



UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the three-month periods ended September 30, 2019 and 2018

Consolidated Statement of Financial Position

	As at September 30, 2019	As at June 30, 2019
(Unaudited - Expressed in Canadian dollars)	\$	\$
Assets		
Current assets		
Cash	27,640,349	27,819,140
Accounts receivable	13,042,096	15,016,481
Inventory	7,296,582	7,589,896
Prepaid expenses	871,912	856,672
Lease deposits	10,200	10,200
	48,861,139	51,292,389
Non-current assets		
Lease deposits	91,344	91,344
Equipment deposits	2,919,270	655,465
Right-of-use assets	5,127,957	5,502,111
Property, plant and equipment [Note 4]	32,322,760	30,575,332
Intangible assets	4,128,399	4,267,929
Goodwill	460,164	460,164
Total assets	93,911,033	92,844,734
Liabilities and shareholders' equity		
Current liabilities		
Operating loans [Note 5]	2,535,180	1,339,480
Accounts payable and accrued liabilities	13,229,359	14,712,219
Income taxes payable	266,646	285,433
Deferred grant	43,970	231,745
Contract liability	443,834	2,512,994
Long-term debt due within one year [Note 5]	5,661,290	4,170,072
	22,180,279	23,251,943
Non-current liabilities		
Defined benefit liabilities	1,132,748	870,329
Long-term debt [Note 5]	18,444,751	20,692,925
Convertible debentures - Loan [Note 5]	7,831,755	7,703,414
Deferred taxes liabilities	2,075,349	2,230,398
Total liabilities	51,664,882	54,749,009
Shareholders' Equity		
Share capital [Note 6]	60,537,116	53,445,389
Reserve [Note 6]	3,170,996	3,604,511
Convertible debentures - Options	2,240,000	2,240,000
Foreign currency translation reserve	(6,909)	12,927
Deficit	(23,695,052)	(21,207,102)
Total equity	42,246,151	38,095,725
Total equity and liabilities	93,911,033	92,844,734

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

Soroush Nazarpour

Benoit Gascon

Benoit Gascon

Consolidated Statement of Loss and Comprehensive loss

	Three-month periods ended September 30	
	2019	2018
(Unaudited - Expressed in Canadian dollars)	\$	\$
Revenues	19,983,089	3,907,726
Expenses		
Cost of sales	16,937,762	3,376,516
Research and development costs	680,277	468,421
Selling, general and administrative	3,151,738	1,171,316
Share-based compensation	216,171	51,962
Depreciation (production)	749,745	323,033
Depreciation (other)	210,029	102,529
Amortization	150,277	15,854
Foreign exchange	36,221	(27,408)
	22,132,220	5,482,223
Operating loss	(2,149,131)	(1,574,497)
Interest on operating loans, long-term debt and convertible debentures	(378,015)	(52,203)
Interest accretion on lease liability	(84,193)	(48,504)
Interest revenue	117,022	36,371
Loss before income taxes	(2,494,317)	(1,638,833)
Current income taxes expense	(43,981)	—
Deferred income taxes recovery	207,863	39,652
	163,882	39,652
Loss for the period	(2,330,435)	(1,599,181)
Other comprehensive loss		
<i>Items that may be subsequently reclassified to profit and loss:</i>		
Exchange differences on translation of foreign subsidiaries	(19,836)	2,186
<i>Items that will not be reclassified to profit and loss:</i>		
Retirement benefits – Net actuarial gains	(157,515)	60,377
Comprehensive loss for the period	(2,507,786)	(1,536,618)
Loss per share		
Basic and diluted	(0.02)	(0.02)
Weighted average number of common shares outstanding (basic and diluted)	117,881,802	88,529,183

In light of the net loss recognized for the years, all outstanding conversion options, 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

(Unaudited - Expressed in Canadian dollars)	Number of common shares	Common shares \$	Reserve \$	Convertible debentures - Options \$	Foreign currency translation reserve \$	Deficit \$	Total equity \$
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 3]	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
Loss for the period	—	—	—	—	—	(9,004,184)	(9,004,184)
Other comprehensive loss	—	—	—	—	(2,749)	(34,423)	(37,172)
Comprehensive loss for the period	—	—	—	—	(2,749)	(9,038,607)	(9,041,356)
Private placement (net of issuing costs of \$621,240)	16,144,800	20,367,000	—	2,240,000	—	—	22,607,000
Exercise of warrants and Broker Warrants	1,854,034	1,369,385	(140,312)	—	—	—	1,229,073
Share-based compensation	—	—	824,026	—	—	—	824,026
Balance as at June 30, 2019	111,630,159	53,445,389	3,604,511	2,240,000	12,927	(21,207,102)	38,095,725
Loss for the period	—	—	—	—	—	(2,330,435)	(2,330,435)
Other comprehensive loss	—	—	—	—	(19,836)	(157,515)	(177,351)
Comprehensive loss for the period	—	—	—	—	(19,836)	(2,487,950)	(2,507,786)
Exercise of warrants and Broker Warrants [Note 6]	9,365,651	7,091,727	(649,686)	—	—	—	6,442,041
Share-based compensation	—	—	216,171	—	—	—	216,171
Balance as at September 30, 2019	120,995,810	60,537,116	3,170,996	2,240,000	(6,909)	(23,695,052)	42,246,151

See accompanying notes to condensed interim consolidated financial statements

Consolidated Statement of Cash Flow

	Three-month periods ended September 30	
	2019	2018
(Unaudited - Expressed in Canadian dollars)	\$	\$
Cash flow from operating activities		
Loss for the period	(2,330,435)	(1,599,181)
Items not affecting cash:		
Depreciation and amortization	1,110,051	441,415
Share-based compensation	216,171	51,962
Interest accretion on lease liability	84,193	26,090
Interest accretion on convertible debentures	113,542	—
Other financial expenses	217,194	13,337
Deferred income taxes expense	(207,863)	(39,652)
Difference between amounts paid for employee benefits and current year cost	108,468	9,247
Net change in fair value of foreign exchange derivatives	22,796	—
Unrealized foreign exchange	(24,647)	(60,565)
Changes in non-cash operating working capital items:		
Accounts receivable	1,968,606	410,205
Inventory	289,872	(34,111)
Prepaid expenses	(15,827)	(159,879)
Accounts payable and accrued liabilities	(1,498,180)	107,333
Income taxes payable	(18,080)	(473)
Deferred grant	(187,775)	(152,268)
Contract liability	(2,068,980)	23,519
Cash used in operating activities	(2,220,894)	(963,021)
Cash flows from financing activities		
Exercise of stock options, warrants and Broker Warrants	6,442,041	6,003
Variation of operating loan	1,200,000	(40,000)
Repayment of lease liability	(503,362)	(212,720)
Repayment of long-term debt	(600,630)	(35,836)
Cash from (used in) financing activities	6,538,049	(282,553)
Cash flows from investing activities		
Lease deposits	—	(58,044)
Equipment deposits	(2,263,805)	—
Business acquisition, net of cash acquired [Note 3]	—	(7,300,496)
Business acquisition, balance of purchase price payable [Note 3]	—	9,011,000
Additions of property, plant and equipment	(2,231,041)	(58,304)
Cash used in investing activities	(4,494,846)	1,594,156
Change in cash	(177,691)	348,582
Net effect of currency exchange rate on cash	(1,100)	(9,653)
Cash, beginning of period	27,819,140	15,268,666
Cash, end of period	27,640,349	15,607,595
Interest paid	356,682	116,918

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” or the “Company”), is a graphene company, a manufacturer and supplier of high-volume graphene powder for use in industrial markets. Also, the Company provides standard and custom graphene-enhanced plastic and composite products to various 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.

NanoXplore Inc. is listed on the TSX Venture Exchange and has traded under “GRA” and is also listed on the OTCQX and has traded under “NNXPF”.

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

Management believes that the Company has sufficient funds to meets its obligations, operating expenses and some development expenditures for the ensuing 12 months as they fall due. The Company’s ability to continue its development activities is dependent on the beginning of the commercial operation of the graphene products. The graphene commercial activity is in the development stage and as a result the Company has minimal source of operating revenue from those operations and is dependent on external financing to fund its continued development program. The Company’s main sources of funding have been the issuance of equity securities for cash, debt, funds from the government of Quebec with respect to R&D tax credits, from Sustainable Development Technology Canada (“SDTC”) and from the Industrial Research Assistance Program.

The condensed interim consolidated financial statements of NanoXplore for the three-month periods ended September 30, 2019 and 2018 were reviewed, approved and authorized for issue by the Company’s Board of Directors on November 26, 2019.

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, 2019 and 2018 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, 2019.

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 subsidiaries are using consistent accounting policies and the same reporting period as the parent company. All intercompany transactions, balances and unrealized gains or losses have been eliminated.

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, 2019, except for the amendments to certain accounting standards which are relevant to the Company and were adopted by the Company as of July 1, 2019 as described below:

Borrowing costs

Borrowing costs that are attributable to the acquisition, construction or production of a qualifying asset are capitalized to the cost of that asset until it is substantially completed, and it can be used as planned; these costs are subsequently amortized over the expected useful life of the asset. All other borrowing costs are expensed as incurred.

3. BUSINESS COMBINATIONS

On September 21, 2018, 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 common shares of its share capital to the Sigma debenture holders. The exchange ratio to determine the amount paid was based on a fixed 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 the Company's 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. 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 mainly in the United States and Canada.

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.

	\$
Identifiable net assets acquired:	
Cash	1,710,504
Accounts receivable	10,495,837
Inventory	5,994,701
Prepaid expenses	342,324
Right-of-use assets [Note 9]	731,083
Deferred taxes assets	859,000
Property, plant and equipment [Note 9]	17,650,161
Equipment deposit	1,674,944
Intangible assets [Note 10]	4,405,673
	<u>43,864,227</u>
Operating loan	3,663,003
Accounts payable and accrued liabilities	8,137,899
Contract liability	2,779,946
Deferred taxes liabilities	2,613,057
Lease liability	731,083
Long-term debt	9,190,755
	<u>27,115,743</u>
Total identifiable net assets	16,748,484
Goodwill arising on acquisition	460,164
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 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.

Transaction costs of \$174,140 were expensed and are included in selling, general and administrative expenses.

Since September 21, 2018, the assets and liabilities of Sigma are included in the consolidated statement of financial position and the operating results are reflected in the Company's consolidated statement of loss.

4. PROPERTY, PLANT AND EQUIPMENT

	Land & Building \$	Production equipment \$	Leasehold improvements \$	Laboratory, computer, office equipment and rolling stock \$	Total \$
Balance as at July 1st, 2018	1,430,062	4,663,345	29,369	365,244	6,488,020
Additions	3,184,785	6,404,014	3,300	239,633	9,831,732
Acquired in a business combination	8,542,500	8,949,482	—	158,179	17,650,161
Disposals	—	(1,330,641)	(640)	(7,243)	(1,338,524)
Depreciation	(105,555)	(1,901,780)	(7,876)	(154,661)	(2,169,872)
Effect of foreign exchange differences	—	106,945	—	6,870	113,815
Balance as at June 30, 2019	13,051,792	16,891,365	24,153	608,022	30,575,332
Additions	—	2,427,364	7,850	53,488	2,488,702
Depreciation	(30,174)	(688,911)	(2,446)	(33,432)	(754,963)
Effect of foreign exchange differences	—	13,217	—	472	13,689
Balance as at September 30, 2019	13,021,618	18,643,035	29,557	628,550	32,322,760
As at June 30, 2019					
Cost	13,282,660	19,138,601	81,069	947,175	33,449,505
Accumulated depreciation	(230,868)	(2,247,236)	(56,916)	(339,153)	(2,874,173)
Net book value	13,051,792	16,891,365	24,153	608,022	30,575,332
As at September 30, 2019					
Cost	13,282,660	21,573,008	88,919	1,001,135	35,945,722
Accumulated depreciation	(261,042)	(2,929,973)	(59,362)	(372,585)	(3,622,962)
Net book value	13,021,618	18,643,035	29,557	628,550	32,322,760

The majority of property, plant and equipment is pledged as security for the credit facilities (Note 5).

As at September 30, 2019, there are \$2,476,948, \$2,148,497 and \$140,775 of building, production equipment and computers, respectively, that are not yet available for use and for which depreciation has not started [June 30, 2019 – \$2,476,948, \$3,362,135 and \$105,362].

The amount of borrowing costs capitalised in production equipment during the three-month period ended September 30, 2019 was \$201,643 [June 30, 2019 – nil]. The rate used to determine the amount of borrowing costs eligible for capitalisation was 6.76% which is the weighted average of the borrowing costs applicable to all borrowings of the entity that are outstanding during the period.

5. CREDIT FACILITIES

	Maturity	Effective interest rate %	2019 \$	2018 \$
Operating loans, fixed and variable rate				
– Authorized amount of \$9,839,480	2019 and 2020	3.75% to 4.50%	2,535,180	1,339,480
Convertible debentures	December 2023	8%	7,831,755	7,703,414
Long-term debt				
Term loan, fixed and variables rates	2020 to 2028	4% to 10%	15,490,490	16,080,096
Lease liability	2020 to 2028	0.79% to 5.5%	8,615,551	8,782,901
			34,472,976	33,905,891
Less: current portion of operating loans			2,535,180	1,339,480
Less: current portion of long-term debt			5,661,290	4,170,072
			26,276,506	28,396,339

Under these agreements, the Company has agreed to respect certain conditions and financial ratios. As at September 30, 2019, 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. EQUITY

Warrants and Broker Warrants

The following table summarizes the changes in the number of warrants outstanding for the three-month period ended September 30, 2019:

	Number of warrants	Weighted average exercise price (\$)
Balance as at June 30, 2019	12,684,935	1.10
Warrants exercised	(9,365,651)	0.69
Warrants expired	(46,506)	0.70
Balance as at September 30, 2019	3,272,778	2.25

For the three-month period ended September 30, 2019, 8,909,994 First Warrants were exercised resulting in cash proceeds of \$6,236,996 and a transfer from reserve to share capital of \$590,635. The weighted average share price on the date of exercise of the warrants was \$1.42.

For the three-month period ended September 30, 2019, 455,657 Broker Warrants were exercised resulting in cash proceeds of \$205,045 and a transfer from reserve to share capital of \$59,051. The weighted average share price on the date of exercise of the warrants was \$1.39.

As at September 30, 2019, the following warrants were outstanding:

	Number	Expiry Date	Exercise price (\$)
Second Warrants issued as part of private placement	3,030,350	March 2020	2.30
Broker Warrants issued as part of March 2018 private placement	242,428	March 2020	1.65

7. RELATED PARTY TRANSACTIONS

During the three-month period ended September 30, 2019, the following related party transactions have occurred with Martinrea International Inc., a shareholder of the Company with significant influence:

- Exercise of 2,750,000 warrants for an amount of \$1,925,000.

During the three-month period ended September 30, 2019, the following related party transactions have occurred with Mason Graphite Inc., a shareholder of the Company with significant influence up to September 9, 2019:

- Exercise of 1,111,111 warrants for an amount of \$777,778.

8. SEGMENTED DISCLOSURE

Our Chief Operating Decision Maker analyzes 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. Revenues are generated from our activities in Canada, in the United States and in Switzerland and all sales of products come from enhanced plastics and composite products.

	Three-month periods ended September 30	
	2019	2018
	\$	\$
Revenues *		
Canada	8,256,064	1,418,554
United States	9,589,365	800,144
France	1,300,560	893,413
Switzerland	461,175	550,138
Other	375,925	245,477
Total	19,983,089	3,907,726

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

	As at September 30, 2019	As at June 30, 2019
	\$	\$
Long-lived assets		
Canada	38,886,406	35,417,980
Switzerland	3,595,197	3,566,074
United States	2,476,947	2,476,947
Total	44,958,550	41,461,001

9. COMMITMENTS

The Company has committed to purchase raw materials to certain suppliers within two years and to purchase equipment for a total amount of \$10,077,286 for the construction of the graphene plant, on which \$2,919,270 were paid and included in the Consolidated Statement of Financial Position as Equipment deposits as at September 30, 2019.

As at September 30, 2019, the Company held options for a minimum of US\$5.0 million and a maximum of US\$10.8 million depending of the exchange rate of such derivatives contracts. Minimum rates vary from 1.2690 up to 1.3755. The contracts are valid until February 2021. The carrying value of the derivative foreign currency forward exchange contracts amounted to \$116,705 as at September 30, 2019 and was included in Accounts payable and accrued liabilities [June 30, 2019 – \$93,909].