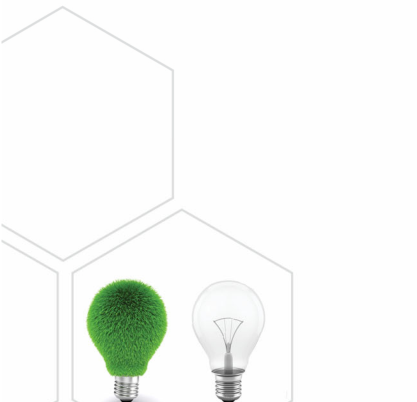
MANAGEMENT'S DISCUSSION AND ANALYSIS

For the years ended June 30, 2020 and 2019



[Unless specified otherwise, all amounts are expressed in Canadian dollars]

This Management's discussion and analysis (”MD&A”) provides a review of NanoXplore Inc.'s operations, performance and financial position for the years ended June 30, 2020 and 2019 and should be read in conjunction with the audited consolidated financial statements for the years ended June 30, 2020 and 2019. The purpose of this document is to provide information on our activities. The information contained herein is dated as of October 15, 2020. You will find more information about us on NanoXplore's website at **www.nanoxplore.ca** and on SEDAR at www.sedar.com, including all press releases.

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). The Company has consistently applied the accounting policies used in the preparation of its IFRS financial statements, including the comparative figures. If necessary, we refer to non-IFRS financial measures in the MD&A. In that case, see the Non-IFRS financial measures section for more information. The terms “we”, “our”, “us”, ''NanoXplore'' or the “Company” mean NanoXplore Inc. and its subsidiaries, unless otherwise indicated.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This MD&A contains certain forward-looking statements with respect to the Company. Such forward-looking statements are dependent upon a certain number of factors and are subject to risks and uncertainties. Actual results may differ from those expected. We consider the assumptions on which these forward-looking statements are based to be reasonable, but we advise the reader that these assumptions with regard to future events, many of which are beyond our control, could prove incorrect as they are subject to risks and uncertainties inherent in our activities. Management does not assume any obligation to update or revise any forward-looking statements, whether as a result of new information of future events, except when required by the regulatory authorities.

This MD&A contains forward-looking statements. When used in this MD&A, the words ''may'', ''would'', ''could'', ''will'', ''intend'', ''plan'', ''anticipate'', ''believe'', ''seek'', ''propose'', ''estimate'', ''project'', ''expect'' and similar expressions are intended to identify forward-looking statements. In particular, this MD&A contains forward-looking statements with respect to, among other things, business objectives, expected growth, results of operations, performance, business projects and opportunities and financial results. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. Such statements reflect NanoXplore's then current views with respect to future events based on certain material facts and assumptions and are subject to certain risks and uncertainties, including without limitation changes in the risk factors described under the section risks and uncertainties of this statement. The forward-looking information is based on certain key expectations and assumptions made by NanoXplore, including expectations and assumptions concerning availability of capital resources, business performance, market conditions and customer demand. Although NanoXplore believes that the expectations and assumptions on which such forward-looking information is based are reasonable, undue reliance should not be placed on the forward-looking information since no assurance can be given that it will prove to be correct.

Many factors could cause NanoXplore's actual results, performance or achievements to vary from those described in this MD&A, including without limitation those listed above, those described under the section risks and uncertainties of this statement as well as the assumptions upon which they are based proving incorrect. These factors should not be construed as exhaustive. Should one or more of these risks or uncertainties materialize, or should assumptions underlying forward-looking statements prove incorrect, actual results may vary materially from those described in this MD&A as intended, planned, anticipated, believed, sought, proposed, estimated or expected, and such forward-looking statements should not be unduly relied upon. NanoXplore does not intend, and does not assume any obligation, to update these forward-looking statements except as required by law. The forward-looking statements contained in this MD&A are expressly qualified by these cautionary statements. Forward-looking information contained in this MD&A about prospective results of operations, financial position or cash flows is based on assumptions about future events, including economic conditions and proposed courses of action, based on NanoXplore's management's assessment of the relevant information currently available. Readers are cautioned that outlook information contained in this MD&A should not be used for the purposes other than for which it is disclosed herein or therein, as the case may be.

BUSINESS OVERVIEW

COMPANY OVERVIEW

NanoXplore Inc. (and its subsidiaries together "NanoXplore" or the "Company") is a graphene company, a manufacturer and supplier of high-volume graphene powder for use in industrial markets. Also, the Company provides standard and custom graphene-enhanced plastic and composite products to various customers in transportation, packaging, electronics, and other industrial sectors. The address of the Company's corporate office is 4500, Thimens Blvd, Montreal, QC, Canada, H4R 2P2.

NanoXplore Inc. is listed on the TSX Venture Exchange and has traded under "GRA" and is also listed on the OTCQX and has traded under "NNXPF".

The Company has the following subsidiaries:

- NanoXplore GmbH, based in Germany, with an equity interest of 100% [2019 – 100%]. On January 20, 2020, NanoXplore GmbH was dissolved;
- 9334-7474 Québec Inc., based in Canada, with an equity interest of 100% [2019 – 100%]. 9334-7474 Québec Inc. holds 100% of 9396-2173 Québec Inc (formerly Rada Industries Ltd, "Rada Industries"). On December 31, 2019, 9396-2173 Québec Inc. was dissolved;
- NanoXplore Switzerland Holding SA ("NanoXplore Switzerland"), based in Switzerland, with an equity interest of 100% [2019 – 100%]. NanoXplore Switzerland holds 100% of CEBO Injections SA ("CEBO");
- Sigma Industries Inc., based in Canada, with an equity interest of 100% [2019 – 100%]. Sigma has two active wholly owned subsidiaries; Faroex Ltd., based in Manitoba, and Rene Composite Materials Ltd., based in Quebec. Rene Composite Materials Ltd has one active wholly owned subsidiary; RMC Advanced Technologies Inc, based in the United States.

BUSINESS HIGHLIGHTS

COVID-19 Pandemic

On March 11, 2020, the World Health Organization declared the outbreak of COVID-19 a global pandemic and recommended various containment and mitigation measures. Since then, extraordinary actions have been taken by public health and governmental authorities across the globe to contain the spread of COVID-19, including travel bans, social distancing, quarantines, stay-at-home orders and similar mandates for many businesses to reduce or cease normal operations.

As a result of the COVID-19 global pandemic, in the middle of March, certain Company's customers essentially idled their manufacturing operations. NanoXplore followed its customers and also temporarily idled most of its manufacturing operations in March. This suspension of manufacturing operations and rapid dissipation of customer demand had a negative impact on the Company's financial results during the second half of March and the fourth financial quarter of 2020. Although the potential magnitude and duration of the business and economic impacts of COVID-19 are uncertain, a phased restart of the Company's manufacturing facilities and dependent functions has begun in May.

The COVID-19 pandemic is expected to have an adverse effect on our business, results of operations, cash flows and financial position however, the full impact cannot be determined at this time. The extent of the impact will depend on various factors, including the possibility of future shutdowns, impact on customers and suppliers, the rate at which economic conditions, operations return to pre-COVID levels, any continued or future governmental orders or lock-downs due to this wave of COVID-19, or any future wave, and the potential for a recession in key markets due to the effect of the pandemic.

Graphene plant project in Montreal

The Company focused on the development of its graphene plant in Montreal since the beginning of the financial year. Even though the progress of the project has been impacted by the COVID-19 pandemic, the 4,000 metric tons/year graphene facility became operational on July 7, 2020 and, as a result, sales of graphene were minimal during the current year.

During the year ended June 30, 2020, the Company spent $19,537,094 for a total of $20,432,967 since the inception of the project.

The facility has also become the Company's new Corporate Headquarters on January 20, 2020.

Private placement financing

On April 3, 2020, the Company completed a brokered private placement financing of 19,230,800 common shares at a price of $1.30 per share for gross proceeds of $25,000,040. The Company intends to use the net proceeds of the private placement to further research initiatives, particularly related to the use of graphene in lithium ion (Li-ion) batteries, U.S. expansion, debt repayment, expanding its graphene compounding capacity, working capital and general corporate purposes.

NanoXplore's Shareholders structure change

On September 9, 2019, Mason Graphite Inc. sold its entire NanoXplore ownership position that resulted in a transaction of 22,188,333 shares to a group of buyers that included Martinrea International Inc., Caisse de dépôt et placement du Québec and Investissement Québec.

Subsequent Event

On September 11, 2020, through its wholly-owned indirect subsidiary RMC Advanced Technologies Inc., the Company acquired substantially all of the assets of CSP Composites, LLC, Continental Structural Plastics, Inc. and Continental Structural Plastics of North Carolina, Inc. (collectively, "CSP") used in connection with its lightweight composite solutions and material business as conducted at 1400 Burris Road, Newton, North Carolina, for a total purchase price of US$3,500,000. The total purchase price is based on an inventory value of US$900,000 and will be adjusted, on a dollar for dollar basis, based on the value of the inventory as at the closing date. This acquisition was concluded in order to expand the Company's business in the United States.

FINANCIAL HIGHLIGHTS

The following selected financial data are derived from the Consolidated Financial Statements of the Company for the following years:

	2020 $	2019 $	2018 $
Revenues	**65,151,006**	69,521,070	8,656,487
Loss for the year	**(8,272,800)**	(10,603,365)	(6,123,913)
Basic loss per share	**(0.07)**	(0.11)	(0.08)

	2020 $	2019 $	Variation $	 %
Consolidated Statements of Cash Flows				
Operating activities	**(2,930,615)**	(3,939,203)	1,008,588	26%
Financing activities	**28,607,054**	32,426,565	(3,819,511)	(12%)
Investing activities	**(19,724,791)**	(15,944,178)	(3,780,613)	(24%)
Net change in cash and cash equivalent before net effect of currency exchange rate	**5,951,648**	12,543,184	(6,591,536)	(53%)

	2020 $	2019 $	2018 $
Consolidated Statements of Financial Position			
Cash and cash equivalents	**33,796,686**	27,819,140	15,268,666
Accounts receivable and Contract asset	**11,202,100**	15,016,481	2,895,012
Inventory	**7,116,492**	7,589,896	1,542,863
Right-of-use assets	**5,878,706**	5,502,111	—
Property, plant and equipment and equipment deposits	**50,774,739**	31,230,797	6,488,020
Intangible assets	**3,803,674**	4,267,929	—
Goodwill	**460,164**	460,164	—
Total assets	**113,647,870**	92,844,734	26,886,737
Operating loans	**2,152,568**	1,339,480	1,328,400
Long-term debt and Convertible debentures - Loan	**34,837,002**	32,566,411	4,567,970
Total liabilities	**52,680,608**	54,749,009	11,128,750
Shareholders' equity	**60,967,262**	38,095,725	15,757,987

Variances are explained in the sections "**CONSOLIDATED OPERATIONS**" and "**FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES**".

Selected Quarterly Information

		Revenues $	Loss $	Basic and diluted loss per share $	
Q4-2020	June 30, 2020	12,568,227	(682,833)	(0.01)	**Note 1**
Q3-2020	March 31, 2020	14,866,180	(2,993,379)	(0.02)	**Note 2**
Q2-2020	December 31, 2019	17,733,510	(2,266,153)	(0.02)	**Note 3**
Q1-2020	September 30, 2019	19,983,089	(2,330,435)	(0.02)	**Note 4**
Q4-2019	June 30, 2019	22,745,880	(4,717,098)	(0.04)	**Note 5**
Q3-2019	March 31, 2019	20,720,455	(2,736,849)	(0.03)	**Note 6**
Q2-2019	December 31, 2018	22,147,009	(1,550,237)	(0.02)	**Note 7**
Q1-2019	September 30, 2018	3,907,726	(1,599,181)	(0.02)	

Note 1 The decrease in revenues is explained by the negative impact of the COVID-19 pandemic partially offset by received government assistance of about $1,900,000 from the Canadian federal government through its Canada Emergency Wage Subsidy ("CEWS") program. Although the Covid-19 pandemic has impacted negatively the results of the quarter, the loss was less significant than expected given the CEWS and the cost reduction plan put in place during the quarter.

Note 2 The decrease of the revenues is mainly explained by a decline in the transportation market (particularly trucks), the divesture of Rada Industries (Rada's activities were sold in April 2019) and the impact of the COVID-19.

Note 3 The decrease of the revenues is mainly explained by a decline in the transportation market (particularly trucks) and the divesture of Rada Industries (Rada's activities were sold in April 2019).

Note 4 The decrease of the revenues is mainly explained by a decline in the transportation market (particularly trucks) and the divesture of Rada Industries (Rada's activities were sold in April 2019).

Note 5 The higher loss than usual is attributed to the sales of Rada Industries' equipment, which results into a loss of $738,524 and an increase of total salaries due to higher incentives.

Note 6 The higher loss than usual is resulted from an increase in total salaries due to the addition of strategic new positions and the grant of stock options.

Note 7 The higher revenues are explained by sales from Sigma, which are consolidated since September 21, 2018 in the consolidated results.

CONSOLIDATED OPERATIONS

	2020	2019	Variation	
	$	$	$	%
Revenues				
Revenues from customers	**62,202,328**	68,700,058	(6,497,730)	-9%
Other income	**2,948,678**	821,012	2,127,666	259%
	65,151,006	69,521,070	(4,370,064)	(6%)
Expenses				
Cost of sales	**52,312,942**	57,594,615	(5,281,673)	(9%)
Research and development expenses	**3,119,591**	2,544,548	575,043	23%
Selling, general and administrative expenses	**11,267,207**	13,235,242	(1,968,035)	(15%)
Share-based compensation expenses	**633,390**	875,988	(242,598)	(28%)
Depreciation (production)	**3,243,125**	2,563,856	679,269	26%
Depreciation (other)	**956,715**	542,885	413,830	76%
Amortization	**592,004**	508,298	83,706	16%
Foreign exchange	**232,796**	228,969	3,827	2%
	72,357,770	78,094,401	(5,736,631)	(7%)
Operating loss before non-recurring expenses	**(7,206,764)**	(8,573,331)	(1,366,567)	(16%)
Non-recurring expenses				
Loss on disposal of PP&E	**—**	(738,524)	(738,524)	(100%)
Operating loss	**(7,206,764)**	(9,311,855)	(2,105,091)	(23%)
Interest on operating loans, long-term debt and convertible debentures	**(1,434,366)**	(1,657,677)	(223,311)	(13%)
Interest accretion on lease liability	**(371,823)**	(203,915)	167,908	82%
Interest revenue	**414,331**	342,698	71,633	21%
Loss before income taxes	**(8,598,622)**	(10,830,749)	2,232,127	(21%)
Current income taxes expense	**(187,034)**	(44,789)	142,245	318%
Deferred income taxes recovery	**512,856**	272,173	240,683	88%
Loss for the year	**(8,272,800)**	(10,603,365)	2,330,565	(22%)
Other comprehensive loss				
Items that may be subsequently reclassified to profit and loss:				
Exchange differences on translation of foreign subsidiaries	**45,578**	(563)	46,141	8,196%
Items that will not be reclassified to profit and loss:				
Retirement benefits – Net actuarial gains (losses)	**(276,701)**	25,954	(302,655)	(1,166%)
Total comprehensive loss	**(8,503,923)**	(10,577,974)	2,074,051	(20%)
Loss per share				
Basic and diluted	**(0.07)**	(0.11)		

Revenue by line of product

	2020	2019	Variation	
	$	$	$	%
Transport	**44,844,720**	48,552,726	(3,708,006)	(8%)
Agriculture	**2,387,560**	2,205,756	181,804	8%
Wind energy	**3,232,000**	2,652,468	579,532	22%
Industrial	**8,834,971**	11,157,176	(2,322,205)	(21%)
Other	**2,903,077**	4,131,932	(1,228,855)	(30%)
Total revenues from customers	**62,202,328**	68,700,058	(6,497,730)	(9%)
Government assistance	**2,778,907**	730,634	2,048,273	280%
Other income	**169,771**	90,378	79,393	88%
Total other income	**2,948,678**	821,012	2,127,666	259%
	65,151,006	69,521,070	(4,370,064)	(6%)

RESULTS OF OPERATIONS VARIANCE ANALYSIS

Considering that the new 4,000 tons/year graphene plant became operational in July 2020, sales of graphene were minimal during the current year.

Revenues from customers decreased from $68,700,058 in 2019 to $62,202,328 in 2020. This decrease of sales is explained by the drop in the trucking market and the negative impact of the Covid-19 pandemic during the last financial quarter of 2020. During 2019, Sigma's business achieved strong annual sales mainly due to the strength of the trucking market. The trucking market had undergoing a downturn which negatively affects the Company Transport sales starting in Q2-2020. Furthermore, the COVID-19 had negatively impacted revenues for all lines of product starting from Q3-2020.

Other income increased from $821,012 in 2019 to $2,948,678 in 2020. The increase is explained by the Canadian federal government's CEWS program set up to help businesses deal with the pandemic Covid-19. The Company received approximately $1,900,000 under this program.

The loss for the year decreased from $10,603,365 in 2019 to $8,272,800 in 2020 for a variation of $2,330,565 which is mainly explained as follows:

- Lower operating expenses of about $1,635,000 explained by a reduction of the variable compensation, a reduction of the number of employees and a restructuring plan put in place to deal with the pandemic during the last financial quarter of the current year;
- Government assistance received from the Canadian federal government through its CEWS program of approximately $1,900,000 and additional R&D subsidies of about $140,000;
- In April 2019, the Company made the strategic decision to sell the main operating assets of Rada Industries for an amount of $800,000 resulting in a non-recurring loss on disposal of equipment of $738,524 in the year ended June 30, 2019;
- These gains were partly offset by the decrease of volume in revenues from customers due to the downturn in the trucking industry and the pandemic Covid-19 which as impacted negatively the gross margin for about $1,216,000 and additional depreciation and amortization expenses of about $1,175,000 mainly explained by the acquisition of Sigma assets part of the purchase price allocation.

FOURTH QUARTER RESULTS

	2020	2019	Variation	
	$	$	$	%
Revenues from customers	**10,493,320**	22,648,920	(12,155,600)	(54%)
Other income	**2,074,907**	96,960	1,977,947	2,040%
Cost of sales	**8,223,148**	19,154,026	(10,930,878)	(57%)
Depreciation and amortization	**1,415,595**	1,560,325	(144,730)	(9%)
Other operating expenses	**3,205,500**	5,594,267	(2,388,767)	(43%)
Loss for the period	**(682,833)**	(4,717,098)	(4,034,265)	(86%)
Basic loss per share	**(0.01)**	(0.04)		

Considering that the new 4,000 tons/year graphene plant became operational in July 2020, sales of graphene were minimal during the current quarter.

Revenues from customers for the three-month period decreased from $22,648,920 in 2019 to $10,493,320 in 2020, mainly due to the negative impact of the Covid-19 pandemic and the downturn of the trucking market started in Q2-2020.

Other income increased from $96,960 in 2019 to $2,074,907 in 2020. The increase is explained by the Canadian federal government's CEWS program set up to help businesses deal with the pandemic Covid-19. The Company received approximately $1,900,000 under this program.

The loss for the three-month period decreased from $4,717,098 in 2019 to $682,833 in 2020 for a variation of $4,034,265 which is explained as follows:

- Lower operating expenses of about $2,200,000 explained by a reduction of the variable compensation, a reduction of the number of employees and a restructuring plan put in place to deal with the pandemic during the last financial quarter of 2020;
- Government assistance received from the Canadian federal government through its CEWS program of approximately $1,900,000 and additional R&D subsidies of about $125,000;
- In April 2019, the Company made the strategic decision to sell the main operating assets of Rada Industries for an amount of $800,000 resulting in a non-recurring loss on disposal of equipment of $738,524 in the year ended June 30, 2019;
- These gains were partly offset by the decrease of volume in revenues from customers due to the downturn in the trucking industry and the Covid-19 pandemic which as impacted negatively the gross margin for about $1,225,000.

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

CONSOLIDATED FINANCIAL POSITION

	2020 $	2019 $	Variation $	Main reasons for significant variation
Assets				
Cash and cash equivalents	**33,796,686**	27,819,140	5,977,546	Refer to section Cash Flows
Accounts receivable and Contract asset	**11,202,100**	15,016,481	(3,814,381)	Decrease in line with lower sales during 2020 compared to 2019
Inventory	**7,116,492**	7,589,896	(473,404)	
Right-of-use assets	**5,878,706**	5,502,111	376,595	
Property, plant and equipment, and equipment deposits	**50,774,739**	31,230,797	19,543,942	Additions are mainly related to the construction of the graphene plant
Intangible assets	**3,803,674**	4,267,929	(464,255)	
Goodwill	**460,164**	460,164	—	
Other assets	**615,309**	958,216	(342,907)	
Total assets	**113,647,870**	92,844,734	20,803,136	
Liabilities and Shareholders' Equity				
Liabilities				
Accounts payable, accrued liabilities and income taxes payables	**11,432,494**	14,997,652	(3,565,158)	Decrease is in line with lower expenses given the decrease in sales
Deferred grant	**276,342**	231,745	44,597	
Contract liability	**946,751**	2,512,994	(1,566,243)	
Operating loans	**2,152,568**	1,339,480	813,088	
Defined benefit liabilities	**1,310,464**	870,329	440,135	
Long-term debt	**26,680,697**	24,862,997	1,817,700	New leases of $3,964,314 and issuance of $720,355 of term loan offset by principal payment of about $2,900,000
Convertible debentures – Loan	**8,156,305**	7,703,414	452,891	
Deferred taxes liabilities	**1,724,987**	2,230,398	(505,411)	
Total liabilities	**52,680,608**	54,749,009	(2,068,401)	
Shareholders' Equity				
Share capital	**84,837,145**	53,445,389	31,391,756	Issuance of shares related to the financing of April 2020 and the exercise of warrants in August 2019
Reserve	**3,588,215**	3,604,511	(16,296)	
Convertible debentures – Options	**2,240,000**	2,240,000	—	
Foreign currency translation reserve	**58,505**	12,927	45,578	
Deficit	**(29,756,603)**	(21,207,102)	(8,549,501)	
Total shareholders' equity	**60,967,262**	38,095,725	22,871,537	
Total liabilities and shareholders' equity	**113,647,870**	92,844,734	20,803,136	

CASH FLOWS

	2020 $	2019 $	Variation $	 %
Cash used in operating activities prior to changes in non-cash working capital items	**(2,386,485)**	(5,101,745)	(2,715,260)	(53%)
Changes in non-cash working capital items	**(544,130)**	1,162,542	(1,706,672)	(147%)
Operating activities	**(2,930,615)**	(3,939,203)	1,008,588	26%
Financing activities	**28,607,054**	32,426,565	(3,819,511)	(12%)
Investing activities	**(19,724,791)**	(15,944,178)	(3,780,613)	(24%)
Net effect of currency exchange rate on cash and cash equivalents	**25,898**	7,290	18,608	255%
Net change in cash and cash equivalents	**5,977,546**	12,550,474	(6,572,928)	(52%)

Operating activities

Cash flows used in operating activities in 2020 decreased by $2,715,260 before changes in non-cash working capital compared to the same period of last year. The decrease is mainly explained by a decrease of the loss of the year of $2,330,565 from 2019 to 2020 (refer to Results of operations variance analysis).

Changes in non-cash working capital items decreased by $544,130 for the year ended June 30, 2020. No unusual variations were noted.

Financing activities

Cash flows generated from financing activities was $28,607,054 in 2020, compared to cash generated of $32,426,565 in 2019. During 2020, the Company completed a private placement for net proceeds of $24,300,029, warrants and broker warrants were exercised for $6,422,041, repayment of $3,567,229 was completed for loans and lease liability and $1,432,213 was received for new loans. During 2019, the Company completed a private placement and a convertible debenture for net proceeds of $30,071,006, options, warrants and broker warrants were exercised for $1,235,076, repayment of $7,180,475 was completed for loans and lease liability and $8,300,958 was received for new loans.

Investing activities

Cash flows used in investing activities was $19,724,791 in 2020 compared to $15,944,178 in 2019. During 2020, most of the expenditures were for the construction of the graphene plant in Montreal. During 2019, the expenses were related to the acquisition of Sigma during September 2018 for a net cash amount of $7,300,496 and approximately $8,600,000 for the plant expansion located in Sainte-Clotilde-de-Beauce, in the Chaudière-Appalaches region.

LIQUIDITY AND CAPITAL RESOURCES

Management believes that the Company has sufficient funds to meets its obligations, operating expenses and some development expenditures for the ensuing 12 months as they fall due considering the completion of the private placement of $25,000,040 on April 3, 2020. The Company's ability to continue its development activities is dependent on the beginning of the commercial operations of the graphene commercial activity. The graphene commercial activity is in the development stage and, as a result, the Company has minimal sources of operating revenue from those operations and could be dependent on external financing to fund its continued development program, if the beginning of the commercial operation of the graphene activity is delayed. The Company's main sources of funding have been the issuance of equity securities for cash, debt, funds from the government of Quebec with respect to R&D tax credits, funds from the Canadian federal government with respect to Sustainable Development Technology Canada ("SDTC") and funds from the CEWS.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

For a detailed description of the financial instruments and risk management associated with the Company and its activities, please refer to the consolidated financial statements of the years ended June 30, 2020 and 2019. These identified financial instruments and risks are consistent through the periods.

OFF-BALANCE SHEET ARRANGEMENTS

As of the date of this MD&A, the Company did not have any off-balance sheet arrangements, except for the commitment disclosed in the annual consolidated financial statements of June 30, 2020.

OUTSTANDING SHARES

As at October 15, 2020, the Company has:

- 140,453,610 common shares issued and outstanding;
- 3,690,133 options outstanding with expiry dates ranging between January 2, 2022 and October 10, 2024 with exercise prices between $0.45 and $1.80. If all the options were exercised, 3,690,133 shares would be issued for cash proceeds of $4,366,760;
- $10,000,000 of nominal value in convertible debentures outstanding with an expiry date of December 31, 2023 with a conversion price of $1.84. If the conversion option right was exercised, 5,434,783 shares would be issued for non-cash proceeds of $10,000,000.

RELATED PARTY TRANSACTIONS

For a detailed description of all related party transactions, please refer to the Note 16 "Related party transactions" in the consolidated financial statements for the years ended June 30, 2020 and 2019.

RISKS AND UNCERTAINTIES

The following risk factors, as well as other information contained in this MD&A, should be considered carefully. The operations of the Company are speculative due to the high-risk nature of its business, which relates to acquisitions, financing, technology and manufacturing. These risk factors could materially affect the Company's future operating results and could cause actual events to differ materially from those described in forward–looking information relating to the Company.

NORTH AMERICAN AND GLOBAL ECONOMIC AND POLITICAL CONDITIONS AND EPIDEMICS OR PANDEMICS

The Company's business is global, and is cyclical in the fact that it is sensitive to changes in economic and political conditions, including interest rates, currency issues, energy prices, trade issues, international or domestic conflicts or political crises, and epidemics or pandemics, such as the strain of Covid-19 that surfaced in December 2019 in Wuhan, China, and which has spread to other countries, with many confirmed cases and deaths in the several other countries, including Canada. At this point, the extent to which the coronavirus may impact our results is uncertain, but it may have an effect or disrupt our supply chain. Current conditions continue to cause economic uncertainty about the future in different regions. It is uncertain what the Company's prospects will be in the future.

CYCLICAL RISKS

A portion of the business of the Company is cyclical, especially as it relates to its activities in the transportation industry. It is dependent on, among other factors, general economic conditions in North America and elsewhere. Future sales and production volumes are anticipated to be relatively flat or stable in North America over the next several years, but volume levels are uncertain, and volume levels can decrease at any time. There can be no assurance that North American truck production overall or specific platforms will not decline in the future or that the Company will be able to utilize any existing unused capacity or any additional capacity it adds in the future. A continued or a substantial additional decline in the production of trucks overall or by customer or by customer platform may have a material adverse effect on the Company's financial condition and results of operations and ability to meet existing financial covenants.

North America is a key truck producing region for us and operating results are dependent on truck production in this region by our customers. Due to the nature of the Company's business, it is dependent upon several large customers such that cancellation of a significant order by any of these customers, the loss of any such customers for any reason or the insolvency of any such customers, reduced sales of truck platforms of such customers, or shift in market share on trucks on which we have significant content, or any significant or sustained decline in truck production volumes in North America, could significantly reduce the Company's ongoing revenue and/or profitability, and could materially and adversely affect the Company's financial condition. Although the Company continues to diversify its business, there is no assurance that it will be successful.

MARKET DEVELOPMENT AND SUSTAINED GROWTH

Failure to further develop the Company's key markets and existing geographic markets or to successfully expand its business into new markets could have an adverse impact on sales growth and operating results. The Company's ability to further penetrate its key markets and the existing geographic markets in which it competes, and successfully expand its business into other countries in Europe, South America or elsewhere, is subject to numerous factors, many of which are beyond its control. There can be no assurance that efforts to increase market penetration in the Company's key markets and existing geographic markets will be successful. Failure to achieve these goals may have an adverse effect on the Company's operating results.

REVENUE FROM GRAPHENE POWDER DIRECT SALE

To date, the Company has recorded minimal revenue from its graphene powder direct sale. There can be no assurance that significant losses will not occur in the near future or that the Company will be profitable in the future. The Company's operating expenses and capital expenditures may increase in subsequent years. The Company expects to continue to incur losses unless and until such time as it enters into long term and large volume graphene supply agreements and generates sufficient revenues to fund its continuing operations.. The ability to sell graphene in commercial quantities is dependent on customers' acceptance and regulatory approvals in different jurisdictions. There can be no assurance that the Company will generate any revenues or achieve profitability.

LIQUIDITY CONCERNS AND FUTURE FINANCINGS

The Company is dependent on the beginning of the commercial operation of the graphene products. Any delay in the sales of the products could require additional financings. There can be no assurance that the Company will be successful in obtaining the required financing as and when needed. Volatile markets may make it difficult or impossible for the Company to obtain debt financing or equity financing on favorable terms, if at all. Failure to obtain additional financing on a timely basis may cause the Company to postpone or slow down its development plans or reduce or terminate some or all of its activities.

FOREIGN EXCHANGE

The Company operates internationally and is exposed to foreign exchange risk mainly related to expenses and sales in currencies other than the respective functional currencies of the Company, primarily with respect to the US dollar.

Management has set up a policy that requires the Company to manage its currency risk and imposes strict limits on the maximum exposures that can be entered into.

Sales denominated in US dollars accounted for around 53% of the Company's total sales for the year ended June 30, 2020. Consequently, the Canadian dollar trends in relation to the US dollar add an element of risk and uncertainty for the Company. These risks are partially offset by the raw material purchases denominated in US dollars. The Company's policy is not to use derivative financial instruments for trading or speculative purposes but only for hedging some risk related to the US dollar. The Company sets up credit facilities allowing it to enter into forward foreign or option exchange contract transactions. This amount partially covers the Company's potential requirements over the next 24 months. The Company will proactively monitor the need to use this facility based on market conditions.

LAWS AND REGULATIONS, LICENCES AND PERMITS

A significant change in the legal and regulatory environment in which the Company currently carries on business could adversely affect the Company's operations. The Company's operations could be adversely impacted by significant changes in tariffs and duties imposed on its products, particularly significant changes to NAFTA (now USMCA), the adoption of domestic preferential purchasing policies in other jurisdictions, particularly the United States, or positive or negative changes in tax or other legislation.

In addition, the Company could be exposed to increased customs audits due to governmental policy which could lead to additional administrative burden and costs. Changes in legislation or regulation could lead to additional administrative burden and costs in general, and also carry the potential of a material fine or significant reputational risk.

Particularly, large volume production of graphene requires permits and approvals from various government authorities, and are subject to extensive federal, provincial, and local laws and regulations governing development, production, exports, taxes, labour standards, occupational health and safety, and other matters. In particular, as graphene is a new chemical substance, production and sale of graphene may be subject to regulatory approvals in different jurisdictions including, without limitations, under the *Canadian Environmental Protection Act* (Canada), the *Toxic Substances Control Act* (USA) and the *Registration, Evaluation, Authorization and Restriction of Chemicals* (Europe). Such laws and regulations are subject to change, can become more stringent, and compliance can be costly. There can be no guarantee that the Company will be able to maintain or obtain all necessary licences, permits and approvals that may be required to further scale up the graphene production facility or to sell graphene.

DEPENDENCE ON MANAGEMENT AND KEY PERSONNEL

The Company is dependent on the services of key executives, including a small number of highly skilled and experienced executives and personnel. The Company's development to date has largely depended, and in the future will continue to depend, on the efforts of key management and other key personnel to develop its projects. Loss of any of these people, particularly to competitors, in the short term, could have a material adverse impact upon the Company current business.

HEALTH AND SAFETY AND ENVIRONMENTAL

Environmental legislation is evolving in a manner that is creating stricter standards, while enforcement, fines and penalties for non-compliance are also increasingly stringent. The cost of compliance with changes in governmental regulations has the potential to reduce the profitability of the Company's operations. Further, any failure by the Company to comply fully with all applicable laws and regulations could have significant adverse effects on the Company, including the suspension or cessation of its operations.

UNINSURED RISKS

The Company maintains insurance to cover normal business risks. In the course of its manufacturing businesses, certain risks and, in particular, unexpected or unusual catastrophic events including explosions and fire may occur. It is not always possible to fully insure against such risks as a result of high premiums or other reasons. Should such liabilities arise, they could reduce or eliminate any future profitability and result in increasing costs and a decline in the value of the common shares of the Company.

COMPETITION

The Company competes with other manufacturing companies, in highly competitive markets. Some of the Company's competitors have substantially greater financial, marketing and other resources and higher market share that the Company has in certain products or geographic areas. As the markets for the Company's products and other services expand, additional competition may emerge and competitors may commit more resources to products which directly compete with the Company's products. There can be no assurance that the Company will be able to compete successfully with existing competitors or that its business will not be adversely affected by increased competition or by new competitors.

PRODUCT WARRANTY, RECALL AND LIABILITY RISK

Customers are increasingly requesting that each of their suppliers bear costs of the repair and replacement of defective products which are either covered under a manufacturer's warranty or are the subject of a recall by the manufacturer and which were improperly designed, manufactured or assembled by their suppliers. The obligation to repair or replace such parts, or a requirement to participate in a product recall, could have a material adverse effect on the Company's operations and financial condition.

COST ABSORPTION AND PURCHASE ORDERS

Given the current trends in the transportation industry, the Company is under continuing pressure to absorb costs related to product design and development, engineering, program management, prototypes and validation. In particular, OEMs are requesting that suppliers pay for the above costs and recover these costs through the piece price of the applicable component. Contract volumes for customer programs not yet in production are based on the Company's customers' estimates of their own future production levels. However, actual production volumes may vary significantly from these estimates due to a reduction in consumer demand or new product launch delays, often without any compensation to the supplier by its OEM customer. Typical purchase orders issued by customers do not require that they purchase a minimum number of the Company's products. For programs currently under production, the Company is generally unable to request price changes when volumes differ significantly from production estimates used during the quotation stage. If estimated production volumes are not achieved, the product development, design, engineering, prototype and validation costs incurred by the Company may not be fully recovered. Similarly, future pricing pressure or volume reductions by the Company's customers may also reduce the amount of amortized costs otherwise recoverable in the piece price of the Company's products. Either of these factors could have an adverse effect on the Company's profitability. While it is generally the case that once the Company receives a purchase order for products of a particular vehicle program it would continue to supply those products until the end of such program, customers could cease to source their production requirements from the Company for a variety of reasons, including the Company's refusal to accept demands for price reductions or other concessions.

PRODUCT DEVELOPMENT AND TECHNOLOGICAL CHANGE

The industries in which the Company is characterized by rapid technological change and frequent new product introductions. Price pressure downward by customers and unavoidable price increases from suppliers can have an adverse effect on the Company's profitability. Accordingly, the Company believes that its future success depends upon its ability to enhance manufacturing techniques offering enhanced performance and functionality at competitive prices and delivering innovative products. The Company's inability, for technological or other reasons, to enhance operations in a timely manner in response to changing market conditions or customer requirements could have a material adverse effect on the Company's results or operations. The ability of the Company to compete successfully will depend in large measure on its ability to maintain a technically competent workforce and to adapt to technological changes and advances in the industry, including providing for the continued compatibility of its products with evolving industry standards and protocols. There can be no assurance that the Company will be successful in its efforts in these respects.

ACQUISITIONS

The Company has acquired and could continue to acquire complementary businesses, assets, technologies, services or products, at competitive prices. The Company could continue to pursue acquisitions in those product areas which we have identified as key to the Company's long-term business strategy. However, as a result of intense competition in these strategic areas, the Company may not be able to acquire the targets needed to achieve our strategic objectives. The completion of such transactions poses additional risks to the Company's business. Acquisitions are subject to a range of inherent risks, including the assumption of incremental regulatory/compliance, pricing, supply chain, commodities, labor relations, litigation, environmental, pensions, warranty, recall, IT, tax or other risks. Although the Company seeks to conduct appropriate levels of due diligence on acquisition targets, these efforts may not always prove to be sufficient in identifying all risks and liabilities related to the acquisition, including as a result of: limited access to information; time constraints for conducting due diligence; inability to access target company facilities and/or personnel; or other limitations in the due diligence process. Additionally, the Company may identify risks and liabilities that cannot be sufficiently mitigated through appropriate contractual or other protections. The realization of any such risks could have a material adverse effect on the Company's operations or profitability. The benefit to the Company of previous and future acquisitions is highly dependent on the Company's ability to integrate the acquired businesses and their technologies, employees and products into the Company, and the Company may incur costs associated with integrating and rationalizing the facilities (some of which may need to be closed in the future). The Company cannot be certain that it will successfully integrate acquired businesses or that acquisitions will ultimately benefit the Company. Any failure to successfully integrate businesses or failure of the businesses to benefit the Company could have a material adverse effect on its business and results of operations. Such transactions may also result in additional dilution to the Company's shareholders or increased debt. Such transactions may involve partners, and the formula for determining contractual sale provisions may be subject to a variety of factors that may not be easily quantified or estimated until the time of sale (such as market conditions and determining fair market value).

LAUNCH AND OPERATIONAL COSTS

The launch of new business, in an existing or new facility, is a complex process, the success of which depends on a wide range of factors, including the production readiness of the Company and its suppliers, as well as factors related to tooling, equipment, employees, initial product quality and other factors. A failure to successfully launch material new or takeover business could have an adverse effect on profitability. Significant launch costs were incurred by the Company in recent years. The Company's manufacturing processes are vulnerable to operational problems that can impair its ability to manufacture its products in a timely manner, or which may not be performing at expected levels of profitability. The Company's facilities contain complex and sophisticated machines that are used in its manufacturing processes. The Company has in the past experienced equipment failures and could experience equipment failure in the future due to wear and tear, design error or operator error, among other things, which could have an adverse effect on profitability. From time to time, the Company may have some operating divisions which are not performing at expected levels of profitability. Significant underperformance of one or more operating divisions could have a material adverse effect on the Company's profitability and operations.

QUOTE/PRICING ASSUMPTIONS

The time between award of new production business and start of production typically ranges between one to three years. Since product pricing is typically determined at the time of award, the Company is subject to significant pricing risk due to changes in input costs and quote assumptions between the time of award and start of production. The inability to quote effectively, or the occurrence of a material change in input cost or other quote assumptions between program award and production, could have an adverse effect on the Company's profitability.

QUALIFIED EMPLOYEES

Recruiting and retaining qualified personnel is critical to the Company's success. Especially if it relates to its graphene operations, finding skilled scientists and a sales team familiar with the subject matter is difficult. As the Company grows further, the need for skilled labor will increase. The number of persons skilled in the high-tech manufacturing business is limited and competition for this workforce is intense. This may adversely affect the business of the Company if it is unable to recruit and retain qualified personnel as and when required.

FLUCTUATIONS IN OPERATING RESULTS

The Company's operating results have been and are expected to continue to be subject to quarterly and other fluctuations due to a variety of factors including changes in purchasing patterns, production schedules of customers, pricing policies, launch costs, or operational (or equipment or systems) failures, or product introductions by competitors. This could affect the Company's ability to finance future activities. Operations could also be adversely affected by general economic downturns, an economic shock not contemplated in our business plan, a rapid deterioration of conditions or limitations on spending. The occurrence of or a prolonged recession could result in the depletion of our cash resources, which could have a material adverse effect on our operations and financial condition.

CYBERSECURITY THREATS

The reliability and security of the Company's information technology (IT) systems is important to the Company's business and operations. Although the Company has established and continues to enhance security controls intended to protect the Company's IT systems and infrastructure, there is no guarantee that such security measures will be effective in preventing unauthorized physical access or cyberattacks. A significant breach of the Company's IT systems could, among other things, cause disruptions in the Company's manufacturing operations (such as operational delays from production downtime, inability to manage the supply chain or produce product for customers, disruptions in inventory management), lead to the loss, destruction, corruption or inappropriate use of sensitive data, including employee information or intellectual property, result in lost revenues due to theft of funds or due to a disruption of activities, including remediation costs, or from litigation, fines and liability or higher insurance premiums, the costs of maintaining security and effective IT systems, which could negatively affect results of operations and the potential adverse impact of changing laws and regulations related to cybersecurity or result in theft of the Company's, its customers' or suppliers' intellectual property or confidential information. If any of the foregoing events (or other events related to cybersecurity) occurs, the Company may be subject to a number of consequences, including reputational damage, a diminished competitive advantage and negative impacts on future opportunities which could have a material adverse effect on the Company.

CONFLICTS OF INTEREST

Certain of the Company' directors and officers serve or may agree to serve as directors or officers of other companies and, to the extent that such other companies may participate in ventures in which the Company may participate, the directors of the Company may have a conflict of interest in negotiating and concluding terms respecting such participation.

SHARE PRICE FLUCTUATIONS

The market price of securities of many companies, particularly development stage companies, experience wide fluctuations in price that are not necessarily related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that fluctuations in the Company's share price will not occur. In particular, the fluctuations may be exaggerated if the trading volume of the common shares of the Company is low.

LITIGATION

The Company has entered into legally binding agreements with various third parties, including supply, non-disclosure, consulting and partnership agreements. The interpretation of the rights and obligations that arise from such agreements is open to interpretation and the Company may disagree with the position taken by the various other parties resulting in a dispute that could potentially initiate litigation and cause the Company to incur legal costs in the future. Given the speculative and unpredictable nature of litigation, the outcome of any such disputes could have a material adverse effect on the Company's business.

CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

For a detailed description of the critical accounting judgments and estimates associated with the Company and its activities, please refer to the section "Significant management estimations and judgments in applying accounting policies" in the note 2 in the audited consolidated financial statements for the years ended June 30, 2020 and 2019. The Company was not required to make significant judgments, estimates and assumptions in areas other than those mentioned in the audited consolidated financial statements for the years ended June 30, 2020 and 2019.

FUTURE CHANGES IN ACCOUNTING POLICIES

The standards and amendments to existing standards have been published, and their adoption is mandatory for future accounting periods. Refer to the note 3 in the consolidated financial statements for the years ended June 30, 2020 and 2019 for the details of these standards and amendments.

CONTROLS AND PROCEDURES

The information provided in this MD&A, including the consolidated financial statements, is the responsibility of management. In the preparation of these statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying financial statements.

The Board of Directors oversees management's responsibility for financial reporting and internal control systems. The Board of Directors meet quarterly with management and annually with the independent auditors to review the scope and results of the annual audit and to review the year-to-date financial statements and related financial reporting and internal control matters before the financial statements are approved by the Board of Directors and submitted to the shareholders.

In contrast to the certificate required under National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"), the Venture Issuer Basic Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR"), as defined in NI 52-109. In particular, the certifying officers filing this certificate are not making any representations relating to the establishment and maintenance of:

- controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
- a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the Company's GAAP.

The Company's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in this certificate. Investors should be aware that the design and implementation of such processes by those responsible for a venture issuer are subject to cost limitation. DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

The Board of Directors has approved the consolidated financial statements.