CONSOLIDATED FINANCIAL STATEMENTS
For the years ended June 30, 2019 and 2018

Independent auditor's report

To the Shareholders of
NanoXplore Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of NanoXplore Inc. and its subsidiaries (together, the Company) as at June 30, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited
The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at June 30, 2019 and 2018;
- the consolidated statements of loss and comprehensive loss for the years then ended;
- the consolidated statements of changes in shareholders' equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence
We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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"PwC" refers to PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l. an Ontario limited liability partnership.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is François Berthiaume.

PricewaterhouseCoopers LLP[1]

Québec, Quebec
October 10, 2019

[1] CPA auditor, CA, public accountancy permit No. A125971

NanoXplore
Performance Through Carbon Chemistry

Consolidated Statement of Financial Position

As at June 30, 2019 and 2018 (Expressed in Canadian dollars)	2019 $	2018 $
Assets		
Current assets		
Cash	**27,819,140**	15,268,666
Accounts receivable *[Note 6]*	**15,016,481**	2,895,012
Inventory *[Note 7]*	**7,589,896**	1,542,863
Prepaid expenses	**856,672**	327,315
Lease deposits	**10,200**	751
	51,292,389	20,034,607
Non-current assets		
Lease deposits	**91,344**	25,850
Equipment deposits	**655,465**	—
Right-of-use assets *[Note 9]*	**5,502,111**	—
Property, plant and equipment *[Note 9]*	**30,575,332**	6,488,020
Intangible assets *[Note 10]*	**4,267,929**	338,260
Goodwill *[Note 10]*	**460,164**	—
Total assets	**92,844,734**	26,886,737
Liabilities and shareholders' equity		
Current liabilities		
Operating loans *[Note 12]*	**1,339,480**	1,328,400
Accounts payable and accrued liabilities *[Note 11]*	**14,712,219**	2,735,006
Income taxes payable	**285,433**	218,455
Deferred grant	**231,745**	164,940
Contract liability	**2,512,994**	145,012
Long-term debt due within one year *[Note 12]*	**4,170,072**	795,917
	23,251,943	5,387,730
Non-current liabilities		
Non-current portion of balance of purchase price *[Note 5b]*	**—**	490,180
Defined benefit liabilities *[Note 13]*	**870,329**	782,290
Long-term debt *[Note 12]*	**20,692,925**	3,772,053
Convertible debentures - Loan *[Note 12]*	**7,703,414**	—
Deferred taxes liabilities *[Note 16]*	**2,230,398**	696,497
Total liabilities	**54,749,009**	11,128,750
Shareholders' Equity		
Share capital *[Note 14a]*	**53,445,389**	23,502,555
Reserve *[Note 14b, Note 14c]*	**3,604,511**	2,871,633
Convertible debentures - Options *[Note 14a]*	**2,240,000**	—
Foreign currency translation reserve	**12,927**	13,490
Deficit	**(21,207,102)**	(10,629,691)
Total equity	**38,095,725**	15,757,987
Total equity and liabilities	**92,844,734**	26,886,737

See accompanying notes to consolidated financial statements

Note 1 – Nature of operations and liquidity risk
Note 22 – Subsequent event

Approved on behalf of the Board of Directors

Soroush Nazarpour
Soroush Nazarpour

Benoit Gascon
Benoit Gascon

NanoXplore
Performance Through Carbon Chemistry

Consolidated Statement of Loss and Comprehensive loss

For the years ended June 30, (Expressed in Canadian dollars)	**2019** $	**2018** $
Revenues	**69,521,070**	8,656,487
Expenses		
Cost of sales *[Note 15]*	**57,594,615**	6,490,645
Research and development costs *[Note 15]*	**2,544,548**	1,154,228
Selling, general and administrative *[Note 15]*	**13,235,242**	4,331,667
Share-based compensation	**875,988**	305,267
Depreciation (production)	**2,563,856**	621,427
Depreciation (other)	**542,885**	161,462
Amortization	**508,298**	37,114
Loss on disposal of equipment *[Note 9]*	**738,524**	—
Foreign exchange	**228,969**	63,695
	78,832,925	13,165,505
Operating loss	**(9,311,855)**	(4,509,018)
Listing expenses *[Note 4]*	**—**	(1,443,860)
Interest on long-term debt	**(1,657,677)**	(209,336)
Interest accretion on lease liability	**(203,915)**	(14,321)
Interest revenue	**342,698**	103,386
Loss on disposal of a joint venture *[Note 8]*	**—**	(51,318)
Share of loss of a joint venture *[Note 8]*	**—**	(3,392)
Loss before income taxes	**(10,830,749)**	(6,127,859)
Current income taxes recovery (expense)	**(44,789)**	49,768
Deferred income taxes recovery (expense)	**272,173**	(45,822)
	227,384	3,946
Loss for the year	**(10,603,365)**	(6,123,913)
Other comprehensive loss		
Items that may be subsequently reclassified to profit and loss:		
Exchange differences on translation of foreign subsidiaries	**(563)**	13,490
Items that will not be reclassified to profit and loss:		
Retirement benefits – Net actuarial gains *[Note 13]*	**25,954**	131,812
Total comprehensive loss	**(10,577,974)**	(5,978,611)
Loss per share		
Basic and diluted	**(0.11)**	(0.08)
Weighted average number of common shares outstanding (basic and diluted)	**100,584,187**	79,042,759

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

See accompanying notes to consolidated financial statements

NanoXplore
Performance Through Carbon Chemistry

Consolidated Statement of Changes in Shareholders' Equity

(Expressed in Canadian dollars)	Number of common shares	Common shares $	Reserve $	Convertible debentures - Options $	Foreign currency translation reserve $	Deficit $	Total equity $
Balance as at June 30, 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)	21,549,072	8,063,147	—	—	—	—	8,063,147
Private placement (net of issuing costs of $871,914)	6,060,700	7,464,417	—	—	—	—	7,464,417
Issuance of shares related to Graniz reverse takeover	2,284,051	1,027,823	—	—	—	—	1,027,823
Issuance of stock options	—	—	88,345	—	—	—	88,345
Stock options converted into shares	694,981	172,820	(172,820)	—	—	—	—
Issuance of warrants and Broker Warrants	—	—	2,658,955	—	—	—	2,658,955
Exercise of stock options	788,227	479,607	(124,905)	—	—	—	354,702
Exercise of warrants and Broker Warrants	939,002	588,862	(106,561)	—	—	—	482,301
Share-based compensation	—	—	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
Loss for the year	**—**	**—**	**—**	**—**	**—**	**(10,603,365)**	**(10,603,365)**
Other comprehensive loss	**—**	**—**	**—**	**—**	**(563)**	**25,954**	**25,391**
Comprehensive loss for the year	**—**	**—**	**—**	**—**	**(563)**	**(10,577,411)**	**(10,577,974)**
Issuance of shares related to Sigma acquisition *[Note 4a]*	**5,091,707**	**8,197,648**	**—**	**—**	**—**	**—**	**8,197,648**
Private placement (net of issuing costs of $621,240) *[Note 14a]*	**16,144,800**	**20,367,000**	**—**	**2,240,000**	**—**	**—**	**22,607,000**
Exercise of stock options	**13,333**	**8,801**	**(2,798)**	**—**	**—**	**—**	**6,003**
Exercise of warrants and Broker Warrants	**1,854,034**	**1,369,385**	**(140,312)**	**—**	**—**	**—**	**1,229,073**
Share-based compensation	**—**	**—**	**875,988**	**—**	**—**	**—**	**875,988**
Balance as at June 30, 2019	**111,630,159**	**53,445,389**	**3,604,511**	**2,240,000**	**12,927**	**(21,207,102)**	**38,095,725**

See accompanying notes to consolidated financial statements

NanoXplore
Performance Through Carbon Chemistry

Consolidated Statement of Cash Flow

For the years ended June 30,	2019	2018
(Expressed in Canadian dollars)	$	$
Cash flow from operating activities		
Loss for the year	**(10,603,365)**	(6,123,913)
Items not affecting cash:		
Listing expenses paid by issuance of equity	**—**	1,126,798
Depreciation and amortization	**3,615,039**	820,003
Share-based compensation	**875,988**	305,267
Share of loss and loss on disposal of a joint venture	**—**	54,710
Interest accretion on lease liability	**203,915**	14,321
Interest accretion on convertible debentures	**209,807**	—
Other financial expenses	**81,888**	31,292
Current income taxes expense (recovery)	**91,188**	(49,768)
Deferred income taxes expense	**(272,173)**	45,822
Loss on disposal of equipment	**738,524**	—
Difference between amounts paid for employee benefits and current year cost	**106,920**	13,912
Net change in fair value of foreign exchange derivatives	**(129,292)**	—
Unrealized foreign exchange	**(20,184)**	25,212
Changes in non-cash operating working capital items:		
Accounts receivable	**(1,643,955)**	(48,660)
Inventory	**(42,623)**	54,142
Prepaid expenses	**(185,418)**	(154,163)
Accounts payable and accrued liabilities	**3,315,751**	452,256
Income taxes payable	**65,156**	(54,632)
Deferred grant	**66,805**	164,940
Contract liability	**(413,174)**	40,775
Cash used in operating activities	**(3,939,203)**	(3,281,686)
Cash flows from financing activities		
Private placements *[Note 14a]*	**20,988,240**	19,697,237
Issuance of convertible debenture *[Note 14a]*	**10,000,000**	—
Issuing costs *[Note 14a]*	**(917,234)**	(1,510,718)
Exercise of stock options, warrants and Broker Warrants	**1,235,076**	837,003
Variation of operating loan	**(3,663,003)**	(215,000)
Repayment of lease liability	**(1,486,983)**	(264,941)
Issuance of long-term debt	**8,300,958**	1,457,273
Repayment of long-term debt	**(2,030,489)**	(147,453)
Cash from (used in) financing activities	**32,426,565**	19,853,401
Cash flows from investing activities		
Lease deposits	**(74,943)**	—
Equipment deposits	**1,019,479**	—
Business acquisition, net of cash acquired *[Note 5a]*	**(7,300,496)**	(1,207,237)
Repayment of balance of purchase price *[Note 5b]*	**(535,792)**	—
Disposition of equipment	**600,000**	—
Additions of property, plant and equipment	**(9,652,426)**	(538,142)
Cash used in investing activities	**(15,944,178)**	(1,745,379)
Change in cash	**12,543,184**	14,826,336
Net effect of currency exchange rate on cash	**7,290**	21,116
Cash, beginning of year	**15,268,666**	421,214
Cash, end of year	**27,819,140**	15,268,666
Interest paid	**364,508**	166,592

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" or the "Company") is a graphene company, a manufacturer and supplier of high-volume graphene powder for use in industrial markets. Also, the Company provides standard and custom graphene-enhanced plastic and composite products to various customers in transportation, packaging, electronics, and other industrial sectors. The address of the Company's corporate office is 25, Boul. Montpellier, St-Laurent (Montreal), QC, Canada.

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

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

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

On April 9, 2019, Rada Industries changed its name to 9396-2173 Québec Inc. after it sold its main operating assets (Note 9).

Management believes that the Company has sufficient funds to meets its obligations, operating expenses and some development expenditures for the ensuing 12 months as they fall due. The Company's ability to continue its development activities is dependent on the beginning of the commercial operation of the graphene products. The graphene commercial activity is in the development stage and as a result the Company has minimal source of operating revenue from those operations and is dependent on external financing to fund its continued development program. The Company main sources of funding have been the issuance of equity securities for cash, debt, funds from the government of Quebec with respect to R&D tax credit, from the federal government with respect to R&D tax credit, from Sustainable Development Technology Canada ("SDTC") and from the Industrial Research Assistance Program. Refer to note 19 for the detailed liquidity risk analysis.

The consolidated financial statements of NanoXplore for the years ended June 30, 2019 and 2018 were reviewed, approved and authorized for issue by the Company's Board of Directors on October 10, 2019.

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, except for IFRS 9 – Financial Instruments, IFRS 15 – Revenue from contracts with customers and IFRS 16 – Leases, which have been adopted on July 1, 2018.

Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis.

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% [2018 – 100%].
- 9334-7474 Québec Inc., based in Canada, with an equity interest of 100% [2018 – 100%]. 9334-7474 Québec Inc. holds 100% of Rada Industries Ltd. ("Rada Industries"). On April 9, 2019, Rada Industries changed its name to 9396-2173 Québec Inc.
- NanoXplore Switzerland Holding SA ("NanoXplore Switzerland"), based in Switzerland, with an equity interest of 100% [2018 – nil]. NanoXplore Switzerland holds 100% of CEBO Injections SA ("CEBO").
- Sigma Industries Inc., based in Canada, with an equity interest of 100% [2018 – nil]. Sigma has two active wholly-owned subsidiaries; Faroex Ltd., based in Manitoba, and Rene Composite Materials Ltd., based in Quebec. Rene Composite Materials Ltd has one active wholly-owned subsidiary; RMC Advanced Technologies Inc, based in Tennessee (USA).

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. The Company did not have any joint venture as at June 30, 2019 and 2018.

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 Francs ("CHF") and for RMC Advanced Technologies Inc. which has US dollars. 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 selling, general and administrative 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

ADOPTION OF IFRS 15 – REVENUE FROM CONTRACTS WITH CUSTOMERS
On July 1, 2018, the Company adopted the new accounting standard IFRS 15 to all contracts using the modified retrospective approach. The adoption of IFRS 15 did not result in significant changes in the accounting for revenue from contracts with customers and the Company has concluded that there was no significant impact on its consolidated financial statements.

REVENUE RECOGNITION
Revenues comprise the sale of manufactured products and other income and are measured at the amounts specified in the customer's arrangement. Sales of manufactured products are recognized when products are delivered to the customer, which is also the moment when control of the products is transferred, and when there is no unfulfilled obligation that could affect the customer's acceptance of the products. A receivable is recognized when the products are delivered or services are rendered, as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due. The Company does not expect to have any contracts where the period between the transfer of the promised products or services to the customer and payment by the customer exceeds one year. As a consequence, the Company does not adjust any of the transaction prices for the time value of money. Cash payments received or advances due pursuant to contractual arrangements are recorded as deferred revenue until all of the foregoing conditions of revenue recognition have been met.

If the Company has recognized revenues, but not issued an invoice, then the entitlement to consideration is recognized as a contract asset presented as Contract asset on the Company's consolidated statement of financial position. The contract asset is transferred to trade receivables when the invoice is issued indicating that the entitlement to payment has become unconditional. If payments are received, or invoices are issued to a customer, prior to the rendering of services, the Company recognizes a contract liability under the caption Contract liability on the Company's consolidated statement of financial position. The contract liability is transferred to revenues once related services have been deemed rendered.

Other income comprises mainly the following:

- Government assistance
- Scientific Research and Experimental Development tax credit

Cash

Cash consists of cash on hand.

Financial instruments

ADOPTION OF IFRS 9– FINANCIAL INSTRUMENTS
IFRS 9 replaces the provisions of IAS 39, Financial Instruments – Recognition and Measurement and provides guidance on the recognition, classification and measurement of financial assets and financial liabilities, the derecognition of financial instruments, impairment of financial assets and hedge accounting. The Company adopted IFRS 9 as of July 1, 2018 and the new standard has been applied retrospectively in accordance with the transitional provisions of IFRS 9. There has been no significant impact caused by the new classification of financial assets under IFRS 9. The classification of all financial liabilities as financial liabilities at amortized cost and at fair value through profit or loss remains unchanged as well as the measurement resulting from their classification.

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

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) *Financial assets at amortized cost*

Financial assets at amortized cost are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's financial assets at amortized cost comprise cash and receivable and are included in current assets due to their short-term nature. Financial assets at amortized cost are initially recognized at the amount expected to be received, less, when material, a discount to reduce the financial assets to fair value. Subsequently, they are measured at amortized cost using the effective interest method less a provision for impairment. For trade receivables, the Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables. The Company assumes that there is no significant increase in credit risk for instruments that have a low credit risk.

b) Financial liabilities at amortized cost

Financial liabilities at amortized cost comprise operating loan, accounts payable and accrued liabilities, balance of purchase price, convertible debenture - loan 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.

c) Financial liabilities at fair value through profit or loss

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

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

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

The Company classifies its financial assets and financial liabilities measured at fair value into three levels according to the observability of the inputs used in their measurement. The derivative foreign currency forward exchange contracts are Level 2 instruments and their fair value is determined using forward exchange rates at the consolidated statement of financial position date.

The Company has a credit facility of up to US$25 million allowing it to enter into forward foreign exchange contract transactions. This amount partially covers the Company's potential requirements over the next 24 months. The Company will proactively monitor the need to use this facility based on market conditions.

As June 30, 2019, the Company held options for a minimum of US$6.5 million and a maximum of US$6.9 million depending of the exchange rate of such derivatives contracts. Minimum rates vary from 1.2550 to up to 1.3950 and the Company may potentially participate to some depreciation of the Canadian dollar versus the U.S. dollar of approximately 3 cents on average. The contracts are valid until February 2021.The carrying value of the derivative foreign currency forward exchange contracts is included in Accounts payable and accrued 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 to 35 years
Production equipment	2 to 25 years
Laboratory, computer, office equipment and rolling stock	2 to 10 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, if applicable. 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.

Identifiable intangible assets are recorded at cost and amortized using the methods mentioned below and over the period of their expected useful lives as follows:

Customer relationship	Straight-line	10 years
Patents	Straight-line	10 years
Software	Straight-line	5 and 10 years

Goodwill

Goodwill represents the excess of the consideration transferred for the acquired businesses over the estimated fair value at the acquisition date of net identifiable assets acquired. Goodwill is not subject to amortization and is carried at cost less accumulated impairment loss but is tested for impairment on an annual basis or more frequently if events or circumstances indicate that it might be impaired.

For the purpose of impairment testing, goodwill is allocated to each CGU expected to benefit from the synergies of the combination. CGUs to which goodwill has been allocated are tested for impairment annually or more frequently if events or circumstances indicate that the carrying value may not be recoverable. If the higher of the recoverable amount of the CGU's fair value less costs to sell (FVLCS), or its value in use is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit prorata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill cannot be reversed in a subsequent period.

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

ADOPTION OF IFRS 16 - LEASES

NanoXplore has early adopted *IFRS 16 − Leases* on July 1, 2018, which is effective for annual reporting periods beginning on or after January 1, 2019. Previously, the Company classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company and classified operating lease payments as operating costs. Under IFRS 16, a lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

LEASES

Leases are initially measured at cost and subsequently depreciated. Initial measurement of costs is determined by the amount of the initial measurement of the lease liability, less any lease inducements receivable and any lease payments made at or before the commencement date, plus any initial direct costs, and any restoration costs. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The Company uses its incremental borrowing rate as the discount rate. The lease liability is measured at amortized cost using the effective interest rate method and is subsequently adjusted for interest and lease payments.

NanoXplore has applied IFRS 16 in accordance with the modified retrospective approach only to contracts that were previously identified as leases. Contracts that were not identified as leases under previous standards were not reassessed for whether there is a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after July 1, 2018.

As at June 30, 2018, the Company had non-cancellable operating lease commitments of $8,954,251. Of these commitments, approximately $475,000 of short-term leases and low value leases have been recognised on a straight-line basis as expenses in profit or loss as allowed upon adoption of IFRS. For the remaining lease commitments, the Company has recognized right-of-use assets of $4,971,000 upon adoption of IFRS 16.

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.

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, which creates an actuarial obligation under IAS 19 even if the outflow of economic resources is not probable.

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 the 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 stock options, Broker Warrants and warrants and convertible debentures, 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) Government assistance and SR&ED

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.

b) 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.

IFRIC 23 – Uncertainty over Income Tax Treatments

In June 2017, the IFRS Interpretations Committee of the IASB issued IFRIC 23, Uncertainty over Income Tax Treatments (IFRIC 23). The interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The interpretation is effective for the annual period beginning on January 1, 2019. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

There are no other IFRS (or IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the Company.

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 option holders [(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 14c for the valuation of the options
(2) The whole amount was paid in the year ended June 30, 2018

5. BUSINESS COMBINATIONS

a) ACQUISITION OF SIGMA INDUSTRIES INC.

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

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

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

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

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

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

	$
Identifiable net assets acquired:	
Cash	1,710,504
Accounts receivable	10,495,837
Inventory	5,994,701
Prepaid expenses	342,324
Right-of-use assets *[Note 9]*	731,083
Deferred taxes assets	859,000
Property, plant and equipment *[Note 9]*	17,650,161
Equipment deposit	1,674,944
Intangible assets *[Note 10]*	4,405,673
	43,864,227
Operating loan	3,663,003
Accounts payable and accrued liabilities	8,137,899
Contract liability	2,779,946
Deferred taxes liabilities	2,613,057
Lease liability	731,083
Long-term debt	9,190,755
	27,115,743
Total identifiable net assets	16,748,484
Goodwill arising on acquisition	460,164
Total consideration	**17,208,648**
The cash outflow on acquisition is as follows:	
Consideration paid in cash	9,011,000
Minus: Cash acquired	1,710,504
Net cash flow for the acquisition	7,300,496

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

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

The assets and liabilities of Sigma are included in the consolidated statement of financial position as at June 30, 2019 and the operating results are reflected in the Company's consolidated statement of loss since September 21, 2018. Between the acquisition date and the year ended June 30, 2019, revenues of $59,454,752 and net income of $595,815 have been recognized in the consolidated statement of loss and comprehensive loss. If the combination had taken place at the beginning of fiscal year 2019, Sigma revenues would have been $74,558,239 and the net income would have been $1,007,401 and the Company total revenues and net loss would have been respectively $84,624,557 and $10,191,779 in the consolidated statements of loss and comprehensive loss.

b) ACQUISITION OF CEBO INJECTIONS SA

On November 23, 2017, through its wholly-owned subsidiary NanoXplore Switzerland Holding SA., the Company acquired all of the issued and outstanding shares of CEBO 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 is payable 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 liabilities *[Note 13]*	(876,311)
Operating loan	(1,291,020)
Deferred taxes 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 Selling, general and administrative.

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

	2019 $	2018 $
Trade receivables	**13,900,919**	2,743,828
Minus: Allowance for doubtful accounts	**(43,223)**	(128,883)
	13,857,696	2,614,945
Other receivables	**1,158,785**	280,067
	15,016,481	2,895,012

All of the Company's accounts receivable are current. 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, except for $57,844 and $214,225 that are outstanding, respectively, for a period from 91 to 120 and over 120 days.

The majority of the trade receivables are pledged as security for the credit facilities (Note 12).

7. INVENTORY

	2019 $	2018 $
Raw materials	**3,921,389**	560,600
Work in progress	**1,596,834**	38,051
Finished goods	**2,071,673**	944,212
	7,589,896	1,542,863

The Company expects full recovery of this amount in the next fiscal year. The majority of inventories is pledged as security for the credit facilities (Note 12).

8. INVESTMENT

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:

	2019 $	2018 $
Balance as at July 1st	**–**	61,308
Share of loss and comprehensive loss of the year	**–**	(3,392)
Elimination of joint venture	**–**	(57,916)
Balance as at June 30	**–**	–

9. PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

a) Property, plant and equipment

	Land & Building $	Production equipment $	Leasehold improvements $	Laboratory, computer, office equipment and rolling stock $	Total $
Balance as at July 1st, 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
Disposals	–	–	–	(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
Additions	**3,184,785**	**6,404,014**	**3,300**	**239,633**	**9,831,732**
Acquired in a business combination	**8,542,500**	**8,949,482**	**–**	**158,179**	**17,650,161**
Disposals	**–**	**(1,330,641)**	**(640)**	**(7,243)**	**(1,338,524)**
Depreciation	**(105,555)**	**(1,901,780)**	**(7,876)**	**(154,661)**	**(2,169,872)**
Effect of foreign exchange differences	**–**	**106,945**	**–**	**6,870**	**113,815**
Balance as at June 30, 2019	**13,051,792**	**16,891,365**	**24,153**	**608,022**	**30,575,332**
As at June 30, 2019					
Cost	**13,282,660**	**19,138,601**	**81,069**	**947,175**	**33,449,505**
Accumulated depreciation	**(230,868)**	**(2,247,236)**	**(56,916)**	**(339,153)**	**(2,874,173)**
Net book value	**13,051,792**	**16,891,365**	**24,153**	**608,022**	**30,575,332**
As at 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

The majority of property, plant and equipment is pledged as security for the credit facilities (Note 12).

The net book value of production equipment and of rolling stock held under leases as of June 30, 2019 were respectively $3,523,713 and $139,609 [2018 – $1,097,875 and $113,957]. Additions of production equipment under lease during the year ended amounted to $2,601,808 [2018 – 411,465]. Leased assets are pledged as security for the related lease liability.

As at June 30, 2019, there are $2,476,948, $3,362,135 and $105,362 of building, production equipment and computer, respectively, that are not yet available for use and for which depreciation has not started [2018 – nil].

Sale of Rada Industries Ltd main assets

On April 8, 2019, the Company made the strategic decision to sell the main operating assets of Rada Industries Ltd for an amount of $800,000, including $200,000 for sale of inventory, resulting in a loss on disposal of equipment of $738,524. The Company reimbursed the loan to Investissement Québec on the same date for an amount of $792,644. The Company's decision is based upon focusing on higher value-add graphene and graphene-enhanced plastic product. Rada Industries Ltd is still active as at June 30, 2019, but has no operations.

b) Right-of-use assets

	2019 $	2018 $
Balance as at July 1	**–**	–
Adoption of IFRS 16	**4,971,000**	
Additions	**738,631**	
Acquired in a business combination	**731,083**	–
Depreciation	**(936,869)**	–
Effect of foreign exchange differences	**(1,734)**	–
Balance as at June 30	**5,502,111**	–
As at June 30		
Cost	**6,440,714**	–
Accumulated amortization	**(938,603)**	–
Net book value	**5,502,111**	–

10. INTANGIBLE ASSETS AND GOODWILL

a) Intangible assets

	2019			2018	
	Customer relationship $	Patents and software $	Total $	Customer relationship $	Total $
Balance as at July 1st	**338,260**	**–**	**338,260**	–	–
Acquired in a business combination	**4,260,000**	**145,673**	**4,405,673**	365,268	365,268
Amortization	**(455,617)**	**(52,681)**	**(508,298)**	(37,114)	(37,114)
Effect of foreign exchange differences	**32,294**	**–**	**32,294**	10,106	10,106
Balance as at June 30	**4,174,937**	**92,992**	**4,267,929**	338,260	338,260
As at June 30					
Cost	**4,598,260**	**145,673**	**4,784,652**	375,845	375,845
Accumulated amortization	**(423,323)**	**(52,681)**	**(516,723)**	(37,585)	(37,585)
Net book value	**4,174,937**	**92,992**	**4,267,929**	338,260	338,260

b) Goodwill

	2019 $	2018 $
Balance as at July 1st	**–**	–
Acquired in a business combination	**460,164**	–
Balance as at June 30	**460,164**	–

For impairment testing, the carrying amount of goodwill was allocated to the cash generating unit, Sigma. The recoverable amount was determined based on its value in use, which was calculated using pre-tax cash flow forecasts from the Board-approved budgets for the next fiscal year. The forecasts reflected past experience. No reasonably possible change of any of these assumptions would result in a carrying amount higher than the recoverable amount.

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2019 $	2018 $
Trade payables	**11,742,921**	1,229,979
Accrued liabilities	**971,356**	420,225
Current portion of balance of purchase price	**523,292**	531,360
Payroll withholding taxes payable	**1,474,650**	553,442
	14,712,219	2,735,006

12. CREDIT FACILITIES

	Maturity	Effective interest rate %	2019 $	2018 $
Operating loans, fixed and variable rate				
– Authorized amount of $9,839,480	**2019**	**3.75% to 4.50%**	**1,339,480**	1,328,400
Convertible debentures *[Note 14a]*	**December 2023**	**8%**	**7,703,414**	–
Long-term debt				
Term loan, fixed and variables rates	**2019 to 2026**	**4% to 10%**	**16,080,096**	3,514,719
Lease liability	**2019 to 2028**	**0.79% to 5.5%**	**8,782,901**	1,053,251
			33,905,891	5,896,370
Less: current portion of credit facilities			**1,339,480**	1,328,400
Less: current portion of long-term debt			**4,170,072**	795,917
			28,396,339	3,772,053

a) Operating loans

The Company has an authorized maximum bank line of credit of $8,500,000, subject to a borrowing base, which is primarily based on eligible accounts receivable and inventory balances. The facility bears interest at Canadian prime rate plus 0.55%. A movable hypothec on accounts receivable, inventories and all present and future, tangible and intangible assets has been given as security. This credit facility is renewable annually and matures in August 2020. Under this agreement, the Company has agreed to respect certain conditions and financial ratios. As at June 30, 2019, none of the facility was used and all conditions and financial ratios were met.

The Company has a credit facility agreement with the BCV Bank which authorized the Company to a maximum operating loan of CHF 1,000,000 [$1,339,480]. The credit facility was renewed on December 29, 2018 for a one-year period. The operating loan bears interest at 3.75%. A general assignment of debtors has been given as security. Under this agreement, the Company has agreed to respect certain conditions and financial ratios. As of June 30, 2019, the Company had drawn CHF 1,000,000 [$1,339,480] under this credit facility and all applicable covenants are met.

b) Long-term debt

Under these agreements, the Company has agreed to meet certain conditions and financial ratios. As at June 30, 2019, all conditions and financial ratios were met, except for the Debt Service Coverage Ratio (DSC) over one of the long-term debt. As at October 4, 2019, a letter from the institution that waives compliance with the DSC covenant for the period ended June 30, 2019 was obtained. The debt is classified as current debt.

Several movable hypothecs on specific assets of the Company and its subsidiaries and on the universality of the company's present and future, tangible and intangible assets have been given as security for these term loans and credit facilities.

The lease liability is related to production equipment, building and 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	2,025,574	5,925,062	2,311,842	**10,262,478**
Less: Interest expense on lease liability	(349,110)	(883,841)	(246,626)	**(1,479,577)**
Total	**1,676,464**	**5,041,221**	**2,065,216**	**8,782,901**

13. 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 ask for an equal contribution from the employer, employee and pensioners, which creates an actuarial obligation under IAS 19 even if the outflow of economic resources is not probable.**

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

	2019 $	2018 $
Plan assets at fair value	**2,914,695**	2,216,356
Defined benefit obligation	**(3,785,024)**	(2,998,646)
Retirement benefit deficit	**(870,329)**	(782,290)

The amount for asset ceiling effect and for minimum funding requirement amounted to nil [2018 – nil].

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

	2019 $	2018 $
Balance – Beginning of the year	**2,998,646**	–
Defined benefit obligation assumed through business combination	**–**	2,952,225
Participant contribution	**176,048**	109,063
Benefits paid	**(29,423)**	(154,132)
Items in net loss		
Current service cost	**222,592**	125,902
Past service cost	**69,151**	–
Interest cost	**32,083**	12,413
Administration cost	**1,512**	–
	325,338	138,315
Items in comprehensive loss		
Actuarial loss (gain)	**289,578**	(131,812)
Foreign currency translation	**24,837**	84,987
	314,415	(46,825)
Defined benefit liabilities	**3,785,024**	2,998,646

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

	2019 %	2018 %
Active plan participants	**100%**	100%
Pensioners	**–**	–

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

	2019 $	2018 $
Balance – Beginning of the year	**2,216,356**	–
Fair value of plan assets acquired through business combination	**–**	2,075,914
Employer contribution	**193,646**	115,643
Participant contribution	**176,048**	109,063
Benefits paid	**(29,423)**	(154,132)
Items in net loss		
Interest income on plan assets	**24,050**	8,758
Items in comprehensive loss		
Return on plan assets	**315,532**	–
Foreign currency translation	**18,486**	61,110
Fair value of plan assets	**2,914,695**	2,216,356

For the year ended June 30, 2019, the service cost amounted to $222,592 [2018 – $125,902]. Total cash payments for employee benefits, consisting of cash contributed by the Company to its pension plan amounted to $193,646 [2018 – $115,643]. The Company estimates to contribute $181,049 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:

	2019	2018
Discount rate	**0.4%**	1.0%
Salary increase	**1.0%**	1.0%
Rate of increase in eligible earnings	**0%**	0%
Inflation	**1.0%**	1.0%
Long-term interest on retirement accounts	**0.4%**	1.0%
Mortality decrement and turnover rate	**BVG / LPP 2015 GT Table**	BVG / LPP 2015 GT Table
Disability decrement	**85% BVG / LPP 2015 GT Table**	85% BVG / LPP 2015 GT Table
Retirement	**100% at regular retirement age**	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	**(147,513)**	**158,948**
Salary increase	**23,144**	**(22,440)**

14. EQUITY

a) Share Capital and Convertible debentures

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, 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 (1)	88,526,285	23,502,555
Issuance of share related to Sigma acquisition *[Note 4a]*	**5,091,707**	**8,197,648**
Issuance of shares as part of private placement in January 2019	**16,144,800**	**20,367,000**
Exercise of stock options	**13,333**	**8,801**
Exercise of warrants and broker warrants	**1,854,034**	**1,369,385**
Balance as at June 30, 2019	**111,630,159**	**53,445,389**

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

On January 11, 2019, the Company completed a brokered private placement financing of 16,144,800 common shares at a price of $1.30 per common share for gross proceeds of $20,988,240 and a private placement financing of $10,000,000 of convertible unsecured subordinated debentures ("Debentures") due December 31, 2023 ("Maturity Date") with an interest rate of 8.00%, payable semi-annually on the last day of June and December of each year, commencing on June 30, 2019. The Debentures are convertible at the holder's option into common shares of the Company at a conversion price of $1.84 per common share ("Conversion Price"). The Company may force conversion of all of the principal amount of the outstanding Debentures and accrued interest (to the date of the mandatory conversion) at the Conversion Price on not more than 60 days' and not less than 40 days' written notice should the volume-weighted average trading price of the common shares be greater than $3.00 for any 20 consecutive trading days. Subject to certain conditions, the Company may also redeem the Debentures in cash, in whole or in part, at any time prior to the Maturity Date by paying a 10% premium on the capital amount of the Debentures. In addition, the Company may elect to satisfy its obligation to pay interest on the Debentures (i) in cash; or (ii) 75% in cash and 25% in common shares.

The aggregate issuance costs related to these issuances, including the commission, in the total amount of $917,234 paid in cash were recorded as a reduction of share capital ($621,240) and of convertible debentures ($295,994).

The conversion option attached to the Debentures is recorded under "Convertible debentures - Options" in the Shareholders' Equity section of the consolidated statement of financial position. The equity component corresponds to the consideration received, less the fair value of the financial liability at the time of issuance. The liability component, which is accounted at amortized cost, is recorded under "Convertible debentures – Loan" in the Liabilities section of the consolidated statement of financial position for a net amount at initial recording of $7,464,006, including issuance costs, and was determined assuming a 15% discount rate.

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. The Black-Scholes valuation model was used to determine the value of warrants issued which results in 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 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. The 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.

b) Warrants and broker warrants

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

	2019		2018	
	Number of warrants and broker warrants	**Weighted average exercise price ($)**	**Number of warrants and broker warrants**	**Weighted average exercise price ($)**
Balance as at July 1st	**14,538,969**	**1.04**	–	–
Warrants issued as part of private placement *[Note 14a]*	–	–	**13,804,886**	**1.05**
Warrants issued as "Broker Warrants" *[Note 14a]*	–	–	**1,673,085**	**0.62**
Exercise of warrants	**(1,579,034)**	**0.70**	**(239,002)**	**0.70**
Exercise of broker warrants	**(275,000)**	**0.45**	**(700,000)**	**0.45**
Balance as at June 30	**12,684,935**	**1.10**	**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, 2019, 1,579,034 First Warrants were exercised resulting in cash proceeds of $1,105,323 and a transfer from reserve to share capital of $104,673. The weighted average share price on the date of exercise of the warrants was $1.34.

For the year ended June 30, 2019, 275,000 Broker Warrants were exercised resulting in cash proceeds of $123,750 and a transfer from reserve to share capital of $35,639. The weighted average share price on the date of exercise of the warrants was $1.21.

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 the 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 2017 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 2018 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, 2019, the following warrants were outstanding:

	Number	Expiry Date	Exercise price ($)
First Warrants issued as part of private placement	**8,956,500**	**August 2019**	**0.70**
Broker Warrants issued as part of August 2017 private placement	**455,657**	**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 2018 private placement	**242,428**	**March 2020**	**1.65**

c) Stock options

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 fixed plan of a maximum of 8,000,000 stock options. 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 summarizes the changes in the number of stock options outstanding for the year ended June 30:

	2019		**2018**	
	Number	**Weighted average exercise price ($)**	**Number [1]**	**Weighted average exercise price ($)**
Balance as at July 1st [1]	**1,330,466**	**0.84**	1,255,914	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, directors and employees	**2,550,000**	**1.35**	1,070,000	0.93
Options exercised	**(13,333)**	**0.45**	(788,227)	0.45
Options forfeited	**(66,667)**	**1.75**	(120,200)	0.45
Options expired	**(33,333)**	**1.75**	–	–
Balance as at June 30	**3,767,133**	**1.16**	1,330,466	0.84
Options exercisable as at June 30	**1,643,801**	**1.02**	617,131	0.67

[1] Balance as at July 1st, 2017 was converted to a ratio of 40.0667 pursuant to the reverse takeover transaction discussed in note 4.

During the year ended June 30, 2019, 2,550,000 options were granted. These options have an exercise price between $1.22 and $1.41 with a vesting period of two years and expiration date of 5 years from the grant date. The exercise price is based on the share price the day prior to the grant.

For the year ended June 30, 2019, 13,333 options were exercised resulting in cash proceeds of $6,003 and a transfer from reserve to share capital of $2,798. The weighted average share price on the date of exercise of the options was $1.35.

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, 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.

At June 30, 2019, 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	3.11	917,133	$0.45	693,797	$0.45
$1.22 - $1.80	4.48	2,850,000	$1.39	950,004	$1.44

The fair value of the options granted was estimated using the 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, 2019				
Options granted to directors, officers and employees	**45.90%**	**1.88%**	**60**	**0.57**
For the year ended June 30, 2018				
Options granted in replacement of Graniz's old options	52.3%	1.15%	12	0.10
Options granted to advisors pursuant 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

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

15. EXPENSES

	2019 $	2018 $
Salaries, short-term employee benefits and fringe benefits	**26,083,516**	6,291,261
Materials and subcontracting	**34,723,133**	2,348,411
Repairs and maintenance	**1,470,845**	378,738
Other operating expenses	**11,096,911**	2,958,130
	73,374,405	11,976,540

16. INCOME TAXES

Reconciliation of the effective tax rates is as follows:

	2019 $	2018 $
Statutory tax rate	**26.50%**	26.50%
Loss before income taxes for the year	**10,830,749**	6,127,859
Tax recovery at statutory rate	**2,870,148**	1,623,883
Increase (decrease) resulting from:		
Permanent differences	**(203,832)**	(424,772)
Effect of difference of foreign tax rates	**2,720**	(21,290)
Tax effect of deductible equity transaction cost	**243,067**	474,778
Tax effect of unrecognized temporary difference and tax losses	**(2,957,710)**	(1,808,537)
Differences in tax rates changes	**(2,222)**	103,542
Other	**275,213**	56,342
Net tax recovery	**227,384**	3,946

Net unrecognized deductible temporary differences for which no deferred taxes have been recognized amount to $5,625,505 [2018 – $2,667,795]. 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, 2019 and 2018, significant components of the Company's deferred income tax assets (not recognized) are as follows:

	2019 $	2018 $
Property, plant and equipment	**145,418**	89,658
Share issue costs	**588,804**	453,973
Operating losses carried forward	**4,677,163**	2,067,182
Research and development	**191,916**	56,982
Other assets	**22,204**	–
Total deferred income tax assets	**5,625,505**	2,667,795

As at June 30, 2019 and 2018, the significant component of the Company's deferred income tax liabilities is property, plant and equipment.

As at June 30, 2019, expiration dates of losses available in Canada to reduce future years' income for tax purposes are:

	Federal $	Provincial $
2039	**11,976,164**	**12,522,182**
2038	**3,638,575**	**3,665,645**
2037	**1,860,519**	**1,949,118**
2036	**909,168**	**851,536**
2035	**631,373**	**802,180**
2034	**945,418**	**933,933**
2033	**1,671,709**	**1,679,453**
2032	**126,289**	**134,806**
2031	**762,514**	**762,514**
2030	**3,475,842**	**3,648,119**
2029	**746,413**	**867,748**
2028	**62,077**	**62,042**
2027	**4,756**	**2,408**
Total	**26,810,817**	**27,881,684**

As at June 30, 2019, the Company had also accumulated non-refundable Federal SR&ED tax credits of approximately $136,239 which can be used to reduce taxable income in the future and will begin expiring as of 2033.

As at June 30, 2019, the Company had also accumulated non-capital losses for tax purposes in Germany of approximately $883,770 [2018 – $883,770] which can be used to reduce taxable income in the future with no expiration date.

17. RELATED PARTY TRANSACTIONS

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 [2018 – $50,000];
- Laboratory services of nil [2018 – $63,169];
- Purchased raw materials from Mason Graphite Inc. of $11,830 [2018 – $11,569].

As at June 30, 2019, the balance receivable from the related parties amounted to nil [2018 – $58,333] and is included in accounts receivable. The amounts outstanding are non-interest-bearing, unsecured and receivable on demand.

During the year ended June 30, 2019, Martinrea International Inc. ("Martinrea"), a shareholder of the Company with significant influence, participated in the private placement of January 11, 2019 of the Company for an amount of $14,999,400 (11,538,000 common shares).

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

	2019 $	2018 $
Consulting fees, wages and salaries	**1,593,385**	842,110
Director fees	**158,983**	–
Share-based compensation – Management	**493,352**	31,548
Share-based compensation – Director	**159,355**	28,560
	2,405,075	902,218

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 between twelve and eighteen months of base salary. Minimum commitments under these agreements are approximately $1,210,000. These agreements require that additional minimum payments of approximately $1,580,000 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.

18. COMMITMENTS

The Company has committed to purchase raw materials to certain suppliers within 2 years for an amount of $790,530. The Company has also committed to purchase equipment for a total amount of $8,731,640 for the construction of the graphene plant, on which $655,465 were paid and included in the Consolidated Statement of Financial Position as Equipment deposits as at June 30, 2019.

19. 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 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, trade and other receivables, , operating loans, balance of purchase price and trade payables and accrued liabilities approximates their carrying value due to the short-term maturities of these instruments; and
(ii) The fair value of long-term debt and convertible debentures is 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, 2019 and 2018:

	As at June 30, 2019		As at June 30, 2018	
	Carrying value $	Fair value $	Carrying value $	Fair value $
Financial assets at amortized cost				
Cash	**27,819,140**	**27,819,140**	15,268,666	15,268,666
Trade and other receivables	**13,967,254**	**13,967,254**	2,684,513	2,684,513
Total	**41,786,394**	**41,786,394**	17,953,179	17,953,179
Financial liabilities at amortized cost				
Operating loans	**1,339,480**	**1,339,480**	1,328,400	1,328,400
Trade payables and accrued liabilities	**13,143,660**	**13,143,660**	2,181,564	2,181,564
Non-current portion of balance of purchase price	–	–	490,180	490,180
Long-term debt	**24,862,997**	**24,862,997**	4,567,970	4,567,970
Convertible debentures	**7,703,414**	**7,703,414**	–	–
Fair value through profit or loss				
Derivative foreign currency forward contract	**93,909**	**93,909**	–	–
Total	**47,143,460**	**47,143,460**	8,568,114	8,568,114

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, 2019, three customers represented 37% of trade accounts receivable [2018 – three customers represented 42%]. In 2019, three customers represented 59% of sales [2018 – two customers represented 33%].

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, 2019, the Company has an allowance for doubtful accounts of $43,223 [2018 – $128,883]. The provision for doubtful accounts, if any, is included in the consolidated statements of loss and comprehensive loss.

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

Liquidity risk
The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. The Company's accounts payable and accrued liabilities have contractual maturities of less than 60 days and are subject to normal trade terms. 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, 2019, management estimates that funds available are sufficient to meet the Company's obligations and planned net expenditures through at least June 30, 2020.

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, 2019 (capital and interest payments):

	Carrying amount	1 year	2-3 years	4-5 years	Later than 5 years	Total
	$	$	$	$	$	$
Operating loan	1,339,480	1,339,480	–	–	–	**1,339,480**
Trade payables and accrued liabilities	13,143,660	13,143,660	–	–	–	**13,143,660**
Long-term debt	24,862,997	4,716,388	11,667,303	7,532,874	5,496,068	**29,412,633**
Convertible debentures	7,703,414	800,000	1,600,000	11,200,000	–	**13,600,000**
Total	**47,049,551**	**19,999,528**	**13,267,303**	**18,732,874**	**5,496,068**	**57,495,773**

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, 2019, a 1% increase (decrease) in interest rates would increase (decrease) the Company's consolidated net loss by $57,257 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 and to sales made in US dollars.

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, 2019 are summarized in the following tables:

	Euro	Swiss Franc	US dollars	Total
	$	$	$	$
Cash	162,741	192,033	1,292,779	**1,647,553**
Accounts receivable	1,104,637	586,198	7,692,320	**9,383,155**
Operating loan	–	1,339,480	–	**1,339,480**
Accounts payable accrued liabilities	272,833	1,523,250	3,947,638	**5,743,721**
Long-term debt	–	2,681,487	–	**2,681,487**
Total	**1,540,211**	**6,322,448**	**12,932,737**	**20,795,396**

As at June 30, 2018:

	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 loans	–	(1,328,400)	–	**(1,328,400)**
Accounts payable 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)**

For the year ended June 30, 2019, a variation of 3% in the Canadian dollar against the other currencies, assuming that all other variables had remained the same, would have resulted in a $469,140 [2018 – $52,911] net increase or decrease of the Company's consolidated net loss and comprehensive loss. The Company has hedged its exposure to US dollars currency fluctuations, but do not apply hedge accounting as define in IFRS 9.

20. 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 and composite products.

	2019 $	2018 $
Revenues *		
United-States	**36,525,694**	–
Canada	**24,742,890**	3,439,806
France	**3,633,679**	2,533,853
Switzerland	**2,722,107**	1,869,169
Other	**1,896,700**	813,659
Total	**69,521,070**	8,656,487

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

	2019 $	2018 $
Long-lived Assets		
Canada	**35,417,980**	3,410,917
Switzerland	**3,566,074**	3,415,363
United-States	**2,476,947**	–
Total	**41,461,001**	6,826,280

21. COMPARATIVE INFORMATION

As the Company decided to classify the expenses with the function of expense method instead of the nature of expense method to provide information that is more relevant, certain of the figures for the year ended 2018 have been reclassified to conform to the current period's presentation.

	Cost of sales $	Research and development costs $	Selling, general and administrative $	As previously reported total $
Wages and salaries	3,089,593	815,461	2,386,207	**6,291,261**
Raw materials, consumables and supplies	2,348,411	–	–	**2,348,411**
Energy	303,979	7,234	8,765	**319,978**
Rent	263,255	19,906	9,345	**292,505**
Insurance	73,913	–	8,213	**82,126**
Repairs and maintenance	378,738	–	–	**378,738**
Professional and consulting fees	–	227,079	1,358,499	**1,585,578**
Filing fees	–	–	54,220	**54,220**
Laboratory supplies	–	72,990	–	**72,990**
Advertising and promotion	–	11,558	62,281	**73,839**
Office and general expenses	32,756	–	290,840	**323,596**
Allowance for doubtful accounts	–	–	14,988	**14,988**
Travel and accommodation	–	–	107,207	**107,207**
Bank charge	–	–	31,103	**31,103**
Total	**6,490,645**	**1,154,228**	**4,331,667**	**11,976,540**

22. SUBSEQUENT EVENT

For the period from July 1 to August 2, 2019, 9,365,651 First Warrants and Broker Warrants have been exercised for a cash proceeds of $6,442,041.