

# **FOCUS GRAPHITE INC.**

## **Condensed Interim Financial Statements**

**For the three and six months periods ended March 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	March 31, 2018	September 30, 2017
	\$	\$
<b>ASSETS</b>		
Current assets		
Cash	951,091	322,665
Amounts receivable (Note 4)	418,872	238,720
Amounts due from related parties (Note 16)	132,063	143,556
Tax credits and credit on duties receivable	239,085	82,765
Prepaid expenses	1,336,654	1,078,044
	<b>3,077,765</b>	<b>1,865,750</b>
Amounts due from related party (Note 16)		0
Long-term investment (Note 5)	100,000	100,000
Investment in associate (Note 6)	0	0
Mineral exploration properties (Note 7)	1,363,977	1,327,599
Exploration and evaluation assets (Note 7)	27,448,781	25,247,496
Total assets	<b>31,990,523</b>	<b>28,540,845</b>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued liabilities (Note 16)	1,561,426	1,357,018
Deposit (Note 17)	-	0
Other current liabilities (Note 8)	50,407	253,583
Total liabilities	<b>1,611,833</b>	<b>1,610,601</b>
<b>EQUITY</b>		
Share capital (Note 10)	59,697,225	54,386,387
Warrants (Note 11)	1,611,690	1,367,788
Contributed surplus	10,502,439	10,469,341
Accumulated other comprehensive income	273,242	273,242
Deficit	(41,705,906)	(39,566,514)
Total equity	<b>30,378,690</b>	<b>26,930,244</b>
Total liabilities and equity	<b>31,990,523</b>	<b>28,540,845</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 March 31,		Six months ended March 31,	
	2018	2017	2018	2017
	\$	\$	\$	\$
Operating expenses				
Management and consulting fees	868,697	229,658	1,709,093	532,610
Salaries and benefits	78,101	64,122	152,503	121,505
Travel and promotion	81,056	134,369	157,524	159,649
Professional fees	53,620	43,483	142,676	164,484
Office	91,531	132,954	196,397	222,723
Depreciation of property and equipment	-	4,934	-	10,972
Loss from operations	(1,173,005)	(609,520)	(2,358,193)	(1,211,943)
Other income				
Interest income	-	(3,241)	-	1,378
Other income related to flow-through shares (Note 9)	23,551	-	218,801	27,332
Share of net loss of associate (Note 6)	-	(187,296)	-	(400,133)
Net loss before income taxes	(1,149,454)	(800,057)	(2,139,392)	(1,583,366)
Recovery of future income taxes (Notes 8 & 13)	-	-	-	-
Net loss	(1,149,454)	(800,057)	(2,139,392)	(1,583,366)
Other comprehensive income				
<i>Items that will be reclassified to profit or loss</i>				
Change in fair value of available-for-sale investments	-	-	0	(25,000)
Other comprehensive income	-	-	-	(25,000)
Total comprehensive loss	(1,149,454)	(800,057)	(2,139,392)	(1,608,366)
Basic and diluted net loss per common share	(0.003)	(0.004)	(0.006)	(0.01)
Basic and diluted weighted average number of common shares outstanding	348,436,340	178,547,959	329,475,918	174,100,139

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, 2016</b>	<b>165,432,434</b>	<b>48,153,759</b>	<b>634,117</b>	<b>10,282,050</b>	<b>283,326</b>	<b>(33,038,483)</b>	<b>26,314,769</b>
Shares issued for cash	27,469,639	2,063,348	-	-	-	-	2,063,348
Warrants issued	-	-	85,000	-	-	-	85,000
Expiry of warrants	-	-	(168,685)	168,685	-	-	-
Share issuance costs	-	(369,043)	106,286	-	-	-	(262,757)
Net loss	-	-	-	-	-	(1,583,366)	(1,583,366)
Change in fair value of available-for-sale investments	-	-	-	-	(25,000)	-	(25,000)
<b>Balance, March 31, 2017</b>	<b>192,902,073</b>	<b>49,848,064</b>	<b>656,718</b>	<b>10,450,735</b>	<b>258,326</b>	<b>(34,621,849)</b>	<b>26,591,994</b>
Shares issued for cash	76,683,667	5,218,442	-	-	-	-	5,218,442
Warrants issued	-	-	649,500	-	-	-	649,500
Expiry of warrants	-	-	(18,606)	18,606	-	-	-
Share issuance costs	-	(680,119)	80,176	-	-	-	(599,943)
Net loss	-	-	-	-	-	(4,944,665)	(4,944,665)
Share of other comprehensive income of associate	-	-	-	-	14,916	-	14,916
<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	-	(566,085)	-	-	-	-	(566,085)
Net loss	-	-	-	-	-	(2,139,392)	(2,139,392)
<b>Balance, March 31, 2018</b>	<b>348,436,340</b>	<b>59,697,225</b>	<b>1,611,690</b>	<b>10,502,439</b>	<b>273,242</b>	<b>(41,705,906)</b>	<b>30,378,690</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 March 31,		Six months ended March 31,	
	2018	2017	2018	2017
	\$	\$	\$	\$
<b>OPERATING ACTIVITIES</b>				
Net loss	(1,149,454)	(800,057)	(2,139,392)	(1,583,366)
Adjustments for:				
Depreciation of property and equipment	-	4,934	-	10,972
Interest income	-	3,241	-	(1,378)
Other income related to flow-through shares	(23,551)	-	(218,801)	(27,332)
Share of net loss of associate	-	187,296	-	400,133
Changes in working capital items (Note 13)	285,755	(349,143)	(419,670)	(252,319)
<b>Net cash used in operating activities</b>	<b>(887,250)</b>	<b>(953,729)</b>	<b>(2,777,863)</b>	<b>(1,453,290)</b>
<b>INVESTING ACTIVITIES</b>				
Exploration advances	-	-	-	-
Acquisition of mineral exploration properties	(36,378)	-	(36,378)	-
Interest received	-	(3,241)	-	1,378
Exploration and evaluation costs	(308,252)	(477,716)	(2,160,796)	(1,370,096)
Tax credits and mining duties received	-	19,849	-	198,998
<b>Net cash used in investing activities</b>	<b>(344,630)</b>	<b>(461,108)</b>	<b>(2,197,174)</b>	<b>(1,169,720)</b>
<b>FINANCING ACTIVITIES</b>				
Common shares issued	-	1,375,848	5,892,548	2,203,348
Warrants issued	-	-	277,000	85,000
Warrants exercised	-	-	-	-
Share issuance costs	(25,946)	(160,730)	(566,085)	(262,757)
<b>Net cash provided by financing activities</b>	<b>(25,946)</b>	<b>1,215,118</b>	<b>5,603,463</b>	<b>2,025,591</b>
Increase (decrease) in cash	(1,257,826)	(199,719)	628,426	(597,419)
Cash, beginning of the period	2,208,917	688,031	322,665	1,085,731
<b>Cash, end of the period</b>	<b>951,091</b>	<b>488,312</b>	<b>951,091</b>	<b>488,312</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 and six month periods ended March 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 six months ended March 31, 2018, the Company incurred a net loss of \$2,139,392 and negative cash flows from operations of \$887,250. In addition, the Company has a deficit of \$41,705,906.

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 year 2018, 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, 2017 and 2016, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

These condensed interim financial statements were authorized for issue by the Board of Directors on May 29, 2018.

## Focus Graphite Inc.

Notes to the Condensed Interim Financial Statements (Unaudited)

For the three and six month periods ended March 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, 2017 and 2016.

### (c) Judgments, estimates and assumptions

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

#### Significant Management judgment

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

#### *Significant influence assessment*

The assessment as to whether or not the Company has significant influence over an investee requires judgment. Even though Focus holds less than 20% of the voting rights in Grafoid Inc. ("Grafoid"), with an ownership interest of 17.31% as at March 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 2017, Management applied judgement in determining that there was an impairment in its net investment in its associate and the amount of impairment to be recognized, as discussed in Note 6.

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

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

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

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

## Focus Graphite Inc.

Notes to the Condensed Interim Financial Statements (Unaudited)

For the three and six month periods ended March 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.

The total impairment loss on mineral exploration properties and exploration and evaluation assets for the six months ended March 31, 2018 was \$Nil (2018 - \$Nil). No reversal of impairment losses has been recognized for the reporting periods.

### *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.

## Focus Graphite Inc.

Notes to the Condensed Interim Financial Statements (Unaudited)

For the three and six month periods ended March 31, 2018

(Expressed in Canadian dollars)

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.

### 4. AMOUNTS RECEIVABLE

	March 31, 2018	September 30, 2017
	\$	\$
Sales taxes receivable	318,872	108,140
Other receivables	100,000	130,580
Total amounts receivable	418,872	238,720

### 5. LONG-TERM INVESTMENT

#### Investment in Mincom Capital Inc.

On May 8, 2014, further to the sale of the Company's Romer property to Mincom Capital Inc. ("Mincom"), Focus received 2,500,000 common shares in Mincom, valued at \$450,000 (Note 7f). The fair value of the shares received was based on the quoted market price on the closing date of the transaction. The shares are classified as available-for-sale financial assets and are measured at fair value. The Company does not exercise significant influence over Mincom.

As at March 31, 2018 and September 30, 2017, 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

### 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 March 31, 2018, no dividends have been received from Grafoid.

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

## Focus Graphite Inc.

Notes to the Condensed Interim Financial Statements (Unaudited)

For the three and six month periods ended March 31, 2018

(Expressed in Canadian dollars)

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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 March 31, 2017, Focus' ownership interest in Grafoid has fluctuated, further to multiple capital raises and other share issuances by Grafoid, including the 3,000,000 shares issued to the Company, as described above. Despite these fluctuations, Management has not changed its assessment and considers Focus to have maintained significant influence over Grafoid throughout this period. Management takes into consideration various facts and circumstances in arriving at this assessment, including but not limited to Focus' continued representation on Grafoid's Board of Directors.

As at March 31, 2018 and September 30, 2017, the Company's ownership interest in Grafoid was 17.31% and the carrying value of the investment was determined as follows:

		\$
Balance, September 30, 2016		730,407
Long-term receivable from Grafoid		3,092,739
Share of net loss of associate		(843,570)
Share of comprehensive income of associate		14,916
Impairment		(2,994,492)
Balance, September 30, 2017 and March 31, 2018		-

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 is estimation uncertainty associated with determining the recoverable amount for the investment in Grafoid as it is a privately-held research and development company. Grafoid has 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 favourable change in the estimates used to determine the recoverable amount.

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

## Focus Graphite Inc.

Notes to the Condensed Interim Financial Statements (Unaudited)

For the three and six month periods ended March 31, 2018

(Expressed in Canadian dollars)

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

	March 31, 2018		September 30, 2017	
	Mineral exploration properties	Exploration and evaluation assets	Mineral exploration properties	Exploration and evaluation assets
	\$	\$	\$	\$
a) Lac Knife	642,578	15,914,160	642,578	15,842,684
b) Kwyjibo	-	6,561,560	-	6,331,211
c) Manicouagan	289,101	3,765,150	289,101	2,449,366
c) Lac au Sorcier	-	-	-	-
d) Eastmain-Leran	432,298	1,207,911	395,920	624,235
e) Island and Asbury	-	-	-	-
f) Labrador Trough	-	-	-	-
<b>TOTAL</b>	<b>1,363,977</b>	<b>27,448,781</b>	<b>1,327,599</b>	<b>25,247,496</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.

#### b) Kwyjibo

In August 2010, the Company signed an option agreement with SOQUEM Inc. ("SOQUEM") to acquire a 50% interest in the Kwyjibo property, located in the Grenville Geological Province, north-east of Sept-Iles, Quebec, by spending \$3,000,000 in exploration work on the property over a period of five years, of which \$1,000,000 had to be spent during the first two years. SOQUEM is acting as the operator for all exploration work carried out on the property. Focus has the option to become the operator by paying \$50,000 in cash or by issuing common shares valued at \$50,000.

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

#### c) 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 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

## Focus Graphite Inc.

Notes to the Condensed Interim Financial Statements (Unaudited)

For the three and six month periods ended March 31, 2018

(Expressed in Canadian dollars)

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**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 March 31, 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.

### e) Island and Asbury

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

## Focus Graphite Inc.

Notes to the Condensed Interim Financial Statements (Unaudited)

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During the year ended September 30, 2013, the Company wrote down the cost of the Mayo and Perkins properties to \$Nil (\$66,045 in acquisition costs and \$8,337 in exploration and evaluation assets) further to the Company's decision to let the claims lapse as poor exploration results to date did not warrant further exploration on the properties.

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

During the year ended September 30, 2017, the Company wrote down the cost of the Island and Asbury properties to \$Nil (\$53,258 in acquisition costs and \$75,315 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.

### f) 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 Oteluk, 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 September 27, 2013, the Company signed a letter agreement with Mincom Capital Inc. ("Mincom"), a related party which shares common management, pursuant to which Focus was to sell to Mincom all of its rights, title and interest in its Romer property (the "Property"). The consideration due to Focus from Mincom for the purchase of the Property was \$1,000,000, as determined following an independent valuation prepared at the request of Mincom, payable as follows: (i) cash consideration of \$250,000; (ii) 2,500,000 common shares of Mincom. The transaction closed in May 2014.

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 March 31, 2018, the Labrador Trough consists of 4 properties: Minowean, Oteluk, Lemming and Diana.

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The following table reflects changes to mineral exploration properties between October 1, 2016 and March 31, 2018:

	Six months ended March 31, 2018	Year ended September 30, 2017
	\$	\$
Balance, beginning of the period	1,327,599	1,380,857
Acquisition of mineral exploration properties	36,378	-
Write-down of mineral exploration properties	-	(53,258)
Balance, end of the period	1,363,977	1,327,599

The following table reflects changes to exploration and evaluation assets between October 1, 2016 and March 31, 2018:

	Six months ended March 31, 2018	Year ended September 30, 2017
	\$	\$
Balance, beginning of the period	25,247,496	24,217,684
Additions		
Drilling	1,459,792	382,964
Independent technical studies	1,866	80,995
Geophysical survey	5,840	1,170
Geological mapping	-	26,866
Geochemical survey	572,538	177,491
Metallurgical analysis	24,816	200,833
Resource estimate	29,966	81,917
Property maintenance	14,609	25,538
Preliminary economic assessment (PEA)	157,115	-
Feasibility studies	36,348	138,230
Environmental studies	48,049	21,079
Pre-development agreements	6,665	-
	2,357,605	1,137,083
Write-down of exploration and evaluation assets	-	(75,315)
Tax credits and credit on duties	(156,320)	(31,956)
Balance, end of the period	27,448,781	25,247,496

## Focus Graphite Inc.

Notes to the Condensed Interim Financial Statements (Unaudited)

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### 8. OTHER CURRENT LIABILITIES

Other current liabilities include the following:

	March 31, 2018	September 30, 2017
	\$	\$
Obligation to pass on tax deductions (1)(2)(3)(4)	50,407	253,583
Total other current liabilities	50,407	253,583

- (1) On May 17, 2016, the Company closed a flow-through private placement (Note 10) for gross proceeds of \$276,250. The proceeds from the financing were allocated between share capital (\$221,000) and a deferred liability (\$55,250) 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 2017, effective December 31, 2016, the Company has proportionately reduced the initial liability by the percentage of the required exploration expenditures which have been incurred. The Company incurred all of the required flow-through expenditures by the December 31, 2017 deadline and the remaining liability is \$Nil.
- (2) On November 8, 2016, the Company closed a flow-through private placement (Note 10) for gross proceeds of \$700,000. The proceeds from the financing were allocated between share capital (\$560,000) and a deferred liability (\$140,000) using the residual method. The liability component represents the Company's obligation to pass on the tax deductions to investors. Further to the renunciation of the tax deductions to investors in February 2017, effective December 31, 2016, the Company has proportionately reduced the initial liability by the percentage of the required exploration expenditures which have been incurred. The Company incurred all of the required flow-through expenditures by the December 31, 2017 deadline and the remaining liability is \$Nil.
- (3) On June 20, 2017, the Company closed a flow-through private placement (Note 10) for gross proceeds of \$1,050,000. The proceeds from the financing were allocated between share capital (\$991,667) and a deferred liability (\$58,333) 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 March 31, 2018, the remaining liability is \$34,782.
- (4) 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 March 31, 2018, the remaining liability is \$15,625.

### 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

## Focus Graphite Inc.

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expenditures. The Company begins incurring interest charges for unspent funds after two months following renunciation.

In April and May 2016, the Company completed flow-through private placements for gross proceeds of \$1,530,600. In February 2017, the related tax deductions were renounced to investors with an effective date of December 31, 2016. The Company incurred all of the required flow-through expenditures by the December 31, 2017 deadline and paid an amount of \$7,809 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 2016, the Company completed a flow-through private placement for gross proceeds of \$700,000. In February 2017, the related tax deductions were renounced to investors with an effective date of December 31, 2016. The Company incurred all of the required flow-through expenditures by the December 31, 2017 deadline and paid an amount of \$6,012 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 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. As at December 31, 2017, the Company has incurred \$423,917 of the required flow-through expenditures and has until December 31, 2018 to incur the remaining exploration expenditures of \$626,083.

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. As at March 31, 2018, the Company has not incurred any of the required flow-through expenditures and has until December 31, 2018 to incur the remaining exploration expenditures of \$3,492,048.

### 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, 2016</b>	<b>165,432,434</b>	<b>48,153,759</b>
Shares issued for cash (1)(2)(3)(4)(5)(6)(7)(8)(9)(10)(11)	104,153,306	7,281,790
Share issuance costs	-	(1,049,162)
<b>Balance, September 30, 2017</b>	<b>269,585,740</b>	<b>54,386,387</b>
Shares issued for cash (12)(13)(14)(15)(16)	78,850,600	5,876,923
Share issuance costs	-	(566,085)
<b>Balance, March 31, 2018</b>	<b>348,436,340</b>	<b>59,697,225</b>

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- (1) On November 8, 2016, the Company completed a flow-through private placement for gross proceeds of \$700,000. The private placement was comprised of 7,000,000 flow-through common shares at a price of \$0.10 per share. In connection with the financing, the Company paid cash finders' fees of \$56,000 and issued, as additional consideration, 560,000 non-transferable broker warrants, each broker warrant entitling the holder to acquire one common share of the Company at a price of \$0.20 until November 8, 2020. The proceeds from the financing (\$700,000) were allocated between share capital (\$560,000) and a deferred liability (\$140,000) using the residual method. The liability component represents the Company's obligation to pass on the tax deductions to investors and is included in other current liabilities in the statement of financial position. The warrants issued as commissions have been recorded at a value of \$18,894 based on the Black-Scholes option pricing model, using the following assumptions: stock price of \$0.08, risk-free interest rate of 0.69%, expected life of warrants of 4 years, annualized volatility of 85% and dividend rate of 0%. The underlying expected stock price volatility is based on historical data of the Company's shares over the last four years. The risk-free interest rate is based on the yield of a Government of Canada benchmark bond in effect at the time of grant with an expiry commensurate with the expected life of the warrants. Other share issuance costs total \$19,951. The value of the warrants, commissions and other issue costs were presented as a reduction of share capital.
- (2) On December 23, 2016, the Company completed a private placement for gross proceeds of \$212,500. The private placement was comprised of 2,125,000 units at a price of \$0.10 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 December 23, 2020. In connection with the financing, the Company paid cash finder's fees totaling \$16,000 and issued, as additional consideration, 160,000 non-transferable broker warrants, each broker warrant entitling the holder to acquire one common share of the Company at a price of \$0.10 until December 23, 2018. The warrants issued in connection to the private placement have been recorded at a value of \$85,000 based on the residual method and warrants issued as commissions have been recorded at a value of \$3,249 based on the Black-Scholes option pricing model, using the following assumptions: stock price of \$0.06, risk-free interest rate of 1.20%, expected life of warrants of 2 years, annualized volatility of 88% and dividend rate of 0%. The underlying expected stock price volatility is based on historical data of the Company's shares over the last two years. The risk-free interest rate is based on the yield of a Government of Canada benchmark bond in effect at the time of grant with an expiry commensurate with the expected life of the warrants. Other share issuance costs total \$10,076. The value of the warrants, commissions and other issue costs were presented as a reduction of share capital.
- (3) On March 7, 2017, the Company completed a private placement for gross proceeds of \$937,015. The private placement was comprised of 12,493,536 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 March 7, 2021. In connection with the financing, the Company paid cash finder's fees totaling \$70,761 and issued, as additional consideration, 934,482 non-transferable broker warrants, each broker warrant entitling the holder to acquire one common share of the Company at a price of \$0.10 until March 7, 2021. The warrants issued in connection to the private placement have been recorded at a value of \$Nil based on the residual method and warrants issued as commissions have been recorded at a value of \$58,377 based on the Black-Scholes option pricing model, using the following assumptions: stock price of \$0.10, risk-free interest rate of 1.18%, expected life of warrants of 4 years, annualized volatility of 87% and dividend rate of 0%. The underlying expected stock price volatility is based on historical data of the Company's shares over the last four years. The risk-free interest rate is based on the yield of a Government of Canada benchmark bond in effect at the time of grant with an expiry commensurate with the expected life of the warrants. Other share issuance costs total \$22,547. The value of the warrants, commissions and other issue costs were presented as a reduction of share capital.
- (4) On March 24, 2017, the Company completed a private placement for gross proceeds of \$438,833. The private placement was comprised of 5,851,103 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

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purchase one additional common share of the Company at a price of \$0.10 until March 24, 2021. In connection with the financing, the Company paid cash finder's fees totaling \$33,107 and issued, as additional consideration, 441,422 non-transferable broker warrants, each broker warrant entitling the holder to acquire one common share of the Company at a price of \$0.10 until March 24, 2021. The warrants issued in connection to the private placement have been recorded at a value of \$Nil based on the residual method and warrants issued as commissions have been recorded at a value of \$25,766 based on the Black-Scholes option pricing model, using the following assumptions: stock price of \$0.095, risk-free interest rate of 1.12%, expected life of warrants of 4 years, annualized volatility of 87% and dividend rate of 0%. The underlying expected stock price volatility is based on historical data of the Company's shares over the last four years. The risk-free interest rate is based on the yield of a Government of Canada benchmark bond in effect at the time of grant with an expiry commensurate with the expected life of the warrants. Other share issuance costs total \$34,315. The value of the warrants, commissions and other issue costs were presented as a reduction of share capital.

- (5) On April 21, 2017, the Company completed a private placement for gross proceeds of \$1,113,525. The private placement was comprised of 14,847,001 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 April 21, 2021. In connection with the financing, the Company paid cash finder's fees totaling \$46,000 and issued, as additional consideration, 613,333 non-transferable broker warrants, each broker warrant entitling the holder to acquire one common share of the Company at a price of \$0.10 until April 21, 2021. The warrants issued in connection to the private placement have been recorded at a value of \$Nil based on the residual method and warrants issued as commissions have been recorded at a value of \$33,223 based on the Black-Scholes option pricing model, using the following assumptions: stock price of \$0.09, risk-free interest rate of 0.91%, expected life of warrants of 4 years, annualized volatility of 87% and dividend rate of 0%. The underlying expected stock price volatility is based on historical data of the Company's shares over the last four years. The risk-free interest rate is based on the yield of a Government of Canada benchmark bond in effect at the time of grant with an expiry commensurate with the expected life of the warrants. Other share issuance costs total \$36,752. The value of the warrants, commissions and other issue costs were presented as a reduction of share capital.
- (6) On June 6, 2017, the Company completed a private placement for gross proceeds of \$236,250. The private placement was comprised of 3,150,000 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 June 6, 2021. 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 \$26,708 and were presented as a reduction of share capital.
- (7) On June 20, 2017, the Company completed a flow-through private placement for gross proceeds of \$1,050,000. The private placement was comprised of 11,666,666 flow-through common shares at a price of \$0.09 per share. In connection with the financing, the Company paid cash finders' fees of \$76,000 and issued, as additional consideration, 844,444 non-transferable broker warrants, each broker warrant entitling the holder to acquire one common share of the Company at a price of \$0.09 until June 20, 2019. The proceeds from the financing (\$1,050,000) were allocated between share capital (\$991,667) and a deferred liability (\$58,333) using the residual method. The liability component represents the Company's obligation to pass on the tax deductions to investors and is included in other current liabilities in the statement of financial position. The warrants issued as commissions have been recorded at a value of \$34,649 based on the Black-Scholes option pricing model, using the following assumptions: stock price of \$0.085, risk-free interest rate of 0.91%, expected life of warrants of 2 years, annualized volatility of 94% and dividend rate of 0%. The underlying expected stock price volatility is based on historical data of the Company's shares over the last two years. The risk-free interest rate is based on the yield of a Government of Canada benchmark bond in effect at the time of grant with an expiry commensurate with the expected life of the warrants. Other share issuance costs total \$28,183. The value of the warrants,

## Focus Graphite Inc.

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commissions and other issue costs were presented as a reduction of share capital. A Director of the Company participated in the private placement for an amount of \$100,000.

- (8) On July 18, 2017, the Company completed a private placement for gross proceeds of \$154,000. The private placement was comprised of 2,053,333 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 July 18, 2021. 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 \$13,342 and were presented as a reduction of share capital.
- (9) On August 8, 2017, the Company completed a private placement for gross proceeds of \$375,000. The private placement was comprised of 5,000,000 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 August 8, 2021. In connection with the financing, the Company paid cash finder's fees totaling \$26,250 and issued, as additional consideration, 350,000 non-transferable broker warrants, each broker warrant entitling the holder to acquire one common share of the Company at a price of \$0.10 until August 8, 2021. The warrants issued in connection to the private placement have been recorded at a value of \$50,000 based on the residual method and warrants issued as commissions have been recorded at a value of \$12,304 based on the Black-Scholes option pricing model, using the following assumptions: stock price of \$0.065, risk-free interest rate of 1.46%, expected life of warrants of 4 years, annualized volatility of 87% and dividend rate of 0%. The underlying expected stock price volatility is based on historical data of the Company's shares over the last four years. The risk-free interest rate is based on the yield of a Government of Canada benchmark bond in effect at the time of grant with an expiry commensurate with the expected life of the warrants. Other share issuance costs total \$9,444. The value of the warrants, commissions and other issue costs were presented as a reduction of share capital.
- (10) On August 14, 2017, the Company completed a private placement for gross proceeds of \$2,922,500. The private placement was comprised of 38,966,667 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 August 14, 2021. The warrants issued in connection to the private placement have been recorded at a value of \$584,500 based on the residual method. Other share issuance costs total \$337,262 and were presented as a reduction of share capital.
- (11) On September 25, 2017, the Company completed a private placement for gross proceeds of \$75,000. The private placement was comprised of 1,000,000 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 September 25, 2021. The warrants issued in connection to the private placement have been recorded at a value of \$15,000 based on the residual method.
- (12) 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.
- (13) 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

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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.

- (14) 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.
- (15) 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.
- (16) 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.

## 11. WARRANTS

The following table reflects the continuity of warrants outstanding:

	Number of warrants	Weighted average exercise price
		\$
<b>Balance, September 30, 2016</b>	<b>31,622,304</b>	<b>0.28</b>
Granted	89,390,321	0.10
Expired	(5,145,506)	0.51
<b>Balance, September 30, 2017</b>	<b>115,867,119</b>	<b>0.13</b>
Granted	35,200,000	0.10
Expired	(667,363)	0.10
<b>Balance, March 31, 2018</b>	<b>150,399,756</b>	<b>0.13</b>

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As at March 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>
	\$	\$	
3,861,000	-	0.60	September 23, 2018
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>150,399,756</b>	<b>1,611,690</b>		

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As at September 30, 2017, the following warrants were issued and outstanding:

<b>Number of warrants</b>	<b>Fair value</b>	<b>Exercise price</b>	<b>Expiry date</b>
	\$	\$	
3,861,000	-	0.60	September 23, 2018
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
667,363	33,098	0.10	December 23, 2017
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
<b>115,867,119</b>	<b>1,367,788</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 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.

## Focus Graphite Inc.

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The following table reflects the continuity of stock options outstanding:

	Number of stock options	Weighted average exercise price \$
<b>Balance, September 30, 2016</b>	<b>9,772,500</b>	<b>0.41</b>
Expired	(3,147,500)	0.68
<b>Balance, September 30, 2017 and March 31, 2018</b>	<b>6,625,000</b>	<b>0.28</b>

As at March 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	4,482,500	2.73	\$0.10	4,482,500	\$0.10
\$0.66	2,142,500	0.09	\$0.66	2,142,500	\$0.66
	<b>6,625,000</b>	<b>1.88</b>	<b>\$0.28</b>	<b>6,625,000</b>	<b>\$0.28</b>

As at September 30, 2017, 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	4,492,500	3.23	\$0.10	4,492,500	\$0.10
\$0.66	2,142,500	0.59	\$0.66	2,142,500	\$0.66
	<b>6,635,000</b>	<b>2.38</b>	<b>\$0.28</b>	<b>6,635,000</b>	<b>\$0.28</b>

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### 13. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended March 31,		Six months ended March 31,	
	2018	2017	2018	2017
	\$	\$	\$	\$
Changes in working capital are as follows:				
Amounts receivable	63,579	59,969	(180,152)	121,600
Amounts due from related parties	13,832	7,125	11,493	12,367
Prepaid expenses	191,950	(14,890)	(258,610)	(24,387)
Accounts payable and accrued liabilities	16,394	(52,014)	7,599	(12,566)
Deposit	-	(349,333)	-	(349,333)
	<b>285,755</b>	<b>(349,143)</b>	<b>(419,670)</b>	<b>(252,319)</b>
Non-cash investing activities as follows:				
Exploration and evaluation assets included in accounts payable and accrued liabilities	395,559	240,381	395,559	240,381

### 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 \$1,183,154 at March 31, 2018 (\$596,801 at September 30, 2017). 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 March 31, 2018, the Company had a working capital of \$1,465,933. During the three months ended March 31, 2018, the Company had negative cash flows from operations of \$887,250. The Company's ability to realize its

## Focus Graphite Inc.

Notes to the Condensed Interim Financial Statements (Unaudited)

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

The Company has financial liabilities of \$1,611,833, all of which are due within twelve months.

### *(iii) Currency risk*

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

### *(iv) Interest rate risk*

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's financial assets exposed to interest rate risk include cash held in investment savings accounts bearing variable interest rates. The Company has not entered into any derivative contracts to manage this risk. The Company's policy as it relates to its cash balances is to invest excess cash in highly liquid, low-risk, short-term interest-bearing investments with maturities of 360 days or less from the original date of acquisition. As at March 31, 2018, the Company had cash balances of \$951,091 (\$322,665 as at September 30, 2017) and interest income derived from these investments during the six months ended March 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 March 31, 2018. As at March 31, 2018, the value of these listed shares was \$100,000. At March 31, 2018, 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:

	March 31, 2018	September 30, 2017
	\$	\$
<b>Financial assets</b>		
Loans and receivables		
Cash	951,091	322,665
Amounts receivable (net of sales taxes receivable)	100,000	130,580
Amounts due from related parties	132,063	143,556
Available-for-sale-financial assets		
Long-term investment	100,000	100,000
<b>Total financial assets</b>	<b>1,283,154</b>	<b>696,801</b>
<b>Financial liabilities</b>		
Measured at amortized cost		
Accounts payable and accrued liabilities	1,561,426	(1,357,018)
<b>Total financial liabilities</b>	<b>1,561,426</b>	<b>(1,357,018)</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 six months ended March 31, 2018, the Company was charged \$Nil by JAG Sky Inc. ("JAG Sky") (2016 - \$Nil), a private air charter services company wholly-owned by an Officer and Director of Focus, for air travel. As at March 31, 2018, the Company has a prepaid balance of \$45,278 (\$33,000 as at September 30, 2017), 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 six months ended March 31, 2018, the Company was charged a total of \$27,742 for rent (2016 - \$27,742). As at March 31, 2018, \$Nil was included in accounts payable and

## Focus Graphite Inc.

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accrued liabilities (\$10,449 as at September 30, 2017). As at March 31, 2018 the company has prepaid \$10,449 to GGTC.

### 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 2017 fiscal year, the Company advanced additional amounts totalling \$3,092,739 to Grafoid that, in substance, form part of the Company's net investment in Grafoid (Note 6). Subsequent to quarter end, in May 2018, Grafoid has repaid the entire balance of the advances.

During the six months ended March 31, 2018, the Company was charged \$1,200,000 by Grafoid for consulting services which consists of marketing, product development and auxiliary services for Focus' Lac Knife Graphite material (2017 - \$Nil). As at March 31, 2018, the Company has a prepaid an additional amount of \$926,414 (\$Nil as at September 30, 2017), included in prepaid expenses, for marketing, product development and auxiliary services to be provided in the near future.

During the six months ended March 31, 2018, the Company was charged \$69,616 by Grafoid for shared administrative expenses (2017 - \$58,799). As at March 31, 2018, the Company has a prepaid an additional amount of \$159,252 (\$36,409 as at September 30, 2017), included in prepaid expenses, for shared administrative services to be provided in the near future.

### Shared costs

During the year ended September 30, 2017, the Company charged Mincom Capital Inc. and Stria Lithium Inc., both of which share common management, \$15,000 and \$5,000, respectively, for accounting and administrative services and other administrative expenses. As at March 31, 2018, balances of \$16,950 and \$Nil (\$16,950 and \$5,650 as at September 30, 2017), respectively, are included in amounts due from related parties.

### Other

As at March 31, 2018, travel advances to management in the amount of \$91,979 are included in prepaid expenses (\$91,979 as at September 30, 2017).

As at March 31, 2018, included in amounts due from related parties was an amount of \$34,849 (\$41,556 as at September 30, 2017) due from the following companies, which are wholly or partially owned by an Officer and Director of the Company, related to general shared costs:

	<b>March 31, 2018</b>	September 30, 2017
	\$	\$
JAG Property Holdings Inc. (formerly 2390540 Ontario Inc.)	<b>1,371</b>	1,371
9174893 Canada Inc.	<b>2,447</b>	2,447
GGTC Inc.	<b>4,460</b>	4,460
JAG Sky Inc.	<b>21,124</b>	21,124
Mistura Beauty Solutions Inc.	-	6,707
SP2 Wafer Pte Ltd.	<b>5,447</b>	5,447
	<b>34,849</b>	41,556

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As at March 31, 2018, included in amounts due from related parties was an amount of \$80,263 (\$79,400 as at September 30, 2017) due from the following companies, which share common management, related to general shared costs:

	March 31, 2018	September 30, 2017
	\$	\$
Grafoid Inc. (including subsidiaries)	77,925	77,925
Mincom Capital Inc. (1)	1,169	-
Stria Lithium Inc. (1)	1,169	1,475
	<b>80,263</b>	<b>79,400</b>

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

### Transactions with key Management personnel

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

	Three months ended March 31,		Six months ended March 31,	
	2018	2017	2018	2017
	\$	\$	\$	\$
Salaries (including bonuses) (1)	36,667	40,000	76,667	80,000
Consulting fees	111,249	111,249	222,499	222,499
Benefits	2,061	2,061	4,122	4,122
Stock-based compensation	-	-	-	-
	<b>149,977</b>	<b>153,310</b>	<b>303,288</b>	<b>306,621</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 Mincom Capital Inc. and Stria Lithium Inc.

## 17. COMMITMENTS

### Offtake Agreements

#### Grafoid Inc.

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

#### (a) *Graphene Offtake*

Under the terms of the Graphene Offtake agreement, Grafoid will pay Focus \$1,000,000, for the right of first refusal to purchase up to an annual maximum of 1,000 tonnes of high-purity graphite concentrate for

## Focus Graphite Inc.

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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 March 31, 2018, Focus did not yet have any obligation to sell graphite concentrate to Grafoid.

Effective September 24, 2016, Focus and Grafoid executed addendums to the offtake agreements, whereby Grafoid now has until September 24, 2018 to make payments to satisfy the \$1,000,000 condition under each agreement.

### Other

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

### Leases

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

	Minimum lease payments due		Total
	Within 1 year	1 to 5 years	
	\$	\$	\$
March 31, 2018 (1)	55,484	46,236	<b>101,720</b>
September 30, 2017	55,484	69,354	<b>124,838</b>

(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 \$46,236 due in one to five years. The lease ends in December 2019.

Lease payments recognized as an expense during the Six months ended March 31, 2018 amount to \$27,742 (2017 - \$27,742). 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

## **Focus Graphite Inc.**

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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.

### **19. SUBSEQUENT EVENTS**

Subsequent to quarter end March 31, 2018, in May 2018, Grafoid repaid the entire loan advances balance of \$3,092,739 (Note 6).