



INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS – QUARTERLY HIGHLIGHTS
For the three-month periods ended September 30, 2019 and 2018

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

This interim Management's discussion and analysis ("MD&A") provides a review of NanoXplore Inc.'s operations, performance and financial position for the three-month periods ended September 30, 2019 and 2018 and should be read in conjunction with the unaudited consolidated financial statements for the three-month periods ended September 30, 2019 and 2018 and with the audited consolidated financial statements for the year ended June 30, 2019 and 2018. The purpose of this document is to provide information on our activities. The information contained herein is dated as of November 26, 2019. You will find more information about us on NanoXplore's website at www.nanoxplore.ca and on SEDAR at www.sedar.com, including all press releases.

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

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

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

This MD&A contains forward-looking statements. When used in this MD&A, the words "may", "would", "could", "will", "intend", "plan", "anticipate", "believe", "seek", "propose", "estimate", "project", "expect" and similar expressions are intended to identify forward-looking statements. In particular, this MD&A contains forward-looking statements with respect to, among other things, business objectives, expected growth, results of operations, performance, business projects and opportunities and financial results. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. Such statements reflect NanoXplore's then current views with respect to future events based on certain material facts and assumptions and are subject to certain risks and uncertainties, including without limitation changes in the risk factors described under the section risks and uncertainties of this statement. The forward-looking information is based on certain key expectations and assumptions made by NanoXplore, including expectations and assumptions concerning availability of capital resources, business performance, market conditions, customer demand. Although NanoXplore believes that the expectations and assumptions on which such forward-looking information is based are reasonable, undue reliance should not be placed on the forward-looking information since no assurance can be given that 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 statement as well as the assumptions upon which they are based proving incorrect. These factors should not be construed as exhaustive. Should one or more of these risks or uncertainties materialize, or should assumptions underlying forward-looking statements prove incorrect, actual results may vary materially from those described in this MD&A as intended, planned, anticipated, believed, sought, proposed, estimated or expected, and such forward-looking statements should not be unduly relied upon. NanoXplore does not intend, and does not assume any obligation, to update these forward-looking statements except as required by law. The forward-looking statements contained in this MD&A are expressly qualified by these cautionary statements. Forward-looking information contained in this MD&A about prospective results of operations, financial position or cash flows is based on assumptions about future events, including economic conditions and proposed courses of action, based on NanoXplore's management's assessment of the relevant information currently available. Readers are cautioned that outlook information contained in this MD&A should not be used for the purposes other than for which it is disclosed herein or therein, as the case may be.

BUSINESS OVERVIEW

COMPANY OVERVIEW

NanoXplore Inc. (and its subsidiaries together "NanoXplore" or the "Company") is a graphene company, a manufacturer and supplier of high-volume graphene powder for use in industrial markets. Also, the Company provides standard and custom graphene-enhanced plastic and composite products to various customers in transportation, packaging, electronics, and other industrial sectors. The address of the Company's corporate office is 25, Boul. Montpellier, St-Laurent (Montreal), QC, Canada.

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

The Company has the following subsidiaries:

- NanoXplore GmbH, based in Germany, with an equity interest of 100%.
- 9334-7474 Québec Inc., based in Canada, with an equity interest of 100%. 9334-7474 Québec Inc. holds 100% of Rada Industries Ltd. ("Rada Industries"). On April 8, 2019, Rada Industries has ceased operations by selling its main assets. On April 9, 2019, Rada Industries changed its name to 9396-2173 Québec Inc.
- NanoXplore Switzerland SA, based in Switzerland, with an equity interest of 100%. NanoXplore Switzerland SA holds 100% of CEBO Injections SA. ("CEBO").
- Sigma Industries Inc., based in Canada, with an equity interest of 100% [2018 – nil]. 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 Tennessee (USA).

BUSINESS HIGHLIGHTS

Graphene plant project in Ville St-Laurent

The Company focused on the development of its graphene plant in Ville St-Laurent during this quarter. The progress of the work is still according to the plan and the Company is confident to meet the planned budget. For the three-month period ended September 30, 2019, the Company spent \$2,500,000 for a total of \$5,018,000 since the inception of the project.

Also, we are planning to begin the commissioning of the plant in calendar Q1-2020 and commercial production in calendar Q2-2020.

NanoXplore's Shareholders structure change

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

FINANCIAL HIGHLIGHTS

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

	Three-month periods ended September 30	
	2019	2018
	\$	\$
Revenues	19,983,089	3,907,726
Loss for the period	(2,330,435)	(1,599,181)
Basic loss per share	(0.02)	(0.02)

	Three-month periods ended September 30			
	2019	2018	Difference	
	\$	\$	\$	%
Consolidated Statements of Cash Flows				
Operating activities	(2,220,894)	(963,021)	(1,257,873)	(131%)
Investing activities	(4,494,846)	1,594,156	(6,089,002)	(382%)
Financing activities	6,538,049	(282,553)	6,820,602	2414%
Net change in cash before net effect of currency exchange rate	(177,691)	348,582	(526,273)	(151%)

	As at September 30, 2019	As at June 30, 2019	As at June 30, 2018
	\$	\$	\$
Consolidated Statements of Financial Position			
Cash	27,640,349	27,819,140	15,268,666
Accounts receivable	13,042,096	15,016,481	2,895,012
Inventory	7,296,582	7,589,896	1,542,863
Right-of-use assets	5,127,957	5,502,111	—
Property, plant and equipment and equipment deposit	35,242,030	31,230,797	6,488,020
Intangible asset	4,128,399	4,267,929	—
Goodwill	460,164	460,164	—
Total assets	93,911,033	92,844,734	26,886,737
Operating loans	2,535,180	1,339,480	1,328,400
Long-term Debt and Convertible debentures - Loan	31,937,796	32,566,411	4,567,970
Total liabilities	51,664,882	54,749,009	11,128,750
Shareholder's Equity	42,246,151	38,095,725	15,757,987

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

Selected Quarterly Information

		Revenue \$	Net loss \$	Basic and diluted loss per share \$	
Q1-2020	September 30, 2019	19,983,089	(2,330,435)	(0.02)	
Q4-2019	June 30, 2019	22,745,880	(4,717,098)	(0.04)	Note 1
Q3-2019	March 31, 2019	20,720,455	(2,736,849)	(0.03)	Note 2
Q2-2019	December 31, 2018	22,147,009	(1,550,237)	(0.02)	Note 3
Q1-2019	September 30, 2018	3,907,726	(1,599,181)	(0.02)	
Q4-2018	June 30, 2018	3,250,531	(1,622,962)	(0.02)	
Q3-2018	March 31, 2018	2,985,281	(1,137,515)	(0.01)	
Q2-2018	December 31, 2017	1,807,020	(1,020,915)	(0.01)	

Note 1 The higher loss than usual is due to the sales of Rada Industries' equipment, which results in a loss \$738,524 and to an increase in salaries which is explained by an increase of incentives and to the addition of strategic new positions.

Note 2 The higher loss than usual is due to an increase in salaries which is explained by the addition of strategic new positions and the grant of stock options.

Note 3 The higher revenue is explained by sales from Sigma, which are consolidated since September 21, 2018 in the results.

CONSOLIDATED OPERATIONS

	Three-month periods ended September 30			
	2019	2018	Difference	
	\$	\$	\$	%
Revenues	19,983,089	3,907,726	16,075,363	411%
Expenses				
Cost of sales	16,937,762	3,376,516	13,561,246	402%
Research and development costs	680,277	468,421	211,856	45%
Selling, general and administrative	3,151,738	1,171,316	1,980,422	169%
Share-based compensation	216,171	51,962	164,209	316%
Depreciation (production)	749,745	323,033	426,712	132%
Depreciation (other)	210,029	102,529	107,500	105%
Amortization	150,277	15,854	134,423	848%
Foreign exchange	36,221	(27,408)	63,629	(232%)
	22,132,220	5,482,223	16,649,997	304%
Operating loss	(2,149,131)	(1,574,497)	(574,634)	36%
Interest on long-term debt	(378,015)	(52,203)	(325,812)	624%
Interest accretion on lease liability	(84,193)	(48,504)	(35,689)	74%
Interest revenue	117,022	36,371	80,651	222%
Loss before income taxes	(2,494,317)	(1,638,833)	(855,484)	52%
Current income taxes expense	(43,981)	—	(43,981)	100%
Deferred income taxes recovery	207,863	39,652	168,211	424%
	163,882	39,652	124,230	313%
Loss for the period	(2,330,435)	(1,599,181)	(731,254)	46%
Other comprehensive loss				
<i>Items that may be subsequently reclassified to profit and loss:</i>				
Exchange differences on translation of foreign subsidiaries	(19,836)	2,186	(22,022)	-1007%
<i>Items that will not be reclassified to profit and loss:</i>				
Retirement benefits – Net actuarial gains	(157,515)	60,377	(217,892)	-361%
Total comprehensive loss	(2,507,786)	(1,536,618)	(971,168)	63%
Loss per share				
Basic and diluted	(0.02)	(0.02)		

REVENUES

Revenue by line of product

	Three-month periods ended September 30			
	2019	2018	Difference	
	\$	\$	\$	%
Transport	14,664,000	1,368,972	13,295,028	971%
Agriculture	597,000	55,213	541,787	981%
Wind energy	856,000	94,219	761,781	809%
Industrial	2,762,358	1,320,687	1,441,671	109%
Other	1,103,731	1,068,635	35,096	3%
	19,983,089	3,907,726	16,075,363	411%

Revenues went from \$3,907,726 for the three-month period ended September 30, 2018 to \$19,983,089 for the three-month period ended September 30, 2019 for an increase of \$16,075,363. This increase mainly due to the consolidation of Sigma's sales of about \$18,000,000 in 2019 compared to about \$1,700,000 in 2018, which are mainly included in transport, agriculture, wind energy and industrial. Sigma activities have been acquired on September 21, 2018.

LOSS FOR THE PERIOD

The loss for the period went from \$1,599,181 for the three-month period ended September 30, 2018 to a loss of \$2,330,435 for the three-month period ended September 30, 2019 for an increase of \$731,254. Despite a positive contribution from Sigma activities (about \$89,000), the increase is mainly due to the new organizational changes put in place during the first six-month period of calendar 2019 in order to support the future commercial activities of graphene and the recent acquisitions of Sigma. Consequently, salaries, professional fees, travelling and several other expenses have increased significantly.

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

CONSOLIDATED FINANCIAL POSITION

	As at September 30, 2019 \$	As at June 30, 2019 \$	Difference \$	Main reasons for significant differences
Assets				
Cash	27,640,349	27,819,140	(178,791)	
Accounts receivable	13,042,096	15,016,481	(1,974,385)	
Inventory	7,296,582	7,589,896	(293,314)	
Right-of-use assets	5,127,957	5,502,111	(374,154)	
Property, plant and equipment, and equipment deposits	35,242,030	31,230,797	4,011,233	Additions are mainly related to the construction of the graphene plant
Intangible asset	4,128,399	4,267,929	(139,530)	
Goodwill	460,164	460,164	—	
Other assets	973,456	958,216	15,240	
Total assets	93,911,033	92,844,734	1,066,299	
Liabilities and shareholders' equity				
Liabilities				
Accounts payable, accrued liabilities and income taxes payables	13,496,005	14,997,652	(1,501,647)	
Deferred grant	43,970	231,745	(187,775)	
Contract liability	443,834	2,512,994	(2,069,160)	
Credit facilities	2,535,180	1,339,480	1,195,700	
Defined benefit liabilities	1,132,748	870,329	262,419	
Long-term debt	24,106,041	24,862,997	(756,956)	
Convertible debentures - Loan	7,831,755	7,703,414	128,341	
Deferred income taxes liabilities	2,075,349	2,230,398	(155,049)	
Total liabilities	51,664,882	54,749,009	(3,084,127)	
Shareholders' equity				
Share capital	60,537,116	53,445,389	7,091,727	Issuance of share related to exercise of warrants expired in August 2019
Reserve	3,170,996	3,604,511	(433,515)	Related to exercise of warrants expired in August 2019
Convertible debentures – Options	2,240,000	2,240,000	—	
Foreign currency translation reserve	(6,909)	12,927	(19,836)	
Deficit	(23,695,052)	(21,207,102)	(2,487,950)	
Total Shareholders' equity	42,246,151	38,095,725	4,150,426	
Total Shareholders' equity and liabilities	93,911,033	92,844,734	1,066,299	

CASH FLOW

	Three-month periods ended September 30			
	2019	2018	Difference	
	\$	\$	\$	%
Cash used in operating prior to changes in working capital	(690,530)	(1,157,347)	466,817	(40%)
Changes in non-cash working capital	(1,530,364)	194,326	(1,724,690)	(888%)
Operating activities	(2,220,894)	(963,021)	(1,257,873)	(131%)
Investing activities	(4,494,846)	1,594,156	(6,089,002)	(382%)
Financing activities	6,538,049	(282,553)	6,820,602	2414%
Net effect of currency exchange rate on cash	(1,100)	(9,653)	8,553	89%
Net change in cash	(178,791)	338,929	(517,720)	(153%)

Operating activities

Cash flows used in operating activities for the three-month period ended September 30, 2019 decreased by \$466,817 prior to changes in non-cash working capital compared to the same period of last year. The decrease is mainly explained by Sigma's net cash provided by their operations of about \$1,000,000 offset by the increase in salaries, travelling and professional fees expenses related to the new organizational structure put in place during the first six-month period of calendar 2019 in order to support and the future commercial activities of graphene and the recent acquisition of Sigma.

Investing Activities

Cash flows used in investing activities for the three-month period ended September 30, 2019 are mainly related to the net increase of about \$4,500,000 of addition of property, plant and equipment and of equipment deposits. These additions are mostly for the construction of the graphene plant in Montreal. During the corresponding period in 2018, cash flow generated in investing activities was mainly related to the acquisition of Sigma during September 2018 for a net cash amount of \$7,300,496, of which \$9,011,000 was still due as at September 30, 2018.

Financing activities

Cash flows generated from financing activities for the three-month period ended September 30, 2019 are related to the exercise of Warrants and Broker Warrants during the period from July 1 to August 2, 2019 for cash proceeds of \$6,442,041 while during the corresponding period in 2018, it was related to repayment of debt.

LIQUIDITY AND CAPITAL RESOURCES

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

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

OFF-BALANCE SHEET ARRANGEMENTS

As of the date of this MD&A, the Company did not have any off-balance sheet arrangements, except for commitment to purchase raw materials to certain suppliers and to commitment to purchase equipment for a total amount of \$10,077,286 for the construction of the graphene plant, on which \$2,919,270 were paid and included in the Consolidated Statement of Financial Position as Equipment deposits as at September 30, 2019.

OUTSTANDING SHARES

As at November 26, 2019, the Company has:

- 120,995,810 common shares issued and outstanding;
- 3,917,133 options outstanding with expiry dates ranging between January 2, 2022 and October 10, 2024 with exercise price between \$0.45 and \$1.80. If all the options were exercised, 3,917,133 shares would be issued for proceeds of \$4,587,710;
- 3,272,778 warrants and Broker Warrants outstanding with expiry date of March 27, 2020 with exercise price of \$1.65 and \$2.30. If all the warrants were exercised, 3,272,778 shares would be issued for proceeds of \$7,369,811.
- 5,434,783 convertible debentures outstanding with expiry date of December 31, 2023 with exercise price of \$1.84. If the conversion option right was exercised, 5,434,783 shares would be issued for proceeds of \$10,000,000.

RELATED PARTY TRANSACTIONS

For a detailed description of all related party transactions, please refer to the Note 7 "Related party transactions" in the unaudited condensed interim financial statements for the three-month periods ended September 30, 2019 and 2018.

RISKS AND UNCERTAINTIES

The operations of the Company are speculative due to the high-risk nature of its business, which is the acquisition, financing, technology and manufacturing. These risk factors could materially affect the Company's future operating results and could cause actual events to differ materially from those described in forward-looking information relating to the Company.

For a detailed description of risks and uncertainties, refer to the annual consolidated financial statements of June 30, 2019 and 2018.

CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

For a detailed description of the critical accounting judgments and estimates associated with the Company and its activities, please refer to the Note 3 "Critical accounting judgments and estimates" in the audited financial statements for the years ended June 30, 2019 and 2018. The Company was not required to make significant judgments, estimates and assumptions in areas other than those mentioned in the audited financial statements for the years ended June 30, 2019 and 2018.

FUTURE CHANGES IN ACCOUNTING POLICIES

The standards and amendments to existing standards have been published, and their adoption is mandatory for future accounting periods. Refer to the unaudited condensed interim financial statements for the three-month periods ended September 30, 2019 and 2018 for the details of these standards and amendments.

CONTROLS AND PROCEDURES

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

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

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

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

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

The Board of Directors has approved the Financial statements.