

GRAPHITE ONE RESOURCES INC.

Condensed Interim Consolidated Financial Statements

For the three and twelve months ended September 30, 2016

(Unaudited)



NOTICE OF NO AUDITOR REVIEW OF
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

In accordance with National Instrument 51-102, Part 4, subsection 4.3(3) (a), we report that the accompanying unaudited consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's external auditor has not performed a review of these consolidated interim financial statements.

GRAPHITE ONE RESOURCES INC.
Consolidated Statements of Financial Position
(Unaudited)
(Expressed in Canadian dollars)

As at		September 30, 2016	September 30, 2015
ASSETS	Note		
Current assets			
Cash		\$ 935,008	\$ 998,937
Cash in trust	6	-	279,225
Prepayments and deposits		114,194	75,124
Amounts receivable	7	10,070	46,668
Total current assets		1,059,272	1,399,954
Non-current assets			
Equipment		37,630	56,316
Exploration and evaluation property	8	11,103,305	10,002,322
Total non-current assets		11,140,935	10,058,638
Total assets		\$ 12,200,207	\$ 11,458,592
EQUITY AND LIABILITIES			
Current liabilities			
Trade and other accounts payable		\$ 502,821	\$ 806,516
Total liabilities		502,821	806,516
Equity			
Share capital		26,828,172	23,711,242
Share option reserve		5,314,346	4,522,930
Deficit		(20,445,132)	(17,582,096)
Total equity		11,697,386	10,652,076
Total equity and liabilities		\$ 12,200,207	\$ 11,458,592

Going concern 3

Approved by the Board of Directors:

"Anthony Huston"
Director

"Douglas Smith"
Director

GRAPHITE ONE RESOURCES INC.**Consolidated Statements of Loss and Comprehensive Loss***(Unaudited)**(Expressed in Canadian dollars)*

	Note	For the three month period ended September 30		For the twelve month period ended September 30	
		2016	2015	2016	2015
Expenses					
Management fees and salaries		\$ 179,099	\$ 126,107	\$ 566,046	\$ 551,311
Marketing, advisory and investor relations		275,357	217,846	1,266,625	887,805
Office and administration		31,372	44,000	185,221	222,397
Professional fees		28,581	27,585	165,514	199,205
Share-based payments	9	15,722	(60,000)	696,588	540,673
		530,131	355,538	2,879,994	2,401,391
Other income (expenses)					
Foreign exchange gain/(loss)		1,886	(18,697)	11,315	(35,370)
Interest income		-	183	5,643	9,010
Write-down of investment		-	-	-	-
		1,886	(18,514)	16,958	(26,360)
Net loss and comprehensive loss for the period		\$ 528,245	\$ 374,052	\$ 2,863,036	\$ 2,427,751
Basic and diluted loss per common share		\$ -	\$ -	\$ 0.01	\$ 0.01
Weighted average number of common shares outstanding		219,180,588	166,875,949	207,214,755	168,168,836

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

GRAPHITE ONE RESOURCES INC.
Consolidated Statements of Cash Flows

(Unaudited)

(Expressed in Canadian dollars)

For the twelve months ended September 30,	2016	2015
CASH DERIVED FROM (USED IN)		
OPERATING ACTIVITIES		
Loss for the period	\$ (2,863,036)	\$ (2,427,751)
Items not involving cash:		
Share-based payments	696,588	540,673
Changes in non-cash working capital items		
Amounts receivable	36,598	1,359
Prepayments and deposits	(39,663)	166,549
Trade and other accounts payable	30,165	224,099
	(2,139,348)	(1,495,071)
FINANCING ACTIVITIES		
Issuance of shares	3,244,777	1,359,235
Share issuance costs	(162,859)	(131,519)
Decrease/(increase) in cash in trust	279,225	392,016
	3,361,143	1,619,732
INVESTING ACTIVITIES		
Exploration and evaluation property	(1,282,941)	(2,200,049)
Purchase of equipment	(3,376)	-
Decrease/(increase) in cash in trust	-	94,826
Changes in non-cash working capital items		
Prepayments and deposits	593	24,575
	(1,285,724)	(2,080,648)
(Decrease) increase in cash	(63,929)	(1,955,987)
Cash at beginning of period	998,937	2,954,924
Cash at end of period	\$ 935,008	\$ 998,937
Supplemental cash flow information:		
Non-cash transactions eliminated from the consolidated statements of cash flows:		
Depreciation capitalized to exploration and evaluation property	\$ 22,062	\$ 38,198
Change in Accounts payable related to financing activities	\$ -	\$ (21,325)
Change in Accounts payable related to investing activities	\$ -	\$ (59,981)
Shares issued on purchase of claims and royalty extension	\$ -	\$ 327,692
Share-based payments capitalized to exploration and evaluation property	\$ -	\$ 60,000
Non-cash share issuance costs	\$ 30,988	\$ 61,228
Shares issued to settle debt	\$ 66,000	\$ -
	\$ 119,050	\$ 405,812

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

GRAPHITE ONE RESOURCES INC.**Consolidated Statements of Changes in Equity***(Unaudited)**(Expressed in Canadian dollars)*

	Common Shares		Share Option Reserve	Deficit	Total Equity
	Number	Amount			
		\$	\$	\$	\$
October 1, 2014	166,875,949	22,217,062	3,861,029	(15,154,345)	10,923,746
Shares issued on private placement	19,417,642	1,359,235	-	-	1,359,235
Shares issued on extension of royalty purchase option	769,231	57,692	-	-	57,692
Shares issued on purchase of mineral claims	3,000,000	270,000	-	-	270,000
Cost of share issuance	-	(192,747)	61,228	-	(131,519)
Share-based payments	-	-	600,673	-	600,673
Net loss for the year	-	-	-	(2,427,751)	(2,427,751)
September 30, 2015	190,062,822	23,711,242	4,522,930	(17,582,096)	10,652,076
October 1, 2015	190,062,822	23,711,242	4,522,930	(17,582,096)	10,652,076
Shares issued on private placement	33,132,679	2,638,252	-	-	2,638,252
Shares issued on warrant exercise	5,346,500	606,525	-	-	606,525
Shares issued on settlement of debt	733,334	66,000	-	-	66,000
Cost of share issuance	-	(193,847)	30,988	-	(162,859)
Share-based payments	-	-	760,428	-	760,428
Net loss for the period	-	-	-	(2,863,036)	(2,863,036)
September 30, 2016	229,275,335	26,828,172	5,314,346	(20,445,132)	11,697,386

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

GRAPHITE ONE RESOURCES INC.

Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2016

(Unaudited)

(Expressed in Canadian dollars)

1. NATURE OF OPERATIONS

Graphite One Resources Inc. ("Graphite One" or the "Company") was incorporated in Alberta under the name Cedar Mountain Exploration Inc. ("Cedar Mountain") and commenced operations on March 16, 2006. On March 23, 2012, Cedar Mountain changed its name to Graphite One and adopted the symbol GPH on the TSX-V effective March 27, 2012. The Company was continued into British Columbia on September 12, 2014. Graphite One is the parent company of its consolidated group.

Graphite One is engaged in the business of acquiring, exploring and evaluating graphitic material properties. Through its 100% owned subsidiary, Graphite One (Alaska) Inc., the Company is focussed on the Graphite Creek property near Nome, Alaska (the "Graphite Creek Project"). The Company has not yet determined whether Graphite Creek Project contains mineral reserves that are economically recoverable and the Company is presently carrying out exploration efforts and evaluation activities on its exploration and evaluation property. The recoverability of the amounts shown for exploration and evaluation property is dependent upon the existence of economically recoverable reserves, securing and maintaining title and beneficial interest in the Graphite Creek Project, the ability of the Company to obtain necessary financing to complete the development, and ultimately upon future profitable production or proceeds from disposition of the Graphite Creek Project.

The Company is currently evaluating samples of the graphitic material to assess the materials performance data related to graphite concentration, milling, spheroidizing, and coating as well as establishing the electrochemistry of the coated spherical graphite finished product and preparing the Company's inaugural Preliminary Economic Assessment ("PEA").

2. CHANGE OF FINANCIAL YEAR END

Effective with the 2016 fiscal year, the Company has changed its fiscal year end from September 30 to December 31. Accordingly, the Company's 2016 fiscal year will comprise the 15 month period ended December 31, 2016. The comparative financial information for the 12 month period ended September 30, 2016 is for the year ended September 30, 2015.

3. GOING CONCERN

These unaudited condensed interim consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period.

As at September 30, 2016, the Company had a cash balance of \$935,008 and working capital of \$556,451, with current liabilities of \$502,821. The Company has incurred losses since inception and does not generate any cash inflows from operations. In the twelve month period ended September 30, 2016, cash used in operating activities totalled \$2,139,348.

GRAPHITE ONE RESOURCES INC.

Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2016

(Unaudited)

(Expressed in Canadian dollars)

3. GOING CONCERN (cont'd...)

Subsequent to September 30, 2016, the Company raised gross proceeds of \$812,000 in a private placement (see Note 9).

The Company's ability to continue to meet its obligations and carry out its planned exploration activities is uncertain and dependent upon the continued financial support of its shareholders and on securing additional financing. There is, however, no assurance that any such initiatives will be sufficient and, as a result, there is significant doubt regarding the going concern assumption and, accordingly, the ultimate appropriateness of the use of accounting principles applicable to a going concern. These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations for the foreseeable future. These adjustments could be material.

4. BASIS OF PRESENTATION

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and applicable to interim financial reports, including International Accounting Standard 34 ("Interim Financial Reporting"). These financial statements should be read in conjunction with the annual financial statements for the year ended September 30, 2015, which have been prepared in accordance with IFRS as issued by IASB. The accounting policies applied in the preparation of these financial statements are consistent with those applied and disclosed in the Company's consolidated financial statements for the year ended September 30, 2015.

The unaudited condensed interim consolidated financial statements have been authorized for issue by the Board of Directors of the Company on November 23, 2016.

4.1 Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis. The statements are presented in Canadian dollars unless otherwise noted.

4.2 Significant judgments, estimates and assumptions

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from these estimates.

GRAPHITE ONE RESOURCES INC.

Notes to the Condensed Interim Consolidated Financial Statements

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4. BASIS OF PRESENTATION (cont'd...)

Judgments

Exploration and evaluation property: The Company is required to make significant judgments on the ongoing feasibility of mineral exploration, and whether there are indicators that the right to explore the specific area has or will expire, that further exploration and evaluation plans have changed, or whether development of a specific area is unlikely to recover existing exploration and evaluation property costs. If any of these indicators are present, management would need to assess whether the exploration and evaluation property should be impaired.

Estimates and assumptions

Share-based payments: Share-based payments are determined using the Black-Scholes Option Pricing Model based on estimated fair values of all share-based awards at the date of grant and are expensed to the statement of loss and comprehensive loss over each award's vesting period. The Black-Scholes Option Pricing Model utilizes subjective assumptions such as expected price volatility and expected life of the option. Changes in these input assumptions can significantly affect the fair value estimate.

5. SIGNIFICANT ACCOUNTING POLICIES

Refer to the Company's annual audited consolidated financial statements for the year ended September 30, 2015 and 2014 for a summary of significant accounting policies.

5.1 Changes in Accounting Standards

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. The Company has not early adopted any of these standards and is currently evaluating the impact, if any, that these standards might have on its unaudited condensed interim consolidated financial statements.

6. CASH IN TRUST

The Company has \$nil (September 30, 2015 - \$279,225) Cash in trust. The balance at September 30, 2015 related to the share issuance in September 2015. The funds were held in the Company's legal counsel trust account and were released from escrow in October 2015 upon receipt of all regulatory approvals required for the share issuance.

7. AMOUNTS RECEIVABLE

	September 30, 2016	September 30, 2015
Share subscriptions receivable	-	35,000
Government of Canada	10,070	8,458
State of Alaska	-	3,210
	<u>10,070</u>	<u>46,668</u>

GRAPHITE ONE RESOURCES INC.**Notes to the Condensed Interim Consolidated Financial Statements****September 30, 2016***(Unaudited)**(Expressed in Canadian dollars)*

8. EXPLORATION AND EVALUATION PROPERTY

The following table summarizes the capitalized costs associated with the Company's exploration and evaluation property:

Balance, September 30, 2014	\$ 7,387,334
Acquisition	473,272
Analysis	272,960
Geological consulting	531,593
Fieldwork	1,216,023
Engineering	121,140
Balance, September 30, 2015	\$ 10,002,322
Acquisition	95,554
Analysis	63,372
Geological consulting	249,910
Fieldwork	368,049
Engineering	324,098
Balance, September 30, 2016	\$ 11,103,305

Graphite Creek Property Summary

The Graphite Creek Property consists of the following mining claims:

- Twenty-four federal mining claims (the "GC Option Property");
- Fifty-six Alaska state mining claims (the "GC Purchased Property"); and
- One hundred and twenty located Alaska state mining claims around the GC Option Property (the "GC Staked Property").

In May 2015, the Company executed a long-term lease agreement with Kougarok LLC, commencing effective January 1, 2014 with an initial term of twenty years, and with provisions to extend the lease for two successive twenty year periods and ultimately for as long as production continues from the property. An advance royalty in the amount of US\$30,000 was paid upon execution of the agreement, with annual payments of US\$30,000 due each year until January 2019, and then increasing by US\$10,000 each year until production commences. The production royalties are to be calculated as follows: 5% from lands in the 4 federal claims that were originally located in 1943, 2.5% from lands within the other 20 federal claims, 5% from lands within state claims staked by the Company within the area of interest and 2.5% from state claims acquired by the Company within the area of interest. All advance royalties paid may be recouped from production royalties. The Company has the option to reduce the production royalties by up to 2% by paying US\$2 million for each 1% reduction of the production royalties.

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(Unaudited)

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8. EXPLORATION AND EVALUATION PROPERTY (cont'd...)

On January 24, 2012, the Company purchased from a private individual (the "Seller") one half of the GC Purchased Property (28 Alaska state mining claims) for \$20,000 and a 2% production royalty on future production from the GC Purchased Property. The Company had the right to purchase the production royalty for \$1 million until January 24, 2015 (the "Royalty Purchase Option"). The Company and the Seller entered into an extension agreement effective January 24, 2015 (the "Extension Agreement") whereby the Royalty Purchase Option may be exercised at any time on or before the earlier of (i) January 24, 2017, or (ii) the date that is six (6) months after the release by the Company of a feasibility study on the Graphite Creek Property. In connection with the Extension Agreement, the Company issued to the Seller, 769,231 common shares of the Company at a fair value of \$57,692.

During June 2015, the Company purchased from another private individual the balance of the GC Purchased Property (28 Alaska state mining claims covering the same lands as the 28 Alaska state mining claims acquired in January 2012) for US\$50,000, the issuance of 3 million common shares of the Company at a fair value of \$270,000 and a royalty interest equal to 1% of the Net Smelter Returns received by the Company on production from the claims. The Company has the right to purchase the royalty for US\$500,000 at any time within 36 months following the start of mine production.

9. SHARE CAPITAL

9.1 Authorized

Unlimited number of common shares with no par value.

9.2 Shares Issued

The following share transactions occurred during the twelve months ended September 30, 2016:

On October 30, 2015, the Company completed a private placement for total gross proceeds of \$634,161. Pursuant to this private placement, the Company issued a total of 9,059,449 units (the "2015-2 Units") at a price of C\$0.07 per 2015-2 Unit. Each 2015-2 Unit consists of one common share and one transferable common share purchase warrant (a "2015-2 Warrant"). Each 2015-2 Warrant entitles the holder to purchase one additional common share of the Company at a purchase price of \$0.10 per share during the 36 months from the date of issuance. Based on the residual valuation method, negligible value was attributed to the 2015-2 Warrants. The Company paid finders' fees in the aggregate amount of \$20,384 and issued 291,200 transferrable broker warrants, each such warrant entitling the holder to acquire one additional common share of the Company at the same price as the 2015-2 Warrants described above.

On December 1, 2015, the Company issued 733,334 common shares in settlement of debt of \$66,000 at a price of \$0.09 per share.

GRAPHITE ONE RESOURCES INC.**Notes to the Condensed Interim Consolidated Financial Statements****September 30, 2016***(Unaudited)**(Expressed in Canadian dollars)*

9. SHARE CAPITAL (cont'd)...

On January 18, 2016, the Company completed a private placement for total gross proceeds of \$434,090. Pursuant to this private placement, the Company issued a total of 4,823,222 units (the "2016-1 Units") at a price of C\$0.09 per 2016-1 Unit. Each 2016-1 Unit consists of one common share and one transferable common share purchase warrant (a "2016-1 Warrant"). Each 2016-1 Warrant entitles the holder to purchase one additional common share of the Company at a purchase price of \$0.12 per share during the 36 months from the date of issuance. Based on the residual valuation method, negligible value was attributed to the 2016-1 Warrants. The Company paid finders' fees in the aggregate amount of \$324 and issued 3,600 transferrable broker warrants, each such warrant entitling the holder to acquire one additional common share of the Company at the same price as the 2016-1 Warrants described above.

On March 2, 2016, the Company completed a private placement for total gross proceeds of \$270,001. Pursuant to this private placement, the Company issued a total of 3,000,008 units (the "2016-2 Units") at a price of C\$0.09 per 2016-2 Unit. Each 2016-2 Unit consists of one common share and one transferable common share purchase warrant (a "2016-2 Warrant"). Each 2016-2 Warrant entitles the holder to purchase one additional common share of the Company at a purchase price of \$0.12 per share during the 36 months from the date of issuance. Based on the residual valuation method, negligible value was attributed to the 2016-2 Warrants. The Company paid finders' fees in the aggregate amount of \$6,400 and issued 71,111 transferrable broker warrants, each such warrant entitling the holder to acquire one additional common share of the Company at the same price as the 2016-2 Warrants described above.

In April, May and June 2016, the Company raised \$606,525 and issued 5,346,500 shares through the exercise of 5,346,500 warrants at exercise prices of \$0.10 to \$0.125 per share.

On August 22, 2016, The Company issued 16,250,000 Units (the "2016-3 Units") at a price of \$0.08 per 2016-3 Unit for a total of \$1.3 million. Each 2016-3 Unit consists of one common share (a "Common Share") and one transferable common share purchase warrant (a "2016-3 Warrant"). Each 2016-3 Warrant entitles the holder to purchase one full Common Share at a purchase price of \$0.12 per Common Share and will expire on the earlier of: (a) two years from the date of issuance; and (b) in the event the Common Shares trade at a volume of \$0.21 or more on the TSXV Venture Exchange or the Toronto Stock Exchange for 10 consecutive trading days, the Company may, at its option, issue a press release and a notice to the 2016-3 Warrantholder for the expiry of the 2016-3 Warrants on the date that is 45 days from the press release and notice and the 2016-3 Warrantholder may exercise the 2016-3 Warrants during this 45 day period (but no later than two years from the date of issuance). Based on the residual valuation method, negligible value was attributed to the 2016-3 Warrants. The Company paid finders' fees in the aggregate amount of \$67,664 and issued 845,800 non-transferrable broker warrants, each such warrant entitling the holder to acquire one additional common share of the Company at the same price as the 2016-3 Warrants described above.

GRAPHITE ONE RESOURCES INC.

Notes to the Condensed Interim Consolidated Financial Statements

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(Unaudited)

(Expressed in Canadian dollars)

9. SHARE CAPITAL (cont`d...)

The following share transactions occurred subsequent to September 30, 2016:

On November 8, 2016, the Company issued 10,150,000 Units (the "2016-4 Units") at a price of \$0.08 per 2016-4 Unit for a total gross proceeds of \$812,000. Each 2016-4 Unit consists of one common share (a "Common Share") and one transferable common share purchase warrant (a "2016-4 Warrant"). Each 2016-4 Warrant entitles the holder to purchase one full Common Share at a purchase price of \$0.12 per Common Share and will expire on the earlier of: (a) two years from the date of issuance; and (b) in the event the Common Shares trade at a volume of \$0.21 or more on the TSXV Venture Exchange or the Toronto Stock Exchange for 10 consecutive trading days, the Company may, at its option, issue a press release and a notice to the 2016-4 Warrantholder for the expiry of the 2016-4 Warrants on the date that is 45 days from the press release and notice and the 2016-4 Warrantholder may exercise the 2016-4 Warrants during this 45 day period (but no later than two years from the date of issuance). Based on the residual valuation method, negligible value was attributed to the 2016-4 Warrants. The Company paid finders' fees in the aggregate amount of \$48,000 and issued 600,000 non-transferrable broker warrants, each such warrant entitling the holder to acquire one additional common share of the Company at the same price as the 2016-4 Warrants described above.

The following share transactions occurred during the year ended September 30, 2015:

On September 30, 2015, the Company completed a private placement for total gross proceeds of \$1,359,235. Pursuant to this private placement, the Company issued a total of 19,417,642 units (the "2015-1 Units") at a price of C\$0.07 per 2015-1 Unit. Each 2015-1 Unit consists of one common share and one transferable common share purchase warrant (a "2015-1 Warrant"). Each 2015-1 Warrant entitles the holder to purchase one additional common share of the Company at a purchase price of \$0.10 per share during the 36 months from the date of issuance. Based on the residual valuation method, negligible value was attributed to the warrants. The Company paid finders' fees in the aggregate amount of \$85,710 and issued 1,224,434 transferrable broker warrants, each such warrant entitling the holder to acquire one additional common share of the Company at the same price as the 2015-1 Warrants described above.

In June 2015, the Company issued 3,000,000 common shares at a fair value of \$270,000 in connection with the acquisition of certain mineral claims (see Note 8).

In February 2015, the Company issued 769,231 common shares at a fair value of \$57,692 in connection with an agreement to extend the Company's right to purchase a net smelter return royalty (see Note 8).

GRAPHITE ONE RESOURCES INC.**Notes to the Condensed Interim Consolidated Financial Statements****September 30, 2016***(Unaudited)**(Expressed in Canadian dollars)***9. SHARE CAPITAL (cont`d...)****9.3 Share based compensation**

Pursuant to a stock option plan (the "Plan") for directors, officers, employees and consultants, the Company may reserve a maximum of 10% of the issued and outstanding listed common shares, and the exercise price to be determined on the date of issuance of the options. The options are non-transferable and will expire, if not exercised, 90 days following the date the optionee ceases to be a director, officer, employee or consultant of the Company for reasons other than death, one year after the death of an optionee or on the fifth anniversary of the date the option was granted. Options granted under the plan may not exceed five years and vest at terms to be determined by the board of directors at the time of the grant, but shall not be less than the price determined by policy or policies of the stock exchange(s) on which the Company's common shares are then listed, or \$0.10 per share.

The following table summarizes activity related to stock options:

	Options	Weighted Average Exercise Price
Balance, September 30, 2014	10,675,000	\$ 0.22
Issued	6,850,000	\$ 0.13
Expired	(750,000)	\$ 0.15
Forfeited	(4,375,000)	\$ 0.23
Balance, September 30, 2015	12,400,000	\$ 0.17
Issued	9,550,000	\$ 0.10
Expired	(800,000)	\$ 0.28
Forfeited	(1,275,000)	\$ 0.23
Balance, September 30, 2016	19,875,000	\$ 0.13

During the three months ended March 31, 2016, 9,050,000 options were granted to directors, officers and consultants of the Company. Each option has an exercise price of \$0.10, expiring 5 years from the date of grant and vested immediately. With respect to these options, \$658,350 in share based payments was recorded and \$63,840 was capitalized to Exploration and evaluation property.

During the three months ended June 30, 2016, 500,000 options were granted to consultants of the Company. Each option has an exercise price of \$0.115, expiring 5 years from the date of grant and vesting in four equal installments commencing on the date of grant. With respect to these options, \$38,238 in share based payments was recorded.

Subsequent to September 30, 2016, 4,050,000 options were granted to directors, officers and consultants of the Company. Each option has an exercise price of \$0.10, expiring 5 years from the date of grant, and vested immediately.

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9. SHARE CAPITAL (cont`d...)

During the twelve months ended September 30, 2015, 6,850,000 options were granted to directors, officers and consultants of the Company. Each option has an exercise price of \$0.13, expiring 5 years from the date of grant and vested immediately. With respect to these options, \$535,672 in share based payments was recorded.

As at September 30, 2016				As at September 30, 2015			
Number of options outstanding #	Number of vested options #	Weighted average exercise price \$	Weighted average remaining contractual life years	Number of options outstanding #	Number of vested options #	Weighted average exercise price \$	Weighted average remaining contractual life years
-	-	-	-	200,000	200,000	0.30	0.2
-	-	-	-	300,000	300,000	0.28	0.4
-	-	-	-	300,000	300,000	0.27	0.6
975,000	975,000	0.28	0.4	1,575,000	1,575,000	0.28	1.4
100,000	100,000	0.28	0.7	100,000	100,000	0.28	1.7
300,000	300,000	0.20	1.1	525,000	525,000	0.20	2.1
600,000	600,000	0.17	2.0	1,050,000	1,050,000	0.17	3.0
600,000	600,000	0.18	2.0	600,000	600,000	0.18	3.0
600,000	600,000	0.17	2.0	600,000	600,000	0.17	3.0
300,000	300,000	0.17	2.2	300,000	300,000	0.17	3.2
5,350,000	5,350,000	0.13	3.1	5,350,000	5,350,000	0.13	4.1
500,000	500,000	0.13	3.5	500,000	500,000	0.13	4.5
1,000,000	1,000,000	0.13	1.7	1,000,000	1,000,000	0.13	2.7
9,050,000	9,050,000	0.10	4.4	-	-	-	-
500,000	250,000	0.12	4.6	-	-	-	-
19,875,000	19,625,000	0.13	3.4	12,400,000	12,400,000	0.17	3.1

The fair value of the share options granted in the twelve month period ended September 30, 2016 and the year ended September 30, 2015 was estimated on the date of grant using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

	Twelve months ended September 30, 2016	Year ended ended September 30, 2015
Exercise price	\$0.10 - \$0.115	\$0.13
Market price	\$0.115 - \$0.155	\$0.12 - \$0.075
Risk free interest rate	0.77% - 0.80%	1.52% - 0.62%
Expected option life	5 years	3-5 years
Expected stock price volatility	86% - 92%	116% - 92%
Dividend payments during life of option	Nil	Nil
Expected forfeiture rate	Nil	Nil
Average fair value per option	\$0.08 - \$0.12	\$0.09

GRAPHITE ONE RESOURCES INC.

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(Unaudited)

(Expressed in Canadian dollars)

9. SHARE CAPITAL (cont`d...)

9.4 Warrants

The following table summarizes activity related to warrants:

	Warrants	Weighted Average Exercise Price
Balance, September 30, 2014	59,351,870	\$ 0.18
Issued	19,417,642	\$ 0.10
Balance, September 30, 2015	78,769,512	\$ 0.17
Issued	33,132,679	\$ 0.11
Exercised	(5,346,500)	0.11
Expired	(13,905,000)	0.13
Balance, September 30, 2016	92,650,691	\$ 0.16

As at September 30, 2016

As at September 30, 2015

Number of warrants outstanding #	Weighted average exercise price \$	Weighted average remaining contractual life years	Number of warrants outstanding #	Weighted average exercise price \$	Weighted average remaining contractual life years
-	-	-	6,004,500	0.13	0.9
-	-	-	10,775,500	0.13	1.0
4,285,785	0.30	1.4	4,285,785	0.30	2.4
15,599,160	0.20	1.9	15,599,160	0.20	2.9
22,686,925	0.20	2.0	22,686,925	0.20	3.0
16,946,142	0.10	2.0	19,417,642	0.10	3.0
9,059,449	0.10	2.1	-	-	-
4,823,222	0.12	2.3	-	-	-
3,000,008	0.12	2.4	-	-	-
16,250,000	0.12	1.9	-	-	-
92,650,691	0.16	2.0	78,769,512	0.17	2.5

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9. SHARE CAPITAL (cont`d...)

9.5 Broker Warrants

The following table summarizes activity related to Broker Warrants:

	Warrants	Weighted Average Exercise Price
Balance, September 30, 2014	4,024,922	\$ 0.16
Issued	1,224,434	\$ 0.10
Expired	(1,804,820)	0.10
Balance, September 30, 2015	3,444,536	\$ 0.16
Issued	1,211,711	\$ 0.12
Balance, September 30, 2016	4,656,247	\$ 0.15

As at September 30, 2016			As at September 30, 2015			
Number of warrants outstanding #	Weighted average exercise price \$	Weighted average remaining contractual life years	Number of warrants outstanding #	Weighted average exercise price \$	Weighted average remaining contractual life years	
929,902	0.20	1.9	929,902	0.20	2.9	
1,290,200	0.20	2.0	1,290,200	0.20	3.0	
1,224,434	0.10	2.0	1,224,434	0.10	3.1	
291,200	0.10	2.1	-	-	-	
3,600	0.12	2.3	-	-	-	
71,111	0.12	2.4	-	-	-	
845,800	0.12	1.9	-	-	-	
4,656,247	0.15	2.0	3,444,536	0.16	3.0	

The fair value of the Broker Warrants granted in the twelve month period ended September 30, 2016 and the year ended September 30, 2015 was estimated on the date of grant using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

	Twelve months ended September 30, 2016	Year ended September 30, 2015
Strike price	\$0.10 - \$0.12	\$0.10
Market price	\$0.075 - \$0.09	\$0.08
Risk free interest rate	0.32% - 0.60%	0.54%
Expected warrant life	2 - 3 years	3 years
Expected stock price volatility	80% - 103%	104%
Dividend payments during life of warrant	nil	nil
Expected forfeiture rate	nil	nil
Fair value per warrant	\$0.02 - \$0.04	\$0.05

GRAPHITE ONE RESOURCES INC.**Notes to the Condensed Interim Consolidated Financial Statements****September 30, 2016***(Unaudited)**(Expressed in Canadian dollars)*

9. SHARE CAPITAL (cont`d...)

The expected life is based on current expectations. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends.

10. RELATED PARTY TRANSACTIONS AND BALANCES**Relationships**

Huston Financial Corp. ("Huston")

DH Smith Resource Advisory Corp. ("Smith")

Ahlgren Consulting Inc. ("Ahlgren")

Anacortes Management Ltd. ("Anacortes")

Rockford Resources, LLC ("Rockford")

0897877 BC Ltd. ("0897877 BC")

878160 Alberta Ltd. ("878160")

Nature of the relationship

Huston is a private company controlled by Anthony Huston, an officer and director of the Company. Huston provides management services and investor relations consulting to the Company.

Smith is a private company controlled by Doug Smith, a director of the Company. Smith provides management services to the Company.

Ahlgren is a private company controlled by Alan Ahlgren, an officer of the Company. Ahlgren provides management services to the Company.

Anacortes is a private company controlled by James Currie, a director of the Company which provides director services to the Company.

Rockford is a private company controlled by Pat Smith, a director of the Company which provides director services to the Company.

0897877 BC is a private company controlled by Brian Budd, a director of the Company which provides director services to the Company.

878160 is a private company controlled by Dean Besserer, a former officer and director of the Company. 878160 provided geological services to the Company up until December 31, 2014.

GRAPHITE ONE RESOURCES INC.**Notes to the Condensed Interim Consolidated Financial Statements****September 30, 2016***(Unaudited)**(Expressed in Canadian dollars)***10. RELATED PARTY TRANSACTIONS AND BALANCES (cont`d...)****10.1 Related party transactions**

	Management Consulting and Directors' Fees	Management Consulting and Directors' Fees	Geological Services
For the three months ended September 30,	2016	2015	
Ahlgren Consulting Inc.	-	\$ 8,000	\$ -
DH Smith Resource Advisory Corp.	-	49,998	-
Huston Financial Corp.	62,500	62,499	-
Anacortes Management Ltd.	6,000	7,500	-
Rockford Resources, LLC	6,000	1,705	-
0897877 BC Ltd.	6,000	-	-
878160 Alberta Ltd.	-	-	25,000
For the twelve months ended September 30,	2016	2015	
Ahlgren Consulting Inc.	\$ 57,033	\$ 105,000	\$ -
DH Smith Resource Advisory Corp.	49,999	199,992	-
Huston Financial Corp.	250,000	249,996	-
Anacortes Management Ltd.	24,500	30,000	-
Rockford Resources, LLC	24,500	31,705	-
0897877 BC Ltd.	24,000	-	-
878160 Alberta Ltd.	-	-	25,000

Management consulting fees are included in Management fees and salaries and Marketing, advisory and investor relations expenses in the consolidated statements of financial position.

Geological services are capitalized to Exploration and evaluation properties in the consolidated statements of financial position.

The Company paid a company with a common director for monthly office rent and general operating costs for an office in one of the Company's locations. The office rental and operating costs are shared between several companies, and the Company only paid its pro rata share of the total cost of the office rental and related costs. The Company's share of office rent and basic operating costs was \$5,752 for the twelve months ended September 30, 2016 (2015 - \$18,504).

Amounts owing to related parties are non-interest bearing, unsecured and due on demand. The transactions were in the normal course of operations. At September 30, 2016, the Company owed \$165,730 (September 30, 2015 - \$161,181) to related parties.

GRAPHITE ONE RESOURCES INC.**Notes to the Condensed Interim Consolidated Financial Statements****September 30, 2016***(Unaudited)**(Expressed in Canadian dollars)***10. RELATED PARTY TRANSACTIONS AND BALANCES (cont`d...)****10.2 Key management compensation**

For the twelve months ended September 30,	2016	2015
Consulting and directors' fees	\$ 430,031	\$ 641,693
Salaries and benefits	484,927	246,190
Stock-based compensation	458,850	365,000
	<u>\$ 1,373,808</u>	<u>\$ 1,252,883</u>

For the three months ended September 30,	2016	2015
Consulting and directors' fees	\$ 80,499	\$ 151,497
Salaries and benefits	186,015	55,497
	<u>\$ 266,514</u>	<u>\$ 206,994</u>

Key management are those personnel having the authority and responsibility for planning, directing and controlling the Company and include the Executive Chairman, President & Chief Executive Officer, Directors, Chief Financial Officer, and General Manager Operations.

11. COMMITMENTS

On March 8, 2016 the Company entered into a sixteen month agreement for marketing services for an aggregate of \$128,000 of which the balance owing of \$108,000 will be due upon the closing of the Company's latest financing totalling \$200,000 or more. In addition, the Company has entered into several marketing consulting agreements that will require payments of approximately \$292,000 over the next six months.

12. MANAGEMENT OF CAPITAL

The Company defines capital that it manages as equity.

The Company's objective when managing capital is to maintain corporate and administrative functions necessary to support the Company's operations and corporate functions; to perform mineral exploration activities on the Company's exploration projects; and to seek out and acquire new projects of merit.

The Company manages its capital structure in a manner that provides sufficient funding for operational and capital expenditure activities. Funds are secured, when necessary, through debt funding or equity capital raised by means of private placements. There can be no assurances that the Company will be able to obtain debt or equity capital in the future. (See Note 3).

The Company does not pay dividends and has no long-term debt or bank credit facility. The Company is not subject to any externally imposed capital requirements. There have not been any changes to the Company's capital management policy during the period.

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13. RISK MANAGEMENT

13.1 Financial Risk Management

The Company may be exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives. The main objectives of the Company's risk management processes are to ensure that risks are properly identified and that the capital base is adequate in relation to those risks. The principal risks to which the Company is exposed are described below. (See Note 3)

a. Credit risk

Credit risk is the risk of potential loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its cash.

The Company has assessed its exposure to credit risk on its cash and has determined that such risk is minimal. The majority of the Company's cash is held with reputable financial institutions in Canada.

b. Liquidity risk

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due. As at September 30, 2016, the Company had working capital of \$556,451, and it does not have any long term monetary liabilities. The Company may seek additional financing through debt or equity offerings, but there can be no assurance that such financing will be available on terms acceptable to the Company or at all. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at September 30, 2016, the Company had cash of \$935,008 to settle current liabilities of \$502,821. The Company's financial liabilities have contractual maturities of 30 days or due on demand and are subject to normal trade terms.

c. Interest rate risk

Interest rate risk is the risk arising from the effect of changes in prevailing interest rates on the Company's financial instruments.

The Company had \$935,008 in cash at September 30, 2016, on which it earns variable rates of interest, and may therefore be subject to a certain amount of risk, though this risk is considered by management to be immaterial.

d. Foreign currency risk

Foreign currency risk is the risk that the fair value of, or future cash flows from, the Company's financial instruments will fluctuate because of changes in foreign exchange rates. The Company maintains the majority of its cash reserves in Canadian dollars. A portion of the Company's funds are held in US dollars and are therefore subject to fluctuations in foreign exchange rates.

At September 30, 2016, the Company has certain monetary items denominated in United States dollars. Based on these net exposures, a 10% appreciation or depreciation of the Canadian dollar against the United States dollar would result in an increase or decrease of \$3,700 in the Company's net loss.

GRAPHITE ONE RESOURCES INC.

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13. RISK MANAGEMENT

13.2 Fair Values

The carrying values of cash, cash in trust, refundable deposits and other receivables and trade and other accounts payable approximate fair values due to their short-term to maturity nature or the ability to readily convert to cash.