Performance Through Carbon Chemistry

CONSOLIDATED FINANCIAL STATEMENTS
For the years ended June 30, 2018 and 2017

October 23, 2018

Independent Auditor's Report

To the Shareholders of
NanoXplore Inc.

We have audited the accompanying consolidated financial statements of NanoXplore Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at June 30, 2018 and 2017 and the consolidated statements of loss and comprehensive loss, cash flows and changes in shareholders' 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 audit 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 NanoXplore Inc. and its subsidiaries as at June 30, 2018 and 2017 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP[1]

[1] CPA auditor, CA, public accountancy permit No. A128042

NanoXplore
Performance Through Carbon Chemistry

Consolidated Statement of Financial Position

As at June 30, 2018 and 2017
(Expressed in Canadian dollars)

	2018	2017
	$	$
Assets		
Current assets		
Cash	**15,268,666**	421,214
Accounts receivable *[Note 6]*	**2,895,012**	462,322
Inventory *[Note 7]*	**1,542,863**	293,317
Prepaid expenses	**327,315**	35,121
Lease deposit	**751**	751
	20,034,607	1,212,725
Non-current assets		
Lease deposit	**25,850**	25,850
Equipment deposit	**—**	53,416
Investment in a joint venture *[Note 8]*	**—**	61,308
Property, plant and equipment *[Note 9]*	**6,488,020**	3,383,184
Intangible assets *[Note 10]*	**338,260**	—
Total assets	**26,886,737**	4,736,483
Liabilities and shareholders' equity		
Current liabilities		
Operating loan *[Note 12]*	**1,328,400**	215,000
Accounts payable and accrued liabilities *[Note 11]*	**2,735,006**	753,256
Income taxes payables	**218,455**	—
Deferred grant *[Note 6]*	**164,940**	—
Deferred revenue	**145,012**	—
Long-term debt due within one year *[Note 13]*	**795,917**	2,159,865
	5,387,730	3,128,121
Non-current liabilities		
Non-current portion of balance of purchase price *[Note 5]*	**490,180**	—
Defined benefit liabilities *[Note 14]*	**782,290**	—
Long-term debt *[Note 13]*	**3,772,053**	2,840
Deferred taxes liabilities *[Note 17]*	**696,497**	313,881
Total liabilities	**11,128,750**	3,444,842
Equity		
Share capital *[Note 15a]*	**23,502,555**	5,705,879
Reserve *[Note 15b, Note 15c]*	**2,871,633**	223,352
Foreign currency translation reserve	**13,490**	—
Deficit	**(10,629,691)**	(4,637,590)
Total equity	**15,757,987**	1,291,641
Total equity and liabilities	**26,886,737**	4,736,483

See accompanying notes to consolidated financial statements

Note 1 – Nature of operations and liquidity risk

Approved on behalf of the Board of Directors

Soroush Nazarpour

Benoît Gascon

NanoXplore
Performance Through Carbon Chemistry

Consolidated Statement of Loss and Comprehensive loss

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

	2018	2017
	$	$
Revenues		
Sales of products	**7,741,681**	2,776,370
Royalties	**50,000**	50,000
Laboratory services	**64,266**	50,000
Other income *[Note 6]*	**800,540**	491,199
	8,656,487	3,367,569
Expenses		
Wages and salaries	**6,291,261**	2,489,809
Raw materials, consumables and supplies	**2,348,411**	1,075,984
Energy	**319,978**	173,517
Rent	**292,505**	131,495
Insurance	**82,126**	33,073
Repairs and maintenance	**378,738**	106,436
Share-based compensation	**305,267**	115,287
Professional and consulting fees	**1,585,578**	588,722
Filing fees	**54,220**	10,463
Laboratory supplies	**72,990**	30,099
Advertising and promotion	**73,839**	69,629
Office and general expenses	**323,596**	152,014
Allowance for doubtful accounts	**14,988**	—
Travel and accommodation	**107,207**	67,566
Bank charge	**31,103**	20,558
Depreciation	**782,889**	310,456
Amortization	**37,114**	—
Foreign exchange	**63,695**	17,447
	13,165,505	5,392,555
Operating loss	**(4,509,018)**	(2,024,986)
Listing expenses *[Note 4]*	**(1,443,860)**	(28,772)
Loss on disposal of joint-venture *[Note 8]*	**(51,318)**	—
Interest on long-term debt	**(223,657)**	(113,143)
Interest revenue	**103,386**	—
Share of loss of a joint venture *[Note 8]*	**(3,392)**	(8,912)
Loss before income taxes	**(6,127,859)**	(2,175,813)
Current income taxes recovery	**49,768**	1,314
Deferred income taxes recovery (expenses) *[Note 17]*	**(45,822)**	49,233
	3,946	50,547
Loss for the period	**(6,123,913)**	(2,125,266)
Other comprehensive loss		
Items that may be subsequently reclassified to profit and loss:		
Exchange differences on translation of foreign subsidiaries	**13,490**	—
Items that will not be reclassified to profit and loss:		
Retirement benefits – Net actuarial gains *[Note 14]*	**131,812**	—
Total comprehensive loss	**(5,978,611)**	(2,125,266)
Loss per share		
Basic and diluted *[Note 16]*	**(0.08)**	(0.04)

See accompanying notes to consolidated financial statements

NanoXplore

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Consolidated Statement of Changes in Shareholders' Equity

(Expressed in Canadian dollars)	Number of common shares	Common shares $	Reserve $	Foreign currency translation reserve $	Deficit $	Total equity $
Balance as at June 30, 2016	51,105,519	3,414,725	108,065	—	(2,512,324)	1,010,466
Loss and comprehensive loss for the period	—	—	—	—	(2,125,266)	(2,125,266)
Private placement (net of issuing costs of $5,978)	2,788,840	1,249,022	—	—	—	1,249,022
Conversion of convertible debentures	2,315,893	1,042,132	—	—	—	1,042,132
Share-based compensation	—	—	115,287	—	—	115,287
Balance as at June 30, 2017	56,210,252	5,705,879	223,352	—	(4,637,590)	1,291,641
Loss for the year	**—**	**—**	**—**	**—**	**(6,123,913)**	**(6,123,913)**
Other comprehensive loss	**—**	**—**	**—**	**13,490**	**131,812**	**145,302**
Comprehensive loss for the year	**—**	**—**	**—**	**13,490**	**(5,992,101)**	**(5,978,611)**
Private placement (net of issuing costs of $919,701) *[Note 15a]*	**21,549,072**	**8,063,147**	**—**	**—**	**—**	**8,063,147**
Private placement (net of issuing costs of $871,914) *[Note 15a]*	**6,060,700**	**7,464,417**	**—**	**—**	**—**	**7,464,417**
Issuance of shares *[Note 15a]*	**2,284,051**	**1,027,823**	**—**	**—**	**—**	**1,027,823**
Issuance of warrants and broker warrants *[Note 15b]*	**—**	**—**	**2,658,955**	**—**	**—**	**2,658,955**
Issuance of options *[Note 15c]*	**—**	**—**	**88,345**	**—**	**—**	**88,345**
Stock options converted into shares	**694,981**	**172,820**	**(172,820)**	**—**	**—**	**—**
Exercise of stock option	**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	**—**	**—**	**305,267**	**—**	**—**	**305,267**
Balance as at June 30, 2018	**88,526,285**	**23,502,555**	**2,871,633**	**13,490**	**(10,629,691)**	**15,757,987**

See accompanying notes to consolidated financial statements

NanoXPLORE
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Consolidated Statement of Cash Flow

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

	2018	2017
	$	$
Operating activities		
Net loss	**(6,123,913)**	(2,125,266)
Items not affecting cash:		
Listing expenses paid by issuance of equity	**1,126,798**	—
Depreciation	**782,889**	310,456
Amortization	**37,114**	—
Share-based compensation	**305,267**	115,287
Share of loss of a joint venture	**3,392**	8,912
Loss on disposal of joint-venture	**51,318**	—
Interest accretion on non-current portion of balance of purchase price	**16,304**	—
Interest accretion on obligations under finance lease	**14,321**	—
Interest accretion on convertible debentures	**—**	34,718
Current income taxes recovery	**(49,768)**	(1,314)
Deferred income taxes expenses	**45,822**	(49,233)
Allowance for doubtful accounts	**14,988**	—
Difference between amounts paid for employee benefits and current year cost	**13,912**	—
Unrealized foreign exchange	**25,212**	—
Changes in non-cash operating working capital items:		
Accounts receivable	**(48,660)**	(13,157)
Inventories	**54,142**	(1,165)
Prepaid	**(154,163)**	(7,338)
Accounts payable and accrued liabilities	**452,256**	81,064
Income taxes payable	**(54,632)**	(12,786)
Deferred grant	**164,940**	—
Deferred revenue	**40,775**	—
Cash used in operating activities	**(3,281,686)**	(1,659,822)
Cash flows from financing activities		
Private placements	**19,697,237**	1,255,000
Issuing costs	**(1,510,718)**	(5,978)
Exercise of options, warrants and Broker Warrants	**837,003**	—
Issuance of convertible debentures	**—**	450,000
Decrease of operating loan	**(215,000)**	(40,000)
Repayment of obligations under financing lease	**(264,941)**	—
Issuance of long-term debt	**1,457,273**	—
Repayment of long-term debt	**(147,453)**	(103,443)
Cash from financing activities	**19,853,401**	1,555,579
Cash flows from investing activities		
Deposit on equipment	**—**	(53,416)
Lease deposit	**—**	5,955
Business acquisition, net of cash acquired *[Note 5]*	**(1,207,237)**	—
Additions of property, plant and equipment	**(538,142)**	(594,124)
Cash used in investing activities	**(1,745,379)**	(641,585)
Change in cash	**14,826,336**	(745,828)
Net effect of currency exchange rate on cash	**21,116**	—
Cash, beginning of year	**421,214**	1,167,042
Cash, end of year	**15,268,666**	421,214
Interest paid	**166,592**	79,260
Income taxes paid	**—**	12,786

See accompanying notes to consolidated financial statements

[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", "the Group" or the "Company") is 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.

On August 29, 2017, the Company completed the three-cornered amalgamation involving Graniz Mondal Inc. ("Graniz"), the Company (formerly named "Group NanoXplore Inc.") 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., merged with Group NanoXplore Inc. and now operates under NanoXplore Inc.

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 incorporated on November 9, 2017, the Company acquired all of the issued and outstanding shares of CEBO Injections SA, based in Switzerland.

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. Refer to note 20 for the detailed liquidity risk analysis.

The consolidated financial statements of NanoXplore for the years ended June 30, 2018 and 2017 were reviewed, approved and authorized for issue by the Company's Board of Directors on October 23, 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These consolidated financial statements 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.

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.

These 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.

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% [2017 – 100%];
- 9334-7474 Québec Inc., based in Canada, with an equity interest of 100% [2017 – 100%]. 9334-7474 Québec Inc. holds 100% of Rada Industries Ltd. (“Rada Industries”).
- NanoXplore Switzerland Holding SA (“NanoXplore Switzerland”), based in Switzerland, with an equity interest of 100% [2017 – nil]. NanoXplore Switzerland holds 100% of CEBO Injections SA (“CEBO”).
- 10854611 Canada Inc., based in Canada, with an equity interest of 100% [2017 – nil].

Intercompany transactions, balances, income and expenses on transactions between the Company’s entities 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 and comprehensive 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. All subsidiaries have the Canadian dollar as functional currency except for NanoXplore Switzerland and CEBO which have Swiss Franc (“CHF”). The assets and liabilities of foreign operations are translated into Canadian dollars at the rate of exchange prevailing at the reporting date and their statements of operations are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on the translation are recognised in other comprehensive loss.

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”.

Business combination

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. The acquisition date is the date at which the Company obtains control over the acquiree, which is generally the date that consideration is transferred, and the Company acquires the assets and assumes the liabilities of the acquiree. Acquisition-related costs are expensed as incurred and included in professional and consulting fees expenses.

A business consists of inputs, including non-current assets, and processes, including operational processes, that when applied to those inputs have the ability to create outputs that provide a return to the Company and its shareholders. A business also includes those assets and liabilities that do not necessarily have all the inputs and processes required to produce outputs but can be integrated with the inputs and processes of the Company to create outputs. When acquiring a set of activities or others, which may not have outputs, the Company considers other factors to determine whether the set of activities or assets is a business. Those factors include, but are not limited to, whether the set of activities or assets: (i) Has begun planned principal activities; (ii) Has employees, intellectual property and other inputs and processes that could be applied to those inputs; (iii) Is pursuing a plan to produce outputs; and (iv) Will be able to obtain access to customers that will purchase the outputs. Not all of the above factors need to be present for a particular integrated set of activities to qualify as a business.

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.

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, balance of purchase price payable and long-term debt. 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 ("PPE") 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. An item of PPE is de-recognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss in the consolidated statement of loss and comprehensive loss. Where an item of PPE consists of major components with different useful lives, the components are accounted for as separate items of property, plant and equipment. Expenditures incurred to replace a component of an item of PPE that is accounted for separately, including major inspection and overhaul expenditures, are capitalized.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognised in the statement of loss and comprehensive loss.

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 unless certain criteria are met.

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. A lease is classified at the inception date as a finance lease or an operating lease.

a) Operating lease

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.

b) Finance lease

A lease that transfers substantially all the risks and rewards incidental to ownership to the Company is classified as a finance lease. Finance leases are capitalized at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in Interest on long-term debt in the Consolidated Statement of Loss and Comprehensive loss. A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and 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.

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.

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.

Employee future benefits

The Company offers defined benefit pension plans to certain non-Canadian employees. The net periodic pension expense for these plans is actuarially determined on an annual basis by independent actuaries using the projected unit credit method. The determination of benefit expense requires assumptions such as the discount rate to measure obligations, expected mortality and expected rate of future compensation. Actual results will differ from estimated results based on assumptions. The vested portion of past service cost arising from plan amendments is recognized immediately in the statement of loss and comprehensive loss. The unvested portion is amortized on a straight-line basis over the average remaining period until the benefits vest. The liability recognized in the consolidated statements of financial position is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognized past service costs. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that have terms to maturity approximating the term of the related pension liability. All actuarial gains and losses that arise in calculating the present value of the defined benefit obligation and the fair value of plan assets are recognized immediately in other comprehensive loss and included in the statement of comprehensive loss and comprehensive loss.

Given that the plan is fully insured as of June 30, 2018 (i.e. the collective foundation covers all actuarial and investment risks), no outflow of resources embodying economic benefits is required by the Company to extinguish the net actuarial liability recorded on the statement of financial position as at June 30, 2018 other than ordinary contributions required by the plan. The collective foundation will pay any liability that exists under the defined benefit plans. However, based on IAS 19, the obligation creates an actuarial obligation and an asset can not be recognized against the actuarial obligation.

Contributions to defined contribution pension plans are expensed as incurred, which is as the related employee service is rendered.

Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recorded as a deduction from the proceeds in equity in the period in which the shares are issued. Proceeds from the conversion of units are allocated between shares and warrants issued using Black-Scholes valuation model to determine the value of warrants issued. The balance is attributed to share capital.

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 the reserve. 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.

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 reclassed from reserve to share capital.

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, broker warrants and warrants, in the weighted average number of common shares outstanding during the year, if dilutive.

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.

a) 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.

b) Government assistance and SRED

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 government assistance 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.

c) Business combinations

The valuation of identifiable assets and liabilities in connection with the acquisition of a business involves items in the acquired company's statement of financial position, as well as items that have not been recognized in the acquired company's statement of financial position such as customer relationships that should be valued at fair value. In normal circumstances, as quoted market prices are not always available for the assets and liabilities that are to be valued, different valuation methods have to be used. These valuation methods are based on a number of assumptions. All statement of financial position items acquired in a business combination are thus subject to estimates and judgments. Please refer to note 5 for details regarding the estimates made for the most recent business acquisition.

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.

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.

4. 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:

	$
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 [(1)]	13,409
	989,232
Transaction costs	
115,556 common shares issued for finder fees agreement	52,000
400,000 options issued to NanoXplore's advisors [(1)]	64,231
66,667 options issued to Graniz's advisors [(1)]	10,705
Transaction costs paid in cash [(2)]	325,759
	452,695
Total consideration paid	**1,441,927**
Net liabilities assumed	
Assets acquired	
Cash	19,913
Accounts receivable	5,433
Property, plant and equipment	666,314
	691,660
Liabilities acquired	
Accounts payable	117,231
Advance to shareholders	319,500
Long term debt	165,000
	601,731
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	(30,705)
Listing expenses	**1,472,632**
Listing expenses	
Incurred in the year ended June 30, 2018	**1,443,860**
Incurred in the quarter ended June 30, 2017	**28,772**

[(1)] Refer to Note 15c for the valuation of the options
[(2)] The whole amount was paid in the year ended June 30, 2018

5. 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 Injections SA ("CEBO") for a total consideration of 2,300,000 CHF [$2,969,300]. CEBO is a Swiss-based injection molding company, from BCR Plastic Group. CEBO 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:

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

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.

	$
Net identifiable assets acquired:	
Cash	729,293
Accounts receivable and other receivables	2,316,948
Inventory	1,267,003
Prepaid expenses	134,148
Equipment *[Note 9]*	2,799,448
Customer Relationship *[Note 10]*	365,268
	7,612,108
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 *[Note 14]*	(876,311)
Operating loan	(1,291,020)
Deferred tax liabilities	(327,447)
	(4,698,830)
Total consideration	**2,913,278**
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	1,207,237

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

The assets and liabilities of CEBO are included in the consolidated statement of financial position as at June 30, 2018 and 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.

6. ACCOUNTS RECEIVABLE

	2018 $	2017 $
Trade receivables	**2,743,828**	384,650
Minus: Allowance for doubtful accounts	**(128,883)**	(14,286)
	2,614,945	370,364
Sales tax receivable	**85,145**	35,022
Government assistance receivable	**7,594**	48,017
SR&ED tax credit receivable	**117,760**	–
Other receivables	**69,568**	8,919
	2,895,012	462,322

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 debt *(Note 12 and Note 13)*.

GOVERNMENT ASSISTANCE

Sustainable Development Technology Canada

On September 1st, 2017, the Company entered into a contribution agreement with Sustainable Development Technology Canada ("SDTC"). Upon meeting certain conditions, SDTC agreed to financially assist the Company in the project called "Reducing the Footprint of Electric-Motor-Driven Systems by using Graphene-Enhanced Engineering Plastics", 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, SDTC will reimburse 33% of eligible project cost for a maximum of $3,250,000 for the period from September 1st, 2017 to April 30, 2021 in advance payment each year.

As part of the contribution agreements with the SDTC, the Company accounted government assistance as detailed below:

	2018 $	2017 $
Amount received	**619,997**	–
Distribution to partners	**32,907**	–
Deferred grant	**164,940**	–

	2018 $	2017 $
Amount recognized as other income	**422,150**	–

SR&ED

For the year ended on June 30, 2018, the Company recognized tax credits from the Federal and Provincial government for research and development expenses of $318,293 [2017 – $219,073] as other income in the consolidated statement of loss and comprehensive loss. An amount of 200,533 [2017 – $276,334] was received for the year ended June 30, 2018 and $117,760 [2017 – nil] is included in the accounts receivable.

National Research Council ("NRC")

As part of the contribution agreements with NRC, the Company recognized for the year ended June 30, 2018 a contribution totaling nil [2017 – $263,126] and an amount receivable of nil [2017 – $48,017]

Other

As part of another program, the Company also recognized and received for the year ended June 30, 2018 a contribution totaling $60,097 [2017 – $9,000].

7. INVENTORY

	2018 $	2017 $
Raw materials	**560,600**	148,126
Work in progress	**38,051**	–
Finished goods	**944,212**	145,191
	1,542,863	293,317

The cost of inventory recognized as an expense and included in cost of sales for the year ended June 30, 2018 is $6,315,978 [2017 – $2,406,389] including write-downs recorded of nil [2017 – $43,904], as a result of net realizable value being lower than cost and reversals of inventory write-downs recognized in prior periods of nil [2017 – $13,294].

The majority of inventories is pledged as security for the operating loan and long-term debt (Note 12 and Note 13).

8. INVESTMENT IN A JOINT VENTURE

Two Carbon Inc. ("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 since its initial investment in 2015.

On May 22, 2018, the Company sold its 50% interest in Two Carbon for an amount of $6,598 [US $5,000], resulting in a net loss of $51,318.

The change in the investment in Two Carbon is detailed as follows:

	2018 $	2017 $
Balance as at July 1st	**61,308**	70,220
Share of loss and comprehensive loss of the year	**(3,392)**	(8,912)
Elimination of joint-venture	**(57,916)**	–
Balance as at June 30	**–**	61,308

9. PROPERTY, PLANT AND EQUIPMENT

	Land & Building $	Production equipment $	Leasehold improvements $	Laboratory, computer, office equipment and rolling stock $	Total $
Balance as at July 1st, 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
Additions	**–**	**821,187**	**2,192**	**180,244**	**1,003,623**
Acquired in a business combination	**–**	**2,630,453**	**–**	**168,995**	**2,799,448**
Disposal	**–**	**–**	**–**	**(1,081)**	**(1,081)**
Depreciation	**(60,138)**	**(589,016)**	**(13,866)**	**(119,869)**	**(782,889)**
Effect of foreign exchange differences	**–**	**80,732**	**–**	**5,003**	**85,735**
Balance as at June 30, 2018	**1,430,062**	**4,663,345**	**29,369**	**365,244**	**6,488,020**
As at June 30, 2018					
Cost	**1,555,375**	**5,483,588**	**85,736**	**593,174**	**7,717,873**
Accumulated depreciation	**(125,313)**	**(820,243)**	**(56,367)**	**(227,930)**	**(1,229,853)**
Net book value	**1,430,062**	**4,663,345**	**29,369**	**365,244**	**6,488,020**
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

The majority of property, plant and equipment is pledged as security for the operating loan and long-term debt (Note 12 and Note 13).

The carrying value of production equipment and of rolling stock held under finance leases as of June 30, 2018 were respectively $1,097,875 and $113,957 [June 30, 2017 – nil] and were partially acquired during the year as part of the acquisition of CEBO (note 5). Additions of production equipment under finance lease during the year ended amounted to $411,465 [June 30, 2017 – nil]. Leased assets are pledged as security for the related finance lease.

10. INTANGIBLE ASSETS

Intangible consists of customer relationship acquired through business combination (note 5). The expected useful life is 10 years.

	2018 $	2017 $
Balance as at July 1st	**–**	–
Acquired in a business combination	**365,268**	–
Amortization	**(37,114)**	–
Effect of foreign exchange differences	**10,106**	–
Balance as at June 30	**338,260**	–
As at June 30, 2018		
Cost	**375,845**	–
Accumulated amortization	**(37,585)**	–
Net book value	**338,260**	–

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2018 $	2017 $
Trade payables	**1,229,979**	420,580
Accrued liabilities	**420,225**	297,746
Current portion of balance of purchase price	**531,360**	–
Payroll withholding taxes payable	**553,442**	34,930
	2,735,006	753,256

12. OPERATING LOAN

Two wholly-owned subsidiaries of the Company, 9334-7474 Québec Inc. and Industries 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 amended on September 14, 2016 and 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, 2018, the Company had drawn nil [June 30, 2017 – $215,000] under this credit facility and all applicable covenants are respected.

The wholly-owned subsidiary of the Company, CEBO Injections SA, signed a credit facility agreement with the BCV Bank which authorized the Company to a maximum operating loan of CHF 1,000,000 [$1,328,400]. The credit facility was signed on September 20, 2017 and renewed on December 29, 2017 for a one-year period. The operating loan bears interest at 4%. A general assignment of debtors has been given as security. The operating loan is subject to financial and non-financial covenants. As of June 30 2018, the Company had drawn CHF 1,000,000 [$1,328,400] under this credit facility and all applicable covenants are respected.

13. LONG-TERM DEBT

	2018 $	2017 $
Term loan between NanoXplore Switzerland Holding and Export Development Canada ("EDC"), bearing interest at Libor CHF rate plus 6.5%, payable in quarterly principal installments of CHF 67,647 [$89,862] beginning in November 2018 and maturing in November 2022. The debt is net of financing fees of $31,918. NanoXplore Inc., Rada Industries Ltd and CEBO Injections SA are collectively guarantors of the loan. The loan is subject to certain financial and non-financial covenants.	**1,499,467**	–
Reducing mortgage term loan between Group Rada and the Toronto-Dominion Bank, bearing interest at 4.13% per annum (rate renewable in June 2019), maturing in June 2022 and payable in monthly instalments of $7,577 (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 2nd rank hypothec behind Investissement Québec for a prior lien of $1,000,000. (a)	**1,156,947**	1,203,154
Term loan between 9334-7474 Québec Inc. and Investissement Québec, bearing interest at Canadian prime rate plus 4.53% (rate renewable in June 2020), 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)	**858,305**	949,990
Obligations under finance lease denominated in CHF, bearing interest at an average weighted effective rate of 2.6%	**1,053,251**	–
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 June 2018.	–	9,561
	4,567,970	2,162,705
Less: current portion of long-term debt	**795,917**	2,159,865
	3,772,053	2,840

(a) The Company has agreed to respect certain financial and non-financial covenants. As at June 30, 2018, all applicable covenants are respected except for the Debt Service Coverage Ratio (DSC) over the long-term debt. As at June 21, 2018, a letter from the institution that waives compliance with the DSC covenant for the period ended June 30, 2018 was obtained.

(b) The Company has agreed to respect certain financial and non-financial covenants. As at June 30, 2018, all applicable covenants are respected except for the Debt Service Coverage Ratio (DSC) over the long-term debt. As at June 1, 2018, a letter from the institution that waives compliance with the DSC covenant for the period ended June 30, 2018 was obtained.

The Company leases production equipment and of rolling stock. The minimum future lease payments are as follows:

	Within 1 year $	1 to 5 years $	5 years and more $	Total $
Future minimum lease payments	400,279	688,965	40,190	**1,129,434**
Less: future finance costs	(26,694)	(49,214)	(275)	**(76,183)**
Total	**373,585**	**639,751**	**39,915**	**1,053,251**

14. EMPLOYEE BENEFITS OBLIGATION

Defined Benefit Pension Plan

The Company offers defined benefit pension plan to certain non-Canadian employees.

Employee are eligible to this plan if they meet certain conditions. Depending on the age, salary and the applicable pension fund, ordinary contributions are directly deducted as a percentage from the salary. The Company contributes between 50% and 60% of the ordinary contributions for the employees. **If the fund is in deficit as per the Swiss law, the collective foundation, responsible for the management of the fund, could potentially contribute the employer, employee and pensioners. However, the Company is fully insured against all potential request of contribution by the collective foundation.**

Given that the plan is fully insured as of June 30, 2018 (*i.e. the collective foundation covers all actuarial and investment risks*), no outflow of resources embodying economic benefits is required by the Company to extinguish the net actuarial liability recorded on the statement of financial position as at June 30, 2018 other than ordinary contributions required by the plan. The collective foundation will pay any liability that exists under the defined benefit plans. However, based on IAS 19, the obligation creates an actuarial obligation and an asset can not be recognized against the actuarial obligation.

The funded status of the benefits and the amounts recorded in the statement of financial position were as follows:

	2018 $	2017 $
Plan assets at fair value	**2,216,356**	–
Defined benefit obligation	**(2,998,646)**	–
Retirement benefit deficit	**(782,290)**	–

The amount for asset ceiling effect and for minimum funding requirement amounted to nil [2017 – nil].

The changes in fair value of the defined benefit obligation were as follows:

	2018 $	2017 $
Balance – Beginning of the year	**–**	–
Defined benefit obligation assumed through business combination	**2,952,225**	–
Participant contribution	**109,063**	–
Benefits paid	**(154,132)**	–
Items in net loss		
Current service cost	**125,902**	–
Interest cost	**12,413**	–
	138,315	–
Items in comprehensive loss		
Actuarial gains	**(131,812)**	
Foreign currency translation	**84,987**	
	(46,825)	–
Defined benefit liabilities	**2,998,646**	–

The present value of the defined benefit obligation may be reflected as follows:

	2018 %	2017 %
Active plan participants	**100%**	–
Pensioners	**–**	–

The changes in fair value of the plan assets were as follows:

	2018 $	2017 $
Balance – Beginning of the year	**–**	–
Fair value of plan assets acquired through business combination	**2,075,914**	–
Employer contribution	**115,643**	
Participant contribution	**109,063**	–
Benefits paid	**(154,132)**	–
Items in net loss		
Interest income on plan assets	**8,758**	–
Items in comprehensive loss		
Foreign currency translation	**61,110**	
Fair value of plan assets	**2,216,356**	–

For the year ended June 30, 2018, the service cost amounted to $125,902 [2017 – nil]. Total cash payments for employee benefits, consisting of cash contributed by the Company to its pension plan amounted to $115,643 [2017 – nil]. The Company estimates to contribute $198,246 to the defined benefit plans during the next fiscal year end.

The actuarial assumptions used to determine the Company's pensions plan benefit obligation and expense were as follows:

	2018	2017
Discount rate	**1%**	–
Salary increase	**1%**	–
Rate of increase in eligible earnings	**0%**	–
Inflation	**1%**	–
Long-term interest on retirement accounts	**1%**	–
Mortality decrement and turnover rate	**BVG / LPP 2015 GT Table**	–
Disability decrement	**85% BVG / LPP 2015 GT Table**	–
Retirement	**100% at regular retirement age**	–

To determine the most suitable discount rate, management considers the interest rates for high-quality bonds issued by entities operating in Switzerland with cash flows that match the timing and amount of expected benefit payments. The mortality and disability rate are based on available rate in Switzerland for private pension funds. The company chose the salary increase and the turnover rates to reflects our specific situation.

A 0.25% change in the significant actuarial assumptions below would have the following effects on the defined benefit obligation, all other actuarial assumptions remaining the same:

	0.25% increase	0.25% decrease
Discount rate	**(106,524)**	**114,513**
Salary increase	**12,698**	**(13,272)**

15. EQUITY

a) 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:

	Number of shares	$
Balance as at July 1st, 2016 [(1)]	51,105,519	3,414,725
Issuance of shares as part of private placement [(1)]	2,788,840	1,249,022
Conversion of convertible debentures into shares [(1)]	2,315,893	1,042,132
Balance as at June 30, 2017 [(1)]	56,210,252	5,705,879
Issuance of share as part of Graniz's reverse takeover *[Note 4]*	**1,412,939**	**635,823**
Conversion of debt into shares as part of Graniz's reverse takeover *[Note 4]*	**755,556**	**340,000**
Stock options converted into shares	**694,981**	**172,820**
Issuance of share to advisors pursuant to finder's fee agreements *[Note 4]*	**115,556**	**52,000**
Issuance of shares as part of private placement in August 2017	**21,549,072**	**8,063,147**
Issuance of shares as part of private placement in March 2018	**6,060,700**	**7,464,417**
Exercise of stock options	**788,227**	**479,607**
Exercise of warrants and broker warrants	**939,002**	**588,862**
Balance as at June 30, 2018	**88,526,285**	**23,502,555**

[(1)] Shares were converted to a ratio of 40.0667 pursuant to the reverse takeover transaction discussed in note 4.

On August 2, 2017, the Company completed 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 (the "First Warrants") of the Company. 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.

Proceeds from the conversion of the subscription receipts were allocated between shares and warrants issued. Black-Scholes valuation model was used to determine the value of warrants issued which results to a fair value of $714,234 allocated to warrants and recorded in the reserve and the balance was attributed to the share capital.

The aggregate issuance costs related to these issuances, including the commission, in the amount of $734,293 for transactions costs paid in cash and $185,408 for transactions costs paid with the issuance of broker warrants, were recorded as a reduction in share capital.

On March 27, 2018, the Company completed a brokered private placement financing of units sold at a price of $1.65 per unit for gross proceeds of $10,000,155. At the closing of the Transaction, each unit was converted into one unit which consist of one common share of the Company and one half of one common share purchase warrant (the "Second Warrants") of the Company. 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 6% of the gross proceeds of the private placement and to issue a number of broker warrants (the "Broker Warrants") equal to 4% of the number of units issued pursuant to the private placement.

Proceeds from the conversion of the units were allocated between shares and warrants issued. Black-Scholes valuation model was used to determine the value of warrants issued which results to a fair value of $1,663,824 allocated to warrants and recorded in the reserve and the balance was attributed to the share capital.

The aggregate issuance costs related to these issuances, including the commission, in the amount of $776,425 for transactions costs paid in cash and $95,489 for transactions costs paid with the issuance of broker warrants, were recorded as a reduction in share capital.

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.

b) Warrants and broker warrants

The following table summarizes the changes in the number of warrants outstanding for the year ended June 30, 2018:

	Number of warrants and broker warrants	Weighted average exercise price ($)
Balance as at July 1st, 2017	–	–
Warrants issued as part of private placement *[Note 15a]*	**13,804,886**	**1.05**
Warrants issued as "Broker Warrants" *[Note 15a]*	**1,673,085**	**0.62**
Exercise of warrants	**(239,002)**	**0.70**
Exercise of broker warrants	**(700,000)**	**0.45**
Balance as at June 30, 2018	**14,538,969**	**1.04**

Each of the 10,774,536 First Warrants issued as part of private placement in August 2017 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.

Each of the 1,430,657 Broker Warrants issued as part of private placement in August 2017 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, on August 29, 2017. The Broker Warrants shall be exercisable following the satisfaction of the Release Conditions.

Each of the 3,030,350 Second Warrants issued as part of private placement in March 2018 entitles the holder to acquire an additional Company common share at a price of $2.30 for a period of 24 months from March 27, 2018.

Each of the 242,428 Broker Warrants issued as part of private placement in March 2018 is exercisable to purchase one common share of the Company at a price of $1.65 per Broker Warrant Share for a period of 24 months following the closing of the transaction, on March 27, 2018.

For the year ended June 30, 2018, 239,002 First Warrants were exercised resulting in cash proceeds of $167,301 and a transfer from reserve to share capital of $15,843. The weighted average share price on the date of exercise of the warrants was $1.79.

For the year ended June 30, 2018, 700,000 broker warrants were exercised resulting in cash proceeds of $315,000 and a transfer from reserve to share capital of $90,718. The weighted average share price on the date of exercise of the warrants was $1.76.

The fair value of the First and Second Warrants and Broker Warrants issued was estimated using Black-Scholes model with no expected dividend yield and the following factors:

	Volatility	Risk-free interest rate	Expected life (months)	Weighted average fair value ($)
First Warrants	**50.5%**	**1.25%**	**24**	**0.07**
Broker Warrants issued as part of August private placement	**50.5%**	**1.25%**	**24**	**0.13**
Second Warrants	**40.0%**	**1.83%**	**24**	**0.39**
Broker Warrants issued as part of March private placement	**40.0%**	**1.83%**	**24**	**0.55**

The expected volatility was estimated by benchmarking comparable situations for companies that are similar to the Company.

As at June 30, 2018, the following warrants were outstanding:

	Number	Expiry Date	Exercise price ($)
First Warrants issued as part of private placement	**10,535,534**	**August 2019**	**0.70**
Broker Warrants issued as part of August private placement	**730,657**	**August 2019**	**0.45**
Second Warrants issued as part of private placement	**3,030,350**	**March 2020**	**2.30**
Broker Warrants issued as part of March private placement	**242,428**	**March 2020**	**1.65**

c) Stock option

Following the transaction described in note 4, the Company will continue under the stock option plan previously established under Graniz Mondal Inc. The incentive stock option plan 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.

The following table reflects the continuity of options for the year ended June 30, 2018:

	2018		2017	
	Number	Weighted average exercise price ($)	Number [(1)]	Weighted average exercise price ($)
Balance as at July 1st, 2017[(1)]	**1,255,914**	**0.45**	735,048	0.45
Options converted into shares *[Note 4]*	**(694,981)**	**0.45**	–	–
Options granted in replacement of Graniz's old option *[Note 4]*	**141,293**	**0.45**	–	–
Options granted to advisors pursuant to finder's fee agreements *[Note 4]*	**466,667**	**0.45**	–	–
Options granted to officers and employees	**1,070,000**	**0.93**	520,866	0.45
Options exercised	**(788,227)**	**0.45**	–	–
Options forfeited	**(120,200)**	**0.45**	–	–
Balance as at June 30, 2018	**1,330,466**	**0.84**	1,255,914	0.45
Options exercisable as at June 30, 2018	**617,131**	**0.67**	736,500	0.45

[(1)] Options were converted to a ratio of 40.0667 pursuant to the reverse takeover transaction discussed in note 4.

On August 29, 2017, 694,981 stock options owned by employees and officers were converted into shares as part of the reverse takeover transactions.

On August 29, 2017, in connection with the Transaction, 141,293 options were granted in replacement of Graniz's old options and 466,667 were granted to advisors pursuant to finder's fee agreements (Note 4).

During the year ended June 30, 2018, 1,070,000 options were granted. These options have an exercise price between $0.45 and $1.80 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.

For the year ended June 30, 2018, 788,227 options were exercised resulting in cash proceeds of $354,702 and a transfer from reserve to share capital of $124,905. The weighted average share price on the date of exercise of the options was $1.90.

During the year ended June 30, 2017, 520,866 options were granted. 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.

At June 30, 2018, stock options issued and outstanding by range of exercise price are as follows:

	Options outstanding			Options exercisable	
Range of exercise price	**Remaining contractual life (in years)**	**Number outstanding**	**Weighted average exercise price**	**Number exercisable**	**Weighted average exercise price**
$0.45	4.15	930,466	$0.45	483,798	$0.45
$1.60 - $1.80	4.68	400,000	$1.74	133,333	$1.74

The fair value of the options granted was estimated using Black-Scholes model. The weighted average inputs into the model and the resulting grant date fair values was as follows:

	Volatility	Risk-free interest rate	Expected life (months)	Weighted average grant date fair value ($)
For the year ended June 30, 2018				
Options granted in replacement of Graniz's old option	**52.3%**	**1.15%**	**12**	**0.10**
Options granted to advisors pursant to finder's fee agreements	**51.4%**	**1.32%**	**36**	**0.16**
Options granted to officers and employees	**50.3%**	**1.72%**	**60**	**0.41**
For the year ended June 30, 2017				
Options granted to directors	52.0%	0.96%	60	0.20
Options granted to officers and employees	51.0%	1.11%	60	0.20

The expected volatility was estimated by benchmarking comparable situations for companies that are similar to the Company. There is no expected dividend yield.

16. LOSS PER SHARE

	2018 $	2017 $
Numerator		
Loss attributable to common shares	**(6,123,913)**	(2,125,266)
Denominator		
Weighted average number of common shares for basic LPS	**79,042,759**	54,559,954
Loss per share ("LPS")		
Basic and diluted	**(0.08)**	(0.04)

In light of the net loss recognized for the years ended June 30, 2018 and 2017, all outstanding stock options and warrants and Broker Warrants, respectively, were excluded from the calculation of diluted loss per share due to their anti-dilutive effect.

The Company has considered the Transaction and in particular the 40.0667:1 split of the Company's common shares described in Note 4 in the calculation of the weighted average number of shares for the year ended June 30, 2017.

17. INCOME TAXES

Reconciliation of the effective tax rates is as follows:

	2018 $	2017 $
Statutory tax rate	**26.50%**	18.5%
Loss before income taxes for the year	**6,127,859**	2,175,813
Tax recovery at statutory rate	**1,623,883**	402,525
Increase (decrease) resulting from:		
Permanent differences	**(424,772)**	(23,386)
Effect of difference of foreign tax rates	**(21,290)**	84,994
Tax effect of deductible equity transaction cost	**474,778**	–
Tax effect of unrecognized temporary difference and tax losses	**(1,808,537)**	(413,291)
Differences in tax rates changes	**103,542**	–
Other	**56,342**	(295)
Net tax recovery	**3,946**	50,547

The statutory rate increased from 18.5% for the year ended June 30, 2017 to 26.5% for the year ended June 30, 2018 due to a change in tax status as the Company became public.

Net unrecognized deductible temporary differences for which no deferred taxes have been recognized amount to $2,667,795 [2017 – $859,258]. 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, 2018 and 2017, significant components of the Company's deferred income tax assets (not recognized) are as follows:

	2018 $	2017 $
Property, plant and equipment	**89,658**	37,340
Share issue costs	**453,973**	3,046
Operating losses carried forward	**2,067,182**	794,273
Research and development	**56,982**	19,395
Investment in subsidiary	**–**	5,204
Total deferred income tax assets	**2,667,795**	859,258

As at June 30, 2018 and 2017, the significant component of the Company's deferred income tax liabilities is property, plant and equipment.

As at June 30, 2018, expiration dates of losses available in Canada to reduce future years' income for tax purposes are:

	Federal $	Provincial $
2038	**3,979,466**	**3,979,466**
2037	**1,356,851**	**1,402,610**
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	**23,271**	**28,258**
Total	**6,872,869**	**7,092,348**

As at June 30, 2018, the Company had also accumulated non-capital losses for tax purposes in Germany of approximately $883,770 [2017 – $670,741] which can be used to reduce taxable income in the future with no expiration date.

The Company also recognized a deferred liability resulting of the business combination (refer to Note 5). As at June 30, 2018, the Company had no accumulation of non-capital losses for tax purposes in Switzerland.

18. RELATED PARTY TRANSACTIONS

For the year ended June 30, 2018, the following are related party transactions that have occurred with Mason Graphite Inc., a shareholder of the Company with significant influence:

- Mason Graphite Inc. participated in the private placement for $1,000,000 in August 2017 and for $1,000,065 in March 2018 (Note 15a);
- Royalties of $50,000 [2017 – $50,000];
- Laboratory services of $63,169 [2017 – $50,000];
- Purchased raw materials from Mason Graphite Inc. of $11,569 [2017 – $320].

As at June 30, 2018, the balance receivable from the related parties amounted to $58,333 [2017 – $8,333] and is included in accounts receivable. The amounts outstanding are non-interest-bearing, unsecured and receivable on demand.

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

	2018 $	2017 $
Consulting fees, wages and salaries	**842,110**	293,584
Share-based compensation – Management	**31,548**	12,453
Share-based compensation – Director	**28,560**	24,087
	902,218	330,124

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 twelve months of base salary. Minimum commitments under these agreements are approximately $390,000. These agreements require that additional minimum payments of approximately $390,000 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.

	2018 $
Within 1 year	1,015,339
1 to 5 years	4,146,266
More than 5 years	3,792,646
Total	8,954,251

The total operating lease expense for the year is $295,141 [2017 – $127,542].

The Company has committed to purchase raw materials to certain suppliers within 2 years for an amount of $1,074,127.

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. The Company is exposed to various financial risks resulting from its operations. 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.

The Company's management manages financial risks. The Company does not enter into financial instruments agreements, including derivative financial instruments, for speculative purposes.

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, balance of purchase payable and trade payables and accrued liabilities approximates their carrying value due to the short-term maturities of these instruments;
(ii) The fair value of long-term debt are estimated based on discounted cash flows using current interest rate for instruments with similar terms and remaining maturities. The Company categorized the fair value measurement in Level 2, as it is derived from observable market inputs.

The carrying values and fair values of financial instruments, by class, are as follows as at June 30, 2018 and 2017:

	As at June 30, 2018		**As at June 30, 2017**	
	Carrying value **$**	**Fair value** **$**	**Carrying value** **$**	**Fair value** **$**
Financial assets				
Cash	**15,268,666**	**15,268,666**	421,214	421,214
Trade and other receivables	**2,684,513**	**2,684,513**	379,283	379,283
Total	**17,953,179**	**17,953,179**	800,497	800,497
Other financial liabilities [(1)]				
Operating loan	**1,328,400**	**1,328,400**	215,000	215,000
Trade and accrued liabilities	**2,181,564**	**2,181,564**	718,326	718,326
Non-current portion of balance of purchase price	**490,180**	**490,180**	–	–
Long-term debt	**4,567,970**	**4,567,970**	2,162,705	2,162,705
Total	**8,568,114**	**8,568,114**	3,096,031	3,096,031

[(1)] Financial liabilities at amortized cost

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. As at June 30, 2018, three customers represented 42% of trade accounts receivable [2017 – two customers represented 35%]. In 2018, two customers represented 33% of sales [2017 – 51%].

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, 2018, the Company has an allowance for doubtful accounts of $128,883 [2017 – $14,286]. 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 and Swiss 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. Long-term debt has maturities between 4 to 8 years. The Company regularly evaluates its cash position to ensure preservation and security of capital and maintain liquidity.

As at June 30, 2018, management estimates that funds available are sufficient to meet the Company's obligations and planned net expenditures through at least June 30, 2019.

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

The following table reflects the contractual maturity of the Company's financial liabilities as at June 30, 2018 (capital and interest payments):

	Carrying amount	**1 year**	**2-3 years**	**4-5 years**	**Later than 5 years**	**Total**
	$	**$**	**$**	**$**	**$**	**$**
Operating loan	1,328,400	1,328,400	–	–	–	**1,328,400**
Trade and accrued liabilities	2,181,564	2,181,564	–	–	–	**2,181,564**
Non-current portion of balance of purchase price	490,180	–	531,360			**531,360**
Long-term debt	4,567,970	1,032,910	1,917,844	1,120,397	1,572,651	**5,643,802**
Total	**8,568,114**	**4,542,874**	**2,449,204**	**1,120,397**	**1,572,651**	**9,685,126**

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 debt is at fixed rate. The Company is exposed to interest rate fluctuations on its operating loan and long-term debt, which bear a floating interest rate. Based on the balances outstanding as at June 30, 2018, a 1% increase (decrease) in interest rates would increase (decrease) the Company's consolidated net loss by $21,867 on a 12-month horizon.

The majority of the Company's cash balances are non-interest bearing. There is limited exposure to changes in interest revenues as a result of interest rate risk.

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

Foreign currency risk
The Company is exposed to currency risk, primarily as a result of two of its subsidiaries been located in Switzerland.

Expressed in Canadian dollar terms, the financial assets and liabilities of the Company and its subsidiaries denominated in currencies other than the measurement currency of the financial statements as at June 30, 2018 are summarized in the following tables:

	Euro $	Swiss Franc $	US dollars $	Total $
Cash	491,431	390,851	36,093	**918,375**
Accounts receivable	1,264,533	695,342	111,792	**2,071,667**
Operating loan	–	(1,328,400)	–	**(1,328,400)**
Trade and accrued liabilities	(338,498)	(1,484,969)	–	**(1,823,467)**
Non-current portion of balance of purchase price	–	(490,180)	–	**(490,180)**
Long-term debt	–	(1,499,467)	–	**(1,499,467)**
Total	**1,417,466**	**(3,716,823)**	**147,885**	**(2,151,472)**

As at June 30, 2017:

	Euro $	Swiss Franc $	US dollars $	Total $
Cash	20,574	–	11,119	**31,693**
Accounts receivable	3,971	–	–	**3,971**
Trade and accrued liabilities	(29,100)	–	(11,005)	**(40,105)**
Total	**(4,555)**	**–**	**114**	**(4,441)**

For the year ended June 30, 2018, a variation of 10% in the Canadian dollar against the other currencies, assuming that all other variables had remained the same, would have resulted in a $176,370 [2017 – $392] net increase or decrease of the Company's consolidated net loss and comprehensive loss. The Company has not hedged its exposure to currency fluctuations.

21. 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. Revenues are generated from our activities in Canada and in Switzerland and all sales of products come from enhanced plastics solutions products.

	2018 $	2017 $
Revenues *		
Canada	**3,439,806**	3,367,569
France	**2,533,853**	–
Switzerland	**1,869,169**	–
Other	**813,659**	–
Total	**8,656,487**	3,367,569

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

	2018 $	2017 $
Long-lived Assets		
Canada	**3,410,917**	3,383,184
Switzerland	**3,415,363**	–
Total	**6,826,280**	3,383,184

22. SUBSEQUENT EVENT

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") 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 Industries for a total amount of $9,993,500 of which $9,011,000 is paid by cash and $982,500 is 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 is based on a fix price; each Sigma common share will be 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.

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 Industries Inc. is a manufacturing company specializing in the manufacture of composite products, has two 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.

In accordance with IFRS 3, Business Combinations, this transaction qualifies as a business combination and will be accounted for using the acquisition method of accounting.

At the time of issuance of these financial statements and due to the short delay between the transaction date closure and the date of the issuance of the financial statements, the unavailability of Sigma's financial information prior to the date of acquisition does not allow for accurate disclosure of assets and liabilities acquired and of pro forma revenues and loss had the Company concluded this acquisition at the beginning of its fiscal year. The work will be completed within 12 months of the acquisition date, at the latest.