Nano One Materials Corp.

Management's Discussion & Analysis

December 31, 2020

MANAGEMENT'S DISCUSSION & ANALYSIS

The following Management's Discussion & Analysis ("MD&A") of Nano One Materials Corp. ("Nano One" or the "Company") for the year ended December 31, 2020, should be read in conjunction with the Company's annual audited financial statements for the year ended December 31, 2020. The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All monetary amounts in this MD&A are expressed in Canadian dollars, unless otherwise indicated.

The information contained herein is presented as at **March 15, 2021** (the "MD&A Date"), unless otherwise indicated.

For the purposes of preparing this MD&A, Management, in conjunction with the Board of Directors, considers the materiality of information. Information is considered material if: (i) such information results in, or would reasonably be expected to result in, a significant change in the market price or value of Nano One's common shares; or (ii) there is a substantial likelihood that a reasonable investor would consider it important in making an investment decision; or (iii) it would significantly alter the total mix of information available to investors. Management, in conjunction with the Board of Directors, evaluates materiality with reference to all relevant circumstances, including potential market sensitivity.

ADDITIONAL INFORMATION

Additional information relevant to the Company's activities can be found on SEDAR at www.sedar.com and on the Company's website at www.nanoone.ca. Moreover, the Company has filed on SEDAR an Annual Information Form ("AIF") dated September 8, 2020, and a Short Form Prospectus dated October 26, 2020.

FORWARD-LOOKING STATEMENTS

This MD&A contains certain "forward-looking information" and "forward-looking statements" (collectively, "forward-looking statements"), within the meaning of applicable Canadian securities laws, which are based upon the Company's current internal expectations, estimates, projections, assumptions, and beliefs. All information, other than statements of historical facts, included in this MD&A that addresses activities, events or developments that the Company expects or anticipates will or may occur in the future is forward-looking information. Such statements can be identified by the use of forward-looking terminology such as "expect", "likely", "may", "will", "should", "intend", or "anticipate", "potential", "proposed", "estimate" and other similar words, including negative and grammatical variations thereof, or statements that certain events or conditions "may" or "will" happen, or by discussions of strategy. Forward-looking statements include estimates, plans, expectations, opinions, forecasts, projections, targets, guidance, or other statements that are not statements of fact. Such forward-looking statements are made as of the date of this MD&A and, except as required by law, the Company is under no obligation to update or alter any forward-looking information.

Forward-looking statements in this MD&A may include, but are not limited to, statements with respect to: the use of the net proceeds from previous financings; the performance of the Company's business and operations; the intention to grow the business, operations and potential activities of the Company; regulatory changes; the competitive conditions of the industry and the Company's competitive position in the industry; the Company's business plans and strategies; the anticipated benefits of the Company's partnerships; the Company's licensing, supply chain and joint venture opportunities; the applicable laws, regulations and any amendments thereof; and any anticipated future gross revenues and profit margins of the Company's operations.

With respect to the forward-looking statements contained in this MD&A, the Company has made assumptions regarding, among other things: the use of the net proceeds of previous financings; operating and capital costs; anticipated partnerships; the Company's ability to access future financing opportunities; and the Company's ability to attract and retain qualified personnel or management.

Although the Company believes that the expectations reflected in the forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. The Company cannot guarantee future results, levels of activity, performance, or achievements. There are risks, uncertainties, and other factors, some of which are beyond the Company's control, which could cause actual results, performance or achievements of the Company, as applicable, to differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements contained in this MD&A. Refer to "Risks and Uncertainties" below for details of certain risks.

COMPANY OVERVIEW

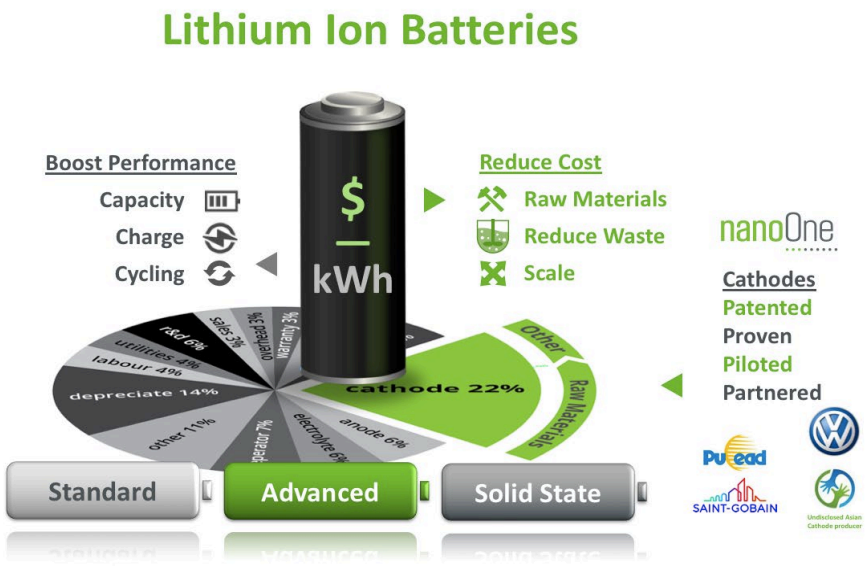
Corporate Structure

The Company was incorporated under the laws of the Province of Alberta on November 5, 1987 and continued under the laws of the Province of British Columbia on September 8, 2004. On March 5, 2015, the Company completed a combination with Perfect Lithium Corp. ("PLC"), a private company incorporated in February 2011 under the laws of the Province of British Columbia, whereby it acquired all the issued and outstanding common shares of PLC in exchange for issuing common shares to the former shareholders of PLC. On July 1, 2015, the Company amalgamated with PLC and continued as one company under the name, Nano One Materials Corp. Nano One trades on the TSXV under the symbol "NNO". The Company's head office is located at Unit 101B, 8575 Government Street, Burnaby, British Columbia V3N 4V1 and its registered and records office is located at 2900 - 550 Burrard Street, Vancouver, British Columbia V6C 0A3.

Business of the Company

The Company has developed, patented and scaled-up an innovative One-Pot Process (the **"One-Pot Process"**) for the production of cathode active materials ("CAM") for lithium-ion battery applications in electric vehicles, energy storage systems, and consumer electronics. Nano One has proven its technology in the laboratory, built a demonstration pilot plant, and is partnering with key automotive original equipment manufacturers ("OEMs") and cathode manufacturers.

Nano One's technology is intended to improve the performance and cost of cathode materials, reduce complexity and excess waste in the supply chain, minimize carbon footprint and simplify production using environmentally sustainable processes. It is a manufacturing platform suited to many types of lithium-ion cathode materials which may be used in automotive, grid storage and consumer electronic batteries, including standard, advanced, and next generation solid state batteries.



The Company's primary cathode formulations under development include:

- Lithium Nickel Manganese Cobaltate (NMC622, NMC811);
- Lithium Nickel Manganese Oxide (LNMO, or High Voltage Spinel HVS); and
- Lithium Iron Phosphate (LFP).

Stage of Development

- LFP is being optimized for advanced raw material inputs to address price pressures and being prepared for third party demonstration pilot scale evaluation and detailed engineering of full scale production units;
- NMC811 (and equivalents) are in Feasibility and Validation phases (lab-scale and pre-pilot scale, third party materials testing and validation of commercial interest and engineering planning for pilot and full scale production units); and
- HVS is in the Scale-up and Validation Phase (pre-pilot and pilot scale activities with third party evaluations and validation of commercial interest).

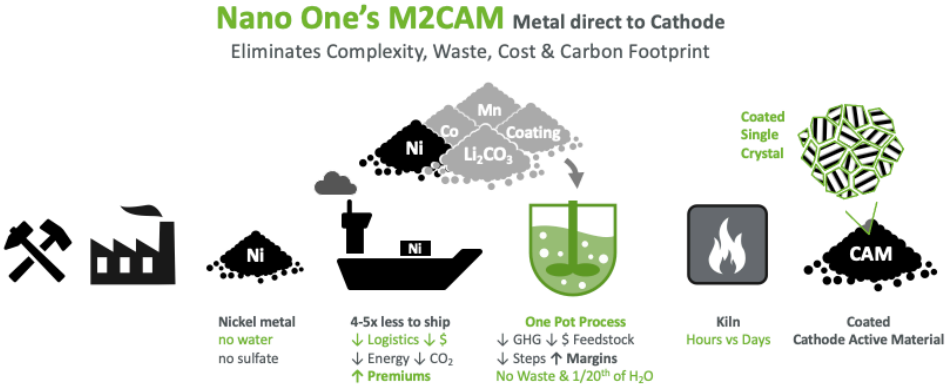
The One-Pot Process

Nano One's One-Pot Process is engineered to use non-sulfate forms of metal feedstock, with the intention of reducing total cost and carbon footprint of feedstock needs per kilogram of CAM, eliminating the need to convert metal to sulfate, lithium to hydroxide, sulfate waste, water consumption, excess greenhouse gas emissions (GHG) and added process costs. Furthermore, the process uses lithium feedstock in the form of carbonate rather than hydroxide, which is costly, corrosive and harder-to-handle. The process is feedstock flexible which enables improved optionality of sourcing of raw materials. The process also forms innovative coated nanocrystal cathode powders that are designed to be more durable than conventional cathode powders.

The nanocrystal innovation addresses a fundamental battery trade-off between energy density and durability. Increased durability provides electric vehicle manufacturers greater flexibility in optimizing range, charging rates, safety, and cost. The One-Pot Process combines all input components: lithium, metals, additives, and coatings in a single reaction to produce a precursor that, when dried and fired, forms quickly into a single crystal cathode material simultaneously with its protective coating.

Nano One's One-Pot Process forms durable single crystal cathode powders and protective coatings simultaneously and the process has been adapted for metal to cathode active material application, directly from sulfate-free metal salts and lithium carbonate. It is an environmentally inspired process that uses limited water and produces no waste stream. The process eliminates intermediate products, additional coating steps and the costly requirements for metal-sulfates and lithium hydroxide feedstocks. The One-Pot Process enables CAM to be made direct from metal using nickel, manganese, and cobalt metal powder feedstocks rather than metal sulfates or other salts. Metal powders are one-fifth of the weight of metal sulfates, avoiding the added costs, energy and environmental impact of converting metals to sulfate and shipping and handling of waste. This creates added value for metals and aligns Nano One with the environmental, sustainability and cost objectives of automotive companies, miners, investment communities and governmental infrastructure initiatives.

Nano One's technology offers the flexibility to use either lithium carbonate or hydroxide. This is enabled by mixing lithium with all other metal inputs in Nano One's patented One-Pot Process reaction to produce a fully-lithiated mixed-metal intermediate powder that is neither carbonate nor hydroxide, allowing it to form finished cathode powder when thermally processed in a furnace. In contrast to this, conventional methods form mixed-metal intermediate powders ("PCAM") that must then be milled and thermally processed with lithium hydroxide powders because the required furnace temperatures are not compatible with lithium carbonate.



Corporate Developments

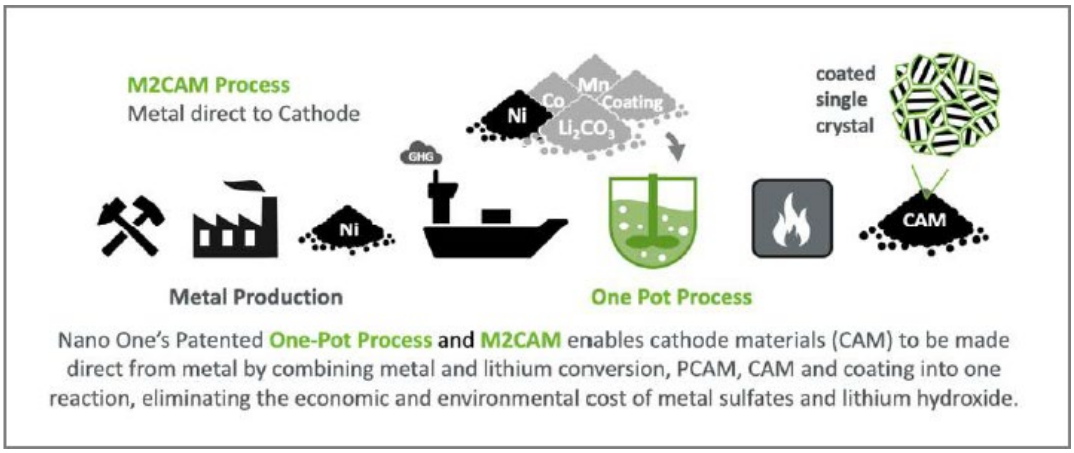
In addition to information discuss through this MD&A, the Company has also announced the following recent corporate developments:

M2CAM Technology

In February 2021, Nano One announced the launch of its metal to cathode active material (**"M2CAM"**) technology to reduce cost, reduce waste, and reduce the carbon footprint in the lithium-ion battery supply chain initiative. Nano One's patented One-Pot Process has been successfully adapted for M2CAM, enabling cathode materials to be made direct from metal using nickel, manganese and cobalt metal powder feedstocks rather than metal sulfates or other salts.

Nano One's metal to cathode active material (M2CAM) Technology reduces cost, reduces waste, and reduces the carbon footprint in the lithium-ion battery supply chain. The Company has commenced or continued discussions with large integrated miners to reduce environmental footprints and maximize upstream value in the global battery supply chain. Nano One's other collaborators include automotive OEMs with similar motivations to meet environmental targets by reducing waste, carbon emissions, logistics and costs. Patents are pending for M2CAM and preliminary test results are showing battery capacity up to 5% higher than cathode materials currently made from metal salts.

Nano One's patented One-Pot Process forms durable single crystal cathode powders and protective coatings simultaneously and M2CAM enables these materials to be made directly from metal powders. Metal powders are one-fifth of the weight of metal sulfates, avoiding the added costs, energy and environmental impact of converting to sulfate and shipping and handling of waste. The One-Pot Process is an aqueous process, using carbon neutral chemistry, that operates at room-temperature and atmospheric pressures, and it combines feedstock conversion, precursor formation, lithiation and coating steps into one reaction. This creates added value for metals and aligns Nano One with the environmental, sustainability and cost objectives of automotive companies, miners, investment communities and governmental infrastructure initiatives.



Other Developments

In January 2021, the Company announced that it had submitted a proposal to demonstrate its M2CAM and One-Pot Process technologies in the Chilean Clean Technology Institute, Instituto Chileno de Tecnologías Limpias (ICTL), as part of a joint project proposal with Associated Universities, Inc. (AUI). AUI were awarded the winning bid by the Corporación de Fomento de la Producción de Chile (CORFO) Council on January 4, 2021 to build, manage and operate the Institute.

In February 2021, Nano One announced that its proprietary coated single crystal HVS cathode material was performing well in University of Michigan test programs through Nano One's collaboration with the University of Michigan on the development of innovative solid-state battery technology.

In February 2021, Nano One announced that it has been named to the Toronto Stock Exchange (TSX) Venture Exchange's 2021 Venture 50. The Venture 50 is an annual ranking of the top-performing companies from five industry sectors: Clean Technology and Life Sciences, Diversified Industries, Mining, Energy, and Technology. Nano One was recognized in the Clean Technology and Life Sciences category.

PARTNERSHIPS, MILESTONES, OBJECTIVES AND INTELLECTUAL PROPERTY

Strategic Partnerships

Automotive partnerships:

Volkswagen:

With Volkswagen, Nano One is focused on improving the durability of cathode materials using Nano One's innovative One-Pot Process and coated single crystal materials. Improved durability gives automotive OEMs like Volkswagen the ability to charge faster, drive further, extend warranties and lower the cost of long range and mass market electric vehicles. Nano One's strategy with Volkswagen is to define and create demand for a new generation of cathode materials, requiring royalty bearing rights to Nano One's intellectual property and licensing agreements with Volkswagen and/or its supply chain.

Global Automotive Company:

In December 2020, Nano One entered into a Cathode Evaluation Agreement with an American based multinational automobile manufacturer to jointly evaluate Nano One's cathode materials for use in automotive lithium-ion batteries. The goal of this project is to evaluate the performance and commercial benefit of Nano One's patented One-Pot Process for nickel-rich and cobalt-free cathode materials in electric vehicle applications.

Cathode manufacturers:

Saint-Gobain:

Under the 2018 Joint Development Agreement with Saint-Gobain, Nano One and Saint-Gobain are jointly developing technology to improve efficiencies in the final stage of cathode production, where cathode powders are conveyed through long expensive furnaces to transform them into active battery materials. A successful program could lead to Nano One and Saint-Gobain co-marketing their technologies and products for improved thermal processing of CAM.

Pulead Technology:

Under the 2019 Joint Development Agreement with Pulead, Nano One began to focus on manufacturing innovations and plant design to improve the cost, margins and competitiveness of lithium iron phosphate (LFP). LFP is the safest, longest lasting and lowest cost cathode material for lithium-ion batteries and is used in electric buses, fleet vehicles, and renewable energy storage; and with costs coming down, it is anticipated to replace lead acid batteries and potentially fuel a new generation of long range, long lasting electric vehicles. Downward price pressures have delayed commercialization plans and led Nano One to accelerate planned cost reduction strategies. Success in this joint development program could result in Pulead entering into a royalty bearing license agreement with Nano One for the rights to use its intellectual property for the production of LFP.

Asian Manufacturer:

In August 2020, Nano One signed a Joint Development Agreement with a large multinational materials producer that supplies the Asian automotive industry. Work under this agreement is focused on jointly developing the combined technologies of both companies to pursue a manufacturing opportunity, through licensing or joint venture, to supply materials for a new generation of lithium-ion batteries.

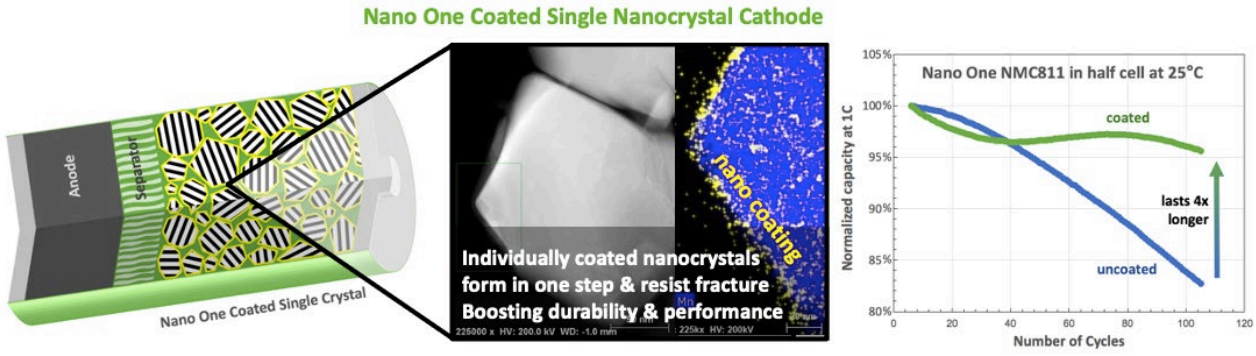
Milestones

NMC 811 Longevity

In June 2020, the Company announced a breakthrough development of a coated, single crystal cathode material for lithium-ion batteries that is providing up to four (4) times improvement in longevity compared to uncoated materials. This technology is applicable to all of Nano One's cathode materials but is especially relevant to NMC811.

NMC materials are further improved by the Nano One's M2CAM technology (see "M2CAM Technology" above) which reduces complexity, cost, waste, and carbon footprint in the lithium-ion battery supply chain.

The Company is now working with various automotive manufacturers, cathode producers and academic institutions to evaluate its patented One Pot process and coated NMC based materials.



High Voltage Spinel (LNMO or HVS)

The largest single challenge in solid state batteries is to design a stable and commercially viable interface between the solid electrolyte, of polymer, ceramic or glass composition, and the solid cathode and anode materials on either side of the electrolyte.

The coated LNMO (a.k.a. high voltage spinel (HVS)) stabilizes the interface between cathode and electrolyte because (i) it does not expand and stress the cathode-electrolyte interface like other cathode materials, and (ii) the coating protects the cathode from side-reactions with the electrolyte while allowing the rapid transfer of lithium-ions between the electrolyte and the cathode. In comparison to other cathode materials, HVS is faster charging and operates at higher voltage enabling increased power and energy densities. HVS is also free of cobalt and the associated supply chain risk.

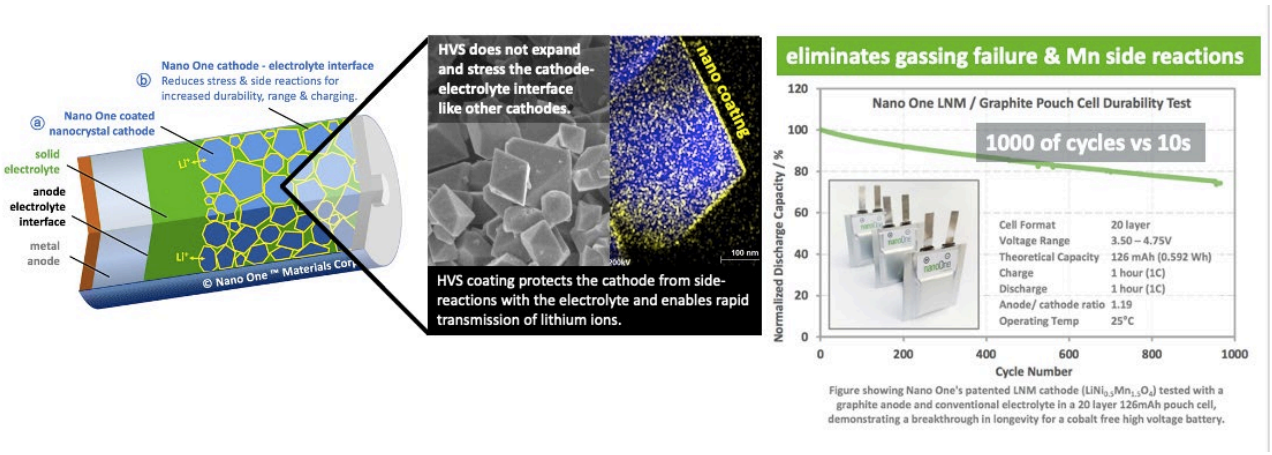


Figure showing Nano One's patented LNM cathode ($LiNi_{0.5}Mn_{1.5}O_4$) tested with a graphite anode and conventional electrolyte in a 20 layer 126mAh pouch cell, demonstrating a breakthrough in longevity for a cobalt free high voltage battery.

In October 2020, the Company announced a further breakthrough in battery longevity with its cobalt-free high voltage cathode materials which were successfully demonstrated at automotive rates of charge and discharge for over 900 cycles. The demonstration battery uses a low cost, cobalt-free LNMO cathode active material made with Nano One's proprietary One-Pot Process. The breakthrough facilitates the avoidance of rapid capacity fade and premature failure and successfully demonstrates a high voltage lithium-ion battery cell with significant cycle life. The enabling technology is Nano One's patented LNMO cathode material operating up to 4.7 volts and made using the patented One-Pot Process. The LNMO voltage is 25% higher than commercial lithium-ion batteries, improving efficiency, thermal management and power.

LFP

LFP is the safest, longest lasting and lowest cost cathode material for lithium-ion batteries due to the relative stability of olivine crystal structure, its high durability and its low-cost inputs. Further cost reductions could significantly increase the demand for LFP to make it a cathode material of choice for energy storage systems, for replacing lead-acid batteries, and for expanding applications entry level, heavy duty and long range electric vehicles.

In response to this opportunity, the Company has developed and successfully piloted a low-cost process and completed detailed engineering study that highlight improved economics for the production of LFP using lower cost sources of materials.

Design Specifications for Commercial Scale Production (LFP, NMC, LNMO)

In June 2020, an engineering report prepared by Noram Engineering and Constructors of Vancouver, British Columbia was completed, detailing enhanced design specifications and improved economics for the commercial scale production of lithium-ion battery cathode materials using Nano One's proprietary One-Pot Process for the production of cathode active materials. This creates added value for metals and aligns Nano One with the environmental, sustainability and cost objectives of automotive companies, miners, investment communities and governmental infrastructure initiatives. patented and scaled-up an innovative One-Pot Process for the production of cathode active materials (see "Pulead Technology" within "Strategic Partnerships" above). The economics and design specifications in the report relate to the potential for a 4,800 tonne/year manufacturing line for the production of LFP and reveal a reduction in equipment and operating expenses from previous estimates and improved raw material costs. Further, the report forms an engineering basis for Nano One's other cathode materials, namely NMC and LMN.

In 2018, the Company also completed preliminary engineering plans for a modular 3,300 tonnes/year NMC622 cathode production unit that could supply roughly 37,000 60kWh electric vehicle batteries, equivalent to 2.2 GWh.

The enhanced budgetary analysis and economic modeling reveal a reduction in equipment and operating expenses from previous estimates which complement raw material cost reductions announced in partnership with Pulead. The engineering specifications and economic modeling in this report enhance the value of Nano One's technology and strengthen Nano One's commercial opportunities with Pulead and other global strategic interests. Further, the report forms an engineering basis for Nano One's other cathode materials, namely NMC and LNMO. Ongoing engineering work is underway to assess the processing and feedstock cost reductions and the waste and greenhouse gas emissions ("GHG") reduction benefits of M2CAM and the One-Pot Process.

Business Objectives

In the near term (one to three years), Nano One intends to focus on:

- Developing, advancing, and promoting M2CAM technology through collaborative partnerships with OEMs, miners and cathode producers. The Company is aiming to disrupt the supply chain and make cathode materials direct from metal powders and lithium carbonate. This will eliminate: (i) the conversion of metals to sulfates and lithium to hydroxide, (ii) the associated energy, GHG emissions, cost, and waste and (c) the unnecessary transport of water and sulfate.
- Prototyping and scaling up by expanding its demonstration pilot plant and laboratory facilities to serve technology development, partnership and licensing objectives.
- Developing and building its first internationally located demonstration pilot plants and commercial plant(s) to advance existing partnerships to joint ventures, licensing agreements, and first production pilot, with the goal of generating initial revenues by the end of 2022.
- Identifying and validating additional joint development partners throughout the supply chain.

Nano One's long term opportunities (three to five years), include:

- Generating royalty and joint venture revenues from the production of NMC, LFP and HVS in collaboration and partnership with US, European and Asian companies. The Company anticipates license revenues from NMC will follow, as coated single crystal and the Company's M2CAM technology is advanced. Markets for HVS and other advanced CAM formulations will be nurtured through the development of advanced high voltage batteries and solid-state batteries with OEMs and anode/electrolyte developer consortiums.
- Commercial expansion via manufacturing adoption of the One-Pot Process, accelerated with differentiation and market growth. Revenue expansion is anticipated to flow from scale of clients.
- Access to potential US$25 billion global cathode materials market through ongoing innovation for high margin opportunities in licensing, joint ventures, mergers and acquisition, and supply chain integration. Continuous innovation in battery cathodes would add value and help preserve high margins.

Intellectual Property

As at the MD&A Date, the Company has been issued (16) sixteen patents. The Company also has related patent applications pending throughout the world.

The Company's intellectual property was developed and is wholly-owned by the Company. The Company has filed other patent applications and may file additional patents at a later date to further strengthen its intellectual property and technology going forward, although no assurances can be given that it will be successful in such endeavours. The Company seeks to limit disclosure of its intellectual property by requiring employees, consultants, and partners with access to the technology to execute confidentiality agreements and non-competition agreements and by restricting access to intellectual property and technology. Despite the Company's efforts to protect its intellectual property and technology, unauthorized parties may attempt to copy aspects of its technology or to obtain and use information that the Company regards as proprietary. The laws of many countries do not protect proprietary rights to the same extent as the laws of the United States or Canada. See "Intellectual Property Protection" below within "Risks and Uncertainties".

OVERALL PERFORMANCE

Cash flows

During the year ended December 31, 2020, the Company generated a net increase in cash and cash equivalents of approximately $26,000,000 (including a $1,000,000 purchase of a short-term investment maturing in May 2021).

Key contributors to the increase in cash and cash equivalents were:

- Completing a Short Form Prospectus financing consisting of the issue of 5,282,900 units at a price of $2.72 per unit for gross proceeds of approximately $14,400,000;
- Completing a private placement for gross proceeds of approximately $11,000,000;
- Exercise of stock options and warrants for total proceeds of approximately $7,075,000; and
- Proceeds from Government assistance programs of approximately $3,700,000 in aggregate, including approximately $3,055,000 from Sustainable Development Technology Canada ("SDTC");

Facilities expansion

During the quarter ended June 30, 2020, the Company began the expansion of facilities at its head office location in Burnaby, British Columbia. Through to the date of this MD&A, the Company continues its facilities expansion efforts. Two new units were leased to grow its facilities from 5,000 sq. ft. to 15,000 sq. ft. The facilities expansion is for the purpose of facilitating infrastructure growth by adding a new dry room (in construction), laboratory space, expanding the battery room, adding new furnaces and facilitating the increase in staffing to support these efforts.

DISCUSSION OF OPERATIONS

For the years ended December 31, 2020 and December 31, 2019

The following table summarizes the Company's results of operations and cash flows for the years ended December 31, 2020 and December 31, 2019 (rounded):

	December 31, 2020 $	December 31, 2019 $	**Change $**
Revenue	**-**	-	**-**
Loss from operating expenses	**(5,301,000)**	(3,815,000)	**(1,486,000)**
Loss and comprehensive loss	**(5,212,000)**	(3,781,000)	**(1,431,000)**
Cash used in operating activities	**(2,923,000)**	(2,025,000)	**(898,000)**
Cash used in investing activities	**(1,512,000)**	(426,000)	**(1,086,000)**
Cash provided by financing activities	**30,438,000**	1,045,000	**29,393,000**

Certain of the Company's most significant components of operating expenses for years ended December 31, 2020 and December 31, 2019, were as follows (rounded):

	December 31, 2020 $	December 31, 2019 $	**Increase (decrease) $**
Consulting fees	**456,000**	108,000	**348,000**
Investor relations and shareholder information	**566,000**	428,000	**138,000**
Management and directors' fees	**429,000**	60,000	**369,000**
Professional fees, net	**219,000**	214,000	**5,000**
Research expenses, net	**229,000**	1,106,000	**(877,000)**
Salaries and benefits, net	**1,005,000**	753,000	**252,000**
Share-based payments	**1,652,000**	428,000	**1,224,000**

Explanations for the changes illustrated in the table above are as follows:

- Consulting fees: increased due to the engagement of additional capital markets advisors, industry advisors, and a human resources contractor.
- Management and directors' fees: increased due to a bonus reward paid to a member of key management as well as the first-time recognition of directors' fees effective January 1, 2020 for independent board members only. Additionally, in January 2020 the Company engaged the services of a CFO and monthly fees are paid to the firm in which the CFO is employed.
- Research expenses, net: are presented net of government assistance grants, and other cost recoveries. Details with respect to research expenses are illustrated in the table below.
- Salaries and benefits: increased as a result of increased staffing during the year ended December 31, 2020 primarily within the research department. Salaries and benefits are presented net of allocations of SDTC government grants.
- Share-based payments: increased as a result of the grant of stock options to key management personnel, employees, and consultants during the year ended December 31, 2020.

Research expenses, net for years ended December 31, 2020 and December 31, 2019, were as follows (rounded):

	December 31, 2020 $	December 31, 2019 $	**Change $**
Contractors	**170,000**	129,000	**41,000**
Labour	**1,733,000**	1,261,000	**472,000**
Safety and training	**62,000**	44,000	**18,000**
Supplies	**315,000**	350,000	**(35,000)**
Utilities	**32,000**	33,000	**(1,000)**
	2,312,000	1,817,000	**495,000**
Depreciation	**189,000**	424,000	**(235,000)**
Cost recoveries	**(242,000)**	(356,000)	**114,000**
Government assistance received or amortized	**(2,030,000)**	(779,000)	**(1,251,000)**
Research expenses, net	**229,000**	1,106,000	**(877,000)**

During the year ended December 31, 2020, the Company increased spending on research activities by approximately $495,000 relative to the comparative year. This was largely driven by increasing global interest in the Company's technologies, progress through government programs, expansion of the Company's facilities, technological breakthroughs, and new strategic partnerships (see "Strategic Partnerships" below), which contribute to an overall increase in research activities and related expenditures in all categories including expanding its research workforce.

Cash flows during the year ended December 31, 2020

Cash used in operating activities was approximately $2,923,000, largely driven by $3,348,000 incurred on cash-based operating expenses and partially offset by approximately $425,000 in changes in working capital items.

Cash used in investing activities was approximately $1,512,000, largely driven by the purchase of a $1,000,000 short-term investment maturing in May 2021, (a non-redeemable guaranteed investment certificate bearing interest at 1.50%, per annum), plus deposits and/or purchases of research and development equipment, pilot plant upgrades, and leasehold improvements of approximately $791,000 in aggregate.

Cash provided by financing activities was approximately $30,438,000 substantially comprising aggregate gross proceeds of approximately $25,369,000 from the closing of the February 2020 non-brokered private placement, and the October 2020 Short Form Prospectus financing. Additionally, the exercise of stock options and warrants generated proceeds of approximately $7,075,000. These cash flows from financing activities are partially reduced by share issue costs and office and facility lease payments of approximately $2,006,000 in aggregate.

Government Assistance

The Company receives funding from the Government of Canada for its research activities through various programs. During the years ended December 31, 2020 and December 31, 2019, the following amounts were received:

	December 31, 2020	December 31, 2019
	$	$
Grant cash proceeds received:		
Sustainable Development Technology Canada (SDTC)	3,055,202	1,181,944
Innovation Assistance Program (IAP)	241,225	-
Automotive Supplier's Innovation Program (ASIP)	217,446	168,691
Industrial Research Assistance Program (NRC-IRAP)	182,285	84,516
Other Grants	2,700	20,400
	3,698,858	1,455,551

Approximately 40% of the Company's accumulated program funding from the Government of Canada was received during the year ended December 31, 2020 alone.

The cumulative amount of program funding received since January 1, 2014 from the Government of Canada are as follows:

	December 31, 2020	December 31, 2019
	$	$
Sustainable Development Technology Canada (SDTC)	6,110,313	3,055,111
Automotive Supplier's Innovation Program (ASIP)	1,950,952	1,733,506
Industrial Research Assistance Program (NRC-IRAP)	794,966	612,681
Innovation Assistance Program (IAP) (from NRC-IRAP)	241,225	-
Scientific Research & Experimental Development (SR&ED)	98,661	98,661
Other Grants	80,059	77,359
	9,276,176	5,577,318

The Company's primary active government assistance program is that with SDTC, as follows:

Sustainable Development Technology Canada ("SDTC"):

The SDTC Program #2 grant is for up to $8,283,000 ($4,029,016 received as of the date of these financial statements). SDTC Program #2 is estimated to conclude in June 2024.

Effective July 1, 2019, the Company executed a contribution agreement with SDTC for a non-repayable grant of up to $5,000,000 in respect of the Company's "Scaling Advanced Battery Materials" project which was increased to $5,250,000 during the year ended December 31, 2020 upon receiving an additional one-time non-repayable grant of $250,000 from SDTC in relation to COVID-19 pandemic.

On May 6, 2020, the Company announced that the Innovative Clean Energy ("ICE") Fund of the Province of British Columbia's Ministry of Energy, Mines and Petroleum Resources will be contributing $3,033,000 to the SDTC Program #2. The funds are non-repayable, and the Company will receive the funds in alignment with the SDTC grant.

The funds from SDTC Program #2 are payable to the Company in five (5) instalments including the release of a final 10% hold-back of $828,300 to the Company upon satisfactory review and approval of the project by SDTC. The instalments from SDTC are to be paid to the Company at the beginning of each of the four (4) Milestones. Each instalment payment is subject to the Company meeting the specific project Milestones and having available cash resources to match each instalment from SDTC.

During the year ended December 31, 2019, the Company received an instalment of $973,814 for Milestone 1 from SDTC and during the year ended December 31, 2020, the Company had successfully completed Milestone 1.

During the year ended December 31, 2020, the Company received $2,805,202, of which $2,214,490 and $590,712 relate to Milestone 2 and Milestone 1 catch-up payments by ICE, respectively.

SELECTED ANNUAL INFORMATION

The following table sets out selected historical financial information of Nano One. Such information is derived from the audited financial statements of Nano One.

	December 31, 2020 $	December 31, 2019 $	December 31, 2018 $
Revenues	**-**	-	-
Loss and comprehensive loss	**(5,212,408)**	(3,781,180)	(4,997,715)
Loss per share - basic and diluted	**(0.07)**	(0.06)	(0.08)
Total assets	**30,959,027**	2,932,912	4,287,617
Total liabilities	**2,060,691**	1,064,476	174,681
Shareholders' equity	**28,898,336**	1,868,436	4,112,936

SUMMARY OF QUARTERLY RESULTS

The following table shows the results for the last eight fiscal quarters:

Period Ending	**Revenue $**	**Loss and comprehensive loss $**	**Basic and Diluted Loss Per Share $**
December 31, 2020	-	(2,103,524)	(0.02)
September 30, 2020	-	(1,504,365)	(0.02)
June 30, 2020	-	(541,673)	(0.01)
March 31, 2020	-	(1,062,846)	(0.01)
December 31, 2019	-	(529,851)	(0.01)
September 30, 2019	-	(732,660)	(0.01)
June 30, 2019	-	(1,119,756)	(0.02)
March 31, 2019	-	(1,398,913)	(0.02)

FOURTH QUARTER

The Company's performance for the three months ended December 31, 2020 and December 31, 2019 was as follows (rounded):

	Three months ended December 31, 2020 $	Three months ended December 31, 2019 $	Change $
Revenue	-	-	-
Loss from operating expenses	(2,142,000)	(538,000)	(1,604,000)
Loss and comprehensive loss	(2,104,000)	(530,000)	(1,574,000)
Cash used in operating activities	(2,945,000)	(610,000)	(2,335,000)
Cash provided by (used in) investing activities	154,000	(345,000)	499,000
Cash provided by (used in) financing activities	16,618,000	(34,000)	16,652,000

The key driver of the increase in operating expenses and loss and comprehensive loss during the three months ended December 31, 2020 compared to the three months ended December 31, 2019 was the greater level of operating activity and capital investment in general. During the comparative period the Company was focused on working capital preservation and therefore certain discretionary contacts and expenses were less in scope, and less active. As the Company increased working capital beginning with the February 2020 private placement financing, coupled with the general increase in interest and activity in the battery materials sector during calendar 2020, the Company experienced increased operating activity in all aspects of its business which results in higher costs.

The level of cash used in operating activities was not only a driven by cash-based operating expenses, but also a re-allocation of the government grant proceeds received from operating activities (research expenses) to investing activities (property and equipment) compared to the presentation of these grants as at and for the period ended September 30, 2020. This accounting re-allocation was also the driver behind the presentation of positive cash flows from investing activities as opposed to cash flows being used in investing activities.

Cash provided by financing activities in the amount of approximately $16,618,000 for the three months ended December 31, 2020, was primarily from the October 2020 Short Form Prospectus offering for gross proceeds of approximately $14,369,000, in addition to stock option and warrant exercises.

Significant components of loss from operating expenses and loss and comprehensive loss for the three months ended December 31, 2020 and December 31, 2019 were as follows (rounded):

	Three months ended December 31, 2020 $	Three months ended December 31, 2019 $	Increase (decrease) $
Consulting fees	**116,000**	72,000	44,000
Investor relations and shareholder information	**170,000**	94,000	76,000
Research expenses, net	**1,505,000**	26,000	1,479,000

The Company's consulting fees, and investor relations and shareholder information expenses have increased generally as the Company's activities have increased which drives the requirement for services such as capital markets advisory, and market research consultants, as well as the requirement for greater investor relations involvement as driven by various capital markets factors including increased news flow from the Company.

Research expenses for the three months ended December 31, 2020, is driven by the re-allocation of government grant proceeds from research expenses and into property and equipment, professional fees, and salaries and benefits (as discussed above), in addition to the general increase in research activity including increased staffing costs. Salaries and benefits for the same period present as a reduction which was caused by the re-allocation of government grant proceeds as noted above (compared to the presentation for the period ended September 30, 2020).

TRANSACTIONS BETWEEN RELATED PARTIES

Key management personnel are the persons responsible for the planning, directing, and controlling the activities of the Company and includes both executive and non-executive Directors, and entities controlled by such persons. The Company considers all Directors and Officers of the Company to be key management personnel.

The following transactions were carried out with related parties (gross before applicable government assistance recoveries):

	Nature of transaction or balance	**Transactions year ended December 31, 2020 $**	Transactions year ended December 31, 2019 $	**Balances outstanding December 31, 2020 $**	Balances outstanding December 31, 2019 $
(1)	Professional fees	191,635	118,433	38,753	16,883
(2)	Management and directors' fees	429,000	60,000	7,875	5,250
(3)	Salaries and benefits / Research expenses	830,000	335,712	-	-
(3)	Expense reimbursements	-	-	2,696	2,731
(4)	Share-based payments	1,339,100	-	-	-
		2,789,735	514,145	**49,324**	24,864

(1) Legal fees are incurred with Patent Filing Specialists Inc., a company controlled by an independent Director of the Company (Joseph Guy). The transactions incurred during the year ended December 31, 2020, are included within professional fees (2019 – professional fees and intangible assets).

(2) Management fees are paid to Bedrock Capital Corp. a company controlled by the Chairman/Director of the Company (Paul Matysek); and to Donaldson Brohman Martin, CPA Inc. (“DBM CPA”), a firm in which the CFO is a principal (Dan Martino). Directors’ fees are accrued to the Company’s two independent Directors (Joseph Guy and Lyle Brown).

(3) Salaries and benefits including amounts allocated to research expenses, net are paid to the Company’s CEO (Dan Blondal), CTO (Stephen Campbell), and President (John Lando). Expense reimbursements outstanding as at December 31, 2020 and 2019 related to Dan Blondal.

(4) Share-based payments includes amounts recognized on vesting of stock options granted to Directors and Officers. During the year ended December 31, 2020, 1,140,000 stock options were granted to Directors and Officers which are exercisable at $2.52 until July 20, 2023 and vested immediately.

(5) During the year ended December 31, 2020, Directors and Officers exercised 2,050,000 stock options at $0.25 per share for proceeds of $512,500.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2020, the Company had working capital of approximately $27,700,000.

As noted in "Overall Performance" above, the Company's primary sources of liquidity during the year ended December 31, 2020, were generated from:

- Completing a Short Form Prospectus financing consisting of the issue of 5,282,900 units at a price of $2.72 per unit for gross proceeds of approximately $14,400,000;
- Completing a private placement for gross proceeds of approximately $11,000,000;
- Exercise of stock options and warrants for total proceeds of $7,075,000; and
- Proceeds from Government assistance programs of approximately $3,700,000 in aggregate, including approximately $3,055,000 from Sustainable Development Technology Canada ("SDTC").

In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The Board of Directors relies on the expertise of the Company's management to sustain future development of the business.

When managing capital, the Company's objective is to ensure that it continues as a going concern, to ensure it has sufficient capital to deploy on new and existing projects (including the requirement for matching funds relating to the SDTC program, as well as to generate optimal returns to shareholders and benefits for other stakeholders. Management reviews and adjusts its capital structure on an ongoing basis.

The Company currently has no source of revenues, though it receives funding from government assistance programs, and certain research cost recoveries from strategic partners. Above this, the Company is dependent equity financing to fund its activities. In order to fund ongoing research activities and pay for operating expenses, the Company will spend its existing working capital and may complete additional equity financings to facilitate the management of its capital requirements. The Company is not subject to any externally imposed capital requirements. There were no changes to the Company's approach to capital management during the year ended December 31, 2020.

Use of Proceeds from Financings

On February 21, 2020, the Company completed a non-brokered private placement for gross proceeds of $10,999,750. The net proceeds of the placement after deducting finders' fees, legal, filing and other fees of $618,358 were $10,381,392.

On October 29, 2020, the Company completed a Short Form Prospectus financing for gross proceeds of $14,369,488. The net proceeds of the financing after deducting finders' fees, legal, filing and other fees of $1,250,497 were $13,118,991.

For the period from closing of the private placement on February 21, 2020 to December 31, 2020, the Company has used the net proceeds as follows:

Principal Purposes	Use of Proceeds $
Research activities	**2,128,592**
Capital equipment purchases and leasehold improvements on laboratory facilities	**1,277,342**
Pilot plant expansion	**344,235**
Intellectual property acquisition	**-**
Business development and strategic alternatives	**380,344**
Working capital	**3,083,823**
Subtotal	**7,214,336**
Unallocated	**16,286,047**
Net proceeds of the financings	**23,500,383**

SHARE CAPITAL INFORMATION

Transactions for the issue of share capital during the year ended December 31, 2020:

- On February 21, 2020, the Company completed a non-brokered private placement consisting of the issue of 9,565,000 units at a price of $1.15 per unit for gross proceeds of $10,999,750 ($10,381,392 net proceeds after deducting cash finders' fees and expenses). Each unit consisted of one common share and one-half of a common share purchase warrant with each whole warrant exercisable into one common share at an exercise price of $1.60 until February 21, 2023.

  Cash finders' fees totalling $557,221 and legal fees of $61,137, were incurred in respect of the placement. Additionally, the Company issued 467,740 finders' warrants exercisable at $1.60 until February 21, 2023, having a fair value of $281,300.

- The Company issued 2,724,100 common shares on the exercise of stock options at prices between $0.25 and $2.52 per share, for proceeds of $1,157,725.

- The Company issued 3,396,494 common shares on the exercise of warrants at prices of between $1.60 and $3.55 per share, for proceeds of $5,917,270.

- On October 29, 2020, the Company completed a Short Form Prospectus financing consisting of the issue of 5,282,900 units at a price of $2.72 per unit for gross proceeds of $14,369,488 ($13,118,991 net proceeds after deducting cash finders' fees and expenses). Each unit consisted of one common share and one-half of a common share purchase warrant with each whole warrant exercisable into one common share at an exercise price of $3.55 until October 29, 2022. The residual value of the warrants attached to the units was determined to be $369,803.

  Cash finders' and corporate finance fees totalling $938,018 were paid to the agents upon closing of the offering. Additionally, legal, transfer agent and filing and other fees of $312,479, were incurred in respect of the offering. Additionally, the Company issued 422,632 finders' (brokers') warrants exercisable at $2.72 until October 29, 2022, having a fair value of $392,000. Additionally, the Company issued 79,242 common shares to the agents with a fair value of $215,538 ($2.72 per share) as a corporate finance fee.

Transactions for the issue of share capital subsequent to December 31, 2020 and to the MD&A Date:

- The Company has received proceeds of $4,391,782 upon the exercise of options and warrants as described below:

  The Company issued 273,250 common shares on the exercise of stock options at prices between $0.38 and $2.81 per share, for gross proceeds of $309,490. Additionally, the Company issued 1,314,736 common shares on the exercise of warrants at prices between $1.60 and $3.55 per share, for gross proceeds of $4,082,292.

OUTSTANDING SHARE DATA

The authorized share capital of the Company consists of unlimited common shares without par value. All issued common shares are fully paid. As at the MD&A Date, there were 89,825,524 common shares issued and outstanding.

Stock options

As at the MD&A Date, the Company has 6,121,025 stock options outstanding and exercisable with a weighted average exercise price of $2.71 per share.

Warrants

As at the MD&A Date, the Company has 4,246,592 warrants issued and outstanding with a weighted average exercise price of $2.34 per share.

CRICITAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with IFRS requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of income and expenses during each reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

The information about significant areas of estimation uncertainty and judgment considered by management in preparing the financial statements are described in Note 2 of the Company's audited financial statements for the year ended December 31, 2020.

FINANCIAL INSTRUMENTS

Financial instruments - fair value

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices that are observable for the assets or liability either directly or indirectly; and
- Level 3 - Inputs that are not based on observable market data.

Classification of financial instruments

Financial assets:	Classification:	Subsequent measurement:
Cash and cash equivalents	FVTPL	Fair value
Short-term investment	Amortized cost	Amortized cost
Receivables	Amortized cost	Amortized cost
Deposits	Amortized cost	Amortized cost

Financial liabilities:	Classification:	Subsequent measurement:
Accounts payable and accrued liabilities	Amortized cost	Amortized cost
Accounts payable to related parties	Amortized cost	Amortized cost
Lease liabilities	Amortized cost	Amortized cost

The Company's financial instruments can be exposed to certain financial risks including liquidity risk, credit risk, interest rate risk, price risk, and currency risk. Details of these risks and related assessments as well as the fair value measurements of the Company's financial instruments are included in the Company's financial statements for the year ended December 31, 2020, within Note 11.

OFF-BALANCE SHEET ARRANGEMENTS

Nano One does not utilize off-balance-sheet arrangements.

PROPOSED TRANSACTIONS

There are no proposed transactions as the MD&A Date.

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

During the year ended December 31, 2020, there were no changes to the Company's significant accounting policies, nor any new accounting policies adopted.

RISKS AND UNCERTAINTIES

Risk is inherent in all business activities and cannot be entirely eliminated. The Company discloses a comprehensive list of risks and uncertainties under "Risk Factors" in its AIF dated September 8, 2020 as filed on SEDAR. The risks and uncertainties described in this MD&A are considered by management to be the most important in the context of the Company's business as of the MD&A Date. These risks and uncertainties are not inclusive of all the risks and uncertainties the Company may be subject to, and other risks may apply.

Global Pandemic (COVID-19)

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company's business or results of operations or on the Company's industry partners who provide in-kind and/or financial contributions to the Company's government programs. There are travel restrictions and health and safety concerns that may delay the Company's research activities. Operations depend on safeguarding all personnel during the outbreak, which may be prohibitive in certain aspects. Nonetheless, the Company has implemented prevention measures at its office and laboratory facilities including the facilitation of remote work programs. To date, the Company has not experienced any significant delays in carrying out its activities or other adverse effects on its business. Various Government wage and loan subsidies are available to qualified companies to assist them with operating costs during the pandemic. The Government continues to update its COVID-19 relief programs, which may qualify the Company for additional assistance.

Intellectual Property Protection

The Company cannot provide any assurance that any intellectual property applications will be approved. Even if they are approved, such patents, trademarks or other intellectual property registrations may be successfully challenged by others or invalidated. The success of the Company and its ability to compete are substantially dependent on its internally developed technologies and processes which the Company will need to protect through a combination of patent, copyright, trade secret and trademark law.

The trademark, copyright, and trade secret positions of the Company's business are uncertain and involve complex and evolving legal and factual questions. In addition, there can be no assurance that competitors will not seek to apply for and obtain trademarks and trade names that will prevent, limit or interfere with the Company's processes. There can be no assurance that the Company will have the financial resources to defend its patents, trademarks, and copyrights from infringement or claims of invalidity. Litigation may be necessary in the future to enforce the Company's intellectual property rights, to protect the Company's trade secrets, to determine the validity and scope of the proprietary rights of others, or to defend against claims of infringement. Any such litigation could result in substantial costs and diversion of resources and could have a material adverse effect on the Company's business, operating results, and financial condition. There can be no assurance that the Company's means of protecting its proprietary rights will be adequate or that competitors will not independently develop similar services or products. Any failure by the Company to adequately protect its intellectual property could have a material adverse effect on its business, operating results and financial condition.

The patent positions of emerging companies can be highly uncertain and involve complex legal and factual questions. Thus, there can be no assurance that any patent applications made by or on behalf of the Company will result in the issuance of patents, that the Company will develop additional proprietary products that are patentable, that any patents issued or licensed to the Company will provide the Company with any competitive advantages or will not be challenged by any third parties, that the patents of others will not impede the ability of the Company to do business or that third parties will not be able to circumvent the patents assigned or licensed to the Company. Furthermore, there can be no assurance that others will not independently develop similar products, duplicate any of the Company's products or, if patents are issued and licensed to the Company, design around the patented product developed for the benefit of the Company.

Since patent applications are maintained in secrecy for a period of time after filing, and since publication of discoveries in the scientific or patent literature often lags behind actual discoveries, the Company cannot be certain that the inventors of the patents were the first creators of inventions covered by pending applications, or that it was the first to file patent applications for such inventions. There can be no assurance that the Company's patents, if issued, would be valid or enforceable by a court or that a competitor's technology or product would be found to infringe such patents.

The Company is not currently aware of any claims asserted by third parties that the Company's intellectual property infringes on their intellectual property. However, in the future, a third party may assert a claim that the Company infringes on their intellectual property. If the Company is forced to defend against these claims, which may be with or without any merit or

whether they are resolved in favour or against the Company, the Company may face costly litigation and diversion of management's attention and resources. As a result of such a dispute, the Company may have to develop costly non-infringement technology or enter into license agreements which may not be available at favourable terms.

Performance and Scalability

To be successful, Nano One will have to successfully scale its internally developed technology while maintaining high product quality and reliability. If Nano One cannot maintain high product quality on a large scale, the Company will be adversely affected. Nano One may encounter difficulties in scaling up cathode materials that are typically required to prototype full size battery cells. Even if Nano One is successful in developing its technologies, Nano One does not know whether the Company will do so in time to satisfy the requirements of the electric vehicle industry or other industries. The Company's current facility hosts a pilot plant and laboratory with limited production capacity.

Any interruption in operations at the current facility could result in the inability to successfully execute the business plan. A number of factors could cause interruptions, including, but not limited to, equipment malfunctions or failures, work stoppages or slow-downs, damage to or destruction of the facility, or regional power shortages. The success of the Company and its ability to compete are substantially dependent on its internally developed technologies.

Management of Growth

The Company could experience growth that could put a significant strain on each of the Company's managerial, operational and financial resources. The Company must implement and constantly improve its operational and financial systems and expand, train, and manage its employee base to manage growth. In addition, the Company expects that its operational and management systems will face increased strain as a result of the expansion of the Company's technologies. The Company might not be able to effectively manage the expansion of its operations and systems, and its procedures and controls might not be adequate to support its operations. In addition, management might not be able to make and execute decisions rapidly enough to exploit market opportunities for the expansion of the Company's technologies. If the Company is unable to manage its growth effectively, its business, results of operations, and financial condition will suffer. Failure to effectively manage growth could also result in difficulty in launching new processing technology or enhancing existing processing technology, declines in quality or end-user satisfaction, increases in costs or other operational difficulties, and any of these difficulties could have a material adverse effect on its business, prospects, financial condition, results of operations, and cash flows.

Competition

Despite efforts by the Company to protect its proprietary rights on which the Company's business is dependent, competitive products may be developed in the future. Competition could adversely affect the Company's ability to acquire market share.

Execution of Business Plan

The execution of the Company's business plan poses many challenges and is based on a number of assumptions. the Company may not be able to successfully execute its business plan. If the Company experiences significant cost overruns on its programs, or if its business plan is more costly than it anticipates, certain research and development activities may be delayed or eliminated, resulting in changes or delays to its commercialization plans, or the Company may be compelled to secure additional funding (which may or may not be available) to execute its business plan. The Company cannot predict with certainty its future revenues or results from its operations. If the assumptions on which its revenues or expenditures forecasts are based change, the benefits of the Company's business plan may change as well. In addition, the Company may consider expanding its business beyond what is currently contemplated in its business plan. Depending on the financing requirements of a potential acquisition or new product opportunity, the Company may be required to raise additional capital through the issuance of equity or debt. If the Company is unable to raise additional capital on acceptable terms, it may be unable to pursue a potential acquisition or new product opportunity.

Currently, the Company has no history of profitable operations or material revenue. As such, the Company is subject to many risks including under-capitalization, cash shortages, and limitations with respect to personnel, financial, and other resources.

Access to Proprietary Information

The Company generally controls access to and distribution of its technologies, documentation, and other proprietary information. Despite efforts by the Company to protect its proprietary rights from unauthorized use or disclosure, parties may attempt to disclose, obtain, or use its solutions or technologies. There can be no assurance that the steps the Company has taken or will be taking will prevent misappropriation of its solutions or technologies, particularly in foreign jurisdictions where laws or law enforcement practices may not protect proprietary rights as fully as in Canada or the United States.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management has designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The design of the Company's internal control over financial reporting was assessed as of the MD&A Date.

Based on this assessment, it was determined that certain weaknesses existed in internal controls over financial reporting. As indicative of many small companies, the lack of segregation of duties and effective risk assessment were identified as areas where weaknesses existed. The existence of these weaknesses is to be compensated for by senior management monitoring, which exists. Management will continue to monitor very closely all financial activities of the Company and increase the level of supervision in key areas, as required. It is important to note that this issue would also require the Company to hire additional staff in order to provide greater segregation of duties, which is not a cost-effective course of action at this time. Accordingly, management has chosen to disclose the potential risk in its filings and proceed with increased staffing only when the budgets and workload will enable the action. The Company has attempted to mitigate these weaknesses, through a combination of extensive and detailed review by management of the financial statements, the integrity and reputation of senior accounting personnel, and candid discussion of those risks with the audit committee.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

Information provided in this MD&A and the financial statements is the responsibility of management. In the preparation of the financial statements, estimates are sometimes necessary to make a determination of the carrying value for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the financial statements. Management maintains a system of internal controls to provide reasonable assurances that the Company's assets are safeguarded and to facilitate the preparation of relevant and timely information.

APPROVAL

The Board of Directors of the Company has approved the disclosure contained in this MD&A.