

**FOCUS GRAPHITE INC.**  
**(An exploration stage Company)**

**Condensed Interim Financial Statements**

**For the three and six month periods ended March 31, 2016**

*(Expressed in Canadian Dollars)*  
*(Unaudited)*

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**Condensed Interim Financial Statements**

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**NOTICE TO READER**

The accompanying unaudited condensed 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 interim financial statements.

**Focus Graphite Inc.**

(An exploration stage Company)

Condensed Interim Statements of Financial Position (Unaudited)

*(Expressed in Canadian dollars)*

As at	March 31, 2016	September 30, 2015
	\$	\$
<b>ASSETS</b>		
Current assets		
Cash	177,634	400,443
Amounts receivable (Note 4)	172,209	184,328
Amounts due from related parties (Note 17)	264,975	85,812
Tax credits and credit on duties receivable	231,472	655,117
Prepaid expenses	156,021	107,775
	<b>1,002,311</b>	<b>1,433,475</b>
Exploration advances	16,423	35,129
Long-term investment (Note 5)	75,000	125,000
Investment in associate (Note 6)	1,071,264	1,629,019
Property and equipment (Note 7)	26,155	41,723
Mineral exploration properties (Note 8)	1,394,074	1,394,074
Exploration and evaluation assets (Note 8)	23,143,382	22,633,294
<b>Total assets</b>	<b>26,728,609</b>	<b>27,291,714</b>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued liabilities	1,171,139	1,535,571
Deposit (Note 18)	349,333	166,667
Other current liabilities (Note 9)	143,719	-
<b>Total liabilities</b>	<b>1,664,191</b>	<b>1,702,238</b>
<b>EQUITY</b>		
Share capital (Note 11)	45,601,696	44,412,649
Warrants (Note 12)	403,814	347,903
Contributed surplus	10,316,725	9,975,810
Accumulated other comprehensive income	229,040	229,040
Deficit	(31,486,857)	(29,375,926)
<b>Total equity</b>	<b>25,064,418</b>	<b>25,589,476</b>
<b>Total liabilities and equity</b>	<b>26,728,609</b>	<b>27,291,714</b>

Going concern (Note 2)

On behalf of the Board

(signed) "Gary Economo"  
Gary Economo, Director

(signed) "Jeffrey York"  
Jeffrey York, Director

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

# Focus Graphite Inc.

(An exploration stage Company)

Condensed Interim Statements of Comprehensive Loss (Unaudited)

(Expressed in Canadian dollars)

	Three months ended March 31,		Six months ended March 31,	
	2016	2015	2016	2015
	\$	\$	\$	\$
Operating expenses				
Management and consulting fees	237,499	305,701	456,110	468,211
Salaries and benefits	143,705	153,810	259,715	426,472
Travel and promotion	102,792	81,435	135,542	244,970
Professional fees	71,964	108,333	206,274	238,083
Office	75,601	121,999	152,539	227,919
Depreciation of property and equipment (Note 7)	7,784	7,784	15,568	17,634
Stock-based compensation	21,805	-	340,915	-
Government assistance	(50,314)	-	(50,314)	-
Loss from operations	(610,836)	(779,062)	(1,516,349)	(1,623,289)
Other income				
Interest income	1,156	1,154	3,554	3,091
Other income	-	51,854	-	51,854
Other income related to flow-through shares (Note 9)	9,619	-	9,619	47,669
Impairment of long-term investment (Note 5)	(12,500)	-	(50,000)	-
Dilution gain on investment in associate (Note 6)	-	434,487	-	928,994
Share of net loss of associate (Note 6)	(58,220)	(540,896)	(557,755)	(977,349)
Net loss	(670,781)	(832,463)	(2,110,931)	(1,569,030)
Other comprehensive income				
<i>Items that will be reclassified to profit or loss</i>				
Change in fair value of available-for-sale investments	(12,500)	(37,500)	(50,000)	(37,500)
Impairment of available-for-sale investments reclassified to profit or loss	12,500	-	50,000	-
Share of other comprehensive income of associate	-	204,188	-	204,188
Other comprehensive income	-	166,688	-	166,688
Total comprehensive loss	(670,781)	(665,775)	(2,110,931)	(1,402,342)
Basic and diluted net loss per common share	(0.005)	(0.01)	(0.02)	(0.01)
Basic and diluted weighted average number of common shares outstanding	142,983,906	112,800,658	135,987,429	111,861,540

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

**Focus Graphite Inc.**

(An exploration stage Company)  
Condensed Interim Statements of Changes in Equity (Unaudited)  
(Expressed in Canadian dollars)

	Share capital		Warrants		Contributed surplus		Accumulated other comprehensive income		Deficit		Total	
	# of shares	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Balance, September 30, 2014</b>	<b>110,942,837</b>	<b>40,845,778</b>	<b>131,097</b>	<b>9,905,505</b>	<b>29,951</b>	<b>(24,360,593)</b>	<b>26,551,738</b>					
Shares issued for cash	9,234,308	3,253,421	-	-	-	-	3,253,421					
Warrants issued	-	-	105,637	-	-	-	105,637					
Expiry of warrants	-	-	(90,052)	90,052	-	-	-					
Share issuance costs	-	(510,800)	130,808	-	-	-	(379,992)					
Net loss	-	-	-	-	-	(1,569,030)	(1,569,030)					
Change in fair value of available-for-sale investments	-	-	-	-	(37,500)	-	(37,500)					
Share of other comprehensive income of associate	-	-	-	-	204,188	-	204,188					
<b>Balance, March 31, 2015</b>	<b>120,177,145</b>	<b>43,588,399</b>	<b>277,490</b>	<b>9,995,557</b>	<b>196,639</b>	<b>(25,929,623)</b>	<b>28,128,462</b>					
Shares issued for cash	7,055,027	865,347	-	-	-	-	865,347					
Shares issued on exercise of options	400,000	59,747	-	(19,747)	-	-	40,000					
Warrants issued	-	-	51,807	-	-	-	51,807					
Share issuance costs	-	(100,844)	18,606	-	-	-	(82,238)					
Net loss	-	-	-	-	-	(3,446,303)	(3,446,303)					
Change in fair value of available-for-sale investments	-	-	-	-	(62,500)	-	(62,500)					
Impairment of available-for-sale investments reclassified to profit or loss	-	-	-	-	100,000	-	100,000					
Share of other comprehensive income of associate	-	-	-	-	(5,099)	-	(5,099)					
<b>Balance, September 30, 2015</b>	<b>127,632,172</b>	<b>44,412,649</b>	<b>347,903</b>	<b>9,975,810</b>	<b>229,040</b>	<b>(29,375,926)</b>	<b>25,589,476</b>					
Shares issued for cash	15,333,800	1,380,042	-	-	-	-	1,380,042					
Shares issued on exercise of warrants	96,000	17,280	(960)	-	-	-	16,320					
Stock-based compensation	-	-	-	340,915	-	-	340,915					
Share issuance costs	-	(208,275)	56,871	-	-	-	(151,404)					
Net loss	-	-	-	-	-	(2,110,931)	(2,110,931)					
Change in fair value of available-for-sale investments	-	-	-	-	(50,000)	-	(50,000)					
Impairment of available-for-sale investments reclassified to profit or loss	-	-	-	-	50,000	-	50,000					
<b>Balance, March 31, 2016</b>	<b>143,061,972</b>	<b>45,601,696</b>	<b>403,814</b>	<b>10,316,725</b>	<b>229,040</b>	<b>(31,486,857)</b>	<b>25,064,418</b>					

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

**Focus Graphite Inc.**

(An exploration stage Company)

Condensed Interim Statements of Cash Flows (Unaudited)

(Expressed in Canadian dollars)

	Three months ended March 31,		Six months ended March 31,	
	2016	2015	2016	2015
	\$	\$	\$	\$
<b>OPERATING ACTIVITIES</b>				
Net loss	(670,781)	(832,463)	(2,110,931)	(1,569,030)
Adjustments for:				
Stock-based compensation	21,805	-	340,915	-
Depreciation of property and equipment	7,784	7,784	15,568	17,634
Interest income	(1,156)	(1,154)	(3,554)	(3,091)
Other income related to flow-through shares	(9,619)	-	(9,619)	(47,669)
Impairment of long-term investment	12,500	-	50,000	-
Dilution gain on investment in associate	-	(434,487)	-	(928,994)
Share of net loss of associate	58,220	540,896	557,755	977,349
Changes in working capital items (Note 14)	(200,053)	400,330	5,648	1,071,413
<b>Net cash used in operating activities</b>	<b>(781,300)</b>	<b>(319,094)</b>	<b>(1,154,218)</b>	<b>(482,388)</b>
<b>INVESTING ACTIVITIES</b>				
Exploration advances	25,050	8,972	18,706	(3,916)
Interest received	1,156	1,154	3,554	3,091
Exploration and evaluation costs	(580,511)	(754,110)	(912,792)	(2,670,268)
Tax credits and mining duties received	-	-	423,645	-
<b>Net cash used in investing activities</b>	<b>(554,305)</b>	<b>(743,984)</b>	<b>(466,887)</b>	<b>(2,671,093)</b>
<b>FINANCING ACTIVITIES</b>				
Common shares issued	-	3,359,058	1,533,380	3,359,058
Warrants exercised	16,320	-	16,320	-
Share issuance costs	-	(379,992)	(151,404)	(379,992)
<b>Net cash provided by financing activities</b>	<b>16,320</b>	<b>2,979,066</b>	<b>1,398,296</b>	<b>2,979,066</b>
(Decrease) increase in cash	(1,319,285)	1,915,988	(222,809)	(174,415)
Cash, beginning of the period	1,496,919	110,231	400,443	2,200,634
<b>Cash, end of the period</b>	<b>177,634</b>	<b>2,026,219</b>	<b>177,634</b>	<b>2,026,219</b>

*Supplemental cash flow information is provided in Note 14**The accompanying notes are an integral part of these condensed interim financial statements.*

## **Focus Graphite Inc.**

(An exploration stage Company)

Notes to the Condensed Interim Financial Statements (Unaudited)

For the three and six month periods ended March 31, 2016

*(Expressed in Canadian dollars)*

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### **1. NATURE OF OPERATIONS**

Focus Graphite Inc. (the “Company” or “Focus”) was incorporated on December 30, 1998 under the Canada Business Corporations Act.

Focus is 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. GOING CONCERN ASSUMPTION**

These condensed interim financial statements have been prepared on a going concern basis in accordance with International Financial Reporting Standards (“IFRS”). The going concern basis of presentation 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 business. The Company is in the exploration stage and has not earned revenue from operations. During the six months ended March 31, 2016, the Company incurred a net loss of \$2,110,931 and negative cash flows from operations of \$1,154,218. In addition, the Company has a working capital deficit of \$661,880 and a deficit of \$31,486,857.

The above factors raise significant doubt about the Company’s ability to continue as a going concern. In assessing whether the going concern assumption is appropriate, Management takes into account all available information about the future, which is at least, but not limited to, 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.

The Company’s ability to continue as a going concern, realize its assets and discharge its liabilities in the normal course of business, meet its corporate administrative expenses and continue its exploration activities for the next twelve months, is dependent upon Management’s ability to obtain additional financing, through various means including but not limited to equity financing. No assurance can be given that any such additional financing will be available, or that it can be obtained on terms favorable to the Company.

These financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis was not appropriate for these financial statements, then adjustments would be necessary to the carrying amounts of assets and liabilities, the reported expenses and the classifications used in the statements of financial position.

### **3. SIGNIFICANT ACCOUNTING POLICIES**

#### **(a) Statement of compliance**

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

These condensed 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 financial statements for the years ended September 30, 2015 and 2014, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

These condensed interim financial statements were authorized for issue by the Board of Directors on May 25, 2016.

## Focus Graphite Inc.

(An exploration stage Company)

Notes to the Condensed Interim Financial Statements (Unaudited)

For the three and six month periods ended March 31, 2016

*(Expressed in Canadian dollars)*

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### **(b) Basis of presentation**

These condensed interim financial statements have been prepared on a historical cost basis, except for available-for-sale financial assets which are measured at fair value, and are expressed in Canadian dollars, which is also the functional currency of the Company.

These condensed interim financial statements have been prepared using accounting policies that are consistent with those used in the preparation of the Company's audited annual financial statements for the years ended September 30, 2015 and 2014.

### **(c) Judgments, estimates and assumptions**

When preparing the 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.

#### *Significant influence assessment*

The assessment as to whether or not the Company has significant influence over an investee requires judgment. Even though Focus holds less than 20% of the voting rights in Grafoid Inc. ("Grafoid"), with an ownership interest of 18% as at March 31, 2016 (Note 6), Management considers the Company to have significant influence over Grafoid. Management considers various facts and circumstances in arriving at this assessment, including but not limited to Focus' representation on the Board of Directors of Grafoid.

#### *Determination of technical feasibility and commercial viability of mineral property*

Mining rights and expenses related to exploration and evaluation activities are capitalized on a property by property basis pending determination of the technical feasibility and commercial viability of the project. When technical feasibility and commercial viability of extracting a mineral resource are demonstrable, mining rights and expenses related to exploration and evaluation activities of the related mining property are transferred to mining assets under construction and all subsequent expenditures on the construction, installation or completion of infrastructure facilities are capitalized to mining assets under construction. The determination as to when a mineral property is deemed to be technically feasible and commercially viable is subject to Management judgment. Management considers various facts and circumstances, including but not limited to the securing of financing and the approval of the Company's Board of Directors, in arriving at this assessment.

#### *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



## Focus Graphite Inc.

(An exploration stage Company)

Notes to the Condensed Interim Financial Statements (Unaudited)

For the three and six month periods ended March 31, 2016

(Expressed in Canadian dollars)

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factors including expectation of future events that are believed to be reasonable under the circumstances. See Note 2 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.

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 six months ended March 31, 2016 was \$Nil (2015 - \$Nil). No reversal of impairment losses has been recognized for the reporting periods.

#### *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.



**Focus Graphite Inc.**

(An exploration stage Company)

Notes to the Condensed Interim Financial Statements (Unaudited)

For the three and six month periods ended March 31, 2016

*(Expressed in Canadian dollars)***4. AMOUNTS RECEIVABLE**

	March 31, 2016	September 30, 2015
	\$	\$
Sales taxes receivable	76,905	80,562
Travel advances to Management	91,979	91,979
Other receivables	3,325	11,787
Total amounts receivable	172,209	184,328

**5. 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 received 2,500,000 common shares in Mincom, valued at \$450,000 (Note 8a)). The fair value of the shares received was based on the quoted market price on the closing date of the transaction. 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
	<b>100%</b>	<b>2,500,000</b>

As at March 31, 2016, the Company's investment in Mincom was as follows:

	Cost	Impairment	Fair value
	\$	\$	\$
2,500,000 common shares in Mincom (1)	450,000	(375,000)	75,000

(1) 1,125,000 of these shares are held in escrow as at March 31, 2016.

As at September 30, 2015, the Company's investment in Mincom was as follows:

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Notes to the Condensed Interim Financial Statements (Unaudited)

For the three and six month periods ended March 31, 2016

(Expressed in Canadian dollars)

	Cost	Impairment	Fair value
	\$	\$	\$
2,500,000 common shares in Mincom (1)	450,000	(325,000)	125,000

(1) 1,500,000 of these shares are held in escrow as at September 30, 2015.

## 6. INVESTMENT IN ASSOCIATE

### Grafoid Inc.

Grafoid is a privately-held graphene research and development company, with its principal place of business in Ottawa, Ontario.

As at March 31, 2016, no dividends have been received from Grafoid.

On July 3, 2013, the Company lost control over Grafoid, 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 loss.

In February 2014, Focus' Board of Directors approved the conversion of an outstanding \$1,500,000 loan to Grafoid into 3,000,000 common shares at a deemed price of \$0.50 per share, increasing the Company's holdings in Grafoid to 7,800,000 common shares.

Subsequent to July 3, 2013 and continuing through to December 31, 2015, Focus' ownership interest in Grafoid has fluctuated, further to multiple capital raises and other share issuances by Grafoid, including the 3,000,000 shares issued to the Company, as described above. Despite these fluctuations, Management has not changed its assessment and considers Focus to have maintained significant influence over Grafoid throughout this period. Management takes into consideration various facts and circumstances in arriving at this assessment, including but not limited to Focus' continued representation on Grafoid's Board of Directors.

As at March 31, 2016, the Company's ownership interest in Grafoid was 18% and the carrying value of the investment was determined as follows:

	\$
Balance, September 30, 2015	1,629,019
Dilution gain on investment in associate	-
Share of net loss of associate	(557,755)
Share of other comprehensive income of associate	-
Balance, March 31, 2016	1,071,264

As at September 30, 2015, the Company's ownership interest in Grafoid was 18% and the carrying value of the investment was determined as follows:

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Notes to the Condensed Interim Financial Statements (Unaudited)

For the three and six month periods ended March 31, 2016

*(Expressed in Canadian dollars)*

	\$
Balance, September 30, 2014	2,977,744
Dilution gain on investment in associate	1,505,079
Share of net loss of associate	(3,052,893)
Share of other comprehensive income of associate	199,089
Balance, September 30, 2015	1,629,019

The shares of Grafoid are not publicly listed on a stock exchange and hence published price quotes are not available. The dilution gain is impacted by equity financings closed by Grafoid with independent third party investors at US\$5.00 per share.

**7. PROPERTY AND EQUIPMENT**

	Computer hardware and equipment	Vehicles	Lab equipment	Office furniture	Total
	\$	\$	\$	\$	\$
<b>Cost, September 30, 2015 and March 31, 2016</b>	<b>14,115</b>	<b>38,614</b>	<b>102,423</b>	<b>5,000</b>	<b>160,152</b>
<b>Accumulated depreciation</b>					
Balance, September 30, 2015	14,115	33,177	68,054	3,083	118,429
Depreciation	-	4,826	10,242	500	15,568
<b>Accumulated depreciation, March 31, 2016</b>	<b>14,115</b>	<b>38,003</b>	<b>78,296</b>	<b>3,583</b>	<b>133,997</b>
<b>Net Book Value, March 31, 2016</b>	<b>-</b>	<b>611</b>	<b>24,127</b>	<b>1,417</b>	<b>26,155</b>
	Computer hardware and equipment	Vehicles	Lab equipment	Office furniture	Total
	\$	\$	\$	\$	\$
<b>Cost, September 30, 2014 and September 30, 2015</b>	<b>14,115</b>	<b>38,614</b>	<b>102,423</b>	<b>5,000</b>	<b>160,152</b>
<b>Accumulated depreciation</b>					
Balance, September 30, 2014	12,050	23,523	47,570	2,083	85,226
Depreciation	2,065	9,654	20,484	1,000	33,203
<b>Accumulated depreciation, September 30, 2015</b>	<b>14,115</b>	<b>33,177</b>	<b>68,054</b>	<b>3,083</b>	<b>118,429</b>
<b>Net Book Value, September 30, 2015</b>	<b>-</b>	<b>5,437</b>	<b>34,369</b>	<b>1,917</b>	<b>41,723</b>

**Focus Graphite Inc.**

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Notes to the Condensed Interim Financial Statements (Unaudited)

For the three and six month periods ended March 31, 2016

*(Expressed in Canadian dollars)***8. MINERAL EXPLORATION PROPERTIES AND EXPLORATION AND EVALUATION ASSETS**

	March 31, 2016		September 30, 2015	
	Mineral exploration properties	Exploration and evaluation assets	Mineral exploration properties	Exploration and evaluation assets
	\$	\$	\$	\$
a) Labrador Trough	6,991	234,407	6,991	233,517
b) Kwyjibo	-	6,049,658	-	5,931,836
c) Lac Knife	642,578	15,133,339	642,578	14,750,570
d) Manicouagan	289,101	1,241,455	289,101	1,236,718
d) Lac au Sorcier	6,226	3,210	6,226	3,184
e) Island and Asbury	53,258	72,995	53,258	72,673
f) Eastmain-Leran	395,920	408,318	395,920	404,796
<b>TOTAL</b>	<b>1,394,074</b>	<b>23,143,382</b>	<b>1,394,074</b>	<b>22,633,294</b>

**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 Otelnuke, 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 TSX Venture 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 additional 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 net smelter royalty ("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 signed a letter agreement with Mincom Capital Inc. ("Mincom"), a related party which shares common management, pursuant to which Focus was to sell to Mincom all of its rights, title and interest in its Romer property (the "Property").

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) 2,500,000 common shares of Mincom.

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

As at March 31, 2016, the Labrador Trough consists of 4 properties: Minowean, Otelnuke, Lemming and Diana.

## **Focus Graphite Inc.**

(An exploration stage Company)

Notes to the Condensed Interim Financial Statements (Unaudited)

For the three and six month periods ended March 31, 2016

*(Expressed in Canadian dollars)*

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### **b) Kwyjibo**

In August 2010, the Company signed an option agreement with SOQUEM Inc. ("SOQUEM") to acquire a 50% interest in the Kwyjibo property, located in the Grenville Geological Province, 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 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 is located 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, located in the Manicouagan, Gatineau/Laurentides and Mauricie 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 were as follows:

Manicouagan:	Lac Guinecourt and Lac Tetepisca
Gatineau/Laurentides:	L'Annonciation, Laurentides1, Laurentides2, Cobden and Quyon
Mauricie:	Lac Au Sorcier

In November 2012, the Company acquired the Lac Tetepisca North property via map-staking. The property is located nearby the Company's Lac Tetepisca property.

During the year ended September 30, 2013, the Company wrote down the cost of the L'Annonciation, Laurentides, Laurentides2, Cobden and Quyon 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.

During the year ended September 30, 2014, the Company added 29 mining claims to the Lac Tetepisca project via map-staking.

During the year ended September 30, 2015, the Company wrote down the cost of Lac Guinecourt, Lac Tetepisca and Lac au Sorcier by \$101,837, \$173,414 and \$37,927, respectively (\$108,241 in acquisition costs and \$204,937 in exploration and evaluation assets), further to the Company's decision to let certain claims lapse as poor exploration results to date did not warrant further exploration on these claims.

## **Focus Graphite Inc.**

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### **e) Island and Asbury**

In January, 2012, the Company acquired 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/Laurentides 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 the Company's decision to let the claims lapse as poor exploration results to date did not warrant further exploration on the properties.

During the year ended September 30, 2015, the Company wrote down the cost of Island by \$41,088 (\$19,172 in acquisition costs and \$21,916 in exploration and evaluation assets) further to the Company's decision to let certain claims lapse as poor exploration results to date did not warrant further exploration on these claims.

### **f) Eastmain-Leran**

In October 2012, the Company signed an agreement with Ressources Minière 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.

In October 2012, the Company acquired additional mining claims, 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. The property was recorded at a value of \$350,000 upon initial recognition, based on the fair value of the property received and the consideration paid.

**Focus Graphite Inc.**

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*(Expressed in Canadian dollars)*

The following table reflects changes to mineral exploration properties between October 1, 2014 and March 31, 2016:

	<b>Six months ended March 31, 2016</b>	<b>Year ended September 30, 2015</b>
	\$	\$
Balance, beginning of the period	<b>1,394,074</b>	1,521,487
Write-down of mineral exploration properties	-	(127,413)
Balance, end of the period	<b>1,394,074</b>	1,394,074

The following table reflects changes to exploration and evaluation assets between October 1, 2014 and March 31, 2016:

	<b>Six months ended March 31, 2016</b>	<b>Year ended September 30, 2015</b>
	\$	\$
Balance, beginning of the period	<b>22,633,294</b>	22,013,275
Additions		
Drilling	<b>99,348</b>	530,723
Independent technical studies	-	8,417
Geophysical survey	-	(3,395)
Geological mapping	-	94,259
Metallurgical analysis	<b>164,870</b>	221,083
Property maintenance	<b>11,145</b>	28,708
Feasibility studies	<b>186,080</b>	333,884
Environmental studies	<b>48,645</b>	268,310
Pre-development agreements	-	20,000
	<b>510,088</b>	1,501,989
Write-down of exploration and evaluation assets	-	(226,853)
Tax credits and credit on duties	-	(655,117)
Balance, end of the period	<b>23,143,382</b>	22,633,294



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(Expressed in Canadian dollars)

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**9. OTHER CURRENT LIABILITIES**

Other current liabilities include the following:

	March 31, 2016	September 30, 2015
	\$	\$
Obligation to pass on tax deductions (1)	143,719	-
Total other current liabilities	143,719	-

(1) In December 2015, the Company closed a flow-through private placement (Note 11) for gross proceeds of \$1,533,380. The proceeds from the financing were allocated between share capital (\$1,380,042) and a deferred liability (\$153,338) 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 2016, the Company has proportionately reduced the initial liability by the percentage of the required exploration expenditures which have been incurred to March 31, 2016. As at March 31, 2016, the remaining liability is \$143,719.

**10. 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.

In December 2015, the Company completed a flow-through private placement for gross proceeds of \$1,533,380. In February 2016, the related tax deductions were renounced to investors with an effective date of December 31, 2015. As at March 31, 2016, the Company has incurred \$96,191 of the required flow-through expenditures and has until December 31, 2016 to incur the remaining exploration expenditures of \$1,437,189.

**Focus Graphite Inc.**

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For the three and six month periods ended March 31, 2016

*(Expressed in Canadian dollars)***11. 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		\$
<b>Balance, September 30, 2014</b>	<b>110,942,837</b>	<b>40,845,778</b>	
Shares issued for cash (1)(2)(3)(4)(5)	16,289,335	4,118,768	
Shares issued on exercise of options	400,000	59,747	
Share issuance costs	-	(611,644)	
<b>Balance, September 30, 2015</b>	<b>127,632,172</b>	<b>44,412,649</b>	
Shares issued for cash (6)	15,333,800	1,380,042	
Shares issued on exercise of warrants	96,000	17,280	
Share issuance costs	-	(208,275)	
<b>Balance, March 31, 2016</b>	<b>143,061,972</b>	<b>45,601,696</b>	

- (1) On February 9, 2015, the Company completed a private placement for gross proceeds of \$423,500. The private placement was comprised of 847,000 units at a price of \$0.50 per unit. Each unit is comprised of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one additional common share of the Company at a price of \$0.60 until February 9, 2019. In connection with the financing, the Company paid cash finder's fees totaling \$29,645 and issued, as additional consideration, 59,290 non-transferable broker warrants, each broker warrant entitling the holder to acquire one common share of the Company at a price of \$0.60 until February 9, 2017. The warrants issued in connection to the private placement have been recorded at a value of \$67,760, based on the residual method and warrants issued as commissions have been recorded at a value of \$12,704 based on the Black-Scholes option pricing model, using the following assumptions: stock price of \$0.42, risk-free interest rate of 0.48%, expected life of warrants of 2 years, annualized volatility of 115% 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 \$23,726. The value of the warrants, commissions and other issue costs were presented as a reduction of share capital.
- (2) On March 13, 2015, the Company completed a private placement for gross proceeds of \$2,051,758. The private placement was comprised of 5,862,166 units at a price of \$0.35 per unit. Each unit is comprised of one common share and one half of a common share purchase warrant. Each warrant entitles the holder to purchase one additional common share of the Company at a price of \$0.55 until March 13, 2017. In connection with the financing, the Company paid cash finder's fees totaling \$143,623 and issued, as

## Focus Graphite Inc.

(An exploration stage Company)

Notes to the Condensed Interim Financial Statements (Unaudited)

For the three and six month periods ended March 31, 2016

*(Expressed in Canadian dollars)*

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additional consideration, 410,351 non-transferable broker warrants, each broker warrant entitling the holder to acquire one common share of the Company at a price of \$0.35 until March 13, 2017. The warrants issued in connection to the private placement have been recorded at a value of \$Nil, based on the residual method and warrants issued as commissions have been recorded at a value of \$84,187 based on the Black-Scholes option pricing model, using the following assumptions: stock price of \$0.35, risk-free interest rate of 0.55%, expected life of warrants of 2 years, annualized volatility of 115% 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 \$50,178. The value of the warrants, commissions and other issue costs were presented as a reduction of share capital.

- (3) On March 27, 2015, the Company completed a private placement for gross proceeds of \$883,800. The private placement was comprised of 2,525,142 units at a price of \$0.35 per unit. Each unit is comprised of one common share and one half of a common share purchase warrant. Each warrant entitles the holder to purchase one additional common share of the Company at a price of \$0.55 until March 27, 2017. In connection with the financing, the Company paid cash finder's fees totaling \$61,866 and issued, as additional consideration, 176,759 non-transferable broker warrants, each broker warrant entitling the holder to acquire one common share of the Company at a price of \$0.35 until March 27, 2017. The warrants issued in connection to the private placement have been recorded at a value of \$37,877 based on the residual method and warrants issued as commissions have been recorded at a value of \$33,917 based on the Black-Scholes option pricing model, using the following assumptions: stock price of \$0.335, risk-free interest rate of 0.52%, expected life of warrants of 2 years, annualized volatility of 114% 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 \$73,764. The value of the warrants, commissions and other issue costs were presented as a reduction of share capital.
- (4) On August 28, 2015, the Company completed a private placement for gross proceeds of \$429,830. The private placement was comprised of 3,306,381 units at a price of \$0.13 per unit. Each unit is comprised of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one additional common share of the Company at a price of \$0.17 until August 28, 2019. In connection with the financing, the Company paid cash finder's fees totaling \$31,443 and issued, as additional consideration, 241,868 non-transferable broker warrants, each broker warrant entitling the holder to acquire one common share of the Company at a price of \$0.17 until August 28, 2017. The warrants issued in connection to the private placement have been recorded at a value of \$33,064 based on the residual method and warrants issued as commissions have been recorded at a value of \$14,577 based on the Black-Scholes option pricing model, using the following assumptions: stock price of \$0.12, risk-free interest rate of 0.42%, expected life of warrants of 2 years, annualized volatility of 113% 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 \$15,436. The value of the warrants, commissions and other issue costs were presented as a reduction of share capital. Directors of the Company, including immediate family members, participated in the private placement for an aggregate amount of \$6,240.
- (5) On September 30, 2015, the Company completed a private placement for gross proceeds of \$487,324. The private placement was comprised of 3,748,646 units at a price of \$0.13 per unit. Each unit is comprised of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one additional common share of the Company at a price of \$0.17 until September 30, 2019. In connection with the financing, the Company paid cash finder's fees totaling \$9,386 and issued,

## Focus Graphite Inc.

(An exploration stage Company)

Notes to the Condensed Interim Financial Statements (Unaudited)

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*(Expressed in Canadian dollars)*

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as additional consideration, 63,584 non-transferable broker warrants, each broker warrant entitling the holder to acquire one common share of the Company at a price of \$0.17 until September 30, 2017. The warrants issued in connection to the private placement have been recorded at a value of \$18,743 based on the residual method and warrants issued as commissions have been recorded at a value of \$4,029 based on the Black-Scholes option pricing model, using the following assumptions: stock price of \$0.125, risk-free interest rate of 0.53%, expected life of warrants of 2 years, annualized volatility of 112% 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 \$23,163. The value of the warrants, commissions and other issue costs were presented as a reduction of share capital. Directors and officers of the Company participated in the private placement for an aggregate amount of \$350,000.

- (6) In December 2015, the Company completed a flow-through private placement for gross proceeds of \$1,533,380. The private placement was comprised of 15,333,800 flow-through common shares at a price of \$0.10 per share. In connection with the financing, the Company paid cash finders' fees of \$114,670 and issued, as additional consideration, 1,146,704 non-transferable broker warrants, each broker warrant entitling the holder to acquire one common share of the Company at a price of \$0.10 until December 23, 2017. The proceeds from the financing (\$1,533,380) were allocated between share capital (\$1,380,042) and a deferred liability (\$153,338) 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 \$56,871 based on the Black-Scholes option pricing model, using the following assumptions: stock price of \$0.09, risk-free interest rate of 0.50%, expected life of warrants of 2 years, annualized volatility of 112% 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 \$208,275. The value of the warrants, commissions and other issue costs were presented as a reduction of share capital. A Director of the Company participated in the private placement for an amount of \$100,000.

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For the three and six month periods ended March 31, 2016

*(Expressed in Canadian dollars)***12. WARRANTS**

The following table reflects the continuity of warrants outstanding:

	Number of warrants	Weighted average exercise price \$
<b>Balance, September 30, 2014</b>	<b>4,201,940</b>	<b>0.61</b>
Granted	13,047,533	0.33
Expired	(198,000)	0.91
<b>Balance, September 30, 2015</b>	<b>17,051,473</b>	<b>0.39</b>
Granted	1,146,704	0.10
Exercised	(96,000)	0.17
<b>Balance, March 31, 2016</b>	<b>18,102,177</b>	<b>0.38</b>

As at March 31, 2016, the following warrants were issued and outstanding:

Number of warrants	Fair value \$	Exercise price \$	Expiry date
142,940	41,045	0.60	September 23, 2016
3,861,000	-	0.60	September 23, 2018
847,000	67,760	0.60	February 9, 2019
59,290	12,704	0.60	February 9, 2017
2,931,083	-	0.55	March 13, 2017
410,351	84,187	0.35	March 13, 2017
1,262,571	37,877	0.55	March 27, 2017
176,759	33,917	0.35	March 27, 2017
3,210,381	32,104	0.17	August 28, 2019
241,868	14,577	0.17	August 28, 2017
3,748,646	18,743	0.17	September 30, 2019
63,584	4,029	0.17	September 30, 2017
1,146,704	56,871	0.10	December 23, 2017
<b>18,102,177</b>	<b>403,814</b>		

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As at September 30, 2015, the following warrants were issued and outstanding:

<b>Number of warrants</b>	<b>Fair value</b>	<b>Exercise price</b>	<b>Expiry date</b>
	\$	\$	
142,940	41,045	0.60	September 23, 2016
3,861,000	-	0.60	September 23, 2018
847,000	67,760	0.60	February 9, 2019
59,290	12,704	0.60	February 9, 2017
2,931,083	-	0.55	March 13, 2017
410,351	84,187	0.35	March 13, 2017
1,262,571	37,877	0.55	March 27, 2017
176,759	33,917	0.35	March 27, 2017
3,306,381	33,064	0.17	August 28, 2019
241,868	14,577	0.17	August 28, 2017
3,748,646	18,743	0.17	September 30, 2019
63,584	4,029	0.17	September 30, 2017
<b>17,051,473</b>	<b>347,903</b>		

**13. 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.

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*(Expressed in Canadian dollars)*

The following table reflects the continuity of stock options outstanding:

	Number of stock options	Weighted average exercise price \$
<b>Balance, September 30, 2014</b>	<b>9,230,000</b>	<b>0.71</b>
Exercised	(400,000)	0.10
Expired	(1,355,000)	0.29
<b>Balance, September 30, 2015</b>	<b>7,475,000</b>	<b>0.82</b>
Granted (1)	4,800,000	0.10
Expired	(817,500)	1.15
<b>Balance, March 31, 2016</b>	<b>11,457,500</b>	<b>0.50</b>

(1) On December 23, 2015, 4,800,000 stock options were granted to Directors, Officers, employees and consultants at an exercise price of \$0.10 per share, expiring on December 23, 2020.

As at March 31, 2016, 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	4,762,500	4.73	\$0.10	4,218,750	\$0.10
\$0.66	2,525,000	2.09	\$0.66	2,525,000	\$0.66
\$0.71- \$0.92	2,495,000	0.76	\$0.74	2,495,000	\$0.74
\$1.00	1,675,000	0.11	\$1.00	1,675,000	\$1.00
	<b>11,457,500</b>	<b>2.61</b>	<b>\$0.50</b>	<b>10,913,750</b>	<b>\$0.51</b>



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(An exploration stage Company)

Notes to the Condensed Interim Financial Statements (Unaudited)

For the three and six month periods ended March 31, 2016

(Expressed in Canadian dollars)

As at September 30, 2015, 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
\$0.48- \$0.66	2,655,000	2.50	\$0.65	2,655,000	\$0.65
\$0.71- \$0.92	2,495,000	1.26	\$0.74	2,495,000	\$0.74
\$1.00	1,675,000	0.61	\$1.00	1,675,000	\$1.00
\$1.15- \$1.55	650,000	0.40	\$1.33	650,000	\$1.33
	<b>7,475,000</b>	<b>1.48</b>	<b>\$0.82</b>	<b>7,475,000</b>	<b>\$0.82</b>

The following table reflects the weighted-average fair value of stock options granted between October 1, 2014 and March 31, 2016 and the related Black-Scholes option pricing model inputs that were used in the calculations:

	Six months ended March 31, 2016	Year ended September 30, 2015
Stock options granted	<b>4,800,000</b>	-
Weighted average fair value	<b>0.07</b>	-
Weighted-average exercise price	<b>0.10</b>	-
Weighted-average market price at date of grant	<b>0.09</b>	-
Expected life of stock options (years)	<b>5</b>	-
Expected stock price volatility	<b>125%</b>	-
Risk-free interest rate	<b>0.74%</b>	-
Expected dividend yield	<b>0%</b>	-

The underlying expected stock price volatility is based on historical data of Focus Graphite Inc.'s shares over a period commensurate with the expected life of the options.

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, \$340,915 of stock-based payments (all of which relate to equity-settled stock-based payment transactions) were included in profit or loss for the six months ended March 31, 2016 (2015 - \$Nil) and credited to contributed surplus.

**Focus Graphite Inc.**

(An exploration stage Company)

Notes to the Condensed Interim Financial Statements (Unaudited)

For the three and six month periods ended March 31, 2016

*(Expressed in Canadian dollars)***14. SUPPLEMENTAL CASH FLOW INFORMATION**

	Three months ended March 31,		Six months ended March 31,	
	<b>2016</b>	2015	<b>2016</b>	2015
	\$	\$	\$	\$
Changes in working capital are as follows:				
Amounts receivable	<b>459</b>	212,808	<b>12,119</b>	596,835
Amounts due from related parties	<b>(191,556)</b>	(34,858)	<b>(179,163)</b>	24,189
Prepaid expenses	<b>(56,457)</b>	56,154	<b>(48,246)</b>	52,945
Accounts payable and accrued liabilities	<b>47,501</b>	166,226	<b>38,272</b>	397,444
Deposit	-	-	<b>182,666</b>	-
	<b>(200,053)</b>	400,330	<b>5,648</b>	1,071,413
Non-cash investing activities as follows:				
Exploration and evaluation assets in consideration for accounts payable and accrued liabilities	<b>372,516</b>	1,618,244	<b>372,516</b>	1,618,244

**15. 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, currency 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 amounts due from related parties and maximum exposure is equal to the carrying values of these assets, totalling \$537,913 at March 31, 2016 (\$590,021 at September 30, 2015). 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.

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*(Expressed in Canadian dollars)*

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### *(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. As at March 31, 2016, the Company had a working capital deficit of \$661,880. During the six months ended March 31, 2016, the Company had negative cash flows from operations of \$1,154,218. The Company's ability to realize its assets and discharge its liabilities in the normal course of business, meet its corporate administrative expenses and continue its exploration activities for the next twelve months, is dependent upon Management's ability to obtain additional financing, through various means including but not limited to equity financing. No assurance can be given that any such additional financing will be available, or that it can be obtained on terms favorable to the Company.

The Company has financial liabilities of \$1,664,191, all of which are due within twelve months.

### *(iii) Currency risk*

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company has limited exposure to financial risk arising from fluctuations in foreign exchange rates given that its transactions are carried out primarily in Canadian dollars.

### *(iv) 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 March 31, 2016, the Company had cash balances of \$177,634 (\$400,443 as at September 30, 2015) and interest income derived from these investments during the six months ended March 31, 2016 was \$3,554.

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.

### *(v) Other price risk*

The Company holds publicly listed shares of a company in the mineral exploration industry. The Company is exposed to other price risk regarding these shares as unfavorable market conditions could result in the disposal at less than their value at March 31, 2016. As at March 31, 2016, the value of these listed shares was \$75,000. At March 31, 2016, had the bid price for these publicly listed shares been 10% lower, the comprehensive loss for the year would have been \$7,500 higher. Conversely, had the bid price been 10% higher, the comprehensive loss would have been \$7,500 lower.

### 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

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

**16. FINANCIAL INSTRUMENTS**

The Company's financial instruments consist of cash, amounts receivable (net of sales taxes receivable), amounts due from related parties, long-term investment, accounts payable and accrued liabilities and deposit. The long-term investment is carried at fair value. The fair value of the other financial instruments approximates their carrying value due to their short-term nature.

The classification of financial instruments is as follows:

	March 31, 2016	September 30, 2015
	\$	\$
<b>Financial assets</b>		
Loans and receivables		
Cash	177,634	400,443
Amounts receivable (net of sales taxes receivable)	95,304	103,766
Amounts due from related parties	264,975	85,812
Available-for-sale-financial assets		
Long-term investment	75,000	125,000
<b>Total financial assets</b>	<b>612,913</b>	<b>715,021</b>
<b>Financial liabilities</b>		
Measured at amortized cost		
Accounts payable and accrued liabilities	(1,171,139)	(1,535,571)
Deposit	(349,333)	(166,667)
<b>Total financial liabilities</b>	<b>(1,520,472)</b>	<b>(1,702,238)</b>

## Focus Graphite Inc.

(An exploration stage Company)

Notes to the Condensed Interim Financial Statements (Unaudited)

For the three and six month periods ended March 31, 2016

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### 17. RELATED PARTY TRANSACTIONS

Transactions with related parties 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.

#### JAG Sky Inc.

During the six months ended March 31, 2016, the Company was charged \$Nil by JAG Sky Inc. ("JAG") (2015 - \$36,800), a private air charter services company wholly-owned by an Officer and Director of Focus, for air travel. In fiscal 2015, the Company prepaid an amount of \$55,000 to JAG, for air travel to be used at a later date. As at March 31, 2016, the Company had a remaining prepaid balance of \$33,070 (\$33,070 as at September 30, 2015), included in prepaid expenses.

#### Alcereco Inc.

During the six months ended March 31, 2016, the Company was charged \$21,840 by Alcereco Inc., a private company which shares common management, for research work (2015 - \$Nil). As at March 31, 2016, \$17,615 was included in accounts payable and accrued liabilities (\$2,935 as at September 30, 2015).

#### 9229205 Canada Inc. and 2390540 Ontario Inc.

Under a lease agreement between the Company and 9229205 Canada Inc. ("9229205") (Note 18), a privately-held company wholly-owned by an Officer and Director of Focus, the Company leases laboratory space in Kingston, Ontario. The lease was previously with 2390540 Ontario Inc., a private entity which is also wholly-owned by an Officer and Director of Focus, however it was transferred to 9229205 upon 9229205's acquisition of the building. During the six months ended March 31, 2016, the Company was charged a total of \$27,742 for rent (2015 - \$Nil). In March 2016, the Company prepaid an amount of \$26,123, representing rent through August 31, 2016, including HST. As at March 31, 2016, the entire prepaid amount was included in prepaid expenses.

#### Grafoid Inc.

During the three months ended March 31, 2016, the Company loaned Grafoid Inc. \$160,000 to help cover audit fees related to the 2015 fiscal year. As at March 31, 2016, the entire amount is included in amounts due from related parties (\$Nil as at September 30, 2015).

#### Shared costs

During the year ended September 30, 2015, the Company charged Mincom Capital Inc. and Stria Lithium Inc., both of which share common management, \$10,000 and \$10,000, respectively, for accounting and administrative services and other administrative expenses. As at March 31, 2016, balances of \$Nil and \$11,300 (\$11,300 and \$11,300 as at September 30, 2015), respectively, are included in amounts due from related parties.

**Focus Graphite Inc.**

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Notes to the Condensed Interim Financial Statements (Unaudited)

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As at March 31, 2016, included in amounts due from related parties was an amount of \$31,344 (\$30,199 as at September 30, 2015) due from the following companies, which are wholly or partially owned by an Officer and Director of the Company, related to general shared costs:

	<b>March 31, 2016</b>	September 30, 2015
	\$	\$
2390540 Ontario Inc.	<b>2,413</b>	3,821
9229205 Canada Inc.	<b>1,707</b>	-
Althean Ltd.	<b>897</b>	897
JAG Sky Inc.	<b>19,751</b>	19,238
SPI Technologies Inc.	<b>1,129</b>	796
SP2 Wafer Pte Ltd.	<b>5,447</b>	5,447
	<b>31,344</b>	30,199

As at March 31, 2016, included in amounts due from related parties was an amount of \$62,331 (\$33,013 as at September 30, 2015) due from the following companies, which share common management, related to general shared costs:

	<b>March 31, 2016</b>	September 30, 2015
	\$	\$
Grafoid Inc. (including subsidiaries)	<b>46,289</b>	28,805
Stria Lithium Inc. (1)	<b>16,042</b>	4,208
	<b>62,331</b>	33,013

(1) Excludes amounts receivable in respect of charges for accounting/administrative services and other administrative expenses described above.

## Focus Graphite Inc.

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Notes to the Condensed Interim Financial Statements (Unaudited)

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### Transactions with key Management personnel

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

	Three months ended March 31,		Six months ended March 31,	
	2016	2015	2016	2015
	\$	\$	\$	\$
Salaries (including bonuses) (1)	40,000	94,499	80,000	345,499
Consulting fees	111,249	111,249	231,873	111,249
Benefits	2,061	3,795	4,122	7,590
Stock-based compensation	-	-	262,123	-
	153,310	209,543	578,118	464,338

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

(2) The figures above have not been adjusted to reflect the allocation of salaries and short-term benefit compensation paid to key Management personnel that the Company charged out to Mincom Capital Inc. and Stria Capital Inc.

## 18. COMMITMENTS

### Offtake Agreements

#### Grafoid Inc.

In September 2015, the Company executed two definitive offtake agreements with Grafoid Inc. ("Grafoid"), as follows:

#### (a) *Graphene Offtake*

Under the terms of the Graphene Offtake agreement, Grafoid will pay Focus \$1,000,000 over a twelve-month period, for the right of first refusal to purchase up to an annual maximum of 1,000 tonnes of high-purity graphite concentrate for a 10 year period. It also grants Grafoid the right of first refusal to extend and expand the agreement for an additional 10 year period. The pricing for an additional 10 year period would be set at market price less 10%.

#### (b) *Polymer Offtake*

Under the terms of the Polymer Offtake agreement, Grafoid will pay Focus \$1,000,000 over a twelve-month period, for the right of first refusal to purchase up to an annual maximum of 25,000 tonnes of graphite concentrate for a 10 year period. It also grants Grafoid the right of first refusal to extend and expand the agreement for an additional 10 year period. The pricing for an additional 10 year period would be set at market price less 10%.

Both offtake agreements are conditional on Focus having received the entire \$1,000,000 from Grafoid, as well as Focus having obtained all regulatory approvals in connection with the agreements. Given that these



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conditions were not met as of March 31, 2016, Focus did not yet have any obligation to sell graphite concentrate to Grafoid. As at March 31, 2016, Focus has received a total of \$349,333 (\$166,667 as at September 30, 2015) from Grafoid. The total payments received up to March 31, 2016, have been presented as a deposit, within current liabilities, in the statements of financial position.

### Other

In December 2013, the Company executed an offtake agreement for future production from the Lac Knife graphite project. The strategic agreement, for up to 40,000 tonnes per year, with a minimum amount of 50% of production of graphite concentrate and value added products produced, was signed on December 19, 2013 with an industrial conglomerate, comprised of heavy industry, manufacturing and technology companies located in Dalian City, Liaoning Province, China. The 10 year agreement calls for the supply of up to 40,000 tonnes per year of large, medium and fine flake graphite concentrate and value added graphite products from the proposed Lac Knife mining and processing facility. The specific terms of the agreement, including pricing and renewal rights, are confidential for competitive reasons.

### Leases

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

	Minimum lease payments due		Total
	Within 1 year	1 to 5 years	
	\$	\$	\$
March 31, 2016 (1)	64,654	152,580	217,234
September 30, 2015	75,658	180,322	255,980

(1) Includes lease payments due to 9229205 Canada Inc., a related party (Note 17), of \$55,484 due within one year and \$152,580 due in one to five years. The lease ends in December 2019.

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

Lease payments recognized as an expense during the six months ended March 31, 2016 amount to \$38,746 (2015 - \$11,004). This amount consists of minimum lease payments.

## 19. CONTINGENT LIABILITY

The Company was named as a defendant in a statement of claim filed on behalf of the Company's former President and Chief Operating Officer ("former COO"). The statement of claim alleges that the former COO was wrongfully dismissed by the Company and seeks damages in the amount of \$450,000, for, among other things, breach of contract, wrongful dismissal and punitive damages. The Company denies all of the allegations made by the former COO and believes the actions to be without merit. No liability has been recognized in the statements of financial position.

## 20. ENTITY-WIDE REPORTING

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

The Company's non-current assets are all in Canada.

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*(Expressed in Canadian dollars)*

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**21. SUBSEQUENT EVENTS**Closing of Private Placements

In April and May 2016, the Company closed a private placement, in three separate tranches, for gross proceeds of \$741,725. The private placement was comprised of 4,944,835 units at a price of \$0.15 per unit. Each unit was comprised of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one additional common share at a price of \$0.20 for a period of 48 months following the closing date of the respective tranche in which they were issued.

In April and May 2016, the Company also closed a flow-through private placement, in two separate tranches, for gross proceeds of \$1,530,600. The flow-through private placement was comprised of 8,746,286 flow-through shares at a price of \$0.175 per flow-through share. A Director of the Company participated in the flow-through private placement for an amount of \$100,000.

In connection with the private placements, the Company paid cash finder's fees totaling \$165,986 and issued, as additional consideration, 997,573 non-transferable broker warrants, each broker warrant entitling the holder to acquire one common share of the Company at a price of \$0.20 for a period of 48 months following the closing date of the respective tranche in which they were issued.