



**NANO ONE MATERIALS CORP.**

**CONDENSED INTERIM**

**FINANCIAL STATEMENTS**

**FOR THE PERIOD ENDED MARCH 31, 2018**

*(Expressed in Canadian dollars)*



Nano One Materials Corp.  
Unit 101B  
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**NOTICE OF NO AUDITOR REVIEW OF THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR  
THE THREE MONTHS ENDED MARCH 31, 2018**

The accompanying unaudited condensed interim financial statements of Nano One Materials Corp. (the "Company") for the period ended March 31, 2018 have been prepared by, and are the responsibility of, the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of the interim financial statements by an entity's auditor.

**NANO ONE MATERIALS CORP.**  
**CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION** (unaudited)  
(Expressed in Canadian Dollars)

|   | March 31,<br>2018 | December 31,<br>2017 |
|---|-------------------|----------------------|
|   | \$                | \$                   |
| <b>ASSETS</b>                                     |                   |                      |
| <b>Current assets</b>                             |                   |                      |
| Cash and cash equivalents                         | 4,318,143         | 4,673,301            |
| Receivables                                       | 13,880            | 35,713               |
| Prepays   | 51,695            | 71,044               |
| <b>Total current assets</b>                       | <b>4,383,718</b>  | <b>4,780,058</b>     |
| <b>Equipment, net</b> (Note 5)                    | 436,455           | 395,414              |
| <b>Pilot plant, net</b> (Note 6)                  | 1,019,542         | 1,150,901            |
| <b>Intangible assets</b>                          | 3,534             | 3,534                |
|   | <b>1,459,531</b>  | <b>1,549,849</b>     |
| <b>Total assets</b>                               | <b>5,843,249</b>  | <b>6,329,907</b>     |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>       |                   |                      |
| <b>Current liabilities</b>                        |                   |                      |
| Accounts payable and accrued liabilities          | 89,795            | 122,412              |
| Accounts payable to related parties               | -                 | 13,857               |
| <b>Total current liabilities</b>                  | <b>89,795</b>     | <b>136,269</b>       |
| <b>Shareholders' equity</b>                       |                   |                      |
| Share capital (Note 10)                           | 18,345,162        | 17,690,844           |
| Equity reserves (Note 10)                         | 1,127,810         | 1,147,293            |
| Deficit   | (13,719,518)      | (12,644,499)         |
| <b>Total shareholders' equity</b>                 | <b>5,753,454</b>  | <b>6,193,638</b>     |
| <b>Total liabilities and shareholders' equity</b> | <b>5,843,249</b>  | <b>6,329,907</b>     |

**Nature and continuance of operations** (Note 1)

**Events after the reporting date** (Note 15)

Approved and authorized by the Board on May 25, 2018

**On behalf of the Board of Directors:**

\_\_\_\_\_  
"Dan Blondal"  
Director

\_\_\_\_\_  
"Lyle Brown"  
Director

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

**NANO ONE MATERIALS CORP.**  
**CONDENSED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS** (unaudited)  
(Expressed in Canadian Dollars)  
**THREE MONTHS ENDED MARCH 31**

|   | 2018               | 2017              |
|---|--------------------|-------------------|
|   | \$                 | \$                |
| <b>OPERATING EXPENSES</b>                                   |                    |                   |
| Consulting  | 64,310             | 55,011            |
| Depreciation  | 4,105              | 3,168             |
| Filing and regulatory fees                                  | 14,791             | 16,185            |
| Office and general  | 23,223             | 18,766            |
| Professional fees   | 46,190             | 68,036            |
| Rent  | 12,958             | 14,599            |
| Research and development                                    | 604,041            | 265,490           |
| Salary and benefits   | 126,696            | 108,341           |
| Shareholder communication and investor relations            | 42,478             | 46,185            |
| Share-based payments (Note 10)                              | 127,554            | 64,786            |
| Travel  | 18,760             | 16,774            |
| <b>Operating expenses</b>                                   | <b>(1,085,106)</b> | <b>(677,341)</b>  |
| Interest income   | 10,087             | 2,790             |
| <b>Loss and comprehensive loss for the period</b>           | <b>(1,075,019)</b> | <b>(674,551)</b>  |
| <b>Basic and diluted loss per common share</b>              | <b>(0.02)</b>      | <b>(0.01)</b>     |
| <b>Weighted average number of common shares outstanding</b> | <b>65,005,941</b>  | <b>58,675,763</b> |

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

**NANO ONE MATERIALS CORP.**  
**CONDENSED INTERIM STATEMENTS OF CASH FLOW** (unaudited)  
(Expressed in Canadian Dollars)  
**THREE MONTHS ENDED MARCH 31**

|   | 2018             | 2017             |
|---|------------------|------------------|
|   | \$               | \$               |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b> |                  |                  |
| Loss for the period                         | (1,075,019)      | (674,551)        |
| Items not affecting cash:                   |                  |                  |
| Depreciation                                | 173,164          | 19,510           |
| Share-based payments                        | 127,554          | 64,786           |
| Changes in non-cash working capital items:  |                  |                  |
| Receivables                                 | 21,833           | 10,619           |
| Prepays                                     | 19,349           | (45,711)         |
| Accounts payable and accrued liabilities    | (32,617)         | (128,014)        |
| Accounts payable to related parties         | (13,857)         | (7,650)          |
| Deferred government grant                   | -                | (120,711)        |
| Cash used in operating activities           | (779,593)        | (881,722)        |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b> |                  |                  |
| Purchase of equipment                       | (64,483)         | (13,795)         |
| Purchase of pilot plant                     | (18,363)         | (596,452)        |
| Cash provided by investing activities       | (82,846)         | (610,247)        |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b> |                  |                  |
| Proceeds from issuance of share capital     | 507,281          | 847,389          |
| Share issuance costs                        | -                | -                |
| Cash provided by financing activities       | 507,281          | 847,389          |
| <b>Change in cash during the period</b>     | <b>(355,158)</b> | <b>(644,580)</b> |
| <b>Cash, beginning of period</b>            | <b>4,673,301</b> | <b>2,439,244</b> |
| <b>Cash, end of period</b>                  | <b>4,318,143</b> | <b>1,794,664</b> |
| Cash  | 253,687          | 137,170          |
| Cash equivalents                            | 4,064,456        | 1,657,494        |
| Cash and cash equivalents, end of period    | 4,318,143        | 1,794,664        |

**Supplemental disclosures with respect to cash flows** (Note 12)

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

**NANO ONE MATERIALS CORP.**  
**CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY** (unaudited)  
(Expressed in Canadian Dollars)

|                                     | SHARE CAPITAL                |                      | Equity Reserves      |                       | Total equity        |
|-------------------------------------|------------------------------|----------------------|----------------------|-----------------------|---------------------|
|                                     | Number of Shares outstanding | Amount               | Share-based payments | Deficit               |                     |
| <b>Balance at December 31, 2016</b> | <b>57,919,534</b>            | <b>\$ 11,846,703</b> | <b>\$ 1,710,320</b>  | <b>\$(10,066,911)</b> | <b>\$ 3,490,112</b> |
| Share-based payments                | -                            | -                    | 64,786               | -                     | 64,786              |
| Exercise of warrants                | 1,099,682                    | 910,607              | (360,766)            | -                     | 549,841             |
| Exercise of finders warrants        | 595,096                      | 417,336              | (119,788)            | -                     | 297,548             |
| Expiry of warrants                  | -                            | 6,652                | (128,408)            | 121,756               | -                   |
| Loss for the period                 | -                            | -                    | -                    | (674,551)             | (674,551)           |
| <b>Balance at March 31, 2017</b>    | <b>59,614,312</b>            | <b>13,181,298</b>    | <b>1,166,144</b>     | <b>(10,619,706)</b>   | <b>3,727,736</b>    |
| Share-based payments                | -                            | -                    | 203,288              | -                     | 203,288             |
| Exercise of stock options           | 800,000                      | 549,814              | (261,814)            | -                     | 288,000             |
| Private placements                  | 4,180,000                    | 4,180,000            | -                    | -                     | 4,180,000           |
| Share issuance costs                | -                            | (220,268)            | 39,675               | -                     | (180,593)           |
| Loss for the period                 | -                            | -                    | -                    | (2,024,793)           | (2,024,793)         |
| <b>Balance at December 31, 2017</b> | <b>64,594,312</b>            | <b>17,690,844</b>    | <b>1,147,293</b>     | <b>(12,644,499)</b>   | <b>6,193,638</b>    |
| Share-based payments                | -                            | -                    | 127,554              | -                     | 127,554             |
| Exercise of stock options           | 400,000                      | 273,758              | (133,758)            | -                     | 140,000             |
| Exercise of warrants                | 245,000                      | 306,250              | -                    | -                     | 306,250             |
| Exercise of finders warrants        | 48,825                       | 74,310               | (13,279)             | -                     | 61,031              |
| Loss for the period                 | -                            | -                    | -                    | (1,075,019)           | (1,075,019)         |
| <b>Balance at March 31, 2018</b>    | <b>65,288,137</b>            | <b>\$ 18,345,162</b> | <b>\$ 1,127,810</b>  | <b>\$(13,719,518)</b> | <b>\$ 5,753,454</b> |

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

## **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 on September 8, 2004. The Company trades on the TSX Venture Exchange. To date, the Company has not earned significant revenues.

The Company's head office address is Unit 101B, 8575 Government Street, Burnaby, BC V3N 4V1, Canada. The registered and records office address is Suite 2900 – 550 Burrard Street, Vancouver, BC V6C 0A3. The financial statements of the Company are presented in Canadian dollars unless otherwise indicated.

At the date of the condensed interim financial statements, the Company has not yet realized profitable operations and it has relied on non-operational sources of financing to fund operations. The ability of the Company to achieve its objectives, meet its ongoing obligations and recover its investments in pending patents and assets will depend on management's ability to successfully execute its business plan, achieve profitable operations and obtain additional financing, if or when required. There is no assurance that these initiatives will be successful.

These condensed interim financial statements have been prepared assuming the Company will continue on a going-concern basis. The Company has incurred losses since inception and the ability of the Company to continue as a going-concern depends upon its ability to develop profitable operations and to continue to raise adequate financing. Management is actively targeting sources of additional financing through alliances with financial, or other business and financial transactions which would assure continuation of the Company's operations. In order for the Company to meet its liabilities as they come due and to continue its operations, the Company is solely dependent upon its ability to generate such financing. Management estimates the Company has sufficient working capital to maintain the operations during the current year.

There can be no assurance that the Company will be able to continue to raise funds, in which case the Company may be unable to meet its obligations. Should the Company be unable to realize its assets and discharge its liabilities in the normal course of business, the net realizable value of its assets may be materially less than the amounts recorded in these financial statements.

The condensed interim financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

These condensed interim financial statements, including comparatives, have been prepared in accordance with International Accounts Standards ("IAS") 34, "Interim Financial Reporting" using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

These condensed interim financial statements should be read in conjunction with the audited financial statements of the Company as at and for the year ended December 31, 2017.

The condensed interim financial statements have been prepared using accounting policies consistent with those used in the Company's 2017 audited financial statements.

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The condensed interim financial statements have been prepared on a historical cost basis, except for certain financial instruments classified at fair value through profit or loss which are stated at their fair value. In addition, these condensed interim financial statements have been prepared using the accrual basis of accounting.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment of complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

**3. RECENT ACCOUNTING STANDARDS**

The following standard has been issued but is not yet effective:

IFRS 16 is a new standard that sets out the principles for recognition, measurement, presentation, and disclosure of leases including guidance for both parties to a contract, the lessee and the lessor. The new standard eliminates the classification of leases as either operating or finance leases as is required by IAS 17 and instead introduces a single lessee accounting model. The standard is effective for annual periods beginning on or after January 1, 2019.

The Company has not yet completed the process of assessing the impact these standards will have on its financial statements. There are no other standards or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

**4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS**

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both.

Information about critical judgments in applying accounting policies and sources of estimation uncertainty that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the condensed interim financial statements within the next financial year are the same as those that applied to the Company's 2017 annual financial statements.

**5. EQUIPMENT**

|                            | <b>Computer software</b> | <b>Computer hardware</b> | <b>Research and development equipment</b> | <b>Office equipment</b> | <b>Total</b> |
|----------------------------|--------------------------|--------------------------|---|-------------------------|--------------|
| <b>Cost</b>                | \$                       | \$                       | \$  | \$                      | \$           |
| Balance, December 31, 2016 | 7,424                    | 39,191                   | 559,217                                   | 2,645                   | 608,477      |
| Additions                  | -                        | 36,477                   | 137,368                                   | 2,638                   | 176,483      |
| Balance, December 31, 2017 | 7,424                    | 75,668                   | 696,585                                   | 5,283                   | 784,960      |
| Additions                  | -                        | -                        | 64,483                                    | -                       | 64,483       |
| Balance, March 31, 2018    | 7,424                    | 75,668                   | 761,068                                   | 5,283                   | 849,443      |



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|                                 | Computer software | Computer hardware | Research and development equipment | Office equipment | Total   |
|---------------------------------|-------------------|-------------------|------------------------------------|------------------|---------|
| <b>Accumulated depreciation</b> |                   |                   |                                    |                  |         |
| Balance, December 31, 2016      | 4,176             | 11,077            | 291,831                            | 88               | 307,172 |
| Depreciation for the year       | 1,624             | 15,462            | 64,434                             | 854              | 82,374  |
| Balance, December 31, 2017      | 5,800             | 26,539            | 356,265                            | 942              | 389,546 |
| Depreciation for the period     | 203               | 3,685             | 19,337                             | 217              | 23,442  |
| Balance, March 31, 2018         | 6,003             | 30,224            | 375,602                            | 1,159            | 412,988 |
| <b>Carrying amounts</b>         |                   |                   |                                    |                  |         |
| As at December 31, 2017         | 1,624             | 49,129            | 340,320                            | 4,341            | 395,414 |
| As at March 31, 2018            | 1,421             | 45,444            | 385,466                            | 4,124            | 436,455 |

\$19,337 (2017 - \$13,480) of depreciation has been recorded in research and development expenses.

**6. PILOT PLANT**

|                                 | Forklift and equip | Pilot plant equip | Total     |
|---------------------------------|--------------------|-------------------|-----------|
| <b>Cost</b>                     | \$                 | \$                | \$        |
| Balance, December 31, 2016      | 27,480             | 821,874           | 849,354   |
| Additions                       | -                  | 953,041           | 953,041   |
| Balance, December 31, 2017      | 27,480             | 1,774,915         | 1,802,395 |
| Additions                       | -                  | 18,363            | 18,363    |
| Balance, March 31, 2018         | 27,480             | 1,793,278         | 1,820,758 |
| <b>Accumulated depreciation</b> |                    |                   |           |
| Balance, December 31, 2016      | 4,580              | -                 | 4,580     |
| Depreciation for the year       | 11,450             | 635,464           | 646,914   |
| Balance, December 31, 2017      | 16,030             | 635,464           | 651,494   |
| Depreciation for the period     | 5,439              | 144,283           | 149,722   |
| Balance, March 31, 2018         | 21,469             | 779,747           | 801,216   |
| <b>Carrying amounts</b>         |                    |                   |           |
| As at December 31, 2017         | 11,450             | 1,139,451         | 1,150,901 |
| As at March 31, 2018            | 6,011              | 1,013,531         | 1,019,542 |

\$149,722 (2017 - \$2,862) of depreciation has been recorded in research and development expenses.

**7. GOVERNMENT ASSISTANCE**

Effective June 1, 2016, the Company was granted by the NRC-IRAP a non-repayable contribution of up to \$222,857 (claimed - \$222,857). NRC-IRAP requires that the proceeds from the grant be applied towards the development of High Voltage Cobalt Free Cathode Materials. Under the terms of the agreement, NRC-IRAP has agreed to reimburse the Company for 80% of salaries paid to Company employees and 50% of supported contractor fees involved in this pilot facility. A total of \$15,408 (2017 - \$35,767) was claimed by the Company during the period ending March 31, 2018.

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Effective June 1, 2016, the Company executed a contribution agreement with Sustainable Development Technology Canada for up to \$2.08 million technology commercialization grant and received the two instalments totaling \$1,113,022 (2017 – one instalment of \$488,994) for the first and second phase of a lithium battery materials pilot plant project. Funds are dispersed at the beginning of each phase and are subject to the Company meeting milestones and having matching funds in place.

Effective June 1, 2016, the Company was awarded up to \$1.9 million (claimed - \$995,221) from Innovation, Science and Economic Development Canada (ISED). Automotive Supplier's Innovation Program (ASIP) requires that the proceeds from the grant be applied to the preparation, design, construction, optimization and operation of a pilot plant. A total of \$Nil (2017 - \$Nil) was claimed by the Company during the period ending March 31, 2018.

During the period ended March 31, 2018, the Company received additional government grants for training and employment grants totaling \$15,394 (2017 - \$Nil).

Total government assistance recognized for the period ended March 31, 2018 was \$30,802 (2017 - \$156,478). The amount is offset against research and development expense on the statement of loss and comprehensive loss.

## **8. COMMITMENTS**

During the year ended December 31, 2016, the Company entered into an operating lease for its corporate head office. During the period ended March 31, 2018 the Company incurred \$9,958 (2017 - \$10,565) in rental expense. The annual lease commitments under the lease are as follows:

|                           |               |
|---------------------------|---------------|
| Within one year           | \$ 41,315     |
| Within two to three years | <u>20,657</u> |
| Total                     | \$ 61,972     |

During the year ended December 31, 2016, the Company entered into an operating lease for its lab and pilot plant facility. During the period ended March 31, 2018 the Company incurred \$14,802 (2017 – \$15,703) in rental expense. The annual lease commitments under the lease are as follows:

|                           |               |
|---------------------------|---------------|
| Within one year           | \$ 61,410     |
| Within two to three years | <u>30,705</u> |
| Total                     | \$ 92,115     |

On April 15, 2011, the Company entered into an Assignment and Royalty Agreement (the "Agreement") with Lithium Ion Power LLC ("LIP") and Teresita F. Kullberg ("Kullberg") that will survive until the last patent issued under any of the technologies expires. In accordance with the Agreement, Kullberg and LIP assigned to the Company all of its rights, title and interest in and to the technologies and all such rights in and to any and all improvements. The Company must pay a royalty of 3% on net revenues from all consideration collected or received from the marketing, manufacturing, sale or distribution of or licensing the right to do any of the same of the goods manufactured with the use of all or some of the technologies. As at December 31, 2017, the Company had not yet generated any revenue, therefore, no royalties have been paid or accrued.

**9. 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:

**(a) Purchases of services**

|   | <b>March 31,<br/>2018</b> | <b>March 31,<br/>2017</b> |
|---|---------------------------|---------------------------|
|   | \$                        | \$                        |
| An entity where an executive director is an officer, for consulting fees  | 15,000                    | 15,000                    |
| An entity where an executive director is an officer, for miscellaneous operating expenses and employee benefits | 4,321                     | 12,909                    |
| An entity where a director, is a director, for legal fees   | 14,332                    | -                         |
|   | <b>33,653</b>             | <b>27,909</b>             |

**(b) Key management compensation**

Key management includes directors (executive and non-executive), the, Chief Executive Officer President and Chief Financial Officer. The compensation paid or payable to key management for employee services is shown below:

|  | <b>March 31,<br/>2018</b> | <b>March 31,<br/>2017</b> |
|--|---------------------------|---------------------------|
|  | \$                        | \$                        |
| Salary and benefits to an officer                        | 26,788                    | 18,161                    |
| Salary and benefits to an officer and executive director | 20,084                    | 18,897                    |
| Salary and benefits to an officer and executive director | 33,493                    | 31,733                    |
|  | <b>80,365</b>             | <b>68,791</b>             |

**10. SHARE CAPITAL AND EQUITY RESERVES**

**(a) Common shares**

The authorized share capital of the Company consists of unlimited common shares without par value.

Changes in issued share capital and equity reserves for the period ended March 31, 2018 were as follows:

1. The Company issued 400,000 common shares pursuant to the exercise of stock options at \$0.35 for gross proceeds of \$140,000. Accordingly, \$133,758 was transferred from equity reserves to share capital.
2. The Company issued 245,000 common shares pursuant to the exercise of warrants at \$1.25 for gross proceeds of \$306,250.

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3. The Company issued 48,825 common shares pursuant to the exercise of finders' warrants at \$1.25 for gross proceeds of \$61,031. Accordingly, \$13,279 was transferred from equity reserves to share capital.

Changes in issued share capital and equity reserves for the period ended March 31, 2017 were as follows:

1. 595,096 finder's warrants with an exercise price of \$0.50 were exercised for gross proceeds of \$297,548. Accordingly, \$119,788 was transferred from equity reserves to share capital.
2. 295,000 warrants with an exercise price of \$0.50 were exercised for gross proceeds of \$147,500.
3. 1,609,364 warrants exercised into 804,682 common shares at an exercise price of \$0.50 per share were exercised for gross proceeds of 402,341. Accordingly, \$360,766 was transferred from equity reserves to share capital.

**(b) Stock option plan**

The Company has a stock option plan under which it is authorized to grant options to directors, officers, consultants and employees to acquire up to 10% of the issued and outstanding shares at the time of each grant. The exercise price of each option shall not be less than the discounted market price of the Company's stock as calculated on the date of grant. The options can be granted for a maximum term of ten years. All options are to be settled by physical delivery of shares.

Stock option transactions and the number of stock options outstanding are summarized as follows:

|                                     | Number of<br>Options | Weighted<br>Average<br>Exercise<br>Price |
|-------------------------------------|----------------------|--|
|                                     |                      | \$                                       |
| <b>Balance at December 31, 2017</b> | 4,067,500            | 0.33                                     |
| Granted                             | 250,000              | 1.16                                     |
| Exercised                           | (400,000)            | 0.35                                     |
| <b>Balance at March 31, 2018</b>    | 3,917,500            | 0.39                                     |
| Exercisable as at March 31, 2018    | 3,479,583            | 0.30                                     |

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At March 31, 2018 the following stock options were outstanding:

| <b>Number of Options</b> | <b>Exercise Price</b> | <b>Expiry Date</b> |
|--------------------------|-----------------------|--------------------|
| 2,825,000                | \$0.25                | March 5, 2020      |
| 225,000                  | \$0.25                | January 19, 2021   |
| 50,000                   | \$0.35                | February 25, 2021  |
| 100,000                  | \$0.38                | April 8, 2021      |
| 50,000                   | \$0.50                | September 13, 2021 |
| 45,000                   | \$0.67                | June 5, 2022       |
| 147,500                  | \$0.70                | March 10, 2022     |
| 25,000                   | \$0.74                | May 4, 2022        |
| 50,000                   | \$1.08                | September 13, 2022 |
| 150,000                  | \$1.14                | January 3, 2023    |
| 150,000                  | \$1.15                | August 11, 2022    |
| 100,000                  | \$1.19                | January 9, 2023    |
| <b>3,917,500</b>         |                       |                    |

**(c) Share-based payments**

The total share-based payments calculated under the fair value method for options granted during the period was \$166,459 (2017 – \$65,119). The share-based payments expense for the period was 127,554 (2017 - \$64,786). Fair value at grant date of the stock option plan was measured based on the Black-Scholes option-pricing model. Expected volatility is estimated by considering historic average share price volatility. The weighted average assumptions used for the Black-Scholes option-pricing model of stock options granted and vested during the period are as follows:

|                          | <b>January 3, 2018</b> | <b>January 9, 2018</b> |
|--------------------------|------------------------|------------------------|
| Risk-free interest rate  | 1.86%                  | 2.01%                  |
| Expected life of options | 5 years                | 5 years                |
| Annualized volatility    | 65.22%                 | 56.68%                 |
| Dividend rate            | 0.00%                  | 0.00%                  |

**(d) Warrants**

At March 31, 2018, warrants were outstanding enabling holders to acquire the following number of shares:

| <b>Issued date</b> | <b>Balance, December 31, 2017</b> | <b>Issued</b> | <b>Exercised</b> | <b>Expired</b> | <b>Exercise price \$</b> | <b>Balance, March 31, 2018</b> | <b>Expiry date</b> |
|--------------------|-----------------------------------|---------------|------------------|----------------|--------------------------|--------------------------------|--------------------|
| September 8, 2017  | 2,235,880                         | -             | 293,825          | -              | 1.25                     | 1,942,055                      | September 8, 2019  |
|                    | 2,235,880                         | -             | 293,825          | -              |                          | 1,942,055                      |                    |

**11. MANAGEMENT OF CAPITAL**

The Company's objective when managing capital is to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain optimal capital structure to reduce to the cost of capital. The Company's capital is composed of equity in the statement of financial position.

The Company is not subject to externally imposed capital requirements. In managing capital structure, the company manages its capital through regular reports to the Board of Directors, as well as management review of monthly or quarterly financial information. The Company issues new equity financing as needed and available. Additional information relating to capital management is given in the nature and continuance of operations in Note 1.

## **12. SUPPLEMENTAL CASH FLOW INFORMATION**

Significant non-cash transactions for the period ended March 31, 2018 included:

- a) The Company allocated \$133,758 for stock option exercised during the period to share capital from equity reserves.
- b) The Company allocated \$13,279 for warrant exercised during the period to share capital from equity reserves.

Significant non-cash transactions for the period ended March 31, 2017 included:

- a) The Company allocated \$119,788 for finder's warrants exercised during the period to share capital from equity reserves.
- b) The Company allocated \$360,766 for warrants exercised during the period to share capital from equity reserves.

## **13. FINANCIAL INSTRUMENTS**

The Company is exposed to various financial instrument risks and assesses the impact and likelihood of this exposure. These risks include liquidity, credit, currency, interest rate, and price risks. Where material, these risks are reviewed and monitored by the Board of Directors.

### **Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with its financial liabilities. The Company has historically relied upon equity financings to satisfy its capital requirements and will continue to depend heavily upon equity capital and possible loans to finance its activities. The Company manages liquidity risk through its capital management as outlined above. Accounts payable and accrued liabilities are due within one year.

### **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's credit risk is primarily attributable to its liquid financial assets including cash and cash equivalents, and receivables. The Company limits exposure to credit risk on liquid financial assets through maintaining its cash with high-credit quality financial institutions.

The majority of the Company's cash and cash equivalents is held with major Canadian based financial institutions. The Company considers credit risk with respect to the receivables to be minimal.

### **Interest Rate Risk**

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Current cash is generally not exposed to interest rate risk because of their short-term maturity.

### **Price Risk**

The Company is exposed to price risk with respect to equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices. The Company closely monitors the individual equity movements to determine the appropriate course of action to be taken by the Company.

Based on management's knowledge and experience of the financial markets, management does not believe that the Company's current financial instruments will be affected by interest rate risk, currency risk and credit risk.

### **Fair Value**

The Company classifies its fair value measurements in accordance with the three-level fair value hierarchy as follows:

- 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 asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

Cash and cash equivalents are measured at fair value based on level 1 of the fair value hierarchy.

## **14. SEGMENTED INFORMATION**

The Company operates in one business segment, developer of patent pending technology for the production of nanostructured materials.

## **15. EVENTS AFTER THE REPORTING DATE**

Subsequent to March 31, 2018:

1. The Company issued 62,500 common shares pursuant to the exercise of warrants at \$1.25 for gross proceeds of \$78,125.