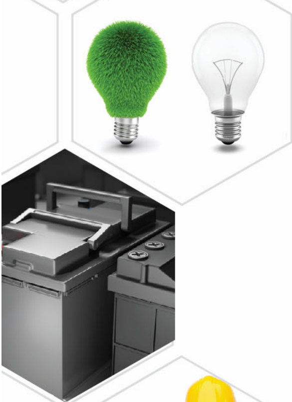
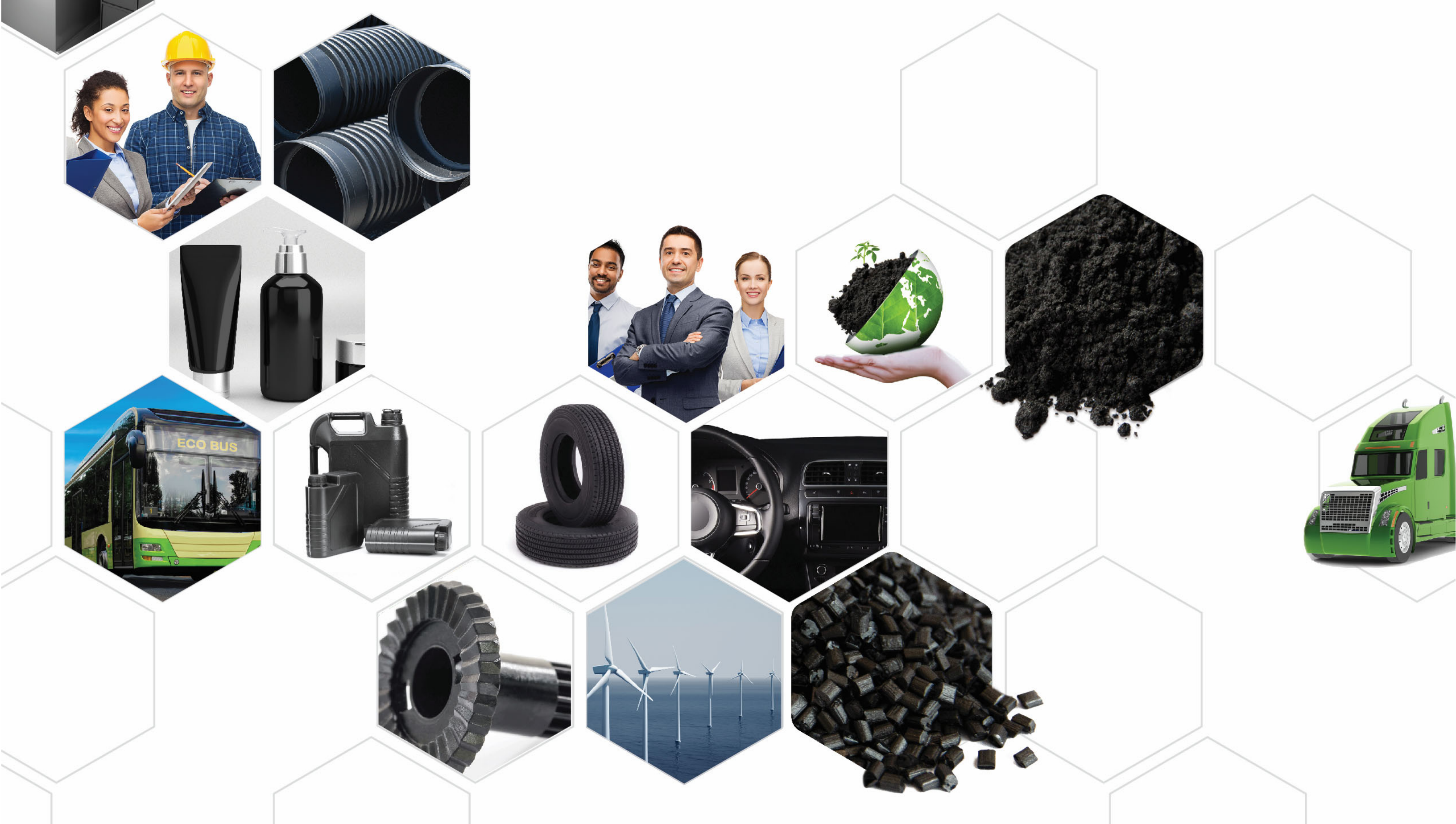
MANAGEMENT'S DISCUSSION AND ANALYSIS

For the years ended June 30, 2023 and 2022





[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, 2023 and 2022 and should be read in conjunction with the consolidated financial statements for the years ended June 30, 2023 and 2022. The purpose of this document is to provide information on our activities. The information contained herein is dated as of September 11, 2023, date on which the MD&A was approved by the Corporation's board of directors. You will find more information about us on NanoXplore's website at www.nanoxplore.ca and on SEDAR+ at https://www.sedarplus.ca, including all press releases.

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

"Q4-2023” and “Q4-2022” refer to the three-month periods ended June 30, 2023 and 2022 respectively, and “YTD 2023” and “YTD 2022” refer to the years ended June 30, 2023 and 2022 respectively.

1. FORWARD-LOOKING STATEMENTS

This MD&A contains certain forward-looking statements within the meaning of applicable Canadian securities laws with respect to the Corporation. 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 Corporation 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 Corporation's control, could prove incorrect as they are subject to risks and uncertainties inherent in the Corporation'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.

2. BUSINESS OVERVIEW

CORPORATION OVERVIEW

NanoXplore is a graphene company, a manufacturer and supplier of high-volume graphene powder for use in transportation and industrial markets. Also, the Corporation provides standard and custom graphene-enhanced plastic and composite products to various customers in transportation, packaging, electronics, and other industrial sectors. The Corporation is also a silicon-graphene-enhanced Li-ion battery manufacturer for the Electric Vehicle and grid storage markets. The Corporation 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 Inc. graduated from the Toronto Stock Exchange ("TSX") Venture Exchange to the TSX. NanoXplore is traded under "GRA" on the TSX and is also listed on the OTCQX and traded under "NNXPF".

The Corporation has the following subsidiaries:

Subsidiaries	Reporting segment
NanoXplore Switzerland Holding SA ("NanoXplore Switzerland"), based in Switzerland, with an equity interest of 100% [2022 – 100%]. NanoXplore Switzerland holds 100% of CEBO Injections SA ("CEBO")	Advanced materials, plastics and composite products
NanoXplore Holdings USA, Inc. ("NanoXplore Holdings USA"), based in the United States, with an equity interest of 100% [2022 – 100%]. NanoXplore Holdings USA holds 100% of NanoXplore USA, Inc.	Advanced materials, plastics and composite products
Sigma Industries Inc. ("Sigma"), based in Canada, with an equity interest of 100% [2022 – 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	Advanced materials, plastics and composite products
Canuck Compounders Inc. ("Canuck"), based in Canada, with an equity interest of 100% [2022 – 100%]	Advanced materials, plastics and composite products
VoltaXplore Inc. ("VoltaXplore"), based in Canada, with an equity interest of 100% [2022 – 50%]	Battery cells

REPORTING SEGMENTS

The Corporation has two reportable segments based on products:

- **Advanced materials, plastics and composite products:**
  Provides standard and custom graphene-enhanced plastic and composite products to various customers in transportation, packaging, electronics, and other industrial sectors.
- **Battery cells:**
  Provides silicon-graphene-enhanced Li-ion battery for the Electric Vehicle and grid storage markets. There are no revenues yet generated from this segment.

Corresponding operations and activities are managed accordingly by the Corporation's Chief Operating Decision Maker. Segmented operating, financial information and labelled key performance indicators are available and used to manage these business segments, review performance and allocate resources.

KEY FINANCIAL HIGHLIGHTS

- Higher total revenues of $33,318,964 in Q4-2023 compared to $28,280,476 in Q4-2022, representing an 18% increase, and total revenues of $123,857,171 in 2023 compared to $94,307,159 in 2022, representing a 31% increase;
- Gross margin on revenues from customers of 20.8% in Q4-2023 compared to 16.8% in Q4-2022 and of 17.4% during the year 2023 compared to 10.2% in 2022;
- Record adjusted EBITDA[1] of $1,130,962 for the advanced materials, plastics and composite products segment offset by -$604,822 for the battery cells segment (VoltaXplore initiative) for a net adjusted EBITDA in Q4-2023 of $526,140 compared to $112,735 in Q4-2022;

[1] Adjusted EBITDA is a non-IFRS measure and that reconciliation can be found in the section "Overall Results"

- Cash flows from operating activities were once again positive by $1,694,557 in Q4-2023 bringing our year 2023 to $2,446,404, a significant improvement over 2022 and past years;
- Total liquidity of $46,534,495 as at June 30, 2023, including cash and cash equivalents of $36,210,495;
- Total long-term debt of $7,875,888 as at June 30, 2023, down by $1,574,926 compared to 2022.

BUSINESS HIGHLIGHTS

During the year ended June 30, 2023, the Corporation continued to focus on developing markets for its graphene products and to develop down stream pre-mixed additives and products that facilitate such introduction. The Corporation has been successful in integration of GrapheneBlack in a few streams of products, both internally and externally. The Corporation continues its engagement with many potential customers that are currently validating GrapheneBlack and GrapheneBlack improved masterbatches, concentrates, and products.

During the year, the Corporation announced its 5-year strategic and investment plan and has begun executing it. The plan represents an increase in the production capacity of graphene, battery materials and graphene enhanced masterbatch, compound and composite products. The Corporation will provide a regular update to its shareholders on the progress of the plan.

The Corporation successfully started its battery research and laboratory lab in a location in the vicinity of its headquarter and successfully commissioned its anode material pilot facility. The Corporation is in discussion with potential customers to sign supply agreement for the upcoming battery material facility, as a part of its 5-year strategic and investment plan.

Macroeconomics and Supply chain issues

The COVID-19 pandemic and its negative collateral effects on the supply of materials and labour availability along with the armed conflict between Russia and Ukraine continue to be part of today's macro-economic landscape. In recent months, the resulting negative impacts have stabilized and are less disruptive to our operations than they have been. A material deterioration in any of the foregoing could have a material adverse effect on the Corporation's business and results of operations. The Corporation expects to be able to continue to respond to these external forces in a measured, prudent and decisive manner with continued emphasis on health and safety, cash conservation and the maintenance of its liquidity position.

VoltaXplore

On March 24, 2023, NanoXplore Inc. purchased Martinrea Innovation Developments Inc.'s 50% equity stake in VoltaXplore for an aggregate equity consideration of $9,987,586. NanoXplore now owns 100% of VoltaXplore, a graphene-enhanced Li-ion battery manufacturer for the Electric Vehicle and grid storage markets.

The Government of Canada has recognized the critical importance of clean technology manufacturing by introducing a 30% refundable investment tax credit ("ITC") in its 2023 Budget. This federal government initiative, along with the provincial financial support, is in line with NanoXplore's decision to move forward with the construction of a 2GWh battery cell gigafactory in Quebec. At nameplate capacity, the facility may produce up to 130 million cells per year. The ITC along with the provincial financial support were major milestones for NanoXplore and VoltaXplore. VoltaXplore anticipates finalizing the funding in the next few months to potentially start construction in early calendar 2024.

VoltaXplore has agreed on commercial terms for the supply of Li-ion battery cells with a well-known commercial vehicle OEM. Battery cells will be produced in VoltaXplore's gigafactory starting from 2026. The agreement is for 1 GWh per year for a duration of 10 years following a pricing formula that passes through raw material cost to the customer.

Purchase of assets of XG Sciences Inc.

On August 25, 2022, the Corporation purchased a significant portion of the assets of XG Sciences Inc. ("XG" or "XG Sciences") for an amount of US$3,000,000 in a sale conducted by XG's senior secured creditor pursuant to Article 9 of Michigan's enactment of the Uniform Commercial Code. The Corporation and the senior creditor entered into an asset purchase agreement pursuant to which the Corporation acquired XG's mechanical milling platform, research and development lab and all issued and pending patents and trademarks, among other items.

As a result of the transaction, the Corporation now owns all patents and patent applications including a portfolio of 7 patents (6 issued and 1 pending) of silicon-graphene battery materials and all XG trademarks. This complements the Corporation's existing intellectual properties and know-how related to graphene and graphene-silicon composite materials for Li-ion batteries.
The Corporation has moved all the assets from Lansing, Michigan to Canada to establish a dedicated battery material R&D facility. The Corporation has leased a location in the vicinity of its headquarters and has already installed some of XG's R&D assets in this facility. This facility will include pilot scale production systems for anode active materials and for conductive and performance additives and will incorporate trade secrets and know-how acquired from XG into existing knowledge of the Corporation. During 2023, the Corporation has used these assets to build a silicon-graphene anode material facility with a production capacity of approximately 100 tons per year.

Total liquidity

As at June 30, 2023, the Corporation had total liquidity of $46,534,495, including cash and cash equivalents and availability under the Corporation's operating loans.

Long-term debt

The total long-term debt decreased from $9,450,814 as at June 30, 2022 to $7,875,888 as at June 30, 2023 for a variation of $1,574,926. Repayment amounted to $1,769,877 during the year ended June 30, 2023.

3. OVERALL RESULTS

HIGHLIGHTS

The following table sets out certain highlights of the Corporation's performance for the years ended June 30, 2023 and 2022. Refer to the Corporation's consolidated financial statements for the years ended June 30, 2023 and 2022 for a detailed account of the Corporation's performance for the results of YTD 2023 and 2022 presented in the tables below.

In summary:

	Q4-2023	Q4-2022	Variation		YTD 2023	YTD 2022	Variation	
	$	$	$	%	$	$	$	%
Revenues	**33,318,964**	28,280,476	5,038,488	18%	**123,857,171**	94,307,159	29,550,012	31%
Operating loss	**(2,088,375)**	(2,695,249)	606,874	23%	**(11,708,312)**	(16,934,137)	5,225,825	31%
Loss	**(2,003,549)**	(2,708,675)	705,126	26%	**(12,798,174)**	(15,540,594)	2,742,420	18%
Loss per share (Basic and diluted)	**(0.01)**	(0.02)			**(0.08)**	(0.10)		
Non-IFRS Measures *								
Adjusted EBITDA	**526,140**	112,735	413,405	367%	**(857,887)**	(9,170,924)	8,313,037	91%

By reporting segment:

	Q4-2023	Q4-2022	Variation		YTD 2023	YTD 2022	Variation	
	$	$	$	%	$	$	$	%
From Advanced materials, plastics and composite products								
Revenues	**33,318,964**	28,280,476	5,038,488	18%	**123,857,171**	94,307,159	29,550,012	31%
Non-IFRS Measures:								
Adjusted EBITDA *	**1,130,962**	112,735	1,018,227	903%	**(234,795)**	(9,170,924)	8,936,129	97%
From Battery cells								
Revenues	**—**	—	—	0%	**—**	—	—	0%
Non-IFRS Measures:								
Adjusted EBITDA *	**(604,822)**	—	(604,822)	(100%)	**(623,092)**	—	(623,092)	(100%)

Results of operations may include certain unusual and other items which have been separately disclosed, where appropriate, in order to provide a clear assessment of the underlying Corporation results. In addition to IFRS measures, management uses non-IFRS measures in the Corporation's disclosures that it believes provide the most appropriate basis on which to evaluate the Corporation's results.

SELECTED ANNUAL INFORMATION

The table below presents selected audited annual information for the years ended June 30, 2023, 2022 and 2021.

	2023 $	2022 $	2021 $
Revenues	**123,857,171**	94,307,159	72,348,402
Loss	**(12,798,174)**	(15,540,594)	(11,807,661)
Loss per share (Basic and diluted)	**(0.08)**	(0.10)	(0.08)
Total assets	**165,245,803**	168,091,927	145,301,924
Total non-current liabilities	**19,242,066**	22,685,860	17,843,740

* NON-IFRS MEASURES

This MD&A was prepared using results and financial information determined under IFRS. However, the Corporation considers certain non-IFRS financial measures as useful additional information in measuring the financial performance and condition of the Corporation. These measures, which the Corporation believes are widely used by investors, securities analysts and other interested parties in evaluating the Corporation's performance, do not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similarly titled measures presented by other publicly traded companies, nor should they be construed as an alternative to financial measures determined in accordance with IFRS. Non-IFRS measures include "Adjusted EBITDA".

The following table provides a reconciliation of IFRS "Loss" to Non-IFRS "Adjusted EBITDA" for the three-month periods and for the years ended June 30, 2023 and 2022.

	Q4-2023 $	Q4-2022 $	YTD 2023 $	YTD 2022 $
Loss	**(2,003,549)**	(2,708,675)	**(12,798,174)**	(15,540,594)
Current and deferred income tax recovery	**(239,724)**	(419,927)	**(38,650)**	(976,077)
Net interest expenses (revenues)	**22,924**	92,350	**(63,342)**	761,601
Share of loss of a joint venture	**—**	341,003	**1,059,880**	744,285
Loss (gain) on disposal of property, plant and equipment	**131,974**	—	**131,974**	(1,923,352)
Foreign exchange	**(329,788)**	365,977	**725,221**	233,503
Canada Emergency Wage Subsidy ("CEWS")	**—**	—	**—**	(840,249)
Share-based compensation expenses	**273,910**	171,415	**1,118,772**	698,885
Non-operational items (1)	**—**	—	**116,000**	295,012
Depreciation and amortization	**2,670,393**	2,270,592	**8,890,432**	7,376,062
Adjusted EBITDA	**526,140**	112,735	**(857,887)**	(9,170,924)
- From Advanced materials, plastics and composite products	**1,130,962**	112,735	**(234,795)**	(9,170,924)
- From Battery cells	**(604,822)**	—	**(623,092)**	—

The following table provides a reconciliation of IFRS "Loss" to Non-IFRS "Adjusted EBITDA" for the three-month periods ended June 30, 2023 (Q4-2023), March 31, 2023 (Q3-2023), December 31, 2022 (Q2-2023) and September 30, 2022 (Q1-2023).

	Q4-2023 $	Q3-2023 $	Q2-2023 $	Q1-2023 $
Loss	**(2,003,549)**	(2,447,604)	(2,422,949)	(5,924,072)
Current and deferred income tax recovery (expense)	**(239,724)**	21,316	397,369	(217,611)
Net interest expenses (revenues)	**22,924**	(83,705)	(58,214)	55,653
Share of loss of a joint venture	—	414,384	334,066	311,430
Loss on disposal of property, plant and equipment	**131,974**	—	—	—
Foreign exchange	**(329,788)**	124,908	(683,939)	1,614,040
Share-based compensation expenses	**273,910**	247,138	374,892	222,832
Non-operational items (1)	**—**	40,000	76,000	—
Depreciation and amortization	**2,670,393**	2,135,268	2,124,075	1,960,696
Adjusted EBITDA	**526,140**	451,705	141,300	(1,977,032)
- From Advanced materials, plastics and composite products	**1,130,962**	469,975	141,300	(1,977,032)
- From Battery cells	**(604,822)**	(18,270)	—	—

(1) Non-operational items consist of professional fees related to business acquisition (Canuck last year) and to filing prospectuses.

RESULTS OF OPERATIONS VARIANCE ANALYSIS – THREE-MONTH PERIODS

Revenues

	Q4-2023 $	Q4-2022 $	Variation $	 %	Q3-2023 $	Variation $	 %
Revenues from customers	**33,010,658**	28,080,085	4,930,573	18%	31,125,291	1,885,367	6%
Other income	**308,306**	200,391	107,915	54%	455,269	(146,963)	(32%)
Total revenues	**33,318,964**	28,280,476	5,038,488	18%	31,580,560	1,738,404	6%

All revenues are coming from the segment of advanced materials, plastics and composite products.

Revenues from customers increased from $31,125,291 in Q3-2023 to $33,010,658 in Q4-2023. This increase is mainly due to positive product mix including graphene enhanced products and higher volume.

Revenues from customers increased from $28,080,085 in Q4-2022 to $33,010,658 in Q4-2023. This increase is mainly due to a positive product mix including graphene enhanced products, higher volume, a positive FX impact and price increases partially offset by lower tooling revenues.

Other income decreased from $455,269 in Q3-2023 to $308,306 in Q4-2023 and increased from $200,391 in Q4-2022 to $308,306 in Q4-2023. The variations are due to grants received for R&D programs.

Adjusted EBITDA

1) **From Advanced materials, plastics and composite products**

The adjusted EBITDA improved from $112,735 in Q4-2022 to $1,130,962 in Q4-2023. The variation is explained as follows:

- Gross margin on revenues from customers increased by $2,147,592 compared to Q4-2022 due to higher sales as describe above, favourable product mix, improved productivity and cost control; and
- Partially offset by higher administrative expenses (SG&A and R&D) of $1,237,280 mainly due to additional headcounts and higher wages, including higher variable compensation.

2) From Battery cells

The adjusted EBITDA passed from nil in Q4-2022 to -$604,822 in Q4-2023. The variation is explained by the administrative expenses (G&A and R&D) of $604,822 from this new segment.

Loss

The loss decreased from $2,708,675 in Q4-2022 to $2,003,549 in Q4-2023. The variation is mainly explained as follows:

- An increase in adjusted EBITDA of $413,405 as explained above;
- Foreign exchange gain of $329,788 in Q4-2023 compared to a loss of $365,977 in Q4-2022;
- Share loss of a joint venture of $341,003 in Q4-2022 compared to nil in Q4-2023 as VoltaXplore is now consolidated in the Corporation's result;
- Partially offset by:
  - Higher depreciation and amortization of $399,801 due mainly to the acquisition of the assets of XG and VoltaXplore; and
  - Lower deferred income tax recovery of $222,327.

Foreign exchange

	Q4-2023	Q4-2022	Variation		Q3-2023	Variation	
	$	$	$	%	$	$	%
Foreign exchange from operations	**780,923**	(277,064)	1,057,987	(382%)	308,826	472,097	(153%)
Foreign exchange on derivative contracts	**(1,110,711)**	643,041	(1,753,752)	273%	(183,918)	(926,793)	504%
Total foreign exchange	**(329,788)**	365,977	(695,765)	190%	124,908	(454,696)	364%

The Corporation had a negative impact on foreign exchange from operations of $780,923 in Q4-2023 and a positive impact of $277,064 in Q4-2022. There was also a loss of $308,826 in Q3-2023. This is due to fluctuation of the US rate at the end of each quarter.

The foreign exchange on derivative contracts is a non-realized gain of $1,110,711 in Q4-2023 and a loss of $643,041 in Q4-2022. There was also a gain of $183,918 in Q3-2023. The variation is due to the fluctuation of the US rate between the quarters and the level of coverage.

RESULTS OF OPERATIONS VARIANCE ANALYSIS – FOR THE YEARS

Revenues

	YTD 2023	YTD 2022	Variation	
	$	$	$	%
Revenues from customers	**122,700,485**	92,333,826	30,366,659	33%
Other income	**1,156,686**	1,973,333	(816,647)	(41%)
Total revenues	**123,857,171**	94,307,159	29,550,012	31%

All revenues are coming from the segment of advanced materials, plastics and composite products.

Revenues from customers increased from $92,333,826 last year to $122,700,485 this year. This increase is mainly due to a positive product mix including graphene enhanced products, the acquisition of Canuck in December 2021, higher volume, a positive FX impact and price increases partially offset by lower tooling revenues.

Other income decreased from $1,973,333 last year to $1,156,686 this year. The decrease is mainly explained by the end of the CEWS program set up by the Canadian Federal government to help businesses deal with the COVID-19 pandemic. The Corporation received $ nil under this program in the current period compared to $840,249 last year as the program ended in October 2021.

Adjusted EBITDA

1) From advanced materials, plastics and composite products

The adjusted EBITDA improved from -$9,170,924 last year to -$234,795 this year. The variation is explained as follows:

- Gross margin on revenues from customers increased by $11,907,931 compared to last year due to higher sales as describe above, favourable product mix, improved productivity and cost control; and
- Partially offset by higher administrative expenses (SG&A and R&D) of $2,816,392 mainly due to additional headcounts and higher wages, including higher variable compensation.

2) From battery cells

The adjusted EBITDA passed from nil last year to -$623,092 this year. The variation is explained by the administrative expenses (G&A and R&D) of $623,092 from this new segment.

Loss

The loss decreased from $15,540,594 last year to $12,798,174 this year. The variation is mainly explained as follows:

- An increase in adjusted EBITDA of $8,313,037 as explained above;
- Net interest revenues of $63,342 this year compared to net interest expenses of $761,601 last year explained by higher interest revenues due to the increase of the interest rates on cash balances, to lower interest expenses due to an advance payment on long-term debt and to the reimbursement of operating loans;
- These were offset by:
  - Last year, the Corporation recognized a gain on disposal of property, plant and equipment of $1,923,352 resulting from the sale of the properties held for sale located in Quebec and in Newton;
  - A decrease of $840,249 in government assistance received from the Canadian federal government through its CEWS program;
  - Higher depreciation and amortization of $1,514,370 due mainly to the acquisition of Canuck and to the assets of XG and VoltaXplore;
  - Higher loss on foreign exchange of $491,718 as explained below;
  - Deferred income tax recovery of $119,551 this year compared to $1,016,617 last year; and
  - Higher share loss of a joint venture of $315,595.

Foreign exchange

	YTD 2023	YTD 2022	Variation	
	$	$	$	%
Foreign exchange from operations	**643,943**	(372,492)	1,016,435	(273%)
Foreign exchange on derivative contracts	**81,278**	605,995	(524,717)	87%
Total foreign exchange	**725,221**	233,503	491,718	(211%)

The Corporation had a negative impact on foreign exchange from operations of $643,943 this year compared to a positive impact of $372,492 last year due to the decrease of the US rate at the end of the period versus an increase last year.

The foreign exchange on derivative contracts is a non-realized loss of $81,278 this year and of $605,995 last year. The variation is due to the fluctuation of the US rate during the year and the level of coverage. With current level of contracts, each 100 bps movement in the US to CAD rate will be an impact of approximately $400,000.

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 $	
Q4-2023	June 30, 2023	33,318,964	(2,003,549)	(0.01)	**Note 1**
Q3-2023	March 31, 2023	31,580,560	(2,447,604)	(0.01)	
Q2-2023	December 31, 2022	31,725,122	(2,422,949)	(0.01)	**Note 2**
Q1-2023	September 30, 2022	27,232,525	(5,924,072)	(0.04)	**Note 3**
Q4-2022	June 30, 2022	28,280,476	(2,708,675)	(0.02)	**Note 4**
Q3-2022	March 31, 2022	28,406,750	(4,516,108)	(0.03)	**Note 5**
Q2-2022	December 31, 2021	18,801,487	(3,585,180)	(0.02)	**Note 6**
Q1-2022	September 30, 2021	18,818,446	(4,730,631)	(0.03)	

Note 1 The revenues were higher due to positive product mix, including graphene enhanced product, and higher volume.

Note 2 The revenues were higher due to higher volume and price increases. Loss was lower due to higher margins and positive foreign exchange on derivative contracts.

Note 3 The loss was higher due to a negative impact of foreign exchange on derivative contracts, lower margin and higher administrative expenses.

Note 4 The loss was lower due to positive product mix, improved productivity and cost control.

Note 5 Higher revenues are mainly explained by positive product mix including graphene enhanced product, the acquisition of Canuck, price increase and new sales program.

Note 6 The loss was lower than usual given a gain on disposal of property, plant and equipment of $1,601,271.

4. FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

CONSOLIDATED FINANCIAL POSITION

	2023 $	2022 $	Variation $	Main reasons for significant variation
Assets				
Cash and cash equivalents	**36,210,495**	51,232,068	(15,021,573)	Refer to section Cash Flows
Accounts receivable and Contract asset	**20,605,741**	21,077,868	(472,127)	
Inventory	**17,280,115**	17,507,812	(227,697)	
Investment in a joint venture	**—**	4,238,774	(4,238,774)	Acquisition of the other 50% of VoltaXplore
Right-of-use assets	**8,997,822**	8,381,031	616,791	Mainly due to acquisition of VoltaXplore
Property, plant and equipment, and equipment deposits	**62,624,257**	54,329,195	8,295,062	Mainly due to acquisition of the assets of XG Sciences and VoltaXplore
Intangible assets	**14,522,038**	7,256,340	7,265,698	Mainly due to acquisition of the assets of XG Sciences and VoltaXplore
Goodwill	**1,919,673**	1,919,673	—	
Other assets	**3,085,662**	2,149,166	936,496	
Total assets	**165,245,803**	168,091,927	(2,846,124)	
Liabilities and Shareholders' Equity				
Liabilities				
Accounts payable, accrued liabilities and income taxes payable	**19,868,734**	17,029,869	2,838,865	Timing in cash payment and inclusion of VoltaXplore
Contract liability	**1,016,019**	536,060	479,959	
Operating loans	**1,478,300**	4,648,900	(3,170,600)	Cash flows management
Defined benefit liabilities	**572,463**	296,817	275,646	
Balance of purchase price of business acquisition	**—**	956,014	(956,014)	Repayment for the acquisition of Canuck
Lease liability	**15,218,803**	15,232,915	(14,112)	
Long-term debt	**7,875,888**	9,450,814	(1,574,926)	Mainly due to repayment of debt
Deferred taxes liabilities	**2,939,526**	2,409,143	530,383	
Total liabilities	**48,969,733**	50,560,532	(1,590,799)	
Shareholders' Equity				
Share capital	**180,308,703**	169,354,272	10,954,431	Issuance of shares due to acquisition of VoltaXplore
Reserve	**4,999,662**	4,185,185	814,477	
Foreign currency translation reserve	**34,552**	12,070	22,482	
Deficit	**(69,066,847)**	(56,020,132)	(13,046,715)	
Total shareholders' equity	**116,276,070**	117,531,395	(1,255,325)	
Total liabilities and shareholders' equity	**165,245,803**	168,091,927	(2,846,124)	

CASH FLOWS

	2023 $	2022 $	Variation $	%
Cash used in operating activities prior to changes in non-cash working capital items	**(1,598,194)**	(8,415,973)	6,817,779	81%
Changes in non-cash working capital items	**4,044,598**	(11,698,608)	15,743,206	135%
Operating activities	**2,446,404**	(20,114,581)	22,560,985	112%
Financing activities	**(7,664,713)**	26,547,162	(34,211,875)	(129%)
Investing activities	**(9,835,372)**	(5,740,219)	(4,095,153)	(71%)
Net effect of currency exchange rate on cash and cash equivalents	**32,108**	15,123	16,985	112%
Net change in cash and cash equivalents	**(15,021,573)**	707,485	(15,729,058)	(2,223%)

Operating activities

Cash flows used in operating activities prior to changes in non-cash working capital items were $1,598,194 in 2023 compared to $8,415,973 in 2022. The variation is mainly explained by an improvement of the adjusted EBITDA of $8,313,037 partially offset by a reduction of $840,249 in the amount received from the CEWS program.

Changes in non-cash working capital items amounted to $4,044,598 this year, which is explained as follows:

- An increase of accounts payable and accrued liabilities of $2,442,185 mainly due to timing in vendor payments;
- A decrease in accounts receivable and contract asset of $822,158 mainly due to timing in cash receipts;
- An increase of contract liability of $459,798 due to timing of projects; and
- A decrease in inventory of $420,876 mainly due to improvements in inventory management.

Financing activities

Cash flows used in financing activities were $7,664,713 in 2023 compared to cash flows generated of $26,547,162 in 2022. In 2023 the operating loans decreased by $3,300,000 and repayment of $5,027,263 was completed on long-term debt and lease liability. These were offset by stock options exercised for proceeds of $687,200.

In 2022, the Corporation completed an issuance of common shares following a public financing for net proceeds of $27,996,232, a long-term debt of $1,539,094 was issued, the operating loans increased by $2,955,000, stock options have been exercised for proceeds of $896,409 and lease incentive of $1,253,921 was received. These were offset by repayment of $8,093,494 on long-term debt and lease liability, which included debt repayment of $2,229,049.

Investing activities

Cash flows used in investing activities were $9,835,372 in 2023 compared to $5,740,219 in 2022. In 2023, the Corporation paid $8,169,610 for capital expenditures, mainly related to the acquisition of the assets of XG Sciences and paid $1,000,000 related to the balance of purchase price of the acquisition of Canuck.

In 2022, the Corporation paid $6,830,534 for the acquisition of Canuck, net of cash acquired, $2,051,304 for the repayment of balance of purchase price of the assets of CSP Newton Plant, $1,000,000 to reinvest in VoltaXplore and $4,058,685 for capital expenditures which are mostly related to expenditures of composites equipment. These were offset by the sale of three buildings for an amount of $8,325,052.

USE OF PROCEEDS

Use of Proceeds Reconciliation of February 2022

On February 24, 2022, the Corporation raised gross proceeds of $30,001,200 by issuing a total of 6,522,000 Common Shares pursuant to a short form prospectus offering (the "February 2022 Offering"). The net proceeds of the February 2022 Offering were $27,996,232, after deduction of underwriters' fees and other expenses.

The net proceeds of the February 2022 Offering are expected to be used by the Corporation within 24 months following the closing of the February 2022 Offering, as follows.

	Use of proceeds as described in the Short Form Prospectus dated February 24, 2022	Revised estimate of the use of proceeds as of the date hereof
Acquisition of assets or companies, partnerships and General corporate purposes	27,996,232	27,996,232
Total	**27,996,232**	**27,996,232**

The Corporation had negative cash flows from operating activities prior to changes in non-cash working capital items for the years ended June 30, 2023 and 2022. The Corporation cannot guarantee if it will have positive or negative cash flow from operating activities in future periods. To the extent that the Corporation has negative cash flows in any future period, certain of the proceeds from the February 2022 Offering or future offerings may be used to fund such negative cash flows from operating activities.

LIQUIDITY AND CAPITAL RESOURCES

Throughout the COVID-19 pandemic, the Corporation 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 Corporation enhanced its liquidity position with public financing for net proceeds of $27,996,232 during the financial year 2022. As at June 30, 2023, the Corporation had total liquidity of $46,534,495, including cash and cash equivalents and availability under the Corporation's operating loans.

Management believes that the Corporation has sufficient funds to meet its obligations, operating expenses and some development expenditures for the ensuing 12 months as they fall due. The Corporation's ability to continue its development activities is dependent on the impact of COVID-19, supply chain issues and the speed of introduction of graphene products into different industries. Although advanced materials, plastics and composites products segment have generated revenues, the graphene commercial activity is still in the commercial introduction stage and, as a result, the Corporation could be dependent on external financing to fund its continued development program, if the commercial introduction of the graphene is delayed. However, regarding battery cells segment, the Corporation is dependent on external financing before it can build the production facility and commercialize its products. Discussions to secure financing are progressing well and we expect to complete the financing by December 2023. The Corporation's main sources of funding have been the issuance of equity securities for cash, debt, cash flow from operations and funds from the government of Quebec with respect to R&D tax credits and other programs.

CONTRACTUAL OBLIGATIONS AND OFF-BALANCE SHEET ARRANGEMENTS

The following table identifies the timing of undiscounted contractual obligations due as of June 30, 2023:

	Contractual obligations				
	1 year	2-3 years	4-5 years	Later than 5 years	Total
	$	$	$	$	$
Operating loans	1,478,300	–	–	–	**1,478,300**
Trade payables, accrued liabilities and current portion of balance of purchase price	15,469,592	–	–	–	**15,469,592**
Lease liability	3,398,515	6,981,704	3,657,064	3,160,165	**17,197,448**
Long-term debt	4,958,000	2,228,563	1,218,169	186,280	**8,591,012**
Total	**25,304,407**	**9,210,267**	**4,875,233**	**3,346,445**	**42,736,352**

As at June 30, 2023, the Corporation held forward exchange contracts to sell for a minimum of US$27.9 million and a maximum of US$41.9 million depending on the exchange rate of such derivative contracts. Rates vary from 1.2800 to up to 1.3720. The contracts are valid until April 2025.

Management believes that the Corporation 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 Corporation and its activities, please refer to the consolidated financial statements for the years ended June 30, 2023 and 2022. These identified financial instruments and risks are consistent through the periods.

OUTSTANDING SHARES

As at September 8, 2023, the Corporation has:

- 169,378,431 common shares issued and outstanding;
- 3,075,000 options outstanding with expiry dates ranging between December 19, 2023 and April 4, 2028 with exercise prices between $1.22 and $6.44. If all the options were exercised, 3,075,000 shares would be issued for cash proceeds of $7,583,750.

5. RELATED PARTY TRANSACTIONS

For a detailed description of all related party transactions, please refer to the note 17 "Related party transactions" in the consolidated financial statements for the years ended June 30, 2023 and 2022.

6. 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 Corporation 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 Corporation's future operating results and could cause actual events to differ materially from those described in forward–looking information relating to the Corporation. The risks apply to each segment.

PUBLIC HEALTH CRISES, INCLUDING COVID-19

The impacts of public health crises, including COVID-19, on the Corporation will largely depend on the overall severity and duration of any such events. These events cannot currently be predicted, and present risks including, but not limited to: more restrictive directives of government and public health authorities; reduced labour availability impacting our ability to continue to staff the Corporation's operations and facilities; impacts on the Corporation's ability to realize its growth goals; increased costs resulting from the Corporation's efforts to mitigate the impact of such health crisis; deterioration of worldwide credit and financial markets that could limit the Corporation's ability to obtain external financing to fund its operations and growth expenditures; a higher rate of losses on accounts receivables due to credit defaults; disruptions to the Corporation's supply chain; cost escalation of materials, components, equipment and skilled labour; impairments and/or write-downs of assets; and adverse impacts on the Corporation's information technology systems and the Corporation's internal control systems as a result of the need to increase remote work arrangements, including increased cybersecurity threats.

GLOBAL ECONOMIC ISSUES

Current global economic conditions, which have been subject to increased volatility, may impact the Corporation's access to public financing and its ability to obtain equity or debt financing on favourable terms. The Corporation operates in a volatile economic environment. As a result, if unemployment, interest or inflation rates fluctuate substantially or increase to significant levels, they could have an impact on the Corporation's operating activities, financial position and profitability. In addition, the Corporation is exposed to market risk related to the current global inflationary situation, as the various environmental, social, political, economic and health factors had significant consequences on the world economy. In order to reduce inflation, several central banks are now tightening their monetary policies, which has an impact on interest rates, foreign currency exchange rates and economic development. The risks of recession in one or several of the countries where the Corporation operates are growing and could have an adverse impact on the Corporation's net earnings, financial position or cash flows.

LONG AND COMPLEX GRAPHENE SALES CYCLE

It has been the experience of the Corporation 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 Corporation'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 Corporation's products are subject to customer budgetary constraints, internal acceptance procedures, competitive product assessments, scientific and development resource allocations, and other factors beyond the Corporation's control. If the Corporation is not able to successfully accommodate these factors to enable customer development success, the Corporation may be unable to achieve sufficient sales to reach profitability. Failure to achieve profitability may have a material adverse effect on the Corporation's operating results.
Graphene Sales cycle is long and complex. Several milestones have to be reached in order to see a widespread adoption of graphene in several markets.

- **Availability of Supply:** The first step is to demonstrate that the technology has reached a level of maturity that a consistent and reliable supply of graphene is available in an industrial setting and at a cost that is acceptable.
- **Graphene certification as a substance:** Any new material requires to be certified in order to be produced and shipped cross borders. Each jurisdiction has its own requirement, U.S. Environmental Protection Agency ("EPA"), Environmental Canada, and Europe REACH (Registration, Evaluation, Authorization and Restriction of Chemicals) are examples of these entities which aim to provide a high level of protection of human health and the environment from the use of chemicals/substance.
- **Product validation:** This includes technical performance, financial validation, sustainability and life-time analysis, processability and logistic, and more. Different players in the supply chain are involved in validating the performance of graphene. OEMs, molders, and formulators are all involved in these steps, making it a long and unpredictable process.
- **Product level certification:** Majority of products and applications are certified through ASTM or ISO certifications. For instance, for a new additive to be used in plastic pipes, corresponding ASTM and ISO certifications have to be modified.

PRODUCT DEVELOPMENT AND TECHNOLOGICAL CHANGE

As there is limited sustained history of successful use of the Corporation'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 Corporation's products has been generated by the Corporation'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 Corporation operates are characterized by rapid technological change and frequent new product introductions. Part of the Corporation'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 Corporation is not able to adapt to new advances in materials sciences, or if unforeseen technologies or materials emerge that are not compatible with the Corporation's products and services or that could replace its products and services, the Corporation's revenues and business would likely be adversely affected.

MARKET DEVELOPMENT AND SUSTAINED GROWTH

Failure to further develop the Corporation'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 Corporation'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 Corporation's key markets and existing geographic markets will be successful. Failure to achieve these goals may have a material adverse effect on the Corporation's operating results.

LIQUIDITY CONCERNS AND FUTURE FINANCING

The Corporation is ultimately dependent on the commercial sales of graphene powder. and graphene enhanced products, including batteries. Any delay in the sales of such products could require additional financing. There can be no assurance that the Corporation will be successful in obtaining the required financing as and when needed. Volatile markets may make it difficult or impossible for the Corporation 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 Corporation 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 Corporation currently carries on business could adversely affect the Corporation'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 Corporation 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 Corporation.

In addition, the Corporation'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 Corporation 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 Corporation 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 Corporation may be unable to prevent third parties from using its intellectual property without its authorization. The unauthorized use of the Corporation'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 Corporation's intellectual property, litigation to protect and enforce the Corporation's rights could be costly, and the Corporation may not prevail.

Many of the Corporation's technologies are not covered by any patent or patent application, and the Corporation's issued and pending Canadian, United States and other countries' patents may not provide the Corporation with any competitive advantage and could be challenged by third parties. The Corporation'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 Corporation's competitors may attempt to design around its patents to avoid liability for infringement and, if successful, could adversely affect the Corporation's market share. Furthermore, the expiration of the Corporation's patents may lead to increased competition.

In addition, effective patents, trade secret and other intellectual property protection may be unavailable or limited in some foreign countries. In some countries, the Corporation does not apply for patent or other intellectual property protection. The Corporation also relies on unpatented technological innovation and other trade secrets to develop and maintain its competitive position. Although the Corporation 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 Corporation's trade secrets and manufacturing expertise. In addition, others may obtain knowledge about the Corporation's trade secrets through independent development or by legal means. The failure to protect the Corporation'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 Corporation's ability to make and sell products or use such processes and could potentially result in costly litigation in which the Corporation might not prevail.

The Corporation 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 Corporation is dependent on the services of key executives, including a small number of highly skilled and experienced executives and personnel. The Corporation'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 Corporation's business.

QUALIFIED EMPLOYEES

Recruiting and retaining qualified personnel is critical to the Corporation'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 Corporation 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 Corporation if it is unable to recruit and retain qualified personnel as and when required.

COMPETITION

The Corporation competes with other graphene and manufacturing companies, in highly competitive markets. Some of the Corporation's competitors have substantially greater financial, marketing and other resources and higher market share that the Corporation has in certain products or geographic areas. As the markets for the Corporation's products and other services expand, additional competition may emerge and competitors may commit more resources to products which directly compete with the Corporation's products. There can be no assurance that the Corporation 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 Corporation's information technology ("**IT**") systems is important to the Corporation's business and operations. Although the Corporation has established and continues to enhance security controls intended to protect the Corporation'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 Corporation's IT systems could, among other things, cause disruptions in the Corporation'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 Corporation's, its customers' or suppliers' intellectual property or confidential information. If any of the foregoing events (or other events related to cybersecurity) occurs, the Corporation 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 Corporation.

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 Corporation's share price will not occur. In particular, the fluctuations may be exaggerated if the trading volume of the Common Shares of the Corporation 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 Corporation 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 Corporation'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 Corporation's products. For programs currently under production, the Corporation 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 Corporation may not be fully recovered. Similarly, future pricing pressure or volume reductions by the Corporation's customers may also reduce the amount of amortized costs otherwise recoverable in the piece price of the Corporation's products. Either of these factors could have an adverse effect on the Corporation's profitability. While it is generally the case that once the Corporation 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 Corporation for a variety of reasons, including the Corporation's refusal to accept demands for price reductions or other concessions.

ACQUISITIONS

The Corporation has acquired and could continue to acquire complementary businesses, assets, technologies, services or products, at competitive prices. The Corporation could continue to pursue acquisitions in those product areas which were identified as key to the Corporation's long-term business strategy. However, as a result of intense competition in these strategic areas, the Corporation may not be able to acquire the targets needed to achieve its strategic objectives. The completion of such transactions poses additional risks to the Corporation'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 Corporation 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 Corporation facilities and/or personnel; or other limitations in the due diligence process. Additionally, the Corporation 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 Corporation's operations or profitability. The benefit to the Corporation of previous and future acquisitions is highly dependent on the Corporation's ability to integrate the acquired businesses and their technologies, employees and products into the Corporation, and the Corporation may incur costs associated with integrating and rationalizing the facilities (some of which may need to be closed in the future). The Corporation cannot be certain that it will successfully integrate acquired businesses or that acquisitions will ultimately benefit the Corporation. Any failure to successfully integrate businesses or failure of the businesses to benefit the Corporation could have a material adverse effect on its business and results of operations. Such transactions may also result in additional dilution to the Corporation'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 Corporation 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 Corporation in recent years. The Corporation'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 Corporation's facilities contain complex and sophisticated equipments that are used in its manufacturing processes. The Corporation 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 Corporation 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 Corporation's profitability and operations.

CYCLICAL RISKS

A portion of the business of the Corporation 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 Corporation 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 Corporation's financial condition and results of operations and ability to meet existing financial covenants.

North America is a key truck producing region for the Corporation and operating results are dependent on truck production in this region by our customers. Due to the nature of the Corporation'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 Corporation's ongoing revenue and/or profitability, and could materially and adversely affect the Corporation's financial condition. Although the Corporation 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 Corporation'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 Corporation'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 Corporation 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 Corporation'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 Corporation 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 Corporation's profitability.

UNINSURED RISKS

The Corporation 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 Corporation.

FOREIGN EXCHANGE

The Corporation 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 Corporation, primarily with respect to the US dollar. Management has set up a policy that requires the Corporation 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 63% of the Corporation's total sales for the year ended June 30, 2023. Consequently, the Canadian dollar trends in relation to the US dollar add an element of risk and uncertainty for the Corporation. These risks are partially offset by the raw material purchases denominated in US dollars. The Corporation'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 Corporation sets up credit facilities allowing it to enter into forward foreign or option exchange contract transactions. This amount partially covers the Corporation's potential requirements over the next 24 months. The Corporation will proactively monitor the need to use this facility based on market conditions.

LITIGATION

The Corporation 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 Corporation may disagree with the position taken by the various other parties resulting in a dispute that could potentially initiate litigation and cause the Corporation 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 Corporation's business.

LITHIUM-ION BATTERY CELLS, WHICH HAVE BEEN OBSERVED TO CATCH FIRE OR VENT SMOKE AND FLAME

VoltaXplore Inc. will manufacture lithium-ion battery cells. On rare occasions, lithium-ion cells can rapidly release the energy they contain by venting smoke and flames in a manner that can ignite nearby materials as well as other lithium-ion cells. Also, negative public perceptions regarding the suitability of lithium-ion cells for powersports applications, the social and environmental impacts of cobalt mining or any future incident involving lithium-ion cells, such as a vehicle or other fire could materially adversely affect VoltaXplore business, results of operations or financial condition. In addition, VoltaXplore stores a significant number of lithium-ion cells at its facility. Any mishandling of battery cells, or safety issue or fire related to the cells, may cause damage and disruption to the operation of VoltaXplore's current or future facilities.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE ("ESG") CONSIDERATIONS

The Corporation could be subject to growing stakeholder expectations as it relates to ESG factors, including from investors, who are increasingly placing a greater emphasis on ESG factors when assessing investment options. Future investments made in the Corporation, or future partnerships or business relations made with the Corporation may depend on various ESG standards.

SUPPLY CHAIN DEPENDENCE AND DISRUPTION

The Corporation is dependent on third-party supplierss, and it expects to continue to rely on third parties to supply in the future. While the Corporation obtains raw material, parts and components from multiple sources whenever possible, some of the raw material, parts and components are purchased from a single source. The Corporation seeks to obtain its raw material, parts and components from multiple sources whenever possible, and to further mitigate supply chain risk the Corporation enters into long-term supply agreements with key manufacturers and suppliers where appropriate, While the Corporation believes that it may be able to establish alternate supply relationships and can obtain or potentially replacement components for some of its single source components, it may be unable to do so in the short-term or at all, or at prices, volumes or quality levels that are acceptable to it. The inability of any of the Corporation's suppliers to deliver necessary raw material parts and components, according to the Corporation's schedule and at prices, volumes or quality levels acceptable to the Corporation, the Corporation's inability to efficiently manage these parts and components, or the termination or interruption of any material supply arrangement could materially adversely affect the Corporation's business, results of operations or financial condition. Any disruption in the supply of raw material, parts and components, whether or not from a single source supplier, could temporarily disrupt manufacturing of the Corporation's products until an alternative supplier is able to supply the required material. Also, if any of the Corporation's suppliers become economically distressed or go bankrupt, the Corporation may be required to provide substantial financial support or take other measures to ensure supplies of components or materials, which could increase its costs, affect its liquidity or cause production disruptions, all of which could materially adversely affect the Corporation's business, results of operations or financial condition. Moreover, The Corporation's profitability is affected by significant fluctuations in the prices of the raw materials, parts and components it uses. The Corporation may not be able to pass along price increases in raw materials, parts or components to its clients. As a result, an increase in the cost of raw materials, parts and components used in the manufacturing of the Corporation's products could reduce its profitability and have a material adverse effect on its business, results of operations or financial condition.

OTHER RISK FACTORS

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

7. ACCOUNTING POLICIES

CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of consolidated financial statements requires management to make estimates and judgments about the future. Management periodically reviews 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 Corporation 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 Corporation'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 Corporation and its activities, please refer to the section "Significant management estimates and judgments in applying accounting policies" in the note 2 in the consolidated financial statements for the years ended June 30, 2023 and 2022.

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, 2023 and 2022 for the details of these standards and amendments.

8. CONTROLS AND PROCEDURES

In accordance with National Instrument 52-109 of the Canadian Securities Authorities, the Corporation has filed certificates signed by the Chief Executive Officer and the Chief Financial Officer that, among other things, attest to the design of the disclosure controls and procedures ("DC&P") and the design and effectiveness of internal controls over financial reporting.

An evaluation of the design and operating effectiveness of DC&P and ICFR was carried out under the supervision of the Chief Executive Officer and the Chief Financial Officer. This evaluation consisted of a review of documentation, audits and other procedures that management considered appropriate in the circumstances. Based on this evaluation and using the criteria set by the Committee of Sponsoring Organizations of the Treadway Commission on Internal Control – Integrated Framework (COSO-Framework 2013) and in connection with the preparation of its year-end financial statements, the two certifying officers concluded that the design of DC&P and ICFR were effective as at June 30, 2023.

No changes were made to the Corporation's internal controls over financial reporting during Q4-2023 that have materially affected, or are reasonably likely to materially affect, internal controls over financial reporting.

Limitation on Scope of Design

The scope of design of internal controls over financial reporting and DC&P excluded the controls, policies, and procedures of VoltaXplore, which was acquired on March 24, 2023. VoltaXplore's contributions to the Corporation's consolidated statements of loss and comprehensive loss for the year ended June 30, 2023 was 0% of total revenues. Additionally, as at June 30, 2023, VoltaXplore's assets and liabilities represented approximately 6% and 4%, respectively, of the Corporation's consolidated assets and liabilities. The amounts recognized for the net assets acquired as at the date of this acquisition are described in Note 4a of the consolidated financial statements for the years ended June 30, 2023 and 2022.