

Nano Plore

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended June 30, 2022 and 2021





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, 2022 and 2021, 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, 2022 and 2021;
- 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 the consolidated financial statements, which include significant accounting policies and other explanatory information.

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.

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



Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the year ended June 30, 2022. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter

Valuation of property, plant and equipment and intangible assets acquired as part of the Canuck Compounders Inc. (Canuck) business combination

Refer to note 2 – Summary of significant accounting policies and note 4 – Business combinations to the consolidated financial statements.

On December 15, 2021, the Company acquired all of the issued and outstanding shares of Canuck for a total consideration of \$9,158,408.

Management accounted for this transaction as a business combination using the acquisition method. Under this method, identifiable assets acquired and liabilities assumed are recorded at their respective fair values at the date of acquisition. The fair value of the assets acquired included \$2,820,720 in property, plant and equipment and \$3,900,000 in intangible assets.

Management applied significant judgment in estimating the fair values of the property, plant and equipment and intangible asset acquired in connection with the Canuck business combination.

To estimate the fair value of the property, plant and equipment acquired, management mainly used the depreciated cost (DC) method. The significant assumptions used by management in estimating the fair value of property, plant and equipment acquired included the replacement cost new, or reproduction cost new, as applicable, as well as the allowances for obsolescence.

To estimate the fair value of the intangible asset acquired, management used the multi-period excess earnings (MEE) method. The significant assumptions used by management in estimating the fair value of the intangible asset acquired included the revenue growth rate and the EBITDA margin.

How our audit addressed the key audit matter

Our approach to addressing the matter included the following procedures, among others:

- Read the purchase agreement.
- With the assistance of professionals with specialized skill and knowledge in the field of valuation, tested how management estimated the fair value of the property, plant and equipment acquired on a sample basis, which included the following:
 - Evaluated the appropriateness of the DC method used in the valuation.
 - Tested the mathematical accuracy of the calculations underlying the fair value estimates.
 - Evaluated the reasonableness of the replacement cost new or the reproduction cost new, as applicable, used in the valuation by comparing them to price quotes obtained from independent equipment manufacturers.
 - Evaluated the reasonableness of the allowances for obsolescence used in the valuation by considering factors that could result in physical, economic and functional obsolescence and by performing corroborative analysis, as applicable.
- With the assistance of professionals with specialized skill and knowledge in the field of valuation, tested how management estimated the fair value of the intangible asset acquired, which included the following:
 - Evaluated the appropriateness of the MEE method used in the valuation.



Key audit matter

We considered this a key audit matter due to the significant judgment by management in estimating the fair values of the property, plant and equipment and intangible asset acquired including the development of significant assumptions. This, in turn, led to a high degree of auditor judgment, subjectivity and effort in performing procedures and evaluating audit evidence relating to the significant assumptions used by management. The audit effort also involved the use of professionals with specialized skill and knowledge in the field of valuation.

How our audit addressed the key audit matter

- Tested underlying data used in the valuation.
- Tested the mathematical accuracy of the calculation underlying the fair value estimate.
- Evaluated the reasonableness of the assumptions used in the analysis such as the revenue growth rate and the EBITDA margin by comparing them to historical data of Canuck.

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 judgement and maintain professional scepticism 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.

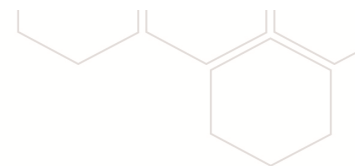
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

/s/PricewaterhouseCoopers LLP¹

Québec, Quebec
September 14, 2022

¹ CPA auditor, public accountancy permit No. A125971



Consolidated Statements of Financial Position

As at June 30, (Expressed in Canadian dollars)	2022 \$	2021 \$
Assets		
Current assets		
Cash and cash equivalents	51,232,068	50,524,583
Accounts receivable and contract asset [Note 5, 12]	21,077,868	12,733,190
Inventory [Note 6]	17,507,812	11,036,407
Prepaid expenses and other assets	1,132,896	616,964
	90,950,644	74,911,144
Property held for sale [Note 9]	—	2,424,351
	90,950,644	77,335,495
Non-current assets		
Lease deposits	182,792	58,044
Equipment deposits	—	291,077
Investment in a joint venture [Note 7]	4,238,774	3,983,059
Right-of-use assets [Note 8a]	8,381,031	4,885,169
Property, plant and equipment [Note 8b]	54,329,195	54,934,470
Intangible assets [Note 10a]	7,256,340	3,354,446
Goodwill [Note 10b]	1,919,673	460,164
Total assets	167,258,449	145,301,924
Liabilities and Shareholders' Equity		
Current liabilities		
Operating loans [Note 13]	4,648,900	1,343,300
Accounts payable and accrued liabilities [Note 11]	17,029,869	15,229,027
Contract liability [Note 12]	536,060	1,740,789
Current portion of lease liability [Note 13]	2,490,911	1,625,541
Current portion of long-term debt [Note 13]	3,168,932	3,497,174
	27,874,672	23,435,831
Long-term debt directly associated with property held for sale [Note 9]	—	1,035,431
	27,874,672	24,471,262
Non-current liabilities		
Balance of purchase price of business acquisition [Note 4a]	956,014	—
Defined benefit liabilities [Note 14]	296,817	811,316
Lease liability [Note 13]	12,742,004	7,949,206
Long-term debt [Note 13]	6,281,882	8,155,266
Deferred tax liabilities [Note 17]	1,575,665	927,952
Total liabilities	49,727,054	42,315,002
Shareholders' equity		
Share capital [Note 15a]	169,354,272	140,067,376
Reserve [Note 15b]	4,185,185	3,880,555
Foreign currency translation reserve	12,070	88,173
Deficit	(56,020,132)	(41,049,182)
Total shareholders' equity	117,531,395	102,986,922
Total liabilities and shareholders' equity	167,258,449	145,301,924

See accompanying notes to consolidated financial statements

Note 22 – Subsequent event

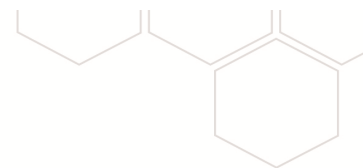
Approved on behalf of the Board of Directors

Soroush Nazarpour

Soroush Nazarpour

Benoit Gascon

Benoit Gascon

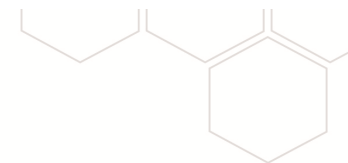


Consolidated Statements of Loss and Comprehensive loss

For the years ended June 30, (Expressed in Canadian dollars)	2022 \$	2021 \$
Revenues		
Revenues from customers [Note 16]	92,333,826	66,654,634
Other income [Note 16]	1,973,333	5,693,768
	94,307,159	72,348,402
Cost of Sales and Expenses		
Cost of sales [Note 16]	82,955,562	59,026,089
Research and development expenses [Note 16]	3,578,722	3,550,253
Selling, general and administrative expenses [Note 16]	16,398,562	14,047,368
Share-based compensation expenses	698,885	673,415
Depreciation (production)	5,273,039	4,225,957
Depreciation (other)	1,341,725	1,431,549
Amortization	761,298	548,687
Foreign exchange	233,503	91,942
	111,241,296	83,595,260
Operating loss	(16,934,137)	(11,246,858)
Gain (Loss) on disposal of property, plant and equipment	1,923,352	(271,671)
Loss on measurement to fair value less costs of the property held for sale [Note 9]	—	(734,994)
Gain on a bargain purchase [Note 4b]	—	1,125,450
Interest on operating loans, long-term debt and convertible debentures	(608,960)	(1,382,151)
Interest accretion on lease liability	(610,885)	(501,981)
Interest revenue	458,244	234,341
Share of loss of a joint venture [Note 7]	(744,285)	(52,941)
Loss before income taxes	(16,516,671)	(12,830,805)
Current income tax expense	(40,540)	(33,730)
Deferred income tax recovery	1,016,617	1,056,874
	976,077	1,023,144
Loss	(15,540,594)	(11,807,661)
Other comprehensive loss		
<i>Items that may be subsequently reclassified to profit and loss:</i>		
Exchange differences on translation of foreign subsidiaries	(76,103)	29,668
<i>Items that will not be reclassified to profit and loss:</i>		
Retirement benefits – Net actuarial gains [Note 14]	569,644	515,082
Total comprehensive loss	(15,047,053)	(11,262,911)
Loss per share		
Basic and diluted	(0.10)	(0.08)
Weighted average number of common shares outstanding (basic and diluted)	160,559,612	148,056,067

In light of the loss recognized for the years, stock options were excluded from the calculation of diluted loss per share due to their anti-dilutive effect.

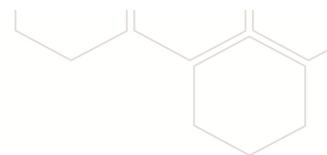
See accompanying notes to consolidated financial statements



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, 2020	140,226,610	84,837,145	3,588,215	2,240,000	58,505	(29,756,603)	60,967,262
Loss	—	—	—	—	—	(11,807,661)	(11,807,661)
Other comprehensive loss	—	—	—	—	29,668	515,082	544,750
Comprehensive loss	—	—	—	—	29,668	(11,292,579)	(11,262,911)
Issuance of common shares (net of issuing costs of \$2,617,433) [Note 15a]	11,500,000	43,382,567	—	—	—	—	43,382,567
Exercise of stock options [Note 15b]	768,667	1,245,976	(381,075)	—	—	—	864,901
Conversion of the convertible debentures [Note 15a]	5,434,782	10,601,688	—	(2,240,000)	—	—	8,361,688
Share-based compensation	—	—	673,415	—	—	—	673,415
Balance as at June 30, 2021	157,930,059	140,067,376	3,880,555	—	88,173	(41,049,182)	102,986,922
Loss	—	—	—	—	—	(15,540,594)	(15,540,594)
Other comprehensive loss	—	—	—	—	(76,103)	569,644	493,541
Comprehensive loss	—	—	—	—	(76,103)	(14,970,950)	(15,047,053)
Issuance of common shares (net of issuing costs of \$2,004,968) [Note 15a]	6,522,000	27,996,232	—	—	—	—	27,996,232
Exercise of stock options [Note 15b]	771,466	1,290,664	(394,255)	—	—	—	896,409
Share-based compensation	—	—	698,885	—	—	—	698,885
Balance as at June 30, 2022	165,223,525	169,354,272	4,185,185	—	12,070	(56,020,132)	117,531,395

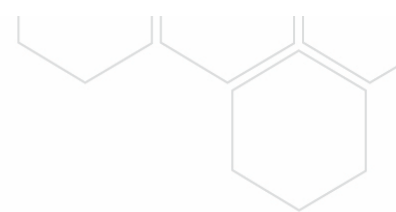
See accompanying notes to consolidated financial statements



Consolidated Statements of Cash Flows

For the years ended June 30, (Expressed in Canadian dollars)	2022 \$	2021 \$
Cash flows from operating activities		
Loss	(15,540,594)	(11,807,661)
Items not affecting cash:		
Depreciation and amortization	7,376,062	6,206,193
Share-based compensation expenses	698,885	673,415
Share of loss of a joint venture	744,285	52,941
Interest accretion on lease liability	610,885	501,981
Interest accretion on long-term debt and convertible debentures	225,341	252,351
Other financial expenses	26,173	103,529
Deferred income tax recovery	(1,016,617)	(1,056,874)
Gain on a bargain purchase	—	(1,125,450)
Loss on measurement to fair value less costs of the property held for sale	—	734,994
Loss (Gain) on disposal of property, plant and equipment	(1,923,352)	271,671
Difference between amounts paid for employee benefits and current period expenses	52,433	108,429
Net change in fair value of foreign exchange derivatives	605,498	(677,376)
Unrealized foreign exchange	(274,972)	428,475
Changes in non-cash operating working capital items:		
Accounts receivable and contract asset	(4,556,084)	(145,414)
Inventory	(4,085,353)	(2,966,194)
Prepaid expenses and other assets	(442,903)	(68,132)
Accounts payable and accrued liabilities	(948,180)	2,182,849
Income taxes payable	(461,315)	(326,882)
Deferred grant	—	(276,342)
Contract liability	(1,204,773)	798,744
	(20,114,581)	(6,134,753)
Cash flows from financing activities		
Issuance of common shares	30,001,200	46,000,000
Issuing costs	(2,004,968)	(2,617,433)
Exercise of stock options	896,409	864,901
Variation of operating loans	2,955,000	(731,340)
Issuance of long-term debt	1,539,094	—
Lease incentive received	1,253,921	—
Repayment of lease liability	(2,878,424)	(2,547,522)
Repayment of long-term debt	(5,215,070)	(2,881,268)
	26,547,162	38,087,338
Cash flows from investing activities		
Variation of lease deposits	(124,748)	—
Business acquisition, net of cash acquired [Note 4a]	(6,830,534)	(2,303,450)
Repayment of balance of purchase price of business acquisition [Note 4b]	(2,051,304)	—
Investment in a joint venture	(1,000,000)	(4,000,000)
Additions to intangible assets	(761,072)	(126,119)
Additions to property, plant and equipment	(3,297,613)	(8,816,940)
Disposal of property, plant and equipment	8,325,052	101,161
	(5,740,219)	(15,145,348)
Change in cash and cash equivalents	692,362	16,807,237
Net effect of currency exchange rate on cash	15,123	(79,340)
Cash and cash equivalents, beginning of period	50,524,583	33,796,686
Cash and cash equivalents, end of period	51,232,068	50,524,583
Interest on operating loans, long-term debt and lease liability paid	1,232,524	1,696,921
Income tax paid	38,658	461,080
Additions to property, plant and equipment included in accounts payable and accrued liabilities	78,806	759,005
Additions to property, plant and equipment paid with equipment deposits	291,077	803,087
Investment tax credit recorded against the property, plant and equipment and included in accounts receivable and contract asset	—	1,000,000

See accompanying notes to consolidated financial statements



[Unless specified otherwise, amounts are expressed in Canadian dollars]

1. NATURE OF OPERATIONS

NanoXplore Inc., and its subsidiaries (together “NanoXplore” or the “Corporation”), is a graphene company, a manufacturer and supplier of high-volume graphene powder for use in industrial markets. Also, the Corporation provides standard and custom graphene-enhanced plastic and composite products to various customers in transportation, packaging, electronics, and other industrial sectors. The Corporation was formed by amalgamation under the *Canada Business Corporations Act* by certificate of amalgamation dated September 21, 2017 and is headquartered at 4500 Thimens Blvd, Montreal, QC, Canada.

On July 15, 2021, NanoXplore Inc. graduated from the Toronto Stock Exchange (“TSX”) Venture Exchange to the TSX. NanoXplore is still traded under “GRA” and is also listed on the OTCQX and traded under “NNXPF”.

On December 15, 2021, the Corporation acquired all of the issued and outstanding shares of Canuck Compounders Inc. (“Canuck”) (*Note 4a*).

The consolidated financial statements of NanoXplore for the years ended June 30, 2022 and 2021 were reviewed, approved and authorized for issue by the Corporation’s Board of Directors on September 14, 2022.

Macroeconomics and Supply chain issues

The COVID-19 pandemic and its negative collateral effects on the supply of materials and the availability of labour continued to have an adverse effect on our business, results of operations, cash flows and financial position, which is further exacerbated by the recent conflict between Russia and Ukraine. 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, the potential for a recession in key markets due to the effect of the pandemic or other pandemics or other economic factors, and on the resulting impact on customers and suppliers, such as inflationary cost increases for wages, materials, energy, and other costs, any supply chain disruptions. A material deterioration in any of the foregoing could have a material adverse effect on the Corporation’s business and results of operations. The Corporation expects to be able to continue to respond to the COVID-19 pandemic, and supply chain issues in a measured, prudent and decisive manner with continued emphasis on health and safety, cash conservation and the maintenance of its liquidity position.

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”).

The Corporation has consistently applied the accounting policies used in the preparation of its IFRS consolidated financial statements, including the comparative figures, except as further discussed in note 3.

Basis of measurement

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

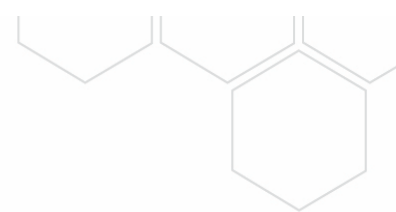
Basis of consolidation

These consolidated financial statements include the accounts of the Corporation, which include:

a) *Subsidiaries*

Subsidiaries are all entities over which the Corporation has control. Control exists when the Corporation 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 Corporation. They are deconsolidated from the date that control ceases.



The Corporation has the following subsidiaries:

- NanoXplore Switzerland Holding SA (“NanoXplore Switzerland”), based in Switzerland, with an equity interest of 100% [2021 – 100%]. NanoXplore Switzerland holds 100% of CEBO Injections SA (“CEBO”).
- NanoXplore Holdings USA, Inc. (“NanoXplore Holdings USA”), based in the United States, with an equity interest of 100% [2021 – 100%]. NanoXplore Holdings USA holds 100% of NanoXplore USA, Inc.
- Sigma Industries Inc. (“Sigma”), based in Canada, with an equity interest of 100% [2021 – 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.
- Canuck Compounders Inc, based in Canada, with an equity interest of 100% [2021 – nil].

Intercompany transactions, balances, income and expenses on transactions between the Corporation’s entities are eliminated. Profits and losses resulting from intercompany transactions that are recognized in assets are also eliminated.

b) Joint venture

A joint venture is a contractual agreement whereby the Corporation agrees with other parties to undertake an economic activity that is subject to joint control, i.e. strategic financial and operating decisions relating to the joint venture’s activities require the unanimous consent of the parties sharing control. Investments in joint ventures are accounted for using the equity method. The share of earnings (loss) from joint ventures is recognized in the consolidated statement of loss and comprehensive loss. Management periodically reviews its joint ventures, for any indication of an impairment. The Corporation had one joint venture as at June 30, 2022 [2021 – One].

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 Corporation’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., NanoXplore Holdings USA and NanoXplore USA Inc which have 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.

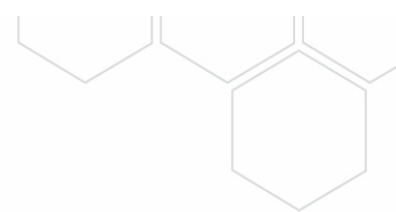
b) Transactions and balances

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 Corporation obtains control over the acquiree, which is generally the date that consideration is transferred, and the Corporation acquires the assets and assumes the liabilities of the acquiree. Under the acquisition method, identifiable assets acquired and liabilities assumed are recorded at their respective fair values at the date of acquisition. 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 Corporation 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 Corporation to create outputs. When acquiring a set of activities or others, which may not have outputs, the Corporation 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 Corporation 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 Corporation 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 contract liability until all of the foregoing conditions of revenue recognition have been met.

If the Corporation 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 Corporation'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 Corporation recognizes a contract liability under the caption Contract liability on the Corporation'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 ("SRED")

Government assistance and Scientific Research and Experimental Development tax credit

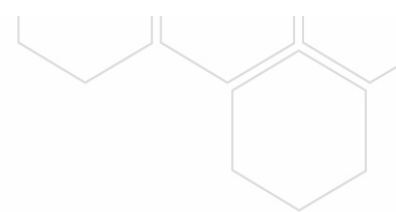
The Corporation periodically receives financial assistance under government incentive programs and the Scientific Research and Experimental Development tax credit ("SR&ED"). Government assistance and SR&ED are recognized initially as a deferred contribution at fair value when there is reasonable assurance that it will be received, and the Corporation 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.

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 Corporation 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 Corporation 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 Corporation 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. The Corporation'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 Corporation applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables. The Corporation 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, 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*

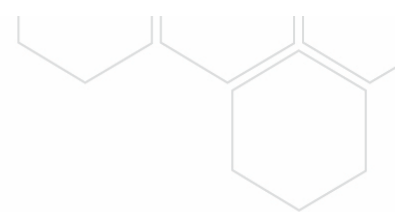
A specific accounting methodology is required for derivatives designated as hedging instruments in cash flow hedge relationships or in a net investment in a foreign operation. To qualify for hedge accounting, the hedging relationship must meet several strict conditions with respect to documentation, 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 Corporation has not provided the required documentation regarding the identification, designation and efficiency of forward exchange contracts pursuant to hedge accounting. Therefore, the Corporation'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.

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.

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.

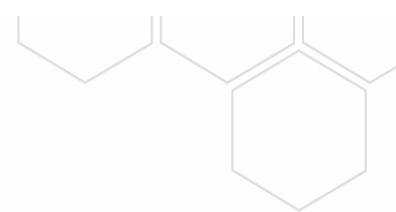
Identifiable intangible assets are recorded at cost and amortized using the methods mentioned below and over the period of their expected useful lives as follows:

Customer relationship	Straight-line	10 years
Patents, licenses and 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 Corporation 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.

Non-current assets held for sale

The Corporation classifies a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable. The value of the non-current asset classified as held for sale is measured at the lower of its carrying amount and fair value less costs to sell.

The Corporation presents a non-current asset classified as held for sale separately from other assets in the statement of financial position. The liabilities of a disposal group classified as held for sale shall be presented separately from other liabilities in the statement of financial position. Those assets and liabilities shall not be offset and presented as a single amount. The major classes of assets and liabilities classified as held for sale are separately disclosed either in the statement of financial position or in the notes of the consolidated financial statements.

Research and development expenses

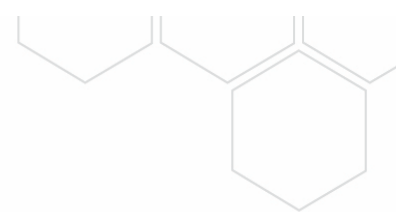
Research and development expenses are charged to the consolidated statement of loss and comprehensive loss in the period they are incurred unless certain criteria are met.

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 Corporation 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.



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 Corporation's incremental borrowing rate. The lease liability is subsequently measured using a constant periodic rate of interest on the remaining balance of the lease liability and is subsequently adjusted for interest and lease payments. The Corporation has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less, and leases of low-value assets. The Corporation recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Income tax

Income tax comprises current and deferred tax. Income tax is recognized in the consolidated statement of loss and comprehensive loss except to the extent that it relates to items recognized directly in other comprehensive loss or in equity, in which case the income tax is also recognized directly in other comprehensive loss or equity, respectively.

Current income tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in respect of previous years.

In general, deferred income tax is recognized with respect to temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not recognized if it arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit nor loss.

Deferred income tax is determined on a non-discounted basis using tax rates and laws enacted or substantively enacted at the consolidated statement of financial position date and that are expected to apply when the deferred tax asset is realized or liability is settled. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be used. Deferred tax assets and liabilities are presented as non-current.

Provisions

A provision is recognized when the Corporation 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 Corporation offers a defined benefit pension plan to certain non-Canadian employees. The net periodic pension expense for this plan is actuarially determined on an annual basis by an independent actuary 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 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.

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 Corporation. 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 reclassified 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 Corporation during the year. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options, in the weighted average number of common shares outstanding during the year, if dilutive.

Significant management estimates and judgments in applying accounting policies

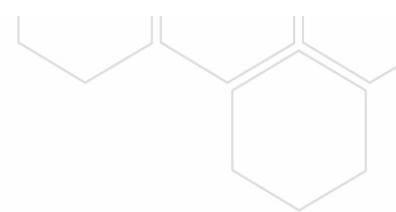
The following are significant management judgments used in applying the accounting policies of the Corporation that have the most significant effect on the consolidated financial statements.

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 Corporation 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 Corporation's statement of financial position, as well as items that have not been recognized in the acquired Corporation'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.

To estimate the fair value of the land and building acquired in connection with the CSP Newton Plant business combination, management used the direct capitalization and used the depreciated cost method for the production equipment. Management developed significant assumptions being the overall capitalization rate and the stabilized net operating income for the land and building and the replacement cost new or reproduction cost new, as applicable, as well as the allowances for the obsolescence for the production equipment.

Management applied significant judgment in estimating the fair value of the property, plant and equipment and intangible assets acquired in connection with the Canuck business combination. To estimate the fair value of the property, plant and equipment acquired, management mainly used the depreciated cost method. The significant assumptions used by management in estimating the fair value of property, plant and equipment acquired included the replacement cost new, or reproduction cost new, as applicable, as well as the allowances for obsolescence. To estimate the fair value of the intangible assets acquired, management used the multi-period excess earnings method. The significant assumptions used by management in estimating the fair value of intangible assets acquired included the revenue growth rate and the EBITDA margin.

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

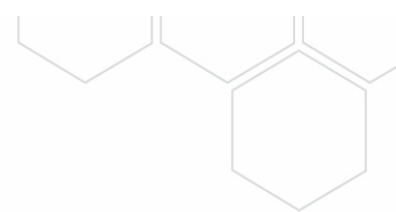
An impairment loss is recognized for the amount by which the asset or CGU exceeds its recoverable amount. To determine the recoverable amount, management estimates expected future cash flows from each asset or CGU and determines a suitable interest rate in order to calculate the present value of those 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 Corporation'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) *Macroeconomics and supply chain issues*

The impact of the COVID-19 pandemic and its negative collateral effects on the supply of materials and the availability of labour on our consolidated financial statements for the year ended June 30, 2022 has been limited. While the long-term impact of the global COVID-19 pandemic, further exacerbated by the recent conflict between Russia and Ukraine, cannot be fully determined or quantified at this time, we anticipate it will continue to 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 Corporation is not aware of any specific event or circumstance that would require the Corporation 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.



f) *Deferred tax assets*

Management exercises judgment in the assessment of the probability of future taxable income, to estimate the extent to which deferred income tax assets can be realized. Estimates are based on the Corporation's most recently approved budget forecast, which is adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. The tax rules and tax planning strategies in the numerous jurisdictions in which the Corporation operates are carefully taken into consideration. Management uses judgment to assess specific facts and circumstances to assess legal or economic limits or other uncertainties and to determine the number of years to include in the forecast period.

3. NEW ACCOUNTING STANDARDS ADOPTED DURING THE YEAR AND ISSUED BUT NOT YET IN EFFECT

No amendments to existing standards have been adopted during the last year.

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

Amendment to 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 adds requirements 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 Corporation.

Amendment to 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. The new guidance will be effective for annual periods starting on or after January 1, 2023. Management has not yet determined the impact, if any, on the Corporation.

4. BUSINESS COMBINATIONS

a) **Canuck**

On December 15, 2021, the Corporation acquired all of the issued and outstanding shares of Canuck for a total consideration of \$9,158,408. This amount represents \$9,300,000 plus cash on hand, less debt and a working capital adjustment, and a discount on the balance of purchase price due in 24 months. This transaction was financed using the Corporation's available cash. This acquisition was concluded to expand the Corporation's downstream, value-added product offering through enhanced masterbatch and compounds.

Canuck employs approximately 40 people and provides sustainable and engineered recycled plastic compounds for use in transportation, building and construction, agriculture and packaging markets. Canuck's manufacturing facility is based in Cambridge, Ontario.

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

	\$
Paid in cash at closing date	6,762,121
Post-closing adjustments	454,452
Balance of purchase price due in 12 months	1,000,000
Balance of purchase price due in 24 months (<i>\$1,000,000 discounted at a rate of 3%</i>)	941,835
Total consideration	9,158,408

This transaction qualifies as a business combination and was accounted for using the acquisition method of accounting under IFRS 3, *Business Combinations*. 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.

	<u>\$</u>
Net identifiable assets acquired:	
Cash	386,039
Accounts receivable and contract asset	5,209,753
Inventory	2,317,473
Prepaid expenses and other assets	71,208
Right-of-use assets	1,550,072
Property, plant and equipment	2,820,720
Intangible assets	3,900,000
	<u>16,255,265</u>
Operating loans	(345,000)
Accounts payable and accrued liabilities	(4,008,005)
Income taxes payable	(461,315)
Lease liability	(1,581,650)
Long-term debt	(491,861)
Deferred tax liabilities	(1,668,535)
	<u>(8,556,366)</u>
Total identifiable net assets	7,698,899
Goodwill	1,459,509
Total consideration paid or to be paid in cash	<u>9,158,408</u>

Since December 15, 2021, the assets and liabilities of Canuck are included in the consolidated statement of financial position and the operating results are reflected in the Corporation's consolidated statement of loss and comprehensive loss.

The Corporation has given a general and continuing security interest in all Canuck's movable, tangible and intangible assets to secure the balance of purchase price payable.

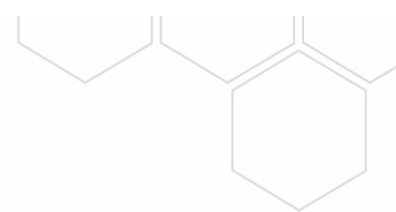
b) CSP Newton Plant

On September 11, 2020, through its wholly-owned indirect subsidiary RMC Advanced Technologies Inc., the Corporation acquired substantially all of the assets of CSP Composites, LLC, Continental Structural Plastics, Inc. and Continental Structural Plastics of North Carolina, Inc. (collectively, "CSP Newton Plant") used in connection with its lightweight composite solutions and material business as conducted at 1400 Burris Road, Newton, North Carolina, for an unadjusted purchase price of US\$3,500,000. The purchase price was reduced by an inventory adjustment of US\$128,929. This acquisition was concluded to expand the Corporation's business in the United States.

CSP Newton Plant employed nearly thirty people and operated mainly in the markets of composite products for heavy trucks and machinery. It sold its products to original equipment manufacturers and distributors in the United States, Canada and South America.

This transaction was financed using the Corporation's available cash. The adjusted purchase price of US\$3,371,071 [\$4,437,197] was payable in two installments:

- (i) US\$1,750,000 at the closing date; and
- (ii) US\$1,621,071 12 months after the closing date and was recorded under Accounts payable and accrued liabilities in the consolidated statements of financial position.



This transaction qualifies as a business combination and was accounted for using the acquisition method of accounting under IFRS 3, *Business Combinations*. 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.

	<u>\$</u>
Net identifiable assets acquired:	
Inventory	1,014,930
Property, plant and equipment	4,824,131
	<u>5,839,061</u>
Deferred tax liabilities	(276,414)
	<u>(276,414)</u>
Total identifiable net assets	5,562,647
Gain on a bargain purchase	(1,125,450)
Total consideration paid or to be paid in cash	<u>4,437,197</u>

Since September 11, 2020, the assets acquired are included in the consolidated statement of financial position and the operating results are reflected in the Corporation's consolidated statement of loss and comprehensive loss.

5. ACCOUNTS RECEIVABLE AND CONTRACT ASSET

	<u>2022</u>	<u>2021</u>
	<u>\$</u>	<u>\$</u>
Trade receivables	18,518,088	8,738,719
Minus: Allowance for doubtful accounts	(136,429)	(174,649)
	<u>18,381,659</u>	8,564,070
Contract asset [Note 12]	1,106,065	720,875
Foreign exchange forward contracts [Note 19]	–	466,003
Government receivables	1,202,529	2,291,059
Other receivables	387,615	691,183
	<u>21,077,868</u>	<u>12,733,190</u>

The Corporation reviews all amounts periodically for indication of impairment, and the expected credit loss has been provided for as allowance for doubtful accounts. Substantially all trade accounts receivables are not past due, except for \$924,248 and \$604,353 [2021 – \$278,148 and \$281,993] 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 13).

6. INVENTORY

	<u>2022</u>	<u>2021</u>
	<u>\$</u>	<u>\$</u>
Raw materials and consumables	11,906,400	6,963,475
Work in progress	2,126,342	1,438,386
Finished goods	3,475,070	2,634,546
	<u>17,507,812</u>	<u>11,036,407</u>

The Corporation expects full recovery of this amount in the next fiscal year. The majority of inventories is pledged as security for the credit facilities (Note 13). The cost of inventory write-down recorded as an expense and included in cost of sales for the year ended June 30, 2022 is nil [2021 – nil], as a result of net realizable value being lower than cost.

7. INVESTMENT IN A JOINT VENTURE

On April 14, 2021, NanoXplore and Martinrea Innovation Developments Inc., a wholly-owned subsidiary of Martinrea International Inc. ("Martinrea"), formed a joint venture through VoltaXplore, a battery-based initiative to service the electric transportation and grid storage market. VoltaXplore's main activities are research and development of Lithium-Ion battery cells enhanced with graphene for electric vehicle (EV) batteries. The Corporation and Martinrea have each invested \$4,036,000 initially into VoltaXplore as startup capital to support the construction of a demonstration facility. The Corporation paid \$4,000,000 in cash and \$36,000 consisted of a transfer of intangible assets. This investment has been accounted for using the equity method.

In January 2022, the Corporation and Martinrea have each provided \$1,000,000 in cash to VoltaXplore to continue to support the construction of a demonstration facility.

The change in the investment in VoltaXplore is detailed as follows:

	2022 \$	2021 \$
Balance at the beginning	3,983,059	–
Investment in a joint venture	1,000,000	4,036,000
Share of loss and comprehensive loss of the year	(744,285)	(52,941)
Balance as at the end	4,238,774	3,983,059

The condensed financial information regarding VoltaXplore is detailed as follows:

	2022 \$	2021 \$
Statement of financial position		
Current assets	1,232,220	6,183,590
Non-current assets	9,109,359	3,393,365
Current liabilities	(480,209)	(95,533)
Non-current liabilities	(1,344,037)	(1,515,305)
Net assets	8,517,333	7,969,117
Carrying amount of investment	4,238,774	3,983,059
Statement of loss		
Loss	(1,488,570)	(105,883)
Share of loss	(744,285)	(52,941)
Additional information		
Cash	729,753	6,150,660
Depreciation and amortization	412,368	1,050
Interest expense	73,344	6,056
Interest revenue	13,647	2,000

NanoXplore and Martinrea have committed to provide up to an additional \$6,000,000 each in development funding if, as and when required. On this amount, \$1,000,000 was already provided.

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

a) Right-of-use assets

	2022 \$	2021 \$
Balance at the beginning	4,885,169	5,878,706
Additions	3,252,623	126,017
Acquired in a business combination	1,550,072	–
Depreciation	(1,382,130)	(1,102,914)
Effect of foreign exchange differences	75,297	(16,640)
Balance at the end	8,381,031	4,885,169
As at June 30		
Cost	12,601,090	7,723,097
Accumulated amortization	(4,220,059)	(2,837,928)
Net book value	8,381,031	4,885,169

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

b) Property, plant and equipment

	Land & Building \$	Production equipment \$	Leasehold improvements \$	Laboratory, computer, office equipment and rolling stock \$	Total \$
Balance as at July 1, 2020	13,106,182	33,347,199	1,949,384	1,277,810	49,680,575
Additions	1,322,272	7,498,798	50,625	356,412	9,228,107
Acquired in a business combination	2,487,731	2,336,400	–	–	4,824,131
Transfer to assets held for sale	(3,159,345)	–	–	–	(3,159,345)
Disposals	(368,648)	(11,343)	–	(20,299)	(400,290)
Depreciation	(602,108)	(3,071,456)	(240,002)	(641,026)	(4,554,592)
Effect of foreign exchange differences	(357,886)	(295,948)	–	(30,282)	(684,116)
Balance as at June 30, 2021	12,428,198	39,803,650	1,760,007	942,615	54,934,470
Additions	570,420	2,479,978	586,185	220,408	3,856,991
Acquired in a business combination	–	2,774,000	6,660	40,060	2,820,720
Transfer to leasehold improvements	(872,155)	–	872,155	–	–
Disposals	(2,358,015)	–	–	–	(2,358,015)
Depreciation	(406,040)	(3,749,771)	(379,601)	(697,222)	(5,232,634)
Effect of foreign exchange differences	88,701	191,182	17,706	10,074	307,663
Balance as at June 30, 2022	9,451,109	41,499,039	2,863,112	515,935	54,329,195
As at June 30, 2021					
Cost	13,208,847	45,705,902	2,058,489	1,662,561	62,635,799
Accumulated depreciation	(780,649)	(5,902,252)	(298,482)	(719,946)	(7,701,329)
Net book value	12,428,198	39,803,650	1,760,007	942,615	54,934,470
As at June 30, 2022					
Cost	10,560,847	51,088,621	3,535,883	1,930,081	67,115,432
Accumulated depreciation	(1,109,738)	(9,589,582)	(672,771)	(1,414,146)	(12,786,237)
Net book value	9,451,109	41,499,039	2,863,112	515,935	54,329,195

The majority of property, plant and equipment is pledged as security for the credit facilities (Note 13).

The net book value of production equipment and of rolling stock held under leases as of June 30, 2022 were respectively \$4,759,253 and \$1,063 [2021 – \$4,965,757 and \$26,471]. Additions of production equipment under lease during the year ended June 30, 2022 amounted to \$254,605 [2021 – \$384,405]. The depreciation of production equipment and of rolling stock held under leases as of June 30, 2022 were respectively \$461,109 and \$25,678 [2021 – \$651,992 and \$28,906]. Leased assets are pledged as security for the related lease liability.

As at June 30, 2022, there are \$606,907, \$749,182 and nil of building, production equipment and computer, respectively, that are not yet available for use and for which depreciation has not started [2021 – nil, \$8,104,470 and \$46,155].

9. PROPERTY HELD FOR SALE

As at June 30, 2022, the property held for sale amounted to nil [2021 – \$2,424,351].

The Corporation sold the property located in Tennessee (United States) on August 24, 2021 for an amount of US\$950,000.

The Corporation sold the property located in Quebec on October 8, 2021 for an amount of \$3,000,000. A gain on disposal has been accounted for an amount of \$1,599,184 and the related long-term debt has been reimbursed. [2021 – the long-term debt directly associated with this property held for sale amounted to \$1,035,431].

10. INTANGIBLE ASSETS AND GOODWILL

a) Intangible assets

	2022			2021		
	Customer relationship	Patents, licenses and software	Total	Customer relationship	Patents, licenses and software	Total
	\$	\$	\$	\$	\$	\$
Balance at the beginning	3,166,170	188,276	3,354,446	3,671,211	132,463	3,803,674
Additions	–	761,072	761,072	–	126,119	126,119
Acquired in a business combination	3,900,000	–	3,900,000	–	–	–
Amortization	(659,449)	(101,849)	(761,298)	(487,621)	(61,066)	(548,687)
Effect of foreign exchange differences	1,387	733	2,120	(17,420)	(9,240)	(26,660)
Balance at the end	6,408,108	848,232	7,256,340	3,166,170	188,276	3,354,446
As at June 30						
Cost	8,572,895	1,131,317	9,704,212	4,671,508	369,512	5,041,020
Accumulated amortization	(2,164,787)	(283,085)	(2,447,872)	(1,505,338)	(181,236)	(1,686,574)
Net book value	6,408,108	848,232	7,256,340	3,166,170	188,276	3,354,446

b) Goodwill

	2022	2021
	\$	\$
Balance at the beginning	460,164	460,164
Acquired in a business combination	1,459,509	–
Balance at the end	1,919,673	460,164

For impairment testing, the carrying amount of goodwill was allocated to the Sigma cash generating unit (“CGU”) for an amount of \$460,164 and to the Canuck CGU for an amount of \$1,459,509. The recoverable amount of each CGU 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. Management believes that any reasonably possible change in the key assumptions on which the CGU’s recoverable amount is based would not cause the CGU’s carrying amount to exceed its recoverable amount. No impairment loss was recorded during the years ended June 30, 2022 and 2021.

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2022 \$	2021 \$
Trade payables	10,203,190	8,043,421
Accrued liabilities	2,278,685	1,886,727
Current portion of balance of purchase price [Note 4]	1,000,000	1,993,367
Foreign exchange forward contracts [Note 19]	336,995	–
Payroll and its withholding taxes payable	3,210,999	3,305,512
	17,029,869	15,229,027

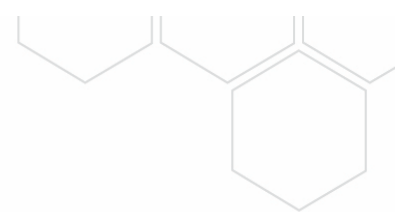
12. CONTRACT ASSET AND CONTRACT LIABILITY

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

	2022 \$	2021 \$
Balance at the beginning	1,019,914	(1,295,494)
Amount of opening balance recognized as revenues during the year	(6,895,863)	(4,707,225)
Advance cash consideration received during the year	5,305,944	7,022,633
Balance at the end	(570,005)	1,019,914
Contract asset [Note 5]	(1,106,065)	(720,875)
Contract liability	536,060	1,740,789

13. CREDIT FACILITIES

	Maturity	Effective interest rate %	2022 \$	2021 \$
Operating loans, fixed and variable rates				
– Authorized amount of \$12,055,659	2022	3.8% to 5.1%	4,648,900	1,343,300
Lease liability	2022 to 2031	2.1% to 10.0%	15,232,915	9,574,747
Long-term debt, fixed and variable rates	2022 to 2030	4.3% to 5.7%	9,450,814	11,652,440
			29,332,629	22,570,487
Less: current portion of operating loans			4,648,900	1,343,300
Less: current portion of lease liability			2,490,911	1,625,541
Less: current portion of long-term debt			3,168,932	3,497,174
			19,023,886	16,104,472



a) Operating loans

The Corporation has the following credit lines with these three banks:

i. National Bank of Canada:

An authorized maximum bank line of credit of \$7,250,000, 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 0.3%. The Corporation has also an authorized maximum bank line of credit of US\$1,000,000 [\$1,288,600]. The facility bears interest at American prime rate plus 0.3%. 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 2022. Under these agreements, the Corporation has agreed to respect certain conditions and financial ratios. As at June 30, 2022, the Corporation had drawn \$3,300,000, and all conditions and financial ratios were met [2021 – nil].

ii. Banque Cantonale Vaudoise:

A credit facility agreement which authorized the Corporation a maximum operating loan of CHF 1,310,000 [\$1,767,059]. The operating loan bears interest at 3.75%. The credit facility was renewed on August 29, 2022 for a three-month period at a rate of 3.78%. A general assignment of debtors has been given as security. Under this agreement, the Corporation has agreed to respect certain conditions and financial ratios. As of June 30, 2022, the Corporation had drawn CHF 1,000,000 [\$1,348,900] under this credit facility and all applicable covenants were met [2021 – CHF 1,000,000 [\$1,343,300]].

iii. Royal Bank of Canada:

An authorized maximum bank line of credit of \$1,750,000. The facility bears interest at Canadian prime rate plus 0.5%. A security interest on property and on inventory has been given as security. This credit facility is renewable annually and mature in October 2022. As at June 30, 2022, the facility wasn't used [2021 – nil].

b) Long-term debt

Several movable hypothecs on specific assets of the Corporation and its subsidiaries and on the universality of the Corporation's present and future tangible and intangible assets have been given as security for these term loans and credit facilities. Under these agreements, the Corporation has agreed to meet certain conditions and financial ratios. As at June 30, 2022, all conditions and financial ratios were met.

14. EMPLOYEE BENEFITS OBLIGATION

Defined Benefit Pension Plan

The Corporation offers a defined benefit pension plan to all Swiss 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 Corporation 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:

	2022 \$	2021 \$
Plan assets at fair value	3,866,370	4,376,526
Defined benefit liabilities	(4,163,187)	(5,187,842)
Retirement benefit deficit	(296,817)	(811,316)

The amount for asset ceiling effect and for minimum funding requirement amounted to nil [2021 – nil].

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

	2022 \$	2021 \$
Balance at the beginning	5,187,842	6,269,925
Participant contribution	198,839	182,478
Benefits paid	(536,056)	(759,353)
<i>Items in net loss</i>		
Current service cost	255,609	294,360
Interest cost	20,672	22,816
Administration cost	2,605	2,923
	<u>278,886</u>	<u>320,099</u>
<i>Items in comprehensive loss</i>		
Actuarial gain	(987,951)	(401,382)
Foreign currency translation	21,627	(423,925)
	<u>(966,324)</u>	<u>(825,307)</u>
Defined benefit liabilities	<u>4,163,187</u>	<u>5,187,842</u>

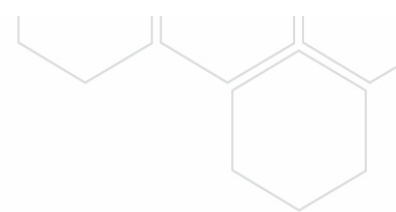
The present value of the defined benefit liabilities may be reflected as follows:

	2022 %	2021 %
Active plan participants	74%	73%
Pensioners	26%	27%

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

	2022 \$	2021 \$
Balance at the beginning	4,376,526	4,959,461
Employer contribution	209,803	197,826
Participant contribution	198,839	182,478
Benefits paid	(536,056)	(759,353)
<i>Item in net loss</i>		
Interest income on plan assets	17,321	17,736
<i>Items in comprehensive loss</i>		
Return on plan assets	(418,307)	113,700
Foreign currency translation	18,244	(335,322)
	<u>(400,063)</u>	<u>(221,622)</u>
Plan assets at fair value	<u>3,866,370</u>	<u>4,376,526</u>

For the year ended June 30, 2022, the service cost amounted to \$255,609 [2021 – \$294,360]. Total cash payments for employee benefits, consisting of cash contributed by the Corporation to its pension plan amounted to \$209,803 [2021 – \$197,826]. The Corporation estimates to contribute \$226,085 to the defined benefit plan during the next fiscal year end.



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

	2022	2021
Discount rate	2.2%	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	2.2%	0.5%
Mortality decrement and turnover rate	BVG / LPP 2020 GT Table	BVG / LPP 2020 GT Table
Disability decrement	85% BVG / LPP 2020 GT Table	85% BVG / LPP 2020 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 Corporation 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	(129,498)	135,426
Salary increase	17,507	(19,475)

15. EQUITY

a) Share capital

Authorized

Unlimited number of common shares, without nominal or par value, entitled to vote, to receive dividends subject to the priority of payment of dividends attaching to the series of first preferred and second preferred shares, and in the event of liquidation or winding up, to receive the remaining assets of the Corporation.

Unlimited number of first preferred shares, without nominal or par value, not entitled to vote, issuable in series, entitled to receive dividends in priority to the holders of common shares and second preferred shares, and in the event of liquidation or winding up, to receive amounts the articles of the Corporation provide must be paid in priority to the holders of common shares and second preferred shares.

Unlimited number of second preferred shares, without nominal or par value, not entitled to vote, issuable in series, entitled to receive dividends in priority to the holders of common shares, and in the event of liquidation or winding up, to receive amounts the articles of the Corporation provide must be paid in priority to the holders of common shares.

Issued

There are no first preferred shares and second preferred shares issued and outstanding.

Issued and outstanding common shares are detailed as follows:

	Number of shares	\$
Balance as at July 1, 2020	140,226,610	84,837,145
Issuance of common shares in February 2021	11,500,000	43,382,567
Exercise of stock options	768,667	1,245,976
Conversion of the convertible debentures in December 2020	5,434,782	10,601,688
Balance as at June 30, 2021	157,930,059	140,067,376
Issuance of common shares in February 2022	6,522,000	27,996,232
Exercise of stock options	771,466	1,290,664
Balance as at June 30, 2022	165,223,525	169,354,272

On February 24, 2022, the Corporation completed a financing by way of a prospectus supplement dated February 17, 2022 to the Corporation's short form base shelf prospectus dated January 24, 2022 of 6,522,000 common shares at a price of \$4.60 per share for gross proceeds of \$30,001,200. The aggregate issuance costs related to this issuance, including the commission, were \$2,004,968 and were paid in cash.

On February 12, 2021, the Corporation completed a financing by way of short form prospectus of 11,500,000 common shares at a price of \$4.00 per share for gross proceeds of \$46,000,000. The aggregate issuance costs related to this issuance, including the commission, were \$2,617,433 and were paid in cash.

On December 8, 2020, \$10,000,000 of the convertible debentures principal amount was converted into common shares of the Corporation at a price of \$1.84 per share, resulting in the issuance of 5,434,782 common shares of the Corporation. This has also resulted in a \$2,240,000 transfer from "Convertible debentures – Options" to "Share capital".

b) Stock options

The incentive stock option plan allows the Corporation to grant to employees, directors, officers and consultants options to purchase shares of the Corporation. 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 years ended June 30:

	2022		2021	
	Number	Weighted average exercise price (\$)	Number	Weighted average exercise price (\$)
Balance at the beginning	3,833,466	1.62	3,917,133	1.17
Options granted to officers, directors and employees	300,000	4.77	760,000	3.41
Options exercised	(771,466)	1.16	(768,667)	1.13
Options expired	(12,500)	3.55	–	–
Options forfeited	(62,500)	3.07	(75,000)	1.39
Balance at the end	3,287,000	1.98	3,833,466	1.62
Options exercisable as at June 30	2,665,332	1.51	3,230,132	1.28

During the year ended June 30, 2022, 300,000 options were granted. These options have an exercise price between \$2.61 and \$6.44 with a vesting period of three years and a half 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, 2022, 771,466 options were exercised resulting in cash proceeds of \$896,409 and a transfer from "Reserve" to "Share capital" of \$394,255. The weighted average share price on the date of exercise of the options was \$5.61.

During the year ended June 30, 2021, 760,000 options were granted. These options have an exercise price between \$2.34 and \$3.85 with a vesting period between two and three years and a half 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, 2021, 768,667 options were exercised resulting in cash proceeds of \$864,901 and a transfer from "Reserve" to "Share capital" of \$381,075. The weighted average share price on the date of exercise of the options was \$2.91.

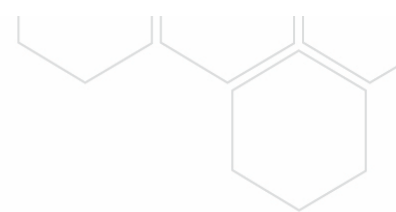
At as June 30, 2022, stock options issued and outstanding by range of exercise price are as follows:

Range of exercise price	Options outstanding			Options exercisable	
	Remaining contractual life (in years)	Number outstanding	Weighted average exercise price (\$)	Number exercisable	Weighted average exercise price (\$)
\$0.45	0.17	352,000	0.45	352,000	0.45
\$1.22 - \$1.80	1.57	2,000,000	1.36	2,000,000	1.36
\$2.34 - \$2.61	4.04	210,000	2.47	55,000	2.34
\$3.55 - \$3.85	3.62	525,000	3.72	233,332	3.75
\$5.27	4.62	100,000	5.27	-	5.27
\$6.44	4.23	100,000	6.44	25,000	6.44
	2.08	3,287,000	1.98	2,665,332	1.51

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, 2022				
Options granted	61%	1.83%	60	2.49
For the year ended June 30, 2021				
Options granted	59%	0.65%	60	1.71

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



16. REVENUES AND EXPENSES

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

	2022 \$	2021 \$
Sales of manufactured products	85,437,963	61,947,409
Tooling revenues	6,895,863	4,707,225
Total revenues from customers	92,333,826	66,654,634
Government assistance	1,901,733	5,470,833
Other revenues	71,600	222,935
Total other income	1,973,333	5,693,768
	94,307,159	72,348,402

Government assistance consists of grants received mainly from the Canada Emergency Wage Subsidy and from Sustainable Development Technology Canada ("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 years ended June 30:

	2022 \$	2021 \$
Salaries and fringe benefits	34,018,019	28,987,353
Materials and subcontracting	52,373,193	35,610,293
Repairs and maintenance	3,372,994	2,495,201
Professional fees	2,860,298	1,761,505
Other operating expenses	10,307,692	7,769,358
	102,932,196	76,623,710

17. INCOME TAXES

Reconciliation of the effective tax rates is as follows:

	2022 \$	2021 \$
Statutory tax rate	26.50%	26.50%
Loss before income taxes for the year	16,516,671	12,830,805
Tax recovery at statutory rate	4,376,918	3,400,163
Increase (decrease) resulting from:		
Non deductibles expenses	25,544	420,160
Effect of difference of foreign tax rates	(141,378)	(26,277)
Tax effect of unrecognized temporary difference and tax losses	(3,474,149)	(2,752,037)
Other	189,142	(18,865)
Net tax recovery	976,077	1,023,144

Reconciliation of the deferred income tax assets and liabilities as at June 30, 2022 and 2021 is as follows:

	2021	Deferred income tax recovery (expenses)	Foreign currency translation adjustment	Business acquisitions and others	2022
	\$	\$	\$	\$	\$
Deferred income tax assets					
Research and development	–	68,950	–	–	68,950
Non-capital losses	3,529,659	1,144,465	47,926	–	4,722,050
Other	87,757	81,146	2,295	–	171,198
Deferred income tax liabilities					
Financing fees	(14,671)	(2,116)	–	–	(16,787)
Intangible assets	(4,439,572)	(450,345)	(46,016)	(129,000)	(5,064,933)
Property, plant and equipment	–	83,392	–	(1,539,535)	(1,456,143)
Other	(91,125)	91,125	–	–	–
Deferred income tax assets (liabilities)	(927,952)	1,016,617	4,205	(1,668,535)	(1,575,665)

	2020	Deferred income tax recovery (expenses)	Foreign currency translation adjustment	Business acquisitions and others	2021
	\$	\$	\$	\$	\$
Deferred income tax assets					
Research and development	–	–	–	–	–
Non-capital losses	2,664,707	864,952	–	–	3,529,659
Other	537,883	(450,126)	–	–	87,757
Deferred income tax liabilities					
Financing fees	(16,129)	1,458	–	–	(14,671)
Intangible assets	–	–	–	–	–
Property, plant and equipment	(4,853,864)	674,398	16,309	(276,415)	(4,439,572)
Other	(57,317)	(33,808)	–	–	(91,125)
Deferred income tax assets (liabilities)	(1,724,720)	1,056,874	16,309	(276,415)	(927,952)

As at June 30, 2022, the Corporation recognized deferred income tax assets of \$833,478 [2021 – \$219,358] related to tax losses of the current and prior years. The deferred income tax assets are recognized, as the Corporation believes it is probable that taxable profits will be available in the future against which the tax loss carry forward can be utilized.

Some deferred tax assets have not been recognized because at this stage of the Corporation's development, it is not determinable that taxable profit will be available against which the Corporation can utilize deferred income tax assets. As at June 30, 2022 and 2021, significant components of the Corporation's net unrecognized deductible temporary differences for which no deferred taxes have been recognized are:

	2022	2021
	\$	\$
Property, plant and equipment	1,089,245	584,256
Share issue costs	968,047	880,224
Non-capital losses carried forward	11,291,109	8,562,825
Capital losses	–	140,302
Research and development	675,103	466,619
Other assets	379,410	57,657
Total deferred income tax assets	14,402,914	10,691,883

As at June 30, 2022, the year of expiry of operating losses for which no deferred income tax assets were recognized in the Consolidated Statements of Financial Position are as follows, presented by tax jurisdiction for Canada:

	Federal \$	Provincial \$
2042	10,182,607	10,202,574
2041	8,483,347	8,805,348
2040	6,104,836	6,164,808
2039	8,440,699	8,476,540
2038	3,405,607	3,432,346
2037	1,857,329	1,900,170
2036	904,205	904,063
2035	631,373	802,180
2034	238,877	227,392
2033	280,508	280,448
2032	126,289	134,806
2031	56,354	56,354
2030	198,140	198,140
2029	129,776	129,743
2028	62,077	62,042
2027	4,756	2,408
Total	41,106,780	41,779,362

As at June 30 2022, the Corporation also has \$2,310,740 of accumulated losses in Switzerland.

As at June 30, 2022, the Corporation also has nil of net capital losses which can be applied against future taxable capital gains and has accumulated non-refundable Federal SR&ED tax credits of \$620,238 which can be used to reduce income tax payable in the future, and will begin expiring as of 2033.

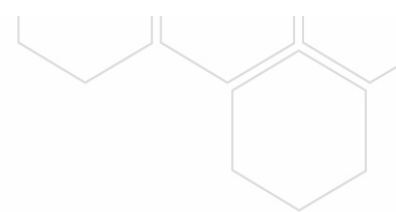
18. RELATED PARTY TRANSACTIONS

Martinrea is a shareholder of the Corporation with significant influence. Subsidiaries of Martinrea purchased graphene-enhanced products and tooling products from the Corporation during the year ended June 30, 2022 for an amount of \$1,111,065 [2021 – \$946,642]. As at June 30, 2022, an amount of \$628,008 due by Martinrea is included in Accounts receivable and contract assets [2021 – \$125,171].

During the year ended June 30, 2022, the Corporation has rendered services to VoltaXplore for an amount of \$16,069 [2021 – \$10,074]. As at June 30, 2022, an amount of \$37,435 is included in Accounts receivable and contract assets [2021 – \$69,965].

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

	2022 \$	2021 \$
Consulting fees, wages and salaries	1,679,200	1,888,328
Director fees	275,313	204,490
Share-based compensation – Management	–	72,987
Share-based compensation – Directors	130,817	244,134
	2,085,330	2,409,939



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 Corporation directly or indirectly, including any directors (executive and non-executive) of the Corporation.

Key management employees are subject to employment agreements which provide for market standard payments on termination of employment without cause providing for payments between twelve and eighteen months of base salary. Minimum commitments under these agreements are approximately \$1,627,000. These agreements require that additional minimum payments of approximately \$2,145,000 be made upon the occurrence of certain events such as a change of control. As a triggering event has not taken place, the contingent payments have not been reflected in these consolidated financial statements.

19. COMMITMENTS

The Corporation has committed to purchase raw materials from certain suppliers within 2 years for an amount of \$857,114.

As at June 30, 2022, the Corporation held forward exchange contracts to sell for a minimum of US\$22.6 million and a maximum of US\$32.9 million depending on the exchange rate of such derivative contracts. Rates vary from 1.1804 to up to 1.3576. The contracts are valid until April 2024. As at June 30, 2022, the carrying value of the derivative foreign currency forward exchange contracts is included in Accounts payable and accrued liabilities [2021 – Included in Accounts receivable and contract asset].

20. FINANCIAL INSTRUMENTS

The Corporation's risk exposures and the impact on the Corporation's financial instruments are summarized below.

Fair value risk

IFRS requires that the Corporation 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 Corporation 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 Corporation 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 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, accrued liabilities and current portion of balance of purchase price, approximates their carrying value due to the short-term maturities of these instruments; and
- (ii) The fair value of lease liability and long-term debt is estimated based on discounted cash flows using current interest rates for instruments with similar terms and remaining maturities. The fair value of derivative foreign currency forward contracts is estimated based on mark-to-market value. The Corporation 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, 2022 and 2021:

	2022		2021	
	Carrying value \$	Fair value \$	Carrying value \$	Fair value \$
Financial assets at amortized cost				
Cash and cash equivalents	51,232,068	51,232,068	50,524,583	50,524,583
Trade and other receivables	18,769,274	18,769,274	9,255,253	9,255,253
Fair value through profit or loss				
Derivative foreign currency forward contract	–	–	466,003	466,003
Total	70,001,342	70,001,342	60,245,839	60,245,839
Financial liabilities at amortized cost				
Operating loans	4,648,900	4,648,900	1,343,300	1,343,300
Trade payables, accrued liabilities and current portion of balance of purchase price	13,481,875	13,481,875	11,923,515	11,923,515
Balance of purchase price of business acquisition	956,014	956,014	–	–
Lease liability	15,232,915	15,232,915	9,574,747	9,574,747
Long-term debt	9,450,814	9,450,814	11,652,440	11,652,440
Long-term debt directly associated with property held for sale	–	–	1,035,431	1,035,431
Fair value through profit or loss				
Derivative foreign currency forward contract	336,995	336,995	–	–
Total	44,107,513	44,107,513	35,529,433	35,529,433

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 Corporation. The Corporation 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, 2022, one customer represented 12% of trade accounts receivable [2021 – three customers represented 48%]. In 2022, two customers represented 46% of sales [2021 – four customers represented 66%].

The Corporation establishes an allowance for doubtful accounts as determined by management based on its assessment of collection; therefore, the carrying amount of accounts receivable and contract asset generally represents the maximum credit exposure. The provision for doubtful accounts, if any, is included in the consolidated statements of loss and comprehensive loss.

The majority of the Corporation'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 Corporation's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. The Corporation'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 1 to 8 years. The Corporation regularly evaluates its cash position to ensure preservation and security of capital and maintain liquidity.

As at June 30, 2022, management estimates that funds available are sufficient to meet the Corporation's obligations and planned net expenditures through at least June 30, 2023.

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

The following table reflects the contractual maturity of the Corporation's financial liabilities as at June 30, 2022 (capital and interest payments):

	Carrying amount	Contractual maturity				Total
		1 year	2-3 years	4-5 years	Later than 5 years	
	\$	\$	\$	\$	\$	\$
Operating loans	4,648,900	4,648,900	–	–	–	4,648,900
Trade payables, accrued liabilities and current portion of balance of purchase price	13,481,875	13,481,875	–	–	–	13,481,875
Balance of purchase price of business acquisition	956,014	–	1,000,000	–	–	1,000,000
Lease liability	15,232,915	3,061,652	6,818,954	3,585,912	3,883,690	17,350,208
Long-term debt	9,450,814	3,572,474	3,276,213	2,938,980	754,759	10,542,426
Total	43,770,518	24,764,901	11,095,167	6,524,892	4,638,449	47,023,409

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 Corporation'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 Corporation is exposed to interest rate fluctuations on its operating loans and long-term debt, which bear a variable interest rate. Based on the balances outstanding as at June 30, 2022, a 1% increase (decrease) in interest rates would increase (decrease) the Corporation's consolidated net loss by \$97,424 on a 12-month horizon.

The majority of the Corporation'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 Corporation's trade payables and accrued liabilities are non-interest bearing.

Foreign currency risk

Currency risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

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

Foreign currency transactions originate from certain operations in the Corporation and its subsidiaries denominated in foreign currencies other than their functional currency. The following table provides a summary of the Corporation's exposure of foreign currency expressed in Canadian dollars as at June 30, 2022:

	Euro	US dollars	Total
	\$	\$	\$
Cash and cash equivalents	11,318	1,771,702	1,783,020
Accounts receivable	1,094,565	9,622,514	10,717,079
Trade payables and accrued liabilities	(646,371)	(6,132,911)	(6,779,282)
Lease liability	–	(51,128)	(51,128)
Total	459,512	5,210,177	5,669,689

As at June 30, 2021:

	Euro \$	US dollars \$	Total \$
Cash and cash equivalents	589,763	2,598,878	3,188,641
Accounts receivable	912,730	3,779,272	4,692,002
Trade payables and accrued liabilities	(213,660)	(3,506,303)	(3,719,963)
Lease liability	–	(69,102)	(69,102)
Total	1,288,833	2,802,745	4,091,578

For the year ended June 30, 2022, 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 \$131,506 [2021 – \$94,231] net increase or decrease of the Corporation's consolidated net loss and comprehensive loss. The Corporation has hedged its exposure to US dollar currency fluctuations but does not apply hedge accounting as defined in IFRS 9.

Capital management

The Corporation's objectives in managing capital are to ensure sufficient liquidity to enable the internal financing of capital projects and to pursue its strategy of organic growth combined with complementary acquisitions, to maintain a strong capital base so as to maintain investor, creditor and market confidence and to provide long-term investment returns to its shareholders.

The Corporation manages its capital structure and makes adjustments in light of general economic conditions, the risk characteristics of the underlying assets and the Corporation's working capital requirements. In order to maintain or adjust its capital structure, the Corporation, upon approval from its Board of Directors, may issue or repay long-term debt, issue shares or undertake other activities as deemed appropriate under the specific circumstances. The Board of Directors reviews and approves any material transactions out of the ordinary course of business, including proposals on acquisitions or other major investments or divestitures, as well as annual capital and operating budgets.

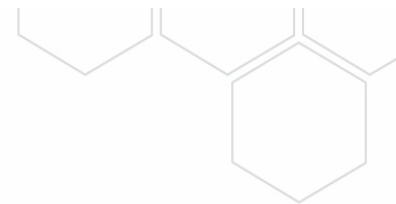
In addition to debt and equity, the Corporation may use leases as additional sources of financing. The Corporation monitors debt leverage ratios as part of the management of liquidity and shareholders' return and to sustain future development of the business. The Corporation is not subject to externally imposed capital requirements and its overall strategy with respect to capital risk management remains unchanged from the prior year.

21. SEGMENTED DISCLOSURE

The Corporation's Chief Operating Decision Maker analyzes the information for the Corporation as a whole on a consolidated basis only and as such, the Corporation determined that it has only one operating segment. Revenues are generated from activities in Canada, in the United States and in Switzerland, and all sales of products come from enhanced plastics and composite products.

	2022 \$	2021 \$
Revenues *		
United States	57,850,917	30,722,926
Canada	27,412,217	32,702,121
France	2,954,390	3,578,930
Switzerland	2,524,534	2,726,161
Other	3,565,101	2,618,264
Total	94,307,159	72,348,402

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



	2022	2021
	\$	\$
Long-lived Assets		
Canada	65,578,421	58,706,799
United States	7,340,391	6,764,928
Switzerland	3,206,201	2,436,658
Total	76,125,013	67,908,385

22. SUBSEQUENT EVENT

On August 24, 2022, the Corporation purchased a significant portion of the assets of XG Sciences Inc. ("XG") for an amount of US\$3,000,000 in a sale conducted by XG's senior secured creditor pursuant to Article 9 of Michigan's enactment of the Uniform Commercial Code. The Corporation and the senior creditor have entered into an asset purchase agreement pursuant to which NanoXplore is acquiring XG's mechanical milling platform, research and development lab and all issued and pending patents and trademarks, among other items.