# GRAPHENE 3D LAB INC.
# UNAUDITED CONDENSED INTERIM
# CONSOLIDATED FINANCIAL STATEMENTS

**FOR THE QUARTER ENDED NOVEMBER 30, 2015**
**(Expressed in US Dollars)**

January 29, 2016

## Management's Report

The accompanying interim unaudited condensed consolidated financial statements of **Graphene 3D Lab Inc.** (the "Company") are the responsibility of management and have been approved by the Board of Directors. The interim unaudited condensed consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS"). The interim unaudited condensed consolidated financial statements include certain amounts and assumptions that are based on management's best estimates and have been derived with careful judgment.

In fulfilling its responsibilities, management has developed and maintains a system of internal accounting controls. These controls are designed to provide reasonable assurance that the financial records are reliable for preparation of the interim unaudited condensed consolidated financial statements. The Audit Committee of the Board of Directors reviewed and approved the Company's consolidated financial statements, and recommended their approval by the Board of Directors.

These interim unaudited condensed consolidated financial statements have not been reviewed by the external auditors of the Company.

## Signed:

*"Daniel Stolyarov"*
Daniel Stolyarov, Co-Chief Executive Officer
Calverton, New York

*"Robert Randall"*
Robert Randall, Chief Financial Officer
Halifax, Nova Scotia

**GRAPHENE 3D LAB INC.**
**UNAUDITED CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**
**AS AT NOVEMBER 30, 2015 AND MAY 31, 2015**
(Expressed in US Dollars)

| | November 30, 2015 | May 31, 2015 |
|---|---|---|
| | $ | $ |
| **ASSETS** | | |
| **Current** | | |
| Cash and cash equivalents | 34,957 | 628,659 |
| Amounts receivable (Note 4) | 12,359 | 100,423 |
| Inventory (Note 5) | 123,790 | 58,625 |
| Prepaid expenses and deposits | 24,125 | 32,682 |
| | 195,231 | 820,389 |
| Equipment (Note 6) | 185,662 | 201,933 |
| | 380,893 | 1,022,322 |
| **LIABILITIES** | | |
| **Current** | | |
| Accounts payable and accrued liabilities | 270,156 | 71,232 |
| Convertible promissory notes payable (Note 8) | - | - |
| | 270,156 | 71,232 |
| **Shareholders' Equity (Deficiency)** | | |
| Share capital (Note 9) | 3,590,148 | 3,735,598 |
| Warrants (Note 9) | 299,000 | 378,600 |
| Contributed surplus | 1,839,803 | 1,320,772 |
| Accumulated other comprehensive loss | (40,024) | (29,934) |
| Deficit | (5,576,190) | (4,453,946) |
| | 110,737 | 951,090 |
| | 380,893 | 1,022,322 |

**Nature of Operations** (Note 1)
**Going Concern** (Note 2(c))
**Commitment** (Note 14)
**Subsequent Event** (Note 16)

Approved on behalf of the Board of Directors on January 29, 2016:

*"Daniel Stolyarov"* Director — Daniel Stolyarov

*"Ian Klassen"* Director — Ian Klassen

**GRAPHENE 3D LAB INC.**
**UNAUDITED CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**
**FOR THE PERIODS ENDED NOVEMBER 30, 2015 AND 2014**
(Expressed in US Dollars)

| | Three months ended November 30, 2015 | Three months ended November 30, 2014 | Six months ended November 30, 2015 | Six months ended November 30, 2014 |
|---|---|---|---|---|
| | | $ | | $ |
| **REVENUE** | 58,369 | - | 92,043 | - |
| **COST OF GOODS SOLD** | (71,858) | - | (113,564) | - |
| | (13,489) | - | (21,521) | |
| **EXPENSES** | | | | |
| Listing fee expense (Note 3) | - | (44,784) | - | 1,463,214 |
| Share-based compensation | 24,438 | 390,886 | 237,981 | 691,471 |
| Salaries and benefits | 63,301 | 114,624 | 175,662 | 144,576 |
| Research and development | 125,374 | 35,361 | 206,378 | 60,204 |
| Professional fees | 94,757 | 126,655 | 182,587 | 188,259 |
| Marketing and investor relations | 63,427 | 56,111 | 121,639 | 92,446 |
| Office and administrative | 35,367 | 23,928 | 92,422 | 39,900 |
| Regulatory fees | 17,533 | 30,729 | 31,182 | 35,586 |
| Travel | 12,932 | 24,130 | 20,802 | 25,935 |
| Foreign exchange loss | - | 1,777 | - | 3,803 |
| Depreciation | 16,035 | 2,176 | 32,070 | 4,352 |
| | (453,164) | (761,593) | (1,100,723) | (2,749,746) |
| **NET LOSS** | (466,653) | (761,593) | (1,122,244) | (2,749,746) |
| **OTHER COMPREHENSIVE LOSS** | | | | |
| Items that may be reclassified subsequently to income: | | | | |
| Foreign currency translation loss | 466 | (7,538) | (12,090) | (13,212) |
| **COMPREHENSIVE LOSS** | (466,187) | (769,131) | (1,134,334) | (2,762,958) |
| **LOSS PER SHARE - BASIC AND DILUTED** | $ (0.011) | $ (0.02) | $ (0.026) | $ (0.08) |
| **WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING** | 41,164,954 | 40,694,423 | 42,532,727 | 33,882,087 |

**GRAPHENE 3D LAB INC.**
**UNAUDITED CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**
**FOR THE PERIODS ENDED NOVEMBER 30, 2015 AND 2014**
(Expressed in US Dollars)

| | Six months ended November 30, 2015 | Six months ended November 30, 2014 |
|---|---|---|
| | $ | $ |
| **OPERATING ACTIVITIES** | | |
| Net loss | (1,122,244) | (2,749,746) |
| Non cash items: | | |
| Listing fee expense | - | 1,318,518 |
| Share-based compensation | 237,981 | 691,471 |
| Depreciation | 32,070 | 4,352 |
| | (852,193) | (735,405) |
| Changes in non-cash working capital items: | | |
| Amounts receivable | 88,064 | 4,258 |
| Inventory | (65,165) | (47,983) |
| Prepaid expenses and deposits | 8,557 | (56,792) |
| Accounts payable and accrued liabilities | 198,925 | (167,024) |
| | (621,813) | (1,002,946) |
| **INVESTING ACTIVITY** | | |
| Purchase of equipment | (15,799) | (119,836) |
| **FINANCING ACTIVITIES** | | |
| Proceeds from issuance of common shares (net) | - | 1,516,707 |
| Proceeds on the exercise of warrants | 56,000 | 190,724 |
| Cash acquired on reverse acquisition transaction | - | 535 |
| | 56,000 | 1,707,965 |
| **Change in cash and cash equivalents** | (581,612) | 585,183 |
| **Effect of exchange rate changes on cash** | (12,090) | (13,212) |
| **Cash and cash equivalents, beginning** | 628,659 | 66,233 |
| **Cash and cash equivalents, ending** | 34,957 | 638,204 |

**Supplemental cash flow information (Note 13)**

**GRAPHENE 3D LAB INC.**
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIENCY)**
**FOR THE PERIODS ENDED NOVEMBER 30, 2015 AND 2014**
(Expressed in US Dollars)

| | Common Shares | | Preferred Shares and Warrants | | Contributed Surplus | Accumulated Other Comprehensive Loss | Deficit | Total |
|---|---|---|---|---|---|---|---|---|
| | # | $ | # | $ | $ | $ | $ | $ |
| **Balance, May 31, 2014** | **21,100,000** | **43,021** | **-** | **-** | **2,996** | **-** | **(177,673)** | **(131,656)** |
| Convertible promissory notes exchanged for common shares of Graphene 3D (US) Inc. (Note 8) | 4,500,000 | 204,581 | - | - | (2,996) | - | - | 201,585 |
| Warrants issued for convertible debenture (Note 3) | - | - | 4,500,000 | 358,000 | - | - | - | 358,000 |
| Common shares of Graphene 3D (US) Inc. exchanged for common shares of the Graphene 3D Lab Inc. (Note 3) | (25,600,000) | - | - | - | - | - | - | - |
| | 25,600,000 | - | - | - | - | - | - | - |
| Shares and warrants deemed to be issued on reverse takeover (Note 3) | 6,367,500 | 578,970 | 3,000,000 | 228,000 | - | - | - | 806,970 |
| Common shares issued for cash | 7,200,000 | 1,636,661 | - | - | - | - | - | 1,636,661 |
| Share issuance costs | - | (119,955) | - | - | - | - | - | (119,955) |
| Exercise of warrants | 2,845,000 | 406,944 | (2,845,000) | (216,220) | - | - | - | 190,724 |
| Share-based compensation | - | - | - | - | 691,471 | - | - | 691,471 |
| Foreign currency translation loss | - | - | - | - | - | (13,212) | - | (13,212) |
| Net loss for the period | - | - | - | - | - | - | (2,749,746) | (2,749,746) |
| **Balance, November 30, 2014** | 42,012,500 | 2,750,222 | 4,655,000 | 369,780 | 691,471 | (13,212) | (2,927,419) | 870,842 |
| Exercise of warrants | 155,000 | 21,806 | (155,000) | (11,780) | - | - | - | 10,026 |
| Common shares issued for cash | 1,220,000 | 1,008,349 | 610,000 | 20,600 | - | - | - | 1,028,949 |
| Share issuance costs | - | (44,779) | - | - | - | - | - | (44,779) |
| Share-based compensation | - | - | - | - | 629,301 | - | - | 629,301 |
| Foreign currency translation loss | - | - | - | - | - | (16,722) | - | (16,722) |
| Net loss for the period | - | - | - | - | - | - | (1,526,527) | (1,526,527) |
| **Balance, May 31, 2015** | **43,387,500** | **3,735,598** | **5,110,000** | **378,600** | **1,320,772** | **(29,934)** | **(4,453,946)** | **951,090** |
| Exercise of warrants | 1,000,000 | 135,600 | (1,000,000) | (79,600) | - | - | - | 56,000 |
| Cancelation of escrowed shares | (3,222,546) | (281,050) | - | - | 281,050 | - | - | - |
| Share-based compensation | - | - | - | - | 237,981 | - | - | 237,981 |
| Foreign currency translation loss | - | - | - | - | - | (12,090) | - | (12,090) |
| Net loss for the period | - | - | - | - | - | - | (1,122,244) | (1,122,244) |
| **Balance, November 30, 2015** | **41,164,954** | **3,590,148** | **4,110,000** | **299,000** | **1,839,803** | **(42,024)** | **(5,576,190)** | **110,737** |

The accompanying notes are an integral part of these consolidated financial statements

## 1. NATURE OF OPERATIONS

Graphene 3D Lab Inc. (the "Company"), formerly MatNic Resources Inc. ("MatNic"), was incorporated pursuant to the British Columbia Business Corporations Act on January 17, 2011. On August 8, 2014, the Company acquired Graphene 3D Lab (U.S.) Inc. through a reverse acquisition transaction described in Note 4. The historical operations, assets and liabilities of Graphene 3D Lab (U.S.) Inc. are included as the comparative figures as at and for the period ended May 31, 2014, which is deemed to be the continuing entity for financial reporting purposes. Graphene 3D Lab (U.S.) Inc. was incorporated on September 3, 2013 in the State of Delaware, U.S.A.

Concurrent with the closing of the reverse acquisition transaction, MatNic changed its name to Graphene 3D Lab Inc. and effected a change in directors, management and business. On August 11, 2014, the Company's common shares resumed trading on the TSX Venture Exchange ("TSX-V") under the symbol "GGG."

The Company's principal business is the development and manufacturing of graphene-enhanced materials for 3D printing, with proprietary technologies aimed at enhancing the properties of materials currently used in 3D printers. The address of the Company's principal place of business is at 4603 Middle Country Road, Calverton, New York.

## 2. BASIS OF PREPARATION AND CONTINUING OPERATIONS

a) Statement of Compliance

These condensed interim consolidated financial statements are prepared in accordance with International Accounting Standard ("IAS") 34 - Interim Financial Reporting under International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). These condensed interim consolidated financial statements follow the same accounting policies and methods of application as the most recent audited financial statements of the Graphene 3D Lab (U.S.) Inc., except for the accounting policies which have changed as a result of the adoption of new and revised standards and interpretations which are effective June 1, 2015. These condensed consolidated interim financial statements do not contain all of the information required for full annual financial statements. Accordingly, these condensed consolidated interim financial statements should be read in conjunction with the May 31, 2015 audited financial statements, which were prepared in accordance with IFRS as issued by the IASB.

b) Basis of Consolidation

These condensed interim consolidated financial statements incorporate the accounts of the Company and is wholly-owned subsidiary Graphene 3D Lab (U.S.) Inc. All significant intercompany transactions and balances have been eliminated on consolidation.

These consolidated financial statements were approved and authorized for issuance in accordance with resolution from the Board of Directors on January 29, 2016.

## 2. BASIS OF PREPARATION AND CONTINUING OPERATIONS (continued)

c) Going Concern

These condensed interim consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes the Company will be able to realize its assets and discharge its liabilities in the normal course of operations for the foreseeable future. As at November 30, 2015, the Company has an accumulated deficit of $5,576,190 and has generated negative cash flows from operations. These factors raise significant doubt about the Company's ability to continue as a going concern. The Company's ability to continue its operations and to realize assets at their carrying values is dependent upon obtaining additional financing or maintaining continued support from its shareholders and creditors, and generating profitable operations in the future. There is no guarantee that the Company will be able to raise this additional financing. These consolidated financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern.

d) Accounting Policies

These condensed interim consolidated financial statements have been prepared using the same policies and methods of computation as the annual consolidated financial statements of the Company for the year ended May 31, 2015. Refer to note 3, *Summary of Significant Accounting Policies,* of the Company's annual consolidated financial statements for the year ended May 31, 2015 for information on the accounting policies as well as new accounting standards not yet effective.

## 3. REVERSE ACQUISITION TRANSACTION

On August 8, 2014, MatNic acquired 100% ownership of Graphene 3D Lab (U.S.) Inc. by issuing 25,600,000 of its common shares and 4,500,000 common share purchase warrants (the "Transaction"). For accounting purposes, the acquisition is considered to be outside the scope of IFRS 3 *Business Combinations* ("IFRS 3") since MatNic, prior to the acquisition did not constitute a business. The transaction is accounted for in accordance with IFRS 2 *Share-based Payment* whereby Graphene 3D Lab (U.S.) is deemed to have issued shares and share purchase warrants in exchange for the net assets of MatNic together with its listing status at the fair value of the consideration received by Graphene 3D Lab (U.S.) Inc. The accounting for this transaction resulted in the following:

(i) The consolidated financial statements of the combined entities are issued under the legal parent, MatNic, but are considered a continuation of the financial statements of the legal subsidiary, Graphene 3D Lab (U.S.) Inc.

(ii) Since Graphene 3D Lab (U.S.) Inc. is deemed to be the acquirer for accounting purposes, its assets and liabilities are included in the consolidated financial statements at their historical carrying values.

Since the share and share-based consideration allocated to the former shareholders of MatNic on closing the Transaction is considered within the scope of IFRS 2, and the Company cannot identify specifically some or all of the goods or service received in return for the allocation of the shares and warrants, the value in excess of the net identifiable assets or obligations of MatNic acquired on closing was expensed in the consolidated statement of comprehensive loss as listing fee expense.

The listing fee expense in the amount of $1,463,214 is comprised of the fair value of common shares and warrants of the Company retained by the former shareholders of MatNic, the warrants issued to convertible promissory note holders as well as other direct expenses of the Transaction.

## 3. REVERSE ACQUISITION TRANSACTION (continued)

The listing fee expense is summarized as follows:

| | $ |
|---|---|
| Net working capital deficiency assumed: | |
| Accounts payable and accrued liabilities | 171,358 |
| Receivables | (59,112) |
| Cash | (535) |
| | 111,711 |
| Common shares deemed to be issued re MatNic (6,367,500 shares at US$0.091 (C$0.10) per share) | 578,970 |
| Warrants deemed to be issued re MatNic (3,000,000 warrants exercisable at US$0.0675 (C$0.075) until February 27, 2017) | 228,000 |
| Warrants issued to convertible promissory note holders (4,500,000 warrants exercisable at US$0.064 (C$0.07) until August 8, 2017) | 358,000 |
| Sponsors fee, legal and disbursements | 59,306 |
| Legal and other transaction costs | 127,227 |
| | 1,351,503 |
| Listing fee expense | 1,463,214 |

The Company has estimated the fair value of the equity instruments deemed to be issued by MatNic. The fair value of the common shares amounted to $578,970, based on the trading value of the MatNic shares at the time of the agreement being $0.091 (C$0.10) per share. The fair value of the Matnic warrants, exercisable at C$0.075 per share for 30 months, amounted to $228,000. The fair value of the warrants issued in association with the convertible promissory notes, exercisable at C$0.07 per share for 36 months, amounted to $358,000. The fair value was estimated using the Black-Scholes pricing model applying an expected volatility of 165%, a risk free interest rate of 1% with no expected dividend yield. The fair value of these equity instruments has been recorded as a listing fee expense.

## 4. AMOUNTS RECEIVABLE

| | **November 30, 2015** | **May 31, 2015** |
|---|---|---|
| | $ | $ |
| Trade accounts receivable | 3,335 | 6,943 |
| GST receivable | 9,024 | 3,052 |
| Other receivable | - | 90,427 |
| Total | 12,359 | 100,422 |

Other receivable relates to a refundable deposit that was received in August 2015.

## 5. INVENTORY

| | November 30, 2015 | May 31, 2014 |
|---|---|---|
| | $ | $ |
| Raw materials | 35,836 | 25,415 |
| Work in progress | - | 2,980 |
| Finished goods | 87,954 | 30,230 |
| Total | 123,790 | 58,625 |

## 6. EQUIPMENT

| | Laboratory Equipment |
|---|---|
| **Cost:** | $ |
| Beginning | 26,110 |
| Additions | 217,253 |
| Disposals | - |
| May 31, 2015 | 243,363 |
| Additions | 15,799 |
| Disposals | - |
| November 30, 2015 | 259,162 |
| **Accumulated Depreciation:** | |
| Beginning | 5,802 |
| Depreciation expense | 35,628 |
| May 31, 2015 | 41,430 |
| Depreciation expense | 32,070 |
| November 30, 2015 | 73,500 |
| **Net Book Value:** | |
| May 31, 2015 | 201,933 |
| November 30, 2015 | 185,662 |

## 7. RELATED PARTY TRANSACTIONS

Key management includes directors and officers of the Company. The Company entered into the following transactions with related parties:

a) During the period ended November 30, 2015, the Company paid $7,400 (period ended November 30, 2014 - $35,197) for reimbursement of rent, accounting, research and development and other expenses to a Company controlled by common officers and directors;

b) During the period ended November 30, 2015, the Company paid professional fees to a companies controlled by officers and directors of the Company in the amount of $77,611 (period ended November 30, 2014 - $49,500);

c) During the period ended November 30, 2015, the Company paid salaries to directors and officers of the Company in the amount of $112,500 (period ended November 30, 2014 - $68,870); and

d) During the period ended November 30, 2015, the Company issued 200,000 (period ended November 30, 2014 – 650,000) stock options with a fair value of $95,042 (period ended November 30, 2014 - $510,798) to directors and officers of the Company. For the period ended November 30, 2015 $181,701 (period ended November 30, 2014 - $244,757) has been included in share-based compensation.

**Acquisition of Graphene Laboratories:**

On August 15, 2015, the Company entered a share exchange agreement (the "SEA") to acquire all of the issued and outstanding shares of Graphene Laboratories Inc. ("GLI"). GLI is incorporated under the laws of the Commonwealth of Massachusetts, U.S.A, and is controlled and managed by Chief Executive Officer and Chief Operating Officer of the Company. For further details, see subsequent event note 16.

## 8. CONVERTIBLE PROMISSORY NOTES PAYABLE

The Company entered into a series of convertible promissory notes payable during the period ended May 31, 2014 with arms length individuals with a principal amount of $204,581 (C$225,000). The notes were convertible into common shares of the Company for any portion of the outstanding principal at a rate of 1.5% of the then fully-diluted common shares of the Company for each C$10,000 principal balance converted at the discretion of the Company. The notes bore interest of 7.5% per annum.

In the event of a merger of the Company with and into a company publicly traded on the TSX Venture Exchange (a "Corporate Transaction") occurring, the entire amount of principal is automatically converted into common shares at a conversion price of C$0.05 per common share. In addition in the event of a Corporate Transaction one common share purchase warrants will be issued for each C$0.05 of principal outstanding to the convertible promissory note holders. Each common share purchase warrant will entitle the holder to purchase one common share for each warrant held at an exercise price of C$0.07 per share. The warrants expire three years from date of issuance.

As a result of the reverse acquisition transaction as described in Note 3, the entire amount of principal of $204,581 (C$225,000) was converted into common shares of the Company immediately prior to the completion of the reverse acquisition transaction. A total of 4,500,000 common shares were issued as a result of the conversion. In addition, 4,500,000 common share purchase warrants were issued to the convertible promissory note holders. Each common share purchase warrant will entitle the holder to purchase one common share for each warrant held at an exercise price of C$0.07 per share. The warrants expire on March 25, 2017.

## 9. SHARE CAPITAL

**Authorized:**

Unlimited number of common shares without par value.

**Issued and outstanding common stock:**

a) On July 18, 2014, Graphene 3D (US) Inc. increased its authorized capital to 45 million common shares and completed a stock split whereby Graphene 3D (US) Inc. issued to each shareholder of record 12.787878 shares of common stock, par value $0.0001 per share, for each share of common stock held by each shareholder as at the record date. Under IFRS this stock split is applied retroactively in the financial statements. As at May 31, 2014, 21,100,000 common shares of Graphene 3D (US) Inc. are deemed to be outstanding.

b) On August 8, 2014, the Company issued 4,500,000 common shares and 4,500,000 non-transferrable share purchase warrants on the conversion of the convertible promissory notes payable (see also Note 9).

c) On August 8, 2014, as a result of the reverse acquisition transaction as described in Note 4, the Company acquired all of the issued and outstanding common shares of Graphene 3D Lab (U.S.) Inc. in exchange for 25,600,000 common shares of the Company.

The Company has estimated the fair value of its 6,367,500 common shares deemed to be issued by MatNic Resources Inc. on the reverse acquisition transaction as $578,970, based on the trading value of the MatNic shares at the price of the shares was $0.091 (C$0.10) per share.

The Company completed a concurrent private placement offering raising gross proceeds of $1,636,661 (C$1,800,000) by the issuance of 7,200,000 common shares at C$0.25 per share. In connection with the private placement financing the Company incurred share issue costs of $119,955.

d) On January 9, 2015, the Company completed a private placement offering raising gross proceeds of US$1,028,949 (C$1,220,000) by the issuance of 1,220,000 Units at C$1.00 per Unit. Each Unit consisted of one common share and half a common share purchase warrant. A total of 1,220,000 common shares and 610,000 share purchase warrants were issued. The common share purchase warrants have an exercise price of C$1.25 and expire on January 9, 2017. In connection with the private placement financing the Company incurred share issue costs of $44,779.

e) During the year ended May 31, 2015, the Company issued 3,000,000 common shares on the exercise of warrants for proceeds of $200,750 (C$225,000).

f) During the quarter ended August 31, 2015, the Company issued 1,000,000 common shares on the exercise of warrants for proceeds of $56,000 (C$70,000).

g) During the quarter ended August 31, 2015, the Company cancelled 3,222,546 of its escrowed shares, due to the departure of a member of its Advisory Board, The three-year escrow agreement provided that any shares held in escrow would be returned to treasury and cancelled at such time the member no longer served on the Company's Advisory Board. This resulted in a decrease of outstanding shares from 44,387,500 to 41,164,955 and a reduction in share capital of $281,050 which has been transferred to contributed surplus. The TSX Venture Exchange has provided its consent for the cancellation of these shares and the Company's transfer agent has cancelled these shares in accordance with the terms of the escrow agreement.

## 9. SHARE CAPITAL (continued)

**Escrow shares:**

As at November 30, 2015, there are 14,015,515 common shares (May 31, 2015 – 18,990,000 common shares) subject to escrow agreements.

**Stock options:**

The Company has adopted a stock option plan (the "Plan"), providing the Board of Directors with the discretion to issue an equivalent number of options of up to 10% of the issued and outstanding share capital of the Company. Stock options are granted with an exercise price of not less than the closing share price of the day preceding the date of grant.

The Company has granted 2,350,000 stock options to directors, employees and consultants of the Company. The estimated fair value of the stock options granted was estimated at the grant date using the Black-Scholes option pricing model. Option pricing models require the input of highly subjective assumptions, including the expected volatility. Changes in the assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable measure of the fair value of the Company's stock options. The resulting weighted average fair value at the date of grant is $0.73. The weighted average assumptions used in the Black-Scholes option pricing model are as follows:

| | 2016 | 2015 |
|---|---|---|
| Share price | C$0.69 | C$0.98 |
| Risk-free interest rate | 1.0% | 1.0% |
| Expected volatility | 130% | 130% |
| Expected dividend yield | $nil | $nil |
| Expected forfeiture rate | 0% | 0% |
| Expected life | 5 years | 5 years |

Continuity of stock options:

| | Number of options | Exercise price |
|---|---|---|
| Options outstanding at September 3, 2013 and May 31, 2014 | - | - |
| Granted August 26, 2014 for five year term | 2,075,000 | C$1.00 |
| Granted January 29, 2015 for five year term | 400,000 | C$1.00 |
| Cancelled during the year | (25,000) | C$1.00 |
| Options outstanding – May 31, 2015 | 2,450,000 | C$1.00 |
| Granted August 24, 2015 for five year term | 200,000 | C$0.69 |
| Cancelled during the period | (300,000) | C$1.00 |
| Options outstanding – November 30, 2015 | 2,350,000 | C$0.97 |

The options have various vesting schedule ranging from one year to 36 months. Based on the Black-Scholes option pricing model and the assumptions outlined above the estimated fair value of the granted options is $1,779,344. This amount is recognized over the vesting period. As a result a share-based compensation expense of $1,320,772 has been recorded during the year ended May 31, 2015. An additional $237,891 has been recorded in the period ended November 30, 2015.

## 9. SHARE CAPITAL (continued)

### Stock options (continued):

Details of stock options outstanding:

| Expiry date | Exercise price | Remaining life (years) | Number of stock options outstanding | Number of stock options vest and exercisable |
|---|---|---|---|---|
| August 26, 2019 | C$1.00 | 3.7 | 1,750,000 | 1,227,500 |
| January 20, 2020 | C$1.00 | 4.2 | 400,000 | 185,000 |
| August 24, 2020 | C$0.69 | 4.7 | 200,000 | 50,000 |

### Share purchase warrants:

The Company issued 4,500,000 non-transferable common share purchase warrants to the promissory note holders in association with the reverse acquisition transaction (see Note 8). Each common share purchase warrant will entitle the holder to purchase one common share for each warrant held at an exercise price of $0.064 (C$0.07) per share. These warrants expire on August 8, 2017.

The Company also issued 610,000 common share purchase warrants on January 9, 2015 as part of the private placement described in Note 9(d). Each common share purchase warrant entitles the holder to acquire one common share of the Company at a price of $1.01 (C$1.25) per share. These warrants expire on January 9, 2017.

Continuity of share purchase warrants:

| | Number of warrants | Weighted average exercise price |
|---|---|---|
| Warrants outstanding at September 3, 2013 and May 31, 2014 | - | - |
| Deemed to be issued on the reverse acquisition transaction, expire February 27, 2017 | 3,000,000 | C$0.075 |
| Warrants exercised during the year | (3,000,000) | C$0.075 |
| Issued on conversion of convertible debentures, expire March 25, 2017 | 4,500,000 | C$0.070 |
| Issued with January 9, 2015 private placement financing, expire January 9, 2017 | 610,000 | C$1.250 |
| Warrants outstanding – May 31, 2015 | 5,110,000 | C$0.211 |
| Warrants exercised during the period | (1,000,000) | C$0.070 |
| Warrants outstanding at November 30, 2015 | 4,110,000 | C$0.245 |

Details of warrants outstanding:

| Expiry date | Exercise price | Remaining life (years) | Number of warrants outstanding and exercisable |
|---|---|---|---|
| January 9, 2017 | C$1.25 | 1.1 | 610,000 |
| March 25, 2017 | C$0.07 | 1.3 | 3,500,000 |

## 10. MANAGEMENT OF CAPITAL

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the the development and production of 3D graphene printing technology. The Company does not have any externally imposed capital requirements to which it is subject.

The Company defines its capital as share capital. As at November 30, 2015, the Company had capital resources consisting mainly of cash and cash equivalents. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue common shares or dispose of assets or adjust the amount of cash.

## 11. INCOME TAXES

Income tax expense differs from the amount that would result from applying the Canadian federal and provincial income tax rates to earnings before income taxes. The significant differences are as follows:

| | 2015 | 2014 |
|---|---|---|
| Combined statutory tax rate | 26% | 34% |
| | $ | $ |
| Income tax recovery at combined statutory rate | (1,111,831) | (60,409) |
| Non-deductible items for tax purposes and other items | 662,603 | 3,217 |
| Difference in foreign income tax rates | (168,463) | - |
| Change in tax benefits not recognized | 617,691 | 57,192 |
| Income tax expense | - | - |

Significant components of the Company's deferred income tax assets are shown below:

| | 2015 | 2014 |
|---|---|---|
| | $ | $ |
| Non-capital loss carry forwards | 611,241 | 57,192 |
| Equipment | 17,027 | - |
| Share issuance costs | 37,055 | - |
| Mineral properties | 5,450 | - |
| Tax benefits not recognized | (670,773) | (57,192) |
| Net deferred income tax assets | - | - |

As at May 31, 2015, the Company had non-capital losses carry forward in the United States and Canada of approximately $512,200 (2014 - $168,200) and $103,100 (2014 - $nil) respectively available to reduce taxable income. The non-capital losses carry forward expire between 2034 and 2035.

## 12. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, other receivable, accounts payable and convertible promissory notes payable.

The following table summarizes the carrying values of the Company's financial instruments:

| | November 30, 2015 | May 31, 2015 |
|---|---|---|
| | $ | $ |
| FVTPL (i) | 34,957 | 628,659 |
| Loans and receivables (ii) | 3,335 | 97,370 |
| Other financial liabilities (iii) | 270,158 | 71,232 |

(i) Cash and cash equivalents
(ii) Accounts receivable and other receivable
(iii) Accounts payable and convertible promissory notes payable

The Company classifies its fair value measurements in accordance with an established hierarchy that prioritizes the inputs in valuation techniques used to measure fair value as follows:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities
Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, and
Level 3 - Inputs that are not based on observable market data

The following table sets for the Company's financial assets measured at fair value on a recurring basis by level within the fair value hierarchy:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Cash and cash equivalents | 34,957 | - | - | 34,957 |

i) Credit risk

Credit risk is the risk of financial loss to the Company if counter-party to a financial instrument fails to meet its contractual obligations. The Company manages credit risk by investing its cash and cash equivalents with a large United States and Canadian chartered banks. The Company manages credit risk for trade and other receivables through established credit monitoring activities. As at November 30, 2015, the Company's maximum exposure to credit risk is the carrying value of cash and cash equivalents, accounts receivable and other receivables.

i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Financial assets and liabilities with variable interest rates expose the Company to interest rate risk with respect to its cash flow. As at November 30, 2015, the Company is not exposed to significant interest rate risk.

## 12. FINANCIAL INSTRUMENTS (continued)

ii) Currency risk

The Company has transactions internationally and is exposed to foreign exchange risk from the Canadian Dollar. Foreign exchange risk arises from financing and purchase transactions that are denominated in currency other than the US Dollar, which is the functional currency of the Company. As at November 30, 2015 the Company held $11,000 in Canadian dollar cash and cash equivalents. A 10% increase or decrease in the Canadian dollar would increase or decrease comprehensive income by $1,000.

iii) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure and financial leverage as outlined above. As at November 30, 2015, the Company has cash and cash equivalents of $34,957 and a working capital deficiency of $74,927 and an accumulated deficit of $5,568,496. The continuation of the Company depends upon the support of its lenders and equity investors, which cannot be assured.

## 13. SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid for:

| | Period ended November 30, 2015 | Period ended November 30, 2014 |
|---|---|---|
| | $ | $ |
| Interest | - | - |
| Income taxes | - | - |

The Company incurred the following non-cash financing activities:

| | Period ended November 30, 2015 | Period ended November 30, 2014 |
|---|---|---|
| | $ | $ |
| Common shares issued for convertible promissory note holders | - | 204,581 |
| Warrants issued to convertible promissory note holders | - | 358,000 |
| Shares deemed to issued on reverse acquisition | - | 578,970 |
| Warrants deemed issued on reverse acquisition | - | 228,000 |
| Convertible debenture and private placement warrants exercised | 79,600 | 216,220 |

## 14. COMMITMENT

The Company has entered into a use permit for the Company's facilities for a period ending July 31, 2016. The lease requires monthly payments of $4,765.

## 15. SEGMENT DISCLOSURES

The Company operates in one reportable segment – the development and manufacturing of graphene-enhanced materials for 3D printing. Substantially all of the Company's revenue was generated in the U.S. and all capital assets are located in the U.S.

## 16. SUBSEQUENT EVENTS

**Exercise of warrants:**

On December 7, 2015, the Company issued 3,000,000 common shares on the exercise of warrants for proceeds of $153,000 (C$210,000).

**Acquisition of Graphene Laboratories Inc.:**

On December 9, 2015, the Company closed a share exchange agreement (the "SEA") to acquire all of the issued and outstanding shares of Graphene Laboratories Inc. ("GLI"). GLI is incorporated under the laws of the Commonwealth of Massachusetts, U.S.A, and is controlled and managed by Chief Executive Officer (CEO) and Chief Operating Officer (COO) of the Company. The terms of the SEA were subject to confirmation of a fairness opinion prepared by an independent business valuator, an audit of GLI's financial statements, the approval of the independent directors of the Company and the acceptance of the TSX Venture Exchange. GLI is in the business of manufacturing and distributing graphene and advanced materials.

Pursuant to the SEA, the Company will acquire all of the issued and outstanding common shares of GLI by the issuance of up to 3,800,000 common shares (the "Exchanged Shares") of the Company to the shareholders of GLI. A total of 345,500 Exchanged Shares will be issued at closing with a four month and a day hold restriction from the date of closing (the "Closing Date"), a further 600,000 Exchanged Shares will be issued at closing and made subject to automatic releases every 6 months over the next 36 months from the Closing Date. The balance of the 2,854,500 Exchanged Shares will be issued on the basis of one common share for every $0.60 in cumulative cash flow generated from the operations of GLI over the next five fiscal years from the Closing date.

The CEO and COO each currently own 7,161,212 common shares of the Company (representing 16.5% of the issued shares each). Upon completion of the SEA and assuming the issuance of all Exchanged Shares, Dr. Polyakova will own an additional 1,765,250 common shares of the Company (or then hold a total of 8,926,462 shares, representing 18.9% of the total issued shares) and Dr. Stolyarov will own an additional 1,689,250 common shares of the Company (or then hold a total of 8,850,462 shares, representing 18.8% of the total issued shares)

**Non-Brokered Private Placement Financing:**

On December 18, 2015, the Company closed a non-brokered private placement financing 4,300,0000 units at a price C$0.25 per unit for gross proceeds of C$1,075,000. Each unit consists of one common share and one non-transferable common share purchase warrant. Each warrant entitles the holder to purchase one additional common share at a price of $0.30 until December 18, 2017. Graphene 3D paid a cash finder's fee equal to 7% of the gross proceeds raised in connection with the financing to arm's length finders in accordance with policies of the TSX Venture Exchange.