



Performance Through Carbon Chemistry

UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the three-month periods ended September 30, 2018 and 2017

Consolidated Statement of Financial Position

(Unaudited - Expressed in Canadian dollars)	As at September 30, 2018	As at June 30, 2018
	\$	\$
Assets		
Current assets		
Cash	15,607,595	15,268,666
Accounts receivable	12,958,056	2,895,012
Inventory	7,558,820	1,542,863
Prepaid expenses	827,380	327,315
Lease deposit	751	751
	36,952,602	20,034,607
Non-current assets		
Lease deposit	83,894	25,850
Deferred taxes assets	835,000	—
Right-of-use assets	1,962,447	—
Property, plant and equipment	19,763,548	6,488,020
Intangible assets	979,339	338,260
Goodwill <i>[Note 4a]</i>	7,489,543	—
Total assets	68,066,373	26,886,737
Liabilities and shareholders' equity		
Current liabilities		
Credit facilities <i>[Note 5]</i>	4,936,733	1,328,400
Accounts payable and accrued liabilities	19,972,434	2,735,006
Income taxes payable	215,570	218,455
Deferred grant	12,672	164,940
Deferred revenue	2,946,876	145,012
Long-term debt due within one year <i>[Note 5]</i>	2,259,890	795,917
	30,344,175	5,387,730
Non-current liabilities		
Non-current portion of balance of purchase price <i>[Note 4b]</i>	491,788	490,180
Defined benefit liabilities	723,048	782,290
Long-term debt <i>[Note 5]</i>	13,402,147	3,772,053
Deferred taxes liabilities	628,233	696,497
Total liabilities	45,589,391	11,128,750
Equity		
Share capital	31,709,004	23,502,555
Reserve	2,920,797	2,871,633
Foreign currency translation reserve	15,676	13,490
Deficit	(12,168,495)	(10,629,691)
Total equity	22,476,982	15,757,987
Total equity and liabilities	68,066,373	26,886,737

See accompanying notes to condensed interim consolidated financial statements

Note 1 – Nature of operations and liquidity risk

Approved on behalf of the Board of Directors

Soroush Nazarpour

Benoît Gascon

Consolidated Statement of Loss and Comprehensive loss

	Three-month periods ended September 30	
	2018	2017
(Unaudited - Expressed in Canadian dollars)	\$	\$
Revenues	3,907,726	613,655
Expenses		
Cost of sales	3,376,516	517,742
Research and development costs	468,421	219,225
Selling, general and administrative	1,171,316	609,052
Share-based compensation	51,962	81,128
Depreciation (production)	323,033	58,011
Depreciation (other)	102,529	23,321
Amortization	15,854	—
Foreign exchange	(27,408)	(1,408)
	5,482,223	1,507,071
Operating loss	(1,574,497)	(893,416)
Listing expenses [Note 3]	—	(1,443,860)
Interest on long-term debt	(100,707)	(24,871)
Interest revenue	36,371	—
Share of loss of a joint venture	—	(1,091)
Loss before income taxes	(1,638,833)	(2,363,238)
Current income taxes recovery	35,021	—
Deferred income taxes recovery	4,631	—
	39,652	—
Loss for the period	(1,599,181)	(2,363,238)
Other comprehensive loss		
<i>Items that may be subsequently reclassified to profit and loss:</i>		
Exchange differences on translation of foreign subsidiaries	2,186	—
<i>Items that will not be reclassified to profit and loss:</i>		
Retirement benefits – Net actuarial gains	60,377	—
Total comprehensive loss	(1,536,618)	(2,363,238)
Loss per share		
Basic and diluted	(0.02)	(0.04)
Weighted average number of common shares outstanding (basic and diluted)	88,529,183	64,741,766

In light of the net loss recognized for the periods, all outstanding stock options and warrants and Broker Warrants were excluded from the calculation of diluted loss per share due to their anti-dilutive effect.

See accompanying notes to condensed interim consolidated financial statements

Consolidated Statement of Changes in Shareholders' Equity

	Number of common shares	Common shares \$	Reserve \$	Foreign currency translation reserve \$	Deficit \$	Total equity \$
	0					
Balance as at June 30, 2017	56,210,252	5,705,879	223,352	—	(4,637,590)	1,291,641
Loss and comprehensive loss for the period	—	—	—	—	(2,363,238)	(2,363,238)
Private placement (net of issuing costs of \$919,701)	21,549,072	8,063,147	—	—	—	8,063,147
Issuance of shares related to Graniz reverse takeover	2,284,051	1,027,823	—	—	—	1,027,823
Issuance of warrants and broker warrants	—	—	899,642	—	—	899,642
Issuance of stock options	—	—	88,345	—	—	88,345
Stock options converted into shares	694,981	172,820	(172,820)	—	—	—
Share-based compensation	—	—	81,128	—	—	81,128
Balance as at September 30, 2017	80,738,356	14,969,669	1,119,647	—	(7,000,828)	9,088,488
Loss for the period	—	—	—	—	(3,760,675)	(3,760,675)
Other comprehensive loss	—	—	—	13,490	131,812	145,302
Comprehensive loss for the period	—	—	—	13,490	(3,628,863)	(3,615,373)
Private placement (net of issuing costs of \$871,914)	6,060,700	7,464,417	—	—	—	7,464,417
Issuance of warrants and broker warrants	—	—	1,759,313	—	—	1,759,313
Exercise of stock options	788,227	479,607	(124,905)	—	—	354,702
Exercise of warrants and broker warrants	939,002	588,862	(106,561)	—	—	482,301
Share-based compensation	—	—	224,139	—	—	224,139
Balance as at June 30, 2018	88,526,285	23,502,555	2,871,633	13,490	(10,629,691)	15,757,987
Loss for the period	—	—	—	—	(1,599,181)	(1,599,181)
Other comprehensive loss	—	—	—	2,186	60,377	62,563
Comprehensive loss for the period	—	—	—	2,186	(1,538,804)	(1,536,618)
Issuance of shares related to Sigma acquisition [Note 4a]	5,091,707	8,197,648	—	—	—	8,197,648
Exercise of stock options	13,333	8,801	(2,798)	—	—	6,003
Share-based compensation	—	—	51,962	—	—	51,962
Balance as at September 30, 2018	93,631,325	31,709,004	2,920,797	15,676	(12,168,495)	22,476,982

See accompanying notes to condensed interim consolidated financial statements

Consolidated Statement of Cash Flow

	Three-month periods ended September 30	
	2018	2017
(Unaudited - Expressed in Canadian dollars)	\$	\$
Operating activities		
Loss for the period	(1,599,181)	(2,363,238)
Items not affecting cash:		
Listing expenses paid by issuance of equity	—	1,126,798
Depreciation	425,562	81,332
Amortization	15,854	—
Share-based compensation	51,962	81,128
Share of loss of a joint venture	—	1,091
Interest accretion on non-current portion of balance of purchase price	1,596	—
Interest accretion on obligations under finance lease	26,090	—
Current income taxes recovery	(35,021)	—
Deferred income taxes recovery	(4,631)	—
Allowance for doubtful accounts	11,741	—
Difference between amounts paid for employee benefits and current year cost	9,247	—
Unrealized foreign exchange	(60,566)	(10,630)
Changes in non-cash operating working capital items:		
Accounts receivable	410,205	34,173
Inventory	(34,111)	5,244
Prepaid expenses	(159,879)	(3,629)
Accounts payable and accrued liabilities	107,333	296,744
Income taxes payable	(473)	—
Deferred grant	(152,268)	—
Deferred revenue	23,519	—
Cash used in operating activities	(963,021)	(750,987)
Cash flows from financing activities		
Private placements	—	9,697,082
Issuing costs	—	(734,293)
Exercise of stock options	6,003	—
Variation of credit facilities	(40,000)	(215,000)
Repayment of obligations under financing lease	(212,720)	—
Repayment of long-term debt	(35,836)	(29,714)
Cash from (used in) financing activities	(282,553)	8,718,075
Cash flows from investing activities		
Lease deposit	(58,044)	—
Business acquisition, net of cash acquired [Note 4a]	(7,300,496)	—
Business acquisition, balance of purchase price payable [Note 4a]	9,011,000	—
Additions of property, plant and equipment	(58,304)	(161,050)
Cash used in investing activities	1,594,156	(161,050)
Change in cash	348,582	7,806,038
Net effect of currency exchange rate on cash	(9,653)	—
Cash, beginning of period	15,268,666	421,214
Cash, end of period	15,607,595	8,227,252
Interest paid	116,918	19,725
Income taxes paid	—	—

See accompanying notes to condensed interim consolidated financial statements

[Unaudited and not reviewed – Unless specified otherwise, amounts are expressed in Canadian dollars]

1. NATURE OF OPERATIONS AND LIQUIDITY RISK

NanoXplore Inc. and its subsidiaries (together “NanoXplore”, “Group NanoXplore” or the “Company”) is a graphene company, a manufacturer and supplier of high volume graphene powder for use in industrial markets as well as standard and custom enhanced thermoplastic products to many customers in transportation, packaging, electronics and other industrial sectors. The address of the Company’s corporate office is 25, Boul. Montpellier, St-Laurent (Montreal), QC, Canada.

Since September 8, 2017, NanoXplore Inc. is listed on the TSX Venture Exchange and has traded under “GRA”.

On November 23, 2017, through its wholly-owned subsidiary NanoXplore Switzerland Holding SA, the Company acquired all of the issued and outstanding shares of CEBO Injections SA (“CEBO”), based in Switzerland.

On September 21, 2018, through its wholly-owned subsidiary 10854611 Canada Inc., the Company acquired all of the issued and outstanding shares of Sigma Industries Inc. (“Sigma”). Sigma has three wholly-owned subsidiaries; Rene Composite Materials Ltd., based in Quebec, Faroex Ltd., based in Manitoba, and RMC Advanced Technologies Inc., based in Tennessee (USA).

Management believes that the Company has sufficient funds to meet its obligations and planned net expenditures for the ensuing 12 months. The Company’s ability to continue its development activities is dependent on the generation of sufficient positive cash flows from operations and on the 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 condensed interim consolidated financial statements of NanoXplore for the three-month periods ended September 30, 2018 and 2017 were reviewed, approved and authorized for issue by the Company’s Board of Directors on November 19, 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The unaudited condensed interim consolidated financial statements of the Company and its subsidiaries for the three-month periods ended September 30, 2018 and 2017 have been prepared in accordance with International Financial Reporting Standards [“IFRS”], as issued by the International Accounting Standards Board [“IASB”] and as adopted by the Accounting Standards Board of Canada. These condensed interim consolidated financial statements were prepared in accordance with IAS 34, Interim Financial Reporting.

These unaudited condensed interim consolidated financial statements are presented in Canadian dollars, the Company’s functional currency, except where otherwise indicated. Each entity of the Company determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

The significant accounting judgments, estimates and assumptions used in these unaudited condensed interim consolidated financial statements are consistent with those disclosed in the most recent audited annual consolidated financial statements for the year ended June 30, 2018.

These condensed interim consolidated financial statements have been prepared on a going concern basis, at historical cost, except for financial assets and liabilities classified as financial assets/liabilities at fair value through profit or loss and measured at fair value. Management considers that the fair value of financial assets and liabilities recorded in the financial statements approximates the carrying amount.

Basis of consolidation

The unaudited condensed interim consolidated financial statements include the accounts of the Company and its subsidiaries. The unaudited interim financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intercompany transactions, balances and unrealized gains or losses have been eliminated.

On November 23, 2017, through its wholly-owned subsidiary NanoXplore Switzerland Holding SA incorporated on November 9, 2017, the Company acquired all of the issued and outstanding shares of CEBO, based in Switzerland. Their functional currency is Swiss Franc (“CHF”).

On September 21, 2018, through its wholly-owned subsidiary 10854611 Canada Inc., the Company acquired all of the issued and outstanding shares of Sigma. Their functional currency is Canadian dollars (“CAD”).

Standards, interpretations and amendments to published standards adopted with an effect on the unaudited interim condensed consolidated financial statements

The same accounting policies and methods of computation are followed in these condensed interim consolidated financial statements as compared with the most recent annual consolidated financial statements. The condensed interim consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements and notes for the year ended June 30, 2018, except for the amendments to certain accounting standards which are relevant to the Company and were adopted by the Company as of July 1st, 2018 as described below:

Property, plant and equipment

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 to 35 years
Production equipment	2 to 25 years
Laboratory, computer, office equipment and rolling stock	2 to 10 years
Leasehold improvements	Lease term

Intangible assets

Identifiable intangible assets are recorded at cost. The major categories of intangible assets are capitalized and amortized in the consolidated statements of income using the methods mentioned below and over the period of their expected useful lives as follows:

Patents	Straight-line	7 and 10 years
Customer relationships	Sum of years' digits	15 years
Technologies	Sum of years' digits	6 years
Software	Straight-line	5 and 10 years

The trademark is an intangible asset with an indefinite useful life and is not amortized.

IFRS 9, Financial Instruments – Recognition and Measurement

a) Adoption of IFRS 9

IFRS 9 replaces the provisions of IAS 39, Financial Instruments – Recognition and Measurement and provides guidance on the recognition, classification and measurement of financial assets and financial liabilities, the derecognition of financial instruments, impairment of financial assets and hedge accounting. The Company adopted IFRS 9 as of July 1st, 2018 and the new standard has been applied retrospectively in accordance with the transitional provisions of IFRS 9.

There has been no significant impact caused by the new classification of financial assets under IFRS 9. The classification of all financial liabilities as financial liabilities at amortized cost remains unchanged as well as their measurement resulting from their classification.

There has been no impact of the adoption of IFRS 9 as at July 1st, 2018.

b) Derivative financial instruments

A specific accounting methodology is required for derivatives designated as hedging instruments in cash flow hedge relationships or in a net investment in a foreign operation. To qualify for hedge accounting, the hedging relationship must meet several strict conditions with respect to documentation, probability of occurrence of the hedged transaction and hedge effectiveness. All derivative instruments used for hedge accounting are recognized initially at fair value and reported subsequently at fair value in the consolidated statements of financial position. To the extent that the hedge is effective, gains and losses of derivatives designated as hedging instruments in cash flow hedges or in a net investment in a foreign operation are recognized in other comprehensive income and included in accumulated other comprehensive income in equity. Any effectiveness in the hedge relationship is recognized immediately in the consolidated statements of income.

At the time the hedged item affects profit or loss, any gain previously recognized in other comprehensive income is reclassified from equity to the consolidated statements of income and presented as a reclassification adjustment within other comprehensive income. However, if a nonfinancial asset or liability is recognized as a result of the hedged transaction, the gains and losses previously recognized in other comprehensive income are included in the initial measurement of the hedged item. If a forecast transaction is no longer expected to occur or if the hedging instrument becomes ineffective, any related gain or loss recognized in other comprehensive income is transferred immediately to the consolidated statements of income. All other derivative financial instruments are accounted for at fair value through profit or loss.

The Company has not provided the required documentation regarding the identification, designation and efficiency of forward exchange contracts pursuant to hedge accounting. Therefore, the company's forward exchange contracts that are used to cover the anticipated sales denominated in foreign currencies are recorded at fair value through profit or loss. Foreign exchange gains or losses are recognized in the consolidated statements of income.

IFRS 15, Revenue from Contracts with Customers

IFRS 15 replaces IAS 11, Construction Contracts, and IAS 18, Revenue and related interpretations and represents a new single model for recognition of revenue from contracts with customers. The model features a five-step analysis of transactions to determine the nature of an entity's obligation to perform and whether, how much, and when revenue is recognized.

The Company adopted IFRS 15 as of July 1st, 2018 and the new standard has been applied retrospectively using the modified retrospective approach, where prior periods are not restated and the cumulative effect of initially applying this standard is recognized in the opening retained earnings balance on July 1st, 2018. The Company has also availed itself of the following practical expedients:

- the standard was applied retrospectively only to contracts that were not completed on July 1st, 2018; and
- for contracts that were modified before July 1st, 2018, the Company analyzed the effects of all modifications when identifying whether performance obligations were satisfied, determining the transaction price and allocating the transaction price to the satisfied or unsatisfied performance obligations.

There has been no impact of the adoption of IFRS 15 as at July 1st, 2018.

IFRS 16, Leases

NanoXplore has early adopted *IFRS 16 – Leases* on July 1st, 2018, which is effective for annual reporting periods beginning on or after January 1, 2019. Previously, the Company classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company and classified operating lease payments as operating costs. Under IFRS 16, a lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and an obligation under finance lease representing its obligation to make lease payments. The right-of-use asset is initially measured at cost and subsequently depreciated. Initial measurement of costs is determined by the amount of the initial measurement of the obligation under finance lease, less any lease inducements receivable and any lease payments made at or before the commencement date, plus any initial direct costs, and any restoration costs. The obligation under finance lease is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The Company uses its incremental borrowing rate as the discount rate. The obligation under finance lease is measured at amortized cost using the effective interest rate method and is subsequently adjusted for interest and lease payments. NanoXplore has applied IFRS 16 in accordance with the modified retrospective approach only to contracts that were previously identified as leases. Contracts that were not identified as leases under previous standards were not reassessed for whether there is a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after July 1st, 2018.

As at June 30, 2018, the Company had non-cancellable operating lease commitments of \$8,954,251. Of these commitments, approximately \$475,000 of short-term leases and low value leases will be recognised on a straight-line basis as expenses in profit or loss. For the remaining lease commitments, the Company will recognize right-of-use assets of \$1,341,000 as at July 1st, 2018, and \$3,920,000, through the year ended June 30, 2019. The Company does not expect a significant change on the net loss.

3. REVERSE TAKEOVER RELATED TRANSACTIONS

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, on September 18, 2017, Graniz changed its name to NanoXplore Inc. On September 21, 2017, NanoXplore Inc. and Group NanoXplore Inc. merged and now operate under 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.

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 has accounted for the reverse takeover transaction in accordance with IFRS 2, Share-based Payment.

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 and 466,667 options to Graniz and NanoXplore Inc.'s 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.

The acquisition of the Company has been accounted for as follows:

	<u>\$</u>
Consideration paid	
1,412,939 common shares deemed issued to Graniz's existing shareholders	635,823
755,556 common shares issued for settlement of the due to related parties	340,000
141,293 options for common share deemed issued to the Company's existing optionholders	13,409
	<u>989,232</u>
 <i>Transaction costs</i>	
115,556 common shares issued for finder fees agreement	52,000
400,000 options issued to NanoXplore's advisors	64,231
66,667 options issued to Graniz's advisors	10,705
Transaction costs paid in cash	325,759
	<u>452,695</u>
 Total consideration paid	 1,441,927
 Net liabilities assumed	
<u>Assets acquired</u>	
Cash	19,913
Accounts receivable	5,433
Property, plant and equipment	666,314
	<u>691,660</u>
<u>Liabilities acquired</u>	
Accounts payable	117,231
Advance to shareholders	319,500
Long term debt	165,000
	<u>601,731</u>
 Net assets of Graniz as at August 29, 2017	 89,929
Forgiveness of the liabilities related to the option on the Mousseau West property	203,634
Settlement of due to related parties by issuance of shares	340,000
Less: Return of the option on the Mousseau West property	(664,268)
Graniz's net liabilities as at August 29, 2017	<u>(30,705)</u>
 Listing expenses	 1,472,632
 Listing expenses	
Incurred in the year ended June 30, 2018	<u>1,443,860</u>
Incurred in the year ended June 30, 2017	<u>28,772</u>

4. BUSINESS COMBINATIONS

a) ACQUISITION OF SIGMA INDUSTRIES INC.

On September 21, 2018, through its wholly-owned subsidiary 10854611 Canada Inc, the Company acquired all of the issued and outstanding shares of Sigma for a total amount of \$8,793,581 paid by the issuance of 4,579,988 common shares of its share capital to all existing shareholders of Sigma and acquired all the outstanding debentures of Sigma for a total amount of \$9,993,500 of which \$9,011,000 was paid by cash and \$982,500 was paid by the issuance of 511,719 shares of its share capital to the Sigma Debentures Holders. The exchange ratio to determine the amount paid was based on a fix price; each Sigma common share has been exchanged for 0.39 common share of NanoXplore. The value of Sigma common shares has been set at \$0.75 and the value of NanoXplore common shares has been set at \$1.92. This acquisition was concluded in order to introduce its graphene-enhanced solution products into the products of Sigma.

Based on the stock price (TSX-V) of NanoXplore shares at the acquisition date of \$1.61, the fair value of the total consideration paid amounted to \$17,208,648 and is detailed as follows:

	Number of shares	Fair value of shares \$	Paid by cash \$	Total consideration \$
Total consideration paid for:				
All outstanding shares of Sigma	4,579,988	7,373,780	–	7,373,780
All outstanding debentures of Sigma	511,719	823,868	9,011,000	9,834,868
Total	5,091,707	8,197,648	9,011,000	17,208,648

This transaction was financed using the Company's available cash.

Sigma is a manufacturing company specializing in the manufacture of composite products, has three wholly-owned operating subsidiaries and employs 275 people. It operates in the markets for heavy trucks, buses, public transit, machinery and wind energy. Sigma sells its products to original equipment manufacturers and distributors in the United States, Canada and Europe.

This transaction qualifies as a business combination and was accounted for using the acquisition method of accounting. To account for the transaction, the Company has performed a preliminary business valuation of Sigma at the date of acquisition and a preliminary purchase price allocation. At the time of issuance of these financial statements, certain aspects of the valuation and purchase price allocation are not finalized due to the unavailability of some information. The work will be completed within 12 months of the acquisition date, at the latest.

	<u>\$</u>
Identifiable net assets acquired:	
Cash	1,710,504
Accounts receivable and other receivables	10,495,837
Inventory	5,994,701
Prepaid expenses	342,324
Right-of-use assets	731,083
Deferred income taxes assets	859,000
Property, plant and equipment	13,434,235
Intangible assets	654,107
	<u>34,221,791</u>
Credit facilities	3,663,003
Accounts payable and accrued liabilities	8,137,899
Deferred revenues	2,779,946
Obligations under finance lease	731,083
Long-term debt	9,190,755
	<u>24,502,686</u>
Total identifiable net assets	9,719,105
Preliminary goodwill arising on acquisition	7,489,543
Total consideration	<u>17,208,648</u>
The cash outflow on acquisition is as follows:	
Consideration paid in cash	9,011,000
Minus: Cash acquired	1,710,504
Net cash flow for the acquisition	<u>7,300,496</u>

The preliminary goodwill recognized on the transaction is mainly attributable to the expected synergies of the combination, to broadening the service offering of the Company and its geographic coverage. The goodwill arising from this acquisition is not deductible for income tax purposes.

Concurrent to the acquisition, due to a clause of change of control included in specific executive contracts, a severance that amounted to a total of \$950,000 could be paid. The employees have until September 2019 to avail this clause. Management believes that an outflow of economic benefits is not probable and disclosure the matter as a contingent liability.

Transaction costs of \$171,310 were expensed and are included in selling, general and administrative expenses.

The assets and liabilities of Sigma are included in the consolidated statement of financial position as at September 30, 2018 and the operating results are reflected in its consolidated statement of operations since September 21, 2018. Between the acquisition date and the period ended September 30, 2018, revenues of \$1,709,276 and net income of \$61,924 have been recognized in the consolidated statement of loss and comprehensive loss. If the combination had taken place at the beginning of fiscal year 2019, Sigma revenues would have been \$16,812,763 and the net profit would have been \$411,586.

b) ACQUISITION OF CEBO INJECTIONS SA

On November 23, 2017, through its wholly-owned subsidiary NanoXplore Switzerland Holding SA., the Company acquired all of the issued and outstanding shares of CEBO for a total consideration of 2,300,000 CHF [\$2,969,300]. CEBO is a Swiss-based injection molding company and provides customers with high precision and high-quality injection molded products, and serves the automotive, medical, industrial and watches manufacturing markets. CEBO has expertise in highly precise parts, over molding, insert molding, and complex and precise parts and assemblies of plastic, metal and ceramic. This acquisition was concluded in order to introduce its graphene-enhanced solution products into the products of CEBO.

This transaction was financed using the Company's available cash and issued new long-term debt in swiss franc. The purchase price will be paid in three installments: (i) CHF 1,500,000 [\$1,936,530] at the closing date; (ii) CHF 400,000 [\$516,400] 12 months after the closing date; and (iii) CHF 400,000 [\$516,400] 24 months after the closing date (exchange rate at the date of the transaction).

The fair value of the consideration given at the date of the transaction is presented in the table below:

	<u>\$</u>
Paid in cash	1,936,530
Balance of purchase price due in 12 months	516,400
Balance of purchase price due in 24 months (<i>discounted at a rate of 6.5%</i>)	460,348
Total consideration	<u>2,913,278</u>

This transaction qualifies as a business combination and was accounted for using the acquisition method of accounting under IFRS 3, business combination. The total purchase price was allocated to the assets acquired and liabilities assumed based on the fair value of the total consideration at the closing date of the transaction.

	<u>\$</u>
Identifiable net assets acquired:	
Cash	729,293
Accounts receivable and other receivables	2,316,948
Inventory	1,267,003
Prepaid expenses	134,148
Equipment	2,799,448
Customer Relationship	365,268
	<u>7,612,108</u>
Accounts payable and accrued liabilities	(970,049)
Deferred revenues	(101,304)
Income tax payable	(265,404)
Obligations under finance lease	(867,295)
Defined benefit obligation	(876,311)
Credit facility	(1,291,020)
Deferred tax liabilities	(327,447)
	<u>(4,698,830)</u>
Total consideration	<u>2,913,278</u>
The cash outflow on acquisition is as follows:	
Consideration paid in cash	1,936,530
Minus: Cash acquired	(729,293)
Net cash flow for the acquisition	<u>1,207,237</u>

Transaction costs of \$26,313 were expensed and are included in professional and consulting fees.

The operating results are reflected in its consolidated statement of operations since November 23, 2017. Between the acquisition date and the year ended June 30, 2018, revenues of \$5,216,760 and net loss of \$340,321 have been recognized in the consolidated statement of loss and comprehensive loss. If the combination had taken place at the beginning of fiscal year 2018, CEBO revenue would have been \$8,320,346 and the net profit would have been \$245,837.

5. LONG-TERM DEBT AND CREDIT FACILITIES

	Maturity	Effective interest rate %	As at September 30, 2018 \$	As at June 30, 2018 \$
Credit facilities, variable rate				
– Authorized amount of \$10,163,730	2018 to 2019	4% to 5.45%	4,936,733	1,328,400
Term loan, variables rates	2019 to 2026	4% to 10%	12,654,363	3,514,719
Obligations under finance lease	2018 to 2023	0.79% to 5.5%	3,007,674	1,053,251
			20,598,770	5,896,370
Less: current portion of credit facilities			4,936,733	1,328,400
Less: current portion of long-term debt			2,259,890	795,917
			13,402,147	3,772,053

Under these agreements, the Company has agreed to respect certain conditions and financial ratios. As at September 30, 2018, all conditions and financial ratios were met. Several movable hypothecs on specific assets of the Company and its subsidiaries and on the universality of the company's present and future, tangible and intangible assets have been given as security for these loans and credit facilities.

6. RELATED PARTY TRANSACTIONS

During the three-month period ended September 30, 2018, the following are related party transactions that have occurred with Mason Graphite Inc., a shareholder of the Company with significant influence:

- Royalties of \$12,500 [2018 – \$12,500]
- Purchased raw materials from Mason Graphite Inc. of \$5,905 [2018 – nil]

As at September 30, 2018, the balance receivable from the related parties amounted to \$12,500 [June 30, 2018 – \$58,333] and is included in accounts receivable. The amounts outstanding are non-interest-bearing, unsecured and receivable on demand.

7. SEGMENTED DISCLOSURE

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. All sales come from enhanced plastics solutions products.

	Three-month periods ended September 30	
	2018 \$	2017 \$
Revenues *		
Canada	1,418,554	613,655
United States	800,144	–
France	893,413	–
Switzerland	550,138	–
Other	245,477	–
Total	3,907,726	613,655

* Revenues are attributed to countries based on the location of customers.

	As at September 30, 2018	As at June 30, 2018
	\$	\$
Long-lived assets		
Canada	22,537,296	3,410,917
Switzerland	3,303,211	3,415,363
United States	2,391,923	–
Total	28,232,430	6,826,280

8. COMPARATIVE INFORMATION

Certain of the prior period figures have been reclassified to conform to the current period's presentation.