

# PALOS

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## Weekly Commentary

Issue No. 16 | APRIL 19, 2021

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## NanoXplore Inc. – EV Batteries Added to the Mix

**NanoXplore Inc.** (TSX-V: GRA) is a Montreal based company that is a global leader in the production and commercialization of Graphene. A derivative of graphite, Graphene is an exceptionally diverse material that possesses superior properties and has a multitude of applications in the automotive, plastics, electronics, and computer chip industries – to name just a few.

On April 15, NanoXplore and **Martinrea International Inc.** (TSX: MRE) announced a joint venture (JV) to develop electric vehicle (EV) batteries that are enhanced with Graphene. The JV (named **VoltaXplore**) will use both company's expertise to develop and commercialize a superior EV battery for the mass market. Each company will invest C\$4 million in start-up capital with a further combined commitment of C\$12 million in development funding, as required.

Martinrea has been a partner of NanoXplore since 2017 and is also the company's largest shareholder at approximately 22% of shares outstanding. The partnership with Martinrea is a key factor in growing the company. With expertise in automobile parts manufacturing, highly experienced management, and a direct relationship with **OEM** (Original Equipment Manufacturer) manufacturers in the auto industry, the synergies are obvious. The objective will be to supply OEM's directly rather than through battery manufacturers. Other major shareholders include Fidelity, the Caisse de Depot et Placement du Quebec (Quebec pension fund), and Soroush Nazarpour who is the founder and Chief Executive Officer of NanoXplore. The majority of shares are tightly held.

From a technological perspective, the science behind the VoltaXplore batter technology is indicating performance enhancements on several fronts. The technology uses a dry processing method which is superior to current "wet" manufacturing processes that uses liquids and solvents. In addition, the use of Graphene has demonstrated a reduction in charging times, lowered operating temperatures (i.e., improved safety), and a reduced cobalt requirement. Under current market conditions, cobalt prices are rising along with demand and supply shortages have become a growing concern for EV battery manufacturers.

NanoXplore is currently gaining traction and generating revenues in verticals that includes consumer plastics, automotive parts (truck hoods), and plastic interiors. Our long-term view has been considerably enhanced

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given the additional potential in the EV battery market. As Graphene processing capability grows along with newly generated orders and new customers, the cost of producing Graphene powder will also see improved economics. We should mention that NanoXplore's process of producing Graphene powder is highly automated and as a result has fixed labour costs. Production can be controlled remotely and since each facility (called a module) is easily replicable, a module can easily be constricted adjacent to a customer's manufacturing facility, reducing the costs of both material and finished product transportation – another clear benefit.

While it will certainly take time for the “Nano story” to play out, we believe that patient investors will ultimately see significant reward. The **Palos Income Fund LP** and the **Palos Equity Income Fund** currently hold shares in our investment portfolios.

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Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) <sup>1</sup>	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	\$9.61	12.16%
Palos Equity Income Fund - RRSP	PAL101	\$7.13	12.18%
Palos Merchant Fund L.P. (Dec 31, 2020) <sup>2</sup>	PAL500	\$1.35	-21.15%
Palos WP Growth Fund - RRSP	PAL210	\$23.84	49.33%
Palos-Mitchell Alpha Fund <sup>3</sup>	PAL300	\$11.99	13.89%
S&P TSX Composite (Total Return with dividends reinvested)			11.93%
S&P 500 (Total Return with dividends reinvested)			11.91%
S&P TSX Venture (Total Return with dividends reinvested)			7.93%
Chart 2: Market Data <sup>1</sup>			Value
US Government 10-Year			1.58%
Canadian Government 10-Year			1.54%
Crude Oil Spot			US \$63.13
Gold Spot			US \$1779.00
US Gov't10-Year/Moody BAA Corp. Spread			193 bps
USD/CAD Exchange Rate Spot			US \$0.7995

<sup>1</sup> Period ending April 16, 2021. Data extracted from Bloomberg

<sup>2</sup> Fund is priced annually

<sup>3</sup> Fund is priced weekly on Tuesdays



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