
GRAPHENE 3D LAB INC.
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED
FEBRUARY 28, 2017 AND FEBRUARY 29, 2016
(Unaudited – Expressed in US Dollars)

Notice of non-review of condensed interim consolidated financial statements

The accompanying condensed interim consolidated financial statements for the nine month period ended February 28, 2017 and February 29, 2016 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.

GRAPHENE 3D LAB INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT FEBRUARY 28, 2017 AND MAY 31, 2016
(Unaudited – Expressed in US Dollars)

	February 28, 2017	May 31, 2016
	\$	\$
ASSETS		
Current		
Cash and cash equivalents	187,497	131,138
Amounts receivable (Note 5)	45,374	57,969
Inventory (Note 6)	254,817	254,401
Prepaid expenses and deposits	103,267	30,778
	590,955	474,286
Equipment (Note 7)	288,842	362,878
Intangible assets (Note 4)	403,652	436,382
	1,283,449	1,273,546
LIABILITIES		
Current		
Accounts payable and accrued liabilities	125,739	132,623
Current portion of finance lease obligation (Note 8)	41,534	37,417
	167,273	170,040
Finance lease obligation (Note 8)	69,362	98,348
Deferred income tax (Note 3)	119,000	119,000
	355,635	387,388
Shareholders' Equity		
Share capital (Note 10)	5,797,198	4,924,772
Warrants (Note 10)	36,372	60,300
Contributed surplus (Note 10)	2,521,398	2,629,811
Accumulated other comprehensive loss	(75,167)	(67,724)
Deficit	(7,351,987)	(6,661,001)
	927,814	886,158
	1,283,449	1,273,546

Nature of Operations (Note 1)
Going Concern (Note 2(c))
Commitments (Note 13)

Approved on behalf of the Board of Directors on April 26, 2017:

"Daniel Stolyarov" Director
Daniel Stolyarov

"John Gary Dyal" Director
John Gary Dyal

GRAPHENE 3D LAB INC.**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS****FOR THE NINE MONTHS ENDED FEBRUARY 28, 2017 AND FEBRUARY 29, 2016**

(Unaudited – Expressed in US Dollars)

	Three months February 28, 2017	Three months February 29, 2016	Nine months February 28, 2017	Nine months February 29, 2016
	\$	\$	\$	\$
REVENUE	267,895	265,281	799,900	357,324
COST OF GOODS SOLD	(125,847)	(136,062)	(423,071)	(249,626)
	142,048	129,219	376,829	107,698
EXPENSES				
Share-based compensation (Note 10)	-	98,934	(108,413)	336,915
Salaries and benefits (Note 9)	96,930	113,966	283,026	289,628
Research and development	70,780	72,660	215,882	279,038
Professional fees	49,383	71,388	189,114	253,975
Marketing and investor relations	15,660	34,270	103,553	155,909
Office and administrative	60,704	63,586	205,550	156,008
Regulatory fees	20,782	25,631	42,016	56,813
Travel	3,938	8,434	18,951	29,237
Foreign exchange loss	20	29,285	20	29,285
Depreciation (Note 7)	25,035	27,221	82,686	59,291
	(343,232)	(545,375)	(1,032,385)	(1,646,099)
Other items:				
Amortization of intangible asset (Note 4)	(10,910)	-	(32,730)	-
Accretion expense (Note 8)	(900)	-	(2,700)	-
	(11,810)	-	(35,430)	-
NET LOSS	(212,994)	(416,156)	(690,986)	(1,538,401)
OTHER COMPREHENSIVE LOSS				
Items that may be reclassified subsequently to income:				
Foreign currency translation income (loss)	(1,369)	2,061	7,443	(10,029)
COMPREHENSIVE LOSS	(214,363)	(414,095)	(683,543)	(1,548,430)
LOSS PER SHARE - BASIC AND DILUTED	\$ (0.004)	\$ (0.009)	\$ (0.013)	\$ (0.035)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	56,915,804	48,202,657	54,792,510	43,833,395

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 NINE MONTHS ENDED FEBRUARY 28, 2017 AND FEBRUARY 29, 2016
(Unaudited – Expressed in US Dollars)

	Nine months ended February 28, 2017	Nine months ended February 29, 2016
	\$	\$
OPERATING ACTIVITIES		
Net loss	(690,986)	(1,538,401)
Non-cash items:		
Share-based compensation (recovery)	(108,413)	336,915
Depreciation	82,686	59,291
Accretion	2,700	-
Amortization of intangible assets	32,730	-
	(681,283)	(1,142,195)
Changes in non-cash working capital items:		
Amounts receivable	12,595	89,249
Inventory	(416)	(130,740)
Prepaid expenses and deposits	(72,489)	11,632
Accounts payable and accrued liabilities	(6,885)	130,978
	(748,478)	(1,041,076)
INVESTING ACTIVITY		
Purchase of equipment	(8,650)	(58,069)
FINANCING ACTIVITIES		
Proceeds from issuance of common shares (net of share issuance costs)	822,050	708,924
Proceeds on the exercise of warrants	26,449	210,000
Cash acquired on acquisition of GLI	-	50,938
Principal payments on finance lease	(27,569)	-
	820,930	969,862
Change in cash and cash equivalents	63,802	(129,283)
Effect of exchange rate changes on cash	(7,443)	(10,029)
Cash and cash equivalents, beginning	131,138	628,659
Cash and cash equivalents, ending	187,497	489,347

Supplemental cash flow information (Note 15)

GRAPHENE 3D LAB INC.

**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE NINE MONTHS ENDED FEBRUARY 28, 2017 AND FEBRUARY 29, 2016**

(Unaudited – Expressed in US Dollars)

	Notes	Common Shares #	Common Shares \$	Warrants \$	Warrants \$	Contributed Surplus \$	Accumulated Other Comprehensive Loss \$	Deficit \$	Total \$
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	10	4,000,000	528,300	(4,000,000)	(318,300)	-	-	-	210,000
Cancellation of escrowed shares	10	(3,222,546)	(281,050)	-	-	281,050	-	-	-
Share issued for private placement	10	4,300,000	774,384	4,300,000	-	-	-	-	774,384
Share issuance costs	10	-	(65,460)	-	-	-	-	-	(65,460)
Shares issued for GLI Acquisition	3	945,500	268,000	-	-	-	-	-	268,000
Contingent shares for GLI Acquisition	3	-	-	-	-	400,000	-	-	400,000
Share-based compensation	10	-	-	-	-	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
Shares issued for GLI Acquisition	3	-	(35,000)	-	-	-	-	-	(35,000)
Contingent shares for GLI Acquisition	3	-	-	-	-	(79,000)	-	-	(79,000)
Share-based compensation	10	-	-	-	-	370,074	-	-	370,074
Foreign currency translation loss		-	-	-	-	-	(27,761)	-	(27,761)
Net loss for the period		-	-	-	-	-	-	(668,654)	(668,654)
Balance, May 31, 2016		49,410,454	4,924,772	5,410,000	60,300	2,629,811	(67,724)	(6,661,001)	886,158
Exercise of warrants	10	500,000	66,248	(500,000)	(39,800)	-	-	-	26,448
Shares issued for private placement	10	7,060,350	859,711	7,060,350	-	-	-	-	859,711
Share issuance costs	10	-	(53,533)	178,063	15,872	-	-	-	(37,661)
Share-based compensation	10	-	-	-	-	(108,413)	-	-	(108,413)
Foreign currency translation loss		-	-	-	-	-	(7,443)	-	(7,443)
Net loss for the period		-	-	-	-	-	-	(690,986)	(690,986)
Balance, February 28, 2017		56,970,804	5,797,198	12,148,413	36,372	2,521,398	(75,167)	(7,351,987)	927,814

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

GRAPHENE 3D LAB INC.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****FOR THE NINE MONTHS ENDED FEBRUARY 28, 2017 AND FEBRUARY 29, 2016**

(Unaudited – Expressed in US Dollars)

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 April 26, 2017.

GRAPHENE 3D LAB INC.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED FEBRUARY 28, 2017 AND FEBRUARY 29, 2016**

(Unaudited – Expressed in US Dollars)

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, 2017, the Company has an accumulated deficit of \$7,351,987 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.

GRAPHENE 3D LAB INC.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****FOR THE NINE MONTHS ENDED FEBRUARY 28, 2017 AND FEBRUARY 29, 2016**(Unaudited – Expressed in US Dollars)

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 February 28, 2017, the Company's intangible assets are as follows:

	<hr/>	\$
Cost:		
Balance, May 31, 2015		-
Addition (Note 3)	436,382	
Balance, May 31, 2016 and February 28, 2017	<hr/>	436,382
Accumulated Amortization:		
Balance, May 31, 2015 and 2016		-
Amortization	32,730	
Balance, February 28, 2017	<hr/>	32,730
Net Book Value:		
May 31, 2016		436,382
February 28, 2017	<hr/>	403,652

GRAPHENE 3D LAB INC.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED FEBRUARY 28, 2017 AND FEBRUARY 29, 2016**

(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

	February 28, 2017	May 31, 2016
	\$	\$
Trade accounts receivable	41,798	54,020
GST receivable	3,575	3,949
Total	45,374	57,969

6. INVENTORY

	February 28, 2017	May 31, 2016
	\$	\$
Raw materials	150,393	100,391
Finished goods	104,424	154,010
Total	254,817	254,401

7. EQUIPMENT

	Equipment Under Finance Lease	Laboratory Equipment	Total
Cost:	\$	\$	\$
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	-	8,650	8,650
Disposals	-	-	-
Balance, February 28, 2017	183,181	318,006	501,187
Accumulated Depreciation:			
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	27,478	55,208	82,686
Balance, February 28, 2017	45,797	166,548	212,345
Net Book Value:			
May 31, 2016	164,862	198,016	362,878
February 28, 2017	137,384	151,458	288,842

GRAPHENE 3D LAB INC.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED FEBRUARY 28, 2017 AND FEBRUARY 29, 2016**(Unaudited – Expressed in US Dollars)

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:

	February 28, 2017
2017	\$ 13,010
2018	52,040
2019	43,404
Total minimum lease payments	108,454
Present value of buy-out option at inception	14,000
Accretion expense on buy-out option since inception	3,300
Less interest at the implicit rate	(14,858)
Balance of the obligation	110,896
Less current portion of finance lease obligation	(41,534)
Long term portion of finance lease obligation	\$ 69,362

Continuity of finance lease obligation:

Balance of obligation, May 31, 2016	\$ 135,765
Principal payments	(27,569)
Accretion expense on buy-out option	2,700
Balance of obligation, February 28, 2017	\$ 110,896

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 nine months ended February 28, 2017, the Company paid professional fees to companies controlled by officers and directors of the Company in the amount of \$nil (2016 - \$113,825);
- b) During the nine months ended February 28, 2017, the Company paid salaries to directors and officers of the Company in the amount of \$164,423 (2016 - \$173,077); and
- c) During the nine months ended February 28, 2017, the Company issued 800,000 (2016 – 200,000) stock options with a fair value of \$117,917 (2016 - \$95,042) to directors and officers of the Company. For the nine months ended February 28, 2017, \$117,917 (2016 - \$218,598) related party share-based compensation has been included in profit and loss.
- d) During the period ended February 29, 2016 and prior to the Company's acquisition of GLI (note 3), the Company paid \$7,400 for reimbursement of rent, accounting, research and development and other expenses to GLI, a Company controlled by common officers and directors.

GRAPHENE 3D LAB INC.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED FEBRUARY 28, 2017 AND FEBRUARY 29, 2016**

(Unaudited – Expressed in US Dollars)

9. RELATED PARTY TRANSACTIONS (continued)

The following amounts were due to related parties:

	February 28, 2017	May 31, 2016
Salary to officers	\$ -	\$ 4,100
Professional fees to officers	-	2,061
Expense reimbursements to related parties	3,812	1,701
	\$ 3,812	\$ 7,862

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) On July 13, 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.
- b) On December 8, 2015, the Company issued 945,500 common shares pursuant to the SEA for the acquisition of GLI (note 3).
- c) On December 18, 2015, the Company closed a non-brokered private placement financing issuing 4,300,000 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 C\$0.30 until December 18, 2017. In connection with the private placement financing the Company incurred share issue costs of \$65,460
- d) During the nine months ended February 29, 2016, the Company issued 4,000,000 common shares on the exercise of warrants for proceeds of \$210,000 (C\$280,000).
- e) 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.

GRAPHENE 3D LAB INC.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED FEBRUARY 28, 2017 AND FEBRUARY 29, 2016**(Unaudited – Expressed in US Dollars)

10. SHARE CAPITAL (continued)**Issued and outstanding common stock (continued):**

- f) In September 2016, the Company closed a non-brokered private placement financing issuing 3,293,750 units at a price of C\$0.16 per unit for gross proceeds of \$400,614 (C\$527,000). 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 C\$0.25 for a period of two years. In aggregate, the financing was subject to the following finders' fees: \$21,663 of cash commission and 178,063 finders' warrants exercisable at C\$0.25 for a period of two years. The finders' warrants attached to this issuance were valued at \$15,872 and has been recorded as share issuance costs.
- g) During the nine months ended February 28, 2017, the Company issued 500,000 common shares from the exercise of warrants for proceeds of \$26,448 (C\$35,000).

Escrow shares:

As at February 28, 2017, there are 7,487,758 common shares (May 31, 2016 – 12,833,576 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.

Continuity of stock options:

	Number of options	Exercise price
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
Granted September 13, 2016 for a five year term	200,000	C\$0.21
Forfeited during the period	(3,075,000)	C\$0.80
Options outstanding – February 28, 2017	2,540,000	C\$0.24
Vested options – February 28, 2017	2,540,000	C\$0.24

On August 4, 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 options are exercisable at C\$0.21 per share for a period of five years from the date of grant and vest immediately.

On September 13, 2016, the Company granted 200,000 stock options to an officer of the Company with a weighted average fair value of \$0.13 at the date of grant. The options are exercisable at C\$0.21 per share for a period of five years from the date of grant and vested on November 24, 2016.

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.

GRAPHENE 3D LAB INC.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED FEBRUARY 28, 2017 AND FEBRUARY 29, 2016**

(Unaudited – Expressed in US Dollars)

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

The weighted average assumptions used in the Black-Scholes option pricing model are as follows:

	Nine months February 28, 2017	Nine months February 29, 2016
Share price	C\$0.21	C\$0.69
Risk-free interest rate	0.65%	1.0%
Expected volatility	167%	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 nine months ended February 28, 2017 was \$108,413 (2016 – expense \$336,915) due to the forfeiture of unvested stock options.

Details of stock options outstanding:

Expiry date	Exercise price	Remaining life (years)	Number of stock options outstanding	Number of stock options vest and exercisable
February 28, 2019	C\$0.25	2.00	1,650,000	1,650,000
August 4, 2021	C\$0.21	4.43	690,000	690,000
September 13, 2021	C\$0.21	4.54	200,000	200,000

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.

In July 2016, the Company issued 3,766,600 common share purchase warrants as part of the private placement described in Note 10(e). 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 two years from the closing date.

In September 2016, the Company issued 3,293,750 common share purchase warrants as part the private placement units and issued 178,063 finders' warrants as described in Note 10(f). Each common share purchase warrant entitles the holder to acquire once common share of the Company at a price of \$0.19 (C\$0.25) per share. These warrants expire two years from the closing date.

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10. SHARE CAPITAL (continued)**Share purchase warrants (continued):**

Continuity of share purchase warrants:

	Number of warrants	Weighted average exercise price
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
Issued with September 13, 2016 private placement first tranche, expires September 13, 2018, including 135,625 finder warrants	2,823,125	C\$0.250
Issued with September 29, 2016 private placement second tranche, expires September 29, 2018, including 42,438 finder warrants	648,688	C\$0.250
Warrants exercised during the period	(500,000)	C\$0.070
Warrants expired during the period	(610,000)	C\$1.250
Warrants outstanding – February 28, 2017	11,538,413	C\$0.193

Details of warrants outstanding:

Expiry date	Exercise price	Remaining life (years)	Number of warrants outstanding
December 18, 2017	C\$0.30	0.80	4,300,000
July 11, 2018	C\$0.25	1.36	3,766,600
September 13, 2018	C\$0.25	1.54	2,823,125
September 29, 2018	C\$0.25	1.58	648,688

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 February 28, 2017, 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.

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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:

	February 28, 2017	May 31, 2016
	\$	\$
FVTPL (i)	187,497	131,138
Loans and receivables (ii)	41,798	54,020
Other financial liabilities (iii)	125,739	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	187,497	-	-	187,497

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 February 28, 2017, the Company's maximum exposure to credit risk is the carrying value of cash and cash equivalents and accounts receivable.

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. February 28, 2017, 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 February 28, 2017, the Company held \$64,202 (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 approximately \$6,000.

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12. FINANCIAL INSTRUMENTS (continued)

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 February 28, 2017, the Company has cash and cash equivalents of \$187,497 (May 31, 2016 - \$131,138) and a working capital surplus of \$423,682 (May 31, 2016 - \$304,246). However, the Company has an accumulated deficit of \$7,351,987 (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:

	Nine months ended February 28, 2017	Nine months ended February 29, 2016
	\$	\$
Interest	11,461	-
Income taxes	-	-

The Company incurred the following non-cash financing activities:

	Nine months ended February 28, 2017	Nine months ended February 29, 2016
	\$	\$
Fair value of warrants granted	15,873	-
Fair value of warrants exercised	39,800	318,300
Shares issued for GLI acquisition	-	268,000
Contingent shares to be issued for GLI acquisition	-	400,000