

# **FOCUS GRAPHITE INC.**

## **Condensed Interim Financial Statements**

**For the three months ended December 31, 2018**

*(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.**

Condensed Interim Statements of Financial Position (Unaudited)  
(Expressed in Canadian dollars)

As at	December 31, 2018	September 30, 2018
	\$	\$
<b>ASSETS</b>		
Current assets		
Cash	206,719	110,835
Amounts receivable (Note 4)	684,829	888,350
Amounts due from related parties (Note 16)	152,091	141,598
Tax credits and credit on duties receivable	628,281	399,118
Prepaid expenses	291,972	272,393
	<b>1,963,892</b>	<b>1,812,294</b>
Long-term investment (Note 5)	100,000	100,000
Mineral exploration properties (Note 7)	1,363,977	1,363,977
Exploration and evaluation assets (Note 7)	32,284,232	29,825,309
Total assets	<b>35,712,101</b>	<b>33,101,580</b>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued liabilities (Note 16)	4,500,905	2,039,977
Due to related parties (Note 16)	58,108	-
Other current liabilities (Note 8)	-	15,625
Total liabilities	<b>4,559,013</b>	<b>2,055,602</b>
<b>EQUITY</b>		
Share capital (Note 10)	60,665,408	59,697,225
Warrants (Note 11)	1,823,308	1,611,690
Contributed surplus	11,185,902	11,182,653
Accumulated other comprehensive income	273,242	273,242
Deficit	(42,794,772)	(41,718,832)
Total equity	<b>31,153,088</b>	<b>31,045,978</b>
Total liabilities and equity	<b>35,712,101</b>	<b>33,101,580</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.**

Condensed Interim Statements of Comprehensive Loss (Unaudited)

*(Expressed in Canadian dollars)*

	Three months ended December 31,	
	2018	2017
	\$	\$
Operating expenses		
Management and consulting fees	822,248	840,396
Salaries and benefits	38,500	74,402
Travel and promotion	51,269	76,468
Professional fees	101,983	89,056
Office	79,751	104,866
Loss from operations	(1,093,751)	(1,185,188)
Other income		
Interest income	2,186	-
Other income related to flow-through shares	15,625	195,250
Net loss & total comprehensive loss	(1,075,940)	(989,938)
Basic and diluted net loss per common share	(0.003)	(0.003)
Basic and diluted weighted average number of common shares outstanding	352,083,079	310,927,679

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

**Focus Graphite Inc.**

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, 2017</b>	<b>269,585,740</b>	<b>54,386,387</b>	<b>1,367,788</b>	<b>10,469,341</b>	<b>273,242</b>	<b>(39,566,514)</b>	<b>26,930,244</b>
Shares issued for cash	78,850,600	5,876,923	-	-	-	-	5,876,923
Warrants issued	-	-	277,000	-	-	-	277,000
Expiry of warrants	-	-	(33,098)	33,098	-	-	-
Share issuance costs	-	(540,139)	-	-	-	-	(540,139)
Net loss	-	-	-	-	-	(989,938)	(989,938)
<b>Balance, December 31, 2017</b>	<b>348,436,340</b>	<b>59,723,171</b>	<b>1,611,690</b>	<b>10,502,439</b>	<b>273,242</b>	<b>(40,556,452)</b>	<b>31,554,090</b>
Stock-based compensation	-	-	-	680,214	-	-	680,214
Share issuance costs	-	(25,946)	-	-	-	-	(25,946)
Net loss	-	-	-	-	-	(1,162,380)	(1,162,380)
<b>Balance, September 30, 2018</b>	<b>348,436,340</b>	<b>59,697,225</b>	<b>1,611,690</b>	<b>11,182,653</b>	<b>273,242</b>	<b>(41,718,832)</b>	<b>31,045,978</b>
Shares issued for cash	25,500,000	1,087,500	-	-	-	-	1,087,500
Warrants issued	-	-	187,500	-	-	-	187,500
Expiry of warrants	-	-	(3,249)	3,249	-	-	-
Share issuance costs	-	(119,317)	27,367	-	-	-	(91,950)
Net loss	-	-	-	-	-	(1,075,940)	(1,075,940)
<b>Balance, December 31, 2018</b>	<b>373,936,340</b>	<b>60,665,408</b>	<b>1,823,308</b>	<b>11,185,902</b>	<b>273,242</b>	<b>(42,794,772)</b>	<b>31,153,088</b>

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

**Focus Graphite Inc.**

Condensed Interim Statements of Cash Flows (Unaudited)

*(Expressed in Canadian dollars)*

Three months ended December 31,

	2018	2017
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Net loss	(1,075,940)	(989,938)
Adjustments for:		
Other income related to flow-through shares	(15,625)	(195,250)
Changes in non-cash working capital items (Note 13)	558,418	(705,425)
<b>Net cash used in operating activities</b>	<b>(533,147)</b>	<b>(1,890,613)</b>
<b>INVESTING ACTIVITIES</b>		
Interest received	-	-
Exploration and evaluation costs	(577,881)	(1,852,544)
Tax credits and mining duties repaid	(34,245)	-
<b>Net cash used in investing activities</b>	<b>(612,126)</b>	<b>(1,852,544)</b>
<b>FINANCING ACTIVITIES</b>		
Due from related parties	58,108	-
Common shares issued	1,087,500	5,892,548
Warrants issued	187,500	277,000
Share issuance costs	(91,951)	(540,139)
<b>Net cash provided by financing activities</b>	<b>1,241,157</b>	<b>5,629,409</b>
Increase (decrease) in cash	95,884	1,886,252
Cash, beginning of the year	110,835	322,665
<b>Cash, end of the year</b>	<b>206,719</b>	<b>2,208,917</b>

*Supplemental cash flow information is provided in Note 13**The accompanying notes are an integral part of these condensed interim financial statements.*

## **Focus Graphite Inc.**

Notes to the Condensed Interim Financial Statements (Unaudited)

For the three months ended December 31, 2018

*(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 945 Princess Street, Kingston, Ontario, Canada. 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 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 three months ended December 31, 2018, the Company incurred a net loss of \$1,075,940 (2018 - \$989,938) and negative cash flows from operations of \$533,147 (2018 - \$1,890,613). In addition, the Company has a deficit of \$42,794,772 (2018 – \$40,556,452).

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 in fiscal 2019, 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 was 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, 2018 and 2017, 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 February 28, 2018.

## **Focus Graphite Inc.**

Notes to the Condensed Interim Financial Statements (Unaudited)

For the three months ended December 31, 2018

*(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, 2018 and 2017.

### **(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 and assessment of indicators of impairment of an equity-method investee

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 16.38% as at December 31, 2018 (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.

At each reporting period, judgement is required to assess whether there is objective evidence of an impairment in the Company's net investment in its associate. In fiscal 2018, Management applied judgement in determining impairment/reversal of impairment in its net investment in its associate. Consequently, the amount of impairment to be recognized in fiscal 2017 was reversed because there was a change in circumstance where the associate raised funds through a series of private placements, as discussed further in Note 6.

#### Determination of technical feasibility and commercial viability of mineral properties

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.

## Focus Graphite Inc.

Notes to the Condensed Interim Financial Statements (Unaudited)

For the three months ended December 31, 2018

*(Expressed in Canadian dollars)*

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### Going concern

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

### Share-based payments

The estimation of stock-based compensation and valuation assigned to 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.

Notes to the Condensed Interim Financial Statements (Unaudited)

For the three months ended December 31, 2018

(Expressed in Canadian dollars)

### 4. AMOUNTS RECEIVABLE

	December 31, 2018	September 30, 2018
	\$	\$
Sales taxes receivable	684,829	888,350

### 5. LONG-TERM INVESTMENT

Investment in Braille Energy Systems Inc. ("BESI") (formerly Mincom Capital Inc)

On May 8, 2014, further to the sale of the Company's Romer property to Braille Energy Systems Inc. ("BESI") (formerly Mincom Capital Inc), Focus received 2,500,000 common shares in BESI, valued at \$450,000 (Note 8e). 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 BESI.

As at December 31, 2018 and September 30, 2018, the Company's investment in Mincom was as follows:

	Cost	Impairment	Fair value adjustment	Fair value
	\$	\$	\$	\$
2,500,000 common shares in Mincom	450,000	(375,000)	25,000	100,000

(1) 2,500,000 (2018 – \$2,500,000) of these shares are held in escrow as at December 31, 2018.

### 6. INVESTMENT IN ASSOCIATE

Grafoid Inc.

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

As at December 31, 2018, no dividends were 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 September 30, 2018, 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

## Focus Graphite Inc.

Notes to the Condensed Interim Financial Statements (Unaudited)

For the three months ended December 31, 2018

(Expressed in Canadian dollars)

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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.

During the 2017 fiscal year, loan advances were made to Grafoid in the amount of \$3,092,739 that, in substance, form part of the Company's net investment in Grafoid. At September 30, 2017, Management determined that there was objective evidence of an impairment of its equity interest in Grafoid taking into consideration factors including Grafoid's financial position and results from operations. As a result, Management estimated the recoverable amount of the Company's investment in Grafoid to be \$Nil and recognized an impairment of the carrying amount of the net investment in Grafoid after the application of the equity method. There was estimation uncertainty associated with determining the recoverable amount for the investment in Grafoid as it is a privately-held research and development company. Grafoid had a net asset deficiency and is dependent on future financings to continue to operate as a going concern. An impairment loss is reversed if there has been favorable change in the estimates used to determine the recoverable amount.

During the year ended September 30, 2018, there was change in circumstances that enabled Grafoid to make loan repayments. Grafoid raised US\$6M through a series of private placements that resulted in loan repayments in full, in the amount of \$3,092,739. As a result, the amount due from Grafoid (\$360,000) classified under due from related parties was reclassified to be included in the net investment of Grafoid. There was no change in the determination by management that the recoverable amount of the investment in associate is \$NIL due to uncertainty of the next cash infusion and generation of profits. Therefore, the net investment in Grafoid is to be \$NIL (please see discussion above) and partial impairment reversal was taken to ensure that the net investment remained \$NIL all the while still illustrating a recovery of the long-term receivable.

As at December 31, 2018, the Company's ownership interest in Grafoid was 16.38% (2018 – 16.38%) and the carrying value of the investment was determined as follows:

	\$
<u>Balance, September 30, 2017</u>	<u>-</u>
Long-term receivable repayment from Grafoid	(3,092,739)
Due to grafoid (reclassification)	360,000
Share of net loss of associate	-
Impairment reversal	2,732,739
<u>Balance, September 30, 2018</u>	<u>-</u>
Long-term receivable repayment from Grafoid	(3,092,739)
Due to grafoid (reclassification)	360,000
Share of net loss of associate	-
Impairment reversal	2,732,739
<u>Balance, December 31, 2018</u>	<u>-</u>

The shares of Grafoid are not publicly listed on a stock exchange and hence published price quotes are not available.

The following table summarizes the company's share of the net loss in Grafoid. As illustrated below, Grafoid continued to generate losses which are driven by investment in graphene research and development. Since the Company's Investment in Associate as at December 31, 2018 is \$Nil (\$Nil - 2018), there will be no inclusion of the share of said net losses.

**Focus Graphite Inc.**

Notes to the Condensed Interim Financial Statements (Unaudited)

For the three months ended December 31, 2018

*(Expressed in Canadian dollars)*

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For the three months ended December 31	2018
	\$
Revenue	<b>600,000</b>
Expenses	<b>(876,966)</b>
Net loss:	<b>(276,966)</b>
Less: Related Party Adjustments (1)	<b>600,000</b>
Total loss:	<b>(876,966)</b>
Percentage ownership:	<b>16.38%</b>
Share of net loss of associate	<b>(143,647)</b>
(1) Consulting agreement between Grafoid and Focus graphite (Note 16).	

Since the net investment in associate as at December 31, 2018 is \$NIL (2018 - \$NIL) and the share of net loss will not be included in the value of the investment, the company believes that no additional information is necessary.

## Focus Graphite Inc.

Notes to the Condensed Interim Financial Statements (Unaudited)

For the three months ended December 31, 2018

(Expressed in Canadian dollars)

### 7. MINERAL EXPLORATION PROPERTIES AND EXPLORATION AND EVALUATION ASSETS

	December 31, 2018		September 30, 2018	
	Mineral exploration properties	Exploration and evaluation assets	Mineral exploration properties	Exploration and evaluation assets
	\$	\$	\$	\$
a) Lac Knife	642,578	19,056,027	642,578	17,379,119
b) Kwyjibo	-	6,745,647	-	6,662,341
c) Manicouagan	289,101	4,158,669	289,101	4,046,119
d) Eastmain-Leran	432,298	2,323,889	432,298	1,737,730
<b>TOTAL</b>	<b>1,363,977</b>	<b>32,284,232</b>	<b>1,363,977</b>	<b>29,825,309</b>

#### a) 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.

On February 7, 2018, Focus staked the Montagne-aux-Bouleaux claims, a block of 12 contiguous CDC claims covering 626.88ha located 11 km to the North of the Lac Knife property.

#### 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.

The Company has assessed this arrangement under the requirements of IFRS 11 Joint Arrangements and, based on the contractual terms, has classified it as a joint operation. Therefore, the Company recognizes assets, liabilities, revenue and expenses in relation to its interest in Kwyjibo on a line by line basis in accordance with the IFRSs applicable to the particular financial statement line item.

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) Manicouagan

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

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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, Laurentides1, 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.

During the year ended September 30, 2016, the Company wrote down the Lac au Sorcier property to \$Nil (\$6,226 in acquisition costs and \$3,210 in exploration and evaluation assets), further to the Company's decision to let all remaining claims lapse as poor exploration results to date did not warrant further evaluation.

As at September 30, 2018, Manicouagan consists of the Lac Tetepisca, Lac Tetepisca North and Lac Guinecourt properties.

### d) 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.

On February 27, 2018, the Company staked 245 claims (CDC) at the eastern edge of the Eastmain-Leran property in consideration for \$36,378 cash. In total, the Eastmain-Leran property now comprises of 492 claims covering an area of 25,7556 ha, while the Eastmain-Léran/Alta Option property consist of 32 claims covering an area of 1,679 ha.

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(Expressed in Canadian dollars)

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### e) 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 Otelnuk, 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.

#### Sale of Romer Property

On May 8, 2014, the Company sold to sold Braille Energy Systems Inc. ("BESI") (formerly Mincom Capital Inc), all of its rights, title and interest in its Romer property (the "Property"). The consideration due to Focus from BESI for the purchase of the Property was \$1,000,000, as determined following an independent valuation prepared at the request of BESI, payable as follows: (i) cash consideration of \$250,000; (ii) 2,500,000 common shares of BESI.

During the year ended September 30, 2016, the Company wrote down the cost of the Labrador Trough properties to \$Nil (\$6,991 in acquisition costs and \$243,274 in exploration and evaluation assets), as there has been limited exploration activity on these properties in recent years. The Company does however intend to keep these claims in good standing.

As at September 30, 2018, the Labrador Trough consists of 4 properties: Minowean, Otelnuk, Lemming and Diana.

The following table reflects changes to mineral exploration properties between October 1, 2017 and December 31, 2018:

	Three months ended December 31, 2018	Year ended September 30, 2018
	\$	\$
Balance, beginning of the period	1,363,977	1,327,599
Acquisition of mineral exploration properties	-	36,378
Balance, end of the period	1,363,977	1,363,977

**Focus Graphite Inc.**

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The following table reflects changes to exploration and evaluation assets between October 1, 2017 and December 31, 2018:

	<b>Three months ended December 31, 2018</b>	Year ended September 30, 2018
	\$	\$
Balance, beginning of the period	<b>29,825,309</b>	25,247,496
Additions		
Drilling	<b>689,642</b>	<b>3,079,424</b>
Independent technical studies	<b>26,955</b>	<b>3,792</b>
Geophysical survey	<b>29,839</b>	<b>272,390</b>
Geological mapping		-
Geochemical survey	<b>1,397,285</b>	<b>844,874</b>
Metallurgical analysis		<b>24,931</b>
Resource estimate		<b>50,451</b>
Property maintenance	<b>12,427</b>	<b>60,040</b>
Preliminary economic assessment (PEA)	<b>7,019</b>	<b>185,563</b>
Feasibility studies		<b>8,456</b>
Environmental studies	<b>453,420</b>	<b>314,921</b>
Pre-development agreements	<b>37,254</b>	<b>49,324</b>
	<b>2,653,841</b>	4,894,166
Write-down of exploration and evaluation assets	-	-
Tax credits and credit on duties	<b>(194,918)</b>	(316,353)
Balance, end of the period	<b>32,284,232</b>	29,825,309

**8. OTHER CURRENT LIABILITIES**

Other current liabilities include the following:

	<b>December 31, 2018</b>	September 30, 2018
	\$	\$
Obligation to pass on tax deductions (1)(2)(3)(4)	-	15,625
Total other current liabilities	-	15,625

(1) On December 22, 2017, the Company closed a flow-through private placement (Note 10) for gross proceeds of \$250,000. The proceeds from the financing were allocated between share capital (\$234,375) and a deferred liability (\$15,625) 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 2018, effective December 31, 2017, the Company has proportionately reduced the initial liability by the percentage of the required exploration expenditures which have been incurred. As at December 31, 2018, the remaining liability is \$Nil.

## Focus Graphite Inc.

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### 9. 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 June 2017, the Company completed a flow-through private placement for gross proceeds of \$1,050,000. In February 2018, the related tax deductions were renounced to investors with an effective date of December 31, 2017. The Company incurred all of the required flow-through expenditures by the December 31, 2018 deadline and paid an amount of \$2,776 for Part XII.6 tax and tax on deemed expenses in Quebec, which is calculated on the monthly balance of unspent flow through funds.

In November and December 2017, the Company completed flow-through private placements for gross proceeds of \$3,492,048. In February 2018, the related tax deductions were renounced to investors with an effective date of December 31, 2017. The Company incurred all of the required flow-through expenditures by the December 31, 2018 deadline and paid an amount of \$22,081 for Part XII.6 tax and tax on deemed expenses in Quebec, which is calculated on the monthly balance of unspent flow through funds.

In December 2018, the Company completed flow-through private placements for gross proceeds of \$1,275,000. In February 2019, the related tax deductions were renounced to investors with an effective date of December 31, 2018. As at December 31, 2018 the Company has not incurred any of the required flow-through expenditures and has until December 31, 2019 to spend the proceeds.

### 10. 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, 2017</b>	<b>269,585,740</b>	<b>54,386,387</b>	
Shares issued for cash (1)(2)(3)(4)(5)	78,850,600	5,876,923	
Share issuance costs	-	(566,085)	
<b>Balance, September 30, 2018</b>	<b>348,436,340</b>	<b>59,697,225</b>	
Shares issued for cash (6)	25,500,000	1,087,500	
Share issuance costs	-	(119,317)	
<b>Balance, December 31, 2018</b>	<b>373,936,340</b>	<b>60,665,408</b>	



## Focus Graphite Inc.

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- (1) On October 4, 2017, the Company completed a private placement for gross proceeds of \$2,077,500. The private placement was comprised of 27,700,000 units at a price of \$0.075 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 \$0.10 until October 4, 2021. The warrants issued in connection to the private placement have been recorded at a value of \$277,000 based on the residual. Other share issuance costs total \$280,938 and were presented as a reduction of share capital.
- (2) On November 6, 2017, the Company completed a flow-through private placement for gross proceeds of \$1,290,000. The private placement was comprised of 16,125,000 flow-through common shares at a price of \$0.08 per share. In connection with the financing, the Company paid cash finders' fees of \$60,000. The proceeds from the financing (\$1,290,000) were allocated entirely to share capital (\$1,290,000), after which there existed no residual amount to allocate to a deferred liability. Other share issuance costs total \$16,861. The commissions and other issue costs were presented as a reduction of share capital. A Director and Officer of the Company participated in the private placement for a total amount of \$200,000.
- (3) On December 18, 2017, the Company completed a flow-through private placement for gross proceeds of \$1,952,048. The private placement was comprised of 24,400,600 flow-through common shares at a price of \$0.08 per share. In connection with the financing, the Company paid cash finders' fees of \$114,123. The proceeds from the financing (\$1,952,048) were allocated entirely to share capital (\$1,952,048), after which there existed no residual amount to allocate to a deferred liability. Other share issuance costs total \$23,112. The commissions and other issue costs were presented as a reduction of share capital.
- (4) On December 20, 2017, the Company completed a private placement for gross proceeds of \$600,000. The private placement was comprised of 7,500,000 units at a price of \$0.08 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 \$0.12 until December 20, 2020. In connection with the financing, the Company paid cash finder's fees totaling \$36,000. The warrants issued in connection to the private placement have been recorded at a value of \$Nil, based on the residual method. Other share issuance costs total \$11,355. The commissions and other issue costs were presented as a reduction of share capital.
- (5) On December 22, 2017, the Company completed a flow-through private placement for gross proceeds of \$250,000. The private placement was comprised of 3,125,000 flow-through common shares at a price of \$0.08 per share. In connection with the financing, the Company paid cash finders' fees of \$15,000. The proceeds from the financing (\$250,000) were allocated between share capital (\$234,375) and a deferred liability (\$15,625) 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. Other share issuance costs total \$8,696. The commissions and other issue costs were presented as a reduction of share capital.
- (6) On December 11, 2018, the Company completed a flow-through private placement for gross proceeds of \$650,000. The private placement was comprised of 13,000,000 flow-through units at a price of \$0.05 per unit. Each flow-through unit consists of one flow-through common share and one common share purchase warrant. Each full warrant entitles the holder to purchase one additional common share of the Company at a price of \$0.055 until December 12, 2020. In connection with the financing, the Company paid cash finders' fees of \$38,500 and issued, as additional consideration, 770,000 non-transferable broker warrants, each broker warrant entitling the holder to acquire one common share of the Company at a price of \$0.055 until December 11, 2020. The proceeds from the financing (\$650,000) were allocated to share capital (\$650,000), after which there was nothing left to allocate to warrants and the flow-through liability. The fair value of the shares was determined based on the trading price of the Company's shares on the TSX-V. The warrants issued as commissions have been recorded at a value of \$16,886 based on the Black-Scholes option pricing model, using the following assumptions: stock price of \$0.05, risk-free interest rate of 2.05%, expected life of warrants of 2 years, annualized volatility of 86.27% and dividend rate of 0%. The

## Focus Graphite Inc.

Notes to the Condensed Interim Financial Statements (Unaudited)

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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 \$4,947 and were presented as a reduction of share capital. \$100,000 of the proceeds raised were from a director of the Company.

- (7) On December 27, 2018, the Company completed a flow-through private placement for gross proceeds of \$625,000. The private placement was comprised of 12,500,000 flow-through units at a price of \$0.05 per unit. Each flow-through unit consists of one flow-through common share and one common share purchase warrant. Each full warrant entitles the holder to purchase one additional common share of the Company at a price of \$0.055 until December 27, 2020. In connection with the financing, the Company paid cash finders' fees of \$43,750 and issued, as additional consideration, 875,000 non-transferable broker warrants, each broker warrant entitling the holder to acquire one common share of the Company at a price of \$0.055 until December 27, 2020. The proceeds from the financing (\$625,000) were allocated to share capital (\$437,500), warrants (\$187,500) and after which there was nothing left to allocate to the flow-through liability. The fair value of the shares was determined based on the trading price of the Company's shares on the TSX-V. The warrants issued in connection to the private placement have been recorded at a value of \$187,500 based on the residual method. This was after determining the fair value of the warrants using the Black-Scholes option pricing model to be greater than the value remaining to allocate. The fair value of the warrants issued as a part of the commissions have been recorded at a value of \$10,481. This is based on the Black-Scholes option pricing model, using the following assumptions: stock price of \$0.035, risk-free interest rate of 1.91%, expected life of warrants of 2 years, annualized volatility of 85.27% and dividend rate of 0%. 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 \$4,753 and were presented as a reduction of share capital.

## 11. WARRANTS

The following table reflects the continuity of warrants outstanding:

	Number of warrants	Weighted average exercise price
		\$
<b>Balance, September 30, 2017</b>	<b>115,867,119</b>	<b>0.13</b>
Granted	35,200,000	0.10
Expired	(4,528,363)	0.53
<b>Balance, September 30, 2018</b>	<b>146,538,756</b>	<b>0.11</b>
Granted	27,145,000	0.05
Expired	(160,000)	0.10
<b>Balance, December 31, 2018</b>	<b>173,523,756</b>	<b>0.10</b>

**Focus Graphite Inc.**

Notes to the Condensed Interim Financial Statements (Unaudited)

For the three months ended December 31, 2018

*(Expressed in Canadian dollars)*

As at December 31, 2018, the following warrants were issued and outstanding:

<b>Number of warrants</b>	<b>Fair value</b>	<b>Exercise price</b>	<b>Expiry date</b>
	\$	\$	
847,000	67,760	0.60	February 9, 2019
3,210,381	32,104	0.17	August 28, 2019
3,748,646	18,743	0.17	September 30, 2019
1,848,000	-	0.20	April 1, 2020
670,742	86,438	0.20	April 1, 2020
2,246,835	-	0.20	May 5, 2020
132,546	17,086	0.20	May 5, 2020
850,000	8,500	0.20	May 17, 2020
194,285	19,097	0.20	May 17, 2020
8,200,000	164,000	0.12	September 30, 2020
560,000	18,894	0.20	November 8, 2020
2,125,000	85,000	0.10	December 23, 2020
12,493,536	-	0.10	March 7, 2021
934,482	58,377	0.10	March 7, 2021
5,851,103	-	0.10	March 24, 2021
441,422	25,766	0.10	March 24, 2021
14,847,001	-	0.10	April 21, 2021
613,333	33,223	0.10	April 21, 2021
3,150,000	-	0.10	June 6, 2021
844,444	34,649	0.09	June 20, 2019
2,053,333	-	0.10	July 18, 2021
5,000,000	50,000	0.10	August 8, 2021
350,000	12,304	0.10	August 8, 2021
38,966,667	584,500	0.10	August 14, 2021
1,000,000	15,000	0.10	September 25, 2021
27,700,000	277,000	0.10	October 4, 2021
7,500,000	-	0.12	December 20, 2020
13,000,000	-	0.055	December 11, 2020
770,000	16,886	0.055	December 11, 2020
12,500,000	187,500	0.055	December 27, 2020
875,000	10,481	0.055	December 27, 2020
<b>173,523,756</b>	<b>1,823,308</b>		

**Focus Graphite Inc.**

Notes to the Condensed Interim Financial Statements (Unaudited)

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As at September 30, 2018, the following warrants were issued and outstanding:

Number of warrants	Fair value	Exercise price	Expiry date
	\$	\$	
847,000	67,760	0.60	February 9, 2019
3,210,381	32,104	0.17	August 28, 2019
3,748,646	18,743	0.17	September 30, 2019
1,848,000	-	0.20	April 1, 2020
670,742	86,438	0.20	April 1, 2020
2,246,835	-	0.20	May 5, 2020
132,546	17,086	0.20	May 5, 2020
850,000	8,500	0.20	May 17, 2020
194,285	19,097	0.20	May 17, 2020
8,200,000	164,000	0.12	September 30, 2020
560,000	18,894	0.20	November 8, 2020
2,125,000	85,000	0.10	December 23, 2020
160,000	3,249	0.10	December 23, 2018
12,493,536	-	0.10	March 7, 2021
934,482	58,377	0.10	March 7, 2021
5,851,103	-	0.10	March 24, 2021
441,422	25,766	0.10	March 24, 2021
14,847,001	-	0.10	April 21, 2021
613,333	33,223	0.10	April 21, 2021
3,150,000	-	0.10	June 6, 2021
844,444	34,649	0.09	June 20, 2019
2,053,333	-	0.10	July 18, 2021
5,000,000	50,000	0.10	August 8, 2021
350,000	12,304	0.10	August 8, 2021
38,966,667	584,500	0.10	August 14, 2021
1,000,000	15,000	0.10	September 25, 2021
27,700,000	277,000	0.10	October 4, 2021
7,500,000	-	0.12	December 20, 2020
<b>146,538,756</b>	<b>1,611,690</b>		

**12. 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

## Focus Graphite Inc.

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the termination of the optionee's employment, office, directorship or consulting arrangement. Vesting of options is made at the discretion of the Board of Directors at the time the options are granted.

The following table reflects the continuity of stock options outstanding:

	Number of stock options	Weighted average exercise price \$
<b>Balance, September 30, 2017</b>	<b>6,635,000</b>	<b>0.28</b>
Granted (1)	26,060,000	0.05
Forfeited	(25,000)	0.05
Expired	(2,290,000)	0.62
<b>Balance, September 30, 2018 and December 31, 2018</b>	<b>30,380,000</b>	<b>0.06</b>

As at December 31, 2018, 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	4,345,000	1.98	\$0.10	4,345,000	\$0.10
\$0.05	26,035,000	4.58	\$0.05	26,035,000	\$0.05
	<b>30,380,000</b>	<b>4.21</b>	<b>\$0.06</b>	<b>30,380,000</b>	<b>\$0.06</b>

As at September 30, 2018, 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	4,345,000	2.23	\$0.10	4,345,000	\$0.10
\$0.05	26,035,000	4.83	\$0.05	26,035,000	\$0.05
	<b>30,380,000</b>	<b>4.46</b>	<b>\$0.06</b>	<b>30,380,000</b>	<b>\$0.06</b>

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The following table reflects the weighted-average fair value of stock options granted between October 1, 2017 and December 31, 2018 and the related Black-Scholes option pricing model inputs that were used in the calculations:

	Year ended December 31, 2018	Year ended September 30, 2018
Stock options granted	-	26,060,000
Weighted average fair value	-	0.03
Weighted-average exercise price	-	0.05
Weighted-average market price at date of grant	-	0.04
Expected life of stock options (years)	-	5
Expected stock price volatility	0%	87%
Risk-free interest rate	0%	2%
Expected dividend yield	0%	0%

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, \$Nil of stock-based payments (all of which relate to equity-settled stock-based payment transactions) were included in loss for the the three months ended December 31, 2018 (2018 - \$Nil) and credited to contributed surplus.

### 13. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended December 31,	
	2018	2017
	\$	\$
Changes in non-cash working capital are as follows:		
Amounts receivable	203,521	(243,731)
Amounts due from related parties	(10,493)	(2,339)
Prepaid expenses	(19,579)	(450,560)
Accounts payable and accrued liabilities	384,969	(8,795)
	<b>558,418</b>	<b>(705,425)</b>
Non-cash investing activities as follows:		
Exploration and evaluation assets included in accounts payable and accrued liabilities	2,915,103	530,741

## Focus Graphite Inc.

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### 14. 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 \$358,810 at December 31, 2018 (\$252,433 at September 30, 2018). 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. During the year ended September 30, 2017, the Company recognized an impairment on an amount due from a related party in the amount of \$360,000.

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

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

#### (ii) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages its liquidity needs by carefully monitoring cash outflows due in day-to-day business. As at December 31, 2018, the Company had a working capital deficiency of \$2,595,121. During the three months ended December 31, 2018, the Company had negative cash flows from operations of \$533,147. 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 \$4,559,013, 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 December 31, 2018, the Company had cash balances of \$206,719 (\$110,835

## Focus Graphite Inc.

Notes to the Condensed Interim Financial Statements (Unaudited)

For the three months ended December 31, 2018

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as at September 30, 2018) and interest income derived from these investments during the three months ended December 31, 2018 was \$Nil.

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 December 31, 2018. As at December 31, 2018, the value of these listed shares was \$100,000. At December 31, 2017, had the bid price for these publicly listed shares been 10% lower, the comprehensive loss for the period would have been \$10,000 higher. Conversely, had the bid price been 10% higher, the comprehensive loss would have been \$10,000 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 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.



## Focus Graphite Inc.

Notes to the Condensed Interim Financial Statements (Unaudited)

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### 15. 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:

	December 31, 2018	September 30, 2018
	\$	\$
<b>Financial assets</b>		
Loans and receivables		
Cash	206,719	110,835
Amounts due from related parties	152,091	141,598
Available-for-sale-financial assets		
Long-term investment	100,000	100,000
<b>Total financial assets</b>	<b>458,810</b>	<b>352,433</b>
<b>Financial liabilities</b>		
Measured at amortized cost		
Accounts payable and accrued liabilities	(1,680,214)	(2,039,977)
Amounts due to related parties	(58,108)	-
<b>Total financial liabilities</b>	<b>(1,738,322)</b>	<b>(2,039,977)</b>

### 16. 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 three months ended December 31, 2018, the Company was charged \$Nil by JAG Sky Inc. ("JAG Sky") (2017 - \$Nil), a private air charter services company wholly-owned by an Officer and Director of Focus, for air travel. As at December 31, 2018, the Company has a prepaid balance of \$45,278 (\$45,278 as at September 30, 2018), included in prepaid expenses, for air travel to be used at a later date.

#### GGTC Inc. and JAG Property Holdings Inc. (formerly 2390540 Ontario Inc.)

Under a lease agreement between the Company and GGTC Inc. ("GGTC") (Note 17), 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 JAG Property Holdings Inc. (formerly 2390540 Ontario Inc.), a private entity which is also wholly-owned by an Officer and Director of Focus, however it was transferred to GGTC upon GGTC's acquisition of the building. During the three months ended December 31, 2018, the Company was

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charged a total of \$13,247 for rent (2017 - \$13,247). As at December 31, 2018, \$Nil was included in accounts payable and accrued liabilities (\$15,674 as at September 30, 2018).

### Grafoid Inc.

During the ended September 30, 2016, the Company loaned Grafoid Inc. \$360,000. As at September 30, 2016, there were no terms of repayment and, accordingly, the entire amount was included as a long-term receivable. In fiscal 2017, the Company recorded an allowance for doubtful collection for the entire \$360,000, as collectability is uncertain given Grafoid's financial position. The allowance may be reversed in the future if a chance in conditions suggests the amount is collectible.

During the year ended September 30, 2017, the Company advanced additional amounts totalling \$3,092,739 to Grafoid that, in substance, formed part of the Company's net investment in Grafoid (Note 6). These amounts were subsequently repaid during the during the year ended September 30, 2018.

During the three months ended December 31, 2018, the Company was charged \$600,000 by Grafoid for consulting services which consists of marketing, product development and auxiliary services for Focus' Lac Knife Graphite material (2017 - \$650,000). As at December 31, 2018, the Company has an amount of \$178,025 (including HST) (\$92,905 as at September 30, 2018 included in prepaids), included in accounts payable and accrued liabilities, for marketing, product development and auxiliary services to be provided in the near future.

During the three months ended December 31, 2018, the Company was charged \$12,818 by Grafoid for shared administrative expenses (2017 - \$27,949). As at December 31, 2018, the Company has advanced \$109,620 for shared administrative expenses, which is included in prepaids (\$NIL as at September 30, 2018).

### Shared costs

During the year ended September 30, 2018, the Company charged Stria Lithium Inc., which shares common management, \$5,000 (2017 - \$5,000), for accounting and administrative services and other administrative expenses. As at December 31, 2018, a balance of \$5,650 (including HST) (\$5,650 as at September 30, 2018), is included in amounts due from related parties.

### Braille Energy Systems Inc. (formerly Mincom Capital Inc.)

During the year ended September 30, 2018, the Company charged BESl, which shares common management, \$10,000 (2017 - \$10,000), for accounting and administrative services. As at December 31, 2018, a balance of \$11,300 (including HST) (\$10,000 as at September 30, 2018), respectively, are included in amounts due from related parties.

Additionally, during the year ended September 30, 2018 Focus charged BESl \$29,500 for employee & consultant costs directly attributable to the sale of Braille Battery Inc from Grafoid to BESl. As at September 30, 2018, balances of \$29,500 (\$29,500 as at September 30, 2018), respectively, are included in amounts due from related parties.

As at December 31, 2018, included in amounts due to related parties is an amount of \$13,108 (US\$10,000) due to Braille Energy Systems Inc., which shares common management with the Company (\$NIL as at September 30, 2018). The advance was provided in US dollars to the Company to provide working capital and is repayable within the year ended September 30, 2019. The advance is non-interest bearing. During the three months ended December 31, 2018, the Company made no repayments (2018 - \$Nil).

### Alcereco Inc.

As at December 31, 2018, included in amounts due to related parties is an amount of \$45,000 due to Alcereco Inc., which shares common management with the Company (\$NIL as at September 30, 2018). The advance

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was provided to the Company to provide working capital and is repayable within the year ended September 30, 2019. The advance is non-interest bearing. During the three months ended December 31, 2018, the Company made no repayments.

### Other

As at December 31, 2018, included in amounts due from related parties was an amount of \$53,468 (\$53,339 as at September 30, 2018) 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>December 31, 2018</b>	September 30, 2018
	\$	\$
JAG Property Holdings Inc. (formerly 2390540 Ontario Inc.)	<b>3,534</b>	3,169
9174893 Canada Inc.	<b>8,084</b>	7,485
9170655 Canada Inc.	<b>4,114</b>	3,419
GGTC Inc.	<b>13,008</b>	10,611
JAG Sky Inc.	<b>22,034</b>	21,847
Mistura Beauty Solutions Inc.	<b>1,361</b>	1,361
SP2 Wafer Pte Ltd.	<b>5,447</b>	5,447
	<b>57,582</b>	53,339

As at December 31, 2018, included in amounts due from related parties was an amount of \$47,899 (\$43,110 as at September 30, 2018) due from the following companies, which share common management, related to general shared costs:

	<b>December 31, 2018</b>	September 30, 2018
	\$	\$
Grafoid Inc. (including subsidiaries)	<b>36,306</b>	31,517
Braille Energy Systems Inc (including subsidiaries) (1)	<b>10,118</b>	10,118
Stria Lithium Inc. (1)	<b>1,475</b>	1,475
	<b>47,899</b>	43,110

(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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### Transactions with key Management personnel

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

	Three months ended December 31,	
	2018	2017
	\$	\$
Salaries (including bonuses) (1)	35,000	40,000
Consulting fees	111,250	111,250
Benefits	2,061	2,061
	<b>148,311</b>	<b>153,311</b>

(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 BESI and Stria Lithium Inc.

(3) As at December 31, 2018 balances of \$719,167 included in accounts payable and accrued liabilities due to Directors of the Company (as at September 30, 2018 - \$572,167).

(4) As at December 31, 2018 balances of \$45,916 included in prepaid expenses for consulting services that are to be provided in the near future by Officers of the Company (as at September 30, 2018 - \$45,916).

## 17. COMMITMENTS

### Offtake Agreements

#### Grafoid Inc.

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

#### (a) *Graphene Offtake*

Under the terms of the Graphene Offtake agreement, Grafoid will pay Focus \$1,000,000, 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, 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. Given that this condition was not met as of December 31, 2018, Focus did not yet have any obligation to sell graphite concentrate to Grafoid.

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Effective September 24, 2016, Focus and Grafoid executed addendums to the offtake agreements, whereby Grafoid had until September 24, 2018 to make the remaining payments to satisfy the \$1,000,000 condition under each agreement. These addendums to the offtake agreements have now been extended by one additional year, giving Grafoid until September 24, 2019 to make the payments. As at December 31, 2018, payments of \$Nil held by Focus in relation to the offtake agreements (NIL as at September 30, 2018) have been presented as a deposit and included 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	
	\$	\$	\$
December 31, 2018	55,484	-	55,484
September 30, 2018	55,484	13,871	69,355

(1) Includes lease payments due to GGTC Inc. (formerly 9229205 Canada Inc.), a related party (Note 16), of \$55,484 due within one year and \$Nil due in one to five years. The lease ends in December 2019.

Lease payments recognized as an expense during the three months ended December 31, 2018 amount to \$13,247 (2017 - \$13,247). This amount consists of minimum lease payments.

## 18. 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.

## 19. 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.