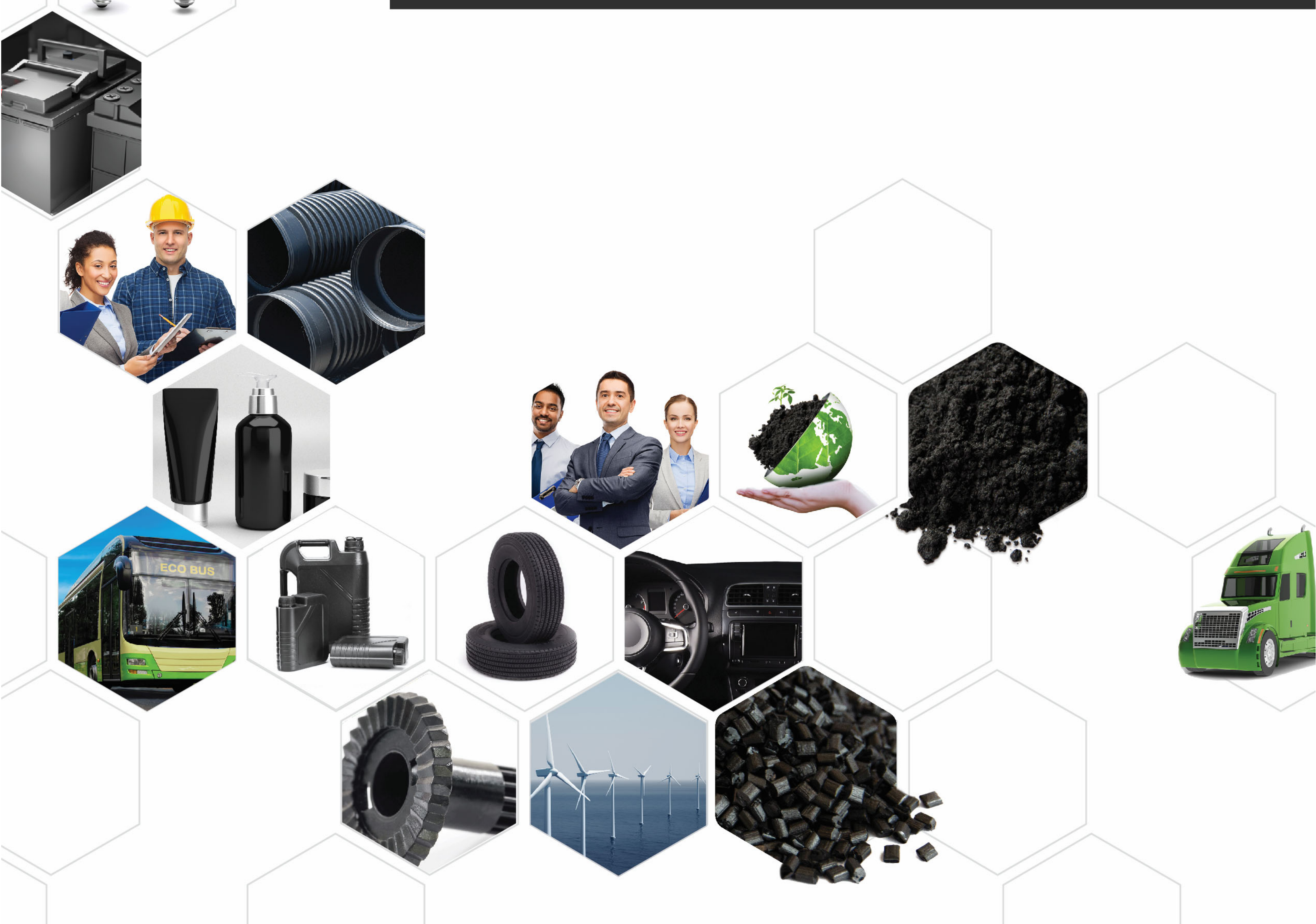
MANAGEMENT'S DISCUSSION AND ANALYSIS

For the years ended June 30, 2021 and 2020



[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, 2021 and 2020 and should be read in conjunction with the audited consolidated financial statements for the years ended June 30, 2021 and 2020. The purpose of this document is to provide information on its activities. The information contained herein is dated as of September 22, 2021. 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.

FORWARD-LOOKING STATEMENTS

This MD&A contains certain forward-looking statements within the meaning of applicable Canadian securities laws 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. The Company considers the assumptions on which these forward-looking statements are based to be reasonable, but it advises the reader that these assumptions with regard to future events, many of which are beyond the Company's control, could prove incorrect as they are subject to risks and uncertainties inherent in the Company's 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 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 MD&A. The forward-looking statements are 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 statements are based are reasonable, undue reliance should not be placed on the forward-looking statements since no assurance can be given that they 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 MD&A 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 statements contained in this MD&A about prospective results of operations, financial position or cash flows are 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 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 Company was formed by amalgamation under the Canada Business Corporations Act by Certificate of Amalgamation dated September 21, 2017 and is headquartered at 4500 Thimens Blvd, Montreal, QC, Canada.

On July 15, 2021, NanoXplore graduated from the TSX Venture Exchange to the Toronto Stock Exchange ("TSX"). NanoXplore is still traded under "GRA" and is also listed on the OTCQX and traded under "NNXPF".

The Company has the following subsidiaries:

- 9334-7474 Québec Inc., based in Canada, with an equity interest of 100% [2020 – 100%]. On June 23, 2021, 9334-7474 was dissolved.
- NanoXplore Switzerland Holding SA ("NanoXplore Switzerland"), based in Switzerland, with an equity interest of 100% [2020 – 100%]. NanoXplore Switzerland holds 100% of CEBO Injections SA ("CEBO").
- NanoXplore Holdings USA, Inc. ("NanoXplore Holdings USA"), based in the United States, with an equity interest of 100% [2020 – none]. NanoXplore Holdings USA holds 100% of NanoXplore USA, Inc.
- Sigma Industries Inc. ("Sigma"), based in Canada, with an equity interest of 100% [2020 – 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.

On April 1, 2021, VoltaXplore Inc. ("VoltaXplore") was incorporated. On April 14, 2021, NanoXplore and Martinrea Innovation Developments Inc., a wholly-owned subsidiary of Martinrea International Inc. ("Martinrea"), formed a joint venture through VoltaXplore, a battery-based initiative to service the electric transportation and grid storage market.

BUSINESS HIGHLIGHTS

COVID-19 Pandemic

On March 11, 2020, the World Health Organization declared the outbreak of the 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.

Even though our manufacturing operation resumed during the month of May 2020, the COVID-19 global pandemic had and continues to have a negative impact on our customers' business activities. This slowdown of manufacturing operations and dissipation of customer demand had a negative impact on the Company's financial results since the second half of March 2020.

The COVID-19 pandemic had 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, and 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.

The discovery of several effective vaccines and their deployment allows us to hope for an end to the crisis. Until the situation is stable, the Company will continue to respond in a measured, prudent and decisive manner with continued emphasis on health and safety, cash conservation and the maintenance of its liquidity position.

Consent order for GrapheneBlack™

On August 16, 2021, the Company entered into a consent order with the U.S. Environmental Protection Agency ("EPA") under the Toxic Substances Control Act (TSCA) (the "Consent Order"), which Consent Order allows for the commercial use of its GrapheneBlack™ as an additive for thermoplastics, thermosets and rubbers, with no annual volume limitation.

Graphene supply and distribution agreement

On June 16, 2021, the Company entered into a multiyear agreement to supply GrapheneBlack™ grade of products to Techmer PM, LLC ("Techmer PM"), which agreement includes a customer-based exclusivity. Based in Tennessee, Techmer PM is one of the largest plastic compounders in North America, specializing in modifying and fine-tuning the properties of technical polymers. Supported by worldwide manufacturing capabilities, Techmer PM will market its graphene-enhanced plastic compounds to a variety of industries in a number of diverse end uses and applications. Graphene can deliver a host of benefits to various plastic formulations, to include boosting the strength of recycled resins, improving electrical conductivity properties, enabling lightweighting, and enhancing both barrier effectiveness and chemical resistance. Techmer PM's aim is to provide the highest performance properties possible across a wide spectrum of compounds and end products, which makes this agreement a significant technology collaboration for the Company.

On June 23, 2021, the Company entered into a multi-year supply and distribution agreement with Gerdau Grafeno LTDA ("Gerdau Graphene"), a wholly-owned subsidiary of Gerdau S.A. ("Gerdau"). Gerdau is Brazil's largest steel producer and one of the leading producers of long steel in America, as well as special steel in the world. Gerdau Graphene was incorporated by Gerdau to develop and market products based on graphene applications on an industrial scale in the Americas region. Gerdau Graphene benefits from its parent company's existing customer and supplier relationships, allowing it to leverage synergies between graphene operations and existing sales, procurement, and technical application channels.

VoltaXplore

On April 14, 2021, NanoXplore and Martinrea formed a joint venture through VoltaXplore, a battery-based initiative to service the electric transportation and grid storage market. VoltaXplore will initially build a demonstration facility to develop and produce electric vehicle (EV) batteries enhanced with graphene, one of the world's thinnest and strongest materials, with tremendous characteristics. VoltaXplore will be developing and manufacturing Li-Ion battery cells for electric vehicles initially in a new 1MWh facility in Montreal. Following a successful demonstration of improved battery performance using graphene and based on positive customer feedback as well as building a business case, VoltaXplore intends to build and commission a 10GWh battery cell manufacturing facility in Canada. The joint venturers believe that graphene-enhanced batteries will considerably improve existing battery performance.

CLEAN50 Award

NanoXplore Founder & CEO, Dr. Soroush Nazarpour, Ph.D., has been selected as one of the honourees of the 2021 Clean50 Awards to recognize NanoXplore's efforts in advancing sustainability through innovation in material development, reducing transportation emissions by making vehicles lighter, enhancing the efficiency of electric vehicle batteries, as well as extending the life of recycled plastics through the use of graphene.

Acquisition of Newton Facility

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 (the "CSP Plant"), for an unadjusted total purchase price of US$3,500,000. The purchase price was reduced by a downward inventory adjustment of US$128,929. This acquisition was concluded in order to expand the Company's business in the United States.

CSP employed nearly thirty people and operates mainly in the markets of composite products for heavy trucks and machinery. The CSP Plant sells its products to original equipment manufacturers and distributors in the United States, Canada and South America.

Graphene plant project in Montreal

The Company's graphene plant in Montreal, of a 4,000/mt per year capacity, became operational on July 7, 2020.

Financing and advance debt payment

On February 12, 2021, the Company completed a financing of 11,500,000 common shares at a price of $4.00 per share for gross proceeds of $46,000,000. The Company will use the net proceeds of the financing for battery initiatives, debt reduction, sales and marketing of graphene and for general corporate purposes.

During the month of March 2021, the Company made advance payments of approximately of $1,370,000 on its long-term debt to improve its financial position.

Property held for sale

In June 2021, the Company decided to strategically sell two properties, which are located in Tennessee (United States) and Quebec (Canada). The sale of the property located in Tennessee was completed on August 24, 2021. The other sale is expected to be concluded in the first months of financial year 2022.

FINANCIAL HIGHLIGHTS

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

	2021 $	2020 $	2019 $
Consolidated Statements of Financial Position			
Cash and cash equivalents	**50,524,583**	33,796,686	27,819,140
Accounts receivable and contract asset	**12,733,190**	11,202,100	15,016,481
Inventory	**11,036,407**	7,116,492	7,589,896
Investment in a joint venture	**3,983,059**	—	—
Right-of-use assets	**4,885,169**	5,878,706	5,502,111
Property, plant and equipment and equipment deposits	**55,225,547**	50,774,739	31,230,797
Intangible assets and goodwill	**3,814,610**	3,803,674	4,728,093
Total assets	**145,301,924**	113,647,870	92,844,734
Operating loans	**1,343,300**	2,152,568	1,339,480
Long-term debt, lease liability and Convertible debentures - Loan	**21,227,187**	34,837,002	32,566,411
Total liabilities	**42,315,002**	52,680,608	54,749,009
Shareholders' equity	**102,986,922**	60,967,262	38,095,725

	2021 $	2020 $	2019 $
Revenues	**72,348,402**	65,151,006	69,521,070
Loss for the year	**(11,807,661)**	(8,272,800)	(10,603,365)
Basic loss per share	**(0.08)**	(0.07)	(0.11)

	2021 $	2020 $	2019 $
Consolidated Statements of Cash Flows			
Operating activities	**(6,134,753)**	(2,930,615)	(3,939,203)
Financing activities	**38,087,338**	28,607,054	32,426,565
Investing activities	**(15,145,348)**	(19,724,791)	(15,944,178)
Net change in cash and cash equivalent before net effect of currency exchange rate	**16,807,237**	5,951,648	12,543,184

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

CONSOLIDATED OPERATIONS

	2021	2020	Variation	
	$	$	$	%
Revenues				
Revenues from customers	**66,654,634**	62,202,328	4,452,306	7%
Other income	**5,693,768**	2,948,678	2,745,090	93%
	72,348,402	65,151,006	7,197,396	11%
Expenses				
Cost of sales	**59,026,089**	52,312,942	6,713,147	13%
Research and development expenses	**3,550,253**	3,119,591	430,662	14%
Selling, general and administrative expenses	**14,047,368**	11,267,207	2,780,161	25%
Share-based compensation expenses	**673,415**	633,390	40,025	6%
Depreciation (production)	**4,225,957**	3,243,125	982,832	30%
Depreciation (other)	**1,431,549**	956,715	474,834	50%
Amortization	**548,687**	592,004	(43,317)	(7%)
Foreign exchange	**91,942**	232,796	(140,854)	(61%)
	83,595,260	72,357,770	11,237,490	16%
Operating loss	**(11,246,858)**	(7,206,764)	(4,040,094)	56%
Loss on disposal of property, plant and equipment	**(271,671)**	—	(271,671)	100%
Loss on measurement to fair value less costs of the property held for sale	**(734,994)**	—	(734,994)	100%
Gain on a bargain purchase	**1,125,450**	—	1,125,450	100%
Interest on operating loans, long-term debt and convertible debentures	**(1,382,151)**	(1,434,366)	52,215	(4%)
Interest accretion on lease liability	**(501,981)**	(371,823)	(130,158)	35%
Interest revenue	**234,341**	414,331	(179,990)	(43%)
Share of loss of a joint venture	**(52,941)**	—	(55,291)	100%
Loss before income taxes	**(12,830,805)**	(8,598,622)	(4,232,183)	49%
Current income taxes expense	**(33,730)**	(187,034)	153,304	(82%)
Deferred income taxes recovery	**1,056,874**	512,856	544,018	106%
	1,023,144	325,822	697,322	214%
Loss for the year	**(11,807,661)**	(8,272,800)	(3,534,861)	43%
Other comprehensive loss				
Items that may be subsequently reclassified to profit and loss:				
Exchange differences on translation of foreign subsidiaries	**29,668**	45,578	(15,910)	(35%)
Items that will not be reclassified to profit and loss:				
Retirement benefits – Net actuarial gains (losses)	**515,082**	(276,701)	791,783	(286%)
Total comprehensive loss	**(11,262,911)**	(8,503,923)	(2,758,988)	32%
Loss per share				
Basic and diluted	**(0.08)**	(0.07)		

RESULTS OF OPERATIONS VARIANCE ANALYSIS

Revenues

Revenues from customers increased from $62,202,328 in 2020 to $66,654,634 in 2021. This increase is mainly explained as follows:

- The additional revenues coming from the CSP Plant, acquired on September 11, 2020;
- Revenues in the trucking and transit buses industries improved from last year given a significant decline in Q4 of last year due to the pandemic, which required temporary shutdown of manufacturing plants of key customers;
- These positive items were offset by:
  - The pandemic had and is still having an adverse effect on some of our markets such as industrial products, coach buses and wind energy;
  - Fluctuating tooling revenues were higher in 2020 than in 2021; and
  - The FX (USD/CAD) has negatively impacted the revenues.

The pandemic has partially slowed down the introduction of our graphene products to customers.

Other income increased from $2,948,678 in 2020 to $5,693,768 in 2021. The increase is explained by the Canada Emergency Wage Subsidy ("CEWS") program set up by the Canadian Federal government to help businesses deal with the COVID-19 pandemic. The Company received $4,723,884 under this program during 2021 compared to $1,978,638 in 2020.

Loss

The loss increased from $8,272,800 in 2020 to $11,807,661 in 2021. This variation of $3,534,861 is mainly explained as follows:

- Despite an increase in sales, the gross margin for the current year ended $2,260,841 lower than last year, which is mainly explained by a decrease of $1,758,029 in the fluctuating tooling activities. Also, raw materials and labour expenses increased due to the pandemic and the FX (USD/CAD) negatively impacted the gross margin;
- Higher administrative expenses (SG&A and R&D) of $3,210,823 mainly due to the addition of strategic new positions, the addition of the CSP Plant's expenses and higher salary expenses;
- Additional depreciation and amortization expenses of $1,414,349, mainly explained by the depreciation related to the graphene plant, which became operational in July 2020;
- A loss on disposal of property, plant and equipment of $271,671 [2020 – nil] and a loss on measurement to fair value less costs of the property held for sale of $734,994 [2020 – nil] on the building located in Tennessee;
- Higher interest accretion expenses are explained by the addition of new lease equipment and the interest revenues decrease are explained by lower interest rate for the cash on hand;
- These negative items were offset by:
  - an increase of $2,745,246 of government assistance received from the Canadian federal government through its CEWS program; and
  - a gain on a bargain purchase of $1,125,450 on the business acquisition of CSP [2020 – nil].

FOURTH QUARTER RESULTS

	2021	2020	Variation	
	$	$	$	%
Revenues from customers	**19,608,770**	10,493,320	9,115,450	87%
Other income	**1,277,398**	2,074,907	(797,509)	(38%)
Cost of sales	**17,560,676**	8,223,148	9,337,528	114%
Depreciation and amortization	**1,511,016**	1,415,595	95,421	7%
Other operating expenses	**5,622,600**	3,205,500	2,417,100	75%
Loss for the period	**(3,311,591)**	(682,833)	(2,628,758)	385%
Basic loss per share	**(0.02)**	(0.01)	(0.01)	

Revenues

Revenues from customers increased from $10,493,320 in 2020 to $19,608,770 in 2021. This increase is mainly explained as follows:

- The additional revenues coming from the CSP Plant, acquired on September 11, 2020;
- Revenues in the trucking and transit buses industries improved from last year given a significant decline in last year quarter due to the pandemic, which required temporary shutdown of manufacturing plants of key customers;
- These positive items were offset by:
  - The pandemic had and is still having an adverse effect on some of our markets such as industrial products, coach buses and wind energy; and
  - The FX (USD/CAD) has negatively impacted the revenues.

Other income was $2,074,907 in 2020 compared to $1,277,398 in 2021. The decrease is explained by lower government assistance received from the Canadian Federal government from its CEWS program set up to help businesses deal with the COVID-19 pandemic. The Company received $1,005,770 under this program during Q4-2021 compared to $1,978,638 during Q4-2020.

Loss for the period

The loss for the three-month period increased from $682,833 in 2020 to $3,311,591 in 2021. This variation of $2,628,758 is mainly explained as follows:

- Despite an increase in sales, the gross margin for the current quarter was $222,078 lower than last year which is mainly explained by a decrease of $1,359,260 in the fluctuating tooling activities. Also, raw materials and labour expenses increased due to the pandemic and the FX (USD/CAD) negatively impacted the gross margin;
- Lower government assistance of $972,868 received from the Canadian federal government through its CEWS program;
- Higher selling, general and administrative expenses of $1,755,821 mainly due to the addition of the CSP plant's expenses and to the hiring of new employees. The administrative expenses also increased from last year given a decline of last year quarter expenses due to the pandemic, which required a temporary restructuring plan to deal with the shutdown of manufacturing plants of key customers;
- A loss on measurement to fair value less costs of the property held for sale of $734,994 [2020 – nil] on the building located in Tennessee;
- The FX (USD/CAD) has negatively impacted the loss of the period; and
- These negative factors were offset by a gain on a bargain purchase of $1,125,450 [2020 – nil] on the business acquisition of the CSP Plant.

SUMMARY OF QUARTERLY RESULTS

The table below presents selected financial data for the eight most recently reported quarters. This unaudited quarterly information has been prepared in accordance with IFRS.

		Revenues $	Loss $	Basic and diluted loss per share $	
Q4-2021	June 30, 2021	20,886,168	(3,311,591)	(0.02)	**Note 1**
Q3-2021	March 31, 2021	18,421,736	(3,873,781)	(0.03)	
Q2-2021	December 31, 2020	17,463,831	(3,403,581)	(0.02)	**Note 2**
Q1-2021	September 30, 2020	15,576,667	(1,218,708)	(0.01)	**Note 3**
Q4-2020	June 30, 2020	12,568,227	(682,833)	(0.01)	**Note 4**
Q3-2020	March 31, 2020	14,866,180	(2,993,379)	(0.02)	**Note 5**
Q2-2020	December 31, 2019	17,733,510	(2,266,153)	(0.02)	**Note 6**
Q1-2020	September 30, 2019	19,983,089	(2,330,435)	(0.02)	

Note 1 Higher revenues are mainly explained by fluctuating tooling revenues.

Note 2 The increase in revenues is explained by the business acquisition of the CSP Plant, completed on September 11, 2020. The pandemic is still negatively impacting our revenues. We also received government assistance of $944,112 from the Canadian federal government through its CEWS program. The loss was higher than usual given less CEWS received, a negative FX (USD/CAD) impact and higher selling, general and administrative expenses is explained by the addition of strategic new positions, the addition of the CSP Plant and higher salary expenses.

Note 3 Resumed activity has been observed among our customers, which explains an increase in revenues compared to the previous quarter, but the pandemic still negatively impacted our revenues. We also received government assistance of $2,183,492 from the Canadian federal government through its CEWS program. Although the COVID-19 pandemic negatively impacted the quarterly results, the loss was less significant than expected given the CEWS received.

Note 4 The decrease in revenues is explained by the negative impact of the COVID-19 pandemic partially offset by government assistance of $1,978,638 from the Canadian federal government through its CEWS program. Although the COVID-19 pandemic negatively impacted the quarterly results, the loss was less significant than expected given the CEWS and the cost reduction plan put in place during the period.

Note 5 The decrease in revenues is mainly explained by a decline in the transportation market (particularly trucks).

Note 6 The decrease in revenues is mainly explained by a decline in the transportation market (particularly trucks).

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

CONSOLIDATED FINANCIAL POSITION

	2021 $	2020 $	Variation $	Main reasons for significant variation
Assets				
Cash and cash equivalents	**50,524,583**	33,796,686	16,727,897	Refer to the Cash Flows section
Accounts receivable and contract asset	**12,733,190**	11,202,100	1,531,090	
Inventory	**11,036,407**	7,116,492	3,919,915	Increase is mainly related to the business acquisition of CSP and graphene inventory increase
Investment on joint venture	**3,983,059**	—	3,983,059	Investment in VoltaXplore
Right-of-use assets	**4,885,169**	5,878,706	(993,537)	
Property, plant and equipment, and equipment deposits	**55,225,547**	50,774,739	4,450,808	Additions are mainly related to the business acquisition of CSP, the construction of the extruding line and composites equipment
Property held for sale	**2,424,351**	—	2,424,351	Two buildings held for sale
Intangible assets	**3,354,446**	3,803,674	(449,228)	
Goodwill	**460,164**	460,164	—	
Other assets	**675,008**	615,309	59,699	
Total assets	**145,301,924**	113,647,870	31,654,054	
Liabilities and Shareholders' Equity				
Liabilities				
Accounts payable, accrued liabilities and income taxes payables	**15,229,027**	11,432,494	3,796,533	Increase is mainly related to the business acquisition of CSP and its balance of purchase price payable
Deferred grant	**—**	276,342	(276,342)	
Contract liability	**1,740,789**	946,751	794,038	
Operating loans	**1,343,300**	2,152,568	(809,268)	
Defined benefit liabilities	**811,316**	1,310,464	(499,148)	
Long-term debt and lease liability	**21,227,187**	26,680,697	(5,453,510)	Decrease is mainly due to repayment and prepayment of debt
Long-term debt directly associated with property held for sale	**1,035,431**	—	1,035,431	
Convertible debentures – Loan	**—**	8,156,305	(8,156,305)	Conversion of the principal amount of $10M into 5,434,782 common shares of the Company
Deferred taxes liabilities	**927,952**	1,724,987	(797,035)	
Total liabilities	**42,315,002**	52,680,608	(10,365,606)	
Shareholders' Equity				
Share capital	**140,067,376**	84,837,145	55,230,231	Increase is mainly due to the $46M issuance of common shares and the conversion of the convertible debentures
Reserve	**3,880,555**	3,588,215	292,340	
Convertible debentures – Options	**—**	2,240,000	(2,240,000)	Result of the conversion of the convertible debentures
Foreign currency translation reserve	**88,173**	58,505	29,668	
Deficit	**(41,049,182)**	(29,756,603)	(11,292,579)	
Total shareholders' equity	**102,986,922**	60,967,262	42,019,660	
Total liabilities and shareholders' equity	**145,301,924**	113,647,870	31,654,054	

CASH FLOWS

	2021 $	2020 $	Variation $	 %
Cash used in operating activities prior to changes in non-cash working capital items	**(5,333,382)**	(2,386,485)	(2,946,897)	123%
Changes in non-cash working capital items	**(801,371)**	(544,130)	(257,241)	47%
Operating activities	**(6,134,753)**	(2,930,615)	(3,204,138)	109%
Financing activities	**38,087,338**	28,607,054	9,480,284	33%
Investing activities	**(15,145,348)**	(19,724,791)	4,579,443	(23%)
Net effect of currency exchange rate on cash and cash equivalents	**(79,340)**	25,898	(105,238)	(406%)
Net change in cash and cash equivalents	**16,727,897**	5,977,546	10,750,351	180%

Operating activities

Cash flows used in operating activities prior to changes in non-cash working capital items were $5,333,382 in 2021 compared to $2,386,485 in 2020, representing a variation of $2,946,897. The COVID-19 pandemic, higher expenses, lower tooling profit and the FX (USD/CAD) decrease have negatively impacted cash flows from operating activities. However, these were offset by an increase of $2,745,246 of government assistance received from the Canadian federal government through its CEWS program.

Changes in non-cash working capital items decreased by $801,371 for the year ended June 30, 2021. The decrease is explained by an inventory increase of $2,966,194, mainly related to higher graphene inventory and to the business acquisition of the CSP Plant, offset by higher accounts payable and accrued liabilities of $2,182,849 mainly due to the balance of purchase price of business acquisition of the CSP Plant.

Financing activities

Cash flows generated in financing activities were $38,087,338 in 2021 compared to $28,607,054 in 2020. During 2021, the Company completed an issuance of common shares following a public financing for net proceeds of $43,382,567 and stock options were exercised for proceeds of $864,901. These were offset by repayment of $5,428,790 on long-term debt and lease liability which included prepayments of about $1,370,000. During 2020, the Company completed a private placement for net proceeds of $24,300,029 and warrants and broker warrants were exercised for proceeds of $6,422,041, which were offset by repayment of $3,567,229 on long-term debt and lease liability.

Investing activities

Cash flows used in investing activities were $15,145,348 in 2021 compared to $19,724,791 in 2020. During 2021, $4,000,000 was paid as investment in a joint venture (VoltaXplore) and $2,303,450 was paid to acquire the assets of CSP. In addition, $8,943,059 was paid for capital expenditures, mostly related to extruding line of the graphene plant and composites equipment. During 2020, most of the expenditures were for the construction of the graphene plant in Montreal.

LIQUIDITY AND CAPITAL RESOURCES

Throughout the COVID-19 pandemic, the Company has taken controlled and measured actions to preserve liquidity, including flexing and reducing its cost base, eliminating discretionary spending across its global footprint and delaying capital spending where and when appropriate. In addition, the Company enhanced its liquidity position with public financing for net proceeds of $43,382,567. As at June 30, 2021, the Company had total liquidity of $59,011,573, including cash and cash equivalents and availability under the Company's operating loans.

Management believes that the Company has sufficient funds to meet its obligations, operating expenses and some development expenditures for the ensuing 12 months as they fall due. The Company's ability to continue its development activities is dependent on the impact of COVID-19 and the speed of introduction of graphene products into different industries. The graphene commercial activity is in the commercial introduction 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 commercial introduction of the graphene is delayed. The Company's main sources of funding have been the issuance of equity securities for cash, debt, and funds from the government of Quebec with respect to R&D tax credits, from Sustainable Development Technology Canada ("SDTC") and from the CEWS program.

CONTRACTUAL OBLIGATIONS AND OFF-BALANCE SHEET ARRANGEMENTS

The following table identifies the timing of undiscounted contractual obligations due as of June 30, 2021:

	Contractual obligations				
	1 year	**2-3 years**	**4-5 years**	**Later than 5 years**	**Total**
	$	**$**	**$**	**$**	**$**
Operating loans	1,343,300	–	–	–	**1,343,300**
Trade payables, accrued liabilities and current portion of balance of purchase price	11,923,515	–	–	–	**11,923,515**
Lease liability	2,055,412	2,745,538	3,128,244	3,261,639	**11,190,833**
Long-term debt	3,942,351	4,834,295	2,558,748	1,291,480	**12,626,874**
Long-term debt directly associated with property held for sale	1,050,431	–	–	–	**1,050,431**
Purchase obligations [(1)]	1,928,074	–	–	–	**1,928,074**
Total	**22,243,083**	**7,579,833**	**5,686,992**	**4,553,119**	**40,063,027**

(1) Purchase obligations consist of those related to inventory, equipment and building improvement. These are off-balance sheet disclosed in consolidated financial statements for the years ended June 30, 2021 and 2020 in note 19.

As at June 30, 2021, the Company held forward exchange contracts for a minimum of US$10.6 million and a maximum of US$15.8 million depending on the exchange rate of such derivative contracts. Rates vary from 1.2350 to up to 1.3601. The contracts are valid until December 2022.

Management believes that the Company will be able to meet its obligations with cash on hand, cash flows from operations and drawdowns under existing credit facilities.

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 for the years ended June 30, 2021 and 2020. These identified financial instruments and risks are consistent through the periods.

OUTSTANDING SHARES

As at September 21, 2021, the Company has:

- 157,987,059 common shares issued and outstanding;
- 3,751,466 options outstanding with expiry dates ranging between January 2, 2022 and April 6, 2026 with exercise prices between $0.45 and $3.85. If all the options were exercised, 3,751,466 shares would be issued for cash proceeds of $6,038,360.

RELATED PARTY TRANSACTIONS

For a detailed description of all related party transactions, please refer to the Note 18 “Related party transactions” in the consolidated financial statements for the years ended June 30, 2021 and 2020.

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.

ECONOMIC AND POLITICAL CONDITIONS

The Company has international operations, including operations in Canada, the United States and Europe. Worldwide financial and economic cycles or conditions are uncertain, and recovery from a business downturn or recession could be very slow and have significant impact on the Company’s business. The Company’s business 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.

As at the date hereof, the global reactions to the spread of COVID-19 have led to, among other things, significant restrictions on travel and gatherings of individuals, quarantines, temporary business closures and a general reduction in consumer activity. While these effects are expected to be temporary, the duration of the disruptions to business internationally and the related financial impact cannot be estimated with any degree of certainty at this time. In addition, the increasing number of individuals infected with COVID-19 could result in an even greater global health crisis that could adversely affect global economies and financial markets, resulting in a protracted economic downturn that could have an adverse effect on the Company's prospects.

The responses of governmental authorities and corporate entities, including through mandated or voluntary shutdowns, may also lead to a general long-term slow-down in the economy and may lead to disruptions to the Company’s workforce and facilities, customers, sales and operations and supply chain.

Measures taken by the governments worldwide and voluntary measures undertaken by the Company with a view to the safety of the Company’s employees, may adversely impact the Company’s business.

In particular, as a result of the foregoing, COVID-19 could materially and adversely impact NanoXplore's business, including without limitation, employee health, workforce availability and productivity, limitations on travel, supply chain disruptions, increased insurance premiums, and restrictions to the Company's ability to conduct its business. Also, the Company’s revenues and cash resources may be negatively affected, it may need to assist potential customers with obtaining financing or government incentives to help customers fund their purchases of the Company’s products and demand for NanoXplore’s products may decrease as partners and potential customers defer their projects. Any such disruptions or closures could have a material adverse effect on the Company's business. In addition, parties with whom the Company does business or on whom the Company is reliant may also be adversely impacted by the COVID-19 pandemic which may in turn cause further disruption to the Company's business. Any long-term closures or suspensions may also result in the loss of personnel or the workforce in general as employees seek employment elsewhere.

The impact of COVID-19 and government responses thereto may also continue to have a material impact on financial results and could constrain the Company's ability to obtain equity or debt financing in the future, which may have a material adverse effect on its business, financial condition and results of operations.

NanoXplore is actively monitoring the situation and will respond as the impact of the COVID-19 pandemic evolves, which will depend on several factors set out above. The extent to which the pandemic will impact the Company's operations in the future is highly uncertain and cannot be predicted with confidence as at the date hereof, but could have a material adverse effect on the Company’s business, financial condition and results of operations. These uncertainties include, but are not limited to, the duration of the outbreak, the ability of governments in countries in which NanoXplore conducts business to curtail the spreading of the virus, the economic recovery as well as community and social stabilities. Any of these uncertainties, and others, could have further material adverse effect on the Company's business and operations.

REVENUE FROM GRAPHENE SALES; LONG AND COMPLEX SALES CYCLE

To date, the Company has recorded minimal revenue from its graphene powder and graphene enhanced products sales. 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.

In addition, it has been the experience of the Company that the average sales cycle for its graphene powder and graphene enhanced products can range from one to multiple years from the time a customer begins testing the Company's product until the time that they could be used in a commercial product. The product introduction timing will vary based on the target market. The sales and development cycles for the Company's products are subject to customer budgetary constraints, internal acceptance procedures, competitive product assessments, scientific and development resource allocations, and other factors beyond the Company's control. If the Company is not able to successfully accommodate these factors to enable customer development success, the Company may be unable to achieve sufficient sales to reach profitability. Failure to achieve profitability may have a material adverse effect on the Company's operating results.

PRODUCT DEVELOPMENT AND TECHNOLOGICAL CHANGE

As there is limited sustained history of successful use of the Company's graphene powder and graphene enhanced products in commercial applications, there is no assurance that broad successful commercial applications may be technically feasible. Most, if not all, of the scientific and engineering data related to the Company's products has been generated by the Company's own laboratories or laboratory environments at our customers or third-parties, like universities and national laboratories. It is well known that laboratory data is not always representative in commercial applications.

Additionally, the industries in which the Company operates are characterized by rapid technological change and frequent new product introductions. Part of the Company's business strategy is to monitor such change and take steps to remain technologically current, but there is no assurance that such strategy will be successful. If the Company is not able to adapt to new advances in materials sciences, or if unforeseen technologies or materials emerge that are not compatible with the Company's products and services or that could replace its products and services, the Company's revenues and business would likely be adversely affected.

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, 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 a material adverse effect on the Company's operating results.

LIQUIDITY CONCERNS AND FUTURE FINANCING

The Company is ultimately dependent on the commercial sales of graphene powder and graphene enhanced products. Any delay in the sales of such products could require additional financing. 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.

LAWS AND REGULATIONS, LICENSES AND PERMITS

Legislation is evolving in a manner that is creating stricter standards, while enforcement, fines and penalties for non compliance are also increasingly stringent. A significant change in the legal and regulatory environment in which the Company currently carries on business could adversely affect the Company's operations. In particular, large volume production of graphene requires permits and approvals from various government authorities, and is subject to extensive federal, provincial, state, and local laws and regulations governing development, production, exports, taxes, labour standards, occupational health and safety, environment and other matters. As graphene is a new chemical substance, production and sale of graphene may be subject to specific occupational health and safety and environment regulatory approvals in different jurisdictions including, without limitations, under the *Canadian Environmental Protection Act* (Canada), the *Food and Drug Act* (Canada), the *Toxic Substances Control Act* (USA), the *Food Drug and Cosmetic 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 produce or sell graphene, and such failures could have a material adverse effect on the Company.

In addition, the Company's operations could be adversely impacted by significant changes in tariffs and duties imposed on its products, particularly significant changes to the United States-Mexico-Canada Agreement on Trade ("**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. 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.

INTELLECTUAL PROPERTY

The Company relies on the patent, trade secret and other intellectual property laws of Canada, the United States and the other countries where it does business to protect its intellectual property rights. The Company may be unable to prevent third parties from using its intellectual property without its authorization. The unauthorized use of the Company's intellectual property could reduce any competitive advantage that it has developed, reduce its market share or otherwise harm its business. In the event of unauthorized use of the Company's intellectual property, litigation to protect and enforce the Company's rights could be costly, and the Company may not prevail.

Many of the Company's technologies are not covered by any patent or patent application, and the Company's issued and pending Canadian, United States and other countries' patents may not provide the Company with any competitive advantage and could be challenged by third parties. The Company's inability to secure issuance of pending patent applications may limit its ability to protect the intellectual property rights these pending patent applications were intended to cover. The Company's competitors may attempt to design around its patents to avoid liability for infringement and, if successful, could adversely affect the Company's market share. Furthermore, the expiration of the Company's patents may lead to increased competition.

In addition, effective patent, trade secret and other intellectual property protection may be unavailable or limited in some foreign countries. In some countries, the Company does not apply for patent or other intellectual property protection. The Company also relies on unpatented technological innovation and other trade secrets to develop and maintain its competitive position. Although the Company generally enters into confidentiality agreements with its employees and third parties to protect its intellectual property, these confidentiality agreements are limited in duration, could be breached and may not provide meaningful protection of its trade secrets. Adequate remedies may not be available if there is an unauthorized use or disclosure of the Company's trade secrets and manufacturing expertise. In addition, others may obtain knowledge about the Company's trade secrets through independent development or by legal means. The failure to protect the Company's processes, technology, trade secrets and proprietary manufacturing expertise, methods and compounds could have a material adverse effect on its business by jeopardizing critical intellectual property.

Where a product formulation or process is kept as a trade secret, third parties may independently develop or invent and patent products or processes identical to such trade secret products or processes. This could have a material adverse effect on the Company's ability to make and sell products or use such processes and could potentially result in costly litigation in which the Company might not prevail.

The Company could face intellectual property infringement claims that could result in significant legal costs and damages and impede its ability to produce key products, which could have a material adverse effect on its business, financial condition, and results of operations.

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's business.

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 labour 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.

COMPETITION

The Company competes with other graphene and 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.

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.

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.

COST ABSORPTION AND PURCHASE ORDERS

Especially as it relates to its activities in the transportation industry, and given the current trends in that 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.

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 were 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 its 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 equipments 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.

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 the Company 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.

PRODUCT WARRANTY, RECALL AND LIABILITY RISK

Especially as it relates to the Company's composites parts manufacturing operations, 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.

MATERIAL AND COMMODITY PRICES

Prices for key raw materials and commodities used in composite parts and graphene production, particularly graphite, polyester resin, glass fiber and other raw materials, as well as energy prices, have proven to be volatile at certain times. To the extent that the Company is unable to fully mitigate its exposure to price change of key raw materials and commodities, particularly through engineering products with reduced content, by passing price increases to customers, or otherwise, such additional costs could have a material adverse effect on profitability. Increased energy prices could also have an impact on production or transportation costs which in turn could affect competitiveness.

QUOTE/PRICING ASSUMPTIONS

Especially as it relates to the Company's composites parts manufacturing operations, 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.

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.

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 42% of the Company's total sales for the year ended June 30, 2021. 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.

LITIGATION

The Company has entered into legally binding agreements with various third parties, including supply, distribution, 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.

OTHER RISK FACTORS

Additional risks not currently known to the Company or that the Company currently deems immaterial may also impair the Company's operations.

CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of consolidated financial statements requires management to make estimates and judgments about the future. Management periodically review these estimates, which are based on historical experience, changes in the business environment and other factors, including expectations of future events, that management considers reasonable under the circumstances. The estimates involve judgments we make based on the information available. However, accounting estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

The Company based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market events or to circumstances beyond the Company's control. Such changes are reflected in the assumptions when they occur. This discussion addresses only those estimates that we consider important based on the degree of uncertainty and the likelihood of a material impact if we had used different estimates. There are many other areas in which we use estimates about uncertain matters.

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 estimates and judgments in applying accounting policies" in the note 2 in the audited consolidated financial statements for the years ended June 30, 2021 and 2020. 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, 2021 and 2020.

FUTURE CHANGES IN ACCOUNTING POLICIES

Certain 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, 2021 and 2020 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 meets 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.