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

FOR THE QUARTERS ENDED
FEBRUARY 29, 2016 AND FEBRUARY 28, 2015
(Expressed in US Dollars)

April 27, 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 FEBRUARY 29, 2016 AND MAY 31, 2015
(Expressed in US Dollars)

	February 29, 2016	May 31, 2015
	$	$
ASSETS		
Current		
Cash and cash equivalents	489,347	628,659
Amounts receivable (note 5)	56,092	100,423
Inventory (note 6)	310,295	58,625
Prepaid expenses and deposits	28,276	32,682
	884,010	820,389
Equipment (note 7)	392,390	201,933
Intangible assets (note 4)	520,674	-
	1,797,074	1,022,322
LIABILITIES		
Current		
Accounts payable and accrued liabilities	239,663	71,232
Current portion of finance lease obligation (note 8)	30,458	-
	270,121	71,232
Finance lease obligation (note 8)	110,452	-
Deferred income tax	90,000	-
	470,573	71,232
Shareholders' Equity (Deficiency)		
Share capital (note 10)	4,959,772	3,735,598
Warrants (note 10)	60,300	378,600
Contributed surplus	2,338,737	1,320,772
Accumulated other comprehensive loss	(39,963)	(29,934)
Deficit	(5,992,347)	(4,453,946)
	1,326,499	951,090
	1,797,074	1,022,322

Nature of Operations (note 1)
Going Concern (note 2(c))
Commitment (note 16)
Subsequent Event (note 18)

Approved on behalf of the Board of Directors on April 27, 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 FEBRUARY 29, 2016 AND FEBRUARY 28, 2015
(Expressed in US Dollars)

	Three months ended February 29, 2016	Three months ended February 28, 2015	Nine months ended February 29, 2016	Nine months ended February 28, 2015
	$	$	$	$
REVENUE	265,281	-	357,324	-
COST OF GOODS SOLD	(136,062)	-	(249,626)	-
	129,219	-	107,698	
EXPENSES				
Listing fee expense (note 3)	-	-	-	1,463,214
Share-based compensation	98,934	411,454	336,915	1,102,925
Salaries and benefits	113,966	125,162	289,628	248,200
Research and development	72,660	94,822	279,038	176,885
Professional fees	71,388	67,254	253,975	255,513
Marketing and investor relations	34,270	44,727	155,909	137,173
Office and administrative	63,586	24,147	156,008	61,745
Regulatory fees	25,631	15,448	56,813	51,034
Travel	8,434	25,063	29,237	52,979
Foreign exchange loss	29,285	44,515	29,285	48,318
Depreciation (note 7)	27,221	13,776	59,291	18,128
	(545,375)	(866,368)	(1,646,099)	(3,616,114)
NET LOSS	(416,156)	(866,368)	(1,538,401)	(3,616,114)
OTHER COMPREHENSIVE LOSS				
Items that may be reclassified subsequently to income:				
Foreign currency translation gain (loss)	2,061	(11,093)	(10,029)	(24,305)
COMPREHENSIVE LOSS	(414,095)	(877,461)	(1,548,430)	(3,640,419)
LOSS PER SHARE - BASIC AND DILUTED	$ (0.01)	$ (0.02)	$ (0.035)	$ (0.10)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	48,202,657	42,812,915	43,833,395	36,312,198

GRAPHENE 3D LAB INC.
UNAUDITED CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE PERIODS ENDED FEBRUARY 29, 2016 AND FEBRUARY 28, 2015
(Expressed in US Dollars)

	Nine months ended February 29, 2016	Nine months ended February 28, 2015
	$	$
OPERATING ACTIVITIES		
Net loss	(1,538,401)	(3,616,114)
Non cash items:		
Listing fee expense	-	1,318,518
Share-based compensation	336,915	1,102,925
Depreciation	59,291	18,128
	(1,142,195)	(1,176,543)
Changes in non-cash working capital items:		
Amounts receivable	89,249	(190)
Inventory	(130,740)	(47,465)
Prepaid expenses and deposits	11,632	(86,188)
Accounts payable and accrued liabilities	130,978	(130,089)
	(1,041,076)	(1,440,475)
INVESTING ACTIVITY		
Purchase of equipment	(58,069)	(152,346)
FINANCING ACTIVITIES		
Proceeds from issuance of common shares (net)	708,924	2,500,877
Proceeds on the exercise of warrants	210,000	200,750
Cash acquired on acquisition of GLI	50,938	
Cash acquired on reverse acquisition transaction	-	535
	969,862	2,702,161
Change in cash and cash equivalents	(129,283)	1,109,340
Effect of exchange rate changes on cash	(10,029)	(24,305)
Cash and cash equivalents, beginning	628,659	66,233
Cash and cash equivalents, ending	489,347	1,151,268

Supplemental cash flow information (note 13)

GRAPHENE 3D LAB INC.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIENCY)

FOR THE PERIODS ENDED FEBRUARY 29, 2016 AND FEBRUARY 28, 2015

(Expressed in US Dollars)

	Common Shares		Preferred Shares and Warrants		Contributed Surplus	Acc 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	3,000,000	428,750	(3,000,000)	(228,000)	-	-	-	200,750
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	-	-	-	-	1,102,925	-	-	1,102,925
Foreign currency translation loss	-	-	-	-	-	(24,305)	-	(24,305)
Net loss for the period	-	-	-	-	-	-	(3,616,114)	(3,616,114)
Balance, February 28, 2015	43,387,500	3,735,598	5,110,000	378,600	1,102,925	(24,305)	(3,793,787)	1,399,031
Share-based compensation	-	-	-	-	217,847	-	-	217,847
Foreign currency translation loss	-	-	-	-	-	(5,629)	-	(5,629)
Net loss for the period	-	-	-	-	-	-	(660,159)	(660,159)
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	4,000,000	528,300	(4,000,000)	(318,300)	-	-	-	210,000
Cancelation of escrowed shares	(3,222,546)	(281,050)	-	-	281,050	-	-	-
Common shares issued for cash	4,300,000	774,384	4,300,000	-	-	-	-	774,384
Share issuance costs	-	(65,460)	-	-	-	-	-	(65,460)
Shares issued – Acquisition of Graphene Laboratories Inc.(GLI) (note 4)	945,500	268,000	-	-	-	-	-	268,000
Contingent shares to be issued - Acquisition of GLI (note 4)	-	-	-	-	400,000	-	-	400,000
Share-based compensation	-	-	-	-	336,915	-	-	336,915
Foreign currency translation loss	-	-	-	-	-	(10,029)	-	(10,029)
Net loss for the period	-	-	-	-	-	-	(1,538,401)	(1,538,401)
Balance, February 29, 2016	**49,410,454**	**4,959,772**	**5,410,000**	**60,300**	**2,338,737**	**(39,963)**	**(5,992,347)**	**1,326,499**

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 3. 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."

On December 9, 2015, the Company completed its acquisition of Graphene Laboratories Inc. ("GLI") by way of a share exchange agreement described in note 4.

The Company's principal business is the development, manufacturing and marketing of proprietary composites and coatings based on graphene and other advanced materials. The Company's wholly owned subsidiary Graphene Laboratories Inc. currently offers over 100 graphene and related products to its client list. The Company's 3D printing division offers a portfolio of specialty fused filament fabrication filaments. The Company also holds new proprietary technology encompassing the preparation and separation of atomic layers of graphene.

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 subsidiaries Graphene 3D Lab (U.S.) Inc. and Graphene Laboratories 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 April 27, 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 February 28, 2016, the Company has an accumulated deficit of $5,922,347 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. ACQUISITION OF GRAPHENE LABS INC.

On December 9, 2015, the Company closed a non-arms length 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 Co-Chief Executive Officers of the Company.

GLI, is active in the business of the manufacture and worldwide distribution of nanocarbon and graphene products. GLI also holds a provisional patent relating to the manufacture and processing of graphene and offers analytical services, prototype development and consulting. The addition of GLI's business and graphene product lines will complement and expand the Company's existing business of research, development and production of polymer nanocomposite graphene-based filaments for fused filament fabrication in 3D printers.

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. Pursuant to the SEA, the Company has acquired 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 were issued at closing, to arms-length parties, with a four month and a day hold restriction from the date of closing (the "Closing Date"), a further 600,000 Exchanged

4. ACQUISITION OF GRAPHENE LABS INC. (continued)

Shares were issued to the non-arms length parties 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 to non-arms length parties on the basis of one common share for every C$0.60 in cumulative cash flow generated from the operations of GLI over the next five years from June 30, 2015.

Determination of the fair value of the common shares issued is based on the closing market price of the shares on the closing date of the acquisition, December 8, 2016. The fair value of the contingent consideration has been determined using an estimation of the future cashflows of the GLI operations, including its development of its intellectual property, over the next five years. The net present value of these cashflows has been discounted using discount rate of 20%, resulting in a fair value of $400,000 being recorded in contributed surplus for the contingent consideration to be to be based on cumulative GLI cash flow over the next five years.

The purchase of GLI has been accounted for as a business combination in accordance with IFRS 3 “Business Combinations”. The purchase price paid is comprised of the following:

	December 8, 2016
	$
Fixed consideration - 945,500 common shares	268,000
Contingent consideration – up to 2,854,000 shares	400,000
	668,000

Fair values of assets acquired and liabilities assumed:

Assets acquired:	$
Cash	50,938
Amounts receivable	44,918
Inventory	120,929
Prepaid and deposits	7,226
Capital assets	50,769
	274,780
Less liabilities assumed:	
Accounts payable and accrued liabilities	37,454
Deferred income tax	90,000
Net assets acquired	147,326
Intangible asset acquired	520,674
	668,000

As part of the GLI acquisition, the Company acquired certain intellectual property, including a provisional patent relating to technology enabling cost efficient industrial scale manufacture and processing of graphene. The Company intends to develop this technology over the next few years.

5. AMOUNTS RECEIVABLE

	February 29, 2015	May 31, 2015
	$	$
Trade accounts receivable	39,795	6,943
Amount receivable from an employee	2,288	-
GST receivable	14,009	3,052
Other receivable	-	90,427
Total	56,092	100,422

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

6. INVENTORY

	February 29, 2016	May 31, 2015
	$	$
Raw materials	141,146	25,415
Work in progress	-	2,980
Finished goods	169,148	30,230
Total	310,294	58,625

7. EQUIPMENT

	Equipment under Finance Lease	Laboratory Equipment	Total
Cost:	$	$	$
Beginning	-	26,110	26,110
Additions	-	217,253	217,253
Disposals	-	-	-
May 31, 2015	-	243,363	243,363
Additions	183,180	66,568	249,748
Disposals	-	-	-
February 29, 2016	183,180	309,931	493,111
Accumulated Depreciation:			
Beginning	-	5,802	5,802
Depreciation expense	-	35,628	35,628
May 31, 2015	-	41,430	41,430
Depreciation expense	9,160	50,131	59,291
February 29, 2016	9,160	91,561	100,721
Net Book Value:			
May 31, 2015	-	201,933	201,933
February 29, 2016	174,020	218,370	392,390

8. FINANCE LEASE OBLIGATION

During the quarter ended February 29, 2016, the Company entered into a finance lease for a twin screw extruder. The gross amount of the minimum lease payments related to the asset under the finance lease was $156,157. The loan bears interest at a rate of 14.93%. The term of lease is for 36 months, expiring in February 2019.

The following is a schedule of the future minimum lease payments together with the balance of the obligation under the finance lease:

	February 29, 2016
	$
2016	43,366
2017	52,040
2018	52,040
2019	22,711
Total minimum lease payments	170,157
Less interest at the implicit rate	(29,247)
Balance of the obligation	140,910
Less: Current portion	(30,458)
	110,452

9. 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 February 29, 2016 and prior to the Company's acquisition of GLI, the Company paid $7,400 (period ended February 28, 2015 - $28,007) for reimbursement of rent, accounting, research and development and other expenses to GLI, a Company controlled by common officers and directors;

b) During the period ended February 29, 2016, the Company paid professional fees to companies controlled by officers and directors of the Company in the amount of $113,825 (period ended February 28, 2015 - $57,100);

c) During the period ended February 29, 2016, the Company paid salaries to directors and officers of the Company in the amount of $173,077 (period ended February 28, 2015 - $121,154); and

d) During the period ended February 29, 2016, the Company issued 200,000 (period ended February 28, 2015 – 900,000) stock options with a fair value of $95,042 (period ended February 28, 2015 - $658,803) to directors and officers of the Company. For the period ended February 29, 2016 $218,598 (period ended February 28, 2015 - $410,122) has been included in share-based compensation.

Acquisition of Graphene Laboratories:

On August 15, 2015, the Company entered a non-arms length 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 the Co-Chief Executive Officers of the Company (see note 4).

10. 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.

11. 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.

11. SHARE CAPITAL (continued)

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 February 29, 2016, the Company issued 4,000,000 common shares on the exercise of warrants for proceeds of $209,000 (C$280,000).

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.

h) On December 18, 2015, the Company closed a non-brokered private placement financing issuing 4,300,0000 units at a price C$0.25 per unit for gross proceeds of $774,384 (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. In connection with the private placement financing the Company incurred share issue costs of $65,460.

Escrow shares:

As at February 29, 2016, there are 12,803,576 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.

11. SHARE CAPITAL (continued)

Stock options (continued):

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 – February 29, 2016	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 $336,915 has been recorded in the period ended February 29, 2016.

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	3.5	1,750,000	1,502,500
January 20, 2020	C$1.00	3.9	400,000	270,000
August 24, 2020	C$0.69	4.5	200,000	100,000

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 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.

11. SHARE CAPITAL (continued)

Warrants (continued):

The Company also issued 4,500,000 common share purchase warrants on December 18, 2015 as part of the private placement described in Note 9(i). Each common share purchase warrant entitles the holder to acquire one common share of the Company at a price of $0.22 (C$0.30) per share. These warrants expire on December 18, 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	(3,000,000)	C$0.070
Warrants issued during the period	4,300,000	C$0.30
Warrants outstanding at February 29, 2016	5,410,000	C$0.386

Details of warrants outstanding:

Expiry date	Exercise price	Remaining life (years)	Number of warrants outstanding and exercisable
January 9, 2017	C$1.25	0.8	610,000
March 25, 2017	C$0.07	1.1	500,000
December 18, 2017	C$0.30	1.8	4,300,000

12. 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 February 29, 2016, 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.

13. 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.

14. 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:

	February 29, 2015	May 31, 2015
	$	$
FVTPL (i)	489,347	628,659
Loans and receivables (ii)	56,092	97,370
Other financial liabilities (iii)	380,573	71,232

(i) Cash and cash equivalents
(ii) Accounts receivable and other receivable
(iii) Accounts payable and finance lease obligation

14. FINANCIAL INSTRUMENTS (continued)

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	489,347	-	-	489,347

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 February 29, 2016, 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 February 29, 2016, the Company is not exposed to significant interest rate risk.

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 February 28, 2016 the Company held $97,000 in Canadian dollar cash and cash equivalents. A 10% increase or decrease in the Canadian dollar would increase or decrease comprehensive income by $9,700.

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 February 29, 2016, the Company has cash and cash equivalents of $489,347 and has working capital of $613,886 and an accumulated deficit of $5,922,347. The continuation of the Company depends upon the support of its lenders and equity investors, which cannot be assured.

15. SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid for:

	Period ended February 29, 2016	Period ended February 28, 2015
	$	$
Interest	-	-
Income taxes	-	-

The Company incurred the following non-cash financing activities:

	Period ended February 29, 2016	Period ended February 28, 2014
	$	$
Common shares issued for convertible promissory note holders	-	204,581
Warrants issued to convertible promissory note holders	-	358,000
Shares deemed to be issued on reverse acquisition	-	578,970
Warrants deemed issued on reverse acquisition	-	228,000
Convertible debenture and private placement warrants exercised	318,300	216,220
Shares issued on the acquisition of GLI	268,000	-
Contingent shares to be issued on acquisition of GLI	400,000	-

16. COMMITMENT

The Company has entered into a use permit for the Company's facilities for a period ending July 31, 2016. The leases require monthly payments of $9,765.

17. SEGMENT DISCLOSURES

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

18. SUBSEQUENT EVENT

Stock options:

Subsequent to February 29, 2016, the Company issued 2,150,000 stock options to various employees, consultants, officers and members of the Board. The stock options are exercisable at a price of $0.25 per share on or before February 29, 2019.