ALABAMA GRAPHITE CORP.

Consolidated Financial Statements (Unaudited)

For the Nine Months Ended May 31, 2015 and 2014

(Expressed in Canadian dollars)

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM

CONSOLIDATED FINANCIAL STATEMENTS

These condensed interim consolidated financial statements have been prepared by management of the Company and have not been reviewed by the Company's independent auditor.

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

ALABAMA GRAPHITE CORP.

Condensed Interim Consolidated Statements of Financial Positions (Unaudited)

(Expressed in Canadian Dollars)

	Notes		May 31, 2015		August 31, 2014
ASSETS					
Current assets					
Cash and cash equivalents		$	622,567	$	1,286,897
Receivables			5,976		29,073
Prepaid expenses and deposits			96,314		8,981
			724,857		1,324,951
Deposit			24,930		21,716
Exploration and evaluation assets	5		5,085,054		3,882,765
Equipment	6		4,804		6,280
TOTAL ASSETS		$	5,839,645	$	5,235,712
LIABILITIES					
Current liabilities					
Accounts payable and accrued liabilities	10	$	148,040	$	125,004
Loans payable	7		-		257,952
			148,040		382,956
SHAREHOLDERS' EQUITY					
Share capital	8		10,298,672		8,735,746
Contributed surplus	9		2,402,522		2,364,806
Deficit			(7,009,589)		(6,247,796)
			5,691,605		4,852,756
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$	5,839,645	$	5,235,712

Nature and continuance of operations (Note 1)

The consolidated financial statements were authorized for issue by the board of directors on July 29, 2015 and were signed on its behalf by:

"Ron Roda" , *Director*
Ron Roda

"Daniel Goffaux" , *Director*
Daniel Goffaux

See accompanying notes to the consolidated financial statements

ALABAMA GRAPHITE CORP.
Condensed Interim Consolidated Statements of Loss and Comprehensive Loss (Unaudited)
(Expressed in Canadian Dollars)

	Notes	Three Months Ended May 31, 2015	Three Months Ended May 31, 2014	Nine Months Ended May 31, 2015	Nine Months Ended May 31, 2014
EXPENSES					
Amortization		$ 492	$ 775	$ 1,476	$ 2,288
Automobile expenses		12,021	2,558	33,278	8,565
Consulting	10	73,683	70,556	333,358	138,978
Interest expense		(3,777)	5,418	(2,929)	30,485
Office and administration		36,611	57,265	95,795	96,800
Professional services	10	32,180	37,139	112,554	120,203
Regulatory and filing		11,996	58,133	33,621	81,831
Rent		13,742	10,621	34,304	25,601
Share-based payments	10	29,595	-	37,716	643,121
Travel and investor relations		60,961	103,086	151,565	154,693
Net loss before other items		267,504	345,551	830,738	1,302,565
Interest (income)		(71)	(422)	(818)	(422)
Loss (gain) on foreign exchange		(2,948)	(4,985)	(68,127)	34,770
Net loss and comprehensive loss for the period		$ 264,485	$ 340,144	$ 761,793	$ 1,336,913
Basic and diluted loss per share		$ -	$ -	$ 0.01	$ 0.03
Weighted average number of common shares outstanding		97,545,981	70,561,483	92,483,913	51,482,748

See accompanying notes to the consolidated financial statements

ALABAMA GRAPHITE CORP.
Condensed Interim Consolidated Statements of Changes in Shareholders' Equity (Unaudited)
For the Nine Months Ended May 31, 2015 and 2014
(Expressed in Canadian Dollars)

	Share Capital		Share		Shares		Total
	Number of Shares	Amount	Subscription Receivable	Contributed Surplus	Allotted and Un-issued	Deficit	Shareholders' Equity
Balance as at August 31, 2013	34,984,128	5,457,684	-	1,362,159	30,000	(4,476,558)	2,373,285
Net loss for the period						(996,769)	(996,769)
Shares issued for cash	31,589,285	2,220,000					2,220,000
Warrants exercised	2,667,500	248,500					248,500
Shares issued for property finders' fee	150,000	30,000			(30,000)		-
Share issuance costs		(198,400)					(198,400)
Fair value for finder's warrants		(338,637)		338,637			-
Shares subscribed					112,000		112,000
Share-based payments				643,121			643,121
Balance as at February 28, 2014	69,390,913	7,419,147	-	2,343,917	112,000	(5,473,327)	4,401,737
Net loss for the period						(340,144)	(340,144)
Warrants exercised	2,031,250	207,350			(112,000)		95,350
Share issuance costs		(40,017)					(40,017)
Share subscription receivable re warrant exercised			(70,000)				(70,000)
Balance as at May 31, 2014	71,422,163	7,586,480	(70,000)	2,343,917	-	(5,813,471)	4,046,926
Net loss for the period						(434,325)	(434,325)
Shares issued for cash							-
Share-based payments				20,889			20,889
Fair value of warrants issued for finder's fee							-
Warrants exercised	11,465,414	1,141,291	70,000				1,211,291
Options exercised	55,000	7,975					7,975
Balance as at August 31, 2014	82,942,577	8,735,746	-	2,364,806	-	(6,247,796)	4,852,756
Net loss for the period						(497,308)	(497,308)
Share-based payments				8,121			8,121
Warrants exercised	8,503,667	849,737					849,737
Balance as at February 28, 2015	91,446,244	9,585,483	-	2,372,927	-	(6,745,104)	5,213,306
Net loss for the period						(264,485)	(264,485)
Share-based payments				29,595			29,595
Warrants exercised	7,902,369	713,189					713,189
Balance as at May 31, 2015	99,348,613	$ 10,298,672	$ -	$ 2,402,522	$ -	$ (7,009,589)	$ 5,691,605

See accompanying notes to the consolidated financial statements

ALABAMA GRAPHITE CORP.
Condensed Interim Consolidated Statements of Cash Flows (Unaudited)
For the Nine Months Ended May 31, 2015 and 2014
(Expressed in Canadian Dollars)

		2015		2014
OPERATING ACTIVITIES				
Net loss for the year	$	(761,793)	$	(1,336,913)
Add items not affecting cash:				
Amortization		1,476		2,288
Share-based payments		37,716		643,121
Changes in non-cash working capital items:				
Receivables		23,097		(19,087)
Prepaid expenses and deposits		(87,333)		(7,131)
Accounts payable and accrued liabilities		23,036		(129,230)
		(763,801)		(846,952)
FINANCING ACTIVITIES				
Loans payable (repaid)		(257,952)		(242,258)
Shares issued for cash		1,562,926		2,605,850
Share issuance costs		-		(238,417)
Shares allotted and un-issued		-		-
		1,304,974		2,125,175
INVESTING ACTIVITIES				
Deposit		(3,214)		(628)
Acquisition of exploration and evaluation assets		(14,694)		-
Exploration and evaluation expenditures incurred		(1,187,595)		(397,597)
		(1,205,503)		(398,225)
Increase (decrease) in cash and cash equivalents during the period		(664,330)		879,998
Cash and cash equivalents, beginning of the period		1,286,897		108,235
Cash and cash equivalents, end of the period	$	622,567	$	988,233
Supplemental Cash Flow Information:				
Issue of share capital for property	$	-	$	511,000
Issue of share for share issuing costs	$	-	$	60,000
Issue of warrants for property finder's fees	$	-	$	37,217
Issue of share capital for service	$	-	$	142,500
Fair value of finder's warrants	$	-	$	37,217

See accompanying notes to the consolidated financial statements

1. Nature and Continuance of Operations

The Company was incorporated under the Business Corporations Act of British Columbia on April 13, 2006 as 0754882 B.C. Ltd., and subsequently changed its name to TrustMark Auto Group, Inc. ("TrustMark") on April 24, 2006. TrustMark was engaged in the business of providing franchise quality products and services to independent used vehicle dealers. During the fiscal year ended August 31, 2009, TrustMark decided to close down its only corporate dealership in British Columbia and accordingly, its business of selling used vehicles.

On June 23, 2011, the Company changed its name to Keymark Resources Inc. On June 28, 2011, the Company effected a consolidation of its share capital on a 10 for 1 basis and the Company's common shares commenced trading on the Canadian Securities Exchange ("CSE") (formerly the Canadian National Stock Exchange under the trading symbol KKR. On August 28, 2012, the Company changed its name to Alabama Graphite Corp. and commenced trading under the trading symbol ALP. As a result of European investor interest in the Company, the Company also has its common shares quoted on the Frankfurt Stock Exchange for trading under the symbol, 1AG.F since October 19, 2012. On May 5, 2014, the Company delisted its common shares from the CSE and started trading its common shares on the TSX Venture Exchange (the "TSXV") under the same symbol ALP. On the same day, the Company also commenced trading on the OTCQB venture stage marketplace under the symbol ABGPF. On June 23, 2014, the Company up-graded its listing from the OTCQB and commenced trading on the OTCQX under the same symbol.

The Company's office and principal office is located at Suite 804 – 750 West Pender Street, Vancouver, British Columbia, V6C 2T7.

The Company is in the business of acquiring, exploring and developing graphite mineral properties. The Company is currently engaged in exploration and evaluation of the graphite properties in Alabama, USA and northern Ontario, Canada. There has been no determination whether the Company's exploration and evaluation assets contain mineral reserves and resources that are economically viable. The Company has a National Instrument 43-101 compliant mineral resource estimate for its Coosa Graphite Property in Alabama which was prepared in September, 2013 and revised on March 26, 2014 which was filed on SEDAR on May 2, 2014.

Although the Company has taken steps to verify title to mineral properties in which it has an interest in accordance with industry standards for the current stage of exploration for such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements, unregistered claims and non-compliance with regulatory and environment requirements.

These unaudited consolidated financial statements have been prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. Different bases of measurement may be appropriate if the Company is not expected to continue operations for the foreseeable future. At May 31, 2015, the Company had accumulated deficit of $7,009,589 (August 31, 2014 – deficit of $6,247,796). The Company incurred losses of $761,793 during the nine months ended May 31, 2015 (2014 - $1,336,913). The Company's ability to continue as a going concern is dependent upon its ability to raise adequate financing and generate profitable operations in the future. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

2. Basis of Presentation

Statement of compliance

The condensed unaudited interim consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). Specifically they have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting".

This financial report does not include all of the information required of a full annual financial report and is intended to provide users with an update in relation to events and transactions that are significant to an understanding of the changes in financial position and performance of the Company since the end of the last annual reporting period. It is therefore recommended that this financial report be read in conjunction with the annual audited consolidated financial statements of the Company for the year ended August 31, 2014.

Basis of preparation

These unaudited consolidated financial statements have been prepared on an accrual basis and are based on historical costs, modified where applicable. They are presented in Canadian dollars, which is the Company's functional currency.

Significant accounting judgments, estimates and assumptions

The preparation of the Company's unaudited consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Critical judgments in applying accounting policies:

The following are critical judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements:

- the determination that the Company will continue as a going concern for the next year;
- the determination that there have been no events or changes in circumstances that indicate the carrying amount of exploration and evaluation assets may not be recoverable; and
- the determination that the functional currency of AGC is the Canadian dollar.

Foreign currency translation

These unaudited consolidated financial statements are presented in Canadian dollars which is the parent company's functional and presentation currency. The functional currency of the subsidiary that has operations in United States is the Canadian dollar.

2. Basis of Presentation (continued)

Transactions and balances:

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in profit or loss in the statement of loss and comprehensive loss in the period in which they arise.

Exchange differences arising on the translation of non-monetary items are recognized in other comprehensive income in the statement of loss and comprehensive loss to the extent that gains and losses arising on those non-monetary items are also recognized in other comprehensive income. Where the nonmonetary gain or loss is recognized in profit or loss, the exchange component is also recognized in profit or loss.

3. Significant Accounting Policies

Principles of consolidation

These unaudited consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Alabama Graphite Company, Inc. ("AGC"). All significant inter-company balances and transactions, including unrealized income and expenses arising from inter-company transactions, were eliminated on consolidation.

Share-based payments

The Company has adopted an employee stock option plan. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. 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 the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to contributed surplus. The fair value of options is determined using a Black–Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

Financial instruments

The Company classifies its financial instruments in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale and financial liabilities. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition.

Financial assets are classified at fair value through profit or loss when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

3. Significant Accounting Policies (continued)

Financial instruments (continued)

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortized cost. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Company's intention to hold these investments to maturity. They are subsequently measured at amortized cost. Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period.

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not suitable to be classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments and are subsequently measured at fair value. These are included in current assets. Unrealized gains and losses are recognized in other comprehensive income, except for impairment losses and foreign exchange gains and losses.

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortized cost. Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the group commits to purchase the asset.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. At each reporting date, the Company assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a significant and prolonged decline in the value of the instrument is considered to determine whether impairment has arisen. The Company does not have any derivative financial assets and liabilities.

Site rehabilitation obligations

Site rehabilitation obligations are recognized when a legal or constructive obligation arises. The liability is recognized at the present value of management's best estimate of the site rehabilitation obligation. The estimate is discounted to the present value using a discount rate specific to the obligation. When the liability is initially recorded the Company capitalizes the cost by increasing the carrying amount of the related long-lived assets. The liability is accreted to its present value at each reporting period, and the capitalized cost is amortized on the same basis as the related asset. Upon settlement of the liability, the Company may incur a gain or loss.

Exploration and evaluation assets

Costs incurred before the legal rights to undertake exploration and evaluation activities were acquired are expensed as incurred. The Company capitalizes all costs related to mineral properties on a property-by-property basis. Such costs include mineral property acquisition costs, exploration, evaluation and development expenditures, net of any recoveries. Costs are deferred until such time as the extent of mineralization has been determined and mineral property interests are either developed, the property is sold or the Company's mineral rights are allowed to lapse.

3. Significant Accounting Policies (continued)

Exploration and evaluation assets (continued)

From time to time, the Company may acquire or dispose of a mineral property interest pursuant to the terms of an option agreement. As such options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded at the time of the agreement. Option payments are recorded as property costs or recoveries when the payments are made or received. At the development stage, as when the mineral reserves are proven or the permit to operate the mineral property are received and financing to complete the development has been obtained, the capitalized costs of mineral property interests will be amortized on the unit-of-production method based upon estimated proven and probable reserves.

Management of the Company reviews the recoverability of the capitalized mineral properties at each reporting date and will recognize impairment in value based upon current exploration results, the prospect of further work being carried out by the Company, the assessment of future probability of profitable revenues from the property or from the sale of the property.

The amount shown for exploration and evaluation assets represents costs incurred net of write-downs and recoveries, and is not intended to represent present or future values.

Impairment of assets

The carrying amounts of the Company's equipment and exploration and evaluation assets are reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in the statement of loss and comprehensive loss.

The recoverable amount of assets is the greater of an asset's fair value less cost 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 the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years.

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

Equipment

Equipment is recorded at cost less accumulated amortization. Amortization is calculated on the declining balance method at the following rate:

Automobile	30% per annum

Additions during the year are amortized at one-half the annual rate.

3. Significant Accounting Policies (continued)

Basic and diluted loss per share

Loss per share is calculated using the weighted average number of common shares outstanding during the period. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on earnings per share is calculated presuming the exercise of outstanding options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period. However, the calculation of diluted loss per share excludes the effects of various conversions including the exercise of options and warrants that would be anti-dilutive.

The calculation also excludes common shares that are being held in escrow at period end where the terms of release are dependent on requirements other than the passage of time.

Income taxes

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax is provided using the balance sheet method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable income will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

4. Accounting Standards Issued But Not Yet Effective

The Company is currently measuring the impact that the following Standards will have on its financial statements:

- IFRS 9 "Financial Instruments"
- IAS 32 "Financial Instruments: Presentation"

5. Exploration and Evaluation Assets

Coosa Property, Alabama, USA

Pursuant to an agreement dated August 1, 2012 (the "Lease Agreement"), the Company has leased the mineral rights in respect of an area with a potential for graphite comprising of approximately 14,020 acres (the "Coosa Property") in Coosa County, Alabama, USA. In addition, the Company received an option of first refusal (the "Option") to lease the mineral rights in and to an adjacent area comprising approximately 27,515 acres.

Under the terms of the Lease Agreement, the Company leases the Coosa Property for successive renewable 5-year terms (not to exceed 70 years) in consideration for an initial cash payment of US$30,000 (paid) and annual advance royalty payments of US$10,000 commencing from July 1, 2015. The Company paid US$1,000 in respect of the grant of the Option. The Company has also agreed to pay the lessor a net smelter return royalty of 2% from the commercial production and sale of graphite from the properties, as well as royalties for precious metals and rare earths commercially produced and sold from the properties.

Pursuant to a Finder's Fee Agreement dated July 31, 2012, the Company issued 1,000,000 common shares relating to the acquisition of the Coosa Property and finding the Chief Executive Officer for the Company. The shares were valued at the market price of $0.19 per share for a total value of $190,000. The Company allocated $95,000 as a finder's fee for the acquisition cost of the property and $95,000 as a referral fee for referring the CEO of the Company.

In connection with the Lease Agreement, the Company is also committed to paying or issuing additional future consideration on the following basis:

(a) US$320,000 in cash (paid) for introducing the Coosa Property to the Company;
(b) 500,000 common shares of the Company (the "Finder's Shares") once the Company has secured the surface rights to the Coosa Property which shares are escrowed with 1/3 to be released after every 6 months;
(c) $100,000 upon receipt by the Company of a bankable feasibility study in respect of the leased property;
(d) $150,000 upon full permitting of the leased property; and
(e) Net smelter royalties of 0.5% up to an aggregate amount of $150,000 upon commencement of graphite operations on the Coosa Property.

For a period of five years after the date of the Lease Agreement and provided that the Company continues the exploration activities, lessor will provide to the Company a right of first refusal to acquire any and all mineral interests that lessor owns, controls or represents in Coosa County, Alabama.

In November 2012, the Company paid US$48,537 to exercise its right of first refusal to lease an additional 27,515 acres, bringing the total mineral acres under lease to 41,535 acres. The terms of this agreement are identical to the mineral lease dated August 1, 2012 such that the Company has prepaid for three years of the lease which is structured in five-year renewable tranches for the period of 70 years. The Company also issued 25,000 common shares of the Company valued at $16,000 pursuant to the option lease agreement.

On October 12, 2014, the Company obtained a permit to conduct surface exploration in Coosa County, Alabama, expiring on September 30, 2015. In accordance with the permit, the Company paid US$50,000 to the owner of the surface rights. This is in addition to the US$20,000 performance bond paid previously.

5. Exploration and Evaluation Assets (continued)

Chilton County Properties, Alabama, USA

Chestnut Creek Property

On August 5, 2014, the Company entered into a mining lease agreement whereby the Company acquired a 100% right to explore, develop and mine the Chestnut Creek Property located in Chilton County, Alabama for a period of 10 years renewable every five years thereafter for a maximum of 70 years. The Chestnut Creek Property comprises of approximately 1,160 acres located about 4 miles west of Coosa County line. In consideration, the Company has agreed to pay a net smelter royalty ("NSR") on Graphite and Vanadium (2%), precious metals (8%) and other minerals (5%) mined from the property. In addition, the Company has also agreed to payments as follows:

(1) US$17,400 on signing (paid);
(2) US$5 per acre per year starting on June 1, 2015 for the first ten years (See Note 12(e) – Events After the Reporting Period);
(3) At a rate to be negotiated every five years thereafter.

The Company has the right to purchase back one half of the Graphite NSR Royalty for a one-time payment of US$1,000,000. This right of re-purchase, if exercised, will not affect the other royalties.

Bama Property, Alabama

On September 1, 2014, the Company entered into a mining lease agreement whereby the Company acquired a 100% right to explore, develop and mine the Bama Property located in Chilton County, Alabama for a period of 10 years renewable every five years thereafter for a maximum of 70 years. The Bama Property comprises of approximately 200 acres located about 4 miles west of Coosa County. In consideration, the Company has agreed to pay a net smelter royalty on Graphite and Vanadium (2%), precious metals (8%) and other minerals (5%) mined from the property. In addition, the Company has also agreed the pay advance royalties, recoverable from payment of royalties, as follows:

(1) US$4,000 on signing (paid);
(2) A non-refundable payment of $45 per acre (US$9,000) upon execution of the lease as payment for the first five years of the lease (paid);
(3) US$10 per acre each year for the next five years commencing July 1, 2019; and
(4) Payment per acre rate to increase by US$5 per acre every five years thereafter.

Hearst Graphite Project, Northern Ontario, Canada

On August 16, 2013, the Company entered into an agreement to acquire a 100% interest in the Hearst Graphite Project ("Hearst Project") owned by Benton Resources Inc. ("Benton"), and located in Northern Ontario. The 16 claim units comprising the acquired property are located just east of the Zenyatta Albany deposit and measure 1.6 square kilometers in area.

On August 22, 2013, the Company paid $8,000 in cash and issued 2,000,000 of its common shares at a deemed price of $0.20 per share to Benton in exchange for the Hearst Project. Pursuant to the terms of the Agreement, 500,000 of the shares issued to Benton are subject to a 10-month trading restriction expiring on June 22, 2014, another 500,000 shares are subject to a 16-month trading restriction expiring on December 22, 2014 and 500,000 shares are subject to a 22-month trading restriction expiring on June 22, 2015.

5. Exploration and Evaluation Assets (continued)

Hearst Graphite Project, Northern Ontario, Canada (continued)

The Company issued 150,000 common shares as a finder's fee for the acquisition cost of the property and the shares were valued at the market price of $0.20 per share for a total value of $30,000.

Benton will also hold a 2% Net Smelter Royalty ("NSR") interest from all ore production at the Hearst Project, subject to the right of the Company under the Agreement to "buy back" 50% of Benton's NSR interest for $1,000,000.

5. Exploration and Evaluation Assets (continued)

During the nine months ended May 31, 2015, the Company incurred expenditures for exploration and evaluation assets as follows:

	Coosa County Property Alabama	Chilton County Properties Alabama	Hearst Graphite Project Ontario	Total
Acquisition Costs				
Balance, August 31, 2014	$ 566,859	$ 18,770	$ 438,000	$ 1,023,629
Additions :				
Option payments - cash	-	14,694	-	14,694
Balance, May 31, 2015	566,859	33,464	438,000	1,038,323
Deferred Exploration Costs				
Balance, August 31, 2014	2,815,146	-	43,990	2,859,136
Additions :				
Core logging and surveying	2,944	2,979	-	5,923
Drilling	149,782	-	-	149,782
Environmental & reclamation	2,914	3,195	-	6,109
Equipment rental	20,053	16,526	-	36,579
Excavation	48,818	68,667	-	117,485
Field and road works	75,427	16,913	-	92,340
Field supplies	26,520	1,887	-	28,407
Geological consultants	331,759	23,980	-	355,739
Metallurgical and assays	141,337	89,541	-	230,878
Permitting and legal	32,077	7,262	-	39,339
Repair and maintenance	2,671	4,548	-	7,219
Security	-	3,098	-	3,098
Surface exploration rights	56,515	23,830	-	80,345
Transportation and travelling	25,747	8,605	-	34,352
	916,564	271,031	-	1,187,595
Balance, May 31, 2015	3,731,710	271,031	43,990	4,046,731
Total Exploration and Evaluation Assets	$ 4,298,569	$ 304,495	$ 481,990	$ 5,085,054

5. Exploration and Evaluation Assets (continued)

During the year ended August 31, 2014, the Company incurred expenditures for exploration and evaluation assets as follows:

	Coosa County Property Alabama	Chilton County Properties Alabama	Hearst Graphite Project Ontario	Total
Acquisition Costs				
Balance, August 31, 2013	$ 566,859	$ 18,770	$ 438,000	$ 1,023,629
Additions :				
Option payments - cash	-	-	-	-
Balance, August 31, 2014	566,859	18,770	438,000	1,023,629
Deferred Exploration Costs				
Balance, August 31, 2013	2,106,236	-	-	2,106,236
Additions :				
Core logging and surveying	176,164	-	43,990	220,154
Drilling	73,192	-	-	73,192
Environmental & reclamation	9,693	-	-	9,693
Equipment rental	4,774	-	-	4,774
Field and road works	12,688	-	-	12,688
Field supplies	9,150	-	-	9,150
Geological consultants	258,319	-	-	258,319
Metallurgical and assays	100,088	-	-	100,088
Permitting and legal	38,833	-	-	38,833
Repair and maintenance	2,506	-	-	2,506
Surface exploration rights	3,242	-	-	3,242
Transportation and travelling	20,261	-	-	20,261
	708,910	-	43,990	752,900
Balance, August 31, 2014	2,815,146	-	43,990	2,859,136
Total Exploration and Evaluation Assets	$ 3,382,005	$ 18,770	$ 481,990	$ 3,882,765

6. Equipment

		Automobile
Cost:		
Balance, August 31, 2013, 2014. and May 31, 2015	$	11,025
Accumulated amortization:		
Balance, August 31, 2013	$	1,692
Additions		3,053
Balance, August 31, 2014		4,745
Additions		1,476
Balance, May 31, 2015		6,221
Net book value, May 31, 2015		4,804
Net book value, August 31, 2014	$	6,280

7. Loans Payable

On July 31, 2013, the Company executed a non-negotiable promissory note in the amount of US$550,116 which was the balance of the accounts payable to the drilling contractor at the time. This promissory note was secured (see footnote (1) below) against the Coosa Graphite Property with interest payable at 7% per annum and is due in accordance with the following provisions:

- US$10,000 on each of August 15 (paid), September 15 (paid) and October 15, 2013 (paid);
- US$30,000 on each of November 15 (paid) and December 15, 2013 (paid) and January 15, 2014 (paid);
- US$40,000 on each of February 15 (paid), March 15 (paid), April 15 (paid), May 15 (paid), June 15 (paid), July 15 (paid), August 15 (paid) and September 15, 2014 (paid); and
- The balance of the loan, including all principal and interest due thereon, on October 15, 2014 (paid).

		May 31 2015		August 31 2014
Payable not later than one year	$	-	$	257,952
Payable later than one year and not later than five years		-		-
	$	-	$	257,952
Payable in Cdn$	$	-	$	3,863
Payable in US$		-		234,011
Foreign exchange		-		20,078
	$	-	$	257,952
Exchange rate (Cdn$/US$)		n/a		1.0858

The balance of all the promissory notes payable at May 31, 2015 includes $ Nil (August 31, 2014 - $5,977) in accrued interest.

8. Share Capital

Authorized

Unlimited number of common shares without par value.

Issued and fully paid

At May 31, 2015, there were 99,348,613 issued and fully paid common shares (August 31, 2014 - 82,942,577).

During the nine months ended May 31, 2015

During the period, 13,717,000 warrants were exercised at the price of $0.10 per share and 2,589,286 BW Units were exercised at the price of $0.07 per unit and 99,750 BW Warrants were also exercised at the price of $0.10 per share for total proceeds of $1,562,926.

During the year ended August 31, 2014:

On September 4, 2013, the Company issued 150,000 common shares at a price of $0.20 per share as a finder's fee for the Hearst Property.

In November 2013, the Company completed a private placement of 875,000 units at price of $0.08 per unit for gross proceeds of $70,000. Each unit consisted of one common share and one-half of one transferable common share purchase warrant, with each warrant entitling the holder thereof to acquire one additional common share at a price of $0.12 per share for a period of two years from closing of the offering. The Company paid a finder's fee of 7% cash and 7% finder's warrants on the gross proceeds.

In January 2014, the Company completed a private placement of 30,714,285 units at price of $0.07 per unit for gross proceeds of $2,150,000. Each unit consisted of one common share and one transferable common share purchase warrant, with each warrant entitling the holder thereof to acquire one additional common share at a price of $0.10 per share for a period of three years from closing of the offering. The Company paid a finder's fee in cash for total of $193,500 and 2,764,286 broker's warrants. Holder of the broker's warrants is entitled to acquire one unit ("BW Unit") at a price of $0.07 per unit for period of two years from the closing date. Each BW Unit consists of one common share and one purchase warrant ("BW Warrant"). Each BW Warrant will entitle the holder to purchase one additional common share at a price of $0.10 per share for a period of three years from the closing date.

During the year ended August 31, 2014, a total of 16,164,164 warrants were exercised for total gross proceeds of $1,597,141 and 55,000 options were exercised for total gross proceeds of $7,975.

Stock options

On December 16, 2011, the Company adopted a new stock option plan pursuant to which it may grant incentive stock options to directors, officers, employees and consultants of the Company or any affiliate thereof. As a 10% rolling plan, the aggregate number of common shares issuable as options under the plan may be up to 10% of the Company's issued and outstanding common shares on the date on which the option is granted, less common shares reserved for issuance on exercise of options then outstanding under the plan. The term of any options will be fixed by the board of directors at the time such options are granted.

8. Share Capital (continued)

Stock options (continued)

The exercise price of any options will be determined by the board of directors, in its sole discretion, but shall not be less than the greater of closing market price of the Company's common shares on: (i) the day proceeding the day on which the directors grant such options; and (ii) the date of grant of the options. Vesting requirements may be imposed as determined by the directors. All options will be non-assignable and non-transferable.

Disinterested shareholder approval must be obtained for: (i) any grant of options to insiders exceeding 10% of the Company's issued common shares (calculated on a fully diluted basis); (ii) any grant of options to insiders within a one-year period exceeding 10% of the Company's issued common shares (calculated on a fully diluted basis); (iii) any grant of options to any one individual within a 12-month period exceeding 5% of the Company's issued common shares (calculated on a fully diluted basis); and (iv) any reduction in the exercise price of an option previously granted to an insider of the Company.

The changes in stock options during the nine months ended May 31, 2015 are as follows:

	Nine Months Ended May 31, 2015		Year Ended August 31, 2014	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Options outstanding, beginning of period	6,270,000	$ 0.22	2,590,000	$ 0.29
Granted	-	-	4,270,000	0.19
Exercised	-	-	(55,000)	0.145
Expired or forfeited	(340,000)	0.40	(535,000)	0.26
Options outstanding, end of period	5,930,000	$ 0.21	6,270,000	$ 0.22

Stock options outstanding and exercisable at May 31, 2015 are as follows:

Expiry Date	Number of Options	Exercise Price	Exercisable
July 11, 2015	150,000	0.25	150,000
August 21, 2016	265,000	0.25	265,000
October 23, 2016	50,000	0.45	50,000
February 26, 2017	550,000	0.25	550,000
August 21, 2017	375,000	0.25	375,000
August 21, 2017	350,000	0.35	350,000
September 3, 2018	875,000	0.35	875,000
January 20, 2019	220,000	0.105	220,000
February 3, 2019	2,695,000	0.145	2,695,000
July 18, 2019	400,000	0.18	129,167
	5,930,000		5,659,167
Weighted average remaining contractual life	3.07 years		3.02 years

8. Share Capital (continued)

Stock options (continued)

During the nine months ended May 31, 2015, no stock options were granted by the Company.

During the year ended August 31, 2014, stock options were granted to officers, employees and consultants to acquire 900,000 shares at $0.35 per share, 220,000 shares at $0.105 , 2,750,000 shares at $0.145 and 400,000 shares at $0.18 for a period of five years. The fair value recorded for the stock options granted during the year was $664,010 (2013 – $442,066).

The fair value of the options granted was estimated on the date of grant using the Black-Scholes options-pricing model with the following weighted average assumptions:

	Nine Months Ended May 31, 2015	Year Ended August 31, 2014
Risk-free interest rate	n/a	1.12% - 2.10%
Expected dividend yield	n/a	-
Expected stock price volatility	n/a	163.37% - 186.05%
Expected life of options (years)	n/a	5
Weighted average fair value of options granted	n/a	$0.18
Weighted average exercise price of options granted	n/a	$0.19

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Volatility is based on the historical trend of the share prices of the Company. Changes in the subjective assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

Warrants

The changes in warrants during the nine months ended May 31, 2015 are as follows:

	Nine Months Ended May 31, 2015		Year Ended August 31, 2014	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Warrants outstanding, beginning of period	25,015,707	$0.13	7,277,550	$0.20
Granted	-	-	33,977,321	0.10
Issued from exercised BW Units	2,589,286	0.10	175,000	0.07
Exercised	(16,406,036)	0.10	(16,164,164)	0.10
Expired or forfeited	(961,900)	0.50	(250,000)	0.25
Warrants outstanding, end of period	10,237,057	$0.13	25,015,707	$0.13

8. Share Capital (continued)

Warrants (continued)

The following table summarizes the warrants outstanding at May 31, 2015:

Expiry Date	Number of Warrants	Exercise Price
June 28, 2015	2,238,050	$0.25
June 28, 2015 (finder's warrants)	47,600	$0.25
November 21, 2016	260,000	$0.10
January 31, 2017 (BW Warrants)	2,664,536	$0.10
January 31, 2017	5,026,871	$0.10
	10,237,057	$0.13
Weighted average remaining contractual life	1.31 years	

The fair value for finder's and broker's warrants granted during the nine months ended May 31, 2015 was $Nil (August 31, 2014 – $338,637). The fair value of the warrants granted was estimated on the date of grant using the Black-Scholes options-pricing model with the following weighted average assumptions:

	Nine Monhts Ended May 31, 2015	Year Ended August 31, 2014
Risk-free interest rate	n/a	1.00% - 1.10%
Expected dividend yield	n/a	-
Expected stock price volatility	n/a	189.28% - 193.31%
Expected life of warrants (years)	n/a	2.0 - 3.0
Weighted average fair value of warrants granted	n/a	$0.13
Weighted average exercise price of warrants granted	n/a	$0.13

Warrant pricing models require the input of highly subjective assumptions including the expected price volatility. Volatility is based on the historical trend of the share prices of the Company. Changes in the subjective assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

9. Contributed Surplus

Contributed surplus includes the accumulated fair value of options and warrants. Contributed surplus records items recognized as share-based compensation expense and the fair value of warrants until such time that the stock options and warrants are exercised, at which time the corresponding amount will be transferred to share capital. If the options expire unexercised, the amount recorded will stay in contributed surplus.

10. Related Party Transactions

Related party balances

The following amounts due to related parties are included in accounts payable and accrued liabilities:

	May 31 2015	August 31 2014
Directors and officers of the Company	$ 1,575	$ 23,727

These amounts are unsecured, non-interest bearing and have no fixed terms of repayment.

During the nine months ended May 31, 2015, the Company incurred the following charges with related parties:

	Nine Months Ended May 31	
	2015	2014
Financial consulting fees to a private company controlled by the CFO of the Company	$ 11,450	$ 6,410
Consulting fees to directors and officers of the Company	266,420	163,772
Share-based payments to officers and directors of the Company	37,716	551,856
	$ 315,586	$ 722,038

11. Financial Risk Management

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash and cash equivalents held in bank accounts. The majority of cash and cash equivalents are deposited in bank accounts held with a major bank in Canada. As most of the Company's cash is held by one bank there is a concentration of credit risk. This risk is managed by using major banks that are high credit quality financial institutions as determined by rating agencies.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company ensures that there are sufficient funds to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash and cash equivalents.

Historically, the Company's sole source of funding has been the issuance of equity securities for cash, primarily through private placements. The Company's access to financing is always uncertain. There can be no assurance of continued access to significant equity funding. As at May 31, 2015, all of the Company's financial liabilities are due within one year.

11. Financial Risk Management (continued)

Foreign exchange risk

Foreign currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. The Company's United States subsidiary is exposed to currency risk as it incurs expenditures that are denominated in United States dollars while its functional currency is the Canadian dollar. The Company does not hedge its exposure to fluctuations in foreign exchange rates.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk on its cash equivalents as these instruments have original maturities of three months or less and are therefore exposed to interest rate fluctuations on renewal.

Capital management

The Company's policy is to maintain a strong capital base so as to maintain investor and creditor confidence and to sustain future development of the business. The capital structure of the Company consists of equity, comprising share capital, net of accumulated deficit.

There were no changes in the Company's approach to capital management during the nine months ended May 31, 2015. The Company is not subject to any externally imposed capital requirements.

Classification of financial instruments

Financial assets included in the statements of financial position are as follows:

		May 31 2015		August 31 2014
Cash and cash equivalents	$	622,567	$	1,286,897
Deposit		24,930		21,716
	$	647,497	$	1,308,613

Financial liabilities included in the statements of financial position are as follows:

		May 31 2015		August 31 2014
Accounts payable and accrued liabilities	$	148,040	$	125,004
Loans payable		-		257,952
	$	148,040	$	382,956

11. Financial Risk Management (continued)

Fair value

The fair value of the Company's financial assets and liabilities approximates the carrying amount. Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

Cash and cash equivalents and deposit are classified as level 1.

12. Events after the Reporting Period

(a) 300,000 warrants were exercised at the price of $0.10 per share.

(b) 2,285,650 warrants exercisable at $0.25 per share were expired.

(c) The Company has granted a total of 2,900,000 incentive stock options at an exercise price of $0.27 per share for a period of five year to its directors, officers and consultants.

(d) One June 30, 2015, the Company completed a private placement of 14,375,000 units at a price of $0.20 per Unit for total proceeds of $2,875,000. Each Unit comprised of one common share of the Company and one-half of one common share purchase warrant. Each one whole common share purchase warrant ("Warrant") entitles the holder to purchase one additional common share of the Company at an exercise price of $0.35 per share until June 30, 2018. In the event that the closing price of the Company's common share is $0.75 or greater per common share during any 20 consecutive trading day period at any time subsequent to four month and one day after June 30, 2015, the Warrants will expire at the sole discretion of the Company on the 30th day after the date on which the Company provides notice of such accelerated expiry to the holders of the warrants .

In connection with the private placement, the Company paid cash compensation of $215,625 and issued 1,078,125 Agent's warrants. Each Agent's warrant entitles the holder to purchase one Compensation Unit at a price of $0.20 per Compensation Unit on or before June 30, 2017. Each Compensation Unit consists of one common share of the Company and one-half of one common share purchase warrant. Each whole warrant ("Compensation Unit Warrant") entitles the holder to purchase one common share of the Company at a price of $0.35 per share until June 30, 2018.

(e) The Company paid US$5,800 for the lease payment for the Chestnut Creek Property which was due on June 1, 2015.

(f) 150,000 stock options exercisable at a price of $0.25 per share were expired unexercised.