



## **MASON GRAPHITE INC.**

### **CONDENSED INTERIM FINANCIAL STATEMENTS**

**Three months ended September 30, 2014**

(Expressed in Canadian dollars)

(Unaudited)



## **Management's responsibility for financial reporting**

Management is responsible for the preparation and presentation of the accompanying condensed interim financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

The Board of Directors is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the condensed interim financial statements. The Board fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management. The Audit Committee has the responsibility of meeting with management to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the condensed interim financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

"Benoit Gascon"

Benoit Gascon  
President and Chief Executive Officer

"Luc Veilleux"

Luc Veilleux  
Chief Financial Officer

Laval, Québec

November 27, 2014

# Mason Graphite Inc.

## INTERIM STATEMENTS OF FINANCIAL POSITION

(Expressed in Canadian dollars)

(Unaudited)

	<u>September 30, 2014</u>	<u>June 30, 2014</u>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents (Notes 1 and 3)	<b>\$14,036,206</b>	\$14,410,142
Tax credit related to resources & mining tax credit receivable	<b>244,724</b>	898,935
Sales tax receivable	<b>168,095</b>	137,485
Prepaid and other receivable	<b>41,463</b>	74,319
	<u><b>14,490,488</b></u>	<u>15,520,881</u>
<b>Non-current assets</b>		
Investment in associate	<b>607,400</b>	650,700
Exploration and evaluation assets (Note 4)	<b>23,741,333</b>	22,694,352
	<u><b>\$38,839,221</b></u>	<u>\$38,865,933</u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	<b>1,380,526</b>	1,231,171
Long-term debt due within one year (Note 4)	<b>2,516,301</b>	2,289,720
Flow-through shares premium liability	<b>30,623</b>	92,544
	<u><b>3,927,450</b></u>	<u>3,613,435</u>
<b>Non-current liabilities</b>		
Convertible debentures (Note 5)	<b>3,731,596</b>	3,670,806
Long-term debt (Note 4)	<b>3,711,432</b>	3,375,965
Deferred income tax liability	<b>1,310,000</b>	1,260,000
	<u><b>12,680,478</b></u>	<u>11,920,206</u>
<b>EQUITY</b>		
Share capital	<b>32,486,135</b>	32,486,135
Reserves	<b>9,036,743</b>	8,899,330
Deficit	<b>(15,364,135)</b>	(14,439,738)
	<u><b>26,158,743</b></u>	<u>26,945,727</u>
<b>Total equity and liabilities</b>	<u><b>\$38,839,221</b></u>	<u>\$38,865,933</u>

Note 1 - Nature of operations and liquidity risk

Notes 3 and 10 - Commitments

Note 11 - Subsequent events

APPROVED ON BEHALF OF THE BOARD OF DIRECTORS:

Signed "Tayfun Eldem", Director

Signed "Benoit Gascon", Director

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

# Mason Graphite Inc.

## INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

(Expressed in Canadian dollars)

(Unaudited)

	Three months ended September 30,	
	2014	2013
<b>Expenses</b>		
Salaries and consulting fees	\$226,433	\$314,546
Director fees	31,103	26,875
Professional fees	53,054	15,430
General office expenses	56,518	125,466
Travel and accommodation expenses	28,300	27,555
Share-based compensation (Note 6)	123,485	293,268
Communication and promotion expenses	32,232	129,018
Transfer agent and filing fees	8,888	13,720
Operating net foreign exchange loss (gain)	(571)	896
<b>Operating loss</b>	<b>559,442</b>	<b>946,774</b>
Other income	(61,921)	-
Net foreign exchange loss	184,490	(84,163)
Share of loss of an associate	43,300	-
Finance costs (Note 5)	185,290	-
Finance income	(36,204)	(9,844)
<b>Loss before income taxes</b>	<b>874,397</b>	<b>852,767</b>
Deferred income tax expenses	50,000	-
<b>Loss and comprehensive loss</b>	<b>\$924,397</b>	<b>\$852,767</b>
<b>Loss per share</b>		
Basic and diluted (Note 7)	\$0.01	\$0.01

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

**Mason Graphite Inc.**  
**INTERIM STATEMENTS OF CASH FLOWS**  
(Expressed in Canadian dollars)  
(Unaudited)

	<b>Three months ended September 30,</b>	
	<b>2014</b>	<b>2013</b>
<b>Cash flows from operating activities</b>		
<b>Loss</b>	<b>(\$924,397)</b>	(\$852,767)
Items not affecting cash:		
Share-based compensation	123,485	293,268
Other income	(61,921)	-
Unrealized foreign exchange loss	184,490	(84,163)
Share of loss of an associate	43,300	-
Deferred income tax expenses	50,000	-
Finance costs	60,790	-
Changes in non-cash operating working capital items:		
Sales tax receivable	(30,610)	244,666
Prepaid and other receivable	32,856	(91,852)
Accounts payable and accrued liabilities	39,308	(7,312)
	<u>(482,699)</u>	<u>(498,160)</u>
<b>Cash flows from financing activities</b>		
Warrants exercised	-	35,720
	<u>-</u>	<u>35,720</u>
<b>Cash flows from investing activities</b>		
Tax credits related to resources received	654,211	-
Exploration and evaluation asset expenditures	(681,448)	(676,863)
	<u>(27,237)</u>	<u>(676,863)</u>
<b>Effect of foreign exchange rate changes on cash and cash equivalents</b>	<b>136,000</b>	-
Change in cash	(373,936)	(1,139,303)
Cash, beginning of the period	14,410,142	4,950,753
<b>Cash, end of the period</b>	<b><u>\$14,036,206</u></b>	<b><u>\$3,811,450</u></b>
<b>Supplemental information:</b>		
Exploration and evaluation asset expenditures included in accounts payable and accrued liabilities	600,586	442,478
Interest related to long-term debt charged to exploration and evaluation assets (Note 4)	241,558	201,911
Share-based compensation in exploration and evaluation assets	13,928	35,139

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

# Mason Graphite Inc.

## INTERIM STATEMENTS OF CHANGES IN EQUITY

(Expressed in Canadian dollars)

(Unaudited)

	Share Capital		Reserves				Equity
	Number	Amount	Warrants	Broker warrants	Options	Deficit	
<b>Balance as at July 1, 2014</b>	<b>85,786,034</b>	<b>\$32,486,135</b>	<b>\$5,648,068</b>	<b>\$591,458</b>	<b>\$2,659,804</b>	<b>(\$14,439,738)</b>	<b>\$26,945,727</b>
Share-based compensation (Note 6)	-	-	-	-	137,413	-	137,413
Loss and comprehensive loss for the period	-	-	-	-	-	(924,397)	(924,397)
<b>Balance as at September 30, 2014</b>	<b>85,786,034</b>	<b>32,486,135</b>	<b>5,648,068</b>	<b>591,458</b>	<b>2,797,217</b>	<b>(15,364,135)</b>	<b>26,158,743</b>
<b>Balance as at July 1, 2013</b>	<b>66,606,683</b>	<b>\$22,573,202</b>	<b>\$3,756,205</b>	<b>\$262,381</b>	<b>\$1,347,447</b>	<b>(\$8,812,018)</b>	<b>\$19,127,217</b>
Warrants exercised	178,600	125,020	(89,300)	-	-	-	35,720
Share-based compensation	-	-	-	-	328,407	-	328,407
Loss and comprehensive loss for the period	-	-	-	-	-	(852,767)	(852,767)
<b>Balance as at September 30, 2013</b>	<b>66,785,283</b>	<b>\$22,698,222</b>	<b>\$3,666,905</b>	<b>\$262,381</b>	<b>\$1,675,854</b>	<b>(\$9,664,785)</b>	<b>\$18,638,577</b>

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

# Mason Graphite Inc.

## NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

Three months ended September 30, 2014

(Expressed in Canadian dollars)

(Unaudited)

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### 1. NATURE OF OPERATIONS AND LIQUIDITY RISK

Mason Graphite Inc. ("Mason Graphite" or the "Company") is subject to the Business Corporations Act (Ontario) and was incorporated March 15, 2011. The Company's head office is located at 3030, Boul. Le Carrefour, Suite 600, Laval, QC, H7T 2P5, Canada and the registered address is 65 Queen Street West, Suite 800, Toronto, Ontario, Canada M5H 2M5.

The Company is engaged in exploration and evaluation of the Lac Guéret graphite property located in Québec, Canada. There has been no determination whether the Company's exploration and evaluation assets contain mineral reserves which are economically recoverable. The Company has a National Instrument 43-101 compliant mineral resource estimate and a preliminary economic assessment on the Lac Guéret property.

Although the Company has taken steps to verify title to the property on which it is conducting exploration and evaluation, in which it has an interest, in accordance with industry standards for the current stage of exploration and evaluation of such property, these procedures do not guarantee the Company's title. Property title may be subject to government licensing registration or regulating, unregistered prior agreements, unregistered claims, aboriginal claims and non-compliance with regulatory and environmental requirements.

These condensed interim financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. If the going concern assumptions were not appropriate for these financial statements, then adjustments would be necessary in the carrying value of assets and liabilities and the reported expenses.

As at September 30, 2014, the Company had a working capital of \$10,563,038, had an accumulated deficit of \$15,364,135 and incurred a loss of \$924,397 for the three months then ended. Working capital included cash and cash equivalents of \$14,036,206 of which \$336,854 is reserved for eligible expenditures pursuant to a flow-through financing and US\$2,500,000 is reserved for the next payment to Quinto Mining Corporation (note 4).

Management believes that the Company has sufficient funds to meet its obligations and planned expenditures for the ensuing twelve months as they fall due. 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. The Company's ability to continue future operations and fund its exploration and evaluation activities is dependent on management's ability to secure additional financing in the future, which may be completed in a number of ways including, but not limited to, a combination of strategic partnerships, joint venture arrangements, project debt finance, royalty financing and other capital market alternatives. Management will pursue such additional financial sources when required, and while management has been successful in securing financing in the past, there can be no assurance it will be able to do so in the future or that these sources of funding or initiatives will be available for the Company or that they will be available on terms which are acceptable to the Company.

These condensed interim financial statements were reviewed, approved and authorized for issue by the Board of Directors on November 27, 2014.

# Mason Graphite Inc.

## NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

Three months ended September 30, 2014

(Expressed in Canadian dollars)

(Unaudited)

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### a) Basis of presentation

These unaudited condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. The unaudited condensed interim financial statements should be read in conjunction with the Company's audited annual financial statements for the year ended June 30, 2014.

The preparation of the condensed interim financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies.

The accounting policies followed in these unaudited condensed interim financial statements are consistent with those of the previous financial year, with the exception of the application *IFRIC 21* which was adopted during this quarter whose impacts are described below.

#### b) New accounting standards issued and in effect

The Company has adopted the following new and revised standards, along with any consequential amendments, effective July 1, 2014. These changes were made in accordance with the applicable transitional provisions.

The following is a brief summary of the new standards or amendments:

##### *IFRIC 21, Levies ("IFRIC 21")*

IFRIC 21 provides guidance on accounting for levies in accordance with IAS 37, Provisions, Contingent Liabilities and Contingent Assets. The interpretation defines a levy as an outflow from an entity imposed by a government in accordance with legislation and confirms that an entity recognizes a liability for a levy only when the triggering event specified in the legislation occurs. The Company has applied IFRIC 21 retrospectively in accordance with the transitional provisions of IFRIC 21. The adoption of IFRIC 21 did not result in any significant changes to the condensed interim financial statements.

#### c) New accounting standards issued but not yet in effect

##### *IFRS 9 – Financial instruments ("IFRS 9")*

In July 2014, the IASB completed IFRS 9 in its three-part project to replace IAS 39, "Financial Instruments: Recognition and Measurement" with a single approach to determine whether a financial asset is measured at amortized cost or fair value. IFRS 9 includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting. The IASB completed its project to replace IAS 39 in phases, adding to the standard as it completed each phase. The standard is effective for fiscal years beginning on or after January 1, 2018. The Company will assess, in due course, the impact of this standard on its financial statements.

# Mason Graphite Inc.

## NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

Three months ended September 30, 2014

(Expressed in Canadian dollars)

(Unaudited)

### 3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consists of:

	<u>As at September 30, 2014</u>	<u>As at June 2014</u>
Cash	11 234 206 \$	14 410 142 \$
Cash equivalents	<u>2 802 000</u>	<u>-</u>
	<u>14 036 206 \$</u>	<u>14 410 142 \$</u>

Cash includes an amount of \$336,854 which is reserved for eligible expenditures pursuant to a flow-through financing.

On June 11, 2014, the Company completed a private placement through the issuance of the convertible debentures for aggregate gross proceeds of \$4,150,000 (note 5). As required under the terms of this financing, an amount of US\$2,500,000 (note 4) was reserved for the next payment to Quinto Mining Corporation regarding the Lac Guéret property. This amount is included in cash equivalents and consists of US term deposits with an average interest rate of 0.38%. For the three months ended September 30, 2014, the reserved amount of US\$2,500,000 has resulted in a foreign exchange gain of \$136,000 and was recorded at the interim statements of loss and comprehensive loss as net foreign exchange loss.

### 4. EXPLORATION AND EVALUATION ASSETS

Exploration and evaluation assets consist of:

	<u>Lac Guéret project 2014</u>
<b>Balance as at July 1</b>	<b>\$22,694,352</b>
Mineral resource evaluation and geology	580,221
Camp costs	100,457
Preliminary economic assessments	457
Prefeasibility and feasibility studies	103,957
Community relations	6,403
Interest on long-term debt	241,558
Share-based compensation	13,928
<b>Balance as at September 30</b>	<b><u>\$23,741,333</u></b>

On April 5, 2012, the Company entered into an asset purchase agreement (the "Asset Purchase Agreement") with Quinto Mining Corporation ("Quinto"), a wholly-owned subsidiary of Cliffs Natural Resources Inc., pursuant to which the Company acquired the mining claims that comprise the Lac Guéret property. The total purchase price for the acquisition was US\$15,000,000 in cash, payable in installments based on the achievement of certain milestones over a five-year period, and the issuance of 2,041,571 warrants exercisable for common shares of the Company at an exercise price of \$0.75 per share and expiring on April 5, 2014. An aggregate of US\$7,500,000 was paid on closing, with US\$2,500,000 due following the completion of a feasibility study and US\$5,000,000 due on achievement of commercial production. If the feasibility study is not completed by April 5, 2015, the Company is required to pay (a) US\$1,250,000 on April 5, 2015, and (b) US\$1,250,000 on the earlier of (i) the fifth business day following the day on which a feasibility study is completed; and (ii) October 5, 2015. If commercial production

# Mason Graphite Inc.

## NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

Three months ended September 30, 2014

(Expressed in Canadian dollars)

(Unaudited)

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### 4. EXPLORATION AND EVALUATION ASSETS (CONTINUED)

is not achieved by October 5, 2016, the Company is required to pay (a) US\$2,500,000 on October 5, 2016; and (b) US\$2,500,000 on the earlier of (i) the fifth business day following the day on which commercial production is achieved; and (ii) April 5, 2017. On the occurrence of certain events, including, without limitation, the Company granting any option to acquire an interest in the mining claims, becoming the subject of an insolvency event, being in default of its obligations under the purchase agreement, a change of control (as such term is defined in the Asset Purchase Agreement) of the Company occurring, or any event occurs that could have a material adverse effect on the ability of the Company to perform its obligations, the obligation to pay Quinto any amounts then outstanding shall accelerate and be immediately due and payable.

Pursuant to a general security agreement dated April 5, 2012 and updated June 24, 2013, the Company granted a security interest in favor of Quinto over all of its personal and real property, including the mining claims that comprise the Lac Guéret property, to secure payment of the remainder of the purchase price and the performance of the Company's obligations under the Asset Purchase Agreement.

As at September 30, 2014, an amount of \$3,711,432 has been recorded as long-term debt and \$2,516,301 as long-term debt due within one year, for a total of \$6,227,733 after discounting the remaining cash payments of US\$1,250,000 (April 5, 2015), US\$1,250,000 (June 1, 2015), US\$2,500,000 (October 5, 2016) and US\$2,500,000 (April 5, 2017). This liability will be accreted to its face value using the effective interest rate method at an 18.06% discount rate. Accretion totaled \$562,048 for the three months period ended September 30, 2014 which \$241,558 was recorded to the Lac Guéret property as interest on long-term debt and \$320,490 to the interim statements of loss and comprehensive loss as foreign exchange loss.

### 5. CONVERTIBLE DEBENTURES

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

- The Company can trigger the conversion of the Debentures and anticipate the redemption under certain conditions:
  - If the Company completes a construction project financing for the Lac Guéret project and if the Company issues common shares under such financing at a price per common share that is greater than \$1.00 (the "Construction Financing Price"), the Company shall have the right to force the full conversion of the Debentures at the conversion price equal to the Construction Financing Price less a 10% discount.
- The Debentures are set to mature on June 11, 2019 and bear interest at a fixed annual rate of 12%, payable semi-annually on June 11 and December 11 of each year.
- The Debentures holders are entitled to convert the principal amount of the Debentures into common shares at a conversion price of \$0.845 per common share and all accrued and unpaid interest at a conversion price to be determined by the market price of the common shares at the time of settlement.
- In the event that the Company, before the repayment of the principal amount of the Debentures, proceeds with the issuance of common shares or other convertible securities at a price that is less than \$0.65 per security (the "Subsequent Financing"), the conversion price of the Debentures will be the price per security in the Subsequent Financing, plus a 30% premium, provided that such conversion price shall in no case be lower than \$0.63.
- The Company issued to the Debentures holder an aggregate of 2,075,000 common share purchase warrants (the "Warrants"), each of which entitles the holder to purchase one common share of the Company ("Common Shares") at a price of \$0.91 for a period of 24 months following the closing of the transaction.

# Mason Graphite Inc.

## NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

Three months ended September 30, 2014

(Expressed in Canadian dollars)

(Unaudited)

### 5. CONVERTIBLE DEBENTURES (CONTINUED)

- The uses of proceeds of the Debentures are dedicated to the next payment to Quinto Mining Corporation regarding the Lac Guéret property, feasibility study of the Lac Guéret project and general working capital purposes.

The Debentures are compound financial instruments, comprising a debt portion (Host) and conversion and early redemption options portion (Derivative) and they are presented in their entirety as a financial liability, in the statement of financial position. The following table shows the change in the carrying value of the Debentures:

	<u>Three months ended September 30, 2014</u>		
	<u>Host</u>	<u>Derivative</u>	<u>Total</u>
<b>Balance as at July 1</b>	<b>\$2,648,960</b>	<b>\$1,021,846</b>	<b>\$3,670,806</b>
Change in fair value of derivative	-	-	-
Accretion	60,790	-	60,790
<b>Balance as at September 30</b>	<b>\$2,709,750</b>	<b>\$1,021,846</b>	<b>\$3,731,596</b>

Management has determined by validating the significant assumptions changes that the valuation as at September 30, 2014 of the derivative component would not result in a significant change in the fair value of the derivative.

Finance costs consist of:

	<u>Three months ended September 30, 2014</u>
Interest payable on the coupon	\$124,500
Interest – Convertible debenture accretion	60,790
	<u><b>\$185,290</b></u>

### 6. STOCK OPTIONS

The following table reflects the continuity of options for the three months ended September 30, 2014:

	<u>Number of options</u>	<u>Weighted average exercise price</u>
<b>Balance as at July 1, 2013</b>	<b>6,410,000</b>	<b>\$0.57</b>
Forfeited	(200,000)	0.60
<b>Balance as at September 30, 2014</b>	<b>6,210,000</b>	<b>\$0.57</b>

Share-based compensation costs for the three months ended September 30, 2014 and 2013 totaled \$137,413 (2013: \$328,407); \$123,485 included in the interim statements of loss and comprehensive loss (2013: \$293,268) and \$13,928 included in Exploration and evaluation assets (2013: \$35,139).

# Mason Graphite Inc.

## NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

Three months ended September 30, 2014

(Expressed in Canadian dollars)

(Unaudited)

### 7. LOSS PER SHARE

	Three months ended September 30,	
	2014	2013
Loss attributable to common shares	<b>\$924,397</b>	\$852,767
Weighted average number of common shares	<b>85,786,034</b>	66,761,829
Loss per share – basic and diluted	<b>\$0.01</b>	\$0.01

The effect of potential issuances of shares under warrants, broker warrants and options would be anti-dilutive for the three months ended September 30, 2014 and 2013, and accordingly, basic and diluted losses per share are the same. The effects of potential share issuances of the Debentures were also considered, and had no dilutive impacts.

### 8. RELATED PARTY TRANSACTIONS

During the three months ended September 30, 2014 and, 2013, the Company entered into the following transactions with related parties:

- Incurred rent and administration expenses with Copper One Inc. of \$nil (2013: \$37,137) with respect to the Company's Montréal office (a Company's director is related to the party).
- Incurred rent expenses with Lacroix Gascon, s.e.n.c., avocats of \$13,504 (2013: \$nil), respectively, with respect to the Company's Laval office (a Company's officer is related to the party)
- Incurred professional fees and labour expenditures to Gestion GBG Inc. of \$7,798 (2013: \$65,132) to a payroll services company controlled by the spouse of a director and officer of the Company.
- Incurred rent and other office overhead expenses to 2227929 Ontario Inc. of \$30,000 (2013: \$75,000) with respect to the Company's Toronto office (a Company director is related to the party).
- Incurred consulting fees with Forbes & Manhattan Inc. of \$nil (2013: \$75,000) (a Company's director is related to the party).

As at September 30, 2014, the balance due to the related parties amounted to \$437,200. The amounts outstanding are non-interest bearing, unsecured and due on demand.

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

	Three months ended September 30,	
	2014	2013
Salaries, consulting fees & other benefits	<b>\$245,325</b>	\$208,708
Directors' fees	<b>31,103</b>	26,875
Share-based compensation - Management	<b>69,977</b>	196,937
Share-based compensation - Director	<b>21,722</b>	62,013
	<b>\$368,127</b>	\$494,533

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

# Mason Graphite Inc.

## NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

Three months ended September 30, 2014

(Expressed in Canadian dollars)

(Unaudited)

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### 9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

#### Fair value

All financial assets classified as loans and receivables, as well financial liabilities classified as other liabilities, are initially measured at their fair values and subsequently at their amortized cost using the effective interest method. All financial assets and financial liabilities classified as held for trading are measured at their fair values. Gains and losses related to periodic revaluations are recorded in net earnings (loss).

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

As at September 30, 2014, the fair values of the long-term debt (Quinto) and of the Debentures (host and derivative) approximate their carrying amounts.

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

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

The level in which the financial asset or financial liability is classified is determined based on the lowest level of significant input to the fair value measurement. The financial assets and financial liabilities measured at fair value in the statements of financial position are grouped into the fair value hierarchy as follows as at September 30, 2014:

Debentures (Derivative): Level 3: \$1,021,846

This financial instrument is classified as a Level 3 financial instrument, since the implied volatility and the credit spread are considered unobservable inputs on the market.

# Mason Graphite Inc.

## NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

Three months ended September 30, 2014

(Expressed in Canadian dollars)

(Unaudited)

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### 10. COMMITMENTS

During the year ended June 30, 2013, the Company entered into flow-through share subscription agreements, whereby it agreed to renounce to investors a total of \$4,490,000 of qualifying Canadian Exploration Expenses as described in the Income Tax Act of Canada, with an effective date of December 31, 2013. The Company is committed to incur the expenditures on or before December 31, 2014. The Company has indemnified subscribers of flow-through shares against tax-related amounts that may become payable if the Company does not meet its flow-through share expenditure commitments. The Company will be required to pay an interest penalty of approximately 1% per year on the unspent amount between February 28, 2014 and December 31, 2014. As at September 30, 2014, the Company was still required to spend the remaining minimum requirements related to the flow-through share financing, for an amount of \$336,854.

### 11. SUBSEQUENT EVENTS

On October 24, 2014, the Company granted 1,760,000 options to officers, directors and employees of the Company with an exercise price of \$0.61.

On October 30, 2014, 14,381,082 warrants and broker warrants expired.