 8:** The higher loss is mainly explained by the loss of \$2,659,439 on the embedded derivative recorded during the quarter due to valuation assumptions change (stock price of LLG increased significantly during the quarter).

Each quarter has been prepared in accordance with IFRS as issued by the IASB. The Company has consistently applied the accounting policies used in the preparation of its interim IFRS financial statements. The Company's functional and presentation currency is the Canadian dollars.

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## 5. CASH FLOW

<u>Sources and uses of cash</u>	<u>Years ended</u>	
	<u>June 30</u>	
	<u>2018</u>	<u>2017</u>
	<u>\$</u>	<u>\$</u>
Cash used in operating prior to changes in working capital	(4 594 738)	(3 743 332)
Changes in non-cash working capital	52 993	147 071
Cash used in operating activities	<u>(4 541 745)</u>	<u>(3 596 261)</u>
Cash provided by financing activities	44 170 034	22 103 248
Cash used in investing activities	<u>(14 608 540)</u>	<u>(4 400 520)</u>
<b>Change in cash</b>	<b>25 019 749</b>	<b>14 106 467</b>

### Operating Activities

For the year ended June 30, 2018, cash used in operating activities increased by \$851,406 before changes in non-cash working capital compared to the corresponding period of last year (from \$3,743,332 in 2017 to \$4,594,738 in 2018). The increase is mainly due to expenditures made for the third phase of the production of natural graphite for customers and tests (\$899,030 more in 2018 than 2017) partially offset by an increase in interest income (\$308,717) which is explained by an increase in the average balance of cash.

For the years ended June 30, 2018 and 2017, non-cash working capital decreased by \$52,993 and by \$147,071 respectively. For both years, no unusual variations were noted.

### Financing Activities

For the year ended June 30, 2018, cash provided from financing activities was \$44,170,034 compared to cash provided of \$22,103,248 for last year. During the current year, the Company completed a private placement for gross proceeds of \$45,000,000, paid transactions costs of \$2,454,883, and options were exercised for \$1,624,917. During last year, the Company completed a private placement for gross proceeds of \$28,778,750, paid transactions costs of \$1,789,319, paid to Quinto \$US 4,000,000 (\$5,269,050) and options has been exercised for \$382,867.

### Investing Activities

For the year ended June 30, 2018, cash used in investing activities was \$14,608,540 compared to \$4,400,520 for last year. During the current year, \$12,679,782 was invested on the development of the Lac Guéret project mainly for detailed engineering and for purchase of equipment and the Company invested \$2,000,065 in the share capital of NanoXplore. During last year, \$1,443,375 was invested on the Lac Guéret project mainly for feasibility and environmental studies and \$2,014,083 was invested for detailed engineering. Also, the Company invested \$1,000,000 in the share capital NanoXplore.

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## 6. FINANCIAL POSITION

	<u>June 30,</u> <u>2018</u>	<u>June 30,</u> <u>2017</u>
	\$	\$
Cash (Note 1)	40 473 219	15 453 470
Other current assets	1 238 220	475 334
<b>Total current assets</b>	<b>41 711 439</b>	<b>15 928 804</b>
Financial assets through profit or loss (note 2)	1 471 000	-
Investment in associate (Note 3)	3 994 235	879 160
Property, plant and equipment (Note 4)	51 783 149	36 619 786
<b>Total assets</b>	<b>98 959 823</b>	<b>53 427 750</b>
<b>Total liabilities</b>	<b>12 433 522</b>	<b>11 862 245</b>
<b>Equity</b>	<b>86 526 301</b>	<b>41 565 505</b>

Note 1: The increase is mainly explained by the private placement for gross proceeds of \$45,000,000 in January 2018.

Note 2: The increase is explained by the NanoXplore's warrants acquired by the Company during the current year.

Note 3: The increase is mainly explained by an additional investment in the share capital of NanoXplore of \$2,000,065 and a gain on dilution of \$2,602,010 in NanoXplore offset by share of loss of \$1,487,000 in NanoXplore.

Note 4: The increase is explained by the expenses for the development of the Lac Guéret project.

## 7. LIQUIDITY AND CAPITAL RESOURCES

The Lac Guéret property is in the development stage since June 30, 2017 and as result the Company has no current source of operating revenue and is dependent on external financing to fund its continued development program. The Company principal sources of funding have been the issuance of equity securities for cash, debt, funds from the government of Quebec with respect to tax credit related to resource and mining tax credit based on eligible exploration expenditures, subsidies and funds obtained from warrants and options exercised.

As at June 30, 2018, the Company had a working capital of \$31,786,917, had an accumulated deficit of \$31,858,900 and incurred a loss of \$1,115,553 for the year then ended. Working capital included cash of \$40,473,219.

As at June 30, 2018, Management believes that the Company has sufficient funds to meets its obligations, operating expenses and some development expenditures for the ensuing twelve months as they fall due. The Company's ability to continue its development activities, the engineering, the procurement and the construction of the Lac Guéret project is dependent on management's ability to secure additional financing in the future, which may be completed in a number of ways including, but not limited to, a combination of strategic partnerships, joint venture arrangements, project debt finance, royalty financing and other capital market alternatives. Management will pursue such additional financial sources when required, and while management has been successful in securing financing in the past, there can be no assurance it will be able to do so in the future or that these sources of funding or initiatives will be available for the Company or that they will be available on terms which are acceptable to the Company.

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

For a detailed description of the financial instruments and risk management associated with the Company and its activities, please refer to the Note 17 "*Financial Instruments and Risk Management*" in the audited financial statements for the years ended June 30, 2018 and 2017. This year identified financial instruments and risks are consistent with last year.

## **9. OFF-BALANCE SHEET ARRANGEMENTS**

As of the date of this MD&A, the Company did not have any off-balance sheet arrangements.

## **10. PROPOSED TRANSACTIONS**

There is no proposed transaction of a material nature being considered by the Company.

## **11. RELATED PARTY TRANSACTIONS**

For a detailed description of all related party transactions, please refer to the Note 16 "Related party transactions" in the Financial statements

In addition to Note 16 of the Financial statements, please find the following information:

- Scott Moore:
  - has a significant influence on 2227929 Ontario Inc.
  
- Benoit Gascon
  - is related to Gestion GBG
  - is the Chairman of the Board of NanoXplore Inc.
  
- Patrick Godin
  - is a director and COO of Stornoway Diamond Corp.

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### 12. FOURTH QUARTER

#### Three-month period ended June 30, 2018 compared with three-month period ended June 30, 2017

The Company's profit is \$3,565,478 for the three-month period ended June 30, 2018. This compares with a loss of \$2,913,372 for the three-month period ended June 30, 2017 for a variance of \$6,478,850. You will find the following significant variations:

	Three-month period ended June 30, 2018 \$	Three-month period ended June 30, 2017 \$	Variance \$	
Salaries and consulting fees	668,601	204,954	463,647	The increase is explained by additional new employees and incentive compensation (\$350,000) to the management (nil in 2017)
Natural graphite production for customers and tests	1,136,058	237,028	899,030	As planned, the Company incurred expenses for the third phase of the natural graphite production to ship samples to future customers and internal testing.
Gain on dilution of investment in associate	(1,789,010)	-	(1,789,010)	During the current quarter, NanoXplore Inc. performed various transactions allocated its share capital. As a result of these transactions, the Company's interest in NanoXplore Inc. decreased from 25% to 24% and recorded a gain on dilution on the deemed dispositions of its interest.
Net gain on financial assets	(1,304,000)	-	(1,304,000)	Gain on NanoXplore's warrants owned by the Company.
Net finance costs	(3,057,893)	1,548,763	(4,606,656)	Mainly explained by the embedded derivative components of the Debentures due to valuation assumptions update (stock price of LLG decreased significantly from \$1.89 to \$1.35 during the current quarter while during 2017 quarter, LLG increased from \$1.33 to \$1.71). During the quarter 2018, the Company recorded a gain of \$2,469,170 on embedded derivative while during the quarter 2017, it was a loss of \$1,346,240. Also, given that since July 1, 2017, Lac Guéret's project expenditures are now capitalized to property, plant and equipment, borrowing costs are now capitalized to property, plant and equipment (2017: nil). The adjustment was performed during the 4 <sup>th</sup> financial quarter of 2018
Others	780,760	922,627	141,861	
<b>Total</b>	<b>(3,565,478)</b>	<b>2,913,372</b>	<b>(6,478,850)</b>	

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The Company invested \$5,963,073 on the Lac Guéret project and options were exercised for an amount of \$503,734.

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

For a detailed description of the critical accounting judgments and estimates associated with the Company and its activities, please refer to the Note 3 "*Critical accounting judgments and estimates*" in the audited financial statements for the years ended June 30, 2018 and 2017. Judgments and estimates are consistent with last year.

## **14. NEW SIGNIFICANT ACCOUNTING POLICIES**

During the current year, the following new significant accounting policies have been added:

### **Government assistance and Scientific Research and Experimental Development ("SR&ED") tax credit**

The Company periodically receives financial assistance under government incentive programs and SR&ED tax credit. Government assistance is recognized initially when there is reasonable assurance that it will be received and the Company will comply with the conditions associated with the assistance. Assistance that compensates the Company for expenditures incurred is recognized against expenditures incurred on a systematic basis in the same periods in which the expenditures are incurred.

### **Borrowing costs**

Borrowing costs that are attributable to the acquisition, construction or production of a qualifying asset are capitalized to the cost of that asset until it is substantially completed, and it can be used as planned; these costs are subsequently amortized over the expected useful life of the asset. All other borrowing costs are expensed as incurred.

For a detailed description of the significant accounting policies adopted, refer to Note 2 "Summary of Significant Accounting Policies" in the Financial Statements.

## **15. OUTSTANDING SHARE DATA**

As at October 26, 2018, the Company has:

- a) 136,013,323 common shares issued and outstanding;
- b) 7,858,334 options outstanding with expiry dates ranging between October 26, 2018 and April 4, 2023 with exercise price from \$0.38 to \$2.54 (weighted average price: \$0.92). If all the options were exercised, 7,858,334 shares would be issued for proceeds of \$7,245,484;
- d) \$3,950,000 convertible debentures are convertible into common shares at a conversion price of \$0.845 maturing June 11, 2019. If the convertible debentures were converted, 4,674,556 common shares would be issued;

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## **16. RISKS AND UNCERTAINTIES**

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

### *Nature of Mining, Mineral Exploration and Development Projects*

Mining operations generally involve a high degree of risk. The Company's operations are subject to the hazards and risks normally encountered in the mineral exploration, development and production, including environmental hazards, explosions, unusual or unexpected geological formations or pressures and periodic interruptions in both production and transportation due to inclement or hazardous weather conditions. Such risks could result in damage to, or destruction of, mineral properties or producing facilities, personal injury, environmental damage, delays in mining, monetary losses and possible legal liability.

Development projects have no operating history upon which to base estimates of future cash operating costs. For development projects, resource and reserve estimates and estimates of cash operating costs are, to a large extent, based upon the interpretation of geological data obtained from drill holes and other sampling techniques, and feasibility studies, which derive estimates of cash operating costs based upon anticipated tonnage and grades of ore to be mined and processed, ground conditions, the configuration of the ore body, expected recovery rates of minerals from the ore, estimated operating costs, anticipated climatic conditions and other factors. As a result, actual production, cash operating costs and economic returns could differ significantly from those estimated. Indeed, current market conditions are forcing many mining operations to increase capital and operating cost estimates. It is not unusual for new mining operations to experience problems during the start-up phase, and delays in the commencement of production often can occur.

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## **16. RISKS AND UNCERTAINTIES (continued)**

### *No Revenues*

To date the Company has recorded no revenues from operations and the Company has not commenced commercial production on any property. There can be no assurance that significant losses will not occur in the near future or that the Company will be profitable in the future. The Company's operating expenses and capital expenditures may increase in subsequent years as consultants, personnel and equipment associated with advancing exploration, development and commercial production of the Company's properties. The Company expects to continue to incur losses unless and until such time as it enters into commercial production and generates sufficient revenues to fund its continuing operations. The development of the Company's properties will require the commitment of substantial resources to conduct time-consuming development. There can be no assurance that the Company will generate any revenues or achieve profitability.

### *Liquidity Concerns and Future Financings*

The Company will require significant capital and operating expenditures in connection with the development of its property. There can be no assurance that the Company will be successful in obtaining required financing as and when needed. Volatile markets may make it difficult or impossible for the Company to obtain debt financing or equity financing on favourable terms, if at all. Failure to obtain additional financing on a timely basis may cause the Company to postpone or slow down its development plans, forfeit rights in some or all of its properties or reduce or terminate some or all of its activities.

### *Foreign Exchange*

Mineral commodities are sold in US dollars and consequently, the Company is subject to foreign exchange risks relating to the relative value of the Canadian dollar as compared to the US dollar. To the extent Mason generates revenue upon reaching the production stage on its properties; it will be subject to foreign exchange risks as revenues will be received in US dollars while operating and capital costs will be incurred primarily in Canadian dollars. A decline in the US dollar would result in a decrease in the real value of Mason's revenues and adversely affect its financial performance. The Company is exposed to currency risk by incurring certain expenditures and debt in currencies other than Canadian dollar.

### *Mineral Resource and Mineral Reserve Estimates May be Inaccurate*

There are numerous uncertainties inherent in estimating mineral resources and mineral reserves, including many factors beyond the control of the Company. The accuracy of any mineral resource or mineral reserve estimate is a function of the quantity and quality of available data and of the assumptions made and judgments used in engineering and geological interpretation. These amounts are estimates only and the actual level of mineral recovery from such deposits may be different. Differences between management's assumptions, including economic assumptions such as mineral prices and market conditions, could have a material adverse effect on the Company's financial position and results of operations.

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## **16. RISKS AND UNCERTAINTIES (continued)**

### *Licences and Permits, Laws and Regulations*

The Company's exploration and development activities, including mine, mill, road, rail and other transportation facilities, require permits and approvals from various government authorities and cooperation from certain First Nations groups, and are subject to extensive federal, provincial, state and local laws and regulations governing prospecting, development, production, exports, taxes, labour standards, occupational health and safety, mine safety and other matters. Such laws and regulations are subject to change, can become more stringent and compliance can therefore become more costly. In addition, the Company may be required to compensate those suffering loss or damage by reason of its activities. There can be no guarantee that Mason will be able to maintain or obtain all necessary licences, permits and approvals that may be required to explore and develop its properties, commence construction or operation of mining facilities.

### *Mineral Commodity Prices*

The profitability of the Company's operations will be dependent upon the market price of mineral commodities. Mineral prices fluctuate widely and are affected by numerous factors beyond the control of the Company. The level of interest rates, the rate of inflation, the world supply of mineral commodities and the stability of exchange rates can all cause significant fluctuations in prices. Such external economic factors are in turn influenced by changes in international investment patterns, monetary systems and political developments. The price of mineral commodities has fluctuated widely in recent years, and future price declines could cause commercial production to be impracticable, thereby having a material adverse effect on the Company's business, financial condition and result of operations.

### *Environmental*

The Company's activities are subject to extensive federal, provincial state and local laws and regulations governing environmental protection and employee health and safety. Environmental legislation is evolving in a manner that is creating stricter standards, while enforcement, fines and penalties for non-compliance are also increasingly stringent. The cost of compliance with changes in governmental regulations has the potential to reduce the profitability of operations. Further, any failure by the Company to comply fully with all applicable laws and regulations could have significant adverse effects on the Company, including the suspension or cessation of operations.

### *Title to Properties*

The acquisition and maintenance of titles to resource properties is a very detailed and time-consuming process. The Company holds its interest in certain of its properties through mining claims. Title to, and the area of, the mining claims may be disputed. There is no guarantee that such title will not be challenged or impaired. There may be challenges to the title of the properties in which the Company may have an interest, which, if successful, could result in the loss or reduction of the Company's interest in the properties.

### *Dependence on Management and Key Personnel*

The Company is dependent on the services of key executives, including a small number of highly skilled and experienced executives and personnel. The Company's development to date has largely depended, and in the future will continue to depend, on the efforts of key management and other key personnel to develop its projects. Loss of any of these people, particularly to competitors, in the short term, could have a material adverse impact upon the Company current schedule.

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## **16. RISKS AND UNCERTAINTIES (continued)**

### *Uninsured Risks*

The Company maintains insurance to cover normal business risks. In the course of exploration and development of mineral properties, certain risks, and in particular, unexpected or unusual geological operating conditions including explosions, rock bursts, cave-ins, fire and earthquakes may occur. It is not always possible to fully insure against such risks as a result of high premiums or other reasons. Should such liabilities arise, they could reduce or eliminate any future profitability and result in increasing costs and a decline in the value of the common shares of the Company.

### *Competition*

Mason competes with other mining companies that have interesting resources. Such competition may result in the Company being unable to acquire desired properties, recruit or retain qualified employees or acquire the capital necessary to fund its operations and develop its properties. The Company's inability to compete with other mining companies for these resources would have a material adverse effect on the Company's results of operation and business.

### *Dependence on Outside Parties*

Mason has relied upon consultants, engineers and others and intends to rely on these parties for development, construction and operating expertise. Substantial expenditures are required to construct mines, to establish mineral reserves through drilling, to carry out environmental and social impact assessments, to develop metallurgical processes and, in the case of new properties, to develop the exploration and plant infrastructure at any particular site. If such parties' work is deficient or negligent or is not completed in a timely manner, it could have a material adverse effect on Mason.

### *Qualified Personnel*

Recruiting and retaining qualified personnel in the future is critical to the Company's success. As the Company develops the Lac Guéret property toward commercial production, the need for skilled labour will increase. The number of persons skilled in development and operations of mining properties is limited and competition for this workforce is intense. The development of the Company's properties may be significantly delayed or otherwise adversely affected if the Company cannot recruit and retain qualified personnel as and when required.

### *Share Price Fluctuations*

The market price of securities of many companies, particularly development stage companies, experience wide fluctuations in price that are not necessarily related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that fluctuations in the Company's share price will not occur.

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## **16. RISKS AND UNCERTAINTIES (continued)**

### *Conflicts of Interest*

Certain of the Company's directors and officers serve or may agree to serve as directors or officers of other companies and, to the extent that such other companies may participate in ventures in which the Company may participate, the directors of Mason may have a conflict of interest in negotiating and concluding terms respecting such participation.

### *Litigation*

Mason has entered into legally binding agreements with various third parties on a consulting and partnership basis. The interpretation of the rights and obligations that arise from such agreements is open to interpretation and Mason may disagree with the position taken by the various other parties resulting in a dispute that could potentially initiate litigation and cause Mason to incur legal costs in the future. Given the speculative and unpredictable nature of litigation, the outcome of any such disputes could have a material adverse effect on Mason.

## **17. MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS**

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

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

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

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

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

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### **18. APPROVAL**

The Board of Directors oversees management's responsibility for financial reporting and internal control systems through an Audit Committee. This Audit Committee meets quarterly with management and annually with the independent auditors to review the scope and results of the annual audit and to review the financial statements and related financial reporting and internal control matters before the financial statements are approved by the Board of Directors and submitted to the shareholders. The Board of Directors has approved the audited financial statements for the years ended June 30, 2018 and 2017 and the disclosure contained in this MD&A dated October 26, 2018.