

---

---

**LEADING EDGE MATERIALS CORP.**

CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED  
OCTOBER 31, 2017 AND 2016

*(Expressed in Canadian Dollars)*

---

---



## Independent Auditor's Report

To the Shareholders of Leading Edge Materials Corp.

We have audited the accompanying consolidated financial statements of Leading Edge Materials Corp., which comprise the consolidated statements of financial position as at October 31, 2017 and October 31, 2016, and the consolidated statements of comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended October 31, 2017 and October 31, 2016, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Leading Edge Materials Corp. as at October 31, 2017 and October 31, 2016, and its financial performance and its cash flows for the years ended October 31, 2017 and October 31, 2016 in accordance with International Financial Reporting Standards.

Vancouver, B.C.  
January 26, 2018

*"D&H Group LLP"*

**Chartered Professional Accountants**

**LEADING EDGE MATERIALS CORP.**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
*(Unaudited - Expressed in Canadian Dollars)*

	Note	October 31, 2017 \$	October 31, 2016 \$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		3,979,914	2,698,836
GST/VAT receivables		111,785	36,885
Amounts receivable		24,704	40,463
Prepaid expenses and other		183,833	115,769
Inventory		96,175	93,600
Plant stores and supplies		<u>95,928</u>	<u>93,501</u>
<b>Total current assets</b>		<u>4,492,339</u>	<u>3,079,054</u>
<b>Non-current assets</b>			
Exploration and evaluation assets	5	16,004,906	15,669,099
Property, plant and equipment	6	17,305,961	17,178,350
Reclamation deposit	7	<u>112,522</u>	<u>111,248</u>
<b>Total non-current assets</b>		<u>33,423,389</u>	<u>32,958,697</u>
<b>TOTAL ASSETS</b>		<u>37,915,728</u>	<u>36,037,751</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		<u>1,001,579</u>	<u>642,413</u>
<b>Non-current liabilities</b>			
Provision for site restoration	7	7,711,413	7,499,937
Property acquisition obligation	6	<u>618,908</u>	<u>573,000</u>
<b>Total non-current liabilities</b>		<u>8,330,321</u>	<u>8,072,937</u>
<b>TOTAL LIABILITIES</b>		<u>9,331,900</u>	<u>8,715,350</u>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	8	46,748,979	42,313,118
Share-based payments reserve		4,502,888	4,757,294
Deficit		<u>(22,668,039)</u>	<u>(19,748,011)</u>
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<u>28,583,828</u>	<u>27,322,401</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<u>37,915,728</u>	<u>36,037,751</u>

**Nature of Operations and Going Concern - Note 1**

**Events after the Reporting Period - Note 14**

These consolidated financial statements were approved for issue by the Board of Directors on January 26, 2018 and are signed on its behalf by:

/s/ Blair Way  
Blair Way  
Director

/s/ Mike Hudson  
Mike Hudson  
Director

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

**LEADING EDGE MATERIALS CORP.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**  
*(Expressed in Canadian Dollars)*

	Note	Year Ended October 31,	
		2017 \$	2016 \$
<b>Expenses</b>			
Accounting and administration	9(b)	96,523	59,900
Accretion of property acquisition obligation	6	41,185	108,465
Accretion of provision for site restoration	7	19,306	38,145
Audit		51,325	51,937
Bank charges		6,017	3,874
Consulting		63,388	45,097
Corporate development		267,038	77,920
Depreciation	6	74,195	94,728
Directors and officers compensation	9(a)	415,807	295,405
Environmental		37,711	52,729
Equipment rentals and related		16,783	23,570
Fuel, electricity and utilities		86,184	55,288
Insurance		14,469	19,232
Investment conferences		57,990	3,578
Legal		196,729	21,103
Marketing		178,495	-
Office		63,438	76,414
Plant maintenance		25,594	27,583
Plant supplies and consumables		18,144	49,158
Regulatory		47,000	28,110
Rent	9(b)	4,020	4,020
Research and development		316,443	263,605
Salaries, compensation and benefits		387,755	540,694
Share-based compensation	8(d)	-	1,505,250
Shareholder costs		26,346	9,813
Transfer agent		32,668	15,912
Travel		228,156	96,396
		<u>2,772,709</u>	<u>3,567,926</u>
<b>Loss before other items</b>		<u>(2,772,709)</u>	<u>(3,567,926)</u>
<b>Other items</b>			
Interest and other income		42,613	66,644
Foreign exchange		(63,902)	32,320
Gain on sale of equipment		-	14,068
Impairment of exploration and evaluation assets	5	(126,030)	-
		<u>(147,319)</u>	<u>113,032</u>
<b>Net loss and comprehensive loss</b>		<u>(2,920,028)</u>	<u>(3,454,894)</u>
<b>Loss per share - basic and diluted</b>		<u>\$(0.03)</u>	<u>\$(0.07)</u>
<b>Weighted average number of common shares outstanding - basic and diluted</b>		<u>85,690,221</u>	<u>52,948,890</u>

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

**LEADING EDGE MATERIALS CORP.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
*(Expressed in Canadian Dollars)*

<b>Year Ended October 31, 2017</b>					
	<b>Share Capital</b>		<b>Share-Based Payments Reserve \$</b>	<b>Deficit \$</b>	<b>Total Equity \$</b>
	<b>Number of Shares</b>	<b>Amount \$</b>			
<b>Balance at October 31, 2016</b>	80,036,678	42,313,118	4,757,294	(19,748,011)	27,322,401
Common shares issued for:					
Cash - private placement	7,640,586	3,801,900	-	-	3,801,900
Cash - share options exercised	1,002,500	410,400	-	-	410,400
Cash - warrants exercised	24,416	17,091	-	-	17,091
Share issue costs	-	(89,524)	41,588	-	(47,936)
Transfer on exercise of share options	-	295,994	(295,994)	-	-
Comprehensive loss for the year	-	-	-	(2,920,028)	(2,920,028)
<b>Balance at October 31, 2017</b>	<b>88,704,180</b>	<b>46,748,979</b>	<b>4,502,888</b>	<b>(22,668,039)</b>	<b>(28,583,828)</b>

<b>Year Ended October 31, 2016</b>					
	<b>Share Capital</b>		<b>Share-Based Payments Reserve \$</b>	<b>Deficit \$</b>	<b>Total Equity \$</b>
	<b>Number of Shares</b>	<b>Amount \$</b>			
<b>Balance at October 31, 2015</b>	46,820,730	25,763,144	3,152,810	(16,293,117)	12,622,837
Common shares issued for:					
Acquisition	33,070,948	16,535,474	-	-	16,535,474
Cash - share options exercised	145,000	14,500	-	-	14,500
Options and warrants granted on Acquisition	-	-	99,234	-	99,234
Share-based compensation	-	-	1,505,250	-	1,505,250
Comprehensive loss for the year	-	-	-	(3,454,894)	(3,454,894)
<b>Balance at October 31, 2016</b>	<b>80,036,678</b>	<b>42,313,118</b>	<b>4,757,294</b>	<b>(19,748,011)</b>	<b>27,322,401</b>

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

**LEADING EDGE MATERIALS CORP.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
*(Expressed in Canadian Dollars)*

	<b>Year Ended October 31.</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
<b>Operating activities</b>		
Net loss for the year	(2,920,028)	(3,454,894)
Adjustments for:		
Accretion of property acquisition obligation	41,185	108,465
Accretion of provision for site restoration	19,306	38,145
Depreciation	74,195	94,728
Foreign exchange	874	(44,783)
Share-based compensation	-	1,505,250
Gain on sale of equipment	-	(14,068)
Write-off of exploration and evaluation assets	126,030	-
Changes in non-cash working capital items:		
Amounts receivable	15,759	(23,249)
GST/VAT receivables	(74,900)	14,047
Prepaid expenses and deposit	(68,064)	(35,214)
Plant stores and supplies	(2,427)	2,587
Accounts payable and accrued liabilities	359,166	(126,709)
<b>Net cash used in operating activities</b>	<b>(2,428,904)</b>	<b>(1,935,695)</b>
<b>Investing activities</b>		
Cash acquired on Acquisition	-	1,415,743
Proceeds on sale of equipment	-	36,173
Additions to property, plant and equipment	(9,636)	(16,401)
Expenditures on exploration and evaluation assets	(461,837)	(29,669)
<b>Net cash provided by (used in) investing activities</b>	<b>(471,473)</b>	<b>1,405,846</b>
<b>Financing activities</b>		
Issuance of common shares	4,229,391	14,500
Share issue costs	(47,936)	-
<b>Net cash provided by financing activities</b>	<b>4,181,455</b>	<b>14,500</b>
<b>Net change in cash</b>	<b>1,281,078</b>	<b>(515,349)</b>
<b>Cash at beginning of year</b>	<b>2,698,836</b>	<b>3,214,185</b>
<b>Cash at end of year</b>	<b>3,979,914</b>	<b>2,698,836</b>

**Supplemental cash flow information** - See Note 12

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

**LEADING EDGE MATERIALS CORP.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED OCTOBER 31, 2017 AND 2016**  
*(Unaudited - Expressed in Canadian Dollars)*

---

**1. Nature of Operations and Going Concern**

The Company is a junior exploration company currently engaged in the operation of its 100% owned Woxna Graphite Mine located in central Sweden. The Company's common shares trade on the TSX Venture Exchange (the "TSXV") under the symbol "LEM", on the OTCQB under the symbol "LEMIF" and received conditional approval for listing on NASDAQ First North under the symbol "LEMSE". The Company's principal office is located at #1305 - 1090 West Georgia Street, Vancouver, British Columbia, V6E 3V7.

During fiscal 2017 the Company recorded a net loss of \$2,920,028 and, as at October 31, 2017, the Company had an accumulated deficit of \$22,668,039 and working capital of \$3,490,760. During fiscal 2015 the Company conducted the refurbishment of the Woxna Graphite Mine. Effective August 1, 2015 the Company determined that the refurbishment and commissioning of the Woxna Graphite Mine was complete. However, the Company has not sold any graphite concentrate due to low demand and the resultant poor pricing of graphite concentrates. The Woxna Graphite Mine is currently not operating and will not commence meaningful production until market conditions improve. The Company is currently reviewing opportunities to produce higher specialty products such as high purity graphite for battery and other specialty end uses. The Company is maintaining its Woxna Graphite Mine on a "production-ready" basis to minimize costs. Although the Company has sufficient funding to meet anticipated levels of corporate administration and overheads for the ensuing twelve months it anticipates that it may need additional capital to recommence operations at the Woxna Graphite Mine and/or modernize the plant to produce value added production. In addition, as described in Note 4, in August 2016 the Company completed the acquisition of Tasman Metals Ltd. ("Tasman"). Tasman's primary asset is its Norra Kärr rare earth element deposit in Sweden and development of the Norra Kärr Property will require significant funds. There is no assurance such additional capital will be available to the Company on acceptable terms or at all. In the longer term the recoverability of the carrying value of the Company's long-lived assets is dependent upon the Company's ability to preserve its interest in the underlying mineral property interests, the discovery of economically recoverable reserves, the achievement of profitable operations and the ability of the Company to obtain financing to support its ongoing exploration programs and mining operations. Whether the Company can generate positive cash flow and, ultimately, achieve profitability is uncertain. These uncertainties may cast significant doubt upon the Company's ability to continue as a going concern.

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") appropriate for a going concern. The going concern basis of accounting assumes the Company will continue to realize the value of its assets and discharge its liabilities and other obligations in the ordinary course of business. Should the Company be required to realize the value of its assets in other than the ordinary course of business, the net realizable value of its assets may be materially less than the amounts shown in the consolidated financial statements. These consolidated financial statements do not include any adjustments to the amounts and classifications of assets and liabilities that may be necessary should the Company be unable to repay its liabilities and meet its other obligations in the ordinary course of business or continue operations.

**2. Basis of Preparation**

***Statement of Compliance***

These consolidated financial statements are audited and have been prepared in accordance with IFRS issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

***Basis of Measurement***

The Company's consolidated financial statements have been prepared on the historical cost basis except for the revaluation of certain financial assets and financial liabilities to fair value. The consolidated financial statements are presented in Canadian dollars unless otherwise noted.

***Comparative Figures***

Certain of the prior year's comparative figures have been reclassified to conform with the current year's presentation.

**LEADING EDGE MATERIALS CORP.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED OCTOBER 31, 2017 AND 2016**  
*(Unaudited - Expressed in Canadian Dollars)*

---

**2. Basis of Preparation** (continued)

*Details of the Group*

In addition to the Company, the consolidated financial statements include all subsidiaries. Subsidiaries are all entities over which the Company is able, directly or indirectly, to control financial and operating policies, which is the authority usually connected with holding majority voting rights. Subsidiaries are fully consolidated from the date on which control is acquired by the Company. Inter-company transactions and balances are eliminated upon consolidation. They are de-consolidated from the date that control by the Company ceases.

The subsidiaries of the Company are as follows:

<u>Company</u>	<u>Location of Incorporation</u>	<u>Ownership Interest</u>
Flinders Holdings Limited (“Flinders Holdings”)	British Columbia	100%
Woxna Graphite AB (“Woxna”)	Sweden	100%
Tasman Metals Ltd.	British Columbia	100%
Tasman Metals AB	Sweden	100%
Acp Akku Oy	Finland	100%

**3. Significant Accounting Policies**

*Critical Judgments and Sources of Estimation Uncertainty*

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

*Critical Judgments*

The following are critical judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements:

- (i) The determination of categories of financial assets and financial liabilities has been identified as an accounting policy which involves judgments or assessments made by management.
- (ii) Management is required to assess the functional currency of each entity of the Company. In concluding that the Canadian dollar is the functional currency of the parent and its subsidiary companies, management considered the currency that mainly influences the cost of providing goods and services in each jurisdiction in which the Company operates. As no single currency was clearly dominant the Company also considered secondary indicators including the currency in which funds from financing activities are denominated and the currency in which funds are retained.
- (iii) Management is required to assess impairment of intangible exploration and evaluation assets. The triggering events are defined in IFRS 6. In making the assessment, management is required to make judgments on the status of each project and the future plans toward finding commercial reserves. The nature of exploration and evaluation activity is such that only a proportion of projects are ultimately successful and some assets are likely to be impaired in future periods.



**LEADING EDGE MATERIALS CORP.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED OCTOBER 31, 2017 AND 2016**  
*(Unaudited - Expressed in Canadian Dollars)*

---

**3. Significant Accounting Policies** (continued)

In fiscal 2017 management determined that impairment indicators were present in respect of certain of its exploration and evaluation assets and, as a result, an impairment charge of \$126,030 was made. See Note 5.

- (iv) Management is required to assess impairment in respect of property, plant and equipment. The triggering events are defined in IAS 36. In making the assessment, management is required to make judgments on the status of the project and the future plans toward finding commercial reserves to which the property, plant and equipment relate to.

Management has determined that there were no triggering events present as at October 31, 2017, as defined in IAS 36, for property, plant and equipment and, as such, no impairment test was performed.

- (v) Although the Company takes steps to verify title to exploration and evaluation assets in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.
- (vi) The determination of the date on which a mine enters the production stage is a significant judgment since capitalization of certain costs ceases upon entering production. Effective August 1, 2015 the Company had determined that the refurbishment and commissioning of the Woxna Graphite Mine was complete and is in the condition and available for use in the manner intended by management.

*Estimation Uncertainty*

The following are key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year:

- (i) Depreciation and depletion expenses are allocated based on assumed asset lives and depletion/depreciation rates. Should the asset life or depletion/depreciation rate differ from the initial estimate, an adjustment would be made in the statement of operations.
- (ii) The cost estimates are updated periodically during the life of a mine to reflect known developments, (e.g. revisions to cost estimates and to the estimated lives of operations), and are subject to review at regular intervals. Decommissioning, restoration and similar liabilities are estimated based on the Company's interpretation of current regulatory requirements, constructive obligations and are measured at fair value. Fair value is determined based on the net present value of estimated future cash expenditures for the settlement of decommissioning, restoration or similar liabilities that may occur upon decommissioning of the mine. Such estimates are subject to change based on changes in laws and regulations and negotiations with regulatory authorities.
- (iii) Provisions for income taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were originally recorded, such differences will affect the tax provisions in the period in which such determination is made.
- (iv) The assessment of the probability of future taxable income in which deferred tax assets can be utilized is based on the Company's estimate of future profits or losses adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. The tax rules in the jurisdictions in which the Company operates are also carefully taken into consideration. If a positive forecast of taxable income indicates the probable use of a deferred tax asset, especially when it can be utilized without a time limit, that deferred tax asset is usually recognized to the extent of the amount expected to be utilized. The recognition of deferred tax assets that are subject to certain legal or economic limits or uncertainties is assessed individually by management based on the specific facts and circumstances. Details of these can be found in Note 10.

**LEADING EDGE MATERIALS CORP.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED OCTOBER 31, 2017 AND 2016**  
*(Unaudited - Expressed in Canadian Dollars)*

---

**3. Significant Accounting Policies** (continued)

***Cash and Cash Equivalents***

Cash includes cash in bank and demand deposits. Cash equivalents include short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. The Company is not exposed to significant credit or interest rate risk although cash is held in excess of federally insured limits with a major financial institution. At October 31, 2017 and 2016 the Company did not have any cash equivalents.

***Amounts Receivable***

Receivables are recognized initially at fair value and are subsequently measured at amortized cost using the effective interest method, less provision for impairment. Receivables are classified as loans and receivables. A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

***Inventory***

Processed graphite inventory is valued at the lower of cost and net realizable value. Cost is determined as the average production cost of saleable graphite and net realizable value is determined as the calculated selling price less selling costs.

***Plant Stores and Supplies***

Plant stores and supplies are valued at the lower of cost and replacement cost.

***Accounts Payable and Accrued Liabilities***

Payables are obligations to pay for materials or services that have been acquired in the ordinary course of business from suppliers. Payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Payables are classified as other financial liabilities and are initially measured at fair value and are subsequently measured at amortized cost using the effective interest method.

***Exploration and Evaluation Assets***

The Company follows the practice of capitalizing all costs relating to the acquisition of, exploration for and development of mineral properties and crediting all proceeds received against the cost of the related properties. Such costs include, but are not exclusive to, geological and geophysical studies, exploratory drilling and sampling. At such time as commercial production commences, these costs will be charged to operations on a unit-of-production method based on proven and probable reserves. The aggregate costs related to abandoned mineral properties are charged to operations at the time of any abandonment, or when it has been determined that there is evidence of a permanent impairment. An impairment charge relating to a mineral property is subsequently reversed when new exploration results or actual or potential proceeds on sale or farmout of the property result in a revised estimate of the recoverable amount, but only to the extent that this does not exceed the original carrying value of the property that would have resulted if no impairment had been recognized.

The recoverability of amounts shown for exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain financing to complete development of the properties, and on future production or proceeds of disposition.

The Company recognizes in income costs recovered on mineral properties when amounts received or receivable are in excess of the carrying amount.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mineral property acquisition and development costs, a component of property, plant and equipment.

**LEADING EDGE MATERIALS CORP.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED OCTOBER 31, 2017 AND 2016**  
*(Unaudited - Expressed in Canadian Dollars)*

---

**3. Significant Accounting Policies** (continued)

All capitalized exploration and evaluation expenditures are monitored for indications of impairment. Where a potential impairment is indicated, assessments are performed for each area of interest. To the extent that exploration expenditure is not expected to be recovered, it is charged to the results of operations.

***Property, Plant and Equipment***

Property, plant and equipment are carried at cost, less accumulated depreciation and accumulated impairment losses.

The cost of an item of property, plant and equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss in the condensed consolidated statement of comprehensive loss.

Where an item of plant and equipment comprises major components with different useful lives, the components are accounted for as separate items of plant and equipment. Expenditures incurred to replace a component of an item of plant and equipment that is accounted for separately, including major inspection and overhaul expenditures are capitalized. Property, plant and equipment are depreciated annually on a straight-line basis or on a unit of production basis over the estimated useful life of the assets commencing when the related asset is available for use as follows:

Vehicles	20%
Equipment and tools	20%
Building	5% to 10%
Manufacturing and processing facility	20% or on a unit of production basis
Mineral property acquisition and development costs	Unit of production basis

Depreciation of assets commence when the plant and equipment are available for use and in the condition necessary for them to be operating in the manner intended by management.

***Impairment of Assets***

At each financial position reporting date, the carrying amounts of the Company's assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

An asset's recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit or loss for the period.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

**LEADING EDGE MATERIALS CORP.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED OCTOBER 31, 2017 AND 2016**  
*(Unaudited - Expressed in Canadian Dollars)*

---

**3. Significant Accounting Policies** (continued)

***Provision for Site Restoration***

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the exploration, development or ongoing production of a mineral interest by or on behalf of the Company. Costs for restoration of site damage which is created on an ongoing basis during exploration and evaluation are provided for at their net present values and charged against profits in the period such exploration and evaluation occurs. Discount rates using a risk free rate that reflects the time value of money are used to calculate the net present value. The related liability is adjusted for each period for the unwinding of the discount rate and for changes to the current risk free discount rate, amount or timing of the underlying cash flows needed to settle the obligation.

***Financial Instruments***

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held to maturity, available for sale, loans and receivables or at fair value through profit or loss (“FVTPL”).

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through comprehensive loss. Cash is classified as FVTPL.

Financial assets classified as loans and receivables and held to maturity are measured at amortized cost. Amounts receivable and reclamation deposit are classified as loans and receivables.

Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive loss except for losses in value that are considered other than temporary. As at October 31, 2017 and 2016 the Company has not classified any financial assets as available-for-sale.

Transaction costs associated with FVTPL are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities.

Financial liabilities classified as other financial liabilities are measured at amortized cost. Accounts payable and accrued liabilities and property acquisition obligation are classified as other financial liabilities.

Financial liabilities classified as FVTPL are measured at fair value with unrealized gains and losses recognized through comprehensive loss. At October 31, 2017 and 2016 the Company has not classified any financial liabilities as FVTPL.

***Share Capital***

Common shares issued by the Company are classified as equity. Costs directly attributable to the issue of common shares, share purchase warrants and share options are recognized as a deduction from equity, net of any related income tax effects.

***Equity Financing***

The Company engages in equity financing transactions to obtain the funds necessary to continue operations and explore and evaluate mineral properties. These equity financing transactions may involve issuance of common shares or units. Units typically comprise a certain number of common shares and share purchase warrants. Depending on the terms and conditions of each equity financing transaction, the warrants are exercisable into additional common shares at a price prior to expiry as stipulated by the terms of the transaction. The Company has adopted the residual value method with respect to the allocation of proceeds received on sale of units to the underlying common shares and share purchase warrants issued as private placement units. The fair value of the common shares issued in private placements is determined by the closing quoted bid price on the announcement date. The balance, if any, is allocated to the attached share purchase warrants.

**LEADING EDGE MATERIALS CORP.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED OCTOBER 31, 2017 AND 2016**  
*(Unaudited - Expressed in Canadian Dollars)*

---

**3. Significant Accounting Policies** (continued)

***Share-Based Payment Transactions***

The share option plan allows Company employees and consultants to acquire shares of the Company. The fair value of share options granted is recognized as a share-based compensation expense with a corresponding increase in the equity settled share-based payments reserve in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

For employees the fair value is measured at grant date and each tranche is recognized separately on a straight line basis over the period during which the share options vest. The fair value of the share options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the share options were granted. Expected volatility is based on available historical volume of the Company's share price. At the end of each reporting period, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

Equity-settled share-based payment transactions with non-employees are measured at the fair value of the goods or services received. However, if the fair value cannot be estimated reliably, the share-based payment transaction is measured at the fair value of the equity instruments granted at the date the Company receives the goods or the services.

***Current and Deferred Income Taxes***

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

***Current Income Tax***

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

***Deferred Income Tax***

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

**LEADING EDGE MATERIALS CORP.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED OCTOBER 31, 2017 AND 2016**  
*(Unaudited - Expressed in Canadian Dollars)*

---

**3. Significant Accounting Policies** (continued)

*Loss per Share*

Basic loss per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding during the period. The computation of diluted loss per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on loss per share. The dilutive effect of convertible securities is reflected in diluted earnings per share by application of the “if converted” method. The dilutive effect of outstanding options and warrants and their equivalents is reflected in diluted earnings per share.

*Foreign Currency Translation*

*Functional and Presentation Currency*

The financial statements of each of the Company’s subsidiaries are prepared in the local currency of their home jurisdictions. Consolidation of each subsidiary includes re-measurement from the local currency to the subsidiary’s functional currency. Each subsidiary’s functional currency, being the currency of the primary economic environment in which the subsidiary operates, is the Canadian dollar. The consolidated financial statements are presented in Canadian dollars.

Exchange rates published by the Bank of Canada were used to translate subsidiary financial statements into the consolidated financial statements. Income and expenses for each statement of comprehensive loss presented are translated using the rates prevailing on the transaction dates. All resulting foreign exchange differences are recognized in comprehensive loss.

*Foreign Currency Transactions*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in comprehensive loss.

**4. Tasman Acquisition**

On August 25, 2016 the Company completed a statutory plan of arrangement (the “Arrangement”) and acquired all of the issued and outstanding common shares of Tasman Metals Ltd. (“Tasman”), under which the Company issued 33,070,948 common shares with a fair value of \$16,535,474. The Company also granted 520,000 share options, exercisable at prices ranging from \$0.48 - \$2.94 per share, 147,953 compensation options exercisable at \$2.20 per share and 2,467,716 warrants, exercisable at \$3.00 per share, in exchange for Tasman share options, compensation options and warrants. The fair values of the share options, compensation options and warrants have been estimated using the Black-Scholes option pricing model. The assumptions used were: risk-free interest rate of 0.51% to 0.56%; estimated volatility of 97% to 108%; expected lives of 0.02 year to 2.25 years; expected dividend yield of 0%; and estimated forfeiture rate of 0%. The values assigned to the options, compensation options and warrants were \$91,599, \$1,162 and \$6,473, respectively.

The Company incurred \$94,989 for legal, filing and other costs associated with the transactions conducted pursuant to the Arrangement. These transactions costs were capitalized to exploration and evaluation assets.

**LEADING EDGE MATERIALS CORP.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED OCTOBER 31, 2017 AND 2016**  
*(Unaudited - Expressed in Canadian Dollars)*

**4. Tasman Acquisition (continued)**

The Arrangement was accounted for as an acquisition of the net assets of Tasman, as follows:

	\$
Common shares issued	16,535,474
Share options granted	91,599
Compensation options granted	1,162
Warrants issued	6,473
Costs incurred	<u>94,989</u>
Acquisition cost	<u>16,729,697</u>

The Arrangement cost was generally allocated to the individual identifiable assets and liabilities on the basis of their relative fair value at the date of purchase. The results of operations were recorded from the effective date of purchase.

Cost of the net assets acquired consists of:

	\$
Net working capital	1,062,525
Property, plant and equipment	15,489
Exploration and evaluation assets	15,619,814
Reclamation deposit	<u>31,869</u>
Net assets acquired	<u>16,729,697</u>

On closing of the Arrangement Tasman became a wholly-owned subsidiary of the Company.

Certain officers and directors of the Company were also officers and directors of Tasman.

**5. Exploration and Evaluation Assets**

	<u>As at October 31, 2017</u>			<u>As at October 31, 2016</u>		
	Acquisition Costs \$	Deferred Exploration Costs \$	Total \$	Acquisition Costs \$	Deferred Exploration Costs \$	Total \$
Graphite Exploration						
Concessions	36,657	4,706	41,363	24,651	4,706	29,357
Norra Kärr	15,384,602	98,362	15,482,964	15,417,169	-	15,417,169
Bergby	45,517	341,732	387,249	45,517	-	45,517
Other	<u>86,008</u>	<u>7,322</u>	<u>93,330</u>	<u>162,559</u>	<u>14,497</u>	<u>177,056</u>
	<u>15,552,784</u>	<u>452,122</u>	<u>16,004,906</u>	<u>15,649,896</u>	<u>19,203</u>	<u>15,669,099</u>

**LEADING EDGE MATERIALS CORP.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED OCTOBER 31, 2017 AND 2016**  
*(Unaudited - Expressed in Canadian Dollars)*

**5. Exploration and Evaluation Assets (continued)**

	Graphite Exploration Concessions \$	Norra Kärr \$	Bergby \$	Other \$	Total \$
<b>Balance at October 31, 2015</b>	19,616	-	-	-	19,616
<b>Exploration costs</b>					
Consulting	-	-	-	11,008	11,008
Geochemical	-	-	-	3,489	3,489
	-	-	-	14,497	14,497
<b>Acquisition costs</b>					
Acquired on Acquisition (Note 4)	-	15,417,169	45,517	157,128	15,619,814
Mining rights	9,741	-	-	5,431	15,172
	9,741	15,417,169	45,517	162,559	15,634,986
<b>Balance at October 31, 2016</b>	29,357	15,417,169	45,517	177,056	15,669,099
<b>Exploration costs</b>					
Consulting	-	102,610	138,177	-	240,787
Drilling	-	-	173,153	-	173,153
Geochemical	-	-	21,918	-	21,918
Exploration site	-	-	8,023	-	8,023
Mapping	-	920	461	-	1,381
	-	103,530	341,732	-	445,262
<b>Acquisition costs</b>					
Mining rights	12,006	-	-	4,569	16,575
<b>Impairment</b>	-	(37,735)	-	(88,295)	(126,030)
<b>Balance at October 31, 2017</b>	41,363	15,482,964	387,249	93,330	16,004,906

(a) *Graphite Exploration Concessions*

In February 2012 the Company completed the acquisition of Flinders Holdings Limited, which owns Woxna Graphite AB (“Woxna”). Woxna holds a 100% interest in the Woxna Graphite Mine, comprising four exploitation concessions, known as Kringelgruven, Mattsmyra, Gropabo and Mansberg. The Woxna Graphite Mine is located in Ovanaker Municipality, Gavleborg County, central Sweden.

In 1993 Woxna entered into agreements under which it acquired:

- (i) the Kringelgruven concession for an initial payment of SEK 150,000 and a further amount of SEK 4,000,000 (the “property acquisition obligation”) is to be paid upon the commencement of production from the Kringelgruven concession; and
- (ii) the Mattsmyra, Gropabo and Mansberg concessions (the “Graphite Exploration Concessions”) for an initial payment of SEK 32,500 and a further payment of SEK 1,000,000 on each of the three concessions is to be paid upon commencement of production from these concessions.



**LEADING EDGE MATERIALS CORP.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED OCTOBER 31, 2017 AND 2016**  
*(Unaudited - Expressed in Canadian Dollars)*

---

**5. Exploration and Evaluation Assets (continued)**

Payments of the additional considerations are to be made to a Swedish governmental agency and will be based on annual production, at a rate of SEK 20 per metric ton processed, and is payable only if profits are generated from the individual concessions. No production has commenced on the Mattsmyra, Gropabo and Mansberg concessions and the additional payments are considered to be contingent amounts and will only be recognized as obligations when production commences on these concessions.

During fiscal 2014 the technical feasibility and commercial viability of the Kringelgruven concession and the Woxna Graphite Mine was demonstrated, transitioning the Kringelgruven concession to the development stage of mining. Accordingly the costs of the exploration and evaluation assets attributed to the Kringelgruven concession and the Woxna Graphite Mine were reclassified to property, plant and equipment. See also Note 6.

(b) *Norra Kärr*

The Norra Kärr Property consists of an exploration license and a mining lease, located in south-central Sweden. The exploration license and the mining lease have been subject to ongoing legal opposition and appeals. The Company believes that it will continue to be successful in defending its tenure over the Norra Kärr Property.

During fiscal 2017 the Company recorded an impairment charge of \$37,735 on the relinquishment of certain minor claims.

(c) *Bergby*

The Bergby Project consists of three exploration permits located in central Sweden.

(d) *Other Properties*

The Company previously held a 100% interest in six exploration licenses (the "Tungsten Properties") located in south-central Sweden. During fiscal 2017 the Company recorded an impairment charge of \$41,262 on the relinquishment of three exploration licenses and, as at October 31, 2017, the Company holds two remaining exploration licenses. The Company is required to issue 25,000 common shares upon commencement of production from any of the Tungsten Properties.

The Company has also staked claims in Sweden and Finland. During fiscal 2017 the Company recorded an impairment charge of \$47,033 on the relinquishment of two claims in Sweden.

**LEADING EDGE MATERIALS CORP.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED OCTOBER 31, 2017 AND 2016**  
*(Unaudited - Expressed in Canadian Dollars)*

**6. Property, Plant and Equipment**

	Vehicles \$	Equipment and Tools \$	Building \$	Manufacturing and Processing Facility \$	Mineral Property Acquisition and Development Costs \$	Total \$
<b>Cost:</b>						
Balance at October 31, 2015	163,133	264,699	344,139	7,567,878	7,452,361	15,792,210
Additions	-	-	-	-	16,401	16,401
Acquisition (Note 4)	-	15,489	-	-	-	15,489
Disposal	(81,986)	-	-	-	-	(81,986)
Adjustment to site restoration	-	-	-	-	1,823,418	1,823,418
Balance at October 31, 2016	81,147	280,188	344,139	7,567,878	9,292,180	17,565,532
Additions	-	6,830	-	-	2,806	9,636
Adjustment to site restoration	-	-	-	-	192,170	192,170
Balance at October 31, 2017	<u>81,147</u>	<u>287,018</u>	<u>344,139</u>	<u>7,567,878</u>	<u>9,487,156</u>	<u>17,767,338</u>
<b>Accumulated Depreciation:</b>						
Balance at October 31, 2015	(84,822)	(182,155)	(5,470)	(79,889)	-	(352,336)
Depreciation	(17,045)	(35,612)	(22,007)	(20,064)	-	(94,728)
Disposal	59,882	-	-	-	-	59,882
Balance at October 31, 2016	(41,985)	(217,767)	(27,477)	(99,953)	-	(387,182)
Depreciation	(11,466)	(30,457)	(22,007)	(10,265)	-	(74,195)
Balance at October 31, 2017	<u>(53,451)</u>	<u>(248,224)</u>	<u>(49,484)</u>	<u>(110,218)</u>	<u>-</u>	<u>(461,377)</u>
<b>Carrying Value:</b>						
Balance at October 31, 2016	<u>39,162</u>	<u>62,421</u>	<u>316,662</u>	<u>7,467,925</u>	<u>9,292,180</u>	<u>17,178,350</u>
Balance at October 31, 2017	<u>27,696</u>	<u>38,794</u>	<u>294,655</u>	<u>7,457,660</u>	<u>9,487,156</u>	<u>17,305,961</u>

During fiscal 2014 technical feasibility and commercial viability of the extraction of mineral resources at the Woxna Graphite Mine was demonstrated, transitioning the Company to the development stage of mining. Upon the transition, costs on the exploration and evaluation assets attributed to the mine were reclassified to property, plant and equipment. On August 1, 2015 the Woxna Graphite Mine transitioned to production.

The Company has recognized the SEK 4,000,000 additional consideration associated with the Kringelgruven concession. An obligation is recognized when a legal obligation is established, a reasonable estimate can be made of the obligation, and is measured at the discounted value for expected future payments. The discounted value is then accreted to the estimated future value over the period of the payment obligation. During fiscal 2017 the Company applied a discount rate of 17%. As at October 31, 2017 the obligation has been fully accreted.

**LEADING EDGE MATERIALS CORP.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED OCTOBER 31, 2017 AND 2016**  
*(Unaudited - Expressed in Canadian Dollars)*

**6. Property, Plant and Equipment (continued)**

A continuity of the property acquisition obligation for the Kringelgruven concession is as follows:

	\$
<b>Balance at October 31, 2015</b>	513,033
Accretion of discounted cash flows	108,465
Foreign exchange adjustment	<u>(48,498)</u>
<b>Balance at October 31, 2016</b>	573,000
Accretion of discounted cash flows	41,185
Foreign exchange adjustment	<u>4,723</u>
<b>Balance at October 31, 2017</b>	<u>618,908</u>

**7. Provision for Site Restoration**

Although the ultimate amount of the decommissioning obligation for the Kringelgruven concession is uncertain, the fair value of this obligation is based on information currently available, including closure plans and applicable regulations. Significant closure activities include land rehabilitation, demolition of buildings and mine facilities and other costs. The provision for site restoration may be subject to change based on management's current estimates, changes in remediation technology or changes to the applicable laws and regulations. The total undiscounted amount of estimated cash flows to settle the Company's risk adjusted estimated obligation is SEK 41,500,000 to be incurred over the next 19 years with the majority of the costs to be incurred between 2036 and 2037.

The fair value of the decommissioning obligation was calculated using a discounted cash flow approach based on a risk free rate of 0.795% (2016 - 0.25%) and an inflation factor of 1.8% (2016 - 1.20%). Settlement of the obligation is expected to be funded from general corporate funds at the time of decommissioning. Changes to the decommissioning obligation were as follows:

	\$
<b>Balance at October 31, 2015</b>	5,638,374
Accretion	38,145
Revision of estimates	2,021,433
Foreign exchange adjustment	<u>(198,015)</u>
<b>Balance at October 31, 2016</b>	7,499,937
Accretion	19,306
Revision of estimates	(14,212)
Foreign exchange adjustment	<u>206,382</u>
<b>Balance at October 31, 2017</b>	<u>7,711,413</u>

As at October 31, 2017 reclamation deposits of \$1 12,522 (SEK 731,165) has been paid and accounted for as a non-current deposit. The reclamation deposits were placed as security for site restoration on the Kringelgruven concession and on certain exploration and evaluation assets.

As at October 31, 2017 the Mattsmyra, Gropabo and Mansberg concessions remain undeveloped and there are no property restoration obligations relating to these concessions.

**LEADING EDGE MATERIALS CORP.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED OCTOBER 31, 2017 AND 2016**  
*(Unaudited - Expressed in Canadian Dollars)*

**8. Share Capital**

(a) *Authorized Share Capital*

The Company's authorized share capital consists of an unlimited number of common shares without par value. All issued common shares are fully paid.

(b) *Equity Financings*

During fiscal 2017 the Company completed the following private placements:

- (i) 4,004,222 units at a price of \$0.45 per unit for gross proceeds of \$1,801,900. Each unit consisted of one common share and one common share purchase warrant. Each warrant is exercisable by the holder to acquire one additional common share, at a price of \$0.70 per share, expiring December 14, 2019. The Company paid finders' fees of \$13,757 cash and issued 30,570 finders' warrants, with each finders' warrant having the same terms as the warrants issued under the private placement. The fair value of the finders' warrants has been estimated to be \$10,088 using the Black-Scholes option pricing model. The assumptions used were: a risk-free interest rate of 0.81%; expected volatility of 97%; an expected life of 3 years; a dividend yield of 0%; and an expected forfeiture rate of 0%.

The Company incurred \$23,429 legal and filing costs associated with this private placement.

- (ii) 3,636,364 units at a price of \$0.55 per unit for gross proceeds of \$2,000,000. Each unit consisted of one common share and one common share purchase warrant. Each warrant is exercisable by the holder to acquire one additional common share, at a price of \$0.80 per share, expiring May 3, 2020, subject to a forced conversion that comes into effect once the shares trade at a weighted average price of \$1.00 per common share for a period of 30 consecutive trading days. The Company issued 90,000 finder's warrants, with each finder's warrant having the same terms as the warrants issued under the private placement. The fair value of the finder's warrants has been estimated to be \$31,500 using the Black-Scholes option pricing model. The assumptions used were: a risk-free interest rate of 0.81%; expected volatility of 94%; an expected life of 3 years; a dividend yield of 0%; and an expected forfeiture rate of 0%.

The Company incurred \$10,750 filing costs associated with this private placement.

No equity financing was conducted by the Company during fiscal 2016.

(b) *Compensation Options*

A summary of the Company's compensation options at October 31, 2017 and 2016 and the changes for the years ended on those dates is presented below:

	2017		2016	
	Number of Options Outstanding	Weighted Average Exercise Price \$	Number of Options Outstanding	Weighted Average Exercise Price \$
Balance beginning of year	147,953	2.20	-	-
Issued on Acquisition	-	-	147,953	2.20
Expired	(147,953)	2.20	-	-
Balance end of year	-	-	147,953	2.20

**LEADING EDGE MATERIALS CORP.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED OCTOBER 31, 2017 AND 2016**  
*(Unaudited - Expressed in Canadian Dollars)*

**8. Share Capital (continued)**

(c) *Warrants*

A summary of the number of common shares reserved pursuant to the Company's outstanding warrants at October 31, 2017 and 2016 and the changes for the years ended on those dates is as follows:

	2017		2016	
	Number	Weighted Average Exercise Price \$	Number	Weighted Average Exercise Price \$
Balance beginning of year	2,467,716	3.00	9,570,000	0.75
Issued on Acquisition	-	-	2,467,716	3.00
Issued	7,761,156	0.75	-	-
Exercised	(24,416)	0.70	-	-
Expired	<u>(2,467,716)</u>	3.00	<u>(9,570,000)</u>	0.75
Balance end of year	<u>7,736,740</u>	0.75	<u>2,467,716</u>	3.00

The following table summarizes information about the number of common shares reserved pursuant to the Company's warrants outstanding and exercisable at October 31, 2017:

Number	Exercise Price \$	Expiry Date
4,010,376	0.70	December 14, 2019
<u>3,726,364</u>	0.80	May 3, 2020
<u>7,736,740</u>		

(d) *Share Option Plan*

The Company has established a rolling share option plan (the "Plan"), in which the maximum number of common shares which can be reserved for issuance under the Plan is 10% of the issued and outstanding shares of the Company. The minimum exercise price of the options is set at the Company's closing share price on the day before the grant date, less allowable discounts. Options granted may be subject to vesting provisions as determined by the Board of Directors and have a maximum term of up to five years.

During fiscal 2017 the Company did not grant any share options.

During fiscal 2016 the Company granted share options to purchase 6,725,000 common shares and recorded compensation expense of \$1,505,250.

The fair value of share options granted and vested during fiscal 2016 is estimated using the Black-Scholes option pricing model using the following assumptions: a risk-free interest rate of 0.66%; expected volatility of 96%; an expected life of 5 years; a dividend yield of 0%; and an expected forfeiture rate of 0% - 100%.

The weighted average fair value of all share options granted and vested, using the Black-Scholes option pricing model, during fiscal 2016 was \$0.27 per share option.

Option-pricing models require the use of estimates and assumptions including the expected volatility. Changes in the underlying assumptions can materially affect the fair value estimates and, therefore, existing models do not necessarily provide reliable measure of the fair value of the Company's share options.

**LEADING EDGE MATERIALS CORP.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED OCTOBER 31, 2017 AND 2016**  
*(Unaudited - Expressed in Canadian Dollars)*

**8. Share Capital (continued)**

A summary of the Company's share options at October 31, 2017 and 2016 and the changes for the years ended on those dates is as follows:

	2017		2016	
	Number of Options Outstanding	Weighted Average Exercise Price \$	Number of Options Outstanding	Weighted Average Exercise Price \$
Balance beginning of year	7,977,500	0.43	1,850,000	0.51
Granted on Acquisition	-	-	520,000	1.00
Granted	-	-	6,725,000	0.39
Exercised	(1,002,500)	0.41	(145,000)	0.10
Expired	<u>(822,500)</u>	0.75	<u>(972,500)</u>	0.64
Balance end of year	<u>6,152,500</u>	0.39	<u>7,977,500</u>	0.43

The following table summarizes information about the share options outstanding and exercisable at October 31, 2017:

Number Outstanding	Number Exercisable	Exercise Price \$	Expiry Date
267,500	267,500	0.48	December 2, 2018
<u>5,885,000</u>	<u>4,735,000</u>	0.39	October 14, 2021
<u>6,152,500</u>	<u>5,002,500</u>		

See also Note 14.

**9. Related Party Disclosures**

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consists of members of the Company's Board of Directors and its executive officers.

(a) During fiscal 2017 and 2016 the following compensation was incurred:

	2017 \$	2016 \$
Professional fees and salaries	415,807	295,405
Share-based compensation	<u>-</u>	<u>781,650</u>
	<u>415,807</u>	<u>1,077,055</u>

As at October 31, 2017, \$89,860 (2016 - \$68,368) remained unpaid and has been included in accounts payable and accrued liabilities.

The Company has a management agreement with the President of the Company which provides that in the event the President's services are terminated without cause or upon a change of control of the Company, a termination payment of one year of compensation, at \$16,666 per month, is payable. If the termination had occurred on October 31, 2017 the amount payable under the agreement would be \$199,992.

(b) Chase Management Ltd. ("Chase"), a private corporation owned by the Chief Financial Officer ("CFO") of the Company, provides accounting and administrative services. During fiscal 2017 the Company incurred \$54,000 (2016 - \$29,400) for services provided by Chase personnel, exclusive of the CFO, and \$4,020 (2016 - \$4,020) for rent. As at October 31, 2017, \$4,170 (2016 - \$4,470) remained unpaid and has been included in accounts payable and accrued liabilities.

**LEADING EDGE MATERIALS CORP.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED OCTOBER 31, 2017 AND 2016**  
*(Unaudited - Expressed in Canadian Dollars)*

---

**9. Related Party Disclosures** (continued)

During fiscal 2016 the Company recorded \$28,350 for share-based compensation for share options granted to Chase.

**10. Income Taxes**

Deferred income tax assets are as follows:

	2017 \$	2016 \$
Deferred income tax assets (liabilities):		
Losses carried forward	8,110,300	7,093,300
Other	<u>33,500</u>	<u>62,800</u>
	8,143,800	7,156,100
Valuation allowance	<u>(8,143,800)</u>	<u>(7,156,100)</u>
Deferred income tax asset	<u>-</u>	<u>-</u>

The recovery of income taxes shown in the consolidated statements of comprehensive loss differ from the amounts obtained by applying statutory rates to the loss before provision for income taxes due to the following:

	2017 \$	2016 \$
Income tax rate reconciliation		
Combined federal and provincial income tax rate	<u>26.0%</u>	<u>26.0%</u>
Expected income tax recovery	759,200	898,300
Foreign income tax rate difference	(40,100)	(34,400)
Non-deductible share-based compensation	-	(391,400)
Other	46,700	80,000
Unrecognized benefit of income tax losses	<u>(765,800)</u>	<u>(552,500)</u>
Actual income tax recovery	<u>-</u>	<u>-</u>

As at October 31, 2017 the Company has non-capital losses of approximately \$19,607,800 (2016 - \$17,548,200) and cumulative pools of approximately \$124,200 (2016 - \$241,600) for Canadian income tax purposes and are available to reduce Canadian taxable income in future years. The non-capital losses expire commencing 2023 through 2037. The Company's subsidiaries in Sweden have losses for income tax purposes of approximately \$12,801,000 (2016 - \$11,503,700) which may be carried forward indefinitely.

**LEADING EDGE MATERIALS CORP.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED OCTOBER 31, 2017 AND 2016**  
*(Unaudited - Expressed in Canadian Dollars)*

---

**11. Financial Instruments and Risk Management**

*Categories of Financial Assets and Financial Liabilities*

Financial instruments are classified into one of the following five categories: fair value through profit or loss (“FVTPL”); held-to-maturity investments; loans and receivables; available-for-sale and other financial liabilities. The carrying values of the Company’s financial instruments are classified into the following categories:

<b>Financial Instrument</b>	<b>Category</b>	<b>October 31, 2017 \$</b>	<b>October 31, 2016 \$</b>
Cash	FVTPL	3,979,914	2,698,836
Amounts receivable	Loans and receivables	24,704	40,463
Reclamation deposit	Loans and receivables	112,522	111,248
Accounts payable and accrued liabilities	Other financial liabilities	(1,001,579)	(642,413)
Property acquisition obligation	Other financial liabilities	(618,908)	(573,000)

The Company’s financial instruments recorded at fair value require disclosure about how the fair value was determined based on significant levels of inputs described in the following hierarchy:

Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and value to provide pricing information on an ongoing basis.

Level 2 - Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the market place.

Level 3 - Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The recorded amounts for amounts receivable and accounts payable and accrued liabilities approximate their fair value due to their short-term nature. The recorded amount for the property acquisition obligation approximates its fair value. The Company’s fair value of cash under the fair value hierarchy is measured using Level 1.

The Company’s risk exposures and the impact on the Company’s financial instruments are summarized below:

*Credit Risk*

Credit risk is the risk of loss associated with a counterparty’s inability to fulfill its payment obligations. The Company’s credit risk is primarily attributable to cash, reclamation deposit and amounts receivable. Management believes that the credit risk concentration with respect to financial instruments included in cash, amounts receivable and reclamation deposit is remote.

*Liquidity Risk*

Liquidity risk is the risk that the Company will not have the resources to meet its obligations as they fall due. The Company manages this risk by closely monitoring cash forecasts and managing resources to ensure that it will have sufficient liquidity to meet its obligations. The following table is based on the contractual maturity dates of financial assets and liabilities and the earliest date on which the Company can be required to settle financial liabilities.



**LEADING EDGE MATERIALS CORP.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED OCTOBER 31, 2017 AND 2016**  
*(Unaudited - Expressed in Canadian Dollars)*

**11. Financial Instruments and Risk Management (continued)**

	<b>Contractual Maturity Analysis at October 31, 2017</b>				
	Carrying Amount \$	Contractual Cash Flows \$	Less than 3 Months \$	1 - 5 Years \$	Over 5 Years \$
Cash	3,979,914	3,979,914	3,979,914	-	-
Amounts receivable	24,704	24,704	24,704	-	-
Reclamation deposit	112,522	112,522	-	-	112,522
Accounts payable and accrued liabilities	(1,001,579)	(1,001,579)	(1,001,579)	-	-
Property acquisition obligation	(618,908)	(618,908)	-	(618,908)	-

  

	<b>Contractual Maturity Analysis at October 31, 2016</b>				
	Carrying Amount \$	Contractual Cash Flows \$	Less than 3 Months \$	1 - 5 Years \$	Over 5 Years \$
Cash	2,698,836	2,698,836	2,698,836	-	-
Amounts receivable	40,463	40,463	40,463	-	-
Reclamation deposit	111,248	111,248	-	-	111,248
Accounts payable and accrued liabilities	(642,413)	(642,413)	(642,413)	-	-
Property acquisition obligation	(573,000)	(299,546)	-	(273,454)	-

*Market Risk*

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. These fluctuations may be significant.

*Interest Rate Risk*

The Company is exposed to interest rate risk to the extent that the cash bear floating rates of interest. The interest rate risk on cash and on the Company's obligations are not considered significant.

*Foreign Currency Risk*

The Company's functional currency is the Canadian Dollar and major transactions are transacted in Canadian Dollars and SEK. The Company maintains SEK bank accounts in Sweden to support the cash needs of its foreign operations. Management believes the foreign exchange risk related to currency conversions is minimal and therefore does not hedge its foreign exchange risk. At October 31, 2017, 1 Canadian Dollar was equal to SEK 6.5. Balances are as follows:

	SEK	CDN \$ Equivalent
Cash	1,313,214	202,033
Amounts receivable	157,982	24,305
VAT receivable	547,948	84,300
Inventories	624,948	96,175
Plant stores and supplies	623,345	96,928
Reclamation deposit	731,165	112,522
Accounts payable and accrued liabilities	(2,326,494)	(357,922)
Property acquisition obligation	<u>(4,000,000)</u>	<u>(618,908)</u>
	<u>(2,327,892)</u>	<u>(360,567)</u>

**LEADING EDGE MATERIALS CORP.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED OCTOBER 31, 2017 AND 2016**  
*(Unaudited - Expressed in Canadian Dollars)*

---

**11. Financial Instruments and Risk Management (continued)**

Based on the net exposures as of October 31, 2017 and assuming that all other variables remain constant, a 10% fluctuation of the Canadian Dollar against the SEK would result in the Company's net loss being approximately \$32,500 higher or lower.

*Capital Management*

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition and exploration mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain development of the business. The Company defines capital that it manages as share capital and cash. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

**12. Supplemental Cash Flow Information**

During fiscal 2017 and 2016 non-cash activities were conducted by the Company as follows:

	2017 \$	2016 \$
Operating activity		
Provision for site restoration	<u>192,170</u>	<u>1,823,418</u>
Investing activities		
Revisions of estimates on property, plant and equipment	(192,170)	(1,823,418)
Exploration and evaluation assets	<u>-</u>	<u>(16,634,708)</u>
	<u>(192,170)</u>	<u>(18,458,126)</u>
Financing activities		
Issuance of common shares for Acquisition	-	16,535,474
Issuance of common shares	41,588	-
Share issue costs	(41,588)	-
Share-based payments reserve	<u>-</u>	<u>99,234</u>
	<u>-</u>	<u>16,634,708</u>

**LEADING EDGE MATERIALS CORP.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED OCTOBER 31, 2017 AND 2016**  
*(Unaudited - Expressed in Canadian Dollars)*

**13. Segmented Information**

The Company is involved in the exploration and development of resource properties in Sweden and Finland, with corporate operations in Canada and accordingly, has no reportable segment revenues or operating results. The Company's total assets are segmented geographically as follows:

	<u>As a October 31, 2017</u>			
	<u>Corporate Canada \$</u>	<u>Mineral Operations Sweden \$</u>	<u>Mineral Operations Finland \$</u>	<u>Total \$</u>
Current assets	3,976,013	511,457	4,869	4,492,339
Exploration and evaluation assets	-	16,000,337	4,569	16,004,906
Property, plant and equipment	-	17,305,961	-	17,305,961
Reclamation deposit	-	112,522	-	112,522
	<u>3,976,013</u>	<u>33,930,277</u>	<u>9,438</u>	<u>37,915,728</u>
	<u>As a October 31, 2016</u>			
	<u>Corporate Canada \$</u>	<u>Mineral Operations Sweden \$</u>	<u>Mineral Operations Finland \$</u>	<u>Total \$</u>
Current assets		2,653,072	425,982	3,079,054
Exploration and evaluation assets		-	15,669,099	15,669,099
Property, plant and equipment		-	17,178,350	17,178,350
Reclamation deposit		-	111,248	111,248
		<u>2,653,072</u>	<u>33,384,679</u>	<u>36,037,751</u>

**14. Events after the Reporting Period**

Subsequent to October 31, 2017 the Company:

- (i) granted share options to purchase 2,717,500 common shares at an exercise price of \$0.64 per share expiring November 2, 2022; and
- (ii) issued 200,000 common shares on the exercise of share options for proceeds of \$78,000.