



CONSOLIDATED FINANCIAL STATEMENTS
For the years ended June 30, 2017 and 2016
(Expressed in Canadian dollars)



September 27, 2017

Independent Auditor's Report

To the Shareholders of Group NanoXplore Inc.

We have audited the accompanying consolidated financial statements of Group NanoXplore Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at June 30, 2017 and 2016, the consolidated statements of loss and comprehensive loss, the consolidated statements of cash flows and the consolidated statements of changes in equity for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Group NanoXplore Inc. and its subsidiaries as at June 30, 2017 and 2016 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP¹

¹ CPA auditor, CA, public accountancy Permit No. A122718

Group NanoXplore Inc.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian dollars)

	As at June 30, 2017	As at June 30, 2016
	\$	\$
Assets		
Current assets		
Cash	421,214	1,167,042
Accounts receivable (Note 5)	462,322	449,165
Inventory (Note 6)	293,317	292,152
Prepaid expenses	35,121	27,783
Lease deposit	751	6,956
	<u>1,212,725</u>	<u>1,943,098</u>
Non-current assets		
Lease deposit	25,850	25,600
Equipment deposit (Note 9)	53,416	-
Investment in a joint venture (Note 7)	61,308	70,220
Property, plant and equipment (Note 9)	3,383,184	3,099,516
	<u>3,523,758</u>	<u>3,165,336</u>
Total assets	<u>4,736,483</u>	<u>5,138,434</u>
Liabilities		
Current liabilities		
Operating loan (Note 11)	215,000	255,000
Accounts payable and accrued liabilities (Note 10)	753,256	679,606
Income tax payable (Note 17)	-	14,100
Long-term debts due within one year (Note 12)	2,159,865	103,696
Convertible debentures (Note 13)	-	550,000
	<u>3,128,121</u>	<u>1,602,402</u>
Non-current liabilities		
Long-term debts (Note 12)	2,840	2,162,452
Deferred income taxes liabilities (Note 17)	313,881	363,114
	<u>316,721</u>	<u>2,525,566</u>
Total liabilities	<u>3,444,842</u>	<u>4,127,968</u>
Equity		
Share capital	5,705,879	3,414,725
Reserves	223,352	108,065
Deficit	(4,637,590)	(2,512,324)
	<u>1,291,641</u>	<u>1,010,466</u>
Total equity	<u>1,291,641</u>	<u>1,010,466</u>
Total equity and liabilities	<u>4,736,483</u>	<u>5,138,434</u>

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

Note 19 – Commitments
Note 23 – Subsequent events

APPROVED ON BEHALF OF THE BOARD OF DIRECTORS:
“Soroush Nazarpour” _____, Director

“Benoit Gascon” _____, Director

Group NanoXplore Inc.

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

(Expressed in Canadian dollars)

	For the years ended June 30,	
	2017	2016
	\$	\$
Revenues		
Sales of products	2,776,370	229,421
Royalties	50,000	50,000
Laboratory services	50,000	108,749
Other income (Note 5)	491,199	388,680
	<u>3,367,569</u>	<u>776,850</u>
Expenses		
Wages and salaries	2,489,809	1,117,926
Raw materials, consumables and supplies	1,075,984	105,916
Energy	173,517	26,836
Rent	131,495	71,430
Insurance	33,073	1,251
Repairs and maintenance	106,436	8,128
Share-based compensation (Note 15)	115,287	108,065
Professional and consulting fees	617,494	430,989
Filing fees	10,463	-
Laboratory supplies	30,099	29,623
Advertising and promotion	69,629	47,002
Office and general expenses	152,014	71,316
Allowance for doubtful accounts (Note 5)	-	14,286
Travel and accommodation	67,566	64,701
Bank charge	20,558	2,698
Depreciation	310,456	105,860
Foreign exchange	17,447	8,443
	<u>5,421,327</u>	<u>2,214,470</u>
Operating loss	(2,053,758)	(1,437,620)
Interest on long-term debt	(113,143)	(23,849)
Share of loss of a joint venture (Note 7)	(8,912)	(29,780)
Loss before income taxes	(2,175,813)	(1,491,249)
Current income taxes recovery	1,314	-
Deferred income taxes recovery (Note 17)	49,233	3,993
	<u>50,547</u>	<u>3,993</u>
Loss and comprehensive loss for the year	(2,125,266)	(1,487,256)
Loss per share		
Basic and diluted (Note 16)	<u>(0.04)</u>	<u>(0.03)</u>

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

Group NanoXplore Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian dollars)

	For the years ended June 30,	
	2017	2016
	\$	\$
Cash flows from operating activities		
Net loss	(2,125,266)	(1,487,256)
Items not affecting cash:		
Depreciation	310,456	105,860
Share-based compensation	115,287	108,065
Laboratory services to joint venture (Note 7)	-	(50,000)
Share of loss of a joint venture (Note 7)	8,912	29,780
Allowance for doubtful accounts	-	14,286
Accretion	34,718	-
Current income taxes recovery	(1,314)	-
Deferred income taxes recovery	(49,233)	(3,993)
Unrealized foreign exchange	-	1,680
Changes in non-cash operating working capital items:		
Accounts receivable	(13,157)	40,382
Inventory	(1,165)	(886)
Prepaid expenses	(7,338)	1,166
Accounts payable and accrued liabilities	81,064	11,125
Income tax payable	(12,786)	-
	<u>(1,659,822)</u>	<u>(1,229,791)</u>
Cash flows from financing activities		
Private placement	1,255,000	-
Share issue costs	(5,978)	-
Operating loan drawdown	-	255,000
Issuance of convertible debentures	450,000	550,000
Repayment of operating loan	(40,000)	-
Issuance of long-term debt	-	2,250,000
Repayment of long-term debt	(103,443)	(588,179)
	<u>1,555,579</u>	<u>2,466,821</u>
Cash flows from investing activities		
Business acquisition (Note 4)	-	(2,105,047)
Additions of property, plant and equipment	(594,124)	(184,489)
Lease deposit	5,955	(25,481)
Equipment deposit	(53,416)	-
Investment in associate	-	(50,000)
Proceed from disposal of associate	-	50,000
Investment in joint venture	-	(50,000)
	<u>(641,585)</u>	<u>(2,365,017)</u>
Effect of foreign exchange rates on cash balances	-	(757)
Change in cash	(745,828)	(1,128,744)
Cash, beginning of the year	1,167,042	2,295,786
Cash, end of the year	<u>421,214</u>	<u>1,167,042</u>
Income taxes paid	12,786	27,569
Interest paid	79,260	-
Additional cash flow information – non-cash transaction		
Financing activities		
Conversion of convertible debentures in equity	1,042,132	-

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

Group NanoXplore Inc.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Expressed in Canadian dollars)

	<u>Share Capital</u>				
	<u>Number</u>	<u>Amount</u>	<u>Reserve</u>	<u>Deficit</u>	<u>Equity</u>
		\$	\$	\$	\$
Balance as at July 1, 2016	1,275,511	3,414,725	108,065	(2,512,324)	1,010,466
Private placement (net of issuing costs of \$5,978) (Note 14)	69,605	1,249,022	-	-	1,249,022
Conversion of convertible debentures (Note 14)	57,801	1,042,132	-	-	1,042,132
Share-based compensation	-	-	115,287	-	115,287
Loss and comprehensive loss for the year	-	-	-	(2,125,266)	(2,125,266)
Balance as at June 30, 2017	1,402,917	5,705,879	223,352	(4,637,590)	1,291,641
Balance as at July 1, 2015	1,275,511	3,414,725	-	(1,025,068)	2,389,657
Share-based compensation	-	-	108,065	-	108,065
Loss and comprehensive loss for the year	-	-	-	(1,487,256)	(1,487,256)
Balance as at June 30, 2016	1,275,511	3,414,725	108,065	(2,512,324)	1,010,466

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

Group NanoXplore Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended June 30, 2017 and 2016
(Expressed in Canadian dollars)

1. NATURE OF OPERATIONS AND LIQUIDITY RISK

Group NanoXplore Inc. and its subsidiaries (together “NanoXplore” or the “Company”) is an advanced materials company that manufactures graphene, graphene-enhanced polymers and plastic products applicable to industrial components and metals. The address of the Company’s corporate office is 25, Boul. Montpellier, St-Laurent (Montreal), QC, Canada.

On August 29, 2017, the Company completed the three-cornered amalgamation involving Graniz Mondal Inc. (“Graniz”), the Company and 9363-0770 Québec Inc. which constituted a reverse takeover of Graniz by the Company under the policies of the TSX Venture Exchange (the “Transaction”). After the Transaction, Graniz Mondal changed its name to NanoXplore Inc. Since September 8, 2017, NanoXplore Inc. has traded on the TSX Venture Exchange under GRA.

As at June 30, 2017, the Company had a working capital deficiency of \$1,915,396, an accumulated deficit of \$4,637,590 and a consolidated net loss of \$2,125,266 for the year then ended. The working capital balance included a cash balance of \$421,214. Management believes that the Company has sufficient funds to meet its obligations and planned net expenditures for the ensuing 12 months as they fall due, considering the private placement of \$9,697,082, completed on August 2, 2017 (described in Note 23). The Company’s ability to continue its development activities is dependent on management’s ability to secure additional financing in the future, which may be completed in a number of ways including, but not limited to, a combination of strategic partnerships, joint venture arrangements, project debt financing, royalty financing and other capital market alternatives. Management will pursue such additional financial sources when required, and while management has been successful in securing financing in the past, there can be no assurance that it will be able to do so in the future or that these sources of funding or initiatives will be available for the Company or that they will be available on terms which are acceptable to the Company. The detailed liquidity risk analysis can be found in note 20.

These consolidated financial statements were reviewed, approved and authorized for issue by the Board of Directors of the Company on September 27, 2017.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The Company’s consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). The Company has consistently applied the accounting policies used in the preparation of its IFRS consolidated financial statements, including the comparative figures.

Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis. In addition, these consolidated financial statements, with the exception of cash flow information, have been prepared using the accrual basis of accounting.

Group NanoXplore Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended June 30, 2017 and 2016
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Basis of consolidation

These consolidated financial statements include the accounts of the Company, which include:

a) Subsidiaries

Subsidiaries are all entities over which the Company has control. Control exists when the Company is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through the power over the entity.

The subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that control ceases.

The Company has the following subsidiaries:

- NanoXplore GmbH, based in Germany, with an equity interest of 100% (2016: 100%);
- 9334-7474 Québec Inc., based in Canada, with an equity interest of 100% (2016: 100%). 9334-7474 Québec Inc. holds 100% Rada Industries Ltd. ("Rada Industries"). On July 1, 2016, 9334-7474 Québec Inc. and Gestion RJ Aubin Inc. ("Gestion RJ"), formerly 100% owner of Rada Industries, amalgamated their activities in order to continue exclusively under the name of 9334-7474 Québec Inc.

Intercompany transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from intercompany transactions that are recognized in assets are also eliminated.

b) Joint ventures

A joint venture is a contractual agreement whereby the Company agrees with other parties to undertake an economic activity that is subject to joint control, i.e. strategic financial and operating decisions relating to the joint venture's activities require the unanimous consent of the parties sharing control. Investments in joint ventures are accounted for using the equity method. The share of earnings (loss) from joint ventures is recognized in the consolidated statement of loss. Management periodically reviews its joint ventures, for any indication of an impairment.

Foreign currency

a) Functional and presentation currency

NanoXplore's functional and presentation currency is the Canadian dollar. Functional currency is determined for each of the Company's entities, and items included in the consolidated financial statements of each entity are measured using that functional currency.

b) Transactions and balances

Monetary assets and liabilities denominated in foreign currencies are translated at the prevailing exchange rate at the reporting date. Non-monetary assets and liabilities, and revenue and expense items denominated in foreign currencies are translated into the functional currency using the exchange rate prevailing at the dates of the respective transactions. Foreign exchange gains and losses resulting from the settlement of such transactions are recognized in the consolidated statement of loss and comprehensive loss.

Foreign exchange gains and losses are presented in the consolidated statement of loss and comprehensive loss within "Foreign exchange".

Group NanoXplore Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Revenue recognition

Revenues comprise the following:

- Sales of products
- Royalties
- Laboratory services
- Other income

Revenues from the sale of products are measured at the fair value of the consideration received or receivable. Those revenues are recognized when the risks and rewards of ownership have been transferred to the buyer (which generally occurs upon shipment) and collectability of the related receivables is reasonably assured. Revenues are recognized when (i) it can be measured reliably; (ii) it is probable that the economic benefits associated with the transaction will flow to the Company; (iii) the costs incurred or to be incurred can be measured reliably; and (iv) the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.

Revenues from laboratory services are recognized as services are rendered generally based on the negotiated rates in the consulting arrangement and the number of hours worked during the period. Those revenues are recognized when (i) it can be measured reliably; (ii) it is probable that the economic benefits associated with the transaction will flow to the Company; and (iii) the costs incurred or to be incurred can be measured reliably.

Revenues from royalties are measured at the expected fair value of the consideration received or receivable. Those revenues are recognized when (i) it can be measured reliably; (ii) it is probable that the economic benefits associated with the transaction will flow to the Company, and (iii) the Company retains no continuing managerial involvement. In cases where the Company has a remaining obligation and the license is granted for a specific period of time, revenues are deferred and recognized on a straight-line basis over the period covered by the agreement.

Other income comprises the following:

- Government assistance
- Scientific Research and Experimental Development tax credit

Cash

Cash consists of cash on hand.

Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

Group NanoXplore Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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The Company classifies its financial instruments into the following categories:

a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise cash and accounts receivable. Loans and receivables are included in current assets due to their short-term nature. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

b) Financial liabilities at amortized cost

Financial liabilities at amortized cost comprise operating loan, accounts payable and accrued liabilities, long-term debt and convertible debentures. Financial liabilities at amortized cost are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, accounts payable and accrued liabilities are measured at amortized cost using the effective interest method. These are classified as current liabilities if payment is due within 12 months. Otherwise, they are presented as non-current liabilities.

Inventory

Inventory is stated at the lower of cost and net realizable value. Cost is determined using the weighted average cost method, or the first-in-first-out method, depending of the nature of the inventory. Cost includes all expenditures directly attributable to the manufacturing process as well as suitable portions of related production overheads based on a normal operating capacity. Net realizable value is the estimated selling price in the ordinary course of business less costs of completion and any applicable selling expenses. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the impairment is reversed (i.e. the reversal is limited to the amount of the original impairment) so that the new carrying amount is the lower of the cost and the revised net realizable value.

Property, plant and equipment

Property, plant and equipment are recorded at cost, less accumulated depreciation and accumulated impairment losses, if applicable. Property, plant and equipment are depreciated using the straight-line method over their estimated useful lives, taking into account any residual values. Their useful lives are as follows:

Land	Not depreciated
Building	20 years
Production equipment	5 to 10 years
Laboratory, computer, office equipment and rolling stock	2 to 5 years
Leasehold improvements	Lease term

Residual values, method of depreciation and useful lives of the assets are reviewed annually and adjusted if appropriate.

Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized in the period in which they are incurred and recorded as a deduction from the proceeds in equity in the period in which the shares are issued.

Group NanoXplore Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Impairment of non-financial assets

Non-financial assets are reviewed for impairment if there is any indication that the carrying amount may not be recoverable. If any such indication is present, the recoverable amount of the asset is estimated in order to determine whether impairment exists. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the asset group to which the asset belongs.

An asset's recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or asset group is estimated to be less than its carrying amount, the carrying amount is reduced to the recoverable amount. Impairment is recognized immediately as additional depreciation or amortization. Where an impairment subsequently reverses, the carrying amount is increased to the revised estimate of the recoverable amount, but only to the extent that this does not exceed the carrying value that would have been determined had no impairment been previously recognized. A reversal is recognized as a reduction in the depreciation or amortization charge for the period.

Research and development expenses

Research and development expenses are charged to the consolidated statement of loss and comprehensive loss in the period they are incurred. Research and development expenses charged to the consolidated statement of loss and comprehensive loss for the year.

Government assistance and Scientific Research and Experimental Development tax credit

The Company periodically receives financial assistance under government incentive programs and Scientific Research and Experimental Development tax credit ("SR&ED"). Government assistance and SR&ED are recognized initially as a deferred contribution at fair value when there is reasonable assurance that it will be received and the Company will comply with the conditions associated with the assistance. It is recognized as other income in the consolidated statement of loss and comprehensive loss when there is a reasonable assurance that it will be received.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the date of inception. The arrangement is assessed to determine whether fulfillment is dependent on the use of a specific asset (or assets) and the arrangement conveys a right to use the asset (or assets), even if that right is not explicitly specified in an arrangement.

Leases that do not transfer substantially all the risks and rewards incidental to ownership to the Company as a lessee are classified as operating leases. Operating lease payments are recognized as an operating expense in the consolidated statement of loss and comprehensive loss on a straight-line basis over the lease term.

Income tax

Income tax comprises current and deferred tax. Income tax is recognized in the consolidated statement of loss and comprehensive loss except to the extent that it relates to items recognized directly in other comprehensive loss or in equity, in which case the income tax is also recognized directly in other comprehensive loss or equity, respectively.

Group NanoXplore Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended June 30, 2017 and 2016
(Expressed in Canadian dollars)

Current income tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in respect of previous years.

In general, deferred income tax is recognized with respect to temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not recognized if it arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit nor loss.

Deferred income tax is determined on a non-discounted basis using tax rates and laws enacted or substantively enacted at the consolidated statement of financial position date and that are expected to apply when the deferred tax asset is realized or liability is settled. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be used. Deferred tax assets and liabilities are presented as non-current.

Loss per share

Basic loss per share is based on the weighted average number of common shares outstanding of the Company during the year. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding share options, convertible debentures, broker warrants and warrants, in the weighted average number of common shares outstanding during the year, if dilutive.

Provisions

A provision is recognized when the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

Share-based compensation

The fair value of stock options granted to employees is recognized as an expense, over the vesting period with a corresponding increase in option reserves. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee, including directors of the Company. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined that the fair value of the goods or services cannot be reliably measured, and are recorded at the date on which the goods or services are received.

The fair value is measured at the grant date and recognized over the period during which the stock options vest. The fair value of options granted is measured using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. Determination of the grant date fair value requires management estimates such as risk-free interest rate, volatility and weighted average expected life.

Group NanoXplore Inc.

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At each statement of financial position date, the amount recognized as an expense is adjusted to reflect the actual number of stock options that are expected to vest. On exercise of a stock option, any amount related to the initial value of the stock option, along with the proceeds from exercise, are recorded in share capital.

Significant management estimations and judgments in applying accounting policies

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

When preparing the consolidated financial statements, management undertakes a number of judgments, estimates and assumptions about recognition and measurement of assets, liabilities, revenues and expenses. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about the significant judgments, estimates and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, revenues and expenses are discussed below.

i) Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that non-financial assets may be impaired. An impairment loss is recognized for the amount by which an asset's or cash-generating unit's (CGU) carrying amount exceeds its recoverable amount, which is the higher of fair value less cost of disposal and value in use. To determine value in use, management estimates expected future cash flows from each asset or CGU and determines a suitable discount rate in order to calculate the present value of those cash flows. In the process of measuring expected future cash flows, management makes assumptions about future operating results. These assumptions relate to future events and circumstances. The actual results may vary and may cause significant adjustments to the Company's assets in future periods. In most cases, determining the applicable discount rate involves estimating the appropriate adjustment to market risk and to asset-specific risk factors.

ii) Inventories

Inventories are measured at the lower of cost and net realizable value, with cost determined using the weighted average cost method or the first-in-first-out method. In estimating net realizable values, management takes into account the most reliable evidence available at the time the estimates are made. The Company evaluates its inventories using a group of similar items and considers expected future prices as well as events that have occurred between the consolidated statement of financial position date and the date of the completion of the consolidated financial statements.

iii) Government assistance

Government assistance is accounted for as other income during the year in which the costs are incurred, provided that the Company is reasonably certain based on management's judgment that the assistance/income will be received. Government assistance must be examined and approved by the tax authorities, and it is possible that the amounts granted will differ from the amounts recorded by management. In cases where it would be reasonable to believe that certain amounts collected would have to be repaid, a provision is taken.

3. NEW ACCOUNTING STANDARDS ISSUED BUT NOT YET IN EFFECT

The following standards and amendments to existing standards have been published, and their adoption is mandatory for future accounting periods.

Group NanoXplore Inc.

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IFRS 9 & IFRS 7, Financial Instruments and Disclosures

In November 2009 and October 2010, the IASB issued the first phase of IFRS 9. In November 2013, the IASB issued a new general hedge accounting standard, which forms part of IFRS 9. The final version of IFRS 9 was issued in July 2014 and includes a third measurement category for financial assets (fair value through other comprehensive income) and a single, forward-looking “expected loss” impairment model.

IFRS 9 replaces the current multiple classification and measurement models for financial assets and financial liabilities with a single model that has three classification categories: amortized cost, fair value through other comprehensive income and fair value through profit and loss. The basis of classification depends on the entity’s business model and the contractual cash flow characteristics of the financial asset or financial liability. It also introduces limited changes relating to financial liabilities and aligns hedge accounting more closely with risk management.

IFRS 7 was amended to require additional disclosures on transition from IAS 39 to IFRS 9. It will be effective on adoption of IFRS 9.

The new standard is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

IFRS 15, Revenue from Contracts with Customers

The IASB has issued IFRS 15, which will replace IAS 11, Construction Contracts, and IAS 18, Revenue. The mandatory effective date of IFRS 15 is for annual periods beginning on or after January 1, 2018. The objective of IFRS 15 is to establish a single, principle-based model to be applied to all contracts with customers in determining how and when revenue is recognized. IFRS 15 also requires entities to provide additional disclosures. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

IFRS 16, Leases

In January 2016, the IASB issued IFRS 16, Leases, which specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16’s approach to lessor accounting substantially unchanged from its predecessor, IAS 17. The standard will be mandatory for annual periods beginning on or after January 1, 2019. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

IAS 7, Statement of Cash Flows

In January 2016, the IASB amended IAS 7, Statement of Cash Flows. The amendments require that the following changes in liabilities arising from financing activities are disclosed (to the extent necessary): (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes. One way to fulfill the new disclosure requirement is to provide a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. Finally, the amendments state that changes in liabilities arising from financing activities must be disclosed separately from changes in other assets and liabilities. This amendment was mandatory for annual periods beginning on or after January 1, 2017. This standard solely amends disclosure requirements, the Company does not anticipate any presentation impact on the Company’s consolidated financial statements.

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4. BUSINESS ACQUISITION

Acquisition of Gestion RJ Aubin Inc.

On June 1, 2016, through its wholly-owned subsidiary 9334-7474 Québec Inc., the Company acquired all of the issued and outstanding shares in the capital of Gestion RJ for a total consideration of \$2,251,603. Gestion RJ holds a building where Rada Industries operates exclusively. Rada Industries is a wholly-owned subsidiary of Gestion RJ, located in Delson, Québec and is a manufacturer of plastic blow molding and injection. Rada Industries offers products consisting primarily of 100% recyclable plastic bottles, jars and custom plastic parts.

This transaction was financed using the Company's available cash and issued new credit facilities (operating loan and long-term debt).

The following table summarizes the consideration paid for Gestion RJ and the amount of the assets acquired and liabilities assumed recognized at the acquisition date as well as the fair value at the acquisition date:

	\$
<u>Assets acquired</u>	
Cash	146,556
Accounts receivable	436,166
Inventories	281,529
Prepaid expenses	3,520
Property, plant and equipment	<u>2,822,278</u>
	<u>3,690,049</u>
<u>Liabilities assumed</u>	
Accounts payable and accrued liabilities	425,344
Income taxes payable	41,669
Long-term debt	604,326
Deferred income taxes liabilities	<u>367,107</u>
	<u>1,438,446</u>
Net identifiable assets	<u>2,251,603</u>
Consideration paid in cash	2,251,603
Minus: Cash acquired	<u>146,556</u>
Net cash flow for the acquisition	<u>2,105,047</u>

This acquisition was concluded in order to introduce its graphene-enhanced solution products into the polymer products of Rada. There is no goodwill deductible for tax purposes. Since the date of acquisition, revenues and loss and comprehensive loss of Gestion RJ included in the consolidated statements of loss and comprehensive loss for the year ended June 30, 2016 amounted to \$218,278 and \$45,812, respectively.

The unavailability of certain of Gestion RJ's consolidated financial information prior to the date of acquisition does not allow for accurate disclosure of pro forma revenues and loss had the Company concluded this acquisition at the beginning of its fiscal year.

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5. ACCOUNTS RECEIVABLE

Accounts receivable consist of:

	As at June 30,	
	2017	2016
	\$	\$
Trade receivables	384,650	317,954
Minus: Allowance for doubtful accounts	(14,286)	(14,286)
Sales tax receivable	35,022	10,779
Government assistance receivable	48,017	16,891
SR&ED tax credit receivable	-	58,894
Other receivables (Note 18)	8,919	58,933
	462,322	449,165

All of the Company's accounts receivable are short term. The Company reviews all amounts periodically for indication of impairment, and the amounts impaired have been provided for as allowance for doubtful accounts. Substantially all trade accounts receivables are not past due.

Most of the trade receivables are pledged as security for the operating loan and long-term debts (Note 11 and Note 12).

National Research Council ("NRC")

In May 2016, the Company entered into a contribution agreement with the NRC represented by its Industrial Research Assistance Program. Upon meeting certain conditions, the NRC agreed to financially assist the Company in the project called "A Platform Technology to Produce Graphene Enhanced Epoxy Resins, Slurries, Pastes and Greases", which qualifies for support under the federal government's program and is also accounted for as government assistance. Under the terms and conditions of the agreement, the NRC will reimburse 80% of salary costs and 50% of contractor fees for a maximum of \$288,000 for the period from May 26, 2016 to June 9, 2017.

In May 2015, the Company entered into a contribution agreement with the NRC represented by its Industrial Research Assistance Program. Upon meeting certain conditions, the NRC agreed to financially assist the Company in the project called "A Platform Technology to Enhance Dispersibility of Graphene", which qualifies for support under the federal government's program and is also accounted for as government assistance. Under the terms and conditions of the agreement, the NRC will reimburse 80% of salary costs for a maximum of \$192,000 for the period from April 1, 2015 to March 31, 2016.

As part of the contribution agreements with NRC, the Company accrued government assistance as detailed below:

	Years ended June 30,	
	2017	2016
	\$	\$
Amount received during the period	232,000	189,291
Amount recognized as other income	263,126	170,739
Amount receivable	48,017	16,891

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SR&ED

For the year ended June 30, 2017, the Company recognized tax credits from the Federal and Provincial government for research and development expenses of \$219,073 (2016: \$217,941) as other income in the consolidated statement of loss and comprehensive loss. An amount of \$276,334 (2016: \$159,047) was received during the year and nil (2016: 58,894) is included in the accounts receivable as at June 30, 2017.

The total expenses that gave rise to SR&ED tax credits are \$467,696 for the year ended June 30, 2017 (2016: \$342,508).

Other

As part of another program, the Company also recognized and received during the period a contribution totaling \$9,000 (2016 – nil).

6. INVENTORY

Inventory consists of:

	As at June 30,	
	2017	2016
	\$	\$
Raw materials	148,126	122,800
Finished goods	145,191	169,352
	293,317	292,152

The cost of inventory recognized as an expense and included in cost of sales for the year ended June 30, 2017 is \$2,406,389 (2016: \$172,066), including write-downs recorded of \$43,904 (2016: nil), as a result of net realizable value being lower than cost and reversals of inventory write-downs recognized in prior periods of \$13,294 (2016: nil).

The majority of inventories is pledged as security for the operating loan and long-term debts (Note 11 and Note 12).

7. INVESTMENT IN A JOINT VENTURE

On August 13, 2015, the Company purchased a 50% interest in Two Carbon Inc. (“Two Carbon”) in consideration for \$50,000 and a commitment of \$50,000 of in-kind services. Those services were all rendered in 2016. Two Carbon is focused on research and development of graphene solutions for the footwear industry.

This investment has been accounted for using the equity method.

	As at June 30,	
	2017	2016
	\$	\$
Balance as at July 1	70,220	-
Acquisition of 50% interest (at cost)	-	100,000
Share of loss and comprehensive loss of the year	(8,912)	(29,780)
	61,308	70,220

The following summarized financial information of Two Carbon is as follows, including fair value adjustments made

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at the time of the acquisition of the interests:

	Years ended June 30,	
	2017	2016
	\$	\$
Current assets	35,053	37,909
Cash (included in current assets)	35,053	37,909
Non-current assets	92,500	100,000
Current liabilities	-	-
Revenues	-	-
Loss and comprehensive loss	17,825	59,560
Depreciation	15,000	-

8. INVESTMENT IN NANOPHYLL

On August 26, 2015, the Company purchased a 32% interest in Nanophyll Inc. ("Nanophyll") in consideration for a value of \$320,000 of in-kind services. Nanophyll is focused on research and development of graphene solutions applicable to the photoactive industry. The agreement was voided as the services were never rendered.

On August 28, 2015, Nanophyll completed a non-brokered private placement of 200,000 common shares for gross proceeds of \$200,000. In this financing, the Company purchased 50,000 common shares for a consideration of \$50,000. After the transactions of August 26 and August 28, 2015, the Company holds a 6% interest in Nanophyll.

On February 19, 2016, Nanophyll redeemed all shares held by the Company for a consideration of \$50,000.

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9. PROPERTY, PLANT AND EQUIPMENT

	Land & Building	Production equipment	Leasehold improvements	Laboratory, computer, office equipment and rolling stock	Total
	\$	\$	\$	\$	\$
Balance as at July 1, 2016	1,550,338	1,364,232	38,333	146,613	3,099,516
Additions	-	541,452*	12,189	40,483	594,124
Depreciation	(60,138)	(185,695)	(9,479)	(55,144)	(310,456)
Balance as at June 30, 2017	1,490,200	1,719,989	41,043	131,952	3,383,184
As at June 30, 2017					
Cost	1,555,375	1,951,217	83,544	242,208	3,832,344
Accumulated depreciation	(65,175)	(231,228)	(42,501)	(110,256)	(449,160)
Net book value	1,490,200	1,719,989	41,043	131,952	3,383,184
Balance as at July 1, 2015	-	88,954	19,134	90,521	198,609
Additions	-	84,052	42,500	57,937	184,489
Business acquisition (Note 4)	1,555,375	1,232,184	-	34,719	2,822,278
Depreciation	(5,037)	(40,958)	(23,301)	(36,564)	(105,860)
Balance as at June 30, 2016	1,550,338	1,364,232	38,333	146,613	3,099,516
As at June 30, 2016					
Cost	1,555,375	1,409,765	71,355	201,725	3,238,220
Accumulated depreciation	(5,037)	(45,533)	(33,022)	(55,112)	(138,704)
Net book value	1,550,338	1,364,232	38,333	146,613	3,099,516

The majority of property, plant and equipment is pledged as security for the operating loan and long-term debts (Note 11 and Note 12).

* A total of \$421,727 of equipment is not depreciated as not yet in service, expected to be reaching production stage in October 2017 (June 30, 2016 – nil).

In addition to the equipment presented in the table above, as at June 30, 2017, an equipment deposit of \$53,416 was paid to a supplier.

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of:

	As at June 30,	
	2017	2016
	\$	\$
Trade payables	420,580	342,509
Accrued liabilities	297,746	312,886
Payroll withholding taxes payable	34,930	24,211
	753,256	679,606

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11. OPERATING LOAN

On May 18, 2016 and amended on June 6 and September 14, 2016, 9334-7474 Québec Inc., Gestion RJ and Rada (together "Group Rada") signed a credit facility agreement with the Toronto-Dominion Bank which authorized Group Rada to a maximum operating loan of \$350,000, subject to a borrowing base calculation, which is primarily based on eligible accounts receivable and inventory balances. The credit facility has been renewed on March 30, 2017. The operating loan bears interest at Canadian prime rate plus 1.50%. A first rank movable hypothec of \$2,000,000 on the universality of the Group Rada's all present and future, tangible and intangible assets has been given as security except for the equipment and rolling stock which is a 2nd rank hypothec behind Investissement Québec for a prior lien of \$1,000,000. The operating loan is subject to financial and non-financial covenants. As at June 30, 2017, all applicable covenants are respected except for the Debt Service Coverage Ratio (DSC) over the long-term debt, hence creating a cross-default on the operating loan. From a liquidity perspective, the Company holds sufficient funds to meet its financial obligations with the Toronto-Dominion Bank and Investissement Québec. As at September 27, 2017, the Company has obtained a letter from both institutions that waives compliance with the DSC covenant for the period ending June 30, 2017.

12. LONG-TERM DEBTS

	<u>As at June 30,</u>	
	<u>2017</u>	<u>2016</u>
	\$	\$
Reducing mortgage term loan between Group Rada and the Toronto-Dominion Bank, bearing interest at 3.36% per annum (rate renewable in June 2018), maturing in June 2022 and payable in monthly instalments of \$7,132 (principal and interest). A first rank immovable hypothec on 181, rue Brossard, Delson, Québec of the principal amount of \$1,600,000 and a first rank movable hypothec of \$2,000,000 on the universality of all of Group Rada's present and future, tangible and intangible assets have been given as security except for the equipment and rolling stock which is a 2 nd rank hypothec behind Investissement Québec for a prior lien of \$1,000,000. (a)	1,203,154	1,250,000
Term loan between 9334-7474 Québec Inc. and Investissement Québec, bearing interest at Canadian prime rate plus 3.14% (rate renewable in June 2018), payable in monthly principal installments of \$8,335 maturing in December 2026. A principal movable hypothec of \$1,000,000 and an additional movable hypothec of \$200,000 on the universality of all of Group Rada's present and future, tangible and intangible assets have been given. (b)	949,990	1,000,000
Installment sale obligation between Rada Industries Ltd. and Royal Bank of Canada, bearing interest at 1.99% per annum, payable in monthly installments of \$570 (principal and interest) maturing in November 2018.	9,561	16,148
	<u>2,162,705</u>	<u>2,266,148</u>
Less: current portion of long-term debts	2,159,865	103,696
	<u>2,840</u>	<u>2,162,452</u>

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- (a) Group Rada has agreed to respect certain financial and non-financial covenants. As at June 30, 2017, all applicable covenants are respected except for the Debt Service Coverage Ratio (DSC) over the long-term debt. As such, the long-term debt has been presented as a current liability. From a liquidity perspective, the Company holds sufficient funds to meet its financial obligations with the Toronto-Dominion Bank and Investissement Québec. As at September 27, 2017, the Company has obtained a letter from the institution that waives compliance with the DSC covenant for the period ending June 30, 2017.
- (b) 9334-7474 Québec Inc. has agreed to respect certain financial and non-financial covenants. As at June 30, 2017, all applicable covenants are respected except for the Debt Service Coverage Ratio (DSC) over the long-term debt. As such, the long-term debt has been presented as a current liability. From a liquidity perspective, the Company holds sufficient funds to meet its financial obligations with the Toronto-Dominion Bank and Investissement Québec. As at September 27, 2017, the Company has obtained a letter from the institution that waives compliance with the DSC covenant for the period ending June 30, 2017.

In June 2016, according to the share purchase agreement signed for the acquisition of Gestion RJ, 9334-7474 Québec Inc. reimbursed in full the term loans due to Business Development Bank of Canada and Royal Bank of Canada. The amount was \$588,179.

13. CONVERTIBLE DEBENTURES

On August 1 and May 20, 2016, the Company completed two private placements financing through convertible debentures (the “Debentures”) for aggregate gross proceeds of \$450,000 and \$550,000 respectively. The Debentures have the following features:

- The Debentures are set to mature on December 31, 2016 and bear interest at a fixed annual rate of 12%, payable at the maturity date;
- The Debentures holders are entitled to convert the principal amount and all accrued interest of the Debentures into common shares at a conversion price of \$18.03 per common share;
- The Debentures including the principal amount and accrued interest will be automatically converted into common shares of the Company, on the event of an equity financing of the Company or on to the maturity date, whichever happens earlier, at a conversion price equal to the equity financing or at \$18.03 per common share; and
- In the event of default as defined in the Debentures, the principal amount and accrued interest will be payable in cash.

	As at June 30,	
	2017	2016
	\$	\$
Convertible debentures, bearing interest at 12% and maturing on December 31, 2016	-	550,000
Less: current portion of the convertible debentures	-	550,000
	<u>-</u>	<u>-</u>

On October 28, 2016, the Company completed a private placement (see Note 14) which triggered an automatic conversion of the outstanding Debentures for an aggregate amount of \$1,042,132 (including \$42,132 of accrued interest on Debentures) for a total of 57,801 Class A common shares. Debentures have been converted at a price of \$18.03 per share.

The Company classified the debentures as a liability instrument.

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14. SHARE CAPITAL

Authorized and issued

An unlimited number of Class A common shares, without value, which confer to each shareholder the right to vote at any shareholder meeting, receive dividends declared by the Company thereon and share the residual property upon dissolution of the Company.

Issued and outstanding shares are detailed as follows:

	Class A common shares
	<u>\$</u>
Balance as at July 1, 2016	1,275,511
Issuance of shares as part of private placement	69,605
Conversion of convertible debentures into shares	<u>57,801</u>
Balance as at June 30, 2017	<u>1,402,917</u>
Balance as at July 1, 2015 and June 30, 2016	<u>1,275,511</u>

On October 28, 2016, the Company completed a non-brokered private placement of 125,068 Class A common shares for gross proceeds of \$2,255,000 of which \$1,000,000 arose from the conversion of the Debentures representing 55,463 Class A common shares. Accrued interest of \$42,132 from the Debentures has also been converted into 2,338 Class A common shares. In this non-brokered private placement, Mason Graphite Inc., which has a significant influence on the Company, and therefore a related party, purchased 55,463 Class A common shares for gross proceeds of \$1,000,000. The Company paid \$5,978 in private placement issuance costs.

15. STOCK OPTIONS

The Company has an incentive stock option plan (the "Plan") whereby the Company can grant to employees, directors, officers and consultants options to purchase shares of the Company. The Plan provides for the issuance of stock options to acquire up to 127,551 of the Company's issued and outstanding capital. The terms and conditions of each option granted under the Plan, including the vesting schedule and the expiry date, will be determined by the Board of Directors. The exercise price for any stock option shall be determined by the Board of Directors and shall not be lower than the market price of the underlying common shares at the time of grant.

Following the transaction described in note 23, the Company will continue under the existing stock option plan of Graniz Mondal Inc. The incentive stock option plan of Graniz Mondal Inc. allows the Company to grant to employees, directors, officers and consultants options to purchase shares of the Company. The plan is a rolling plan, as the number of shares reserved for issuance pursuant to the grant of stock options will increase as the Company's issued and outstanding share capital increases. The plan provides for the issuance of stock options to acquire up to 10% of the Company's issued and outstanding capital. The terms and conditions of each option granted under the plan, including the vesting schedule and the expiry date, will be determined by the Board of Directors. The exercise price for any stock option shall be determined by the Board of Directors and shall not be lower than the market price of the underlying common shares at the time of grant.

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On May 2, 2017, the Company granted 6,000 options to directors of the Company. The weighted average fair value of options granted, as estimated at the time of the grant, was \$8.16. This was calculated using the Black-Scholes option pricing model with the following assumptions: option exercise price of \$18.03, estimated life of five years, risk-free interest rate of 0.96%, volatility of 52% (based on historical volatility of similar publicly traded companies in the graphene and graphene composites manufacturing sector), forfeiture rate of nil, and no forecasted dividend yields. The vesting period for 6,000 options is one third upon grant, one third one year after grant, and the last third two years after grant.

On January 2, 2017, the Company granted 7,000 options to an officer and employee of the Company. The weighted average fair value of options granted, as estimated at the time of the grant, was \$8.09. This was calculated using the Black-Scholes option pricing model with the following assumptions: option exercise price of \$18.03, estimated life of five years, risk-free interest rate of 1.11%, volatility of 51% (based on historical volatility of similar publicly traded companies in the graphene and graphene composites manufacturing sector), forfeiture rate of nil, and no forecasted dividend yields. The vesting period for 7,000 options is one third upon grant, one third one year after grant, and the last third two years after grant.

On May 1, 2016, the Company granted 4,000 options to employees of the Company. The weighted average fair value of options granted, as estimated at the time of the grant, was \$4.56. This was calculated using the Black-Scholes option pricing model with the following assumptions: option exercise price of \$9.80, estimated life of five years, risk-free interest rate of 0.87%, volatility of 54% (based on similar publicly traded companies listed on stock market), forfeiture rate of nil, and nil forecasted dividend yield. The vesting period is: one third upon grant, one third one year after grant and the last third two years after grant.

On March 7, 2016, the Company granted 13,000 options to an officer of the Company. The weighted average fair value of options granted, as estimated at the time of the grant, was \$4.55. This was calculated using the Black-Scholes option pricing model with the following assumptions: option exercise price of \$9.80, estimated life of five years, risk-free interest rate of 0.72%, volatility of 54% (based on historical volatility of similar publicly traded companies in the graphene and graphene composites manufacturing sector), forfeiture rate of nil, and nil forecasted dividend yield. The vesting period is: one third upon grant, one third one year after grant and the last third two years after grant.

On February 15, 2016, the Company granted 4,000 options to an officer and an employee of the Company. The weighted average fair value of options granted, as estimated at the time of the grant, was \$4.52. This was calculated using the Black-Scholes option pricing model with the following assumptions: option exercise price of \$9.80, estimated life of five years, risk-free interest rate of 0.59%, volatility of 54% (based on historical volatility of similar publicly traded companies in the graphene and graphene composites manufacturing sector), forfeiture rate of nil, and nil forecasted dividend yield. The vesting period is: one third upon grant, one third one year after grant and the last third two years after grant.

On October 23, 2015, the Company granted 22,000 options to directors, officers and employees of the Company. The weighted average fair value of options granted, as estimated at the time of the grant, was \$4.55. This was calculated using the Black-Scholes option pricing model with the following assumptions: option exercise price of \$9.80, estimated life of five years, risk-free interest rate of 0.84%, volatility of 54% (based on historical volatility of similar publicly traded companies in the graphene and graphene composites manufacturing sector), forfeiture rate of nil, and nil forecasted dividend yield. The vesting period is: one third upon grant, one third one year after grant and the last third two years after grant.

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The following table reflects the continuity of options for the period ended June 30, 2017:

	<u>Number of options</u>	<u>Weighted average exercise price</u>
Balance as at July 1, 2016	41,000	\$9.80
Granted	13,000	\$18.03
Balance as at June 30, 2017	54,000	\$11.78

As at June 30, 2017, the Company had the following options outstanding:

<u>Options outstanding as at June 30, 2017</u>			<u>Options exercisable as at June 30, 2017</u>		
<u>Number</u>	<u>Weighted average exercise price</u>	<u>Weighted average remaining contractual life (years)</u>	<u>Number</u>	<u>Weighted average exercise price</u>	<u>Weighted average remaining contractual life (years)</u>
54,000	\$11.78	3.79	31,667	\$10.93	3.67

Share-based compensation costs for the year ended June 30, 2017 totaled \$115,287 included in the consolidated statements of loss and comprehensive loss (2016: \$108,065).

The following table reflects the continuity of options for the period ended June 30, 2016:

	<u>Number of options</u>	<u>Weighted average exercise price</u>
Balance as at July 1, 2015	-	-
Granted	43,000	9.80
Cancelled	(666)	9.80
Forfeited	(1,334)	9.80
Balance as at June 30, 2016	41,000	\$9.80

16. LOSS PER SHARE

	<u>Years ended June 30,</u>	
	<u>2017</u>	<u>2016</u>
Loss attributable to common shares	<u>\$2,125,266</u>	<u>\$1,487,256</u>
Weighted average number of common shares	<u>55,705,390</u>	<u>51,105,517</u>
Loss per share – basic and diluted	<u>\$0.04</u>	<u>\$0.03</u>

The Company has considered the Transaction and in particular the 40.0667:1 split of the Company's common shares described in Note 23 in the calculation of the weighted average number of shares for the years ended June 30, 2017 and 2016.

The effect of potential issuances of shares under options, warrants, broker warrants and convertible debentures for the years ended June 30, 2017 and 2016 would be anti-dilutive, and accordingly, basic and diluted losses per share are the same.

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17. INCOME TAXES

Reconciliation of the effective tax rates is as follows:

	Year ended June 30,	
	2017	2016
	\$	\$
Statutory tax rate	18.5%	18.5%
Loss before income taxes for the year	<u>2,175,813</u>	<u>1,491,249</u>
Tax recovery at statutory rate	402,525	275,881
Permanent differences	(23,386)	(28,431)
Effect of difference of foreign tax rates compared to Canadian tax rates	84,994	42,011
Tax effect of unrecognized temporary difference and tax losses	(413,291)	(285,468)
Other	(295)	-
Net tax recovery	<u>50,547</u>	<u>3,993</u>

Net unrecognized deductible temporary differences for which no deferred taxes have been recognized amount to \$859,258 (2016 – \$467,524). Deferred tax assets have not been recognized because at this stage of the Company's development, it is not determinable that taxable profit will be available against which the Company can utilize deferred income tax assets.

As at June 30, 2017 and 2016, significant components of the Company's deferred income tax assets (not recognized) are as follows:

	2017	2016
	\$	\$
Deferred income tax assets		
Property, plant and equipment	37,340	20,189
Share issue costs	3,046	3,491
Operating losses carried forward	794,273	421,809
Research and Development	19,395	18,029
Investment in subsidiary	5,204	4,006
Total deferred income tax assets	<u>859,258</u>	<u>467,524</u>

As at June 30, 2017 and 2016, the significant component of the Company's deferred income tax liabilities is property, plant and equipment.

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As at June 30, 2017, expiration dates of losses available in Canada to reduce future years' income for tax purposes are:

	<u>Federal</u>	<u>Provincial</u>
	\$	\$
2037	1,552,283	1,552,283
2036	844,242	845,136
2035	557,894	728,701
2034	91,926	88,958
2033	10,702	10,702
2032	8,517	8,517
2029	3,167	3,167
Total	<u>3,068,731</u>	<u>3,237,464</u>

As at June 30, 2017, the Company had also accumulated non-capital losses for tax purposes in Germany of approximately \$670,741 (2016 – \$331,161) which can be used to reduce taxable income in the future with no expiration date.

18. RELATED PARTY TRANSACTIONS

During the years ended June 30, 2017 and 2016, the Company entered into the following transactions with related parties:

- Incurred royalties revenues from Mason Graphite Inc. of \$50,000 (2016 – \$50,000); Mason Graphite Inc. is a shareholder of the Company with significant influence;
- Incurred laboratory services revenues from Mason Graphite Inc. of \$50,000 (2016: \$32,500) (the Company has a significant influence on NanoXplore);
- Purchased raw materials from Mason Graphite Inc. of \$320 (2016: \$5,778) (the Company has a significant influence on NanoXplore);
- Incurred laboratory services revenues from Two Carbon Inc. of nil (2016: \$50,000). The Company has joint control over Two Carbon Inc. as described in Note 7.

The Company and Mason Graphite Inc. have signed a sales and marketing agency agreement including the following provisions:

- a. Mason Graphite Inc. will receive a 5% commission of the gross revenues received by the Company from third parties introduced by Mason Graphite Inc.; and
- b. Mason Graphite Inc. has first right of refusal to provide the required graphite to the Company for graphene production at a price to be negotiated between the parties and will receive 4% commission on the purchase price paid by the Company for graphite sourced by Mason Graphite Inc. from third parties.

As at June 30, 2017, the balance receivable from the related parties amounted to \$8,333 (2016 – \$58,333) and is included in other receivables. The amounts outstanding are non-interest-bearing, unsecured and receivable on demand.

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The remuneration of directors and key management personnel during the year was as follows:

	Years ended June 30,	
	2017	2016
	\$	\$
Consulting fees, wages and salaries	293,584	287,661
Share-based compensation – Management	12,453	59,518
Share-based compensation – Director	24,087	9,256
	330,124	356,435

In accordance with IAS 24, Related Party Disclosures, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including any directors (executive and non-executive) of the Company.

Key management employees are subject to employment agreements which provide for market standard payments on termination of employment without cause providing for payments of between six months to 2 years of base salary. Minimum commitments under these agreements are approximately \$315,000. These agreements require that additional minimum payments of approximately \$630,000 be made upon the occurrence of certain events such as a change of control. As a triggering event has not taken place, the contingent payments have not been reflected in these consolidated financial statements.

19. COMMITMENTS

The Company's financial commitments consist of lease agreements covering its offices and a vehicle lease.

	As at June 30, 2017
	\$
Within 1 year	139,837
1 to 5 years	471,515
More than 5 years	-
Total	611,352

The total lease expense for the year (operating leases) is \$127,542 (2016: \$65,614).

20. FINANCIAL INSTRUMENTS

The Company's risk exposures and the impact on the Company's financial instruments are summarized below.

Fair value risk

IFRS requires that the Company disclose information about the fair value of its financial assets and financial liabilities. Fair value estimates are made based on relevant market information and information about the financial instrument.

These estimates are subjective in nature and involve uncertainties in significant matters of judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

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The carrying amounts for cash, accounts receivable, accounts payable and accrued liabilities, long-term debts within one year, operating loan and convertible debentures on the consolidated statement of financial position approximate their fair values because of the limited terms of these instruments.

As at June 30, 2017, the fair value of the long-term debts approximate its carrying values.

IFRS 7, Financial Instruments: Disclosures, requires classification of fair value measurements for financial instruments carried at fair value using a fair value hierarchy that reflects the significance of inputs used in making the measurements. As at June 30, 2017, the Company has no financial instruments carried at fair value.

The fair value of a financial instrument is determined by reference to the available market information at the reporting date. When no active market exists for a financial instrument, the Company determines the fair value of that instrument based on valuation methodologies as discussed below. In determining assumptions required under a valuation model, the Company primarily uses external, readily observable market data inputs. Assumptions or inputs that are not based on observable market data incorporate the Company's best estimates of market participant assumptions, and are used when external data is not available. Counterparty credit risk and the Company's own credit risk are taken into account in estimating the fair value of all financial assets and financial liabilities.

The following assumptions and valuation methodologies have been used to measure fair value of financial instruments:

- (i) The fair value of its short-term financial assets and financial liabilities, including cash, accounts receivable, operating loan, trade payables and accrued liabilities and convertible debentures approximates their carrying value due to the short-term maturities of these instruments;
- (ii) The fair value of long-term debts are estimated based on discounted cash flows using current interest rate for instruments with similar terms and remaining maturities.

The carrying values and fair values of financial instruments, by class, are as follows as at June 30, 2017 and 2016:

As at June 30, 2017	Carrying value		Fair value	
	Loans and receivables	Financial liabilities at amortized cost	Total	Total
	\$	\$	\$	\$
Financial assets				
Cash	421,214	-	421,214	421,214
Trade and other receivables	379,283	-	379,283	379,283
Total	800,497	-	800,497	800,497
Financial liabilities				
Operating loan	-	215,000	215,000	215,000
Trade payables and accrued liabilities	-	718,326	718,326	718,326
Long-term debts	-	2,162,705	2,162,705	2,162,705
Total		3,096,031	3,096,031	3,096,031

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As at June 30, 2016	Carrying value			Fair value
	Loans and receivables	Financial liabilities at amortized cost	Total	Total
	\$	\$	\$	\$
Financial assets				
Cash	1,167,042	-	1,167,042	1,167,042
Trade and other receivables	362,601	-	362,601	362,601
Total	1,529,643	-	1,529,643	1,529,643
Financial liabilities				
Operating loan	-	255,000	255,000	255,000
Trade and accrued liabilities	-	655,395	655,395	655,395
Long-term debts	-	2,266,148	2,266,148	2,266,148
Convertible debentures	-	550,000	550,000	550,000
Total	-	3,726,543	3,726,543	3,726,543

Credit risk

Credit risk refers to the possibility that a customer or counterparty will fail to fulfill its obligations under a contract and, as a result, create a financial loss for the Company. The Company has a credit policy that defines standard credit practice. This policy dictates that all new customer accounts be reviewed prior to approval and establishes the maximum amount of credit exposure per customer. The creditworthiness and financial well-being of the customer are monitored on an ongoing basis.

The Company establishes an allowance for doubtful accounts as determined by management based on its assessment of collection; therefore, the carrying amount of accounts receivable generally represents the maximum credit exposure. As at June 30, 2017 and 2016, the Company has an allowance for doubtful accounts of \$14,286 and \$14,286 respectively. The provision for doubtful accounts, if any, is included in the consolidated statements of loss and comprehensive loss.

The majority of the Company's cash is held in accounts with Canadian banks. Management believes that the credit risk concentration with respect to these financial instruments is remote.

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. The Company's accounts payable and accrued liabilities have contractual maturities of less than 60 days and are subject to normal trade terms. The long-term debts have maturities between 5 to 9 years, but were reclassified into current liabilities as at June 30, 2017 because of the non-respect of the financial covenant (refer to note 12). As at September 27, 2017, the Company has obtained a letter from the institutions that waives compliance with the DSC covenant for the period ending June 30, 2017. The Company regularly evaluates its cash position to ensure preservation and security of capital and maintain liquidity.

As at June 30, 2017 and considering the subsequent private placement of \$9,697,082 described in Note 23, management estimates that funds available are sufficient to meet the Company's obligations and planned net expenditures through at least June 30, 2018.

The Company has also provided unlimited suretyship and subordination on the long-term debts and operating loan of its subsidiaries.

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The following table reflects the contractual maturity of the Company's financial liabilities as at June 30, 2017 (capital and interest payments):

As at June 30, 2017						
	Carrying amount	1 year	2-3 years	4-5 years	Later than 5 years	Total
	\$	\$	\$	\$	\$	\$
Operating loan	215,000	225,019	-	-	-	225,019
Trade and accrued liabilities	718,326	718,326	-	-	-	718,326
Long-term debts	2,162,705	2,256,281	2,897	-	-	2,259,178
Total	3,096,031	3,199,626	2,897	-	-	3,202,523

Interest rate risk

Interest rate risk refers to the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company's policy is to limit its exposure to interest rate risk fluctuation by ensuring that a reasonable portion of its long-term debts and convertible debentures are at fixed rates. The Company is exposed to interest rate fluctuations on its operating loan, and term loan with Investissement Québec, which bear a floating interest rate. Based on the balances outstanding as at June 30, 2017, a 1% increase (decrease) in interest rates would increase (decrease) the Company's consolidated net loss by \$11,650 on a 12 month horizon.

The Company's cash balances are non-interest bearing.

The Company's accounts payable and accrued liabilities are non-interest bearing.

Foreign currency risk

The Company is exposed to currency risk by incurring certain expenditures and revenues in currencies other than the Canadian dollar. The Company has determined that there is limited currency risk at this time.

As at June 30, 2017, almost all of the Company's cash balances were held in Canadian dollars, except for an amount of \$20,574 which is held in euros and \$11,119 which is held in US dollars. Assuming that all other variables are constant, a variation of 10% in the Canadian dollar exchange rate would generate an impact of approximately \$2,246 of the Company's consolidated net loss and comprehensive loss.

As at June 30, 2017, the Company has accounts payable and accrued liabilities that are labeled in euros and US dollars. Assuming that all other variables are constant, a variation of 10% in the Canadian dollar exchange rate would generate an impact of approximately \$2,638 on the Company's consolidated net loss and comprehensive loss. The Company does not use derivatives to mitigate its exposure to foreign currency risk.

The Company does not have other significant monetary assets and liabilities in currencies other than its functional currency.

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21. CAPITAL MANAGEMENT

The capital structure of the Company as at June 30, 2017 and 2016 consists of equity attributable to common shareholders comprising issued capital and equity reserves. The operations are in the development stage and as a result the Company has minimal sources of operating cash flows and is dependent on external financing to fund its continued development. The Company's main sources of funding have been the issuance of equity securities for cash, debts, funds from the government of Quebec and from the federal government with respect to R&D tax credit and the Industrial Research Assistance Program. The Board of Directors does not establish quantitative return on capital criteria for management but rather relies on the expertise of the Company's management to sustain future development of the business. The Company is not subject to any externally imposed capital requirements. As at June 30, 2017, one financial covenant related to the existing debts with Investissement Québec and Toronto-Dominion bank was not met (refer to note 12). As at September 27, 2017, the Company has obtained a letter from the institutions that waives compliance with the DSC covenant for the period ending June 30, 2017.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There have been no significant changes in the capital management, objectives, policies and proceedings during 2017 and 2016. Changes in capital are described in the consolidated statement of changes in equity.

22. OPERATING SEGMENTS

Our Chief Operating Decision Maker analyses the information for the Company as a whole on a consolidated basis only and as such, the Company determined it has only one operating segment.

For the years ended June 30, 2017 and 2016, all of our revenues are generated from our activities in Canada, and all sales of products come from enhanced plastics solutions products.

Substantially all of our long lived assets are physically in Canada as at June 30, 2017. Two customers represent 51% of the sales of products for the year ended June 30, 2017 of which one customer is at 37% and the other at 14% (nil for 2016).

23. SUBSEQUENT EVENTS

On August 29, 2017, the Company completed the three-cornered amalgamation involving Graniz Mondal Inc. ("Graniz"), the Company and 9363-0770 Québec Inc. which constituted a reverse takeover of Graniz by the Company under the policies of the TSX Venture Exchange (the "Transaction").

Pursuant to the Transaction, Graniz changed its name to NanoXplore Inc.

Graniz and the Company completed the Amalgamation Agreement pursuant to which Graniz acquired all the issued and outstanding common shares of the Company. Pursuant to the terms and conditions of the Amalgamation Agreement, under which it issued 56,210,252 common shares to the Company's shareholders, reflecting an exchange ratio of 1:1 (on a post consolidation basis), at a deemed price of \$0.45 per share and thereafter continued the Company's commercial and engineering activities as NanoXplore Inc. The capital structure of NanoXplore Inc. has been unchanged from Graniz's current capital structure, other than for the issuance of the shares contemplated by the Transaction. This transaction resulted in a reverse takeover of Graniz by the Company, whereby the Company has been deemed to have acquired control of Graniz through the deemed issuance of 1,412,939 common shares (on a post consolidation basis) to Graniz's shareholders.

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Prior to the closing of the Transaction, Graniz completed the consolidation of its common shares on the basis of one Graniz Post-Consolidation Share for every 15 Graniz common shares outstanding. Graniz's outstanding options have been replaced by 141,293 post consolidation new options of NanoXplore Inc. at an exercise price of \$0.45 per share.

Prior to the closing of the Transaction, the Company completed the conversion of its common shares on the basis of one to 40.0667 common shares outstanding. Related adjustments have been brought to the Company's outstanding options.

The Transaction constitutes a reverse takeover of Graniz but does not meet the definition of a business combination under IFRS 3, Business Combinations. Accordingly, the Company will account for the reverse takeover transaction in accordance with IFRS 2, Share-based Payment.

On August 2, 2017, the Company completed in connection with the Transaction a brokered private placement financing of subscription receipts ("Subscription Receipts") sold at a price of \$0.45 per Subscription Receipt for gross proceeds of \$9,697,082. At the closing of the Transaction, each Subscription Receipt was converted into one unit which consist of one common share of the Company and one half of one common share purchase warrant of the Company. Each warrant of the Company entitles the holder to acquire an additional Company common share at a price of \$0.70 for a period of 24 months from August 2, 2017. As consideration for the services of the broker agent rendered in connection with the private placement, the Company has agreed to pay the broker an aggregate cash fee equal to 7% of the gross proceeds of the private placement and to issue a number of broker warrants (the "Broker Warrants") equal to 7% of the number of Subscription Receipts issued pursuant to the private placement, except in respect of sales to certain purchasers identified by the Company representing \$1 million (the "President's List Subscribers") for which the Company agreed to pay a cash fee equal to 3.5% of the gross proceeds in respect of Subscription Receipts subscribed for by President's List Subscribers and to issue that number of Broker Warrants equal to 3.5% of the Subscription Receipts issued to President's List Subscribers. Each Broker Warrant is exercisable to purchase one common share of the Company (a "Broker Warrant Share") at a price of \$0.45 per Broker Warrant Share at any time in whole or from time to time in part for a period of 24 months following the closing of the Transaction. The Broker Warrants shall be exercisable following the satisfaction of the Release Conditions.

As part of the Transaction, NanoXplore Inc. also issued 755,556 common shares to former insiders of Graniz as settlement for debts and NanoXplore Inc. disposed of its option to acquire a 75% interest in the Mousseau West property, in exchange for which it was granted a release for money owed in connection thereof.

NanoXplore Inc. also issued an aggregate of 115,556 common shares to certain advisors pursuant to finder's fee agreements and following the receipt of shareholders' approval at the annual and special shareholders meeting of Graniz held on August 11, 2017.

On August 29 and 30 and September 7, 2017, 670,000 options were granted, of which 200,000 to an officer and 470,000 to employees of the Company. These options have an exercise price of \$0.45 with a vesting period of two years (one third upon grant, one third one year after grant and the last third two years after grant) and expiration date of 5 years from the grant date.

There are currently 80,738,356 common shares, 10,774,536 warrants 1,430,657 broker warrants and 1,798,826 stock options of NanoXplore Inc. outstanding following completion of the Transaction and the Private Placement.