

FOCUS GRAPHITE INC.

Financial Statements

For the year ended September 30, 2020 and 2019
(Expressed in Canadian Dollars)

Financial Statements

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Independent Auditor's Report

To the Shareholders of Focus Graphite Inc.:

Opinion

We have audited the financial statements of Focus Graphite Inc. (the "Company"), which comprise the statements of financial position as at September 30, 2020 and September 30, 2019 and the statements of comprehensive loss, changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2020 and September 30, 2019 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the financial statements, which states that the Company incurred a net loss of \$5,606,988 and incurred negative cash flows from operations of \$3,778,782 during the year ended September 30, 2020. In addition, the Company has an accumulated deficit of \$51,822,660 as at September 30, 2020. These events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that raises significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Anand Beejan.

Montréal, Québec

January 20, 2021

MNP¹ SENCRL, s.r.l.

¹ CPA auditor, CA, public accountancy permit no. A126822

Focus Graphite Inc.
(An exploration stage Company)
 Statements of Financial Position
(Expressed in Canadian dollars)
 As at

	September 30, 2020	September 30, 2019
	\$	\$
Assets		
Current assets		
Cash	877,886	109
Sales tax receivable	718,244	396,137
Amounts due from related parties (Note 17)	57,733	50,217
Tax credits	557,717	628,281
Prepays expenses and deposits	29,298	73,934
	2,240,878	1,148,678
Deposits	110,000	-
Long-term investment (Note 4)	-	25,000
Mineral exploration properties (Note 6)	931,679	1,363,977
Exploration and evaluation assets (Note 6)	23,821,556	32,153,145
Mineral assets held for sale (Note 7)	1,616,805	-
Total assets	28,720,918	34,690,800
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 17)	1,930,241	3,690,350
Amounts due to related parties (Note 17)	3,215,310	3,165,000
Other current liabilities (Note 8)	1,284,078	114,078
	6,429,629	6,969,428
Long-term liability (Note 10)	24,601	-
Deferred government grant (Note 10)	14,809	-
Total liabilities	6,469,039	6,969,428
Equity		
Share Capital (Note 11)	60,525,025	60,525,025
Warrants (Note 12)	1,388,353	1,683,474
Contributed surplus (Notes 12 and 13)	11,887,919	11,455,303
Accumulated other comprehensive income	273,242	273,242
Deficit	(51,822,660)	(46,215,672)
Total equity	22,251,879	27,721,372
Total liabilities and equity	28,720,918	34,690,800

Going concern (Note 2), commitments (Note 18) and subsequent events (Note 21)

Approved on behalf of the Board of Directors

"Marc R. Roy" Director

"Jeffrey York" Director

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

Focus Graphite Inc.
(An exploration stage Company)
Statements of Comprehensive Loss
For the years ended September 30
(Expressed in Canadian dollars)

	2020 \$	2019 \$
Operating expenses		
Management and consulting fees (Note 17)	3,106,400	3,249,212
Salaries and benefits (Note 17)	125,294	144,338
Travel and promotion	72,091	123,771
Professional fees (Note 17)	208,865	119,667
Stock-based compensation (Note 13)	137,495	116,919
Office	302,176	324,919
Loss from operations	(3,952,321)	(4,078,052)
Other income (expenses)		
Interest income	464	530
Other income	20,323	7,367
Penalty related to flow-through obligation (Notes 8 and 9)	(1,170,000)	-
Fair value adjustment on long-term investment (Note 4)	384,302	(75,000)
Other income related to flow-through shares (Note 8)	-	15,625
Gain on disposal of mining assets (Note 6)	441,744	-
Impairment on mineral assets held for sale (Note 7)	(739,000)	-
Impairment on advances to related party (Note 17)	(150,000)	(167,310)
Accretion expense (Note 17)	(442,500)	(200,000)
Net loss before income taxes	(5,606,988)	(4,496,840)
Net loss	(5,606,988)	(4,496,840)
Net loss and total comprehensive loss	(5,606,988)	(4,496,840)
Basic and diluted net loss per common share	(0.01)	(0.01)
Basic and diluted weighted average number of common shares outstanding	373,936,340	368,358,258

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

Focus Graphite Inc.
(An exploration stage Company)
Statements of Changes in Equity
(Expressed in Canadian dollars)

	Share capital		Warrants \$	Contributed surplus \$	Accumulated other comprehensive income \$	Deficit \$	Total \$
	Shares #	Amount \$					
Balance – September 20, 2018	348,436,340	59,697,225	1,611,690	11,182,653	273,242	(41,718,832)	31,045,978
Shares issued (Note 11)	25,500,000	960,000	-	-	-	-	960,000
Warrants issued (Note 12)	-	-	228,289	-	-	-	228,289
Expiry of warrants (Note 12)	-	-	(156,505)	156,505	-	-	-
Stock-based compensation (Note 13)	-	-	-	116,145	-	-	116,145
Share issuance costs (Note 11)	-	(132,200)	-	-	-	-	(132,200)
Net loss	-	-	-	-	-	(4,496,840)	(4,496,840)
Balance – September 30, 2019	373,936,340	60,525,025	1,683,474	11,455,303	273,242	(46,215,672)	27,721,372
Expiry of warrants (Note 12)	-	-	(295,121)	295,121	-	-	-
Stock-based compensation (Note 13)	-	-	-	137,495	-	-	137,495
Net loss	-	-	-	-	-	(5,606,988)	(5,606,988)
Balance – September 30, 2020	373,936,340	60,525,025	1,388,353	11,887,919	273,242	(51,822,660)	22,251,879

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

Focus Graphite Inc.
(An exploration stage Company)
Statements of Cash Flows
For the years ended September 30
(Expressed in Canadian dollars)

	2020 \$	2019 \$
Operating activities		
Net loss	(5,606,988)	(4,496,840)
Adjustments for:		
Stock-based compensation	137,495	116,145
Other income related to flow-through shares	-	(15,625)
Government grant revenue (Note 10)	(2,558)	-
Interest Expense	1,968	-
Impairment on mineral assets held for sale	739,000	-
Fair value adjustment on long-term investment	(384,302)	75,000
Impairment on advances to related party	150,000	-
Gain on disposal of mining assets	(441,744)	-
Penalty related to flow-through obligation	1,170,000	-
Accretion expense	442,500	200,000
Changes in non-cash working capital items (Note 14)	15,847	1,097,017
Net cash used in operating activities	(3,778,782)	(3,024,833)
Investing activities		
Disposal of long-term investment	409,302	-
Sale of mining assets (Notes 6(b) & 7)	7,737,696	-
Deposits on exploration and evaluation activities	(110,000)	-
Exploration and evaluation costs	(2,873,249)	(1,221,059)
Net cash used in investing activities	5,163,749	(1,221,059)
Financing activities		
Loans from related parties	3,405,310	2,965,000
Repayments of loans from related parties	(3,802,500)	-
Advances to related party	(150,000)	-
CEBA loan	40,000	-
Common and flow-through shares issued	-	1,074,078
Warrants issued	-	228,289
Share issuance costs	-	(132,000)
Net cash (used by)/provided by financing activities	(507,190)	4,135,367
Increase (decrease) in cash	877,777	(110,725)
Cash – Beginning of year	109	110,835
Cash – End of year	877,886	109

Supplemental cash flow information is provided in Note 14.

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

Focus Graphite Inc.

(An exploration- stage Company)

Notes to Financial Statements

For the years ended September 30, 2020 and 2019

(Expressed in Canadian dollars)

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, Box 116, 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 year ended September 30, 2020, the Company incurred a net loss of \$5,606,988 (2019 – net loss of \$4,496,840) and negative cash flows from operations of \$3,778,782 (2019 – negative \$3,024,833). In addition, as at September 30, 2020, the Company had a deficit of \$51,822,660 (2019 – deficit of \$46,215,672).

The above factors indicate that a material uncertainty exists that raises 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 2020, is dependent upon Management’s ability to obtain additional financing, through various means including but not limited to equity financing and loans from related and unrelated parties. 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.

Focus Graphite Inc.

(An exploration- stage Company)

Notes to Financial Statements

For the years ended September 30, 2020 and 2019

(Expressed in Canadian dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Standards, amendments and interpretations

Effective in the current year

The IASB has issued the following amendments, which are applicable to the Company in the current year.

IFRS 16, Leases (“IFRS 16”)

In January 2016, the IASB issued IFRS 16, completing its project to improve the financial reporting of leases. The new standard will replace IAS 17 “Leases” (IAS 17), and it sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract. For lessees, IFRS 16 eliminates the classification of leases as either operating or finance leases that exist under IAS 17, and requires recognition of assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. IFRS 16 substantially carries forward the lessor accounting requirements under IAS 17. IFRS 16 is to be applied retrospectively, using either a full retrospective approach or a modified retrospective approach, for annual periods beginning on or after January 1, 2019. The Company has adopted it and it has no material impact on financial statements. The Company has 2 leases which are short term in nature and has applied the practical expedient. Total amount of expense recorded during the year ended September 30, 2020 is \$61,484.

(a) Basis of presentation and compliance with IFRS

These financial statements have been prepared on a historical cost basis, as modified by revaluation of certain financial instruments, and are expressed in Canadian dollars, which is also the functional currency of the Company. These financial statements have been prepared in accordance with IFRS as issued by International Accounting Standards Board (IASB).

These financial statements were authorized for issue by the Board of Directors on January 18, 2020.

(b) Judgments, estimates and assumptions

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

Significant Management judgment

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

Significant influence assessment and assessment of indicators of impairment of an equity-method investee

The assessment as to whether or not the Company has significant influence over an investee requires judgment. Even though Focus holds less than 20% of the voting rights in Grafoid Inc. (“Grafoid”), with an ownership interest of 16.38% as at September 30, 2020 (Note 5), 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.

Focus Graphite Inc.

(An exploration- stage Company)

Notes to Financial Statements

For the years ended September 30, 2020 and 2019

(Expressed in Canadian dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Determination of technical feasibility and commercial viability of mineral properties

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

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

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

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.

Focus Graphite Inc.

(An exploration- stage Company)

Notes to Financial Statements

For the years ended September 30, 2020 and 2019

(Expressed in Canadian dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

When an indication of impairment loss or a reversal of an impairment loss exists, the recoverable amount of the individual asset must be estimated. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs must be determined. Identifying the cash-generating units requires Management judgment. In testing an individual asset or cash-generating unit for impairment and identifying a reversal of impairment losses, Management estimates the recoverable amount of the asset or the cash-generating unit. This requires Management to make several assumptions as to future events or circumstances. These assumptions and estimates are subject to change if new information becomes available. Actual results with respect to impairment losses or reversals of impairment losses could differ in such a situation and significant adjustments to the Company's assets and earnings may occur during the next period.

Share-based payments

The estimation of stock-based compensation and valuation assigned to warrants requires the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen. The Company has made estimates as to the volatility of its own shares, the probable life of stock options and warrants granted and the time of exercise of those stock options and warrants. The valuation model used by the Company is the Black-Scholes model.

The Company allocates values to share capital and to warrants on the residual basis when the two are issued together as a unit. As this allocation is based upon the share price at the time of issuance and the stock is thinly traded, the actual value of the components may differ from this allocation.

Penalty provision related to flow through obligation

In December 2018, the Company completed flow-through private placements for gross proceeds of \$1,275,000 which were renounced under the "look-back" rule. By December 31, 2019 (the due date), the Company had not spent the required Canadian exploration expenses ("CEE"). The relating CEE was only incurred in October and November 2020. Management has estimated the liability relating to not spending such CEE by December 31, 2019. In determining the provision, management has made several assumptions such as the investors are in the top marginal tax rates and the estimated probability of a recourse by investors of 100%. Such provision is expected to change once more information from tax authorities and investors are obtained.

Market interest rate

The company determined the fair value of the loans from related parties using the contractual cash flows and an estimated discount rate based on market interest rates for similar debts from non-related parties.

(c) Investments in associates

Associates are entities over which the Company is able to exert significant influence, but which are not subsidiaries.

The investments in associates are accounted for using the equity method and are initially recognized at cost plus transaction costs.

The carrying amount of the investment in associates is increased or decreased to recognize the Company's share of the profit or loss and other comprehensive income of the associate, adjusted where necessary to ensure consistency with the accounting policies of the Company.

If the Company's share of losses of an associate equal or exceeds its interest in the associate, the Company discontinues recognizing its share of further losses. Additional losses are provided for, and a liability is recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate.

Focus Graphite Inc.

(An exploration- stage Company)

Notes to Financial Statements

For the years ended September 30, 2020 and 2019

(Expressed in Canadian dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Foreign currency translation

Foreign currency transactions are translated into the functional currency, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Exchange differences resulting from the settlement of such transactions and from the re-measurement of monetary items at year-end exchange rates are recognized in profit or loss.

Non-monetary items measured at historical cost are translated using the exchange rates at the date of the transaction (not re-translated). Non-monetary items measured at fair value are translated using the exchange rates at the date when fair value was determined.

(e) Fair value hierarchy

Financial instruments measured at fair value on the statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels: Level 1 – valuation based on quoted prices unadjusted in active markets for identical assets or liabilities; Level 2 – valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); Level 3 – valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company's long-term investment (2,500,000 shares in Braille Energy systems Inc. ("BESI") (formerly Mincom Capital inc.), was classified as Level 1 and measured based on the quoted price of the shares of BESI on the TSX Venture Exchange ("TSX-V"), with additional consideration given to BESI's financials.

As at September 30, 2020, all the 2,500,000 common shares of BESI were sold by the Company and as a result a fair value adjustment of \$384,302 was recorded during the year ended September 30, 2020.

(f) Basic and diluted loss per share

Basic loss per share is computed by dividing the net loss attributable to owners of the parent for the period by the weighted average number of common shares outstanding during the period. The computation of diluted loss per share assumes the conversion or exercise of securities only when such conversion or exercise would have a dilutive effect on earnings per share. The diluted loss per share is equal to the basic loss per share because the effect of warrants and stock options (Notes 12 and 13) is antidilutive as it would decrease the loss per share.

(g) Tax credits and credit on duties

The Company is eligible for a refundable credit on mining duties under the Quebec Mining Duties Act. This refundable credit on mining duties is equal to 16% applicable on 50% of the eligible expenses. The accounting treatment for refundable credits on mining duties depends on Management's intention to either go into production in the future or to sell its mining properties to a mining company once the technical feasibility and the economic viability of the properties have been demonstrated. This assessment is made at the level of each mining property.

In the first case, the credit on mining duties is recorded as an income tax recovery, under IAS 12, Income Taxes, which generates a deferred tax liability and deferred tax expense since the exploration and evaluation assets have no tax basis following the Company's election to claim the refundable credit.

Focus Graphite Inc.

(An exploration- stage Company)

Notes to Financial Statements

For the years ended September 30, 2020 and 2019

(Expressed in Canadian dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

In the second case, it is expected that no mining duties will be paid in the future and, accordingly, the credit on mining duties is recorded against exploration and evaluation assets.

Currently, it is Management's intention to have the Company sell its mining properties to a mining company, as such, the credit on mining duties is recorded against exploration and evaluation assets.

The Company is also eligible for a refundable tax credit related to resources for mining industry companies in relation to eligible expenses incurred. The refundable tax credit related to resources can represent up to 38.50% for eligible expenses and is recorded as a government grant against exploration and evaluation assets.

Credits related to resources and credits for mining duties recognized against exploration and evaluation assets are initially recorded at fair value when there is reasonable assurance that they will be received, and the Company will comply with the conditions associated with the grant.

(h) Research and development costs

Costs related to research activities are expensed as incurred. Costs that are directly attributable to a project's development phase are recognized as intangible assets, provided they meet the following recognition requirements: (i) the development costs can be measured reliably; (ii) the project is technically and commercially feasible; (iii) the Company intends to and has sufficient resources to complete the project; (iv) the Company has the ability to use or sell the product or equipment; and (v) the product, equipment or process will generate probable future economic benefits. Development costs not meeting all these criteria are expensed as incurred. To date, no development costs have been capitalized.

(i) Mineral exploration properties and exploration and evaluation assets

Mineral exploration properties include the cost of acquiring mining rights. Exploration and evaluation assets include expenses directly related to the exploration and evaluation activities. These costs are capitalized and are carried at cost less any impairment loss recognized. Costs incurred before the legal right to undertake exploration and evaluation activities on a project was acquired, are expensed in the statement of comprehensive loss.

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. No amortization is recognized during the exploration and evaluation phase. Costs capitalized include drilling, project consulting, geophysical, geological and geochemical studies, as well as other costs related to the evaluation of the technical feasibility and commercial viability of extracting a mineral resource.

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. Before the reclassification, mineral exploration properties and exploration and evaluation assets are tested for impairment and any impairment loss is recognized in profit or loss before reclassification.

Upon transfer of exploration and evaluation assets into mining assets under construction, all subsequent expenditures on the construction, installation or completion of infrastructure facilities are capitalized with mining assets under construction. After the development stage, all assets included in mining assets under construction are transferred to mining assets and amortized over the expected productive lives of the assets.

Focus Graphite Inc.

(An exploration- stage Company)

Notes to Financial Statements

For the years ended September 30, 2020 and 2019

(Expressed in Canadian dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

From time to time, the Company disposes of mineral assets pursuant to the terms of option agreements. The company credits any cash consideration received against the carrying amount of the portion of interest in the mineral asset retained with any excess included as gain or loss in the statements of Loss.

(j) Joint arrangements

Investments in joint arrangements (IFRS 11 Joint Arrangements)

A joint arrangement is a contractual arrangement whereby the two or more parties have joint control. Joint control is the contractually agreed sharing control of an arrangement, which exists only when decisions about relevant activities require unanimous consent of the parties sharing control.

Joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities relating to the joint arrangement.

The Company recognizes assets, liabilities, revenue and expenses in relation to its interest in joint operations on a line by line basis in accordance with the IFRSs applicable to the particular financial statement line item.

With respect to transactions with joint operations that has joint control, the Company recognizes gains and losses only to the extent of the other parties' interests in the joint operation. However, when the transaction provides evidence of a reduction in net realizable value or an impairment loss the Company fully recognizes those losses.

When the Company enters into a transaction with a joint operation, the Company does not recognize its share of gains and losses until it resells the related assets to third parties. However, when the transaction provides evidence of a reduction in net realizable value or an impairment loss the Company recognizes its share of those losses."

(k) Impairment of non-financial assets

For impairment assessment and testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash generating unit ("CGU"). The Company considers each mineral property to be a separate CGU, and therefore assesses for indicators of impairment individually for each mineral property.

At each reporting date, the Company assesses non-financial assets including mineral exploration properties and exploration and evaluation assets, property and equipment and intangible assets for impairment when facts and circumstances suggest that the carrying amount of the asset may exceed its recoverable amount, being the higher of the value in use and the fair value less costs of disposal. Additionally, when technical feasibility and commercial viability of extracting a mineral resource are demonstrable, the assets of the mineral property are tested for impairment before these items are transferred to mining assets under construction. If the recoverable amount of the asset is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount with the impairment recognized immediately in profit or loss.

Where an impairment subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, subject to the amount not exceeding the carrying amount that would have been determined had impairment not been recognized for the asset in prior periods. Any reversal of impairment is recognized immediately in profit or loss.

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For the years ended September 30, 2020 and 2019

(Expressed in Canadian dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(l) Provisions and contingent liabilities

A provision is recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required to settle the obligation, and the amount of the obligation can be reliably estimated. Timing or amount of the outflow may still be uncertain. If the effect is material, provisions are measured by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

The Company's operations are governed by government environment protection legislation. Environmental consequences are difficult to identify in terms of amounts, timetable and impact. As of the reporting date, Management believes that the Company's operations are in compliance with current laws and regulations. Site restoration costs currently incurred are negligible. When the technical feasibility and commercial viability of extracting a mineral resource have been demonstrated, a restoration provision will be recognized in the cost of the mining property when there is a constructive commitment that has resulted from past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can be measured with sufficient reliability.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognized, unless it was assumed in the course of a business combination. In a business combination, contingent liabilities are recognized in the course of the allocation of the purchase price to the assets and liabilities acquired in the business combination. They are subsequently measured at the higher amount of a comparable provision as described above and the amount initially recognized, less any amortization.

(m) Employee benefits

The cost of short-term employee benefits (including non-monetary benefits such as group medical and dental insurance) are recognized in the period in which the service is rendered and are not discounted.

(n) Income taxes

Tax expense recognized in profit or loss comprises the sum of deferred and current tax not recognized in other comprehensive income or directly in equity.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with shares in subsidiaries and associates is not provided if reversal of these temporary differences can be controlled by the Company and it is probable that the reversal will occur in the foreseeable future.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted by the end of the

Focus Graphite Inc.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

reporting period. Deferred tax liabilities are always provided for in full. Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income.

Deferred tax assets and liabilities are offset only when the Company has a right and intention to set off current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognized as deferred income tax expense in profit or loss, except where they relate to items that are recognized in other comprehensive income or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively.

(o) Equity

Share capital

Share capital represents the amount received on the issue of shares. Transaction costs directly attributable to the issuance of common shares are recognized as a reduction of share capital. If shares are issued when options and warrants are exercised, the share capital account also comprises amounts previously recorded as contributed surplus. In addition, if shares are issued as consideration for the acquisition of a mineral property or some other form of non-monetary assets, they are measured at the fair value of the assets or services received or the fair value of the shares issued, according to the quoted price on the day of the conclusion of the agreement.

Flow-through financings

Issuance of flow-through units represents in substance an issue of common shares, warrants (if applicable) and the sale of the right to tax deductions to the investors. When the flow-through units are issued, the sale of the right to tax deductions is deferred and presented as other liabilities in the statement of financial position. The proceeds received from flow-through placements are allocated between share capital, warrants issued and the liability using the residual method. Proceeds are first allocated to shares according to the quoted price of existing shares at the time of issuance, then to warrants (if applicable) according to the fair value of the warrants at the time of issuance and any residual in the proceeds is allocated to the liability. The fair value of the warrants is estimated using the Black-Scholes valuation model. The liability component recorded initially on the issuance of shares is reversed on renouncement of the right to tax deductions to the investors and when eligible expenses are incurred and recognized in profit or loss in other income related to flow-through shares.

Unit placements

Under the residual method, proceeds are first allocated to shares according to the quoted prices of existing shares at the time of issuance and any residual in the proceeds is allocated to warrants.

Warrants

Warrants include charges related to the issuance of warrants until such equity instruments are exercised.

Contributed surplus

Contributed surplus includes charges related to stock-based compensation until such equity instruments are exercised, as well as expired or forfeited warrants.

Deficit

Deficit includes all current and prior period profits or losses.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Equity-settled stock-based payment transactions

The Company operates an equity-settled stock-based remuneration plan (stock option plan) for directors, officers, employees and certain consultants. The Company's plan does not feature any options for a cash settlement. Occasionally, the Company may issue warrants to brokers.

All goods and services received in exchange for the grant of any stock-based payments are measured at their fair values, unless that fair value cannot be estimated reliably. If the Company cannot estimate reliably the fair value of the goods or services received, the Company shall measure their value indirectly by reference to the fair value of the equity instruments granted. Where employees, or consultants providing similar services, are rewarded using stock-based payments, the fair values of the services rendered are determined indirectly by reference to the fair value of the equity instruments granted. The fair value is measured at the grant date and if applicable, recognized over the vesting period. The fair value of the options granted is measured using the Black-Scholes option-pricing model, taking into account the terms and conditions upon which the options were granted. Estimates are subsequently revised if there is any indication that the number of stock options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognized in the current period. No adjustment is made to any expense recognized in prior periods if stock options ultimately exercised are different to that estimated on vesting. Stock-based compensation expense incorporates an expected forfeiture rate.

All stock-based payments under the plan (except warrants to brokers) are ultimately recognized as an expense in the profit or loss or capitalized as an exploration and evaluation asset, depending on the nature of the payment with a corresponding credit to contributed surplus, in equity. At the same time, upon exercise of a stock option, the proceeds received net of any directly attributable transaction costs are recorded as share capital. The accumulated charges related to the stock options recorded in contributed surplus are then transferred to share capital. Warrants issued to brokers are recognized as issuance cost of equity instruments with a corresponding credit to warrants, in equity.

(q) Segmented reporting

The Company is organized into business units based on mineral properties and has determined that there was only one business segment, being the acquisition, exploration and potential development of mineral properties, based on information that is regularly reviewed by the chief operating decision-maker.

(r) Operating lease agreements

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments under an operating lease are charged to the statement of comprehensive loss on a straight-line basis over the period of the lease. Related expenses, such as maintenance and insurance expenses, are charged as incurred.

(s) Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use. Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, or investment property, which continue to be measured in accordance with the Company's other accounting policies. Impairment losses on initial classification as held-for-sale and subsequent gains and losses on remeasurement are recognized in the statement of comprehensive loss.

Focus Graphite Inc.

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Notes to Financial Statements

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4. LONG-TERM INVESTMENT

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

On May 8, 2014, further to the sale of the Company's Romer property to Braille Energy Systems Inc. ("BESI") (formerly Mincom Capital Inc), Focus received 2,500,000 common shares in BESI, valued at \$450,000 (Note 6(d)). 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 FVTPL and are measured at fair value. The Company does not exercise significant influence over BESI.

As at September 30, 2020, all the 2,500,000 common shares of BESI were sold by the company and as a result a fair value adjustment of \$384,302 was recorded in the statement of comprehensive loss.

As at September 30, 2019, the Company's investment in BESI was valued at \$25,000 and \$75,000 was recorded as a fair value adjustment in the statement of comprehensive loss.

5. 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 September 30, 2020, no dividends were received from Grafoid.

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

In February 2014, Focus' Board of Directors approved the conversion of an outstanding \$1,500,000 loan to Grafoid into 3,000,000 common shares at a deemed price of \$0.50 per share, increasing the Company's holdings in Grafoid to 7,800,000 common shares.

Subsequent to July 3, 2013 and continuing through to September 30, 2018, Focus' ownership interest in Grafoid has fluctuated, further to multiple capital raises and other share issuances by Grafoid, including the 3,000,000 shares issued to the Company, as described above. Despite these fluctuations, Management has not changed its assessment and considers Focus to have maintained significant influence over Grafoid throughout this period. Management takes into consideration various facts and circumstances in arriving at this assessment, including but not limited to Focus' continued representation on Grafoid's Board of Directors.

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

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5. INVESTMENT IN ASSOCIATE *(continued)*

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

As at September 30, 2020, the Company's ownership interest in Grafoid was 16.38%. There is no obligation to fund Grafoid beyond its value which remains nil at year-end due to the accumulated shares of losses from Grafoid.

6. MINERAL EXPLORATION PROPERTIES AND EXPLORATION AND EVALUATION ASSETS

The following table reflects changes to mineral exploration properties between October 1, 2019 and September 30, 2020:

	Lac Knife	Kwyjibo	Manicouagan	Eastmain- Leran	Total
Balance as at September 30, 2018	642,578	-	289,101	432,298	1,363,977
Additions	-	-	-	-	-
Balance as at September 30, 2019	642,578	-	289,101	432,298	1,363,977
Additions	-	-	-	-	-
Mineral assets held for sale (Note 7)	-	-	-	(432,298)	(432,298)
Balance as at September 30, 2020	642,578	-	289,101	-	931,679

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*(Expressed in Canadian dollars)***6. MINERAL EXPLORATION PROPERTIES AND EXPLORATION AND EVALUATION ASSETS** *(continued)*

The following table reflects changes to exploration and evaluation assets between October 1, 2018 and September 30, 2020:

	Lac Knife	Kwyjibo	Manicouagan	Eastmain- Leran	Total
	\$	\$	\$		\$
Balance as at September 30, 2018	17,379,119	6,662,341	4,046,119	1,737,730	28,087,579
Additions					
Drilling	592,013	2,357	95,272	-	689,642
Independent technical studies	-	17,442	-	-	17,442
Geophysical survey	-	-	-	29,839	29,839
Geological mapping	-	806	-	-	806
Geochemical survey	580,670	420	30,301	646,314	1,257,705
Resource estimate	-	745	-	-	745
Property maintenance	13,514	3,717	8,609	1,881	27,721
Preliminary economic assessment (PEA)	-	13,168	-	-	13,168
Environmental studies	446,145	16,282	-	-	462,427
Pre-development agreements	-	57,150	-	-	57,150
General Field Expenses	-	286	-	-	286
Data Acquisition	-	68	-	-	68
	1,632,342	112,441	134,183	678,034	2,556,999
Tax credits and credit on duties Impairment	(119,931)	(1,270)	(16,769)	(91,193)	(229,163)
Balance as at September 30, 2019	18,891,530	6,773,512	4,163,532	2,324,571	32,153,145

Focus Graphite Inc.

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Notes to Financial Statements

For the years ended September 30, 2020 and 2019

*(Expressed in Canadian dollars)***6. MINERAL EXPLORATION PROPERTIES AND EXPLORATION AND EVALUATION ASSETS** *(continued)*

	Lac Knife	Kwyjibo	Manicouagan	Eastmain- Leran	Total
	\$	\$	\$		\$
Additions					
Drilling	68,781	842	195,605	-	265,228
Independent technical studies	-	1,881	-	-	1,881
Geological mapping	-	4,485	-	-	4,485
Geochemical survey	72,730	155	-	40,348	113,233
Metallurgical analysis	780	-	826	-	1,606
Resource estimate	-	26	-	-	26
Property maintenance	3,361	-	2,872	58,588	64,821
Preliminary economic assessment (PEA)	26,636	-	-	-	26,636
Abandoned Property	(58,961)		(71,663)	-	(130,624)
Feasibility studies	3,600	-	-	-	3,600
Environmental studies	521,927	2,096	-	-	524,023
Pre-development agreements	-	12,955	-	-	12,955
	638,854	22,440	127,640	98,936	887,870
Disposal of mining assets (Note 6(b))	-	(6,795,952)	-	-	(6,795,952)
Mineral assets held for sale (Note 7)	-	-	-	(2,423,507)	(2,423,507)
Balance as at September 30, 2020	19,530,384	-	4,291,172	-	23,821,556

Focus Graphite Inc.

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6. MINERAL EXPLORATION PROPERTIES AND EXPLORATION AND EVALUATION ASSETS *(continued)*

a) Lac Knife

The Company acquired a 100% interest in the Lac Knife property upon acquisition of 100% of the issued and outstanding shares of 3765351 Canada Inc. ("3765351") on October 4, 2010, in consideration for (i) a cash payment of \$250,000, (ii) the issuance of 4,016,362 common shares and (iii) 2,008,181 warrants, each warrant entitling the vendor to acquire an additional common share of the Company at a price of \$0.10 for a period of 24 months. Effective April 1, 2012, 3765351 was liquidated and ownership of the Lac Knife property was transferred to Focus. The Lac Knife property is located south of Fermont, Quebec, in North-Eastern Quebec near the Labrador border. The property is host to the historical Lac Knife graphite prospect located in the Grenville geological province.

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

b) Kwyjibo

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

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

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

The Company sold its 50% interest in the Kwyjibo rare earth elements Project to Investissement Québec for the sum of \$7,237,696 on May 14, 2020 and recorded a gain of \$441,744. The Company has obtained final clearances for all liabilities or obligations pertaining to this 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
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.

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Notes to Financial Statements

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6. MINERAL EXPLORATION PROPERTIES AND EXPLORATION AND EVALUATION ASSETS *(continued)*

During the year ended September 30, 2013, the Company wrote down the cost of the L'Annonciation, Laurentides1, Laurentides2, Cobden and Quyon properties to \$Nil (\$95,993 in acquisition costs and \$20,069 in exploration and evaluation assets) further to the Company's decision to let the claims lapse as poor exploration results to date did not warrant further exploration on the properties.

During the year ended September 30, 2014, the Company added 29 mining claims to the Lac Tetepisca project via map-staking.

During the year ended September 30, 2015, the Company wrote down the cost of Lac Guinecourt, Lac Tetepisca and Lac au Sorcier by \$101,837, \$173,414 and \$37,927, respectively (\$108,241 in acquisition costs and \$204,937 in exploration and evaluation assets), further to the Company's decision to let certain claims lapse as poor exploration results to date did not warrant further exploration on these claims.

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

As at September 30, 2020, Manicouagan consists of the Lac Tetepisca, Lac Tetepisca North and Lac Guinecourt properties.

d) Labrador Trough

On March 30, 2009 and as amended on May 22, 2009, December 11, 2009, March 25, 2010 and April 30, 2010, the Company signed an acquisition agreement with Everton Resources Inc. ("Everton") to acquire a 100% interest in 13 properties ("Labrador Trough") in the Labrador Trough region of Quebec: Romer, Canyon, Colombet, Diana, Fox, Goose, Jack Rabbit, Lac Aulneau, Lac Ribero, Lemming, Leopard, Minowean and Otelnuk, in consideration for the issuance of 6,000,000 common shares of the Company, at a price of \$0.06 per share. On May 21, 2010, concurrent with the listing of the Company's securities on the TSX Venture Exchange, the Company completed the acquisition of the Labrador Trough properties.

During the year ended September 30, 2010, the Company wrote down the cost of the Labrador Trough property by \$73,104 further to the expiry of certain claims. Also during the year ended September 30, 2010, the Company acquired additional mining claims via staking.

Sale of Romer Property

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

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

As at September 30, 2020, the Labrador Trough consisted of 4 properties: Minowean, Otelnuk, Lemming and Diana.

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7. MINERAL ASSETS HELD FOR SALE

On July 16, 2020, the Company signed a definitive asset purchase agreement for the sale of its 100% interest in the Eastmain-Léran project to a third party ("The Purchaser"). The transaction was closed on July 16, 2020. The Purchaser will acquire from the Company, 100% interest in the Eastmain-Léran Project in consideration of:

- (a) a payment of \$500,000.00 in cash at Closing (payment received on July 16, 2020);
- (b) a second payment of \$500,000.00 in cash by the 1st of December 2021;
- (c) a third payment of \$500,000.00 in cash by the 1st of December 2022; and
- (d) a final payment of \$800,000.00 in cash by the 1st of December 2023.

The transfer of the property will not occur until all the consideration has been paid to the Company. In addition, in the case that the payments are not made as per required timelines per the agreement, the Company can cancel the transaction and keep the payments that have already been made.

The Purchaser has the right to elect to pay a portion of the Post-Closing Instalment in the form of shares (the "Share Consideration"), to a maximum of fifty percent (50%) of such Post-Closing Instalment.

Once, the Purchaser has met all the obligations under the Agreement by December 1, 2023, the Company will transfer all mineral titles to the Purchaser and upon completion of the transfer, the Company will retain a 0.5% NSR on the Eastmain-Léran/Alta Option property which can be purchased at any time by the Purchaser for \$125,000, along with a 2.5% NSR on the Eastmain-Léran/Staked property which can be purchased at any time by the Purchaser for \$625,000.

Based on the above agreement, the Company determined that the carrying amount of this property exceeded its recoverable amount, being the fair value less costs of disposal. The fair value of the property was determined by discounting the future payments consideration per the above contract discounted using the Company's borrowing rate of 21.8%. No value was attributed to the NSR retained by the Company on the property because the mineral property is still in exploration phase and there is significant uncertainty on timing, if ever of the exercise of the option. Consequently, the Company recorded an impairment of \$739,000.

The following table reflects changes to mineral assets held for sale between October 1, 2019 and September 30, 2020:

	September 30, 2020
Opening balance (Note 6)	2,855,805
Payments received as per definitive asset purchase agreement	(500,000)
Impairment	(739,000)
Ending balance	1,616,805

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8. OTHER CURRENT LIABILITIES

Other current liabilities consist of the following:

	September 30, 2020	September 30, 2019
	\$	\$
Obligation to pass on tax deductions (a)	114,078	114,078
Penalty provision related to flow through obligation (Note 9)	1,170,000	-
Total other current liabilities	1,284,078	114,078

(a) In December 2018, the Company closed a flow-through private placement (Note 11) for gross proceeds of \$1,275,000. The proceeds from the financing were allocated between share capital (\$960,000), warrants (\$200,922) and a deferred liability (\$114,078) using the residual method. The liability component represents the Company's obligation to pass on the tax deductions to investors. As at September 30, 2020, the relating Canadian exploration expenses ("CEE") have not been incurred therefore the residual balance remains in liabilities. The relating CEE was only incurred in October and November 2020. See note 9.

9. FLOW-THROUGH INTEREST AND TAX EXPENSE

The Company is permitted, under Canadian income tax legislation, to renounce flow-through related resources expenditures to investors in advance of the Company incurring all of the expenditures. In accordance with this legislation, the Company has twelve months following the effective date of renunciation to incur the remaining expenditures. The Company begins incurring interest charges for unspent funds after two months following renunciation.

In December 2018, the Company completed flow-through private placements for gross proceeds of \$1,275,000. In February 2019, the related tax deductions were renounced to investors under the "look-back" rule with an effective date of December 31, 2018. By December 31, 2019 (the due date), the Company had not spent the required Canadian exploration expenses ("CEE"). The relating CEE was only incurred in October and November 2020. The Company has estimated the liability relating to not spending such CEE by December 31, 2019. The total provision estimated is \$1,170,000 and includes Part XII.6 tax and penalties related to late payment of Part XII.6 tax and Québec equivalent tax as well as estimated investors indemnification exposure.

10. LONG-TERM LIABILITY

On May 11th, 2020, the Company received a \$40,000 loan from the Canada Emergency Business Account ("CEBA Loan"). The CEBA Loan bears 0% interest until December 31, 2022. If the balance is not paid by December 31, 2022, the remaining balance will be converted to a 3-year term loan at 5% annual interest paid monthly, effective January 1, 2023. The full balance must be repaid by no later than December 31, 2025. No principal payments required until December 31, 2022. Principal repayments can be voluntarily made at any time without fees or penalties. \$10,000 loan forgiveness is available, provided the outstanding balance is \$40,000 at December 31, 2020, and \$30,000 is paid back between January 1, 2021 and December 31, 2022. The loan was recognized at the fair value based on an estimated market interest rate of 21.8% and expected repayment of \$30,000 on December 31, 2022. The Company made no interest payments during the year ended September 30, 2020. The difference between the loan amount of \$40,000 and the fair value of the loan of \$22,633 has been recognized as a deferred government grant to be recognized over the term of the loan. As at September 30, 2020, grant revenue in the amount of \$ 2,588 (2019 – nil) has been recorded in other income which represents the benefit of receiving an interest free-grant.

Focus Graphite Inc.

(An exploration- stage Company)

Notes to Financial Statements

For the years ended September 30, 2020 and 2019

*(Expressed in Canadian dollars)***11. 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	
		\$
Balance, September 30, 2018	348,436,340	59,697,225
Shares issued for cash (1)(2)	25,500,000	960,000
Share issuance costs	-	(132,200)
Balance, September 30, 2019	373,936,340	60,525,025
Shares issued for cash	-	-
Share issuance costs	-	-
Balance, September 30, 2020	373,936,340	60,525,025

- On December 11, 2018, the Company completed a flow-through private placement for gross proceeds of \$650,000. The private placement was comprised of 13,000,000 flow-through units at a price of \$0.05 per unit. Each flow-through unit consists of one flow-through common share and one common share purchase warrant. Each full warrant entitles the holder to purchase one additional common share of the Company at a price of \$0.055 until December 12, 2020. In connection with the financing, the Company paid cash finders' fees of \$38,500 and issued, as additional consideration, 770,000 non-transferable broker warrants, each broker warrant entitling the holder to acquire one common share of the Company at a price of \$0.055 until December 11, 2020. The proceeds from the financing (\$650,000) were allocated to share capital (\$585,000) and (\$65,000) to warrants, after which there was nothing left to allocate to the flow-through liability. The fair value of the shares was determined based on the trading price of the Company's shares on the TSX-V. The warrants issued as commissions have been recorded at a value of \$16,886 based on the Black-Scholes option pricing model, using the following assumptions: stock price of \$0.05, risk-free interest rate of 2.05%, expected life of warrants of 2 years, annualized volatility of 85.27% and dividend rate of 0%. The risk-free interest rate is based on the yield of a Government of Canada benchmark bond in effect at the time of grant with an expiry commensurate with the expected life of the warrants. Other share issuance costs total \$4,947 and were presented as a reduction of share capital. \$100,000 of the proceeds raised were from a director of the Company.

Focus Graphite Inc.

(An exploration- stage Company)

Notes to Financial Statements

For the years ended September 30, 2020 and 2019

*(Expressed in Canadian dollars)***11. SHARE CAPITAL** *(continued)*

2. On December 27, 2018, the Company completed a flow-through private placement for gross proceeds of \$625,000. The private placement was comprised of 12,500,000 flow-through units at a price of \$0.05 per unit. Each flow-through unit consists of one flow-through common share and one common share purchase warrant. Each full warrant entitles the holder to purchase one additional common share of the Company at a price of \$0.055 until December 27, 2020. In connection with the financing, the Company paid cash finders' fees of \$43,750 and issued, as additional consideration, 875,000 non-transferable broker warrants, each broker warrant entitling the holder to acquire one common share of the Company at a price of \$0.055 until December 27, 2020. The proceeds from the financing (\$625,000) were allocated to share capital (\$375,000), warrants (\$135,922) and a deferred liability (\$114,078) using the residual method. The fair value of the shares was determined based on the trading price of the Company's shares on the TSX-V. This was after determining the fair value of the warrants using the Black-Scholes option pricing model. The fair value of the warrants issued as a part of the commissions have been recorded at a value of \$10,481. This is based on the Black-Scholes option pricing model, using the following assumptions: stock price of \$0.035, risk-free interest rate of 1.91%, expected life of warrants of 2 years, annualized volatility of 85.27% and dividend rate of 0%. The risk-free interest rate is based on the yield of a Government of Canada benchmark bond in effect at the time of grant with an expiry commensurate with the expected life of the warrants. Other share issuance costs total \$4,753 and were presented as a reduction of share capital.

12. WARRANTS

The following table reflects the continuity of warrants outstanding:

	Number of warrants	Weighted average exercise price
Balance, September 30, 2018	146,538,756	0.11
Granted	27,145,000	0.06
Exercised	-	-
Expired (1)	(8,810,471)	0.23
Balance, September 30, 2019	164,873,285	0.09
Granted	-	-
Exercised	-	-
Expired (2)	(14,142,408)	0.15
Balance, September 30, 2020	150,730,877	0.08

Focus Graphite Inc.

(An exploration- stage Company)

Notes to Financial Statements

For the years ended September 30, 2020 and 2019

*(Expressed in Canadian dollars)***12. WARRANTS (continued)**

(1)

Warrants issue date	Warrants expired	Exercise price	Expired on
June 19, 2017 broker warrants	844,444	0.09	20-Jun-19
Dec 23, 2016 broker warrants	160,000	0.10	23-Dec-18
Sept 30, 2015 private placement	3,748,646	0.17	30-Sep-19
Aug 28, 2015 private placement	3,210,381	0.17	28-Aug-19
Feb 9, 2015 private placement	847,000	0.60	09-Feb-19
	8,810,471		

(2)

Warrants issue date	Warrants expired	Exercise price	Expired on
April 1, 2016 private placement	1,848,000	0.20	01-Apr-20
April 1, 2016 broker warrants	670,742	0.20	01-Apr-20
May 5, 2016 private placement	2,246,835	0.20	05-May-20
May 5, 2016 broker warrants	132,546	0.20	05-May-20
May 17, 2016 private placement	850,000	0.20	17-May-20
May 17, 2016 broker warrants	194,285	0.20	17-May-20
Sept 30, 2016 private placement	8,200,000	0.12	30-Sep-20
		14,142,408	

As at September 30, 2020, the following warrants were issued and outstanding:

Number of warrants	Value of warrants	Exercise price	Expiry date
	\$	\$	
560,000	18,894	0.20	November 8, 2020
2,125,000	85,000	0.10	December 23, 2020
12,493,536	-	0.10	March 7, 2021
934,482	58,377	0.10	March 7, 2021
5,851,103	-	0.10	March 24, 2021
441,422	25,766	0.10	March 24, 2021
14,847,001	-	0.10	April 21, 2021
613,333	33,223	0.10	April 21, 2021
3,150,000	-	0.10	June 6, 2021
2,053,333	-	0.10	July 18, 2021
5,000,000	50,000	0.10	August 8, 2021
350,000	12,304	0.10	August 8, 2021
38,966,667	584,500	0.10	August 14, 2021
1,000,000	15,000	0.10	September 25, 2021
27,700,000	277,000	0.10	October 4, 2021
7,500,000	-	0.12	December 20, 2020
13,770,000	65,000	0.05	December 11, 2020
13,375,000	163,289	0.055	December 27, 2020
150,730,877	1,388,353		

Focus Graphite Inc.

(An exploration- stage Company)

Notes to Financial Statements

For the years ended September 30, 2020 and 2019

*(Expressed in Canadian dollars)***13. STOCK- BASED COMPENSATION**

On June 11, 2020 the shareholders of the Company approved the conversion of the Company's Stock Option Plan ("SOP") from a rolling option plan to a fixed incentive stock plan, pursuant to which a maximum of 20% of the issued and outstanding common shares of the Company may be reserved for issuance under its SOP. Pursuant to the New Plan, options entitling the purchase of an aggregate 74,787,268 common shares in the capital of the Company (the "Shares") may be granted to directors, officers, employees and consultants of the Company from time to time.

Pursuant to the New Plan, options to purchase up to 36,370,000 Shares have been granted at an exercise price of \$0.05 per share. The options expire 10 June 2025. The Company granted the options to its management and staff as an incentive following their temporary layoff in the wake of the COVID-19 pandemic.

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.

The following table reflects the continuity of stock options outstanding:

	Number of stock options	Weighted average exercise price
		\$
Balance, September 30, 2018	30,380,000	0.06
Granted (1)	6,500,000	0.05
Forfeited	(210,000)	0.06
Expired	-	-
Balance, September 30, 2019	36,670,000	0.06
Granted	36,370,000	0.05
Forfeited	(835,000)	0.06
Expired	-	-
Balance, September 30, 2020	72,205,000	0.05

(1) On April 10, 2019, 6,500,000 stock options were granted to Directors, Officers, employees and consultants at an exercise price of \$0.05 per share, expiring on April 10, 2024.

(2) On June 26, 2020, 36,370,000 stock options were granted to Directors, Officers, employees and consultants at an exercise price of \$ 0.05 per share, expiring on June 26, 2025.

Focus Graphite Inc.

(An exploration- stage Company)

Notes to Financial Statements

For the years ended September 30, 2020 and 2019

(Expressed in Canadian dollars)

13. STOCK- BASED COMPENSATION *(continued)*

All the stock-options issued in current year are subject to the following vesting provisions:

Q3 2020 Date of Grant - 5% of options granted vesting on June 25, 2020

Q4 2020- 5% of options granted vesting on September 30, 2020

Q1 2021- 5% of options granted vesting on December 31, 2020

Q2 2021- 5% of options granted vesting on March 31, 2021

Q3 2021 - 5% of options granted vesting on June 30, 2021

Q4 2021- 5% of options granted vesting on September 30, 2021

Q1 2022- 5% of options granted vesting on December 31, 2021

Q2 2022- 5% of options granted vesting on March 31, 2022

Q3 2022- 5% of options granted vesting on June 30, 2022

Q4 2022- 5% of options granted vesting on September 30, 2022

Q1 2023- 10% of options granted vesting on December 31, 2022

Q2 2023- 10% of options granted vesting on March 31, 2023

Q3 2023- 10% of options granted vesting on June 30, 2023

As at September 30, 2020, the following stock options were outstanding and exercisable:

Range of exercise prices	<u>Outstanding</u>		Weighted average outstanding exercise price	<u>Exercisable</u>	
	Number outstanding	Weighted average remaining contractual life (in years)		Number vested	Weighted average vested exercise price
\$0.05	68,145,000	3.91	\$0.05	35,412,000	\$0.05
\$0.10	4,060,000	0.23	\$0.10	4,060,000	\$0.10
	72,205,000	3.71	\$0.05	39,472,000	\$0.06

As at September 30, 2019, the following stock options were outstanding and exercisable:

Range of exercise prices	<u>Outstanding</u>			<u>Exercisable</u>		
	Number outstanding	Weighted average remaining contractual life (in years)	Weighted average outstanding exercise price	Number vested	Weighted average vested exercise price	
\$0.05	6,500,000	4.53	\$0.05	6,500,000	\$0.05	
\$0.05	25,975,000	3.83	\$0.05	25,975,000	\$0.05	
\$0.10	4,195,000	1.23	\$0.10	4,195,000	\$0.10	
	36,670,000	3.66	\$0.06	36,670,000	\$0.06	

Focus Graphite Inc.

(An exploration- stage Company)

Notes to Financial Statements

For the years ended September 30, 2020 and 2019

(Expressed in Canadian dollars)

13. STOCK- BASED COMPENSATION *(continued)*

The following table reflects the weighted-average fair value of stock options granted between September 30, 2019 and September 30, 2020 and the related Black-Scholes option pricing model inputs that were used in the calculations:

	Year ended September 30, 2020	Year ended September 30, 2019
Stock options granted	36,370,000	6,500,000
Weighted average fair value	0.02	0.02
Weighted-average exercise price	0.05	0.05
Weighted-average market price at date of grant	0.02	0.03
Expected life of stock options (years)	5	5
Expected stock price volatility	135.12%	87%
Risk-free interest rate	0.36%	1.67%
Expected dividend yield	0%	0%

The underlying expected stock price volatility is based on historical data of Focus Graphite Inc.'s shares over a period commensurate with the expected life of the options.

The risk-free interest rate is based on the yield of a Government of Canada benchmark bond in effect at the time of grant with an expiry commensurate with the expected life of the options.

Stock-based compensation of \$137,495 (all of which relates to new stock option grants for the fiscal year) were included in loss for the year ended September 30, 2020 (\$ 116,145 - 2019) and credited to contributed surplus.

14. SUPPLEMENTAL CASH FLOW INFORMATION

	2020	2019
Changes in non-cash working capital are as follows:		
Sales tax receivable	(322,107)	492,213
Amounts due from (to) related parties	(2,516)	91,381
Prepaid expenses and deposits	44,636	198,459
Accounts payable and accrued liabilities	295,834	314,964
	15,847	1,097,017
Non-cash investing activities are as follows:		
Tax credits and credit on duties receivable	(70,564)	(229,163)
Exploration and evaluation assets included in accounts payable and accrued liabilities	-	1,106,247

Focus Graphite Inc.

(An exploration- stage Company)

Notes to Financial Statements

For the years ended September 30, 2020 and 2019

(Expressed in Canadian dollars)

15. 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 and amounts due from related parties and maximum exposure is equal to the carrying values of these assets, totalling \$935,619 at September 30, 2020 (2019 - \$50,326). 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.

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 September 30, 2020, the Company had a working capital deficit of \$4,188,751 (2019 – working capital deficit of \$5,820,750). During the year ended September 30, 2020, the Company had negative cash flows from operations of \$3,778,782 (2019 – negative \$3,024,833). The Company's ability to realize its assets and discharge its liabilities in the normal course of business, meet its corporate administrative expenses and continue its exploration activities, 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 \$6,340,152 in financial liabilities comprised as below:

	Carrying Value	Maturity Analysis		Total
		Less than 1 year	Greater than 1 year	
Accounts payable	1,930,241	1,930,241	-	1,930,241
Amount due to related parties (Note 17)	3,215,310	3,215,310	-	3,215,310
Other current liabilities (Note 8)	1,170,000	1,170,000	-	1,170,000
Long-term liability (Note 10)	24,601	-	24,601	24,601
	6,340,152	6,315,551	24,601	6,340,152

Focus Graphite Inc.

(An exploration- stage Company)

Notes to Financial Statements

For the years ended September 30, 2020 and 2019

(Expressed in Canadian dollars)

15. RISK MANAGEMENT AND CAPITAL MANAGEMENT *(continued)*

(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 September 30, 2020, the Company had cash balances of \$877,886 (\$109 as at September 30, 2019) and interest income derived from these investments during the year ended September 30, 2020 was \$464 (\$530 as at September 30, 2019). Loan received of \$40,000 (as per Note 10) is an interest-free loan if repaid within required timeframe so there is no interest on the same.

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.

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.

As at September 30, 2020, total managed capital was \$22,251,879.

Focus Graphite Inc.

(An exploration- stage Company)

Notes to Financial Statements

For the years ended September 30, 2020 and 2019

(Expressed in Canadian dollars)

16. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, amounts due from related parties, accounts payable and accrued liabilities, other current and long-term liabilities. The fair value of the Company's financial instruments approximates their carrying value due to their short-term nature.

The classification of financial instruments is as follows:

	September 30, 2020	September 30, 2019
	\$	\$
Financial assets		
Loans and receivables		
Cash	877,886	109
Amounts due from related parties (Note 17)	57,733	50,217
Available-for-sale-financial assets		
Long-term investment	-	25,000
Total financial assets	935,619	75,326
Financial liabilities		
Measured at amortized cost		
Accounts payable and accrued liabilities	1,930,242	3,690,350
Other current liabilities (Note 8)	1,170,000	
Amounts due to related parties (Note 17)	3,215,310	3,165,000
Long-term liability	24,601	-
Total financial liabilities	6,340,153	6,855,350

Focus Graphite Inc.

(An exploration- stage Company)

Notes to Financial Statements

For the years ended September 30, 2020 and 2019

*(Expressed in Canadian dollars)***17. RELATED PARTY TRANSACTIONS**

All entities identified below meet the definition of a related party by virtue of being controlled or significantly influenced by a director or a member of key management of the Company. Unless otherwise stated, none of these transactions incorporated special terms and conditions and no guarantees were given or received.

	September 30, 2020	September 30, 2019
	\$	\$
Included in Prepaid expenses and Other:		
JAG Property Holdings - prepaid rent	4,624	4,624
	4,624	4,624
Included in Amounts due from related parties		
Braille Energy Systems Inc.	23,158	19,689
9174893 Canada Inc.	8,084	8,084
Previous employee	160	160
JAG Property Holdings	2,164	3,534
Alcereco	640	81
GGTC Inc	7,332	13,008
JAG Sky Inc.	186	186
9176055 Canada Inc.	6,536	4,114
Mistura Beauty Solutions	1,361	1,361
Stria	8,111	-
Grafoid	-	-
	57,733	50,217
Included in Accounts payable and accrued liabilities		
9174893 Canada Inc.	33,839	(635)
GGTC	62,696	31,348
Grafoid	-	67,176
CFO	585	12,330
Director fees	754,168	754,168
	1,258,101	864,387
	September 30, 2020	September 30, 2019
		\$
Included in Amounts due to related parties		
Loans from companies controlled by directors of the Company (1)	3,165,000	3,100,000
Alcereco - wholly owned subsidiary of Grafoid Inc.	45,000	45,000
9174893 Canada Inc - a company controlled by a director of the Company	2,810	20,000
BESI	2,500	-
	3,215,310	3,165,000

Focus Graphite Inc.

(An exploration- stage Company)

Notes to Financial Statements

For the years ended September 30, 2020 and 2019

*(Expressed in Canadian dollars)***17. RELATED PARTY TRANSACTIONS** *(continued)*

- (1) During the year ended September 30, 2020 the Company borrowed from companies controlled by directors of the Company. The loans are subject to a lender fee of 10% which was determined to be representative of the Company's borrowing rate and as a result, a total of \$442,500 was recognized as accretion expense. The loans are unsecured and due on demand as at September 30, 2020.

Advances and repayments of loans from companies controlled by directors of the Company during the year are as follows:

Amounts borrowed	Date borrowed	Date Due
300,000	01-Oct-19	01-Apr-20
300,000	18-Oct-19	18-Apr-20
300,000	21-Nov-19	21-May-20
500,000	29-Nov-19	29-May-20
500,000	02-Dec-19	15-May-20
300,000	17-Dec-19	17-Jun-20
300,000	20-Jan-20	20-Jul-20
150,000	10-Feb-20	10-Aug-20
150,000	25-Feb-20	25-Aug-20
300,000	25-Mar-20	25-Sep-20
300,000	01-Jan-20	01-Jul-20
<u>3,400,000</u>		
Payments of principal and lending fee amounts		
	Date	
3,000,000	25-May-20	
685,000	27-May-20	
92,500	29-May-20	
<u>3,777,500</u>		

Transactions with related parties

	September 30, 2020	September 30, 2019
Rent (1)	55,484	55,483
Rent	6,000	4,800
Consulting services - Grafoid (2)	2,400,000	2,400,000

Focus Graphite Inc.

(An exploration- stage Company)

Notes to Financial Statements

For the years ended September 30, 2020 and 2019

(Expressed in Canadian dollars)

17. RELATED PARTY TRANSACTIONS (continued)

- (1) Under a lease agreement between the Company and GGTC Inc. ("GGTC") (Note 17), a privately-held company owned by two directors of the Company, the Company leases laboratory space in Kingston, Ontario. The lease was previously with JAG Property Holdings Inc. (formerly 2390540 Ontario Inc.), a privately-held company owned by two directors of the Company, however it was transferred to GGTC upon GGTC's acquisition of the building. During the year ended September 30, 2020, the Company was charged a total of \$55,484 for rent. Since the lease is short-term, the IFRS 16 capitalization criteria was not applied. Refer to note 3.
- (2) During the year ended September 30, 2020, the Company was charged \$ 6,000 for rent. Since the lease is short-term, the IFRS 16 capitalization criteria was not applied. Refer to note 3.
- (3) During the year ended September 30, 2020, the Company was charged \$2,400,000 by Grafoid for consulting services which consists of marketing, product development and auxiliary services for Focus. On October 1, 2017, the Company entered into an agreement with Grafoid under which Grafoid will provide an array of services to the benefit of the Company for a monthly fee of \$200,000. The agreement has no termination date. Either party may terminate the agreement upon 30 days' written notice.

Transactions with key Management personnel

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

	September 30, 2020	September 30, 2019
	\$	\$
Consulting fees	440,000	550,019
Salaries and Benefits (including bonuses)	45,705	-
Stock-based compensation	94,511	92,916
	580,216	642,935

In addition, during the year, the Company advanced \$150,000 to one of the former directors of the Company. Such advances have been impaired in current year as they are not expected to be collected.

18. COMMITMENTS

Offtake Agreements

Grafoid Inc.

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

(a) *Graphene Offtake*

Under the terms of the Graphene Offtake agreement, Grafoid will pay Focus \$1,000,000, for the right of first refusal to purchase up to an annual maximum of 1,000 tonnes of high-purity graphite concentrate for a 10-year period. It also grants Grafoid the right of first refusal to extend and expand the agreement for an additional 10-year period. The pricing for an additional 10-year period would be set at market price less 10%.

Focus Graphite Inc.

(An exploration- stage Company)

Notes to Financial Statements

For the years ended September 30, 2020 and 2019

(Expressed in Canadian dollars)

18. COMMITMENTS *(continued)*

(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 tons 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 September 30, 2020, 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 had until September 24, 2018 to make the remaining payments to satisfy the \$1,000,000 condition under each agreement. As at September 30, 2020, payments of \$Nil held by Focus in relation to the offtake agreements (\$Nil as at September 30, 2019) have been presented as a deposit and included within current liabilities, in the statements of financial position.

Other

In December 2013, the Company executed an offtake agreement for future production from the Lac Knife graphite project. The strategic agreement, for up to 40,000 tons 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.

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.

20. INCOME TAXES

Relationship between expected tax expense and accounting profit or loss

The relationship between the expected tax recovery based on the combined federal and provincial income tax rate in Canada and the reported tax expense in the statements of comprehensive loss can be reconciled as follows:

Focus Graphite Inc.

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20. INCOME TAXES (continued)

	2020	2019
	\$	\$
Net loss before income taxes	(5,606,988)	(4,496,840)
Expected tax recovery calculated using the combined federal and provincial income tax rate in Canada of 26.53% (26.5% in 2019)	(1,487,254)	(1,191,663)
Adjustments for the following items:		
Tax impact of temporary difference for which no deferred tax asset was recorded	1,484,673	430,647
Change in enacted tax rates and tax rate differences on capital amounts	(49,575)	5,734
Stock-based compensation	36,471	30,778
Other	15,685	51,039
Tax effect of issuance of flow-through shares	-	677,605
Tax effect of reversal of other liabilities relating to flow through shares	-	(4,141)
Income tax expense (recovery)	-	-

The Quebec general corporate tax rate decreased from 11.6% to 11.5% in 2020, effective January 1, 2020.

Deferred tax assets and liabilities

The company has recognized the following deferred tax assets and liabilities:

	Balance September 30, 2019	Recognized in profit or loss	Recognized in equity	Balance September 30, 2020
	\$	\$	\$	\$
Property and equipment	214,461	-	-	214,461
Mineral exploration properties and exploration and evaluation assets	(6,540,214)	1,775,013	-	(4,765,201)
Non-capital losses	6,325,753	(1,775,013)	-	4,550,740
	-	-	-	-

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Notes to Financial Statements

For the years ended September 30, 2020 and 2019

(Expressed in Canadian dollars)

20. INCOME TAXES (continued)

	Balance September 30, 2018	Recognized in profit or loss	Recognized in equity	Balance September 30, 2019
	\$	\$	\$	\$
Property and equipment	214,461	-	-	214,461
Mineral exploration properties and exploration and evaluation assets	(5,413,851)	(1,126,363)	-	(6,540,214)
Non-capital losses and other	5,199,390	1,126,363	-	6,325,753
	-	-	-	-

As at September 30, 2020, the Company had the following unrecognized deductible temporary differences:

	Federal	Quebec
	\$	\$
Share issuance costs	880,448	880,448
Non-capital losses	19,704,250	17,932,526
Investment in associate	1,500,040	1,500,040
Penalty related to flow-through obligation	1,000,000	1,000,000
Capital losses and other	200,108	200,108
	23,284,846	21,513,122

As at September 30, 2020, the Company had the following unrecognized deductible temporary differences:

	Federal	Quebec
	\$	\$
Share issuance costs	998,056	998,056
Non-capital losses	13,454,136	11,654,387
Investment in associate	1,500,040	1,500,040
Long-term investment	425,000	425,000
	16,377,232	14,577,483

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Notes to Financial Statements

For the years ended September 30, 2020 and 2019

(Expressed in Canadian dollars)

20. INCOME TAXES (continued)

As at September 30, 2020, the Company has net capital losses of \$20,349 available for carry-forward with no expiry date. The Company has not recognized a deferred tax asset in respect of non-capital losses, which expire as follows:

	Federal	Quebec
	\$	\$
2039	4,721,721	4,721,721
2038	5,391,421	5,419,446
2037	2,711,972	2,711,972
2036	2,783,588	2,789,150
2035	4,095,548	2,290,237
	<u>19,704,250</u>	<u>17,932,526</u>

The temporary difference relating to the share issuance costs which the Company has not recognized will be deductible until the year 2024.

21. SUBSEQUENT EVENTS

On December 30, 2020, the Company issued 20,000,000 Flow-Through units at \$0.05 per unit to raise the \$1,000,000 FT funds. Each unit consisted of one common share and one warrant and each warrant entitled the holder to acquire one additional common share, at an exercise price of \$0.055 for a period of 24 months from the closing date. For the \$950,000 Flow-Through gross proceeds of the financing, the Company paid finder's fees equal to 7% of the gross proceeds in cash, and 7% finders warrants equal to the number of units sold based on the same terms and in accordance with the policies of the TSX Venture Exchange. For the \$50,000 Flow-Through gross proceeds of the financing, the Company paid finder's fees equal to 10% of the gross proceeds in cash, and 10% finders warrants equal to the number of units sold.

On December 30, 2020, the Company issued 4,285,714 units for the Non-Flow-Through Units financing at a price of \$0.035 per unit for gross proceeds of \$150,000. Each unit consisted of one common share issued on a non-flow-through basis and a warrant, each warrant entitles the holder to purchase one additional common share at a price of \$0.055 per common share over 48 months. The Company paid finder's fees equal to 10% of the gross proceeds in cash, and 10% finders warrants equal to the number of units sold.

Subsequent to year-end, the Company initiated to convert up to \$1,500,000 of loans due to two directors (refer to Note 17) to shares at \$0.02 per share.

Subsequent to year-end, the Company's directors and former directors agreed to cancel the accrued directors' fees of \$754,168 which were accrued in previous years such that these fees will not be payable anymore.