Performance Through Carbon Chemistry

UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the three-month and six-month periods ended December 31, 2017 and 2016

Performance Through Carbon Chemistry

Consolidated Statement of Financial Position

(Unaudited - Expressed in Canadian dollars)	As at December 31, 2017 $	As at June 30, 2017 $
Assets		
Current assets		
Cash	**8,130,338**	421,214
Accounts receivable	**2,896,783**	462,322
Inventory	**1,522,522**	293,317
Prepaid expenses	**316,541**	35,121
Lease deposit	**751**	751
	12,866,935	1,212,725
Non-current assets		
Lease deposit	**25,850**	25,850
Equipment deposit *[Note 6]*	**—**	53,416
Investment in a joint venture	**59,117**	61,308
Property, plant and equipment *[Note 6]*	**4,746,304**	3,383,184
Goodwill *[Note 4]*	**781,211**	—
Total assets	**18,479,417**	4,736,483
Liabilities and shareholders' equity		
Current liabilities		
Operating loan *[Note 7]*	**1,380,480**	215,000
Accounts payable and accrued liabilities	**2,510,656**	753,256
Deferred grant *[Note 5]*	**547,146**	—
Deferred revenue	**106,190**	—
Long-term debt due within one year *[Note 8]*	**573,397**	2,159,865
	5,117,869	3,128,121
Non-current liabilities		
Non-current portion of payable *[Note 4]*	**458,365**	—
Long-term debt *[Note 8]*	**3,798,446**	2,840
Deferred taxes liabilities *[Note 11]*	**555,429**	313,881
Total liabilities	**9,930,109**	3,444,842
Equity		
Share capital *[Note 9a]*	**15,484,668**	5,705,879
Reserve	**1,084,891**	223,352
Foreign currency translation reserve	**1,492**	—
Deficit	**(8,021,743)**	(4,637,590)
Total equity	**8,549,308**	1,291,641
Total equity and liabilities	**18,479,417**	4,736,483

See accompanying notes to condensed interim consolidated financial statements

Note 1 – Nature of operations and liquidity risk

Approved on behalf of the Board of Directors

Soroush Nazarpour

Benoît Gascon

Consolidated Statement of Loss and Comprehensive loss

	Three-month periods ended December 31,		Six-month periods ended December 31,	
	2017	2016	2017	2016
(Unaudited - Expressed in Canadian dollars)	$	$	$	$
Revenues				
Sales of products	**1,325,657**	706,224	**1,926,812**	1,368,080
Royalties	**12,500**	12,500	**25,000**	25,000
Laboratory services	**47,250**	50,000	**47,250**	50,000
Other income *[Note 5]*	**421,613**	273,335	**421,613**	330,794
	1,807,020	1,042,060	**2,420,675**	1,773,875
Expenses				
Wages and salaries	**1,298,542**	600,998	**2,144,148**	1,176,356
Raw materials, consumables and supplies	**491,399**	292,007	**717,082**	504,856
Energy	**64,484**	44,861	**106,851**	81,100
Rent	**59,489**	36,457	**93,323**	60,320
Insurance	**18,417**	3,867	**32,081**	7,732
Repairs and maintenance	**71,184**	24,546	**107,818**	45,528
Share-based compensation	**72,691**	17,559	**153,819**	40,091
Professional and consulting fees	**311,806**	207,000	**374,923**	340,630
Filing fees	**6,412**	—	**21,118**	—
Laboratory supplies	**10,810**	9,694	**16,760**	20,842
Advertising and promotion	**20,276**	8,905	**22,757**	27,390
Office and general expenses	**108,432**	32,468	**140,091**	87,693
Travel and accommodation	**32,631**	18,957	**56,185**	28,650
Bank charge	**10,317**	2,379	**17,081**	4,357
Depreciation	**147,963**	82,642	**229,295**	163,826
Foreign exchange	**(8,152)**	5,128	**(9,560)**	20,515
	2,716,701	1,387,468	**4,223,772**	2,609,886
Operating loss	**(909,681)**	(345,408)	**(1,803,097)**	(836,011)
Listing expenses *[Note 3]*	**—**	—	**(1,443,860)**	—
Interest on long-term debt	**(38,736)**	(25,718)	**(63,607)**	(75,842)
Interest revenue	**21,982**	—	**21,982**	—
Share of loss of a joint venture	**(1,100)**	—	**(2,191)**	(5,000)
Loss before income taxes	**(927,535)**	(371,127)	**(3,290,773)**	(916,854)
Current income taxes recovery	**30,140**	(2,657)	**30,140**	(2,657)
Deferred income taxes expenses *[Note 11]*	**(123,520)**	—	**(123,520)**	—
Loss for the period	**(1,020,915)**	(373,784)	**(3,384,153)**	(919,511)
Other comprehensive loss				
Items that may be subsequently reclassified to profit and loss:				
Exchange differences on translation of foreign subsidiaries	**1,492**	—	**1,492**	—
Total comprehensive loss	**(1,019,423)**	(373,784)	**(3,382,661)**	(919,511)
Loss per share				
Basic and diluted *[Note 10]*	**(0.01)**	(0.01)	**(0.05)**	(0.02)

See accompanying notes to condensed interim consolidated financial statements

NanoXplore
Performance Through Carbon Chemistry

Consolidated Statement of Changes in Shareholders' Equity

(Unaudited - Expressed in Canadian dollars)	Number of common shares	Common shares $	Reserve $	Foreign currency translation reserve $	Deficit $	Total equity $
Balance as at June 30, 2016	51,105,519	3,414,725	108,065	—	(2,512,324)	1,010,466
Private placement (net of issuing costs of $5,978)	2,788,840	1,249,022	—	—	—	1,249,022
Conversion of convertible debentures	2,315,893	1,042,132	—	—	—	1,042,132
Share-based compensation	—	—	40,091	—	—	40,091
Loss and comprehensive loss for the period	—	—	—	—	(919,511)	(919,511)
Balance as at December 31, 2016	56,210,252	5,705,879	148,156	—	(3,431,835)	2,422,200
Share-based compensation	—	—	75,196	—	—	75,196
Loss and comprehensive loss for the period	—	—	—	—	(1,205,755)	(1,205,755)
Balance as at June 30, 2017	56,210,252	5,705,879	223,352	—	(4,637,590)	1,291,641
Private placement (net of issuing costs of $919,701) *[Note 9a]*	**21,549,072**	**8,063,147**	**—**	**—**	**—**	**8,063,147**
Issuance of shares *[Note 9a]*	**2,284,051**	**1,027,823**	**—**	**—**	**—**	**1,027,823**
Issuance of warrants and broker warrants *[Note 9b]*	**—**	**—**	**899,642**	**—**	**—**	**899,642**
Issuance of options *[Note 9c]*	**—**	**—**	**88,345**	**—**	**—**	**88,345**
Stock options converted into shares	**694,981**	**172,820**	**(172,820)**	**—**	**—**	**—**
Exercise of stock option	**50,000**	**32,596**	**(10,096)**	**—**	**—**	**22,500**
Exercise of warrants and broker warrants	**800,075**	**482,403**	**(97,351)**	**—**	**—**	**385,052**
Share-based compensation	**—**	**—**	**153,819**	**—**	**—**	**153,819**
Loss loss for the period	**—**	**—**	**—**	**—**	**(3,384,153)**	**(3,384,153)**
Foreign currency translation reserve	**—**	**—**	**—**	**1,492**	**—**	**1,492**
Balance as at December 31, 2017	**81,588,431**	**15,484,668**	**1,084,891**	**1,492**	**(8,021,743)**	**8,549,308**

See accompanying notes to condensed interim consolidated financial statements

NanoXPlore

Performance Through Carbon Chemistry

Consolidated Statement of Cash Flow

(Unaudited - Expressed in Canadian dollars)	Six-month periods ended December 31, 2017 $	2016 $
Operating activities		
Net loss	**(3,384,153)**	(919,511)
Items not affecting cash:		
Listing expenses paid by issuance of equity *[Note 3]*	**1,126,798**	—
Depreciation	**229,295**	163,826
Share-based compensation	**153,819**	40,091
Share of loss of a joint venture	**2,191**	5,000
Interest on Convertible Debt	**—**	34,718
Deferred income taxes recovery	**123,520**	—
Unrealized foreign exchange	**(13,424)**	24,961
Changes in non-cash operating working capital items:		
Accounts receivable	**(165,761)**	(190,401)
Inventories	**119,226**	(48,197)
Prepaid	**(130,857)**	26,376
Accounts payable and accrued liabilities	**70,759**	(155,327)
Deferred grant *[Note 5]*	**547,146**	—
Deferred revenue	**4,886**	—
Cash used in operating activities	**(1,316,555)**	(1,018,464)
Cash flows from financing activities		
Private placement	**9,697,082**	1,255,000
Share issue costs	**(734,293)**	(5,978)
Exercise of options, warrants and Broker Warrants	**407,552**	—
Issuance of convertible debentures	**—**	450,000
Increase (decrease) of operating loan	**(125,540)**	(215,000)
Repayment of obligation under financing lease	**(37,164)**	—
Issuance of long-term debt	**1,446,917**	—
Repayment of long-term debt	**(67,910)**	(26,530)
Cash from financing activities	**10,586,644**	1,457,492
Cash flows from investing activities		
Deposit on equipment	**(13,926)**	3,205
Lease deposit	**—**	(3,455)
Business acquisition, net of cash acquired *[Note 4]*	**(1,207,237)**	—
Disposal of property, plant and equipment	**600**	—
Additions of property, plant and equipment	**(340,402)**	(353,041)
Cash used in investing activities	**(1,560,965)**	(353,291)
Change in cash	**7,709,124**	85,737
Cash, beginning of period	**421,214**	1,167,042
Cash, end of period	**8,130,338**	1,252,779
Interest paid	**45,957**	51,006

See accompanying notes to condensed interim consolidated financial statements

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

1. NATURE OF OPERATIONS AND LIQUIDITY RISK

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

On August 29, 2017, the Company completed the three-cornered amalgamation involving Graniz Mondal Inc. (“Graniz”), the Company (formerly named “Group NanoXplore Inc.”) and 9363-0770 Québec Inc. which constituted a reverse takeover of Graniz by the Company under the policies of the TSX Venture Exchange (the “Transaction”). Pursuant to the Transaction, Graniz changed its name to NanoXplore Inc., merged with Group NanoXplore Inc. and now operates under NanoXplore Inc.

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

On November 23, 2017, through its wholly-owned subsidiary NanoXplore Switzerland Holding SA incorporated on November 9, 2017, the Company acquired all of the issued and outstanding shares of CEBO Injections SA, based in Switzerland.

Management believes that the Company has sufficient funds to meet its obligations and planned net expenditures for the ensuing 12 months. The Company’s ability to continue its development activities is dependent on management’s ability to secure additional financing in the future, which may be completed in a number of ways including, but not limited to, a combination of strategic partnerships, joint venture arrangements, project debt financing, royalty financing and other capital market alternatives. Management will pursue such additional financial sources when required, and while management has been successful in securing financing in the past, there can be no assurance that it will be able to do so in the future or that these sources of funding or initiatives will be available for the Company or that they will be available on terms which are acceptable to the Company.

The condensed interim consolidated financial statements of NanoXplore for the three-month and six-month periods ended December 31, 2017 and 2016 were reviewed, approved and authorized for issue by the Company’s Board of Directors on February 23, 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The unaudited condensed interim consolidated financial statements of the Company and its subsidiaries for the three-month and six-month periods ended December 31, 2017 and 2016 have been prepared in accordance with International Financial Reporting Standards [“IFRS”], as issued by the International Accounting Standards Board [“IASB”] and as adopted by the Accounting Standards Board of Canada. These condensed interim consolidated financial statements were prepared in accordance with IAS 34, Interim Financial Reporting.

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

The significant accounting judgments, estimates and assumptions used in these unaudited condensed interim consolidated financial statements are consistent with those disclosed in the most recent audited annual consolidated financial statements for the year ended June 30, 2017.

These condensed interim consolidated financial statements have been prepared on a going concern basis, at historical cost, except for financial assets and liabilities classified as financial assets/liabilities at fair value through profit or loss and measured at fair value.

The same accounting policies and methods of computation are followed in these condensed interim consolidated financial statements as compared with the most recent annual consolidated financial statements. The condensed interim consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements and notes for the year ended June 30, 2017, except for the policies described below:

a) 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. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

b) Goodwill

Goodwill, which represents the excess of purchase price over the fair value of the acquired enterprise's identifiable net assets at the date of acquisition, is recognized at cost and is not amortized.

c) Impairment of non-financial assets

Goodwill is tested for impairment annually as at June 30 and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the cash generating unit ("CGU") to which the goodwill relates. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

d) Finance Lease

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Company is classified as a finance lease.

Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of profit or loss. A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

Basis of consolidation

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

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

New accounting standards issued but not yet in effect

The following standards and amendments to existing standards have been published, and their adoption is mandatory for future accounting periods.

IFRS 9 & IFRS 7, Financial Instruments and Disclosures

In November 2009 and October 2010, the IASB issued the first phase of IFRS 9. In November 2013, the IASB issued a new general hedge accounting standard, which forms part of IFRS 9. The final version of IFRS 9 was issued in July 2014 and includes a third measurement category for financial assets (fair value through other comprehensive income) and a single, forward-looking "expected loss" impairment model.

IFRS 9 replaces the current multiple classification and measurement models for financial assets and financial liabilities with a single model that has three classification categories: amortized cost, fair value through other comprehensive income and fair value through profit and loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset or financial liability. It also introduces limited changes relating to financial liabilities and aligns hedge accounting more closely with risk management.

IFRS 7 was amended to require additional disclosures on transition from IAS 39 to IFRS 9. It will be effective on adoption of IFRS 9.

The new standard is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

IFRS 15, Revenue from Contracts with Customers

The IASB has issued IFRS 15, which will replace IAS 11, Construction Contracts, and IAS 18, Revenue. The mandatory effective date of IFRS 15 is for annual periods beginning on or after January 1, 2018. The objective of IFRS 15 is to establish a single, principle-based model to be applied to all contracts with customers in determining how and when revenue is recognized. IFRS 15 also requires entities to provide additional disclosures. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

IFRS 16, Leases

In January 2016, the IASB issued IFRS 16, Leases, which specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. The standard will be mandatory for annual periods beginning on or after January 1, 2019. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

3. REVERSE TAKEOVER RELATED TRANSACTIONS

On August 29, 2017, the Company completed the three-cornered amalgamation involving Graniz Mondal Inc. ("Graniz"), the Company and 9363-0770 Québec Inc. which constituted a reverse takeover of Graniz by the Company under the policies of the TSX Venture Exchange (the "Transaction").

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

Graniz and the Company completed the Amalgamation Agreement pursuant to which Graniz acquired all the issued and outstanding common shares of the Company. Pursuant to the terms and conditions of the Amalgamation Agreement, under which it issued 56,210,252 common shares to the Company's shareholders, reflecting an exchange ratio of 1:1 (on a post consolidation basis), at a deemed price of $0.45 per share and thereafter continued the Company's commercial and engineering activities as NanoXplore Inc. The capital structure of NanoXplore Inc. has been unchanged from Graniz's current capital structure, other than for the issuance of the shares contemplated by the Transaction. This transaction resulted in a reverse takeover of Graniz by the Company, whereby the Company has been deemed to have acquired control of Graniz through the deemed issuance of 1,412,939 common shares (on a post consolidation basis) to Graniz's shareholders.

Prior to the closing of the Transaction, Graniz completed the consolidation of its common shares on the basis of one Graniz Post-Consolidation Share for every 15 Graniz common shares outstanding. Graniz's outstanding options have been replaced by 141,293 post consolidation new options of NanoXplore Inc. at an exercise price of $0.45 per share.

Prior to the closing of the Transaction, the Company completed the conversion of its common shares on the basis of one to 40.0667 common shares outstanding. Related adjustments have been brought to the Company's outstanding options.

The Transaction constitutes a reverse takeover of Graniz but does not meet the definition of a business combination under IFRS 3, Business Combinations. Accordingly, the Company has accounted for the reverse takeover transaction in accordance with IFRS 2, Share-based Payment.

As part of the Transaction, NanoXplore Inc. also issued 755,556 common shares to former insiders of Graniz as settlement for debts and NanoXplore Inc. disposed of its option to acquire a 75% interest in the Mousseau West property, in exchange for which it was granted a release for money owed in connection thereof.

NanoXplore Inc. also issued an aggregate of 115,556 common shares to certain advisors and 466,667 options to Graniz and NanoXplore Inc.'s advisors pursuant to finder's fee agreements and following the receipt of shareholders' approval at the annual and special shareholders meeting of Graniz held on August 11, 2017.

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

[EXPRESSED IN CANADIAN DOLLARS]

	$
Consideration paid	
1,412,939 common shares deemed issued to the Company's existing shareholders	635,823
755,556 common shares issued for settlement of the due to related parties	340,000
141,293 options for common share deemed issued to the Company's existing optionholders (1)	13,409
	989,232
Transaction costs	
115,556 common shares issued for finder fees agreement	52,000
400,000 options issued to NanoXplore's advisors (1)	64,231
66,667 options issued to Graniz's advisors (1)	10,705
Transaction costs paid in cash (2)	325,759
	452,695
Total paid	**1,441,927**
Net liabilities assumed	
<u>Assets acquired</u>	
Cash	19,913
Accounts receivable	5,433
Property, plan and equipment	666,314
	691,660
<u>Liabilities acquired</u>	
Accounts payable	117,231
Advance to shareholders	319,500
Long term debt	165,000
	601,731
Net assets of the Company as at August 29, 2017	**89,929**
Forgiveness of the liabilities related to the option on the Mousseau West property	203,634
Settlement of due to related parties by issuance of shares	340,000
Less: Return of the option on the Mousseau West property	(664,268)
Company's net liabilities as at August 29, 2017	(30,705)
Listing expenses	**1,472,632**
Listing expenses	
Incurred in the period ended December 31, 2017	**1,443,860**
Incurred in the quarter ended June 30, 2017	**28,772**

(1) Refer to Note 9c for the valuation of the options
(2) The whole amount is paid as at December 31, 2017

4. ACQUISITION OF CEBO INJECTIONS SA

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

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

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

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

This transaction qualifies as a business combination and was accounted for using the acquisition method of accounting. To account for the transaction, the Company has performed a preliminary business valuation of CEBO at the date of acquisition and a preliminary purchase price allocation. At the time of issuance of these financial statements, although a significant portion of this work has been performed, 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.

	$
Net identifiable assets acquired:	
Cash	729,293
Accounts receivable	2,077,912
Other receivables	190,788
Inventory	1,348,431
Prepaid	150,563
Equipment *[Note 6]*	1,182,318
	5,679,305
Accounts payable	(627,986)
Accrued liabilities	(279,059)
Deferred revenues	(101,304)
Income tax payable	(265,404)
Obligations under finance lease	(867,295)
Operating loan	(1,291,020)
Deferred tax liabilities	(118,536)
	(3,550,604)
Total identifiable net assets	2,128,701
Preliminary goodwill arising on acquisition *	784,577
Total consideration	**2,913,278**
The cash outflow on acquisition is as follows:	
Consideration paid in cash	1,936,530
Minus: Cash acquired	(729,293)
Net cash flow for the acquisition	1,207,237

[EXPRESSED IN CANADIAN DOLLARS]

* As of December 31, 2017, the preliminary goodwill was translated at the closing rate of the period for an amount of $781,211.

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

The assets and liabilities of CEBO are included in the consolidated statement of financial position as at December 31, 2017 and the operating results are reflected in its consolidated statement of operations since November 23, 2017. Between the acquisition date and the six-month period ended December 31, 2017, revenues of $765,716 and net loss of $296,645 have been recognized in the consolidated statement of Loss and Comprehensive loss. If the combination had taken place at the beginning of fiscal year 2018, CEBO revenue would have been $3,948,677 and the net profit would have been $187,233.

5. GOVERNMENT ASSISTANCE

SDTC

In September 1st, 2017, the Company entered into a contribution agreement with Sustainable Development Technology Canada ("SDTC"). Upon meeting certain conditions, SDTC agreed to financially assist the Company in the project called "Reducing the Footprint of Electric-Motor-Driven Systems by using Graphene-Enhanced Engineering Plastics", which qualifies for support under the federal government's program and is also accounted for as government assistance. Under the terms and conditions of the agreement, SDTC will reimburse 33% of eligible project cost for a maximum of $3,250,000 for the period from September 1st, 2017 to April 30, 2021.

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

	As at December 31, 2017 $	As at June 30, 2017 $
Amount received	**619,997**	–
Deferred grant	**547,146**	–
Amount recognized as other income	**72,851**	–

SR&ED

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

Other

As part of another program, the Company also recognized and received during the period a contribution totaling $30,469 [2017 – $9,000].

[EXPRESSED IN CANADIAN DOLLARS]

6. PROPERTY, PLANT AND EQUIPMENT

	Land & Building $	Production equipment $	Leasehold improvements $	Laboratory, computer, office equipment and rolling stock $	Total $
Balance as at July 1, 2016	1,550,338	1,364,232	38,333	146,613	3,099,516
Additions	–	541,452	12,189	40,483	594,124
Depreciation	(60,138)	(185,695)	(9,479)	(55,144)	(310,456)
Balance as at June 30, 2017	1,490,200	1,719,989	41,043	131,952	3,383,184
Additions	**–**	**297,520**	**2,192**	**108,032**	**407,744**
Acquired in a business combination	**–**	**1,035,708**	**–**	**146,610**	**1,182,318**
Disposal	**–**	**–**	**–**	**(436)**	**(436)**
Depreciation	**(30,070)**	**(156,475)**	**(6,771)**	**(35,979)**	**(229,295)**
Effect of foreign exchange differences	**–**	**2,443**	**–**	**346**	**2,789**
Balance as at December 31, 2017	**1,460,130**	**2,899,185**	**36,464**	**350,525**	**4,746,304**
As at December 31, 2017					
Cost	**1,555,375**	**3,286,888**	**85,736**	**494,565**	**5,422,564**
Accumulated depreciation	**(95,245)**	**(387,703)**	**(49,272)**	**(144,040)**	**(676,260)**
Net book value	**1,460,130**	**2,899,185**	**36,464**	**350,525**	**4,746,304**
As at June 30, 2017					
Cost	1,555,375	1,951,217	83,544	242,208	3,832,344
Accumulated depreciation	(65,175)	(231,228)	(42,501)	(110,256)	(449,160)
Net book value	1,490,200	1,719,989	41,043	131,952	3,383,184

The majority of property, plant and equipment is pledged as security for the operating loan and long-term debt (Note 7 and Note 8).

The carrying value of production equipment and of rolling stock held under finance leases as at December 31, 2017 were respectively $883,642 and $140,542 [June 30, 2017 – nil] and were acquired in totality during the year as part of the acquisition of Cebo Injections SA (note 4). Leased assets are pledged as security for the related finance lease.

7. OPERATING LOAN

Two wholly-owned subsidiaries of the Company, 9334-7474 Québec Inc. and Industries Rada (together "Group Rada"), signed a credit facility agreement with the Toronto-Dominion Bank which authorized Group Rada to a maximum operating loan of $350,000, subject to a borrowing base calculation, which is primarily based on eligible accounts receivable and inventory balances. The credit facility has been amended on September 14, 2016 and renewed on March 30, 2017. The operating loan bears interest at Canadian prime rate plus 1.50%. A first rank movable hypothec of $2,000,000 on the universality of the Group Rada's all present and future, tangible and intangible assets has been given as security except for the equipment and rolling stock which is a 2nd rank hypothec behind Investissement Québec for a prior lien of $1,000,000. The operating loan is subject to financial and non-financial covenants. As at December 31, 2017, all applicable covenants are respected.

The wholly-owned subsidiary of the Company, CEBO Injections SA, signed a credit facility agreement with the BCV Bank which authorized the Company to a maximum operating loan of CHF 1,000,000 [$1,285,480]. The credit facility was signed on September 20, 2017 and renewed on December 29, 2017 for a one-year period. The operating loan bears interest at 4%. A general assignment of debtors has been given as security. The operating loan is subject to financial and non-financial covenants. As at December 31, 2017, all applicable covenants are respected.

8. LONG-TERM DEBT

	As at December 31, 2017 $	As at June 30, 2017 $
Term loan between NanoXplore Switzerland Holding and Export Development Canada ("EDC"), bearing interest at Libor CHF rate plus 6.5%, payable in quarterly principal installments of CHF 67,647 [$86,959] beginning in November 2018 and maturing in November 2022. The debt is net of financing fees of $31,918. NanoXplore Inc., Rada Industries Ltd and CEBO Injections SA are collectively guarantors of the loan. The loan is subject to certain financial and non-financial covenants.	**1,446,917**	–
Reducing mortgage term loan between Group Rada and the Toronto-Dominion Bank, bearing interest at 3.36% per annum (rate renewable in June 2018), maturing in June 2022 and payable in monthly instalments of $7,132 (principal and interest). A first rank immovable hypothec on 181, rue Brossard, Delson, Québec of the principal amount of $1,600,000 and a first rank movable hypothec of $2,000,000 on the universality of all of Group Rada's present and future, tangible and intangible assets have been given as security except for the equipment and rolling stock which is a 2nd rank hypothec behind Investissement Québec for a prior lien of $1,000,000.	**1,180,262**	1,203,154
Term loan between 9334-7474 Québec Inc. and Investissement Québec, bearing interest at Canadian prime rate plus 3.14% (rate renewable in June 2018), payable in monthly principal installments of $8,335 maturing in December 2026. A principal movable hypothec of $1,000,000 and an additional movable hypothec of $200,000 on the universality of all of Group Rada's present and future, tangible and intangible assets have been given.	**908,315**	949,990
Obligations under finance lease denominated in CHF, bearing interest at an average weighted effective rate of 2.6%	**830,131**	–
Installment sale obligation between Rada Industries Ltd. and Royal Bank of Canada, bearing interest at 1.99% per annum, payable in monthly installments of $570 (principal and interest) maturing in November 2018.	**6,218**	9,561
	4,371,843	2,162,705
Less: current portion of long-term debt	**573,397**	2,159,865
	3,798,446	2,840

The minimum payments in respect of the obligations under finance leases included interest will amount to $165,832 on these obligations for the year ended June 30, 2018 [June 20, 2017 – nil]. Repayments of the obligation in the upcoming fiscal years ending on June 30 will be as follows:

	$
Within 1 year	192,356
1 to 5 years	662,753
Total	**855,109**

[EXPRESSED IN CANADIAN DOLLARS]

9. EQUITY

a) SHARE CAPITAL

Authorized and issued

An unlimited number of Class A common shares, without value, which confer to each shareholder the right to vote at any shareholder meeting, receive dividends declared by the Company thereon and share the residual property upon dissolution of the Company.

Issued and outstanding shares are detailed as follows:

	Number of shares	$
Balance as at July 1, 2016 (1)	51,105,519	3,414,725
Issuance of shares as part of private placement (1)	2,788,840	1,249,022
Conversion of convertible debentures into shares (1)	2,315,893	1,042,132
Balance as at June 30, 2017 (1)	56,210,252	5,705,879
Issuance of share as part of Graniz's reverse takeover *[Note 3]*	**1,412,939**	**635,823**
Conversion of debt into shares as part of Graniz's reverse takeover *[Note 3]*	**755,556**	**340,000**
Stock options converted into shares	**694,981**	**172,820**
Issuance of share to advisors pursuant to finder's fee agreements *[Note 3]*	**115,556**	**52,000**
Issuance of shares as part of private placement	**21,549,072**	**8,063,147**
Exercise of stock options	**50,000**	**32,596**
Exercise of warrants and broker warrants	**800,075**	**482,403**
Balance as at December 31, 2017	**81,588,431**	**15,484,668**

(1) Shares were converted to a ratio of 40.0667 pursuant to the reverse takeover transaction discussed in note 3.

On August 2, 2017, the Company completed a brokered private placement financing of subscription receipts ("Subscription Receipts") sold at a price of $0.45 per Subscription Receipt for gross proceeds of $9,697,082. At the closing of the Transaction, each Subscription Receipt was converted into one unit which consist of one common share of the Company and one half of one common share purchase warrant of the Company. As consideration for the services of the broker agent rendered in connection with the private placement, the Company has agreed to pay the broker an aggregate cash fee equal to 7% of the gross proceeds of the private placement and to issue a number of broker warrants (the "Broker Warrants") equal to 7% of the number of Subscription Receipts issued pursuant to the private placement, except in respect of sales to certain purchasers identified by the Company representing $1 million (the "President's List Subscribers") for which the Company agreed to pay a cash fee equal to 3.5% of the gross proceeds in respect of Subscription Receipts subscribed for by President's List Subscribers and to issue that number of Broker Warrants equal to 3.5% of the Subscription Receipts issued to President's List Subscribers.

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

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

[EXPRESSED IN CANADIAN DOLLARS]

b) Warrants and broker warrants

The following table summarizes the changes in the number of warrants outstanding during the six-month period ended December 31, 2017:

	Number of warrants and broker warrants	Exercise price ($)
Balance as at June 30, 2017	–	–
Warrants issued as part of private placement *[Note 9a]*	**10,774,536**	**0.70**
Warrants issued as "Broker Warrants" *[Note 9a]*	**1,430,657**	**0.45**
Exercise of warrants	**(100,075)**	**0.70**
Exercise of broker warrants	**(700,000)**	**0.45**
Balance as at December 31, 2017	**11,405,118**	**0.67**

Each warrant issued from the subscription receipt conversion entitles the holder to acquire an additional Company common share at a price of $0.70 for a period of 24 months from August 2, 2017.

Each Broker Warrant is exercisable to purchase one common share of the Company (a "Broker Warrant Share") at a price of $0.45 per Broker Warrant Share at any time in whole or from time to time in part for a period of 24 months following the closing of the Transaction, on August 29, 2017. The Broker Warrants shall be exercisable following the satisfaction of the Release Conditions.

During the six months ended December 31, 2017, 100,075 warrants were exercised resulting in cash proceeds of $70,052 and a transfer from contributed surplus to share capital of $6,633. The weighted average share price on the date of exercise of the warrants during the six months ended December 31, 2017 was $1.61.

During the six months ended December 31, 2017, 700,000 broker warrants were exercised resulting in cash proceeds of $315,000 and a transfer from contributed surplus to share capital of $90,718. The weighted average share price on the date of exercise of the warrants during the six months ended December 31, 2017 was $1.76.

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

	Volatility	Risk-free interest rate	Expected life (months)	Weighted average fair value ($)
Warrants issued as part of private placement	**50.5%**	**1.25%**	**24**	**0.07**
Broker Warrants	**50.5%**	**1.25%**	**24**	**0.13**

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

c) Stock option

Following the transaction described in note 3, the Company will continue under the stock option plan previously established under Graniz Mondal Inc. The incentive stock option plan allows the Company to grant to employees, directors, officers and consultants options to purchase shares of the Company. The plan is a rolling plan, as the number of shares reserved for issuance pursuant to the grant of stock options will increase as the Company's issued and outstanding share capital increases. The plan provides for the issuance of stock options to acquire up to 10% of the Company's issued and outstanding capital. The terms and conditions of each option granted under the plan, including the vesting schedule and the expiry date, will be determined by the Board of Directors. The exercise price for any stock option shall be determined by the Board of Directors and shall not be lower than the market price of the underlying common shares at the time of grant.

[EXPRESSED IN CANADIAN DOLLARS]

The following table reflects the continuity of options for the six-month period ended December 31, 2017:

	Number of option	Weighted average Exercise price ($)
Balance as at June 30, 2017[(1)]	**1,255,914**	**0.45**
Options converted into shares *[Note 3]*	**(694,981)**	**0.45**
Options granted in replacement of Graniz's old option *[Note 3]*	**141,293**	**0.45**
Options granted to advisors pursant to finder's fee agreements *[Note 3]*	**466,667**	**0.45**
Options granted to officers and employees	**770,000**	**0.60**
Options exercised	**(50,000)**	**0.45**
Options forfeited	**(120,200)**	**0.45**
Balance as at December 31, 2017	**1,768,693**	**0.51**
Options exercisable as at December 31, 2017	**1,161,871**	**0.45**

(1) Options were converted to a ratio of 40.0667 pursuant to the reverse takeover transaction discussed in note 3.

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

On August 29, in connection with the reverse takeover transactions, 141,293 options were granted in replacement of Graniz's old options and 466,667 were granted to advisors pursuant to finder's fee agreements (Note 3).

On August 29 and 30 and September 7, 2017, 670,000 options were granted, of which 200,000 to an officer and 470,000 to employees of the Company. These options have an exercise price of $0.45 with a vesting period of two years (one third upon grant, one third one year after grant and the last third two years after grant) and expiration date of 5 years from the grant date.

On December 12, 2017, 100,000 options were granted to an employee of the Company. These options have an exercise price of $1.60 with a vesting period of two years (one third upon grant, one third one year after grant and the last third two years after grant) and expiration date of 5 years from the grant date.

During the six months ended December 31, 2017, 50,000 options were exercised resulting in cash proceeds of $22,500 and a transfer from contributed surplus to share capital of $10,096. The weighted average share price on the date of exercise of the options during the six months ended December 31, 2017 was $1.71.

The fair value of the options granted was estimated using Black-Scholes model. The weighted average inputs into the model and the resulting grant date fair values during the six months ended December 31, 2017 was as follows:

	Volatility	Risk-free interest rate	Expected life (months)	Weighted average grant date fair value ($)
Options granted in replacement of Graniz's old option	**52.3%**	**1.15%**	**12**	**0.10**
Options granted to advisors pursant to finder's fee agreements	**51.4%**	**1.32%**	**36**	**0.16**
Options granted to officers and employees	**52.4%**	**1.61%**	**60**	**0.28**

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

[EXPRESSED IN CANADIAN DOLLARS]

10. LOSS PER SHARE

	Three-month periods ended December 31		Six-month periods ended December 31	
	2017	**2016**	**2017**	**2016**
	$	**$**	**$**	**$**
Numerator				
Loss attributable to common shares	**(1,020,915)**	(373,784)	**(3,384,153)**	(919,511)
Denominator				
Weighted average number of common shares for basic LPS	**81,161,275**	54,767,610	**72,951,521**	52,936,563
Loss per share ("LPS")				
Basic and diluted	**0.01**	0.01	**0.05**	0.02

In light of the net loss recognized for the three-month and six-month periods ended December 31, 2017 and 2016, all 1,768,693 outstanding stock options and 11,405,118 warrants and Broker Warrants, respectively, were excluded from the calculation of diluted loss per share due to their anti-dilutive effect.

The Company has considered the Transaction and in particular the 40.0667:1 split of the Company's common shares described in Note 3 in the calculation of the weighted average number of shares for the six-month period ended December 31, 2016.

11. INCOME TAXES

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

The Company also recognized a deferred liability resulting of the business combination (refer to Note 4).

12. RELATED PARTY TRANSACTIONS

In addition to compensation earned by key management during the six-month period ended December 31, 2017, the following are related party transactions that have occurred with Mason Graphite Inc., a shareholder of the Company with significant influence:

- Mason Graphite Inc. participated in the private placement (Note 9a) for $1,000,000
- Royalties of $25,000
- Laboratory services of $47,250
- Purchased raw materials from Mason Graphite Inc. of $5,664

As at December 31, 2017, the balance receivable from the related parties amounted to $87,658 [June 30, 2017 – $8,333] and is included in accounts receivable. Also, the balance payable to the related parties amounted to $6,512 [June 30, 2017 – nil] and is included in payable. The amounts outstanding are non-interest-bearing, unsecured and receivable on demand.

[EXPRESSED IN CANADIAN DOLLARS]

13. SEGMENTED DISCLOSURE

Our Chief Operating Decision Maker analyses the information for the Company as a whole on a consolidated basis only and as such, the Company determined it has only one operating segment. Revenues are generated from our activities in Canada and in Switzerland and all sales of products come from enhanced plastics solutions products.

Substantially, our long-lived assets are physically in Canada and in Switzerland as at December 31, 2017.

	Three-month periods ended December 31		Six-month periods ended December 31	
	2017	**2016**	**2017**	**2016**
	$	**$**	**$**	**$**
Revenues *				
Canada	**1,187,055**	1,042,060	**1,800,710**	1,773,875
France	**391,322**	–	**391,322**	–
Switzerland	**161,879**	–	**161,879**	–
Other	**66,764**	–	**66,764**	–
Total	**1,807,020**	1,042,060	**2,420,675**	1,773,875

	As at December 31	As at June 30
	2017	**2017**
	$	**$**
Long-lived Assets		
Canada	**3,596,442**	3,383,184
Switzerland	**1,931,073**	–
Total	**5,527,515**	3,383,184

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