



MASON GRAPHITE INC.

CONDENSED INTERIM FINANCIAL STATEMENTS **For the three-month periods ended September 30, 2019 and 2018** (Expressed in Canadian dollars) (Unaudited)



Management's responsibility for financial reporting

Management is responsible for the preparation and presentation of the accompanying condensed interim financial statements, which includes ensuring that significant accounting judgments and estimates are made in accordance with International Financial Reporting Standards. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions for which objective judgment is required.

The Board of Directors is responsible for overseeing management in the performance of its financial reporting responsibilities and for approving the financial information included in the condensed interim financial statements. The Board fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management. The Audit Committee has the responsibility of meeting with management to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues. The Audit Committee reports its findings to the Board for its consideration in approving the condensed interim financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

"Benoit Gascon"

Benoit Gascon
President and Chief Executive Officer

" Pascale Choquet "

Pascale Choquet
Chief Financial Officer (Interim)

Laval, Québec

November 28th, 2019

Mason Graphite Inc.

INTERIM STATEMENTS OF FINANCIAL POSITION

(Expressed in Canadian dollars)

(Unaudited)

	September 30, 2019	June 30, 2019
	\$	\$
ASSETS		
Current assets		
Cash	34,755,057	10,618,396
Sales tax receivable	201,040	555,744
Government assistance	157,400	113,000
Prepaid and other receivables	46,340	139,512
	<u>35,159,837</u>	<u>11,426,652</u>
Non-current assets		
Financial assets through profit or loss (Note 3)	-	561,000
Investment in associate (Note 3)	-	7,437,735
Property, plant and equipment (Note 4)	<u>77,943,280</u>	<u>76,795,921</u>
Total assets	<u>113,103,117</u>	<u>96,221,308</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	<u>3,895,450</u>	5,861,095
	3,895,450	5,861,095
Non-current liabilities		
Deferred income tax liability	<u>2,509,000</u>	<u>2,509,000</u>
Total liabilities	<u>6,404,450</u>	<u>8,370,095</u>
EQUITY		
Share capital	107,770,516	107,770,516
Reserves	11,130,999	11,099,684
Deficit	<u>(12,202,848)</u>	<u>(31,018,987)</u>
Total equity	<u>106,698,667</u>	<u>87,851,213</u>
Total equity and liabilities	<u>113,103,117</u>	<u>96,221,308</u>

Note 1 - Nature of operations and liquidity risk

APPROVED ON BEHALF OF THE BOARD OF DIRECTORS:

Signed "François Laurin", Director

Signed "Benoît Gascon", Director

The notes to the financial statements are an integral part of these condensed interim financial statements.

Mason Graphite Inc.

INTERIM STATEMENTS OF NET INCOME AND COMPREHENSIVE INCOME

(Expressed in Canadian dollars)

(Unaudited)

	For the three-month periods ended September 30,	
	2019	2018
	\$	\$
Expenses		
Salaries and consulting fees	243,199	233,352
Director fees	47,498	69,243
Professional fees	73,893	96,975
General office expenses	46,010	98,179
Travel and accommodation expenses	22,120	15,262
Share-based compensation	12,938	41,725
Communication and promotion expenses	1,191	2,019
Transfer agent and filing fees	12,079	19,405
Royalties	-	12,500
Value-added graphite product expenses	207,669	370,940
Natural graphite production for customers and tests	-	64,073
Research and development expenses	4,340	25,605
Government assistance	(82,253)	(57,530)
Depreciation	6,775	-
Operating net foreign exchange loss	24	6,972
Operating loss	595,483	998,720
Share of loss of an associate	374,015	372,500
Loss (gain) on dilution of investment in associate	583,600	(1,650,000)
Net gain (net loss) on financial assets at fair value through profit or loss (Note 3)	(261,000)	390,000
Finance costs (Note 5)	-	(1,202,723)
Net gain on disposition of investment in associate	(20,057,682)	-
Finance income	(50,555)	(167,423)
Net Income and comprehensive income	(18,816,139)	(1,258,926)
Income per share		
Basic and diluted	(\$0.14)	(\$0.01)

The notes to the financial statements are an integral part of these condensed interim financial statements.

Mason Graphite Inc.
INTERIM STATEMENTS OF CASH FLOWS
(Expressed in Canadian dollars)
(Unaudited)

	For the three-month periods ended September 30,	
	2019	2018
	\$	\$
Cash flows from operating activities		
Net income for the period	18,816,139	1,258,926
Items not affecting cash:		
Share-based compensation	12,938	41,725
Depreciation	6,775	-
Share of loss of an associate	374,015	372,500
Loss on dilution of investment on associate	583,600	(1,650,000)
Net gain on financial assets at fair value through profit or loss	(261,000)	390,000
Gain on disposition of investment in an associate	(20,057,682)	-
Finance costs	-	(1,202,723)
Changes in non-cash operating working capital items:		
Sales tax receivable	354,704	126,071
Government assistance	(44,400)	13,831
Prepaid and other receivables	93,172	24,495
Accounts payable and accrued liabilities	(471,064)	(987,805)
	<u>(592,803)</u>	<u>(1,612,980)</u>
Cash flows from financing activities		
Options exercised	-	99,000
	<u>-</u>	<u>99,000</u>
Cash flows from investing activities		
Exercise of warrants	(778,000)	-
Disposition of an investment in an associate	28,137,802	-
Acquisition of property, plant and equipment	(2,630,338)	(5,135,389)
	<u>24,729,464</u>	<u>(5,135,389)</u>
Change in cash	24,136,661	(6,649,369)
Cash, beginning of the period	10,618,396	40,473,219
Cash, end of the period	<u>34,755,057</u>	<u>33,823,850</u>
Supplemental information:		
Property, plant and equipment accounted for in accounts payable and accrued liabilities	3,590,568	5,549,885
Borrowing costs charged to property, plant and equipment	-	201,749
Share-based compensation charged to property, plant and equipment	18,375	82,187

The notes to the financial statements are an integral part of these condensed interim financial statements.

Mason Graphite Inc.

INTERIM STATEMENTS OF CHANGES IN EQUITY

(Expressed in Canadian dollars)

(Unaudited)

	Share Capital		Reserves				Equity
	Number	Amount	Warrants	Broker warrants	Options	Deficit	
		\$	\$	\$	\$	\$	\$
Balance as at July 1, 2019	136,227,585	107,770,516	5,622,949	591,458	4,885,277	(31,018,987)	87,851,213
Share-based compensation					31,315		31,315
Net income and comprehensive income for the period						18,816,139	18,816,139
Balance as at September 30, 2019	136,227,585	107,770,516	5,622,949	591,458	4,916,592	(12,202,848)	106,698,667
Balance as at July 1, 2018	135,813,232	107,461,016	5,622,949	591,458	4,709,778	(31,858,900)	86,526,301
Options exercised	200,000	177,000	-	-	(78,000)	-	99,000
Share-based compensation	-	-	-	-	123,912	-	123,912
Net income and comprehensive income for the period	-	-	-	-	-	1,258,926	1,258,926
Balance as at September 30, 2018	136,013,323	107,638,016	5,622,949	591,458	4,755,690	(30,599,974)	88,008,139

The notes to the financial statements are an integral part of these condensed interim financial statements.

Mason Graphite Inc.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

For the three-month periods ended September 30, 2019 and 2018

(Expressed in Canadian dollars)

(Unaudited)

1. NATURE OF OPERATIONS AND LIQUIDITY RISK

Mason Graphite Inc. ("Mason Graphite" or the "Company") was incorporated on March 15, 2011 under the *Business Corporations Act* (Ontario) and was continued under the *Canada Business Corporations Act* effective March 3, 2016. The Company's head office is located at 3030 Le Carrefour Boulevard, Suite 600, Laval QC H7T 2P5 Canada.

The Company is engaged in the development of the Lac Guéret graphite property located in Québec, Canada. 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.

Although the Company has taken steps to verify title to the property, these procedures do not guarantee the Company's title thereto. Property title may be subject to government licensing registration or regulation, unregistered prior agreements, unregistered claims, aboriginal claims, or non-compliance with regulatory and environmental requirements.

These condensed interim financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, 12 months from the end of the most recent reporting period.

As at September 30, 2019, the Company had a working capital of \$ 31,264,387, an accumulated deficit of \$ 12,202,848 and a net income of \$ 18,816,139 for the three-month period then ended. Working capital included a cash balance of \$ 34,755,057.

Management believes that the Company has sufficient funds to meet its obligations, operating expenses and some development expenditures for the next 12 months. The Company's ability to continue its development activities of the Lac Gueret 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 financing, royalty financing and other capital market alternatives. Management is currently seeking such sources of funding. While management has been successful in securing financing in the past, there can be no assurance that 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.

These unaudited condensed interim financial statements were reviewed, approved and authorized for issue by the Board of Directors on November 28th, 2019.

Mason Graphite Inc.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

For the three-month periods ended September 30, 2019 and 2018

(Expressed in Canadian dollars)

(Unaudited)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of presentation

These unaudited condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. The unaudited condensed interim financial statements should be read in conjunction with the Company's audited annual financial statements for the year ended June 30, 2019.

The preparation of the condensed interim financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies.

The accounting policies followed in these unaudited condensed interim financial statements are consistent with those of the previous financial year, except for the following:

b) New accounting standards adopted during the period

IFRS 16, Leases

Effective July 1, 2019, the Company adopted IFRS 16 Leases retrospectively without restatement of comparative periods in accordance with the transitional provisions of IFRS 16. IFRS 16 describes the principles governing accounting, evaluation, presentation and disclosure of leasing contracts. For both parties to a contract, namely the customer ("lessee") and the supplier (the "lessor"). IFRS 16 replaces IAS 17 Leases and Interpretations. Except in very specific circumstances, all leases result in the lessee obtaining the right to use an asset from the outset of the lease and, if lease payments are phased in over time, also obtain financing. As a result, IFRS 16 eliminates the classification of leases into either operating leases or finance leases as required by IAS 17 and instead replaces them with a single accounting model for tenants. In applying this model, the tenant must account for:

- (i) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and
- (ii) amortization of lease assets separately from lease liabilities in the statement of operations.

The adoption of IFRS 16 did not have a material impact on the financial statements at the date of transition.

3. INVESTMENT IN ASSOCIATE

	<u>2019</u>
	\$
Balance as at July 1	7,437,735
Acquisition of an additional interest resulting from the exercise of warrants with a fair value of \$822,000	1,600,000
Loss on dilution	(583,600)
Share of loss and comprehensive loss for the period	(374,015)
Disposition of an interest in an associate	(8,080,120)
Balance as at September 30	-

Mason Graphite Inc.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

For the three-month periods ended September 30, 2019 and 2018

(Expressed in Canadian dollars)

(Unaudited)

3. INVESTMENT IN ASSOCIATE (continued)

On September 9, 2019, the Company sold 22,188,333 common shares for a total net consideration of \$ 28,137,802. These common shares, which represented 18.3% of NanoXplore and had been acquired through various private placements. The carrying amount of the investment in NanoXplore as at September 9, 2019 was \$ 8,080,120, resulting in a net gain of \$ 20,057,682. After this sale, Mason Graphite no longer holds any ordinary shares of NanoXplore.

The sale of the shares in the associate resulted in a taxable capital gain of approximately \$10,028,841, against which non-capital losses will be applied and, for a large portion of these losses, no assets of future tax had been recorded.

Financial assets through profit and loss include NanoXplore's warrants obtained on the Company's investment through private placements.

	2019
	\$
Balance as at July 1	561,000
Change in fair value	261,000
Exercise of NanoXplore warrants	(822,000)
Balance as at September 30	-

The fair value of these financial instruments that are not traded in active markets is determined using a valuation model, the Black-Scholes method in this case. This valuation model maximizes the use of observable market data when available and relies as little as possible on Company specific estimates. If all material data required to measure the fair value of an instrument is observable, the instrument is considered Level 2. NanoXplore warrants held by the Company are considered Level 2.

The Company holds 303,050 NanoXplore warrants on September 30, 2019 at an exercise price of \$2.40 with a maturity date of March 27, 2020. The value of the financial assets of these warrants is insignificant as at September 30, 2019 using the Black-Scholes method.

4. PROPERTY, PLANT AND EQUIPMENT

	IT equipment	Production equipment	Construction in progress	Mineral property under development	Total
	\$	\$	\$	\$	\$
Balance as at July 1, 2019	194,426	13,127,440	29,741,399	33,732,656	76,795,921
Additions	8,395	148,713	997,026		1,154,134
Depreciation	(6,775)				(6,775)
Balance as at September 30, 2019	196,046	13,276,153	30,738,425	33,732,656	77,943,280
As at September 30, 2019					
Cost	220,883	13,276,153	30,738,425	33,732,656	77,968,117
Accumulated depreciation	(24,837)	-	-	-	(24,837)
Net book value	196,046	13,276,153	30,738,425	33,732,656	77,943,280

Mason Graphite Inc.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

For the three-month periods ended September 30, 2019 and 2018

(Expressed in Canadian dollars)

(Unaudited)

5. CONVERTIBLE DEBENTURES

Financial expenses consist of the following:

	For the three-month periods ended September 30,	
	2019	2018
	\$	\$
Interest on the coupon	-	118,500
Interest – Convertible debentures accretion	-	83,249
Minus: Borrowing costs capitalized	-	(201,749)
Loss on embedded derivative (change in fair value)	-	(1,202,723)
	<u>-</u>	<u>(1,202,723)</u>