

## **EXRO TECHNOLOGIES INC.**

### **MANAGEMENT DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2017**

The following is a discussion of the financial condition and results of operations of Exro Technologies Inc. ("Exro", the "Company", "we", "our") during the year ended December 31, 2017, and to the date of this report. The following management discussion and analysis ("MD&A") should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2017, prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). This MD&A complements and supplements, but does not form part of, the Company's consolidated financial statements.

This MD&A contains forward-looking statements. All forward-looking statements, including those not specifically identified herein, are made subject to cautionary language on page 18. Readers are advised to refer to the cautionary language when reading any forward-looking statements.

All dollar amounts contained herein are expressed in Canadian dollars unless otherwise indicated. This MD&A has been prepared as of April 30, 2018.

#### **BUSINESS OVERVIEW**

Variable energy sources including solar, wind and wave have had a limited impact on overall power generation until this decade. Hydroelectric power generation aside, technologies used to capture energy from clean renewable sources have found it difficult to compete with the fossil fuel industry without subsidies and other forms of support.

Exro offers the potential to accelerate the transition to clean energy by improving the efficiency and reliability of fuel-powered electric motors and generators, which make up about half the worldwide market for electric power. Exro's patented Dynamic Power Management ("DPM") technology works on both input and output in electric motors and generators, dynamically sensing and adapting variable inputs and optimally matching them to desired outputs, which Exro expects will result in specific, measurable performance gains. The applications of the technology can apply to both the energy capture from wind and tides and optimizing the performance of electric cars, UAVs, pumps, ship drives, industrial motors, vacuums and anything else powered by an electric motor or generator. By isolating individual coils, Exro's DPM technology also offers electrical system redundancy, which can prevent catastrophic failures for mission critical applications such as flight.

Exro's business model is to develop licensee partners that are established in their respective markets, specifically those that welcome innovation in their product lines that have adequate internal engineering capacity, growing sales and an existing customer base. The business model is scalable, requiring much lower capital investment than building a manufacturing business. This approach offers the opportunity to address several market segments concurrently, incrementally and in rapid succession by building on earlier success.

#### **TECHNOLOGY**

The Exro DPM technology is a control system that integrates wiring of the rotating machine coils into the power electronics. This gives the power electronics control of the machine coil wiring configuration in real time, providing a range of options in place of a fixed machine configuration.

The control system will select the best configuration for a given operating condition using an application-specific algorithm. Exro's breakthrough approach to generator and motor design and control improves efficiency across highly variable input and output applications. Until today electric machine coils have been wired in a single configuration and the designer had to select the configuration that is the best compromise over the range of operating conditions. DPM senses input energy and load, and seamlessly switches coil wiring in any combination from full parallel to full

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series. The technology is intended to make electric motors and generators used in variable settings "intelligent", leading to more efficient operation.

In essence, DPM provides voltage control with multiple performance curves corresponding to the coil configurations in the electric machine. Exro's technology is designed and built into our partner's electric machine and power electronics for the application. DPM is fully integrated with the power electronics design; there is no separate hardware package.

Exro has built an intellectual property base and intends to protect and commercialize new innovations. By licensing its technology, Exro will focus on its core competency in a field dominated by large players, and allow its partners do what they do best in manufacturing and fielding products. Exro will work closely with development partners and customers to integrate its technology into their products and develop new intellectual property for Exro as the opportunity presents itself.

Exro's technology and intellectual property is wholly-owned in seven patent families providing or seeking global protection in strategically important countries. There are fifteen issued granted patents and seven pending applications.

## **OUTLOOK**

Exro's goal is to become profitable as quickly as possible without stunting growth. This will take place primarily through revenue generated from licensing the Company's technology including: royalties; payments based upon additional electricity generation or savings; and licensing fees.

Exro's future will be focused on securing and processing strategic licensing arrangements. It is the Company's goal to evolve every collaboration into a commercial licensing arrangement. The central purpose of a collaboration will be to determine the economic benefits when the Company's technology is integrated into an electric motor or a generator for a particular application. This process will become more systematized as third party commercial case studies demonstrate efficiencies in target applications.

To this end, the company continues to make forward progress, though the process of developing and validating test data has been more difficult and time-intensive than originally planned. Over the next several months, a key goal is to be able to provide validated test data that can be shared with potential customers.

The Company is also continuing to explore other potential collaborations for its technology for a variety of applications.

## **2017 HIGHLIGHTS**

- Exro has established a test and development facility in Victoria to support collaborations with parties interested in licensing the Company's technology. The facility was set up by Dr. Torsten Broeer, Exro's Chief Technology Officer. The facility has space for the Company's current and mid-term requirements.
- Exro has also secured office space in downtown Vancouver which now serves as the Company's corporate headquarters, and has expanded its technical staff with two electrical engineers to support the Company's technology development and collaboration initiatives.
- Exro is continuing to work with Northwest UAV ("NWUAV"), the world's leading supplier of drone propulsion systems, to validate that an Exro enabled generator can improve the electrical power generation system efficiencies on an Internal Combustion Engine (ICE) based drone propulsion system. Exro's technical team has designed a test bench and is gathering data relevant to this effort. However to date Exro has not reached conclusions with respect to efficiency gains in drone applications.
- The Company has started a second initiative focused on integrating its technology into a motor for electric bicycles. On completion, the Company plans to do the same integration as though the motor was a generator, at which point the two technologies will merge to form a reversible machine - a single rotating machine that

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will act as a motor for acceleration and as a generator during deceleration. Exro's goal is to show improvement in energy consumption, which will also be important for many electric vehicles.

- Dr. James Tansey has joined Andreas Truckenbrodt, Jamie Chapman and James Topham on the Company's Advisory Board. Dr. Tansey is the Director of Sustainability at the Sauder School of Business at the University of British Columbia.
- Exro has added Monica Harrington to Exro's executive team filling the role as Chief Marketing Officer ("CMO"). Harrington brings a deep background in high tech marketing, business development, and communications and advocacy. She previously was the founding Chief Marketing Officer for Valve, a leading entertainment and digital distribution company based in Bellevue, WA. Valve's debut product, Half-Life, won more than 50 Game of the Year Awards and was named the Best Marketed Game Ever by PC Gamer, then the leading PC Games publication. Harrington later served as CMO for Picnik, which become the world's leading online photo editing site before being acquired by Google in 2010. Between startups, Harrington worked as a Senior Policy Officer at the Bill & Melinda Gates Foundation, where she managed the central communications team and served as Bill and Melinda's media advisor. Harrington also worked at Microsoft for 11 years in marketing and business development roles, and was honored with the Consumer Division's Market Maker Award for having the "biggest impact on the bottom line."

**MATERIAL EVENT: AMALGAMATION**

On November 7, 2016, the Company entered into an amalgamation agreement with BioDE Ventures Ltd. ("BioDE") and BioDE's wholly owned subsidiary, 1089001 BC Ltd. ("Newco"), to combine businesses with Newco. Upon amalgamation, the Company exchanged all issued and outstanding common shares into BioDE shares at an exchange ratio of approximately one Exro share for 0.5257 BioDE shares. On July 26, 2017, this amalgamation agreement was completed and the Company's shareholders hold approximately 86% of all BioDE shares issued and outstanding.

The Amalgamation was accounted for as a reverse takeover whereby Exro is reflected as the accounting acquirer and BioDE as the accounting acquiree. Management evaluated that BioDE did not meet the definition of a business as defined by IFRS 3. Consequently, the Amalgamation was accounted as an acquisition of BioDE's net assets and reporting issuer status by the issuance of shares of the Company to BioDE's shareholders. The BioDE share capital and retained earnings were eliminated in the proforma consolidation. The cost of the transaction in excess of the net assets of BioDE was reflected as an expense, being the cost of obtaining a listing of Exro's shares on the CSE.

The cost of the transaction in excess of the net assets of BioDE has been reflected as an expense, being the cost of obtaining a listing of Exro's shares on the CSE as follows:

<b>Cost of Amalgamation</b>		
Fair value of shares held by shareholders of BioDE <sup>(i)</sup>	\$	1,228,793
Fair value of the broker warrants of BioDE <sup>(ii)</sup>		8,000
Legal and professional fees related to Amalgamation		90,511
<b>Total cost of acquiring BioDE</b>	<b>\$</b>	<b>1,327,304</b>
<b>Fair Value of BioDE assets acquired, net of liabilities</b>		
Cash	\$	48,957
Accounts receivable		5,526
Prepaid expense		12,493
Promissory note receivable		529,000
Equipment		696
Accounts payable and accrued liabilities		(24,205)

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Net assets		572,567
Excess recorded as listing expense	\$	754,837

- i) The fair value of the shares of the Resulting issuer that will be held by shareholders of BioDE was determined based on there being 6,143,967 common shares issued and outstanding as of the date of amalgamation. This consists of 3,809,092 common shares issued and outstanding as at July 26, 2017 plus an additional 2,334,875 common shares issued after the conversion of 2,334,875 special warrants issued previously issued by BioDE. The fair value of the 6,143,967 common shares was determined using a price of \$0.20 per share being the price of the Concurrent Financing (note 10).
- ii) Pursuant to BioDE's special warrant financing, 76,720 broker warrants became issuable upon completion of the Amalgamation. The broker warrants have an exercise price of \$0.20 and will expire in two years. The fair value of the warrants was estimated to be \$8,000 using the Black-Scholes option price model with the following assumptions: an expected volatility of 100%, an expected life of two years, a risk-free rate of 1.5% and a dividend yield of Nil.

In addition to the Amalgamation, on April 21, 2017, the Company entered into an agreement to sell the rights, benefits and privileges of its existing legacy technology to BioHEP Technologies Ltd. ("BioHEP"), a company that has directors in common with BioDE. The technology consisted of a License Agreement and Patents (the "Biotech Assets"). The purchase price of \$450,000 was paid by the issuance of 540,050 shares of BioHEP. The value of the Biotech Assets is supported by a fairness opinion made by an independent valuation consultant. Pursuant to the terms of the Amalgamation, the proceeds received from the sale of Biotech Assets were to be distributed to the shareholders of BioDE who were shareholders of as of November 7, 2016 by way of a dividend.

**RESULTS OF OPERATIONS AND SELECTED FINANCIAL DATA**

**Selected annual information**

The selected financial information below are derived from the Company's audited consolidated financial statements for the years ended December 31, 2017, 2016 and 2015, prepared in accordance with IFRS. The Company's significant accounting policies and new accounting policies applied in the preparation of its consolidated financial statements are outlined in note 3 to the Company's audited consolidated financial statements for the years ended December 31, 2017, 2016, and 2015.

	December 31, 2017	For the year ended December 31, 2016	December 31, 2015
Operating expenses	\$ 2,209,225	\$ 600,669	\$ 287,432
Other (income) expenses	746,458	(13,544)	51,428
Net (loss) and comprehensive loss	(2,955,683)	(587,125)	(338,860)
Basic and diluted income (loss) per common share	(0.10)	(0.04)	(0.01)

As at	December 31, 2017	December 31, 2016	December 31, 2015
Total assets	\$ 1,790,055	\$ 111,362	\$ 207,753
Total liabilities	174,724	1,797,650	1,366,828

**For the year ended December 31, 2017, compared to the year ended December 31, 2016**

During the year ended December 31, 2017, the Company incurred a comprehensive loss of \$2,955,683 (2016 – \$587,125).

Payroll and consulting expense increased by \$381,926 to \$856,238 (2016 - \$474,312) during the year ended December 31, 2017. The increase was a result of increased engineering and business development work which commenced after the amalgamation agreement was signed in November 2016. There was no engineering work and less business development work during the year ended December 31, 2016.

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Professional fees increased from \$101,592 to \$276,778 during the year ended December 31, 2017. The \$175,186 increase was primarily the result of additional accounting, audit and legal fees related to the amalgamation and listing application. Legal fees also increased as a result of an increase in patent related work relative to the same period last year.

Share based payments expense was \$575,743 for the year ended December 31, 2017 (2016 – \$nil). During the period 4,725,000 options were issued of which 3,040,500 were vested. There were no options issued or vested in the same period last year. The fair value of options were measured using the black-sholes option pricing model.

Investor relations expense of \$21,570 (2016 – \$nil) and regulatory fees of \$24,266 (2016 – \$nil) were incurred during the year ended December 31, 2017 as Exro began trading on the CSE August 29, 2017.

Advertising and Marketing expense of \$249,484 (2016 – \$2,936) and travel expense of \$68,123 (2016 – \$9,881) for the year ended December 31, 2017 increased over last year as the Company began its campaign to expand the applications of its technology. These costs included conference attendance and website work.

**RESULTS OF OPERATIONS AND SELECTED QUARTERLY FINANCIAL DATA**

**Selected quarterly financial data**

	<b>Quarter ended</b>	<b>Revenue</b>	<b>Net loss and comprehensive loss</b>	<b>Basic and diluted loss per common share</b>	<b>Weighted average number of common shares</b>
Q4/17	December 31, 2017	\$ -	(660,973)	(0.01)	46,095,105
Q3/17	September 30, 2017	-	(1,624,390)	(0.04)	36,914,640
Q2/17	June 30, 2017	-	(345,007)	(0.01)	32,878,321
Q1/17	March 31, 2017	-	(325,313)	(0.01)	31,898,943
Q4/16	December 31, 2016	-	(266,985)	(0.01)	31,898,943
Q3/16	September 30, 2016	-	(194,110)	(0.01)	31,204,637
Q2/16	June 30, 2016	-	(52,233)	(0.01)	31,120,193
Q1/16	March 31, 2016	-	(73,797)	(0.00)	31,120,193

**For the three months ended December 31, 2017, compared to the three months ended December 31, 2016**

During the three months ended December 31, 2017, the Company incurred a net and comprehensive loss of \$660,973 (2016 – \$266,985).

Professional fees decreased from \$55,863 to \$33,925 during the three months ended December 31, 2017. The \$21,938 decrease was primarily the result of reduced accounting, audit and legal fees subsequent to the amalgamation and listing application activities. Legal fees also increased somewhat as a result of an increase in patent related work relative to the same period last year.

Share based payments expense was \$114,204 for the three months ended December 31, 2017 (2016 – \$nil). During the period 4,025,000 were granted of which 2,716,500 were vested. There were no options issued or vested in the same period last year. The fair value of options were measured using the black-sholes option pricing model.

Investor relations expense of \$nil (2016 – \$nil) and regulatory fees of \$7,762 (2016 – \$nil) were incurred during the quarter ended December 31, 2017 as Exro began trading on the CSE August 29, 2017.

Marketing expense of \$113,700 and travel expense of \$36,731 were also new expenses as the Company began its campaign to expand the applications of its technology. These costs included conference and website work.

Finance costs were nil, a decrease of \$4,426, as a result of no debt outstanding during the three months ended December 31, 2017.

## OUTSTANDING SHARE DATA

As of April 30, 2018, there were 46,200,344 Common Shares issued and outstanding, and other securities convertible into Common Shares as summarized in the following table:

	<b>Number Outstanding as of April 30, 2018<sup>(1)</sup></b>	<b>Number Outstanding as of December 31, 2017</b>
Common Shares issued and outstanding	46,200,344	46,115,344
Options	5,100,000	4,725,000
Warrants	-	-
Broker Warrants	1,240,790	1,210,790

<sup>(1)</sup> As at December 31, 2017, 6,818,903 common shares are held in escrow.

## SOURCES AND USES OF CASH

	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
Cash used in operating activities	(1,697,384)	(127,525)
Cash used in investing activities	(42,987)	-
Cash provided by financing activities	3,086,282	141,972
Net (decrease) increase in cash and cash equivalents	1,345,911	14,447
Ending cash balance at December 31	1,426,191	80,280

Cash used in operating activities is comprised of net loss, add-back of non-cash expenses, and net change in non-cash working capital items. Cash used in operating activities increased to \$1,697,387 in 2017 compared to \$127,525 in 2016. This increase of \$1,568,862 is primarily due to changes in working capital and a significantly higher net loss for the year after non-cash adjustments.

Cash used in investing activities during 2017 was primarily related to the purchase of \$31,401 of equipment for the engineering lab. There were no investments in equipment in 2016.

Cash provided by financing activities increased to \$3,086,282 in 2017 as compared to the amount reported to 2016. On July 26, 2017, the Company converted outstanding subscription receipts to common shares for 2,383,000 and closed a private placement of \$600,000 at a price of \$0.20 per share, for aggregate gross proceeds to the Company of \$2,983,000. Share issue cash costs were \$195,618. During the year ended December 31, 2017, BioDE Ventures advanced \$294,000 to Exro prior to the amalgamation.

On July 28, 2017 the Company issued a non-offering prospectus which described a proposed use of proceeds for funds on hand at that time. The following table sets out a comparison of management's current estimate (non GAAP) of how the Company used the net proceeds following the acceptance of the prospectus by the BC Securities Commission.

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	<b>Proposed principal Purpose for Use of Funds Available</b>	<b>Estimated and Unaudited Actual Use of Proceeds to July 26, 2017 to April 30, 2018</b>
Engineering staff	506,500	323,000
Management and consultants	353,500	498,000 <sup>(i)</sup>
Equipment	535,800	114,000
Professional fees – audit and general legal	48,950	50,000
Patents and related professional fees	100,000	27,000
Regulatory related expenses after listing	19,100	11,000
Travel	138,900	61,000
Office, research facilities and general administration	66,750	68,000
Marketing and related	126,500	235,000 <sup>(ii)</sup>
Investor relations/conferences	60,000	31,000
Unallocated working capital <sup>(iii)</sup>	92,000	150,000
Estimated remaining costs related to listing	125,000	102,000
Applied unallocated private placement August 29, 2017 <sup>(iv)</sup>	-	(558,000)
<b>Total</b>	<b>\$2,173,000</b>	<b>\$1,112,000</b>

- (i) Management and consultants are higher than originally budgeted due to various consultants used in relation to investor relations (not considered actual investor relations expenditures)
- (ii) Marketing expenses are higher than originally budgeted because of business development and conferences related to trying to find new commercialization and strategic relationships
- (iii) Represents unallocated working capital deficiency as at July 26, 2017 including a 50,000 refund from CRA related to R&D claim.
- (iv) In addition to the \$2,048,000 on hand August 1, 2017, the Company raised an additional net proceeds of \$558,676 from a private placement on August 29, 2017 for general working capital purposes. This item was included in applied unallocated capital.

Consultants, office, research facilities, and general administration were higher than expected as subsequent to the issuance of the non-offering prospectus on July 28, 2017, the Company made a strategic decision to open a testing laboratory in Victoria BC to support development activities with potential customer and partners. This additional spending was expected to be funded by the additional private placement on August 29, 2017.

The prospectus also detailed business objectives and milestones. The milestone to create a detailed plan for UAV/Drone project research is expected to be completed in December 2017 whereas the original plan was to complete this in September.

### **SUBSEQUENT EVENTS**

Subsequent to December 31, 2017 the Company issued 85,000 shares on exercise of 50,000 stock options and 35,000 warrants at a price of \$0.20.

The Company also issued 425,000 options at an exercise price of \$0.27.

The Company issued 65,000 warrants at an exercise price of \$0.25.

## **LIQUIDITY AND CAPITAL RESOURCES**

At December 31, 2017, the Company had cash of \$1,426,191, accounts payable and accrued liabilities of \$74,272, and a related party payable of \$100,452. All accounts payable and accrued liabilities are due within 90 days. The Company intends to finance its future requirements through a combination of debt and/or equity issuance. There is no assurance that the Company will be able to obtain such financings or obtain them on favorable terms. These uncertainties cast doubt on the Company's ability to continue as a going concern. The Company will need to raise sufficient working capital to maintain operations.

## **COMMITMENTS**

The Company has obligations under operating leases for its corporate office and development facilities. The leases expire by 2019 and minimum remaining commitments are as follows:

<b>Year</b>	<b>Operating leases</b>	
2018	\$	81,233
2019		74,513
	\$	<b>155,747</b>

## **OFF-BALANCE SHEET ARRANGEMENTS**

The Company does not have any off-balance sheet arrangements for the year ended December 31, 2017.

## **CRITICAL ACCOUNTING ESTIMATES**

The following are key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the current and next fiscal financial years:

- i. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the date of the statement of financial position could be impacted. The Company has not recorded any deferred tax assets.
- ii. Management uses the Black-Scholes Option Pricing Model for valuation of share based compensation and brokers' warrants, which requires the input of subjective assumptions including expected price volatility, risk-free interest rates and forfeiture rates. Changes in the input assumptions can materially affect the fair value estimate and the Company's results of operations and equity reserves.
- iii. The fair value of accrued liabilities at the time of initial recognition is made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors.
- iv. Intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Amortization is calculated using management's best estimate on the useful life of the intangible assets. Determination of impairment loss is subject to management's assessment if there is any indication of a possible write-down; and if so, the determination of recoverable value based on discounted future cash flows of the intangible assets. The carrying amount of nil for intangible does not necessarily reflect present or future value and the ultimate amount recoverable will be dependent upon the successful commercialization of products based on these underlying technologies. The Company has not recorded a value for its intangible asset as this value cannot be reliably measured.



## **PROPOSED TRANSACTIONS**

There are no proposed transactions.

## **MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS**

The information provided in this report, 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.

## **APPROVAL**

The Company's Board of Directors has approved the Company's financial statements for the year ended December 31, 2017 and 2016. The Company's Board of Directors has also approved the disclosures contained in this MD&A.

## **RELATED PARTY TRANSACTIONS**

### **Key management compensation**

Key management consists of the Officers and Directors who are responsible for planning, directing and controlling the activities of the Company. As at December 31, 2017 2016, the following expenses were incurred to the Company's key management:

	<b>December 31, 2017</b>		<b>December 31, 2016</b>	
Management fees	\$	425,025	\$	285,590
Share based compensation		163,962		-
	\$	588,987	\$	285,590

As at December 31, 2017, the Company was indebted to the CEO of the Company for management services in the amount of \$31,978 (2016 – \$495,924). During the year ended December 31, 2017, the CEO settled \$480,314 of past debt with the issuance of common shares. During the year ended December 31, 2017, the company incurred \$130,000 consulting expense from 0711626 BC Ltd., a company controlled by the CEO. This expense is included in the payroll & consulting fees expense on the Statement of Comprehensive Loss.

As at December 31, 2017, the Company was indebted to Novatron Enterprises Inc., a company controlled by the Company's founder, director and former Chief Technology Officer, for consulting services provided in the amount of \$16,800 (2016 - \$263,198). During the year ended December 31, 2017, Novatron settled \$239,047 of past debt with the issuance of common shares. During the year ended December 31, 2017, the Company incurred \$92,000 consulting expense from Novatron. This expense is included in the payroll & consulting fees expense on the Statement of Comprehensive Loss.

As at December 31, 2017, the Company was indebted to Fehr & Associates, a company controlled by Ann Fehr, CFO of the Company, in the amount of \$1,823. Ann Fehr worked as a consultant prior to being appointed CFO in February 2017. The Company incurred \$42,473 consulting expense from Fehr & Associates since Ms. Fehr's appointment as an officer. This expense is included in the payroll & consulting fees expense on the Statement of Comprehensive Loss.

As at December 31, 2017, the Company was indebted to Integratio Consulting Inc., a company controlled by Torsten Broeer, CTO of the Company, for services provided and expense reimbursements in the amount of \$17,997 (2016 - \$nil). The company incurred \$112,552 consulting expense from Integratio since Mr. Broeer's appointment as an officer. This expense is included in the payroll & consulting fees expense on the Statement of Comprehensive Loss.

As at December 31, 2017, the Company was indebted to Tanun Holdings Ltd., a company controlled by the spouse of John Meekison, CFO of the Company, for services provided and expense reimbursements in the amount of \$5,250

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(2016 - \$nil). The company incurred \$16,000 in consulting expense from Tanun since Mr. Meekison's appointment as an officer. This expense is included in the payroll & consulting fees expense on the Statement of Comprehensive Loss.

As at December 31, 2017, the Company was indebted to The Ain Group., a company controlled by Eamonn Percy, a new director of the Company, for consulting services provided in the amount of \$10,500 (2016 - \$nil). During the year ended December 31, 2017, this company settled \$7,175 of past debt with the issuance of common shares. The company incurred \$20,000 consulting expense from The Ain Group since Mr. Percy's appointment as a director. This expense is included in the payroll & consulting fees expense on the Statement of Comprehensive Loss.

During the year ended December 31, 2017, Jill Bodkin, a Director, settled \$21,840 of past debt with the issuance of common shares.

As at December 31, 2017, the Company was indebted to Frank Borowicz, a Director of the Company, for past director services provided in the amount of \$nil (2016 - \$26,250). During the year ended December 31, 2017, the director settled \$26,250 of past debt with the issuance of common shares.

As at December 31, 2017, the Company was indebted to Time Capsule Trading Inc., a company controlled by a former director of the Company, for past services provided in the amount of \$16,104 (December 31, 2016 - \$16,104).

All due to related party payable amounts are unsecured, non-interest bearing, and due on demand.

## **RISKS AND UNCERTAINTIES**

Current and prospective shareholders should specifically consider various risk factors, including, but not limited to, the risks outlined below and particularly under the heading "*Risk Factors*" in the Company's 2017 non-offering prospectus filed on SEDAR ([www.sedar.com](http://www.sedar.com)) dated July 28, 2017. Should one or more of these risks or uncertainties, including the risks listed below, or a risk that is not currently known to us materialize, or should assumptions underlying those forward-looking statements prove incorrect, actual results may vary materially from those described herein.

### ***Limited Operating History***

The Company is changing its business focus from Biotechnology to machine technology. The Company is therefore subject to many of the risks common to early-stage enterprises, including under-capitalization, cash shortages, limitations with respect to personnel, financial, and other resources and lack of revenues. There is no assurance that the Company will be successful in achieving a return on shareholders' investment and the likelihood of success must be considered in light of the early stage of operations.

### ***Reliance on Management***

The success of the Company is dependent upon the ability, expertise, judgment, discretion and good faith of its senior management. While employment agreements are customarily used as a primary method of retaining the services of key employees, these agreements cannot assure the continued services of such employees. Any loss of the services of such individuals could have a material adverse effect on the Company's business, operating results or financial condition.

### ***Reliance on Partners***

The Company assumes that the collaborating partners will perform and deliver on development targets as agreed and planned, although there is a risk that they won't, and the corporation operates under the constraint that the partner is not under its control.

### ***Reliance on Suppliers***

The Company faces a third-party risk, should suppliers for the alternator and power electronics not deliver on one or more dimensions of scope, time and cost. The Company will reduce the probability of occurrence by ensuring that the suppliers have clear statements of work, and comprehensive design specifications to work to that are documented, reviewed and approved with participation of the supplier as well as the partner.

### ***Management of Growth***

The Company may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Company to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of the Company to deal with this growth may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Unexpected challenges during product development are inherent in new technology, in that an early stage technology could present unexpected challenges that exceed the allocated resources. The Company will reduce the probability of occurrence by careful project management.

The Company expects to continue to increase operating expenses as it implements initiatives to continue to grow its business. If the Company does not achieve revenues to offset these expected operating expenses, the Company will never be profitable which would limit the Company to grow.

### ***Technology cannot be validated***

There is a risk that the technology will not work as expected and therefore, will never be commercialized. This means that the Company may never receive revenues or return on its technology.

### ***Technical Risks***

Technical risks are inherent in the development process, in that an immature technology could present unexpected challenges that exceed the planned time or money to overcome. There can be no guarantee that the Company will be able to overcome technical risks.

The Company has not yet delivered a generator control unit (GCU) meeting all of Northwest UAV's requirements because its current knowledge of regulators and controllers for alternators for UAV's is limited. There can be no guarantee the Company will develop a GCU meeting all of Northwest UAV's requirements.

There is a risk that the benefits of DPM will not be optimized by the algorithms, leading to future ambiguity regarding success.

There is a risk that the benefits of DPM will not be optimized by the algorithms, leading to future ambiguity regarding success of DPM.

### ***Additional Financing***

In order to execute the anticipated growth strategy, the Company may require some additional equity and/or debt financing to support on-going operations, to undertake capital expenditures or to undertake acquisitions or other business combination transactions. There can be no assurance that additional financing will be available to the Company when needed or on terms which are acceptable. The Company's inability to raise financing to support on-going operations or to fund capital expenditures or acquisitions could limit the Company's growth and may have a material adverse effect on the development of the technology and upon future profitability. The Company does not expect commercial revenue until 2018.

### ***Ability to Protect Proprietary Rights***

Our success will depend in part on our ability and that of our corporate collaborators to obtain and enforce and protect patents and maintain trade secrets, in Canada, the United States and in other countries. There is a risk that the Company may not be able to obtain and enforce patents and maintain its trade secrets.

Patent law relating to the scope and enforceability of claims in the fields in which we operate is still evolving. There can be no assurance that patents will issue from any of the pending patent applications. In addition, there may be issued patents and pending applications owned by others directed to technologies relevant to our or our corporate collaborators' research, development and commercialization efforts. There can be no assurance that our or our corporate collaborators' technology can be developed and commercialized without a license to such patents or that such patent applications will not be granted priority over patent applications filed by us or one of our corporate collaborators.

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Our commercial success depends significantly on our ability to operate without infringing the patents and proprietary rights of third parties, and there can be no assurance that our and our corporate collaborators' technologies and products do not or will not infringe the patents or proprietary rights of others.

There can be no assurance that third parties will not independently develop similar or alternative technologies to ours, duplicate any of our technologies or the technologies of our corporate collaborators or our licensors, or design around the patented technologies developed by us, our corporate collaborators or our licensors. The occurrence of any of these events would have a material adverse effect on our business, financial condition and results of operations.

Litigation may also be necessary to enforce patents issued or licensed to us or our corporate collaborators or to determine the scope and validity of a third party's proprietary rights. We could incur substantial costs if litigation is required to defend ourselves in patent suits brought by third parties, if we participate in patent suits brought against or initiated by our corporate collaborators or if we initiate such suits, and there can be no assurance that funds or resources would be available in the event of any such litigation. An adverse outcome in litigation or an interference to determine priority or other proceeding in a court or patent office could subject us to significant liabilities, require disputed rights to be licensed from other parties or require us or our corporate collaborators to cease using certain technology or products, any of which may have a material adverse effect on our business, financial condition and results of operations.

***Conflict of Interest***

Certain of the Company's directors and officers may, from time to time, serve as directors or officers of other companies involved in similar businesses to the Company and, to the extent that such other companies may participate in the same ventures in which the Company may seek to participate, such directors and officers may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. Such conflicts of the Company's directors and officers may result in a material and adverse effect on Company's results of operations and financial condition.

Should one or more of these risks and uncertainties materialize, or should underlying assumptions prove incorrect, then actual results may vary materially from those described in forward-looking statements.

**FINANCIAL INSTRUMENTS AND FAIR VALUE**

The Company has designated its cash as fair value through profit or loss, finders' fees receivable as loans and receivables and accounts payable and accrued liabilities, related party payable and notes payable as other financial liabilities.

**(a) Fair value**

At December 31, 2017 and December 31, 2016, the carrying values of cash, finder's fees receivable, accounts payable and accrued liabilities, related party payable and loan payable approximate their fair values due to the relatively short period to maturity of those financial instruments.

The Company uses a fair value hierarchy to reflect the significance of the inputs used in making the measurements. The three levels of the fair value hierarchy are as follows:

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3: Inputs that are not based on observable market data.

There were no transfers between Level 1, 2 and 3 during the period. At December 31, 2017 and 2016, the Company has designated its financial instruments as level 1.

**(b) Financial risk management**

The Company's activities potentially expose it to a variety of financial risks, including credit risk, liquidity risk, and market risk.

***Credit risk***

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. As at December 31, 2017, the Company's exposure to credit risk is the carrying value of cash. The Company reduces its credit risk by holding its cash at a major Canadian financial institution.

***Liquidity risk***

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. To secure the additional capital necessary to pursue these plans, the Company intends to raise additional funds through equity or debt financing.

At December 31, 2017, the Company had cash of \$1,426,191, accounts payable and accrued liabilities of \$74,272 and related party payable of \$100,452. All accounts payable and accrued liabilities are due within 90 days. The Company assesses the liquidity risk as low.

***Market risk***

Market risk consists of currency risk, interest rate risk and other price risk. These are discussed further below.

***Foreign exchange risk***

Foreign exchange risk is the risk that the fair value of future cash flows will fluctuate due to changes in foreign exchange rates. The Company has financial assets and financial liabilities denoted in US dollars and is therefore exposed to exchange rate fluctuations. The Company determined that it is not exposed to significant foreign exchange risk.

***Interest rate risk***

Interest rate risk consists of two components:

- i) To the extent that payments made or received on the Company's monetary assets and liabilities are affected by changes in the prevailing market interest rates, the Company is exposed to interest rate cash flow risk.
- ii) To the extent that changes in prevailing market rates differ from the interest rate in the Company's monetary assets and liabilities, the Company is exposed to interest rate price risk.

Current financial assets and financial liabilities are generally not exposed to interest rate risk because of their short-term nature and maturity.

***Other price risk***

Other price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market prices, other than those arising from interest rate risk or currency risk. The Company is not exposed to other price risk.

**SIGNIFICANT ACCOUNTING POLICIES**

The Company's financial statements have been prepared using accounting policies, judgements and estimates consistent with those used in the financial statements for the years ended December 31, 2017 and 2016. Please refer to the audited financial statements for the years ended December 31, 2017 and 2016 for additional information.

**ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE**

At the date of authorization of these financial statements, the IASB and International Financial Reporting Interpretation Committee have issued the following new and revised standards and interpretations, which are not yet effective for the relevant reporting periods. The new and revised standards are applicable to the Company as follows:

#### IFRS 9 Financial Instruments

IFRS 9 includes requirements for recognition, measurement, and derecognition of financial instruments and hedge accounting. The IASB is adding to the standard as it completes the various phases of its comprehensive project on financial instruments, and so it will eventually form a complete replacement for IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 was originally issued in November 2009, reissued in October 2010, and then amended in November 2013. The current version of IFRS 9 is applicable to annual periods beginning on or after January 1, 2018.

#### IFRS 16 Leases

IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17 Leases. The standard was issued in January 2016 and is effective for annual periods beginning on or after January 1, 2019.

Management is currently assessing the impact of these new standards on the Company's accounting policies and financial statement presentation.

### **FORWARD-LOOKING INFORMATION OR STATEMENTS AND CAUTIONARY FACTORS THAT MAY AFFECT FUTURE RESULTS**

Certain statements contained in the following MD&A constitute forward-looking statements (within the meaning of the Canadian securities legislation and the U.S. Private Securities Litigation Reform Act of 1995) that involve risks and uncertainties. Forward-looking statements are frequently, but not always, identified by words such as "expects", "anticipates", "believes", "intends", "estimates", "potential", "possible" and similar expressions, or statements that events, conditions or results "will", "may", "could" or "should" occur or be achieved. The forward-looking statements may include statements regarding work programs, capital expenditures, timelines, strategic plans, market price of commodities or other statements that are not statement of fact. Forward-looking statements are statements about the future and are inherently uncertain, and actual achievements of the Company may differ materially from those reflected in forward-looking statements due to a variety of risks, uncertainties and other factors. For the reasons set forth above, investors should not place undue reliance on forward-looking statements. Important factors that could cause actual results to differ materially from the Company's expectations include uncertainties involved in disputes and litigation, fluctuations in currency exchange rates; uncertainty of estimates of capital and operating costs;

The need to obtain additional financing and uncertainty as to the availability and terms of future financing; and other risks and uncertainties disclosed in other information released by the Company from time to time and filed with the appropriate regulatory agencies.

It is the Company's policies that all forward-looking statements are based on the Company's beliefs and assumptions which are based on information available at the time these assumptions are made. The forward-looking statements contained herein are as of April 30, 2018 and are subject to change after this date, and the Company assumes no obligation to publicly update or revise the statements to reflect new events or circumstances, except as may be required pursuant to applicable laws.

Although management believes that the expectations represented by such forward-looking information or statements are reasonable, there is significant risk that the forward-looking information or statements may not be achieved, and the underlying assumptions thereto will not prove to be accurate. Forward-looking information or statements in this MD&A include, but are not limited to, information or statements concerning our expectations regarding the ability to raise additional funds and find additional value in the biotechnology assets held.

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Actual results or events could differ materially from the plans, intentions and expectations expressed or implied in any forward-looking information or statements, including the underlying assumptions thereto, as a result of numerous risks, uncertainties and factors including: the possibility that opportunities will arise that require more cash than the Company has or can reasonably obtain; dependence on key personnel; dependence on corporate collaborations; potential delays; uncertainties related to early stage of technology and product development; uncertainties as to fluctuation of the stock market; uncertainties as to future expense levels and the possibility of unanticipated costs or expenses or cost overruns; and other risks and uncertainties which may not be described herein. The Company has no policy for updating forward looking information beyond the procedures required under applicable securities laws.

Vancouver, BC

April 30, 2018