



**Nano One Materials Corp.**  
**Financial Statements**  
**December 31, 2020**  
**(Expressed in Canadian dollars)**

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of  
Nano One Materials Corp.

### *Opinion*

We have audited the accompanying financial statements of Nano One Materials Corp. (the "Company"), which comprise the statements of financial position as at December 31, 2020 and 2019, and the statements of loss and comprehensive loss, cash flows, and changes in shareholders' equity for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

### *Basis for Opinion*

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our opinion.

### *Other Information*

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### *Responsibilities of Management and Those Charged with Governance for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.



In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Carmen Newnham.

A handwritten signature in black ink that reads "Davidson & Company LLP". The signature is written in a cursive, flowing style.

Vancouver, Canada

Chartered Professional Accountants

March 15, 2021

**Nano One Materials Corp.**  
**Statements of Financial Position**  
(Expressed in Canadian Dollars)

**As at December 31, 2020 and December 31, 2019**

	Note	December 31, 2020 \$	December 31, 2019 \$
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		27,750,290	1,747,514
Short-term investment	9	1,009,164	198,911
Receivables	3	362,035	147,662
Prepaid expenses		41,950	25,198
		<b>29,163,439</b>	<b>2,119,285</b>
<b>Non-current assets</b>			
Deposits	3	287,929	21,360
Property and equipment	4	1,484,956	767,988
Intangible assets	5	22,703	24,279
		<b>1,795,588</b>	<b>813,627</b>
<b>Total assets</b>		<b>30,959,027</b>	<b>2,932,912</b>
<b>Liabilities and shareholders' equity</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		480,038	109,844
Accounts payable to related parties	8	49,324	24,864
Deferred government assistance	6	821,256	676,373
Lease liabilities - current portion	4	88,833	101,719
		<b>1,439,451</b>	<b>912,800</b>
<b>Non-current liabilities</b>			
Lease liabilities	4	621,240	151,676
<b>Total liabilities</b>		<b>2,060,691</b>	<b>1,064,476</b>
<b>Shareholders' equity</b>			
Share capital	7	50,733,826	20,068,795
Reserves	7	4,726,488	3,163,224
Deficit		(26,561,978)	(21,363,583)
<b>Total shareholders' equity</b>		<b>28,898,336</b>	<b>1,868,436</b>
<b>Total liabilities and shareholders' equity</b>		<b>30,959,027</b>	<b>2,932,912</b>
Nature and continuance of operations	1		
Subsequent events	14		

Approved on behalf of the Board of Directors on March 15, 2021:

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*"Dan Blondal"*  
Director

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*"Lyle Brown"*  
Director

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**Nano One Materials Corp.****Statements of Loss and Comprehensive Loss**

(Expressed in Canadian Dollars)

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

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	Note	December 31, 2020 \$	December 31, 2019 \$
<b>Expenses</b>			
Amortization	5	1,576	1,235
Business development fees		90,026	148,836
Consulting fees		456,291	108,131
Depreciation	4	83,539	54,448
Finance costs	4	27,372	31,706
General and administrative expenses		332,586	147,636
Investor relations and shareholder information		565,692	428,477
Management and directors' fees	8	429,000	60,000
Professional fees, net	6,8	218,559	213,920
Research expenses, net	3,6,8	228,644	1,106,115
Salaries and benefits, net	6,8	1,005,293	753,256
Share-based payments	7,8	1,651,930	427,600
Transfer agent and filing fees		152,151	70,445
Travel, meals, and conferences		58,805	263,377
<b>Loss from operating expenses</b>		<b>(5,301,464)</b>	<b>(3,815,182)</b>
Interest income		89,056	34,002
<b>Loss and comprehensive loss for the year</b>		<b>(5,212,408)</b>	<b>(3,781,180)</b>
<b>Loss per share</b>			
<b>Weighted average number of common shares outstanding</b>			
- basic		<b>79,131,582</b>	66,623,836
- diluted		<b>79,131,582</b>	66,623,836
<b>Basic loss per common share</b>		<b>(0.07)</b>	(0.06)
<b>Diluted loss per common share</b>		<b>(0.07)</b>	(0.06)

# Nano One Materials Corp.

## Statements of Cash Flows

(Expressed in Canadian Dollars)

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

	Note	December 31, 2020 \$	December 31, 2019 \$
<b>Operating activities</b>			
Loss for the year		(5,212,408)	(3,781,180)
Adjustments for:			
Amortization		1,576	1,235
Depreciation	4	272,841	479,631
Finance costs		27,372	31,706
Share-based payments		1,651,930	427,600
Interest income		(89,056)	(34,002)
Non-cash working capital items:			
Receivables		(214,373)	199,837
Prepaid expenses		(16,752)	19,067
Deposits		(37,205)	(4,790)
Accounts payable and accrued liabilities		523,557	(49,475)
Accounts payable to related parties		24,460	8,818
Deferred government assistance		144,883	676,373
		<b>(2,923,175)</b>	<b>(2,025,180)</b>
<b>Investing activities</b>			
Interest income on cash equivalents		78,952	31,840
Maturity of short-term investment	9	199,851	-
Purchase of short-term investment	9	(1,000,000)	(196,749)
Deposits on property and equipment	3	(192,809)	(16,570)
Purchases of property and equipment		(597,827)	(233,460)
Payments for intangible assets		-	(10,953)
		<b>(1,511,833)</b>	<b>(425,892)</b>
<b>Financing activities</b>			
Issuance of common shares/units for cash		32,444,233	1,146,606
Share issue costs		(1,868,855)	(5,883)
Payment of lease liabilities	4	(137,594)	(95,506)
		<b>30,437,784</b>	<b>1,045,217</b>
<b>Change in cash and cash equivalents</b>		<b>26,002,776</b>	<b>(1,405,855)</b>
<b>Cash and cash equivalents, beginning of year</b>		<b>1,747,514</b>	<b>3,153,369</b>
<b>Cash and cash equivalents, end of year</b>		<b>27,750,290</b>	<b>1,747,514</b>
<b>Cash and cash equivalents comprise:</b>			
Cash		23,720,964	393,155
Cash equivalents		4,029,326	1,354,359
<b>Cash and cash equivalents, end of year</b>		<b>27,750,290</b>	<b>1,747,514</b>
Supplemental cash flow information	9		

# Nano One Materials Corp.

## Statements of Changes in Shareholders' Equity

(Expressed in Canadian Dollars)

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

	Number of common shares	Share capital \$	Reserves \$	Deficit \$	Total \$
December 31, 2018	66,155,637	18,843,555	2,911,595	(17,642,214)	4,112,936
January 1, 2019, as previously reported	66,155,637	18,843,555	2,911,595	(17,642,214)	4,112,936
Impact of change in accounting policy (IFRS 16)	-	-	-	(31,643)	(31,643)
January 1, 2019, adjusted balance	66,155,637	18,843,555	2,911,595	(17,673,857)	4,081,293
Exercise of stock options	177,500	75,775	-	-	75,775
Re-allocated on exercise of stock options	-	58,120	(58,120)	-	-
Re-allocated on cancellation of stock options	-	-	(91,454)	91,454	-
Exercise of warrants	856,665	1,070,831	-	-	1,070,831
Share issue costs on exercise of warrants - cash	-	(5,883)	-	-	(5,883)
Re-allocated on exercise of warrants	-	4,370	(4,370)	-	-
Re-allocated on expiry of warrants	-	22,027	(22,027)	-	-
Share-based payments	-	-	427,600	-	427,600
Loss and comprehensive for the year	-	-	-	(3,781,180)	(3,781,180)
December 31, 2019	67,189,802	20,068,795	3,163,224	(21,363,583)	1,868,436
Issue of units - private placement	9,565,000	10,999,750	-	-	10,999,750
Issue of units - prospectus financing	5,282,900	13,999,685	369,803	-	14,369,488
Shares issued for finance fee	79,242	215,538	-	-	215,538
Share issue costs - cash	-	(1,868,855)	-	-	(1,868,855)
Share issue costs - non-cash	-	(888,838)	673,300	-	(215,538)
Stock options granted for leasehold improvement services	-	-	15,000	-	15,000
Exercise of stock options	2,724,100	1,157,725	-	-	1,157,725
Re-allocated on exercise of stock options	-	871,444	(871,444)	-	-
Re-allocated on cancellation of stock options	-	-	(14,013)	14,013	-
Exercise of warrants	3,396,494	5,917,270	-	-	5,917,270
Re-allocated on exercise of warrants	-	261,312	(261,312)	-	-
Share-based payments	-	-	1,651,930	-	1,651,930
Loss and comprehensive for the year	-	-	-	(5,212,408)	(5,212,408)
<b>December 31, 2020</b>	<b>88,237,538</b>	<b>50,733,826</b>	<b>4,726,488</b>	<b>(26,561,978)</b>	<b>28,898,336</b>

The accompanying notes are an integral part of these financial statements.

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# Nano One Materials Corp.

## Notes to the Financial Statements

(Expressed in Canadian Dollars)

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

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### 1. NATURE AND CONTINUANCE OF OPERATIONS

Nano One Materials Corp. (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. The Company's head office is located at Unit 101B, 8575 Government Street, Burnaby, BC, V3N 4V1, Canada. Its records office is located at Suite 2900 – 550 Burrard Street, Vancouver, BC V6C 0A3, Canada. The Company's common shares trade on the TSX Venture Exchange under the symbol "NNO".

The Company has developed, patented and scaled-up an innovative 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. The Company has built a demonstration pilot plant (Note 4) and is partnering with global leaders in the lithium-ion battery supply chain to improve the cost and durability of lithium-ion batteries. As of the date of these financial statements, the Company holds sixteen (16) patents (Note 5), with several others pending.

These financial statements (the "financial statements") have been prepared on the basis that the Company will continue as a going concern, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of operations. The Company has not yet commenced revenue generating activities by way of licensing, commercialization, or other and has historically incurred operating losses. As at December 31, 2020, the Company had working capital of \$27,723,988 (December 31, 2019 - \$1,206,485), which management assesses is sufficient for the Company to continue as a going concern beyond one year. The Company will utilize this working capital to execute on its research and strategic objectives and carry on as a going concern. The Company's ability to continue as a going concern on a long-term basis is primarily dependent upon continued government assistance programs, financial support and/or contributions from its industry partners, the ability to raise additional capital from equity markets, and the ability to generate future profitable operations.

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 (Note 6). 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. 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. As at December 31, 2020, the Company has qualified for and received an additional \$250,000 from Sustainable Development Technology Canada (SDTC), and approximately \$241,000 from the Innovative Assistance Program (NRC-IRAP), both in relation to COVID-19 pandemic relief (Note 6).

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### Basis of presentation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

These financial statements have been prepared on a historical cost basis, except for financial instruments measured at fair value. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

#### Functional and presentation currency

All amounts in these financial statements are presented in Canadian dollars which is the functional currency of the Company.

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# Nano One Materials Corp.

## Notes to the Financial Statements

(Expressed in Canadian Dollars)

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

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Comparative figures

Certain comparative figures within operating expenses on the statement of loss and comprehensive loss have been reclassified to conform to the current year's presentation. This primarily includes the segregation of (i) consulting; and (ii) investor relations and shareholder information. These accounts have been segregated into business development fees, management and directors' fees, and travel, meals, and conferences.

Additionally, the comparative figures for lease payments and interest income have been reclassified within the statement of cash flows to conform to the current year's presentation, and deposits has been segregated between operating activities and deposits on property and equipment within investing activities.

#### Significant accounting estimates and judgments

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 as at the date of the financial statements and reported amounts of income (loss) 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 considered by management in preparing these financial statements is as follows:

##### *Fair value of stock options and compensatory warrants*

Determining the fair value of compensatory warrants (finders' warrants) and stock options requires estimates related to the choice of a pricing model, the estimation of stock price volatility, the fair value of the Company's common shares, the expected forfeiture rate and the expected term of the underlying instruments. Any changes in the estimates or inputs utilized to determine fair value could have a significant impact on the Company's future operating results or on other components of shareholders' equity.

##### *Property and equipment*

The estimated useful lives of property and equipment are reviewed by management and adjusted if necessary. To estimate property and equipment's useful life, management may use its past experience, review engineering estimates and industry practices for similar items of property and equipment and/or apply statistical methods to assist in its determination of useful life.

The estimated useful life of the Company's pilot plant within property and equipment is subject to specific estimation uncertainty as to the duration of use. The use of the pilot plant has historically been driven by securing government assistance to conduct research activities that utilize the pilot plant. Accordingly, the Company has historically depreciated the pilot plant over the term of the government assistance program. Future determinations of the expected life of the pilot plant may differ from historical experience.

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# Nano One Materials Corp.

## Notes to the Financial Statements

(Expressed in Canadian Dollars)

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

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Significant accounting estimates and judgments (continued)

The information about significant areas of judgment considered by management in preparing these financial statements is as follows:

##### *Income taxes*

Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in profit or loss both in the period of change, which would include any impact on cumulative provisions, and in future periods. Deferred tax assets (if any) are recognized only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse and a judgment as to whether or not there will be sufficient taxable profits available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets as well as the amounts recognized in profit or loss in the period in which the change occurs.

##### *Research expenses*

The determination of whether expenditures on research and development activities meet the criteria for capitalization as internally generated intangible assets is subject to estimation and uncertainty.

#### **Government assistance**

Government assistance (“grants”) are recognized where there is reasonable assurance that the grant will be received, and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as a deduction against the related expense over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, it reduces the carrying amount of the asset. Government grants received in advance that relate to expenses to be incurred in future periods are deferred on the statements of financial position as deferred government assistance and deducted against the related expenditures as incurred.

For the year ended December 31, 2020, government grants received by the Company have been deducted as applicable against property and equipment, professional fees, research expenses, and salaries and benefits on the statements of loss and comprehensive loss. During the year ended December 31, 2019, the Company deducted government grants received as applicable against research expenses.

#### **Research and development**

Expenditures on research and development activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognized in profit or loss (research expenses, net) as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. Upon a determination that the criteria to capitalize development expenditures have been met, the expenditures capitalized will include the cost of materials, direct labour, and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditures will be expensed as incurred. Capitalized development expenditures will be measured at cost less accumulated amortization and impairment losses.

For the years presented, expenditures on research are presented net of government assistance received, and net of other cost recoveries. Additionally, no development costs have been capitalized to date.

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# Nano One Materials Corp.

## Notes to the Financial Statements

(Expressed in Canadian Dollars)

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

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Share capital

Common shares are classified as shareholders' equity. Transaction costs directly attributable to the issue of common shares are recognized as a deduction from shareholders' equity, as share issue costs. Common shares issued for consideration other than cash, are valued based on their fair value on the date the shares are issued.

The Company has adopted a residual value method with respect to the measurement of warrants attached to units in private placement and prospectus offerings (collectively, "equity offerings"). The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component. The Company considers the fair value of common shares issued in equity offerings to be the more easily measurable component. The balance, if any, is allocated to the attached warrants. Any value attributed to the warrants is recorded within reserves.

#### Share-based payments

The Company has a stock option plan that provides for the granting of stock options to Directors, Officers, employees and consultants to acquire common shares of the Company. The fair value of the stock options are measured on grant date and is recognized as an expense with a corresponding increase in reserves as the stock options vest.

Stock options granted to employees and others providing similar services are measured at grant date at the fair value of the instruments issued. Fair value is determined using the Black-Scholes option pricing model considering the terms and conditions upon which the stock options were granted. The amount recognized as an expense is adjusted to reflect the actual number of stock options that are expected to vest. Each tranche in an award with graded vesting is considered a separate grant with a different vesting date and fair value. Each grant is accounted for on that basis.

Stock options granted to non-employees are measured at the fair value of the goods or services received, unless that fair value cannot be estimated reliably, in which case the fair value of the equity instruments issued is used. The value of the goods or services is recorded at the earlier of the vesting date, or the date the goods or services are received.

Over the vesting period, share-based payments are recorded as an expense and as reserves. When stock options are exercised, the consideration received is recorded as share capital and the related share-based payments originally recorded as reserves are transferred to share capital. When stock options are cancelled or expire, the initial recorded value is reversed from reserves and credited to deficit (or credited to share-based payments expense to the extent that the underlying expense was recognized in the year of cancellation).

#### Property and equipment

Property and equipment is measured at cost less accumulated depreciation and impairment losses. The cost of an item of property and equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use, and if applicable, an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Depreciation is recognized over the following terms, intended to depreciate the cost of property and equipment, less its residual values, if any, over its estimated useful lives:

Research and development equipment	20%
Pilot plant	Over the term of related government assistance programs
Right-of-use assets	Over the terms of the leases
Computer equipment, fixtures, and software:	
• Computer equipment and fixtures	30%
• Office equipment	20%
• Computer software	50%

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# Nano One Materials Corp.

## Notes to the Financial Statements

(Expressed in Canadian Dollars)

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

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Property and equipment (continued)

Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. Repairs and maintenance costs are charged to profit or loss during the period they are incurred. Any gain or loss on the disposal or retirement of property and equipment is recognized in profit or loss.

#### Intangible assets

Intangible assets with finite lives are measured at cost less accumulated amortization and impairment losses. These intangible assets are amortized on a straight-line basis over their estimated useful lives. Useful lives, residual values, and amortization methods for intangible assets with finite useful lives are reviewed at least annually.

Indefinite life intangible assets are measured at cost less any impairment charges. These intangible assets are tested for impairment on an annual basis or more frequently if there are indicators that intangible assets may be impaired.

The Company amortizes its finite life intangible assets over their estimated useful lives which are estimated to be the term of the underlying patents. The Company does not hold any indefinite life intangible assets as at the dates presented in these financial statements.

#### Impairment of non-financial assets

The Company's non-financial assets are reviewed for an indication of impairment at the end of each reporting period. If an indication of impairment exists, the asset's recoverable amount is estimated. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. A reversal of an impairment loss is recognized immediately in profit or loss.

#### Leases

The Company leases office space and laboratory facilities which are included within property and equipment. Under IFRS 16, the Company assesses whether a contract to lease facilities is, or contains, a lease. For contracts that are, or contain leases, the Company recognizes a right-of-use asset (within property and equipment) and a lease liability at the commencement date of the contract.

Pursuant to the IFRS 16 lessee accounting model, right-of-use assets are initially measured at cost, which includes the initial amount of the liabilities adjusted for any lease payments made at or before the commencement date of the contract, plus any initial direct costs incurred and estimates of costs to remove or dismantle the underlying asset or to restore the underlying asset or site on which the asset is located, less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method over the term of the lease. The lease liability is initially measured at the present value of the lease payments that are not paid as of the commencement date of the contract, discounted using the rate implicit in the lease or, if the implicit rate cannot be readily determined, the Company's incremental borrowing rate.

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# Nano One Materials Corp.

## Notes to the Financial Statements

(Expressed in Canadian Dollars)

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

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Leases (continued)

The measurement of lease liabilities includes the following types of lease payments:

- Fixed payments, including in-substance fixed payments;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate as of the commencement date;
- Amounts expected to be payable under any residual value guarantees; and
- Exercise price for options that the Company is reasonably certain to exercise for an extension or option to buy, and penalties for early termination of a lease unless the Company is reasonably certain that it will not terminate the lease early. The lease liability is measured at amortized cost using the effective interest method.

Lease liabilities are remeasured in the following circumstances:

- If there is a change in the future lease payments resulting from a change in index or rate;
- If there is a change in the Company's estimation of the amount expected to be payable under a residual value guarantee; and
- If the Company changes its assessment of whether it will exercise an option to purchase, extend or terminate the lease contract.

#### Financial instruments

All financial instruments are recognized initially at fair value on the date at which the Company becomes a party to the contractual provisions of the instrument. The classification of the Company's financial assets and financial liabilities are detailed in Note 11.

#### Classification and measurement of financial assets and liabilities

The Company classifies its financial instruments based on the purpose for which they were acquired, in one of the following categories: amortized cost; fair value through other comprehensive income (loss) ("FVOCI") or fair value through profit or loss ("FVTPL"). The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

Financial liabilities are classified as those to be measured at amortized cost unless they are designated as those to be measured at FVTPL (an irrevocable election at the time of recognition). Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, financial liabilities are measured at amortized cost using the effective interest method. Interest expense (finance costs) is recorded to profit or loss.

For assets and liabilities measured at fair value, gains and losses are either recorded in profit or loss or other comprehensive income (loss). The Company reclassifies financial assets when and only when its business model for managing those assets changes. Financial liabilities are not reclassified.

#### Impairment of financial assets

An 'expected credit loss' ("ECL") model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. The Company's financial assets measured at amortized cost and subject to the ECL model are shown in Note 11. The Company has no history of default on receivables.

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# Nano One Materials Corp.

## Notes to the Financial Statements

(Expressed in Canadian Dollars)

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

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Foreign currency translation

Transactions in currencies other than the Canadian dollar are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated at the period end exchange rate while non-monetary assets and liabilities are translated at historical rates. Expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are included in profit or loss.

#### Cash and cash equivalents and short-term investments

Cash is comprised of cash on hand, demand deposits, and high-interest savings accounts. Cash equivalents are short-term, fixed interest rate bearing, highly-liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in values. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

Short-term investments are non-redeemable, fixed interest rate bearing investments with original maturities of twelve months or less. Short-term investments are not readily converted into cash and are held for investment purposes to maturity.

#### Income taxes

Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in shareholders' equity, in which case it is recognized in shareholders' equity. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting year, applicable to the year of expected realization or settlement. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

#### Earnings (loss) per share

The Company presents basic and diluted earnings (loss) per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted EPS is determined by dividing the profit or loss attributable to common shareholders by the weighted average number of common shares outstanding, adjusted for the effects of all potential dilutive common shares related to outstanding stock options and warrants issued by the Company for the years presented, except if their inclusion proves to be anti-dilutive.

#### Standards issued but not yet effective

Certain pronouncements have been issued by the IASB or IFRIC that are effective for accounting periods beginning on or after January 1, 2021. The Company has reviewed these updates and determined that many of these updates are not applicable or consequential to the Company and have been excluded from discussion within these significant accounting policies.

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**Nano One Materials Corp.****Notes to the Financial Statements**

(Expressed in Canadian Dollars)

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

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**3. RECEIVABLES AND DEPOSITS**

Receivables consist of the following:

	<b>December 31, 2020</b>	December 31, 2019
	<b>\$</b>	<b>\$</b>
Accrued Government assistance (NRC-IRAP)	4,986	-
Research cost recoveries due from OEM partner	-	139,738
Sales tax recoverable	90,564	7,924
Subscriptions receivable	266,250	-
Other receivables	235	-
	<b>362,035</b>	<b>147,662</b>

Subscriptions receivable represents amounts received and held by the Company's transfer agent for common shares issued on the exercise of warrants before December 31, 2020. Subscriptions receivable was remitted to the Company in full subsequent to December 31, 2020.

**Research cost recoveries and receivables**

On June 20, 2019, the Company entered into an agreement with a Global OEM (Original Equipment Manufacturer) (the "OEM Partner") to jointly evaluate processes and innovative cathode materials for high energy density lithium-ion batteries in automotive applications (the "Work Program"). The research activity under the Work Program was a direct component of the research efforts under the Company's SDTC Program #2 (Note 6). Under the Work Program, the Company provided staffing and utilized its property and equipment to conduct research activities under the specifications of the Work Program and recovered certain costs from the OEM Partner.

The Work Program concluded in May 2020 and the Company recovered total costs of \$541,896 (2019 - \$356,344) over the course of the program, of which \$nil (2019 - \$139,738) was included in receivables.

During the years ended December 31, 2020 and December 31, 2019, the Company accrued or received the following research cost recoveries within research expenses, net:

	<b>December 31, 2020</b>	December 31, 2019
	<b>\$</b>	<b>\$</b>
OEM Partner	185,552	356,344
Other recoveries received	56,679	-
	<b>242,231</b>	<b>356,344</b>

Deposits consist of the following:

	<b>December 31, 2020</b>	December 31, 2019
	<b>\$</b>	<b>\$</b>
Deposits on property and equipment	229,364	16,570
Security and other deposits	58,565	4,790
	<b>287,929</b>	<b>21,360</b>

**Nano One Materials Corp.**  
**Notes to the Financial Statements**  
(Expressed in Canadian Dollars)

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

**4. PROPERTY AND EQUIPMENT**

	Research and development equipment \$	Pilot plant \$	Right-of-use assets \$	Computer equipment and software \$	Leasehold improvements \$	Total \$
<b>Cost</b>						
December 31, 2018	831,972	1,803,248	-	121,948	-	2,757,168
Adoption of IFRS 16	-	-	285,552	-	-	285,552
Additions	51,348	155,416	-	26,696	-	233,460
December 31, 2019	883,320	1,958,664	285,552	148,644	-	3,276,180
<b>Accumulated depreciation</b>						
December 31, 2018	442,631	1,529,520	-	56,410	-	2,028,561
Depreciation	81,156	298,494	76,133	23,848	-	479,631
December 31, 2019	523,787	1,828,014	76,133	80,258	-	2,508,192
<b>Cost</b>						
December 31, 2019	883,320	1,958,664	285,552	148,644	-	3,276,180
(1) Additions, net	240,379	91,266	566,900	14,647	76,617	989,809
<b>December 31, 2020</b>	<b>1,123,699</b>	<b>2,049,930</b>	<b>852,452</b>	<b>163,291</b>	<b>76,617</b>	<b>4,265,989</b>
<b>Accumulated depreciation</b>						
December 31, 2019	523,787	1,828,014	76,133	80,258	-	2,508,192
(2) Depreciation	86,082	36,214	120,177	25,751	4,617	272,841
<b>December 31, 2020</b>	<b>609,869</b>	<b>1,864,228</b>	<b>196,310</b>	<b>106,009</b>	<b>4,617</b>	<b>2,781,033</b>
<b>Net book value</b>						
December 31, 2019	359,533	130,650	209,419	68,386	-	767,988
<b>December 31, 2020</b>	<b>513,830</b>	<b>185,702</b>	<b>656,142</b>	<b>57,282</b>	<b>72,000</b>	<b>1,484,956</b>

(1) Additions, net for the year ended December 31, 2020 were reduced by the amortization of deferred government assistance as follows (Note 6):

	Research and development equipment \$	Pilot plant \$	Right-of-use assets \$	Computer equipment and software \$	Leasehold improvements \$	Total \$
Deferred government assistance amortized	689,715	252,969	-	32,752	227,168	1,202,604

(2) Depreciation for the years ended December 31, 2020 and December 31, 2019 is allocated as follows:

	Depreciation expense \$	Research expenses, net \$	Total \$
December 31, 2019			
Research and development equipment	-	81,156	81,156
Pilot plant	-	298,494	298,494
Right-of-use assets	30,600	45,533	76,133
Corporate equipment and software	23,848	-	23,848
	54,448	425,183	479,631
<b>December 31, 2020</b>			
Research and development equipment	-	86,082	86,082
Pilot plant	-	36,214	36,214
Right-of-use assets	57,788	62,389	120,177
Corporate equipment and software	25,751	-	25,751
Leasehold improvements	-	4,617	4,617
	83,539	189,302	272,841

# Nano One Materials Corp.

## Notes to the Financial Statements

(Expressed in Canadian Dollars)

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

#### 4. PROPERTY AND EQUIPMENT (continued)

##### Right-of-use assets and Lease liabilities

The Company has agreements to lease office space, and laboratory facilities. The Company has determined that its lease contracts are leases as defined under IFRS 16 – *Leases* (“IFRS 16”). In analyzing the identified contracts, the Company applied the lessee accounting model pursuant to IFRS 16 and considered all of the facts and circumstances surrounding the inception of the contract (but not future events that are not likely to occur). Lease liabilities were calculated with a discount rate of 9%.

The Company has identified the following leases:

Location	Asset	Type	Term of lease at inception	Term of lease at December 31, 2020 including extensions
Burnaby, BC	Building	Corporate head office (main)	6.0 Years	1.7 Years
Burnaby, BC	Building	Corporate head office (expansion)	1.2 Years	0.5 Years
Burnaby, BC	Building	Laboratory	6.0 Years	5.9 Years
Burnaby, BC	Building	Laboratory	3.0 Years	7.7 Years

A reconciliation of the carrying amount of the lease liabilities as at December 31, 2020 and December 31, 2019 and changes during the years then ended is as follows:

	December 31, 2020	December 31, 2019
	\$	\$
<b>Lease liabilities</b>		
Beginning of year	253,395	317,195
Additions	205,400	-
Lease extension	361,500	-
Lease payments	(137,594)	(95,506)
Lease interest (finance costs)	27,372	31,706
<b>End of year</b>	<b>710,073</b>	<b>253,395</b>
<b>Current portion of lease liabilities</b>	<b>88,833</b>	101,719
<b>Non-current portion of lease liabilities</b>	<b>621,240</b>	151,676
<b>Maturity analysis - contractual undiscounted cash flows</b>		
Less than one year	150,011	101,719
One to five years	476,866	182,669
More than five years	310,925	-

Short-term leases are leases with a lease term of twelve months or less. As at December 31, 2020, and December 31, 2019, the Company did not have any short-term leases. As at December 31, 2020, the Company included the available five-year (2019 – three-year) extension options on its leases within the measurement of the lease liabilities, and there were no leases with residual value guarantees.

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**Nano One Materials Corp.****Notes to the Financial Statements**

(Expressed in Canadian Dollars)

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

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**5. INTANGIBLE ASSETS**

Intangible assets include sixteen (16) issued patents associated with the Company's technology (Note 1). These patents were issued by various jurisdictions including Canada, China, Japan, Korea, Taiwan, and the United States. The patents have expiries ranging between fourteen (14) to nineteen (19) years from the patent issuance date. The Company was not issued any patents during the year ended December 31, 2020.

The amount capitalized as intangible assets represents only the patent issue costs. Application, renewal, and other costs are expensed to professional fees as incurred. The Company has several outstanding patent applications in which all associated costs have been expensed.

	<b>Issued patents \$</b>
<hr/>	
<b>Cost</b>	
December 31, 2018	13,877
Additions	11,637
<b>December 31, 2019</b>	<b>25,514</b>
<hr/>	
<b>Accumulated amortization</b>	
December 31, 2018	-
Amortization	1,235
<b>December 31, 2019</b>	<b>1,235</b>
<hr/>	
<b>Cost</b>	
<b>December 31, 2019 and December 31, 2020</b>	<b>25,514</b>
<hr/>	
<b>Accumulated amortization</b>	
December 31, 2019	1,235
Amortization	1,576
<b>December 31, 2020</b>	<b>2,811</b>
<hr/>	
<b>Net book value</b>	
December 31, 2019	24,279
<b>December 31, 2020</b>	<b>22,703</b>

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**Nano One Materials Corp.****Notes to the Financial Statements**

(Expressed in Canadian Dollars)

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

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**6. 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:

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

- (1) See deferred government assistance below for allocation of SDTC.  
(2) Proceeds are recorded within research expenses, net.

**Deferred government assistance:**

As at December 31, 2020 and December 31, 2019, the deferred government assistance balances were in relation to SDTC Program #2 (below). Under the SDTC Program, the government assistance is received by the Company in advance of each project phase ("Milestone") to be completed. The Company records the receipt of SDTC grant instalments initially as a liability and amortizes the liability based on the percentage of required expenditures incurred for each Milestone.

A reconciliation of the carrying amount of the deferred government assistance as at December 31, 2020 and December 31, 2019, and changes during the years then ended is as follows:

	<b>December 31, 2020</b>	December 31,
	<b>\$</b>	2019
		<b>\$</b>
<b>Deferred government assistance</b>		
Beginning of year	676,373	-
Additions - receipt of grant proceeds	2,805,202	973,814
(1) Amortization	(2,660,319)	(297,441)
<b>End of year</b>	<b>821,256</b>	<b>676,373</b>

- (1) Amortization of deferred government assistance is allocated as follows:

	<b>December 31, 2020</b>	December 31,
	<b>\$</b>	2019
		<b>\$</b>
Property and equipment (Note 4)	1,202,604	-
Professional fees, net	174,470	-
Salaries and benefits, net	151,461	-
Research expenses, net	1,131,784	297,441
	<b>2,660,319</b>	<b>297,441</b>

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## Nano One Materials Corp.

### Notes to the Financial Statements

(Expressed in Canadian Dollars)

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

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#### 6. GOVERNMENT ASSISTANCE (continued)

##### **Sustainable Development Technology Canada (“SDTC”):**

###### SDTC Program #2 (active):

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 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.

###### SDTC Program #1 (completed):

Effective June 1, 2016, the Company executed a contribution agreement with SDTC for a non-repayable technology commercialization grant of up to \$2,081,297 for a lithium-ion battery materials pilot plant project. During the year ended December 31, 2019, the Company received the final payment of \$208,130. Accordingly, the Company had received the entire grant amount of \$2,081,297 by December 31, 2019.

##### **National Research Council of Canada’s Industrial Research Assistance Program (“NRC-IRAP”):**

###### NRC-IRAP Program #5 (active):

Effective August 1, 2018, the Company executed an agreement with NRC-IRAP which provides the Company with a non-repayable contribution of up to \$349,000 for the development of coatings for high durability lithium-ion battery cathodes. Under the terms of the agreement, NRC-IRAP will reimburse the Company for 80% of salaries paid to Company employees involved in this project.

During the year ended December 31, 2020, the Company received \$182,285 (2019 - \$84,516) in connection with this grant.

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**Nano One Materials Corp.****Notes to the Financial Statements**

(Expressed in Canadian Dollars)

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

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**6. GOVERNMENT ASSISTANCE** (continued)Innovation Assistance Program ("IAP") from NRC-IRAP:

Effective April 1, 2020, the Company executed an agreement with IAP which provided the Company with a non-repayable contribution of up to \$243,936 in relation to COVID-19 pandemic relief relating to the Company's development of coatings for high durability lithium-ion battery cathodes. Under the terms of the agreement, IAP reimbursed the Company for 100% of salaries paid to Company employees involved in this project through to June 24, 2020.

During the year ended December 31, 2020, the Company received \$241,225 (2019 - \$nil) in connection with this grant. As the grant was a one-time occurrence in relation to COVID-19 pandemic relief, no further amounts are due from this program.

**Automotive Supplier's Innovation Program – a program of Innovation, Science and Economic Development Canada (ISED) ("ASIP") (completed):**

Effective June 1, 2016, the Company executed an agreement with ASIP which provided the Company with a non-repayable contribution of up to \$1,950,522. The proceeds from the grant were incurred by the Company in relation to the preparation, design, construction, optimization, and operation of its pilot plant.

During the year ended December 31, 2020, the Company received \$217,446 (2019 - \$168,691) representing the final payment for this grant. The ASIP program effectively concluded in June 2020.

**Other Grants:**

During the year ended December 31, 2020, the Company received additional government grants for training and employment totalling \$2,700 (2019 - \$20,400).

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

	<b>December 31, 2020</b>	December 31, 2019
	<b>\$</b>	\$
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
	<b>9,276,176</b>	5,577,318

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# Nano One Materials Corp.

## Notes to the Financial Statements

(Expressed in Canadian Dollars)

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

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### 7. SHARE CAPITAL AND RESERVES

The authorized share capital of the Company consists of unlimited common shares without par value. All issued common shares are fully paid.

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

- a) 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. The residual value of the warrants attached to the units was determined to be \$nil.

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. These share issue costs were recorded as a reduction of share capital.

- b) 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. In addition, \$871,444 representing the fair value of the stock options granted and vested was re-allocated from reserves to share capital.
- c) 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. In addition, \$261,312 representing the fair value of certain of the warrants on initial issuance (finders' warrants) was re-allocated from reserves to share capital.
- d) 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. These share issue costs were recorded as a reduction of share capital. 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. The issuance of these common shares had a net \$nil effect on share capital as it was recorded as a share issue cost reduction to share capital.

#### Transactions for the issue of share capital during the year ended December 31, 2019:

- a) The Company issued 177,500 common shares on the exercise of stock options at prices ranging between \$0.25 and \$0.70 per share, for proceeds of \$75,775. In addition, \$58,120 representing the fair value of the stock options on initial vesting was re-allocated from reserves to share capital.
- b) The Company issued 856,665 common shares on the exercise of warrants at a price of \$1.25 per share, for proceeds of \$1,070,831. In addition, \$4,370 representing the fair value of certain of the warrants (finders' warrants) on initial issuance was re-allocated from reserves to share capital.

In connection with the common shares issued on the exercise of warrants, 676,500 warrants were exercised for proceeds of \$845,625 in connection with the Company's early warrant exercise program effective during August 2019 (see further details below). In connection with this program, the Company incurred legal fees of \$5,883 which were recorded as a share issue cost and deducted from share capital.

# Nano One Materials Corp.

## Notes to the Financial Statements

(Expressed in Canadian Dollars)

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

#### 7. SHARE CAPITAL AND RESERVES (continued)

##### Stock options

The Company has a stock option plan under which the maximum number of stock options issued cannot exceed 10% of the Company's currently issued and outstanding common shares. The exercise price of each stock option shall not be less than the discounted market price of the Company's common shares as calculated on the date immediately prior to the date of grant. The stock options can be granted for a maximum term of ten years, and vest at the discretion of the Board of Directors.

A summary of the status of the Company's stock options as at December 31, 2020 and December 31, 2019, and changes during the years then ended is as follows:

	Year ended December 31, 2020		Year ended December 31, 2019	
	Options #	Weighted average exercise price \$	Options #	Weighted average exercise price \$
Options outstanding, beginning of year	5,843,425	0.86	5,937,500	0.84
Granted	1,502,250	2.53	195,000	1.34
Exercised	(2,724,100)	0.42	(177,500)	0.43
Cancelled	(17,500)	1.25	(111,575)	1.48
<b>Options outstanding, end of year</b>	<b>4,604,075</b>	<b>1.66</b>	<b>5,843,425</b>	<b>0.86</b>

As at December 31, 2020, the Company has stock options outstanding and exercisable as follows:

Options outstanding #	Options exercisable #	Exercise price \$	Expiry date
100,000	100,000	0.38	April 8, 2021 (1)
25,000	25,000	0.50	September 13, 2021
25,000	25,000	0.70	March 10, 2022
25,000	25,000	0.67	June 5, 2022 (1)
50,000	50,000	1.08	September 13, 2022
150,000	150,000	1.14	January 3, 2023
50,000	50,000	1.19	January 9, 2023
210,575	210,575	1.57	July 12, 2023
2,380,000	2,380,000	1.28	November 12, 2023 (2)
100,000	100,000	1.35	March 21, 2024 (1)
1,423,500	1,249,250	2.52	July 20, 2023 (2)
50,000	25,000	2.81	September 8, 2023 (2)
15,000	15,000	3.05	December 4, 2023
<b>4,604,075</b>	<b>4,404,825</b>		

(1) All of these options were exercised subsequent to December 31, 2020 (Note 14).

(2) A portion of these options were exercised subsequent to December 31, 2020 (Note 14), and 33,750 of these unvested options were cancelled subsequent to December 31, 2020.

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**Nano One Materials Corp.****Notes to the Financial Statements**

(Expressed in Canadian Dollars)

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

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**7. SHARE CAPITAL AND RESERVES (continued)****Stock options (continued)**

The following table summarizes the above information about the stock options outstanding as at December 31, 2020:

Exercise prices \$	Options #	Weighted average remaining life (years)	Weighted average exercise price \$
0.38 - 0.70	175,000	0.6	0.48
1.08 - 1.28	2,630,000	2.8	1.27
1.35 - 1.57	310,575	2.8	1.50
2.52 - 3.05	1,488,500	2.6	2.54
	<b>4,604,075</b>	<b>2.6</b>	<b>1.66</b>

During the year ended December 31, 2020, the Company granted 1,502,250 stock options to Directors, Officers, employees and consultants (2019 - 195,000 stock options granted to an employee and consultants). The Company recorded the fair value of the options granted using the Black-Scholes option pricing model. The fair value is particularly impacted by the Company's stock price volatility. The fair values were determined using the following weighted average assumptions:

	December 31, 2020	December 31, 2019
Risk-free interest rate	0.3%	1.6%
Expected life of stock options (years)	3.0	4.1
Historical volatility	71.4%	80.0%
Dividend rate	0%	0%
Weighted average fair value per stock option granted	\$ 1.18	\$ 0.78

The total share-based payments expense for the year ended December 31, 2020 was \$1,651,930 (2019 - \$427,600), which includes only those stock options that vested during the period then ended. During the year ended December 31, 2020, the Company granted 15,000 stock options (2019 - nil) with a fair value of \$15,000 in lieu of cash to a service provider for leasehold improvements. The fair value was capitalized to property and equipment.

During the year ended December 31, 2020, 17,500 (2019 - 111,575) stock options were cancelled upon termination of consulting contracts. As a result, the original share-based payments expense of \$14,013 (2019 - \$91,454) was reversed from reserves and credited to deficit.

# Nano One Materials Corp.

## Notes to the Financial Statements

(Expressed in Canadian Dollars)

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

#### 7. SHARE CAPITAL AND RESERVES (continued)

##### Warrants

As an incentive to complete equity financings, the Company may issue units which include common shares and common share purchase warrants. Using the residual value method, the Company determines whether a value should be allocated to warrants attached to units sold in equity financings. Finders' warrants may be issued as equity financing share issue costs and are valued using the Black-Scholes option pricing model.

A summary of the Company's common share purchase warrants as at December 31, 2020 and December 31, 2019, and changes during the years then ended is as follows:

	Year ended December 31, 2020		Year ended December 31, 2019	
	Warrants #	Weighted average exercise price \$	Warrants #	Weighted average exercise price \$
Warrants outstanding, beginning of year	676,500	1.60	1,879,555	1.25
Issued - attached to units	7,423,950	2.29	676,500	1.60
Issued - finders' warrants	890,372	2.13	-	-
Exercised	(3,396,494)	1.74	(856,665)	1.25
Expired	(33,000)	1.60	(1,022,890)	1.25
<b>Warrants outstanding, end of year</b>	<b>5,561,328</b>	<b>2.52</b>	<b>676,500</b>	<b>1.60</b>

As at December 31, 2020, the Company has warrants outstanding and exercisable as follows:

	Warrants #	Weighted average exercise price \$	Expiry Date	Weighted average remaining life (years)
(1)	392,632	2.72	October 29, 2022	1.8
(1)	2,411,050	3.55	October 29, 2022	1.8
(1)	2,630,848	1.60	February 21, 2023	2.1
(1)	126,798	1.60	February 21, 2023	2.1
	<b>5,561,328</b>	<b>2.52</b>		<b>2.0</b>

(1) A portion of these warrants were exercised subsequent to December 31, 2020 (Note 14).

During the year ended December 31, 2019, the Company completed a warrant exercise incentive program which facilitated the early exercise of outstanding warrants which had an expiry of September 8, 2019. The program ran from August 8, 2019 to August 23, 2019. Under the program, 676,500 warrants were exercised into common shares at a price of \$1.25 for proceeds of \$845,625. Additionally, the Company issued one warrant (the "incentive warrants") for every warrant exercised under the program. The incentive warrants are exercisable into common shares at a price of \$1.60 until October 23, 2020. The incentive warrants are subject to accelerated expiry terms. There was no value recognized on issuance of the incentive warrants during the year ended December 31, 2019.

During the year ended December 31, 2020, 33,000 (2019 – 1,022,890) warrants expired unexercised. As a result, the original fair value recognized of \$nil (2019 - \$22,027) in connection with the portion of these warrants that were issued as compensatory finders' warrants was reversed from reserves and credited to share capital.

**Nano One Materials Corp.**  
**Notes to the Financial Statements**  
(Expressed in Canadian Dollars)

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

**7. SHARE CAPITAL AND RESERVES (continued)**

**Warrants (continued)**

During the year ended December 31, 2020, the Company issued 890,372 compensatory finders' warrants in aggregate upon closing of the private placement and short-form prospectus financings (2019 – nil). The Company recorded the fair value of the warrants issued using the Black-Scholes option pricing model. The fair value is particularly impacted by the Company's stock price volatility. The fair values were determined using the following weighted average assumptions:

	<b>December 31, 2020</b>
Risk-free interest rate	0.8%
Expected life of warrants (years)	2.5
Historical volatility	64.3%
Dividend rate	0%
Weighted average fair value per finders' warrant issued	\$ 0.75

**8. RELATED PARTY TRANSACTIONS**

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	Transactions	Balances	Balances
	year ended December 31, 2020	year ended December 31, 2019	outstanding December 31, 2020	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	-	-	-
	<b>2,789,735</b>	<b>514,145</b>	<b>49,324</b>	<b>24,864</b>

- (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 (2019 – nil) were granted to Directors and Officers which are exercisable at \$2.52 until July 20, 2023 and vested immediately. Additional stock options were granted subsequent to December 31, 2020 (Note 14).
- (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.

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**Nano One Materials Corp.****Notes to the Financial Statements**

(Expressed in Canadian Dollars)

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

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**9. SUPPLEMENTAL CASH FLOW INFORMATION**

The Company incurred non-cash investing and financing activities during the years ended December 31, 2020 and December 31, 2019 as follows:

	December 31, 2020 \$	December 31, 2019 \$
Non-cash investing activities:		
Property and equipment included in accounts payable and accrued liabilities	189,918	-
Grant of stock options for additions to property and equipment	15,000	-
Deposits on property and equipment in accounts payable and accrued liabilities	36,555	-
Non-cash financing activities:		
Additions and lease extensions of right-of-use assets (Note 4)	566,900	317,195
Shares issued for finance fee	215,538	-
Fair value of finders' warrants issued	673,300	-

During the years ended December 31, 2020 and December 31, 2019, no amounts were paid for interest or income taxes.

**10. MANAGEMENT OF CAPITAL**

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.

The Company considers its capital structure to consist of its components of shareholders' equity. 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 (Note 6), 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 (Note 6), and certain research cost recoveries from strategic partners. In addition, the Company is dependent on 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.

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# Nano One Materials Corp.

## Notes to the Financial Statements

(Expressed in Canadian Dollars)

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

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### 11. 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.

#### Financial instruments - classification

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

  

<b>Financial liabilities:</b>	<b>Classification:</b>	<b>Subsequent measurement:</b>
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 with the exception of cash and cash equivalents approximate their fair values. Cash and cash equivalents under the fair value hierarchy is based on Level 1 quoted prices in active markets for identical assets or liabilities. The carrying value of lease liabilities approximates its fair value due to being discounted with a rate of interest that approximates market rates.

#### Financial instruments - risk

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.

##### a) Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its financial obligations as they come due. The Company manages this risk by careful management of its working capital to ensure its expenditures will not exceed available resources. The Company has historically relied upon equity financings and government assistance programs to satisfy its capital requirements and will continue to depend upon these sources to finance its activities.

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# Nano One Materials Corp.

## Notes to the Financial Statements

(Expressed in Canadian Dollars)

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

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### 11. FINANCIAL INSTRUMENTS (continued)

#### Financial instruments - risk (continued)

##### b) Credit risk

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company is exposed to credit risk on its cash and cash equivalents, short-term investment, receivables, and deposits.

The Company minimizes its credit risk on its cash and cash equivalents and short-term investment, by holding the funds/investment with a high-credit quality Canadian bank. Management believes that the Company's credit risk attributable to its various components of receivables is low. Notably, subscriptions receivable was collected in full subsequent to December 31, 2020.

The Company is also exposed to credit risk relating to its deposits in which management believes the risk to be low. The Company's deposits are subject to the expected credit loss model for impairment testing. The Company applies the IFRS 9 simplified approach to the deposits to measure expected credit loss which uses a lifetime expected loss allowance. The deposits have been assessed based on debtor circumstances and are considered to be low risk.

##### c) Interest rate risk

The Company is exposed to interest rate risk because of fluctuating interest rates. Fluctuations in market rates do not have a significant impact on the Company's operations as its cash equivalents and short-term investment bear fixed rates of interest. For the year ended December 31, 2020, every 1% fluctuation in interest rates would have impacted loss and comprehensive loss for the year by approximately \$138,000 (2019 – \$10,000).

##### d) Price risk

Equity price risk is defined as the potential adverse impact on the Company's results of operations and the ability to obtain equity financing due to movements in individual equity prices or general movements in the level of the stock market. The Company closely monitors the individual equity movements to determine the appropriate course of action to be taken by the Company. Fluctuations in value may be significant.

##### e) Currency risk

Currency risk is the risk of fluctuation in profit or loss that arises from fluctuations in foreign exchange rates and the degree of volatility of those rates. The Company is exposed to currency risk as it incurs certain transactions in United States dollars, the Euro, and the British Pound. Additionally, as at December 31, 2020, the Company held certain financial assets and liabilities that were denominated in these foreign currencies. Based on the December 31, 2020 value of net assets denominated in foreign currencies, the impact of a 10% fluctuation in foreign exchange rates relative to the Canadian dollar would be insignificant to the Company's financial position and results of operations.

### 12. SEGMENTED INFORMATION

The Company operates in one business segment being the development of a patented process for the production of cathode active materials for lithium-ion battery applications in electric vehicles, energy storage systems, and consumer electronics (Note 1). The Company's non-current assets are located in Canada with the exception of certain patents (intangible assets) that are issued from patent regulators in foreign jurisdictions (Note 5).

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**Nano One Materials Corp.****Notes to the Financial Statements**

(Expressed in Canadian Dollars)

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

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**13. INCOME TAXES**

A reconciliation of income taxes at statutory rates with the reported taxes for the years ended December 31, 2020, and December 31, 2019, is as follows:

	<b>December 31, 2020</b>	December 31,
	<b>\$</b>	2019
		<b>\$</b>
Loss for the year	(5,218,408)	(3,781,180)
Expected income tax (recovery)	(1,407,000)	(1,021,000)
Change in tax resulting from:		
Permanent differences	725,000	153,000
Change in recognized deductible temporary differences	1,200,000	846,000
Share issue costs	(504,000)	(2,000)
Adjustment to prior year provision versus statutory tax returns and other	(14,000)	24,000
Total income tax expense (recovery)	-	-

The Company's unused temporary differences, unused tax credits, and unused tax losses that have not been included on the statements of financial position as at December 31, 2020 and December 31, 2019, are as follows:

	<b>December 31, 2020</b>	<b>Expiry Date Range</b>	December 31, 2019	<b>Expiry Date Range</b>
	<b>\$</b>		<b>\$</b>	
Property and equipment	4,539,000	No expiry	3,182,000	No expiry
Right-of-use asset / lease liability	43,800	No expiry	-	No expiry
Investment tax credits	29,000	2035	29,000	2035
Share issue costs	1,535,000	2041 to 2044	78,000	2040 to 2043
Non-capital loss carry forwards	15,459,000	2026 to 2040	13,874,000	2026 to 2039

Tax attributes are subject to review, and potential adjustment, but tax authorities.

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**Nano One Materials Corp.****Notes to the Financial Statements**

(Expressed in Canadian Dollars)

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

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**14. SUBSEQUENT EVENTS**

- a) 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.

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.

- b) In February 2021, the Company granted 1,823,950 stock options as follows:

- (i) 1,540,000 stock options with an exercise price of \$5.10 were granted to Directors and Officers of the Company on February 1, 2021. 1,140,000 stock options are exercisable for three years until February 1, 2024 and vest immediately, and 400,000 stock options are exercisable for five years until February 1, 2026 and vest over 24 months.
- (ii) 229,750 stock options with an exercise price of \$5.10 were granted to employees and consultants of the Company on February 1, 2021. The stock options are exercisable for three years until February 1, 2024 and vest over two years.
- (iii) 54,200 stock options with an exercise price of \$5.26 were granted to employees and a consultant of the Company on February 25, 2021. The stock options are exercisable for three years until February 25, 2024 and vest over two years.