NanoXplore

Performance Through Carbon Chemistry

UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the three-month and nine-month periods ended March 31, 2019 and 2018

Nano X Plore
Performance Through Carbon Chemistry

Consolidated Statement of Financial Position

(Unaudited - Expressed in Canadian dollars)	As at March 31, 2019 $	As at June 30, 2018 $
Assets		
Current assets		
Cash	**29,174,918**	15,268,666
Accounts receivable	**13,186,896**	2,895,012
Inventory	**7,911,549**	1,542,863
Prepaid expenses	**628,427**	327,315
Lease deposit	**—**	751
	50,901,790	20,034,607
Non-current assets		
Lease deposit	**91,344**	25,850
Equipment deposit	**131,625**	—
Deferred taxes assets	**630,000**	—
Right-of-use assets	**5,203,342**	—
Property, plant and equipment	**23,983,676**	6,488,020
Intangible assets	**881,880**	338,260
Goodwill *[Note 4a]*	**7,489,543**	—
Total assets	**89,313,200**	26,886,737
Liabilities and shareholders' equity		
Current liabilities		
Credit facilities *[Note 5]*	**4,703,753**	1,328,400
Accounts payable and accrued liabilities	**12,545,995**	2,735,006
Income taxes payable	**220,486**	218,455
Deferred grant	**347,120**	164,940
Contract liability	**606,460**	145,012
Long-term debt due within one year *[Note 5]*	**3,293,391**	795,917
	21,717,205	5,387,730
Non-current liabilities		
Non-current portion of balance of purchase price *[Note 4b]*	**—**	490,180
Defined benefit liabilities	**774,301**	782,290
Long-term debt *[Note 5]*	**16,650,190**	3,772,053
Convertible debentures - Loan *[Note 6]*	**7,576,305**	—
Deferred taxes liabilities	**505,963**	696,497
Total liabilities	**47,223,964**	11,128,750
Equity		
Share capital	**52,821,935**	23,502,555
Reserve	**3,477,326**	2,871,633
Convertible debentures - Options *[Note 6]*	**2,240,000**	—
Foreign currency translation reserve	**19,831**	13,490
Deficit	**(16,469,856)**	(10,629,691)
Total equity	**42,089,236**	15,757,987
Total equity and liabilities	**89,313,200**	26,886,737

See accompanying notes to condensed interim consolidated financial statements

Note 1 – Nature of operations and liquidity risk

Approved on behalf of the Board of Directors

Soroush Nazarpour
Soroush Nazarpour

Benoit Gascon
Benoit Gascon

Performance Through Carbon Chemistry

Consolidated Statement of Loss and Comprehensive loss

(Unaudited - Expressed in Canadian dollars)	Three-month periods ended March 31 2019 $	2018 $	Nine-month periods ended March 31 2019 $	2018 $
Revenues	**20,720,455**	2,985,281	**46,775,190**	5,405,956
Expenses				
Cost of sales	**17,202,828**	2,144,469	**38,440,589**	3,940,712
Research and development costs	**669,883**	531,919	**1,914,933**	921,933
Selling, general and administrative	**4,047,117**	1,067,652	**8,393,360**	2,731,613
Share-based compensation	**420,601**	44,177	**673,019**	197,996
Depreciation (production)	**569,453**	191,272	**1,439,196**	336,478
Depreciation (other)	**204,835**	28,131	**474,937**	112,220
Amortization	**63,580**	—	**140,581**	—
Foreign exchange	**(31,207)**	56,136	**309,168**	46,576
	23,147,090	4,063,756	**51,785,783**	8,287,528
Operating loss	**(2,426,635)**	(1,078,475)	**(5,010,593)**	(2,881,572)
Listing expenses *[Note 3]*	**—**	—	**—**	(1,443,860)
Interest on long-term debt	**(590,987)**	(79,697)	**(1,060,706)**	(143,304)
Interest revenue	**106,648**	21,262	**170,716**	43,244
Share of loss of a joint venture	**—**	(1,201)	**—**	(3,392)
Loss before income taxes	**(2,910,974)**	(1,138,111)	**(5,900,583)**	(4,428,884)
Current income taxes recovery	**—**	8,105	**—**	38,245
Deferred income taxes recovery (expense)	**174,125**	(7,509)	**14,316**	(131,029)
	174,125	596	**14,316**	(92,784)
Loss for the period	**(2,736,849)**	(1,137,515)	**(5,886,267)**	(4,521,668)
Other comprehensive loss				
Items that may be subsequently reclassified to profit and loss:				
Exchange differences on translation of foreign subsidiaries	**266**	20,717	**6,341**	22,209
Items that will not be reclassified to profit and loss:				
Retirement benefits – Net actuarial gains	**142,355**	—	**46,102**	—
Total comprehensive loss	**(2,594,228)**	(1,116,798)	**(5,833,824)**	(4,499,459)
Loss per share				
Basic and diluted	**(0.03)**	(0.01)	**(0.06)**	(0.06)
Weighted average number of common shares outstanding (basic and diluted)	**108,776,306**	81,728,952	**97,088,710**	75,974,925

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

See accompanying notes to condensed interim consolidated financial statements

Consolidated Statement of Changes in Shareholders' Equity

(Unaudited - Expressed in Canadian dollars)	Number of common shares	Common shares $	Reserve $	Convertible debentures - Options $	Foreign currency translation reserve $	Deficit $	Total equity $
Balance as at June 30, 2017	56,210,252	5,705,879	223,352	—	—	(4,637,590)	1,291,641
Loss for the period	—	—	—	—	—	(4,521,668)	(4,521,668)
Other comprehensive loss	—	—	—	—	22,209	—	22,209
Comprehensive loss for the period	—	—	—		22,209	(4,521,668)	(4,499,459)
Private placement (net of issuing costs of $919,701)	21,549,072	8,063,147	—	—	—	—	8,063,147
Private placement (net of issuing costs of $871,914)	6,060,700	7,464,417	—	—	—	—	7,464,417
Issuance of shares related to Graniz reverse takeover	2,284,051	1,027,823	—	—	—	—	1,027,823
Issuance of warrants and Broker Warrants	—	—	2,658,955	—	—	—	2,658,955
Issuance of stock options	—	—	88,345	—	—	—	88,345
Stock options converted into shares	694,981	172,820	(172,820)	—	—	—	—
Exercise of stock options	512,581	316,272	(85,611)	—	—	—	230,661
Exercise of warrants and Broker Warrants	939,002	588,862	(106,561)	—	—	—	482,301
Share-based compensation	—	—	197,996	—	—	—	197,996
Balance as at March 31, 2018	88,250,639	23,339,220	2,803,656	—	22,209	(9,159,258)	17,005,827
Loss for the period	—	—	—	—	—	(1,602,245)	(1,602,245)
Other comprehensive loss	—	—	—	—	(8,719)	131,812	123,093
Comprehensive loss for the period	—	—	—	—	(8,719)	(1,470,433)	(1,479,152)
Issuance of warrants and Broker Warrants	—	—	—	—	—	—	—
Exercise of stock options	275,646	163,335	(39,294)	—	—	—	124,041
Exercise of warrants and Broker Warrants	—	—	—	—	—	—	—
Share-based compensation	—	—	107,271	—	—	—	107,271
Balance as at June 30, 2018	88,526,285	23,502,555	2,871,633	—	13,490	(10,629,691)	15,757,987
Loss for the period	**—**	**—**	**—**	**—**	**—**	**(5,886,267)**	**(5,886,267)**
Other comprehensive loss	**—**	**—**	**—**	**—**	**6,341**	**46,102**	**52,443**
Comprehensive loss for the period	**—**	**—**	**—**	**—**	**6,341**	**(5,840,165)**	**(5,833,824)**
Issuance of shares related to Sigma acquisition *[Note 4a]*	**5,091,707**	**8,197,648**	**—**	**—**	**—**	**—**	**8,197,648**
Private placement (net of issuing costs of $621,240) *[Note 6a]*	**16,144,800**	**20,367,000**	**—**	**2,240,000**	**—**	**—**	**22,607,000**
Exercise of stock options	**13,333**	**8,801**	**(2,798)**	**—**	**—**	**—**	**6,003**
Exercise of warrants and Broker Warrants	**973,434**	**745,931**	**(64,528)**	**—**	**—**	**—**	**681,403**
Share-based compensation	**—**	**—**	**673,019**	**—**	**—**	**—**	**673,019**
Balance as at March 31, 2019	**110,749,559**	**52,821,935**	**3,477,326**	**2,240,000**	**19,831**	**(16,469,856)**	**42,089,236**

See accompanying notes to condensed interim consolidated financial statements

Nano X Plore
Performance Through Carbon Chemistry

Consolidated Statement of Cash Flow

(Unaudited - Expressed in Canadian dollars)	Nine-month periods ended March 31 2019 $	2018 $
Cash flow from operating activities		
Loss for the period	**(5,886,267)**	(4,521,668)
Items not affecting cash:		
Listing expenses paid by issuance of equity	**—**	1,126,798
Depreciation and amortization	**2,054,714**	448,698
Share-based compensation	**673,019**	197,996
Share of loss of a joint venture	**—**	3,392
Interest accretion on lease liability and convertible debentures	**223,665**	—
Other financial expenses	**(60,259)**	11,951
Deferred income taxes expense (recovery)	**(14,316)**	131,029
Difference between amounts paid for employee benefits and current year cost	**30,970**	—
Net change in fair value of foreign exchange derivatives	**479,305**	—
Unrealized foreign exchange	**12,536**	90,396
Changes in non-cash operating working capital items:		
Accounts receivable	**222,969**	(254,341)
Inventory	**(363,163)**	(108,085)
Prepaid expenses	**43,012**	(138,139)
Accounts payable and accrued liabilities	**1,177,955**	266,413
Deferred grant	**182,180**	334,192
Contract liability	**(2,319,846)**	40,595
Cash used in operating activities	**(3,543,526)**	(2,370,773)
Cash flows from financing activities		
Private placements *[Note 6a]*	**20,988,240**	19,697,237
Issuance of convertible debenture	**10,000,000**	—
Issuing costs	**(917,234)**	(1,510,718)
Exercise of stock options, warrants and Broker Warrants	**687,406**	712,962
Variation of credit facilities	**(300,000)**	(85,000)
Repayment of lease liability	**(917,312)**	(151,525)
Issuance of long-term debt	**2,006,763**	1,446,917
Repayment of long-term debt	**(846,501)**	(106,305)
Cash from (used in) financing activities	**30,701,362**	20,003,568
Cash flows from investing activities		
Lease deposit	**(65,494)**	—
Equipment deposit	**1,543,319**	—
Business acquisition, net of cash acquired *[Note 4a]*	**(7,300,496)**	(1,207,237)
Repayment of balance of purchase price *[Note 4b]*	**(536,300)**	—
Additions of property, plant and equipment	**(6,900,739)**	(504,944)
Cash used in investing activities	**(13,259,710)**	(1,712,181)
Change in cash	**13,898,126**	15,920,614
Net effect of currency exchange rate on cash	**8,126**	—
Cash, beginning of period	**15,268,666**	421,214
Cash, end of period	**29,174,918**	16,341,828
Interest paid	**269,447**	74,500

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

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

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

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

On April 9, 2019, Rada Industries changed its name to 9396-2173 Québec Inc.

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 beyond 12 months is dependent on the generation of sufficient cash flows from operations. With the private placement financing of $30,988,240 closed on January 11, 2019, the Company's financial condition strengthened and is allowing the Company to invest in capital expenditures in order to expand the existing graphene production plant by adding new production lines and by purchasing equipment. The private placement financing will also be used to increase working capital and for general corporate purposes. Following these significant capital investments, and considering the recent acquisition of Sigma, the Company expects to have sufficient cash flows to continue its planned development activities.

The unaudited condensed interim consolidated financial statements of NanoXplore for the three-month and nine-month periods ended March 31, 2019 and 2018 were reviewed, approved and authorized for issue by the Company's Board of Directors on May 24, 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The unaudited condensed interim consolidated financial statements of the Company and its subsidiaries for the three-month and nine-month periods ended March 31, 2019 and 2018 have been prepared in accordance with International Financial Reporting Standards ["IFRS"], as issued by the International Accounting Standards Board ["IASB"] and as adopted by the Accounting Standards Board of Canada. These condensed interim consolidated financial statements were prepared in accordance with IAS 34, Interim Financial Reporting.

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

The significant accounting judgments, estimates and assumptions used in these unaudited condensed interim consolidated financial statements are consistent with those disclosed in the most recent audited annual consolidated financial statements for the year ended June 30, 2018.

These condensed interim consolidated financial statements have been prepared on a going concern basis, at historical cost, except for financial assets and liabilities classified as financial assets/liabilities at fair value through profit or loss and measured at fair value. Management considers that the fair value of financial assets and liabilities recorded in the financial statements approximates the carrying amount.

[EXPRESSED IN CANADIAN DOLLARS]

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, based in Switzerland. Their functional currency is Swiss Franc ("CHF").

On September 21, 2018, the Company acquired all of the issued and outstanding shares of Sigma. Their functional currency is Canadian dollars ("CAD").

Standards, interpretations and amendments to published standards adopted with an effect on the unaudited interim condensed consolidated financial statements

The same accounting policies and methods of computation are followed in these condensed interim consolidated financial statements as compared with the most recent annual consolidated financial statements. The condensed interim consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements and notes for the year ended June 30, 2018, except for the amendments to certain accounting standards which are relevant to the Company and were adopted by the Company as of July 1, 2018 as described below:

Property, plant and equipment

Property, plant and equipment are recorded at cost and depreciated using the straight-line method over their estimated useful lives, taking into account any residual values. Their useful lives are as follows:

Land	Not depreciated
Building	20 to 35 years
Production equipment	2 to 25 years
Laboratory, computer, office equipment and rolling stock	2 to 10 years
Leasehold improvements	Lease term

Intangible assets

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:

Patents	Straight-line	7 and 10 years
Customer relationships	Sum of years' digits	15 years
Technologies	Sum of years' digits	6 years
Software	Straight-line	5 and 10 years

The trademark is an intangible asset with an indefinite useful life and is not amortized.

IFRS 9, Financial Instruments – Recognition and Measurement

a) Adoption of IFRS 9

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

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

b) Derivative financial instruments

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. Management considers that the fair value of financial assets and liabilities recorded in the financial statements approximates the carrying amount.

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

As at March 31, 2019, the Company held options for a minimum of US$7.7 million and a maximum of US$17.5 million depending of the exchange rate of such derivatives contracts. Minimum rates vary from 1.2550 to up to 1.3450 and the Company may potentially participate to some depreciation of the Canadian dollar versus the U.S. dollar of approximately 3 cents on average. The contracts are valid until February 2021.The carrying value of the derivative foreign currency forward exchange contracts amounted to $443,922 as at March 31, 2019 and was included in Accounts payable and accrued liabilities [2018 – nil].

IFRS 15, Revenue from Contracts with Customers

IFRS 15 replaces IAS 11, Construction Contracts, and IAS 18, Revenue and related interpretations and represents a new single model for recognition of revenue from contracts with customers. The model features a five-step analysis of transactions to determine the nature of an entity’s obligation to perform and whether, how much, and when revenue is recognized.

The Company adopted IFRS 15 as of July 1, 2018 and the new standard has been applied retrospectively using the modified retrospective approach, where prior periods are not restated and the cumulative effect of initially applying this standard is recognized in the opening retained earnings balance on July 1, 2018. The Company has also availed itself of the following practical expedients:

- the standard was applied retrospectively only to contracts that were not completed on July 1, 2018; and
- for contracts that were modified before July 1, 2018, the Company analyzed the effects of all modifications when identifying whether performance obligations where satisfied, determining the transaction price and allocating the transaction price to the satisfied or unsatisfied performance obligations.

There has been no impact of the adoption of IFRS 15 as at July 1, 2018.

IFRS 16, Leases

NanoXplore has early adopted *IFRS 16 − Leases* on July 1, 2018, which is effective for annual reporting periods beginning on or after January 1, 2019. Previously, the Company classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company and classified operating lease payments as operating costs. Under IFRS 16, a lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. The right-of-use asset is 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 will be recognised on a straight-line basis as expenses in profit or loss. For the remaining lease commitments, the Company has recognized right-of-use assets of $1,341,000 as at July 1, 2018, and $3,630,000, through the nine-month period ended March 31, 2019. The Company does not expect a significant change on the net loss due to the adoption of IFRS 16.

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.

[EXPRESSED IN CANADIAN DOLLARS]

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:

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Consideration paid	
1,412,939 common shares deemed issued to Graniz's existing shareholders	635,823
755,556 common shares issued for settlement of the due to related parties	340,000
141,293 options for common share deemed issued to the Company's existing optionholders	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	64,231
66,667 options issued to Graniz's advisors	10,705
Transaction costs paid in cash	325,759
	452,695
Total consideration paid	**1,441,927**
Net liabilities assumed	
Assets acquired	
Cash	19,913
Accounts receivable	5,433
Property, plant and equipment	666,314
	691,660
Liabilities assumed	
Accounts payable	117,231
Advance to shareholders	319,500
Long term debt	165,000
	601,731
Net assets of Graniz as at August 29, 2017	**89,929**
Forgiveness of the liabilities related to the option on the Mousseau West property	203,634
Settlement of due to related parties by issuance of shares	340,000
Less: Return of the option on the Mousseau West property	(664,268)
Graniz's net liabilities as at August 29, 2017	(30,705)
Listing expenses	**1,472,632**

Listing expenses	
Incurred in the year ended June 30, 2018	**1,443,860**
Incurred in the year ended June 30, 2017	**28,772**

[EXPRESSED IN CANADIAN DOLLARS]

4. BUSINESS COMBINATIONS

a) ACQUISITION OF SIGMA INDUSTRIES INC.

On September 21, 2018, the Company acquired all of the issued and outstanding shares of Sigma for a total amount of $8,793,581 paid by the issuance of 4,579,988 common shares of its share capital to all existing shareholders of Sigma and acquired all the outstanding debentures of Sigma for a total amount of $9,993,500 of which $9,011,000 was paid by cash and $982,500 was paid by the issuance of 511,719 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. To account for the transaction, the Company has performed a preliminary business valuation of Sigma at the date of acquisition and a preliminary purchase price allocation. At the time of issuance of these 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.

[EXPRESSED IN CANADIAN DOLLARS]

	$
Identifiable net assets acquired:	
Cash	1,710,504
Accounts receivable and other receivables	10,495,837
Inventory	5,994,701
Prepaid expenses	342,324
Right-of-use assets	731,083
Deferred taxes assets	859,000
Property, plan and equipment	13,434,235
Intangible assets	654,107
	34,221,791
Credit facilities	3,663,003
Accounts payable and accrued liabilities	8,137,899
Deferred revenue	2,779,946
Lease liability	731,083
Long-term debt	9,190,755
	24,502,686
Total identifiable net assets	9,719,105
Preliminary goodwill arising on acquisition	7,489,543
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 preliminary 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 March 31, 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 period ended March 31, 2019, revenues of $39,184,779 and net income of $581,276 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 $54,288,266 and the net income would have been $912,555 and the Company total revenues and net loss would have been respectively $61,878,677 and $5,379,477 in the consolidated statements of loss and comprehensive loss.

b) ACQUISITION OF CEBO INJECTIONS SA

On November 23, 2017, through its wholly-owned subsidiary NanoXplore Switzerland Holding SA., the Company acquired all of the issued and outstanding shares of CEBO for a total consideration of 2,300,000 CHF [$2,969,300]. CEBO is a Swiss-based injection molding company and 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 francs. The purchase price was agreed to be paid in three installments: (i) CHF 1,500,000 [$1,936,530] at the closing date; (ii) CHF 400,000 [$516,400] 12 months after the closing date; and (iii) CHF 400,000 [$516,400] 24 months after the closing date (exchange rate at the date of the transaction).

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

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

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

	$
Identifiable net assets acquired:	
Cash	729,293
Accounts receivable and other receivables	2,316,948
Inventory	1,267,003
Prepaid expenses	134,148
Equipment	2,799,448
Customer Relationship	365,268
	7,612,108
Accounts payable and accrued liabilities	(970,049)
Deferred revenues	(101,304)
Income tax payable	(265,404)
Obligations under finance lease	(867,295)
Defined benefit obligation	(876,311)
Credit facility	(1,291,020)
Deferred tax liabilities	(327,447)
	(4,698,830)
Total consideration	**2,913,278**
The cash outflow on acquisition is as follows:	
Consideration paid in cash	1,936,530
Minus: Cash acquired	(729,293)
Net cash flow for the acquisition	1,207,237

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

[EXPRESSED IN CANADIAN DOLLARS]

The operating results are reflected in its consolidated statement of loss since November 23, 2017. Between the acquisition date and the year ended June 30, 2018, revenues of $5,216,760 and net loss of $340,321 have been recognized in the consolidated statement of loss and comprehensive loss. If the combination had taken place at the beginning of fiscal year 2018, CEBO revenues would have been $8,320,346 and the net profit would have been $245,837.

5. LONG-TERM DEBT AND CREDIT FACILITIES

	Maturity	Effective interest rate %	As at March 31, 2019 $	As at June 30, 2018 $
Credit facilities, variable rate – Authorized amount of $10,163,730	**2018 to 2019**	**4% to 5.45%**	**4,703,753**	1,328,400
Long-term debt				
Term loan, fixed and variables rates	**2019 to 2026**	**4% to 10%**	**13,827,811**	3,514,719
Lease liability	**2018 to 2023**	**0.79% to 5.5%**	**6,115,770**	1,053,251
			24,647,334	5,896,370
Less: current portion of credit facilities			**4,703,753**	1,328,400
Less: current portion of long-term debt			**3,293,391**	795,917
			16,650,190	3,772,053

Under these agreements, the Company has agreed to respect certain conditions and financial ratios. As at March 31, 2019, all conditions and financial ratios were met. Several movable hypothecs on specific assets of the Company and its subsidiaries and on the universality of the company's present and future, tangible and intangible assets have been given as security for these term loans and credit facilities.

6. EQUITY

a) Share Capital and Convertible debentures

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 by delivering sufficient free trading common shares, to satisfy 25% of the interest obligations.

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

[EXPRESSED IN CANADIAN DOLLARS]

b) Stock options

The following table reflects the continuity of options for the nine-month period ended March 31, 2019:

	Number of option	Weighted average Exercise price ($)
Balance as at June 30, 2018	**1,330,466**	**0.84**
Options granted to officers and employees	**2,350,000**	**1.26**
Options exercised	**(13,333)**	**0.45**
Options forfeited	**(66,667)**	**1.75**
Balance as at March 31, 2019	**3,600,466**	**1.16**
Options exercisable as at March 31, 2019	**1,610,467**	**1.00**

During the nine-month period ended March 31, 2019, 2,350,000 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.

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 nine months ended March 31, 2019 was as follows:

	Expected volatility	Risk-free interest rate	Expected life (months)	Weighted average grant date fair value ($)
Options granted to officers and employees	**45.70%**	**1.91%**	**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.

7. RELATED PARTY TRANSACTIONS

During the nine-month period ended March 31, 2019 and 2018, the following related party transactions have occurred with Mason Graphite Inc., a shareholder of the Company with significant influence:

- Royalties revenues of $37,500 [2018 – $37,500]
- Laboratory services revenues of nil [2018 – $47,250]
- Purchase of raw materials of $11,830 [2018 – $11,569]

As at March 31, 2019, the balance receivable from the related party amounted to $37,500 [June 30, 2018 – $58,333] and is included in accounts receivable. The amounts outstanding are non-interest-bearing, unsecured and receivable on demand.

During the nine-month period ended March 31, 2019, Martinrea International Inc. (“Martinrea”) participated in the private placement of January 11, 2019 of the Company for an amount of $14,999,400 (11,538,000 shares). A Company director is related to the party.

[EXPRESSED IN CANADIAN DOLLARS]

8. 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. All sales come from enhanced plastic products.

	Three-month periods ended March 31		Nine-month periods ended March 31	
	2019	**2018**	**2019**	**2018**
	$	**$**	**$**	**$**
Revenues *				
United States	**10,345,903**	–	**23,895,445**	–
Canada	**8,120,970**	707,613	**16,982,830**	2,508,323
France	**1,254,828**	1,137,351	**3,017,934**	1,528,673
Switzerland	**483,359**	853,456	**1,527,899**	1,015,335
Other	**515,395**	286,861	**1,351,082**	353,625
Total	**20,720,455**	2,985,281	**46,775,190**	5,405,956

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

	As at March 31, 2019	As at June 30, 2018
	$	**$**
Long-lived assets		
Canada	**31,935,969**	3,410,917
United States	**2,529,186**	–
Switzerland	**3,093,286**	3,415,363
Total	**37,558,441**	6,826,280

9. SUBSEQUENT EVENT

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 resulting in a preliminary loss of $760,000. The Company reimbursed the loan to Investissement Québec on the same date for an amount of $792,644. Company's decision is based upon focusing on higher value-add graphene and graphene-enhanced plastic product.

10. COMPARATIVE INFORMATION

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