



MASON GRAPHITE INC.

CONDENSED INTERIM FINANCIAL STATEMENTS For the three and nine months ended March 31, 2015

(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

May 28, 2015

Mason Graphite Inc.

INTERIM STATEMENTS OF FINANCIAL POSITION

(Expressed in Canadian dollars)

(Unaudited)

	March 31, 2015	June 30, 2014
ASSETS		
Current assets		
Cash and cash equivalents (Notes 1 and 3)	\$10,027,745	\$14,410,142
Tax credit related to resources & mining tax credit receivable	1,310,798	898,935
Government assistance (Note 4)	41,000	-
Sales tax receivable	174,962	137,485
Prepaid and other receivable	33,946	74,319
	<u>11,588,451</u>	<u>15,520,881</u>
Non-current assets		
Investment in associate (Note 5)	907,500	650,700
Exploration and evaluation assets (Note 6)	<u>26,508,233</u>	<u>22,694,352</u>
Total assets	<u><u>\$39,004,184</u></u>	<u><u>\$38,865,933</u></u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	1,173,036	1,231,171
Long-term debt due within one year (Note 6)	3,061,932	2,289,720
Flow-through shares premium liability	-	92,544
	<u>4,234,968</u>	<u>3,613,435</u>
Non-current liabilities		
Convertible debentures (Note 7)	3,702,829	3,670,806
Long-term debt (Note 6)	4,599,573	3,375,965
Deferred income tax liability	<u>1,493,000</u>	<u>1,260,000</u>
Total liabilities	<u>14,030,370</u>	<u>11,920,206</u>
EQUITY		
Share capital	32,609,512	32,486,135
Reserves	9,722,409	8,899,330
Deficit	<u>(17,358,107)</u>	<u>(14,439,738)</u>
Total equity	<u>24,973,814</u>	<u>26,945,727</u>
Total equity and liabilities	<u><u>\$39,004,184</u></u>	<u><u>\$38,865,933</u></u>

Note 1 - Nature of operations and liquidity risk

Notes 3 and 13 - Commitments

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)

	For the three months ended March 31,		For the nine months ended March 31,	
	2015	2014	2015	2014
Expenses				
Salaries and consulting fees	\$221,125	\$293,098	\$671,561	\$907,980
Director fees	31,126	29,025	93,602	84,455
Professional fees	75,853	29,888	160,385	106,197
General office expenses	77,247	103,642	191,244	394,250
Travel and accommodation expenses	31,905	23,262	93,478	115,018
Share-based compensation (Note 9)	194,161	301,494	741,752	965,947
Communication and promotion expenses	10,008	79,618	78,650	396,154
Transfer agent and filing fees	10,998	12,470	51,236	63,887
Operating net foreign exchange loss (gain)	953	703	548	2,368
Operating loss	653,376	873,200	2,082,456	3,036,256
Other income	-	(124,323)	(92,544)	(271,215)
Net foreign exchange loss	349,431	243,800	631,947	313,700
Share of loss of an associate (Note 5)	69,500	-	167,200	-
Gain on dilution of associate (Note 5)	-	-	(424,000)	-
Finance costs	112,148	-	406,240	-
Finance income	(22,046)	(10,717)	(85,930)	(36,243)
Loss before income taxes	1,162,409	981,960	2,685,369	3,042,498
Deferred income tax expenses	-	-	233,000	-
Loss and comprehensive loss	\$1,162,409	\$981,960	\$2,918,369	\$3,042,498
Loss per share				
Basic and diluted	\$0.01	\$0.01	\$0.03	\$0.05
Weighted average number of shares outstanding				
Basic and diluted	85,983,653	67,800,501	85,860,321	67,145,400

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)

	For the nine months ended March 31,	
	2015	2014
Cash flows from operating activities		
Loss	(\$2,918,369)	(\$3,042,498)
Items not affecting cash:		
Share-based compensation	741,752	965,947
Other income	(92,544)	(271,215)
Unrealized foreign exchange loss	631,947	313,700
Share of loss of an associate	167,200	-
Gain on dilution of associate	(424,000)	-
Deferred income tax expenses	233,000	-
Finance costs	32,023	-
Changes in non-cash operating working capital items:		
Sales tax receivable	(37,477)	266,443
Prepaid and other receivable	40,373	140,492
Accounts payable and accrued liabilities	(331,591)	(198,084)
	(1,957,686)	(1,825,215)
Cash flows from financing activities		
Private placements	-	761,200
Transactions costs	(1,123)	(4,250)
Warrants exercised	-	197,380
Options exercised	-	6,600
	(1,123)	960,930
Cash flows from investing activities		
Investment in associate	-	(350,000)
Tax credits related to resources & mining tax credit received	740,137	757,023
Exploration and evaluation asset expenditures	(3,668,475)	(3,340,013)
	(2,928,338)	(2,932,990)
Effect of foreign exchange rate changes on cash and cash equivalents	504,750	-
Change in cash	(4,382,397)	(3,797,275)
Cash, beginning of the period	14,410,142	4,950,753
Cash, end of the period	\$10,027,745	\$1,153,478
Supplemental information:		
Exploration and evaluation asset (EEA) expenditures included in accounts payable and accrued liabilities	888,495	392,141
Interest related to long-term debt charged to exploration and evaluation assets (Note 6)	859,123	629,284
Share-based compensation in EEA (Note 9)	81,327	140,557
Tax credit related to resources, government assistance & mining tax credit deducted from exploration and evaluation asset expenditures	1,193,000	-

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	
Balance as at July 1, 2014	85,786,034	\$32,486,135	\$5,648,068	\$591,458	\$2,659,804	(\$14,439,738)	\$26,945,727
Shares issued for interest payment on convertible debenture (Note 8)	197,619	124,500	-	-	-	-	124,500
Transaction costs	-	(1,123)	-	-	-	-	(1,123)
Share-based compensation (Note 9)	-	-	-	-	823,079	-	823,079
Loss and comprehensive loss for the period	-	-	-	-	-	(2,918,369)	(2,918,369)
Balance as at March 31, 2015	85,983,653	32,609,512	5,648,068	591,458	3,482,883	(17,358,107)	24,973,814
Balance as at July 1, 2013	66,606,683	\$22,573,202	\$3,756,205	\$262,381	\$1,347,447	(\$8,812,018)	\$19,127,217
Private placement	1,028,000	761,200	-	-	-	-	761,200
Transactions costs	-	(4,250)	-	-	-	-	(4,250)
Warrants exercised	448,032	340,566	(143,186)	-	-	-	197,380
Options exercised	11,000	11,000	-	-	(4,400)	-	6,600
Warrants extension revaluation	-	-	319,880	-	-	(319,880)	-
Share-based compensation	-	-	-	-	1,106,504	-	1,106,504
Loss and comprehensive loss for the period	-	-	-	-	-	(3,042,498)	(3,042,498)
Balance as at March 31, 2014	68,093,715	\$23,681,718	\$3,932,899	\$262,381	\$2,449,551	(\$12,174,396)	\$18,152,153

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

For the three and nine months ended March 31, 2015

(Expressed in Canadian dollars)

(Unaudited)

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, Canada, H7T 2P5 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 March 31, 2015, the Company had a working capital of \$7,353,483, had an accumulated deficit of \$17,358,107 and incurred a loss of \$2,918,369 for the nine months then ended. Working capital included cash and cash equivalents of \$10,027,745 of which US\$2,500,000 is reserved for the next payment to Quinto Mining Corporation (note 6).

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 May 28, 2015.

Mason Graphite Inc.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

For the three and nine months ended March 31, 2015

(Expressed in Canadian dollars)

(Unaudited)

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 and with the condensed interim financial statements for the three and six months ended December 31, 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 additional policy described below.

Government assistance

The Company periodically receives financial assistance under government incentive programs. Government assistance is recognized initially when there is reasonable assurance that it will be received and the Company will comply with the conditions associated with the assistance. Assistance that compensates the Company for expenditures incurred is recognized against expenditures incurred on a systematic basis in the same periods in which the expenditures are incurred.

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 amended IFRS 9, "Financial Instruments", to bring together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39, "Financial Instruments: Recognition and Measurement". The standard supersedes all previous versions of IFRS 9 and will be effective on January 1, 2018 for the Company with earlier application permitted. The Company is currently evaluating the impact of this standard on its financial statements.

Mason Graphite Inc.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

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(Expressed in Canadian dollars)

(Unaudited)

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of:

	As at March 31, 2015	As at June 30, 2014
Cash	\$8,442,370	\$14,410,142
Cash equivalents	1,585,375	-
	<u>\$10,027,745</u>	<u>\$14,410,142</u>

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 7). As required under the terms of this financing, an amount of US\$2,500,000 (note 6) was reserved for the next payment to Quinto Mining Corporation regarding the Lac Gu  ret property. US\$1,250,000 is included in cash equivalents and consists of US term deposits with an interest rate of 0.40%. For the three and nine months ended March 31, 2015, the reserved amount of US\$2,500,000 has resulted in a foreign exchange gain of \$270,500 and \$504,750 respectively and was recorded in the interim statements of loss and comprehensive loss as Net foreign exchange loss.

4. GOVERNMENT ASSISTANCE

The Company entered into a contribution agreement with the National Research Council of Canada represented by its Industrial Research Assistance Program ("NRC"). Upon meeting certain conditions, the NRC agreed to financially assist the Company in the project called Studies of technological for spheroidization and coating of graphite powders (the "Project") which qualifies for support under the federal government's program. Under the terms of the agreement and respect of the conditions, NRC will reimburse 59% of the subcontracting costs incurred related to the Project for a maximum of \$50,000 for the period from January 12, 2015 to June 26, 2015.

As part of the contribution agreements, the Company accrued government assistance as detailed below:

	As at March 31, 2015	As at June 30, 2014
Amount received during the period	\$-	\$-
Amount recognized against the expenditures incurred	41,000	-
Amount receivable	41,000	-

Mason Graphite Inc.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

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5. INVESTMENT IN ASSOCIATE

In December 2014, Group NanoXplore Inc. ("NanoXplore") completed the first tranche of a non-brokered private placement of 275,211 common shares for gross proceeds of \$2,725,000. For the first tranche, NanoXplore issued 133,789 common shares for gross proceeds of \$1,475,000. After giving effect to the first tranche financing, the Company held a 35% interest in NanoXplore and recorded a gain on dilution of \$424,000 on the deemed disposal of its ownership interest.

The carrying value of the investment was determined as follows using the equity method:

Balance as at July 1, 2014	\$650,700
Gain on dilution of associate	424,000
Share of loss and comprehensive loss for the period	(167,200)
Balance as at March 31, 2015	<u>\$907,500</u>

The following summarized financial information of NanoXplore is as follows, including fair value adjustments made at the time of the acquisition of the interests:

	As at March 31, 2015	As at June 30, 2014
Current assets	\$1,368,216	\$489,049
Cash (included in current assets)	1,245,908	456,302
Non-current assets (including patents and technology)	1,265,139	1,078,897
Current liabilities	60,061	16,750

For the nine months ended March 31, 2015

Revenues	\$111,892
Loss and comprehensive loss	442,902
Depreciation	8,956

6. EXPLORATION AND EVALUATION ASSETS

Exploration and evaluation assets consist of:

	Lac Guéret project
Balance as at July 1, 2014	\$22,694,352
Mineral resource evaluation and geology	2,385,816
Camp costs	88,483
Preliminary economic assessments	457
Environmental studies	295,132
Prefeasibility and feasibility studies	1,060,620
Community relations	9,741
Added value processing studies	226,182
Interest on long-term debt	859,123
Share-based compensation	81,327
Government assistance	(41,000)
Tax credit related to resources & mining tax credit	(1,152,000)
Balance as at March 31, 2015	<u>\$26,508,233</u>

Mason Graphite Inc.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

For the three and nine months ended March 31, 2015

(Expressed in Canadian dollars)

(Unaudited)

6. EXPLORATION AND EVALUATION ASSETS (CONTINUED)

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 Gu  ret 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 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 Gu  ret 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 March 31, 2015, an amount of \$4,599,573 has been recorded as long-term debt and \$3,061,932 as long-term debt due within one year, for a total of \$7,661,505 after discounting the remaining cash payments of US\$1,250,000 (April 5, 2015), US\$1,250,000 (August 15, 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 \$859,123 for the nine months ended March 31, 2015 and was recorded to the Lac Gu  ret property as interest on long-term debt.

7. 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 Gu  ret 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.

Mason Graphite Inc.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

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7. CONVERTIBLE DEBENTURES (CONTINUED)

- 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.
- 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:

	Host	Derivative	Total
Balance as at July 1, 2014	\$2,648,960	\$1,021,846	\$3,670,806
Change in fair value of derivative	-	(154,565)	(154,565)
Accretion	186,588	-	186,588
Balance as at March 31, 2015	\$2,835,548	\$867,281	\$3,702,829

The Debentures and the Derivative were valued using a convertible bond valuation pricing model. The following key assumptions were used in that model:

	As at March 31, 2015	As at June 30, 2014
Expected life in years	4.21	5
Expected volatility*	60%	60%
Credit spread	22%	22%

- * Expected volatility was based on the Company's historical volatility and the volatility of an equity market index in the mining sector. To price the Debentures to par on the issuance date, the credit spread was calibrated to 22%.

Other key assumptions are the following since they are included in the features of the Debentures:

- Timing, probability of occurrence and pricing of the share issued in a Subsequent financing;
- Timing, probability of occurrence and pricing of the shares issued in a Construction financing of the Lac Guéret project.

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8. SHARE CAPITAL

On December 19, 2014, the Company issued an aggregate of 197,619 common shares of the Company at a deemed price per share of \$0.63 in payment of \$124,500 in interest due and payable under the Company's 12% Debentures. Under the terms of the Debentures, the Company has the option to pay 50% of the semi-annual interest due on the Debentures in common shares. The balance of the interest owing under the Debentures, being \$ 124,500, has been paid in cash.

Pursuant to the Filing statement dated September 15, 2012 and the Escrow Release Condition, in connection with the qualifying transaction, on October 30, 2014, a total of 4,354,220 common shares were released. A total of 9,340,473 common shares are to be released as below:

<u>Release dates</u>	<u>Number of shares</u>
April 30, 2015	4,354,220
October 30, 2015	4,986,253
	<u>9,340,473</u>

9. STOCK OPTIONS

On October 24, 2014, the Company granted 1,760,000 options to directors, officers and employees of the Company. The weighted average fair value of options granted, as estimated at the time of the grant, was \$0.46. This was calculated using the Black-Scholes option pricing model with the following assumptions: option exercise price of \$0.61, estimated life of five years, risk-free interest rate of 1.56%, volatility of 100% (based on the Company's historical volatility and similar companies in the graphite exploration and evaluation mining sector), forfeiture rate of nil, and nil forecasted dividend yield. The vesting period for 1,700,000 options is: one third upon grant, one third after one year upon grant and the last third after two years upon grant and for 60,000 options is: one half upon grant and one half after one year grant.

The following table reflects the continuity of options for the nine months ended March 31, 2015:

	<u>Number of options</u>	<u>Weighted average exercise price</u>
Balance as at July 1, 2014	6,410,000	\$0.57
Granted	1,760,000	0.61
Forfeited	(200,000)	0.60
Balance as at March 31, 2015	<u>7,970,000</u>	<u>\$0.58</u>

Share-based compensation costs for the three and nine months ended March 31, 2015 and 2014 totaled \$213,755 and \$823,079 (2014: \$344,071 and \$1,106,504) respectively; \$194,161 and \$741,752 included in the interim statements of loss and comprehensive loss (2014: \$301,494 and \$965,947) respectively and \$19,594 and \$81,327 respectively included in Exploration and evaluation assets (2014: \$42,577 and \$140,557) respectively.

Mason Graphite Inc.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

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(Expressed in Canadian dollars)

(Unaudited)

10. WARRANTS AND BROKER WARRANTS

The following table reflects the continuity of warrants and broker warrants for the nine months ended March 31, 2015:

	Number of warrants	Weighted average exercise price
Balance as at July 1, 2014	31,329,019	\$0.86
Expired	(14,381,082)	0.97
Balance as at March 31, 2015	16,947,937	\$0.77

11. RELATED PARTY TRANSACTIONS

During the three and nine months ended March 31, 2015 and, 2014, the Company entered into the following transactions with related parties:

- Incurred rent and administration expenses with Copper One Inc. of \$nil and \$nil (2014: \$nil and \$64,291) respectively, 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 \$nil and \$15,020 (2014: \$13,467 and \$20,169) 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 \$7,092 and \$21,766 (2014: \$6,419 and \$78,152) respectively, 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 and \$90,000 (2014: \$75,000 and \$225,000) respectively, 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 and \$nil (2014: \$75,000 and \$225,000) respectively (a Company's director is related to the party).

As at March 31, 2015, the balance due to the related parties amounted to \$59,435. 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:

	For the three months ended March 31,		For the nine months ended March 31,	
	2015	2014	2015	2014
Salaries, consulting fees & other benefits	\$235,758	\$210,873	\$719,887	\$633,581
Directors' fees	31,126	29,025	93,602	82,775
Share-based compensation - Management	121,157	150,504	481,522	494,048
Share-based compensation - Director	50,000	60,665	191,684	184,691
	<u>\$438,041</u>	<u>\$451,067</u>	<u>\$1,486,695</u>	<u>\$1,395,095</u>

Mason Graphite Inc.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

For the three and nine months ended March 31, 2015

(Expressed in Canadian dollars)

(Unaudited)

12. 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.

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 March 31, 2015:

Debentures (Derivative): Level 3: \$867,281

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.

13. 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 was 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 is 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 December 31, 2014, the Company had fulfilled its spending commitments and renounced to investors \$4,490,000 of qualifying Canadian Exploration Expenses.