NextSource Materials Inc.

Management's Discussion and Analysis (MD&A)

For the three months ended September 30, 2023, and 2022

Expressed in US Dollars

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This MD&A contains "forward-looking information" within the meaning of applicable Canadian securities legislation and "forward-looking statements" within the meaning of applicable United States securities laws (collectively referred to herein as "**forward-looking information**"). Generally, forward-looking information can be identified by the use of forward-looking terminology such as "plans," "expects," or "does not expect," "is expected," "budget," "scheduled," "goal," "estimates," "forecasts," "intends," "anticipates," or "does not anticipate," or "believes" or variations of such words and phrases or statements that certain actions, events or results "may," "could," "would," "might," or "will be taken," "occur," or "be achieved".

Forward-looking information includes, but is not limited to, information and statements with respect to the intended use of proceeds of the Offering (as defined herein); certain expectations, development plans, and production estimates in respect of the Molo Graphite Mine; certain expectations, development plans, and estimates in respect of the Mauritius BAF (as defined herein) and additional BAFs (as defined herein) located in other key geographical locations, and strategies and project evaluation measures relating thereto; the Company's intention to enter into a new long-term industrial lease for the New Mauritius BAF Property (as defined herein); the potential completion of a New Mauritius BAF Technical Study (as defined herein); the potential impact of the Company's BAF Partnership (as defined herein); potential construction of an AG (as defined herein) production facility; a potential agreement with POSCO (as defined herein); supply, demand and pricing outlook in the graphite and EV (as defined herein) market; potential completion of a Feasibility Study (as defined herein); and the Company's business objectives and targeted milestones (and timing thereof).

Forward-looking information is subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of the Company to be materially different from those expressed or implied by such forward-looking information. Such factors relate to, among others, BAF technical studies, emerging markets; development, commissioning, and operation of the Molo Graphite Mine; development, commissioning, and operation of the BAFs; construction and start-up of new mines and industrial plants; geopolitical risk and conflict; additional financings; the Company's development and exploration projects are in the African country of Madagascar and are subject to country political and regulatory risks; the Company has a significant shareholder; economic dependence on the Molo Graphite Mine; permits and licenses are necessary to continue to operate the Molo Graphite Mine and export products from Madagascar; additional permits and licenses are necessary to complete development of Phase 2 of the Molo Graphite Mine; fluctuations in the market price of graphite and other metals may adversely affect the value of the Company's securities, revenue projections and the ability of the Company to develop Phase 2 of the Molo Graphite Mine; estimates of mineral resources may not be realized; the Company has a limited operating history and expects to incur operating losses for the foreseeable future; due to the speculative nature of mineral property exploration, there is substantial risk that the Company's mineral property assets will not achieve forecast production capacities or achieve commercial production; mining companies are increasingly required to consider and provide benefits to the communities and countries in which they operate, and are subject to extensive environmental, health and safety laws and regulations; because of the inherent dangers involved in mining operations and mineral exploration, there is a risk that the Company may incur liability or damages as the Company conducts business; should the Company lose the services of key executives, the Company's financial condition and proposed expansion may be negatively impacted; access to the Company's properties, mine operations, and export of product may be restricted by inclement weather or lack of proper infrastructure; climate change and related regulatory responses may impact the Company's business; compliance with changing regulation of corporate governance and public disclosure will result in additional expenses and pose challenges for management; tax risks; the Company may experience losses due to foreign exchange translations; the Company's business is subject to anti-corruption and anti-bribery laws, a breach or violation of which could lead to civil and criminal fines and penalties, loss of licenses or permits and reputational harm; the Company is exposed to general economic conditions, which could have a material adverse impact on its business, operating results and financial condition; the market price for the common shares of the Company (the "Common Shares") is particularly volatile given the Company's status as a company with a small public float, limited operating history and lack of profits which could lead to wide fluctuations in the market price for the Common Shares; the Company does not intend to pay dividends in the foreseeable future; and other risks involved in the mineral exploration and development industry and risks specific to the Company, including the risk factors identified elsewhere in the annual information form of the Company dated September 28, 2023 (the "AIF") and in this MD&A under "*Risk Factors*" and in other continuous disclosure documents of the Company filed under the Company's SEDAR+ profile at www.sedarplus.ca.

Forward-looking information is based on the reasonable assumptions, estimates, analysis and opinions of management and/or "qualified persons" (as such term is defined under National Instrument 43-101 – *Standards of Disclosure for Mineral Projects* ("NI 43-101")) made in light of their experience and their perception of trends, current conditions and expected developments, as well as other factors that management and/or qualified persons believe to be relevant and reasonable in the circumstances at the date that such statements are made, but which may prove to be incorrect. Although the Company believes that the assumptions and expectations reflected in such forward-looking information are reasonable, undue reliance should not be placed on forward-looking information because the Company can give no assurance that such expectations will prove to be correct. In addition to the assumptions discussed in this MD&A, the material assumptions upon which such forward-looking information is based include, among others, that: the Company will be successful in its financing activities, the demand for graphite will develop as anticipated; graphite prices will remain at or attain levels that would make the Molo Graphite Mine and BAFs economic; that any proposed operating and capital plans will not be disrupted by operational issues, title issues, loss of permits, environmental concerns, power supply, labour disturbances, financing requirements or adverse weather conditions; the Company will continue to have the ability to attract and retain skilled staff; and there are no material unanticipated variations in the cost of energy or supplies. Readers are cautioned that the foregoing list is not exhaustive of all factors and assumptions which may have been used. Although the Company has attempted to identify key factors that could cause actual results to differ materially from those contained in forward-looking information, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. Accordingly, readers should not place undue reliance on forward-looking information. The forward-looking information contained in this MD&A is presented for the purposes of assisting investors in understanding the Company's expected financial and operating performance and the Company's plans and objectives and may not be appropriate for other purposes.

In respect of any forward-looking information or statements relating to the Mauritius BAF or other BAFs, including but not limited to annual sales and operating cash flows, such figures, if any, have been included herein for the purposes of providing information on the project evaluation measures of the BAFs and should not be viewed as financial outlooks or guidance for the Company.

The Company does not undertake to update any forward-looking information, except in accordance with applicable securities laws.

This MD&A includes market, industry and economic data and projections obtained from various publicly available sources and other sources believed by the Company to be true. Although the Company believes these to be true, the Company has not independently verified the information from third party sources, or analyzed or verified the underlying reports relied upon or referred to by the third parties, or ascertained the underlying economic and other assumptions relied upon by the third parties. The Company believes that the market, industry and economic data and projections are accurate and that the estimates and assumptions are reasonable, but there can be no assurance as to their accuracy or completeness. The accuracy and completeness of the market, industry and economic data and projections in this MD&A are not guaranteed and the Company does not make any representation as to the accuracy or completeness of such information. For the avoidance of doubt, nothing stated in this paragraph operates to relieve the Company from liability for any misrepresentation contained in this MD&A under applicable Canadian securities laws.

The forward-looking information contained in this MD&A and documents incorporated by reference herein are expressly qualified by the foregoing cautionary statement.

INTRODUCTION

This Management's Discussion and Analysis ("MD&A") dated November 13, 2023 of NextSource Materials Inc. ("NextSource", "we", "our" or "the Company") should be read in conjunction with the Company's Condensed Interim Consolidated Financial Statements for the three months ended September 30, 2023 and 2022 (the "Financial Statements") that were prepared in accordance with International Financial Reporting Standards ("IFRS") International Accounting Standard 34 Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB") (the "Financial Statements") that were filed on the Canadian Securities Administrators' SEDAR+ website at www.sedarplus.ca. This MD&A should also be read in conjunction with the Company's Management's Discussion and Analysis and Audited Consolidated Financial Statements for the years ended June 30, 2023, and 2022 and the AIF that were filed on the Canadian Securities Administrators' SEDAR+ website at www.sedarplus.ca.

The Financial Statements and this MD&A are presented United States dollars ("USD" or "$") and all units of measurement are expressed using the metric system, unless otherwise specified. Certain information in this MD&A is presented in Canadian dollars ("CAD$").

Additional information relating to the Company is available on the Canadian Securities Administrators' (the "CSA") SEDAR+ website at www.sedarplus.ca.

EXECUTIVE SUMMARY

NextSource Materials Inc. was continued under the *Canada Business Corporations Act* from the State of Minnesota to Canada on December 27, 2017. The Company's head and registered office is located at 130 King Street West, Exchange Tower, Suite 1940, Toronto, Ontario M5X 2A2. The Company's website is www.nextsourcematerials.com.

The outstanding Common Shares are listed and posted for trading on the Toronto Stock Exchange (the "**TSX**") under the symbol "NEXT" and on the OTCQB under the symbol "NSRCF". The Company is a reporting issuer in each of the provinces of Canada, except Quebec.

Business Strategy

The Company is intent on becoming a vertically integrated global supplier of battery materials through the mining and value-added processing of graphite and other minerals. The Company's principal business is the development of the Molo Graphite Mine in Madagascar and has announced plans to build the first of several battery anode facilities ("BAFs") in Mauritius.

Mineral Properties

The Company is developing the Molo Graphite Mine located near the town of Fotadrevo in the Province of Toliara, Madagascar, which is the Company's sole material mineral property.

Phase 1 of the Molo Graphite Mine was designed with a nameplate production capacity of 17,000 tpa of SuperFlake® graphite concentrate. On March 23, 2023, the Company announced the initiation of commissioning. On June 22, 2023, the Company announced production of the first tonne of SuperFlake® graphite concentrate as part of the commissioning and optimization of the processing plant. The operations team is focused on ramping up the plant over the next few months to the nameplate production capacity of 17,000 tpa of flake graphite concentrate.

The Company is progressing with the Feasibility Study for a proposed Phase 2 Expansion of the Molo Graphite Mine, which is nearing completion. Prior to making a Phase 2 construction decision, the Company will consider the Feasibility Study results as well as Phase 1 operational results. Construction of the Phase 2 expansion is subject to the Feasibility Study confirming positive project economics, a decision on whether to proceed with the expansion, a decision on the capacity of the expansion, and subsequently obtaining sufficient funding for construction costs and working capital.

The Company also owns the Green Giant Vanadium Project, located in Madagascar, and the Sagar Project, located in Quebec, both of which are at the exploration and evaluation stage. Although these projects are of interest to the Company, there are no current development plans and therefore are not considered material to the Company.

For additional information with respect to the Molo Graphite Mine, readers are referred to the AIF, and in particular Schedule "A" thereto, which is the summary section from the PEA reproduced in its entirety (except in respect of the previously delineated mineral reserve estimates, which have been retracted by the Company), and the "*Risk Factors"* section of the AIF.

Battery Anode Facilities

The Company announced on February 28, 2023, its strategy for the staged buildout of BAFs in key jurisdictions starting with Mauritius. The BAFs are value-added processing facilities that are capable of converting flake graphite into SPG and CSPG, which forms the anode material that is assembled along with cathode material into lithium-ion batteries used in electric vehicle ("**EV**") applications. The BAFs are not considered "mineral projects" as defined in NI 43-101, and the Mauritius BAF Technical Study and any similar studies to be completed by the Company are not and will not be "technical reports" for the purposes of NI 43-101 but rather are preliminary economic and technical studies relating to the design, construction and operation of the Mauritius BAF and potential other BAFs. See "*Cautionary Statement Regarding Forward-Looking Information*" and *"Risk Factors*" in the AIF. In respect of any forward-looking information or statements relating to the Mauritius BAF or other BAFs, including but not limited to annual sales and operating cash flows, such figures have been included herein for the purposes of providing information on the project evaluation measures of the BAFs and should not be viewed as financial outlooks or guidance for the Company.

The highlights of the BAF strategy are as follows:

- Plans to construct multiple BAFs in key jurisdictions capable of producing CSPG.

- The BAFs will leverage the Company's exclusive partnership outside of the People's Republic of China with a leading value-added graphite processor and a CSPG sales and marketing company (the "**Partnership**") for use of proprietary and well-established flake graphite processing technology and international CSPG sales and marketing relationships.

- The first BAF is planned to be constructed in Mauritius (the "**Mauritius BAF**"), which was selected due to its proximity to the Molo Graphite Mine in Madagascar and its strategic position along shipping routes from Europe to Asia:

  - The Company terminated a previously announced lease agreement on September 28, 2023 and intends to sign a new long-term lease to build the Mauritius BAF in the vicinity of the international freeport of Port Louis, Mauritius (the "**New Mauritius BAF Property**"). The New Mauritius BAF Property has the capacity to house an initial production line with a production capacity of 3,600 tpa of CSPG with space to expand capacity with the construction of additional production lines. The Company expects the new location will reduce ground shipping costs, address stakeholder feedback, and improve the project's social and environmental standards.

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  - An initial technical study for the Mauritius BAF (based on the previously announced site) presented certain economic results and project evaluation measures for the Mauritius BAF, as more particularly disclosed in the short form prospectus dated July 27, 2023, and filed by the Company in connection with the Offering (the "**Initial Mauritius BAF Technical Study"**). While the Initial Mauritius BAF Technical Study continues to be valuable in completing the contemplated New Mauritius BAF Technical Study (as defined herein), the previously announced results of the Initial Mauritius BAF Technical Study relating to project evaluation measures, including the construction costs, timing of construction, sales potential, operating cash flows, NPV, IRR and other metrics relating the Mauritius BAF may not be achieved and should not be relied upon. The Company will provide an update in respect of project evaluation measures once a New Mauritius BAF Technical Study has been completed.

  - Construction of the Mauritius BAF is subject to completion of the front-end engineering and design ("**FEED**") study and environmental and impact assessment ("**EIA**") process, obtaining all necessary permits, and sufficient funding for construction costs and working capital.

  - Construction process is expected to take approximately twelve (12) months. Long-lead items were ordered in October 2023 and process equipment is expected to be ordered in November 2023.

- Evaluation of the potential construction of a BAF in North America (a "**North America BAF**") and initiation of the application process to access various financial loans and grants offered under Canadian federal and provincial programs and under the U.S. Inflation Reduction Act (the "**IRA**").

- Evaluation of the potential construction of a BAF in the United Kingdom (a "**UK BAF**") and initiation of the application process to access various financial loans and grants offered under the UK Government Automotive Transformation Fund.

- Evaluation of the potential construction of a BAF in the European Union (a "**European BAF**").

- Evaluation and potential construction of an artificial graphite ("**AG**") production facility, which would enable the Company to supply AG anode material.

- Evaluation of potential agreement with South Korea's POSCO International ("POSCO") for a strategic collaboration that could involve an investment into the Company as well as a long-term offtake agreement for spheronized and purified graphite ("SPG") and the Company's other graphite products.

For additional information with respect to the BAFs, readers are referred to the AIF and in particular under the heading *"Description of the Business – Battery Anode Facilities"*, which includes disclosures related to the Mauritius BAF Technical Study and other BAF-related items, and the "*Risk Factors"* section of the AIF.

OUTLOOK AND MILESTONES

General

On August 1, 2023, the Company completed a prospectus equity funding of $37,750,585 (CAD$50,000,775) through the issuance of 30,303,500 common shares at a price of CAD$1.65 per share resulting in net proceeds of $36,266,783.

On September 5, 2023, the Company announced the signing of a non-binding memorandum of understanding (the "MoU") with South Korea's POSCO for strategic collaboration that could involve an equity investment into the Company as well as a long-term offtake agreement for SPG and the Company's other graphite products. The MoU envisages the potential for a definitive offtake agreement for 30,000 tpa of SuperFlake® graphite concentrate and 10,000 to 15,000 tpa of SPG over a ten-year period, to be supplied to POSCO Future M, a POSCO Group subsidiary that is responsible for EV battery businesses and supplies all of South Korea's major battery cell manufacturers with finished cathode and anode materials. Prior to executing a definitive agreement, certain customary technical and economic studies will need to be completed.

Molo Mine

The Company is not providing any forward guidance on production volumes, revenues, or operating costs for Phase 1 of the Molo Graphite Mine. Although the mine is producing flake graphite concentrate, the optimization phase of the processing plant commissioning process is still in progress. Plant commissioning has progressed from running and testing processes using run-of-mine material, through identifying and rectifying design issues, alleviating bottlenecks and addressing underperforming equipment that are preventing a ramp-up to nameplate production capacity. A complete third-party assessment of the plant was completed in October by mechanical engineering and operations specialists, and by metallurgical and process design engineers. This assessment identified several bottlenecks and underperforming equipment, which are expected to be resolved progressively throughout November and December. As a result, the Company will continue to capitalize mine development costs until the declaration of commercial production, which will occur when the production capacity approaches nameplate production capacity.

Notwithstanding a slower than expected ramp-up of the Molo Mine, flake graphite concentrate is being placed in stockpiles at the mine and at a third-party warehouse facility at the Port of Tulear for shipment as qualifying material for prospective customers. During October, the Company completed the shipment of 20 tonnes of qualifying material to our BAF Technology Partner for testing and conversion into coated, spheronized, purified graphite ("CSPG").

No commercial sales have been completed to-date. Based on the revised commissioning schedule, the first commercial shipment and sale of flake graphite concentrate under existing offtake agreements is expected to occur by early 2024. Commercial shipments are dependent on accumulating sufficient shipping volumes at the port and aligning with international shipping schedules.

The Feasibility study for a potential Phase 2 expansion is nearing completion, and the highlights are expected to be released in November 2023.

Mauritius BAF

Although the Company was progressing with the EIA for the Mauritius BAF and the technical evaluation of effluent treatment and recycling of spent acids, the lessor did not deliver the premises free from any occupant(s) or occupation pursuant to the terms of the long-term lease agreement (the **"Agreement"**). Accordingly, on September 28, 2023, the Company terminated the Agreement for this location in accordance with the terms thereof.

The Company remains committed to building its first BAF plant in Mauritius and is in advanced negotiations in connection with an alternative location for the Mauritius BAF in the vicinity of the international freeport of Port Louis. The Company has completed preliminary due diligence in relation to the New Mauritius BAF Property and expects it will reduce ground shipping costs, address stakeholder feedback, and improve the project's social and environmental standards. Like the original location, the New Mauritius BAF Property has the capacity to house a production line of 3,600 tpa with sufficient space to expand capacity with the construction of additional production lines. The Company expects the new lease terms to be similar to those of the previous lease. The Company will provide an update upon execution of a lease.

Milestones

The Company is working to achieve the following milestones over the next twelve months:

- Securing a lease for the New Mauritius BAF Property within the vicinity of the international freeport of Port Louis, Mauritius
- Ordering of the process equipment for the Mauritius BAF
- Completion of Molo mine commissioning optimization activities
- Ramp-up of Molo mine production capacity and declaration of commercial production
- First commercial shipment of flake graphite
- Completion of a Feasibility Study for a Molo Mine Phase 2 expansion

- Construction decision and determination of the final production capacity of a Molo Mine Phase 2 expansion
- Securing a North American automotive industry relationship and initiating an economic study of a BAF facility in North America
- Securing a European Union automotive industry relationship and initiating an economic study of a BAF facility in the EU

RESULTS OF OPERATIONS

The Company has two operating segments, consisting of mine development and BAF development. No commercial revenues have been generated by the Company. The Company's President and Chief Executive Officer and Chief Financial Officer are the operating decision-makers and direct the allocation of resources to its segments.

Financial Results for the three months ended September 30, 2023, and 2022

	Three months ended September 30, 2023			Three months ended September 30, 2022		
	Mine	**BAF**	**Total**	**Mine**	**BAF**	**Total**
Revenues	$ -	$ -	$ -	$ -	$ -	$ -
Expenses						
Operating expenses	-	-	-	224,376	-	224,376
Exploration and evaluation expenses	9,960	-	9,960	-	-	-
Depreciation	198,646	122,154	320,800	14,359	-	14,359
Impairment of VAT receivable	477,333	-	477,333	2,580,301	-	2,580,301
Segment gross profit	(685,939)	(122,154)	(808,093)	(2,819,036)	-	(2,819,036)
Other Operating Expenses						
General and administrative expenses			1,278,982			652,390
Share-based compensation			-			179,743
Depreciation			7,260			2,516
Lease finance costs			318,778			11,374
Foreign currency translation loss			786,029			224,504
Interest income			(338,515)			(43)
Loss before other items			(2,860,627)			(3,889,520)
Change in value of lease liability			(294,074)			-
Change in value of royalty obligation			-			5,496
Change in fair value of warrant derivative financial liability			-			2,048,042
Change in value of commercial production obligation			(46,362)			(24,628)
Net (loss) income			(2,520,191)			(5,918,430)
Other comprehensive income						
Items that will be reclassified subsequently to net income (loss)						
Translation adjustment for foreign operations			(26,238)			105,330
Net (loss) income and comprehensive (loss) income			$ (2,546,429)			$ (5,813,100)

Discussion of the three months ended September 30, 2023, and 2022

Revenues were $nil (2022: $nil) since no product was sold during the reporting period.

Net loss and comprehensive loss decreased to $2,546,429 (2022: net loss and comprehensive loss of $5,813,100) due to the following factors:

- Mine expenditures decreased to $808,093 (2022: $2,819,036) due to:
  - Operating expenses of $nil (2022: $224,376) due to the capitalization of $1,711,997 commissioning costs (2022: capitalization of $nil).
  - Exploration and evaluation expenditures increased to $9,960 (2022: $nil) due to mineral claim renewal costs.
  - Depreciation increased to $198,646 (2022: $14,359) due to completion of the mining camp, buildings and civil works, and acquisition of mining vehicles during the prior fiscal year.
  - VAT receivables impairment of $477,333 (2022: $2,580,301) due to considerable uncertainty as to the timing and recoverability of refundable Madagascar value added taxes on operating expenditures and imported goods and equipment.

- BAF expenditures increased to $122,154 (2022: $nil) due to depreciation of the Mauritius BAF lease right of use asset until termination of the lease agreement.

- General and administrative expenses increased to $1,278,982 (2022: $652,390) due to:
  - Payroll and benefits increased to $457,229 (2022: $210,227) due to an expansion of management and administrative employees.
  - Consulting fees increased to $156,757 (2022: $108,507).
  - Professional fees increased to $206,764 (2022: $49,714) due to increased legal and audit fees.
  - Public company expenses increased to $130,752 (2022: $72,044) due to increased media communications.
  - Corporate travel expenses increased to $77,117 (2022: $44,345) due to increased international travel.
  - Insurance expenses decreased to $27,511 (2022: $101,965).
  - Sales and marketing expenses increased to $33,533 (2022: $nil) due to automotive industry marketing.
  - Office and administration expenses increased to $189,318 (2022: $65,588) due to increased IS/IT and office administration expenditures in Canada, Mauritius, and Madagascar.

- Share-based compensation was $nil (2022: $179,743) due to the vesting of RSUs over their expected vesting periods.

- Amortization of corporate assets increased to $7,260 (2022: $2,516).

- Lease finance costs increased to $318,718 (2022: $11,374) due to the accretion of right of use lease liabilities related to the mining property and the Mauritius BAF lease.

- Foreign currency translation loss was $786,029 (2022: $224,504) due to a decrease in value of the CAD against the USD.

- Interest income increased to $338,515 (2022: $43) from interest earned on bank deposits.

- Lease liabilities were remeasured resulting in a gain of $294,074 (2022: $nil) due to termination of the Mauritius BAF lease.

- Commercial production obligation was remeasured resulting in a gain of $46,362 (2022: gain of $24,628).

STATEMENT OF FINANCIAL POSITION

Cash and Cash Equivalents

The Company's cash balances are deposited with major financial institutions in Canada and with reputable financial institutions in Madagascar and Mauritius. Limited amounts of cash are held in Madagascar and Mauritius.

Cash and cash equivalents	**Canada**	**Mauritius**	**Madagascar**	**Total**
	$	$	$	$
As at September 30, 2023	36,624,693	127,772	231,183	36,983,648
As at June 30, 2023	6,309,738	139,408	436,312	6,885,458

Amounts Receivable

Amounts receivables increased to $1,741,646 (June 30, 2023: $494,250) due to the reclassification of a security deposit from long-term prepayments and deposits and recognition of refundable prepaid lease payments upon termination of the Mauritius BAF lease.

During the three months ended September 30, 2023, due to considerable uncertainty as to the timing and recoverability of refundable Madagascar value added tax (VAT) recognized as amounts receivable denominated in local currency, the Company recognized an impairment of VAT receivable of $477,333 (2023: $2,580,301). As of September 30, 2023, amounts receivable are presented net of an impairment of VAT receivable of $4,426,485 (June 30, 2023, $3,953,376).

Inventories

Inventories increased to $520,742 (June 30, 2023: $470,336) due to increases in raw material stocks, which will be consumed through mine operations. As at September 30, 2023, there were no finished goods recognized within inventory (June 30, 2023: $nil) since stockpiles at the mine and port are expected to be used as qualifying material.

Prepaid Expenses

Prepaid expenses increased to $642,150 (June 30, 2023: $172,384) due to increased prepaid insurance, goods and services.

Long-Term Prepayments and Deposits

Deposits for long-term assets decreased to $303,886 (June 30, 2023: $717,403) due to the reclassification of a security deposit to short-term prepaid expense upon termination of the Mauritius BAF lease.

Property, Plant, Equipment, and Development

As of September 30, 2023, the carrying value of property, plant, equipment, and development was $34,637,655 (June 30, 2023: $44,236,829). The property, plant, equipment and right of use assets relate to the Molo Mine in Madagascar. The assets under construction consist of $17,432,712 (June 30, 2023: $15,181,485) for the Molo Mine, $2,666,570 (June 30, 2023: $2,612,845) for the Molo Mine Phase 2 development costs, $1,095,474 (June 30, 2023: $909,647) for Mauritius BAF development costs, and $329,018 (June 30, 2023: $295,083) for North American BAF development costs.

During the three months ended September 30, 2023, the Company capitalized additions of $873,243 (year ended June 30, 2023: $25,518,369), capitalized mine development costs of $1,711,997 (year ended June 30, 2023: $2,077,755), transferred $nil from assets under construction into property, plant and equipment (year ended June 30, 2023: $7,987,025), recorded depreciation of $328,060 (year ended June 30, 2023: $380,286), and recognized an impact of foreign exchange of $15,360 (year ended June 30, 2023: $1,631,403). Disposals consisted of $11,840,994 upon termination and derecognition of the BAF lease right of use asset on September 28, 2023. Non-cash additions consisted of $363,544 for accretion of the royalty obligation.

	Property	Plant	Equipment	Right of Use Assets	Assets Under Construction	Total
	$	$	$	$	$	$
As at June 30, 2022	1,107,350	-	215,172	536,649	16,793,223	18,652,394
Additions	632,524	1,603,458	2,031,526	12,125,135	9,125,726	25,518,369
Development costs	30,122	-	-	-	2,047,633	2,077,755
Transfers	361,852	7,008,136	617,037	-	(7,987,025)	-
Depreciation	-	(45,400)	(155,133)	(179,753)	-	(380,286)
Impact of foreign exchange	(35,089)	(404,201)	(148,795)	(62,822)	(980,496)	(1,631,403)
As at June 30, 2023	2,096,759	8,161,993	2,559,807	12,419,209	18,999,061	44,236,829
Additions	25,493	(27,472)	52,452	-	822,770	873,243
Development costs	-	-	-	-	1,711,997	1,711,997
Depreciation	-	(103,625)	(99,926)	(124,509)	-	(328,060)
Disposals	-	-	-	(11,840,994)	-	(11,840,994)
Impact of foreign exchange	3,729	(6,146)	(2,431)	(459)	(10,053)	(15,360)
As at September 30, 2023	2,125,981	8,024,750	2,509,902	453,247	21,523,775	34,637,655
Cost	2,096,759	8,207,393	2,744,548	12,617,040	18,999,061	44,664,801
Accumulated depreciation	-	(45,400)	(184,741)	(197,831)	-	(427,972)
As at June 30, 2023	2,096,759	8,161,993	2,559,807	12,419,209	18,999,061	44,236,829
Cost	2,125,981	8,173,706	2,794,350	467,268	21,523,775	35,085,080
Accumulated depreciation	-	(148,956)	(284,448)	(14,021)	-	(447,425)
As at September 30, 2023	2,125,981	8,024,750	2,509,902	453,247	21,523,775	34,637,655

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities decreased to $2,964,319 (June 30, 2023: $3,014,594).

Right-of-Use Lease Obligations

The Company has recognized the following Right-of-Use ("ROU") assets and long-term lease obligations:

- On July 1, 2019, the Company recognized a ROU asset and lease obligation of $24,164 using an incremental borrowing rate of 10.43% for the exploration camp located in Fotadrevo, Madagascar. The exploration camp lease was terminated on June 30, 2023, and was derecognized.

- On March 31, 2022, the Company recognized a ROU asset and lease obligation of $389,049 using an incremental borrowing rate of 13.8% for the emphyteutic property lease of the Molo mine, which has an initial term of 50 years. The lease is payable annually in Ariary to the Government of Madagascar and as of September 30, 2023, the lease had a remaining term of 48.5 years.

- On February 28, 2023, the Company recognized a ROU asset and lease obligation of $12,125,134 using an incremental borrowing rate of 11.5% for the Mauritius BAF industrial lease, which has an initial term of 20 years plus a renewal of 5 years. The lease was payable annually and was terminated on September 28, 2023, in accordance with provisions in the lease agreement. The lease obligation was remeasured resulting in a gain of $294,074 and was derecognized.

The following table sets out the carrying amounts of lease obligations for ROU assets included in the consolidated statements of financial position and the movements between the reporting periods:

	Exploration Camp $	BAF Property $	Molo Property $	Total Obligations $
As at June 30, 2022	5,654	-	344,164	349,818
Additions	-	12,125,135	-	12,125,135
Finance costs	289	398,574	43,642	442,505
Lease payments	(5,685)	(1,338,637)	(43,308)	(1,387,630)
Foreign exchange adjustments	(258)	-	(33,639)	(33,897)
As at June 30, 2023	-	11,185,072	310,859	11,495,931
Finance costs	-	308,566	10,212	318,778
Remeasurement of lease liability		(294,074)		(294,074)
Disposals	-	(11,199,564)	-	(11,199,564)
Foreign exchange adjustments	-	-	(318)	(318)
As at September 30, 2023	-	-	320,753	320,753

The following table sets out the lease obligations included in the consolidated statements of financial position:

	Exploration Camp $	BAF Property $	Molo Property $	Total Obligations $
Current portion of lease obligations	-	-	41,576	41,576
Long-term lease obligations	-	-	279,177	279,177
As at September 30, 2023	-	-	320,753	320,753

Future minimum lease payments required to meet obligations that have initial or remaining non-cancellable lease terms are set out in the following table:

	Exploration Camp $	BAF Property $	Molo Property $	Total Obligations $
Within 12 months	-	-	41,576	41,576
Between 13 and 24 months	-	-	41,576	41,576
Between 25 and 36 months	-	-	41,576	41,576
Between 37 and 48 months	-	-	41,576	41,576
Between 49 and 60 months	-	-	41,576	41,576
Over 60 months	-	-	1,787,784	1,787,784
Total undiscounted lease obligations	-	-	1,995,664	1,995,664

Low value leases, short term leases of less than 12 months, and leases with variable payments proportional to the rate of use of the underlying assets do not give rise to lease obligations. During the three months ended September 30, 2023, the Company recognized short-term rent expenses of $9,196 (2022: $nil) in the consolidated statements of operations and comprehensive (loss) income.

Royalty obligation

On February 8, 2021, the Company announced a financing agreement with Vision Blue for gross proceeds of $29.5 million consisting of private placements and a royalty financing agreement. As part of the royalty financing agreement:

(a) The Company received the initial royalty funding of $8.0 million (less a $1.5 million royalty financing fee) on June 28, 2021, and received the remaining $3.0 million on August 17, 2022.

(b) Beginning on the biannual period ending June 30, 2022, the Company must pay the greater of: (i) $825,000 (the "Minimum Repayment") or (ii) 3% of the gross sales revenues from graphite concentrate sales (the "GSR"). Once Vision Blue has received cumulative royalty payments of $16.5 million, the Minimum Repayment will cease, and the royalty will only be based on the GSR. NextSource has the option at any time to reduce the GSR to 2.25% by paying $20 million to Vision Blue. Each of the biannual Minimum Repayments can be deferred by 12 months, subject to accrued interest of 15% per annum.

(c) Vision Blue received a royalty of 1.0% of the gross revenues from sales of vanadium pentoxide ("V2O5") from the Green Giant Vanadium Project for a period of 15 years following commencement of production of V2O5.

On June 30, 2021, the Company recognized a royalty obligation at the fair value of $6.5 million, which was equal to the present value using an effective discount rate of 13.8% of (1) the deferred $3.0 million royalty funding, (2) the minimum royalty payments, (3) the accrued interest on the deferral of minimum royalty payments, and (4) the perpetual 3% GSR for the remaining 30-year life of mine for Phase 1. The discount rate was determined at recognition by calculating the internal rate of return (IRR) of the expected cash flows. Upon recognition, a total of $169,279 of capitalized legal fees was netted against the obligation resulting in an initial carrying value of $6,330,721. The carrying value of the royalty obligation will be remeasured at each reporting period based on the revised expected future cash flows using the original discount rate under the amortized cost method.

On September 30, 2023, the obligation was remeasured at $11,431,675 (June 30, 2023: $12,016,881). During the three months ended September 30, 2023, the obligation increased due accretion of $363,544 (2022: $253,939) and remeasurement gain of $nil (2022: gain of $87,390) recognized through the consolidated statements of operations and comprehensive (loss) income.

	Total
	$
As at June 30, 2022	7,731,196
Accretion of royalty obligation	1,373,075
Royalty proceeds	3,000,000
Royalty minimum repayments	-
Remeasurement of royalty obligation	(87,390)
As at June 30, 2023	12,016,881
Accretion of royalty obligation	363,544
Royalty minimum repayments	(948,750)
Remeasurement of royalty obligation	-
As at September 30, 2023	11,431,675

	Total
	$
Current portion of royalty obligation	1,897,500
Long-term royalty obligation	9,534,175
As at September 30, 2023	11,431,675

Future undiscounted minimum royalty payments including accrued interest on deferrals are set out in the following table:

	Total
	$
Within 12 months	1,897,500
Between 13 and 24 months	1,897,500
Between 25 and 36 months	1,897,500
Between 37 and 48 months	1,897,500
Between 49 and 60 months	1,897,500
Over 60 months	8,538,750
Total undiscounted lease obligations	18,026,250

Commercial production provision

On April 16, 2014, the Company signed a Sale and Purchase Agreement and a Mineral Rights Agreement (together "the Agreements") with Capricorn Metals (formerly Malagasy Minerals) to acquire the remaining 25% interest in the Molo Graphite Property. Pursuant to the Agreements, a further cash payment of CAD$1,000,000 is due within 30 days of the commencement of commercial production (the "Commercial Production Fee"). On June 30, 2021, the Company recognized a provision of $708,514 using a 13.8% discount rate based on an initial expectation of settlement on or around June 30, 2022. The provision was recorded at amortized cost and capitalized as property under property, plant, equipment, and development. The obligation expected to be settled upon the declaration of commercial production of Phase 1 of the Molo Graphite Mine.

During the three months ended September 30, 2023, the obligation increased through accretion of $nil (2022: $24,628). On September 30, 2023, the obligation was remeasured at $694,338 (June 30, 2023: $754,973) resulting in remeasurement gain of $46,362 and a foreign exchange gain of $14,273 that were recognized through the consolidated statements of operations and comprehensive (loss) income.

Asset retirement obligations

The Company has recognized provisions for asset retirement obligations at its Molo Graphite Mine property. Although the ultimate amounts of the future site reclamation provisions are uncertain, the provision of these obligations is based on information currently available, including closure plans and applicable regulations. The amount and timing of closure plans will vary depending on several factors including changes in the mining plan. Significant closure activities will include demolition of facilities, land rehabilitation, water treatment, monitoring, and other costs.

As of September 30, 2023, the undiscounted estimated cash flows required to settle the Company's estimated future closure and decommissioning costs was estimated at $1,404,798 (June 30, 2023: $1,404,798). The obligation is expected to be settled at the end of the 30-year life of mine in 2053. The estimated future cash flows were converted into local currency and inflated using an expected inflation rate of 8.15%. The provision for closure and decommissioning costs was then calculated using a discount rate of 12%.

As of September 30, 2023, the present value of future cash flows required to settle the Company's closure and decommissioning costs was estimated at $496,353 (June 30, 2023: $492,346).

Commitments

The Company has contractual commitments under an energy services agreement ("ESA") with CrossBoundary Energy Madagascar ("CBE") for the hybrid solar thermal power plant owned and operated by CBE that is supplying electricity to the Molo Graphite Mine. The ESA has a term of 20 years ending in 2043 and requires the Company to purchase a minimum energy output of 11,200,000 KWh per annum at a tariff of $0.0837 per KWh equivalent to $937,440 per annum.

CASH FLOWS FROM OPERATING, INVESTING, AND FINANCING ACTIVITIES

The following are the Company's cash flows from operating, investing and financing activities for the three months ended September 30, 2023, and 2022:

	Three months ended September 30, 2023	Three months ended September 30, 2022
Operating activities		
Net (loss) income	$ (2,520,191)	$ (5,918,430)
Add (deduct) items not affecting cash:		
Depreciation of property, plant, equipment, and development	328,060	16,875
Lease finance costs	318,778	
Change in value of lease obligations	(294,392)	2,451
Change in value of royalty obligations	-	5,496
Change in fair value of warrant derivative financial liability	-	2,048,042
Change in value of provision	(46,362)	(24,628)
Share-based compensation expense	-	179,743
	(2,214,107)	(3,690,451)
Change in non-cash working capital balances:		
Increase in amounts receivable, prepaids and inventories	(456,820)	312,104
Increase in accounts payable and accrued liabilities	(50,275)	(856,619)
Decrease in provisions	(14,273)	(49,375)
Net cash used in operating activities	(2,735,475)	(4,284,341)
Investing activities		
Increase in prepayments and deposits	(255,801)	(437,090)
Additions to property, plant, equipment, and development	(2,202,329)	(3,607,555)
Net cash used in investing activities	(2,458,130)	(4,044,645)
Financing activities		
Proceeds from issuance of common shares	37,750,585	-
Common shares issuance costs	(1,483,802)	-

Lease obligation principal payments	-	(976)
Repayment of royalty financing	(948,750)	-
Proceeds from royalty financing	-	3,000,000
Net cash provided by financing activities	35,318,033	2,999,024
Effect of exchange rate changes on cash and cash equivalents	(26,238)	105,330
Net increase (decrease) in cash and cash equivalents	30,098,190	(5,224,632)
Cash and cash equivalents, beginning of period	6,885,458	9,793,253
Cash and cash equivalents, end of period	$ 36,983,648	$ 4,568,621

Net cash used in operating activities decreased to $2,735,475 (2022: $4,284,341) due to increased general and administrative expenses and decreased impairment of sales tax receivable.

Net cash used in investing activities was $2,458,130 (2022: $4,044,645) due to the capitalization of mine commissioning costs and acquisition of equipment.

Net cash provided by financing activities increased to $35,318,033 (2022: $2,999,024) due to proceeds from the prospectus offering financing.

OUTSTANDING SECURITIES

The Company's common shares trade on the Toronto Stock Exchange (the "TSX") under the symbol "NEXT" and the OTCQB under the symbol "NSRCF". The Company's common shares have no par value, and the authorized share capital is composed of an unlimited number of common shares.

As of the date of this MD&A, September 30, 2023, and June 30, 2023, the Company had the following outstanding securities:

	As at November 13, 2023	**As at September 30, 2023**	**As at June 30, 2023**
Common shares issued and outstanding	155,574,507	155,574,507	125,271,007
Stock options	1,710,000	1,710,000	1,710,000
Restricted share units (RSUs)	160,000	160,000	160,000
Fully diluted common shares	157,444,507	157,444,507	127,141,007

Common Shares

As of September 30, 2023, the Company had 155,574,507 common shares issued and outstanding (June 30, 2023: 125,271,007). The Company's common shares have no par value, and the authorized share capital is composed of an unlimited number of common shares.

The following changes occurred during the three months ended September 30, 2023:

(a) On August 1, 2023, the Company completed a prospectus equity funding of $37,750,585 (CAD$50,000,775) through the issuance of 30,303,500 common shares at a price of CAD$1.65 per share resulting in net proceeds of $36,266,783.

Stock Options

As of September 30, 2023, the Company had 1,710,000 stock options outstanding (June 30, 2023: 1,710,000) with a weighted average expiration of 0.5 years (June 30, 2023: 0.75) exercisable into 1,710,000 common shares (June 30, 2023: 1,710,000) at a weighted average exercise price of CAD$2.70 (June 30, 2023: CAD$2.70). All outstanding stock options vested on their respective grant dates.

Grant Date	**Expiration Date**	**Exercise Price**	**As at June 30, 2023**	**Awarded**	**Cancelled**	**Exercised**	**As at September 30, 2023**
March 26, 2019	March 26, 2024	CAD $1.00	580,000	-	-	-	580,000
March 19, 2021	March 19, 2024	CAD $3.60	1,100,000	-	-	-	1,100,000
May 11, 2022	May 11, 2025	CAD $2.50	30,000	-	-	-	30,000
Totals			1,710,000	-	-	-	1,710,000

There were no changes during the three months ended September 30, 2023.

Restricted Share Units (RSUs)

As of September 30, 2023, the Company had 160,000 RSUs outstanding (June 30, 2023: 160,000) that subject to satisfying their respective vesting conditions entitle the holders to receive 160,000 common shares (June 30, 2023: 160,000) for no additional consideration. The RSUs have a weighted average time until vesting of nil years (June 30, 2023: nil) and weighted average time until expiration of 0.75 years (June 30, 2023: 1.00).

Grant Date	Vesting Measurement Date	Expiration Date	As at June 30, 2023	Awarded	Settled in Cash	Settled in Shares	As at September 30, 2023
Vested RSUs							
July 28, 2022	June 30, 2023	June 30, 2024	160,000	-	-	-	160,000
Totals			160,000	-	-	-	160,000

There were no changes during the three months ended September 30, 2023.

RELATED PARTY TRANSACTIONS

Parties are related if one party has the direct or indirect ability to control or exercise considerable influence over the other party in making operating and financial decisions. Parties are also related if they are subject to common control or common considerable influence. Related parties include the Company subsidiaries and key management. Key management consists of the Board of Directors, Chief Executive Officer, Chief Financial Officer, and Senior Vice Presidents, Related parties also includes companies controlled by key management. Related party transactions occur when there is a transfer of economic resources or financial obligations between related parties. Related party transactions in the normal course of business that have commercial substance are initially measured at fair value. Balances and transactions between the Company and its wholly owned subsidiaries have been eliminated and are not disclosed in this note.

The following key management *related party transactions* occurred during the following reporting periods:

Related party transactions contained within	Three months ended September 30, 2023	Three months ended September 30, 2022
Payroll and benefits	$ 389,048	$ 149,587
Management consulting fees	90,836	92,639
Professional fees	3,350	5,194
Share-based compensation	-	179,743
Total	$ 483,235	$ 427,163

Payroll and benefits are for management compensation for Craig Scherba (CEO), Brent Nykoliation (SVP), Danniel Stokes (VP), and Markus Reichardt (VP), and for remuneration of Directors for Brett Whalen (Director), Chris Kruba (Director), Ian Pearce (Director) and Sir Mick Davis (Chair of the Board). Consulting fees are for management compensation for companies controlled by Marc Johnson (CFO) and Robin Borley (COO). Professional fees are for accounting services performed by a company controlled by Marc Johnson (CFO). Share-based compensation is for the vesting of stock options and RSUs expenditures.

The following key management *related party balances* existed at the end of the following reporting periods:

Related party transactions contained within	As at September 30, 2023	As at June 30, 2023
Amounts receivable	$ 31,971	$ 185,478
Accounts payable and accrued liabilities	$ 91,291	$ 63,750

Amounts receivable are for short-term loans to officers related to the exercise of stock options that are expected to be repaid by December 31, 2023. Accounts payable and accrued liabilities are for accounts payable to related parties and the accrual of director fees.

Vision Blue participated in the prospectus offering financing completed on August 1, 2023 by subscribing to 14,151,500 common shares for gross proceeds of 17,629,523 (CAD$23,349,975).

CAPITAL MANAGEMENT

Capital Management

There were no changes in the Company's approach to capital management during the three months ended September 30, 2023.

The Company's investment policy is to invest excess cash in low-risk financial instruments such as term deposits or by holding funds in high yield savings accounts with major Canadian banks The Company is not subject to any externally imposed capital requirements. To date, the Company has funded operations by raising equity and obtaining royalty financing.

The Company manages its capital structure (consisting of shareholders' equity and debt obligations) on an ongoing basis and in response to changes in economic conditions and risk characteristics of its underlying assets. Changes to the capital structure can involve the issuance of new equity, obtaining working capital loans, construction financing, issuing debt, the acquisition or disposition of assets, or adjustments to the amounts held in cash, cash equivalents and short-term investments.

Capital Resource Analysis

As of September 30, 2023, the Company had working capital of $34,290,453 (June 30, 2023: $120,050). Based on management's past ability to manage capital, the Company believes it will be able to satisfy its current and long-term obligations as they come due. As of September 30, 2023, the Company had completed construction of Phase 1 of the Molo Graphite Mine and was progressing with commissioning. During the remaining commissioning and mine ramp-up, the Company is expecting to incur working capital of $0.5 to $1.0 million and general and administrative costs of $1.0 to $1.3 million.

As of September 30, 2023, the Company had cash and cash equivalents of $36,983,648 (June 30, 2023: $6,885,458). Cash and cash equivalents are expected to be sufficient to settle current liabilities, fund expected commissioning and ramp-up costs for Phase 1 of the Molo Graphite Mine, and fund planned Mauritius BAF development costs, and Molo Phase 2 development costs (Feasibility and FEED studies). The Company forecasts it will require additional funding to cover general and administrative costs after June 2024. If the Company makes construction decisions for an expansion the Molo Graphite Mine and for any additional BAF plants or expansion, construction will be dependent on management's ability to secure additional financing.

The Company may choose to raise such additional capital by issuing new equity, obtaining working capital, construction financing, or secured loans, or arranging other financing arrangements. While the Company has been successful at obtaining additional financing in the past, there can be no assurance it will be able to do so in the future or on terms that are acceptable to the Company.

	As at September 30, 2023	**As at June 30, 2023**
Current Assets:		
Cash and cash equivalents	$ 36,983,648	$ 6,885,458
Amounts receivable	1,741,646	494,250
Inventories	520,742	470,336
Prepaid expenses	642,150	172,384
Total Current Assets	39,888,186	8,022,428
Current Liabilities:		
Accounts payable and accrued liabilities	2,964,319	3,014,594
Current portion of lease obligations	41,576	1,286,561
Current portion of royalty obligations	1,897,500	2,846,250
Commercial production obligation	694,338	754,973
Total Current Liabilities	5,597,733	7,902,378
Working Capital	34,290,453	120,050

Contractual Obligations and Commitments

The Company has contractual commitments under an energy services agreement ("ESA") with CrossBoundary Energy Madagascar ("CBE") for the hybrid solar thermal power plant owned and operated by CBE that is supplying electricity to the Molo Graphite Mine. The ESA has a term of 20 years ending in 2043 and requires the Company to purchase a minimum energy output of 11,200,000 KWh per annum at a tariff of $0.0837 per KWh equivalent to $937,440 per annum. The Company is also subject to contractual obligations related to royalties, and the royalty obligation minimum repayments.

The Company's future operating cash flows are expected to be sufficient to satisfy contractual obligations and contractual commitments.

Off-balance sheet arrangements

The Company does not have any off-balance sheet arrangements including any arrangements that would affect the liquidity, capital resources, market risk support and credit risk support or other benefits.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Liquidity risk

As of September 30, 2023, the Company had cash and cash equivalents of $36,983,648 (June 30, 2023: $6,885,458) to settle current liabilities of $5,597,733 (June 30, 2023: $7,902,378).

The following Company obligations have contractual maturities over the next twelve months:

- Accounts payable and accrued liabilities, which are generally due within 30 days.
- Minimum Repayments under the royalty agreement due semi-annually on June 30 and December 31.
- Commercial production obligation due upon declaration of commercial production at the Molo Mine.

As a result, the Company was not exposed to liquidity risk on September 30, 2023. Liquidity risk is the risk that the Company will not be able to meet its obligations associated with financial liabilities. Liquidity risk arises from the Company's financial obligations and in the management of its assets, liabilities, and capital structure. To minimize liquidity risk, the Company has implemented cost control measures including a construction budget and the minimizing of discretionary expenditures unless the project has sufficient economic or geologic merit. In managing liquidity, the Company's primary objective is to ensure the entity can continue as a going concern while obtaining sufficient funding to meet its obligations as they come due. The Company manages this risk by regularly evaluating its liquid financial resources to fund current and long-term obligations and to meet its capital commitments in a cost-effective manner. The main factors that affect liquidity include working capital requirements, capital-expenditure requirements, and equity capital market conditions. The Company's liquidity requirements are met through a variety of sources, including cash and cash equivalents and equity capital markets. The Company is dependent on obtaining financing to complete development of the Molo Phase 2 expansion and additional BAF plants.

Credit risk

The Company does not have commercial receivables and therefore does not have credit risk related to amounts receivables. The Company has credit risk arising from amounts classified as loans to officers. The Company manages this risk by settling against amounts due to officers. The Company has credit risk arising from the potential from counterparty default on cash and cash equivalents held on deposit with financial institutions. The Company manages this risk by ensuring that deposits are only held with large Canadian banks and financial institutions, whereas any offshore deposits are held with reputable foreign financial institutions. The Company also limits the deposits held with foreign financial institutions.

During the three months ended September 30, 2023, due to considerable uncertainty as to the timing and recoverability of refundable Madagascar value added tax (VAT), the Company recognized an impairment of VAT receivable of $477,333 (2023: $2,580,301). As of September 30, 2023, amounts receivable are presented net of an impairment of VAT receivable of $4,426,485 (June 30, 2023, $3,953,376).

Interest rate risk

This is the sensitivity of the fair value or of the future cash flows of a financial instrument to changes in interest rates. The Company does not have any financial assets or liabilities that are subject to variable interest rates.

Commodity price risks

This is the sensitivity of the fair value of, and future cash flows, generated from its mineral projects. The Molo Graphite Mine property and assets under construction are carried at historical cost. As a result, the recoverability of the carrying values are exposed to commodity price risks. The royalty obligation remeasurement includes an estimate of the present value of royalties paid on graphite revenues and as a result, is exposed to graphite price risk with a sensitivity to a 10% change in graphite prices of 1%. Graphite does not have an established forward pricing or futures market that could be used to hedge against this exposure. The Company manages this risk by monitoring mineral and commodity price trends to determine the appropriate timing for funding the development, acquisition or disposition of its mineral exploration and development projects.

Currency risk

This is the sensitivity of the fair value or of the future cash flows of financial instruments to changes in foreign exchange rates. The Company transacts in currencies other than the US dollar, including the Canadian dollar, the Madagascar Ariary, the Mauritius Rupee, and the South African Rand. The Company purchases services and has certain salary commitments in those foreign currencies. The Company also has monetary and financial instruments that may fluctuate due to changes in foreign exchange rates. Derivative financial instruments are not used to reduce exposure to fluctuations in foreign exchange rates. The Company is not sensitive to foreign exchange exposure on revenues since it has not made commitments to deliver products quoted in foreign currencies. Since construction of the Molo Graphite Mine, the Company is sensitive to foreign exchange risk arising from the translation of the financial statements of subsidiaries with a functional currency other than the US dollar, whereby changes in the carrying amounts of certain assets, liabilities and equity are measured through other comprehensive income.

As at September 30, 2023, the Company had the following balances in foreign currency:

		As at September 30, 2023	**As at June 30, 2023**
Cash and cash equivalents	CAD	$ 5,541,813	$ 2,119,393
Cash and cash equivalents	MGA	110,197	104,293
Cash and cash equivalents	MUR	71,436	38,448
Amounts receivable	CAD	56,182	246,616
Amounts receivable	MGA	-	-
Prepaid expenses	CAD	20,197	46,667
Prepaid expenses	ZAR	22,419	8,170
Prepaid expenses	MGA	4,180	4,184
Accounts payable and accrued liabilities	CAD	(142,714)	(306,903)
Accounts payable and accrued liabilities	MGA	(1,874,947)	(1,875,766)
Accounts payable and accrued liabilities	MUR	(104,995)	(92,542)
Accounts payable and accrued liabilities	GBP	-	16,469
Accounts payable and accrued liabilities	ZAR	-	(836)
Commercial production obligations	CAD	(694,338)	(754,973)
Current portion of lease obligations	MGA	(41,576)	(41,628)
Net foreign exchange exposure in USD		$ 2,967,853	$ (488,407)

As at September 30, 2023, the Company estimated that a 10% decrease of the USD versus foreign exchange rates would result in a gain of $296,785 (June 30, 2023: loss of $48,841) and a 10% increase in the USD versus foreign exchange rates would result in a loss of $296,785 (June 30, 2023: gain of $48,841).

	As at September 30, 2023	**As at June 30, 2023**
Impact of 10% increase in CAD/USD exchange rates	$ 478,114	$ 135,080
Impact of 10% increase in MGA/USD exchange rates	$ (180,215)	$ (180,892)
Impact of 10% increase in MUR/USD exchange rates	$ (3,356)	$ (5,409)
Impact of 10% increase in ZAR/USD exchange rates	$ 2,242	$ 733
Impact of 10% increase in GBP/USD exchange rates	$ -	$ 1,647
Total	$ 296,785	$ (48,841)

RISK FACTORS

The Company manages risks inherent to its business and has procedures to identify and manage significant operational and financial risks. The reader is cautioned to carefully review the risk factors identified in our most recent AIF.

SUMMARIZED QUARTERLY DATA

	Quarter Ended			
	September 30, 2023 $	**June 30, 2023 $**	**March 31, 2023 $**	**December 31, 2022 $**
Revenues	-	-	-	-
Mine development expenses	-	(607,662)	452,514	286,475
Exploration and evaluation expenses	9,960	40,977	2,408	-
General and administrative expenses	1,278,982	1,125,134	1,048,154	656,849
Net income (loss)	(2,520,191)	(495,794)	(1,631,497)	(3,632,966)
Net income (loss) and comprehensive income (loss)	(2,546,429)	(3,245,502)	(2,094,964)	(2,415,565)
Net income (loss) per share (basic and diluted)	(0.02)	(0.00)	(0.01)	(0.03)
Working capital (deficit) surplus	34,290,453	120,050	5,451,580	13,706,665

	Quarter Ended			
	September 30, 2022	**June 30, 2022**	**March 31, 2022**	**December 31, 2021**

	$	$	$	$
Revenues	-	-	-	-
Mine development expenses	224,376	138,990	25,779	22,307
Exploration and evaluation expenses	-	69,989	14,558	40,550
General and administrative expenses	652,390	450,766	602,987	456,770
Net income (loss)	(5,918,430)	29,708,698	(4,714,086)	(6,527,454)
Net income (loss) and comprehensive income (loss)	(5,813,100)	29,792,068	(4,651,499)	(6,832,442)
Net income (loss) per share (basic and diluted)	(0.06)	0.30	(0.05)	(0.07)
Working capital (deficit) surplus	(21,493,227)	(13,868,626)	(42,484,978)	(37,099,064)

CRITICAL IFRS ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The Company's Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The Consolidated Financial Statements follow the same accounting policies and methods of their application as disclosed in Note 3 to the Company's audited consolidated financial statements for the year ended June 30, 2023.

To prepare financial statements in conformity with IFRS, the Company must make estimates, judgements and assumptions concerning the future that affect the carrying values of assets and liabilities as of the date of the consolidated financial statements and the reported values of revenues and expenses during the reporting period. By their nature, these are uncertain and actual outcomes could differ from the estimates, judgments, and assumptions. The impacts of such estimates are pervasive throughout the consolidated financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in future periods when the revision affects both current and future periods. Significant accounting judgments, estimates and assumptions are reviewed on an ongoing basis. The areas involving significant judgments, estimates and assumptions have been detailed in Note 4 to the Company's audited consolidated financial statements for the year ended June 30, 2023.

Management has discussed the development and selection of critical accounting policies and estimates with the Audit Committee, which has reviewed the Company's disclosure in this MD&A.

QUALIFIED PERSON

Craig Scherba, P.Geo., the Company's President and Chief Executive Officer is the Qualified Person, as defined by NI 43-101, who has reviewed and approved the technical information disclosed in this MD&A.

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to management, including the Chief Executive Officer and Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure.

Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the three months ended September 30, 2023, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

As of September 30, 2023, the end of the period covered by this MD&A, our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of September 30, 2023, the end of the period covered by this MD&A, we maintained effective disclosure controls and procedures.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Our management, including our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of internal control over financial reporting using the criteria set forth in the *COSO Internal Control – Integrated Framework (2013)*. Based on the results of this evaluation, our management concluded that our internal control over financial reporting was effective as of September 30, 2023.

OTHER INFORMATION

Additional information related to the Company, including the AIF, is available on the Canadian Securities Administrators' SEDAR+ website at www.sedarplus.ca or on the Company website at www.nextsourcematerials.com.