MASON GRAPHITE INC.

FINANCIAL STATEMENTS
For the years ended June 30, 2019 and 2018
(Expressed in Canadian dollars)

MASON GRAPHITE

Management's responsibility for financial reporting

Management is responsible for the preparation and presentation of the accompanying financial statements, which includes ensuring that significant accounting judgments and estimates are made in accordance with International Financial Reporting Standards and ensuring that all information contained in the annual report is consistent with the information presented in the financial statements. 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 annual report. 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 and the external auditor 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 financial statements together with other financial information of the Company for issuance to the shareholders. The Audit Committee is also responsible for recommending the appointment of the Company's external auditor.

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"	"Pascale Choquet"
Benoit Gascon President and Chief Executive Officer	Pascale Choquet Chief Financial Officer (interim)

Laval, Quebec

October 28, 2019

Independent auditor's report

To the shareholders of Mason Graphite Inc.

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Mason Graphite Inc. (the Company) as at June 30, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited
The Company's financial statements comprise:

- the statements of financial position as at June 30, 2019 and 2018;
- the statements of loss (income) and comprehensive loss (income) for the years then ended;
- the statements of cash flows for the years then ended;
- the statements of changes in equity for the years then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence
We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

The engagement partner on the audit resulting in this independent auditor's report is Nochane Rousseau.

PricewaterhouseCoopers LLP[1]

Montréal, Quebec
October 28, 2019

[1] CPA auditor, CA, public accountancy permit No. A122718

Mason Graphite Inc.
STATEMENTS OF FINANCIAL POSITION
(Audited) (Expressed in Canadian dollars)

	June 30, 2019	June 30, 2018
	$	$
ASSETS		
Current assets		
Cash	10,618,396	40,473,219
Sales tax receivable	555,744	1,057,681
Government assistance receivable (Note 4)	113,000	68,663
Prepaid expenses and other receivables	139,512	111,876
	11,426,652	41,711,439
Non-current assets		
Financial assets through profit or loss (Note 5)	561,000	1,471,000
Investment in associate (Notes 5 and 17)	7,437,735	3,994,235
Property, plant and equipment (Note 6)	76,795,921	51,783,149
Total assets	96,221,308	98,959,823
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 7)	5,861,095	3,875,018
Convertible debentures – Host (Note 8)	-	3,624,816
Convertible debentures – Derivative (Note 8)	-	2,424,688
	5,861,095	9,924,522
Non-current liabilities		
Deferred income tax liabilities (Note 12)	2,509,000	2,509,000
Total liabilities	8,370,095	12,433,522
EQUITY		
Share capital	107,770,516	107,461,016
Reserves	11,099,684	10,924,185
Deficit	(31,018,987)	(31,858,900)
Total equity	87,851,213	86,526,301
Total equity and liabilities	96,221,308	98,959,823

Note 1 – Nature of operation and liquidity risk
Note 17 – Subsequent events

APPROVED ON BEHALF OF THE BOARD OF DIRECTORS:

Signed “François Laurin”, Director

Signed “Benoît Gascon”, Director

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

Mason Graphite Inc.

STATEMENTS OF LOSS (INCOME) AND COMPREHENSIVE LOSS (INCOME)

(Audited) (Expressed in Canadian dollars)

	Years ended June 30, 2019	2018
		$
Expenses		
Salaries and consulting fees	**1,017,101**	**1,313,464**
Director fees	**278,387**	**107,940**
Professional fees	**524,151**	**445,668**
General and office expenses	**262,018**	**434,416**
Travel and accommodation expenses	**86,482**	**153,197**
Share-based compensation (Note 10)	**110,850**	**765,920**
Communication and promotion expenses	**25,132**	**45,088**
Transfer agent and filing fees	**107,713**	**93,955**
Royalties (Note 14)	**50,000**	**50,000**
Value-added graphite product expenses	**1,816,527**	**1,068,132**
Natural graphite production for potentials customers and tests	**197,811**	**1,584,227**
Research and development expenses	**445,268**	**165,857**
Government assistance (Note 4)	**(334,119)**	**(436,608)**
Depreciation	**18,062**	**-**
Operating net foreign exchange loss	**17,427**	**(401)**
Operating loss	**4,622,810**	**5,790,855**
Share of loss of associate (Note 5)	**1,926,500**	**1,487,000**
Gain on dilution of investment in associate (Note 5)	**(5,370,000)**	**(2,769,010)**
Net loss (net gain) on financial assets at fair value through profit or loss (Note 5)	**910,000**	**(1,304,000)**
Net finance costs (Note 8)	**(2,424,688)**	**(1,659,095)**
Finance income	**(504,535)**	**(430,197)**
Loss (income) before income taxes	**(839,913)**	**1,115,553**
Deferred income tax expenses (Note 12)	**-**	**-**
Loss (income) and comprehensive loss (income) for the year	**(839,913)**	**1,115,553**
Loss (income) per share		
Basic and diluted (Note 11)	**($0,01)**	**$0.01**

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

Mason Graphite Inc.

STATEMENTS OF CASH FLOWS

(Audited) (Expressed in Canadian dollars)

	Years ended June 30, 2019	2018
		$
Cash flows from operating activities		
(Loss) income for the year	839,913	(1,115,553)
Items not affecting cash:		
Share-based compensation	110,850	765,920
Depreciation	18,062	-
Share of loss of associate	1,926,500	1,487,000
Gain on dilution of investment in associate	(5,370,000)	(2,769,010)
Net loss (net gain) on financial assets at fair value through profit or loss	910,000	(1,304,000)
Net finance costs	(2,424,688)	(1,659,095)
Changes in non-cash operating working capital items:		
Sales tax receivable	501,937	(752,329)
Government assistance	(44,337)	(32,475)
Prepaid expenses and other receivables	(27,636)	(49,389)
Accounts payable and accrued liabilities	(793,301)	887,186
	(4,352,700)	(4,541,745)
Cash flows from financing activities		
Private placement of common shares	-	45,000,000
Share issue costs	-	(2,454,883)
Repayment of convertible debentures	(3,950,000)	-
Options exercised	106,600	1,624,917
	(3,843,400)	44,170,034
Cash flows from investing activities		
Investment in associate	-	(2,000,065)
Mining tax credit received	-	71,307
Acquisition of property, plant and equipment	(21,658,723)	(12,679,782)
Exploration and evaluation asset expenditures	-	-
	(21,658,723)	(14,608,540)
Change in cash	(29,854,823)	25,019,749
Cash and cash equivalents, beginning of the year	40,473,219	15,453,470
Cash end of the year	10,618,396	40,473,219
Supplementals informations:		
Property, plant and equipment expenditures included in accounts payable and accrued liabilities	5,039,728	2,260,350
Interest related to convertible debentures paid with shares	118,500	237,000
Interest paid with cash for convertible debentures	355,500	237,000
Share-based compensation charged to property, plant and equipment (Note 10)	149,049	491,709

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

Mason Graphite Inc.

STATEMENTS OF CHANGES IN EQUITY

(Audited) (Expressed in Canadian dollars, except for number of shares)

	Share capital		Reserves				
	Number	**Amount $**	**Warrants $**	**Broker warrants $**	**Options $**	**Deficit $**	**Equity $**
Balance as of July 1, 2018	**135,813,323**	**107,461,016**	**5,622,949**	**591,458**	**4,709,778**	**(31,858,900)**	**86,526,301**
Shares issued for interest payment on convertible debentures (Note 9)	194,262	118,500	-	-	-	-	118,500
Options exercised (Note 10)	220,000	191,000	-	-	(84,400)	-	106,600
Share-based compensation (Note 10)	-	-	-	-	259,899	-	259,899
Income and comprehensive income for the year	-	-	-	-	-	839,913	839,913
Balance as of June 30, 2019	**136,227,585**	**107,770,516**	**5,622,949**	**591,458**	**4,885,277**	**(31,018,987)**	**87,851,213**
Balance as of July 1, 2017	**114,093,459**	**61,318,642**	**5,622,949**	**591,458**	**4,775,803**	**(30,743,347)**	**41,565,505**
Private placement – Common shares (Note 9)	18,750,000	45,000,000	-	-	-	-	45,000,000
Private placement – Transaction costs (Note 9)	-	(2,454,883)	-	-	-	-	(2,454,883)
Converted debentures (Notes 8 and 9)	236,686	411,686	-	-	-	-	411,686
Shares issued for interest payment on convertible debentures (Note 9)	116,511	237,000	-	-	-	-	237,000
Options exercised (Note 10)	2,616,667	2,948,571	-	-	(1,323,654)	-	1,624,917
Share-based compensation (Note 10)	-	-	-	-	1,257,629	-	1,257,629
Loss and comprehensive loss for the year	-	-	-	-	-	(1,115,553)	(1,115,553)
Balance as of June 30, 2018	**135,813,323**	**107,461,016**	**5,622,949**	**591,458**	**4,709,778**	**(31,858,900)**	**86,526,301**

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

1. NATURE OF OPERATIONS AND LIQUIDITY RISK

Mason Graphite Inc. (“Mason Graphite” or the “Company”) was prorogued from the *Business Corporations Act* (Ontario) and was continued under the *Canada Business Corporations Act* effective March 3, 2016. The company was incorporated on March 15, 2011 under the *Business Corporations Act* (Ontario).The Company’s (TSX.V: LLG) 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 disclosed 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 of 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 had commenced.

Although the Company has taken steps to verify title to the property of the field, these procedures do not guarantee the Company’s title. The 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 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 of June 30, 2019, the Company has a working capital of $5,565,557 and an accumulated deficit of $31,018,987 and has incurred an income of $839,913 for the year then ended. Working capital included a cash balance of $10,618,396.

Management believes that the Company has sufficient funds to meets its obligations, operating expenses and some development expenditures for the ensuing 12 months as they fall due considering the sale of the shares of NanoXplore as of September 9, 2019 for an amount of $28,172,015 (Note 17).

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 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 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 financial statements were reviewed, approved and authorized for issue by the Board of Directors on October 28, 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The Company's audited financial statements ("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 to both reporting periods, except for the new standards adopted as described below (Note 2).

Basis of measurement

These financial statements have been prepared on a historical cost basis except for the revaluation of certain financial instruments to fair value. In addition, these financial statements have been prepared using the accrual basis of accounting, except for the statements of cash flows.

Foreign currency

The Company's functional and presentation currency is the Canadian dollar. Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities that are denominated in foreign currencies are translated at the rate prevailing at the statement of financial position date. Exchange differences are recognized in expenses in the period in which they arise.

Cash

Cash and cash equivalents include cash on hand, deposits held with banks and other highly liquid short-term investments with original maturities of three months or less or that can be redeemed at any time without penalty.

Property, plant and equipment

Property, plant and equipment ("PP&E") are stated at cost less accumulated depreciation and accumulated impairment losses. Cost comprises the fair value of consideration given to acquire an asset and includes the direct charges associated with bringing the asset to the location and condition necessary to put the asset into use, as well as the future cost of dismantling and removing the plant and associated infrastructure and restoring and rehabilitating the land on which it is situated. When parts of an item of PP&E have different useful lives, they are accounted for as separate items (major components) of PP&E. Replacement cost, including major inspection and overhaul expenditures are capitalized as components of PP&E, which are accounted for separately.

Depreciation is provided on PP&E at the commissioning. Depreciation is calculated so as to write off the cost of each asset over its expected useful life to its estimated residual value. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period. IT equipment is depreciated using the straight-line method over its useful life which is between 3 and 10 years.

Capitalized costs, including certain mine development and construction costs, are not depreciated until the time at which the related mining property has reached a pre-determined level of operating capacity intended by management. Costs incurred prior to this point, including depreciation of related PP&E, are capitalized and proceeds from sales during this period are offset against capitalized costs. Upon completion of construction, mining property under development are amortized on a unit of production basis, which is measured by the portion of the mine's economically recoverable and proven ore reserves produced during the period. Impairment is tested in the same way as other non-financial assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed for impairment if there is any indication that the carrying amount may not be recoverable. If any such indication is present, the recoverable amount of the asset is estimated in order to determine whether impairment exists. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the asset group to which the asset belongs.

An asset's recoverable amount is the higher of fair value less costs to sell and value in use. 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 for which estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or asset group is estimated to be less than its carrying amount, the carrying amount is reduced to the recoverable amount. Impairment is recognized immediately as additional depreciation or amortization. Where an impairment subsequently reverses, the carrying amount is increased to the revised estimate of recoverable amount but only to the extent that this does not exceed the carrying value that would have been determined had impairment not previously been recognized. A reversal is recognized as a reduction in the depreciation or amortization charge for the period.

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.

Equity

Common shares are classified as equity.

Transaction costs directly attributable to the issuance of common shares are recognized as a deduction from the proceeds in equity in the period in which the transaction occurs.

For offerings of units consisting of a common share and another equity instrument, the total fair value of the units is allocated between the common share and the other equity instrument based on their relative fair value. Transaction costs directly attributable to the issue of units are allocated between the instruments based on their relative fair values.

When the Company modifies the terms of warrants issued in a private placement, the adjusted measurement adjustment, as a result of the modifications, is recognized in equity (the deficit).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based compensation

The fair value of stock options granted to employees is recognized as an expense or capitalized to E&E or PP&E assets, over the vesting period with a corresponding increase in option reserves which is the counterpart. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee, including directors of the Company. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined that the fair value of the goods or services cannot be reliably measured, and are recorded at the date on which the goods or services are received.

The fair value is measured at the grant date and is recognized over the period during which the stock options vest. The fair value of options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each statement of financial position date, the amount recognized as an expense or capitalized to E&E or PP&E assets is adjusted to reflect the actual number of stock options that are expected to vest. On exercise of a stock option, any amount related to the initial value of the stock option, along with the proceeds from its exercise, are recorded in share capital.

Income taxes

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in other comprehensive income (loss) or in equity, in which case it is recognized in other comprehensive income (loss) or in equity, respectively.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year-end, adjusted for amendments to tax payable with regard to previous years. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is provided using the statement of financial position liability method, providing for temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is not recognized where the temporary difference arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction that does not affect either accounting or taxable profit or loss, other than where the initial recognition of such an asset or liability arises in a business combination. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Deferred income tax assets and liabilities are presented as non-current. Assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities or deferred tax assets against deferred tax liabilities and the respective assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loss (income) per share

Basic loss (income) per share is based on the weighted average number of common shares of the Company outstanding during the year. The diluted loss (income) per share reflects the potential dilution of common share equivalents, such as outstanding share options, convertible debentures, broker warrants and warrants, in the weighted average number of common shares outstanding during the year, if dilutive.

The calculation of loss (income) per share is based on the weighted average number of shares outstanding for each period. Basic loss (income) per share is calculated by dividing the profit or loss of the Company by the weighted average number of common shares outstanding during the year. The treasury stock method is used to determine the dilutive effect of the warrants, broker warrants, share options, and the if-converted method is used for the convertible debentures. Under the treasury stock method, when the Company reports a loss, the diluted loss per common share is equal to the basic loss per common share due to the anti-dilutive effect of the outstanding warrants, broker warrants and share options. Under the if-converted method, the convertible debentures are assumed to be converted at the later of the beginning of the year and the time of issuance and the loss is adjusted for transaction costs, interest accretion and the fair value fluctuation of the embedded derivatives.

Financial Instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

<u>Financial Assets</u>

Financial assets are initially measured at fair value. If the financial asset is not subsequently accounted for at fair value, then the initial measurement includes transaction costs that are directly attributable to the asset's acquisition or origination. On initial recognition, the Company classifies its financial assets in the following measurement categories:

- measured subsequently at amortized cost; and
- measured subsequently at fair value (either through other comprehensive loss (income), or through net loss (income)).

Investments in equity instruments are classified at fair value through net profit or loss, unless the Company makes, on an instrument-by-instrument basis, an irrevocable election to present in other comprehensive income its changes in fair value. For investments in debt instruments, the classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses will either be recorded in net loss (income) or other comprehensive loss (income).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Financial assets measured at amortized cost

A financial asset is subsequently measured at amortized cost, using the effective interest method and net of any impairment loss, if:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

ii) Financial assets measured at fair value

A financial asset shall be measured at fair value through net loss (income) unless it is measured at amortized cost or at fair value through other comprehensive income.

A financial asset shall be measured at fair value through other comprehensive loss (income) if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments that are not held for trading, this will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive loss (income), in which case, gains and losses will never be reclassified to net loss (income), and no impairment may be recognized in net loss (income). Dividends earned from such investments are recognized in net loss (income), unless the dividend clearly represents a repayment of part of the cost of the investment.

iii) Impairment

The Company assesses on a forward-looking basis the expected credit loss associated with its debt instruments carried at amortized cost and through other comprehensive loss (income). The impairment methodology applied depends on whether there has been a significant increase in credit risk.

The Company applies the simplified method permitted by IFRS 9 to trade receivables which requires the recognition of expected losses over the life of the accounts as of the initial recognition of these receivables. The Company assumes that there is no significant increase in credit risk for instruments with low credit risk.

<u>Financial Liabilities</u>

Financial liabilities are initially recorded at fair value net of any directly attributable transaction costs. Subsequent to initial recognition these financial instruments are measured at amortized cost using the effective interest method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Embedded Derivatives

An embedded derivative is a component of a hybrid contract that also includes a non-derivative host, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

If a hybrid contract contains a host that is an asset, the entire hybrid contract is measured at fair value through net loss (income). If a hybrid contract contains a host that is not an asset, embedded derivatives are recorded at fair value separately from the host contract when their economic characteristics and risks are not clearly and closely related to those of the host contract. Subsequent changes in fair value are recorded in the statements of loss (income).

The convertible debentures issued by the Company are a hybrid financial instrument that can be converted into common shares of the Company at the option of the holder, where the number of shares to be issued varies depending on different scenarios of future financing. The hybrid financial instrument is recognized as a liability, with the initial carrying value of the convertible debentures (host) being the residual amount of the proceeds after separating the derivative component, which is recognized at fair value. Any directly attributable transaction costs are allocated to the host and derivative components in proportion to their initial carrying amounts. Subsequent to initial recognition, the host component of the hybrid financial instrument is measured at amortized cost using the effective interest method. The derivative component of the hybrid financial instrument is measured at fair value through profit and loss. Subsequent changes in fair value are recorded in the statements of loss (income) and comprehensive loss (income).

Investments in associates

Associates are entities over which the Company has significant influence, but not control, generally accompanying a shareholding between 20% and 50% of the voting rights. The financial results of the Company’s investments in its associates are included in the Company’s results according to the equity method. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the Company’s share of profits or losses of associates after the date of acquisition. The Company’s share of profits or losses is recognized in the statement of loss and comprehensive loss, and its share of other comprehensive income or loss of associates is included in other comprehensive income or loss. Unrealized gains on transactions between the Company and an associate are eliminated to the extent of the Company’s interest in the associate. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Dilution gains and losses arising from changes in interests in investments in associates are recognized in the statement of loss and comprehensive loss. The amounts included in the IFRS financial statements of the associates (Note 6) are adjusted to reflect adjustments made by the Company, when using the equity method, such as fair value adjustments made at the time of acquisition.

The Company assesses at each year-end whether there is any objective evidence that its investments in associates are impaired. If impaired, the carrying value of the Company’s share of the underlying assets of associates is written down to its estimated recoverable amount (being the higher of fair value less costs of disposal and value in use) and charged to the statement of loss (income) and comprehensive loss (income).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Tax credit related to resources and mining tax credit

The Company is entitled to a refundable tax credit on qualified exploration expenditures incurred. The refundable tax credit is recognized against the expenditures incurred.

Segment disclosures

The Company currently operates in a single segment – the development of the Lac Guéret graphite property. All of the Company's activities are conducted in Canada.

Provisions

Provisions are recognized when (a) the Company has a present obligation (legal or constructive) as a result of a past event, (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and (c) a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the statement of loss (income) and comprehensive loss (income), net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the date of inception. The arrangement is assessed to determine whether fulfillment is dependent on the use of a specific asset (or assets) and the arrangement conveys a right to use the asset (or assets), even if that right is not explicitly specified in an arrangement.

Leases that do not transfer substantially all the risks and rewards incidental to ownership to the Company as a lessee are classified as operating leases. Operating lease payments are recognized as an operating expense in the statement of loss (income) and comprehensive loss (income) on a straight-line basis over the lease term.

New accounting standards and interpretations adopted

IFRS 9*, Financial instruments,* replaces the provisions of IAS 39*, Financial Instruments – Recognition and Measurement* and provides guidance on the recognition, classification and measurement of financial assets and financial liabilities, the derecognition of financial instruments, impairment of financial assets and hedge accounting. The Company adopted IFRS 9 as of July 1st, 2018 and the new standard has been applied retrospectively with restatements from prior periods in accordance with IAS 8, *Accounting policies, changes in accounting estimates and errors*, in accordance with the transitional provisions of IFRS 9. The adoption of IFRS 9 did not result in any change int the carrying amount of the Company's financial assets and liabilities as at the date of transition, nor in the comparative information. As a result, the comparative information has not been restated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New accounting standard issued but not yet adopted

The standard have been published, and its adoption is mandatory for future accounting periods and could have a material impact on the Company:

IFRS 16, Leases

In January 2016, the IASB issued IFRS 16, *Leases,* which specifies how an IFRS reporter will recognize, measure, present and disclose leases, as well as the information to be provided about them. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17, Leases. The standard will be adopted for the period beginning on July 1, 2019. The adoption of this new standard will not have significant impact based on actual lease contracts of the Company as of July 1, 2019

3. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions about future events that affect the amounts reported in the financial statements and related notes to the financial statements. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates and these differences could be material.

The areas which require management to make significant judgments, estimates and assumptions include, but are not limited to, the following:

i. Impairment of non-financial assets

Asset groups are reviewed for an indication of impairment at each statement of financial position date or when a triggering event is identified. This determination requires significant judgment. Factors which could trigger an impairment are the following: very negative trends in the industry or economic conditions, including graphite prices, changes in exchange rates, changes in mineral reserves, changes in graphite grade or recovery, and/or declines in market capitalization of the Company.

The management has determined that an indication to the effect that non-financial assets could be irrecoverable happened during the year ended June 30, 2019.

On June 30, 2019, the Company has established the recoverable amounts with respect to non-financial assets by deducting from the fair value the disposal costs, the fair value having been evaluated on the basis of the projected cashflow, based on project's assumptions and relying on information available at the time the impairment test was performed. The Company has determined that the recoverable amounts exceed the book value and therefore no impairment charge was recorded.

The non-financial recoverable amounts are based on numerous assumptions and may differ significantly from actual recoverable amounts. The recoverable amounts are determined, in part, on certain factors that may be partially or totally outside of the Company's control, such as the capital costs of the Lac Guéret project, which will be committed to the execution of the project and following the planned construction schedule, the estimated production, the ore grade, the graphite sales prices at short and long terms, the particle size distribution, the exchange rate (US$1.0= $1.3284), the operating costs and the discount rate (13.25%), which are all based on the analysis of the risks

3. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES (CONTINUED)

associated to the projected cashflow and relying on information available at the time the impairment test was performed.

This evaluation involves a comparison of the estimated recoverable amounts of non-financial assets to their carrying values. The recoverable amounts estimate may differ from actual recoverable amounts and these differences may be significant and could have a material impact on the Company's financial position and results of operations.

Graphite sales prices variations and the discount rate are the assumptions which have the highest impact on the estimation of the non-financial assets recoverable amounts. The estimated recoverable amounts may be affected by one or more changes in the assumptions used. Any significant change in evaluations in subsequent periods could lead to a loss in value. If the current graphite sales prices are representative of the long-term prices, this could lead to a loss of value. An increase of 0.25% of the discount rate could lead to a loss of value. If the start of the commercial production was to be delayed, this could also lead to a loss of value.

ii. Income taxes and recoverability of potential deferred tax assets

In assessing the probability of realizing income tax assets that could be recognized, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. The Company considers whether relevant tax planning opportunities are within its control, are feasible and are within management's ability to implement. Examination by applicable tax authorities is supported based on individual facts and circumstances of the relevant tax position examined in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. Also, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred tax assets. The Company reassesses unrecognized income tax assets at each the end of reporting period.

The determination of income tax expense and deferred income tax involves judgment and estimates as to the future taxable earnings, expected timing of reversals of deferred tax assets and liabilities and interpretations of laws in Canada, including the rules and laws related to flow-through share financings. The Company is subject to assessments by tax authorities that may interpret the tax law differently. Changes in these estimates may materially affect the final amount of deferred income taxes or the timing of tax payments.

iii. Fair value of embedded derivative

The convertible debentures issued by the Company include conversion and early redemption options, which are considered as Level 3 financial instruments. The derivative is measured at fair value through profit and loss, and its fair value must be measured at each reporting period, with subsequent changes in fair value recorded in the statement of loss and comprehensive loss. A derivative valuation model is used, and includes management's assumptions, to estimate the fair value. Detailed assumptions used in the model to determine the fair value of the embedded derivative as of June 30, 2018 are provided in Note 8.

(Expressed in Canadian dollars)

4. GOVERNMENT ASSISTANCE

In August and November 2018, the Company finalized two contribution agreements with the Ministère de l'Énergie et des Ressources naturelles represented by the Programme d'appui à la recherche et à l'innovation du domaine minier (PARIDM) and the Ministère de l'Économie et de l'Innovation (MEI) represented by its Innovation Program to financially assist the Company in the development of processes for the recovery of graphite flotation residues. Under these agreements and subject to certain conditions, the Company may receive reimbursements of expenses of up to $ 213,980 for the period from April 18, 2018 to August 18, 2019.

In October and November 2016, the Company entered into three contribution agreements with the National Research Assistance Council of Canada represented by its Industrial Research Assistance Program (NRC-IRAP), the Ministère de l'Économie, de la Science et de l'Innovation (MESI) and Innovation et Développement Manicouagan (ID Manicouagan) in order to financially assist the Company in the detailed study of value-added graphite products. Under the terms of these agreements and subject to specific conditions, the Company is eligible for expense reimbursements up to $657,000 for the period from September 6, 2016 to May 16, 2019 (previously September 28, 2018 before the amendment of the period).

As part of the contribution agreements, the Company accrued government assistance as detailed below:

	As of June 30,	
	2019	**2018**
	$	**$**
Amount received during the year	**295,806**	**301,892**
Amount recognized in the statement of loss and comprehensive loss	**280,813**	**334,366**
Amount receivable	**113,000**	**68,663**

For the year ended June 30, 2019, the Company recorded a provincial SR&ED tax credit of $53,306 (2018: $102,242) as government assistance in the statement of loss (income) and comprehensive loss (income).

5. INVESTMENT IN ASSOCIATE

As of June 30, 2019, the Company held a 19% interest (2018: 24%) in NanoXplore Inc. ("NanoXplore"). NanoXplore is a manufacturer and supplier of high-volume graphene powder for use in industrial markets as well as standard and custom graphene enhanced thermoplastic products to many customers in transportation, packaging, electronics and other industrial sectors. On August 29, 2017, NanoXplore became a public company listed on the TSX Venture Exchange (TSX.V: GRA) named NanoXplore Inc., with its head office in Montréal, Quebec, Canada, upon completion of a reverse takeover.

On March 27, 2018, NanoXplore has completed a private placement of 6,060,100 common shares of Class A for gross proceeds of $10,000,155 which the Company purchased 606,100 common shares Class A for an aggregate amount of $1,000,065. The Company also obtained 303,050 warrants for NanoXplore maturing on March 27, 2020, with an exercise price of $2.30.

On August 2, 2017, the Company purchased 2,222,223 subscription receipts of NanoXplore for a consideration of $1,000,000. Upon the closing of the reverse takeover on August 29, 2017, the subscription receipts were converted into 2,222,223 common shares and 1,111,111 warrants of NanoXplore. Prior to the closing of the reverse takeover, NanoXplore Inc. completed the conversion of its common shares on the basis of 1.0 to 40.0667 common shares outstanding. The warrants acquired expire on August 2nd, 2019, with an exercise price of $0.70 (Note 17).

(Expressed in Canadian dollars)

5. INVESTMENT IN ASSOCIATE (CONTINUED)

As a result of various financings and exercise of options and warrants in NanoXplore, the Company's ownership interest has moved from 24% to 19% during the current year. These dilutions resulted in deemed dispositions of the ownership interest in NanoXplore and the Company recorded a gain on dilution of investment in associate for a total amount of $5,370,000.

The investment in NanoXplore has been accounted for using the equity method:

	Years ended June 30, 2019	2018
	$	$
Balance as of July 1st	**3,994,235**	**879,160**
Acquisition of investments (at cost, net of warrants)	**-**	**1,833,065**
Gain on dilution of investment in associate	**5,370,000**	**2,769,010**
Share of loss and comprehensive loss for the year	**(1,926,500)**	**(1,487,000)**
Balance as of June 30	**7,437,735**	**3,994,235**

As of June 30, 2019, the stock market value of the shares held by the Company in NanoXplore is $25,292,666.

Financial assets through profit or loss include NanoXplore's warrants earned on the Company's investment through private placements during the prior year.

	As of June 30, 2019	2018
	$	$
Balance as of July 1st	**1,471,000**	**-**
Acquisitions	**-**	**167,000**
Change in fair value	**(910,000)**	**1,304,000**
Balance as of June 30	**561,000**	**1,471,000**

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.

(Expressed in Canadian dollars)

5. INVESTMENT IN ASSOCIATE (CONTINUED)

The following summarized financial information of NanoXplore includes fair value adjustments made at the time of the acquisition of the interest:

	Years ended June 30, 2019	Years ended June 30, 2018
	$	**$**
Current assets	**51,292,389**	**20,034,607**
Cash (included in current assets)	**27,819,140**	**15,268,666**
Non-current assets (including patents and technology)	**42,812,345**	**8,273,764**
Current liabilities	**23,251,943**	**5,387,730**
Non-current liabilities	**31,497,066**	**5,741,020**
Revenues	**69,521,070**	**8,656,487**
Loss and comprehensive loss	**10,757,974**	**5,850,344**
Depreciation	**688,298**	**997,013**

6. PROPERTY, PLANT AND EQUIPMENT

	IT Equipment	Production Equipment	Construction in progress	Mineral property under development	Total
	$	$	$	$	$
Balance as of July 1, 2018	**87,683**	**3,661,457**	**14,301,353**	**33,732,656**	**51,783,149**
Additions	124,805	9,465,983	14,666,835	-	24,257,623
Borrowing costs	-	-	773,211	-	773,211
Depreciation	(18,062)	-	-	-	(18,062)
Balance as of June 30, 2019	**194,426**	**13,127,440**	**29,741,399**	**33,732,656**	**76,795,921**
As of June 30, 2019					
Cost	212,488	13,127,440	29,741,399	33,732,656	76,813,983
Accumulated depreciation	(18,062)	-	-	-	(18,062)
Net book value	**194,426**	**13,127,440**	**29,741,399**	**33,732,656**	**76,795,921**

(Expressed in Canadian dollars)

6. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	IT Equipment	Production Equipment	Construction in progress	Mineral property under development	Total
	$	$	$	$	$
Balance as of July 1st, 2017	**-**	**-**	**2,887,130**	**33,732,656**	**36,619,786**
Additions	87,683	3,661,457	10,625,681	-	14,374,821
Borrowing costs	-	-	788,542	-	788,542
Depreciation	-	-	-	-	-
Balance as of June 30, 2018	**87,683**	**3,661,457**	**14,301,353**	**33,732,656**	**51,783,149**
As of June 30, 2018					
Cost	87,683	3,661,457	14,301,353	33,732,656	51,783,149
Accumulated depreciation	-	-	-	-	-
Net book value	**87,683**	**3,661,457**	**14,301,353**	**33,732,656**	**51,783,149**

Capitalized borrowing costs include the accretion on convertible debentures (see note 8).

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of:

	As of June 30, 2019	As of June 30, 2018
	$	**$**
Trade payables	**1,039,355**	**2,039,762**
Accrued liabilities	**4,730,149**	**1,835,256**
Payroll payable	**91,591**	**-**
	5,861,095	**3,875,018**

8. CONVERTIBLE DEBENTURES

On June 11, 2014, the Company completed a private placement financing of convertible debentures (the "Debentures") for gross proceeds of $ 4,150,000. Debentures have the following characteristics:

* The Company may trigger the conversion of the Debentures and redeem them early in certain circumstances:
    * If the Company carries out a construction project financing for the Lac Guéret project and issues common shares under this financing at a price per common share greater than $1.00 (the "price of project financing "), it will have the right to force the conversion of all Debentures to a conversion price equal to the price of the project financing minus a 10% discount.

* The Debentures have matured on June 11, 2019. They bear interest at the fixed annual rate of 12%, with interest being paid semi-annually on June 11 and December 11 of each year. Under the terms of the Debentures, the Company has the option to pay up to 50% of the semi-annual interest due on the Debentures in common shares.

* Holders of the Debentures had the right to convert the capital of the Debentures into common shares at a conversion price of $ 0.845 per common share and all accrued and unpaid interest at a conversion price which will be determined by reference to the market price of the Common Shares at the time of settlement.

* In the event that the Company, before repaying the capital of the Debentures, proceeds to the issue of common shares or other convertible securities at a price of less than $ 0.65 per security (the "subsequent financing"), the Debentures Conversion Price will be the same as that of a Subsequent Secured Security, plus a 30% Bonus, provided the conversion price is in no case less than $ 0.63 per Security.

* The Company has issued to the holder of the Debentures a total of 2,075,000 common share purchase warrants (the "Warrants"), each giving the holder the right to purchase one common share of the Corporation. Corporation (the "Common Shares") at a price of $ 0.91 for a period of 24 months following the closing of the transaction. The fair value of the warrants was estimated at $ 315,404 using the Black-Scholes model that was incorporated into the convertible bond pricing model (estimated life of two years, interest rate). 1.07% risk free, 60% volatility, nil waiver rate and expected stock price performance of nil). The Company incurred transaction costs of $ 15,230. The warrants expired on June 11, 2016.

The Debentures are compound financial instruments, comprising a debt portion (“Host”) and conversion and early redemption options portion (“Derivative”), and they are presented in their entirety as financial liabilities in the statements of financial position. The initial carrying amount of $2,821,313 for the Host represents the residual amount of the proceeds after separating out the $1,013,283 fair value of the Derivative and the $315,404 of the Warrants valuation. Transaction costs were allocated on a pro rata basis between the Host and the Warrants. The following table shows the change in the carrying value of the Debentures for the years ended June 30, 2019 and 2018:

(Expressed in Canadian dollars)

8. CONVERTIBLE DEBENTURES (CONTINUED)

	Year ended June 30, 2019		
	Host	Derivative	Total
	$	$	$
Balance as of July 1st	**3,624,816**	**2,424,688**	**6,049,504**
Accretion	325,184	-	325,184
Change in fair value of derivative	-	(2,424,688)	(2,424,688)
Debentures repaid	(3,950,000)	-	(3,950,000)
Balance as of June 30	**-**	**-**	**-**

	Year ended June 30, 2018		
	Host	Derivative	Total
	$	$	$
Balance as of July 1st	**3,477,936**	**4,327,857**	**7,805,793**
Debentures converted	(167,612)	(244,074)	(411,686)
Change in fair value of derivative	-	(1,659,095)	(1,659,095)
Accretion	314,492	-	314,492
Balance as of June 30	**3,624,816**	**2,424,688**	**6,049,504**

On July 18, 2017, an amount of $200,000 of debentures was converted into 236,686 common shares of the Company.

The debentures were repaid in full on June 11, 2019.

The Debentures and the Derivative were valued using a convertible bond valuation pricing model. The following key assumptions were used in that model as at June 30, 2018.

Expected life	1
Expected volatility *	37 %
Rate spread	13 %

* The expected volatility is based on past volatility of the Company's stock and the volatility of a mining sector stock index. In order to evaluate the derivative component, the credit spread was calibrated to 13% in 2018 taking into account the mining sector market.

The following other key assumptions were also retained as they are part of the characteristics of the Debentures:

- The timing and likelihood of any subsequent financing and the price of the shares issued on the latter;
- The timing and likelihood of a possible financing for the construction of the Lac Guéret project and the price of the shares issued with this financing.

(Expressed in Canadian dollars)

8. CONVERTIBLE DEBENTURES (CONTINUED)

Net finance costs consist of:

	Years ended June 30,	
	2019	**2018**
	$	**$**
Nominal interest on the principal amount	**448,027**	**474,050**
Interest – Convertible debentures accretion	**325,184**	**314,492**
Less: Borrowing costs capitalized	**(773,211)**	**(788,542)**
Gain on embedded derivative (change in fair value)	**(2,424,688)**	**(1,659,095)**
	(2,424,688)	**(1,659,095)**

9. SHARE CAPITAL

(a) Authorized

An unlimited number of common shares without value which confer to each shareholder the right to vote at any meeting of the shareholders, except at meetings which only holders of special shares are entitled to attend, receive dividends declared by the Company thereon and share the residual property upon dissolution of the Company.

The Company has an unlimited number of special shares without value which include certain rights and privileges. No special shares have been issued.

(b) Share issuances

On December 21, 2018, the Company issued an aggregate of 194,262 common shares at a price per share of $0.61 in payment of $118,500 in interest due and payable under its Debentures. The balance of the interest owing under the Debentures, being $118,500, has been paid in cash.

On June 28, 2018, the Company issued an aggregate of 69,299 common shares at a price per share of $1.71 in payment of $118,500 in interest due and payable under its Debentures. The balance of the interest owing under the Debentures, being $118,500, has been paid in cash.

On January 4, 2018, the Company completed a private placement in which it issued 18,750,000 common shares at a price of $2,40 per share for aggregate gross proceeds of $45,000,000. The Company paid $2,250,000 in commission and $204,883 were incurred in other private placement issuance costs.

On December 11, 2017, the Company issued an aggregate of 47,212 common shares at a price per share of $2.51 in payment of $118,500 in interest due and payable under its Debentures. The balance of the interest owing under the Debentures, being $118,500, has been paid in cash.

On July 18, 2017, $200,000 of Debentures has been converted into 236,686 common shares of the Company.

(Expressed in Canadian dollars)

10. STOCK OPTIONS

The Company has an incentive stock option plan (the "Plan") whereby it can grant to employees, directors, officers and consultants' options to purchase its shares. The Plan provides for the issuance of stock options to acquire a maximum of 11,000,000 of the Company's issued and outstanding capital. The terms and conditions of each option granted under the Plan will be determined by the Board of Directors. Options will be priced in the context of the market and in compliance with applicable securities laws and exchange guidelines. Consequently, the exercise price for any stock option shall not be lower than the market price of the underlying common shares at the time of grant. The Board shall determine the vesting period and the term of stock options granted under the Plan, provided that no stock option shall be outstanding for a period greater than ten years.

In the course of this year, the Company has not issued any options. During the year of 2018, the Company granted 400,000 options to directors, officers, consultants and employees of the Company. The weighted average fair value of options granted, as estimated at the time of the grant, was $1.30 per option. This was calculated using the Black-Scholes option pricing model with the following assumptions: option exercise price of $2.11 which corresponds to the stock price at the time of grant, estimated life of five years, risk-free interest rate of 1.98%, volatility of 75% (based on the Company's historical volatility) and no forecasted dividend yields. The vesting period for 3,240,000 options is one third upon grant, one third vesting one year after the grant, and the last third vesting two years after the grant.

The following table reflects the continuity of options for the years ended June 30, 2019 and 2018:

	Number of options	**Weighted average exercise price**
Balance as of July 1, 2018	**8,058,334**	**$0.91**
Expired	(532,778)	$1.15
Forfeited	(135,556)	$1.27
Exercised	(220,000)	$0.48
Balance as of June 30, 2019	**7,170,000**	**$0.90**
Balance as of July 1, 2017	**10,408,333**	**$0.80**
Granted	400,000	$2.11
Forfeited	(133,332)	$1.27
Exercised	(2,616,667)	$0.62
Balance as of June 30, 2018	**8,058,334**	**$0.91**

During the years ended June 30, 2019 and 2018, 220,000 and 2,616,667 options were exercised for total proceeds of $106,600 and $1,624,917, respectively. The weighted average price per share at the dates of the exercise was $1.11 and $2.06, respectively.

(Expressed in Canadian dollars)

10. STOCK OPTIONS (CONTINUED)

As of June 30, 2019, the Company had the following options outstanding:

Options outstanding as of June 30, 2019			Options exercisable as of June 30, 2019		
Number	Weighted average exercise price	Weighted average remaining contractual life (years)	Number	Weighted average exercise price	Weighted average remaining contractual life (years)
7,170,000	$0.38 – $2.54	1.19	7,036,667	$0.38 – $2.54	1.14

Share-based compensation costs for the year ended June 30, 2019 totalled $259,899 (2018: $1,257,629): $110,850 (2018: $765,920) included in the statements of loss (income) and comprehensive loss (income) and $149,049 (2018: $491,709) included in the capitalized PP&E.

11. LOSS (INCOME) PER SHARE

	Years ended June 30, 2019	2018
	$	$
Loss (income) attributable to common shares	**(839,913)**	**1,115,553**
Weighted average number of common shares	**136,103,236**	**124,850,032**
Dilutive effect on stock options	**103,704**	**-**
Weighted average of diluted common shares	**136,206,940**	**124,850,032**
Loss (income) per share – Basic and diluted	**(0,01)**	**0,01**

The effect of potential issuances of shares under options would be anti-dilutive for the year ended June 30, 2018, and accordingly, basic and diluted losses per share are the same. The effects of potential share issuances of the Debentures were also considered and had no dilutive impacts.

12. INCOME TAXES

The major components of income tax expenses are as follows:

	Years ended June 30, 2019	2018
	$	$
Current taxes	-	-
Deferred taxes	-	-
Quebec mining taxes – Origination of temporary differences	-	-
Total tax expenses	-	-

(Expressed in Canadian dollars)

12. INCOME TAXES (CONTINUED)

The provision for income taxes presented in the financial statements is different from what would have resulted from applying the combined Canadian statutory tax rate as a result of the following:

	Years ended June 30, 2019	Years ended June 30, 2018
	$	$
(Loss) income before income taxes	839,913	(1,115,553)
Combined federal and provincial income tax at 26.7% (26.8% in 2018)	224,000	(298,000)
Non-deductible expenses	(951,000)	(582,698)
Tax effect of unrecognized temporary differences and tax losses	727,000	880,698
Deferred income tax expense	-	-

The analysis of deferred income tax liabilities is as follows:

	As of June 30, 2019	As of June 30, 2018
	$	$
Deferred income tax assets		
Non-capital losses carried forward	3,809,000	3,776,000
Deferred income tax liabilities		
E&E assets	(3,398,000)	(3,700,000)
Realized and unrealized gain on financial assets through profit or loss and on investment in associate	(411,000)	(76,000)
Mining duties tax	(2,509,000)	(2,509,000)
Deferred income tax liabilities, net	(2,509,000)	(2,509,000)

The deferred tax balance at June 30, 2019 falls due in more than 12 months.

The tax effects of the following temporary differences have not been recognized in the financial statements:

	As of June 30, 2019	As of June 30, 2018
	$	$
Temporary differences attributable to:		
Non-capital losses	5,585,000	4,690,000
Share issue costs	580,000	746,000
Income tax benefit on mining tax	665,000	665,000
	6,830,000	6,101,000

(Expressed in Canadian dollars)

12. INCOME TAXES (CONTINUED)

As of June 30, 2019, the Company had accumulated non-capital losses for tax purposes which can be used to reduce taxable income in the future amount to approximately $34,195,000 ($28,577,000 as at June 30, 2018).

These losses will expiry as follows:

	Federal $	Quebec $
Non-capital loss carry forwards* expiring in		
2033	**3,247,000**	**3,239,000**
2034	**3,890,000**	**3,881,000**
2035	**6,979,000**	**6,974,000**
2036	**4,625,000**	**4,621,000**
2037	**5,352,000**	**6,709,000**
2038	**4,484,000**	**4,476,000**
2039	**5,618,000**	**5,613,000**

* The deferred income tax on non-capital losses has been partially recorded.

13. CAPITAL MANAGEMENT

The capital structure of the Company as of June 30, 2019 consists of equity attributable to common shareholders comprising issued capital and equity reserves.

The Company manages and adjusts its capital structure based on available funds in order to support the development of its Lac Guéret project. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company is not subject to any externally imposed capital requirements.

The property in which the Company currently has an interest is in the development stage; as such, the Company is dependent on external financing to fund its activities. In order to carry out planned engineering, procurement, construction of the Lac Guéret project and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. As at September 9, 2019, the Company sold all its shares of NanoXplore adding to its working capital. (Note 17)

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There have been no significant changes in the capital management notes, objectives, policies and proceedings during 2019 and 2018. Changes in capital are described in the statement of changes in equity.

(Expressed in Canadian dollars)

14. RELATED PARTY TRANSACTIONS

During the years ended June 30, 2019 and, 2018, the Company entered into the following transactions with related parties:

- Incurred royalties' expenses with NanoXplore of $50,000 (2018: $50,000) with respect to patent use rights (the Company had a significant influence on NanoXplore);
- Incurred rent and other office overhead expenses to 2227929 Ontario Inc. of $nil (2018: $58,500) with respect to the Company's Toronto office (a Company director is related to the party);
- Incurred R&D expenses with NanoXplore of $nil (2018: $63,169) with respect to laboratory services.

As of June 30, 2019, the balance due to the related parties amounted to $79,193 (2018: $481,387). The amounts outstanding are non-interest bearing, unsecured and due on demand.

The remuneration of directors and key management personnel during the year was as follows:

	Years ended June 30,	
	2019	**2018**
	$	**$**
Salaries, consulting fees and other benefits	**643,092**	**1,134,759**
Directors' fees	**278,387**	**107,940**
Share-based compensation – Management	**168,641**	**671,828**
Share-based compensation – Director	**20,560**	**138,243**
	1,110,680	**2,052,770**

In accordance with IAS 24, *Related Party Disclosures*, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including any directors (executive and non-executive) of the Company.

The Company is party to certain management contracts. Minimum commitments under these contracts are approximately $575,000. These contracts require that maximum payments of approximately $1,895,000 be made upon the occurrence of certain events such as a change of control. As a triggering event has not taken place, the contingent payments have not been reflected in these financial statements.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's risk exposures and the impact on the Company's financial instruments are summarized below.

Fair value

The Company has determined that the carrying value of its short-term financial assets and financial liabilities, including cash, long-term debt due within one year, and accounts payable and accrued liabilities approximates their carrying value due to their short-term maturities.

As of June 30, 2018, the fair value of the Debentures (host) was $3,885,963. (Level 3 measurements).

The following table presents financial assets and financial liabilities measured at fair value in the statement of financial position in accordance with the fair value hierarchy. This hierarchy groups financial assets and financial liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and financial liabilities. The fair value hierarchy has the following levels:

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

The level in which the financial asset or financial liability is classified is determined based on the lowest level of significant input to the fair value measurement. The financial assets and financial liabilities measured at fair value in the statement of financial position are grouped into the fair value hierarchy as follows as of June 30, 2018:

Debentures (derivative): Level 3: $2,424,688.

This financial instrument is classified as a Level 3 financial instrument, since the implied volatility and the credit spread are considered unobservable inputs on the market. A derivative gain of $2,424,688 was realized and recognized in the statement of loss (income) and comprehensive loss (income) for the year ended June 30, 2019 (2018: unrealized gain of $1,659,095).

A decrease (increase) of 5% in the credit spread would have decreased (increased) the fair value of the derivative by $180,535 ($167,122) as at June 30, 2018.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Credit

The Company's cash is held in accounts with Canadian chartered banks. Management believes that the credit risk with respect to these financial instruments is remote.

Liquidity

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. The Company's accounts payable and accrued liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. The Company regularly evaluates its cash position to ensure preservation and security of capital and maintain liquidity. As of June 30, 2019, management estimates that funds available are sufficient to meet the Company's obligations, operating expenses and some development expenditures through June 30, 2020 (Note 1). As at September 9, 2019, the Company sold all its shares of NanoXplore adding to its working capital. (Note 17)

Currency (foreign exchange)

The Company is exposed to currency risk by incurring certain expenditures in currencies other than the Canadian dollar. The Company has determined that there is limited currency risk at this time.

As of June 30, 2019, the Company's cash was mainly held in Canada in Canadian dollars.

The Company does not have other significant monetary assets and liabilities in currencies other than its functional currency.

Interest rate

The Company's cash balance is subject to interest rate cash flow risk, as it carries a variable rate of interest. The Company's interest rate risk management policy is to purchase highly liquid investments with a term to maturity of one year or less on the date of purchase.

Based on the cash as of June 30, 2019, an increase (decrease) of 1% in interest rates could result in a increase (decrease) in the annual net loss of approximately $106,184.

The Company's accounts payable and accrued liabilities are non-interest bearing.

(Expressed in Canadian dollars)

16. COMMITMENTS

The Company's financial commitments of the leases agreement covering its office are as follows:

	As of June 30, 2019
	$
Within 1 year	**244,392**
1 to 5 years	**386,526**

Also, the Company and the Innu Council of Pessamit signed the Mushalakan Agreement, an Impact Benefit Agreement ("IBA"). Under this agreement, both parties commit to develop a specific training and employment strategy for the Pessamiuilnut. Additionally, 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.

17. SUBSEQUENT EVENTS

On August 2, 2019, the Company exercised its 1,111,111 warrants of NanoXplore at a price of $ 0.70. The market value of NanoXplore's stock on this date was $ 1.44. The Company disbursed $ 777,778. After this transaction Mason Graphite holds 303 050 warrants of NanoXplore.

On September 9, 2019, the Company sold 22,188,333 common shares for a total net consideration of $ 28,172,015. These common shares, which represented 18.3% of NanoXplore and had been acquired through various private placements at a total cost of $ 4,477,843, for a cumulative net gain of $ 23,694,172. After this sale, Mason Graphite no longer holds any ordinary shares of NanoXplore.