

ALABAMA GRAPHITE CORP.
Condensed Interim Consolidated Financial Statements (Unaudited)
For the Nine Months Ended May 31, 2016 and 2015
(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 Position (Unaudited)**

(Expressed in Canadian Dollars)

	May 31, 2016	August 31, 2015
ASSETS		
Current assets		
Cash and cash equivalents	\$ 486,690	\$ 2,085,925
Receivables	38,897	39,720
Loan (Note 10)	60,000	-
Prepaid expenses and deposits	130,505	229,291
	716,092	2,354,936
Deposit	26,200	26,446
Exploration and evaluation assets (Note 5)	6,797,472	5,568,200
Equipment (Note 6)	3,280	4,315
TOTAL ASSETS	\$ 7,543,044	\$ 7,953,897
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 442,133	\$ 424,435
	442,133	424,435
SHAREHOLDERS' EQUITY		
Share capital (Note 7)	13,376,174	12,747,179
Contributed surplus (Note 8)	3,480,309	3,227,934
Deficit	(9,755,572)	(8,445,651)
	7,100,911	7,529,462
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 7,543,044	\$ 7,953,897

Nature and continuance of operations (Note 1)

The condensed interim consolidated financial statements were authorized for issue by the Board of Directors on July 22, 2016 and were signed on its behalf by:

"Don Baxter", Director
Don Baxter

"Daniel Goffaux", Director
Daniel Goffaux

ALABAMA GRAPHITE CORP.**Condensed Interim Consolidated Statements of Loss and Comprehensive Loss (Unaudited)****For the Three and Nine Months Ended May 31, 2016 and 2015****(Expressed in Canadian Dollars)**

	Three months ended		Nine months ended	
	May 31,	May 31,	May 31,	May 31,
	2016	2015	2016	2015
Expenses				
Amortization	\$ 345	\$ 492	\$ 1,035	\$ 1,476
Automobile	3,532	12,021	18,071	33,278
Consulting	111,244	73,683	435,746	333,358
Interest expense	(131)	(3,777)	-	(2,929)
Office and administration	39,507	36,611	121,483	95,795
Professional fees	45,615	32,180	156,300	112,554
Regulatory and filing	11,277	11,996	38,044	33,621
Rent	13,187	13,742	38,868	34,304
Share-based payments	214,755	29,595	246,474	37,716
Travel and investor relations	103,964	60,961	276,906	151,565
Loss before other items	543,295	267,504	1,332,927	830,738
Interest income	(369)	(71)	(369)	(818)
Loss (gain) from foreign exchange	18,442	(2,948)	(22,637)	(68,127)
Net loss and comprehensive loss for the period	\$ 561,368	\$ 264,485	\$ 1,309,921	\$ 761,793
Basic and Diluted Loss Per Common Share	\$ 0.00	\$ 0.00	\$ 0.01	\$ 0.01
Weighted Average Number of Common Shares Outstanding	116,200,178	97,545,981	115,892,927	92,483,913

See accompanying notes to the condensed interim consolidated financial statements

ALABAMA GRAPHITE CORP.**Condensed Interim Consolidated Statements of Changes in Shareholders' Equity (Unaudited)****For the Nine Months Ended May 31, 2016 and 2015****(Expressed in Canadian Dollars)**

	Share Capital		Contributed Surplus	Deficit	Total Shareholders' Equity
	Number of Shares	Amount			
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				(761,793)	(761,793)
Share-based payments			37,716		37,716
Warrants exercised	16,406,036	1,562,926			1,562,926
Balance as at May 31, 2015	99,348,613	\$ 10,298,672	\$ 2,402,522	\$ (7,009,589)	\$ 5,691,605
Balance as at August 31, 2015	114,023,613	\$ 12,747,179	\$ 3,227,934	\$ (8,445,651)	\$ 7,529,462
Net loss for the period				(1,309,921)	(1,309,921)
Share-based payments			252,375		252,375
Private placement	3,476,334	453,595			453,595
Warrants exercised	1,754,000	175,400			175,400
Balance as at May 31, 2016	119,253,947	\$ 13,376,174	\$ 3,480,309	\$ (9,755,572)	\$ 7,100,911

See accompanying notes to the condensed interim consolidated financial statements

ALABAMA GRAPHITE CORP.**Condensed Interim Consolidated Statements of Cash Flows (Unaudited)****For the Nine Months Ended May 31, 2016 and 2015****(Expressed in Canadian Dollars)**

	2016	2015
OPERATING ACTIVITIES		
Net loss for the year	\$ (1,309,921)	\$ (761,793)
Add items not affecting cash:		
Amortization	1,035	1,476
Share-based payments	246,474	37,716
Changes in non-cash working capital items:		
Receivables	823	23,097
Prepaid expenses and deposits	98,786	(87,333)
Accounts payable and accrued liabilities	17,698	23,036
	(945,105)	(763,801)
FINANCING ACTIVITIES		
Loans payable (repaid)	-	(257,952)
Shares issued for cash	634,896	1,562,926
	634,896	1,304,974
INVESTING ACTIVITIES		
Deposit	246	(3,214)
Loan receivable	(60,000)	-
Acquisition of exploration and evaluation assets	(21,470)	(14,694)
Exploration and evaluation expenditures incurred	(1,207,802)	(1,187,595)
	(1,289,026)	(1,205,503)
Decrease in cash and cash equivalents during the period	(1,599,235)	(664,330)
Cash and cash equivalents, beginning of the period	2,085,925	1,286,897
Cash and cash equivalents, end of the period	\$ 486,690	\$ 622,567
Supplemental Cash Flow Information:		
Fair value of finder's warrants	\$ 5,901	\$ -
Exploration and evaluation expenditures in accounts payable and accrued liabilities	\$ 17,460	\$ -

See accompanying notes to the condensed interim consolidated financial statements

ALABAMA GRAPHITE CORP.
Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)
For the Nine Months Ended May 31, 2016 and 2015
(Expressed in Canadian Dollars)

1. Nature and Continuance of Operations

The Company was incorporated under the Business Corporation Act of British Columbia on April 13, 2006. 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, IAG.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 100 King Street West, Suite 5700, Toronto, ON M5X 1C7.

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 preliminary economic assessment for its Coosa Graphite Property in Alabama which was filed on SEDAR on November 30, 2015.

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 condensed interim 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, 2016, the Company had accumulated deficit of \$9,755,572 (August 31, 2015 - \$8,445,651). The Company incurred losses of \$1,309,921 during the nine months ended May 31, 2016 (2015 - \$761,793). 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, 2015.

ALABAMA GRAPHITE CORP.
Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)
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2. Basis of Presentation (continued)

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 condensed interim 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 condensed interim 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.

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.

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3. Significant Accounting Policies

Principles of consolidation

These unaudited condensed interim 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.

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.

3. Significant Accounting Policies (continued)

Financial instruments (continued)

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.

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 is 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.

3. Significant Accounting Policies (continued)

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

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.

3. Significant Accounting Policies (continued)

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

Certain new standards, interpretations and amendments to existing standards have been issued by the IASB that are mandatory for future accounting periods. Some updates that are not applicable or are not consequential to the Company may have been excluded from the list below. The Company intends to adopt these standards when they become effective.

Standard effective for annual periods beginning on or after January 1, 2018

IFRS 9 Financial Instruments - This is a finalized version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39. The standard contains requirements in the following areas:

- *Classification and measurement.* Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk.
- *Impairment.* The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognized.

ALABAMA GRAPHITE CORP.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

For the Nine Months Ended May 31, 2016 and 2015

(Expressed in Canadian Dollars)

4. Accounting Standards Issued But Not Yet Effective (continued)

Standard effective for annual periods beginning on or after January 1, 2018 (continued)

- *Hedge accounting.* Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.
- *Derecognition.* The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

The extent of the impact of adoption of these above standards on the financial statements of the Company has not yet been determined.

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:

- US\$320,000 in cash (paid) for introducing the Coosa Property to the Company;
- 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;
- \$100,000 upon receipt by the Company of a bankable feasibility study in respect of the leased property;
- \$150,000 upon full permitting of the leased property; and
- 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.

ALABAMA GRAPHITE CORP.

**Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)
For the Nine Months Ended May 31, 2016 and 2015
(Expressed in Canadian Dollars)**

5. Exploration and Evaluation Assets (continued)

Coosa Property, Alabama, USA(continued)

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.

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 (paid to date);
- (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 to date);
- (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.

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For the Nine Months Ended May 31, 2016 and 2015

(Expressed in Canadian Dollars)

5. Exploration and Evaluation Assets (continued)

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 were subject to a 10-month trading restriction expiring on June 22, 2014, another 500,000 shares were subject to a 16-month trading restriction expiring on December 22, 2014 and 500,000 shares were subject to a 22-month trading restriction expiring on June 22, 2015.

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.

As of August 31, 2015, the Company decided to write off the Hearst Graphite Project in order to concentrate its efforts on the graphite properties in Alabama.

ALABAMA GRAPHITE CORP.**Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)****For the Nine Months Ended May 31, 2016 and 2015****(Expressed in Canadian Dollars)****5. Exploration and Evaluation Assets (continued)**

During the nine months ended May 31, 2016, 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, 2015	\$ 579,774	\$ 33,464	\$ -	\$ 613,238
Additions:				
Option payments - cash	21,470	-	-	21,470
Balance, May 31, 2016	601,244	33,464	-	634,708
Deferred Exploration Costs				
Balance, August 31, 2015	4,605,595	349,367	-	4,954,962
Additions:				
Environmental & reclamation	22,616	-	-	22,616
Equipment rental	23,212	-	-	23,212
Excavation	35,534	-	-	35,534
Field supplies	37,214	-	-	37,214
Geological consultants	319,997	-	-	319,997
Metallurgical and assays	137,432	-	-	137,432
Preliminary economic assessment	590,557	-	-	590,557
Permitting and legal	33,497	-	-	33,497
Transportation and travelling	7,743	-	-	7,743
	1,207,802	-	-	1,207,802
Balance, May 31, 2016	5,813,397	349,367	-	6,162,764
Total Exploration and Evaluation Assets	\$ 6,414,641	\$ 382,831	\$ -	\$ 6,797,472

ALABAMA GRAPHITE CORP.**Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)****For the Nine Months Ended May 31, 2016 and 2015****(Expressed in Canadian Dollars)****5. Exploration and Evaluation Assets (continued)**

During the year ended August 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
Add:				
Option payments - cash	12,915	14,694	-	27,609
	12,915	14,694	-	27,609
Less:				
Written-off			(438,000)	(438,000)
	-	-	438,000	438,000
Balance, August 31, 2015	579,774	33,464	-	613,238
Deferred Exploration Costs				
Balance, August 31, 2014	2,815,146	-	43,990	2,859,136
Additions:				
Core logging and surveying	13,702	2,979	-	16,681
Drilling	511,898	-	-	511,898
Environmental & reclamation	7,638	3,194	-	10,832
Equipment rental	61,005	30,627	-	91,632
Excavation	181,183	68,667	-	249,850
Field and road works	75,426	16,878	-	92,304
Field supplies	33,288	1,887	-	35,175
Geological consultants	511,689	22,748	-	534,437
Metallurgical and assays	230,672	147,926	-	378,598
Permitting and legal	45,710	14,099	-	59,809
Repair and maintenance	2,671	11,028	-	13,699
Security	-	3,098	-	3,098
Surface exploration right	56,515	23,830	-	80,345
Transportation and travelling	52,898	8,560	-	61,458
	1,784,295	355,521	-	2,139,816
Less:				
Written-off	-	-	(43,990)	(43,990)
	-	-	(43,990)	(43,990)
Balance, August 31, 2015	4,599,441	355,521	-	4,954,962
Total Exploration and Evaluation Assets	\$ 5,179,215	\$ 388,985	\$ -	\$ 5,568,200

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Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)
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6. Equipment

	Automobile
Cost:	
Balance, August 31, 2014, 2015 and May 31, 2016	\$ 11,025
Accumulated amortization:	
Balance, August 31, 2014	4,745
Additions	1,965
Balance, August 31, 2015	6,710
Additions	1,035
Balance, May 31, 2016	7,745
Net book value, May 31, 2016	3,280
Net book value, August 31, 2015	\$ 4,315

7. Share Capital

Authorized

Unlimited number of common shares without par value.

Issued and fully paid

At May 31, 2016, there were 119,253,947 issued and fully paid common shares (August 31, 2015 - 114,023,613).

During the nine months ended May 31, 2016:

On May 19, 2016, the Company completed a private placement of 3,476,334 units at a price of \$0.15 per Unit for total proceeds of \$521,450. Each Unit comprised of one common share of the Company and 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 \$0.20 per share until May 19, 2018. In connection with the private placement, the Company paid cash compensation of \$17,675 and issued 117,833 Agent's warrants. Each Agent's warrant entitles the holder to purchase one Compensation Unit at a price of \$0.15 per Compensation Unit on or before May 31, 2017. Each Compensation Unit consists of one common share of the Company and 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 \$0.20 per share until May 19, 2018.

During the nine months ended May 31, 2016, 1,754,000 warrants were exercised at the price of \$0.10 per share.

During the year ended August 31, 2015:

On 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 months 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

ALABAMA GRAPHITE CORP.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

For the Nine Months Ended May 31, 2016 and 2015

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7. Share Capital (continued)

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, 2018. 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.

During the year ended August 31, 2015, 14,017,000 warrants were exercised at the price of \$0.10 per share and 2,589,286 broker's warrants were exercised at the price of \$0.07 per broker's warrant unit ("BW Unit") (see broker's warrants issued during the year ended August 31, 2014 below) and 99,750 broker's warrant unit warrants ("BW Warrant") were also exercised at the price of \$0.10 per share for total proceeds of \$1,592,926.

During the year ended August 31, 2015:

On 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

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. 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.

ALABAMA GRAPHITE CORP.**Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)
For the Nine Months Ended May 31, 2016 and 2015
(Expressed in Canadian Dollars)****7. Share Capital (continued)***Stock options (continued)*

The changes in stock options during the nine months ended May 31, 2016 are as follows:

	Three Months Ended May 31, 2016		Year Ended August 31, 2015	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Options outstanding, beginning of period	9,180,000	\$ 0.22	6,270,000	\$ 0.22
Granted	3,650,000	0.18	3,400,000	0.27
Expired or forfeited	(5,159,000)	0.21	(490,000)	0.36
Options outstanding, end of period	7,671,000	\$ 0.22	9,180,000	\$ 0.22

Stock options outstanding and exercisable at May 31, 2016 are as follows:

Expiry Date	Number of Options	Exercise Price	Exercisable
October 22, 2016	290,000	\$0.105 to \$0.35	290,000
October 23, 2016	50,000	\$0.45	50,000
April 12, 2018	1,000,000	\$0.25	1,000,000
May 19, 2018	2,650,000	\$0.155	2,275,000
September 3, 2018	280,000	\$0.35	280,000
January 20, 2019	36,000	\$0.105	36,000
February 3, 2019	605,000	\$0.145	605,000
July 18, 2019	400,000	\$0.18	237,501
June 12, 2020	1,860,000	\$0.27	1,860,000
June 17, 2020	500,000	\$0.27	166,667
	7,671,000	\$0.23	6,800,168
Weighted average remaining contractual life			3.17 years

During the nine months ended May 31, 2016, stock options were granted to officers, employees and consultants to acquire 2,650,000 shares at \$0.155 per share for a period of two years. The fair value recorded for the stock options granted was \$150,822. There were 290,000 stock options exercisable at the price in the range from \$0.105 to \$0.35 per share that were to be cancelled on January 22, 2016 due to termination of services by an officer were extended to October 22, 2016. There were 3,154,000 stock options exercisable at the price in the range from \$0.105 to \$0.27 per share that were cancelled due to termination of services by an officer and stock options were granted to the former officer and director to acquire 1,000,000 shares at \$0.25 per share for a period of two years. The fair value recorded for the stock options granted was \$65,335.

During the year ended August 31, 2015, stock options were granted to officers, employees and consultants to acquire 3,400,000 shares at \$0.27 per share for a period of five years. The fair value recorded for the stock options granted during the year was \$610,420 (2014 – \$664,010).

ALABAMA GRAPHITE CORP.**Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)****For the Nine Months Ended May 31, 2016 and 2015****(Expressed in Canadian Dollars)****7. Share Capital (continued)*****Stock options (continued)***

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, 2016	Year Ended August 31, 2015
Risk-free interest rate	0.85%	0.94% - 1.01%
Expected dividend yield	-	-
Expected stock price volatility	73.45% - 80.89%	162.15% - 162.31%
Expected life of options (years)	2	5
Weighted average fair value of options granted	\$0.07	\$0.18
Weighted average exercise price of options granted	\$0.18	\$0.27

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, 2016 are as follows:

	Nine Months Ended May 31, 2016		Year Ended August 31, 2015	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Warrants outstanding, beginning of period	15,917,032	\$0.13	25,015,707	\$0.13
Granted	3,594,167	0.20	8,265,625	0.19
Issued from exercised BW Units	-	-	2,589,286	0.10
Exercised	(1,754,000)	0.10	(16,706,036)	0.10
Expired or forfeited	-	-	(3,247,550)	0.32
Warrants outstanding, end of period	17,757,199	\$0.23	15,917,032	\$0.13

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7. Share Capital (continued)

Warrants (continued)

The following table summarizes the warrants outstanding at May 31, 2016:

Expiry Date	Number of Warrants	Exercise Price
November 21, 2016	260,000	\$0.10
January 31, 2017 (BW Warrants)	2,664,536	\$0.10
January 31, 2017	2,972,871	\$0.10
5/19/2017 (Compensation Units)	117,833	\$0.15
May 19, 2018	3,476,334	\$0.20
June 30, 2018	7,187,500	\$0.35
June 30, 2018 (Compensation Units)	1,078,125	\$0.20
	17,757,199	\$0.19
Weighted average remaining contractual life	1.74 years	

During the three months ended May 31, 2016, there was no warrant granted during this period.

The fair value for finder's and broker's warrants granted during the nine-month period ended May 31, 2016 was \$5,901.

The fair value for finder's and broker's warrants granted during the year ended August 31, 2015 was \$199,471.

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:

	Six Months Ended May 31, 2016	Year Ended August 31, 2015
Risk-free interest rate	0.85%	0.47% - 1.05%
Expected dividend yield	-	-
Expected stock price volatility	73.45%	164.69% - 172.57%
Expected life of warrants (years)	1.0	3.0 - 6.0
Weighted average fair value of warrants granted	\$0.05	\$0.12
Weighted average exercise price of warrants granted	\$0.25	\$0.25

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.

ALABAMA GRAPHITE CORP.**Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)****For the Nine Months Ended May 31, 2016 and 2015****(Expressed in Canadian Dollars)****8. Contributed Surplus**

Contributed surplus includes the accumulated fair value of options and agent/broker 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 or agent/broker warrants expire unexercised, the amount recorded will stay in contributed surplus.

9. Related Party Transactions***Related party balances***

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

		May 31, 2016	August 31, 2015
Directors and officers of the Company	\$	86,487	\$ 13,363

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

During the nine months ended May 31, 2016, the Company incurred the following charges with related parties:

		2016	2015
Accounting fees to a private company controlled by the former CFO of the Company	\$	5,250	\$ 6,950
Accounting fees to a private company controlled by the current CFO of the Company		62,437	-
Consulting fees to directors and officers of the Company		293,372	175,044
Share-based payments to officers and directors of the Company		86,324	8,121
	\$	447,383	\$ 190,115

10. Loan Receivable

The loan receivable is unsecured, non-interest bearing and payable on demand.

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.

ALABAMA GRAPHITE CORP.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

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11. Financial Risk Management (continued)

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, 2016, all of the Company's financial liabilities are due within one year.

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, 2016. The Company is not subject to any externally imposed capital requirements.

ALABAMA GRAPHITE CORP.**Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)****For the Nine Months Ended May 31, 2016 and 2015****(Expressed in Canadian Dollars)**

11. Financial Risk Management (continued)*Classification of financial instruments*

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

	May 31, 2016	August 31, 2015
Cash and cash equivalents	\$ 486,690	\$ 2,085,925
Loan receivable	60,000	-
Deposit	26,200	26,446
	<u>\$ 572,890</u>	<u>\$ 2,112,371</u>

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

	May 31, 2016	August 31, 2015
Accounts payable and accrued liabilities	\$ 442,133	\$ 424,435
	<u>\$ 442,133</u>	<u>\$ 424,435</u>

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. Subsequent Events

- (a) 57,000 warrants were exercised at the price of \$0.10 per share.