

FOCUS GRAPHITE INC.
(An exploration stage Company)

Condensed Consolidated Interim Financial Statements
For the three and nine month periods ended June 30, 2014

(Expressed in Canadian Dollars)
(Unaudited)

Condensed Consolidated Interim Financial Statements

Condensed Consolidated Interim Statements of Financial Position	2
Condensed Consolidated Interim Statements of Comprehensive Income	3
Condensed Consolidated Interim Statements of Changes in Equity	4
Condensed Consolidated Interim Statements of Cash Flows	5
Notes to the Condensed Consolidated Interim Financial Statements	6 to 34

NOTICE TO READER

The accompanying unaudited condensed consolidated interim financial statements have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these unaudited condensed consolidated interim financial statements.

Focus Graphite Inc.

(An exploration stage Company)

Condensed Consolidated Interim Statements of Financial Position (Unaudited)

(Expressed in Canadian dollars)

As at	June 30, 2014	September 30, 2013
	\$	\$
ASSETS		
Current assets		
Cash (Note 4)	2,081,776	12,174,671
Amounts receivable (Note 5)	632,494	397,402
Amount due from related party (Note 23)	-	1,500,000
Tax credits and credit on duties receivable	-	56,806
Prepaid expenses	70,538	178,804
	2,784,808	14,307,683
Exploration advances	283,735	315,230
Long-term investment (Note 7)	400,000	-
Investment in associate (Note 9)	2,861,823	2,097,714
Property, plant and equipment (Note 10)	83,206	115,787
Intangible assets (Note 11)	-	1,521,526
Mineral exploration properties (Note 12)	1,521,487	1,551,408
Exploration and evaluation assets (Note 12)	19,346,541	14,494,783
Total assets	27,281,600	34,404,131
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	1,694,669	3,189,767
Other current liabilities (Note 13)	518,730	1,044,868
Total liabilities	2,213,399	4,234,635
EQUITY		
Share capital (Note 16)	39,055,527	38,755,527
Warrants (Note 17)	90,052	373,049
Contributed surplus	9,905,505	9,350,811
	49,051,084	48,479,387
Accumulated other comprehensive income	(350,000)	-
Deficit	(23,632,883)	(18,309,891)
	(23,982,883)	(18,309,891)
Total equity	25,068,201	30,169,496
Total liabilities and equity	27,281,600	34,404,131
On behalf of the Board		
<u>(signed) "Gary Economo"</u>	<u>(signed) "Jeffrey York"</u>	
Gary Economo, Director	Jeffrey York, Director	

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

Focus Graphite Inc.

(An exploration stage Company)

Condensed Consolidated Interim Statements of Comprehensive Income (Unaudited)

(Expressed in Canadian dollars)

	Three months ended June 30,		Nine months ended June 30,	
	2014	2013	2014	2013
	\$	\$	\$	\$
Operating expenses				
Management and consulting fees	200,304	563,941	617,140	1,313,218
Salaries and benefits	304,218	325,914	1,890,941	1,577,224
Travel and promotion	207,783	622,934	730,130	1,350,272
Professional fees	28,706	163,325	302,215	485,432
Office	167,683	256,591	450,118	580,472
Research	-	207,307	-	254,326
Amortization of property, plant and equipment (Note 10)	8,734	16,148	27,193	47,773
Amortization of intangible assets (Note 11)	-	171,328	40,319	538,021
Stock-based compensation	34,415	1,351,271	271,697	1,356,424
Writedown of intangible assets (Note 11)	-	-	906,207	-
Writedown of mineral exploration properties and exploration and evaluation assets (Note 12)	338,260	-	361,260	-
Flow-through interest and tax expense (Note 14)	5,896	15,199	11,542	15,199
Loss from operations	(1,295,999)	(3,693,958)	(5,608,762)	(7,518,361)
Other income				
Interest income	10,748	51,815	69,999	163,788
Other income related to flow-through shares (Note 13)	78,899	129,219	526,138	1,620,335
Gain on sale of property, plant and equipment (Note 10)	-	-	1,512	-
Gain on sale of mineral exploration property	424,012	-	424,012	-
Dilution gain on investment in associate (Note 9)	448,406	-	468,373	-
Share of net loss of associate (Note 9)	(678,664)	-	(1,204,264)	-
Net loss	(1,012,598)	(3,512,924)	(5,322,992)	(5,734,238)
Other comprehensive loss				
Unrealized loss on available-for-sale investments	(350,000)	-	(350,000)	-
Other comprehensive loss	(350,000)	-	(350,000)	-
Total comprehensive loss	(1,362,598)	(3,512,924)	(5,672,992)	(5,734,238)
Total comprehensive loss attributable to:				
Owners of the parent	(1,362,598)	(2,718,800)	(5,672,992)	(4,437,892)
Non-controlling interest	-	(794,124)	-	(1,296,346)
	(1,362,598)	(3,512,924)	(5,672,992)	(5,734,238)
Basic and diluted net loss per common share	(0.01)	(0.03)	(0.05)	(0.06)
Basic and diluted weighted average number of common shares outstanding	107,081,837	106,384,050	106,958,053	104,183,263

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

Focus Graphite Inc.

(An exploration stage Company)

Condensed Consolidated Interim Statements of Changes in Equity (Unaudited)

(Expressed in Canadian dollars)

	Share capital	Warrants	Contributed surplus	Accumulated other comprehensive income	Deficit	Equity attributable to owners of the parent	Non-controlling interest	Total
	# of shares	\$	\$	\$	\$	\$	\$	\$
Balance, September 30, 2012	99,632,048	35,562,363	3,643,673	4,544,053	(20,042,080)	23,708,009	767,791	24,475,800
Shares issued for cash	3,300,000	2,310,000	-	-	-	2,310,000	-	2,310,000
Shares issued to acquire mineral properties	125,000	73,250	-	-	-	73,250	-	73,250
Shares issued on exercise of warrants	3,190,134	1,181,199	(116,329)	-	-	1,064,870	-	1,064,870
Shares issued on exercise of options	145,000	22,361	(7,861)	-	-	14,500	-	14,500
Stock-based compensation	-	-	1,356,424	-	-	1,356,424	-	1,356,424
Expiry of warrants	-	-	(3,244,347)	3,244,347	-	-	-	-
Share issuance costs	-	(393,646)	90,052	-	-	(303,594)	-	(303,594)
Transactions with owners	6,760,134	3,193,164	(3,270,624)	4,592,910	-	4,515,450	-	4,515,450
Net loss and total comprehensive loss	-	-	-	-	(4,437,892)	(4,437,892)	(1,296,346)	(5,734,238)
Elimination of redeemable shares	-	-	-	-	4,402,033	4,402,033	(802,033)	3,600,000
Change in subsidiary ownership interests	-	-	-	-	652,598	652,598	933,878	1,586,476
Balance, June 30, 2013	106,392,182	38,755,527	373,049	9,136,963	(19,425,341)	28,840,198	(396,710)	28,443,488
Stock-based compensation	-	-	-	213,848	-	213,848	-	213,848
Transactions with owners	-	-	-	213,848	-	213,848	-	213,848
Net loss and total comprehensive loss	-	-	-	-	1,115,450	1,115,450	-	1,115,450
Deconsolidation of subsidiary	-	-	-	-	-	-	396,710	396,710
Balance, September 30, 2013	106,392,182	38,755,527	373,049	9,350,811	(18,309,891)	30,169,496	-	30,169,496
Shares issued to acquire mineral properties	689,655	300,000	-	-	-	300,000	-	300,000
Stock-based compensation	-	-	(282,997)	271,697	-	271,697	-	271,697
Expiry of warrants	-	-	(282,997)	282,997	-	-	-	-
Transactions with owners	689,655	300,000	(282,997)	554,694	-	571,697	-	571,697
Net loss	-	-	-	-	(5,322,992)	(5,322,992)	-	(5,322,992)
Unrealized loss on available-for-sale investments	-	-	-	(350,000)	-	(350,000)	-	(350,000)
Total comprehensive loss	-	-	-	(350,000)	(5,322,992)	(5,672,992)	-	(5,672,992)
Balance, June 30, 2014	107,081,837	39,055,527	90,052	9,905,505	(23,632,883)	25,068,201	-	25,068,201

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

Focus Graphite Inc.

(An exploration stage Company)

Condensed Consolidated Interim Statements of Cash Flows (Unaudited)

(Expressed in Canadian dollars)

	Three months ended June 30,		Nine months ended June 30,	
	2014	2013	2014	2013
	\$	\$	\$	\$
OPERATING ACTIVITIES				
Net loss	(1,012,598)	(3,512,924)	(5,322,992)	(5,734,238)
Adjustments for:				
Stock-based compensation	34,415	1,351,271	271,697	1,356,424
Amortization of property, plant and equipment	8,734	16,148	27,193	47,773
Amortization of intangible assets	-	171,328	40,319	538,021
Writedown of intangible assets	-	-	906,207	-
Writedown of mineral exploration properties and and exploration and evaluation assets	338,260	-	361,260	-
Interest income	(10,748)	(51,815)	(69,999)	(163,788)
Other income related to flow-through shares	(78,899)	(128,237)	(526,138)	(1,619,353)
Gain on sale of property, plant and equipment	-	-	(1,512)	-
Gain on sale of mineral exploration property	(424,012)	-	(424,012)	-
Dilution gain on investment in associate	(448,406)	-	(468,373)	-
Share of net loss of associate	678,664	-	1,204,264	-
Changes in working capital items (Note 20)	79,473	34,900	(813,447)	(143,400)
Net cash used in operating activities	(835,117)	(2,119,329)	(4,815,533)	(5,718,561)
INVESTING ACTIVITIES				
Redemption of short-term investments	-	1,800,000	-	2,100,000
Acquisition of property, plant and equipment	-	(5,851)	-	(11,937)
Sale of property, plant and equipment	-	-	6,900	-
Acquisition of intangible assets	-	-	-	(60,092)
Exploration advances	48,358	(205,422)	31,495	(174,520)
Acquisition of mineral exploration properties	-	(23,000)	(51,197)	(88,928)
Sale of mineral exploration properties	250,000	-	250,000	-
Interest received	10,748	77,057	69,999	176,633
Exploration and evaluation costs	(1,449,739)	(1,300,371)	(5,641,365)	(4,563,449)
Tax credits and mining duties received	-	-	56,806	-
Net cash (used in) provided by investing activities	(1,140,633)	342,413	(5,277,362)	(2,622,293)
FINANCING ACTIVITIES				
Amount due to related party	-	2,500	-	7,500
Common shares issued	-	-	-	3,003,000
Warrants exercised	-	-	-	1,064,870
Options exercised	-	2,000	-	14,500
Share issuance costs	-	(1,257)	-	(303,594)
Net proceeds from subsidiary financing	-	725,418	-	1,586,416
Net cash provided by financing activities	-	728,661	-	5,372,692
Decrease in cash	(1,975,750)	(1,048,255)	(10,092,895)	(2,968,162)
Cash, beginning of the period	4,057,526	15,749,959	12,174,671	17,669,866
Cash, end of the period	2,081,776	14,701,704	2,081,776	14,701,704

Supplemental cash flow information is provided in Note 20

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

Focus Graphite Inc.

(An exploration stage Company)

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)

For the three and nine month periods ended June 30, 2014

(Expressed in Canadian dollars)

1. NATURE OF OPERATIONS

Focus Graphite Inc. was incorporated on December 30, 1998 under the Canada Business Corporations Act. Effective April 1, 2001, Focus Graphite Inc. (previously 3D Visit Inc.) and Signature Resources Ltd. were amalgamated, whereby the amalgamated Company continued under the name 3D Visit Inc. The Company's primary business activity was the provision of internet marketing solutions to a broad base of clients in the real estate, retail, tourism, leisure and hospitality sectors as well as magazine publishing. On March 12, 2003, the Company filed a proposal to its creditors under Section 62 of the Bankruptcy and Insolvency Act of Canada ("BIA"), which was accepted by a majority on April 7, 2003, with all assets of the Company sold by Court order on April 4, 2003, and the proceeds distributed to the creditors. On March 28, 2005, the Trustee issued a Notice of Application for Taxation of Accounts and Discharge of Interim Receiver in accordance with the provisions of the BIA confirming that the terms of the Proposal were duly satisfied. As a result, the Company was released from the BIA, the Trustee discharged from its obligations and all of the creditors' claims were fully settled. The accumulated deficit at the time of the release from the BIA was \$5,142,805. The Company was subsequently inactive until 2008 when mineral properties were acquired in the Sheffor region of Northern Quebec. The Company was also subject to cease trade orders issued by the *BC Securities Commission*, the *Alberta Securities Commission*, the *Ontario Securities Commission* and the *Autorité des marchés financiers*. On November 6, 2008, these cease trade orders were revoked and the Company underwent a reorganization of its business in order to become a mining exploration company. On December 9, 2008, the Company changed its name to Focus Metals Inc. and consolidated its issued and outstanding Class "A" common shares on a four common shares for one common share basis. On May 25, 2012, the Company changed its name to Focus Graphite Inc.

Focus Graphite Inc. and its subsidiaries (the "Company") are engaged in the acquisition, exploration and development of mineral properties in Quebec, Canada. The Company is in the exploration stage and does not derive any revenue from its properties. The address of the Company's corporate office is 130 Albert Street, Suite 912, Ottawa, Ontario, Canada, K1P 5G4. Focus Graphite Inc.'s common shares are listed for trading on the TSX Venture Exchange ("TSX-V") under the symbol "FMS" and on the OTCQX Exchange in the U.S. under the symbol "FCSMF".

2. BASIS OF PRESENTATION

(a) Statement of compliance

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34").

These condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Company's annual consolidated financial statements for the years ended September 30, 2013 and 2012, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

These condensed consolidated interim financial statements were authorized for issue by the Board of Directors on August 25, 2014.

(b) Basis of measurement

These financial statements have been prepared on a historical cost basis and are expressed in Canadian dollars, which is the functional currency of all the entities of the Company.

Focus Graphite Inc.

(An exploration stage Company)

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)

For the three and nine month periods ended June 30, 2014

(Expressed in Canadian dollars)

(c) Judgments, estimates and assumptions

When preparing the consolidated financial statements, management makes a number of judgments, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses.

Significant management judgment

The following are significant management judgments in applying the accounting policies of the Company that have the most significant effect on the financial statements.

Control assessment

The assessment of control over an investment requires judgment (see Note 8).

Recognition of deferred income tax assets and measurement of income tax expense

Management continually evaluates the likelihood that its deferred tax assets could be realized. This requires management to assess whether it is probable that sufficient taxable income will exist in the future to utilize these losses within the carry-forward period. By its nature, this assessment requires significant judgment. To date, management has not recognized any deferred tax assets in excess of existing taxable temporary differences expected to reverse within the carry-forward period.

Going concern

The assessment of the Company's ability to continue as a going concern and to raise sufficient funds to pay for its ongoing operating expenditures, meet its liabilities for the ensuing year, and to fund planned and contractual exploration programs, involves significant judgment based on historical experience and other factors including expectation of future events that are believed to be reasonable under the circumstances. See Note 2(d) for more information.

Estimation uncertainty

Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different.

Impairment of mineral exploration properties and exploration and evaluation assets

Determining if there are any facts or circumstances indicating impairment loss or reversal of impairment losses is a subjective process involving judgment and a number of estimates and interpretations in many cases.

Determining whether to test for impairment of mineral exploration properties and exploration and evaluation assets requires management's judgment, among others, regarding the following: the period for which the entity has the right to explore in the specific area has expired or will expire in the near future, and is not expected to be renewed; substantive expenditure on further exploration and evaluation of mineral resources in a specific area is neither budgeted nor planned; exploration for and evaluation of mineral resources in a specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area; or sufficient data exists to indicate that, although a development in a specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

Focus Graphite Inc.

(An exploration stage Company)

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)

For the three and nine month periods ended June 30, 2014

(Expressed in Canadian dollars)

When an indication of impairment loss or a reversal of an impairment loss exists, the recoverable amount of the individual asset must be estimated. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs must be determined. Identifying the cash-generating units requires management judgment. In testing an individual asset or cash-generating unit for impairment and identifying a reversal of impairment losses, management estimates the recoverable amount of the asset or the cash-generating unit. This requires management to make several assumptions as to future events or circumstances. These assumptions and estimates are subject to change if new information becomes available. Actual results with respect to impairment losses or reversals of impairment losses could differ in such a situation and significant adjustments to the Company's assets and earnings may occur during the next period.

The total impairment loss on mineral exploration properties and exploration and evaluation assets for the nine months ended June 30, 2014 was \$361,260 (2013 - \$Nil). No reversal of impairment losses has been recognized for the reporting periods.

Fair value measurement

Management uses estimates and assumptions in determining the fair value of the investment in an associate (Note 9). Management develops estimates and assumptions consistent with how market participants would price the investment. Management estimated the fair value of the Company's investment in its associate based on arm's length equity financing transactions occurring immediately prior and subsequent to the loss of control.

Share based payments

The estimation of stock-based compensation and warrants requires the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen. The Company has made estimates as to the volatility of its own shares, the probable life of stock options and warrants granted and the time of exercise of those stock options and warrants. The valuation model used by the Company is the Black-Scholes model.

The Company allocates values to share capital and to warrants on the residual basis when the two are issued together as a unit. As this allocation is based upon the share price at the time of issuance and the stock is thinly-traded, the actual value of the components may differ from this allocation.

Tax credits and credit on duties receivable

Tax credits and credit on duties are subject to audit by the authorities in the province of Quebec and the Company's entitlement to these items is based on management's history of success in past claims and its current understanding of the legislation that governs these matters.

(d) Going concern assumption

These condensed consolidated financial statements have been prepared on the basis of the going concern assumption, which assumes the Company will continue to operate for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. In assessing whether this assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. This assessment is based upon planned actions that may or may not occur for a number of reasons including the Company's own resources and external market conditions.

As at June 30, 2014, the Company had a working capital surplus of \$571,409, including \$2,081,776 in cash. The Company anticipates having sufficient funds to discharge its current liabilities and meet its corporate

Focus Graphite Inc.

(An exploration stage Company)

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)

For the three and nine month periods ended June 30, 2014

(Expressed in Canadian dollars)

administrative expenses for at least the next twelve months. However, the Company will require additional financing, through various means including but not limited to equity financing, to meet costs associated with developing the Company's properties. There is no assurance that the Company will be successful in raising the additional required funds.

The carrying amounts of assets, liabilities, revenues and expenses presented in the financial statements and the classification used in the statements of financial position have not been adjusted as would be required if the going concern assumption was not appropriate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These condensed consolidated interim financial statements have been prepared using accounting policies that are consistent with those used in the preparation of the Company's audited annual consolidated financial statements for the years ended September 30, 2013 and 2012.

4. CASH

	June 30, 2014	September 30, 2013
	\$	\$
Cash	1,885,869	3,663,665
Investment savings accounts	195,907	8,511,006
Total cash	2,081,776	12,174,671

As at June 30, 2014, cash includes amounts held in investment saving accounts with interest rates ranging from 1.20% to 1.50% (2013 – 1.20% to 1.50%).

5. AMOUNTS RECEIVABLE

	June 30, 2014	September 30, 2013
	\$	\$
Sales taxes receivable	447,424	359,355
Other receivables	185,070	38,047
Total amounts receivable	632,494	397,402

Focus Graphite Inc.

(An exploration stage Company)

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)

For the three and nine month periods ended June 30, 2014

(Expressed in Canadian dollars)

6. ACQUISITION OF 50% OF FOREIGN ENTITY

In March 2012, the Company (through its subsidiary Grafoid) acquired a 50% interest in a privately-held company in a foreign jurisdiction.

The acquisition was accounted for as a purchase of assets, as the net assets acquired did not qualify as a business as defined in IFRS 3, "Business Combinations". Given that the Company owns 50% of the common shares of the foreign entity, that a Director of Grafoid owns another 25% and that the Company has financed the entirety of the operations, the Company is considered to have control and so the results of operations and cash flows of the foreign entity have been included from the date of acquisition.

Total consideration paid by the Company for 50% of the outstanding common shares of the foreign entity was as follows:

	\$
Cash payment (US\$500,000) (1)	495,700
Contingent consideration (US\$500,000) (2) (3)	500,000
	<u>995,700</u>

(1) Payment was made on March 22, 2012.

(2) In accordance with the subscription and shareholders' agreement, the Company has agreed to pay additional amounts totalling US\$500,000, subject to the completion of certain milestones. It is the opinion of management that these milestones will be completed and that this payment will be made. The amount has been included in the above calculation however no contingent liability is included in the consolidated statements of financial position as it was eliminated upon consolidation.

(3) Further to the completion of certain milestones, a payment of US\$250,000 was made in February 2013.

The fair value of net assets acquired, based on the consideration paid, was as follows:

	\$
Intangible assets	995,700
Cash	995,700
	<u>1,991,400</u>

The Company recorded a non-controlling interest in the consolidated statements of financial position, prior to other consolidation adjustments, of \$995,700, owing to the 50% of the above assets not controlled by the Company.

As a result of Focus losing control of Grafoid (Note 8), the foreign entity was deconsolidated, along with Grafoid, on July 3, 2013.

Focus Graphite Inc.

(An exploration stage Company)

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)

For the three and nine month periods ended June 30, 2014

(Expressed in Canadian dollars)

7. LONG-TERM INVESTMENT

Investment in Mincom Capital Inc.

On May 8, 2014, further to the sale of the Company's Romer property to Mincom Capital Inc. ("Mincom"), Focus acquired 2,500,000 common shares in Mincom, valued at \$750,000 (Note 12a)). The shares are classified as available-for-sale financial assets and are measured at fair value. The Company does not exercise significant influence over Mincom.

In accordance with a Value Security Escrow Agreement, all of the common shares in Mincom received by the Company were required to be escrowed, to be released as follows:

Date of release from escrow	Percentage of total escrowed shares to be released	Number of escrowed shares to be released
May 8, 2014	10%	250,000
November 8, 2014	15%	375,000
May 8, 2015	15%	375,000
November 8, 2015	15%	375,000
May 8, 2016	15%	375,000
November 8, 2016	15%	375,000
May 8, 2017	15%	375,000
	100%	2,500,000

As at June 30, 2014, the Company's investment in Mincom was as follows:

	Cost	Fair value adjustment	Fair value
	\$	\$	\$
2,500,000 common shares in Mincom (1)	750,000	(350,000)	400,000

(1) 2,250,000 of these shares are held in escrow.

Focus Graphite Inc.

(An exploration stage Company)

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)

For the three and nine month periods ended June 30, 2014

(Expressed in Canadian dollars)

8. DECONSOLIDATION OF SUBSIDIARY

On July 3, 2013, further to the dilution of the Company's ownership interest in Grafoid, as a result of equity financings carried out by the latter, Focus was deemed to lose control over Grafoid. The Company continues to exercise significant influence over Grafoid through its shareholding and board representation.

Upon loss of control at July 3, 2013, the fair value of the Company's 21% ownership interest in Grafoid was determined to be \$2,400,000. The fair value was estimated by reference to the subscription price of shares in an ongoing financing in Grafoid.

As a result of the loss of control, the Company has:

- (i) Derecognized the assets and liabilities of and non-controlling interest in Grafoid at their carrying amounts on July 3, 2013.
- (ii) Recognized the carrying value of the Company's loan to Grafoid which was previously eliminated upon consolidation.
- (iii) Recognized the investment retained in Grafoid at its fair value.
- (iv) Recognized the difference as a gain on loss of control of a subsidiary; and
- (v) Recognized a deferred tax liability of \$322,800, which has been offset against deferred tax assets.

The following table summarizes the carrying values of the assets and liabilities of Grafoid at July 3, 2013 and the gain resulting from the loss of control:

	July 3, 2013
	\$
Cash	481,250
Accounts receivable	192,145
Prepays	446,496
Property, plant and equipment	93,875
Intangible assets	388,728
Total assets	1,602,494
Accounts payable and accrued liabilities	(405,524)
Amount due to Focus Graphite Inc.	(1,714,164)
Due to related party	(262,500)
Total liabilities	(2,382,188)
Non-controlling interest	396,710
Net assets and non-controlling interest derecognized	(382,984)

Focus Graphite Inc.

(An exploration stage Company)

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)

For the three and nine month periods ended June 30, 2014

(Expressed in Canadian dollars)

The gain on loss of control was calculated as follows:

	July 3, 2013
	\$
Investment in Grafoid (at fair value)	2,400,000
Net assets and non-controlling interest derecognized	382,984
Gain on loss of control of subsidiary	2,782,984

9. INVESTMENT IN ASSOCIATE

As noted in Note 8, the Company lost control over Grafoid on July 3, 2013, further to the dilution of the Company's ownership interest. Given its 21% ownership interest in Grafoid at that date, the Company continued to have significant influence. As such, the investment in Grafoid was recorded as an investment in an associate at fair value (\$2,400,000) and is accounted for using the equity method in accordance with International Accounting Standard 28, "Investments in Associates and Joint Ventures" ("IAS 28"). The Company's share of Grafoid's net losses subsequent to the loss of control is recorded in the Statements of Comprehensive Income.

In February 2014, the Company's Board of Directors approved the conversion of the outstanding \$1,500,000 loan to Grafoid into 3,000,000 common shares of Grafoid at a deemed price of \$0.50 per share.

As at June 30, 2014, the Company's ownership interest in Grafoid was 19% and the carrying value of the investment was determined as follows:

	\$
Balance, September 30, 2013	2,097,714
Conversion of \$1.5M loan	1,500,000
Dilution gain on investment in associate	468,373
Share of net loss of associate	(1,204,264)
Balance, June 30, 2014	2,861,823

As at September 30, 2013, the Company's ownership interest in Grafoid was 15% and the carrying value of the investment was determined as follows:

	\$
Balance, July 3, 2013 (initial recognition)	2,400,000
Dilution loss on investment in associate	(84,136)
Share of net loss of associate	(218,150)
Balance, September 30, 2013	2,097,714

Focus Graphite Inc.

(An exploration stage Company)

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)

For the three and nine month periods ended June 30, 2014

(Expressed in Canadian dollars)

The shares of Grafoid are not publicly listed on a stock exchange and hence published price quotes are not available. The aggregate amount of the associate can be summarized as follows:

As at June 30	2014
	\$
Current assets	5,581,217
Non-current assets	1,071,431
Current liabilities	(932,494)
Non-current liabilities	-
For the nine months ended June 30	2014
	\$
Revenues	-
Net loss and total comprehensive loss	(6,871,870)

10. PROPERTY, PLANT AND EQUIPMENT

	Computer hardware and equipment	Vehicles	Lab equipment	Office furniture	Total
	\$	\$	\$	\$	\$
Cost					
Balance, September 30, 2013	14,115	51,544	102,423	5,000	173,082
Disposals (1)	-	(12,930)	-	-	(12,930)
Cost, June 30, 2014	14,115	38,614	102,423	5,000	160,152
Accumulated amortization					
Balance, September 30, 2013	8,253	20,873	27,086	1,083	57,295
Amortization	3,301	7,779	15,363	750	27,193
Disposals (1)	-	(7,542)	-	-	(7,542)
Accumulated amortization, June 30, 2014	11,554	21,110	42,449	1,833	76,946
Net Book Value, June 30, 2014	2,561	17,504	59,974	3,167	83,206

(1) In December 2013, the Company sold a vehicle for proceeds of \$6,900, realizing a gain of \$1,512.

Focus Graphite Inc.

(An exploration stage Company)

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)

For the three and nine month periods ended June 30, 2014

(Expressed in Canadian dollars)

	Computer hardware and equipment	Vehicles	Lab equipment	Office furniture	Leasehold improvements	Total
	\$	\$	\$	\$	\$	\$
Cost						
Balance, September 30, 2012	11,176	51,544	155,163	49,401	15,543	282,827
Additions	5,949	-	5,988	-	-	11,937
Deconsolidation of subsidiary	(3,010)	-	(58,728)	(44,401)	(15,543)	(121,682)
Cost, September 30, 2013	14,115	51,544	102,423	5,000	-	173,082
Accumulated amortization						
Balance, September 30, 2012	4,048	7,987	8,857	4,718	1,949	27,559
Amortization	5,375	12,886	28,708	7,661	2,913	57,543
Deconsolidation of subsidiary	(1,170)	-	(10,479)	(11,296)	(4,862)	(27,807)
Accumulated amortization, September 30, 2013	8,253	20,873	27,086	1,083	-	57,295
Net Book Value, September 30, 2013	5,862	30,671	75,337	3,917	-	115,787

11. INTANGIBLE ASSETS

	Patent license- Anode production (1)	Patent license- Graphite purification (2)	Total
	\$	\$	\$
Cost			
Balance, September 30, 2013	250,000	1,500,000	1,750,000
Disposals	(250,000)	(1,500,000)	(1,750,000)
Cost, June 30, 2014	-	-	-
Accumulated amortization			
Balance, September 30, 2013	30,798	197,676	228,474
Amortization	5,435	34,884	40,319
Disposals	(36,233)	(232,560)	(268,793)
Accumulated amortization, June 30, 2014	-	-	-
Net Book Value, June 30, 2014	-	-	-

Focus Graphite Inc.

(An exploration stage Company)

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)

For the three and nine month periods ended June 30, 2014

(Expressed in Canadian dollars)

	Patent license- Anode production (1)	Patent license- Graphite purification (2)	License- Other (3)	Total
	\$	\$	\$	\$
Cost				
Balance, September 30, 2012	250,000	1,500,000	995,700	2,745,700
Additions	-	-	60,092	60,092
Deconsolidation of subsidiary	-	-	(1,055,792)	(1,055,792)
Cost, September 30, 2013	250,000	1,500,000	-	1,750,000
Accumulated amortization				
Balance, September 30, 2012	9,058	58,140	250,000	317,198
Amortization	21,740	139,536	417,064	578,340
Deconsolidation of subsidiary	-	-	(667,064)	(667,064)
Accumulated amortization, September 30, 2013	30,798	197,676	-	228,474
Net Book Value, September 30, 2013	219,202	1,302,324	-	1,521,526

All amortization charges are included within amortization of intangible assets in profit and loss.

- (1) Effective April 30, 2012, the Company entered into a Patent License Agreement (the "Agreement") with Hydro Quebec ("HQ"), pursuant to which HQ granted Focus the rights to use its patented anode production technology, in consideration for \$250,000, payable as follows:

	Cash payment
	\$
Upon signing of the Agreement	100,000
January 31, 2013 (1)	75,000
January 31, 2014	75,000
	250,000

- (1) Payment was made April 19, 2013.

In March 2014, Focus and HQ executed a Release and Transaction Agreement (the "Release Agreement") to terminate the Patent License Agreement, effective December 31, 2013. In accordance with the Release Agreement, all rights previously granted to Focus reverted back to HQ and any future payments were waived.

- (2) Effective April 30, 2012, the Company entered into a Patent License Agreement (the "Agreement") with Hydro Quebec ("HQ"), pursuant to which HQ granted Focus the rights to use its patented graphite purification technology, in consideration for \$1,500,000, payable as follows:

Focus Graphite Inc.

(An exploration stage Company)

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)

For the three and nine month periods ended June 30, 2014

(Expressed in Canadian dollars)

	Cash payment
	\$
Upon signing of the Agreement	500,000
January 31, 2013 (1)	500,000
January 31, 2014	500,000
	1,500,000

(1) Payment was made April 19, 2013.

In March 2014, Focus and HQ executed a Release and Transaction Agreement (the "Release Agreement") to terminate the Patent License Agreement, effective December 31, 2013. In accordance with the Release Agreement, all rights previously granted to Focus reverted back to HQ and any future payments were waived.

- (3) In March 2012, the Company acquired a 50% interest in a privately-held company in a foreign jurisdiction (Note 6). On acquisition, the Company recorded an intangible asset for an amount of \$995,700 related to a license. The license enables the Company to use certain technology in its efforts to develop processes to produce graphene in commercial quantities. The license was derecognized in July 2013 upon deconsolidation of the Company's subsidiary.

12. MINERAL EXPLORATION PROPERTIES AND EXPLORATION AND EVALUATION ASSETS

	June 30, 2014		September 30, 2013	
	Mineral exploration properties	Exploration and evaluation assets	Mineral exploration properties	Exploration and evaluation assets
	\$	\$	\$	\$
a) Labrador Trough	6,991	232,841	295,529	490,180
b) Kwyjibo	-	5,943,466	-	5,271,276
c) Lac Knife	642,578	12,087,312	642,578	8,215,762
d) Manicouagan	372,436	528,752	372,436	403,178
d) Gatineau/ Laurentides	-	-	-	-
d) Lac au Sorcier	31,132	16,165	31,132	15,869
e) Island and Asbury	72,430	92,703	72,430	91,873
f) Pike River and Tortue Lake	-	-	-	-
g) Caninde	-	-	69,580	509
h) Eastmain-Leran	395,920	445,302	44,723	6,136
i) Hudon	-	-	23,000	-
TOTAL	1,521,487	19,346,541	1,551,408	14,494,783

Focus Graphite Inc.

(An exploration stage Company)

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)

For the three and nine month periods ended June 30, 2014

(Expressed in Canadian dollars)

a) Labrador Trough

On March 30, 2009 and as amended on May 22, 2009, December 11, 2009, March 25, 2010 and April 30, 2010, the Company signed an acquisition agreement with Everton Resources Inc. ("Everton") to acquire a 100% interest in 13 properties ("Labrador Trough") in the Labrador Trough region of Quebec: Romer, Canyon, Colombet, Diana, Fox, Goose, Jack Rabbit, Lac Aulneau, Lac Ribero, Lemming, Leopard, Minowean and Otelnuq, in consideration for the issuance of 6,000,000 common shares of the Company, at a price of \$0.06 per share. On May 21, 2010, concurrent with the listing of the Company's securities on the Exchange, the Company completed the acquisition of the Labrador Trough properties.

During the year ended September 30, 2010, the Company wrote down the cost of the Labrador Trough property by \$73,104 further to the expiry of certain claims. Also during the year ended September 30, 2010, the Company acquired an additional 73 mining claims via staking.

In November 2012, the Company initiated legal recourse against certain parties with respect to the above mentioned transaction regarding a possible NSR. In April 2013, the Company announced that the matter has been resolved and the property is not subject to any NSR.

Sale of Romer Property

On September 27, 2013, the Company announced that it had entered into a letter agreement with Mincom Capital Inc. ("Mincom"), pursuant to which Focus was to sell to Mincom all of its rights, title and interest in its Romer property (the "Property").

It was intended that the transaction would constitute Mincom's "Qualifying Transaction" in accordance with Policy 2.4 of the TSX Venture Exchange (the "Exchange"). Focus and Mincom were not dealing at arm's length given that directors of the Company (the "Non-Arm's Length Parties") are also directors of Mincom. The Non-Arm's Length Parties did not participate in the deliberations of the board of directors of the Company.

The transaction was subject to Exchange and to other standard closing conditions, including satisfactory due diligence review of the Property by Mincom, and the completion of a financing (the "Offering") on terms satisfactory to Mincom, in its sole discretion, as may be necessary in order to meet the minimum listing requirements of the Exchange.

The consideration due to Focus from Mincom for the purchase of the Property was \$1,000,000, as determined following an independent valuation prepared at the request of Mincom, payable as follows: (i) cash consideration of \$250,000; (ii) common shares of Mincom having a total value of \$750,000, at a price per share equal to the issue price of common shares of Mincom to be issued in connection with Mincom's Offering.

On May 8, 2014, the Company announced the closing of the transaction.

As at June 30, 2014, the Labrador Trough consists of 4 properties: Minowean (14 claims), Otelnuq (12 claims), Lemming (34 claims) and Diana (9 claims), totaling 69 claims.

b) Kwyjibo

In August, 2010, the Company signed an option agreement with SOQUEM Inc. ("SOQUEM") to acquire a 50% interest in the Kwyjibo property, consisting of 118 claims, covering 6,278 hectares, located in the Grenville Geological Province, 125km north-east of Sept-Iles, Quebec, by spending \$3,000,000 in exploration work on the property over a period of five years, of which \$1,000,000 had to be spent during the first two years. SOQUEM is acting as the operator for all exploration work carried out on the property. Focus

Focus Graphite Inc.

(An exploration stage Company)

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)

For the three and nine month periods ended June 30, 2014

(Expressed in Canadian dollars)

has the option to become the operator by paying \$50,000 in cash or by issuing common shares valued at \$50,000.

During the year ended September 30, 2012, the Company fulfilled its commitment to spend \$3,000,000 on exploration and earned a 50% interest in the property.

c) Lac Knife

The Company acquired a 100% interest in the Lac Knife property upon acquisition of 100% of the issued and outstanding shares of 3765351 Canada Inc. ("3765351") on October 4, 2010, in consideration for (i) a cash payment of \$250,000, (ii) the issuance of 4,016,362 common shares and (iii) 2,008,181 warrants, each warrant entitling the vendor to acquire an additional common share of the Company at a price of \$0.10 for a period of 24 months. Effective April 1, 2012, 3765351 was liquidated and ownership of the Lac Knife property was transferred to Focus. The Lac Knife property consists of 57 mining claims, covering approximately 3,000 hectares, and is located 35km south of Fermont, Quebec, in North-Eastern Quebec near the Labrador border. The property is host to the historical Lac Knife graphite prospect located in the Grenville geological province.

d) Manicouagan, Gatineau/Laurentides and Lac au Sorcier

In August 2011, the Company acquired 8 properties consisting of a total of 190 mining claims, located in the Manicouagan, Gatineau/Laurentides and Lac au Sorcier regions of Quebec, in consideration for cash payments totalling \$125,000 and the issuance of 375,000 common shares of the Company at a price of \$0.91 per share. The Company also paid a cash finder's fee of \$25,000.

The properties acquired are as follows:

Manicouagan:	Lac Guinecourt (74 claims) and Lac Tetepisca (67 claims)
Gatineau/Laurentides:	L'Annonciation (5 claims), Laurentides1 (17 claims), Laurentides2 (7 claims), Cobden (5 claims) and Quyon (3 claims)
Lac au Sorcier:	Lac Au Sorcier (12 claims)

In November 2012, the Company acquired the Lac Tetepisca North property via map-staking. The property consists of 57 contiguous claims covering 3,070 ha, located 5 kilometres from the Company's Lac Tetepisca property.

During the year ended September 30, 2013, the Company wrote down the cost of the Gatineau/Laurentides properties to \$Nil (\$95,993 in acquisition costs and \$20,069 in exploration and evaluation assets) further to the Company's decision to let the claims lapse as poor exploration results to date did not warrant further exploration on the properties.

e) Island and Asbury

In January, 2012, the Company acquired 65 mining claims, located in south-western Quebec, in consideration for cash payments totalling \$60,000 and the issuance of 100,000 common shares of the Company (75,000 common shares were issued in fiscal 2012; 25,000 common shares were issued in fiscal 2013). The claims, located on four properties (Mayo, Perkins, Asbury and Island), are all natural flake-graphite prospects including a past producing property. All claims are located in the Gatineau- Bois Franc area.

During the year ended September 30, 2013, the Company wrote down the cost of the Mayo and Perkins properties to \$Nil (\$66,045 in acquisition costs and \$8,337 in exploration and evaluation assets) further to

Focus Graphite Inc.

(An exploration stage Company)

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)

For the three and nine month periods ended June 30, 2014

(Expressed in Canadian dollars)

the Company's decision to let the claims lapse as poor exploration results to date did not warrant further exploration on the properties.

f) Pike River and Tortue Lake

The Pike River and Tortue Lake properties (20 claims), located in Quebec, were acquired via map-staking in January 2012.

During the year ended September 30, 2013, the Company wrote down the cost of the Pike River and Tortue Lake properties to \$Nil (\$1,690 in acquisition costs and \$2,966 in exploration and evaluation assets) further to the Company's decision to let the claims lapse as poor exploration results to date did not warrant further exploration on the properties.

g) Caninde

On December 14, 2012, the Company signed a Definitive Option Agreement (the "Agreement") with Lara Exploration Ltd. ("Lara") regarding Lara's wholly-owned Caninde graphite project located in Ceara State, northeastern Brazil.

Under the terms of the Agreement, Lara, through its wholly-owned British Virgin Islands subsidiaries Lara (BVI) Ltd. and Pan Brazilian (BVI) Ltd. which collectively own 100% of the mineral rights to the Caninde property (the "Property"), granted Focus two separate options to acquire a total 60% undivided interest in the Property, subject to an underlying royalty to a third party on 11 exploration licenses (2% of gross revenue from production sales to a lifetime maximum of R\$750,000), in consideration of a staged exploration expenditure commitment over 5 years, the issuance of 500,000 common shares of Focus to Lara on or before the third anniversary of the Agreement and the reimbursement of Lara for certain claim acquisition costs.

Under the first option, Focus could earn a 51% interest in the Property by:

- (i) Paying R\$30,000 to a third party for claim acquisition costs on or before the date of the Agreement
- (ii) Issuing 500,000 common shares to Lara (100,000 shares upon signing of the Agreement and 400,000 shares by the third anniversary thereof)
- (iii) Carrying out exploration on the Property (including 2,000m of drilling and an electromagnetic survey of the entire Property) totaling \$2,500,000 by the third anniversary of the Agreement based on the following schedule: \$500,000 in each of the first 2 years and \$1,500,000 in the third year. Further to an amendment signed on July 9, 2013, the schedule for exploration work was adjusted as follows: \$250,000 in the first year, \$750,000 in the second year and \$1,500,000 in the third year.

As at June 30, 2014, the Company had paid R\$30,000 (CAD\$14,580) in respect of the amount due for claim acquisition costs, issued 100,000 common shares of Focus at a price of \$0.55 per share and incurred exploration expenditures totaling \$268,680.

Under the second option, Focus could earn an additional 9% interest in the Property by carrying out additional exploration work including a further 5,000m of drilling and by completing a positive Preliminary Economic Assessment ("PEA") as defined in National Instrument 43-101 ("NI 43-101"), for a total expenditure of at least \$4,500,000 by the fifth anniversary of the Agreement. Focus would also be responsible for paying R\$200,000 due to a third party upon the definition of a graphite deposit on the Property which qualifies as a mineral reserve under NI 43-101 and the approval thereof by the Departamento Nacional de Producao Mineral of Brazil ("DNPM"), whether such reserve is established during the option period or after Focus has exercised the first option or the second option.

Focus Graphite Inc.

(An exploration stage Company)

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)

For the three and nine month periods ended June 30, 2014

(Expressed in Canadian dollars)

If Focus elected not to exercise the second option or elected but failed to exercise the second option, Lara and Focus would enter into a joint venture with Focus holding a 51% interest and Lara holding a 49% interest in the Property. If Focus exercised the second option, Lara and Focus would enter into a joint venture with Focus holding a 60% interest and Lara holding a 40% interest. Upon the execution of a joint venture agreement, both parties would proportionately fund the exploration program and the party holding majority interest would be deemed the operator of the joint venture. If a party's interest was reduced to less than 10%, its interest in the joint venture would be converted into a 2% production royalty.

During the quarter ended June 30, 2014, the Company wrote down the cost of the Caninde property to \$Nil (\$69,580 in acquisition costs and \$268,680 in exploration and evaluation assets) further to the Company's decision to terminate the option agreement as poor exploration results to date did not warrant further exploration on the property.

h) Eastmain-Leran

In October 2012, the Company signed an agreement with Ressources Miniere Alta Inc. ("Alta") whereby Focus secured the exclusive right to exercise a purchase option in respect of Alta's 100% owned Eastmain-Leran property, located in the Otish mountains area of northern Quebec. In consideration for the exclusive right, which covers a period of twelve months, Focus paid \$15,000 in cash. The property consists of 32 mining claims covering a total area of 1,679 hectares.

In October 2012, the Company acquired an additional 241 mining claims, covering a total area of 12,625 hectares, via staking.

In October, 2013, the Company executed a purchase agreement with Alta whereby Focus acquired a 100% interest in the Eastmain-Leran property in consideration for \$50,000 cash and the issuance of 689,655 common shares at a price of \$0.435 per share. Alta retained a 2% net smelter return royalty on the property (the "Royalty"). The Company shall have the right, at any time and at its sole discretion, to purchase the Royalty by paying \$500,000.

i) Hudon

In March 2013, the Company signed an agreement with Ressources Tectonic Inc. ("Tectonic") whereby Focus secured the exclusive right to exercise a purchase option in respect of Tectonic's 100% owned Hudon Graphite property, located in the Lac St-Jean area of Quebec. In consideration for the exclusive right, which covered a period of twelve months, Focus paid \$23,000 in cash. The property consists of 18 mining claims covering a total area of 1,013 hectares.

During the quarter ended March 31, 2014, the Company wrote down the cost of the Hudon property to \$Nil (\$23,000 in acquisition costs) further to the Company's decision not to exercise a purchase option, as exploration results to date did not warrant further exploration on the property.

Focus Graphite Inc.

(An exploration stage Company)

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)

For the three and nine month periods ended June 30, 2014

(Expressed in Canadian dollars)

The following table reflects changes to mineral exploration properties between September 30, 2012 and June 30, 2014:

	Nine months ended June 30, 2014	Year ended September 30, 2013
	\$	\$
Balance, beginning of the period	1,551,408	1,552,958
Acquisition of mineral exploration properties	351,197	162,178
Sale of mineral exploration properties	(288,538)	-
Writedown of mineral exploration properties	(92,580)	(163,728)
Balance, end of the period	1,521,487	1,551,408

Focus Graphite Inc.

(An exploration stage Company)

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)

For the three and nine month periods ended June 30, 2014

(Expressed in Canadian dollars)

The following table reflects changes to exploration and evaluation assets between September 30, 2012 and June 30, 2014:

	Nine months ended June 30, 2014	Year ended September 30, 2013
	\$	\$
Balance, beginning of the period	14,494,783	7,678,428
Additions		
Drilling	1,275,563	3,798,461
Independent technical studies	142,194	363,926
Geophysical survey	432,903	292,200
Geological mapping	368,160	238,876
Geochemical survey	-	57,672
Metallurgical analysis	585,406	1,155,252
Resource estimate	69,545	2,505
Property maintenance	41,371	24,538
Preliminary economic assessment (PEA)	9,537	111,295
Feasibility studies	1,255,908	44,438
Pre-feasibility studies	-	103,859
Environmental studies	1,225,887	627,703
Pre-development agreements	1,414	27,002
	5,407,888	6,847,727
Sale of exploration and evaluation assets	(287,450)	-
Writedown of exploration and evaluation assets	(268,680)	(31,372)
Balance, end of the period	19,346,541	14,494,783

Focus Graphite Inc.

(An exploration stage Company)

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)

For the three and nine month periods ended June 30, 2014

(Expressed in Canadian dollars)

13. OTHER CURRENT LIABILITIES

Other current liabilities include the following:

	June 30, 2014	September 30, 2013
	\$	\$
Obligation to pass on tax deductions (1) (2)	518,730	1,044,868
Total other current liabilities	518,730	1,044,868

- (1) On March 14, 2012, the Company closed a flow-through private placement (Note 16) for gross proceeds of \$10,000,900. The proceeds from the financing were allocated between share capital (\$7,308,350) and a deferred liability (\$2,692,550) using the residual method. The liability component represents the Company's obligation to pass on the tax deductions to investors. Further to the renunciation of the tax deductions to investors in February 2013, the Company has proportionately reduced the initial liability by the percentage of the required exploration expenditures which have been incurred. As at December 31, 2013, all of the required exploration expenditures had been incurred and the remaining liability is \$Nil.
- (2) On January 31, 2013, the Company closed a flow-through private placement (Note 16) for gross proceeds of \$3,003,000. The proceeds from the financing were allocated between share capital (\$2,310,000) and a deferred liability (\$693,000) using the residual method. The liability component represents the Company's obligation to pass on the tax deductions to investors. Further to the renunciation of the tax deductions to investors in February 2014, the Company has proportionately reduced the initial liability by the percentage of the required exploration expenditures which have been incurred to June 30, 2014. As at June 30, 2014, the remaining liability is \$518,730.

14. FLOW-THROUGH INTEREST AND TAX EXPENSE

The Company is permitted, under Canadian income tax legislation, to renounce flow-through related resources expenditures to investors in advance of the Company incurring all of the expenditures. In accordance with this legislation, the Company has twelve months following the effective date of renunciation to incur the remaining expenditures. The Company begins incurring interest charges for unspent funds after two months following renunciation.

On March 14, 2012, the Company completed a flow-through private placement for gross proceeds of \$10,000,900. In February 2013, the related tax deductions were renounced to investors with an effective date of December 31, 2012. The Company incurred all of the required flow-through expenditures by the December 31, 2013 deadline. However, there is no guarantee that the funds spent by the Company will qualify as Canadian exploration expenses, even if the Company has taken the necessary measures for this purpose. The refusal of some expenses by the fiscal authorities would have a negative impact on investors.

On January 31, 2013, the Company completed a flow-through private placement for gross proceeds of \$3,003,000. In February 2014, the related tax deductions were renounced to investors with an effective date of December 31, 2013. As at June 30, 2014, the Company has incurred \$755,170 of the required flow-through expenditures and has until December 31, 2014 to incur the remaining exploration expenditures of \$2,247,830. Included in accounts payable and accrued liabilities is an accrual for \$10,346 for Part XII.6 tax and tax on deemed expenses in Quebec, which is calculated on the monthly balance of unspent flow through funds.

Focus Graphite Inc.

(An exploration stage Company)

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)

For the three and nine month periods ended June 30, 2014

(Expressed in Canadian dollars)

15. REDEEMABLE SHARES

Pursuant to a unanimous shareholders agreement, the shares of Grafoid Inc. were redeemable. As a result, the shares held by those other than Focus were accounted for as a liability at fair value and no non-controlling interest (NCI) was presented. The fair value (\$3,600,000) was determined by reference to the subscription price of shares in an ongoing capital raise in Grafoid, and was presented as a liability in the statement of financial position as at September 30, 2012. An equivalent amount was recorded as stock-based compensation during the year ended September 30, 2012, and included in the statement of comprehensive income.

On January 18, 2013, the Company's Board of Directors executed an amending agreement to Grafoid's unanimous shareholders agreement. The agreement terminated Section 4.11, "Inactive Shareholder", which provided for the redemption feature of Grafoid's shares.

Given that Grafoid's shares were no longer redeemable following the termination of Section 4.11, the Company eliminated the \$3,600,000 liability and recorded an offsetting credit to Focus' deficit. The Company then adjusted the balance of the NCI on Focus' statement of financial position to the amount that would have been expected at January 18, 2013, had the redeemable feature never existed. The net adjustment was to debit NCI for \$802,033 and credit Focus' deficit for the same amount.

16. SHARE CAPITAL

Authorized

An unlimited number of the following shares:

Class "A" common shares voting common shares, no par value
Preferred Shares special non-voting shares, no par value

Issued and fully paid

Class "A" common shares

	Number of shares		\$
Balance, September 30, 2012	99,632,048	35,562,363	
Shares issued for cash (1)	3,300,000	2,310,000	
Shares issued to acquire mineral properties (Note 12e) and g))	125,000	73,250	
Share issued on exercise of warrants	3,190,134	1,181,199	
Share issued on exercise of options	145,000	22,361	
Share issuance costs	-	(393,646)	
Balance, September 30, 2013	106,392,182	38,755,527	
Shares issued to acquire mineral properties (Note 12h))	689,655	300,000	
Balance, June 30, 2014	107,081,837	39,055,527	

Focus Graphite Inc.

(An exploration stage Company)

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)

For the three and nine month periods ended June 30, 2014

(Expressed in Canadian dollars)

- (1) On January 31, 2013, the Company completed a bought deal flow-through private placement for gross proceeds of \$3,003,000. The private placement was comprised of 3,300,000 flow-through common shares at a price of \$0.91 per share. In connection with the financing, the Company paid cash finders' fees of \$180,180 and issued, as additional consideration, 198,000 non-transferable broker warrants, each broker warrant entitling the holder to acquire one common share of the Company at a price of \$0.91 until January 31, 2015. The proceeds from the financing (\$3,003,000) were allocated between share capital (\$2,310,000) and a deferred liability (\$693,000) using the residual method. The liability component represents the Company's obligation to pass on the tax deductions to investors and is included in other current liabilities in the statement of financial position. The warrants issued as commissions have been recorded at a value of \$90,052 based on the Black-Scholes option pricing model, using the following assumptions: stock price of \$0.70, risk-free interest rate of 1.16%, expected life of warrants of 2 years, annualized volatility of 143% and dividend rate of 0%. The underlying expected stock price volatility is based on historical data of the Company's shares over the last two years. The risk-free interest rate is based on the yield of a Government of Canada benchmark bond in effect at the time of grant with an expiry commensurate with the expected life of the warrants. Other share issuance costs total \$123,414. The value of the warrants, commissions and other issue costs were presented as a reduction of share capital.

17. WARRANTS

The following table reflects the continuity of warrants outstanding:

	Number of warrants	Weighted average exercise price
		\$
Balance, September 30, 2012	15,621,720	1.04
Granted	198,000	0.91
Exercised	(3,190,134)	0.33
Expired	(11,970,006)	1.21
Balance, September 30, 2013	659,580	1.18
Expired	(461,580)	1.30
Balance, June 30, 2014	198,000	0.91

As at June 30, 2014, the following warrants were issued and outstanding:

Number of warrants	Fair value	Exercise price	Expiry date
	\$	\$	
198,000	90,052	0.91	January 31, 2015

Focus Graphite Inc.

(An exploration stage Company)

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)

For the three and nine month periods ended June 30, 2014

(Expressed in Canadian dollars)

As at September 30, 2013, the following warrants were issued and outstanding:

Number of warrants	Fair value	Exercise price	Expiry date
	\$	\$	
461,580	282,997	1.30	March 14, 2014
198,000	90,052	0.91	January 31, 2015
659,580	373,049		

18. STOCK OPTIONS

On May 3, 2012, the shareholders of the Company approved the conversion of the Company's Stock Option Plan ("SOP") from a fixed option plan to a rolling option plan, pursuant to which a maximum of 10% of the issued and outstanding common shares of the Company may be reserved for issuance under its SOP. These options may be granted to employees, officers, directors, and persons providing ongoing services to the Company, subject to regulatory approval. The exercise price of each option can be set equal to or greater than the closing market price, less allowable discounts, of the common shares on the Exchange on the day prior to the date of grant of the option. Options have a maximum term of five years and terminate 12 months following the termination of the optionee's employment, office, directorship or consulting arrangement. Vesting of options is made at the discretion of the Board of Directors at the time the options are granted.

The following table reflects the continuity of stock options outstanding:

	Number of stock options	Weighted average exercise price
		\$
Balance, September 30, 2012	6,990,000	0.77
Granted to employees (1)(3)	2,205,000	0.62
Granted to non-employees (1)	1,202,500	0.66
Expired	(325,000)	1.16
Exercised (2)	(145,000)	0.10
Forfeited	(151,875)	0.66
Balance, September 30, 2013	9,775,625	0.72
Expired	(475,000)	0.93
Balance, June 30, 2014	9,300,625	0.71

(1) On May 3, 2013, 2,907,500 stock options were granted to Directors, Officers, employees and consultants at an exercise price of \$0.66 per share, expiring on May 3, 2018.

Focus Graphite Inc.

(An exploration stage Company)

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)

For the three and nine month periods ended June 30, 2014

(Expressed in Canadian dollars)

- (2) The weighted-average share price at the date of exercise of these options was \$0.61.
- (3) On September 16, 2013, 500,000 stock options were granted to an Officer at an exercise price of \$0.49 per share, expiring on September 16, 2018.

As at June 30, 2014, the following stock options were outstanding and exercisable:

Range of exercise prices	Outstanding			Exercisable	
	Number outstanding	Weighted average remaining contractual life (in years)	Weighted average outstanding exercise price	Number vested	Weighted average vested exercise price
\$0.10	1,150,000	1.06	\$0.10	1,150,000	\$0.10
\$0.48- \$0.66	3,330,625	3.83	\$0.63	3,330,625	\$0.63
\$0.71- \$0.92	2,495,000	2.51	\$0.74	2,495,000	\$0.74
\$1.00	1,675,000	1.86	\$1.00	1,675,000	\$1.00
\$1.15- \$1.55	650,000	1.66	\$1.33	650,000	\$1.33
	9,300,625	2.63	\$0.71	9,300,625	\$0.71

As at September 30, 2013, the following stock options were outstanding and exercisable:

Range of exercise prices	Outstanding			Exercisable	
	Number outstanding	Weighted average remaining contractual life (in years)	Weighted average outstanding exercise price	Number vested	Weighted average vested exercise price
\$0.10	1,150,000	1.81	\$0.10	1,150,000	\$0.10
\$0.48- \$0.66	3,355,625	4.58	\$0.63	2,567,656	\$0.62
\$0.71- \$0.92	2,635,000	3.26	\$0.75	2,635,000	\$0.75
\$1.00	1,985,000	2.65	\$1.00	1,985,000	\$1.00
\$1.15- \$1.55	650,000	2.40	\$1.33	650,000	\$1.33
	9,775,625	3.36	\$0.72	8,987,656	\$0.73

Focus Graphite Inc.

(An exploration stage Company)

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)

For the three and nine month periods ended June 30, 2014

(Expressed in Canadian dollars)

The following table reflects the weighted-average fair value of stock options granted between September 30, 2012 and June 30, 2014 and the related Black-Scholes option pricing model inputs that were used in the calculations:

	Nine months ended June 30, 2014	Year ended September 30, 2013
Stock options granted	-	3,407,500
Weighted average fair value	-	\$0.56
Weighted-average exercise price	-	\$0.64
Weighted-average market price at date of grant	-	\$0.64
Expected life of stock options (years)	-	5.00
Expected stock price volatility	-	137%
Risk-free interest rate	-	1.36%
Expected dividend yield	-	-

The underlying expected stock price volatility is based on historical data of Focus Graphite Inc.'s shares since its listing on the Exchange in May 2010.

The risk-free interest rate is based on the yield of a Government of Canada benchmark bond in effect at the time of grant with an expiry commensurate with the expected life of the options.

In total, \$271,697 of stock-based payments (all of which relate to equity-settled stock-based payment transactions) were included in profit or loss for the nine months ended June 30, 2014 (2013 - \$1,356,424) and credited to contributed surplus.

19. NON-CONTROLLING INTEREST (NCI)

	\$
Balance, September 30, 2012	767,791
Elimination of redeemable shares (Note 15)	(802,033)
Change in subsidiary ownership interests (1)(2)(3)(4)	933,878
Net loss and total comprehensive loss attributable to NCI	(1,296,346)
Deconsolidation of subsidiary (5)	396,710
Balance, September 30, 2013 and June 30, 2014	-

(1) On February 6, 2013, Focus' ownership interest in Grafoid was reduced from 40% to approximately 35%, further to the closing of the first tranche of a private placement for net proceeds of \$860,998.

(2) On April 17, 2013, Focus' ownership interest in Grafoid was reduced to approximately 33%, further to the closing of the second tranche of a private placement for net proceeds of \$261,772.

Focus Graphite Inc.

(An exploration stage Company)

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)

For the three and nine month periods ended June 30, 2014

(Expressed in Canadian dollars)

- (3) On June 11, 2013, Focus' ownership interest in Grafoid was reduced to approximately 31%, further to the closing of the third tranche of a private placement for net proceeds of \$463,646.
- (4) On July 3, 2013, Focus' ownership interest in Grafoid was reduced to approximately 21%, further to the closing of the fourth tranche of a private placement for net proceeds of \$3,712,838.
- (5) On July 3, 2013, further to dilution of Focus' ownership in Grafoid, it was determined that Focus no longer exercised control over Grafoid. As a result, Grafoid was deconsolidated as of this date and is now accounted for as an investment in an associate (Note 8).

20. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended June 30,		Nine months ended June 30,	
	2014	2013	2014	2013
	\$	\$	\$	\$
Changes in working capital are as follows:				
Amounts receivable	(60,714)	155,351	(235,092)	286,403
Prepaid expenses	161,362	292,655	108,266	(147,859)
Accounts payable and accrued liabilities	(21,175)	(413,106)	(686,621)	(243,194)
Other current liabilities	-	-	-	(38,750)
	79,473	34,900	(813,447)	(143,400)
Non-cash investing activities as follows:				
Intangible assets in consideration for accounts payable and accrued liabilities and long-term liabilities	-	575,000	-	575,000
Exploration and evaluation assets in consideration for accounts payable and accrued liabilities	1,481,944	198,258	1,481,944	198,258

21. RISK MANAGEMENT AND CAPITAL MANAGEMENT

Risk management

The Company thoroughly examines the various financial risks to which it is exposed and assesses the impact and likelihood of those risks. These risks include credit risk, liquidity risk and interest rate risk. Where material, these risks are reviewed and monitored by the Board of Directors.

(i) Credit risk

Credit risk is the risk of an unexpected loss if a party to its financial instruments fails to meet its contractual obligations. The Company's financial assets exposed to credit risk are primarily composed of cash, amounts receivable (excluding sales taxes receivable) and amount due from related party and maximum exposure is equal to the carrying values of these assets, totalling \$2,266,846 at June 30, 2014 (\$13,712,718 at

Focus Graphite Inc.

(An exploration stage Company)

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)

For the three and nine month periods ended June 30, 2014

(Expressed in Canadian dollars)

September 30, 2013).. The Company's cash is held at several reputable financial institutions with high external credit ratings. The exposure to credit risk for the Company's receivables is considered immaterial. It is management's opinion that the Company is not exposed to significant credit risk. No impairment loss has been recognized in the periods presented.

None of the Company's financial assets are secured by collateral or other credit enhancements.

Management considers that all the above financial assets that are not impaired or past due for each of the reporting dates are of good credit quality. There are no financial assets that are past due but not impaired for the periods presented.

(ii) 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 manages its liquidity needs by carefully monitoring cash outflows due in day-to-day business. The Company's working capital totals \$571,409 as at June 30, 2014 (\$10,073,048 as at September 30, 2013), including \$2,081,776 in cash. The Company anticipates having sufficient funds to discharge its current liabilities and meet its corporate administrative expenses for at least the next twelve months.

The Company has financial liabilities of \$1,694,669, all of which are due within twelve months.

(iii) Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's financial assets exposed to interest rate risk include cash held in investment savings accounts bearing variable interest rates. The Company has not entered into any derivative contracts to manage this risk. The Company's policy as it relates to its cash balances is to invest excess cash in highly liquid, low-risk, short-term interest-bearing investments with maturities of 360 days or less from the original date of acquisition. As at June 30, 2014, cash totals \$2,081,776 (\$12,174,671 as at September 30, 2013) and interest income derived from these investments during the nine months ended June 30, 2014 was \$69,999.

The Company has limited exposure to financial risk arising from fluctuations in variable interest rates earned on cash given the low interest rates currently in effect and the low volatility of these rates.

Interest rate movements may affect the fair value of the fixed interest financial assets. Because these financial assets are recognized at amortized cost the fair value variation has no impact on profit or loss.

Capital management

The Company manages its capital to ensure its ability to continue as a going concern and to provide an adequate return to its shareholders as well as ensuring that all flow-through monies obtained are utilized in exploration activities and spent by the required deadline. In the management of capital, the Company includes the components of shareholders' equity. As long as the Company is in the exploration stage of its mining properties, it is not the intention of the Company to contract additional debt obligations to finance its work programs. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares. When financing conditions are not optimal, the Company may enter into option agreements or find other solutions to continue its activities or may slow its activities until conditions improve. While the Company is not subject to any external capital requirements, neither regulatory nor contractual, funds from flow-through financings to be spent on the Company's exploration properties are restricted for this use. In order to facilitate the management of its capital

Focus Graphite Inc.

(An exploration stage Company)

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)

For the three and nine month periods ended June 30, 2014

(Expressed in Canadian dollars)

requirements, the Company prepares annual budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions.

22. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, amounts receivable (net of sales taxes receivable), amount due from related party and accounts payable and accrued liabilities. The fair value of these financial instruments approximates their carrying value due to their short-term nature.

The classification of financial instruments is as follows:

	June 30, 2014	September 30, 2013
	\$	\$
Financial assets		
Loans and receivables		
Cash	2,081,776	12,174,671
Amounts receivable (net of sales taxes receivable)	185,070	38,047
Amount due from related party	-	1,500,000
Total loans and receivables	2,266,846	13,712,718
Financial liabilities		
Measured at amortized cost		
Accounts payable and accrued liabilities	(1,694,669)	(3,189,767)
Total financial liabilities measured at amortized cost	(1,694,669)	(3,189,767)

23. RELATED PARTY TRANSACTIONS

Transactions not disclosed elsewhere in these financial statements are as follows:

Unless otherwise stated, none of these transactions incorporated special terms and conditions and no guarantees were given or received.

Transactions with other related parties

JAG Sky Inc.

In October 2013, the Company prepaid an amount of \$160,000 to JAG Sky Inc. ("JAG"), a private air charter services company wholly-owned by an Officer and Director of Focus, for air travel to be used at a later date. During the three and nine months ended June 30, 2014, the Company used \$15,600 and \$52,200 of air travel with JAG, respectively (2013 - \$142,500 and \$169,900). As at June 30, 2014, the Company had a remaining prepaid balance of \$101,014 (\$Nil as at September 30, 2013) for air travel to be used at a later date.

Focus Graphite Inc.

(An exploration stage Company)

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)

For the three and nine month periods ended June 30, 2014

(Expressed in Canadian dollars)

Loan to Grafoid Inc.

During the year ended September 30, 2012, the Company provided funding to Grafoid Inc. ("Grafoid") in the amount of \$1,500,000. The loan was non-interest bearing and was payable on January 31, 2014.

In February 2014, the Company's Board of Directors approved the conversion of the outstanding \$1,500,000 loan to Grafoid into 3,000,000 common shares of Grafoid at a deemed price of \$0.50 per share.

Transactions with key management personnel

The following table reflects compensation of key management personnel, including the CEO, COO, CFO and Directors:

	Three months ended June 30,		Nine months ended June 30,	
	2014	2013	2014	2013
	\$	\$	\$	\$
Salaries (including bonuses) (1)	237,500	255,760	1,626,000	1,440,774
Benefits	4,525	1,649	12,904	4,535
Stock-based compensation	-	724,525	-	724,525
	242,025	981,934	1,638,904	2,169,834

(1) Includes director's fees which have been included in *Management and consulting fees* in the statements of comprehensive income.

24. LEASES

The Company's future minimum operating lease payments are as follows:

	Minimum lease payments due			
	Within 1 year	1 to 5 years	After 5 years	Total
	\$	\$	\$	\$
June 30, 2014	22,008	25,676	-	47,684
September 30, 2013	22,008	42,182	-	64,190

The Company leases its office under a lease expiring in August 2016.

Lease payments recognized as an expense during the nine months ended June 30, 2014 amount to \$16,506 (2013 - \$16,506). This amount consists of minimum lease payments.

Focus Graphite Inc.

(An exploration stage Company)

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)

For the three and nine month periods ended June 30, 2014

(Expressed in Canadian dollars)

25. ENTITY-WIDE REPORTING

The Company has reviewed its activities and determined that it operates in a single reportable operating segment.

The following information provides the required entity-wide disclosures, showing the Company's non-current assets by geographic area:

	Canada	Foreign	Total
	\$	\$	\$
June 30, 2014	24,496,792	-	24,496,792
September 30, 2013	20,026,359	70,089	20,096,448