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

**FOR THE QUARTER ENDED AUGUST 31, 2016 AND 2015**  
**(Unaudited – Expressed in US Dollars)**

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**Notice of non-review of condensed interim consolidated financial statements**

The accompanying condensed interim consolidated financial statements for the three month period ended August 31, 2016 and 2015 are the responsibility of management and have been approved by the Board of Directors. The Company's independent auditor has not reviewed these condensed interim consolidated financial statements.

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**GRAPHENE 3D LAB INC.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**  
**FOR THE THREE MONTHS ENDED AUGUST 31, 2016 AND 2015**  
(Unaudited – Expressed in US Dollars)

	Three months ended August 31, 2016	Three months ended August 31, 2015
	\$	\$
<b>REVENUE</b>	296,556	33,674
<b>COST OF GOODS SOLD</b>	(133,318)	(41,706)
	163,238	(8,032)
<b>EXPENSES</b>		
Share-based compensation (Note 10)	(135,384)	213,543
Salaries and benefits (Note 9)	91,585	112,361
Research and development	58,013	81,004
Professional fees	74,407	87,830
Marketing and investor relations	62,635	58,212
Office and administrative	72,550	57,055
Regulatory fees	9,797	13,649
Travel	6,159	7,870
Depreciation (Note 7)	28,826	16,035
	(268,588)	(647,560)
<b>Other items:</b>		
Amortization of intangible asset (Note 4)	(10,910)	-
Accretion expense (Note 8)	(900)	-
	(11,810)	-
<b>NET LOSS</b>	(117,160)	(655,592)
<b>OTHER COMPREHENSIVE LOSS</b>		
Items that may be reclassified subsequently to income:		
Foreign currency translation income (loss)	570	(12,556)
<b>COMPREHENSIVE LOSS</b>	(116,590)	(668,148)
<b>LOSS PER SHARE - BASIC AND DILUTED</b>	\$ (0.002)	\$ (0.015)
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING</b>	51,533,243	43,789,674

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

**GRAPHENE 3D LAB INC.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE THREE MONTHS ENDED AUGUST 31, 2016 AND 2015**  
(Unaudited – Expressed in US Dollars)

	Three months ended August 31, 2016	Three months ended August 31, 2015
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Net loss	(117,160)	(655,592)
Non cash items:		
Share-based compensation (recovery)	(135,384)	213,543
Depreciation	28,826	16,035
Accretion	900	-
Amortization of intangible assets	10,910	-
	(211,908)	(426,014)
Changes in non-cash working capital items:		
Amounts receivable	19,330	86,746
Inventory	15,473	(13,211)
Prepaid expenses and deposits	(30,265)	6,129
Accounts payable and accrued liabilities	19,340	(6,157)
	(188,030)	(352,508)
<b>INVESTING ACTIVITY</b>		
Purchase of equipment	(3,250)	(15,799)
<b>FINANCING ACTIVITIES</b>		
Proceeds from issuance of common shares (net)	443,099	-
Proceeds on the exercise of warrants	2,674	56,000
Principal payments on finance lease	(8,872)	-
	436,901	56,000
<b>Change in cash and cash equivalents</b>	245,621	(312,307)
<b>Effect of exchange rate changes on cash</b>	(570)	(12,556)
<b>Cash and cash equivalents, beginning</b>	131,138	628,659
<b>Cash and cash equivalents, ending</b>	376,189	303,796

**Supplemental cash flow information (Note 15)**

**GRAPHENE 3D LAB INC.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE THREE MONTHS ENDED AUGUST 31, 2016 AND 2015**

(Unaudited – Expressed in US Dollars)

	Common Shares		Warrants		Contributed Surplus		Accumulated Other Comprehensive Loss		Deficit		Total	
	#	\$	#	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Balance, May 31, 2015</b>	<b>43,387,500</b>	<b>3,735,598</b>	<b>5,110,000</b>	<b>378,600</b>	<b>1,320,772</b>	<b>(29,934)</b>	<b>(4,453,946)</b>	<b>951,090</b>				
Exercise of warrants	1,000,000	135,600	(1,000,000)	(79,600)	-	-	-	56,000				
Cancellation of escrowed shares	(3,222,546)	(281,050)	-	-	281,050	-	-	-				
Share-based compensation	-	-	-	-	213,543	-	-	213,543				
Foreign currency translation loss	-	-	-	-	-	(12,556)	-	(12,556)				
Net loss for the period	-	-	-	-	-	-	(655,592)	(655,592)				
<b>Balance, August 31, 2015</b>	<b>41,164,954</b>	<b>3,590,148</b>	<b>4,110,000</b>	<b>299,000</b>	<b>1,815,365</b>	<b>(42,490)</b>	<b>(5,109,538)</b>	<b>552,484</b>				
<b>Balance, May 31, 2016</b>	<b>49,410,454</b>	<b>4,924,772</b>	<b>5,410,000</b>	<b>60,300</b>	<b>2,629,811</b>	<b>(67,724)</b>	<b>(6,661,001)</b>	<b>886,158</b>				
Exercise of warrants	50,000	6,674	(50,000)	(4,000)	-	-	-	2,674				
Shares issued for private placement	3,766,600	459,097	3,766,600	-	-	-	-	459,097				
Share issuance costs	-	(15,998)	-	-	-	-	-	(15,998)				
Share-based compensation	-	-	-	-	(135,384)	-	-	(135,384)				
Foreign currency translation loss	-	-	-	-	-	(570)	-	(570)				
Net loss for the period	-	-	-	-	-	-	(117,160)	(117,160)				
<b>Balance, August 31, 2016</b>	<b>53,227,054</b>	<b>5,374,545</b>	<b>9,126,600</b>	<b>56,300</b>	<b>2,494,427</b>	<b>(68,294)</b>	<b>(6,778,161)</b>	<b>1,078,817</b>				

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

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**GRAPHENE 3D LAB INC.****NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED AUGUST 31, 2016 AND 2015**

(Unaudited – Expressed in US Dollars)

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**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, through a reverse acquisition transaction, the Company acquired Graphene 3D Lab (U.S.) Inc. which was 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. The Company’s common shares are traded on the TSX Venture Exchange (“TSX-V”) under the symbol “GGG.”

On December 8, 2015, the Company completed its acquisition of Graphene Laboratories Inc. by way of a share exchange agreement described in Note 3.

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. 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**

The 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”). The accounting policies followed in these condensed interim financial statements are the same as those applied in the Company’s most recent annual financial statements for the year ended May 31, 2016. These condensed interim consolidated financial statements do not include all disclosures normally provided in the annual financial statements and should be read in conjunction with the Company’s audited financial statements for the year ended May 31, 2016. In management’s opinion, all adjustments necessary for fair presentation have been included in these condensed interim consolidated financial statements. Interim results are not necessarily indicative of the results expected for the year ended May 31, 2017.

**b) Basis of Consolidation**

These condensed interim consolidated financial statements incorporate the accounts of the Company and its 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 condensed interim consolidated financial statements were approved and authorized for issuance in accordance with resolution from the Board of Directors on October 31, 2016.

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**GRAPHENE 3D LAB INC.****NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED AUGUST 31, 2016 AND 2015**

(Unaudited – Expressed in US Dollars)

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**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 August 31, 2016, the Company has an accumulated deficit of \$6,778,161 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 condensed interim 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, 2016. Refer to note 3, *Summary of Significant Accounting Policies*, of the Company's annual consolidated financial statements for the year ended May 31, 2016 for information on the accounting policies as well as new accounting standards not yet effective.

**3. ACQUISITION OF GRAPHENE LABORATORIES INC.**

On December 8, 2015, the Company closed a non-arm's 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 purpose of acquiring GLI was to 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 through the addition of GLI's business and graphene product lines.

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 Shares were issued to the non-arm's 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-arm's 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.

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**GRAPHENE 3D LAB INC.****NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE MONTHS ENDED AUGUST 31, 2016 AND 2015**(Unaudited – Expressed in US Dollars)

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**3. ACQUISITION OF GRAPHENE LABORATORIES INC. (continued)**

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. The fair value of the contingent consideration has been determined using an estimation of the future cashflows of GLI's operations, including its development of its intellectual property, over the next five years. The net present value of these cashflows has been discounted using a discount rate of 20%, resulting in a fair value of \$321,000 being recorded in contributed surplus for the contingent consideration 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:

Fixed consideration - 945,500 common shares	\$ 233,000
Contingent consideration – up to 2,854,000 shares	321,000
	<hr/>
	\$ 554,000

Fair values of assets acquired and liabilities assumed:

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Assets acquired:	
Cash	\$ 50,938
Amounts receivable	44,918
Inventory	120,929
Prepaid and deposits	7,226
Capital assets	50,194
Intangible assets	436,382
	<hr/>
	\$ 710,587
Less liabilities assumed:	
Accounts payable and accrued liabilities	37,587
Deferred income tax	119,000
	<hr/>
Net assets acquired	\$ 554,000

**4. INTANGIBLE ASSETS**

As part of the GLI acquisition (Note 3), the Company acquired intangible assets comprised of 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. As at August 31, 2016, the Company's intangible assets are as follows:

	<hr/>
	\$
<hr/>	
<b>Cost:</b>	
Balance, May 31, 2015	-
Addition (Note 3)	436,382
Balance, May 31, 2016 and August 31, 2016	<hr/>
	436,382
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<b>Accumulated Amortization:</b>	
Balance, May 31, 2015 and 2016	-
Amortization	10,910
Balance, August 31, 2016	<hr/>
	10,910
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<b>Net Book Value:</b>	
May 31, 2016	436,382
August 31, 2016	<hr/>
	425,472

**GRAPHENE 3D LAB INC.****NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED AUGUST 31, 2016 AND 2015**

(Unaudited – Expressed in US Dollars)

**4. INTANGIBLE ASSETS (continued)**

The intangible assets are being amortized on a straight-line basis over ten years.

**5. AMOUNTS RECEIVABLE**

	August 31, 2016	May 31, 2016
	\$	\$
Trade accounts receivable	35,181	54,020
GST receivable	3,458	3,949
Total	38,639	57,969

**6. INVENTORY**

	August 31, 2016	May 31, 2016
	\$	\$
Raw materials	84,916	100,391
Finished goods	154,012	154,010
Total	238,928	254,401

**7. EQUIPMENT**

	Equipment Under Finance Lease	Laboratory Equipment	Total
<b>Cost:</b>	\$	\$	\$
Balance, May 31, 2015	-	243,363	243,363
Additions	183,181	65,993	249,174
Disposals	-	-	-
Balance, May 31, 2016	183,181	309,356	492,537
Additions	-	3,250	3,250
Disposals	-	-	-
Balance, August 31, 2016	183,181	312,606	495,787
<b>Accumulated Depreciation:</b>			
Balance, May 31, 2015	-	41,430	41,430
Depreciation expense	18,319	69,910	88,229
Balance, May 31, 2016	18,319	111,340	129,659
Depreciation expense	9,160	19,666	28,826
Balance, August 31, 2016	27,479	131,006	158,485
<b>Net Book Value:</b>			
May 31, 2016	164,862	198,016	362,878
August 31, 2016	155,702	181,600	337,302

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**GRAPHENE 3D LAB INC.****NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED AUGUST 31, 2016 AND 2015**(Unaudited – Expressed in US Dollars)

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**8. FINANCE LEASE OBLIGATION**

During the year ended May 31, 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 at inception was \$156,157. The lease 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:

	<b>August 31, 2016</b>
2017	\$ 39,030
2018	52,040
2019	43,404
Total minimum lease payments	134,474
Present value of buy-out option at inception	14,000
Accretion expense on buy-out option	1,500
Less interest at the implicit rate	(22,181)
Balance of the obligation	127,793
Less current portion of finance lease obligation	(38,742)
Long term portion of finance lease obligation	\$ 89,051

Continuity of finance lease obligation:

Balance of obligation, May 31, 2016	\$ 135,765
Principal payments	(8,872)
Accretion expense on buy-out option	900
Balance of obligation, August 31, 2016	\$ 127,793

**9. RELATED PARTY TRANSACTIONS**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties may be individuals or corporate entities. Key management includes directors and officers of the Company. The Company entered into the following transactions with related parties:

- a) During the three months ended August 31, 2016, the Company paid professional fees to companies controlled by officers and directors of the Company in the amount of \$nil (2015 - \$28,721);
- b) During the three months ended August 31, 2016, the Company paid salaries to directors and officers of the Company in the amount of \$51,923 (2015 - \$60,577); and
- c) During the three months ended August 31, 2016, the Company issued 600,000 (2015 – 200,000) stock options with a fair value of \$90,945 (2015 - \$95,042) to directors and officers of the Company vesting immediately. For the three months ended August 31, 2016, \$90,945 (2015 - \$110,886) has been included in share-based compensation.
- d) Prior to the Company's acquisition of GLI (Note 3), during the three months ended August 31, 2015, the Company paid \$2,903 for reimbursement of rent, accounting, research and development and other expenses to GLI, a Company controlled by common officers and directors.

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**GRAPHENE 3D LAB INC.****NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED AUGUST 31, 2016 AND 2015**

(Unaudited – Expressed in US Dollars)

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**9. RELATED PARTY TRANSACTIONS (continued)**

The following amounts were due to related parties:

	<b>August 31, 2016</b>	<b>May 31, 2016</b>
Salary to officers	\$ -	\$ 4,100
Professional fees to officers	-	2,061
Expense reimbursements to related parties	2,295	1,701
	<b>\$ 2,295</b>	<b>\$ 7,862</b>

Amounts due to related parties are unsecured, have no fixed repayments and are non-interest bearing.

**Acquisition of Graphene Laboratories:**

As described in Note 3, the Company acquired all of the issued and outstanding shares of Graphene Laboratories Inc. ("GLI") in December 2015. GLI is controlled and managed by the Co-Chief Executive Officers of the Company.

**10. SHARE CAPITAL****Authorized:**

Unlimited number of common shares without par value.

**Issued and outstanding common stock:**

- a) During the three months 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).
- b) During the three months 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 41,164,954 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.
- c) On June 28, 2016, the Company issued 50,000 common shares from the exercise of warrants for proceeds of \$2,674 (C\$3,500).
- d) On July 11, 2016, the Company closed a non-brokered private placement financing issuing 3,766,600 units at a price of C\$0.16 per unit for gross proceeds of \$459,097 (C\$602,656). 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 C\$0.25 until July 11, 2018. In connection with the private placement financing, the Company incurred share issue costs of \$15,998.

**Escrow shares:**

As at August 31, 2016, there are 10,175,667 common shares (May 31, 2016 – 12,833,576 common shares) subject to escrow agreements.

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**GRAPHENE 3D LAB INC.****NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE MONTHS ENDED AUGUST 31, 2016 AND 2015**(Unaudited – Expressed in US Dollars)

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**10. SHARE CAPITAL (continued)****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.

Continuity of stock options:

	<b>Number of options</b>	<b>Exercise price</b>
Options outstanding – May 31, 2015	2,450,000	C\$1.00
Granted August 24, 2015 for a five year term	200,000	C\$0.69
Granted March 1, 2016 for a three year term	2,500,000	C\$0.25
Forfeited during the year	(235,714)	C\$1.00
Cancelled/expired during the year	(189,286)	C\$0.50
Options outstanding – May 31, 2016	4,725,000	C\$0.61
Granted August 4, 2016 for a five year term	690,000	C\$0.21
Forfeited during the period	(2,550,000)	C\$0.84
Options outstanding – August 31, 2016	2,865,000	C\$0.31
Vested options – August 31, 2016	2,865,000	C\$0.31

During the three months ended August 31, 2016, the Company granted 690,000 stock options to directors, officers and consultants of the Company with a weighted average fair value of \$0.15 at the date of grant.

The estimated fair value of the stock options granted is estimated 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 weighted average assumptions used in the Black-Scholes option pricing model are as follows:

	<b>Period ended August 31, 2016</b>	<b>Period ended August 31, 2015</b>
Share price	C\$0.21	C\$0.69
Risk-free interest rate	0.62%	1.0%
Expected volatility	168%	130%
Expected dividend yield	\$nil	\$nil
Expected forfeiture rate	0%	0%
Expected life	5 years	5 years

The options have various vesting schedules. Based on the Black-Scholes option pricing model and the assumptions outlined above, share-based compensation recovery for the three months ended August 31, 2016 was \$135,384 (2015 – expense \$213,543) due to the forfeiture of unvested stock options.

**GRAPHENE 3D LAB INC.****NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED AUGUST 31, 2016 AND 2015**

(Unaudited – Expressed in US Dollars)

**10. SHARE CAPITAL (continued)****Stock options (continued):**

Details of stock options outstanding:

<b>Expiry date</b>	<b>Exercise price</b>	<b>Remaining life (years)</b>	<b>Number of stock options outstanding</b>	<b>Number of stock options vest and exercisable</b>
August 26, 2019	C\$1.00	2.99	250,000	250,000
February 28, 2019	C\$0.25	2.50	1,925,000	1,925,000
August 4, 2021	C\$0.21	4.93	690,000	690,000

**Share purchase warrants:**

The Company uses the residual approach when allocating the fair value of the share purchase warrants issued in conjunction with the offering of units through a private placement. The Company determines the fair value of the common share and the residual value is allocated to the share purchase warrant for unit offerings that contain a common share and a share purchase warrant.

On July 11, 2016, the Company issued 3,766,600 common share purchase warrants as part of the private placement described in Note 10(d). Each common share purchase warrant entitles the holder to acquire one common share of the Company at a price of \$0.19 (C\$0.25) per share. These warrants expire on July 11, 2018.

Continuity of share purchase warrants:

	<b>Number of warrants</b>	<b>Weighted average exercise price</b>
Warrants outstanding – May 31, 2015	5,110,000	C\$0.211
Issued with December 18, 2015 private placement, expires December 18, 2017	4,300,000	C\$0.300
Warrants exercised during the year	(4,000,000)	C\$0.070
Warrants outstanding – May 31, 2016	5,410,000	C\$0.386
Issued with July 11, 2016 private placement, expires July 11, 2018	3,766,600	C\$0.250
Warrants exercised during the year	(50,000)	C\$0.070
Warrants outstanding – August 31, 2016	9,126,600	C\$0.248

Details of warrants outstanding:

<b>Expiry date</b>	<b>Exercise price</b>	<b>Remaining life (years)</b>	<b>Number of warrants outstanding</b>
January 9, 2017	C\$1.25	0.36	610,000
March 25, 2017	C\$0.07	0.56	450,000
December 18, 2017	C\$0.30	1.30	4,300,000
July 11, 2018	C\$0.25	1.86	3,766,600

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**GRAPHENE 3D LAB INC.****NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED AUGUST 31, 2016 AND 2015**

(Unaudited – Expressed in US Dollars)

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**11. 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 August 31, 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.

**12. FINANCIAL INSTRUMENTS**

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

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

	August 31, 2016 \$	May 31, 2016 \$
FVTPL (i)	376,189	131,138
Loans and receivables (ii)	35,181	54,020
Other financial liabilities (iii)	151,963	132,623

(i) Cash and cash equivalents  
(ii) Trade accounts receivable  
(iii) Accounts 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	376,189	-	-	376,189

**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 large United States and Canadian chartered banks. The Company manages credit risk for trade and other receivables through established credit monitoring activities. As at August 31, 2016 and 2015, the Company's maximum exposure to credit risk is the carrying value of cash and cash equivalents and accounts receivable.

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**GRAPHENE 3D LAB INC.****NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED AUGUST 31, 2016 AND 2015**

(Unaudited – Expressed in US Dollars)

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**12. FINANCIAL INSTRUMENTS (continued)**

## ii) 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 August 31, 2016 and 2015, the Company is not exposed to significant interest rate risk.

## iii) 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 August 31, 2016 the Company held \$93,106 (May 31, 2016 - \$3,351) in Canadian dollar cash and cash equivalents. A 10% increase or decrease in the Canadian dollar would increase or decrease comprehensive income by \$6,000.

## iv) 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 August 31, 2016, the Company has cash and cash equivalents of \$376,189 (May 31, 2016 - \$131,138) and a working capital surplus of \$524,094 (May 31, 2016 - \$304,246). However, the Company has an accumulated deficit of \$6,778,161 (May 31, 2016 - \$6,661,001). The continuation of the Company depends upon the support of its lenders and equity investors, which cannot be assured.

**13. COMMITMENTS**

The Company entered into a finance lease that requires monthly payments of \$4,337 until March 1, 2019. See Note 8.

**14. 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.

**15. SUPPLEMENTAL CASH FLOW INFORMATION**

Cash paid for:

	Three months ended August 31, 2016	Three months ended August 31, 2015
Interest	\$ 4,138	\$ -
Income taxes	-	-

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**GRAPHENE 3D LAB INC.****NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
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**15. SUPPLEMENTAL CASH FLOW INFORMATION (continued)**

The Company incurred the following non-cash financing activities:

	Three months ended August 31, 2016	Three months ended August 31, 2015
Fair value of warrants exercised	\$ 4,000	\$ -

**16. SUBSEQUENT EVENTS**

- a) On September 14, 2016, the Company closed the first tranche of a private placement of 2,687,500 units at C\$0.16 per unit for gross proceeds of C\$430,000. On September 29, 2016, the Company closed the second and final tranche of the private placement of 606,250 units at C\$0.16 per unit for gross proceeds of C\$97,000. A total of 3,293,750 units were issued for gross proceeds of C\$527,000 in this private placement. Each unit consists of one common share and one common share purchase warrant. Each common share purchase warrant is exercisable into one common share for a period of two years from closing at a price of C\$0.25 per share. Finders' fees of C\$28,490 and 178,062 warrants were paid in connection with this financing.
- b) On September 13, 2016, 200,000 stock options were granted to an officer of the Company exercisable at C\$0.21 per share for 5 years expiring September 13, 2021. The options vest on November 24, 2016.
- c) On October 21, 2016, the Company issued 100,000 common shares from the exercise of warrants for gross proceeds of C\$7,000
- d) Subsequent to quarter-end, 250,000 stock options were forfeited.