Dear Friends and Shareholders,

The electrification of transportation and a growing demand for massive amounts of energy storage capacity represent a significant change in global commercial terms for the graphite industry. That change requires two critical elements from the graphite-producing sector: consistently higher-performing battery materials, and lower costs for those materials.

In 2012, Focus Graphite committed to a business model exploiting the high purity characteristics of its Lac Knife, Québéc, flake graphite resource. Today, Focus has the potential to become one of the lowest cost producers of graphite concentrate in the world. At the same time, Focus is investing in technologies to produce value-added products for the battery-manufacturing sector.

Our technical achievements in high value graphite products are demonstrated through a series of value-added processing and engineering announcements, which were first presented at gatherings of the global battery industry in the United States and Europe.

Focus Graphite's early adoption of a technology-weighted business-development agenda is supported today by market events. Demand for lithium-ion batteries is forecast to explode in the next five years as electric vehicles proliferate and power companies install giant storage systems. Global battery production is forecast to more than double by 2021 to 273 gigawatt-hours, up from about 103 gigawatt-hours today, according to a report published in June 2017 by Bloomberg Intelligence.

The report highlights Tesla Motors’ race to finish building the world’s biggest battery factory in the Nevada desert, while China is poised to outpace Tesla’s battery production by a factor of three-to-one. Chinese companies have plans for additional factories with the capacity to produce more than 120 gigawatt-hours of battery cells a year by 2021. This is enough to supply batteries for 1.5 million Tesla Model S vehicles or 13.7 million Toyota Prius Plug-in Hybrids per year. By comparison, when completed in 2018, Tesla's Gigafactory will produce up to 35 gigawatt-hours of battery cells annually.

The Bloomberg report says, “... this is about industrial policy. The Chinese government sees lithium-ion batteries as a hugely important industry in the 2020s and beyond.” China’s policy, combined with those of other nations, will have a profound impact on the graphite sector in the next few years. Having been guided by the principle that China would someday be a net-importer of battery-grade graphite, Focus set four objectives to take advantage of the opportunity:

1. Develop a portfolio of high-purity value-added graphite products
2. Ensure our production costs could beat the competition
3. Establish key relationships in China, elsewhere in Asia, and around the world
4. Enter into long term supply agreements to de-risk the construction of the Lac Knife graphite mine

Focus has made substantial progress on all four objectives. We have announced new products and completed long-term battery testing that demonstrates the overall superiority of Lac Knife’s graphite versus synthetic and competitive sources of natural graphite.

We have invested considerable time and effort in China and throughout Asia, building our brand, our profile, and a network for establishing long-term supply agreements.
Our progress to date reinforces our corporate vision to become a leader in the graphite sector based on our superior products and the economic advantages that flow from our achievements.

The following update illustrates our technological progress in several areas:

**Battery Products**
- INTRODUCING “SUPERFINE” GRAPHITE TO THE BATTERY INDUSTRY
- HIGHLY CONDUCTIVE ULTRAFINE AND EXPANDED GRAPHITE
- SILICON-ENHANCED LAC KNIFE GRAPHITE ANODES, BEYOND THEORETICAL PERFORMANCE IN LI-ION BATTERIES

**Battery Testing**
- LIFE-CYCLE TESTING
- CONTINUING DEVELOPMENT

**Lac Knife Development**
- RELATED DEVELOPMENT PLANS
- PERMITTING, FINANCING AND OFFTAKES

**Other Property Development**
- THE LAC TÉTÉPISCA HIGH GRADE GRAPHITE PROJECT
- THE KWY JIBO RARE EARTH ELEMENTS PROJECT

**Battery Products**

Over the last few years our investments in battery-materials innovation have enabled us to create value-added graphite products for both current and future market needs, under the supervision of Dr. Joseph Doninger, Focus’ Director of Manufacturing and Technology. Dr. Doninger is recognized globally as a leading expert in graphite engineering and processing. One of those materials is coated spherical graphite, which is expected to experience a dramatic increase in demand over the next four years, and our achievements in this area have drawn the interest of the global battery manufacturing industry.

A number of our value-added graphite technical developments, published in a series of news releases, are outlined below. Complete versions of those news releases can be found on Focus’ website at www.focusgraphite.com and on the SEDAR website.

Long-term testing of our high purity graphite products - with various potential customers – has been underway since 2015 and discussions leading to offtake agreements are continuing. Long-term testing is a critical milestone for acceptance by potential offtake partners and perhaps the single most important element in determining the viability of our planned mine-to-manufacturing supply chain.

The following undertakings - in abbreviated form - support our objectives of becoming a technology graphite supplier to the global market.
Introducing “Superfine” Graphite to the Battery Industry

Fine grades of graphite are generally sold at discounted prices because the cost of processing battery grade materials makes them non-competitive. This is not the case with Lac Knife’s fine grades.

Focus Graphite is the first North American emerging graphite developer capable of producing battery grade graphite from fine flake grades residing within its mineral resource.

On May 27, 2014 Focus announced the development of its premium standard (medium) and fine battery grades, and its subsequent August 8, 2016 announcement of the successful purification of Lac Knife’s fine grade material to 99.99% purity.

Our March, 2017 introduction of a Superfine Grade to the battery market represented a milestone in the Company’s use in a diverse range of lithium-ion battery applications.

In commercial terms, this development both enlarges Focus Graphite’s customer base, and; expands our value-added product range. Our new Superfine Grade of spherical graphite has a very high reversible capacity of 360 mAh/g and low first cycle loss of only 1.19%.

Highly Conductive Ultrafine and Expanded Graphite

High performing cathodes are critical for use in next generation Li-Ion batteries. Lac Knife fine graphite materials demonstrate superiority over competitive sources.

The third element of Dr. Doninger’s presentation to the IBS forum was his announcement of Focus’ in-house development of highly conductive ultrafine and expanded Graphite for battery cathodes.

These developments further expanded our line of value-added Lac Knife graphite products for both Lithium-Ion and Alkaline batteries.

Expanded graphite is a form of processed natural crystalline flake, featuring dramatically improved electrical conductivity in cathode mixes. Delaminated expanded flake is also preferable to conventional air-milled flake and/or premium quality synthetic graphite when higher conductivity is desired.

Dr. Doninger’s testing indicated the electrical conductivity of Lac Knife’s ultrafine and expanded graphite outperformed both commercially available synthetic and standard flake graphite by up to a Factor of 10.

Silicon-Enhanced Lac Knife Graphite Anodes, Beyond Theoretical Performance in Li-Ion Batteries

Focus’ innovations in anode development have resulted in the highest performing enhanced anode versus those of any graphite mining developer.

On October 10th, Dr. Doninger presented a technical white paper and poster to the EVS30 Electric Vehicle Symposium & Exhibition in Stuttgart, Germany, announcing Focus Graphite had produced a silicon-enhanced graphite anode using Lac Knife graphite – a product that could double the capacity of Lithium-Ion power sources versus synthetic and standard graphite tested.
Dr. Doninger revealed that Focus had achieved 613 Ah/kg Reversible Capacity from a silicon-enhanced graphite anode for next generation Lithium-Ion Batteries. Those test results, he said, pushed performance well beyond the prescribed limits of theoretical reversible capacity of 372 Ah/kg for lithium-ion battery cells.

**Battery Testing**

**Life-Cycle Testing**

*Long-term testing is the essential first step in determining the feasibility of a graphite source. Lac Knife’s graphite has demonstrated its superior performance.*

On November 25, 2015 Focus Graphite published data showing that its Lac Knife Standard Grade of uncoated and coated spherical graphite exhibited near-zero loss in capacity after 110 cycles versus two commercially competitive grades that showed losses of 4.4% and 6.4% over the same number of cycles.

In a presentation at the International Battery Seminar in Fort Lauderdale, Florida, on March 26, 2017, Dr. Doninger presented long-term-cycling test results demonstrating that the zero loss in capacity of the Standard Grade of coated spherical graphite lasted for 250 cycles and showed a loss of only 4.5% in capacity after 570 cycles.

This is significant when compared with a competitive supplier’s spherical graphite, used for comparative purposes, that lost 11.7% after 440 cycles and 10.5% after 510 cycles. With a better than 50% cycling performance in comparative testing, these results suggest that Lac Knife’s coated SPG could last beyond 2000 cycles in full sized batteries, a significant factor to battery manufacturers that promote life-cycle economics as a key benefit to end users.

**Continuing Development**

The Company intends to continue its long-term cycling testing to 1000 cycles, develop new grades of spherical graphite for use in high power applications; develop silicon modified graphite for high capacity applications, and; continue its development of Lac Knife expanded graphite for use in battery cathodes.

**Lac Knife Development**

**Related Development Plans**

As part of the mine permitting process, the Government of Québec requires mining companies to submit a scoping and marketing study for processing product in Québec. The study examines the current status of the market, the global competition and the viability of the project in relation to the opportunity. Its purpose is to validate the potential of the project’s economics in light of the markets and to ensure the intent of the company is to process ore concentrate in the province.

Given both provincial and federal commitments to the reduction of carbon emissions; the advantages a vertically integrated supply chain bring in terms of product quality, cost mitigation and IP protection, and; the longer-term potential benefits to shareholders, Focus plans to proceed with the scoping study with a view to establish a technology graphite processing facility in the Côte Nord region of Québec. This will be in addition to its graphite processing facility at Lac Knife.
As part of Plan Nord, Focus Graphite can play a leading role - along with other critical material mining companies – in supporting the Province of Québec in transitioning the natural resource sector to mining and value-added processing of high-value critical materials.

**Permitting, Financing and Offtakes**

As we reported to shareholders in March 2017, we continue to move down a two-track path toward permitting and construction of the Lac Knife mine.

We continue to make progress on both fronts. The global graphite market is changing rapidly and is being pushed by the forces of technological advancement. These forces are scrambling the historical patterns of our sector.

Traditional mining companies are moving into the critical materials sector - investing and acquiring to build vertical models. Graphite buyers, meanwhile, are searching for other, more secure and affordable supplies to meet higher demand.

And, new players are entering the market with plans to build battery production platforms while looking to establish direct vertical relationships outside normal patterns.

As a result, the make-up of a consortium that might have financed a graphite mine development several years ago, might not have the traditional look of a consortium interested in financing it today. Global industrial dynamics are changing the face of critical materials mining.

Focus has been in discussions with a consortium of interested parties for over a year. Additional interested parties may be added with all participation subject to satisfactory due diligence and finalization of a master agreement.

Potential customers continue to approach us on possible off-takes. The number of interested parties has increased as the dynamics of the graphite market have changed.

In each case a non-disclosure agreement is signed in advance with the potential customer that includes the specifications of the product needed. We then enter into a testing phase that if successful, leads to negotiations and terms for inclusion in a long term supply contract.
Other Property Development

The Lac Tétépisca High Grade Graphite Project

Phase III infill drilling on Focus’ second major graphite property in Québec is advancing towards a resource estimate and a Preliminary Economic Assessment.

On November 15th, 2017, the Company commenced its third round of extension drilling at our Lac Tétépisca Graphite Project. By the end of the month-long program, we will have investigated a 1.4 km segment of the Manicouagan-Ouest Graphitic Corridor (MOGC) with an anticipated total of 9,800 meters of systematic large diameter core drilling.

This program is a follow-on to the drilling programs we undertook in 2014 and 2016. The Phase II program in 2016 intersected significant graphitic mineralization with grades ranging from 5.6% graphitic carbon (Cg) to 19.35% Cg over a minimum true thickness of 6.2 m (refer to Focus news release dated January 20, 2017, available at www.focusgraphite.com).

The information gathered from the three drilling programs will then be combined to generate an initial mineral resource estimate on the highest-grade section of the MOGC by Q3 2018, which will then form the basis for the preparation of a Preliminary Economic Assessment (PEA) on the Project.

The Kwyjibo Rare Earth Elements Project

With the growing resurgence in demand and, subsequently, market prices for rare earth elements (REEs) Focus Graphite and our partner SOQUEM Inc., announced on October 2nd, the appointment of Montréal-based Met-Chem to undertake a Preliminary Economic Assessment of our Kwyjibo REE project in the Côte Nord region in Québec.

Met-Chem/DRA is a globally recognized expert in mine and infrastructure design, including construction and mine operations, resource mapping, metallurgy, cost assessment, process design and administration. They have direct experience in the REE sector having prepared: pre-feasibility studies (PFS) on the Zandkopsdrift and Steenkampskraal REE projects in South Africa and on the Browns Range Project in Australia.

The decision to undertake the PEA study coincided with a number of encouraging market factors, chief among them a significant rise in market prices during the first half of 2017 for neodymium and praseodymium.
With Germany, France and the United Kingdom announcing plans to end the production of cars equipped with combustion engines starting in 2030, conditions appear to be favorable for a resurgence in investment momentum, especially for non-Chinese REE explorers. And Kwyjibo is considered one of the top REE resources in the world with a significant concentration of neodymium, a key component of magnets for electric vehicles.

The recent resurgence in rare earth element prices also reflects growing demand as a result of the Paris Agreement on climate action globally, but more in particular China’s REE production cuts as it rationalizes its REE mining industry.

When completed, the PEA study could lead to further investigation of the Kwyjibo Project’s feasibility as a potentially new North American rare earths source.

**Conclusion**

The stock markets are beginning to reflect the changing global realities of the clean tech sector and the global supply and demand equation of the critical materials sector.

The graphite industry is being buffeted and reshaped by those global forces that oblige participants to build new business models based on the requirements of the low carbon economy – eco-friendliness, quality, competitiveness and security of supply.

**Value-added products** and **low cost** will determine the winners. Focus Graphite holds a historically significant, high purity graphite resource. And it holds the in-house scientific and technological capabilities to meet the competitive challenges of an industry in transition.

**Thank you.**

Gary Economo,
President and Chief Executive Officer