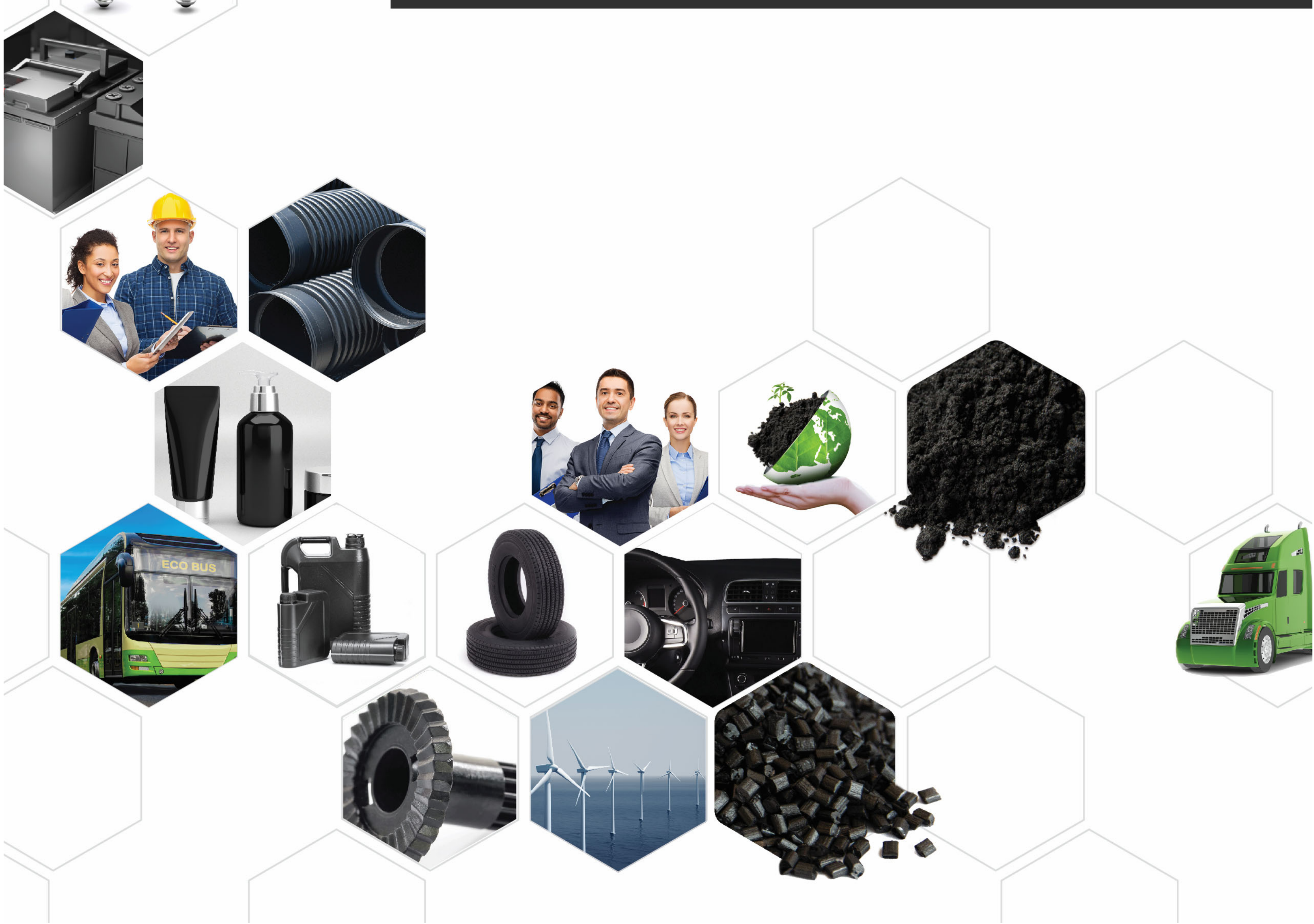
NanoXplore

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended June 30, 2020 and 2019



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, 2020 and 2019, 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, 2020 and 2019;
- 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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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 15, 2020

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

Consolidated Statements of Financial Position

As at June 30, (Expressed in Canadian dollars)	2020 $	2019 $
Assets		
Current assets		
Cash and cash equivalents	**33,796,686**	27,819,140
Accounts receivable and Contract asset *[Note 5]*	**11,202,100**	15,016,481
Inventory *[Note 6]*	**7,116,492**	7,589,896
Prepaid expenses	**521,215**	856,672
Lease deposits	**36,050**	10,200
	52,672,543	51,292,389
Non-current assets		
Lease deposits	**58,044**	91,344
Equipment deposits	**1,094,164**	655,465
Right-of-use assets *[Note 7b]*	**5,878,706**	5,502,111
Property, plant and equipment *[Note 7a]*	**49,680,575**	30,575,332
Intangible assets *[Note 8a]*	**3,803,674**	4,267,929
Goodwill *[Note 8b]*	**460,164**	460,164
Total assets	**113,647,870**	92,844,734
Liabilities and Shareholders' Equity		
Current liabilities		
Operating loans *[Note 11]*	**2,152,568**	1,339,480
Accounts payable and accrued liabilities *[Note 9]*	**11,092,750**	14,712,219
Income taxes payable	**339,744**	285,433
Deferred grant	**276,342**	231,745
Contract liability *[Note 10]*	**946,751**	2,512,994
Long-term debt due within one year *[Note 11]*	**4,552,977**	4,170,072
	19,361,132	23,251,943
Non-current liabilities		
Defined benefit liabilities *[Note 12]*	**1,310,464**	870,329
Long-term debt *[Note 11]*	**22,127,720**	20,692,925
Convertible debentures - Loan *[Note 11]*	**8,156,305**	7,703,414
Deferred tax liabilities *[Note 15]*	**1,724,987**	2,230,398
Total liabilities	**52,680,608**	54,749,009
Shareholders' equity		
Share capital *[Note 13]*	**84,837,145**	53,445,389
Reserve *[Note 13]*	**3,588,215**	3,604,511
Convertible debentures - Options *[Note 13]*	**2,240,000**	2,240,000
Foreign currency translation reserve	**58,505**	12,927
Deficit	**(29,756,603)**	(21,207,102)
Total shareholders' equity	**60,967,262**	38,095,725
Total liabilities and shareholders' equity	**113,647,870**	92,844,734

See accompanying notes to consolidated financial statements

Note 1 – Nature of operations and liquidity risk
Note 20 – Subsequent event

Approved on behalf of the Board of Directors

Soroush Nazarpour
Soroush Nazarpour

Benoit Gascon
Benoit Gascon

Consolidated Statements of Loss and Comprehensive loss

For the years ended June 30, (Expressed in Canadian dollars)	2020 $	2019 $
Revenues		
Revenues from customers *[Note 14]*	**62,202,328**	68,700,058
Other income *[Note 14]*	**2,948,678**	821,012
	65,151,006	69,521,070
Cost of Sales and Expenses		
Cost of sales *[Note 14]*	**52,312,942**	57,594,615
Research and development expenses *[Note 14]*	**3,119,591**	2,544,548
Selling, general and administrative expenses *[Note 14]*	**11,267,207**	13,235,242
Share-based compensation expenses	**633,390**	875,988
Depreciation (production)	**3,243,125**	2,563,856
Depreciation (other)	**956,715**	542,885
Amortization	**592,004**	508,298
Loss on disposal of equipment *[Note 7]*	**—**	738,524
Foreign exchange	**232,796**	228,969
	72,357,770	78,832,925
Operating loss	**(7,206,764)**	(9,311,855)
Interest on operating loans, long-term debt and convertible debentures	**(1,434,366)**	(1,657,677)
Interest accretion on lease liability	**(371,823)**	(203,915)
Interest revenue	**414,331**	342,698
Loss before income taxes	**(8,598,622)**	(10,830,749)
Current income tax expense	**(187,034)**	(44,789)
Deferred income tax recovery	**512,856**	272,173
	325,822	227,384
Loss for the year	**(8,272,800)**	(10,603,365)
Other comprehensive loss		
Items that may be subsequently reclassified to profit and loss:		
Exchange differences on translation of foreign subsidiaries	**45,578**	(563)
Items that will not be reclassified to profit and loss:		
Retirement benefits – Net actuarial gains (losses) *[Note 12]*	**(276,701)**	25,954
Total comprehensive loss	**(8,503,923)**	(10,577,974)
Loss per share		
Basic and diluted	**(0.07)**	(0.11)
Weighted average number of common shares outstanding (basic and diluted)	**124,836,853**	100,584,187

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

See accompanying notes to consolidated financial statements

Consolidated Statements of Changes in Shareholders' Equity

(Expressed in Canadian dollars)	Number of common shares	Share capital $	Reserve $	Convertible debentures - Options $	Foreign currency translation reserve $	Deficit $	Shareholders' equity $
Balance as at June 30, 2018	88,526,285	23,502,555	2,871,633	—	13,490	(10,629,691)	15,757,987
Loss for the 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 4]*	5,091,707	8,197,648	—	—	—	—	8,197,648
Private placement (net of issuing costs of $621,240) *[Note 13]*	16,144,800	20,367,000	—	2,240,000	—	—	22,607,000
Exercise of stock options *[Note 13]*	13,333	8,801	(2,798)	—	—	—	6,003
Exercise of warrants and broker warrants *[Note 13]*	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
Loss for the year	**—**	**—**	**—**	**—**	**—**	**(8,272,800)**	**(8,272,800)**
Other comprehensive loss	**—**	**—**	**—**	**—**	**45,578**	**(276,701)**	**(231,123)**
Comprehensive loss for the year	**—**	**—**	**—**	**—**	**45,578**	**(8,549,501)**	**(8,503,923)**
Private placement (net of issuing costs of $700,011) *[Note 13]*	**19,230,800**	**24,300,029**	**—**	**—**	**—**	**—**	**24,300,029**
Exercise of warrants and broker warrants *[Note 13]*	**9,365,651**	**7,091,727**	**(649,686)**	**—**	**—**	**—**	**6,442,041**
Share-based compensation	**—**	**—**	**633,390**	**—**	**—**	**—**	**633,390**
Balance as at June 30, 2020	**140,226,610**	**84,837,145**	**3,588,215**	**2,240,000**	**58,505**	**(29,756,603)**	**60,967,262**

See accompanying notes to consolidated financial statements

Consolidated Statements of Cash Flows

For the years ended June 30, (Expressed in Canadian dollars)	2020 $	2019 $
Cash flows from operating activities		
Loss for the year	**(8,272,800)**	(10,603,365)
Items not affecting cash:		
Depreciation and amortization	**4,791,844**	3,615,039
Share-based compensation	**633,390**	875,988
Interest accretion on lease liability	**371,823**	203,915
Interest accretion on long-term debt and convertible debentures	**461,845**	209,807
Other financial expenses	**121,295**	173,076
Deferred income tax expense	**(512,856)**	(272,173)
Loss on disposal of equipment	**—**	738,524
Difference between amounts paid for employee benefits and current period expenses	**92,737**	106,920
Net change in fair value of foreign exchange derivatives	**117,464**	(129,292)
Unrealized foreign exchange	**(191,227)**	(20,184)
Changes in non-cash operating working capital items:		
Accounts receivable	**3,950,418**	(1,643,955)
Inventory	**554,444**	(42,623)
Prepaid expenses	**349,282**	(185,418)
Accounts payable and accrued liabilities	**(3,910,065)**	3,315,751
Income taxes payable	**37,664**	65,156
Deferred grant	**44,597**	66,805
Contract liability	**(1,570,470)**	(413,174)
Cash used in operating activities	**(2,930,615)**	(3,939,203)
Cash flows from financing activities		
Private placements	**25,000,040**	20,988,240
Issuance of convertible debenture	**—**	10,000,000
Issuing costs	**(700,011)**	(917,234)
Exercise of stock options, warrants and broker warrants	**6,442,041**	1,235,076
Variation of operating loans	**711,858**	(3,663,003)
Issuance of term loans	**720,355**	8,300,958
Repayment of lease liability	**(2,087,197)**	(1,486,983)
Repayment of term loans	**(1,480,032)**	(2,030,489)
Cash from financing activities	**28,607,054**	32,426,565
Cash flows from investing activities		
Variation of lease deposits	**7,450**	(74,943)
Variation of equipment deposits	**(438,699)**	1,019,479
Business acquisition, net of cash acquired *[Note 4]*	**—**	(7,300,496)
Repayment of balance of purchase price	**(538,188)**	(535,792)
Disposition of equipment	**—**	600,000
Additions to intangible assets	**(106,960)**	—
Additions to property, plant and equipment	**(18,648,394)**	(9,652,426)
Cash used in investing activities	**(19,724,791)**	(15,944,178)
Change in cash and cash equivalents	**5,951,648**	12,543,184
Net effect of currency exchange rate on cash	**25,898**	7,290
Cash and cash equivalents, beginning of year	**27,819,140**	15,268,666
Cash and cash equivalents, end of year	**33,796,686**	27,819,140
Interest paid	**1,865,454**	364,508
Additions to property, plant and equipment included in accounts payable and accrued liabilities	**535,330**	958,059
Amount included in cash equivalents consists of guaranteed investment certificates bearing interest at a rate of 1.10% and 1.19% and having terms of 60 days.	**20,000,000**	—

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 4500, Thimens Blvd, Montreal, QC, Canada.

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

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

On April 9, 2019, Rada Industries changed its name to 9396-2173 Québec Inc. after it sold its main operating assets (Note 7). On December 31, 2019, 9396-2173 Québec Inc. was dissolved.

On January 20, 2020, NanoXplore GmbH was dissolved.

COVID-19 Pandemic

On March 11, 2020, the World Health Organization declared the outbreak of COVID-19 a global pandemic and recommended various containment and mitigation measures. Since then, extraordinary actions have been taken by public health and governmental authorities across the globe to contain the spread of COVID-19, including travel bans, social distancing, quarantines, stay-at-home orders and similar mandates for many businesses to reduce or cease normal operations.

As a result of the COVID-19 global pandemic, in the middle of March, certain of the Company's customers essentially idled their manufacturing operations. NanoXplore followed its customers and also temporarily idled most of its manufacturing operations in March. This suspension of manufacturing operations and rapid dissipation of customer demand had a negative impact on the Company's financial results during the second half of March and continued into the second civil quarter. Although the potential magnitude and duration of the business and economic impacts of COVID-19 are uncertain, a phased restart of the Company's manufacturing facilities and dependent functions began in May.

The COVID-19 pandemic has had and is expected to have an adverse effect on our business, results of operations, cash flows and financial position; however, the full impact cannot be determined at this time. The extent of the impact will depend on various factors, including the possibility of future shutdowns, impact on customers and suppliers, the rate at which economic conditions and operations return to pre-COVID levels, any continued or future governmental orders or lock-downs due to this wave of COVID-19, or any future wave, and the potential for a recession in key markets due to the effect of the pandemic.

Liquidity risk

Management believes that the Company has sufficient funds to meet its obligations, operating expenses and some development expenditures for the ensuing 12 months as they fall due, considering the completion of the private placement of $25,000,040 on April 3, 2020 (Note 13). The Company's ability to continue its development activities is dependent on the impact of Covid-19 and the beginning of commercial operation of the graphene products. The graphene commercial activity is in the development stage, and as a result, the Company has minimal sources of operating revenue from those operations and could be dependent on external financing to fund its continued development program, if the beginning of the commercial operation of the graphene activity is delayed. The Company's main sources of funding have been the issuance of equity securities for cash, debt, and funds from the government of Quebec with respect to R&D tax credits, from Sustainable Development Technology Canada ("SDTC") and from the Canada emergency wage subsidies program.

The consolidated financial statements of NanoXplore for the years ended June 30, 2020 and 2019 were reviewed, approved and authorized for issue by the Company's Board of Directors on October 15, 2020.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and as adopted by the Accounting Standards Board of Canada.

The Company has consistently applied the accounting policies used in the preparation of its IFRS consolidated financial statements, including the comparative figures.

Basis of measurement

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

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 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% [2019 – 100%]. On January 20, 2020, NanoXplore GmbH was dissolved.
- 9334-7474 Québec Inc., based in Canada, with an equity interest of 100% [2019 – 100%]. 9334-7474 Québec Inc. holds 100% of 9396-2173 Québec Inc (formerly Rada Industries Ltd, "Rada Industries"). On December 31, 2019, 9396-2173 Québec Inc. was dissolved.
- NanoXplore Switzerland Holding SA ("NanoXplore Switzerland"), based in Switzerland, with an equity interest of 100% [2019 – 100%]. NanoXplore Switzerland holds 100% of CEBO Injections SA ("CEBO").
- Sigma Industries Inc., based in Canada, with an equity interest of 100% [2019 – 100%]. 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 the United States.

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.

Foreign currency

a) *Functional and presentation currency*

NanoXplore's functional and presentation currency is the Canadian dollar. Functional currency is determined for each of the Company's entities, and items included in the consolidated financial statements of each entity are measured using that functional currency. All subsidiaries have the Canadian dollar as functional currency except for NanoXplore Switzerland and CEBO, which have Swiss Franc ("CHF") 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 recognized 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

Revenues comprise the sale of manufactured products, tooling contracts 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. Tooling contract revenues are measured based on the progress of the work. 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 Accounts receivable 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 and cash equivalents

Cash and cash equivalents include cash on hand, deposits held with banks and other highly liquid short-term investments with original maturities of three months or less or that can be redeemed at any time without penalty.

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 expired.

The Company classifies its financial instruments into the following categories:

a) *Financial assets at amortized cost*

Financial assets at amortized cost comprise of cash and cash equivalents and trade and other receivables. 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 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 loans, trade payables and accrued liabilities, 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.

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 on the nature on 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
Leasehold improvements	Lease term
Laboratory, computer, office equipment and rolling stock	2 to 10 years

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.

Borrowing costs

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

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 recognized in the consolidated 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 cash generating unit ("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.

An internally generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditures attributable to the intangible asset during its development.

To date, the Company has not capitalized any development costs.

Research and development expenses presented on the consolidated statement of loss and comprehensive loss comprise the costs to manufacture graphene and to support our sales team and research on graphene's properties. It includes costs of external consultants supporting research on graphene, employee compensation and other operating expenses involved in research and development activities.

Government assistance and Scientific Research and Experimental Development tax credit

The Company periodically receives financial assistance under government incentive programs and the 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

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 recognized on a straight-line basis as expenses in profit or loss as allowed upon adoption of IFRS 16. For the remaining lease commitments, the Company has recognized right-of-use assets of $4,971,000 upon adoption of IFRS 16 (Note 7b).

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 consolidated 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 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.

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 consolidated 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 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 4 for details regarding the estimates made for the most recent business acquisition.

c) Impairment of property, plant and equipment, goodwill and intangible assets

An impairment loss is recognized for the amount by which the asset or CGU exceeds its recoverable amount. To determine the recoverable amount, management estimates expected future cash flows from each asset or CGU and determines a suitable interest rate in order to calculate the present value of those cash flows. In the process of measuring expected future cash flows, management makes assumptions about future gross profits. These assumptions relate to future events and circumstances. The actual results may vary and may cause significant adjustments to the Company's assets during the next financial years. In most cases, the determination of the discount rate involves estimating the appropriate adjustment to market risk and the appropriate adjustment to asset-specific risk factors.

d) Revenue recognition on separately priced tooling contracts

Tooling contract prices are generally fixed; however, price changes, change orders and program cancellations may affect the ultimate amount of revenue recorded with respect to a contract. Revenue is recognized as the work progresses, which is calculated using the costs incurred to date and the total estimated contract costs. Contract costs are estimated at the time of signing the contract and are reviewed at each reporting date. Adjustments to the original estimates of total contract costs are often required as work progresses under the contract and as experience is gained, even though the scope of the work under the contract may not change. When the current estimates of total contract revenue and total contract costs indicate a loss, a provision for the entire loss on the contract is recorded in the period in which the loss is determined. Factors that are considered in arriving at the forecasted loss on a contract include, amongst others, cost over-runs, non-reimbursable costs, change orders and potential price changes.

e) COVID-19

The impact the COVID-19 pandemic on our consolidated financial statements for the year ended June 30, 2020 has been limited. While the long-term impact of the global COVID-19 pandemic cannot be fully determined or quantified at this time, we anticipate it will likely impact our future operations and results. Estimates and assumptions about future events and their effects cannot be determined with certainty and therefore require the exercise of judgment. As of the date of issuance of these consolidated financial statements, the Company is not aware of any specific event or circumstance that would require the Company to update its estimates, assumptions and judgments or revise the carrying value of its assets or liabilities. These estimates may change as new events occur and additional information is obtained and are recognized in the consolidated financial statements as soon as they become known.

3. NEW ACCOUNTING STANDARDS ADOPTED DURING THE YEAR AND 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. This standard had no significant impact on the Company’s consolidated financial statements.

***IAS 1* – Presentation of Financial Statements**

On January 23, 2020, the IASB issued amendments to IAS 1, Presentation of Financial Statements, to clarify the requirements for classifying liabilities as current or non-current. More specifically, the amendments specify that the conditions which exist at the end of the reporting period are those which will be used to determine if a right to defer settlement of a liability exists. Management expectations about events after the consolidated statement of financial position date, for example on whether a covenant will be breached, or whether early settlement will take place, are not relevant; and the amendments clarify the situations that are considered settlement of a liability. Management has not yet determined the impact, if any, on the Company.

Conceptual framework in IFRS Standards

The amendment replaces references to the 2001 Conceptual Framework for Financial Reporting with reference to the 2018 Conceptual Framework for Financial Reporting in order to determine what constitutes an asset or liability in a business combination, add a new exception for certain liabilities and contingent liabilities to refer to IAS 37 or IFRIC 21 rather than to the 2018 Conceptual Framework, and also clarify that an acquirer should not recognize contingent assets at the acquisition date. Management has not yet determined the impact, if any, on the Company.

***IAS 37* – Provisions, Contingent Liabilities and Contingent Assets**

The amendments provide additional guidance to onerous contracts; it clarifies the meaning of “cost of fulfilling a contract” and specifies that, before a separate provision for an onerous contract is established, an entity has to recognize any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract. Management has not yet determined the impact, if any, on the Company.

***IAS 16* – Property, Plant and Equipment**

The amendment to proceeds before intended use prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds received from selling items produced while the entity is preparing the asset for its intended use (for example, the proceeds from selling samples produced when testing a machine to see if it is functioning properly). It also clarifies that an entity is “testing whether the asset is functioning properly” when it assesses the technical and physical performance of the asset, and it add requirement of certain related disclosures. The new guidance will be effective for annual periods starting on or after January 1, 2022. Management has not yet determined the impact, if any, on the Company.

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4. BUSINESS COMBINATIONS

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.

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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 7b]*	731,083
Deferred tax assets	859,000
Property, plant and equipment *[Note 7a]*	17,650,161
Equipment deposit	1,674,944
Intangible assets *[Note 8a]*	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 tax 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.

5. ACCOUNTS RECEIVABLE AND CONTRACT ASSET

	2020 $	2019 $
Trade receivables	**7,670,796**	13,900,919
Minus: Allowance for doubtful accounts	**(377,742)**	(43,223)
	7,293,054	13,857,696
Contract asset *(Note 10)*	**2,242,245**	315,987
Other receivables	**1,666,801**	842,798
	11,202,100	15,016,481

[EXPRESSED IN CANADIAN DOLLARS]

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 $99,640 and $805,913 [2019 – $57,844 and $214,225] that are outstanding, respectively, for the periods from 91 to 120 days and over 120 days.

The majority of the trade receivables are pledged as security for the credit facilities (Note 11).

6. INVENTORY

	2020 $	2019 $
Raw materials and consumables	**4,497,252**	3,921,389
Work in progress	**1,011,081**	1,596,834
Finished goods	**1,608,159**	2,071,673
	7,116,492	7,589,896

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 11). The cost of inventory write-down recorded as an expense and included in cost of sales for the year ended June 30, 2020 is $482,383 [2019 – nil], as a result of net realizable value being lower than cost.

7. 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, 2018	1,430,062	4,663,345	29,369	365,244	6,488,020
Additions	3,184,785	6,404,014	3,300	239,633	9,831,732
Acquired in a business combination	8,542,500	8,949,482	–	158,179	17,650,161
Disposals	–	(1,330,641)	(640)	(7,243)	(1,338,524)
Depreciation	(105,555)	(1,901,780)	(7,876)	(154,661)	(2,169,872)
Effect of foreign exchange differences	–	106,945	–	6,870	113,815
Balance as at June 30, 2019	13,051,792	16,891,365	24,153	608,022	30,575,332
Additions	**490,340**	**18,521,113**	**2,004,565**	**914,003**	**21,930,021**
Disposals	**–**	**(12,377)**	**–**	**–**	**(12,377)**
Depreciation	**(546,577)**	**(2,178,927)**	**(79,334)**	**(252,682)**	**(3,057,520)**
Effect of foreign exchange differences	**110,627**	**126,025**	**–**	**8,467**	**245,119**
Balance as at June 30, 2020	**13,106,182**	**33,347,199**	**1,949,384**	**1,277,810**	**49,680,575**
As at June 30, 2020					
Cost	**13,773,000**	**37,773,362**	**2,085,634**	**1,869,645**	**55,612,268**
Accumulated depreciation	**(777,445)**	**(4,426,163)**	**(136,250)**	**(591,835)**	**(5,931,693)**
Net book value	**13,106,182**	**33,347,199**	**1,949,384**	**1,277,810**	**49,680,575**
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

[EXPRESSED IN CANADIAN DOLLARS]

The majority of property, plant and equipment is pledged as security for the credit facilities (Note 11).

The net book value of production equipment and of rolling stock held under leases as of June 30, 2020 were respectively $5,233,344 and $55,647 [2019 – $3,523,713 and $139,609]. Additions of production equipment under lease during the year ended amounted to $2,746,297 [2019 – $2,601,808]. Leased assets are pledged as security for the related lease liability.

As at June 30, 2020, there are $2,219,215, $18,963,271 and $335,815 of building, production equipment and computer, respectively, that are not yet available for use and for which depreciation has not started [2019 – $2,476,948, $3,362,135 and $105,362].

For the year ended June 30, 2020, borrowing costs amounting to $756,225 have been capitalized to production equipment [2019 – nil]. The rate used to determine the amount of borrowing costs eligible for capitalization is 13.1%.

Sale of Rada 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 on focusing on higher value-added graphene and graphene-enhanced plastic product.

b) Right-of-use assets

	2020 $	2019 $
Balance as at July 1	**5,502,111**	–
Adoption of IFRS 16	**–**	4,971,000
Additions	**2,286,406**	738,631
Acquired in a business combination	**–**	731,083
Disposals	**(816,841)**	–
Depreciation	**(1,142,320)**	(936,869)
Effect of foreign exchange differences	**49,350**	(1,734)
Balance as at June 30	**5,878,706**	5,502,111
As at June 30		
Cost	**7,654,920**	6,440,714
Accumulated amortization	**(1,776,214)**	(938,603)
Net book value	**5,878,706**	5,502,111

The majority of right-of-use assets are leases of land and building.

[EXPRESSED IN CANADIAN DOLLARS]

8. INTANGIBLE ASSETS AND GOODWILL

a) Intangible assets

	2020			2019		
	Customer relationship $	Patents and software $	Total $	Customer relationship $	Patents and software $	Total $
Balance as at July 1st	**4,174,937**	**92,992**	**4,267,929**	338,260	–	338,260
Acquired in a business combination	**–**	**–**	**–**	4,260,000	145,673	4,405,673
Additions	**–**	**106,960**	**106,960**	–	–	–
Amortization	**(524,515)**	**(67,489)**	**(592,004)**	(455,617)	(52,681)	(508,298)
Effect of foreign exchange differences	**20,789**	**–**	**20,789**	32,294	–	32,294
Balance as at June 30	**3,671,211**	**132,463**	**3,803,674**	4,174,937	92,992	4,267,929
As at June 30						
Cost	**4,688,928**	**252,633**	**4,941,561**	4,668,139	145,673	4,813,812
Accumulated amortization	**(1,017,717)**	**(120,170)**	**(1,137,887)**	(493,202)	(52,681)	(545,883)
Net book value	**3,671,211**	**132,463**	**3,803,674**	4,174,937	92,992	4,267,929

b) Goodwill

	2020 $	2019 $
Balance as at July 1st	**460,164**	–
Acquired in a business combination	**–**	460,164
Balance as at June 30	**460,164**	460,164

For impairment testing, the carrying amount of goodwill was allocated to the Sigma cash generating unit. 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. No impairment loss was recorded during the years ended June 30, 2020 and 2019.

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2020 $	2019 $
Trade payables	**6,125,067**	7,908,024
Accrued liabilities	**2,227,398**	3,133,198
Current portion of balance of purchase price	–	523,292
Foreign exchange forward contracts *[Note 17]*	**211,373**	93,909
Payroll withholding taxes payable	**2,528,912**	3,053,796
	11,092,750	14,712,219

[EXPRESSED IN CANADIAN DOLLARS]

10. CONTRACT ASSET AND CONTRACT LIABILITY

Contract asset and contract liability are related to tooling contracts with customers.

	2020 $	2019 $
Balance as at July 1st	**2,197,007**	(299,858)
Acquired in a business combination *[Note 4]*	**–**	2,779,946
Amount of opening balance recognized as revenues during the year	**(7,875,185)**	(4,287,877)
Advance cash consideration received during the year	**4,382,684**	4,004,796
Balance as at June 30	**(1,295,494)**	2,197,007
Contract asset *[Note 5]*	**(2,242,245)**	(315,987)
Contract liability	**946,751**	2,512,994

11. CREDIT FACILITIES

	Maturity	Effective interest rate %	2020 $	2019 $
Operating loans, fixed and variable rate				
– Authorized amount of $9,845,470	**2020**	**3.0% to 4.3%**	**2,152,568**	1,339,480
Convertible debentures *[Note 13a]*	**December 2023**	**13.1%**	**8,156,305**	7,703,414
Long-term debt				
Term loans, fixed and variable rates	**2021 to 2028**	**4.0% to 10.0%**	**15,544,822**	16,080,096
Lease liability	**2020 to 2030**	**0.6% to 5.5%**	**11,135,875**	8,782,901
			36,989,570	33,905,891
Less: current portion of operating loans			**2,152,568**	1,339,480
Less: current portion of long-term debt			**4,552,977**	4,170,072
			30,284,025	28,396,339

a) Operating loans

The Company has the following credit line with these two banks:

- **National Bank:**
  An authorized maximum bank line of credit of $7,875,000, 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%. The Company has also an authorized maximum bank line of credit of US$500 000 [$683,050]. The facility bears interest at American 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. These credit facilities are renewable annually and mature in November 2020. Under these agreements, the Company has agreed to respect certain conditions and financial ratios. As at June 30, 2020, $1,000,000 of the facilities were used, and all conditions and financial ratios were met [2019 – nil].

- **Banque Cantonale Vaudoise:**
  A credit facility agreement which authorized the Company a maximum operating loan of CHF 1,000,000 [$1,440,710]. The credit facility was renewed on June 30, 2020 for a three-month period and was renewed on September 30, 2020. 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, 2020, the Company had drawn CHF 800,000 [$1,152,568] under this credit facility and all applicable covenants were met [2019 – CHF 1,000,000 [$1,339,480]].

[EXPRESSED IN CANADIAN DOLLARS]

b) Long-term 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.

Given the impact of COVID-19, financial institutions have granted us moratoriums ranging from periods of three to six months starting in March 2020 for principal installments, and in certain cases for interest.

TERM LOANS

Under these agreements, the Company has agreed to meet certain conditions and financial ratios. As at June 30, 2020 and 2019, all conditions and financial ratios were met, except for the Debt Service Coverage Ratio (DSC) over one of the term loan. Letters from the institution that waive compliance with the DSC covenant for the years ended June 30, 2020 and 2019 were obtained on September 29, 2020 and on October 4, 2019. This debt is classified as current debt.

LEASE LIABILITY

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	2,325,950	6,907,606	4,098,756	**13,332,312**
Less: Interest expense on lease liability	(486,708)	(1,320,419)	(389,310)	**(2,196,437)**
Total	**1,839,242**	**5,587,187**	**3,709,446**	**11,135,875**

12. EMPLOYEE BENEFITS OBLIGATION

Defined Benefit Pension Plan

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

Employees are eligible for 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 consolidated statements of financial position were as follows:

	2020 $	2019 $
Plan assets at fair value	**4,959,461**	2,914,695
Defined benefit liabilities	**(6,269,925)**	(3,785,024)
Retirement benefit deficit	**(1,310,464)**	(870,329)

The amount for asset ceiling effect and for minimum funding requirement amounted to nil [2019 – nil].

[EXPRESSED IN CANADIAN DOLLARS]

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

	2020 $	2019 $
Balance – Beginning of the year	**3,785,024**	2,998,646
Participant contribution	**190,066**	176,048
Benefits paid (deposited)	**929,169**	(29,423)
Items in net loss		
Current service cost	**297,673**	222,592
Past service cost	**–**	69,151
Interest cost	**19,117**	32,083
Administration cost	**2,036**	1,512
	318,826	325,338
Items in comprehensive loss		
Actuarial loss	**760,965**	289,578
Foreign currency translation	**285,875**	24,837
	1,046,840	314,415
Defined benefit liabilities	**6,269,925**	3,785,024

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

	2020 %	2019 %
Active plan participants	**74%**	100%
Pensioners	**26%**	–

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

	2020 $	2019 $
Balance – Beginning of the year	**2,914,695**	2,216,356
Employer contribution	**205,804**	193,646
Participant contribution	**190,066**	176,048
Benefits deposited (paid)	**929,169**	(29,423)
Item in net loss		
Interest income on plan assets	**15,188**	24,050
Items in comprehensive loss		
Return on plan assets	**484,264**	315,532
Foreign currency translation	**220,275**	18,486
	704,539	334,018
Plan assets at fair value	**4,959,461**	2,914,695

For the year ended June 30, 2020, the service cost amounted to $297,673 [2019 – $222,592]. Total cash payments for employee benefits, consisting of cash contributed by the Company to its pension plan amounted to $205,804 [2019 – $193,646]. The Company estimates to contribute $216,874 to the defined benefit plans during the next fiscal year end.

[EXPRESSED IN CANADIAN DOLLARS]

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

	2020	2019
Discount rate	**0.4%**	0.4%
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	**0.5%**	0.4%
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 the available rate in Switzerland for private pension funds. The Company chose the salary increase and turnover rates to reflect 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	**(267,289)**	**286,122**
Salary increase	**43,231**	**(41,557)**

13. 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, 2018	88,526,285	23,502,555
Issuance of shares related to Sigma acquisition *[Note 4]*	5,091,707	8,197,648
Issuance of shares as part of a 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**
Issuance of shares as part of a private placement in April 2020	**19,230,800**	**24,300,029**
Exercise of warrants and broker warrants	**9,365,651**	**7,091,727**
Balance as at June 30, 2020	**140,226,610**	**84,837,145**

On April 3, 2020, the Company completed a brokered private placement financing of 19,230,800 common shares at a price of $1.30 per share for gross proceeds of $25,000,040. The aggregate issuance costs related to these issuances, including the commission, in the total amount of $700,011 paid in cash were recorded as a reduction of share capital.

[EXPRESSED IN CANADIAN DOLLARS]

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 for 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.

b) Warrants and broker warrants

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

	2020		2019	
	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	**12,684,935**	**1.10**	14,538,969	1.04
Exercise of warrants	**(8,909,994)**	**0.70**	(1,579,034)	0.70
Exercise of broker warrants	**(455,657)**	**0.45**	(275,000)	0.45
Warrants expired	**(3,319,284)**	**2.23**	–	–
Balance as at June 30	–	–	12,684,935	1.10

For the year ended June 30, 2020, 8,909,994 warrants were exercised resulting in cash proceeds of $6,236,996 and a transfer from reserve to share capital of $590,635. The weighted average share price on the date of exercise of the warrants was $1.42.

For the year ended June 30, 2020, 455,657 broker warrants were exercised resulting in cash proceeds of $205,045 and a transfer from reserve to share capital of $59,051. The weighted average share price on the date of exercise of the warrants was $1.39.

For the year ended June 30, 2019, 1,579,034 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.

As at June 30, 2020, there were no warrants outstanding.

[EXPRESSED IN CANADIAN DOLLARS]

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:

	2020		2019	
	Number	Weighted average exercise price ($)	Number	Weighted average exercise price ($)
Balance as at July 1st	**3,767,133**	**1.16**	1,330,466	0.84
Options granted to officers, directors and employees	**150,000**	**1.39**	2,550,000	1.35
Options exercised	–	–	(13,333)	0.45
Options forfeited	–	–	(66,667)	1.75
Options expired	–	–	(33,333)	1.75
Balance as at June 30	**3,917,133**	**1.17**	3,767,133	1.16
Options exercisable as at June 30	**2,904,635**	**1.11**	1,643,801	1.02

During the year ended June 30, 2020, 150,000 options were granted. These options have an exercise price of $1.39 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.

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.

At as June 30, 2020, 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	1.91	917,133	$0.45	917,133	$0.45
$1.22 - $1.80	3.51	3,000,000	$1.39	1,987,502	$1.41

[EXPRESSED IN CANADIAN DOLLARS]

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 were as follows:

	Volatility	Risk-free interest rate	Expected life (months)	Weighted average grant date fair value ($)
For the year ended June 30, 2020				
Options granted	**49.06%**	**1.39%**	**60**	**0.61**
For the year ended June 30, 2019				
Options granted	45.90%	1.88%	60	0.57

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

14. REVENUES AND EXPENSES

The following table summarizes the details of the revenues for the year ended June 30:

	2020 $	2019 $
Sales of manufactured products	**54,327,143**	64,412,181
Tooling revenues	**7,875,185**	4,287,877
Total revenues from customers	**62,202,328**	68,700,058
Government assistance	**2,778,907**	730,634
Other revenues	**169,771**	90,378
Total other income	**2,948,678**	821,012
	65,151,006	69,521,070

Government assistance consists of grant received mainly from the Canada Emergency Wage Subsidy and from SDTC.

The following table summarizes the details of the cost of sales, research and development expenses and selling, general and administrative expenses by nature for the year ended June 30:

	2020 $	2019 $
Salaries, short-term employee benefits and fringe benefits	**23,286,627**	26,083,516
Materials and subcontracting	**31,726,303**	34,723,133
Repairs and maintenance	**1,873,346**	1,470,845
Professional fees	**2,148,345**	2,735,042
Other operating expenses	**7,665,119**	8,361,869
	66,699,740	73,374,405

[EXPRESSED IN CANADIAN DOLLARS]

15. INCOME TAXES

Reconciliation of the effective tax rates is as follows:

	2020 $	2019 $
Statutory tax rate	**26.50%**	26.50%
Loss before income taxes for the year	**8,598,622**	10,830,749
Tax recovery at statutory rate	**2,278,635**	2,870,148
Increase (decrease) resulting from:		
Permanent differences	**(238,414)**	(203,832)
Effect of difference of foreign tax rates	**–**	2,720
Tax effect of deductible equity transaction cost	**185,503**	243,067
Tax effect of unrecognized temporary difference and tax losses	**(1,726,556)**	(2,957,710)
Differences in tax rates changes	**(3,286)**	(2,222)
Other	**(170,060)**	275,213
Net tax recovery	**325,822**	227,384

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, 2020 and 2019, significant components of the Company's net unrecognized deductible temporary differences for which no deferred taxes have been recognized are:

	2020 $	2019 $
Property, plant and equipment	**76,585**	145,418
Share issue costs	**526,209**	588,804
Operating losses carried forward	**5,823,094**	4,677,163
Research and development	**236,506**	191,916
Other assets	**81,072**	22,204
Total deferred income tax assets	**6,743,466**	5,625,505

As at June 30, 2020 and 2019, significant component of the Company's deferred income tax liabilities is property, plant and equipment.

As at June 30, 2020, expiration dates of losses available in Canada to reduce future years' income for tax purposes are:

	Federal $	Provincial $
2040	**7,812,788**	**10,201,054**
2039	**8,198,295**	**10,222,979**
2038	**3,558,075**	**3,585,145**
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	**35,765,237**	**35,703,036**

[EXPRESSED IN CANADIAN DOLLARS]

As at June 30 2020, the Company also has $819,527 of accumulated losses in Switzerland.

As at June 30, 2020, the Company also has $482,732 of net capital losses which can be applied against future taxable capital gains and has accumulated non-refundable Federal SR&ED tax credits of approximately $249,477 which can be used to reduce taxable income in the future, and will begin expiring as of 2033.

16. RELATED PARTY TRANSACTIONS

The following are related party transactions that have occurred with Martinrea International Inc., a shareholder of the Company with significant influence:

- Exercise of 2,750,000 warrants for an amount of $1,925,000.
- Participation in the private placement financing closed April 3, 2020 of 3,846,154 shares for an amount of $5,000,000 (Note 13). [2019 – Participation in the private placement financing closed January 11, 2019 of 11,538,000 shares for an amount of $14,999,400].

The following related party transactions have occurred with Mason Graphite Inc., a shareholder of the Company with significant influence up to September 9, 2019:

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

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

	2020 **$**	**2019** **$**
Consulting fees, wages and salaries	**1,651,070**	1,593,385
Director fees	**201,901**	158,983
Share-based compensation – Management	**388,494**	493,352
Share-based compensation – Director	**106,955**	159,355
	2,348,420	2,405,075

Key management personnel also participated in the private placement financing closed April 3, 2020 of 217,239 shares for an amount of $282,411.

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 four and eighteen months of base salary. Minimum commitments under these agreements are approximately $1,324,000. These agreements require that additional minimum payments of approximately $2,013,000 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.

[EXPRESSED IN CANADIAN DOLLARS]

17. COMMITMENTS

The Company has committed to purchase raw materials from certain suppliers within 2 years for an amount of $489,400.

The Company has also committed to purchase equipment for a total amount of $2,270,037 for the construction of the extruding line of the graphene plant, and $1,445,300 for the purchase of a new press, on which $389,180 and $704,984 respectively were paid and included in the consolidated statement of financial position as Equipment deposits as at June 30, 2020.

As at June 30, 2020, the Company held options for a minimum of US$5.4 million and a maximum of US$7.9 million depending on the exchange rate of such derivative contracts. Minimum rates vary from 1.3000 to up to 1.3950. The contracts are valid until August 2021.The carrying value of the derivative foreign currency forward exchange contracts is included in Accounts payable and accrued liabilities.

18. 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 the fair value of financial instruments:

(i) The fair value of its short-term financial assets and financial liabilities, including cash and cash equivalents, trade and other receivables, operating loans, 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 fair value of derivative foreign currency forward contract is estimated based on mark-to-market value. 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, 2020 and 2019:

	As at June 30, 2020		As at June 30, 2019	
	Carrying value $	Fair value $	Carrying value $	Fair value $
Financial assets at amortized cost				
Cash and cash equivalents	**33,796,686**	**33,796,686**	27,819,140	27,819,140
Trade and other receivables	**7,428,580**	**7,428,580**	13,967,254	13,967,254
Total	**41,225,266**	**41,225,266**	41,786,394	41,786,394
Financial liabilities at amortized cost				
Operating loans	**2,152,568**	**2,152,568**	1,339,480	1,339,480
Trade payables and accrued liabilities	**8,352,465**	**8,352,465**	13,143,660	13,143,660
Long-term debt	**26,680,697**	**26,680,697**	24,862,997	24,862,997
Convertible debentures	**8,156,305**	**8,156,305**	7,703,414	7,703,414
Fair value through profit or loss				
Derivative foreign currency forward contract	**211,373**	**211,373**	93,909	93,909
Total	**45,553,408**	**45,553,408**	47,143,460	47,143,460

[EXPRESSED IN CANADIAN DOLLARS]

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, 2020, three customers represented 42% of trade accounts receivable [2019 – three customers represented 37%]. In 2020, two customers represented 37% of sales [2019 – three customers represented 59%].

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, 2020, the Company has an allowance for doubtful accounts of $377,742 [2019 – $43,223]. 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, 2020, management estimates that funds available are sufficient to meet the Company's obligations and planned net expenditures through at least June 30, 2021.

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, 2020 (capital and interest payments):

	Carrying amount	1 year	2-3 years	4-5 years	Later than 5 years	Total
	$	$	$	$	$	$
Operating loans	2,152,568	2,152,568	–	–	–	**2,152,568**
Trade payables and accrued liabilities	8,352,465	8,352,465	–	–	–	**8,352,465**
Long-term debt	26,680,697	4,864,580	11,534,748	6,967,458	8,018,948	**31,385,734**
Convertible debentures	8,156,305	800,000	1,600,000	10,400,000	–	**12,800,000**
Total	**45,342,035**	**16,169,613**	**13,134,748**	**17,367,458**	**8,018,948**	**54,690,767**

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 variable interest rate. Based on the balances outstanding as at June 30, 2020, a 1% increase (decrease) in interest rates would increase (decrease) the Company's consolidated net loss by $66,810 on a 12-month horizon.

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

The Company's trade payables 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 being located in Switzerland and of sales made in US dollars.

Expressed in Canadian dollar terms, the financial assets and financial liabilities of the Company and its subsidiaries denominated in currencies other than the presentation currency of the consolidated financial statements as at June 30, 2020 are summarized in the following tables:

	Euro $	Swiss Franc $	US dollars $	Total $
Cash and cash equivalents	919,302	213,319	3,306,611	**4,439,232**
Accounts receivable	896,375	191,369	4,927,932	**6,015,676**
Operating loans	–	(1,152,568)	–	**(1,152,568)**
Accounts payable and accrued liabilities	(303,104)	(1,005,934)	(2,591,317)	**(3,900,355)**
Long-term debt	–	(2,917,170)	–	**(2,917,170)**
Total	**1,512,573**	**(4,670,984)**	**5,643,226**	**2,484,815**

As at June 30, 2019:

	Euro $	Swiss Franc $	US dollars $	Total $
Cash and cash equivalents	162,741	192,033	1,292,779	**1,647,553**
Accounts receivable	1,104,637	586,198	7,692,320	**9,383,155**
Operating loans	–	(1,339,480)	–	**(1,339,480)**
Accounts payable and accrued liabilities	(272,833)	(1,523,250)	(3,947,638)	**(5,743,721)**
Long-term debt	–	(2,681,487)	–	**(2,681,487)**
Total	**994,545**	**(4,765,986)**	**5,037,461**	**1,266,020**

For the year ended June 30, 2020, 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 $57,169 [2019 – $469,140] 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 does not apply hedge accounting as defined in IFRS 9.

19. SEGMENTED DISCLOSURE

Our Chief Operating Decision Maker analyzes the information for the Company as a whole on a consolidated basis only and as such, the Company determined that 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.

	2020 $	2019 $
Revenues *		
United States	**34,564,169**	36,525,694
Canada	**23,529,710**	24,742,890
France	**3,744,801**	3,633,679
Switzerland	**1,784,099**	2,722,107
Other	**1,528,227**	1,896,700
Total	**65,151,006**	69,521,070

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

[EXPRESSED IN CANADIAN DOLLARS]

	2020 $	2019 $
Long-lived Assets		
Canada	**55,116,820**	35,417,980
Switzerland	**3,182,088**	3,566,074
United States	**2,618,375**	2,476,947
Total	**60,917,283**	41,461,001

20. SUBSEQUENT EVENT

On September 11, 2020, through its wholly-owned indirect subsidiary RMC Advanced Technologies Inc., the Company acquired substantially all of the assets of CSP Composites, LLC, Continental Structural Plastics, Inc. and Continental Structural Plastics of North Carolina, Inc. (collectively, "CSP") used in connection with its lightweight composite solutions and material business as conducted at 1400 Burris Road, Newton, North Carolina, for a total purchase price of US$3,500,000. The total purchase price is based on an inventory value of US$900,000 and will be adjusted, on a dollar for dollar basis, based on the value of the inventory as at the closing date. This acquisition was concluded in order to expand the Company's business in the United States.

CSP employs nearly thirty people and operates mainly in the markets of composite products for heavy trucks and machinery. It sells its products to original equipment manufacturers and distributors in the United States, Canada and South America.

This transaction will be financed using the Company's available cash. The purchase price is payable in two installments:

(i) US$1,750,000 [$2,303,450] at the closing date; and

(ii) US$1,750,000 [$2,303,450] 12 months after the closing date (plus or minus any upward or downward inventory adjustment, as applicable).

This transaction qualifies as a business combination and will be accounted for using the acquisition method of accounting under IFRS 3, Business Combination. To account for the transaction, the Company has performed a preliminary business valuation of CSP at the date of acquisition and a preliminary purchase price allocation. At the time of issuance of these consolidated financial statements, certain aspects of the valuation and purchase price allocation are not finalized due to the unavailability of some information. The work will be completed within 12 months of the acquisition date, at the latest.

	US$
Net identifiable assets acquired:	
Inventory	900,000
Property, plant and equipment	2,600,000
Total consideration	**3,500,000**
The cash outflow on acquisition is as follows:	
Consideration paid in cash	3,500,000
Net cash flow for the acquisition	**3,500,000**